



Zee Entertainment Enterprises Limited

Q1 FY18 Earnings Conference Call

July 24, 2017

Edited Transcript

MANAGEMENT:

Mr. Punit Goenka – Managing Director and CEO

Mr. Mihir Modi – Chief Financial and Strategy Officer

Mr. Bijal Shah – Head, Corporate Strategy and Investor Relations

ZEEL TELECONFERENCE July 24, 2017

Moderator: Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q1 FY 2018 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case, 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. Bijal Shah. Thank you and over to you, sir.

Bijal Shah: Thanks. Hello everyone and welcome to Zee Entertainment’s Earnings Call to discuss Company’s performance in Q1 FY 2018. Joining us today on this call is Mr. Punit Goenka -- Managing Director and CEO of Zee Entertainment, along with the senior management of the company.

We will start the call with a brief statement from Mr. Goenka on the first quarter performance and subsequently we will open the call for questions.

Before I pass it on to Mr. Goenka, 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.

Thank you and over to you, Mr. Goenka.

Punit Goenka: Thank you, Bijal. I would like to welcome everybody to this call and appreciate you joining us for the discussion on the results of the first quarter of fiscal 2018.

Let me start by introducing you to Bharat Kedia, who is going to be the new CFO of the company with effect from 1st August 2017. Bharat joins us from Parag Milk Foods where he was the Chief Financial Officer. He brings along over two decades of rich experience of working across industries. I would also like to take this opportunity to thank Mihir Modi, who served as CFO of the company for close to four years. He will be moving to a new role within the organization.

Moving on to other corporate developments, the acquisition of Reliance Broadcast Network is now complete and the financial performance of the same is included in the reported results. We believe that the two channels - BIG Magic and BIG Ganga will help us in serving the audiences better.

We have also acquired the balance 49% stake in India Webportal, which is the third ranked online content publisher in the country. It operates a suite of websites focusing on different genres including sports, entertainment, and news. Being one of the fastest growing digital networks, it gives us an opportunity to reach and understand digital consumers through its various offerings. The acquisition is part of our strategy to strengthen the digital presence.

Now, coming to the financial performance. It was yet another satisfying quarter with a strong financial and operating performance. During the quarter, we recovered from the impact of demonetization and the growth in the first two months was strong. However, the momentum was disrupted in June in the run-up to GST implementation. The advertisers reduced ad spends on existing brands and launched fewer products as distribution chain was not fully prepared for seamless transition to the new regime. Despite the challenge, our domestic ad revenue grew by 7%. Notwithstanding the short-term impact, we believe that GST will aid the advertising spends in the long-run.

Our domestic subscription revenue, adjusted for the sale of sports business, grew by 14.5%. While there is still uncertainty regarding the implementation of the new tariff regulation due to pending litigations, we are confident of driving the subscription business on the back of the strong competitive positions of our channels in the key genres.

EBITDA for the quarter grew by 6.9% year-on-year to Rs. 4.8 billion and EBITDA margins stood at 31.4%. The cash and cash equivalents for the quarter ended June 30th stood at Rs. 35.3 billion.

Now, I will cover the business performance, starting with the broadcasting vertical.

In the preceding quarter, Zee network's viewership share was 16.9%. The pay Hindi GEC bouquet improved its market share and the regional portfolio continued to perform strongly.

Zee TV improved its market share during the quarter and was the second ranked pay Hindi GEC. Our two Hindi GEC's, Zee TV and &tv, had a combined share of 22.7% amongst the top 7 channels in the pay Hindi GEC genre. The two Hindi GEC Free-to-Air (FTA) channels, Zee Anmol and BIG Magic, continued to perform strongly.

In the pay Hindi movie genre, we continue to retain leadership position through our four channels.

Regional entertainment portfolio once again exhibited a strong performance. Zee Marathi maintained its market share as the Number 1 channel in the Maharashtra and Goa market. Zee Bangla was the second most watched channel in West Bengal. In Telugu market, Zee Telugu was the second ranked channel. Zee Kannada improved its viewership share as the second ranked channel in Karnataka. Zee Tamil was the third ranked channel in the Tamil market. Sarthak TV continues to dominate the Odiya market. BIG Ganga, the Bhojpuri channel was the leader in its market.

Zee Café was the most watched English entertainment channel and Zee Studio premiered some of the best movies from around the world.

Moving on to other businesses. Zee Studios, our movie production division, released two regional movies during the quarter, one each in Marathi and Punjabi. Both the movies were received well by the audience.

Zee Music Company, our music label, continued with its library expansion and acquisition of rights in both Bollywood as well as regional music. In Q1FY18, our music label registered 2.4 billion views on YouTube.

OZEE continued to see improved performance metrics with an average of 65 million+ video views per month during the quarter. DittoTV's tie-up with major telecom operators improved traction on the platform.

With these opening comments, we would like to address any questions that you may have.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

Sachin Salgaonkar:

I have three questions. First question is, I understand GST did impact your ad revenues. But going forward, obviously, GST is now implemented, do we see this impact reversing almost immediately or it may take some time? And of course, any change in expectations for your overall industry ad revenue growth for this year?

ZEEL TELECONFERENCE July 24, 2017

- Punit Goenka:** So, Sachin even July has been impacted due to GST implementation. And as I said in my speech, we do expect it to come around pretty quickly but signs are yet to be seen. I do expect some impact in the second quarter as well for the company and the industry but after that the season should come back to normalcy.
- Sachin Salgaonkar:** Okay. So, it essentially means that your industry growth of low teens may see a downside, right? Your overall expectations for calendar 2017?
- Punit Goenka:** Yes. I think, it will have a downward impact for the industry.
- Sachin Salgaonkar:** Okay. And second question, can you remind us how your subsidiaries India Webportal and Margo help in overall contribution to the business and what exactly they do?
- Punit Goenka:** So, India Webportal, as I said is in content publishing business. It has various online portals which are from sports genre to entertainment and news. It is predominantly the advertising driven model that we are consolidating with the company. And Margo is a technology based media business that we are investing in and more of that will be rolled out by end of this calendar year.
- Sachin Salgaonkar:** Okay. And their overall contribution to the business is more to strengthen the existing portfolio?
- Punit Goenka:** Yes, it is still quite small but we expect that to grow significantly going forward.
- Sachin Salgaonkar:** Got it. And third question is you know clearly post Jio launch we are seeing a lot of uptick in terms of content viewing on mobile. And clearly, you shared some of the stats of OZEE, 65 million+ video views and so on. Given that you know OTT revamp strategy for Zee is perhaps sometime away and I remember your last timeline was second quarter of this fiscal. In the interim are there any risks that are part of the ad revenue may not come in direction which is going towards online?
- Punit Goenka:** No. So, because any content consumption that happens on any platform through OZEE or Ditto, we do monetize that on advertising directly. Therefore, I do not see much impact of that in the short-term. And just a correction, our digital OTT revamp is second half of the current fiscal and not second quarter.
- Sachin Salgaonkar:** Okay, got it. And sorry, last question on taxes. For this quarter, it was as high as 48%, anything specific or any one-offs out here?

Mihir Modi: So, yes, Sachin. So, we had some monies which were remitted from our foreign subsidiaries into the Indian parent, and while on consolidation that does not sit as profit because it gets eliminated, clearly there is a tax implication on payout of that dividend. So, optically that additional tax that we paid on the dividend received from subsidiary sits in our tax provision line item, we will get a credit of that payout in our dividend distribution tax. So, from a total tax perspective it is neutral but just the line item has changed and therefore, it appears to be as high as 42%. If I correct for that, the normalized tax is at 35%.

Moderator: Thank you. We have the next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: Now that the sports business is out of the P&L and the margins are improving sharply, just wanted to understand what are the investment priorities lined up for FY 2018 and FY 2019? Anything specific that you could highlight in terms of the key areas and what is the margin reinvestment that you are looking at over these two years? That will be helpful, thanks.

Punit Goenka: Yes. So, Vivekanand, we are looking at several investment opportunities starting from our OTT revamp itself that will happen in the current fiscal. We have several other genres of content line up that we are planning over the next couple of years especially in the regional market as we have demonstrated in the past. All those things factored in, we are still guiding for a 30% plus margin for the current fiscal and hopefully, it is same for next year as well.

Vivekanand Subbaraman: All right. And any specific areas in the regional markets that appear most alluring to you? Would there be say, entry into new markets or would you look to launch flagship channels in your existing markets or would you enter into new genres? That will really help in understanding.

Punit Goenka: I think, the last point is definitely the low hanging fruit as there are several genres within the regional market that we need to still complete our portfolio with, especially down south and also there are some markets where we are still not present in, like Kerala. The priority of each will be in that order and the timing is something that we would like to keep it a bit confidential.

Moderator: Thank you. We have the next question from the line of Ankur Periwal from Axis Capital. Please go ahead.

ZEEL TELECONFERENCE July 24, 2017

- Ankur Periwal:** Just continuing with the content a bit. We earlier had highlighted significant increase in our original programming hours across Hindi as well as the regional, especially the GEC space. Where are we currently and how does the outlook look like over the next nine months?
- Punit Goenka:** So, currently in the Hindi GEC we have about 23 hours of original content and we are planning it to be upwards of 28 hours on the flagship channels at end of second quarter itself. On &TV, we have already moved up to about 26.5 hours of original content and the regional is tracking as per our plan, so there is no shortfall on the regional side.
- Ankur Periwal:** Okay. Sir, secondly on the FTA market now, earlier you did mention of around INR 10 billion sort of ad market overall. But now with the expansion and addition of more channels, especially on DD FreeDish, do you think the overall market expanding further and what is your take on the content which was getting shown earlier on the FTA side?
- Punit Goenka:** FTA genre is still predominantly being driven by repurposing the content that has already run on pay GEC, as it has been demonstrated. I do not see that changing dramatically over night or new players entering given that the pricing of DD Free Dish has also grown up significantly, almost 100% jump in the last one year. So, from that perspective I think the ad market expansion will take some more time on the FTA side.
- Ankur Periwal:** But threat, to let us say the GEC market if at all, can that be envisaged or it is still the distant one?
- Punit Goenka:** No, if you look at it, the large part of the FTA market is still pretty much rural and the number of advertisers targeting that market is limited. Hence, the impact or the risk to the pay GEC is still not very strong.
- Moderator:** Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri:** One, I was trying to understanding the Tamil business. We did talk about it positively two quarters back when we had seen improvement in ratings. But now I see Star doing meaningfully well there and our ratings have plateaued, so some highlight on what is the plan there? And from a OTT or a content perspective, just the

development of Reliance investing in ALTBalaji or Balaji Telefilms that way, does it increase the risk of content available to us? The reason I am saying is that last time Star had an investment in Balaji, they had a content exclusivity agreement on a slot basis and given our two key shows are right now from Balaji. So, just to understand from that perspective.

Punit Goenka:

Yes, so on the Tamil side, Vikash you are right, Star has definitely moved up and we have remained constant in our market share. As I had said in the last two quarters also that we are increasing our investments in Tamil market. When we spoke two quarters back, we were at roughly about 59 hours of original content in Tamil market. Today we stand at 64 hours and our plan over the next two quarters is to take it to about 79 hours of content. As you know Tamil market is a very different market, we have original content playing from 11 in the morning to 11 in the night. And therefore, we will continue with our planned investments in the Tamil market. I would not get too worried immediately as we have a clear strategy as to how we are going to address that market. On Reliance acquiring minority interest in Balaji Telefilms, from our perspective, even when Star had an investment in Balaji, they(Balaji) were supplying content to us even at that point in time, while the slot exclusivity did remain as you rightly pointed out. Today, there is no formal agreement on slot exclusivity but with any production company there is unsaid rule that normally if they have a show on Zee TV let us say at 9 pm, they will not launch another show on a mainline GEC at 9pm without our permission. Having said that, it is still very early days, let us see how the investment plays out, whether they would want to work with the incumbent broadcasters or only provide content to ALT starting from now. So, that is something we will have to see how it plays out.

Vikash Mantri:

Okay. Just one small book keeping number. For BIG TV our numbers were Rs. 20 odd crores, is it? And does it reflect the full quarter?

Mihir Modi:

Yes, the number is correct and reflects full quarter.

Moderator:

Thank you. We have the next question from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.

Alok Ramachandran:

Most of my questions have been answered. Regarding programming hours, any more guidance apart from the increase in programming hours, any content that you could say which is going to come up in the next one quarter that you mentioned? And apart

from that one-off in the quarter, just wanted to know Rs. 53 crores on account of mark-to-market is it on account of preference shares revaluation?

Mihir Modi: So, I will take the second one first, that is indeed because of the mark-to-market or the fair value through P&L line item of the preference shares.

Alok Ramachandran: All right, okay.

Punit Goenka: And on the content side, it will be a mix of regular weekday and weekend programming that you see on Hindi. Of course, it will differ from channel to channel and it is difficult for me to give you color on everything right here. But it will be a healthy mix of both weekday and weekend programming is what I can tell you in terms of numbers of hours increase.

Alok Ramachandran: Right. And apart from that, in terms of ad revenues as well, despite having lower programming hours, is it possible that you have been able to kind of maintain in terms of the growth per say just a small question that if you could...

Punit Goenka: Well, advertising revenue is not a function of how much original hours of content you have. It is function of what viewership you generate.

Alok Ramachandran: But even the viewership got dented sometime back as well...

Punit Goenka: And hence the increase in investment in the number of hours and the improvement that you have seen in the last one quarter on the flagship.

Moderator: Thank you. We have the next question from the line of Karan Taurani from Dolat Capital. Please go ahead.

Karan Taurani: My question was relating to the content cost moving up. You are seeing Netflix, Amazon Prime, investing big money in content. How big a threat they are for you in terms of content investment perspective?

Punit Goenka: So, Karan, let me give you a little perspective. Yes, they are investing heavily in the content as you rightly put it, both on series as well as on film acquisitions. But having said that, if I give you context of last year, Netflix in the U.S. market produced 1,000 hours of original content for their network or for their platform whereas your company ZEE creates 500 hours of original content a week. So, the kind of volume that we buy, we do not see too much of threat to our pricing from their perspective.

Having said that, definitely some eyeball shifts will take place to these platforms but we are ready to deal with that.

Karan Taurani: But don't you think that in this kind of business, the barrier to entry is very low because an AVOD comes up in India - they come, they scale up, and they become a competitor to you versus a TV channel where you have just the big four TV channels dominating right now.

Punit Goenka: Well, it is still early days to see how the OTT platforms will play out. We have seen that even if you look at the period when Reliance Jio was offering free data from September till February, we saw no reduction in consumption of television viewership either in terms of reach or in terms of the minutes of consumption per day. So, I think what the new platforms do is that they are adding new audiences to the market rather than cannibalizing into the existing television piece to start with. Having said that, in the long run it is definitely something we have to be cognizant of. With the bandwidth cost coming down and more content being available on various platforms, there will be competition from them and we have to gear up to ensure that we maintain our share of eyeballs, whether through television or through our OTT platform services that we offer.

Karan Taurani: So, do you think it makes sense in going aggressively for having a new platform in place of going for some original content available exclusively for online, something of that sort, to compete with the competition.

Punit Goenka: I agree with it. Karan, I agree with you.

Moderator: Thank you. We have the next question from the line of Manish Adukia from Goldman Sachs. Please go ahead.

Manish Adukia: I have two questions on the medium-term to longer-term outlook for the business. First one is on the subscription revenues, quite strong domestic growth in this quarter and probably this will continue over the next couple of years as digitization benefit fully flows in. But post that, will it be fair to say that subscription revenues for Zee will grow in line with ARPU growth at the consumer level for the likes of DTH players and cable operators. And given competition from Free-to-Air, Free Dish, and digital probably that growth could be in the range of low- to mid-single-digit, so just wanted to take your views on that.

ZEEL TELECONFERENCE July 24, 2017

- Punit Goenka:** No, I think it depends on definition of mid to long-term. I think for the next three years, at least, I can foresee growth in the mid-teens for the subscription revenue to come in. And once that is saturated, yes, you are right in saying that the growth would be in line with ARPU growth that the market witnesses. But you will have other platforms coming to compensate for any slowdown in the traditional cable or satellite distribution of pay revenue and we hope to have that compensate for the slow down there.
- Manish Adukia:** Sure. So, when you say over the next three years, mid-teens kind of revenue growth, most of this is because of digitization, so for the next three years you are assuming that digitization benefits flowing in and that is where you should get mid-teens kind of numbers, that is correct, right?
- Punit Goenka:** Correct.
- Manish Adukia:** Okay, great. And my second question, if you can just remind us, the businesses outside your ad and subscription, for example music, movies, live, etc., all of this put together what is the kind of contribution that you are foreseeing for the business top-line by say 2020? What is the kind of top-line contribution that you expect from these businesses put together outside ad and subscription.
- Mihir Modi:** So Manish, I think where we stand today is that clearly the broadcast business and therefore the ad and the subscription revenues streams are larger chunks and the other businesses are nascent. Those businesses will continue to grow at a very fast pace. However, the TV ad and subscription growth is also expected to be healthy as you just mentioned and therefore, we expect in the next three years the timeline that you are indicating, the TV broadcast business or the ad and subscription revenue streams will continue to remain dominant while the others will grow hopefully faster than those revenues but it will not change the proportion in our estimate at this stage by 2020.
- Moderator:** Thank you. We have the next question from the line of Amit Kumar from Investec. Please go ahead.
- Amit Kumar:** Just a quick bookkeeping question to begin with. So, Mihir, if I get it right, this excess tax that you have, you will have credit for this and by the time the dividend payout for the parent company Zee essentially rolls out by the end of the year, you will be

able to set it off. So, full year tax rate would be still in the region of the nominal tax rate that we see 34% - 35% or something different?

Mihir Modi: No, so the way it will work Amit is while cash flows wise you are absolutely correct, we will set it off right away. So, for example the dividend that we paid out now after the AGM, is offset against that dividend tax that we paid and therefore, cash flows wise it is neutral. However, from an income tax provision line item in the P&L it will continue to be higher than the normalized 35% because that is how the accounting entries for these taxes will work.

Amit Kumar: Okay. Just quickly on RBNL, so understood the revenue contribution was around Rs. 20 crores, but was there a drag in terms of margins from this business and again in a medium-term in a one-two-year perspective what are your expectations be that in terms of operating metrics or in terms of financials from this business?

Punit Goenka: Yes, there was a drag in the first quarter in terms of profit margins, but we expect it to be positive over 12 months for both the channels put together on bottom-line as well.

Amit Kumar: So, just a quick follow-up on this, if I look at the performance of this channel, it does reasonably well in rural and I presume that is because it is present on Free Dish. But when we look at the overall performance metric in terms of ratings, it is not there even in the top 10. So, where do you sort of peg the channel be to - three years down the line in terms of market share, in the overall Hindi GEC space in terms of positioning really?

Punit Goenka: So, as I said we are just taking over the business, the Bhojpuri business is already market leader in that market and is generating positive bottom-line for us. BIG Magic, until last year was not running any original content, we have started the investments in that channel only in the last quarter and we do expect its market share to rise and give competition to the existing portfolio of the Free-to-Air channels and find its space. We do expect it to be a part of a formidable bouquet strategy for us for the male and the kids genre in that perspective.

Amit Kumar: All right. And finally on DittoTV, again if you could just give us some sense in terms of operating metrics and we have sort of spoken about this in the past also. Last year how did DittoTV do in terms of ARPUs, in terms of number of subscribers? And the second is, with the sports channels going to Sony and that is essentially getting out of

DittoTV as well, does that sort of impact the operating metrics going forward and is the subscription attraction more because of sports or the other set of entertainment movies and news content that you have on the platform.

Mihir Modi: Amit, so what I would say is that we have been talking about our overall OTT strategy which we are going to talk in second half of this fiscal. And therefore, to kind of analyze for ourselves is something that we have parked for later because we are working on a new strategy factoring a whole lot of learnings from Ditto, OZEE. So, at this stage I think Ditto's performance is less relevant. What is more relevant is how we are factoring all of that into our strategy which we will be able to talk about in H2.

Amit Kumar: I am just requesting a historical perspective FY 2017, if there is anything you can share otherwise I will pass no issues.

Mihir Modi: I think, FY 2017 also is not one year. I think during that year we had experimented with Ditto a lot, some initiatives that we took in that year worked very well for us whereas, a few other initiatives did not give us that much success. So, at this stage I would leave it at that. In any case, we are going to refresh our overall strategy.

Moderator: Thank you. We have the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: My first question is, Punit, could you please comment on the trends in digital versus TV ad spends, when does digital start impacting the TV ad spends in India, in a way that brings down the overall growth rate for TV ad spends, how soon could we reach that inflection point, that is one. Secondly, with regard to the FTA market, where we have seen strong growth and additions of new channels and obviously, is there a risk in terms of impact on the Pay TV revenues? Is there any understanding emerging or any discipline emerging among the broadcasters with regard to the windowing of the fresh content, be it movies or shows? This is the second question. And third question is if you could share your thoughts on the impact of just this Jio Cable TV, the cord which is being launched in the Pay TV market.

Punit Goenka: Right. So, I will take the last one first. Jio cable TV is something that we also learnt about on Friday when they announced it. It will definitely have an impact on the cable subscription or the satellite subscription business and we will have to deal with it when we start our conversation with them on the deals to be done. On the digital ad spends impacting television, as I mentioned, the OTT or the online business is still

pretty nascent in our country and despite consumer having access to free bandwidth over a period of close to five-six months, we did not see any drop in viewership on television which only gives me to believe that digital platforms are first attracting new audiences to themselves. Having said that, India being predominantly a single TV household, the second screen is becoming your mobile phone or your computer. I still think there is some time before it starts impacting television viewership. And hence, the advertising impact, how soon will that happen is anybody's guess, I mean we are tracking the market as we speak on a monthly, quarterly basis. We are getting with our own strategy to counter any loss that may happen to us in the future. And could you repeat your second question once again.

Sanjay Chawla: Yes. On the FTA market where we have been discussing the risk on the Pay TV revenue, I mean is there any understanding or discipline emerging among the broadcasters with regard to the windowing of content, fresh content, be it movies or shows?

Punit Goenka: I cannot comment on the other broadcasters but we definitely have a discipline of what we do in terms of windowing on our FTA channels. On the GEC, we only put content in the FTA which is already gone off air on the pay GEC, you will not find any overlap of content between pay GEC and FTA GEC. On the film side, we have a strict policy of less than 15% duplication on an annualized basis between pay movies and Free-to-Air movies. On the new films, we have a two-year delayed window for FTA.

Sanjay Chawla: Okay, that is very useful, thank you. On that first thing that you mentioned with regards to the Jio Cable TV, are you hinting at pulling out some of the content from the platform in case that starts gaining market share with vis-à-vis Pay TV?

Punit Goenka: No, Sanjay, I am not hinting anything. I am saying, let us wait and watch what the deal throws out.

Moderator: Thank you. We have the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: What are the contours of Phase-II of this Sony Sports deal?

Punit Goenka: It is still under progress. We hope to complete the transaction by late August or September early this year.

Vipul Shah: Okay. But, in second stage means what type of cash we should expect?

ZEEL TELECONFERENCE July 24, 2017

- Punit Goenka:** We have \$40 million which is currently held up for that.
- Vipul Shah:** \$40 million?
- Punit Goenka:** Yes.
- Moderator:** Thank you. We have the next question from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** Sir, this is regarding the impact of digital, obviously, we talked a little bit about it earlier. But if I look at the rating of the top 10 GEC's and do a Y-o-Y comparison, we see the growth in viewership is about 4% - 5%. Now, this is despite about 15% increase in the universe of BARC that happened in the month of January or February. So, is it the right way to look at it in terms of the GST impact which is playing out?
- Punit Goenka:** No, I do not think it is comparing apples-to-apples, if the universe has grown 15%, a large part of that would have come in the rural market and therefore, FTA would have played some role in that. But apart from that, no, I do not think that is the way to look at it in pure comparison.
- Yogesh Kirve:** Okay. And sir, second question, just wanted to have your thoughts on the high budget or the big scale projects. Is Zee TV open for this kind of content investments and just your thoughts on this thing.
- Punit Goenka:** We are open to any kind of investments subject to return on the investments that we can foresee. So, we will not shy away from high ticket content as long as we can see the return on investments.
- Moderator:** Thank you. We have the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Just two quick questions, one is obviously you will be discussing the digital strategy in detail in H2. But I was wondering the margin guidance of (+30%) that you have given that probably includes the investment that could be entail in that?
- Punit Goenka:** Absolutely, correct.
- Rohit Dokania:** Okay. And last quick question, can Mihir talk about the sort of tax rate that we can expect from a P&L perspective for this year?

ZEEL TELECONFERENCE July 24, 2017

Mihir Modi: So, I would say that our normalized tax rate is about 35% and you can add to that about Rs. 55 crores roughly and whatever percentage you get is the impact.

Moderator: Thank you. We have the follow-up question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: Just a couple of questions on subscription. Any update that you would like to share on the court cases pertaining to the implementation of TRAI regulations that is one. Secondly, is it fair to look at the FTA content being provided on Free Dish as a trade-off between ad revenue and subscription income, will that even be a subscription market ever, that is two. And lastly, if you can break down the 14.5% adjusted subscription revenue growth by volume and realization improvement that would really help. Thanks.

Punit Goenka: So, the FTA market today shows no signs of it becoming pay. Doordarshan or DD Connect is a Free-to-Air platform as we know it. Any trade-off between subscription or ad revenue of FTA, difficult to say because despite FTA growing, we are also growing our subscription revenue at a healthy mid-teens level. So, I cannot say any cannibalization taking place there. We have seen certain growth slowdown in the DTH companies' number but that could be on account of several things and not just the FTA part. Having said that, I would think that pay MSOs or DTH companies should make effort to try and see how to offset to the FTA consumer to buy the pay packages but that is their model and not ours.

Vivekanand Subbaraman: Could you break down the subscription revenue growth by volume and realization growth?

Bijal Shah: So, if you look at overall Pay TV homes in India, they are growing by 3%-4% and generally, our channels are available to almost every household in India. So, except that 3%-4%, a large part of growth which is coming is primarily on account of value growth rather than volume growth now. And there is some element of HD and some pack upgrades, but it is largely, a large part of that growth is the value growth. So, that is increasing ARPU from existing subscribers.

Vivekanand Subbaraman: Right. And lastly on the court cases, any update on the implementation of TRAI's tariff order?

ZEEL TELECONFERENCE July 24, 2017

- Bijal Shah:** As you know that first court case which is between Star and TRAI, is still going on. Star has filed a rejoinder. So, let us see how soon it gets sorted and after that there is a possibility that the losing party may go to the Supreme Court. So, once that is done then only we will be able to get very clear signs of whether the TRAI's new regulation will be implemented, and if it will be implemented, when it will be implemented because the industry will also require some time from the date the final order comes, to prepare for this big change in the entire model of distribution of broadcasting channels. So, it is a bit early to give a deadline or give a timeline when new tariff regulation will come into the play. However, it should be clear it will not be a couple of months' time.
- Moderator:** Thank you. We have the next question from the line of Sanjeev Hota from Sharekhan Limited. Please go ahead.
- Sanjeev Hota:** Just a clarification, this other income includes only the treasury part. Am I correct?
- Mihir Modi:** Yes, that is correct.
- Sanjeev Hota:** Again sir, what the yield we were getting and what the cash balance at the end of Q1?
- Mihir Modi:** So, we do not publish our balance sheet at the end of Q1. But you can assume that the cash balance at the end of the March balance sheet figures would have reduced broadly by the preferential coupons and the dividend payout and some investments. So, I think that is an indicative level of the investments and cash balances that are there on the balance sheet.
- Sanjeev Hota:** And just, the staff cost is like increased on account of RBNL's consolidation?
- Punit Goenka:** So, the consolidation of RBNL has a small impact on staff cost increase. This is inflationary and some of the staff for growth purposes that we have spent on.
- Moderator:** Thank you. We have the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.
- Dipesh Mehta:** Two questions. One is about the international business. I think last time we indicated some regional specific issues. So, can you provide some more detail about this? And by when you expect stability to return on the international side? And second is, can you help us understand CAPEX for the current year?

ZEEL TELECONFERENCE July 24, 2017

Bijal Shah: So, we have talked about issues in Bangladesh, and that issue continues and impacted advertising revenue during this quarter. We are in touch with the Bangladesh Government to resolve this issue. Let us see, I mean, it is slightly difficult to give any timeline to this but we are actively working with the government.

Mihir Modi: On the CAPEX, I think there is our maintenance CAPEX which happens every year to the tune of about Rs. 120 crores to Rs. 150 crores plus, there are some additional CAPEX items that we have spent on building some studio facilities and that will add up to the CAPEX spend that we have planned for this year.

Dipesh Mehta: So, how big would be the studio related CAPEX this year?

Mihir Modi: So, it is an ongoing cost which we are spending every year. This year, we expect another Rs. 50 crores that will increase in that item.

Dipesh Mehta: So, put together around Rs. 200 crores?

Mihir Modi: I think that is a fair estimate.

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

Vikash Mantri: From the Reliance Jio event, during the tariff order discussions and debates there was a demand from a lot of people to include the digital distribution of content also under the non-discriminatory clause. Basically, today broadcasters provide content to digital platforms at a relatively different rate or a much cheaper rate than they provide to DTH or Cable TV. So, would that become much more relevant now given Reliance Jio?

Punit Goenka: Well, as of now, the tariff order does not envisage any such provision for it to be included, the OTT part to be included as part of the tariff order. Going forward, we will see if TRAI takes a view on that or not and right now, it is difficult for me to comment on that.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Just a quick one on Phase-IV digitization, what is the status? What is the progress? Has digitization been fully implemented? Or are there still areas of analogue cable in Phase-IV?

ZEEL TELECONFERENCE July 24, 2017

- Punit Goenka:** Phase-IV digitization is taking place across the country as we speak, barring Tamil Nadu, where they have got an extension till, I think August 19th. Beyond that, everywhere else it is happening as anticipated by us.
- Amit Kumar:** Just a quick one on this, when do you sort of expect it to be completed? Because technically, you have a situation where MIB has not extended the deadline, so analogue signals should be switched off. So, how do we sort of look at this essentially?
- Punit Goenka:** The reality of the situation is that while digitalization is happening, piracy is also taking place and we as broadcasters are policing that in a vigilant manner and it is a matter of time when it gets completed. So, I think in another six to nine months is what we think it will take barring Tamil Nadu as I talked about.
- Amit Kumar:** Six to nine months.
- Punit Goenka:** This is my guess. It is not as if I have done some working on it. It is a guesstimate I am offering to you.
- Amit Kumar:** All right, sir. Sure, not an issue. My second point was, I think somebody sort of mentioned your incremental investments in terms of big ticket content and I think the allusion to films also. There is certainly a change out here where you were not investing in some of those big budget films for a couple of years. And suddenly, we have seen two big films essentially come in. You also mentioned that we are happy to do investments subject to returns. So, on that return side or really on the revenue side has something changed materially? Are advertisers sort of willing to pay more in terms of ad rates or you are sort of getting incremental revenues on the digital side for some of those big-ticket films essentially? So, what has really changed on the returns side for you to come back and invest?
- Punit Goenka:** No, I think investing in films has been happening since the last four to five years. I think you are referring to a period before that when we were abstaining from buying high priced films and at that point in time also, because the pricing had gone completely out of control, we chose to stay out. Since then pricing has settled down and become far more relevant in the last two to three years and hence, we are buying a lot more films per se. And of course, yes, monetization is improving as we speak on not just our movie channels but also on the digital platforms for us to make those investments.

ZEEL TELECONFERENCE July 24, 2017

- Moderator:** Thank you. We have the follow-up question from the line of Rohit Dokania from IDFC Securities.
- Rohit Dokania:** Just one quick question. So, the revenue that we earn from the digital platforms let us say the DittoTV platform in which line item is it booked?
- Mihir Modi:** There is some ad sales which is booked in the ad sales line item and there is subscription as well and that is booked in the subscription line item.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bijal Shah for closing comments. Thank you and over to you.
- Bijal Shah:** Thank you, everyone for participating in this call. If you have any follow-up question on the results, you may please reach out to the Investor Relations team. We are happy to help you on this. Thank you very much and look forward to talking to you next quarter.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Zee Entertainment Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.