Q1 FY2014 EARNINGS CONFERENCE CALL

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Moderator Ladies and gentlemen, good day and welcome to the Zee Entertainment Enterprise Q1 FY14 Earnings Conference Call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kanwaljeet Singh. Thank you and over to you, sir.

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 first quarter of FY 2014 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 earnings release and the results, both of which have been uploaded on our corporate website www.zeetelevision.com.

To discuss the results and performance, joining me today is Mr. Punit Goenka – Managing Director and CEO of ZEE along with -

Mr. Hitesh Vakil – CFO

Mr. Atul Das – Chief Strategy Officer

We will start with a brief statement from Mr. Goenka on the first quarter performance and we will then open the discussion for questions and answers. I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward looking statement and must be taken in the context of the risks that we face. We would also like to add that this call is purely for our analysts and investors and if there are any media companies on the call, we request them to please disconnect. I now request Mr. Goenka to address the audience.

Punit Goenka

Thank you Kanwaljeet. I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the First quarter of FY 2014. 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 5.30 billion, showing a growth of 18.5% yoy. This has been higher than the industry growth recorded during the quarter, aided by rate increases.

The total subscription revenues for the quarter were Rs 4.24 billion, registering an increase of 16.5% over the corresponding quarter last Fiscal. During the current quarter, domestic subscription revenues stood at Rs 3.17 billion, while international subscription revenues were Rs 1.07 billion. Domestic Subscription revenues are up 26.5% yoy on reported basis. Subscription revenues from international operations are down 5.6% in rupee terms.

On the cost front, programming & operating cost in the quarter was Rs 4.11 billion as compared to Rs 3.76 billion in the corresponding period last Fiscal, an increase of 9.3% yoy. Employee cost has gone up by 7.7% over the corresponding period last Fiscal. Selling & other expenses in the quarter were at Rs 1.75 billion, as compared to Rs 1.45 billion in the corresponding period last Fiscal, showing an increase of 20.7% over the corresponding quarter last Fiscal. Total costs incurred by the Company in this quarter were Rs 6.82 billion, an increase of 11.8% over the corresponding period last Fiscal.

During the quarter, the Company's operating profit (EBITDA) was Rs 2.91 billion. The operating (EBITDA) margin for the quarter was 29.9%. Excluding sports business, the EBITDA margin stood at a healthy 35.1%. Profit After Tax (PAT) for the quarter stood at Rs 2.24 billion, a growth of 42.6% 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 95 million.

As of June 30th, 2013, the Company has a gross debt of Rs 20 million and Net Cash of Rs 15.5 Billion.

I would now like to cover the Business Performance.

During the quarter, Zee TV averaged 184 GRPs recording a relative share of 18% among the top 6 Hindi GECs. The market share was even better in the Prime Time band, where Zee TV averaged 98 GRPs recording a relative share of 19%. The channel delivered a weekly average of 21 shows among top 100 shows during the quarter led by the top rated shows like *Pavitra Rishta, Sapne Suhane Ladakpan Ke, Qubool Hai, India's Best Dramebaaz* and *DID Super Moms*. Zee TV launched new shows *Jodha Akbar, Connected Hum Tum* and *DID Super Moms* during the quarter. The key show planned in the forthcoming quarter includes *Do Dil Bandhe Ek Dori Se*.

Zee Cinema was No. 1 channel in its genre, averaging 104 GRPs during the quarter with a relative share of 38% among the top 3 Hindi movie channels. The key property of the channel during the quarter was *South Ka Superpunch Film Festival*. This quarter saw premieres of blockbuster popular movies like *Heroine, Race 2 & Kai Po Che*.

Zee Marathi was the No.2 in its genre for the quarter. The channel delivered average weekly GRPs of 183 recording a relative share of 35% amongst all Marathi GECs. The channel delivered a weekly average of 11 shows among top 50 shows including top shows such as *Tu Tithe Me*, *Radha Hi Bawari, Home Minister* and *Foo Bai Foo*. The channel launched a new show, *Tuja Ni Maje Jamena* during the quarter.

Zee Bangla delivered an average of 380 GRPs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 39%. The channel leads the non-fiction genre with 77% market share. The channel delivered a weekly average of 3 shows among top 10 shows bases on average TVR during the quarter led by the top rated shows included *Rashi, Agnipariksha, Mirakkel Akkel Challenger 7, Sa Re Ga Ma Pa – Li'l Champs 2013* and *Didi No.1 – Season 4*.

Zee Telugu averaged 338 GRPs during the quarter recording a relative channel share of 20%. *Pasupu Kumkuma* and *Gorantha Deepam* were the top fiction shows on the channel during the quarter. *Naa Autograph Sweet Memories* and *Bindas* were the top rated non-fiction shows. During the quarter, Zee Telugu achieved the No. 1 spot in the specified primetime band of 1800 hrs to 2230 hrs during weekdays across all Telugu GECs.

Zee Kannada averaged 170 GRPs during the quarter recording a relative share of 14%, driven by popular shows like *Radha Kalayana*, *Parvathi Parameshwara* and *Omkara*. This quarter saw the launch of *Bharati* and *Punar Vivaha*. Zee Tamil averaged 116 GRPs during the quarter, highest ever quarter average for the channel.

The key properties on our Sports channels bouquet during the quarter included telecast of *Sri Lanka Vs Bangladesh* series, *Sri Lanka Vs West Indies* series, *West Indies/India/Sri Lanka* tri-series and *UEFA Champions League-13*. *WWE* continues to be a strong property attracting audiences as well as advertisers. The forthcoming quarter would see the telecast of cricketing events like *West Indies/India/Sri Lanka* tri-series, *India vs. Zimbabwe* series, *US Open*, *IAAF World Championship* and *Tour De France*. The sports business revenues in the first quarter of FY2014 were Rs 1,159 million, while costs incurred in this quarter were Rs 1,254 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 was launched on several networks across Canada. In Europe, ZEE launched an FTA GEC channel "Lamhe", which showcases the best of South-Asian entertainment, dramas, Bollywood classics, lifestyle, travel and cookery shows. Zee Aflam was among the Top 3 movie channels in KSA in terms of reach, while the new channel, Zee Alwan, is growing its reach in the market.

These are exciting times and we are witnessing a lot of changes in the industry landscape. The phased implementation of TRAI regulation, with respect to advertising inventory on a clock-hour basis has started and is expected to be fully in place by the end of second quarter. DAS implementation in Phase I & II also moved a step further with MSOs making substantial progress in capturing consumer data and taking first steps towards implementing packaging.

While the competitive intensity remains high in the Indian television industry, we continue to make efforts towards further enhancing our market share. At ZEE, we remain focused on delivering superior content to viewers and building a stronger relationship with our consumers. Also, our content focused approach combined with better monetization of subscription revenues, will contribute to Company delivering steady return in the years ahead.

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 the line of Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta I have two questions, firstly on the advertising growth, you had earlier indicated that Ad growth for the industry is likely to be in high single digits, so while we are happy at these performances in Q1, I wanted to understand the sustainability of this gap versus the peers?

Atul Das We have talked about an ad industry growth in the region of about 8% to 9% and from our understanding of the events during the quarter we believe the industry would have done slightly better than that may be about 10%. From our understanding the print media would have grown at about 10% to 11% in the quarter. So while the first quarter may be slightly better than our initial estimates for the year and we have continued to deliver significantly more than the industry, I don't think we have any reason to believe that the things would be better for the full year. We continue to look at the 8% to 9% mark for the growth of the industry for the year. As you know in terms of the macro picture nothing is improving really. While the FMCG sector continues to do well and continues to spend on advertising on television we would still believe that the industry environment will remain pretty much the same as it was when we started the year.

Nitin Mohta If I can just ask a follow-up on that press reports have indicated about 10% to 15% hike in advertising rates. So is there a case in Q1 where we have seen the benefit of rate hike but volumes haven't really come under compression which would happen going forward probably in the second half of the year. Right now we have the benefit of both the volume as well as the yield improvement and that is the reason why you think this gap versus the industry is not going to be there in the second half?

Atul Das The yield improvement is right now function of our market share and our ability to take more advertising from the market. The yield improvement which may happen subsequent to the TRAI limit getting implemented will be for a different reason because that will be more to do with inventory restrictions and commensurate compensation yields. These two are different matters. Our belief is that even though we have been able to take the prices up, that may not be true for the entire industry. So in that sense there is no concern there.

Nitin Mohta My second question was on subscription revenues. I understand it can be lumpy from a quarter-on-quarter perspective but given some of the industry feedback on late monetization of digitized cable subs, is there a risk to the revenue recognizing that Media Pro probably has been recognizing for some of these MSOs might not translating into cash inflows?

Atul Das No, we do not foresee that because our revenues as well as the collections are well on track

Moderator Our next question is from Abneesh Roy of Edelweiss, please go ahead.

Abneesh Roy My first question is on our regional markets, It seems regional market has been one of the main reasons for the high ad growth, we seem to be improving our market share in most of the regional channels. Telugu is now number one in 6:00 PM to 10:30 PM in the weekdays and similarly Tamil also has gained good GRPs in the initial phase. So my question is except Kannada we are improving the market share in most of the genre, so why in Kannada we are lacking. Second is you said 10% is the ad growth rate for TV in Q1, how much is the regional market growth and how much is our performance? That could help us understand how the growth can be in terms of the market share going ahead?

Atul Das On the regional front your observation is right. We have done well both on the operating market share performance as well as the revenues and operating level performance. As far as Zee Kannada is concerned, your point is right we have not been able to gain market share and effort is on to build that up. Hopefully we should do better in the second and third quarter.

Abneesh Roy What is the growth rate for the regional ad market and is our outperformance similar to the overall growth rate you are mentioning 10% versus say 18% in the headline numbers? Similarly on the regional market, if you can give us some color on the regional ad industry growth rate for TV and then maybe some color on our outperformance.

Atul Das We do not give channel wise break up, but I would say that revenue growth would have been very similar in the regional and HSM markets.

Abneesh Roy One follow up on that, Tamil market 116 GRPs is very good performance taking timelines into consideration but it is still way below your GRPs in other regional formats. Is Tamil market a low hanging fruit? It was a very less competitive market so you've got initial viewership but here on it could be difficult, so some sense on what is our game plan, our target there 2 to 3 years down the line?

Atul Das While we have reported average 116 average GRPs for Zee Tamil, if you look at the monthly GRP trend it is improving. We ended the month of June with 127 GRPs. The channel has shown continuous improvement in the last six months where we have moved up from the 80-85 levels to 127 levels and of course we look forward to further growth there.

Abneesh Roy My second and last question is on the international subscription. In spite of the rupee favorable impact, we have seen a decline. Is the decline because of the macro conditions there or it is a market share loss because of some Indian market competitor channels are also now taking shares in those markets?

Atul Das There is a slight softening of international subscription revenues. However we do not think it relates to a market share issue but it is an overall industry trend. We do not believe the downward trend to continue for really long and expect it to correct over the next few quarters.

Moderator Our next question is from Utsav Mehta of Ambit Capital, please go ahead.

Utsav Mehta Could you elaborate on the expected impact of TRAIs 12 minute ad cap?

Punit Goenka The impact of the TRAI 12 minutes ad cap is that broadcasters will lose certain amount of revenues because of inventory shrinkage. Currently ZEE operates at an average of about 14 to 15 minutes across the network, though

Hindi channels would be lower but regional would be higher. We do expect a pricing correction which will offset that in the month of September or October. Hence the impact of that should be like negligible to us in the mid to long term.

Utsav Mehta Where I'm coming from is from what I understand there is a certain part of the inventory which is pre-booked or sold in bulk in the beginning of the year, so would this be re-priced immediately or would you have to carry that?

Punit Goenka No, as I said it will all get re-priced in September or October.

Utsav Mehta Could you just give me a sense of what percentage of the ad inventory would be presold or pre-booked?

Punit Goenka We have several advertising contracts and because of the regulatory change those contracts will come up for renegotiation. Anything that is pre-booked is not going to impact the business on an annual basis, it may impact for a month or so but not beyond that.

Moderator Our next question is from Mayur Gathani of OHM Group, please go ahead.

Mayur Gathani Can you signify the quantum of rate increase that you did this quarter?

Atul Das That will vary across channels. I do not think we will like to get into that.

Mayur Gathani How is advertisement industry taking to this rate hike, they are okay with this considering the macro scenario being pretty weak?

Punit Goenka Rate hike is a function of market share and if we have increased our market share, our price hike is genuine and therefore advertisers cannot really neglect that.

Mayur Gathani Are we are still looking at rate hike in September or October due to this TRAI if I understand that correctly?

Punit Goenka Absolutely.

Moderator Our next question is from Ankur Agarwal of Nomura, please go ahead.

Ankur Agarwal Firstly while the programming hours have remained same in Q1 versus Q4, what explains the quarter-on-quarter decline on non-sports content cost?

Atul Das Quarter-on-quarter is difficult to compare because each quarter has events and special properties which differ in cost. The overall trend is what matters and what we have said is that our programming cost this year will increase given that we are likely to continue adding hours. Plus there will be additional costs because of the new products or new launches. So overall I think quarter-to-quarter comparisons may not necessarily mean much because yearly trend is what matters.

Punit Goenka Also keep in mind the fourth quarter had events like Zee Cine Awards which account for higher cost.

Ankur Agarwal Second question is on the domestic subscription revenue. Is it fair to say that adjusting for Media Pro incremental payment that you received in Q4, that was largely flat quarter-on-quarter?

Atul Das There is always some lumpiness in quarterly subscription revenues. In the fourth quarter we had some contracts renewals which were pending. Hence comparisons from fourth quarter to the first quarter show a sequential decline. However on an ongoing basis I think we are looking at growth in the domestic subscription revenues for the year as a whole. YoY increase of 26.5% is not something that we anticipate for this year but as we have said in the past about 15% to 16% growth is what looks feasible.

Moderator Our next question is from Siddharth Goenka of JM Financial, please go ahead.

Siddharth Goenka My first question is on the recent agreement which was there between the broadcasters and TAM about the TVT thing, so I want you to explain the whole system in detail and if you can just tell me why are the broadcasters insisting on the system and what impact could it have on determination of an ad rates if any?

Punit Goenka As explained in various of my calls earlier also that India is one of the last few countries that is still operating with this currency called the CPRP, Cost Per Rating Point. That is the percentage points and hence as the audience in terms of number of homes keeps increasing, one will not get the benefit of that in pricing. Therefore the pricing for the television industry has remained pretty much flat over the last 3 to 4 years. The moment you move to absolute numbers which is TVT, (TV Viewers in Thousands) which means number of people. As we keep adding more households, your price point keeps on getting multiplied by the number of people watching the programme or your channel. So, assume today my price point of reaching 1,000 people was Rs. 100 and I was reaching let us say 60 million, the moment I start to reach 70 million or 80 million my price point gets multiplied by that many more people.

Siddharth Goenka So basically from that data we can accordingly negotiate our pricing better?

Punit Goenka Yes, absolutely. Today rates for all other mediums including print and online are decided based on that medium in India as well. It is just that television was stuck in this old currency of CPRP.

Siddharth Goenka So going forward the data which we will be getting will be only on TVT it will not be TVR or TVR ratings going forward?

Punit Goenka That is correct.

Siddharth Goenka And my second question is on the sport losses, you mentioned that sports losses will continue for future quarters also, so any guidance if you can give for FY14 sports loss?

Atul Das On the sports front, if you have seen the first quarter has only Rs. 95 million of losses. As we get into the second and third quarter the proportion of losses will increase because we have significantly more India cricket properties coming up. More importantly, after we spoke in the previous quarter about sports losses for FY14 being in the same range as that of FY13, the rupee impact has been more severe and that will obviously result into increase of losses of the sports business. While at an overall company level we have a natural hedge, the rupee depreciation will significantly scale up the losses. So, let us see how we end up.

Moderator Next question is from Anand Kumar of Bank of America, please go ahead.

Anand Kumar Picking up on the TVT, is it just the reach of the channel or does it also take into account the market share of the channel meaning that whether it takes into account the number of households watching it or just the reach?

Punit Goenka It takes into account reach per program as well as channel, so it will be available for both, whether it is for a program or for a channel.

Anand Kumar So like for example let us say if program is there reaching to that household as a person subscribes to Zee TV and is not watching it so does that person get included in TVT or not?

Punit Goenka No, this is viewership. This has nothing to do with subscription. Only if the person is watching Zee TV at that particular time will he be recorded in the TVT.

Anand Kumar My second question is on the other income front, the other income has jumped sharply and partly it was indicated that it would be largely on account of FOREX gain, so what is the FOREX gain about?

Hitesh Vakil The Company has accounted for about Rs. 39 crores of FOREX gain which is by and large gain on the realignment of the balance sheet items.

Anand Kumar So this is between March and now and not prior to March, right?

Hitesh Vakil Right.

Moderator Our next question is from Rajeev Sharma of HSBC Securities, please go ahead.

Rajeev Sharma First question is on the ad rate hike, so you mentioned that the growth in ad revenues is coming because of the rate hikes, so was it some kind of proactive move to get some hikes this quarter itself before you go for the 10+2 rate hikes? What I'm trying to understand is that, have you already absorbed some of the hikes and we will see lower rate hikes later and second is on the subscription revenue bucket so how much of this Phase-1 and Phase-2 has been capitalized already and how much is left in your view in terms of monetizing and what you expect from Phase-3, Phase-4 in terms subscriptions this year given that it is all either analog and DTH and we have elections and then we will have clarity on DAS there, so are you factoring some kind of progress in the Phase-3, Phase-4 markets?

Atul Das On the ad rate hike, Rajeev, there is no link between preplanning and trying to get hikes. Market finally evens out everything, and it all depends on your ability to market and price the product which is also linked to your market share. So as I explained earlier on the cal, the initial hikes that we have taken are reflective of the market share and nothing to do with the inventory. As the inventory adjustments happen, basis that whatever adjustments on pricing we will have to take on yield improvements we will take around the second and third quarter. On the subscription part, DAS I monetization has happened in FY2013 since it got completed in October 2012. DAS II monetization would happen more in FY14 because the Phase got completed at the fag end of FY2013 at the end of March 2013. As far as DAS III and DAS IV are concerned, we do not foresee much of the monetization coming through in this year because even today most operators are focusing on getting the DAS II implemented properly including packaging and subscriber data reporting. DAS III will happen on a voluntary basis to some extent but nothing in a major way.

Rajeev Sharma What was your international subscription revenues adjusted for the foreign currency fluctuation?

Atul Das It would be around 9 odd percent decline.

Moderator Our next question is from Gautam Trivedi of Religare Capital Markets. Please go ahead.

Gautam Trivedi Quick question on this entire digitization, I wanted to understand that the roll-out which is happened across first the 4 metros, Phase-2 and now we are into Phase-3, how much of an impact is it really having on the subscription revenues because a lot of people have actually been asking questions regarding this especially the foreigners about the only real law that has been passed by this government and finally been implemented, so a lot of expectations around that but is that finally translating into revenues for you guys?

Atul Das Yes, of course, digitization has been very positive for the media industry and if you have seen our performance in the last 1.5 to 2 years has been significantly higher in terms of revenue growth than what we have been seeing in years prior to that. Due to digitization the entire subscriber base is becoming transparent and consumers are picking up packages. Once the packaging gets implemented fully that is when the full impact of digitization will start getting seen because ARPU will start moving up then. So what we have seen so far happening positively on the DTH segment which is implementing packages more effectively. Cable is yet to start that. Once the cable industry also implements the packaging bit, we will see the upside coming through from those rates as well. So digitization has definitely had a very positive impact.

Gautam Trivedi But you think FY15 is when you will see the full impact of that because I believe that there are still issues with respect to LCOs passing on the revenue onto the MSOs and onward to the broadcasters?

Atul Das Digitization is an ongoing process. If you are thinking that we are not getting the positive impact then that is probably an incorrect interpretation. In the last 1.5 to 2 years, we have seen the impact of digitization. In the earlier part it was largely coming through DTH and now it is the combination of DTH growth as well as the cable growth. It is not that suddenly the subscription revenues will start hitting 100% growth. That cannot be the case. We have been getting the benefits throughout and as each of these phases go for implementation, we will continue to get further benefits. Phase III is a much bigger upside for us purely because the numbers are high in terms of number of subscribers as also the current revenue realization from Phase III is much smaller compared to what we were getting in Phase I and II. So as we start seeing implementation of Phase III, upside would be bigger.

Moderator The next question is from Vikash Mantri of ICICI Securities. Please go ahead.

Vikash Mantri I have three questions, first is we have seen this progress of digitization and has the negotiation at least in Phase I market shifted from a fixed fee to a per subscriber model and have we started to get a MIS data of subscribers of each of the MSOs or talks have started on that? Second is over the last year we have seen huge initiatives in terms of internationally launching Zee TV HD channel, we launched Zing in Canada and Tamil in Canada, so despite that we are seeing a cut in our international subscription revenues, so can you give us guidance on that and what is driving that?

Atul Das On the subscription revenue yes, so far we're not getting subscriber data from MSOs but as far as our effort and push is concerned we are putting the efforts to ensure that it happens. As you know TRAI as a regulator is pushing for subscriber data mapping and for the KYC to be completed. They have given an extended deadline for some phases for August and some for September. Once those are implemented fully, then we will be able to get all the subscriber data mapped from the MSOs as well, the way we get from

DTH currently. As per our contract, we have the right to audit subscriber data.

Vikash Mantri On the international front?

Atul Das On the international front, yes, there has been some weakness as we spoke about it earlier. As it is, we are not anticipating a big growth from international territories this year. These value added properties or channels that we are providing to our customers are to ensure stability in the earnings and revenues. We are looking to expand our international business but it will be with a gap of a couple of years once some of these new channels start getting established and start contributing in a big way to revenues.

Vikash Mantri Has Middle East picked up post Aflam and Alwan?

Atul Das Aflam, as you know, has done extremely well and is now a very well-established channel. Alwan has been launched only last year but the progress is satisfactory and it is growing in viewership terms.

Vikash Mantri And would that have also helped in our advertising growth from this market?

Atul Das Yes, of course.

Vikash Mantri My third question is on this tiff between or this stand-off between TAM, advertisers, and broadcasters over ratings and initially what I thought more on the sanctity of the data and the collection of the sample points, seems to have been comfortably settled with moving to a CPT metrics which also I am not too sure if you have moved to that, given that TAM will continue to roll out the TRP and TVR data. Only thing is that one will not be able to publish it and compete with each other, so I think the status quo remains in terms of that, so are we still challenging TAM or that issue has been settled, we are looking at a different methodology altogether with BARC or something like that?

Punit Goenka The stand-off was actually not with TAM, we had issued notices to TAM to start publishing data on a different currency and in a different metrics. What we have agreed and if you read the press report, is very simple that the TVR data is available only for internal consumption purposes to the advertisers. If you also notice that TVT is the only currency that is available in the public domain and will be used going forward. Now one cannot move to a new currency overnight, we have thousands of contracts that had to be negotiated, so it will take some time to implement CPT to the full extent that we expect to but I think we have made good progress by this stand-off that was taken against the advertisers and agencies and it should yield results to us in the mid-to-long term.

Vikash Mantri But both of you will have the TRP data, the advertiser will have it, you will have it, so I think wouldn't the negotiations still continue on that currency front and is there any other issue?

Punit Goenka You are assuming that we will have it. The advertiser may have it. We will definitely not have TRP data.

Moderator The next question is from Kunal Vora of BNP Paribas. Please go ahead.

Kunal Vora On the non-sport EBITDA margins very strong performance of 35%, can you provide some outlook on that? How are you seeing that going forward?

Atul Das Margins should be stable as we have said in the past that we are looking at our overall margins to be somewhere similar to last year and I think we continue to maintain that. There would be some impact as I said because of the sport losses being higher as a result of rupee depreciation.

Kunal Vora But the non-sport margin of 35% do you think that is a sustainable level because that also moved up from 33%-34% level?

Atul Das Yes, there are two aspects to our non-sport business, one is the continuing business and one is the new businesses that we are launching or we have launched in the last one year. We believe on the continuing businesses we should continue to see some improvement. On the new businesses it will depend on the scale up which is obviously not 100% in the known domain. We may or may not launch products depending on the environment and on the competitive activity.

Kunal Vora The second question is on the total ad rate hike during the year, it looks that there will be very steep ad rate hike over the year because there is already being probably 8%-10% rate hike which is being taken and assuming that the inventory goes down from like 15 to 12 which means that you need to take another 25% rate hike to offset that. Do you think advertisers are willing to let's say 35%-40% hike through the year?

Punit Goenka If our inventory is going to shrink by 15% or 18%, we will need to recoup these revenues. This issue is not restricted only to ZEE, the entire industry is facing the same issue. I think advertisers will also recognize this and will appreciate this because when the inventory reduces, the delivery to advertisers will also go up. It is not just that rate hike, lower the inventory the better the viewership, so it is win-win for everybody.

Kunal Vora But do you think any alternative medium can benefit from this, television rates increasing so significantly within a very short span?

Punit Goenka People keep asking me this question, but Rs.14,000 crores of television advertising business will get realigned to those products which deliver audiences. Let us see what happens.

Moderator Our next question is from Hiral Desai of I-Alpha Enterprises. Please go ahead.

Hiral Desai If I look at FY13, we have significant improvement in the market shares that we had, one is wanted to understand how much more can we improve this market share within the profitability parameters. So obviously you could spend a lot of money to gain market shares but there are certain internal profitability parameters that we look at. And secondly given that FY13 was extremely strong and if there is not too much of room to improve our market share, would we align ourselves more with the industry revenue growth. These all ex of the TRAI ad cap that I'm talking about.

Atul Das From a market share perspective, we obviously wish to expand our market share and we are working towards that. I do not see any where that we have reached a cap on our market share. We will continue to grow the market share that is our endeavor. On the question of profitability versus market share, if you go by our history you know how ZEE works, both are important to us and that is our philosophy. Sometimes we may not necessarily succeed 100% but that is the way we work. We focus on growing our market share at a very reasonable cost and that is why we continue to remain profitable. Historically that is the way we have run our business but of course depending on the situation we will adjust our strategy.

Hiral Desai The other is would the growth sort of come more in line with the industry growth or we would continue to see some kind of outperformance?

Atul Das If our endeavor of market share growth delivers which we will definitely try very hard to ensure then we will outperform the market but outperformance cannot come without gaining somewhere.

Hiral Desai The other was on the sports side, I know you guys don't really comment on the subscription and advertising split there but qualitatively just wanted to understand, how have the subscription revenues shaped up on the sport business over let us say last couple of years?

Atul Das Subscription on sports have been scaling up pretty well and that is the reason why sports business losses have come down significantly from the last 2 to 3 years and we do believe that with digitization the sports subscription revenue will continue to scale up well which will eventually make the business profitable.

Hiral Desai And would that have been sort of in line with the overall subscription growth or slightly higher if you could give just qualitative flavor there?

Atul Das In the last 2 to 3 years I would say sports scale up has been higher.

Just for the information of our participants Punit has to log off the call, but if the audience wants we can take a few more questions.

Punit Goenka I would like to thank everybody for joining us on the call. I need to leave and Atul and Hitesh will continue with the call please.

Moderator We will take our next question from Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri Just had one question on the cost side, it appears that if you look at even a year-on-year basis the non-sports cost is up by under 14%. In the previous quarter Punit had guided a 15% to 18% kind of increase, so following up on that couple of questions: (a) have the pace of investments and some of the initiatives which we had highlighted last year moderated through a natural course or through certain actions and secondly are we to expect backend loaded kind of cost increase in the current year and can you highlight one or two major investments which we would be making in this year, whatever you can share on that?

Atul Das

As you can infer from the fact that our Q1 operating margins are 29.9% which are higher than the full year number that we are talking about, obviously it means that the cost will be coming in the Q2 and Q3. One of the aspect of cost increase could be new launches and new shows that we are planning. When they come up during Q2 and Q3 that we will increase the cost and some of the new product launches also can result in to higher costs which is built into the overall operating margins that we are talking about.

Srinivas Seshadri

Any specific initiatives you could share like what you did last year?

Atul Das

Not right now. As and when they are launched, of course, we can talk about it.

Moderator

Our next question is from Bharti Gupta of Sushil Finance. Please go ahead.

Bharti Gupta

First of all I would like to understand the TRAI mandate about of 10+2 min, so currently we have an inventory of about 15 odd min across the network, of that 15 min, how much is the promotional ad minutes cause in the 10+2 category we have 2 min of promotional ad spends?

Atul Das

The requirement of TRAI will get implemented by October, I mean September end and that will be 10+2. Right now there is no specific limitation on the commercial time versus promotion time.

Bharti Gupta

So according to this our actual advertisement would fall down by about 30% odd, the actual inventory?

Atul Das

Not 30% but yes it will come down by number whatever it will be.

Bharti Gupta

So we'll be able to increase our ad rates in tandem to offset the impact of the inventory because we have already taken the price hikes according to the market share increase. We have already done price hike in the range of 10% or whatever you have done in Q1?

Atul Das

Bharti, we have just had a detailed question and answer on this exact subject.

Bharti Gupta

I just want to understand the impact of the inventory because if we really calculate, if it goes from 15 to 12 or say 10 mins because the actual….

Atul Das In the interest of everyone else's time, we have answered this question in detail just a few minutes back. I would not like to repeat the entire thing, so please excuse us. We can take this question offline.

Bharti Gupta Just a thing on the of subscription revenue, what is the general target as 15% or 16% because Phase II monetization will happen towards the second half of the year so do we still maintain 15% to 16% growth target for the per year?

Atul Das Yes, that is our current expectation.

Bharti Gupta And in guidance on the sports losses for the full year?

Atul Das Nothing specific that we can add.

Moderator The next question is from Amit Kumar of Kotak Institutional Equities. Please go ahead.

Amit Kumar Just one specific point in the overseas subscription revenue side, we have seen a decline but if you could just not from the specific numbers perspective but if you just give us a very broad trend and how the overseas advertising is gone up and what is your thought process behind launching a FTA Hindi channel in the UK market, if you could just elaborate on that?

Atul Das Amit we don't talk about segmental revenues.

Amit Kumar I'm not looking at a number, broad trend on how is the overseas advertising for ZEE been over the last few years, if you could just give us a sense, better than your overall advertising numbers or worse off?

Atul Das No, international advertising markets are probably similar or lower but not significantly different. We expect from Zee Alwan of course because it is an ad led model. As and when it gets established it will obviously push up advertising revenues in a big way. But overall in a larger context the international revenues are more subscription based and therefore while advertising does form a component but it is not very big.

Amit Kumar And about Zee Lamhe?

Atul Das Lamhe we don't have an update immediately since it is a new product. We can update you as we go along but nothing specific to add here.

Hitesh Vakil	It is a free to air product in that market so let's see how it is received by the audience and it will perhaps add to our ad revenue going forward.
Moderator	We will take our next question from Jatin Chawla of Credit Suisse. Please go ahead.
Jatin	This is again a question on the international revenue decline but I just wanted to know, is the shift towards online viewing a reason for this decline in international revenue and in the India market we have Ditto TV to capture that revenue stream, anything we have similar in the international markets?
Atul Das	Right now we have not made Ditto TV products offerings in a big way but eventually we will be offering OTT platforms internationally. Pricing in each market will be geo-blocked for that territory, so it should not necessarily impact but it should only complement the overall revenue base for the international markets.
Jatin	But would you agree that is one of the factor that is starting to impact international revenues or that did not have a very big impact this quarter?
Atul Das	Very difficult to say with certainty whether that is the reason. We do not think so but there could have been very marginal impact because of that, really can't say much on that.
Jatin	My second question is on the domestic subscription side, with this whole process of customer acquisition forms getting filled and that data is getting built, does that really help you anyway in the near term or it is only when you get the next round of contract negotiations will that help you. It may help cash flows for the MSOs, but does that really have an impact on your P&L in that sense?
Atul Das	Customer data will impact when we enter into per subscriber deals, then obviously our contracts require that we need to get the subscriber numbers and therefore based on the numbers transparent revenues can be given. So while the subscriber data is reported then MSOs will have it mapped in their system and we can then audit those systems.
Jatin	But that would be the next stage because right now you have just entered into fixed contracts for at least a year, so in FY14 the sequential scale up in subscription revenue should not be on the back of that.

Atul Das Even if it is fixed revenue, our assumption is based on the actual seeding which has happened so it is not a very way off from what their actual numbers will be. The industry has a fairly good idea of the actual subscriber base but there may be some movements which have happened from one operator to the other after the final date of the implementation. The other thing which we will not have till the subscriber data is mapped is how many people are on the base pack, how many people are on the higher pack and how many consumers subscribing to the premium channels versus the niche channels and all. So that data will get clarity as the subscriber data mapping happens. Right now it is on a broad basis, we obviously know how many boxes have been seeded but accurate mapping will be further sharpened with the availability of that data.

Jatin But my question is with the availability of that data does it immediately start impacting or it is only when the next round of contract negotiations happens?

Atul Das All contracts are not like April to March contract. There are various contacts which keep happening throughout the year, so different impacts will continue to happen.

Moderator Ladies and gentlemen due to time constraint we would take our last question from Riken Gopani of Infina Finance. Please go ahead.

Riken Gopani Just wanted to understand the scenario from wherever you have currently delivered the growth, given whatever is happening in the economy, does it look like there could be a downgrade or do you think it could still be a stable advertising environment for the company and for the industry this year?

Atul Das As I mentioned earlier it is very difficult for us to really give a prognosis of what will happen to the ad industry given obviously a very week macro economic situation. Based on whatever inputs we have, our understanding is that industry ad revenue on television will grow in the 8% to 9% zone and obviously if things change for the worse or for the better, our business performance will reflect that.

Riken Gopani One point that you did highlight in your initial comments that this quarter was better for the industry as well as for us, so any specific factors that you would highlight led to this better performance this quarter for the industry?

Atul Das No, not that I can attribute a specific reason, I just highlighted that while our expectations are at about 8% to 9%, industry has done slightly better than that in the Q1. The performance has been led by growth from FMCG, automobiles, DTH, jewellery and retail has done well. Categories which have not done well are banks and financial services, even consumer service segment has not done too well. Last few quarters the website and the IT companies were spending more, this has come down in this quarter, so depends on the performance of each of the segment.

Riken Gopani But FMCG still continues to spend quite healthy is what your prognosis is, right?

Atul Das Yes.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Kanwaljeet Singh. Over to you sir.

Kanwaljeet Singh Ladies and gentlemen, thank you again for joining us. We hope to have the transcript of the call on our website www.zeetelevision.com soon. We look forward to speak to you again at the end of second quarter FY 2014 or even earlier on a one-on-one basis. Thank you and have a great evening.

Moderator Thank you. On behalf of Zee Entertainment Enterprises, that concludes this conference.

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