



2Q FY2013 EARNINGS CONFERENCE CALL

October 22 2012, 1300 HRS IST

Moderator

Ladies and gentlemen good day and welcome to the Zee Entertainment Enterprises Limited Q2 FY13 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touch-tone phone. Please note that the conference is being recorded. I would now like to hand over the conference to Mr. Kanwaljeet Singh. Thank you and over to you Mr. Singh.

Kanwaljeet Singh

Thank you Shyma. This conference call has been organized to update our investors on the company's performance in the 2nd Quarter of Fiscal 2013 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 the earning's release and the results, both of which have been uploaded on our corporate website www.zeetelevision.com.

To discuss the results and performance, joining me today is Mr. Punit Goenka, Managing Director and CEO of ZEE, along with members of the senior management team of the company including:

- Mr. Rajesh Jejurikar, President, ZEE
- Mr. Hitesh Vakil, CFO, and
- Mr. Atul Das, Chief Strategy Officer

We will start with a brief statement from Mr. Goenka on the second quarter performance and will then open the discussion for questions and answers. I would like to remind everybody that anything we say during this call that





refers to our outlook for the future is a forward-looking statement and must be taken in the context of the risks that we face. We would also like to add that this call is purely for our analysts and investors and if there are any media companies on the call, we request them to please disconnect. I now request Mr. Goenka to address the audience.

Punit Goenka

Thank you, Kanwaljeet. I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the Second quarter of fiscal 2013. Let's begin with details of some of the key developments of the quarter focusing on the Financial Performance.

ZEE's advertising revenues during the quarter were Rs 5.28 billion, showing a growth of 34% yoy. This is on account of good sports business and improvement in our market share and performance. As most of you are aware, the advertising spends on television is not as buoyant this year, and our performance is considerably better than the overall industry growth.

The total subscription revenues for the quarter were Rs 3.95 billion, registering an increase of 36% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenues stood at Rs 2.81 billion, while international subscription revenues were Rs 1.14 billion. Domestic Subscription revenues are up 44% yoy, whereas the subscription revenues from international operations are up 19% in rupee terms. International revenue growth, of course, has been aided by rupee depreciation. In constant currency terms, the revenue continues to be flat.

On the cost front, programming & operating cost in the quarter was Rs 4.79 billion as compared to Rs 3.22 billion in the corresponding period last fiscal, an increase of 49% yoy. Employee cost has gone up by 27% over the corresponding period last fiscal. Selling & other expenses in the quarter were at Rs 1.69 billion, as compared to Rs 1.20 billion in the corresponding period last fiscal. Total costs incurred by the Company in this quarter were Rs 7.36 billion, an increase of 44% over the corresponding period last fiscal. I would like to highlight that this increase in cost is on account of sports properties and substantial investments in content and marketing for the existing channels. We also incurred costs on account of new investments done over the last twelve months including Ten Golf, Ditto TV, HD channels, Zee Alwan and Zee Bangla Cinema 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 (EBITDA) was Rs 2.18 billion. The operating (EBITDA) margin for the quarter was 22.8%. The reduction in margins is due to increased programming and sports costs. Excluding sports business, the EBITDA margin stood at a healthy 30.4%. Profit before tax (PBT) for the quarter stood at Rs 2.32 billion. Profit After Tax (PAT) for the quarter stood at Rs 1.87 billion, a growth of 17.2% over the corresponding quarter 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 of seeing a much more improved performance in the years ahead. The Sports losses during the quarter were Rs 170 million, adding up to Rs 379 million in the first half of FY2013.

As of September 30th, 2012, the Company has a gross debt of Rs 11 million and Net Cash of Rs 10.7 Billion.

I would like to cover the business performance.

During the quarter, Zee TV averaged 237 GRPs recording a relative share of 22% among the top 5 Hindi GECs. Zee TV continued to be No. 2 GEC in the quarter in terms of ratings. The market share was even better in the Prime Time band, where Zee TV averaged 140 GRPs recording a relative share of 23%. The channel delivered a weekly average of 22 shows among top 100 shows during the quarter led by the top rated shows like *Pavitra Rishta*, *Punar Vivah*, *Mrs. Kaushik*, *Dance India Dance Dance Ke Superstars* and *Fear Files*. Zee TV's most popular show *DID Li'l Masters* has emerged as the undisputed winner in the non- fiction genre and met with unprecedented success. The channel launched new shows *Ramayan* and *Rab Se Sona Ishq* during the quarter.

The network's Hindi movie channel Zee Cinema averaged 117 GRPs during the quarter with a relative share of 33% among the top 3 Hindi movie channels. The key properties of the channel during the quarter were *Lage Raho*, *Shanivaar Ki Raat Sitaron Ke Saath* and *Cinema Hall*. The quarter saw premieres of Agent Vinod, *Aar Paar: The Judgement Day* and *Jungle: The Battle Ground*.

Zee Marathi delivered average weekly GRPs of 176 during the quarter recording a relative share of 26%. The top non-fiction shows in the quarter







were Fu Bai Fu Season 5, Hapta Band Jagna Suru and Home Minister. The channel launched three new shows, Hapta Band Jagna Suru, Mala Sasu Havi and Ajunahi Chandraat Aahe. The quarter also saw the premiere of the immensely popular movie Kaksparsh, which was extremely well received by the audience.

Zee Bangla delivered an average of 382 GRPs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 33.4%. The channel delivered a weekly average of 43 shows among top 100 shows during the quarter led by the top rated non-fiction shows like *Sa Re Ga Ma Pa 2012*, *Banglar Sera Paribar* and *Didi No.1* – *Season 4*. The key properties launched in the quarter were *Sa Re Ga Ma Pa 2012* and *Swapath*.

Zee Telugu averaged 313 GRPs during the quarter recording a relative channel share of 19%. *Pasupu Kumkuma*, *Muddubidda* and *Kalavari Kodallu* were the top fiction shows on the channel during the quarter. *Super Mom*, *Aatah Juniors 6* and *Chittam Chittam Prayachittam* were the top rated nonfiction shows. The channel launched new fiction shows including *Pellinati Pramanalu* and *Fear Files* in the quarter.

Zee Kannada averaged 227 GRPs during the quarter recording a relative share of 17%, driven by popular shows like Radha Kalayana, Parvathi Parameshwara, Panduranga Vittala and SAREGAMAPA Lil Champs. This quarter saw the launch of Kanaka, Madadi Yelelu Janmaku and Ragale With Rishika. The channel aired the block buster movie Govindhaya Namaha, which garnered the highest GRPs in two years. Zee Tamil averaged 106 GRPs during the quarter, driven by popular shows like Chinna Marumagal, Solluvathellam Unmai, Luckka Kickka, Aayirathil Oruvan and My Name Is Manggamma.

The key properties on our Sports channels bouquet during the quarter included telecast of *India Vs Sri Lanka* series, *Pakistan Vs Australia* series, *US Open* and *UEFA Champions League Finals. WWE* continues to be a strong property attracting audiences as well as advertisers. The forthcoming quarter would see the telecast of cricketing events like *New Zealand Vs Sri Lanka* series, *New Zealand Vs South Africa* series, *Pakistan Vs Zimbabwe* series and *FIH Champions Trophy*. The sports business revenues in the second quarter of FY2013 were Rs 1,818 million, while costs incurred in this quarter were Rs 1,987 million.







ZEE's International operations contribute a significant part of the Company's revenues. During the quarter, the Company undertook a number of initiatives to further strengthen its dominance. In Russia, the Company signed a contract with Russia's 3rd largest GSM operator Megafon for Mobile TV and with regional analog cable operator Barshinform. In Europe, all our 5 UK channels were successfully launched on Yupp TV IPTV platform. In MENAP, during Ramadan 2012, Zee TV was the No. 1 channel in UAE for TG All South Asians with 35.8% channel share, and Zee Aflam was No. 3 in All Arabs in movie channels and was No. 2 in Females.

ZEE has had a commendable quarter on the operational front. Our portfolio has seen improvement in revenues both in terms of advertising and subscription. We have also continued our investment in content, both in increasing the hours of original programming as well as launching new products. The overall response to the new shows launched during the quarter has been very encouraging and we look forward to further engaging the viewers with new and fresh programming ideas. The rollout of digitization is a very good development for the industry and will provide new growth opportunities. While this year the industry advertising spends seem to be impacted due to macroeconomic factors, we are confident of continued double digit growth of television advertising spends over the next few years.

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. We have the first question from the line of Sachin Salgaonkar from Goldman Sachs, please go ahead.

Sachin Salgaonkar

My first question is with respect to outlook on ad revenues, Part A being, are you seeing continued strong spends by FMCG companies or is it slowing down and Part B being, is there any further room for GRPs to move up especially on your flagship channels now that DID Little Master is off air?

Atul Das

Sachin on the advertising revenue front, what we are seeing currently on the total television ad spend scenario is that it remains little lukewarm given the macro factors. I think the industry ad spends are expected to continue to grow maximum in the high single digits, 8% to 9%. As you have seen in the results of the last two quarters, we have done better than industry growth







rate primarily because our market share has been trending upwards and we hope to maintain that trend for the year.

Sachin Salgaonkar

And the second question is, can you talk about some of the initiatives ZEE has taken with respect to investments in content and how should we look at the financial implications of the same?

Punit Goenka

Sachin, as we have said in the beginning of the year there is definitely going to be some margin contraction this year because we are adding more number of content hours to our kitty.

Atul Das

Sachin there are two aspects to our investments in content, one is existing businesses where we are adding a number of hours of content and therefore that increases the cost. But that has a positive impact on revenues as well, even though with some time lag because once the hours are established with the viewers then we can monetize them equally well. The second element is of launching new products and investments into new channels that obviously take a little longer to start breaking even. We have seen the launch of the Zee Bangla Cinema almost at the fag end of the current quarter and that of Zee Alwan in our international market. Also, when you compare our results of the second quarter FY13 versus second quarter of FY12, you have to remember that several other new businesses have been launched over the last 9 to 10 months which includes our investments in new media, the launch of the golf channel and additions to the HD channels. All of that obviously has some impact on cost and will take some time before they start yielding results.

Sachin Salgaonkar

And Atul any rough estimate guidance on the incremental cost on a Y-o-Y basis?

Atul Das

It will be difficult to be precise on that but I think excluding sports our losses on new investments would be somewhere in the region of Rs.150 odd crores. It could be up or down.

Sachin Salgaonkar

And my last question is, any plans on adjusting the price band for your buyback looking at where your share price is right now?

Punit Goenka

We don't have any indication from the board as of now but we will come back to you if there is some development on that.







Moderator

Thank you. We have the next question from line of Abneesh Roy from Edelweiss, please go ahead.

Abneesh Roy

My first question is on the domestic subscription. We have a seen a very healthy growth quarter-on-quarter, so how sticky is the sports subscription revenues because some of the DTH operators are saying that they are moving towards per subscriber mode and once the India event is over are you seeing a big push back from the customers? So some color on how sticky is the domestic subscription revenue of Rs. 280 crores?

Atul Das

Hi Abneesh, as a policy we do not answer question on specific business movements in terms of revenue but as an overall comment I think subscription revenue as a bundle is definitely on the uptake and one can estimate that given the past two quarters performance and the fact that digitization is yet to really rollout. Though we are very positive on the overall revenue growth, we will not be able to answer specifically on one genre or one particular channel.

Punit Goenka

Just to add to that if you look at our ratings excluding cricket, compared to any of our competitors we are still by far the leaders in sports genre, based on the WWE and other properties. So it is very difficult for any operator to do without the Ten Sports bouquet.

Abneesh Roy

Second question is TAM rating have been suspended for nine weeks and currently our market share is on rising and Sa Re Ga Ma Pa launch has also happened. I wanted to understand from a nine-week perspective how is the industry placed with the advertisers, FMCG advertisers in particular and ZEE any particular angle to that further?

Punit Goenka

I think if you look at the decision of suspending the rating, it was a unanimous one between the advertisers, the agencies and the broadcasters. I do not see this impacting us in the short run. However having said that there may be some advertisers who may take a short term view but we are not very concerned about it. I think in the long-term interest of digitization this is a must and therefore we are pretty confident that the industry will be together on this.

Abneesh Roy

Sir, last question if you see non-sports business the costs have gone up significantly also this quarter. There were some one-offs in the sense that two channels were launched, Zee Alwan and Zee Bangla and then on your







Hindi GEC we had two new shows. So will it be fair to say that in the launch quarter there will be some abnormal expenses which will taper off in the coming quarters, some color on that?

Punit Goenka

Well, I don't think there are any huge one-offs because anything that we launch is not just one lump sum cost in terms of marketing and other costs. We have to support the new investments over a long term and I think the cost will be high going forward. As Atul said the losses on account of new investments would be to the tune of Rs.150 crores give and take. That is the kind of impact you should factor into your workings.

Moderator

Thank you. We have the next question from the line of Hiral Desai from IAlpha Enterprises, please go ahead.

Hiral Desai

I was just trying to gather if we would be in a position to sort of elaborate more on the new investments that we have done in the current quarter and if you could put a number to that?

Atul Das

Yes, if you were to look at a Y-o-Y comparison of second quarter last year to this year we have had several new product launches. Starting with let's say on the new media side we have launched India.com and Ditto TV in the last fiscal. We have also launched Ten Golf, Zee Alwan on the international business front which is an Arabic GEC channel and very recently Zee Bangla Cinema which has actually opened up to very good viewership. We also launched several HD products including Zee TV Cinema and Studio and we will be launching a few more this year as well. The point is while we are launching new businesses they are all going towards building the long-term growth and long-term sustainability of the revenue as well as margins. In addition, we are also investing in expanding the number of hours of content in some of our key channels including Zee Tamil. Of course, the expansion in content has only a short-term lag, once our shows start doing well revenues will start getting generated but the new investments will take little more time. I just talked about the fact that from the new investments our losses could be in the region of Rs.150 crores to Rs.180 crores, it is very difficult to put give an exact number for the same.

Hiral Desai

Just wanted to check on one more thing, so when we typically launch a new channel like say Zee Alwan in the current quarter what cost would typically







get capitalized as preoperative and which would be expensed to the P&L if I could just get some of the broad heads?

Hitesh Vakil

Well, as per the policy we do not capitalize any of the launch cost, we expense it out fully.

Hiral Desai

And last one for Hitesh if I look at the inventory versus March 2012 the half year reported number is up about 3.3% versus a lot of investments that we have made in new ventures and things like that so how do you typically view this because I was expecting some sort of a bump up in the inventory number at half year so.

Hitesh Vakil

What is your question, inventory has gone down is your question?

Hiral Desai

No, inventory has gone up by only 3.3% so I was just wondering.

Hitesh Vakil

Inventory primarily consists of long-term rights and films and sports event. Show programming is only as small portion of it. Hence new channel launch has very little impact on inventory.

Hiral Desai

Would you be able to share the number in terms of the amount spent on buying movie rights year-to-date for the current year?

Hitesh Vakil

No that is confidential.

Moderator

Thank you. We have the next question from the line of Grishma Shah from Envision Capital, please go ahead.

Grishma Shah

Sir, just wanted to know that we did say that with Media Pro coming in we would see some benefits and obviously also on account of digitization. So would you like to give us an outlook or some color as to how this growth will pan out because we see a strong subscription growth.

Atul Das

Grishma, we have seen a fair growth in the domestic subscription revenue. However a big part of the growth driver is still DTH. Till mandatory digitization has not been rolled out, larger number of additions across India are happening on the DTH platform. As we get into let's say the third quarter number post the deadline for the first four metros and hopefully the second phase of 38 cities in the next few months, we expect to see a lot more additions on a digital subscriber base through cable. But you have to keep in







mind that the growth may not be immediately linked with the digitization rollout and it could come with some lag. So, you shall see good traction from the proposed digitization in the next fiscal. If you remember last year when Media Pro was formed, we were very clear in pointing out that traction of Media Pro strength will start showing after a few quarters. You can now see the uptake in our revenues. Similarly, when digitization happens owing to the nature of the business, the contracts may not necessarily be aligned to the exact timing of digitization but definitely with digitization our revenues will grow.

Grishma Shah

Would you also see some cost benefits accruing to you in terms of reduction in some of the costs as compared to the format before Media Pro?

Atul Das

No, costs have actually no link because Media Pro's objective is to garner subscription revenues from the ground both on the DTH as well as cable; it has no link on the cost side as far as programming is concerned.

Grishma Shah

With digitization coming in would you also see some cost coming down?

Atul Das

Yes on a medium to long-term basis there will be impact on costs which are related to distribution. In the short run we won't be able to comment immediately.

Grishma Shah

The other two quick ones were on the tax rate this quarter and also we are launching a kids channel, so would Zee Learn be incurring some content cost or the entire cost will be incurred by ZEE? How is that going to be?

Punit Goenka

Zee Q is a channel owned by Zee Entertainment. Zee Learn is just our management partner since they understand the kids space and their learning needs very well. All costs are incurred by Zee Entertainment directly and we pay Zee Learn a management fee.

Grishma Shah

And lower tax rate?

Hitesh Vakil

If you recollect in 1Q tax rate was abnormally high and in 2Q tax rate is comparatively lower. I had explained it in the previous quarter as well that tax rate is an average of rates of various tax jurisdictions. We still maintain that on an annual basis our tax rate would be in the region of around 30%.





ZEE

Moderator

Thank you. We have the next question from the line of Shobhit Khare from Motilal Oswal Securities, please go ahead.

Shobhit Khare

First question is on sports, this quarter we have managed to bring down the losses despite an India series, so just wanted to understand how sustainable this is and on a medium to long term basis wanted to understand while the digitization should help economics but competition also probably is likely to increase in sports, with Disney and Star going separate and Sony also launching its sports channel. So any view on the competitive dynamics in sports over medium to long term?

My second question is on your non-sports business, wanted to understand out of this Rs.150 crores to Rs.180 crores have you already incurred something in this quarter? Last question, any color on advertising growth excluding sports what has that been for this quarter?

Atul Das

Shobhit I will take the question on the advertising growth first. Our non-sports business has done better than the industry growth as we had pointed out earlier. Specific numbers would be difficult to share but a large part of the 34% growth is on account of sports and we continue to do better than the industry growth margin. On sport losses, we have incurred around Rs.379 million in the first half. We had said at the start of the year that we should be able to substantially bring down the sports losses in the full year compared to the last fiscal. Last fiscal numbers as you know were Rs.1,481 million. So, I think we maintain that stance and we continue to believe that we will do far better than last year in terms of limiting our losses to a lower number.

Punit Goenka

On the sports competitions part, the market always had three players in the sports business and that situation remains. With Star buying out ESPN stake, there will be Star as a sports broadcaster, there will be us and Sony potentially. But that is not something that we are worried about because we are clear on what rights we own and how we are going to monetize that in the mid to long-term.

Shobhit Khare

And any idea on if out of this 150 crores to 180 crores have we already incurred something?

Atul Das

Yes we have incurred some of the losses for the launches tha have happened. We cannot specifically give you quarter wise but some part of those losses have already been incurred.





Shobhit Khare

So sir on a directional basis will this run rate increase that is the only thing I just wanted to check.

Atul Das

It all depends on how many products we launch. It also reflects in a way our confidence of the future opportunities and more importantly as long as we are able to create the right market share for each of our products and create the right monetization possibility, I think we are on the right path.

Moderator

Thank you. We have the next question from the line of Mayur Gathani from OHM Group, please go ahead.

Mayur Gathani

Regarding subscription revenue I just want some light, I mean we have seen some ups and downs in subscription revenue, there should be no reason why this is coming down because in March it was Rs.400 crores in June it came to Rs.364 crores, in September it is Rs. 394 crores. So does this variation happen due to sports?

Atul Das

The March quarter number includes as element of Rs.50 crores reflecting an accounting change. This number pertains to the periods from second quarter onwards till fourth quarter last fiscal, which was included in the March numbers. Hence the number that you say as subscription revenues of Rs.402 crores in March is not the subscription number to compare with. Otherwise we are on a growth trend so Rs.395 crores is on a growing trend in this quarter.

Mayur Gathani

And you were not specifying what is the ex-sports growth of the advertisement right.

Atul Das

No we do not give that out.

Mayur Gathani

And regarding the losses for the new channels, primarily the launch has been Zee Bangla and Channel in Middle East so that will be the two key channels which will be consuming content for you so the loss could be as high as 150 crores for that.

Atul Das

No, this is not only for these two channels. It contains many other initiatives we are taking. While Zee Tamil may not be a new launch we are making investments in building market shares in the Tamil market. We have also launched other products I had just highlighted a few minutes back.







Mayur Gathani

And sir wanted to know what is the movie budget that you have for satellite movie, I mean is there a budget that you plan out for the year that okay I will be spending x amount of money for the movies.

Atul Das

Yes, so if you look at last few years we have had anywhere between Rs.100 crores to Rs.300 crores of investments into movies. That also depends on what movies are available, what kind of rights are available at what price. So, it is not a fixed number in mind but yes we can go ahead depending on what movies are available.

Mayur Gathani

Hitesh quarter four of FY12 the interest was negative can you just throw some light if you are aware right now or may be I can take it offline.

Hitesh Vakil

This was on account of regrouping, whereby FOREX impact was removed from the finance cost and it was added into the other income. Even if it amounted to negative FOREX gain, as a part of new policies and disclosure requirement we are suppose to reports it under other income.

Moderator

Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities, please go ahead.

Vikash Mantri

Just wanted to understand the digitization process. Now, in some of the MSO plans that have been out, you have seen Ten Sports being given a miss in the premium packages or so and largely available as a-la-carte whereas ESPN is there and the argument is that there is not much cricket on Ten Sports. So how do we see that and is it a good strategy to have sports as a-la-carte or would we want it to be on these premium packs or so?

Atul Das

Vikash on the packages which have been put out by some of the MSOs, I think it is still too early to comment. While we are coming to the end of the first phase of digitization, negotiations with some of those MSOs may still be on and therefore may not reflect necessarily an end situation.

Vikash Mantri

But as a strategy do we prefer to be a-la-carte in sports or it is good to be part of premium packs?

Atul Das

I do not think we can give a specific answer right now, it depends on what the situation is.







Vikash Mantri

In terms of the balance sheet this half-year we see a significant increase in receivables close to Rs. 200 crores. Now, I just wanted to understand the reason for the same and does it include any amount related to other non-core business or our Zee business?

Hitesh Vakil

Well Vikash if you notice our number of receivables days, they are in line with our yearly trend. If you analyze last year's half-yearly position, receivable days would have been at around 110. We are presently at around 107 days. This is kind of cyclical in nature. At the end of the year again it will come back to the normal level when the realization happens. Also all these debtors are trade debtors.

Vikash Mantri

No increase in limits to Veria or something like that.

Hitesh Vakil

No there is no increase in limits to Veria or any other debtors.

Vikash Mantri

In terms of the costs I just wanted to check with Punit, while the newer channel launches who would have losses in the beginning is it fair to assume that properties like Ramayan or Fear Files and Rab Se Sona Ishq would generally get the same margins as our regular programs and there wouldn't be much delay in them?

Punit Goenka

There is a certain lag definitely Vikash but the catch up is pretty quick in program or property launches, provided they deliver of course. So I think maximum lag can be a quarter not more than that.

Vikash Mantri

In terms of the international subscription revenues we have seen that has been down marginally, any impact of currency largely here?

Punit Goenka

In fact largely the growth has come because of rupee depreciation as I said in my opening remarks. The subscription revenue is pretty much flat but advertising revenue has been seeing growth in the international market.

Moderator

Thank you. We have the next question from the like of Bijal Shah from IIFL, please go ahead.

Bijal Shah

Thank you and congratulations on good set of numbers. I have two questions first is on our strategy on say Middle Eastern market. We gather from newspaper clippings that we are making meaningful commitment to that market. So can you just give us some idea what that market is all about.







When we say Middle East which are the countries we launch in, what is the advertising size and number of subscribers which we think of and related to that. Overall in three years' time what is the management thinking in terms of going to an international market and some color on an overall strategy to go outside India and what kind of audience we are targeting, what size of revenues we are looking at?

Punit Goenka

Bijal the markets that we are targeting with these products are largely in Middle East countries, let's say Saudi Arabia, UAE, North Africa and Pakistan would be prime markets. Saudi Arabia and UAE market size is roughly to the tune of about \$1.5 billion USD to \$2 billion USD in advertising terms. These are primarily free to air markets, we do not have a subscription market there and as you can see from our Aflam experience, within four years we were able to turn it around and make it a profitable channel. Similar will be the initiative with Alwan as well.

Bijal Shah

Basically, Saudi Arabia and Dubai you are saying it is \$1.5 billion to \$2 billion kind of a market in terms of advertising?

Punit Goenka

Yes in terms of Advertising.

Bijal Shah

I mean how would our channel rank vis-à-vis competition; I mean who are the leading networks. Can you give us some sense on competition in that market?

Punit Goenka

See, Zee Aflam I already told you during Ramadan 2012 was No. 3 in All Arabs in movie channels and was No. 2 in Females. So our endeavor would be to have a decent market share with the GEC channel as well. I cannot commit to you a number in terms of rank or GRPs that we will achieve which is a matter of time. It is still very new but definitely the objective is to make it profitable and therefore get enough viewership.

Bijal Shah

And the second question is on digitization. So, Bombay, Delhi, I mean all the four markets will not have analog ratings since starting December. So do we see any fall in carriage fees or in whichever way we call it, any reduction in cost in probably 4Q or in FY14?

Punit Goenka

The way we are looking at carriage fee Bijal is very simple, we do not expect any reduction in carriage fee but if we are on an average paying Rs.100







today for 11 channels to be carried, we expect to pay that for double the number of channels.

Moderator Thank you. We have the next question from the line of Ankur Agarwal from

Nomura please go ahead.

Ankur Agarwal My first question is actually on sports revenues which increased by Rs. 80

crores quarter-on-quarter. Are these largely attributable to advertising? Is it

fair to say that they accrued largely from advertising?

Atul Das Ankur we do not give out specific revenues separately for channels. But yes

a large part of that is advertising I can safely say that.

Ankur Agarwal And in terms of the 43% - 44% increase in domestic subscription, would you

disclose what percentage was DTH and what percentage was cable stream?

You mentioned majority was DTH but can you quantify that?

Atul Das No we cannot unfortunately because now with the JV of Media Pro we get

license fees paid by them where revenues do not come split as cable and DTH. Based on how the revenues are panning out so we gave a flavor on

that, the larger part of the growth is driven by DTH.

Ankur Agarwal So, you are saying Q3 – Q4 we would see the big impact in terms of cable

stream growing and FY14 probably the big impact of that stream growth.

Atul Das Q3 – Q4 the digital part in terms of actual sub-base will definitely grow. The

impact on revenues may come with a lag.

Ankur Agarwal In terms of Media Pro and Dish deal when do you see that closing? I mean

what was the reason for the delay?

Atul Das It is a part of the negotiation process and I am sure we will be able to close it

very fast.

Ankur Agarwal In terms of Rs.150 crores impact due to new launches that does not include

the fresh increased number of hours due to fresh content or does it include

that.

Atul Das No it doesn't.







Ankur Agarwal

Because that cost you are amortizing over a period right and using accelerated depreciation versus the launch cost which actually gets accrued in the same quarter is what you mentioned.

Atul Das

Yes so the launch costs are written-off in the same quarter and as far as regular programming is concerned we follow the standard accounting policy.

Moderator

Thank you. We have the next question from the line of Srinivas Seshadri from CIMB, please go ahead.

Srinivas Seshadri

My first question was with respect to the TD-SAT order which came over the weekend. Just wanted to understand since that TD-SAT has said that placement fee can be charged and even carriage fees can be bilaterally negotiated. Would that impact anything in terms of the agreement you have with the MSOs and any economics with respect to your monetization of subscription revenues?

Atul Das

No I do not think that will have any impact on the business as such.

Srinivas Seshadri

Just wanted to understand, for at least the smaller channels carriage fee might come back as an issue in terms of negotiation because earlier they were talking about uniform kind of carriage fee structure so some thoughts on that.

Punit Goenka

So Srinivas as I said we are not looking at reduction in carriage fee anyway.

Srinivas Seshadri

And the second question was pertaining to the festive season, so maybe you can give some colors in terms of some of these sectors which typically advertise heavily like durables or autos like what has been the experience this season because last year also it was a little disappointing in terms of the festive season spend so even from this base is it looking kind of modest in terms of the spending increase?

Atul Das

The growth drivers in terms of segments have been largely the FMCG and the consumer durables sectors. Also if you add to that the eCommerce, lifestyle products like jewelry, retail those have been largely the growth drivers. Not so much from the telecom, auto and services sectors which have actually been on the negative side.







Srinivas Seshadri

And my final question is basically on the fact that the share price is very high, so far we have not been able to do much of a buyback program this year. So in case that happens to be the case for the rest of the year, how should one look at the shareholder return perspective? Would the board take a view based on the total payout made last year that is dividend plus share buyback and look to kind of reward shareholders similarly or one should look at only the dividend amount and then some kind of number overhead?

Atul Das

Srinivas, I think we had as per the shareholders approval price limit of Rs.140 for the buyback program and as you rightly pointed out the price of Zee share is considerably above that. We really do not know whether we will be to complete the buyback program envisaged. The total quantum of buyback for this year as per the shareholder's approval was Rs.280 crores but we have completed about Rs.59 crores so far. We cannot really comment on whether any further decision on the buyback will be taken but if you go by intent of the board it was obviously looking at returning Rs.280 crores to shareholders through the buyback route. As far as next steps are concerned I am sure we will update you once the Board decides on the same.

Moderator

Thank you. We have the next question from the line of Rahul Bhangadia from Lucky Securities, please go ahead.

Rahul Bhangadia

Just one bit of information, could you share with us the total carriage fees that you paid for FY12 and the first half this year?

Punit Goenka

Sorry we cannot share that information.

Rahul Bhangadia

Around the other side you also mentioned that you do not expect the carriage fees to go down in an absolute term that is what you said, that is what you meant?

Punit Goenka

Yes that's what I meant exactly.

Rahul Bhangadia

So, even after this 31st October deadline in the four metros you do not

Punit Goenka

Not in the immediate term at least.

expect the carriage fees to go down.







Rahul Bhangadia

But over a period of time may be as this digitization takes hold through the urban, semi-urban and as it spreads through the country, what is the kind of benefit that we expect may be in two years or three years?

Punit Goenka

See one has to keep in mind that carriage fees is not a phenomena only in our country, it exists globally because at the end of the day it is real estate that I am occupying and it is a prime real estate right. So, even if I have to pay something for that for strategic reasons I will be continuing to pay for it. Well, whether the amount comes down or what happens that will depend on the environment existing at that point in time. So, we consider carriage fees as part of cost of doing business for us. That's the way we look at it currently, if the environment changes the market changes, of course we will also revise our position on that.

Moderator

Thank you. We have the next question from the line of Miten Lathia from HDFC Mutual Fund, please go ahead.

Miten Lathia

Just wanted some color on the domestic subscription revenues this quarter. Does it have any sort of component where our contracts were pending negotiation and hence some flow through happened into this quarter or should we consider this as a new base for domestic subscription revenues?

Atul Das

Miten again on domestic subscription revenues, every quarter there are some revenues which are bunched up whether it is past numbers or not. So it is very difficult to separate out every quarter and therefore we talk about more of an annual trend and I think the revenues are trending as per what we do expect to be the annual revenues.

Miten Lathia

And this is sort of despite sports and somebody earlier in the call mentioned so that there is no reason to believe that there is a component which will not recur even when there is no India cricket or in the subsequent quarter?

Atul Das

Yes, I would say there is currently no reason to believe that.

Moderator

Thank you. Next question is from the line of Amit Kumar from Kotak Equities, please go ahead.

Amit Kumar

The first pertains to the new businesses that you have launched, just wanted a broad understanding of a few operational parameters. One is that specifically in case of Ditto TV it started out within India launch where all is it







present at this point of time and in terms of its revenue booking will you book the revenues generating from Ditto as part of subscription only?

Punit Goenka

Ditto is currently apart from India now operating in UK, a soft launch has been done that's the only other market that we opened so far.

Amit Kumar

Sir, why is it taking so much time because Ditto launch has been done almost about six – nine months back in India was it sort of in testing phase and now we are ramping up?

Punit Goenka

Yes, you know any product launch has to be done in a planned manner. The first launch which you saw in India was the Beta test and of course after that two more versions of Ditto have been already upgraded. Our VOD platform is just about ready for launch, so it takes time for technology to be perfected and to rollout so this is all part of our plan.

Amit Kumar

My second point was with respect to Zee Alwan how much of original content are you carrying in the channel at this point of time, what is the plan for ramping up the channel and if you could just give us a very broad color on how does costing of original content happen in Middle East versus in India?

Punit Goenka

As of now what we consider programming which is going on Alwan is 100% original because if you look at the way content is consumed in Middle East it is consumed in formats of 60 episodes per show, whereas when we make it India each show could run into hundreds of episodes and when you have to repurpose that content and crunch it into a 60-episode show an expensive amount of work goes into recreating it, it is actually like rewriting the entire story again. Though currently just only about one-and-a-half hours of content is being locally generated, the rest is of course sent from India but over a period of time it will be ramped up.

Amit Kumar

And could you give us some color on how is the costing of programming in Middle East versus India, how does it compare, is it like similar or 100% higher how does it work?

Punit Goenka

On a per episode basis it is higher.

Amit Kumar

Some color and how much?







Punit Goenka

Well, it will vary from show to show. Also depending on the casting, depending on directors and all those things.

Amit Kumar

Coming to the financial aspects of 2Q results, just wanted to get some sense I mean we have seen a fair amount of volatility in the standalone and subsidiary financials of the company, a standalone is understandable because of Ten Cricket but subsidiary financials it is largely non-cricket sports channels and overseas channels. I am really surprised I mean in the prior quarter from almost a Rs.40 crores loss we have seen complete turnaround to Rs.120 crores of profitability in this particular quarter, just wanted to understand this kind of volatility in the subsidiary financials.

Hitesh Vakil

Well, I cannot really explain to you the complete structure but if I have to explain in brief, there is a lot of content which is transferring from India to overseas subsidiaries and from overseas subsidiaries to India particularly for sports and that will create a kind of swing.

Amit Kumar

Most of the sports content we essentially buy from cricket boards and various owners of sports right so is that something which is not directly contracted.

Hitesh Vakil

No, these are all rights that we are buying from Taj Mauritius and various other rights.

Moderator

Thank you. We have the next question from the line of Abneesh Roy from Edelweiss please go ahead.

Abneesh Roy

If you could comment on how the southern regional markets are doing for you especially the three, Tamil and on the Andhra channel?

Punit Goenka

They are doing pretty well for us if you look at the Andhra channel we have been consistently performing in that market. In fact in the last quarter itself there were six weeks where we were number two in fiction content. So Telugu has definitely done well for us. On Tamil if you look at the historical data when we started the investment our base was about 40 GRPs and as I said in my speech now we are 100 plus, so it has seen a growth but of course the end game is far away.

Abneesh Roy

In today's discussion you spoke on Pakistan for the first time so is it going to be through your content in Arabic and may be your minority specific content







on the Hindi GEC or are you thinking of a full channel launch there at some stage.

Punit Goenka

Well, we already have a channel present in Pakistan, Ten Sports, which we operate locally. As you know Indian channels are all banned under the Supreme Court Order in Pakistan so Indian content of course cannot be taken there legally but our existing business is through the Ten Sports franchise and of course the Arabic products which will be also taking to that market.

Abneesh Roy

Sir, one last question, you give a comment on how the new shows have done so specific comment on Ramayan and any comments on why on Life OK the mythological serial seems to be doing better compared to rest of the channel, so any takeaways from there.

Punit Goenka

I won't be able to comment on Life OK show because I haven't seen it myself. I think Ramayan is doing reasonably well for us where the partnership with Doordarshan is really paying off.

Abneesh Roy

So, Ramayan has met your expectations.

Punit Goenka

My expectations are very, very difficult to meet for anybody.

Punit Goenka

Thank you. We have the last question from the line of Nandita Parker from Karma Capital, please go ahead.

Nandita Parker

Could you just talk about the rationale for the India.com and sort of what expenses associated with that?

Punit Goenka

India.com is our portal strategy where we are focusing on the advertising market for the related revenue growth. It is just an extension of our current television channels which you can see on the dotcom site.

Atul Das

On India.com we have several verticals. The one advantage we want to build for our consumers is that for anything related to India in terms of entertainment or information related to sports, news and everything they can get from India.com. We have certain verticals within that bollywoodlife.com, oncars.in and other verticals related to news as well as education. Plus we have all our content available for people who want to consume it which is advertising led and unlike Ditto TV which is a subscription led model. So as







more and more consumers go online for watching entertainment or consuming entertainment this is a strategy to cater to that.

Nandita Parker What's the amount of investment you expect to make in this?

Atul Das Specifically, it will be difficult to give a separate number but it is part of the

overall number that we have talked about some time back.

Nandita Parker And the 150 crores that you expect to spend additionally that's this year right

that's FY13 and what's the plan for FY14?

Atul Das It is too early to comment but yes the investments will continue, exact

number, the size of that we would update it later and even I would like to highlight for everybody's interest or benefit is that Rs.150 crores is not a fixed number in our business, it is just an indicative number, it could be higher

also.

Nandita Parker Right, I would assume given that you have done so many launches this year,

next year would not be investment intensive`.

Atul Das Yes, you may not necessarily see so many incremental launches but it will be

a full year impact of the launches that have been done this year and some

more investments may come.

Nandita Parker What is the normal economics of these new channels especially the

languages ones. How many years does it take to breakeven and then start?

Atul Das Well it could take about three to four years and we have had situations where

we have done better than that and it could take longer in some cases but

that's an average I would say.

Nandita Parker So, if you were to give us a guidance in terms of how much you expect to be

investing as a percentage of revenues on new investments on an annual basis. I think a lot of analysts who are coming out with report seem to be a bit confused about the granularity of numbers so if you could give a broad

percentage of revenues?

Atul Das If I were to take the current number that we are talking about, it will work out

to 4% to 5% of our revenues.







Moderator Thank you. I would now like to hand the floor back to Mr. Kanwaljeet Singh

for closing comments, over to you sir.

Kanwaljeet Singh Ladies and gentlemen thank you for joining us again. 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 the third quarter of fiscal 2013 or

even earlier on one-on-one basis. Thank you and have a great day.

Moderator On behalf of Zee Entertainment Enterprises Limited that concludes this

conference call.

