MANAGEMENT DISCUSSION AND ANALYSIS

Indian Economy

The Indian economy, like any other economy in the world, suffered due to covid 19, with deep impact on health, economic, financial and social systems. The lockdown and associated restricted mobility led to a significant demand contraction even as supply chain disruptions hurt production centers. The Indian economy is expected to have contracted sharply by -8% during FY21 after dipping into recession in the first two quarters.

The unscheduled production halt across industries compounded the stress in the industrial sector which drastically reduced capex investments. While the deceleration was broad based, the MSME sector fared comparatively better as forbearances support by the central bank helped sustain operational expenses.

The contact intensive sectors such as airlines and hospitality were severely hit due to lockdown as social distancing norms for safety and hygiene deterred people from venturing out. Nevertheless, the services sector experienced strong tailwinds from accelerated digital adoption across the sector even as road transportation and trade increased during the unlocking phase.

Good monsoons, bumper harvest and timely procurement of crops cushioned the rural economy as circulation of money increased disposable income at household level. The rural demand further received a fillip from increased allocation under MGNREGA and front loading of funds transfer under PM KISAN.

The urban demand contracted significantly as income and job losses were more intense in metro areas which led to increase in precautionary savings and reduced discretionary spends.

The GDP slipped past the inflection point in Q3 driven by pent up demand since the gradual unlocking of the economy after a -23.9 contraction in Q1. High frequency indicators such as e-way bills, rail freight, GST collections and power consumption soared past their pre-pandemic levels during this period.

The government increased its consumption spending to propel overall demand even as RBI adopted accommodative monetary policy and asset buy back to provide liquidity, control yields and decrease the cost of borrowing. The liberalization of the agricultural sector along with private sector participation as envisioned by New Farm Bill and amendments in essential commodities act, marks a milestone in the structural transformation of the sector.

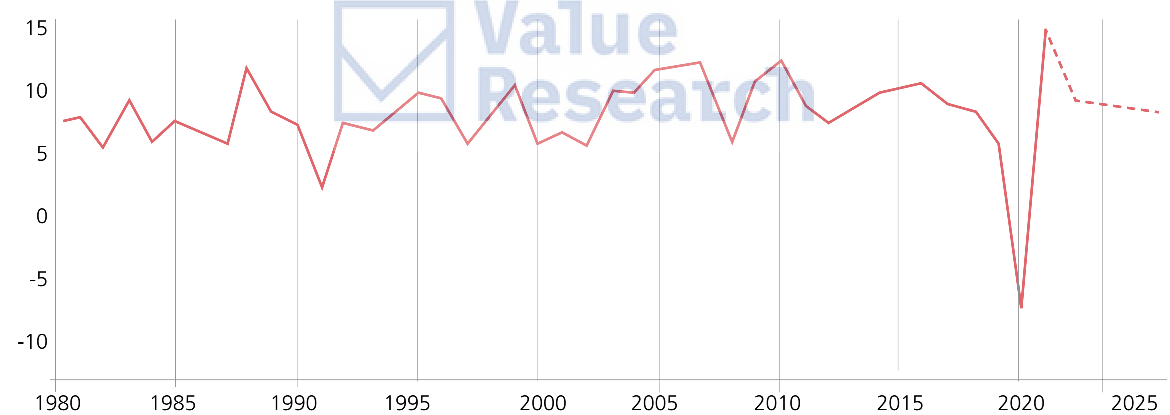
The high infrastructure capex announced during the Budget session, under the overarching theme of Aatmanirbhar Bharat is expected to trigger a trickledown effect in the economy through increase in public investments. However, the overhang of a slowing economy as indicated by the low-capacity utilisation since FY 20 could be a dampener.

During the fiscal year, the Government stepped up its consumption expenditure to stimulate demand amidst falling household consumption, private investments and persistent pessimism as reflected in RBI's consumer confidence index. However, it shot up the fiscal deficit to 10% which can lead to high debt to GDP ratio of 90%[1] in FY21. With the threat of subsequent crisis owing to sporadic lockdowns due to covid-19 looming large, the room for fiscal expansion is limited and can derail the recovery process.

The pandemic is estimated to have reversed the poverty eradication process and derailed the growth of the middle class as the overall unemployment rate peaked at 23.52% in April 2020 and moderated to 6.52% in March 2021. The economy is yet to recover from the hangover of decline in average household income by 28% in April 2020 even as net new EPF subscriber have been rising since H2FY21.[2]

The IMF increased its growth projections for India by 100 basis points between January to April to 12.5% in FY21[3]. The vaccination euphoria and attendant hopes of recovery have been tempered by the second Covid 19 wave sweeping through a number of states, putting the growth trajectories at risk. The scarcity of essential medical equipment's, vaccines and life-saving drugs are indicative of the severity of the resurgent upheaval. The governments limited room for fiscal stimulus owing to an overstretched spending in the aftermath of Lockdown 1.0 may compound the impending crisis. The Indian economy is wavering through uncertainty and the fragile recovery is dependent on mitigating subsequent waves of infections, vaccination distribution and adapting to new normal. Under the prevailing circumstances, projections are bound to change but paucity of relevant data limits the accuracy of models.

India Real GDP growth (Annual percent change)



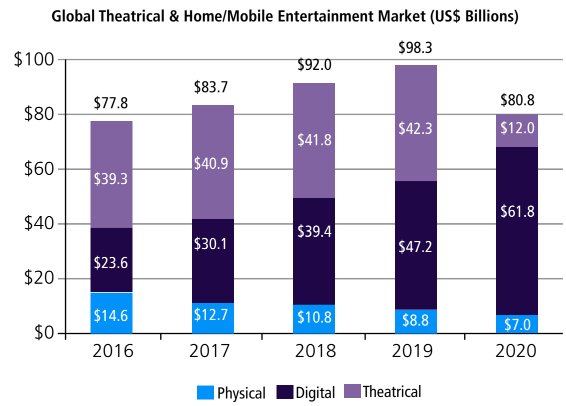
Source : IMF

Global M&E Industry overview

Consequent to the Great lockdown, stay at home viewers were able to watch premium TV and movies across various screens and providers as new streaming video services from prominent industry players increased. This also provided an alternate channel for evacuating inventory which otherwise would have come under theatrical releases. The global combined theatrical and home and mobile entertainment market shrank by -18% to USD 80.8 billion in 2020 over its 2019 market, excluding the USD 233.1 billion Pay TV subscription market,[4] owing primarily to the lockdown which also hurt new content production.

[1] World Bank South Asia Focus 2021 | [2] CMIE | [3] IMF WEO April 2021 | [4] Motion Pictures Association – THEME Report 2021

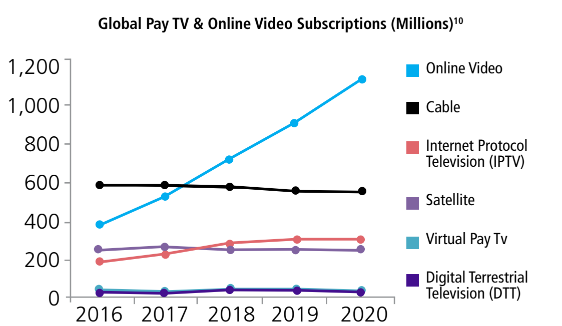
Global Theatrical and Home/Mobile Entertainment industry (USD Billions)



Source: Motion Pictures Association THEME 2020

The 31% decline in global box office collection due to theater closures during the lockdown and restricted attendance thereafter was compensated by 31% increase in shift to digital home entertainment. The global home and mobile entertainment industry, which includes digital channels such as video on demand, electronic sell through and subscription streaming along with physical medium such as discs and rentals, increased by 23% in 2020 on year to reach USD68.8 billion, driven by digital. Subsequently, subscription for online video services crossed the 1 billion mark in 2020 by adding an additional 232.1 million subscribers.

Global Pay TV and Online Video subscription trends (in Millions)



Source: Omdia

The subscription TV is expected to have further contracted in 2020 and continue the trend in the near term as the mature market is edging towards saturation, cord cutting and broad-based uptake for subscription-based video on demand (SVOD)platforms. Furthermore, the SVOD segment also benefitted from the well-funded streaming offerings besides increase in

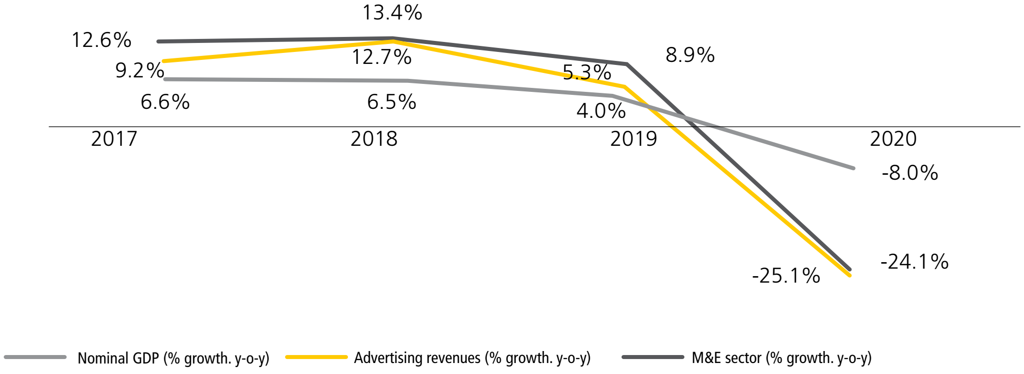
COVID 19 driven consumer demand. Subsequently, the Advertising video on demand (AVOD) has been on a rising trend due to availability of alternate channel for targeting currently underserved market.

Movies were the worst affected in the media and entertainment industry as theatres were shut down for long period of time, blockbuster movies were rescheduled and production were grounded to a halt. However, the segment witnessed structural changes such as experimentation with in-home premium video-on-demand and increased usage of owned and operated SVOD platforms to launch movies.

The disrupted global entertainment industry is likely to witness consolidation and partnerships between large industry players and vertically integrated streaming platforms to achieve operational scale for efficiency gains and attract investments. Nevertheless, the industry is transitioning from traditional business model to new models at a time when uncertainty characterizes the market. Therefore, it is imperative that companies focus on building systemic agility to deal with unforeseen market opportunities and threats.

Indian M&E Industry overview

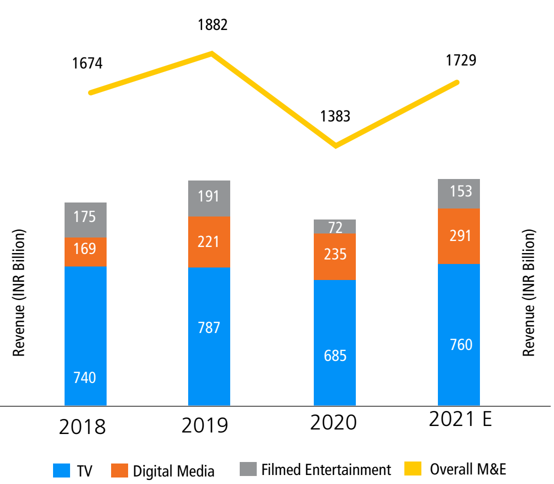
Growth trends in Media and Entertainment industry (YoY, in %)



Source: FICCI EY Report 2021

The Indian Media and Entertainment industry had been recording positive growth rate year on year driven by strong consumer demand and a vibrant economy, albeit the slow down effect in 2019, when Covid 19 pandemic struck early on in FY21. The steep decline in CY2021 led to an estimated erosion of 24% of the market to INR1.38 trillion as compared with 2019. The impact of the pandemic induced lockdown and resultant economic crisis was uneven across the industry with sectors such as filmed entertainment and live events experiencing enormous contraction. Overall, barring digital media and online gaming, the decline was broad based across all segments.

Indian M&E sector



Source: FICCI – EY India Media and Entertainment Industry Report 2021

Note: M&E sector includes TV, Digital media, Filmed Entertainment, Print, Online gaming, Animation and VFX, Live events, OOH, Radio, Music.

Outlook

The media and entertainment industry will continue to adjust business models to cater to a paradigm change in consumer preferences through deep customer understanding and strong engagement. The sector will witness integration of all four formats viz video, experiential, textual and audio to offer differentiated products in an omnichannel driven business model. The industry is also likely to witness consolidation and mergers, especially with the mid and low companies, to maintain a going concern and achieve scale. Operating priorities will be guided by leveraging the end customer data to reveal powerful insights, bringing efficiency in customer acquisition costs through precision monitoring and reducing the turnaround time for new product development. The M&E industry will have to leverage the opportunities in regional markets, growth in digital infrastructure and monetization strategies by investing in content, marketing and technology.

Covid-19 Impact

Pandemic induced lockdown along with ongoing restrictions on mobility and social distancing has had an adverse impact on traditional media such as TV and films, among others. Stressed balance sheet of corporates and reduction in retail footfalls led to decline in ad spends over traditional medium and affected customer engagement.

Consumers on the other hand faced shortage in accessing venues for media and entertainment due to absence of new content and live events even as they were forced to stay indoors. In this scenario, digital medium emerged as an alternate channel to supply curated content using real time analytics for deep consumer engagement. The pandemic accelerated the adoption of over-the-top (OTT) platforms, online gaming, e-commerce, e-learning, e-papers and online news platforms which shifted the advertising base from traditional to digital media. Moreover, bundling packages offered by telecom and broadband service providers, reduced the cost of consumption for consumers which further fueled the race to leverage digital media. While all sectors increased their digital ad spends in CY2020, companies in BFSI, consumer durables, telecom, ecommerce and M&E spent more than 30% of their ad spends on digital.

The digital media grew 6% in CY2020 to reach INR 234.9 billion[3] in advertising and subscription revenues [3] as the broadband subscription reached 747 million in the country till December 2020[3]. Furthermore, the number of smartphone users increased to 448 million in CY20 while average mobile data consumption reached to 15.7 BG per month during the same period.[5]

468 Million

Smartphones users have 725 million data subscription[5]

45%

Indians above 15 years of age have access to a smartphone[6]

67%

Subscriptions were 3G and 4G[6]

37GB

Estimated data consumption per smartphone per month by 2026[6]

[5] TRAI press release

Indian TV industry

The Indian TV industry declined by 13% in CY2020 settling at INR 685 billion[3], led by 21.5% decline in advertising revenues.

There were 909 TV channels in CY2020 of which 64% were free to air channels, a 1 pp increase from 2019. General entertainment channel (GEC) and movies continued to dominate three fourth of the total viewership in CY20.

With respect to distribution network, multiple system operators (MSO) grew by just 4% in CY2020 as compared to 11% in 2019 due to the implementation of NTO2.0 and Covid-19 impact. The Indian market is serviced by four paid and one free DTH provider with four large broadcast networks switching to DD Free Dish during CY2020 to capitalize on advertising revenues. [3]

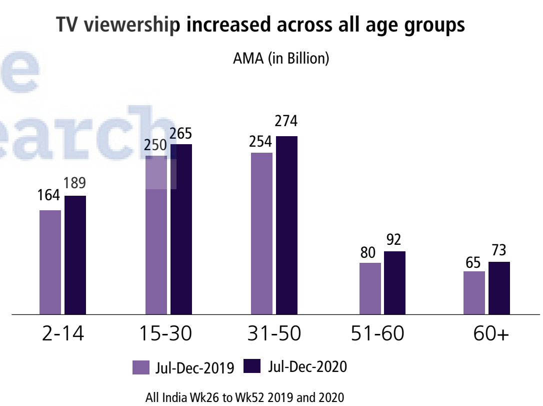
The TV average ad insertions and ad volumes made significant recovery in the second half of the year after sequential degrowth witnessed in H12020. The recovery in Q3 and Q4 hovered above corresponding positions in 2019. Though ad volumes fell just 3% in 2020 despite increase in TV viewership, ad rates decreased by 19% due to rate discounting by broadcaster which is indicative of the ad yield pressure in the segment. Ad spends by top 5 category accounted for 80% of the value led by FMCG which contributed 51% of ad spends. The biggest growth came from education and ecommerce category whose ad spends grew by 193% and 95% respectively.[3]

Television subscription revenues in India decreased 7% in 2020, mainly due to a fall in average revenue per unit (ARPU) and reduction in the paid subscriber base by around two million television-homes.

The fall in paid subscriptions can also be attributed to non-renewal of subscription owing to lack of fresh content and live events on major general entertainment channels. The reverse migration of subscribers from urban areas to their hometowns witnessed permanent withdrawal from subscription base.

The demand driver for TV segment within media and entertainment industry can be gauged by the viewership trends which is dominated by general entertainment and movies, better related with escapism, as they account for almost three fourth of viewership share. While TV viewership increased across all age groups, the 15 to 50 age group continue to command maximum eyeballs. During covid 19, viewership also increased among the 2-14 age group, who spent most of their TV watching on general entertainment content followed by movies and kid's content. However, lack of fresh content forced providers to re run old episodes which forced subscribers to switch to alternate mediums.

TV Viewership by age groups



Source: BARC

Outlook

Television segment revenues are estimated to grow at a CAGR of 7% to reach INR 847 billion by 2023 driven by increased base of subscribers, greater penetration of TV's and price competitiveness as against bundled offers in OTT. The growth in connected TV to 40 to 50 million households by 2025 will in all likelihood shift the average consumer preference away from unidirectional TV.

However, monetization may pose a challenge and therefore innovative content monetization models will be required leveraging the advantage of content libraries with large Indian broadcasters. Overall TV connections will keep growing at a healthy pace of over 5% per year to cross 71% of Indian households by 2025 along with rise in bundling packages.

Indian film industry

Film industry revenue across segments (in INR Billions)

	2019	2020	2021E	2023E
Domestic theatricals	115.2	24.9	74.9	130.6
Overseas theatricals	27.0	3.1	16.2	29.2
Broadcast rights	22.1	7.1	18.9	23.4
Digital/OTT rights	19.0	35.4	37.8	52.1
In-cinema advertising	7.7	1.7	5.4	8.3
Ancillary revenue	0.1	0.0	0.1	0.2
Total	**191.0**	**72.2**	**153.3**	**243.8**

Source: EY FICCI Report 2021

The film industry bore the maximum brunt among all segments of media and entertainment industry as lockdown led to stoppages in shootings and closure of theatres for approximately seven months. Approximately, 441 films were released in CY20 as comparted to 1833 in 2019 which drove down the industry by more than half to INR 72.2 billion in CY20 over 2019. The choking of theatrical mediums forced production houses towards direct to digital releases to evacuate pending releases which increased revenues from OTT by 86% on year in CY20, thereby compensating for lost theatrical revenues.

The demarcation in the movie industry is becoming more visible along value and volume dimensions. The OTT format is conducive for low budget, small cast and strong content movies with increased release frequency to cater to the OTT subscribers, mostly residing in tier 2 and tier 3 cities, while big budget movies continue their affinity towards theatre releases.

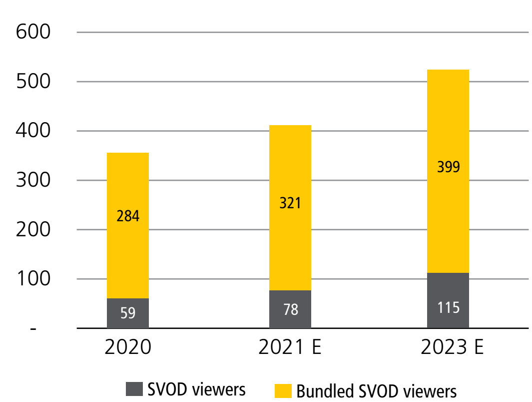
Filmed entertainment in India is driven by a strong demography with almost 58% of the population between 10-44 years of age and the main target of Indian movie makers, rising income levels across all brackets along with willingness to spend on recreation. Moreover, availability of better infrastructure such as TV, internet, smartphones, electricity at household level also provide the push for more entertainment consumption.[6]

Outlook

The filmed entertainment will witness a resurgence albeit at a slower pace in the near term but will be conditional on the prevailing circumstances of rising infections and localized lockdowns. A people aggregating industry, the production as well as theatrical release will be regulated by Covid protocols which will drive down volume per session. However, entertainment being a discretionary expenditure, upward pressure on prices is unlikely to happen and therefore the gradual path to profitability. Direct to digital films and online events is expected to continue for certain categories even as content creation by consumers will drive user base for short format videos.

Subscription based Video On-Demand (SVOD)

Subscription video on demand (SVOD) consumers in India (Millions)



Source: EY FICCI ME India 2021

[6] https://www.televisory.com/blogs/-/blogs/indian-movie-theatre-industry

In CY2020, the paid video subscription and subscribers, excluding the bundling subscriptions, recorded an impressive over 150% growth over 2019 with the former crossing the 50 million mark. The paid subscription market in online video is highly likely to have been driven by release of direct to digital (D2D) films during the pandemic coupled with lack of fresh content on TV during the lockdown, along with pushing live events such as IPL behind paywalls. Consequently, video subscription revenues grew by 50% in CY2020 to INR 42.4 billion even as the percentage of paying subscribers to total OTT consumers remained less than 10% for videos.

The vibrant ecosystem hosts mix of indigenous players such as Alt Balaji, Voot, Zee5, MX Player and Jio Cinema along with international streaming companies such as Netflix, Amazon Prime, Sony Liv, YouTube with Disney partnering with Hotstar to form Disney-Hotstar in late 2019. Around 1200 hours of original content were created for OTT platforms across films and episodic content in CY2020 across 220 titles, a decrease from 385 titles in 2019m due to stoppage of shoots during the pandemic for five months.

Time spent by Indian viewers on online video increased by 30% from 2019 to an average of 10 hours and 54 minutes each week, probably the highest consumption in the world. This could be attributed to availability of more time and fresh content during and after the lockdown especially for the first-time users. The number of video viewers increased by an additional 62 million in 2020 as the total video viewers reached 468 million in 2020, representing almost 96% of the smartphone owners in India.

Outlook

The number of paid video subscribers is expected to breach the 50 million mark by 2023 driven by regional consumption, shared packages, increase in connected TV's and personal devices besides the likelihood of new normal oriented work culture which will increase disposable time for entertainment consumption. Bundling opportunities by telecom and aggregators will drive user base for content consumption as 284 million consumers consumed video content through data bundles in CY2020 in India. The OTT players were estimated to increase spends in original content by 17% over 2019 to release 500 original titles in CY2021, the numbers projected before the onset of second wave in India in April 2021.

Opportunities and threats

- Growth momentum for OTT platforms to continue, with original and regional content leading the rally.
- While Internet penetration, measured by the number of active internet users in the country, is likely to increase by 45% by 2025, usership in rural areas has been registering a faster growth rate than its urban counterpart.
- Mobile devices: Increasing penetration of 4G subscriptions and smartphone subscriptions will establish a widespread digital infrastructure required for personalized entertainment consumption. With the rise in 5G services, given the slew of investments made in recent years by major telecom companies in India, it will lead to more innovative offerings and greater consumer engagement.
- Bundled packages with telecom companies has the potential for widespread acceptability amongst the consumers.

Threats

- Piracy of film and TV content can lead to loss of potential revenue.
- Resurgent covid 19 waves and subsequent regional lockdowns can further hurt the industry particularly the theatrical releases.
- Reduced number of audiences per show in theatres for big budget film, due to social distancing norms can hurt revenue and profits.

Risks and concerns

Risk	Potential Impact	Mitigation measures
Business Continuity Planning (BCP)	Lack of contingency planning could derail the growth process during instances of adverse operating environment such as during pandemic.	The Company is aware of the consequences of future lockdowns and has learnt from its initiatives taken during the pandemic. The company has also taken adequate measures to continue shooting even if a lockdown situation arises in the country during the year.
Financial	Financial mismanagement or negligence could negatively impact business operations, financials and expansion plans of the Company, along with risk of compliance defaults which could dent the brand image.	The Company has a dedicated team of professionals which keeps itself abreast with all the transactions in pursuit of the business including those by external stakeholders which can impact Company's balance sheet. Furthermore, the Company's corporate development processes and investments are based on financial modelling and due diligence.
Risk from loss of viewership	Failure to attract and retain our viewers and subscribers , will adversely impact the business	The Company has consistently registered increased viewership and subscriptions have gone up substantially during the period under review. This is supported by our ability to deliver quality content, at industry best affordable prices and across various formats and genres. This puts a unique value proposition for our consumers thereby increasing customer stickiness.
New age business models and change in competitive offerings	Owing to the intense competitive nature of the industry, evolving technologies for distribution puts a risk to the traditional model and thereby can increase risk for the business.	The Company continuously evaluates different technologies and new age business models. The Alt Balaji platform provides original and diverse entertainment with the help of cutting-edge technology.
Piracy	The rapid adoption of pirated content can severely impact our business	Piracy is one of the biggest threats to the film and entertainment industry. As a proactive company, we have taken a number of measures to reduce the impact of piracy. First, we have employed a number of monitoring and tracking tools to locate and take down any pirated content. Second, we have enforced strong IP and ownership rights via contracts and agreements with different parties to reduce the instances of piracy. To mitigate the risk further, we pre-sell a large portion of the movie's economic rights to recover the production cost of these movies.
Economic Environment risk	Political, economic or other factors that are typically beyond the organization's control may have an adverse effect on the business and results of operations.	The Company maintains a strong vigil of the global events and strives to anticipate the effect of changes in policies thereafter, in the concerned markets, to plan for an effective intervention.

Risk	Potential Impact	Mitigation measures
Shift in consumption pattern	Changes in technology and consumer consumption patterns may affect demand for our entertainment products	The media and entertainment businesses in which we operate is increasingly dependent on our ability to successfully adapt to shifting patterns of content consumption through the adoption and exploitation of new technologies. New technologies affect the demand for our products, the manner in which our products are distributed to consumers, ways we charge for and receive revenue for our entertainment products and the stability of those revenue streams, the sources, and nature of competing content offerings, the time and manner in which consumers acquire and view our entertainment offerings and the options available to advertisers for reaching their desired audiences. The Company has adopted some of the latest technologies to provide its customer with remarkable user experience. Further, we have implemented a cloud-based video management system with a focus on advanced big data and analytical solutions to help gauge the needs of our subscribers and develop content accordingly.

Internal control systems and their adequacy

The Company has in place well-established policies and procedures for internal control of operations and activities. It continuously strives to integrate the entire organization – from strategic support functions to core operational functions. The Company has put in place a set of standards that enables it to implement internal financial control across the organization and ensures that the same are adequate and operating effectively. The findings and recommendations of the statutory and internal auditors are periodically reviewed by the Board, which suggests corrective actions based on them when required. The Audit Committee of the Board of Directors is also active in the system of checks and balances that ensure the adequacy and effectiveness of the internal control systems and suggests improvements to strengthen the same.

Discussion on financial performance with respect to operational performance

	FY2020-21	FY2019-20	Growth (in %)
Revenue from operations	293.7	573.6	(49)
Gross Margin	32.7	184.2	(82)
EBIDTA	(104)	10.7	(1072)
PBT	(110.4)	(22.2)	(397)
PAT	(118.9)	(59)	(102)

The revenue from operations decreased by 49% during the fiscal 2020-21 due to the impact of Covid 19 on TV and movie business. However, the digital vertical of the company led by strong content and affordable pricing structure remained resilient throughout the year. A strong focus on maintaining liquidity and balance sheet strength through the year, resulted in current cash and cash equivalent balance at Rs 144 crores during the year under review.

	FY2020-21	FY2019-20	Change
Current Ratio	4.32	3.14	38%
Operating Profit Margin (%)	11%	16%	-35%
Return on Net Worth	2.34%	5.47%	-57%

Current Ratio increased by 38% during the fiscal 2020-21 mainly due to reduction in movie advances whereas lower operating margin was on account of lower realization per hour in Television business. The decline in Return on Net Worth was due to lower realization per hour in TV and loss in revenue for one quarter.