



Zee Entertainment Enterprises Ltd.
Earnings Conference Call

3Q FY2013 EARNINGS CONFERENCE CALL

January 23 2013, 1600 HRS IST

Moderator

Ladies and gentlemen good day and welcome to the Zee Entertainment Enterprises Limited Q3 FY13 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Kanwaljeet Singh. Thank you and over to you Mr. Singh.

Kanwaljeet Singh

Thank you Inba. 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 3rd Quarter of Fiscal 2013 and to share with you all the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you have had the chance to go through the earnings release and the results, both of which has been uploaded on our corporate website www.zeetelevision.com.

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

- Mr. Hitesh Vakil, CFO, and
- Mr. Atul Das, Chief Strategy Officer

We will start with a brief statement from Mr. Goenka on the third 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

Zee Entertainment Enterprises Limited

Continental Building, 135, Dr. Annie Besant Road, Worli, Mumbai 400 018, India
Tel: +91 22 2483 1234



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

Punit Goenka

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

ZEE's advertising revenues during the quarter were Rs. 5.09 billion, showing a growth of 29% year-on-year. This is on account of improvement in market share and performance. As most of you are aware, the advertising spends on television is not as buoyant this year and our performance is considerably better than the overall industry growth.

The total subscription revenues for the quarter were Rs 4.09 billion, registering an increase of 26% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenues stood at Rs 2.96 billion, while international subscription revenues were Rs 1.14 billion. Domestic Subscription revenues are up 33% yoy, whereas the subscription revenues from international operations are up 9% in rupee terms. International revenue growth, of course, has been aided by rupee depreciation.

On the cost front, programming & operating cost in the quarter was Rs 4.18 billion as compared to Rs 3.42 billion in the corresponding period last fiscal, an increase of 22% yoy. Employee cost has gone up by 22% over the corresponding period last fiscal. Selling & other expenses in the quarter were at Rs 1.69 billion, as compared to Rs 1.24 billion in the corresponding period last fiscal. Total costs incurred by the Company in this quarter were Rs 6.78 billion, an increase of 26% over the corresponding period last fiscal. I would like to highlight that this increase in cost is on account of substantial investments in content and marketing for the existing channels. We also incurred costs on account of new investments done over the last twelve months including Ten Golf, Ditto TV, HD channels, Zee Alwan, Zee Bangla Cinema and ZeeQ amongst others. This is in line with the Company's philosophy of investing in the business for the long term growth.



During the quarter, the Company's operating profit (EBITDA) was Rs 2.61 billion. The operating (EBITDA) margin for the quarter was 27.8%. Excluding sports business, the EBITDA margin stood at a healthy 32.5%. Profit After Tax (PAT) for the quarter stood at Rs 1.93 billion, a growth of 40.5% over the corresponding quarter last fiscal.

We continue to invest in our Sports business with a medium to long term perspective. We do expect losses to continue in the sports business for some more time to come but we are hopeful of seeing a much more improved performance in the years ahead. The Sports losses during the quarter were Rs 86 million.

As of December 31st, 2012, the Company has a gross debt of Rs 14 million and Net Cash of Rs 11.7 Billion.

We would like to highlight here that in connection with our legal claim against BCCI for termination of Media rights contract for telecast of cricket matches between India and other countries in neutral territories outside India, the Honourable Arbitration Tribunal has, in November 2012, passed as Arbitral award of Rs 140 Cr (approx.) payable by BCCI to the Company. The said receivable has not been given effect to in these results, pending receipt of the award amount from BCCI.

I would like to cover the business performance.

During the quarter, Zee TV averaged 198 GRPs recording a relative share of 19% among the top 5 Hindi GECs. The market share was even better in the Prime Time band, where Zee TV averaged 121 GRPs recording a relative share of 20%. The channel delivered a weekly average of 18 shows among top 100 shows during the quarter led by the top rated shows like *Pavitra Rishta*, *Sapne Suhane Ladakpan Ke*, *Qubool Hai*, *SaReGaMaPa* and *Fear Files*. Zee TV launched new shows *Qubool Hai* and *Aaj Ki Housewife Hai* during the quarter. Zee Rishtey Awards, telecasted on 2nd Dec, garnered a very good rating of 4.2 TVRs. The key shows and events planned in the forthcoming quarter include *India Ke Best Dramebaaz* and *Zee Cine Awards*.

The network's Hindi movie channel Zee Cinema averaged 113 GRPs during the quarter with a relative share of 32% among the top 3 Hindi movie channels. The key properties of the channel during the quarter were *Lage Raho*, *Shanivaar Ki Raat Sitaron Ke Saath* and *Cinema Hall*. The premieres



of *Joker* and *English Vinglish* on Zee Cinema met with an encouraging audience response and delivered good viewership ratings.

Zee Marathi delivered average weekly GRPs of 188 during the quarter recording a relative share of 34% among top 3 Marathi GECs. The channel delivered a weekly average of 8 shows among top 50 shows including top non-fiction shows such as *Dance Maharashtra Dance* and *Khupte Tithe Gupte*. The channel launched three new shows, *Radha Hi Bawari*, *Dance Maharashtra Dance* and *Khupte Tithe Gupte*. The quarter also saw the telecast of Zee Marathi Awards, which was well received by the audience.

Zee Bangla delivered an average of 428 GRPs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 38%. The channel leads the non-fiction genre with 83% market share. The channel delivered a weekly average of 4 shows among top 10 shows during the quarter led by the top rated non-fiction shows like *Dance Bangla Dance - Junior 2012*, *Sa Re Ga Ma Pa 2012* and *Didi No.1 – Season 4*. The top rated fiction shows include *Rashi*, *Saat Pake Bandha* and *Keya Patar Nouko*.

Zee Telugu averaged 334 GRPs during the quarter recording a relative channel share of 20%. *Super Mom* and *Aatah Juniors 6* were the top rated non-fiction shows. This quarter saw the premiere of block buster movie *Dammu*, which garnered an average TVR of 12.5. The channel also telecasted mega event *Zee Kutumbam Awards 2012* and a Diwali special event *Atom Bomb* in the quarter.

Zee Kannada averaged 226 GRPs during the quarter recording a relative share of 18%, driven by popular shows like *Radha Kalayana*, *Parvathi Parameshwara*, *Mummy No.1* and *SAREGAMAPA L'il Champs*. This quarter saw the launch of two new shows. The channel also aired *Zee Kutumba Awards* this quarter. Zee Tamil averaged 88 GRPs during the quarter.

The key properties on our Sports channels bouquet during the quarter included telecast of *New Zealand Vs Sri Lanka* series and *New Zealand Vs South Africa* series. *WWE* continues to be a strong property attracting audiences as well as advertisers. The forthcoming quarter would see the telecast of cricketing events like *New Zealand vs South Africa* series, *Pakistan vs South Africa* series, *West Indies vs Zimbabwe* series and *UEFA Champions League - Round of 16*. The sports business revenues in the third



quarter of FY2013 were Rs 1,078 million, while costs incurred in this quarter were Rs 1,164 million.

ZEE's International operations contribute a significant part of the Company's revenues. During the quarter, the Company undertook a number of initiatives to further strengthen its dominance. ZEE TV HD continues to stand out as the first South Asian channel launched in HD in the US. Zing was launched on Rogers, while Zee Salaam and Zee Tamizh were launched on Bell Fibe in Canada. Also, ZEE launched seven channels on the Indian Pack with TOT (IPTV) in Thailand.

We are experiencing good growth momentum across the network. Though advertising spends have been subdued for the media sector, we have yet again outperformed the industry. The subscription revenues during the quarter is the highest ever and with digitization rollout, will only improve in the medium term.

The economic outlook is much better today than it was at the start of the year. We are hopeful that this will have a better impact on the ad spends in the next year. The rollout of digitization would have a positive impact on the entire value chain including broadcasters, distributors and consumers. I am confident that our focused investment approach combined with better monetization of subscription revenues will enhance shareholder value in the years ahead as well.

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 gentlemen we will now begin the question and answer session. Our first question is from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy

My first question is on the advertising front where we have seen a 29% growth. If you see, HUL has spent around 20% higher and the other broadcasters which came out with numbers also had 20% higher revenues. We have gained market share based on numbers. So my question is if you could give in terms of regional channels and Zee TV where the growth has been higher. I am asking this especially because Zee TV's ratings quarter on quarter have seen some dip. Sa Re Ga Ma Pa has seen lesser viewership and so some clarity on that.



Atul Das

As you know, we do not give out specific channel wise advertising revenue numbers. Overall I think when we look at our yoy numbers, we have to compare the situation of our market share that existed in third quarter last year versus what exists in the third quarter of this year. As you rightly said various companies have reported their numbers, whether it is consumer companies showing their cost of expenditure on ads or other media companies reporting their ad revenues. So precisely it will be very difficult to answer on how much we would have outgrown the market but we believe that it has been a strong outperformance and 28.8% growth is definitely significantly over the industry performance as far as television revenue is concerned. I think what we can also say is that during the third quarter, there have been some uptick in advertising spends relative to the first and second quarter of this year, so third quarter was definitely slightly improved over the first two quarters but our performance has been better than the industry growth.

Abneesh Roy

One follow-up question on that, if you see the peer comparison on programming side, SAB TV clearly has got a very strong positioning on the comedy and they are getting reasonable GRPs on the content cost they deploy. Similarly Sony has got a very strong positioning on the crime genre. We have got one program on Crime but comedy seems to be completely missing out. So if you could give us some clarity on why we are not targeting this, what is the game plan on that?

Punit Goenka

Abneesh I do not think you have seen the latest show *Aaj Ki Housewife Hai*, it gives some flavor of comedy there.

Abneesh Roy

Okay, so we are serious on this genre?

Punit Goenka

Abneesh you see we are a general entertainment channel therefore we have to give a healthy mix of all kind of content and as I have said in the past these soaps are our staple diet. We have brought in reality shows, we have *Fear Files* which is a differentiated content that we brought in and the Muslim social drama *Qubool Hai* was another new offering from our bouquet. Recently we have launched *Aaj Ki Housewife* which has got a flavor of soap as well as comedy. I think we will represent a healthy mix.

Abneesh Roy

My last question is on the subscriptions, if you see a new trend which is emerging, post digitization in those markets English Movie channel seems to



have gained market share on a small base and news channels have seem to lost market share. This could be because of better availability of English movie channel. So wanted to understand once now Phase II digitalization also picks up, how are we placed to gain or lose from these trends and what is your thought process on these trends?

Atul Das

Abneesh, as far as penetration of channels is concerned some of the smaller channels are termed as niche because they address a niche audience. They would definitely gain post digitization. Earlier if they were not available on all networks, with the capacity increasing after digitization these channels would be easily available to the consumers. So therefore it is very likely the trend that you said, some of those niche channels will have better viewership going forward because their accessibility to the consumer is on an increase. So I think we recognize this trend and we are also building our products accordingly. If you have noticed that Zee Café has actually turned as the #1 English Entertainment Channel during the quarter which was a big improvement over the last few years of performance. So all these trends are reflective of how we are also positioning our products.

Moderator

Thank you very much. We will take our next question from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta

My first question was on the margin front, if I can get your thoughts for the next two to three years, what is the comfort band on margins for both consolidated company level as well as the ex-sports business?

Atul Das

Nitin, as you have seen our consolidated margins for the three quarters put together this year is about 26% and we have in the past said that our overall margins this year would be slightly affected because of our investments. As we get into the next year and forward, we will see improvements in margin coming through as a combination of two or three things. One is better realization on the subscription revenue front. Second is improvement in the performance of sports business, which is a trend of lowering of losses at least in the last two to three years. Third is, once these new investments we are making start turning positive and generating revenues. So I think precise guidance would be difficult at this stage but we would be seeing in the next two to three years an improving trend of margins.



Nitin Mohta

On the advertising front our team obviously has done a great job taking market share, I just wanted to understand from here on how much more juice is left? Is it going to be more market share driven or do you think since the economic outlook has picked up it is going to be broadly in line with where the industry growth is?

Atul Das

It is a very apt question. The out-performance which happened due to our market share gains is mostly reflected by now. I do not think one can continue this kind of out performance for a longer period. Now it will depend on how the market forces move in terms of overall ad spends in the industry and also our further performance on the market share. I think we will soon see our revenues coming in line with the industry performance.

Nitin Mohta

If I heard it correctly you guys are more positive on the ad environment now versus a quarter ago?

Atul Das

This is linked to how we feel about the economy. I think there are enough reasons to believe that at least the slowdown is bottoming out and we could see an uptick going forward. So that is the reason for the slight positivity there. We firmly believe that ad revenue per se in India have been very under-priced and hence corrections have to come. For medium to long-term perspective we are pretty positive on the ad revenue growth.

Moderator

Thank you very much. Our next question is from Shobhit Khare of Motilal Oswal Securities. Please go ahead.

Shobhit Khare

Sir first thing is I wanted to understand on our margin guidance, earlier we had given a guidance that probably FY13 margins would be flattish but we have again done good margin performance in this quarter. So just wanted to get your thoughts on that, how do you look at the margins now?

Atul Das

Shobhit, I think what we had said in terms of maintaining the margins was coming on the back of the new channels and the new products that we were launching as well as higher number of original content hours that we were putting on several of our channels. Most of that has played out the way we thought. I think our performance on the revenue front has been slightly better so we have done a little bit better than what we had planned. But I do not think that you should take the third quarter as the only reflection of the full year numbers. We still have some of these investments playing out in the coming quarters.



- Shobhit Khare** Right but there is no postponement of the investments, they have gone through and it is just because of better revenue buoyancy that we have seen a better margin performance.
- Punit Goenka** Well Shobhit what Atul talked about was a key factor. The other thing to be noted is that the investments have happened at different periods over the year. The full impact of these investments will be seen next year where the full year period will go through.
- Shobhit Khare** And sir in our subscription revenue line have we seen any benefit from the Phase I digitization?
- Atul Das** Yes of course. Subscription revenues have done very well. If you see it is the highest ever quarterly revenue for ZEE and much of the growth has been driven by domestic subscription revenues. It is difficult to split the exact number coming out of digitization but bulk of the 25.6% growth that you saw in subscription revenues has come from domestic subscription revenues which have grown 33.2% to Rs.296 crores. Here I would like to highlight that if you strip out the Rs.50 crores number included due to accounting change which happened in the fourth quarter of last fiscal and compare on a like to like basis the growth is about 23-24% on domestic subscription revenue, which itself is a very strong growth number. Some of that has come about purely from the digitization angle which is post Phase I and some of it is an ongoing thing which was happening even earlier through voluntary digitization through DTH. Of course a better realization of revenues through the joint venture of MediaPro has also helped and positively impacted the revenues.
- Shobhit Khare** Sir my last question is on industry ad growth. What do you think would be the growth in FY13?
- Atul Das** If you remember last quarter we had said that industry ad growth was about 8% to 9%. I think that has slightly improved during the third quarter because of a good festive season, it is not a normal season but at least some uptick there. So the industry growth would have come up to about 10% or so.
- Shobhit Khare** Sir any outlook for next year?
- Atul Das** Still early, we are in our planning cycle. Hopefully it should be slightly better next year but cannot say so far.



- Moderator** Thank you. Our next question is from Ankur Agarwal of Nomura. Please go ahead.
- Ankur Agarwal** Quickly in terms of content cost, I just wanted to assess ex-sports content cost next year. Do you see them stabilizing because this was the year of investment and secondly do you see sports losses widening because you have got a high profile India-South Africa series when India travels to South Africa next year. Any guidance around sports losses, next year would they be higher than this year? Any guidance around that would be helpful.
- Punit Goenka** Well on the sports losses for next year, as Atul just said, we are still in the process of detailing the plans for the next year. So may be in the next call we can give you a better color on that. It will be stable, apart from any new investments that are going in.
- Ankur Agarwal** Sir, do you see domestic subscription growth continuing in the same vein as we have seen so far, given that Phase II is ongoing and Phase III would also start. So how do you see benefits of digitization accruing to us in FY14 for example?
- Atul Das** Ankur I think a broader aspect that one should understand here is that larger part of the growth will unravel in the Phase III and Phase IV of DAS as the government has mandated, because the number of subscribers in the Phase III and Phase IV are pretty large. Phase I had some upside because DTH was not well penetrated in first phase. Phase II has a reasonable amount of penetration from DTH and then Phase III and Phase IV have a far bigger upside. So it is a combination, the uptick will be there on subscription revenues as we have seen. Quantum whether it remains the same or it is higher or lower is pretty difficult to say at this stage specially because of the delays in adherences to the timelines of digitization as seen in Phase I. Phase II is underway but it has a far larger number of cities to be covered. So we are all very hopeful that it should happen as per the deadline. The improvement will be far bigger in the Phase III and Phase IV is what we can comment right now.
- Ankur Agarwal** You mentioned that you have been surprised on the revenue front. So has bulk of the surprise emanated from the advertising or the domestic subscription stream has also been a surprise. So are we looking at margins higher than what you had guided to earlier for FY13 as well?



- Atul Das** Ankur I would say we did better than what we were initially anticipating and it could be also because of the delivery of various new programming that we started. So it is a complex set of things that happened to finally deliver the numbers. So I would say that yes, we have done slightly better on the margins front so far, but our investments continue.
- Moderator** Thank you very much. Our next question is from Mayur Gathani of OHM Group. Please go ahead.
- Mayur Gathani** I just wanted to have an idea on the programming cost that has seen some dip in this quarter compared to last quarter. So what is the reason behind that?
- Atul Das** Sports is one big contributor. As you know last quarter we had far bigger number of sporting events. So on a sequential basis we did not have that much cost in the third quarter and therefore the total programming cost has seen that comfort.
- Mayur Gathani** So similar could be the reason for advertisement also because there it is slightly drop quarter-on-quarter?
- Atul Das** Absolutely.
- Mayur Gathani** If I understand it correctly the margin for nine month period is approximately 26%, so can we consider this as a base going forward for the next couple of years or so?
- Atul Das** We were just answering the question a little while back, last fiscal our EBITDA margin was 24.3%. Initially we had mentioned to everyone that we will be more or less ending at those levels of margins for the full year of fiscal 2013. What it seems like now is that we have done slightly better than expected.
- Mayur Gathani** Coming back to the programming cost if we keep the Sports aside, there still has been a growth in the expense of programming because you would be increasing the content cost in the flagship channels as well as Tamil?
- Punit Goenka** Yes absolutely.



- Mayur Gathani** So we tend to increase that because these are investments that we are making right now.
- Punit Goenka** Yes, on the flagship there is only marginal increase left but on the Tamil etc there is still a long way to go.
- Moderator** Thank you. Our next is from Vikash Mantri of ICICI Securities. Please go ahead.
- Vikash Mantri** Ex-sports without taking sports cost our costs have risen just by 4%, so the investments in Alwan, Zee Q, Ditto, India.com have just been taken care by this 4% growth.
- Hitesh Vakil** Investments are happening in all the quarters and are not restricted to Q3 only. Some of it is reflected Q1 and Q2 numbers and some of it will come in the Q4 numbers as well. One would not get the correct picture by just comparing Q2 and Q3 in isolation. Many initiatives started in Q2 are taking a higher and higher cost, quarter-by-quarter with more number of programming hours. As a result cost will definitely be going up in Q4 on these channels.
- Vikash Mantri** Sir another question is post the digitization, the TAM currency seems to have moved here and there. Whereas in the flagship channel we have lost some rating points, we have considerably gained in Marathi and Bengali. If you look at some peers in Marathi and Bengali they have taken 40% dip in their ratings. So is the new currency that is now established by TAM the one that advertisers will use or there is still a lack of conviction in these new numbers that have come about?
- Punit Goenka** Another change in the universe is expected on 6th of February.
- Vikash Mantri** Okay so till then this is the new currency that is being used?
- Punit Goenka** New currency? I did not understand, it is the only currency.
- Vikash Mantri** In Mumbai our ratings dropped by 37% or as low as 135 GRPs in week 2. So is that acceptable or is it just a deviation kind of a thing?
- Punit Goenka** To analyze two or three weeks' data and draw conclusion is very difficult. As I have always said Vikash, until one sees 8 to 12 weeks trend, one cannot really pass judgment on it. So if you see the number has been fluctuating



week on week let the thing settle down. 6th February another universe change is coming. After that we will analyze and see what the exact changes are.

Moderator Thank you. Our next question is from Nilesh Surana of Mirae Asset Management. Please go ahead.

Nilesh Surana Sir my question is on the investment and new initiatives like HD, Golf, Ditto, Alwan, etc. I think in the last call cumulatively you had indicated a number of about Rs.150-180 crore for the current fiscal. So is it in the same band and any indicative for next year and also if you could help us understand when this all new investment put together could peak either on absolute term or as a percentage of cash generating properties?

Punit Goenka The number for the year still stands around Rs.150 crores. As I said earlier the planning for the next year is underway as we speak, so I will be able to give you finer details only in the next call. But the investments generally turn around between 3 to 5 years.

Nilesh Surana And just to dwell a bit more on this we need to balance the near term profitability with longer term investment as you mentioned 3 to 5 years, so when would it sort of peak out or it is very difficult say?

Punit Goenka As I said some investments peak out in the third year while some can take as long as five years.

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

Siddharth Goenka Sir my first question is on the advertising growth. This quarter there was a big festive season which came up, so just wanted to understand the trend what you have seen in December and January. Is the trend encouraging, just overall ad volumes?

Punit Goenka In fact the season was early this year, so December was not really the peak month which normally we expect.

Atul Das Third quarter from an industry growth perspective has been slightly better than the trends that we have seen in the first two quarters. Now let us watch how the next quarters pan out as it is difficult to make a prediction for the



fourth quarter very precisely. We do not give guidance on a quarterly basis. But as we said looking forward to the next 12 to 15 months we are hopeful that we will be slightly better off than what we were in the last one year.

- Siddharth Goenka** And which sectors have contributed to the growth apart from FMCG?
- Atul Das** Consumer durables have done well. Relative to last year if you look at the trends, then automobiles have done well, lifestyle products have done well, internet-based companies have put in lots of advertising. So, all of these segments have seen growth.
- Siddharth Goenka** Sir just one last question in terms of the dividend payout because given that our buyback price is way back from the current market price and we indicated earlier that we will be coming out with better payouts, so any indication if you can give for this year or will it be like 28-30% level only?
- Punit Goenka** We have to meet the Board for that so we cannot really give guidance on that front.
- Moderator** Thank you very much. Our next question is from Rajiv Sharma of HSBC Securities. Please go ahead.
- Rajiv Sharma** First of all, just wanted to know if you have been able to take any rate hike over the last quarter or two? Second, if you can quantify that how much of this subscription revenue has come from Phase I and/or otherwise if you can tell us that how much is coming from MediaPro the incremental growth? And the last is, is it in your plan to consider another Tier-2 Hindi GEC given that competition like Star and Sony already have done it and they are raking in good revenues with 130-135 GRPs? So if you could throw some color on these three questions please?
- Atul Das** On your first question on the rate hike, it is very difficult to precisely give quarter wise break up. It is fine to say that we have been able to take rates higher relative to last year. What you see as an outperformance of ZEE vis-à-vis the industry has come in a large part due to the rate hike that we could manage relative to competition and that has been applicable for the entire nine month period. On the second question which is subscription revenues, MediaPro is responsible for all of our domestic revenues whether it comes through cable or DTH. So all of the domestic revenue growth that you see comes from the efforts of MediaPro and it is difficult to really split how much



of it came because of Phase I of digitization and how much otherwise. Phase I of digitization has definitely aided the growth. We have anyways been monetizing the subscription revenues more efficiently than in the past because of the formation of MediaPro JV. Also there was already digitization happening on a voluntary basis through the DTH subscriber numbers. As you know there are more than 50 million DTH subscribers on a gross basis and the net subscriber base is closer to 30-million plus. So there has been some level of digitization which we have been getting benefit of and plus Phase I has added to it. I know it is not a precise answer but that is the way it can be best explained. Coming to your third question which is on the Hindi GEC Tier-2 product I do not think we will like to answer that specific question but as and when we see the right opportunities we keep looking at new products and we will definitely update you if there are any plans.

Rajiv Sharma

Phase I in terms of subscriptions have the MSOs and cable operators started renegotiating with you with the improved declarations in the Phase I market specially Mumbai, Delhi. Are you seeing those trends which means that when everybody is expecting that first quarter FY14 the revenue flow will actually come from the MSOs, at that point of time you will already have recovered a good bit of that.

Atul Das

In a true sense the total digitization in Phase I has still not been completed, while the boxes have been placed into the homes, the subscriber numbers are yet not fully captured in the system and therefore not available to the broadcaster. So that will take another month or so and then we will be able to see the complete transparency in terms of subscriber numbers and what packages consumers are subscribing to. Till that part we already have contracts with various operators and based on that we are getting our revenues.

Rajiv Sharma

And lastly what will be your inventory utilization on the Hindi GEC channel?

Atul Das

As you know we don't split channel wise detail.

Moderator

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

Bijal Shah

I have one question with respect to our investments. Just want to know what exact amount of investments have been made already in first 9 months vis-à-vis guidance of Rs.150 to 180 crores?



- Atul Das** Bijal, we do not give out quarter wise numbers on that but I would say we are more or less on track. So, in terms of our phasing for the full year we have incurred some of the expenditure as we had planned. Also the Rs.150 crores that we had talked about is not really the amount of investments, it is the cumulative losses on investments in the new businesses that we have started which will generate revenues also.
- Bijal Shah** So when we say cumulative loss it will be say spread over 2-3 years?
- Atul Das** No, current year. Cumulative for the four quarters.
- Bijal Shah** Rs.150 crores of losses is what I understand, cumulative for four quarters. So basically investment would be slightly higher and there are some revenues also.
- Atul Das** Yes.
- Bijal Shah** But looking at the numbers and doing back of envelop calculation, it suggests that it is much lesser than probably what run-rate of Rs.150 to 180 crores would suggest. So if you can give us any color on how much losses we have incurred in the first 9 months?
- Atul Das** I would not be able to give a precise number but close to Rs.100 crores would be the losses in the first 9 months.
- Bijal Shah** And I understand your planning exercise for FY14 is yet pending, so as your losses actually increase as you keep investing through the year, should we expect a slightly higher loss on new initiatives in FY14 or we will see similar because some of the investment which you have made earlier will become profitable?
- Punit Goenka** Bijal let us complete our planning exercise for FY14.
- Moderator** Thank you very much. Our next question is from Riken Gopani of Infina Finance. Please go ahead.
- Riken Gopani** Sir just had one question more in terms of advertising growth being driven, is it more FMCG sector driven or is it more well spread growth across various sectors that you are seeing in the market right now?



Atul Das See by definition FMCG accounts for a very large percentage of the total ad spends but FMCG and consumer durables put together would be about 60% plus of total ad spends on television across the channels. We have also seen growth coming from consumer durables this quarter specifically from automobile segment, from the internet-based companies, from lifestyle products and jewellery. So we have seen a broad based growth that it is not driven by only one or two segments.

Riken Gopani Because more importantly with the other segments we have not seen them actually reporting good revenue growth or volumes, be it consumer durables or even with the automotive segment. So when we are seeing good revenue traction from these segments as well, is it a trend that you have seen that ahead of weakness in their own volumes also they would want to spend more on advertising?

Atul Das Some of it could also be colored by the fact that we have done better than the industry growth, so it may not necessarily be reflective of the entire industry spends. May be some of these segments have spent better on our network than relative to others but that I would not be able to answer very precisely.

Riken Gopani Sir any color on what price, since we have had a price increase mainly on account of ratings and performance yoy, what would have been industry rate card improvement this year that would have seen?

Atul Das Difficult to comment on that.

Riken Gopani And what is your outlook for next year for Zee specifically?

Atul Das We are slightly better placed this year and are hoping for the next year numbers to be better than this year. However there is no precise way to put a number to that. We are currently in our planning cycle so hopefully by the end of it we will be able to give you a better handle of what we think should be the next year.

Moderator Thank you. Our next question is from Srinivas Sheshadri of CIMB. Please go ahead.

Srinivas Sheshadri My first question is on the regional business. I understand from your release that you premiered a fairly big movie in Telugu during the current quarter, so



particularly given the fact that in regional movie remains one of the most popular genres, should we expect a significant kind of step in those kind of investments as we go forward for the next one to two years?

Punit Goenka We have been spending aggressively on acquiring of films and I think we will continue to do so going forward as well.

Srinivas Sheshadri But nothing like out of the ordinary in terms of the plans for the next one to two years?

Punit Goenka Well new markets like Tamil will add further to it.

Srinivas Sheshadri And second thing is just referring to a previous answer, when you mentioned that the non-sports cost should be stabilizing in the FY14, I could not quite catch that. When you mean stabilizing do you mean that the cost inflation would be a normal 12% to 15% kind of thing or are you talking about stabilization in absolute numbers?

Punit Goenka Yes so it will be inflationary in nature.

Srinivas Sheshadri So one should see building a normal kind of cost inflation?

Punit Goenka Yes.

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

Amit Kumar My first question very broadly is that could you give us some color in terms of the new investments that you are making, how are they doing, what kind of a traction are you seeing in this operationally? And what are the operating metrics that you sort of use to track the various investments, in terms of mass channels like Zee Cinema Bangla or niche channels like Zee Q and your international operation Ditto TV and Zee Alwan as well?

Punit Goenka Each investment is at different stages of it's life cycle. I can tell you for sure that some of the investments are over-performing compared to our expectations. Some would be on par and there will be one or two which may not be as per what we had planned. Would you want me to go into each?

Amit Kumar Yeah, if at least the top 2-3 investments like Ditto TV and Zee Alwan and Zee Q if you could talk about these three investments?



Atul Das

You would have seen the launch of ZeeQ recently. It is an unique product and targeted at a very specific audience set and we are actually tying up with various schools to get this channel demand from the students and teachers as well. So the traction is taking place. It is a high-priced premium product priced at Rs. 82 for the subscriber per month. Over the next six months or so we will see performance once it is available on digital platforms. Currently it started with Videocon and Dish TV and very soon it will be carried by other platforms as well. So once it is available on all platforms then the subscriber numbers and the detailing would be more relevant to capture. But from the feedback that we have got from various schools or from parents of kids has been very positive. Coming to Zee Alwan, it is a channel which was launched a few months back and it started showing up in ratings, GRPs have started doing well but still only a few months of launch and therefore early days as far as detailing of the costs and revenues are concerned. The channel has started to perform as per its original plan in terms of getting the GRPs and viewership share in that particular market. It is a fairly large market. We have a product called Zee Aflam earlier there which has done extremely well. So we want to ensure that Zee Alwan also succeeds in a similar manner.

Punit Goenka

Ditto I can tell you, if you remember our press release it talked about 1 million users have Ditto on their personal devices. I can tell you that as of December we had about 7,00,000 people who have downloaded Ditto TV and we have an active base of 70,000 subscribers who are paying us on a month-to-month basis. So that should give you some color.

Amit Kumar

Just one detail on Ditto TV, out of the 70,000 subscribers how many would be in India and how many would be coming from international markets?

Punit Goenka

As of now all of these are in India. Our international launch is actually delayed.

Amit Kumar

Oh is it? I thought you had already launched in UK.

Punit Goenka

Yes, we are testing still, it has not gone commercial. As I said in my last call that we are still testing in UK and we have to go for the commercial launch yet.

Amit Kumar

My second point was with respect to the sports business, we have seen a fairly sharp improvement on a 9-month basis itself versus the 9 months of the previous fiscal and we have seen a sharp improvement in terms of losses



coming down. What would be the key driver that you would attribute this to? Is it improved advertising, improved subscription? The costs are under better control now because one thing which we can clearly say is that the rupee-dollar rates has been quite adverse and most of the content cost in that business are essentially in dollar terms.

Atul Das

On the sports business our performance has been largely to do with the revenue front. Cost is really not so much that we have been able to change because the rights are already pre-decided at the right cost. So the revenues on the subscription front have been growing pretty strongly. Advertising also has been monetized for each of the events very efficiently and therefore I think we are slightly again better off on the sports business than what we had initially thought of for the full year. And on next year one of the callers had asked we have a far bigger sports calendar with South Africa series also coming up, so the cost will also jump. We can give you more precise numbers only later once we are through with our planning cycle but the fact remains that we have improved substantially on all sports business as we had targeted.

Amit Kumar

My final point, just a housekeeping question, what would the net cash level in the company right now?

Hitesh Vakil

The cash and cash equivalents are about Rs.11.67 billion and debt is 14 million.

Moderator

Thank you very much. Our next question is from Rohit Dokania of B&K Securities. Please go ahead.

Rohit Dokania

Now that 9 months have already passed for the sports business, could you throw some light on what kind of losses would be incurred for FY13? I am asking for this fiscal year.

Atul Das

We have initially talked about a number that we should be containing at under 100 crores. We should safely be within that limit.

Rohit Dokania

Could you just quantify the fresh hours of programming on the flagship channel on a sequential and a year-on-year basis?

Punit Goenka

Currently we are at 29.5, next year we are targeting to take it up to about 32 hours.



- Rohit Dokania** And sir could you also say what this was on a sequential basis if you have it handy?
- Atul Das** This quarter we have increased about 2.5 hours of programming.
- Rohit Dokania** On the contract of MediaPro with Dish TV, have we started booking the revenues or are we waiting for the renewal to happen and only then we will also start booking the revenues in Q4?
- Atul Das** The new agreement has not been signed.
- Punit Goenka** Just to clarify, we are booking on the basis of the old contract. Any upside we have not been accounted for.
- Moderator** Thank you very much. We will take our last question from Miten Lathia of HDFC Mutual Fund. Please go ahead.
- Miten Lathia** On the new initiatives, we have quite a big line up last year and so far this year. Are we largely done in that initiative or you think the incremental pipeline that you are building up would be of an order similar to what you have done in the last 12-18 months?
- Punit Goenka** Well again Miten as I said we are in a planning process for next year and that is something we are considering as part of our pipeline for the next year as well. So nothing concrete I can give you today, which is to say that we will be investing additional to what we have done this year. I can only share that with you next quarter.
- Moderator** Thank you very much. I would now like to hand the floor back to Mr. Kanwaljeet Singh for closing comments. Over to you sir.
- Kanwaljeet Singh** Thank you again for joining us. We hope to have the transcript of the call on our website, www.zeetelevision.com soon. We look forward to speak to you again at the end of fiscal 2013 or even earlier on a one-on-one basis.
- Moderator** Thank you very much sir. Ladies and gentlemen on behalf of Zee Entertainment Enterprises Limited that concludes this conference call.

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