

# **Zee Entertainment Enterprises Limited**

CONFERENCE CALL
July 15, 2015, 15:00 HRS IST

**Moderator:** 

Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q1 FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Anuradha Walawalkar, thank you and over to you ma'am.

Anuradha Walawalkar:

Ladies and gentlemen, thank you for joining us today. This conference call has been organized to update our investors on the Company's performance in the 1<sup>st</sup> Quarter of fiscal 2016 and to share with you the outlook of the management of Zee Entertainment Enterprises Limited.

We do hope that you have had the chance to go through our earnings release and the results, both of which have been uploaded on our corporate website. To discuss the results and performance joining me today is Mr. Punit Goenka — Managing Director and CEO of Zee along with Mr. Mihir Modi — Chief Finance and Strategy Officer.

We will start with a brief statement from Mr. Goenka on the 1<sup>st</sup> 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 like to add that this call is purely for our analysts and investors and if there are any other media companies on the call, we request them to please disconnect. I now request Mr. Goenka to address the audience.

**Punit Goenka:** 

Thank you Anuradha. I would like to welcome everybody to this call and appreciate your joining us for the discussions on the results of the 1<sup>st</sup> Quarter of fiscal 2016.



Let's begin with details of some of the key developments of the quarter focusing on the financial performance.

Zee's advertising revenue during the quarter were Rs 7.80 billion, recording a growth of 25.4% year-on-year. Advertising growth on the non-Sports part of the business is in mid to high twenties.

The total subscription revenue for the quarter were Rs 4.62 billion. During the current quarter domestic subscription revenue stood at Rs 3.68 billion growing by 13.6% over the last year, while international subscription revenues were Rs 0.95 billion growing by 7% over corresponding period last fiscal.

On the cost front, programming and operating cost in the quarter were Rs. 6.11 billion. Total costs incurred by the company in this quarter were Rs. 10.29 billion.

During the quarter the Company's operating profit was Rs 3.11 billion. The operating margin for the quarter was 23.2%. Profit After Tax for the quarter stood at Rs 2.42 billion. PAT margin for the quarter stood at 18.1%.

As of June 30<sup>th</sup>, 2015 the Company has a gross debt of Rs 21 million and Cash and Cash Equivalents of Rs 17.83 billion.

I would now like to cover the Business Performance. During the quarter Zee TV was ranked 3<sup>rd</sup> amongst the Hindi GECs. The channel delivered a weekly average of 9 shows among the top 50 shows during the quarter. The newly launched Hindi GEC &tv has picked up viewership and has been performing well.

Zee's Hindi Movie Cluster, Zee Cinema, &Pictures, Zee Classic and Zee Action continue to lead the genre with the highest viewership share.

The network operates two channels in the English entertainment and movie genre, Zee Café and Zee Studio. Zee Café is one of the leading channels in its genre and delivered a weekly average of 27 shows in the top 100 during the quarter.

During the quarter Zee Marathi continued its lead as the No. 1 channel in the genre. The channel was a slot leader in 8 prime time slots.



Zee Bangla is one of the leading players in the Bangla GEC genre. During the quarter it continued to be the No. 2 player in the genre. The channel also extended its lead in the non-fiction genre. The channel was the slot leader in 7 out of 16 prime time bands.

During the quarter Zee Telugu became the No. 1 channel in Telugu GEC genre. The channel was a slot leader in 4 out of 10 prime time bands during the weekday prime time for the quarter.

Zee Kannada was No. 2 channel among the Kannada GECs during the guarter.

The key properties on our Sports channel bouquet during the quarter included telecast of Pakistan vs Zimbabwe cricket series, West Indies versus England cricket series, Sri Lanka versus Pakistan cricket series, UEFA Champions League Finals, WWE Specials and MotoGP among others. The forthcoming quarter would see the telecast of events like India vs Zimbabwe cricket series, Tour de France, UEFA Champions League, US Open Tennis, UEFA Europa League, Copa del Rey and PGA Tour. The Sports business revenue in the 1<sup>st</sup> Quarter of fiscal 2016 were Rs 1,519 million while costs incurred in this quarter were Rs 1,504 million.

Zee's International operations constitute a significant part of the Company's revenues. The highlights of the International Operations during the quarter were as follows:

- In America Zee TV continued to garner the highest viewership share amongst South Asian networks. Zee TV HD and Zee Bollywood HD were launched on additional platforms.
- &tv, &tv HD were launched in the UK. Within the few weeks of its launch &tv currently ranks amongst the Top 5 Indian Channels in UK.
- Zee TV and Zee Cinema continued to be the Number 1 South Asian channels in their respective genres in the UAE. Zee Aflam continued its successful run as the Number 3 movie channel in all Arabs target audiences in Saudi Arabia.
- Zee World also continued its successful opening run as the second best performing GEC amongst its target audience in South Africa.





In APAC, Zee Variasi saw further gains in its viewership amongst Malay TG.
 Zee channels were launched on additional platforms in Sri Lanka and Australia.

Zee has started the year on a good note witnessing good returns on the operational front. This clearly delineates popularity of our programs which continue to attract loyal audiences. We continue to experience growth in both advertising and subscription revenues through the launch of new and innovative programming.

While competition remains high in the Indian television Industry, we remain true to our values of bringing innovating and high quality entertainment to our audiences. Our efforts are to continue in this journey and entertain audiences all over the world. We believe that by delivering excellent content, we can benefit from monetizing revenues from an advertising and subscription standpoint.

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 gentleman, we will now begin the question and answer session. Our first question is from Sachin Salgaonkar of Bank of America. Please go ahead.

Sachin Salgaonkar:

I have two questions. First question is, of course, on your flagship channel we did see a bit of a decline in market share of late. Clearly there was no impact of that on the ad revenues in Q1 but do you see some pressure because of that on ad revenues going forward? And a related question is if you could talk on how &tv's contribution to ad revenues is going on?

**Punit Goenka:** 

Yes, as you rightly said the flagship channel has witnessed some market share loss but I want to again point out that in the new rating system which is established by Broadcast Audience Research Council, the data currently that we are receiving is only for 1 lakh+ towns and, therefore, part of the urban market which is below 1 lakh towns and the rural market is yet to be added. I am quite confident that once the comprehensive data starts coming by second Quarter of this year, Zee TV would be back to its Number 2 position at least and a strong Number 2 position.

As far as impact on ad revenue is concerned I am not seeing any impact of that currently or going forward because I think the advertisers understand this point very



well and they do believe that the reach of Zee in the smaller towns and markets is far greater and hence they continue to support and advertise with us.

On &tv we are quite pleased with the progress that we are making, with our latest round of content that we have launched. You may have seen "The Voice" which is a big reality show that's going on currently. We are gaining traction as we speak. And similarly on ad revenue also there is constant growth.

Sachin Salgaonkar:

My second question is more of a big picture question on your Sports genre. Can you talk about some of the steps you are taking to improve the content in this genre and how do you look at IPL Rights when they come for renewal in 2017? How important that is to you?

**Punit Goenka:** 

Well, we are working very hard to improve the performance of the Sports business. As I have said many times that it is linked to the digitization opportunity that will happen in Phase-III and Phase-IV and also as ARPUs start going up in the cable business we would start seeing a much more improved scenario for the Sports business.

As far as IPL is concerned we would definitely be contending and bidding for it. It is an important piece of content. Time will tell whether we get that or not.

Moderator:

Our next question is from Vikash Mantri of ICICI Securities. Please go ahead.

Vikash Mantri:

Two questions and one request. Is BARC the new currency or is it yet to stabilize? And can you help us to know whether there is a relative change that has happened because of these ratings where more Dollars are being allocated to niche channels given their sample size would be better or is better? Second question is on the Sports side, where earlier the thesis for Sports was that Sports is loss-making and eventually will become profitable as digitization and Pay TV revenues kick in. But we are seeing in the last one-and-a-half, two years, syndication is starting to play a big role and already ensuring that Sports is not a big drag. So is there a change in strategy when we now bid for Sports seeing that syndication will help us in covering a lot of those cost? These were the two questions.

**Punit Goenka:** 

On BARC side, Vikash, the industry is not yet trading on the BARC currency. There is a formula that was set up while we were entering with BARC on which the trading is currently taking place. I do expect that second half of this fiscal will be when trading



will start on BARC and I am pretty confident that the niche channels will benefit from that given that it's a larger sample and a far more robust sample that we have gone in with. Today, it's still as we are not trading on it, we cannot see that traction yet in terms of Dollars getting allocated on that yet but I am still pretty confident.

On the Sports side, definitely syndication has become an important revenue stream for everybody, including us, and when we are bidding for Rights we are trying to buy as much Rights as possible in terms of territories and geographies so that it helps us ease the burden on India performance.

Vikash Mantri:

Just one request Punit, as you are part of BARC, we analysts still don't have access to BARC data, so it would help if you could initiate that process as well. We get it right now largely through Twitter and that's pretty inadequate.

**Punit Goenka:** 

So have you written to BARC, Vikash?

Vikash Mantri:

Yes, we have written.

**Punit Goenka:** 

Okay, can you forward me that mail please?

Vikash Mantri:

I will do that.

**Moderator:** 

Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:** 

My first question is on the acquisition. Sir, a strong acquisition in a good market but if you could give us some sense on the market size and the market share. And you still have other gaps, for example, Kerala, Assamese, the cow belt markets, so when do we see launches there. Also if you could explain why inorganic this time versus your routine organic route which you employ for new channels, that will be the third sub-question.

Mihir Modi:

Sarthak is, as you know in the Odia market. It is a leading general entertainment channel with almost about 25% viewership share in that market across all genres. Given the size of the market is about Rs. 100-110 crore on the advertising side and growing very fast this acquisition becomes an important addition to our already fast-growing regional portfolio. So from our perspective it made sense to get into this business with a head-start through a channel which is already one-fourth of the viewership and already profitable, so while we have done organic growth through



our own launches in the past, this was something that came about and it seemed to be a good option to get into to get a head-start into that market and, therefore, we went for it.

**Punit Goenka:** 

On the second part Abneesh, about the gaps in our portfolio, in the south, once our Tamil strategy has stabilized and has turned the corner is when we will explore opportunities in Kerala. And in the cow belt, we are still studying that market especially on the Bhojpuri side but we have not taken any decision yet on that, so that's the plan as of now.

**Abneesh Roy:** 

Two follow-ups on that. You said the Odia channel is profitable and it will be value accretive and does the current management continue to stay? And any reason why they have sold off? I couldn't get that part why they would sell off when it is such a high growth market, 25% market share, of course, the acquisition price seems to be very attractive but if you could explain that part?

**Punit Goenka:** 

Well, I can't explain why they have sold the business, but I can tell you that it is profitable and it is a growing market for us but why they have sold it's a question only they can answer. Obviously we have paid a good price for the business and that could be one of the main reasons for them to look at that.

Abneesh Roy:

When does it start getting reported in your numbers?

Mihir Modi:

We had the Board approval earlier today which will be followed with regulatory approval process. Once all the regulatory approvals come about, the transaction will be consummated and we will start consolidating. Say around three months, is a good estimate at this stage.

**Abneesh Roy:** 

My second and last question is on &tv. You reported very exclusive ad growth well ahead of industry. So how much is &tv already contributing? In terms of viewership it is around one-fourth of Zee, slightly less. And second is this entire Sun TV issue in terms of closure, etc., does that aid you in the south markets? And on "The Voice", International format, this is not a policy of your company, normally you like to do home grown content versus this International format. So is this a marked deviation or is it a one-off deviation in terms of content?

Mihir Modi:

I'll take the question relating to the advertising and &tv. So indeed Abneesh, &tv has been doing well on the performance side as you noted and, therefore, has a



significant contribution to our growth this quarter. Having said that, our base, the existing businesses both national and regional have grown ahead of market as well, so I think the numbers that you see for this quarter on the advertising side are a result of an all-around performance and not necessarily attributed to a channel or two. I will repeat, yes Zindagi and &tv definitely have a contribution to that.

**Punit Goenka:** 

And on Voice, Abneesh, while our policy is still the same but that is more for established channels. When it comes to setting up or creating a new channel or giving birth to a new child, we need the support of everything possible and in fact, if you recall we launched it with a big show with Shah Rukh Khan hosting it, which also is not generally something that Zee does. I believe, on &tv, we will continue to do this until we have established the channel as a leading channel in the business, so it is not a deviation, I think we have done it in our regional strategy as well wherever we have gone we have taken the biggest of stars and when it is to establish a new channel, that's the basic plan.

Abneesh Roy:

And Punit, does the Sun TV issue help you in anyway, the news-flow on closure of channel, so some advertisers cut down because they don't know how sustainable, how long the channel will be, in terms of news-flow at least that is the thing which is coming out, does that help your advertising growth?

**Punit Goenka:** 

Well Abneesh, to be honest with you, my advertising growth will only come in once my Zee Tamil channel starts to perform. Sun TV whatever may happen to them, I cannot just take the money away if my channel is not performing well.

**Abneesh Roy:** 

But in the other two markets, Andhra and Karnataka?

**Punit Goenka:** 

Andhra I am already a leader and in Karnataka I am a strong No 2 player, so there I am already leading the market.

Moderator:

We will take the next question is from Parag Gupta of Morgan Stanley. Please go ahead.

Parag Gupta:

Just wanted to check in terms of your margin guidance, you were earlier talking about potentially keeping flat margins year-on-year, do you still hold that guidance? And the second is Mihir, we were seeing your interview on CNBC and you were talking about a 25% advertising growth being sustainable for the year, so could you



just talk us through that. Is this primarily through the new and the regional channels or is it through higher inventory or is it also through higher rates?

Mihir Modi:

So on the margin guidance, we have guided that we will be 50 to 100 basis points around what we clocked in the last fiscal which translates to around 25% EBITDA margin. At this stage we believe that that's the number that we will clock. Of course, we will keep interacting on that guidance as we go through the year but at this stage that's the number that we believe we will be at.

Regarding the ad revenue growth what I mentioned there is that we will continue to make efforts on our existing businesses to beat market growth and, of course, there is an addition of &tv, that has gained a substantial viewership so far, so a combination of these would lead to a good ad revenue growth for us. Whether it will be at the level that we delivered for Q1? I am not sure we can comment on that but our endeavor will be to market on existing and & will get us what it will get us.

Parag Gupta:

Just lastly on Sports. You did mention that this year we are going to see higher Sports losses because of higher India cricket matches. But given that Q1 has turned out to be kind of breakeven, are you looking at potentially lower losses in Sports or are you still maintaining the loss number to be as high as fiscal '14?

Mihir Modi:

So we've guided that we will have a loss this year. We had guided it will be around Rs. 100 crore of loss for the full year. At this stage we believe it will err on the favorable side rather than on the unfavorable side, but we'd stick to this guidance for now and as the events unfold we will keep talking about it.

**Moderator:** 

Our next question is from Nitin Mohata of Macquarie. Please go ahead.

Nitin Mohata:

My first question was on advertising. A lot has been discussed on the call but Punit, just wanted to go back to the comment you made on last earnings call about industry growing on low-teens basis. So in that context the 25% odd ad growth that we have delivered, is it a function of the entire market looking up or is it just that your channels have done much better than your anticipation?

Mihir Modi:

Nitin, if I can take that. So the advertising, indeed the market has been what we believed it would be, which is about low teens. I think our performance like I mentioned in one of the earlier questions is partly because of &tv which was not there in the same quarter last year but also because of our existing portfolio of



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channels gaining viewership share. As Punit mentioned, Telugu has become No 1 now and it had its journey over the last 12 months upwards, Kannada language channel has also moved to No 2 again through a journey, Marathi has become even stronger No 1 now, so on and so forth and that is the primary reason for the existing channels to be able to beat market growth.

Nitin Mohata:

And if I can ask a second one, on the BARC ratings, and a little longer term, one of the thesis on the positive side for broadcasters is that you would be able to tap or make advertisers pay for the rural market. Now obviously the ramp up has been happening fast for BARC meters. Have there been any initial discussions, have we sounded out FMCG companies or telcos in terms of would they be willing to pay more as and when the data comes out, any color on that would be helpful.

**Punit Goenka:** 

Nitin, as of now I think the first priority for us is to get BARC data for the all India rolled out as soon as possible. And my focus is this quarter we will work very hard to make sure that it happens within this quarter. I think having said that, that is the first objective. Any conversations with advertisers on how they will pay and what they will pay for the rural markets is something we will take up at that point in time. To open it up today would be a bit premature, without having seen the data, without knowing what exactly is going to happen. We need to first see that and then only take it up with these guys.

Moderator:

Our next question is from Urvil Bhatt of IIFL. Please go ahead.

Bijal:

Hi, this is Bijal from IIFL. I have two questions. First question is in this Annual Report we have highlighted lot of initiatives being taken in international markets, so could you give us some guidance or idea that in probably say 3 to 5 years' time what proportion of revenues you are targeting from international market and what is that number at this point in time?

Mihir Modi:

On the international market indeed there are a lot of initiatives planned and, therefore, the International piece will indeed grow fast particularly in the outside of the 5 year time period that you are talking about. Having said that, given that the growth opportunity on the domestic side, particularly on the subscription, not to mention the BARC changes on the advertising side, but subscription, digitization led growth is going to be substantial. Therefore, to predict what will grow faster is



difficult at this stage. All we would say is that international will become more and more significant in our mix.

Bijal:

Second is, we have been improving our market share in Telugu and Kannada for a very long time and as in advertising industry that monetization of that happens after a lag, so at this point of time do you see that....I mean we are effectively already monetizing the viewership which we have built over last 2-3 years or still there can be a meaningful pricing growth which is disproportionate to increase in viewership, so probably we can gain much more revenue market share in Kannada and Telugu market in particular?

**Punit Goenka:** 

So Bijal, every market behaves very differently so some places we have already managed to get the price increase that we needed and some markets are yet to happen, for example, Kannada is something that will now start to monetize. Telugu is something we have already achieved in the last year. But I want to just comment that any growth that we are getting apart from adding new channels if you keep that aside, on the existing portfolio any growth that we are getting is a function of price increase because our inventory is now capped, we can't go beyond 12 minutes so from that perspective when we beat the industry growth levels, all of that practically comes from pricing. So now the game of pricing is the only thing that's left, there is no more room for inventory or significant inventory growth at least in our business.

**Moderator:** 

Our next question is from Jay Doshi of Kotak Securities. Please go ahead.

Jay Doshi:

I believe there is some request from the cable industry for lower rates for Phase-III and Phase-IV markets for digitization and broadcast. So how do you think broadcasting industry will support MSOs? What are your thoughts? Broadly what kind of discount is the industry willing to give as compared to the rates you have for Phase-I and Phase-II markets?

**Punit Goenka:** 

So Jay, just as we had supported the cable industry when Phase-I and Phase-II got digitized where what we did was lump sum or fixed fee deals for the first 12 to 18 months. Similarly, I do expect that Phase-III also we will have to support the cable companies because at the end digitization is not just beneficial to the cable companies but also to us. I do expect that pricing in the Phase-III, Phase-IV will take



18 to 24 months to reach the Phase-I, Phase-II levels and we are factoring those facts into our plans.

Jay Doshi: In the interim do you anticipate any sort of.....since if you are offering channels at a

lower rate to cable players in Phase-III, Phase-IV do you anticipate any kind of

renegotiation request or demands from DTH players?

**Punit Goenka:** No, no such request came in Phase-I, Phase-II either.

Jay Doshi: Second is a bookkeeping question, the Other Income that we see in this quarter, is it

more like a sustainable rate aligned with the increase in cash that we will have for

the rest of the year?

Mihir Modi: No Jay, this is a Forex gain that we had this quarter, so the like-to-like sustainable is

the underlying which is similar to last year same quarter, the incremental one is just

the Forex gain.

Jay Doshi: And what are the yields on Inter-Corporate deposits and overseas investments?

Mihir Modi: We get competitive rates, it varies across the portfolio. If its high risk it could go up

to 12-13%. We also have safe investments which are in the single digit range.

**Moderator:** Our next question is from Amit Kumar of Investec Securities. Please go ahead.

Amit Kumar: In terms of advertising so even this high teens growth at the industry level and, of

course, Zee is doing better, which are the key categories which are leading this and

where are the categories you see some bit of pressure?

Mihir Modi: The industry growth is about low-teens and you have the usual suspects like FMCG,

consumer durables. E-commerce continues its growth path and these have been the

dominant growth drivers for the industry this quarter.

Amit Kumar: My second question pertains to the Sports business. I know Zee is not directly

involved in this but the plans that Essel Group had of launching its own league. That

has created some bit of consternation among the cricket boards around the world

and clearly there have been some issues with the recent India-Zimbabwe series as well, whether it is going to happen/ not happen and how Ten Sports essentially

plays in that respect. So just wanted your comment on that, that there are a couple



of series which are coming up, India-Sri Lanka, later on India-Pakistan, etc., so any sort of discussions that you have had internally with the respective cricket boards in terms of visibility on these cricket properties?

Punit Goenka: Sorry Amit, I won't be able to share details on this. These are very confidential

discussions that we are having with the boards, so sorry about that, I can't give you

any answer on this.

Amit Kumar: Alright. Just my final question, in the consolidated Balance Sheet what would be the

inventory level at the end of Q1?

Mihir Modi: We will publish the Balance Sheet at the end of September but the inventory levels

are within control is what I would say.

**Moderator:** Our next question is from Rohit Dokania of IDFC Securities. Please go ahead.

**Rohit Dokania:** Just 2-3 quick questions from my side, one would be now that the 1<sup>st</sup> Quarter is over

and we would have a good hang on the &tv losses, would we maintain the loss

figures that we had given earlier for the 3 to 5 year period?

Mihir Modi: The way we have guided is on the margin side, like we said, after the &tv losses we

expect a margin of 25% EBITDA and we are maintaining that guidance.

Rohit Dokania: So that's taken Mihir, I was just talking about the 700 crores to 1000 crores odd of

loss guidance that we had given over 3 to 5 year period, I was referring to that.

Mihir Modi: Well, that is an estimate that we had given that a typical channel of this size in this

genre would spend and we had said that we would attempt to do better than that

and that remains.

Rohit Dokania: And I was also wondering in terms of like-to-like growth for subscription revenue,

do we maintain high single digit to, let's say, early double-digit kind of number for

this year?

Mihir Modi: I think what we have reported this quarter is a reasonable representation of what

we see the year looking like.



**Rohit Dokania:** And my final question would be to Punit in terms of the a la carte or the RIO pricing

that we are deciding to do in terms of wholesale content, so any movement on that

Punit?

**Punit Goenka:** No, nothing yet on that.

**Moderator:** Our next question is from Rajiv Sharma of HSBC. Please go ahead.

**Rajiv Sharma:** Just 2-3 quick questions. First is on the programming hours in your flagship channels

Zee and &tv, so where do they stand? And is there an increase this quarter? And what are the plans for the year, if you can share that? Second is your subscription

revenue, that's seen a dip, particularly the domestic one, so what is the reason for

this? And I understand there is some accounting change in the last quarter, but the

other things is we are seeing DTH taking tariffs up so we are not seeing that getting

reflected in your subscription revenues. Even cable operators have been talking

about packaging so if you can help us explain on that. And if subscription is seeing

some pressure will RIO be an answer to it? What is that is pushing you back on RIO,

your thoughts please?

Punit Goenka: Firstly on Zee TV and &tv, Zee TV is at 30 hours currently per week and &tv is at

about 22 hours. Zee TV we would pretty much maintain at the 30 level and &tv will

be increasing the number of hours to match up to 30.

Mihir Modi: On the subscription side, Q-on-Q indeed from Q4 of last fiscal to Q1 of this fiscal it is

a drop. But as you may remember we had said that Q4 last year had a lot of catch-

up revenue and a representative growth or a number would be the full year basis.

So as we see, this year we will see similar kind of growth so Q-on-Q is probably not

the right way to compare it.

Rajiv Sharma: So you are suggesting still 9%....means high single digit kind of growth in

subscription this year?

Mihir Modi: We may have a low double digit kind of growth in subscription for the full year this

year.

Rajiv Sharma: And on my question on tariff hikes being seen and packaging being seen, so is there

always a lag in it? So if you can help us explain that better.



Mihir Modi:

Indeed we are seeing that momentum build in terms of the end user ARPU going up and that will come into play into our numbers as we go through the year. It's not immediate obviously because currently the way broadcasters contract with the platforms is not on a revenue share of the consumer pay out. So as the consumer ARPU goes up and the contracts come up there will indeed be an impact to our revenues as well.

Rajiv Sharma:

And Punit what has been pushing you back on RIO because that is always revenue accretive and allows you to push all the channels with some incentive, so your thoughts on that?

**Punit Goenka:** 

There is a court matter pending which is regarding the tariff hike that we got from TRAI of 15% and then 12.5% again which is totaling up to 27.5%. The reason we are not announcing the RIO scheme yet is we are waiting for the Supreme Court order as to what is the final judgement because the pricing will depend accordingly. What is the pricing we put into the market, whether it is with the 27.5% hike or without it.

Rajiv Sharma:

One last bookkeeping question, what was the CAPEX spent for this quarter and is there a sequential jump in your CAPEX number?

Mihir Modi:

The CAPEX remains at more or less the same level, it was 120 crore last year and we are tracking at similar levels this year. In the next couple of quarters we may see some increase but we will talk about it as we get into those quarters.

**Moderator:** 

Our next question is from Vivekanand Subbaraman of HDFC Securities. Please go ahead.

Vivekanand Subbaraman: Just a quick question on the ad revenue growth. Is there is significant divergence in industry growth of the Hindi genre versus the regional space? That's one. And secondly, you mentioned that we are yet to monetize some of the gains in the Kannada market, so is that likely to meaningfully move the needle and sustain the (+20%) ad revenue growth ex-Sports that we have seen?

Mihir Modi:

In ad revenue growth there is not a lot of difference between the national and the regional markets, the regionals are moving slightly ahead in terms of growth for us for sure and within the markets as well we see a little bit difference but not significant.



My comment relating to not just Kannada but all our regional markets would be that indeed viewership gains will help us grow ahead of those markets and, therefore, help us sustain high growth numbers.

**Vivekanand Subbaraman:** And specific to the 20% plus range that we are clocking right now, is that something sustainable in your view?

Mihir Modi: I think it's very difficult to say that. Like I said, I think we will continue to attempt to

grow ahead of market and &tv which was not there for a large part of last year will add to that, so it's difficult to give a number there but our attempt will be to beat

market growth.

**Moderator:** Our next question is from Srinivas Sheshadri of Antique. Please go ahead.

**Srinivas Sheshadri:** First question for Punit, just wanted to get your thoughts on the evolution or rather

revival of the FTA market. How do you see that post getting into an execution mode on Phase-III, Phase-IV in terms of some subscribers going to DD Direct platform? And also I have been reading about DD Direct itself expanding its platform in a

major way. Just wanted to understand how you view it and how you are positioning

your programming to address that kind of an expansion?

Punit Goenka: We do offer a Free-To-Air service already under the brand of Zee Anmol which is

available on the Free Dish platform and we do program on that for original content

as well and also re-runs of our current flagship channel. Currently in terms of

advertising that market is small. It's just about Rs. 800 to 900 crores because only

Doordarshan was somebody who was playing in that market. I think with BARC roll out of the rural ratings, the landscape will change and one has to keep a watch and

track it to see how it moves the needle on the advertising front.

Srinivas Sheshadri: Are there any specific plans to kind of tap incrementally that market apart from

what you are already doing or do you think that is kind of pretty enough to get a

meaningful number out of that market?

Punit Goenka: Srinivas, I don't really like to give my content free to anybody, so I don't think I will

be expanding more into that market.

Srinivas Sheshadri: And secondly just a small book keeping question for Mihir, in the staff cost seen a

sizable 20% plus jump this quarter. Just wanted to confirm if this was largely normal



in terms of headcount for new operations plus increments, etc., or are there any one-offs in the numbers?

Mihir Modi: It is indeed as you said normal. The underlying businesses have a normal growth and

then the new businesses add on to it, so that's how it stacks up.

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

**Kunal Vohra:** I have a question on your plans to monetize content on smartphones; do you see it

as a meaningful opportunity over like, not in the short-term, but maybe next 3 to  $5\,$ 

years? So like besides Ditto TV are there any other tie-ups which you have done?

Are you looking for tie-up with emerging players like Reliance Jio when they launched 4G LTE services? That's question number one. Second, I also wanted to

hear your thoughts on how you see GST impacting your business? What are the

indirect taxes which you face currently and how you see GST impacting your

business?

**Punit Goenka:** So as far as monetizing the contents on smart devices is concerned we already, as

you rightly said have, Ditto TV and it is available on all platforms today whether it is

iOS, Android, Microsoft and available through every telecom operator other than

the state telco. So as and when Reliance Jio LTE option or even Airtel 4G comes in,

we will be tying up with them to provide Ditto TV through that to their customers.

We would even consider putting content on their own platform which they would

be creating on the OTT side but those are matters of commercial negotiation, as and  $% \left( 1\right) =\left( 1\right) \left( 1\right)$ 

when those come up we will take it up.

Mihir Modi: On GST from a tax perspective it will be absolutely neutral for us. Yes, a new tax will

mean administrative changes but that's pretty much it in terms of the process that

we have to follow but it will be tax neutral.

Moderator: Our next question is from Ashish Upganlawar of Elara Capital. Please go ahead.

Ashish Upganlawar: Just wanted to understand on a new channel like &tv, is there a particular

viewership share that can be targeted for breakeven, and if so, can you give us some

comments on these?

Punit Goenka: So our expectation is that once you move into the double-digit market share is

when the tables will start to turn.



Ashish Upganlawar: So maybe a 10% is kind of a good number on viewership for a breakeven at least

in...?

**Punit Goenka:** Yes that's double-digit.

**Ashish Upganlawar:** And if you can give the profit numbers for the Odia channel?

**Punit Goenka:** No, I am sorry we can't share that.

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

Vikash Mantri: Just going back to subscription revenues, now the guidance is for a low double-digit

growth going forward. Now I was just looking at the numbers. If we look at from FY14, five years back or three years back we have always done 25% CAGR and finally after digitization we are somehow seeing it lower. So is it lack of initiative from the

broadcasters to get more when they already see a bit of digitization is in place?

Punit Goenka: Vikash, I think it's a function of the ARPU growth which has not moved on the cable

side. While the first three years that you have talked about with a 25% CAGR that was the volume game that we played. It was more customers getting declared to us.

Now unless the ARPU levels don't start to go up how much can we squeeze the

MSOs, is the view. The whole initiative that the industry is taking-on on whether it is

RIO or net pricing that people are talking about in the market, are all which are to

drive the ARPU levels of the end consumers up. Unless that does not happen I don't

expect the numbers to change significantly. Of course having said that, Phase-III

when it kicks in next year, we'll again start to see a surge in the subscription

revenue given that we will again play the volume game in that market. So the growth will come back both in Phase-I and Phase-II as well as the Phase-III. Phase-I,

Phase-II again to repeat, will be the value game now and Phase-III will be the

volume game.

Vikash Mantri: Punit, any thoughts on making the base packages skinny we as a country seem to

give everything on the base package giving very less incentive for subscribers to

upgrade.

Punit Goenka: Yes, that's exactly what that we are working towards with the MSOs that how they

should tier their content. DTH has demonstrated already how to tier the content



and take ARPU levels to where they are currently. So those dialogues are on and I think over a period of time it will happen.

**Moderator:** Our next question is from Dhaval Shah of Siddhesh Capital. Please go ahead.

**Dhaval Shah:** What trend are you seeing in the way content is being consumed nowadays apart

from being on TV so how are the people consuming content on different platforms?

**Punit Goenka:** Dhaval, what we are seeing is that long-form content is still being consumed largely

on television but Short-Form content like watching a music video or short clips is

what people can easily consume on their smart devices.

**Dhaval Shah:** There are apps like Colors TV has an app, Hotstar has an app, like for Star Plus and

Colors, so I do not know does Zee TV also have an app where people can watch the

episodes what they have missed? And if at all once we come out with that how do

we monetize that because that is not through the MSO or a DTH player.

**Punit Goenka:** We already have an app called Ditto TV and we also have web version of it which is

dittotv.com. And the monetization on that happens via subscription where the

telcos charge the consumer and pay us a revenue share through that.

**Dhaval Shah:** So you are not seeing too much of long-form content going online at least in the

metros, you are not seeing that trend happening right now?

Punit Goenka: No, it is highly inconvenient to watch long-form content on a small device including

the data cost itself is very prohibitive.

**Moderator:** Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My question is to Punit. When we meet the FMCG companies, they say the

allocation of their ad spend to TV has reduced sharply from 90% a few years back to just 70% now. So they are increasingly going to online and other media, so in that

context your 25% ad growth if you could explain, are you getting new FMCG or your

online retailers and consumer durables are making up? Second is, print media, if you

see listed entities are reporting very disappointing set of numbers most of them, so

is TV taking share because of Amagi and those kind of terrestrial advertisers?



**Punit Goenka:** 

So definitely TV is taking share away from print and Amagi is just one of the reasons. But also the fact that now TV's reach is going way beyond and once the rural data starts coming you will see it will only improve further. On the first part, I think what the FMCG guys are telling you is absolutely right. In terms of percentage surely their revenue would have spread 70:30, 70% for TV and 30% for others but that does not mean that the absolute number has reduced on television. It is a proportion of their total advertising and we have seen FMCG numbers only grow year-on-year in terms of absolute numbers for the industry.

**Abneesh Roy:** 

Absolute numbers obviously will increase but versus the 25% growth there seems to be.... Because, for example, Unilever's advertising on a Y-O-Y basis is not increasing by 25% and on that if they are cutting on TV then your advertising or TV the industry's advertising from FMCG definitely is not growing at 25% so my disconnect was that.

Mihir Modi:

While that may be true for one or more of them, if I look at the whole FMCG advertiser base as a whole, I can tell you that their growth has been at good levels that we have seen in the past as well. So from the television broadcasting industry perspective we have seen growth. Now one or two players, of course, large or big is the question, can change the split to some extent but for the industry as a whole and for ourselves we see the numbers growing.

**Punit Goenka:** 

Plus we'll also have to play the online game ourselves, we do operate our own websites including India.com and other places as well which will be also used by them for advertising as you are rightly speaking.

Abneesh Roy:

But Punit, that was my next question, India.com and your own online initiatives, are they becoming sizable and are we doing enough on this because currently your growth is very good but online will keep taking share, so my sense is that 30% of non-TV will keep growing only and suddenly we realize that maybe our efforts on, say, India.com or...those kind of initiatives may not be good enough, so could you elaborate on your strategy for targeting that 30%?

**Punit Goenka:** 

No we are still investing behind digital in a very aggressive manner, so I don't think we will let it go by saying that our efforts were not good enough. We will use everything that requires us to play in the online space as well, while online space



will be far more fragmented compared to television but it's still a very important space to play.

**Moderator:** 

Thank you. Ladies and gentlemen that was our last question. On behalf of Zee Entertainment Enterprises Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.