



Q4 FY2014 EARNINGS CONFERENCE CALL

May 21, 2014; 1530 HRS IST

- Moderator Ladies and gentlemen, good day and welcome to the Zee Entertainment Enterprise Q4 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 Last 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 ZEEL 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 fourth 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 GoenkaThank you Kanwaljeet. I would like to welcome everybody to this call and
appreciate your joining us for the discussion on the results of the last
quarter of Fiscal 2014.

Let us 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. 5.82 billion, showing a growth of 21.5% year on year. Once again we have outperformed the television industry advertising revenue, growth by a significant margin. For the full year financial year 2014 advertising revenues increased by 21.2% standing at Rs. 23.8 billion. The total subscription revenue for the quarter were Rs. 4.64 billion. During the current quarter domestic subscription revenues stood at Rs. 3.34 billion while international subscription revenues were Rs. 1.29 billion. For the full year, subscription revenue were Rs. 18.02 billion recording a growth of 11%, domestic subscription revenues were Rs. 13.8 billion recording a growth of 13.2% over the last fiscal. While the international subscription revenues were Rs. 4.84 billion recording a growth of 5.5% over the last fiscal in rupee terms. International growth is of course aided by the rupee depreciation.

On the cost front – programming and operating cost in the quarter were Rs. 5.44 billion as compared to Rs. 4.67 billion in the corresponding period last fiscal, an increase of 16.6% year on year. Total costs incurred by the company in the quarter were Rs. 8.47 billion, an increase of 17.3% over the corresponding period last fiscal. For the full year total cost incurred by the company are up by 17.2% to Rs. 32.17 billion. I would like to highlight that this increase in cost is on account of substantial investments in content and marketing for existing channels. We also incurred costs on account of new investments done over the last 12 months including Zee Anmol, &Pictures, Zee Alwan, ZeeQ, Zee Khana Khazana, Zee Bioskop, Ditto TV and Ten Golf amongst others. This is in line with the company's philosophy of investing in the business for the long term growth.







During the quarter the company's operating profit was Rs. 3.12 billion. The operating margin for the quarter was 26.9%. Profit after tax for the quarter stood at Rs. 2.16 billion, a growth of 19.9% over the corresponding quarter last fiscal. For the full year the company's operating profit was Rs. 12.04 billion, a growth of 26.2% over the last fiscal. The operating margin expanded from 25.8% in fiscal 2013 to 27.2% in fiscal 2014. Profit after tax for the year stood at Rs. 8.9 billion, a growth of 23.9% over the last fiscal.

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 for seeing an improved performance in the years ahead. As of March 31st, 2014 the company has a gross debt of Rs. 17 million and cash & cash equivalent of Rs. 15.3 billion.

We are happy to announce that the Board of Directors of the company at the meeting held today has approved payment of equity dividend of Rs. 2 per share of Re. 1 each on the capital, subject to approval by the shareholders.

I would now like to cover the business performance:

During the quarter Zee TV averaged a relative share of 17.1% in the Hindi GEC space. The market share was even better in the prime-time band where Zee TV averaged a relative share of 19.3%. Zee TV was the #2 channel in the genre during the quarter. The channel delivered a weekly average of 15 shows amongst the top 100 shows during the quarter led by top rated shows like Jodha Akbar, Sapne Suhane Ladakpan Ke, and Qubool Hai. Zee TV launched new shows like Aur Pyar Ho Gaya, DID Little Masters Season III during the quarter. New launches planned in the forthcoming quarter including Kumkum Bhagya, Gangs of Haseepur and India's Best Cine Star ki Khoj.

Zee Cinema continues to be a leading channel in its genre during the quarter with a relative share of 33.3% amongst the top three Hindi movie channels. The key properties of the channel during the quarter were Shanivaar Ki Raat Sitaron Ke Saath, Lage Rao and Cinema Hall. The quarter saw premiers like Besharam and Zanjeer.







During the quarter, Zee Marathi extended its lead as #1 channel in its genre. The channel delivered a relative share of 47.6% amongst the top three Marathi GECs. The channel delivered a weekly average of 9 shows among top 10 shows. A key property planned for the forthcoming quarter is Jai Malhar, a mythological epic based on the life of Khandoba, the reincarnation of Lord Shiva.

Zee Bangla ranking a clear second in the Bangla GEC genre recorded a relative share of 37.2%. The channel leads the non-fiction genre with 85% market share. Channel is a slot leader in 5 out of 14 prime time bands during the quarter led by top-rated fiction shows like Raage Anuraage and Rashi and top rated non-fiction shows like Dadagiri Unlimited 4 and Tumi Je Amar.

Zee Telugu delivered a relative share of 21.1%. Zee Telugu was the #3 channel in the genre during the quarter. Zee Kannada delivered a relative share of 13.5% and Zee Tamil delivered over 6% relative share.

The key properties on our Sports channel bouquet during the quarter included telecast of South Africa vs. Australia cricket series, West Indies vs. England cricket series, Ram Slam T20 challenge, Hockey World League and UEFA Champions League Round of 16. The forthcoming quarter would see the telecast of events like West Indies versus New Zealand cricket series, Hockey World Cup, UEFA Champions Leagues Finals and UEFA Europa League Finals. The Sports business revenues in the fourth quarter of fiscal 2014 were Rs. 1959 million while costs incurred in this quarter were Rs. 1608 million.

Moving onto our international operations:

Zee TV Canada is now available on every cable, telco, satellite and IPTV platform in Canada. In UK, a new locally produced show 'Zee Companion' is launched to interact with local viewers and increase the affinity for Zee TV. In UAE, Zee TV continues to be #1 South Asian channel, both in terms of GRPs and reach. Zee Aflam, our Arabic Bollywood channel, continues its successful run as #3 movie channel in all Arabs target audiences in KSA.

We are also happy to announce that on 23rd June, 2014 we are launching a new Hindi channel **Zindagi** which aims to create a new category of premium mass in the GEC category in India offering alternative fiction content. The







content of the channel echoes our brand philosophy of Vasudhaiva Kutumbakam. It will offer hand-picket stories suitable for Indian sensibilities. It will start with content from Pakistan, written by award-wining writers and going forward we will be sourcing content from Turkey, Egypt and Latin America. The channel is being marketed and distributed aggressively and will be the first ever national launch of a Hindi GEC. We are also looking at expanding the offering to international markets.

Fiscal 2014 has been a good year for ZEEL both on operating as well as financial parameters. We gained viewership share with improvements across genres both in national and regional languages which led to outperformance in advertising growth relative to the industry. Our new launches during the year have been successful and are gaining traction. We have recorded EBITDA margin expansion despite our investments in new businesses. The Indian economy has grown at a sluggish pace of less than 5% in the last two years. This has continued to put pressure on overall advertising spend which have barely touched the double digit mark. The good part is that with the new government at the Center, growth is expected to pick up. We expect that despite a slow economy, television media industry will continue on its double digit growth path.

With this I thank you again for joining us and would now like to open the floor for question and answer session.

- Moderator: Thank you very much sir. Ladies & 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 my first question is on domestic subscription revenues which have remained flat for the last three quarters, now with MediaPro breaking up, could you tell us how you see next year? And in Phase-1 some cities have moved to gross billing on the MSO site, so are we seeing some benefit of gross billing? At least in numbers that is not visible and in terms of the tariff hike and the Sports inclusion in the distribution which is going to happen, so in the context of all this where do you see domestic subscription growth in FY15?
- Atul Das:On the domestic subscription revenues while on a yoy basis you do not seemuch of a growth but as you know we have always said about the







lumpiness of the revenues in the subscription side and remember during the fourth quarter of last fiscal we had some catch-up revenues of the fiscal and therefore when see against that backdrop it does not look like a very high growth. But the fact remains that for the full year we have seen about a 13.2% growth on domestic subscription revenues and that is what I think we have always talked about during the year that that is the kind of growth rate that we were looking forward to on the domestic side. And that remains true for the future also that quarter on quarter numbers do not necessarily predict the full year story. As far as your second question is concerned which is linked to the Phase-1 gross billing, as you know that we have done our deals with the MSOs and operators based on what we think we should be getting form the market and therefore really that change does not directly impact us in the Phase-1. But we do hope that as more and more of the operators and more and more cities move to a gross billing structure it will help the overall growth of industry both for the MSOs as well as for the broadcasters in general.

- Abneesh Roy: Sir my second question is on Zee Zindagi, it is positioned as premium and mass, so if you could elaborate that part and you are planning a national launch, so how does it help in terms of the subscription because bouquet obviously will become stronger. It seems like a good filling up of the gap because obviously we have a large Urdu population. But sir will the focus be more on ads or more on subscription because what is coming out of the market is you will focus, at least it will be premium priced. So Urdu speaking population and premium priced, that seems a bit difficult. So you could explain that one.
- **Punit Goenka:** First and foremost, this channel is not aimed at Urdu speaking audiences. It is a national Hindi language channel with Urdu being used, yes, that is correct but it is not aimed at only Urdu speaking audiences. The reason for the premium mass we want to create is that we believe there is enough audiences out there now which are looking for differentiated content compared to the current GECs itself. Our research has indicated that the audience base is large enough now to deliver a premium mass GEC product. Reason we are looking at it from a national perspective is that there are enough Hindi speaking audiences available even in south market which gives us the opportunity to enter that market which has not been done so far. This is also in line with the fact that sooner or later we will be moving







from the currency of CPRP based selling on advertising to CPT based selling. Hence audiences wherever they may be can be monetized. It is not just an HSM strategy. To start with, as all channels which launch, for purpose of sampling go with a pure advertising model. We do provide the channel free of cost while its premium pay, it will be provided free of cost for the initial months before we actually start charging for it. But eventually it should be a both subscription as well as advertising led play for us. I hope that clarifies.

- Abneesh Roy: Largely yes, one follow-up on this. See cost this quarter in the non-Sports was quite high at 21% so were there any one-offs because we have done a lot of innovations but a lot of these innovations were in the previous quarter. So why suddenly a bump up is there and with the Zee Zindagi could there be substantial investments so if you could take us through the investments plan for this. Will it be front ended or the gradual viewer-ship you plan step up?
- Atul Das: Abneesh, on the cost front, there has been some increase in cost and this is in line with the overall investment philosophy that we have enumerated earlier and we actually reiterate that as we go into fiscal 2015 we will see cost base actually going up because of investments into existing as well as new products. So I think that is a trend which we had talked about earlier and which continues but one thing what we have to also keep in mind is that despite increased cost we have managed to keep our margins on the higher side. So that is something of an achievement that we are very happy about. And if we look at the overall ad spend also or ad revenue trend for ZEEL, it is again in the fourth quarter a significant out performance over the industry. In our estimate the television industry revenues would have grown at about 11% and we have seen a 20% plus growth so that also has to be kept in mind when we look at how the costs are played out.
- Moderator:Thank you. Our next question is from Nitin Mohta of Macquarie. Please go
ahead.
- Nitin Mohta: Two questions firstly on the advertising cap if I can get an update on where things are from a regulatory standpoint and which all genres have you guys already implemented this ad cap?







- Punit Goenka:We have implemented the ad cap across the entire company. The only
people in the industry that have not implemented the ad cap are the news
genre and music genre, but as far as ZEEL is concerned our implementation
took place on 1st October, 2013 itself.
- Nitin Mohta: There were some media reports about your competitors not implementing it in the GEC space. So any pushback that you have got from advertisers on that front?
- Punit Goenka:No, I think all other GECs have also implemented. This was initial period one
GEC had not but I think they fell in line in last December.
- Nitin Mohta: Sure. If I can squeeze a second one, carrying on from the earlier discussion about investments – just wanted to understand is there a range which you guys want to, kind of, comfortable on the EBITDA margin side, something similar to how you had last year articulated about the extent of investments that you are going to make on the new content side or new channel launches side. So if you can get a ballpark number in terms of what we should be working with for FY15?
- Atul Das: Last year we talked about the overall investments that we will be doing on the new businesses and those were more steady state numbers and we had talked about a 150 crore loss coming out from the new businesses. We are happy to report that we are in line with those loss numbers for FY14. As far as FY15 is concerned we are looking forward to a couple of very significant launches which includes Zindagi that we have already announced and there are another couple of products which are planned during the year. The timing and the details of those products will be announced as and when we are ready about it. So it will be difficult to give out a particular number for the losses but what I would like to highlight here is that the nature of the investments in fiscal 2015 will be significantly bigger than what we have seen in the past. So while it will be difficult to quantify it but directionally I can tell you that the overall investment size in a fiscal 2015 will be bigger and therefore the impact on operating margins are likely to be there for the full year.
- Nitin Mohta: Does that take in an improved ad and subscription environment for FY15 or these investments are more longer term in nature and even if we do not







really see up a pickup in the economy for the first half you will still go ahead with these?

Atul Das: What is interesting, Nitin, is that we had planned these investments quite some time back. While today given the stability of the government people are anticipating that things will turn around for the better and we do hope that they do. So it is not really predicated on whether that environment improves dramatically unless of course it falls apart that is a different matter. In general, if it continues this way we are going ahead with our investments.

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

Vikash Mantri: Further up on the Zee Zindagi thing, just to try to guesstimate the cost equation of it, when you say borrowing stories does it mean dubbed content or it will be content produced here? Just to guess the estimate of costs.

Punit Goenka:When we take content from markets where the language is completely
different from ours, then the content will be remade.

Vikash Mantri: But there will be some dubbed content as well.

Punit Goenka: No, there is no dubbed content on this channel.

Vikash Mantri: Okay. Sir second thing in recent interview to media you also mentioned that this is definitely not a second GEC, while it is different channel we are launching. A second GEC is yet due in the cards under the & brand. Is it right?

Punit Goenka: First statement is not correct, second statement yes.

Vikash Mantri: I do appreciate that. One more question, while I look at the margins and overall they have been steady, if I were to break it down between sports and ex-sports, your ex-sports margins have slipped by 430 bps and naturally I see a bit of lumpiness in the Sports syndication revenues. So (a) can you explain me the syndication bumpiness, the nature of it and is it sustainable or not? (b) The ex-sports margins are definitely a bit worrisome.

Atul Das:On the non-Sports margins, in fact, I answered the question a little while
back that it is directionally reflecting our increased investments into the







content business and it is only going to little more intensify as we go along. And so far as the syndication revenue is concerned, it is difficult to quantify it ahead of the year but what is more important is an annual trend. So whatever is the annual trend depends on the particular matches that are there, so we had a few series in the last quarter which had significant syndication potential which have reflected in the growth of what is reflected in other sales component. So of the 1 billion plus number that you see there, a large part comes from syndication.

- Vikash Mantri: And sir two more small questions. One is given the DMC acquisition what should be the tax rate that we should build in for FY15 going forward? And second question our inventory has seen a movement of 300 crores in the last fiscal whereas if you compare the four years prior to that it was 400 crores cumulative. So just want to know is this largely movie satellite rights or something else?
- Mihir Modi: So first on the tax benefit out of the DMC merger, #1 the merger is not yet complete but assuming that that goes through we will have an absolute benefit of about 300 crores. Now depending on that date when it goes through and the accounting regulations around it, it may or may not necessarily impact FY15. But that we will know only depending on how it goes.
- Vikash Mantri: And the inventory side sir?
- Atul Das: On the inventory front your point is right, the inventory has gone up. It has two components one is definitely the movie acquisition. Again if I were to split that into two aspects there is an element of increased movie acquisition as well as some element of cost increases on those movies. Plus as you know we are launching the new channels so there is a significant uptick in the programming inventory so as till the channel is launched whatever programming has been created will remain in the inventory. So as the channel gets launched it will get to the P&L on the cost side.
- Moderator:Thank you. Our next question is from Lalit Kumar of Nomura Securities.Please go ahead.
- Lalit Kumar:My first question is related to Sports business, so if we have to look at
Sports business revenue quarter on quarter i.e. Q3 vs. Q4 it is almost flat.







While we understand that in Q3 we had India related cricket properties and in Q4 we did not have any India related properties, so what was the key reason for this strong growth in top line?

- Punit Goenka: The West Indies-England series that we had in the last quarter that was syndicated to networks around the world, which contributed to the revenue growth.
- Lalit Kumar: So as far as Sports business is concerned, any significant uptake in subscription side that you have seen over the couple of years may be in FY14 and how do you see that subscription revenue for Sports business going forward?
- Atul Das: In general I can discuss the fact that subscription revenues on Sports have been a growing trend but as you know we do not split out revenues of channels and products differently. So we would not be able to spell it out clearly.
- Lalit Kumar: Okay sir. My second question is related to domestic subscription revenue. It is flat quarter on quarter for the last three quarters. In Q3 we mentioned that some of the contracts which were due for negotiations have been delayed and it might come in Q4, so whether those contracts have been further delayed or they have been negotiated because we did not see any increase in domestic subscription revenue quarter on quarter?
- Atul Das: No, some of the contracts have come through but as again the fact remains that it is a large network of bouquet of channels and it includes Sports, non-Sports, GECs, regional's and all together. So there have been some fluctuations in some of the genres but overall yes, it has been flat.
- Moderator: Thank you. Our next question is from Surendra Goyal of Citigroup. Please go ahead.
- Surendra Goyal: Atul, I think you answered that question earlier but I just wanted to understand it a little bit better. So I was just looking at domestic subscription revenue growth over the past many years it has been 25% plus without real digitization headwind and this year with digitization we are 13% YoY growth. So just wanted to understand your thoughts here and in terms







of going forward do we expect the acceleration here in the absence of the Mediapro JV?

Atul Das: I will answer that in two parts. One is the fact that last few years growth rate has been higher, that is also true but we were also coming out from a totally analog phase to the first round of digitization which literally we had the benefit in FY13 in a much bigger way and some of the residual benefits we have seen in FY14. So if you actually recall in the earlier quarters we have always maintained a 13% to 14% full year growth of domestic subscription revenues which is where we have ended with. As far as the next year number is concerned it very much depends on the roll out of Phase-3 and Phase-4. As things stand today the general expectation of the industry is that it may get delayed a little bit but we will get to know only as we go along. With the new government in place may be they focus more or less we do not know. But the rate of implementation if you go by that one can reasonably expect for some delays to happen. If that were to be true then FY15 will not see a much of a growth rate on domestic subscription because we would have seen the implementation of Phase-1, Phase-2 which has already come in our numbers, Phase-3, Phase-4 would not have kicked in. So the increase that we will get in FY15 will be marginal but as we go into FY16 our expectation is that again the growth rate will pick up subject to digitization going underway.

- Surendra Goyal: That is very helpful. The second question is on the non-Sports business. Again someone asked the question, but just to understand a little better, see from 3Q to 4Q the non-Sports margins have moved from 40% to 29%. That I am a little surprised here given that you guys have a business of high scale and high quality. So such a big volatility does surprise us. So could you just clarify what is this in account of pursuing of 40% to 29%?
- Atul Das: Again that is linked to the content investment that we are doing because bulk of our costs are obviously on the content cost. We have made some investments there which is as I said directionally also will go forward into FY15. The other thing is that when you look at Q3 the festive demand helps us buoy the revenues which actually helped us in increased margins. If you recall during the third quarter we very specifically pointed out to the fact that we should not look at the non-Sports margin as a standard because it was exceptionally high. So Q3 is not really a benchmark to compare with. Q3







was a very-very good margin in non-Sports and it has now got corrected to more reasonable numbers.

- Surendra Goyal: Just one more question again, following up on earlier question. Given that the increase in inventory the pace is so significant, would it be a fair assumption that the contribution of the revenues in advertising coming for movies would have seen a material increase YoY in FY14 versus FY13? Is that a right assumption?
- Atul Das: It is right. I would not say it is significantly higher but the inventory is also linked to the particular year that how many movies that you want to acquire at what cost and how it helps your overall portfolio of movie rights. So I do not think there is a direct correlation between the inventory increase and a certain revenue increase on the movie.
- Surendra Goyal: Just one last bookkeeping question. I was looking at the financial release and if I look at the balance sheet side, cash and cash balances have remained flattish. While current investments have declined a little, so is it true that cash and cash equivalents have declined yoy despite a 1200 crore EBITDA for the year? Am I getting it right or am I missing something here?
- Atul Das:No, cash and cash equivalents have gone up from Rs. 13 billion to Rs. 15.3
billion.
- **Surendra Goyal:** So could you clarify barring cash and cash balances and current investments which other line of the balance sheet is cash equivalent here?
- Atul Das:It will be in loans and advances figure, so there will be components of loans
and advances which are part of the cash and cash equivalents.
- Moderator: Thank you. Our next question is from Srinivas Sheshadri of CIMB. Please go ahead.
- Srinivas Sheshadri: Couple of questions on the advertising revenues. Firstly just wanted to understand with the kind of new stable government in place what is the sense you get from advertisers? Is there any kind of a pent up demand which can come in a major way over the next 2-3 quarters? Secondly, in terms of the advertising volumes what I see from the data from time is that there seems to have been again some kind of cut taken post March in the







GEC front so just wanted to confirm whether that is correct and if yes, what is the kind of logic behind it?

Punit Goenka: From the first question point of view I think to expect anything to change overnight is a little bit of having very high expectations from our newly formed government. I think the change will happen but it will be slower than what you are expecting over the next one, two or three quarters. I am quite buoyant in the long term, definitely the growth levels will come back in advertising as we have seen may be 4-5 years ago that they used to exist. On your second question, the answer is No. There is no volume cut post March on the Zee GEC per se. Are you referring to Zee directly or industry?

Srinivas Sheshadri: Actually Zee TV as well as its peer group channels.

- Punit Goenka: No, definitely not on Zee TV and none of the other competitors that I have noticed considerably. There may be one-off cases in the GEC space that may have had some volume cuts but I think the top-2, top-3 are still operating at 12 minutes.
- Srinivas Sheshadri: And the second question is on your recent kind of a push into the music publication business, just wanted to understand the thought process behind it. Is it more driven by kind of backend cost synergies or in terms of your music channels, etc., or do you see this in itself has a major growth area going forward? Historically we have seen this being dominated largely by a single specialist music publishing company. And secondly a related question to that is how does accounting take place in that case when you acquire these rights? Is it similar to the movie rights where you spread it out across say five years or some different?
- **Punit Goenka:** First and foremost, I think, this is a business decision that we have taken to create a separate vertical. We believe that music is going to be very inherent to drive our digital strategy going forward because unlike in the past where you had physical sales of audio cassettes and CDs, today practically 99% of the business has transformed to digital revenues and music is very critical to having a comprehensive digital strategy. So that is the reason we got into this business. The second thing on the rights and the accounting part, the rights are acquired on a perpetual basis for music. It is acquired for all mediums including audio visual and not just audio and the accounting will







be similar to how we account for movies, which is straight line 20% over five years.

- Srinivas Sheshadri: Just one more on the auditors' comments, we have seen that there is some kind of receivable of around 36 crores where there appears to be some dispute and this appears to have been an issue of the last year. So just wanted to get some clarity on that.
- Mihir Modi:This is a receivable relating to sharing of our Sports feed with Doordarshan.So there is sharing of revenue arrangement that was agreed at that time and
there is a dispute on that but we are very confident of recovering that
money.
- Srinivas Sheshadri: Any sense on by when it could be resolved through the legal process?
- Punit Goenka:The arbitrators have asked them to deposit the money with them. Now the
arbitrators will take a call. That is the process that will happen.
- Moderator:Thank you. Our next question is from Arjun Khanna of Principal MutualFund. Please go ahead.
- Arjun Khanna: My first question is related to subscription rates. TRAI had recently mandated the increase finally of rates by 27.5% with an immediate increase of roughly 15% for the non-digital space. That coupled with Atul your answer where you do not see rates subscription going up in the immediate future, just kind of curious has that gone through or we are having a rethink of increasing the rates in the non-digital areas?
- Atul Das: Arjun, you are right, TRAI has allowed broadcasters to increase the reference interconnect offer and we will be taking those rate hikes as we start this fiscal. As you know we are also in the process of transitioning from a joint venture to setting up our own subscription revenue setup. There are a lot of moving parts and we will be able to really update on how the market takes it up sometime later once the implementation starts. But that is one of the opportunities that we definitely look forward to.
- Arjun Khanna:Atul if I understand correctly immediately they have talked about a 15% and
then from 1st January they will talk of the next hike. Is that a fair reading?







- Atul Das: Yes, so to give you an update on that the revision was due for the last five years. As per TRAI norm Inflation-adjusted increases are allowed, but since that has not happened for consecutive period of 5 years, they have given a total hike of 27.5% but since that would be a little on the higher side at one go, so they have split it up into two parts saying that by April you can take it up by 15% and by January 2015 you can take it up by another 12.5% so that will total up 27.5%. So this is regarding the reference interconnect offer rates that broadcasters charge the operators. Finally that has to then translate into end consumer revenues.
- Arjun Khanna:So for the digital space roughly since it was largely benchmarked to the
RIOs. Do we see our rates going up for the digital space also?
- Atul Das:Of course, this is meant for RIO rate. So the moment you change the RIO
rates, it changes both for analog as well as digital.
- Arjun Khanna: So if I understand correctly because of the transition you are not very confident of this going up immediately but over a year or so you will see that flowing down.
- Atul Das: Yes, so it is a transition here and it is a significant increase. We would love to have that increase straight away but finally we are working in a market and as I said while we can increase our rates to the operator eventually it has to translate into higher numbers from the consumers. We would look forward to that increase but really cannot quantify today.
- Arjun Khanna:My second question is partly which you have alluded to is the MediaPro
coming apart. We are also with Zee Turner. So how does that work from
here? Does Turner continue to distribute its channel through us?
- Atul Das:As of now, the only change which has happened is that Star channels will be
going out and they will be doing it on their own. The rest of the things we
will continue together.
- Arjun Khanna: So Zee Turner exists as it exists right now?
- Atul Das:Legal entity may be different. We will update you as and when everything
gets settled. But what is more important is that the group of channels will
remain.







- Arjun Khanna: My final question is in terms of advertising rates. Given that we just went through once, do you see on the anvil other increase in advertising rates in this calendar year?
- Punit Goenka:That is a constant process. We increase advertising rates every year but of
course it is a subject to our market share and other things. So we will be
looking at price hikes as we normally do.
- Arjun Khanna: Because erstwhile few years back we used to have it once a year kind of thing and then it went a little bit into flux given where the market was. Given that because inventory came down we took a part of a price hike, would this year also see another price hike?
- Punit Goenka: Yes, I am quite hopeful that it will.
- Moderator: Thank you. Next question is from Bijal Shah of IIFL. Please go ahead.
- **Bijal Shah:** My first question is on Zindagi, now what I want to understand is are we commissioning any serial with some Pakistani Director or something like that or we are already buying their serial and reorienting the content?
- Punit Goenka:We are doing both Bijal. We are souring the content also in complete form
and we will also be commissioning content, may not be just serials but
different kinds of content to both producers and directors in Pakistan and in
India possibly.
- Bijal Shah: So absolutely new content will also be added on this channel?
- Punit Goenka: Yes, going forward there will be.
- **Bijal Shah:** One more follow-up on this domestic subscription revenue. Now I am slightly confused if there is some guidance you can give that whether subscription revenue growth will remain around what we have seen in FY14 or there will be very negligible growth, I could not understand that from the commentary?
- Atul Das: Bijal as I said there are number of moving parts here. One is we are transitioning from a joint venture to a totally different arrangement because of the regulatory change. Second is there are these TRAI allowed increases that we can take which we are taking, but eventually everything boils down







to how much the market can take and therefore at this moment we will not like to quantify a number. But in general the trend as I said this year will be probably one of the muted years of growth on subscription revenue coming from the fact that DAS Phase-1, Phase-2 is completely implemented, the upside is more or less captured whereas Phase-3 and Phase-4 there is some amount of uncertainty on the deadline and that we will get it implemented by that time. Practically speaking, it looks difficult but obviously we would like to see that deadline being met. So it all depends on that and our current case is that it is unlikely that by December the entire Phase-3, Phase-4 will get completed and therefore the growth rate in subscription revenue this year will be muted. Simultaneously by next year we are assuming that the deadline does get implemented at least part of it in FY16, and therefore we should see a more handsome growth then.

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

- **Rajiv Sharma:** One question which is on the ad rate hikes, so you executed the 10+2 ad cap very smoothly versus other operators and you benefited from rate hikes. And you have taken these rate hikes in your large properties. Now I am just trying to understand that the advertisers, the FMCG companies, there are so many other options, other mediums and there are new emerging mediums which are coming up so how much is it possible to really get a rate hike this year or we are going to see a muted ad growth as well because you cannot really expand your inventory for your top channels. Now the new channels can take a long time to really contribute to the advertisement pie, so some color will be helpful please.
- **Punit Goenka:** Yes Rajiv there are a few points here. First and foremost that the advertisers' need for reaching the mass audiences does not get fulfilled by any other medium the way it does by television. No other medium can deliver the reach that TV delivers in this country even today. While other mediums are growing especially on the digital front, the traditional mediums are absolutely losing out like print, etc. There is still a lot of room for television to grow in our view. In terms of taking rate hikes I think we are still at the tip of the iceberg. We have to take the pricing up significantly over the next few years given that our price points are around 1/3rd of what print is charging today. Thirdly, if you look at the new rating system that the industry







is trying to implement where we want to move away from the current form of selling which is CPRP, which is a percentage based selling to absolute reach based selling that how many people we have reached through the advertising or through the content and lastly let me tell you that penetration of television itself is also growing by 4-5% every year. So by no means we are seeing a saturation point in television. In fact I am seeing a huge growth potential.

- **Rajiv Sharma:** Just one additional question. So we have Star which is really coming out big on the Sports strategy. They are trying to capture everything, they are trying to create markets as well. And I am just trying to understand what is the long-term strategy you have for Sports because you are somewhere stuck in the middle and the Sports thing is a little marginal player? What is the big picture view you have for Sports from a 3-year perspective?
- Punit Goenka: One thing I would like to clarify here, from my perspective Star is betting big on cricket, not on Sports. I think our bets on Sports are equal in things like football, tennis, WWE, etc. The only big bet that they have taken which is significantly higher than what we have done is on cricket. So having said that, as you may have seen or heard me say earlier also, the economics of the Sports business have to be changed from the industry perspective. Today free pricing does not exist in the Sports business or in subscription revenue at all, whereas globally if you see the Sports business is lopsided in favor of subscription unlike in India where it is lopsided in favor of advertising. The moment price forbearance is implemented where content owners are free to price the content as per their value that they see for it, I am sure the economics of Sports will change. We do believe that as a genre it is a critical and a strategic genre for us to be present in and we will continue to invest in it and I am guite sure over the next few years this entire economic model will change.
- Rajiv Sharma:Atul what is the likely Sports loss we are planning this year with no India
cricket?
- Atul Das: We should be around what you have seen in FY14.
- **Moderator**: Thank you. Our next question is from Varun Ahuja of UBS. Please go ahead.







- Varun Ahuja: Just a few key ones, not too sure if you have answered this. What is the reason for hike in other sales and service which has moved significantly this quarter?
- Atul Das: We have answered it earlier that it is because of largely on the syndication revenue generated from Sports business that is the one component which has changed.
- Varun Ahuja: Will it continue? Is it a new business or you think it is one-off?
- Atul Das: No, the syndication revenue business is a regular business. It is not a oneoff in that sense but it does not happen every quarter so it happens based on the properties that we have and we have syndication revenue opportunities for. So technically speaking we had West Indies vs. England series which we syndicated and then pull out a lot of revenues. But you understand the difference. It is not really one-off in that nature but it is the revenue that comes from the business part of it.
- Varun Ahuja: Other is, it will be helpful if you can just elaborate on the impact of MediaPro on the cost side? What you are expecting from the MediaPro on the cost side?
- Atul Das:We would not like to quantify it. As a policy we do not talk about specific
business cost and product wise cost but in general yes, I can give you
directionally that it will lead to some increase in cost.
- Varun Ahuja: And thirdly on the advertising revenue, do you think the market share gains are behind us on the advertising revenue front or is it more about now from the increase in prices and coming up of inventory from new channels or do you think there are market share gains left to be taken?
- Atul Das: Largely what you said is correct, it has been priced in.
- Varun Ahuja: Third and lastly on the subscription revenue, I know a lot of questions you have answered many times, but just this specific, earlier in the comment you mentioned that advertising revenue growth should remain in similar level what you have seen in fiscal 2014 which is around 13-14% and then you specified it should be muted. So just wanted to check by muted you mean 13-14% or below that?







- Atul Das: You are talking of advertising or subscription?
- Varun Ahuja: Subscription.
- Atul Das: On subscription when you say muted it means we are talking about relatively compared to the last few years. So the growth rate would be lesser.
- Varun Ahuja: Less than fiscal 2014?
- Atul Das: Yes, that could be one of the interpretations. If you ask the question I am just saying that there are too many moving parts, it is difficult to quantify and that is why we are not giving out a specific number but the backdrop we have explained why it is difficult to quantify.
- Moderator:Thank you. Our next question is from Riken Gopani of Infina Finance. Please
go ahead.
- **Riken Gopani:** Sir just two points, one on the advertising growth outlook if you could shed some light as to with the new launches as well as whatever improved sentiment is there, what kind of ad revenue growth could be seen in FY15?
- Atul Das: It will be difficult to give out a certain outlook. In general what I said is this year the advertising revenue growth on television was closer to 11% mark and we should see similar kind of growth rates coming up except for some buoyancy if it comes and takes place it could help in growing it slightly better. Our effort would be to continue to outperform the industry growth rate, subject to our market share being how they pan out. So, obviously, we are targeting to grow our market share but those things are not something that we can be 100% sure of. So if we manage to continue our market share growth, then we will be able to continue to outperform the industry.
- **Riken Gopani:**And sir one clarification on the DMC thing that we mentioned about, the tax
benefit that would come through is in FY16, right, not in FY15?
- Atul Das:Basically the approvals have not come in. Once the approval come in they
will be effective fiscal 2014 and just to clarify the total tax benefit we will get
is about 300 crores.

Riken Gopani: Okay, the timeline is not as clear as of now. That is it.







- Moderator:Thank you. Our next question is from Latika Chopra of JP Morgan. Please
go ahead.
- Latika Chopra:Just two questions, what sort of inflation should one build in for non-Sportsprogramming cost on a like-to-like basis in your view?
- Atul Das: Non-Sports programming cost will go up substantially.
- Latika Chopra: If you just exclude the new investments that you are making?
- Atul Das: So there are two components to that. One is the fact that there will be some inflation on the cost side and we are also increasing number of hours of original programming on the existing products. So as a combined fact it could grow up by about in the range of 15% to 20%.
- Latika Chopra:And secondly, would it be possible for you to share what sort of investments
were made in movies in FY14 and what could it be likely in FY15?
- Atul Das:It would be in the region of about Rs. 4 billion for fiscal 2014. And fiscal
2015 as I said, as we have already talked about earlier also that it is not
possible to give out a certain number, it depends on the quality of movies
available but it can be in a similar range also.
- Latika Chopra: And lastly any sense on when could this new rating system by BARC be implemented?
- Punit Goenka:We are targeting during the end of this year, between October and
December is when we are hopeful that we will be able to implement it.
- Moderator:Thank you. Our next question is from Miten Lathia of HDFC Mutual Fund.Please go ahead.
- Miten Lathia:On this domestic subscription fees, was there any kind of write-off, one-off,
a player like Digi not being able to pay up, any sort of thing which would
have impacted quarter 4 of current year or it was a perfectly normal quarter?
- Atul Das:I would say nothing exceptional, Miten, but yes likes of Digi and all definitely
had an impact but it is kind of an industry wide impact, nothing that is very
specific to Zee or to us.







Miten Lathia: What I am trying to understand is would the reported numbers would they have been better had those things not been there? I mean I am just trying to understand.

Punit Goenka: There is provision of about 20 odd crores.

- Miten Lathia:So next quarter onwards should we be able to recoup a large part of this on
an ongoing basis or this is a good run-rate that we have established?
- Atul Das:I think this is the run-rate that one should look forward to. Again as I said in
the last answer that there are so many moving parts that it is difficult to
quantify but I think as a representative run-rate this is good to take.
- Miten Lathia: There have been a couple of questions on Zee Zindagi but I could not be sure about it. You are saying the content is not dubbed, it will be entirely remade. So it is as good as having a new GEC or the base of that content is coming from outside the country? Is that the way of looking at it or no, we will have sort of dubbed and repurpose content on the channel?
- Punit Goenka: Let me clarify this, the four sources of content are Latin America, Egypt, Turkey and Pakistan. Pakistani content, I would hope you would understand, we do not need to dub it because it is predominantly the same language that we speak in our country. The other markets, when we are sourcing content from them, this will be sourcing of ideas or books written by renowned authors which will be remade either in India or outside India.
- Miten Lathia: We do not have any sense of how content is made or how much does it cost, but on a relative basis is it very different the way content is made in Pakistan versus the Hindi GEC that we have here?
- Punit Goenka: If you go to Youtube you would get a lot of Pakistani content.
- Miten Lathia:Sir I would not be able to understand. Just to get a sense of it, is it a factor
of like 2:1 or broadly similar quality of content?
- Punit Goenka: I would not like to comment on that.
- Moderator:We will take our last question from Akshit Saxena of Credit Suisse. Please
go ahead.







- Jatin: My first question is on you mentioned that you are planning an increase in original programming hours, so could you quantify because you earlier took it from 24 to 30 hours. What is the plan now?
- Punit Goenka:That is only on the Zee TV as a channel but even in regional channels we are
expanding the number of hours. I think you can easily assume that on an
average, 15% to 20% in terms of numbers of hours across the network will
be increased.

Jatin: Including Zee?

Punit Goenka: Including Zee TV.

Jatin: Okay. And my second question is on your balance sheet your non-current investment have gone from Rs. 650 million to Rs. 3 billion what's that pertaining to?

- Mihir Modi:We have extra cash which we have deployed productively and that is the
delta essentially.
- Jatin: Oh okay, because it was mentioned as non-current so I just wanted to clarify.

Mihir Modi: Yes, it is slightly for a longer term relatively.

- Moderator: Thank you. I now hand the floor back to Mr. Kanwaljeet Singh for closing comments.
- Kanwaljeet Singh:Ladies and gentlemen thank you again for joining us. We hope to have the
transcript of the call on our website www.zeetelevision.com soon. We look
forward to speak to you again at the end of first quarter of the Fiscal 2015 or
even earlier on a one-on-one basis. Thank you and have a great evening.
- Moderator: Thank you. On behalf of Zee Entertainment Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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

