

Zee Entertainment Enterprises Limited

CONFERENCE CALL
October 14, 2015, 15:00 HRS IST

Moderator:

Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q2 FY16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Anuradha Walawalkar. Thank you and over to you, ma'am.

Anuradha Walawalkar:

Ladies and gentlemen, thank you for joining us today. This conference call has been organized to update our investors on the Company's performance in the SECOND quarter of fiscal 2016, and to share with you the outlook of the management of Zee Entertainment Enterprises Ltd. We do hope that you have had the chance to go through the earnings release and the results, both of which have been uploaded on our corporate website: www.zeetelevision.com

To discuss the results and performance, joining me today is Mr. Punit Goenka, Managing Director and CEO of ZEE, along with Mr. Mihir Modi, Chief Finance & 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, Anuradha. 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 2016.



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 8.43 billion, recording a growth of 35% yoy. The total subscription revenues for the quarter were Rs 4.79 billion. During the current quarter, domestic subscription revenues stood at Rs 3.75 billion, while international subscription revenues were Rs 1.04 billion.

On the cost front, programming & operating cost in the quarter was Rs 6.04 billion. Total costs incurred by the Company in this quarter were Rs 10.30 billion.

During the quarter, the Company's EBITDA was Rs 3.55 billion. The EBITDA margin for the quarter was 25.6%. Profit After Tax for the quarter stood at Rs 2.46 billion. PAT margin for the quarter stood at 17.8%.

As of September 30, 2015, the Company has a gross debt of Rs 19 million and Cash & Cash Equivalents of Rs 15.51 Billion.

I would now like to cover the Business Performance.

During the quarter, Zee TV was ranked third amongst the Hindi General Entertainment Channels. The channel delivered a weekly average of 12 shows among top 50 shows

The newly launched Hindi GEC &tv continues to build on its successful launch and has been performing well. The Voice, the biggest Non-fiction show of the channel was a huge success and further boosted the channel viewership. The channel is now slated for launching new shows in the third quarter

ZEE's Hindi Movie Cluster – Zee Cinema, &pictures, Zee Classic and Zee Action, continued to lead the genre with the highest viewership share. This quarter saw the premieres of Badlapur, Shaukeen and Gulaab Gang

The network operates two channels in the English entertainment and movies genre - Zee Café and Zee Studio. Zee Café was the market leader in the English GEC genre during the quarter and delivered a weekly average of 21 shows in top 50.



During the quarter, Zee Marathi continued its lead as the number 1 channel in its genre. The channel was the slot leader in 9 out of 9 prime time slots

Zee Bangla is the further consolidated its position as the number 2 player in the Bangla GEC genre. The channel continued its strong lead in the non-fiction genre. The channel was the slot leader in 5 prime time bands during the quarter

During the quarter, Zee Telugu further increased its lead as the number 1 channel in the Telugu GEC genre. The channel was the slot leader in 4 out of 10 prime time bands and number 2 in the other 6 prime time bands during weekdays.

Zee Kannada also consolidated its number 2 ranking among the Kannada GEC genre during the quarter.

The key properties on our Sports channels bouquet during the quarter included telecast of India vs Zimbabwe cricket series, Tour de France and US Open Tennis among others. The forthcoming quarter would see the telecast of events like Pakistan vs England cricket series, Sri Lanka vs West Indies cricket series, UEFA Champions League among others. The sports business revenues in the second quarter of FY2016 were Rs 1,278 million, while costs incurred in this quarter were Rs 1,256 million.

ZEE's International business continues to perform strongly driven by global demand for our products. ZEE intends to continue to grow this business and ensure timely and appropriate investments to capitalise on this opportunity

The highlights of the International Operations during the quarter were as follows:

- In Americas, Zee TV continued to garner the highest viewership share among South Asian networks
- In Europe &tv and Zing were among the top 10 channels in UK
- In the UAE, Zee TV was the number one channel and Zee Cinema was the number 2 channel among South Asian expats in their respective genres
- Zee Aflam continued its successful run as the Number 3 movie channel in the All Arabs target audience in Saudi Arabia.
- In Africas, we launched Zee Magic, a GEC offering Indian content to Francophone markets in Africa. Zee World was the third ranked channel in genre amongst its target audience in South Africa.





• In APAC, &tv was launched in Singapore

We are quite pleased with our quarterly performance and it continues to remain on track. We have grown as a network on the back of superior programming on our new and existing products. The improvement in the overall advertisement market has further aided our strong growth. The domestic subscription market has also seen steady growth.

Coming to the outlook for our business, ZEE continues to be the leading content player in the Indian media industry offering maximum hours of content for audiences both home and abroad. Going forward, our endeavor would be to further enhance our offerings and be ahead of the market in delivering innovative and high quality entertainment to our viewers across consumption platforms. We believe that in this fast evolving media and entertainment space delivering excellent content will remain key for monetizing revenues, from both advertising and subscription standpoint.

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

Moderator:

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

Sachin Salgaonkar:

I have a few questions. First question is on the ad growth. Now can you help us understand, this 35% growth is more on the lines of a one-off or we might continue to see a strong trend. And the related question out here is, if you could help us understand how much was apples-to-apples growth versus last year i.e. without new channel launches?

Punit Goenka:

It is not a one-off, it is on the back of healthy growth in the industry on advertising front coupled with the fact that we have maintained or grown our market share in the industry, and of course as you rightly said about the new launches that we have had. I think if you were to correct for the new launches which is &TV, the growth is still mid-20s kind of number.

Sachin Salgaonkar:

And Punit, so if you could help us understand is it the FMCG companies, e-commerce companies, autos who are spending and who lead to this strong growth?



Mihir Modi:

I think from the industry side of course e-commerce has been a spender. As we have been saying for a last couple of quarters FMCG has indeed been spending more on the back of their input cost reduction and then there are the telcos and consumer durables who are looking to pick up as well. So it is an overall industry revival as well, but what I would say is that while industry has helped us prop up our growth, it is also on the back of our good channel performances.

Sachin Salgaonkar:

Second question is regarding your sports losses guidance for this year which is around 100-odd crores. Now clearly there is a bit of a question mark whether the India-Pakistan cricket series will happen or not. In that case how could we look at sports losses if it does not happen?

Mihir Modi:

Indeed it is a valid question, so yes sports business is dependent on different events happening or not happening, and yes this year the Pakistan series is the one which has uncertainty around it. So yes the losses will depend on or will reduce if the Pakistan series does not happen and that is absolutely the correct way to look at it.

Sachin Salgaonkar:

Got it. And my last question is, the corporate development associated with international restructuring as well as the write-off, can you give us a little bit more clarity what lead to that and how should we look at it going forward?

Mihir Modi:

I think as we look ahead there is a lot of opportunity available in the international market and while we have been doing things one piece at a time we realize that to have a more focused approach to the international expansion it is better to operate it this way and therefore the development that you see.

Moderator:

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

Vikash Mantri:

Can you help me with the movement of cash and investment in balance sheet, both are down and receivables and inventory are up, so what has been the development in this half?

Mihir Modi:

So indeed with a growing business our receivables have gone up and that is in line with business, if we look at the number of days of receivables in September last year versus September now, the balance sheet that we declared, there is very little movement but given the growth in the business the absolute amounts have gone



up, so that is one driver. On the inventory side we had had a few renewals in old library etc and that is causing the inventory to move up a little.

Vikash Mantri:

So cumulatively there is a 700 crores swing in inventories and receivables?

Mihir Modi:

Yes, that is correct. The larger part of that is receivables and if you look at it from a number of days sales perspective it is I think two-three days increase versus September last year.

Vikash Mantri:

In terms of Living Entertainment can we highlight our plans going forward, how many channels are expected to be launched and what is the forecast there or some guidance on that?

Punit Goenka:

Vikas as you know since last two years we have had significant number of launches in various genres whether it is movies, premium GEC or mass GEC. As of now we do not have any immediate future plans to launch more channels in the domestic market, we want to consolidated our position with the newly launched channels and further consolidated the market before we get into further expansions. Having said that, on smaller niche categories like the HD space and some other language based splits as I have maintained earlier whether it is movie versions of our regional channels it may happen in the coming fiscal but nothing that will significantly move the needle on either investment or losses for the company.

Moderator:

Thank you. Our next question is from the line of Srinivas Seshadri of Antique. Please go ahead.

Srinivas Seshadri:

My first question was on the advertising and promotion cost. There has been a fairly sharp increase even on quarter-on-quarter basis, my understanding was with &TV getting launched last quarter it would have kind of stabilized. So could you kind of explain what are the key drivers and how to look at that line on a forward basis?

Punit Goenka:

As you rightly put it, yes &TV was one of the key drivers for the advertising or selling expenses what you are referring to having gone up. The other factor that one has to look at is that rural as a market is going to be opening up very soon. Some of you may have seen the announcement by BARC last night that week 41 will see the launch of the rural ratings. So the company has consciously been investing in markets that we were not focusing on so far, that is another not comparable rise that you see. Any other thing Mihir you want to highlight?



Mihir Modi: I think that pretty much covers it, the one-time. If you strip that off Srinivas, you will

have the normal growth rate you have seen in the past.

Srinivas Seshadri: Sorry Punit, just to clarify on the rural, is it more of reach investments in terms of

carriage we are doing in terms of that repeating over the future?

Punit Goenka: Combination of both Srinivas.

Srinivas Seshadri: So some of it is one-time?

Punit Goenka: Yes.

Srinivas Seshadri: And secondly on the staff cost again, there has been a bit of a dip on the QoQ basis,

Mihir if you could just walk us through that as well, thanks.

Mihir Modi: Staff cost on Q-on-Q?

Srinivas Seshadri: Yes.

Mihir Modi: So in the first quarter we had some excess provision relating to the incentive

payouts.

Srinivas Seshadri: So this is a normalized number now?

Mihir Modi: Yes, this is a normalized number.

Srinivas Seshadri: And if I can just squeeze one more in, you have provided a breakup of the

international business, can you just provide a like-for-like comparison for the same

that will be really helpful.

Mihir Modi: What breakup, sorry?

Srinivas Seshadri: The international business revenues in terms of advertising, subscription, etc.

Mihir Modi: So we have started specifically mentioning it this quarter onwards, so what we

would do is from here on we will mention this consistently and if you want details

relating to previous year we can share it offline.

Moderator: Thank you. Our next question is from the line of Vivekanand Subbaraman of Ambit

Capital. Please go ahead.



Vivekanand S:

On the subscription revenue side, I see that there is a pick up in the domestic subscription revenue and can management highlight if the deal renewals on the cable side are happening at a reasonable inflation? And point number two, what about the phase three and four content deals with the MSOs. Is that likely to result in greater domestic subscription revenue growth? Thanks.

Punit Goenka:

So Vivekanand, what we had suggested in the earlier calls if you were there is that domestic subscription will grow in the low teens for the year and that remains. Deals are being getting done as we speak including Phase III. Phase IV is far off, I do not see deals being done on Phase IV at least for some time to come but definitely for renewals on Phase I, Phase II and digital deals on Phase III are being done as we speak.

Vivekanand S:

So the renewals that are happening right now, I can see that there is quite a bit of acrimony between some broadcasters and some of the MSOs, so are we transitioning the paradigm or are we continuing on a CPS basis without going À la carte?

Punit Goenka:

No, we are going CPS route as of now, we will evaluate the RIO strategy or the \grave{A} la carte strategy when the timing is right.

Moderator:

Thank you. Our next question is from Pulkit Singhal of Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal:

Just on the advertisement revenues, you mentioned mid-20s YoY growth on a like-to-like basis, so given that the volume of minutes would have been capped according to regulation, does that mean this is entirely a pricing increase?

Mihir Modi:

Yes, the mid 20s growth that Punit referred to is indeed predominantly pricing.

Pulkit Singhal:

I mean I am just trying to understand this, maybe my understanding is a bit wrong but 25%, is it a sustainable kind of pricing increase in this industry, have you seen this in the past without volume growth?

Punit Goenka:

Well look at our market shares in the regions how we have grown those then you can definitely come to know. Now if we do not continue growth in market share and if it sustains then obviously this kind of number is not repeatable and for benefit of everybody I will say this is a first time and the last time I have given the breakup, I



do not want to repeat that going forward because this is all one time because it is showing such a big jump I wanted to be clear again, but definitely it is a function of market share that we can take pricing increases earn out.

Pulkit Singhal:

Also on the balance sheet as you mentioned days of receivables have gone up maybe just by two or three days or something, so is it a new norm I mean the new level or will this come down?

Mihir Modi:

No, it will fluctuate within a five, seven days range, I mean of course, our attempt is to move it south but on 100 day kind of a range two days here and there is just a matter of a few days of collection falling from September to October for example.

Moderator:

Thank you. Our next question is from the line of Dixit Mittal of Subhkam Ventures. Please go ahead.

Dixit Mittal:

Sir you mentioned earlier that if the India-Pakistan series does not happen then there will be lower losses, so can you sir just say the quantum how much the losses will be in sports this year?

Mihir Modi:

We had originally guided a 100 crores loss, last quarter we did mention that it will be lower than 100 crores, I think at this stage I would not want to speculate what that number could be. I think once we have clarity on whether the series is happening, not happening, what are the other developments with other events is when we will be able to talk about it with more certainty, but I think this is certainly one big variable in the sports loss.

Punit Goenka:

But definitely will be less than 100 for sure.

Dixit Mittal:

And sir what will be your full year guidance on the margins front, earlier you mentioned 25% so do you maintain that or you will be able to beat that as well?

Punit Goenka:

At this stage we maintain that.

Dixit Mittal:

And sir lastly, any guidance on the &TV losses sir this year?

Mihir Modi:

No, we are not culling out the losses, I think it is built into our consolidated margin

guidance, so that is how we look at the business.

Moderator:

Thank you. Our next question is from Rajeev Sharma of HSBC. Please go ahead.



Rajeev Sharma:

So on this whole rural thing just was keen to understand the exact impact which can be seen on pricing because you are already growing at 25%, so will there be more of price increase possible with this or it just helps to support the existing price increase. And there was some mention on carriage, so will carriage come down or increase I just could not get it, so if you can help us understand that. And over the last 12 months or in this fiscal also how many channels have been shut down and how do you take a call about this and what should have been the total cost savings because of this shut down which is being seen at EBITDA level?

Punit Goenka:

Firstly on the shutdown part, we have shut four channels in the last 1.5-2 years. Because these were very relatively small channels, not contributing too much to our top-line and definitely not too much bleed to our bottom-line either, but just because we did not see the potential in those genres to go up and therefore management bandwidth was not being able to be spent on those, therefore we took those calls to shut those down. On the carriage fee, I expect carriage fee to be flat to marginally down keeping in mind that there are newer markets of rural that we will have to invest behind on the carriage front while on the existing market we may reduce some amount of carriage. On the ad sales part, I could not probably catch your question clearly, can you just repeat that part?

Rajeev Sharma:

So on the ad rate part, will this whole BARC going rural and rural data getting captured, will this allow you to take further increase in ad rates?

Punit Goenka:

I have no idea, until I do not see the data I cannot comment as to what will happen.

Rajeev Sharma:

Let's say you do well, then?

Punit Goenka:

So firstly let the data come out, let us all evaluate, the industry as a whole is awaiting the full rollout of BARC to happen as we speak. I think transactions on BARC are yet to commence therefore it will be a bit speculative to talk about it this early, maybe next quarter we will have better colorful view on that.

Rajeev Sharma:

And any quantification on the channel savings on the cost side which is reflecting an EBITDA because of the channel shutdown, if you can just quantify something savings which are being seen?

Mihir Modi:

Rajeev, very small.



Moderator: Thank you. Our next question is from Amit Kumar of Investec. Please go ahead.

Amit Kumar: Just a repeat of the previous question, we still do not have any sort of clarity in the

India-Pakistan series because I think it was supposed to happen in this current

quarter itself?

Punit Goenka: It was supposed to happen in November-December but there is no clarity yet on it.

Amit Kumar: My second point, I still did not understand this restructuring part, could you just

explain this a little bit better, I mean what is it that you are doing different, the

business is already part of a subsidiary, you are taking it into a wholly owned subsidiary of that particular subsidiary. I did not understand what is it that you are

doing that makes it better in that sense?

Mihir Modi: So earlier the way the corporate structure was set up was more like as the business

kept getting evolved different entities based on the business needs at that point in

time were incorporated and the holding was decided that way. What we have done

now is that under a single holding company we have proposed to have the entire

international business so that it can be run in a very focused manner. Of course the

restructuring would also entail some tax benefits which will be in addition, but what

we believe is it is a more effective singular structure for the entire international

operations from a legal entity perspective.

Amit Kumar: Cannot you do it, I mean given the fact that even as a standalone entity as a

separate division, cannot you do it in a separate division structure because

subsidiaries of subsidiaries, it seems to me that things are actually becoming more

complex than simple really.

Punit Goenka: Sorry, can you say again please.

Amit Kumar: No, I am saying that just like in case of these standalone you have multiple channels,

you have multiple business units running on a division structure, cannot you do that

for overseas also? I mean subsidiaries of subsidiaries and seemingly your overheads

only go up and things become more complex for us to analyze as well, I will not sort

of say otherwise really.

Mihir Modi: From a legal entity perspective the new structure will be cleaner is what I can say.



Punit Goenka:

So we are making it less complex.

Amit Kumar:

Then coming to this like-to-like mid-20s kind of growth, now as I understand that even within existing channels you are adding more property, so one in this quarter for example was AIBA, it is a very large event, you have had two events previously annually one on the film award side and the other one on the TV award side, just adds to that. So can we get some sense in terms of within the existing channels the increase in terms of number of original hours of programming on a YoY basis?

Punit Goenka:

We have increased hours on existing channels also and that is reflective of the programming and operating cost that we have said has gone up and that is part of our strategy of gaining market share from the existing business. So yes you are right we do keep adding. The events like AIBA and things like that you talk about, those are very-very small in the larger scheme of the company in the overall scheme, they do not really move the needle too much for us even on a quarterly basis forget about the annualized basis. From that perspective the original hours added on the channel are definitely significant which have obviously led to the gain in the market share that we have talked about and hence the growth in advertising.

Amit Kumar:

Could you just quantify a bit, which channels, how many hours, very broadly, I know a comprehensive discussion is not possible.

Punit Goenka:

Sir, we have 9 GEC channel right now, can you take it offline please?

Amit Kumar:

Sure, not an issue. Thank you.

Moderator:

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

Jay Doshi:

Just one question, if you could update us on what is the progress on Phase III and especially how satisfied are you with the content deals or agreements that you may be signing with some of the distributors in cable side? And let's say hypothetically if we were not to build phased benefits or any gains from Phase III then do you think that domestic subscription revenue growth that we are seeing this year is sort of sustainable even next year excluding Phase III benefits? And just one more on the same thing, I mean I know there are talks of huge discounts versus the price that is currently prevailing for cable guys in Phase I and Phase II, at what level do you think that will settle for the industry? Thanks so much.



Punit Goenka:

So firstly on the Phase III, first part on the deal that are getting signed, yes we are pretty satisfied with those deals because just like Phase I, Phase II we understand that fact that we need to support the industry in rollout of Phase III in an aggressive manner. I think the progress on Phase III is still slow compared to what happened in Phase II. We are not talking about Phase I because that had several other complications. I think it will pick up closer to the end of this current quarter, in terms of if Phase III was not to happen I think low double-digit growth is still maintainable in subscription overall, I think Phase III once it happens and how it happens will definitely be a bump up. What did you mean by discounts on Phase I, Phase II?

Jay Doshi:

Sure. When we speak to cable players I think the demand is that the CPS rates at which deal for Phase III would happen would be maybe more than 50% discounts to the rate that are prevailing in Phase I, Phase II markets.

Punit Goenka:

I would not comment on the amount of discount, but as I said we do understand the fact that we need to support the industry, in what way we will support those are deal to deal linked, I do not know whether they will be CPS linked or fixed deals, that only time will tell but definitely we understand the fact that the industry does require support in the initial period just as it did in Phase I, Phase II.

Moderator:

Thank you. Our next question is from Yogesh Kirve of B&K Securities. Please go ahead.

Yogesh Kirve:

Sir looking at the progress at &TV especially in the second quarter, so is there any sort of revision in our assessment regarding this cumulative losses or the breakeven period?

Mihir Modi:

Indeed &TV is inching up nicely and on track to what we had expected, so at this stage we are maintaining the guidance on the margin, the consolidated margin guidance that we had which factors in &TV as well.

Yogesh Kirve:

My question is more from a long-term guidance that you have given in terms of the cumulative losses or the breakeven period.

Mihir Modi:

I think the six month period is too short a period to change our view on that



Yogesh Kirve: And secondly regarding this festive season has kicked off, we have seen first couple

of week at least, so how is that taking off, any light on that?

Mihir Modi: Sure. So I think the festive season as is normally expected in the third quarter is

encouraging and this year is no different Yogesh.

Yogesh Kirve: And finally regarding if you look at our core business apart from &TV, so what sort

of leeway we have in terms of the inventory growth going forward?

Mihir Modi: So inventory we are operating at the maximum permissible and on all our top

channel we are going at 100%, so there is no room for inventory to go up on the

existing channels.

Moderator: Thank you. Our next question is from Sanjeev Hota of Sharekhan. Please go ahead.

Sanjeev Hota: First my question is on your music label business launch last year, it has been on the

aggressive side and you are acquiring big movies, so what are the plans over there?

And second is on the production side, your movie Jazbaa has just released and so

what are the plans on the production side and the music side?

Punit Goenka: On both the film production as well as music publishing we have aggressive plans,

we have already invested heavily over the last $1.5\ \text{year}$ or a little more than $1.5\ \text{more}$

years on the music label, we will continue to go aggressive on that just as we have

done in the last 18 to 20 months. On the movie side our first release after Gadar has

just happened on 9th of October, Jazbaa, I urge all of you to go and see it, has done

well at the box-office for us and I think it is still holding ground and we do plan to

come up with a whole variety of slate of films over the next 12 months that you will

see.

Sanjeev Hota: Any content CAPEX guidance can you give on the movie production side?

Mihir Modi: To kind of define it over a period of time is difficult but we will at least for the next

12 to 18 months do a couple of films of scale of Jazbaa and more smaller films.

Sanjeev Hota: And anything on the music label, you are going to be on aggressive on acquiring

movies, it is same, there is no change?



Punit Goenka: There is no change, on the music side we will continue to be a leading player to

attempt to be the leader in due course.

Sanjeev Hota: And can you comment on how you are going to leverage this music property over

the years, any digital media initiative you would like to take on this?

Punit Goenka: Well music as you would be aware Sanjeev is purely digital platform based service

now, there is no physical sale of CDs or anything that takes place. So the entire monetization of music happens through digital platforms and it definitely helps us leverage our own digital platforms apart from our television business itself. So yes that was one of the conscious decisions of entering the music publishing business that it will be a big support for our own digital platforms once they achieve a critical

mass.

Sanjeev Hota: And last one bookkeeping question, what is the tax rate we can take for FY16 and

17. This quarter the tax rate has come down from last quarter on QoQ basis also, so

what kind of tax rate we can assume for the rest of the year and FY17?

Mihir Modi: We should be at 33 for the full year.

Moderator: Thank you. Our next question is from Urvil Bhatt of IIFL. Please go ahead.

Bijal: Hi, this is Bijal from IIFL. So my first question is with respect to this BARC, now when

do you expect inventory or entire advertising industry to move on to BARC from current system and since we have seen a material improvement in our regional

channels' performance as per BARC, have we already monetized that or that will

happen only when the entire advertising industry moves on to BARC?

Punit Goenka: Bijal, it is anybody's guess when the industry will move to trading but I do expect it

to happen sooner than later, I mean I hope for it to happen as soon as possible and

the entire industry is working towards that objective. Having said that I think the

advertisers do factor in the trends which are already seen on the market share

growth and hence you see the kind of growth we have demonstrated for the first

two quarters on the back of which you can see the numbers that we have. So some $% \left\{ 1,2,\ldots ,n\right\}$

part of it is definitely factored in. The rural bit nobody knows so we do not know

what the outcome of that will be, we can only comment on that once the data is available starting next week and we have gone through it for at least a month or so

or two months before we can see how that impacts the business going forward.



Bijal: So small follow-up on this, so even on Hindi GEC we have seen some reduction in

gap with Life OK, so that is also partly factored into new prices which you have been

getting in last few months or on the Hindi GEC things are different?

Punit Goenka: Why would it be different on any GEC Bijal.

Bijal: Okay, so this is growth after factoring part of BARC already, I mean we are still

seeing very good growth.

Punit Goenka: Please leave some work for us also.

Bijal Shah: And second question is with respect to movies, so there have been couple of times

we have got into movies and then we realized or then we decided to get out of it, so now what has changed that we are talking about movies slightly more aggressively

and is there any target or anything which we should be aware of?

Punit Goenka: So the first time around if you remember Bijal when we did Gadar the industry itself

was very unorganized and therefore we chose to get out of that business. The

second time around was purely a studio model business without any IPR control

that the studio would get and hence we found that to be just a sales driven model

which is not something that as we wanted to remain in. What has happened now is

that people are willing to share IP and that is one of our key strategies and without

sharing of IP we do not enter any project. And to your last part on target, while we want to be aggressive in this business but we will select projects which we would be

willing to put our brand on and definitely will be monetizable from a profit to risk

ratio perspective.

Bijal Shah: And one small follow-up to Mihir on this, whether we should see further increase in

inventory on account of this issue because we will be investing more in movies so

can it lead to a material increase in inventory or you do not really think so?

Mihir Modi: The amortization policy for the film production business will be aligned with the

revenue flows as it comes, so to that extent there would not be a buildup which is

artificial if that is the question.

Moderator: Thank you. Our next question is from Dipesh Mehta of SBI Cap Securities. Please go

ahead.



Dipesh Mehta:

Sir I have two questions, first is, can you provide any update on Sarthak, the acquisition which we announced last time? Second thing is about content cost, can you help us understand how we expect overall content cost to behave for us, specifically the India-Pakistan series we have has some uncertainty and relatedly we are not guiding about sports business, how much lower loss would be there. So whether our content cost would be different and more importantly if India-Pakistan series is not happening then our sports loss would be lower, still we would hold to our EBITDA margin guidance. So if you can provide answer to this question. Thank you.

Mihir Modi:

Sure. So on Sarthak first, we have indeed moved forward on Sarthak as a part of the normal deal process, after the approval we got the conditions fulfilled, the regulatory approvals have been filed so it is on track. The next milestone for all of us is the regulatory approvals coming through and that is when we will start consolidating it, of course our involvement with the business has started to happen in a slow pace. It is a regulatory matter so we do not have control over it but it should happen over the next couple of months on Sarthak. Relating to the content cost, I think our base level content cost is what it is and if a big sports event like the India-Pakistan series happens that will be on top of that. So that is the way I would suggest you look at it and therefore what we have so far can be a representative number for a without Pakistan series kind of a comment. On your question relating to the margin, indeed there are a few open events and decisions that we have for the rest of the year, of course the event is the Pakistan series which will have an impact on the bottom-line but there are also investments decisions on our existing channels, on new channels. So factoring all of it whichever way it goes, I mean there are multiple variables there we are maintaining our bottom-line guidance depending on whichever way the variables will unfold we will be at the margin guidance that we mentioned.

Dipesh Mehta:

And just one last related question, whether we are providing any guidance on content cost excluding sports for the current year?

Mihir Modi:

No, we are not specifically guiding for it but as I mentioned to you it is easy to look at it because if there are major events then it would be including those sports content cost, without those events it would be the plain vanilla or the non-sports.



Punit Goenka: So Dipesh another way to put it is that our per hour costs are moving in line with

inflation just marginally above that, any delta is on account of major events or

number of hours of content that we add to the network.

Dipesh Mehta: So I think earlier one of the participant also tried to get some sense about original

hours YoY kind of change?

Punit Goenka: Because we run such a large network it is difficult to do it on this call, can you take it

offline?

Dipesh Mehta: Okay, thank you.

Moderator: Thank you. Ladies and Gentlemen, we will be able to take our last two questions

now. Our next question is from Sanjay Chawla of JM Financial. Please go ahead.

Sanjay Chawla: We are seeing launch of 4G mobile networks and we will see more and more

launches and expansion in the coming quarters, my question is for Punit, if you can share your big picture thoughts on the distribution opportunity and the kind of

models that may evolve in India and how they could be different for what is being

seen in the developed markets?

Punit Goenka: So definitely newer platforms led by technology are welcome and definitely will be

good for a company like us which is a content company. As I say the more the

platform the better the experience for the consumer because he has a variety of

technologies to chose from depending on what need they want to be served. So

definitely it is a welcome move from our perspective and from the consumers'

perspective. We will have on the back of 4G or even fixed line broadband wired, services that will emerge on the lines of Netflix or Amazon that may come up in the

future. But the more the platforms the better for the consumer, hence for the

content companies it is far more opportunities to monetize.

Sanjay Chawla: Punit, more in terms of models that may evolve do you see independent

broadcasters having their own platforms or do you think they may come together

and come out with a joint platform, do you see a scope for that?

Punit Goenka: I think it is too early in this stage Sanjay to say what will emerge, whether

broadcaster lead platforms will be the leaders or will it be independent platforms

that aggregate content from broadcasters or content creators like ourselves, I think



that time will tell but I think the market is large enough for multiple technologies to exist and survive therefore it is an evolving market and the best players will win, the best technologies will win.

Moderator:

Thank you. Our next question is from Naval Seth of Emkay Global. Please go ahead.

Naval Seth:

My question is on receivables, so is the majority of quantum increase which we have seen is from subscription or ad if you can segregate because given the health of MSOs their content cost has been increasing substantially while subscription is still sub-par. So is it from the MSOs the quantum has been there because in H1 if I compare your revenues have increased YoY basis close to around 551 crores versus your receivable increase is 410-odd crores similarly H1 '15 to H1 '16.

Mihir Modi:

Yes, so first of all the way to compare it is not March end versus September end simply because how the collection cycle and the pressures work in the industry is different at March end and different at September end.

Naval Seth:

Sir my comparison is September to September, so my question again if I can rephrase, can this normalize by the end of this year?

Mihir Modi:

The answer is yes.

Naval Seth:

So will there be a substantial improvement because this is a substantial increase in H1 actually.

Mihir Modi:

Again, from a number of days sales perspective it had added about five days approximately and therefore yes should we attempt to reduce it, the answer is yes, is it abnormally high compared to September end last year, the answer is no. So to us given that the business has increased it shows up in these numbers, is it alarming for us, no we have seen it consistently at September end for a few years and therefore it is not alarming. Having said that, the larger point is that yes should we attempt to reduce it, the answer is yes.

Naval Seth:

And if you can segregate from subscription or advertisement or mix of both?

Mihir Modi:

Well, this is a blended number, I think clearly advertising is a little more disciplined than subscription side payments, but the way we are seeing the numbers there is no spike in either.



Moderator:

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