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## Q3 FY2014 EARNINGS CONFERENCE CALL

**January 22, 2014; 1500 HRS IST**

**Moderator** Ladies and gentlemen, good day and welcome to the Zee Entertainment Enterprise Q3 FY14 Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kanwaljeet Singh. Thank you and over to you, sir.

**Kanwaljeet Singh** Thank you Inba. Ladies and gentlemen thank you for joining us today. We have organized this conference call to update our investors on the company's performance in the Third Quarter of Fiscal 2014 and to share with you all the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you have had the chance to go through the earnings release and the results, both of which have been uploaded on our corporate website www.zeetelevision.com.

To discuss the results and performance, joining me today is Mr. Punit Goenka – Managing Director and CEO of ZEE along with -

Mr. Atul Das – Chief Corporate Development Officer, and

Mr. Mihir Modi – Chief Finance & Strategy Officer

We will start with a brief statement from Mr. Goenka on the third quarter performance and will then open the discussion for questions and answers. I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward looking statement and must be taken in the context of the risks that we face.

We would also like to add that this call is purely for our analysts and investors and if there are any media companies on the call, we request them to please disconnect. I now request Mr. Goenka to address the audience.

**Punit Goenka** Thank you, Kanwaljeet. I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the third quarter of fiscal 2014. Let's begin with details of some of the key developments of the quarter focusing on the Financial Performance.

ZEE's advertising revenues during the quarter were Rs 6.84 billion, showing a growth of 34.3% yoy. Once again we have outperformed the television industry advertising revenue growth and the growth has been supported by good contribution from our sports business.

The total subscription revenues for the quarter were Rs 4.56 billion, registering an increase of 11.4% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenues stood at Rs 3.32 billion, while international subscription revenues were Rs 1.24 billion. Domestic Subscription revenues are up 12.2% yoy. DAS I renewals are underway and the benefits will accrue in the quarters ahead. Subscription revenues from international operations are up 9.4% in rupee terms aided by rupee depreciation.

On the cost front, programming & operating cost in the quarter was Rs 6.09 billion as compared to Rs 4.18 billion in the corresponding period last fiscal, an increase of 45.6% yoy, primarily on account of higher sports costs. Employee cost has gone up by 7.1% over the corresponding period last fiscal. Selling & other expenses in the quarter were at Rs 1.92 billion, as compared to Rs 1.70 billion in the corresponding period last fiscal, showing an increase of 13.3% over the corresponding quarter last fiscal. Total costs incurred by the Company in this quarter were Rs 8.98 billion, an increase of 32.5% over the corresponding period last fiscal.

During the quarter, the Company's operating profit (EBITDA) was Rs 2.91 billion. The operating (EBITDA) margin for the quarter was 24.5%. Excluding sports business, the EBITDA margin stood at a healthy 39.6%. Profit After Tax (PAT) for the quarter stood at Rs 2.14 billion, a growth of 10.5% over the corresponding quarter last fiscal.

The Sports losses during the quarter were Rs 1.04 billion. We continue to invest in our Sports business with a medium to long term perspective. We do expect losses to continue in the sports business for some more time to come but we are hopeful of seeing an improved performance in the years ahead.

As of December 31st, 2013, the Company has a gross debt of Rs 18 million and Net Cash of Rs 13.1 Billion.

I would now like to cover the Business Performance.

During the quarter, Zee TV averaged 437 TVMs recording a relative share of 18.5% among the top 6 Hindi GECs. The market share was even better in the Prime Time band, where Zee TV averaged 277 TVMs recording a relative share of 21%. Zee TV was the No.2 channel in the genre during the Prime Time band. The channel delivered a weekly average of 15 shows among top 100 shows during the quarter led by the top rated shows like *Jodha Akbar, Sapne Suhane Ladakpan Ke, Qubool Hai* and *Dance India Dance – Season 4*. Zee TV launched new fiction shows *Doli Armano Ki* and *Bh se Bhadey* during the quarter. The premier of Hindi feature film *Chennai Express* was the highest rated premiere in the history of Indian TV with reach of 52 million in HSM CS 4+ and 19.5 TVMs.

Zee Cinema was No.1 channel in its genre, averaging 210 TVMs during the quarter with a relative share of 36% among the top 3 Hindi movie channels. The key properties of the channel during the quarter were *Shanivaar Ki Raat Sitaron Ke Saath*, *Lage Raho* and *Cinema Hall*. This quarter saw premieres of blockbuster movies like *Chennai Express*, *Phata Poster Nikla Hero* and *Ramaiya Vastavaiya*.

Zee Marathi during the quarter extended its lead as No.1 channel in its genre. The channel delivered average weekly of 121 TVMs recording a relative share of 47% amongst top 3 Marathi GECs. The channel delivered a weekly average of 9 shows among top 10 shows led by top fiction shows like *Honar Soon Me Hya Gharchi* and *Tu Tithe Me* and non-fiction shows such as *Foo Bai Foo*.

Zee Bangla delivered a weekly average of 74 TVMs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 38%.

The channel leads the non-fiction genre with 90% market share. The channel is the slot leader in 6 out of 14 prime time bands during the quarter led by the top rated fiction shows like *Rashi* and *Boyei Gelo* and top rated non-fiction shows like *Dadagiri Unlimited 4* and *Didi No. 1 – Season 5*.

Zee Telugu delivered a weekly average of 64 TVMs during the quarter recording a relative channel share of 20%. During the prime time band, the channel share was even better at 22%. *Pasupu Kumkuma* and *Gorantha Deepam* were the top fiction shows on the channel during the quarter. *Pradeep Darbar* and *Chota Champion* were the top rated non-fiction shows. Zee Telugu's fiction became No.1 for the first time and touched an all time high of 40.7 TVMs in Week 48, 2013.

Zee Kannada recorded a weekly average 34 TVMs during the quarter recording a relative share of 15%, driven by popular shows like *Bharathi* and *Radha Kalyana*. Zee Tamil averaged 24.7 TVMs during the quarter driven by several popular shows.

The key properties on our Sports channels bouquet during the quarter included telecast of *South Africa Vs India cricket series, South Africa Vs Pakistan cricket Series, New Zealand Vs Sri Lanka cricket Series, ATP Finals, Rugby League WC, UEFA Champions League,* and *UEFA Europa League.* The forthcoming quarter would see the telecast of cricketing events like *South Africa Vs Australia cricket series, West Indies Vs England cricket series, Hockey World League* and *UEFA Champions League – Round of 16.* The sports business revenues in the third quarter of FY2014 were Rs 1,915 million, while costs incurred in this quarter were Rs 2,956 million.

ZEE's International operations contribute a significant part of the Company's revenues. During the quarter, the Company undertook a number of initiatives to further strengthen its dominance. Two new channels Zee Bollywood and Zee Lamhe, were launched in USA. Zee Lamhe started getting rated by BARB in UK. Zee Aflam continues to be the No. 3 movie channel in KSA. Zee Alwan is gradually building up its ratings and shares. In Indonesia, ZEE launched a 24/7 Bollywood Movies channel, Z Bioskop, which is fully dubbed or subtitled in Bahasa language.

During the quarter, we have seen a robust growth in our network viewership share. The two new launches, &pictures and Zee Anmol, have made handsome gains and have added to the network strength.

This quarter also saw the implementation of advertising inventory cap as per TRAI regulations. From 1st October 2013, we have reduced ad inventory to 12 minutes per clock hour across our network. We are glad to report that the transition has been reasonably smooth. I believe that a cap on advertising, while being negative in the short term especially for smaller broadcasters, will in the long term prove beneficial for the industry by restricting inventory and eventually raising value. Ultimately, ad inventory reduction is better value to both consumers and advertisers.

The rollout of digitization, even though with some delays, is a very good development for the industry and will provide new growth opportunities. Digitization will lead to fragmentation of audiences. At ZEE, we believe this presents a huge opportunity to create new products for specific segments. Barring the short-term impact of reduction in inventory, advertising spends on television are expected to grow in healthy double digits over next many years. Rollout of BARC is expected to give it a positive fillip. We continue to explore growth opportunities in domestic markets, international markets and in new media space.

With this, I thank you again for joining us and would now like to open the floor for the questions and answers session.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:** Sir congrats on strong set of numbers. My first question is on advertising growth. Ex-Sports we have seen 20% plus kind of growth. If I see the FMCG companies, we are seeing some companies cut on absolute basis and you also spoke that initially because of the ad cut, there could be some issues especially for weaker channels or weaker bouquets. If you could tell us where we are getting the strong growth? Is the incremental growth coming from the launch of Anmol and &Pictures or is it Chennai Express and Phata Poster premieres or is it the market share, so more color on this will be very helpful sir.

**Punit Goenka:** Abneesh, I think you have answered your own question while addressing it. It is a combination of all the things that you just mentioned including the premiers of several movies that we have done in this quarter. Apart from that, definitely &Pictures and Anmol has also contributed to the growth. The market share gain on our existing channel has contributed to this growth as well and lastly the improvement in Zee Tamil on the regional bouquet has significantly contributed to this growth for us.

**Abneesh Roy:** Is this how you are seeing the advertising growth in the future, this is a follow-up on this because consumer companies are facing some slowdown and so out of the reasons which you mentioned, the Tamil performance and the market share increase in Telugu plus the Anmol and &Pictures seems to be more sustainable growth rate drivers. So if you could tell us how you are seeing the growth rates. Are you seeing more challenging times versus last two quarters more from the industry perspective?

**Atul Das:** Abneesh if you look at the industry growth rate during third quarter, our estimate is that it would have grown at 10%. So obviously what you are saying is reflected in the growth numbers for the entire industry. When I say entire industry, it is the television industry. So we believe that barring some time that outperformance will last because of the new channels, we will be more or less near the industry numbers as we go forward. So 10%-11% is more likely the growth rate that one can take in a medium-term perspective.

**Abneesh Roy:** Sir my second and last question is on the Sports loss. This was higher than expectations. So if you could tell us out of the 3-4 key properties where we saw some issue. Also in FY15 we do not seem to have any India specific match. So is it possible that we might have very low loss in FY15 based on current business dynamics.

**Punit Goenka:** So the loss was largely on account of the South Africa-India Series and it was anticipated by us. In fact starting this quarter itself, you will see drastic drop in losses going forward on Sports till the next India series comes about.

**Abneesh Roy:** In FY15, we obviously do not have any India match right?

**Punit Goenka:** As of now, we do not have anything in the calendar.

**Moderator:** Thank you. Our next question is from Kunal Vora of BNP Paribas. Please go ahead.

**Kunal Vora:** First question is on the margins. On the ex-Sports margins of 39.6%, there has been a very robust growth over the last one year. How do you look at the same going forward? Are there any more investments coming up or how do we look at FY15?

**Atul Das:** Kunal I think on the operating margin front, we have been talking about the investments which will get reflected in our numbers. Two of those investments were seen in this fiscal. The benefit of these two particular channels was that the cost increase has been relatively smaller, but as we go forward, we will see significantly higher amount of investments going into channels. Next fiscal there will be investments which will impact the overall operating margins, though exact timing will be difficult to quote. If you look at the overall operating margins for this quarter which is at 24.5%, it falls in the blended operating margins range of 22%-25% that we always talk about. There would be some improvement because of lower sports losses, but there would also be incremental cost going on new channels.

**Kunal Vora:** Just a follow-up on that sir. Where are you looking to invest going forward?

**Atul Das:** Obviously when we announce the particular product launch, we will give more details, but it can be safely said that it can be across all the genres we are present. So it can be in the national space, it can be in the regional space, it can also be in the niche space.

**Kunal Vora:** Sir last question on the new channels, are they already profitable? What are the economics of something like Zee Anmol which is free-to-air channel, is it already profitable?

**Atul Das:** Though the cost factors are not significantly high in case of Zee Anmol and so it breaks even far quicker, even then it will take some time. Typically a new channel which is absolutely a new content creation for the channel then it will take 3-4 years for breakeven, but in this case because new content is not being produced, it can breakeven within 12-15 months.

**Moderator:** Thank you. Our next question is from Vikash Mantri of ICICI Securities. Please go ahead.

**Vikash Mantri:** I have three questions. First is on Sports. The losses were higher than expected despite a curtailed series. So have we overpaid for India - South Africa or still makes investment sense and not having any India cricket in FY15, is it a good thing or a bad thing given digitization is just kicking in. Second question is on subscription revenues. They were flat QoQ and 12% YoY. We would have mentioned that there are renegotiations going on because of it. So what should be a fair number to expect and some brief color on what is happening at the ground level in terms of negotiations and billing will help. Third question, we have seen really good performance from Chennai Express on the kind of TVTs. Does it make more sense now to invest in movies, has that really done well and do we intend to do more of that? These will be my questions sir.

**Punit Goenka:** On the first question Vikash, the curtailment of the series was quite unfavorable. If you look at and you understand this as well as I do that in terms of remuneration, T20 is most remunerative format of cricket followed by one day and then followed by test matches. While we lost all of the T20 matches, which had little bit of a sharper impact on the monetization, but we had expected this kind of a loss before the series started. You will see a drastic drop in the losses starting the next quarter itself because of no series being there. Secondly, no series being there in fiscal 15 is not really a happy sign for us because that has an impact on negotiations of the subscription contracts which means the growth level on subscription contracts will slow down for the coming year on the sports business. This is a negative impact from my perspective. While losses will be drastically lower, but from a business perspective, growth is more important than losses is our view. The third question was on movie. Definitely we will be investing in movies going forward just as we have done this year and as we know that will help us in our performance on a network basis. What was your other question?

**Vikash Mantri:** Subscription revenues overall, domestic subscription revenues, the negotiations now in the digitized market?

**Punit Goenka:** So we still hold our guidance at mid-teens to little high-teens is the safe number to go with given what is happening on the ground and extension that MSOs have got to start the billing from TRAI. While the positive side is that the Ministry has come out and announced publicly that Phase-III and Phase-IV will not be delayed beyond December, but the implementation will take

some time. So for your modeling, I think mid-teen to high-teen number is the safe number to go.

**Vikash Mantri:** On the deals, are we moving to CPS deals or at least discussions more happening on CPS or it is still that fixed fee thing?

**Punit Goenka:** We are definitely moving to CPS deal. The timing of the CPS deal is the only thing that we have been negotiating but we are moving to CPS deals.

**Moderator:** Thank you. The next question is from Lalit Kumar of Nomura Securities. Please go ahead.

**Lalit Kumar:** Sir my first question is related to advertisement revenue. So as per what we understand, we do have some long-term contracts for a year or so and with reduction in inventory that we saw from 1st of October we tried to renegotiate that contract or those contracts will be renegotiated post completion of those contracts?

**Punit Goenka:** Lalit some of these contracts have already been renegotiated, some are being negotiated and some will be done based on when they end. So it is a combination of all the three things that will impact the actions going forward even in Q4 of the current fiscal.

**Lalit Kumar:** So what I am asking is if we have to look at non-Sports content cost as a percentage of non-Sports revenue, this percentage has come down to 31%-32% in Q3FY14. This percentage actually is among the lowest in last three years. So what was the reason behind it? Are we trying to strategically change our investment in content, may be invest more in regional and less in GEC or is it because of higher sports content in Q3 or what is the reason behind it?

**Atul Das:** A little while back, Punit had explained that point. A different way to look at the same question is the reason why our non-sports margins have gone up. The reasons for that are a couple of them. One is the fact that we had two new channels relative to same period last year. So Zee Anmol and &Pictures are two new channels which have contributed new revenue streams which are not there last year and both these channels were low cost investments because &Pictures is largely using the same movie library that we have and Zee Anmol is a free-to-air Hindi GEC channel which is also taking the same

content that has been produced for Zee TV. So both have generated revenues without attendant cost or attendant incremental programming cost and therefore margins improvement is there and the second factor is that our ability to monetize given our viewership share has been pretty strong and therefore we are seeing growth rates in advertising much higher than the industry growth rate which has resulted in industry margins being higher. The other couple of points that you need to know is also the fact that movies like Chennai Express which did very well on television rating points it was the highest rated movie ever on the history of Indian television which helped us to monetize even to a larger extent. So long as these factors are there, the margins will obviously look on the higher side, but as we have been saying that we are coming out with newer investments and these new investments in the future will have incremental cost attach to it because there will be production of fresh content which will then obviously impact the margins as we see today.

**Lalit Kumar:** And sir my last question is related to this international business. So we have been investing in international business like new channels Zee Bollywood, Zee Lamhe, Aflam and Zee Alwan, but our revenue from international business is still may be flattish in constant currency or declining marginally. So when do we see these investments getting reflected in our revenue numbers. You must have done some calculation. So what is your sense on this?

**Punit Goenka:** Lalit most of these channels are free-to-air channels in the market and hence are driven by advertising and no subscription. They are already generating good advertising numbers for us and in fact that is part of the growth in the advertising that you see blended which is there. Advertising revenue, we do not split out for competitive reasons from international to domestic.

**Moderator:** Thank you. Our next question is from Srinivas Seshadri of CIMB. Please go ahead.

**Srinivas Seshadri:** My first question is on the costs where there has been already some bit of discussion. So if I look at the absolute numbers in two ways on a YoY basis, it is up by just about 7% and on a sequential basis, it is down by a bit. So my understanding is that typically third quarter you do have some kind of a festival and special programs, etc., which is why if I see a 3-4 year trend, typically there is some bit of a sequential pickup in the costs. So just wanted

to understand were there other offsetting factors in terms of cost management which we did during the quarter because of which the numbers were as low as they were?

**Punit Goenka:** No, nothing of that sort, Srinivas. Only factor could be and it is difficult to strip it out in that detail right now, could be the fact that with the new launches, some of the slots that got replaced, the cost would have been reset back to the original numbers rather than what it would have given at after inflation having been adding for couple of years. So that could be the only factor, but apart from that, nothing strategic that we would have done to reduce the programming cost.

**Srinivas Seshadri:** Punit, when do we expect the kind of cost inflation to go back to more normalized levels like 12-15% is what you kind of consistently talked about as a target kind of a spend required for the business. So when do you see it going back to that range? Is it also partly was held back by these paucity of licenses etc. So from that perspective and can the costs go back to a normal inflationary range?

**Punit Goenka:** There are two things here Srinivas. The existing content cost is already increasing at a regular inflationary rate. When we add additional hours of content to the existing product or as Atul talked about, when we will launch new products in the coming year, that is when we will have a disproportionate increase in the programming cost. It is the blended part which makes it 15% for the current fiscal and next year guidance will be given out when we meet after the fourth quarter results once our business plans are finalized.

**Srinivas Seshadri:** On the subscription front, I was a bit surprised to see that there is no kind of a meaningful pickup or probably a bit down on the domestic front. With the biggest kind of a Sports calendar for this quarter, I would have presumed you would have got some incremental revenue from a per sub kind of subscription model. So I just wanted to understand is that a model part, are we still largely on fixed fee kind of structures on the Sports side or what could explain the kind of quarter-on-quarter flattish numbers?

**Punit Goenka:** We have been on fixed fee structures so far. Not saying that Sports subscription did not pick up this quarter. It definitely had a kicker that came in because of the series, but as I said largely the slowdown was due to the fact

that the Phase-I contracts which came up for renewal on first of November where we are still negotiating with most of the MSOs. Those revenues have not been recognized because the deals are not done. In the subsequent quarters you will see some deltas for this quarter also coming in there which of course we will let you know as and when that happens.

**Srinivas Seshadri:** Thanks and just one bookkeeping question if you could help with the net cash balance at the end of the quarter?

**Punit Goenka:** We have Rs.18 million of gross debt and Rs.13.1 billion of net cash.

**Moderator:** Thank you. Our next question is from Akshit Gandhi of Aviva Life Insurance. Please go ahead.

**Akshit Gandhi:** The number of shows which we have in the top 100 on a weekly average basis on a quarter-on-quarter basis has come down from 22 to 15; however, our primetime band relative share has increased. So should we see more focus on lesser shows with higher market share or how is it?

**Punit Goenka:** That is not the objective. Our market share has gone up, but it is quite possible that on the top 100 lists, some of the shows have lost out, but our endeavor is never to leave one for the other.

**Moderator:** Thank you. Next question is from Amit Kumar of Kotak Securities. Please go ahead.

**Amit Kumar:** I just sort of wanted a follow-up on this non-Sports cost inflation, it has been in the region of 7%-8% on a YoY basis. In our discussions, we have sort of noticed that even the normal inflation, cost inflation in the industry 7%-8% and whatever incremental investments that you are doing in terms of new channels that will come on top of that. One very specific point, there has been some in-sourcing of program, some sort of program production piece which you have started. I just wanted to have a sense of how much has that helped in terms of keeping the overall cost inflation look?

**Punit Goenka:** Amit, you are absolutely right. That has had some impact on it. I would not be able to quantify because it is again competitive information from our side, but that is part of the gain that we have seen. Also keep in mind new channels that we have launched and as Atul mentioned earlier are primarily library content channels, the FTA channel uses the whole Zee TV library and

&Pictures is using primarily the Zee Cinema library which already has been acquired by us. So from that perspective, the incremental costs on those two channels is very low on the programming front while marketing and other costs will be there, but programming costs are kind of very low.

**Amit Kumar:** Sir I just wanted broad quantification of, I know this in-sourcing of programming you have like 29-30 hours of original programming in Zee TV if you could just give a very broad color. How many hours are you doing in-house and what is the scalability of this model essentially if you could comment on that?

**Punit Goenka:** Well, it is not just about Zee TV. We do in-house production for the network and as on date, we must be producing close to about 15 odd percent of our content in-house. What is the scalability, we are still working on that. We are quite hopeful that we should be able to increase the in-house production significantly. Of course one would never reach 100% kind of number, but we want to increase that over a period of time to get benefits of the costs that we enjoy.

**Amit Kumar:** Thank you so much for this color. Just a book-keeping question: This gross cash level of 13.1 billion that you reported in this particular quarter, what was this number in March if it is readily available?

**Atul Das:** Rs. 13.12 billion.

**Amit Kumar:** Cash levels are more or less flat in the first 9 months?

**Atul Das:** Yes.

**Amit Kumar:** I am just trying to understand the cash flow generation in the company because we have had a PAT performance in 9 months of close to Rs. 6.7 billion. We would have paid the dividend of last year also this year so about 2.2-2.3bn, but is that the only cash flow generation or am I missing something here?

**Mihir Modi:** There are three components broadly one of which is the dividend which you mentioned. The other two are advance tax and prepayments to the Sports body.

**Amit Kumar:** Prepayments to what, I missed that.

**Punit Goenka:** Sports body and film inventory.

**Amit Kumar:** Prepayments as far as this quarter is concerned, given the fact that you do not have any major Sports property or cricket property for the rest of the year actually would have gone down from March essentially?

**Punit Goenka:** While cricket may be one of the biggest cost items in Sports. The other Sports also do contribute 15%-20%. So we do have to pay for those and film inventory is the other part which has gone up if you look at the inventory line.

**Amit Kumar:** So the 9-month balance sheet is not available. So thats what I wanted to check.

**Punit Goenka:** You can take that question offline with Mihir and Atul.

**Moderator:** Thank you. Next question is from Suresh Mahadevan of UBS. Please go ahead.

**Suresh Mahadevan:** Congrats for the excellent performance in terms of advertising particularly. I had two quick questions. One is on the growth outlook for subscription revenues. How should we think about the growth outlook for subscription revenue, how should we look at growth in light of Phase-III and Phase-IV? I think you made some mention that the digitization is happening with the delay, but happening nevertheless. So just wanted to hear your thoughts on how it will impact the growth outlook for the next couple of years. The second question is more general one on advertising. I do think that with we moving away from the TRP ratings with digitization now, is it possible in the medium term that we end up charging advertisers more particularly given the supply is coming down. With digitization, we have a better track of who the subscribers are etc. with customers filling in forms and things like that and better targeting, does that allow us to charge better per unit price for advertising. Thank you.

**Punit Goenka:** So on the subscription side, from where we stand today, I think the model should be about mid-teens to high-teens kind of growth level. How Phase-III, Phase-IV will pan out is yet to be seen given those are very small markets in terms of purchasing power etc. We do have an idea of how ARPUs will move in the Phase-I, Phase-II, but Phase-III and Phase-IV is still black box in that perspective. Having said that, I think mid-teens to high-teens is something

one can really look at from today's perspective. That is on the subscription side.

**Suresh Mahadevan:** These are year-on-year growth rates sir?

**Punit Goenka:** Yes sir.

**Suresh Mahadevan:** Excellent.

**Punit Goenka:** On advertising side, despite digitization, I think TRP will still play an important role given the fact that you may know which subscribers are taking your channel, but that would not necessary tell you who is watching what. So from that perspective, ratings will always remain important from advertising perspective and growth, but the inventory cap and reduction in inventory will definitely have better gains in value for both the advertiser and for us because there will be lesser clutter and secondly once the new rating system which is being implemented by the Broadcast Audience Research Council comes in, that is a time the universe itself will show an increase and hence would represent an opportunity for us to charge hikes.

**Moderator:** Thank you. Our next question is from Pratish Krishnan of Antique Stock Broking. Please go ahead.

**Pratish Krishnan:** You mentioned that the Phase-I, you are kind of now renegotiating with the MSOs. Any ballpark number in terms of what kind of growth that you are bidding on and when should we assume this will conclude?

**Punit Goenka:** We cannot break out growth Phase-wise, it will be difficult for us to do that.

**Pratish Krishnan:** And in terms of timeline for this, you are hoping this to be done by this quarter?

**Punit Goenka:** Yes, I am pretty confident of closing it in this current quarter.

**Pratish Krishnan:** Second is in terms of inventory number. Is it possible to get the inventory level at the end of the December quarter?

**Punit Goenka:** Which level you mean?

**Pratish Krishnan:** Inventory level, the absolute number it was Rs. 1,016 crores probably end of September.

**Atul Das:** Pratish, Atul here. I think our disclosure on the balance sheet levels, we do it on a six-monthly basis and we will restrict to that. Nothing significant has moved in terms of trends.

**Pratish Krishnan:** Lastly sir, in terms of the other income, you have seen a slight increase on a year-on-year basis, cash has improved while the other income is largely flattish year-on-year, it is down sequentially. So is there any forex losses in this or what would that be?

**Atul Das:** There are forex losses in this particular quarter because of which the numbers are down.

**Moderator:** Thank you. Our next question is from Paras Mehta of Goldman Sachs. Please go ahead.

**Paras Mehta:** Just three quick questions. Firstly what could be the impact of general elections in your view if any on the business and growth in 2014. Secondly, should we expect the tax benefits from the DMCL deal in 4Q and expect any related dividend payout and finally the new channel that you have acquired from DMCL. Will it use existing content library like Anmol and &Pictures or will use largely fresh programming? Thank you.

**Atul Das:** 2014 general elections does have a positive impact on overall ad spends, but the bigger part of the spends go into either news channels on the television front or the print media. The non-news channels do not see a very substantial impact. Given the base of the entertainment business, price of the revenues, impact is not very significant, but it is a positive impact. Second question you had was on DMCL and we had announced sometime back when we announced the fact that we were doing that particular proposal. The regulatory approvals are awaited. So we really do not know whether all the approvals will be available before the year end. If they are, then obviously the impact on the tax will be seen in this fiscal, otherwise that will be taken post the results. However because the appointed date is March 31st 2014, so it will get impacted in FY14 numbers on a post balance sheet date.

**Punit Goenka:** Lastly, Paras no channels have come through that route. We have got a license from that route and we have got some other businesses for which there would not be any too much of incremental costs that we have to incur on that account.

**Paras Mehta:** Got it, thanks. Just a quick follow-up. Should we expect any dividend increase on the back of the tax savings or they are more likely to be reinvested back in the business?

**Punit Goenka:** We cannot talk about dividend right now. That is for the board to decide post the quarter.

**Moderator:** Thank you. Our next question is from Rohit Dokania of B&K Securities. Please go ahead.

**Rohit Dokania:** Just two-three quick questions. One would be if I recollect it right, you had guided for about Rs.150-180 odd crores of losses from new investments in this fiscal. So are we on track of that or are we doing lesser than that if you can just throw some light on that?

**Atul Das:** We are more or less on track on that.

**Rohit Dokania:** Also is it possible to give the 9-month figure if possible.

**Atul Das:** No, we do not share that on a quarterly basis.

**Rohit Dokania:** The other one would be Punit if you could just share your thoughts on BARC. Because of the increase in universe, do you feel that carriage fees can increase for broadcasters. Is that a risk?

**Punit Goenka:** From where we stand today, if there could be short-term impact on carriage fee given the new market that will get added, but since BARC timing and Phase-III, Phase-IV timing are not too much apart, I do not see that impact lasting for too long. I do not see it impacting in a big manner because anyway we are talking about tier III, tier IV cities and what I have experienced in the LC1 markets given in the current environment, it is not at a major impact.

**Rohit Dokania:** Fair enough and lastly is it possible to throw some light on what could be your stable non-Sports margins probably on a stable state basis.

**Atul Das:** I think it will be more important to look at overall margins because different components will keep having some ups and downs and as we have said that overall margins will fluctuate between 22%-26% depending on the timing of the investments and the period of investments that will take.

**Rohit Dokania:** Just one quick one, I am so sorry, please pardon me for that. Lastly on the subscription revenue front, you said domestic subscription revenue could grow anywhere between mid-teens to slightly higher teens. Does this take into account the fact that Sports subscription revenue might grow at a smaller pace in FY15 because of India series.

**Punit Goenka:** That is taken into account.

**Moderator:** Thank you. Our next question is from Atul Soni of Macquarie. Please go ahead.

**Atul Soni:** Can you just give me an update on the redeemable preference shares issuance. I know that you have given in the release and which you say that the High Court has passed on December 20th, but any update on that in terms of time line will be highly helpful.

**Atul Das:** Final approvals are awaited and we are hoping that it will come by the end of this month.

**Atul Soni:** By end of January Atul?

**Atul Das:** Yes. We should be able to announce the record date for that very soon.

**Moderator:** Thank you. Our next question is from Riken Gopani of Infina Finance. Please go ahead.

**Riken Gopani:** Just had one question regarding the inventory reduction that would have happened this quarter, what kind of price hike were you able to pass on in this quarter to take the impact of the same?

**Atul Das:** Riken as you know in the last quarter which is second quarter of this fiscal, we were at about 14 minutes per hour which we have reduced to 12 minutes as per the guideline from 1st of October. So we have taken that kind of inventory reduction and we have taken price hikes across the board and

obviously different clients would have given different rate hikes, but more or less the numbers that you see reflect our growth rates.

**Riken Gopani:** So is it fair to assume that most of it has already been passed in this quarter or is there something pending that will happen in the next quarter?

**Atul Das:** No, there are things pending. Not everything has been passed.

**Riken Gopani:** Do we continue to maintain the 12-minute cap now also or due to the stay now, there is some change in that?

**Atul Das:** No, we continue to maintain the 12 minute cap.

**Punit Goenka:** Barring the news channels and music channels, everybody is following the 12 minutes cap.

**Riken Gopani:** So for the entire quarter, since we have already seen the impact, the volume will not have any further impact from here and pricing can have some more upside in the next quarter. Is that the correct understanding?

**Atul Das:** I will correct that. Volume obviously, there will be no impact as we go forward, but you must also keep in mind that the third quarter is a festive quarter and there are lots of events and special content which were telecasted. So the ability to take price hike because of that content was higher, but as we get into the fourth quarter, same ability might not be there. So it is not a natural thing to expect better rate in fourth quarter. In fact there would be some lull in the fourth quarter.

**Moderator:** Thank you. The next question is from Mayur Gathani of OHM Group. Please go ahead.

**Mayur Gathani:** Sir just wanted to check this during the time that DAS was happening, we were anticipating some drop in carriage fees. Has that come through or do we expect it to come through. I know you answered for the Phase-III, Phase-IV, but I just wanted to check for Phase-I and Phase-II.

**Punit Goenka:** It is a constant process of reduction that we are working on. So we have seen some reduction already coming in, but as I have said earlier also, that it is going to take some time before one can see carriage fee go away, but keep in mind that if we are paying X today or if we were paying X before

digitization for buying let us say for an average of 11 frequency, today we are buying 24 frequencies for the same price. So that itself is large reduction in our mind.

**Mayur Gathani:** Can you just give the percentage thing, this carriage fees has dropped over the period of 1 or 2 years that we will drop by 10%-15%?

**Punit Goenka:** No, we will not be sharing that because it is competitive information.

**Moderator:** Thank you. Ladies and gentlemen we will be taking our last two questions from our participants now. The next question is from Yogesh Kirve of Anand Rathi. Please go ahead.

**Yogesh Kirve:** I am sorry I am coming back to the margins again. In this quarter despite such extraordinary sports losses, we had EBITDA margin of about 24.5%. So in light of this, the EBITDA margin outlook that was shared at around 22%-26% does it sound very conservative because even at the recent quarter whenever we had a lower Sports losses and margins are consistently around 27%, 28% or even 30%.

**Punit Goenka:** I think you have to look at in light of what Atul has talked about potential expansion that we are planning to do in next fiscal. This is not only about one quarter. So Atul you want to expand a little bit.

**Atul Das:** Yogesh, maybe I will add to that to give a better explanation. So if you were not to consider the new launches, then it will be fair to say that the margins will be at these levels or even go higher, but what I am talking about is blended margins including Sports losses and including new investments. We are not for one reason saying that our margins will decline on the existing business. That is not the intention.

**Yogesh Kirve:** So is it possible the new business losses which we are currently talking about for this fiscal of 150-180 crores. Is it possible that they could be higher than that in FY15?

**Punit Goenka:** Yes because we are planning some new investments in FY15 also. Those we will be able to talk about only once our business plans are finalized and when we come out with our fourth quarter results. At that time, we can give you more color on what kind of losses from new business we expect in FY15, but for FY14 you are right, losses will be in the range of 150 crores.

**Yogesh Kirve:** Secondly on the subscription revenue front, the domestic subscription revenues over the last 4-5 quarters, it has been ranging between the 330-340 crores. So to what extent the benefit from this Phase-II digitization is already into the number and when we would see next major leg up in subscription revenues?

**Atul Das:** Yogesh, it is difficult to quantify Phase-I, Phase-II how much is in and how much is remaining. The fact is that there was some of the impact which could have happened because of converting into CPS deals, which has still not taken place. So there will be some marginal upside coming in from Phase-I and Phase-II as and when these deals actually turn into CPS deals which is basically on a per subscriber base pricing. More importantly as we go into FY15, as you know the deadline for Phase-III and Phase-IV currently is December 2014. If you go by what we have seen in Phase-I and Phase-II it has taken more than 9 months to really implement digitization or from monetization perspective, even where boxes were deployed by March 2013, monetization has not happened yet. So I am just saying that from a monetization perspective, FY15 may not really see the upside of Phase-III and Phase-IV. So we will see some residual upside coming from Phase-I and Phase-II getting completed and then Phase-III and Phase-IV we will see more likely in FY16 unless of course things happen very fast and everything gets monetized from December 2014 which is quite unlikely.

**Yogesh Kirve:** Finally a quick question, just wanted to check where do our Sports losses sit within the parent company or in the subsidiary?

**Punit Goenka:** Sports losses, actually Sports business is split between some channels in the domestic business and some are international. Some international revenues come in the Sports business as well.

**Yogesh Kirve:** I am saying this because in the current quarter if you see the combined EBITDA from the subsidiaries from this year you are looking at consol minus standalone numbers.

**Punit Goenka:** Exactly, I got your question that is precisely the reason, because the revenue and the cost sometimes get split, so some of the revenues occur in international businesses whereas the costs incur in domestic businesses.

**Moderator:** Thank you. Our next question is from Ritwik Rai of Kotak Securities. Please go ahead.

**Ritwik Rai:** Congratulations for a great set of numbers yet again. Just two questions. First if you could give some more color on your ad revenue growth and is it bent towards certain genres more than the others. I know you do not share numbers for each genre, but could you give some idea of whether movies for example have been doing especially well and that is led to the out-performance and so on.

**Atul Das:** It will be difficult to give the split genre wise. What I can tell you is some of the sectors which have done well from an advertising perspective. So FMCG continues to be reasonably good at least in our numbers. Telecom services have continued to spend well. Sectors that have not been doing well from a YoY perspective are automobiles, retail, lifestyle including jewellery and durables. So those sectors have seen decline and that has resulted in an overall 10% growth for the industry on television is what our estimate.

**Ritwik Rai:** Sir just one more thing your depreciation expenses are especially high this quarter. What is the reason for that?

**Atul Das:** This has certain new investments in our Sports business.

**Mihir Modi:** Also there is an accounting write-off of set-top boxes below Rs. 5,000. This adds up to tune of about 5 crores.

**Ritwik Rai:** What set-top boxes, these are, I am unable to follow sir.

**Punit Goenka:** Set-top boxes that are deployed to cable operators for distribution of our channels. So once the value of those on the books goes below Rs. 5,000, you have to take a write-off for the balance value. That value accounts for roughly Rs. 5 crores that has gone into this quarter.

**Moderator:** Thank you. I would now like to hand the floor back to Mr. Kanwaljeet Singh for closing comments.

**Kanwaljeet Singh:** Thank you, Inba. Ladies and gentlemen thank you for joining us. We hope to have the transcript of the call on our website zeetelevision.com soon. We look forward to speak to you again at the end of fourth quarter of fiscal 2014 or even earlier on a one-on-one basis. Thank you and have a great evening.

**Moderator** Thank you. Ladies and gentlemen on behalf of ZEE Entertainment Enterprises Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

**Moderator** Thank you. On behalf of Zee Entertainment Enterprises, that concludes this conference.

***Note: This document has been suitably edited for ease of reading.***