



Zee Entertainment Enterprises Ltd.
Earnings Conference Call

1Q FY2013 EARNINGS CONFERENCE CALL

July 23 2012, 1200 HRS IST

Moderator

Ladies and gentlemen good day and welcome to the Zee Entertainment Enterprises Limited Q1 FY2013 results conference call. As a reminder for the duration of this conference all participants' 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 phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Kanwaljeet Singh from Zee Entertainment Enterprises Limited (ZEE). Thank you and over to you Mr. Singh.

Kanwaljeet Singh

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 1st Quarter of Fiscal 2013 and to share with you the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you have had the chance to go through the earning's release and the results, both of which have been uploaded on our corporate web site www.zeetelevision.com.

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

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

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

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refers to our outlook for the future is a forward looking statement and must be taken in the context of the risks that we face.

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

Punit Goenka

Thank you Kanwaljeet. I would like to welcome everybody to this call and appreciate your joining us for the discussions on the results of the First 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 4.47 billion, showing a growth of 18% yoy. This is reflective of the improvement in our market share and performance. As most of you are aware, the advertising spends on television is not as buoyant this year, and our performance is considerably better than the overall industry growth. I will talk in detail about our improvements in the market share later, but we are pleased with the performance. I would also like to dispel any thoughts about a one-off item in this performance.

The total subscription revenues for the quarter were Rs 3.64 billion, registering an increase of 19% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenues stood at Rs 2.5 billion, while international subscription revenues were Rs 1.14 billion. Domestic Subscription revenues are up 21% yoy, whereas the subscription revenues from international operations are up 17% in rupee terms. International revenue growth, of course, has been aided by rupee depreciation. In constant currency terms, the revenue continues to be flat.

On the cost front, programming & operating cost in the quarter was Rs 3.76 billion as compared to Rs 3.42 billion in the corresponding period last fiscal, an increase of 10% yoy. Employee cost has gone up by 19% over the corresponding period last fiscal. Selling & other expenses in the quarter were at Rs 1.45 billion, as compared to Rs 1.25 billion in the corresponding period last fiscal. Total costs incurred by the Company in this quarter were Rs 6.1 billion, an increase of 12% over the corresponding period last fiscal.

During the quarter, the Company's operating profit (EBITDA) was Rs 2.33 billion. The operating (EBITDA) margin for the quarter was 27.7%. The



expansion in margins is due to higher advertising as well as subscription revenues. Excluding sports business, the EBITDA margin stood at a healthy 34.2%. Profit before tax (PBT) for the quarter stood at Rs 2.52 billion, a growth of 48% over the corresponding quarter last fiscal. Profit After Tax (PAT) for the quarter stood at Rs 1.57 billion.

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 210 million.

As of June 30th, 2012, the Company has a gross debt of Rs 13 million and Net Cash of Rs 11.83 Billion. I would like to highlight that during the first quarter, the Company has bought back Rs 593.5 million worth of shares.

I would now like to cover the business performance.

During the quarter, Zee TV averaged 215 GRPs recording a relative share of 21.2%. The market share was even better in the Prime Time band, where Zee TV averaged 122 GRPs recording a relative share of 23.1%. The channel delivered a weekly average of 23 shows among top 100 shows during the quarter led by the top rated fiction shows like *Pavitra Rishta*, *Punar Vivah* and *Mrs. Kaushik* and the non-fiction show *Dance India Dance Li'l Masters*. Zee TV launched new shows *Phir Subah Hogi* and *Sapne Suhane Ladakpan Ke* and extended its Prime Time on weekends with *Fear Files* in this quarter. As you all know, the channel garnered 252 GRPs in Week 28' 2012 on the back of enhanced traction with viewers. We hope to continue the journey of improving our market share.

The network's Hindi movie channel Zee Cinema averaged 127 GRPs during the quarter. The key properties of the channel during the quarter were *Lage Raho*, *Shanivaar Ki Raat Sitaron Ke Saath* and *Cinema Hall*. The premier of *Agneepath* on Zee Cinema met with tremendous success and delivered good viewership rating. This quarter saw the launch of *B Se Big B Film Festival* and *Dopahar Zee Cinema Par Film Festival*.

Zee Marathi delivered average weekly GRPs of 185 during the quarter recording a relative share of 28.3%. The top non-fiction shows in the quarter were *Maharashtrachi Lokdhara* and *Dabba Gul*. The channel launched three



new shows, *Tu Tithe Me*, *Dabba Gul* and *Maharashtrachi Lokdhara*. The quarter also saw the telecast of *Fu Bai Fu* and *SaReGaMaPa 2012* grand finale.

Zee Bangla delivered an average of 342 GRPs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 31.4%. Zee Bangla was the No.1 channel in Non Fiction and in the Digital C&S4+ market during the quarter. *Rashi*, *Keya Patar Nouko* and *Saat Paake Bandha* were the top fiction shows, while *Didi No.1 – Season 3*, *Mirakkel Awesomesala & Dadagiri Unlimited III* were the top non-fiction shows for the quarter. The key properties launched in the quarter were the latest season of *Didi No. 1*, *Sati* and *Bangla Sera Paribar*. The quarter also saw the telecast of *Zee Bangla Gaurav 2012*, a mega award show based on cinema, literature, drama & music.

Zee Telugu averaged 329 GRPs during the quarter recording a relative channel share of 19.5%. *Chinna Kodalu*, *Muddubidda* and *Kalavari Kodallu* were the top fiction shows on the channel during the quarter. *Luckku Kickku* and *Chittam Chittam Prayachittam* were the two top rated non-fiction shows. The channel launched two new shows *Punarvivaham* and *Nene No.1* in the quarter. Another highlight of the quarter was the telecast of a special event *Okariki Okaru*, events featuring screen couples, which garnered good ratings.

Zee Kannada averaged 217 GRPs during the quarter recording a relative share of 17.4%, driven by popular shows like *Radha Kalayana*, *Parvathi Parameshwara*, *Panduranga Vittala* and *Oggrane Dabbi*. This quarter saw the launch of *Rajkumari*, *Reel Star Real Kathe* and *Halu Jenu Nanu Neenu*. Zee Tamil averaged 84 GRPs during the quarter, driven by popular shows like *Chinna Marumagal*, *Solluvathellam Unmai*, *Aahaa Enna Porutham* and *Luckka Kickka*.

The key properties on our Sports channels bouquet during the quarter included telecast of *Pakistan Vs Sri Lanka series*, *West Indies Vs Australia series* and *UEFA Champions League Finals*. WWE continues to be a strong property attracting audiences as well as advertisers. The forthcoming quarter would see the telecast of cricketing events like *India vs Sri Lanka series*, *Pakistan vs Australia series*, *UEFA Champions League*, *UEFA Europa League* and *US Open*. The sports business revenues in the first quarter of



FY2013 were Rs 992 million, while costs incurred in this quarter were Rs 1,202 million.

ZEE continues to dominate the International South Asian business globally with majority market share. In America, Zee TV continues to be Number 1 South Asian channel with Zee TV HD feed introduced in this quarter. In Europe, a new agreement was signed with Your TV for a pan European IPTV service. In Africa, Zee TV became the first ethnic channel to be monitored by TAM in South Africa and was positioned within Top 50 channels out of the 120 rated channel list. In MENAP, Zee Cinema was the Number 1 movie channel in UAE among All South Asians.

ZEE has started the year on a good note with improvement in the operating performance in Q1FY13. Our portfolio has done well both in terms of viewership and ratings. In line with our focus of investing in content and programming, we have launched new shows in the quarter, which have been well received by the audience. In the next few quarters, we will continue to invest in making our content stronger and also build new businesses. The current slowdown in economy notwithstanding, we are confident of the continued growth of the business from medium to long term perspective. Our investments in the business are with a view to capture a large part of the growth prospects through disciplined investments.

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. The first question is from Abneesh Roy of Edelweiss Securities, please go ahead.

Abneesh Roy

My first question is on the market share expansion which has happened in Zee TV, our flagship channel. If you can give us some color on the 18% ad-growth, how important has been the market share expansion across many of your channels and how much is the contribution from stronger TV sector, for example FMCG is much stronger in print. Why I'm asking this if you see, the ad-growth has been negative to very low single digit while you have reported 18% growth. So some color on that and follow-up, on the market share expansion, is there anything available in MediaPro agreement that if your market share expands for a reasonably long time there could be upsides and



vice versa there could be downsides because last year when you have signed MediaPro your market share was low in many of the genres that's the first question.

Punit Goenka

Abneesh for the first part, I don't know if today, you have had a chance to see the GroupM advisory on the ad-growth for this year. They have revised their forecast down from 12% to 6.6%. This should give you a color of what is the benefit of market share expansion vis-à-vis the industry growth. Beyond this I will not be able to give you more details and on the MediaPro side, no there is no such downside or upside that is factored into the agreement. It is a fixed contract that we have and the revenue share is from that formula.

Abneesh Roy

My second last question is on the South Indian markets especially Tamil market, we are hearing that you also now see an opportunity and what is the long-term strategy in Karnataka and Andhra markets, that is a fragmented market, but normally you are number one or number two in most other markets so some color on Andhra and Karnataka also?

Atul Das

As Punit said in his opening remarks, we are looking at expanding our market share in most of the genres and I don't think we can talk about what our targets are at this stage. In general one can say that we are looking at growing our market share. Tamil market is an opportunity everyone knows and we are also looking at that option. Similar is the case for Telugu and Karnataka. So in Telugu we have grown our market share though marginally in the last four quarters by about 2-3% percentage points and in Kannada it has been a fluctuating case where we have hovered between 16 to 18%. So our effort is to go on and build those market shares.

Moderator

Our next question is from Shobhit Khare of Motilal Oswal Securities, please go ahead.

Shobhit Khare

What is your outlook on the ex-sports margins which you mentioned are 34%? Should we be able to maintain that through the year? Second question is on domestic subscription revenue, if we exclude the one offs then what is the quarter over quarter growth? How has it behaved?

Punit Goenka

Shobhit as I said in my opening remarks there are no one-offs in this quarter that we are reporting. Everything is business as usual. On your non-sports business as I said earlier, given the volatility in the advertising market barring



that the margin should be maintainable. That is the non-sports business you're talking about, right?

Shobhit Khare

So given that you mentioned about investment etc so should we be able to project 34% for the year?

Atul Das

Shobhit, we are increasing our investments on content across-the-board. In the first quarter we have commenced ramp up of programming. As seen almost at the fag-end of the first quarter we have launched two new shows. This launch of new shows is continued to be planned for the coming quarter as well and therefore the cost will increase. Non-sports margins will largely depend on how the economic environment is from advertising perspective, but yes costs are going to increase so there is likelihood that margins could be impacted. Our approach to doing the business continues to be the same as what we would have discussed about three months back. That has not changed.

Shobhit Khare

My second question was domestic subscription in the fourth quarter we had a bunched up number because of addition of previous quarters and change in reporting so on like to like how it has fared domestic subscription?

Atul Das

If you look at last quarter it is an accounting change, Rs.50 crores of revenue booked in the fourth quarter was actually revenue for three quarters. If we set that aside and make it as like to like then fourth quarter revenues from MediaPro consolidation would have been about Rs.15 to 17 crores and not Rs.50 crores.

Moderator

Our next question is from Hiral Desai of I-alpha Enterprises, please go ahead.

Hiral Desai

If I look at the annual report for 2012, the rest of world revenues are reported at about Rs.1,150 crores whereas our international subscription revenue would be about Rs. 400 crores so would the rest be from Sports channels or English Channels which are owned abroad or how does it add-up because that is a huge number?

Hitesh Vakil

Rest of world numbers definitely includes international subscription, international advertisement, syndication revenues and various other revenues.



- Hiral Desai** The other is, just wanted to check out the programming cost increase likely for the year because for the first quarter it is only 10% and we have a few sports properties lined up plus the investment and content is going up so any sense on the full year programming cost number?
- Atul Das** We won't be able to give you specific numbers here. As I was just answering the previous question, yes, our programming costs are likely to increase and they would be subsequently followed by revenue increases because we are increasing the number of hours of programming. We will take some time to build that slot, it could be a new slot and therefore there could be a time gap between incurring of the cost and realization of the revenue. Barring that it should be on a normal basis.
- Hiral Desai** The tax rate for the current quarter is about 43.6% so I was just wondering why it is so high and what would be the full-year number?
- Hitsh Vakil** Tax provision for the quarter is largely dependent on the profit before tax earned by subsidiaries in the respective tax jurisdiction. Though that composition can keep changing, on an annualized basis we will have a provision of around 30%.
- Moderator** Our next question is from Vikash Mantri of ICICI Securities, please go ahead.
- Vikash Mantri** We had put in five more beams into new channels in our International, Zee Marathi, Kannada, Zing and Zee smile so is the benefit of that in terms of higher subscription revenue expected to come in the next few quarters, how would that pan out?
- Atul Das** Vikash the additional services that we are providing is more of a value add to our existing customers. Yes it will add to some revenues but I don't think it will be a very big change.
- Vikash Mantri** In our annual report we have trade receivables from Veria to the tune of 90 crores, is there some sales made and what is the nature of this?
- Hitesh Vakil** These are not sales made to them, but there are certain expenditures which we have decided to debit to them. Hence we have now reported them as recoverable from Veria which will be recovered during the course of time.



- Moderator** Our next question is from Deepan Shankar of HSBC Invest Direct, please go ahead.
- Deepan Shankar** I just want to understand the performance of MediaPro and how it has helped to improve our subscription revenues?
- Atul Das** The MediaPro revenues are reflected as part of our subscription revenues. Just to clarify, our subscription revenues have two components. One component is international revenues derived from our markets outside of India and the other is domestic subscription revenues. Domestic subscription revenues have two components, one is the sports component and other is non-sports revenues. MediaPro is responsible for generating revenues for all channels except sports in the domestic market. So in that sense whatever domestic revenues that you see, a large part of that is because of the MediaPro joint-venture.
- Deepan Shankar** What is your view on the implementation of digitization per se, they have set the target as October and if it gets implemented and if the subscribers do not subscribe for the same then any miss would hit our GRPs during the festival season so what is your view on this thing?
- Punit Goenka** Digitization is imminent, it is going to happen and from what we understand the government is very clear on the November 1st deadline. As far as the question of customers not taking up the digital set-top boxes, I think that is a matter which impacts the entire industry uniformly so there is no harm to one entity, one broadcaster versus the other.
- Deepan Shankar** So you think this time it will happen?
- Punit Goenka** I think it should happen, I can't predict the future but the industry is looking at actually implementing it by November 1st.
- Moderator** Our next question is from Siddharth Goenka of JM Financial, please go ahead.
- Siddharth Goenka** First question is, can you throw some light what is the original programming hours at this point of time and how much is it likely to move up going forward?



- Punit Goenka** Currently we're at about 25 to 26 hours of original content on the flagship channel; it varies for regional channels from 30 hours to 40 hours. We intend to take the content hours on flagship channel up to about 32 to 34 hours by end of this year, depending on how the market shapes up.
- Siddharth Goenka** If you look at the non-sports cost what we did in fourth quarter it is down by around 6% on sequential basis. Any particular reason because if you look at the non-sports cost in fourth quarter it was some Rs. 5.2 billion, it is down to Rs.4.9 billion?
- Punit Goenka** There would be some events which have caused that like Zee Cine Awards etc which could be the cause of that.
- Siddharth Goenka** That was only reason behind this?
- Hitesh Vakil** There were a lot of high cost movies screened in the fourth quarter last year. On non-sports business by and large the costs were more on Zee TV due to increase in the number of programming hours, Zee Cine Awards and high cost movies.
- Siddharth Goenka** This quarter also we had very high cost movies like Agneepath.
- Hitesh Vakil** But certain events and other high-cost movies were more in the fourth quarter as compared to the first quarter
- Siddharth Goenka** Earlier we had given our sports losses guidance of around Rs.65 to Rs.70 crores for the year and we have already done Rs.24 crores in first quarter and within that we have more cricketing series especially India centric cricket coming up so are we maintaining this guidance or it will be higher going forward?
- Punit Goenka** Firstly the first Quarter loss is only Rs.21 crores.
- Atul Das** Siddharth, on the guidance on the sports losses, what we are maintaining is that we should have a far better and a far improved performance compared to the last year. While we ended up with Rs.148 crores of losses on sports last fiscal, I think in fiscal 2013 we should be having a substantially improved number. Focus on a single number would-be difficult as there are many factor impacting sports and therefore it is very difficult to pinpoint a number.



But from whatever the targets we have set for ourselves at the beginning of the fiscal we will continue to maintain that and there is no change.

Moderator Our next question is from Aashish Upganlawar of Spark Capital, please go ahead.

Aashish Upganlawar Just wanted to know this 18% of ad-revenue growth and it show that is more because of the GRPs coming back in Hindi but any sense that you can give us on how the regional language channels are performing overall on an ad-revenue growth basis compared to Hindi ones?

Atul Das The regional segment is doing better, though nothing very substantially different but it continues to be strong.

Aashish Upganlawar Though we don't give profitability of the different genres, but some sense on whether the regional genres would have better margins compared to Hindi on the overall content?

Atul Das Again as you rightly said that we don't give specific margins but to give you a sense that the margins are in the similar zone, we can't give a very specific number but they are all profitable and they are in the similar zone.

Aashish Upganlawar One more thing on this Tamil genre, do you really think that the market is worth putting good money because the political scenario could change the game so do you still think that it's worth pushing a lot in terms of making mark in this market?

Punit Goenka It is the second biggest market after Hindi. In advertising terms alone it is approximately Rs.1,500 crores per annum. It is definitely a market that we can't ignore as a broadcaster and hence it is something that we have consciously decided to go after.

Aashish Upganlawar But what kind of money can be put behind that because it seems it is highly competitive as far as the movies and the other content is concerned overall.

Atul Das It will be a steady kind of approach. We are not going for some big bang action there. We have been developing our business for the last couple of years, we have seen improvements there in the last one or one and half years and we will continue a steady approach there.



Moderator

Our next question is from Bajrang Bafna of Sunidhi Securities, please go ahead.

Bajrang Bafna

My question pertains to the domestic subscription revenue, can we get a breakup of the domestic subscription revenue between DTH and digital side, the analog side if you could provide that and how will that trajectory pan out over the period of time once we see that digitization is through and this analog mostly comes into this digital mode if you provide some sense on that as how that part is going to shape because currently your entire analog is based on the negotiation mode so once it comes to the digital mode how that particular trajectory will pan out?

Atul Das

We are unfortunately not able to split the revenue numbers between cable and DTH anymore. We used to give that break-up about a year back. Since our revenues are now handled by MediaPro which gives us the license fee, we are not able to really split out DTH versus cable. Just to give you a sense on a broad term our cable revenues and DTH revenues are more or less similar. The trend in future will very much be dictated as to how digital market moves in the first phase of digitization which as of now is expected to be done by October end, and then another 38 cities we will go for digitization as per the current deadlines by March 2013. So given that scenario and depending on how many households actually opt for digital cable versus DTH, our revenue trajectory also could change in terms of how the growth will happen. But suffice to say that both the revenue streams are doing well at this stage and we are confident that our domestic subscription revenues will continue to grow as we have seen in the last three to four quarters.

Bajrang Bafna

The only thing which I want to understand is currently if you talk about the DTH market which is close to 41 million subscribers and if we will talk about the analog it is close to 90 million subscribers and at the point of time maybe in 3-4 years' time this 90 million subscribers will get added to digital or maybe DTH but currently as you rightly pointed out that your DTH and analog subscription revenues are more or less similar but the major subscribers are currently sitting in the analog mode so can we see that over a period of time the frame changing and once the negotiation becomes the upfront payment like what TRAI has recommended that things could be much more favorable for the company?



Atul Das

Digital revenues will definitely increase. So if we forget for one moment whether it will be cable or DTH, if digitization mandate is followed through, in the next three to four years the entire country goes digital then obviously our digital subscriber base will increase quite substantially. You rightly pointed out that there are about 47 million plus gross DTH subscribers but they are not really paying subscribers because there is a churn there. The paying digital subscriber base on DTH would be closer to 30 million mark and a few million are on the digital cable right now. Of course this total number will increase quite substantially over the next three to four years and as you know the digital revenues are far more beneficial for the broadcasters purely because of the transparency, you get paid for every subscriber so that trend will be very positive.

Bajrang Bafna

On the net basis because currently in the analog mode we are paying the carriage also so on a net subscription revenue basis would these carriage go away from the system in next 3-4 years time and the net subscription revenue goes up substantially?

Punit Goenka

Carriage fee is going to be a reality even in the future, even in the digital form but it will definitely reduce from the current high levels as you know that the analog systems can handle only 70 to 90 channels at best, that's where the negotiation power is in the benefit of the cable operator or the MSO. Going forward as per the DAS mandate where they have to put up systems for 500 channels, it is definitely going to reduce. But carriage fee is a global phenomena and it could exist even in India going forward.

Moderator

Our next question is from Amit Kumar of Kotak Institutional Equities, please go ahead.

Amit Kumar

In terms of this advertising growth you broadly mentioned market share expansion as a key driver but if you were to look at specific programming or specific channels which would you say have been a dominant factor in this particular quarter?

Atul Das

Again we are constrained because we don't talk about specific businesses. You have the GRP data as it is published, so you can get all the numbers and you can see how the performance has been. I think across-the-board our performance is improved but we will not be able to talk about the revenues as to which have contributed more on it.



- Amit Kumar** On the sports business side I'm just a little bit surprised by the trend in sports cost structure, your third quarter sports cost was about Rs.100 crores, it jumped up to almost Rs.185 in fourth quarter, it has again come down to Rs.120 crores, so was there almost a Rs.60-70 crores kind of delta in start-up cost of Ten HD and Ten Golf, is that the right way to look at it?
- Atul Das** No it is not 60 crores delta, fourth quarter also had sports matches.
- Amit Kumar** Which high cost property was there in fourth quarter, could you recall?
- Atul Das** The full basket, we did not have an India match but we had a full basket of properties across the board. Of course not to exclude the fact that there was Ten HD and Ten Golf content as well, but it is not entirely Rs.60 crores.
- Amit Kumar** Would it be possible to put some sort of a number to start up costs of these two channels?
- Atul Das** It will probably in the region of Rs.25 to Rs.30 odd crores, just a ball park number.
- Amit Kumar** My final question pertains to again something on the balance sheet essentially, almost 25% of the cash with the company is present in this Socrates Money Market Fund based out of Bermuda and the Company doesn't really have any operations there. It seems to be fairly opaque fund as well as geography. So any thoughts on this essentially what was the idea behind choosing this fund?
- Hitesh Vakil** It is a standard fund as any other fund registered out of Bermuda and operating out of any other country and these are liquid funds. We can withdraw it as and when we want and that's what we have been doing over a period. We don't see anything opaque about that.
- Amit Kumar** Since there is not too much of information available about this fund?
- Hitesh Vakil** These are all liquid funds available at the disposal of the company and we are in the process of liquidating also as and when the need arises. We are earning good return out of that.
- Amit Kumar** A little offshoot of that I understand this buyback is in operation but the maximum price of the buyback is Rs. 140 and the current market price is



over and above that so what are the payout plans for the future, does that imply that company is going to increase dividends going forward or is it that the maximum price of the share buyback itself will go up?

Atul Das

We have talked about in the past also, dividend policy and announcement of dividend or decisions of the dividend rests with the Board so we won't be able to comment here right now. But yes we have substantial cash on our books, we have a certain investment requirement for the business and as we have said in the past that probably barring about Rs.800-900 crores for any possible investment or ramp up in our businesses or potential acquisitions, we have cash which can be distributed to shareholders whichever way the board decides.

Moderator

Thank you very much. Our next question is from Meenakshi Dawar of IDFC, please go ahead.

Meenakshi Dawar

I was just looking for some more clarity on advertising revenue as we have shown a very good growth of 18% if you can throw some light on what kind of volume growth are we seeing and what is the kind of trend on the pricing side?

Atul Das

Let me talk about the industry first, from the industry perspective which is TV ad industry, I don't think this quarter or around this time we have seen too much of rate increases coming through but again relative to the industry since we have done better we would have seen a mix of rate increases as well as some volumes.

Meenakshi Dawar

Is it possible to give a sense in this 18% how much will be from value term and how much will be from volume term?

Atul Das

As you know in our flagship channel "DID Little Master" one of our non-fiction shows has done extremely well, it was the number-one show and obviously has led to improvements in rates as well as revenues. Revenues have been positively impacted for us vis-à-vis the industry.

Meenakshi Dawar

Also you were mentioning before that outlook for advertising most of the people have downgraded the outlook, what is the sense to you for the year-end for industry as a whole, how much more can we expect on advertising?



Atul Das

Since the start of the year our growth expectation for television advertising based on how the economy is going and how the environment is shaping up, is about 7 to 9%. While the economy has continued to show numbers which are not so good, we still maintain that this is a zone we should end up in for television advertising. We are talking about the industry as a whole and the market as a whole for this year unless of course things worsen as we move on. The festive season definitely is a more pronounced indicator if the trend is to reverse. As of now we would want to maintain that.

Meenakshi Dawar

Would you like to highlight any specific sector that you believe will be doing better and are doing better?

Atul Das

From an industry perspective some of the sectors which are not doing so well and have seen a slowdown in ad-spends are concerned include telecom, autos, banking while, FMCG continues to do well and most of the traditional advertisers on television which include FMCG and consumer durables have continued to do well.

Moderator

Thank you. Our next question is from Riken Gopani of Infina Finance, please go ahead.

Riken Gopani

Basically I wanted to understand in FY12 what would have been ZEE and industry's ad revenue growth?

Atul Das

In FY12 we had actually lost some market share and our ad revenue growth was almost negligible. Industry would have seen a very marginal growth so we were, may be, just about little lesser than the industry. If you look at FY12 numbers of ZEE, there were three reasons for which our revenues got impacted. One was of course the industry slowdown impact compared to FY11, second was the fact that we had lesser sports properties in FY12 compared to FY11 and therefore naturally our revenues were also lesser on sports and third was some impact of market share that we lost.

Riken Gopani

Primarily why I wanted to ask you this is the delta seems to be quite large on the positive side this time around whereas when we had a loss of market share the revenue loss wasn't that large so just wanted to understand how exactly does this play out given that there has been a strong 18% revenue growth on market share gains whereas the dip wasn't that large when you lost market share so if you could throw some more perspective on this?



- Atul Das** I would say that we have tried to be as efficient as possible.
- Riken Gopani** But you wouldn't put any relationship as to how should this work in general over a long-term period?
- Atul Das** This has a lot to do with the portfolio and we do emphasize time and again that we have a portfolio of about 30 channels and that helps us tide these gains and losses in different segments, so the numbers are reflective of how the whole bunch performs. Right now in this quarter our performance is more or less good across-the-board and that is reflective of the strong growth. Last year we had some misses in our market share targets so that was the reason why we saw some stress on some segments but the regional had continued to grow, so it was the combination of how the portfolio has done.
- Riken Gopani** On the movie buying budget, do you share that number as to what would be your budget for this year and how was it last year?
- Atul Das** Last year's number is published in our annual report, so last year we did about Rs.328 crores of movie buying. Every year we have some target in mind but it depends on the availability and quality of the movie and the pricing. It is not a fixed number in our mind. But if you get the right movies at the right price, we think we will have a higher spend on that or depending on how you assess the environment. So it can be anything between Rs.100 to 250 crores.
- Riken Gopani** So definitely not larger than the FY12 budget?
- Atul Das** Yeah.
- Riken Gopani** Lastly on the sports losses just wanted to understand one more thing, there is obviously an impact of the rupee this year on that. But despite that impact we are guiding that it would be lower than what it was last year by quite a large amount. So just wanted to understand what would be the positive impact that you see on the sports business?
- Atul Das** On the sports business, Forex impact is something that we cannot predict or it is not built into our forecast so if the Forex fluctuation is far more severe than the numbers definitely could fluctuate. But given our performance today, I think we continue to be confident of the improvement that we have talked



about. Again I will highlight that it is not a specific number but a substantial improvement over last year.

Riken Gopani And assuming the current Forex rates if they move from here on it is a different story but at these levels they won't change, is that the right way to look at it?

Atul Das Yeah.

Moderator Our next question is from Rohit Dokania of Batliwala & Karani Securities, please go ahead.

Rohit Dokania Just two related questions, one was that if I see your domestic subscription revenue on a like to like basis has declined about 4.5% so what could be the reason for that, subscription revenue declining on a quarterly basis?

Atul Das In the domestic subscription revenue last quarter which is the fourth quarter in FY12 we had some accounting changes.

Rohit Dokania I understand but I'm saying on a like to like basis if I put Rs.16 crores to Q4 after removing the Rs.50 crores so on a like to like basis it has declined by 4.5%.

Atul Das That number is difficult to compare on a sequential basis for every quarter, purely because in our domestic business revenues can be lumpy based on how our contracts get negotiated. So every quarter all the contracts which are due usually get signed up at the appropriate time. Depending on when they get signed revenues can get recognized in a particular quarter which includes revenues for previous months also. So to that extent there could be some lumpiness in revenues and therefore we would probably want to look at it more on an annual basis rather than a sequential basis. Therefore the annual trends are more reflective of all the businesses across.

Rohit Dokania If I remember in the last quarter con call you have said the domestic subscription revenues should grow somewhere around mid-teens to 20s number so is that the number we are still looking at?

Atul Das We don't talk about the specific number so I don't recall about talking on mid-teens but generally the environment seems to be positive because of the digitization happening and because DTH continues to grow at a certain pace



so I guess there is some positivity on the subscription revenues going forward on the domestic side and that we will continue to maintain. So if you look at the last 3-4 quarters we have seen that trend.

Moderator Thank you very much. Our next question is from Grishma Shah of Envision Capital, please go ahead.

Grishma Shah Given the increase in the market share that we have seen, do you think that we will be able to outperform the targeted ad-revenue growth for the industry?

Atul Das If we continue to do well which is how we think we will be running our business, yes it is likely.

Grishma Shah And there is something called as other sales and services you have revenue breakup that you have given can you explain what is that as that has been doubled year-on-year?

Atul Das The other sales and services component are actually revenues that we get from sources other than advertising and subscription. A big part of that is syndication revenues so whatever content we have in the library, we syndicate it to other networks and derive revenue from the same.

Grishma Shah But will it be fluctuating in the quarter, what is it?

Atul Das Yeah it will continues to fluctuate every quarter depending on the syndicated content. A big part of that is also Sports so depending on what rights we have in a particular quarter and what can be syndicated the numbers will keep fluctuating. These are business revenue numbers; these are not any extraordinary or any other non-operating numbers.

Moderator Thank you very much. Our next question is from Akash Manghani of Girik Capital, please go ahead.

Akash Manghani One question on digitization, I just want to understand how your profitability will shape up over next 3 to 4 years once the entire analogue base is digitized you indicated that for this year you will be able to maintain ex-sports margins of around 34% . But over the next 4-5 years the entire analog basis moves to digital how would your margins shape up, some kind of guidance on that and also ARPUs?



- Atul Das** As far as margins impact because of digitization is concerned you have to keep in mind two things, one is presently we are as Zee Entertainment at the top-end of the industry margins which is between 25 to 30% and as digitization comes through we will see a lot of revenues which are coming to us without much cost associated with it. But obviously when digitization happens there will be opportunities coming up in the business and we will shape up our investments accordingly. So I don't think one can see a continued increase in margins forever, we will of course invest in our business. So as a guideline 27 to 30% margin is something that one should keep in mind over the medium term.
- Akash Manghani** What is your ARPU for the DTH and for this sports business?
- Atul Das** We don't give out that number because as I answered a few minutes back is that we don't get DTH and cable revenues separately now. We get a license fee from MediaPro so we will not be able to talk about ARPUs. But ARPUs on DTH in the industry ranges for different players between Rs.150 to 180.
- Akash Manghani** So how much do you guys realized; it is around Rs. 20-21?
- Atul Das** Last when we reported the number it was closer to 20, last one-year we have not reported.
- Akash Manghani** On your sports subscription revenues, roughly by the end of FY12 you closed with how many subscribers for the sports business because I understand your WWE is pretty popular and now it should get a big fillip because of the digitization so what will be the number of subscribers in the sports business?
- Atul Das** Unfortunately we can't give that number.
- Moderator** Our next question is from Abneesh Roy of Edelweiss Securities, please go ahead.
- Abneesh Roy** The two follow-up questions, *Fear Files* has done remarkably well and *Dance India Dance* compared to the last season has done better so can you give some insights on why Crime Platform has worked this time, you had tried this earlier so what went right, some color I'm not asking for your strategy but some color?



Punit Goenka I think *Fear Files* as a format works because it is based on true stories and true incidents that people have experienced has connected well and also the second part where we do get these experts to come and try and explain or give logic to these phenomena that may happen has worked, and on part of *Dance India Dance* I think the children season always does better than the regular season and that is something we have seen in the past as well.

Abneesh Roy Last question is on no of movies you have shown in the past 2 quarters, some big budget movies recent movies, so any data point you can share how much is the contribution from there. If you see many investors have this concern that your booking revenues in that quarter while cost will be over a longer timeframe so some comfort clarity on the same.

Punit Goenka Since our existence we have been amortizing films at the rate of 20% per annum for five years or the period of license if it is lesser. So we have not changed the policy in the past or in the recent time. As Atul mentioned last year's total film acquisition budget that we spent was Rs.328 crores, it could range anywhere between Rs.100 to 250 crores in the future as well.

Abneesh Roy Is there any meaningful contribution in first quarter ad revenues because bump up 18% is a meaningful delta coming from the new movies or repeat of the recent movies?

Atul Das Abneesh, if you recall an answer that we were giving to an earlier question about the portfolio, we have such a large portfolio, of which Zee TV is one of the channel, and Zee TV has so many programs of which if you are attributing substantial revenue coming from may be 1 or 2 movies.

Abneesh Roy It is on HD channels, currently if you see HD channels in India do not carry too much of advertising so when is ZEE likely to see advertising come meaningfully there and from an ARPU front again the same thing, when does the Zee HD start contributing to our ARPU in a meaningful way?

Punit Goenka I think all the broadcasters are working with the government to allow advertising on HD channels. Currently there is little advertising and subscription as Atul mentioned, are also licensed through MediaPro so we are already getting revenues for these channels and it will continue to grow as HD subscribers keep getting added.

Abneesh Roy Whether it comes from subs additions?



- Punit Goenka** Digitization is what is going to drive it, currently if you look at the new subscribers that are getting acquired only about 6 to 7% are HD subscribers so the number is not very significant as of now. But with digitization I do believe that this number will ramp up much faster.
- Moderator** Due to time constraint, Ladies and gentlemen, we will now take our last question. It is a follow-up question from Hiral Desai of I-alpha Enterprises. Please go ahead.
- Hiral Desai** Wanted to get some sense on how Ten Golf has taken up because I was just looking at the Dish TV pack chart, it is offered at about Rs. 200 a month so it is pretty steep. Just wanted to get a sense on how Ten Golf is doing?
- Punit Goenka** So if you look at the strategy behind Ten Golf, there are about 200,000 registered golfers in this country and that is the target audience we're looking at. If you look at these people their normal tip they give their caddy is about Rs. 200 whenever they play golf. So our pricing strategy is aimed at these premium audiences therefore we do believe that it will find merit.
- Moderator** I would now like to hand the conference back to Mr. Kanwaljeet Singh for closing comments.
- Kanwaljeet Singh** Ladies and gentlemen, thank you for joining us today. We hope to have a transcript of the call on our website www.zeetelevision.com soon. We look forward to speak to you again at the end of the second quarter of fiscal 2013 or even earlier on a one on one basis. Thank you and have a great day.
- Moderator** Thank you very much. Ladies and gentlemen on behalf of Zee Entertainment Enterprises Ltd that concludes this conference call.

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