



Zee Entertainment Enterprises Limited

3Q FY2011 EARNINGS CONFERENCE CALL

January 17, 2011, 1400 HRS IST

Moderator

Ladies and gentlemen, Good Afternoon and welcome to the Zee Entertainment Enterprises Ltd 3Q FY2011 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajesh Pal of Zee Entertainment Enterprises Ltd. Thank you and over to you sir.

Rajesh Pal

Thank you Farah. 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 third quarter of Fiscal 2011 and to share with you the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you had a chance to go through the earnings release and the results, both of which have been uploaded on our cooperate site www.zeetelevision.com.

To discuss the results and performance during the quarter, joining me today is Mr. Punit Goenka - Managing Director and CEO of ZEEL along with members of the senior management team of the company, including Mr. Hitesh Vakil - President and CFO, and Mr. Atul Das - President and Head Corporate Strategy & Business Development.

We will start with a brief statement from Mr. Goenka on the 3rd 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, Rajesh. I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the Third Quarter of fiscal 2011. Let's begin with details of some of the key

financials of the quarter, which should give a clearer picture of our Financial Performance.

The numbers of the third quarter fiscal 2011 include financial results of Regional General Entertainment Channel business acquired from Zee News Limited. The R-GEC business was acquired w.e.f. January 1, 2010. 9X business undertaking of 9X Media Pvt Ltd and ETC Networks Ltd were also merged with the Company w.e.f. March 31, 2010. Post the merger of ETC Networks Ltd with ZEEL, the entire education business undertaking of ZEEL was demerged into a new listed company, Zee Learn Limited w.e.f April 01, 2010. Hence, the financials for the quarter are not comparable on a like-to-like basis.

Also, I would like to address first the key question which all of you must be having in mind, which relates to the performance on Sports business. We have got a non-recurring operational income of Rs 700 million, which pertains to premature termination of sporting rights. The reason why we have chosen to forego these rights is because the revenue expectation was not matching up to the cost of rights agreed. The net impact of this decision is that in future, we are going to save that much cost, impacting our margins positively. Also, we have to understand that the Sports business losses are of an extra-ordinary nature (not from an accounting perspective), but due to the high cost on account of India-South Africa series. So from this perspective, we believe that going forward, our margins on sports would be better than recorded during this fiscal. I am sure you would have more questions on this later and we would address the same post my remarks.

Coming back to the results, ZEEL's advertising revenues during the quarter were Rs 4.4 billion, an increase of 62% as compared to the corresponding quarter last fiscal. Advertising revenues continued to show a robust increase attributable to higher channel shares across the network, a buoyant macro environment.

The total subscription revenues for the quarter were Rs 2.8 billion, registering an increase of 14% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenues stood at Rs 1.8 billion, while international subscription revenues were Rs 1 billion. Revenues from domestic DTH operators, part of domestic subscription revenue, were Rs 821 million as against Rs 787 million in the second quarter of fiscal 2011. Subscription revenues from international operations

increased by 2.2% and subscription revenues from domestic cable increased by 2.6% as compared to the second quarter of fiscal 2011.

On the cost front, programming & operating cost in the quarter was Rs 4.2 billion as compared to Rs 2.3 billion in the corresponding period last fiscal, an increase of 80%. Employee cost increased by 85% over the corresponding period last fiscal. Selling & other expenses in the quarter were Rs 1.2 billion, indicating, an increase of 10% over the corresponding period last fiscal. Total cost incurred by the Company in this quarter was Rs 6 billion, showing an increase of 61% over the corresponding period last fiscal.

During the quarter, the Company's operating profit (EBITDA) was Rs 2.2 billion, an increase of 43% over the corresponding period last fiscal. Operating profit margin stood at 27.2%. Finance expenses in the quarter were Rs 24 million, down 63% year on year. Profit before Tax stood at Rs 2.4 billion, while Profit after Tax before extraordinary items was Rs 1.6 billion representing an increase of 35% in both cases, over the corresponding quarter last fiscal.

I would like to highlight that excluding Sports Business, our operating margins are at 39%. You must appreciate that during the third quarter, the competitive scenario was very intense and despite that, we have had a very good operating margin.

I would now like to cover the business performance.

Zee TV, the network's flagship channel in the Hindi GEC genre, recorded average channel share of 19% and average weekly Gross Rating Points (GRPs) of 200. The performance was better in the *All Day Prime Time* band, where Zee TV averaged 141 GRPs during the quarter. The quarter saw the launch of *Dil Se Diya Vachan*, *Bhagonwali*, and *Apno Ke Liye Geeta Ka Dharmyudh*. The key events *Zee Rishtey Awards* and *Saregamapa Singing Superstar Grand Finale* were also showcased during the quarter. The key properties planned in the forthcoming quarter include *Dance India Dance Doubles*, *Sanskar Laxmi*, and *Choti Bahu (Season-2)*.

The network's Hindi movie channel Zee Cinema averaged 126 GRPs during the quarter translating to an average channel share of 27%. The key programming initiatives of the channel included *Malamaal Diwali* - a six day movie festival during Diwali week, *Mast Mast Akshay* - a film festival of

Akshay Kumar's biggest hits, and *Christmas Festival* - Disney films dubbed in Hindi.

The network's channels in the English entertainment and movies genres - Zee Café and Zee Studio underwent a re-branding exercise during the quarter and unveiled a new on-air identity and logo design. Zee Café garnered a genre share of 10% and launched various popular properties such *The Vampire Diaries*, *The Mentalist* and *Hells Kitchen UK Season 3*. The key highlights for Zee Studio were *Godfather Saturdays - Disney Animated Movies*, *Diwali special - Knock Out*, and *Thank God it's Friday*.

Zing - the network's music and lifestyle channel, and ETC - the Bollywood trade channel, continued to strengthen their position during the quarter. Zing and ETC produce over 2.5 hours of Bollywood content per day.

The quarter also saw the successful launch of Zee Khana Khazana, India's first 24 hours food channel. The Hinglish language channel would bring in a rich programming mix from across India and abroad featuring shows that define and refine the culinary expertise that has become synonymous with "Food".

The key highlights of the quarter for Ten Sports were *Asian Games*, *Ryder Cup*, *Shangai Rolex Masters* and *TNT NBA Basketball*. The key highlights for Ten Cricket were *Hong Kong Sixes*, *South Africa vs Pakistan*, *Sri Lanka vs West Indies* and *India vs South Africa Test series*. The key properties for Ten Action+ included *ATP World Rakuten Open* and *Asian Games*. In the forthcoming quarter, Ten Cricket would telecast the popular cricketing events like *Sri Lanka vs West Indies series* and *India vs South Africa Tests, ODIs and T20*. The sports business revenues for the quarter were Rs 1.7 million, while costs incurred were Rs 2 billion.

Zee's International operations undertook various initiatives to further strengthen its dominance in the geographies where it operates. In Russia, Zee CIS and Sistema Mass Media signed a Letter of Intent on cooperation in the field of TV content distribution and broadcast in India, Russia and several other countries. In Middle East, Zee Aflam garnered an all-time high viewership of around 39 GRPs in the Arab market. In Australia, four zee channels - Zee TV APAC, Zee Cinema, Zing and Zee Salaam were launched on Fetch TV. In the forthcoming quarter, in America, Zee TV would become available on CenturyLink platform, which is the third largest Telco in US.

We continue to see robust growth in the regional segment. Zee Marathi maintained its leadership position in Maharashtra market during the quarter delivering 209 average weekly GRPs with 33 of the top 50 shows and 68 of the top 100 shows. Zee Talkies, the network's Marathi movies channel, underwent a repositioning exercise with the channel now having a new tagline in '*Aapla Talkies, Zee Talkies*'. As part of the repositioning exercise, the channel would premiere a new movie every month apart from fresh and new packaging that enhances the movie watching experience for the viewer.

Zee Bangla averaged 383 weekly GRPs in the quarter, ranking a clear second in the Bangla GEC genre with a relative share of 33%. Zee Telugu averaged 344 weekly GRPs during the quarter and had a relative channel share of 18% in its genre. Zee Kannada averaged 178 weekly GRPs during the quarter.

The performance of Zee Network has been satisfactory on all parameters, despite intensified competition in the Hindi entertainment segment. During the quarter, our advertising revenues have grown by 62%, and we have seen healthy growth in cable revenues. DTH revenues also continued to grow, reflecting a growing adoption of digital DTH services.

We had a sports heavy calendar during the quarter including several soccer properties and multiple cricket properties showcased on our channels. That has resulted in an increase in our operating cost, which has not been matched by revenues during the quarter.

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

Rajesh Pal Thank you, sir. Ladies and gentlemen, we are ready for questions now. I would request all participants to kindly limit themselves to two questions each so that we can take as many people on as possible.

Moderator Thank you. Our first question comes from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy My first question is on the sports business. On the one hand, you're cutting back on your channels some properties which are not doing well and on the other hand, you're saying that there are some Cricket properties like India Sri Lanka, India South Africa. So are you evaluating further properties to be

cut and any carriage fees which was due to Ten Cricket being launched, due to that? So what's your strategy overall? You're cutting down on some properties and then you're also aggressive on the other Cricket properties.

Punit Goenka Abneesh, we cut down on the Indian Football properties that we had a contract, which as you know we had been running for last five years, but revenue possibilities on that have not been matching upto our expectations till date and we have taken a conscious call to cut that property from our portfolio for reason that we do not see it recovering even in the next years to come, given the way the sports has been running. We are not looking at cutting down any property as such from our portfolio beyond this as of now. But we do constantly keep negotiating with Cricket Boards and other suppliers of content on cost as well as the roster that one needs to put up. The second part is that there is no carriage fee that one has incurred on Ten Cricket because on sports business, we do not pay carriage fees. The only extraordinary expense would be that for the launch of the India South Africa test series, there was a marketing burst that was done in the month of December which was a one-time cost.

Abneesh Roy And when you said for South Africa tournament, the costs were high, will it be fair to assume that for the next two series which are coming up, cost versus revenue or on a cost per se itself, it will be lower compared to this quarter, Q3?

Punit Goenka I would say you are correct in your assumption because the formula as prescribed by the Boards for the test matches was heavily not in favor of the series coming up.

Abneesh Roy And my second question is on the Hindi GEC front. Zee TV has now come back to number three, but in the last few months, it has been number four also. So from that perspective and that you launching some more programs and heightened competitive intensity, isn't the overall margin scenario in the Hindi GEC space slightly more challenging now?

Punit Goenka Yes, you are right, it is challenging, but we continue to strive to do better. And as I had mentioned probably in a one-to-one earlier, that we would be increasing the number of hours of programming on Zee TV to take on competition in the right form.

Abneesh Roy Okay, I will come back if I have more. Thanks for this.

Moderator Thank you. The next question is from the line of Ritesh Poladia from Almondz Global. Please go ahead.

Ritesh Poladia Sir, any costs attached to the sports one time revenue of 70 crores?

Atul Das No, in this quarter, Ritesh, there is a no cost attached. But of course, as Punit mentioned earlier, that we had these rights for sometime and therefore on a quarterly basis or even on a yearly basis, there have been costs.

Ritesh Poladia Okay, so sports clear losses were about 100 crores?

Atul Das Yes.

Ritesh Poladia The standalone operation costs of goods and operations has gone up from 155 to 255 crores sequentially. So is that due to increasing number of hours or what would be attributed to?

Hitesh Vakil No, this is also covering the cost of cricket.

Ritesh Poladia No, I am talking about the standalone operations.

Hitesh Vakil Yes, standalone numbers also.

Ritesh Poladia Okay, in standalone also you will have it because those rights would be in Ten Sports.

Hitesh Vakil No, Ten Cricket comes under standalone operations. Ten Sports is the only channel under Taj TV Mauritius.

Ritesh Poladia Okay, so even Zee standalone numbers will have some form of sports revenue and cost attached to also?

Hitesh Vakil Right.

Ritesh Poladia Okay. That's all from my side right now.

Moderator Thank you. Our next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah I just want to understand the dynamics in the sports business. I understand this time when you had to launch the series, you had to do marketing with

costs associated with it. But would this be the case every time you launch a big sporting event? So how do we plan to manage this then?

Punit Goenka

Marketing expense - just to answer what was asked earlier also about one time carriage fee - has nothing to do with it. Of course every time there is a series, we will be marketing. There is no extraordinary item there. For the other part, I will ask Atul to answer.

Atul Das

Grishma, for your question on the sports ongoing outlook, as you know, in India, most of the sports broadcasters are actually not having a good margin on sports. That is more to do with the current structure of the business, wherein we have to pay a large fees for acquiring the rights and most of the viewership today is actually concentrated on one game, which is Cricket. Obviously, the cost of rights for Cricket are fairly high and the expectation is that over a period of time, the structure of the industry will correct itself because more and more subscribers are going digital.

As you know, in India, today on analog subscriber base if you're having a cable connection at your home, you pay Rs 200 or Rs 250 a month and despite the fact that any of us or any of our competition is showing very popular matches for which they have paid huge amount of cost, you don't really end up paying anything more in that particular month. So that prevents broadcaster from being able to monetize on the analog cable network in the manner that they should, based on the price that we pay. But as more and more subscribers are turning digital - as at the end of this quarter, we have 30 million DTH homes which are all digital - so in DTH we are able to charge a small premium on our sports business. As the country starts becoming more digital, it's more like 30% digital and 70% analog today. As we get towards a more digital subscriber base, the ability to charge a premium for sports business, which is how most sports business across the world end up making money, is much higher.

So that's one constraint from a structural perspective and of course in this quarter, what we've seen as a loss has been because the cost attributable to the India South Africa series was a large cost. And one thing you have to also keep in mind is that the India South Africa series in itself has two portions because of the time. Some part has come into third-quarter, some part has gone into the fourth quarter because that's currently on in January. Now, the third quarter had only test matches and that too not the complete one. They had two test matches and most of the other matches are coming up in the fourth quarter. So from a cost perspective, while a

good amount of cost has been booked into third-quarter, similar cost structures will get booked in the fourth quarter. But from a revenue monetization perspective, it's going to be better in the fourth quarter and as this India South Africa series ends, costs during the fourth quarter will come back to normalized costs on account of sports which have been high because of the high cost attributable to the South Africa-India series. But larger question of whether we will start making money on sports is something still not sure. It may not happen in the next fiscal, but at a definitely much lower level of loss. But whether it will be profitable or not, it's more difficult to say at this stage.

Grishma Shah And my second question is, we could see kind of a negotiation for the agreement with the DTH operators including Dish versus the others. Is that understanding correct or we have a different pricing between Dish and the others?

Atul Das No, there are a few DTH operators with which we have fixed contracts, there are a few to which we have a normal per subscriber contract. So it's a combination of both. We don't talk specifics about what are the quantum with each operator, but yes, that's the way our contracts are organized.

Grishma Shah Okay, and do these contracts then come for negotiations as the fiscal year begins?

Atul Das Actually, different contracts have different periods. But usually yes, it's an annual negotiation which happens.

Grishma Shah Okay, I will come back if I have more questions. Thank you and good luck.

Moderator Thank you. Our next question is from the line of Nitin Mohta from Macquarie Securities. Please go ahead.

Nitin Mohta I have got two questions. First, when Punit mentioned about tough competition in the quarters for content cost, was it only related to sports part or are we are seeing some pressure on programming cost from GEC. And the second one is on advertising outlook for FY12. Where do you think the industry would be and any insight on what we would be able to do?

Punit Goenka Yes, when I was referring to intense competition I was referring more to the non-sports business, which included Hindi GEC as well as the Regional GEC business, where one has seen a lot of activity in competition in terms

of big-ticket shows that were launched in the last quarter. But despite that we have performed well and we will continue to better our performance. Even though last quarter's average was just 200 GRPs on Zee TV, for this month, it's already averaging at 235 plus GRPs which is a good 15% growth already. I'm hopeful that momentum will be maintained. As far as the advertising outlook is concerned, we are hopeful that the industry growth of 14% to 15% should be achievable for fiscal 12.

Nitin Mohta If you think competition is so strong on the GEC side, just from that angle, where do you see content cost going to?

Punit Goenka The content cost has function of two things; one is a function of how much you pay per episode and how many hours of content you are going to have. So there is no mathematical formula when one has to see the number of hours that one is producing and putting on the air versus the kind of content. I did not use the word that the competition is strong, I said the competition is intense and we are doing all that we can to fight it.

Nitin Mohta Thank you.

Moderator Thank you. Our next question is from the line of Ritesh Doshi from First Global Securities. Please go ahead.

Ritesh Doshi I just wanted to know, many DTH operators have started providing a-la-carte to the subscribers. So how does this impact your subscription revenues?

Atul Das For whatever channel gets subscribed from Zee's network, obviously we get paid for that. So it depends on how the package is negotiated between the DTH operator and us.

Ritesh Doshi And also there is an increase in programming costs as well as staff costs. May be this is due to the merger of RGEC as well. But is it that the increase is also on the part of launch for the 24 hour food channel?

Atul Das Yes, there is a small cost attributable to that. If you were to analyze the change in cost structure on a YOY basis, I would list down 2-3 reasons for that. One large change is because of the consolidation of the regional entertainment network, which will probably be distorting the like-to-like comparison, but the other two reasons if I might call it major reasons are - one is the sporting cost which has come up. The incremental cost, a large

part of that is because of the sports event India-South Africa series and the likes that we discussed, and some amount of cost has definitely gone up because we've increased some original number of hours of programming on our entertainment channels. So that is something which has increased the cost and the programs have come on air and obviously as the shows catch on with the viewership, the monetization will happen with slight bit of a lag. So these are the three principal reasons. Of course, there are marketing costs attributable to the launch of the sports channels. There is the launch of the food channel, but they are smaller in the share.

Ritesh Doshi Okay, now what is the number of shows that you are having in top 50?

Atul Das Which channel?

Ritesh Doshi Zee TV

Punit Goenka It is in the range of 18 shows in top 100.

Ritesh Doshi Okay, thank you.

Moderator Thank you. Our next question is from the line of Siddharth Goenka from JM Financial. Please go ahead.

Siddharth Goenka Sir, just to understand the dynamics of sports business better, can we assume that whenever there is an India centric Cricket, there will be a high cost or high losses on it. We 've got the last quarter, we have the India - New Zealand and India - Sri Lanka series, the cost was very high and this quarter, it was almost double than that. So when we see the schedule of India centric Cricket coming on Ten Cricket, will the cost be so high, just to understand that dynamics well?

Atul Das Yes, when you acquire sporting rights of Cricket or any other game typically those matches within that, for example we have a South Africa board, which means we have rights to telecast all matches played in South Africa by any country. Let's say if England is playing in South Africa versus India playing in South Africa, the interest of viewership in India which becomes a large part of any stream from advertising is obviously higher and therefore ability to monetize is also higher and accordingly the cost structures are built. So your observation is right that when India series is on, the cost structure will be that much higher than any other series where India is not playing.

Siddhartha Goenka All right and can you tell us how much has been the marketing expense for the India - Sri Lanka pre launch promotional expenses. If you can give us any kind of number?

Atul Das We won't be able to talk about specifics on that.

Siddhartha Goenka Okay, right Sir. One more question I had on non-sports business wherein we delivered 39% EBITDA margin which has been very strong compared to the sports business. But this 39% margin has come in the peak festive season. So going forward, what kind of outlook on margin do you have from a non-sports business? I mean 39% is on a peak festive season which we have right now. Are we likely to stabilize that around 40% level or even lower that going forward on the non-sport business?

Atul Das Normally, during the festive season, we also have more programming and higher marketing cost. So I would say the margins at these levels are very reasonably good margins. In fact, there could be some dip in the operating margins on non-sports business because of the additional programming hours that are being introduced as we just mentioned earlier. That should get more than compensated because of the uptick in margins on the sports business, which is currently loss making.

So on a blended basis, if you exclude the non-recurring nature of 70 crores revenue, then you see our operating margins were at 20.4% this quarter and if you observe, the margin trend usually has been around 25% to 27%. But I think the sports business had very different cost structure for this quarter and probably it will remain to some extent in the 4th Quarter. But after that, it will become a normal structure and, therefore, we should see our margins coming back to 25% levels. Of course, every quarter depending on how the economic environment is. All of that will keep impacting, but sitting today, I would say that, that would be a fair assumption.

Siddhartha Goenka And sir, one more question is on the minority interest. Why is it so high? As Mr. Hitesh Vakil mentioned that the Ten Cricket is on a standalone basis, so why has our minority interest shot up so significantly on a QoQ basis?

Hitesh Vakil It's all as per the standard calculations and as a result, there was a minority interest which was calculated accordingly.

Siddhartha Goenka So going forward for forthcoming quarters, even if we have a sports loss, this kind of a minority interest will not be there?

Hitesh Vakil No.

Siddhartha Goenka Okay. And last question from my end. On the DTH in terms of yields, I believe, we ended with a yield of around Rs. 18 this quarter with a subscriber base of around 15 million, am I right on that?

Hitesh Vakil Yeah, that's correct.

Siddhartha Goenka So what is the outlook for the yield because we have been at the yield of around Rs. 20 which has gone down to around Rs. 18, so can you give any outlook on the yield basis, how can we see that trend?

Atul Das I think yield should now kind of stabilize at these levels for some time. But we have maintained in the past that yields will come down marginally over the period of time as DTH industry grows in size and due to the negotiated contracts that we have with some operators. Whenever those contracts come up for renegotiations, again the margin or the yield increase will happen. So these may happen over the period. But till the time that does not happen, yields may trend downward slightly. For example, if you look at the position in the DTH industry, they are choosing not to increase the ARPUs as of now and that will obviously mean that our yields will remain either stable or trend very marginally down. So if the industry decides that they have to increase ARPUs at their level, then we should also see a follow-through in our yields going forward. But as numbers stand, the industries stood at 30 million plus subscribers on a gross basis. We had a subscriber paying base of almost 15 million resulting in the yield as you said of Rs. 18.

Siddhartha Goenka Perfect, thank you so much and all the best for the future.

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

Vikash Mantri Just to understand on the sports business, what would be our incremental cost on the two channels that we have launched to understand the cost structure that we can build-in going forward?

Hitesh Vakil Only one channel - Ten Cricket is a new one. Ten Action+ is a renamed channel, earlier it used to be Zee Sports. So basically, we have the same cost structures on Ten Sports and Ten Action Plus, plus a new cost added on Ten Cricket.

- Vikash Mantri** Okay, and any quantum we can add so that that cost would continue for some time?
- Hitesh Vakil** It is linked with the event that we will showcase.
- Vikash Mantri** Okay. And on understanding the cost of rights for the sports business, is it linked to an India series or is it linked to which Board is playing because we would not be apportioning our rights based on which team we are playing but when a particular Board's match is getting played. So it has nothing to do with India playing with South Africa, even if South Africa is playing with some other country, we would have to write-off the same rights?
- Punit Goenka** No, it does not work that way. Each series has got the apportioned value to it, which is different.
- Vikash Mantri** But when you bid for, let us say, a five-year period, do we do it that way or we apportion it later based on which series are there?
- Hitesh Vakil** Valuation of each match is being done and accordingly bid is made and accordingly rights are given. Even in the contract also, a value for each match has been defined.
- Vikash Mantri** Okay. And sir, to understand on the overall cost structure, now that we have incurred close to this Rs. 2 billion loss in the sports business and it has been continuing, what kind of investments are we going to continue with this business or is there any particular level where we would say that we should not be in this business going forward because as you said the economics of the sports business as we continue to be a cricket playing nation, somehow do not tend to be favorable for a business.
- Atul Das** No, that remains an issue which will be answered over a period of time, Vikash. Obviously, we anticipated that situation will improve better and we will be able to monetize the series much better. So it has come much lower than our internal budgeting numbers and internal expectation. But we will continue to invest as a strategy. We definitely believe that sports has a huge value for us at the moment. In case it just does not change, we will take a call, but as of now because of the very favorable change in the subscriber demographics to digital, we continue to believe that. I think, in the next one or two years, the scenario on sports monetization will be very different. And it is a very well established fact that the highest premium pricing that happens anywhere in the world of any genre is on account of

sports, so there is no reason to believe that India will not follow that story. But given the current focus on maybe one sport which is cricket in India, what would be different after a few years is that the margin structure on sports will be probably lesser than many other countries purely because of this concentration on one sport. We are also hopeful there that the expansion in interest levels of viewers will go beyond cricket and if you really observe the schools and what the current younger generation is interested in, they are more interested in soccer and other sports than they are interested in cricket. There is a growing trend towards other sports.

Punit Goenka Also, if I may add to that Vikash, we have to look at Zee Entertainment as a network. We cannot just be focused that only in high performing genres. We, as an entertainment company, must offer content of every genre to all our viewers because that is one way we can play the market share game and that is the reason, we believe that sports is a critical part of our strategy at Zee Network to offer content.

Vikash Mantri Sure, perfectly fine.

Moderator Thank you. Our next question is from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah I had two questions both on sports. First is, when we do the valuation of individual matches, is it that the matches in the initial year of contract have a lower value as compared to the matches in the later year of the contract?

Atul Das Atul here, Bijal. It is based on the expected revenue potential of the matches going forward. So at that time, everyone who is bidding makes an assumption that these are the expected revenue streams from the matches and based on that, there is some assumption linked to subscriber base going up higher in the future and therefore, logically there would be some escalation clause from subscription revenue as we go on. But as a general rule, it is not linked to time flow and, therefore, cost being higher at the later year than the earlier year. For example, if a bigger India series is coming in the earlier year, then the cost structure will be higher in the earlier year, if the bigger series is coming in the later year, then it will be that way.

Bijal Shah No, but doesn't it take into account four years of aggregate inflation?

- Atul Das** Yeah, so all of that is built into the assumption. That is what I'm saying. If India series is coming in the first year, let us say, and a South Africa-West Indies series is coming in the third year, the first year value still maybe will be higher than the third year in the South Africa-West Indies. So it all depends on how the matches are organized.
- Bijal Shah** But per match value of say, in one match in say 2009, India-South Africa and similar match India-South Africa in 2011, or probably 2013 would not have a meaningful difference in the absolute dollar value which we amortize?
- Atul Das** No, if you are talking about the same series India-South Africa in 2010 versus 2013, probably 2013 would be expectedly higher.
- Bijal Shah** okay and basically is there a lot of discretion in the way we amortize or it is primarily exact value, which has been determined on the match-by-match basis that is only what we can amortize?
- Hitesh Vakil** As I mentioned, value for each match is predefined.
- Bijal Shah** So on taking on Vikash's question, if I look at your sports rights, two rights are coming up for renewal in 2011 and another two are coming up in 2013. So by now probably we would already be working on rights which are coming up for renewal in 2011. So if you can give us some idea with respect to what kind of sports losses we would be comfortable building our sports business that would give us a lot of comfort in overall our earnings estimate in making the assumptions. So if you can give us some idea that would be really great.
- Punit Goenka** Bijal, it is very difficult for us because we are in the processes as you rightly said, for all these contract negotiations and we are in the midst of a business plan exercise for the next year. So it is a little early for me to start commenting on what kind of losses to project in the future. We do expect the position to improve going forward. Whether it will be breakeven, I don't think so, not in the next fiscal. But definitely, the proportion of losses should be much less than this year.
- Bijal Shah** Yeah, because if I look at the number of cricketing days left of each of the sports rights we have, I think it is almost similar. It is 238 days versus 300 days of total. So I find it a bit difficult to understand that how losses will come down from here on.

Atul Das No, but that number of days does not give the clear picture, Bijal. As I was explaining, how many series and what value of the series, so I would say that one of the bigger costs attributable to the rights that we had was in the India-South Africa series and that will play through in the third and fourth quarters also. I don't know whether you were there when I explained that the third quarter we had only test matches for which the revenue potential is much lesser than in the 1-Days and the T-20s. So, in the fourth quarter, the 1-Days and T-20s are coming through. So hopefully our situation on the South Africa series itself will be far better in the fourth quarter than it was in the third quarter. And then as we go into the future, such high cost series are not really immediately in the horizon.

Bijal Shah Okay, thank you all.

Moderator Thank you. Our next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta My apologies if I am going to be harping too much on the sports side of it. But I am slightly confused. The beginning of the year, we had guided to a loss of about 58 odd crores or lesser because you said that we will do less loss than last year. But considering that this series was significantly successful in terms of viewership, etc, were we too optimistic when we had planned out in terms of revenue projection for the sports side of the business, because the cost would have been known to you upfront because if you know per match what is the value of expense on the P&L. So were the projections or expectations for revenues significantly more than what we actually have achieved?

Atul Das Well, on hindsight Ruchit, you could say that. Facts bear out that numbers are not coming. Also, there are a few things like the launch of Ten Cricket was delayed which was originally planned earlier and therefore, it took us time to get that established and a few issues which delayed the entire monetization. So yes, the facts bear out that our expectations were slightly large. But that is where we remain today. Obviously, if we anticipated this kind of loss we would have never guided a 55-60 crores number. We were looking forward to actually doing much lower than that number so it has been a bad performance on sports.

Ruchit Mehta So where do we look at capping losses at? The reason I want to compare this is that on the GEC side of it, we are pretty clear that we will not do large cost shows like KBC or a Big Boss because the ROI tend to be lower

but there is a positive ROI with at least in some of those properties have done well. But here my problem is that at least for the next year FY12, I do not see possibility of profitability and considering the way everybody seems to be bidding for sports properties, Nimbus after so many years has still not made a single rupee on the BCCI right? So where do we cap the losses on sports because as a management, you would have a figure on your mind. Well, I am not going to hold you to task if you over shoot it or under shoot it, but at what point do we say that we have had enough on sports. Maybe India is not a market which in foreseeable future can make money and let us cut our losses and get out of it.

Atul Das

Ruchit, to answer your question we all think that this year, sports losses are really on the higher side and this situation will not recur. But let us say, hypothetically if the situation remains worse then we will definitely take a call if we think in the long-term there is no future of sports. But we very strongly believe that in the long-term, or medium to long term, the sports genre has a lot of value because in any television business anywhere in the world, sports genre definitely has a lot of value. Whether they make 25% margins, 15% margins or 45% margins, it is something which varies across from market to market. And we believe given the current focus on one game. Probably, India will end up being on the lower side of the margin structure unless we are successful in diversifying the interest and therefore, having much more diversified revenue stream. But at the moment, we do not foresee that the business will not create value at all. If that was the call, we would have obviously taken the call to exit the business. But so far we do not think that is the call.

Ruchit Mehta

Okay thanks.

Moderator

Thank you. Our next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia

Just to continue with sports, at the beginning of the year, we were hoping to reduce our losses in the sports business from what we had in FY10 which was 58 crores. And from that expectation, we have swung to a nine-month loss of 200 crores. Something must have changed really big time in the assumptions for this thing to be that huge because we knew what rights and what events we were going to play. Some of them in the previous quarters we knew were unfortunate because the team structure was changed and stuff. But are there any big factors that we should watch out

for which can give us indicators of how and why sports profitability should move?

Atul Das

Miten, the reasons for which our assumptions probably went on the wrong side - one was because of the regulatory reasons Ten Cricket launch got delayed. In Ten Cricket launch, almost 4 to 5 months we lost because we did not have the permission. You must have read earlier that there was a time in between where the Government had stopped issuing new licenses for launch of channels. So because of that 4 to 5 months got delayed and that definitely has hampered the ability to monetize as it now shows. That is one reason. And the second is linked to that. Basically the way we roll out a channel and therefore, the ability to garner subscription revenue which is a premium part of the revenue that you intend to take from that channel. But as we have seen, the initial part was the test series. The test series does not excite as much the viewers to subscribe to a new channel, but as we get into this quarter and 1-Day series and T-20s come up, there will be far better monetization. That is why I said earlier in the call that fourth quarter should be relatively better off than the third quarter as far as sports is concerned.

Miten Lathia

Okay, so what we are saying is that subscription revenues for Ten Cricket as a channel should swing meaningfully from Q3 to Q4?

Atul Das

Yes, it will improve.

Miten Lathia

Okay. And one other thing that somebody else also mentioned was on the rights coming up for renewal. Is it possible for us to share what is the total amount, either as payment or as guarantees that we would have paid on all the cricket rights that we currently enjoy for whatever remaining period that we have?

Hitesh Vakil

This is very confidential information.

Miten lathia

No, as a summation. I am not asking for any individual cricket board but for all the five overseas boards put together. As on date, what is the residual value of those rights as a committed payment essentially that we would have to expense over the next 12 to 36 months?

Hitesh Vakil

Too specific a question.

Miten Lathia

Okay sir, I understand. No issues. Thank you very much.

- Moderator** Thank you. Our next question is from the line of S Natraj from Quantum Advisors. Please go ahead.
- S Natraj** I just wanted to know what is the debtor days at the end of the nine months and how has the thing changed between subscription and non-subscription revenues.
- Hitesh Vakil** Total debtors days are around 118 days.
- S Natraj** And any pressure from the DTH-based receivables and non-DTH-based receivables, ad spends, any points that you can share?
- Hitesh Vakil** No, it is general third quarter being high on revenue, that is on all accounts including advertising, and debtors has gone up in the same proportion. They share almost 50:50 ratio.
- S Natraj** Okay. And other one on the domestic side, you mentioned DTH is around 15 million. What about the analog subscriber base, how is that shaping up and how is the market shaping up that side?
- Atul Das** As you know, analog subscriber base is not something that we can talk on subscriber base numbers because it is a negotiated fee and it is not really linked to a subscriber base. So it is the revenue which is more important which we declare every quarter which if you look at third quarter which has gone by, the domestic cable revenues were 98.6 crores during this quarter. It is a slightly higher than last quarter which was 96.1 crores in the second quarter. It has been trending up well. In fact, better than what we had initially projected or estimated. But from a subscriber base angle, it will be difficult to give you an answer on that.
- S Natraj** Okay, thanks a lot. That's all from my side.
- Moderator** Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani** I had a question on the DTH. Is there some sort of a slowdown in the momentum as far as the DTH revenues is concerned because obviously the subscriber growth is happening? is it the composition of the bouquet which is being subscribed getting into some sort of change here?
- Atul Das** Hiren, earlier as you know, we had a fixed fee contract with Dish TV and much of the larger other players were under the subscriber basis contract.

We have also entered into a new fixed fee contract with another operator. Therefore, while on the one side, we will see some decline commensurate to the subscriber base growing because once you have fixed it, it will be fixed for a period of one year. But on the other hand because of digital subscriber base with the fixed fee in operation, more of our channels are available on the base pack of that operator. So we will have an uptick on the advertising revenue as well as more and more digital households are getting measured by people meter systems from TAM. It's a combination of these two things.

Hiren Dasani Sure. So it would be kind of not wrong to assume that the revenue growth will probably lag the subscriber addition on the DTH.

Atul Das This is what we have been maintaining always that you should assume the revenue growth which is slightly lower than in line with the subscriber amount till the step up happens. It is not like forever. Once the step up happens then either of the two things will happen - either we get into a new signed contract which will increase our yields or DTH operators themselves will increase their ARPUs which will then result into higher yield to us.

Hiren Dasani Yeah. And the other thing is considering that the entire festive season this year was in the third quarter, Q-O-Q advertising growth of about 6.5% to 7% compared to, let us say, last year in the similar quarter, even though the festive season was split between Q2 and Q3, you had about 9.5% advertising growth in the December quarter. Is there a slight disappointment there?

Atul Das It is difficult to comment on that. I think we are pretty satisfied with our advertising revenue growth, save for the fact that we could not monetize our sports as well. But apart from that, I think we are okay with the revenue growth which is, we believe, still slightly higher than the industry growth rate.

Hiren Dasani Okay, and lastly if you can give the numbers for the gross debt as well as the cash-in-bank balance?

Atul Das Gross debt in our books is around 911 million at the end of the third quarter and cash and cash equivalents is almost equivalent to 10.3 billion. The net cash we have is 9.4 billion.

Hiren Dasani Sure, thank you.

Moderator Thank you. Our next question is from the line of Amit Kumar from Kotak. Please go ahead.

Amit Kumar I just wanted to clarify one particular point. There has been some news flow in the past that we have separated our sports subscription business from our normal Zee bouquet. How do you essentially look at it? When we are talking about some of these fixed fee contracts, do they also include the sports channels or is this just for the Zee Entertainment bouquet and sports channels are counted separately?

Atul Das Amit, that is actually more of an operational nature of business. It does not affect the way the revenues are recorded or recognized. It is just that internally we have two separate teams - one selling sports and one other selling all other businesses. The way we organized this was purely because we believed that sports needed to be sold separately as a premium product and, therefore, it needs to be having a different organization structure regarding it. So that's the only reason why it is done. From a revenue perspective or from a cost recognition perspective, that doesn't matter. These are just two teams operating.

Amit Kumar Okay, I think during the call itself, you mentioned that internationally as well sports business is a lot more dependent on the subscription revenue fees. The reason why I am asking is that on the subscription side, if you are clubbing our sports channels along with our entertainment bouquet, in that sense, will we be able to scale up the entire bouquet with the subscribers because the situation that you mentioned that during specific sports properties where the subscribers are able to take up a sports channel, that may not necessarily even be possible in the bouquet scenario.

Atul Das I did not get your question, Amit.

Amit Kumar Okay, not a problem. I'll come back off-line on this. I just wanted to understand these two subsidiaries that you are merging, ZES Holdings and Zee Multimedia. What are the current operations of these two subsidiaries?

Hitesh Vakil Both are almost dormant.

Amit Kumar Okay. So what is the thought process behind merging them?

- Hitesh Vakil** Just a housekeeping exercise, we are trying to merge lot of dormant subsidiaries sitting in the books and we are working on some structuring around that.
- Amit Kumar** Okay and one final question, it is actually a very conceptual sort of a question. I think you mentioned that DTH's subscriber base number is around 30 million. TAM which is the primary rating agency in the country so far, they has also done some surveys and they have come out with a number of around 26 million. Now the gap is fairly large. So just wanted to understand where is this really coming from? Is it some sort of a gross versus net difference or what is this about basically?
- Atul Das** I really cannot comment on which data point is this for TAM. Have they referred it to December figures?
- Amit Kumar** I think they are talking about November figures, November 2010 is when they had done the survey.
- Atul Das** Because we follow our own internal estimates, which for example Dish TV being the leader, they have a very clear estimates of the numbers. So probably my assumption is could be a gross versus net number. But we are pretty confident of the gross number being correct. So this is a gross number we are talking about.
- Amit Kumar** So 30 million is the gross number?
- Atul Das** Yeah.
- Amit Kumar** Okay, thank you so much.
- Moderator** Thank you. The last question comes from the line of Sameer Naringrekar from BNP Paribas. Please go ahead.
- Sameer Naringrekar** Just one question in terms of the cricket sporting events lined up over the next two quarters. Any steps you have taken to mitigate any pressures on the non-sporting business?
- Atul Das** Sameer, I did not really understand. These are two different businesses, so they operate independently. It is just that they get consolidated and get reflected in our results. So there is nothing one can do to mitigate.

Sameer Naringrekar What we have seen in the past is that there is generally some shift of ad spends going from the GEC kind of businesses?

Atul Das Okay, sorry I did not understand your question. Are you referring to the future events which are coming up?

Sameer Naringrekar Yes, I am talking about the future events, World Cup and the IPL-4.

Atul Das Sure, I did not get that question. In the past, we have some data of what the behavior of viewership has been when the IPL event or any of these kinds of cricket properties have been on and definitely there is an impact which happens on the viewership. Every year that number varies slightly, so we cannot really comment what it will be this time. But the general expectation has been that the viewership base of a sports channel, which could be World Cup cricket, is more male oriented and therefore, does not really impacts so much the GEC channels. In the last event, I think it was a 7% drop that we saw while the event was on. Basically this means that some portion of the viewership definitely shifts towards IPL and such cricket properties, but not necessarily a large amount. So we cannot really predict what will happen this time when cricket comes up.

Sameer Naringrekar Okay thanks a lot Atul. Good luck.

Moderator Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Rajesh Pal for closing comments.

Rajesh Pal Thank you, Farah. Ladies and gentlemen, thank you again for joining us. We hope to have the transcript of the call on our website www.zeetelevision.com soon. We look forward to speaking to you again at the end of fourth quarter of fiscal 2011 or even earlier on a one-on-one basis. Thank you and have a great day.

Moderator Thank you. On behalf of Zee Entertainment Enterprises Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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