



Zee Entertainment Enterprises Limited

CONFERENCE CALL

July 26, 2016

Moderator: Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q1 FY 2017 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 Ms. Anuradha Walawalkar. Thank you and over to you ma'am.

Anuradha Walawalkar: Ladies and gentlemen, thank you for joining us today. This conference call has been organized to update our investors on the Company's performance in the First Quarter of fiscal 2017 and to share with you the outlook of the management of Zee Entertainment.

We do hope that you have had the chance to go through our Earnings Release and the Results, both of which have been uploaded on our corporate website zeetelevision.com. To discuss the results and performance, joining me today is Mr. Punit Goenka – Managing Director and CEO of ZEEL along with Mr. Mihir Modi – Chief Finance and Strategy Officer.

Please note that due to an urgent requirement Mr. Goenka will attend the call till 6 pm. However, Mr. Modi will address all the remaining queries.

We will start with a brief statement from Mr. Goenka on the 1st Quarter performance and will then open the discussion for questions and answers. I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in the context of the risks that we face.

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

Punit Goenka:

Thank you, Anuradha. I would like to welcome everybody to this call and appreciate your joining us for the discussions on the results for the 1st Quarter of fiscal 2017.

The Company has adopted Ind-AS Reporting Methodology for reporting its financials commencing Quarter 1 financial year 2017. Like-to-like financials for previous quarters have been restated accordingly.

Let's begin with details of some of the key developments of the quarter focusing on the financial performance.

ZEE's advertising revenue during the quarter was Rs. 9.12 billion, recording a growth of 19.2% year-on-year. The total subscription revenue for the quarter was Rs. 5.28 billion. During the quarter domestic subscription revenue stood at Rs. 4.18 billion while international subscription revenues were Rs. 1.1 billion.

On the cost front, programming and operating cost in the quarter were Rs. 6.58 billion. Total cost incurred by the Company in this quarter was Rs.11.18 billion.

During the quarter the Company's EBITDA was Rs. 4.53 billion, the EBITDA margin for the quarter was 28.8%. Profit After Tax for the quarter stood at Rs. 2.18 billion, the PAT margin for the quarter stood at 13.9%.

As on June 30th, 2016 the Company has a gross debt of Rs. 18.28 billion which comprises largely of preference capital reclassified as debt as per Ind-AS classification. Excluding impact of this reclassification, gross debt stood at Rs. 8 million. Cash and cash equivalents stood at Rs. 17.82 billion.

I would now like to cover the Business Performance:

During the quarter, Zee TV was ranked 3rd amongst the Hindi Genre Entertainment Channels. &TV continued to maintain its share in the urban market.

Our Free-To-Air channel Zee Anmol was 2nd in the FTA category.



Our Hindi Movie Cluster continued to lead the genre with the highest viewership share.

Zee Marathi continued its lead as the number 1 channel in its genre.

Zee Bangla strengthened its share as the number 2 player in the Bangla genre with a strong share in the urban market.

Zee Telugu increased its market share to become the number 1 channel in the Telugu GEC genre.

Zee Kannada also increased its share and became the number 2 ranked channel amongst the Kannada GECs.

Zee Tamil had 48% rise in market share and became a strong number 3 player in Tamil GEC genre.

Sarthak TV continued to be a strong market leader in Oriya genre.

The key properties on our Sports Channel bouquet during the quarter included telecast of Zimbabwe vs India Cricket Series, West Indies-Australia-South Africa Cricket Series and UEFA Champions League Finals. The sports business revenue in the 1st Quarter of financial year 2017 were Rs. 1,700 million while costs incurred in this quarter were Rs. 1,529 million.

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

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

- In Philippines we launched Zee Sine, a Bollywood movie channel dubbed in local language.
- In America, Zee TV continues to garner the highest viewership share amongst South Asian networks.
- In UK &TV consistently features in top 10 South Asian channels.
- In UAE, Zee TV was Number 1 channel and Zee Cinema was the Number 2 channel amongst South Asian expats in their respective genres.

We have started the new fiscal on a positive note, delivering successful result in the first quarter. On the back of continued steady economic recovery, the company once again managed to outperform the market. The advertising growth is holding up and the subscription revenue is maintaining a steady growth. While the advertising could receive a fillip if the consumer spending improves, on the subscription front the industry awaits the regulatory guidelines which will shape the subscription revenue growth over the next few quarters.

The preference of the consumers keeps on evolving with time and we have consistently stayed ahead of the curve, and in many cases helped shape it. As an entertainment company, it is imperative for us to experiment with new content and innovate new formats, and we will continue to do so. We are making investments in new growth verticals with an aim that they will start contributing to company's success in the future. An effort in this direction was the relaunch of company's paid OTT platform dittoTV with new subscription plans. Our movie production business has started delivering results which is evident with movies like Sairat which became the highest grossing Marathi movie of all time.

Thank you very much.

Moderator: Ladies and gentleman, we will now begin the question and answer session. We will take the first question from the line of Sachin Salgaonkar of Bank of America. Please go ahead.

Sachin Salgaonkar: I have three questions. First question is, clearly your ad growth has been super strong at 19%. Just wanted to understand the outlook going forward, are you seeing any slowdown from FMCG spending and also any comments on Telcos and Internet spending would be helpful.

Mihir Modi: While the industry this quarter grew around 13-14%, essentially at this point in time we do not see a slowdown in FMCG spending as a trend so we still expect the industry to grow around 14-15% range. And, then of course our performance will be a function of our channel viewership and the result of our selling efforts that come along with it. So what I would say is that we will continue to make efforts to beat the market growth and that should translate into annual sales growth.

Sachin Salgaonkar: And Telcos, Internet spending, Mihir?

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- Mihir Modi:** Internet has softened a little bit. I think Telcos are expected to do well.
- Sachin Salgaonkar:** Second question is, clearly you did mention on your flagship channel, I think the ratings have come down a bit. We expected to see some improvements in ratings but I presume it will be a bit in coming quarters. On the flip side, your regional channels are doing really well. So if I look at the mix of ad pie, has that changed and is it getting skewed more towards your regional channels when compared to flagship channels?
- Mihir Modi:** Not dramatically. I think that the balance of our portfolio is quite even and nice. It doesn't skew too much towards any side. Also, the flagship performance or any other lower growth or underperformance, if any, is not substantial to make those swings. So I think it's the natural dips that do happen which are getting corrected, so no swings seen at all so far.
- Sachin Salgaonkar:** And what are the programming hours right now in the flagship Zee Entertainment.
- Mihir Modi:** We are at 24 hours.
- Sachin Salgaonkar:** Last question, there was a sort of a fair value through P&L about roughly Rs. 113 crores. Wanted to understand what exactly is this? And how much of that will be recurring going forward?
- Mihir Modi:** Just to share with you and everybody else on the call, the concept under the Ind-AS for that line item is that certain kinds of investments have to be mark-to-market every quarter. Our biggest swing is on account of the preference shares which now will be treated as debt and has to be mark-to-market every quarter. So this Rs. 113 crore is almost entirely on account of the change in the price of the preference shares between June 30th and March 31st 2016, and these are listed so it is a price that is public and on the exchange. Of course, there are a few other items within that line, which are offsetting each other but the preference shares itself has caused this swing of over Rs. 110 crore.
- Sachin Salgaonkar:** Mihir last question, any major change on the ad revenue and subscription revenue because of this move towards Ind-AS for this quarter?
- Mihir Modi:** No.

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

Vikash Mantri: I am trying to understand the ad environment with respect to FMCG. Basically we have data from HUL quarterly results saying their ad and promotions spend has been down by 1% for the quarter. In spite of that, we have, of course, done very well. So can you just comment on which are the guys who are spending and especially while you did say FMCG continues to do okay but are the players changing in that and maybe contribution from Patanjali and all are better? Second question is we talked in the last quarter about doing things for our flagship channel but I see the programming hours are still at the same level, so clearly everywhere else we have had gains but that seems to be missing from our flagship channel.

Mihir Modi: Let me address the first one first, so FMCG is below the average for this quarter. Having said that, I don't see that as a trend yet. I think we will know as we go into the year whether that slower growth is a trend or not. Having said that, the automobiles and Telcos have contributed to a very healthy growth and that has taken the overall average above the FMCG average.

Punit Goenka: On the Zee TV part, we are very clear that we will put up only quality content going forward given the below expected performance of the channel over the last year. Therefore we have scrapped several of the pipeline shows that were expected to come out when we spoke during the 4th Quarter of last fiscal. A new fresh line-up is being built up, which you will see over the next two quarters being rolled out and the number of hours will go back up based on that.

Moderator: Thank you. The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Jai Doshi: I also want to congratulate you on the Annual Report this time. I think the long term thinking section that you have added articulates your objectives very well. And I have a question around it. You have invested in studios last year and you have also started production of theatrical events, theatrical productions and things like that. So how should we look at your plans for content production over the next two or three years? Would you be producing most of your content in-house or are these studios also built with an objective to produce some content for your overseas channels? And do you also have plans of expansion in overseas market, so maybe some thoughts around

how do you see overseas expansion and whether you will be producing some local content there, just some thoughts?

Punit Goenka: Firstly on the studio side, while we continue to diversify both forward and backwards, we can no way produce all of the content or most of the content ourselves given the sheer amount of content that we consume on a weekly basis. So, while we will continue to invest in studios but it will only be a fraction of our content that will get produced there. In terms of diversifying our business beyond just broadcasting, yes, you rightly said that, but it's still at a nascent stage. In film production business, our aspiration is to be in the top five production houses by 2020 on the back of Marathi, Hindi and now we are entering into Telugu, Kannada as well as Punjabi very soon. On the theatrical side while we have produced some content for television right now, the roll out of the live business will happen only in second half of the current fiscal. All these are start-up businesses and therefore will be small to start with but will become significant revenue generators over 2-3 years' time frame. On the international side we will continue to launch new products. Day after we will be launching Zee.One which is a German language channel. We have a Spanish product under production which we will be launching in the second or the third quarter of the current fiscal and also expand into other geographies with our existing products itself.

Jai Doshi: Any plans to produce local content for any of these overseas channels?

Punit Goenka: We are already producing local content in Arabic and we are already producing local content for our Hindi language channels. We will be producing local content as and when we hit critical mass of reach in respective languages. Currently it's only in Arabic that we do local content.

Jai Doshi: One question for Mihir. We have seen significant improvement in sports performance this quarter and especially on the cost side as well. So how should we look at it for rest of the year? And if you can discuss some of the improvements or executional improvements that has resulted in this performance?

Mihir Modi: The performance on the sports P&L this quarter was also a result of some benefits we got in terms of extra T-20 Games in the India-Zimbabwe Series. However, we do have the rest of the year as planned earlier. The West Indies Series is underway and that will show up in the 2nd Quarter. So at this stage what I would say is that the sports

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loss should be lower than the Rs. 100 crore loss guidance earlier on the account of the first quarter performance.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please proceed.

Yogesh Kirve: If you look at non-sports business, the EBITDA margin has stood at about 31% and it rose by about 450 basis points. So really wanted to understand what are the drivers of this and specifically how important has been the role of &TV losses coming down if at all?

Mihir Modi: The improvement in the non-sports margin is a function of a few things, of course &TV reduction in losses is one small part of it but it is also the performance of our regional portfolio. There is enough cost consciousness there which means that we are investing in our offerings even better, and all these elements have resulted in a better EBITDA margin.

Yogesh Kirve: Looking at the kind of plans we have for &TV in FY17, so is it fair to expect that the losses could be down on full year basis or it could be higher because of the expansion?

Mihir Modi: I think it's difficult to say. I think the objective is clearly to balance out the growth that we want out of &TV and the journey towards breakeven. I think it's too early to say what calls we will take during the year on that account but the objective will clearly be to balance both out and not be focused either only on reducing losses or only on gaining viewership share.

Yogesh Kirve: Secondly, regarding the international advertisement revenues, the revenue stood at about Rs. 70 crores this quarter versus the 4th Quarter number of Rs. 112 crores, so is it any seasonality playing out over there? And what sort of growth we should expect in international advertisement in the coming years?

Mihir Modi: There is some element of seasonality in it as well but I think as we launch the channels in various newer geographies, some of those will certainly keep the ad growth at a healthy pace because some of those will be ad supported launches.

Moderator: Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

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- Alankar Garude:** My first question pertains to dittoTV. Recently we have taken a sharp price cut and that has been accompanied by a strong advertising campaign as well, so can you let us know about the initial response for the same and any specific number of subscribers and ARPU which we are targeting?
- Mihir Modi:** I think it's a little too early to start talking about it or to even measure the full success. I would wait for a couple of more months to be able to have a proper view on that to share with you.
- Alankar Garude:** But any ballpark number which we have in our mind in terms of subscriber base? We mentioned 3 million as of FY16 end.
- Mihir Modi:** I think the approach has been changed completely and that's visible in our pricing and the ad campaign, so I would say it's more appropriate to wait and understand the full perspective before we can communicate.
- Alankar Garude:** My second question is pertaining to Zee Tamil. We have seen a sharp improvement in viewership. We have been focusing on this business for the past 2-3 years and all of a sudden there has been this improvement in ratings in the last 3-4 months or so, any specific reason for the same? Any change in strategy or increase in original programming? Can you please throw some color on that?
- Punit Goenka:** It's the function of people and content, so I think finally we have the right team in place and they are putting the right content out there. I can't say that we have done anything different, it's the same kind of content that we were doing earlier but this is just better and it's the team that is delivering on that.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Could you please talk about the CAPEX for the year?
- Mihir Modi:** The CAPEX for the year, the operating CAPEX will remain in the same range that it has been, which is about Rs. 70-100 crore which is our operating requirement. In addition to that as you are aware we are building a studio facility and that will take up maybe Rs. 10-20 crore more.

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- Rohit Dokania:** The other question would be, was there any contribution from Phase III areas in the domestic subscription revenue growth for this quarter?
- Mihir Modi:** For the Phase III I think while the implementation and the seeding is done, the numbers will start coming into the public result only later as we start closing the contracts. So at this stage whatever may have been would not move the needle.
- Punit Goenka:** As we had said earlier, Phase III will take some time before it starts kicking in revenue, in line with Phase I, Phase II as we see today because we will have to support the industry from the perspective of penetrating the market first and therefore all the deals that we are doing are largely fixed deals even now.
- Rohit Dokania:** Could you please talk about if there has been any movement on the non-discriminatory content cost piece and your views on the same?
- Punit Goenka:** Sorry, I didn't understand?
- Rohit Dokania:** The non-discriminatory content cost piece which the regulator has been trying to implement?
- Punit Goenka:** No, we don't know yet. We are still hearing from them that it will be out only early August or mid-August, so we are waiting to see which options they will go for, but obviously we are working on our strategy irrespective of what they come out with and we know what we want to achieve on the subscription side in the mid to long term.
- Rohit Dokania:** But could you just talk about in any way can it turn out to be negative for broadcasters let's say? Is there a possibility?
- Punit Goenka:** Well, if it is negative for broadcasters we will challenge it.
- Moderator:** Thank you. The next question is from the line of Rajiv Berlia from Edelweiss. Please go ahead.
- Abneesh:** Thanks, this is Abneesh here. This is a question to Punit. In the regional space we see the market leader in each geography now coming out with the second GEC, so you plan to launch the Marathi Yuva channel for 18-35 age group target, similarly Colors has already launched Colors Super. So my question is, is this a competitive issue or

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from a ROI perspective also these second GECs are going to make sense? Are these markets large enough to support the second GEC from a 2-3 years' perspective?

Punit Goenka: Definitely, from a mid to long term perspective the markets will grow and we all know the regional content is outgrowing national over the last few years and will continue to do so. Therefore investments there will happen and markets will expand going forward. Whether Marathi has the appetite or Bangla has the appetite, each market will have different dynamics to play with but I think this is a conscious strategy of either get fragmented or fragment yourself, now 1+1 is not necessarily 2.

Abneesh: So that's why the first launch has happened in markets where the dominant position is there for you and for Colors also, so that you fragment it first rather than someone else fragmenting?

Punit Goenka: Absolutely.

Abneesh: Second question is in Hindi movies I see other players having the Free-To-Air channel. So what is your thought process on this, is it required?

Punit Goenka: We are working on our Free-To-Air strategy. It's too early to talk about it. I would not comment on what my peers are doing in the industry. We are working on our own independent strategy for the Free-To-Air market.

Abneesh: Last question is on your new business - movie production. You have done exceedingly well in Q1 but most investors have huge concerns on this based on other players' performance in the past few years. So if you could tell us how you will reduce the risk. Sairat has been a great hit but obviously there is no formula, so your thought process? Similarly on Music and Zindagi, if you could talk some sense on how the business is, some numbers will be welcome. In Zindagi, for example, viewership revenue and losses, if you could give us some clarity?

Punit Goenka: Abneesh, you know we don't give product-wise revenue numbers. Zindagi was created for the premium niche audiences. I think it's doing reasonably well there in that audience. On the music side we have in the first quarter more than 50% market share in terms of volume. Of course, value share is still lower because the catalogue is still small compared to our competitors but the whole strategy was to build it over a 3-5 year period and we are on track for that. On the film side I think Mihir can talk about the aggressive write-off policy that we have built-in for the film production

business and also for the music business which is what will de-risk or at least show to the investors the de-risked model that we are working on.

Mihir Modi:

On the film side, I think as a CFO I am as concerned to control the risk and we are doing the following to achieve that: One of the measures is the way we control the mix of the films that we have. So the size of films will ensure that the portfolio and therefore the risk is balanced. There will be those smaller films which have a higher ratio which is skewed in favor of rewards rather than risks and then we will throw in a few which will be slightly higher risk films, for the brand as well. Second as Punit was saying, we have a very aggressive policy for write off. In our film production business 97%-98% of the cost is written off within the first few weeks of release and therefore the ups and downs will be very transparently captured in the financials. So we are not carrying any risk beyond what is seen in the financials. Third, as much as possible we are going in a co-production model and not some of the earlier seen studio models. The studio model tends to be riskier than the co-production model so that's the third way in which we are mitigating or controlling our risk. And fourth and the last one is related to some of the calls that we are taking in terms of some of our films. I don't want to share names right now, but some of the films that we do will be presold, even if it means lower upside. This way we mitigate our downside and control our risk. So these are broadly the ways in which we are operating to make sure that the film business doesn't throw us any negative surprise.

Abneesh:

To understand it better, in a high cost Hindi movie, for example, which has any of the stars, you are saying that either a co-production model or by pre-selling, the risk will be far lower, that's how we should understand?

Mihir Modi:

That's correct.

Abneesh:

One small follow up on Zee TV, your ratings have fallen and you are taking corrective action. But question is, if the number of hours does need to be increased significantly, you were 26, now you're down to 24. The market leaders are much higher. So do you need to do that or do you need to just completely think through and just have a complete new content? Why I'm asking this is because Sony for last 5 years is launching new content all the time and ratings don't improve at all. So what is it that is really required, because making a very drastic change in terms of content may backfire as we have seen in case of Sony many times?

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Mihir Modi: The answer to that is partly embedded in your question itself. I think the number of hours is not a replacement for good quality content. While putting out more content has a small incremental delta at the end, it is good quality content that will need to sustain for a longer period of time. So our thinking is that instead of focusing just on content hours, we're focusing more on the quality of content. Content hours, at this stage is not our criteria. One slot more or less is not going to make a lot of difference to our ratings overall. Whatever we put needs to make sense and needs to be attractive to the viewer. So that's the thinking we have. Based on that thinking last week we were number 2 again. We hope to keep removing the less popular content and as far as possible replace it with good quality content, that is what we are going to follow instead of just putting out additional hours.

Moderator: The next question is from the line of Vivekanand S from Ambit Capital. Please go ahead.

Vivekanand S: I have a couple of questions on the investments, so one is the inflation of programming cost that we book in our P&L that is at a very benign 9%. So whilst I understand that the number of hours on the flagship channel have declined, but inflation seems to be very benign in the programming cost line item. So does this mean that we are able to get more bang for the buck in our programming in the regional markets? What would be the long-term trend in this regard given that you are focusing a lot on quality of programming? Secondly, with respect to your digital strategy you mentioned that, if I understand, it is early days in respect to the new strategy implemented at the dittoTV but just wanted to understand, is it not better to license content across platforms than develop your own where you run a risk of elevated losses without any durability of the audience?

Mihir Modi: On the first part regarding programming cost, I think the point is that the number of hours have gone down only on the flagship by a little so that does not necessarily represent the rest of the bouquet of a total of 33 channels that we have. In some channels particularly say regional we have indeed added some programming hours, that's point one. But your larger point on the programming cost control is correct, we are absolutely conscious of the cost and the money that we spend on our programming. That doesn't mean we will not invest. The investment will continue but it will just be more rational and more dependent on the timing of which phase of growth the channels are and where they stand in their performance. On the second part relating to digital strategy, on the broader note we feel that in this industry there

is no established model in India yet. Whether it is a broadcaster owned platform, whether it is only digital offering by people owning only digital platforms, licensing content or getting digital content made specifically for the platform. So what we see today is that there are different models being attempted, not just on the platform strategy but even on the pricing strategy. There are AVOD platforms like our OZEE which is ad based and there are SVOD platforms like Netflix and dittoTV etc. which run on subscription. Again, within that there is video on demand, there is live streaming like dittoTV. So the point is that there are these variables which currently are moving for all the players and the answer will be discovered by the industry as we go forward. Our strategy is to make sure that we remain closest to the consumer, understand what he needs and deliver that. Beyond that what structure the model will take is something that the whole industry, we included, will discover.

Vivekanand S: Just a small follow up on the digital side. You mentioned that in respect to the content side there are players who are investing in original content, there are live rights, sports rights that are being experimented mainly to draw viewers on the platform. So I was just trying to understand, are these the things that we will consider for dittoTV as well given that you mentioned that we will remain in the reckoning in the digital side to try and be as close to the consumer as possible.

Mihir Modi: Whether we will consider it for dittoTV or our other brand OZEE, I can't talk about right now. But certainly that will be a part of our strategic thinking.

Moderator: The next question is from the line of Hemang Kapasi from Canara Robeco Asset Management. Please go ahead.

Hemang Kapasi: What's driving the growth in the international subscription basically?

Mihir Modi: International subscription growth has a few drivers. One is clearly our new offerings in Africa, also the other regions are doing reasonably well, for example UK, Europe. Also we have some new products that we are launching or have already launched and that is driving up the subscription at a pace which is faster than what we have seen in the past.

Hemang Kapasi: Basically can we take a double digit growth in this segment or would it still be a single-digit growth plus the currency appreciation?

Mihir Modi: I think low double-digit figure is safe to assume.

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- Hemang Kapasi:** This quarter the tax rates are pretty high, any particular thing?
- Mihir Modi:** The tax rate seems to be high because of the fair value flow through profit and loss line item that we have, which is a notional cost on the P&L. If you adjust for that, the tax cost is about 32.9% of the adjusted PBT.
- Moderator:** The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.
- Latika Chopra:** I just wanted to understand, how are you looking at the margins going forward in the context that your operating cost inflation was about 9% in first quarter? We do expect programming hours to step up for Zee TV. Would that lead to a higher growth in operating cost going forward coupled with the fact that sports losses are going to be lower than what was being guided in the previous quarter? Of course you just mentioned double-digit growth for overseas subscription revenue, so does this imply that on a full-year basis, and given the kind of cost consciousness that you have, we should expect a significant improvement in underlying operating margin?
- Mihir Modi:** At this stage we would maintain the guidance that we had given. Having said that, clearly there are two elements that will play out in the rest of the year. First, we do have a slight upside in sports in the first quarter which will maintain itself through the year. Second, there will be investments, like you mentioned, in the stepping up of some hours on the flagship. We have plans to launch HD feeds of our existing regional channels so that may push up the cost a little bit. At this stage we would maintain our earlier guidance on the margin. As we go further into quarter two or at the end of quarter two is when we will relook at it and communicate.
- Latika Chopra:** Just a check on your investment in the movie business would stay around Rs. 100-150 crores that was guided earlier or is there any change there?
- Mihir Modi:** It would remain at that level.
- Moderator:** The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** Your domestic subscription revenue seems to have fallen quite sharply QoQ basis. The entire growth in fourth quarter, was it due to the catch up revenues and now it has got normalized? Also on a full-year basis, last year you did 14.5% growth in domestic subscription revenues. Are we looking at a similar growth or could it be in

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the low teens in FY17? Secondly, on your content cost obviously there is some normalization happening this year now with &TV cost reflecting on a full-year basis, are we looking at a mid-teen kind of a cost growth on content cost side or could it be in higher teens as you ramp up the programming hours?

Mihir Modi:

First, clearly on the subscription side it is indeed the lumpiness of the catch up revenues that typically happens every year in Q3-Q4 and that is the reason for the QoQ being what it is, which is a lower number. That's the pattern that plays out almost every year so that's not really indicative of any trend. Second, yes, we expect the subscription revenue growth to be around low-to mid-teens and we maintain that guidance for the full-year. Your last question was about the content cost. As I was mentioning earlier to Latika, the content cost increase will kick-in as a function of some increase in hours on the flagship or national channels. Also, the new launches or new feeds that we have planned will have some incremental cost, may or may not be in the programming line item in case of HD feeds. But Yuva, our new Marathi channel, will have a content cost increase. So all put together, I think the way to look at it is, that yes Q1 is not representative of what the full-year cost is going to be like. But we will take those calls as we go through the year and purely based on the need for investment in various products.

Sanjay Chawla:

Compared to one quarter ago are you seeing some softening in the content cost trends in terms of a full year outlook?

Mihir Modi:

Lot of the content cost is a function of the kind of content that is put up. You may be aware that a non-fiction content is a multiple of cost of the fiction content, it could go as high as 10x, 20x depending on what is put up. Is there a softening, I wouldn't call it that. I think it is the choices that one makes considering the viewership requirement and the consumer tastes and then what goes into that mix will drive the total content cost.

Moderator:

The next question is from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar:

When I look at &TV, you've gone through 3 or 4 content revamp in cycles. When I actually look at the content, the content seems to be good. So is there anything on the distribution or on the marketing side that you would want to call out or any sort of improvement that you believe can pull up the channel. I saw during the couple of

quarters back you had indicated around 8%-9% market share for breakeven. We are still about 50% short from there so just wanted to understand this one better.

Mihir Modi:

&TV is about 16 months old, and any such new channel will have its share of stickiness gap. So to answer your question, yes, there is certainly some improvement that we can bring about in the distribution side of things. Like you said, the content wherever is being watched is being appreciated and there is stickiness there. So overall some of that is also a function of time, where it's a habit formation that takes its own time. I think the way I would put it is, we are already halfway there and are on track to what we want to achieve with &TV. Yes, the improvements not just on the distribution side but even on the content side will continue till we get to our objectives.

Amit Kumar:

My second point was with respect to some of the original content investments that you're making and specifically few channels that I want to call out Zindagi, Zing, dittoTV, any sort of relatively niche or smaller initiatives at this point of time. Is there also a cross media strategy to drive improved realizations because I would presume original content would have some sort of fixed cost, just putting it out on a Zindagi or Zing will, at least in the medium-term, probably not deliver return. So using that same sort of original content on a dittoTV or any other cross media synergies that you would expect here?

Mihir Modi:

Yes and no. First let me answer the no and then I will answer the yes. The primary audience and platform drives what content goes up first. Therefore, just to drive synergies we would not want to compromise the viewer experience. Having said that, there are always windows where there are opportunities for that kind of synergies, where there are overlapping audiences and therefore the content synergies can be exploited there. Particularly, people tend to believe that digital and youth television may have some synergies. So the answer as to how we would explore this is that the first TG will be sacrosanct. Zing, for example, based on that thinking and approach has started to do very well. Having said that, once we have the content, we would really apply our minds and try to exploit it on every platform that we have to optimize the monetization there.

Amit Kumar:

When I look at your international advertising revenue, they seem to be flat to marginally down on a YoY basis even as you sort of continued to launch new channels during the close of the year, anything that you would want to call out on that?

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- Mihir Modi:** I don't think we've called out separately international ad revenues in Q1 last year.
- Amit Kumar:** I was actually comparing it to the 2Q FY16 number actually, my apologies on that.
- Moderator:** The next question is from the line of Kunal Vohra from BNP Paribas. Please go ahead.
- Kunal Vohra:** I wanted to clarify on preference share. My understanding is that assuming that bond yields are stable, value of the bonds will keep increasing based on the accumulated interest because you only make the payment in fourth quarter and thus you should be having Rs. 35-40 crores per quarter kind of a fair value accounting impact, is that right? Maybe this quarter the impact was much higher because of the sharp decline in bond yields just wanted to get the clarification.
- Mihir Modi:** Directionally you are correct, the principles you are applying are correct and that is how it will play out. The exact number may vary but the principle you are applying is absolutely correct.
- Moderator:** The next question is from the line of Ritwik Rai from Kotak Securities. Please go ahead.
- Ritwik Rai:** Can you give us some idea of movie revenues and the profits this quarter?
- Mihir Modi:** We don't strip out business wise or product wise revenues or profitability. The way we split out our total revenues is ad, subscription and other sales & services, and movie revenues would sit in the other sales & services line item.
- Ritwik Rai:** What is the gross box office collection of this Marathi movie that you've mentioned?
- Mihir Modi:** The reported numbers are around Rs. 100 crores gross.
- Ritwik Rai:** In terms of the flagship channel, the viewership has picked up in the past week. But I was wondering about how one should really look at and the kind of divergence that one sees in the urban plus rural and the urban markets. How well our advertisers are warming up to your higher share in rural market and can one assume that if you were to maintain a second position while being behind in the urban market you would still be able to gather good advertising revenues.
- Mihir Modi:** What we are seeing is that there are advertisers who want a certain audience and therefore, as we had originally also expected, we are able to segment the audiences for them better and to that extent it helps the broadcasters. So we are seeing a bunch

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of advertisers who are coming on, have a focus on the rural markets as well. That's the benefit that we are getting out of it and we are selling it highlighting these value propositions to the advertisers.

Ritwik Rai: One should also expect the Zee Anmol revenues to pick up significantly in the coming quarters?

Mihir Modi: Indeed, it has already gained good momentum and we expect it to grow at a healthy pace.

Moderator: The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Jai Doshi: Last year our effective tax rate was about 35%, now this quarter it is 32.5%, so should we expect sort of reduction in our effective tax rate for full year FY 17?

Mihir Modi: I would say you will have to look at the full-year numbers. Quarter on quarter what happens is that, it depends on what activity and what profitability has occurred in which entity, in India, outside India and therefore the aggregate consolidated tax rate may move. I would at this stage guide you a full-year tax rate about 34%.

Jai Doshi: Any change in the receivable days or anything that you've seen from the cable side in this quarter?

Mihir Modi: It's pretty much in line with what we see every year.

Jai Doshi: There was a dispute with Tata Sky, so any color on that will help?

Mihir Modi: It was not a dispute. As we negotiate with cable operators and satellite platforms every year or depending on the contract every other year, this is typically a tactic that is used by all platforms to threaten withdrawal. This is an industry practice. We are negotiating with them as much as we are negotiating with everyone else. There is nothing unusual going on between Tata Sky and us.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question. On behalf of Zee Entertainment Enterprises Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.