4Q FY2013 EARNINGS CONFERENCE CALL

May 22 2013, 1500 HRS IST

Moderator Ladies and gentlemen good day and welcome to the Zee Entertainment Enterprises Limited Q4 FY13 Earnings Conference Call. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Kanwaljeet Singh. Thank you and over to you Mr. Singh.

Kanwaljeet Singh Thank you Mohsin. 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 fourth quarter of fiscal 2013 and to share with you the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you have had the chance to go through the 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. Atul Das – Chief Strategy Officer.

We will start with a brief statement from Mr. Goenka on the fourth 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 Fourth quarter of fiscal 2013. Let's begin with details of some of the key developments of the quarter focusing on the Financial Performance.

ZEE's advertising revenues during the quarter were Rs 4.79 billion, showing a growth of 15.5% yoy. This has been significantly higher than the industry growth recorded during the quarter, aided by improvements in viewership shares. For full year FY2013, advertising revenues increased by 24.0% to Rs 19.6 billion.

The total subscription revenues for the quarter were Rs 4.55 billion, registering an increase of 13% over the corresponding quarter last fiscal on reported numbers. During the current quarter, domestic subscription revenues stood at Rs 3.37 billion, while international subscription revenues were Rs 1.17 billion. Domestic Subscription revenues are up 13.5% yoy on reported basis. Like-to-like growth was even higher neutralizing the MediaPro consolidation effect in Q4FY12. Subscription revenues from international operations are up 11.7% in rupee terms. International revenue growth, of course, has been aided by rupee depreciation. For the full year FY2013, subscription revenues were Rs 16.23 billion, recording a growth of 22.6%. Domestic subscription revenues were Rs 11.65 billion, recording a growth of 26.3% over last fiscal; while the international subscription revenues were Rs 4.59 billion, recording a growth of 14.0% over last fiscal.

FY2013 was, in fact, a defining year for the television media sector in many ways. The biggest transformation was the implementation of Digital Addressable System (DAS) in the 42 largest cities of India. At the end of March 2013, there were an estimated 33 million net digital pay TV homes on DTH and an estimated 16 million homes on digital cable, up from 29 million DTH and 4 million digital cable homes in March 2012.

On the cost front, programming & operating cost in the quarter was Rs 4.67 billion as compared to Rs 4.24 billion in the corresponding period last fiscal, an increase of 10.1% yoy. Employee cost has gone up by 10% over the corresponding period last fiscal. Selling & other expenses in the quarter were at Rs 1.72 billion, as compared to Rs 2.09 billion in the corresponding period last fiscal, showing a decline of 17.9% over the corresponding quarter last fiscal. Total costs incurred by the Company in this quarter were Rs 7.22 billion, an increase of 1.8% over the corresponding period last fiscal. For the full year FY2013, total costs incurred by the Company are up by 19.3% to Rs 27.45 billion. I would like to highlight that this increase in cost is on account of substantial investments in content and marketing for the existing channels. We also incurred costs on account of new investments done over the last twelve months including Ten Golf, Ditto TV, HD channels, Zee Alwan, Zee Bangla Cinema and ZeeQ amongst others. This is in line with the Company's philosophy of investing in the business for the long term growth.

During the quarter, the Company's operating profit (EBITDA) was Rs 2.42 billion. The operating (EBITDA) margin for the quarter was 25.1%. Excluding sports business, the EBITDA margin stood at a healthy 33%. Profit After Tax (PAT) for the quarter stood at Rs 1.80 billion, a growth of 10.7% over the corresponding quarter last fiscal.

For the full year FY2013, the Company's operating profit (EBITDA) was Rs 9.54 billion. The operating (EBITDA) margin expanded from 24.3% in FY12 to 25.8% in FY13. Profit After Tax (PAT) for the year stood at Rs 7.18 billion, a growth of 21.6% over 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 405 million.

As of March 31st, 2013, the Company has a gross debt of Rs 17 million and Net Cash of Rs 13.1 Billion.

We are happy to announce that the Board of Directors of the Company at the meeting held today have approved payment of Equity Dividend of Rs 2 per share of Re 1 each (equivalent to 200%) on the capital, subject to approval by the shareholders.

In addition to this dividend, as a special reward to our shareholders on completion of 20 years of Zee, the Board of Directors of Company has also announced issuance of Redeemable Preference Shares aggregating to Rs 20 billion by way of Bonus to shareholders under a Scheme of Arrangement. Such Bonus issuance of Preference shares shall be done by capitalization of Securities Premium Account and/or other reserves; and will be subject to appropriate statutory and regulatory approvals / exemptions.

I would now like to cover the Business Performance.

During the quarter, Zee TV averaged 220 GRPs recording a relative share of 19% among the top 6 Hindi GECs. The market share was even better in the Prime Time band, where Zee TV averaged 137 GRPs recording a relative share of 20%. The channel delivered a weekly average of 26 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 *Fear Files*. *Zee Cine Awards*, telecasted on 20th Jan, garnered a good viewership rating of 3.5 TVRs. The key shows and events planned in the forthcoming quarter include *Connected Hum Tum*, *Punar Vivah – Season 2* and *DID Supermoms*.

Zee Cinema was No. 1 channel in its genre, averaging 119 GRPs during the quarter with a relative share of 35% among the top 3 Hindi movie channels. The key properties of the channel during the quarter were *Lage Raho*, *Shanivaar Ki Raat Sitaron Ke Saath* and *Cinema Hall*. The forthcoming quarter will see premieres of popular movies like *Heroine, Race 2, Kai Po Che, ABCD* and *Barfi.*

Zee Marathi delivered average weekly GRPs of 200 during the quarter recording a relative share of 35% amongst all Marathi GECs. The channel delivered a weekly average of 9 shows among top 50 shows including top non-fiction shows such as *Dance Maharashtra Dance* and *Foo Bai Foo*.

Zee Bangla delivered an average of 381 GRPs in the quarter ranking a clear second in the Bangla GEC genre recording a relative share of 41%. The channel leads the non-fiction genre with 87% market share. The channel delivered a weekly average of 4 shows among top 10 shows during the quarter led by the top rated non-fiction shows like *Mirakkel Akkel Challenger 7, Dance Bangla Dance - Junior 2012* and *Didi No.1 – Season 4*.

Zee Telugu averaged 310 GRPs during the quarter recording a relative channel share of 19%. *Pasupu Kumkuma* and *Muddubidda* were the top fiction shows on the channel during the quarter. *Super Mom* and *Bindas* were the top rated non-fiction shows.

Zee Kannada averaged 215 GRPs during the quarter recording a relative share of 18%, driven by popular shows like *Radha Kalayana*, *Parvathi Parameshwara* and *Omkara*. Zee Tamil averaged 96 GRPs during the quarter.

The key properties on our Sports channels bouquet during the quarter included telecast of *Pakistan Vs South Africa* cricket series, *West Indies Vs Zimbabwe* series and *New Zealand Vs South Africa* series. *WWE* continues to be a strong property attracting audiences as well as advertisers. The forthcoming quarter would see the telecast of cricketing events like *West Indies/India/Sri Lanka* tri series, *UEFA Europa* league Finals and *UEFA Champions League Finals*. The sports business revenues in the fourth quarter of FY2013 were Rs 1,072 million, while costs incurred in this quarter were Rs 1,477 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 seveal networks across Canada. In Europe, the first locally produced British Asian drama series 'Cloud 9' was launched on Zing. Zee TV and Zee Cinema were the number 1 TV channel in their respective genres among South Asians in UAE for the quarter ending March 2013.

Fiscal 2013 has been a good year both on operating as well as financial parameters. Consolidated revenues have increased driven by strong growth in both advertising and subscription revenues. ZEE gained viewership share with improvements across genres, both in national and regional languages, which led to outperformance in advertising growth relative to the industry. Domestic subscription revenues have grown driven by digital subscribers. We have recorded EBITDA margin expansion despite our investments in new businesses.

The improving economic outlook augurs well for the media and entertainment sector. We are hopeful that a steady growth in ratings will help ZEE deliver better performance in the coming quarters. Our content-focused approach combined with better monetization of subscription revenues, especially from digital markets, will contribute to the company delivering steady and sustainable returns 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. 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 Sachin Salgaonkar from Goldman Sachs. Please go ahead.

Sachin Salgaonkar I have three questions. Can you help us understand the outlook for ad revenue growth for FY14? Secondly, any update on digitization from perspective of subscription revenue growth? And lastly, any update on a buyback program that would be helpful?

Atul Das As far as your first question is concerned on the advertising revenue, let us first talk about what happened in fiscal 2013 and then we will update on the fiscal 2014 situation. As you know for the full year fiscal 2013 the company delivered 24% growth on advertising. This has been a big out-performance compared to the growth that the television industry has seen during the year and that has been led largely by the market share gains that we saw throughout the year. Almost every quarter we have seen the out-performance coming through. As far as the next year is concerned there is not much of a change in the total advertising environment. We still see the entire environment being a little soft and the expectations are more of high single digit growth on the television segment. Our performance will very much depend on how our market share moves and we are obviously making all efforts to grow our market share.

Coming to the second part of update on digitization, we have seen a successful implementation of DAS I and DAS II and therefore almost all of the 42 cities except those in AP and Chennai have already gone digital. As per various government reports DAS II has seen about 95% plus implementation, while on the ground reports suggest that it may be a little lower, but still very good.This shows the commitment of the industry as well as of the government to roll out the digitization process and we are very hopeful that the benefits of this will be seen by the company. As evident from our fiscal 2013 results, our domestic subscription revenues have grown by over 26%. This has been a healthy trend relative to what we have seen 2-3 years back. Benefit of digitization on the subscription revenues of the company are expected to continue, though the levels of growth can be slightly different depending upon how they pan out between DAS II and DAS III. The bigger opportunity lies in DAS III and DAS IV because the absolute number of subscribers in these phases are far higher than what we have seen in DAS I and DAS II. We are very hopeful that process of digitization will continue into the next phases as well.

Your third question was relating to buyback. Last year we had a buyback program which as per the shareholders' approval was allowed to a maximum of Rs. 140 per share and the total quantum intended for buyback was Rs. 280 crores in fiscal 2013. We ended up buying back about Rs. 59 crores worth of shares. Around June 2012, the price crossed the Rs. 140 barrier and after that ZEEL has not been able to buy back any shares. The buyback program is now over and is no longer in place. But as you know the Board has announced a bonus issue of preference share to mark the 20th year celebrations of the company. 21 preference shares will be issued for every one equity share held. This will lead to a total payout of Rs. 2,015 crores over 8 years. The terms, if I may just highlight are that the preference share issue will carry a dividend of 6% and it will have a tenure of 8 years. Redemption of the preference share will happen from the fourth year onwards till the eighth year equally every year. So one-fifth of the portion of the preference share would be redeemed every year which means Rs. 400 crores of preference shares would be redeemed from the fourth year onwards till the eighth year. These preference shares will be listed on the stock exchange. To summarize, these are cumulative redeemable preference shares with a coupon of 6%. They would be redeemed from the 4th year to the 8th year in equal installments. These would be tradable instruments.

Sachin Salgaonkar Just a small follow-up question, is basically so there is no new buyback program which will be in place for current fiscal, right?

Atul Das No.

Sachin Salgaonkar Also has the Dish TV contract been renegotiation in Q4FY13?

Atul Das As per the policy we do not comment on specific contracts Sachin, but yes our renewals are in progress as per normal.

Moderator The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy My first question is on the Hindi versus regional market – broadly market shares are very similar in both, 18-19% kind of a range. So now does the market share in viewership mirror the market share in revenue in advertising and subscription in the regional markets of say Telugu and Kannada versus the Hindi market? So some insights into that?

Punit Goenka Individual markets would not be equivalent to the Hindi market because Hindi market by virtue of the spread is much larger. But the aggregate of the regional markets put together would be very similar to the Hindi market.

Abneesh Roy No sir my question is if you see the South market there is one dominant player, which means the #2 or #3 players revenue share might be much lower. You have your similar market share, so supposing in Hindi you have a 19% share, your revenue share might be a bit higher versus that 19% because it is a much more fragmented market. But in South although you have a similar viewership your revenue share might be much lower, right?

Atul Das Why would you say that Abneesh?

Abneesh Roy Because there is one very strong dominant player and it can charge a premium on advertising.

Punit Goenka That is relevant only for Tamilnadu, not for the rest of the markets.

Abneesh Roy Sir, second is some update on your new initiatives which you did in FY13. Also you had given us a number of Rs 150 crores investments in FY13 on these new initiatives, so how does FY14 look with respect to that. Also on sports loss if you could give us some number you are looking at in FY14?

Punit Goenka Abneesh, on the new businesses we had highlighted there would be losses during fiscal 2013 and we are almost on track as far as those performances are concerned. We would not like to talk about a number for fiscal 2014 but our investments will continue into new businesses for a few years.

Abneesh Roy Are you commenting on a specific number for sports? Why I am asking is because if you see the revenue quarter on quarter, it is flattish in Q4. But the cost has gone up so obviously Q4 had cricket properties. Now FY14 has India matches, so how does one model this, especially quarterly? If you could give us some details, that would be very helpful?

Atul Das On the sports bit, if you look at the fourth quarter performance, we have incurred a loss of about Rs.405 million and for the full year the losses have been Rs.862 million. If you compare it relative to the last two years, fiscal 2012 we had incurred a loss of Rs.1.48 billion and fiscal 2011 the loss was about Rs. 2 billion plus. So if you see the trajectory of change which is very positive, even though we are in losses the situation has improved substantially. I would also like to highlight that the trend would remain the same. We should see a lot of improvement in absolute numbers except for the fact that we have significant sports properties coming up in fiscal 2014. That is the only thing which will skew the performance and hopefully from fiscal 2015 onwards again you will see a bigger improvement. So for fiscal 2014 because the level of sporting properties that we will showcase during the year is much higher, you can see numbers which are more or less in the same zone as fiscal 2013.

Moderator The next question is from the line of Shobhit Khare from Motilal Oswal Securities Limited. Please go ahead.

Shobhit Khare First question is on domestic subscription revenues, if you could share whether there is any one-off in this fourth quarter number or it can be taken as a run-rate? I am asking this because there were some contract renegotiations, so just want to understand if there is any prior period item in this? And second is if you could share some outlook on your non-sports margins?

Atul Das We have seen a 32.5% margins excluding the sports losses, otherwise overall margins are 25.8% for the full year. As I have highlighted, the sports losses will remain in fiscal 2014, largely because of number of properties being higher. So I think from that perspective sports will not contribute much to an improvement to the overall margins. Coming back to your question on one-offs in the 4Q numbers, I think we have highlighted in the past that in subscription revenues there is some lumpiness every quarter because of signing of contracts which were due in prior periods. It will be very difficult to pinpoint what would be the quantum of such renewals. So it is more important to look at the full year numbers which gives you a normalized trend.

Moderator The next question is from the line of Hiral Desai from ialpha Enterprises. Please go ahead.

Hiral Desai Sir just wanted to check if I look at the domestic subscription growth for the entire year it is about 23%, so just wanted to understand what kind of yield improvements have we seen? MediaPro is now operational for about close to two years. Just wanted to get a sense on that and given that now DAS I and DAS II are sort of through, are we moving more towards per subscriber basis revenue working or it still remains on a lump sum basis?

Atul Das First, I would like to correct on the numbers. The total subscription revenues in the fiscal 2013 have grown at 23% but the domestic subscription revenues have grown at 26.2%. Your question on how the contracts are getting signed in the digital environment, our preference always is towards per subscriber contracts because in a digital environment that is an appropriate way to enter into contracts. But there could be a mix of both fixed fee contracts as well as per subscriber contract based on the comfort of the other party. So I would say it still remains a mix.

Hiral Desai So about a year back I think probably less than 10% of our overall subscription revenues were on a per sub basis, has that changed much or there will be a marginal impact?

Atul Das I do not know how you got those numbers. We cannot really give those in detail but I would say that the trend is shifting or let us say changing towards the subscriber linked contracts. And hopefully in another year's time we will see a far bigger shift happening towards subscriber linked contracts.

Hiral Desai Lastly, just wanted to check on the loans and advances number, I think year over year it is up by about 35%, so any particular reason there?

Atul Das Our business related loans and advances have several contracts for film acquisition as well as content acquisition related to our normal programming and sports programming. A large part of the loans and advances are actually linked to acquisition of content.

Moderator The next question is from the line of Siddharth Goenka from JM Financials. Please go ahead.

Siddharth Goenka Sir my first question is on the programming cost which grew almost 22% yoy. As you have been mentioning that we will continue to invest, so basically I wanted to understand what kind of growth can we expect on the programming cost front in the future?

Punit Goenka On the non-sports programming cost, you can easily factor in a growth level of 15% to 18%, excluding new businesses.

Siddharth Goenka And this will include the losses in the new investments also, I mean like Rs 150 crores is what the losses were last year and we will continue to have those investments?

Punit Goenka As Atul already said, losses will continue for a couple of years.

Siddharth Goenka And one last question on the other income that also is up sequentially, what is the reason behind the same?

Atul Das Last quarter it was Rs 36 crores, this quarter it is Rs 53.7 crores. There was a sale of treasury investments, so that contributed to the increase.

Moderator The next question is from the line of Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal My question is why did you choose this redeemable preference share mode to reward the shareholder versus the other option of higher dividend payout, special dividend or potentially increasing the price of stock buyback? So what was the thought process behind choosing this option?

Atul Das Basically special bonus issue of cumulative redeemable preference shares has been to mark the 20th anniversary of ZEE. We wanted to make a commitment of giving back the capital to shareholders over a period of time. So as you can see it is a Rs. 2,000 crores commitment and from the fourth year onwards till the eighth year, every year Rs. 400 crores will be paid out to shareholders through the redemption. As far as options between cash dividend, buyback and other options, the Board did consider all of them and based on various parameters, like flexibility, optimal capital structure and growth opportunities for the company this was considered to be the best and that is how we arrived at this option.

Ankur Agarwal Secondly, just wanted to double check on the content cost you are suggesting that sports we would see a spike because of India going to South Africa etc. those series but non-sports you are looking at an increase in the range of 15% to 18%. Is that correct?

Punit Goenka Probably that's the plan, excluding the new businesses.

Ankur Agarwal And in terms of the benefits of digitization from phase II which has completed, how are you looking at FY14 in terms of domestic subscription because we did benefit significantly this year from digitization. So how are you looking at the benefits of digitization flowing through domestic subscription in the next three years and the next year specifically?

Atul Das See overall we have seen a significant change in our subscription revenue growth story from the domestic business since digitization has started. Phase I which was the four metro cities, of course only three were completed, Chennai has not been completed, we have seen a fair bit of growth coming. Phase II has also completed and a lot of the impact of the Phase II will be seen through FY14 as renewals happen. The next phases which are Phase III and IV are significantly bigger in terms of size because of the number of cable and satellite homes which need to be converted to digital. So I would say, on a three-year basis, we will definitely be seeing a very positive growth coming from digitization. This will be a combination of, (1) analogue converting to digital which removes the under reporting part, (2) With a very gradual shift towards premium subscriptions and ARPUs moving up that will also impact our revenues, and (3) the total subscriber base in India i.e. television households or cable and satellite households are also continuing to increase at the rate of about 8 to 9 million homes every year. All three put together we are very positive on the 3 to 4 year horizon, on the way our subscription revenues will pan out. Specific to FY14 will be more difficult to comment. It will depend on a number of factors, but as we have highlighted earlier in Phase II, the monetization gap or the head room available was slightly lesser than Phase I. Also much lesser than what Phase III and Phase IV will throw up.

Ankur Agarwal Finally a quick one on carriage fees. In terms of the new deals in the market, it may not impact us so much but just to understand what are the carriage expectations, some of the cable guys have, has it started coming down sharply? Have you seen that happening in the market?

Atul Das As far as carriage costs are concerned, we have seen some benefits accruing to us in the last fiscal. As more and more houses go digital in various phases, we will see further improvements but it may not be a dramatic improvement in one year. It will be ~15% kind of improvement every year. We definitely believe carriage fees will come down in the long run.

Moderator The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma I had just a couple of questions. First one was on your ad growth, so last earnings call you mentioned that large part of it has been driven by a pricing power and with the LC1 markets getting included in the TAM data and now more smaller markets are coming in, what does that mean for you and is there more pricing power left for you to harness and will that drive advertising growth?

Punit Goenka Yes Rajeev definitely that will drive more advertising growth. If you look at how the ratings universe has moved it is now covering close to about 65 million homes compared to, I think, the last count was at 52 million. So our pricing will definitely increase as newer markets open up and newer markets opening up will also present opportunities for creating more niche products or regional products for those markets specifically.

Rajiv Sharma And do you think competition like Colors, Sony, can they replicate this very quickly in the next 6-9 months? And you have just a leeway or a gap of 6-9-12 months to monetize this?

Punit Goenka Can't say much on that.

Rajiv Sharma My second question is on your subscription revenues, so on the ground when we do our checks, the whole process as far as the cable is concerned is still work in progress but your subscription revenue has definitely improved, it is visible. So if the MSOs were to get everything in place, the billing and everything into place and then come and share revenues with you, so what extent you have already captured them and what extent would be left in the Phase I markets and how much percentage you are capturing them in Phase II markets?

Atul Das Yes, a large part of the Phase I has already come into our numbers though only for five months. As we get into the next fiscal when the contracts are renewed, some growth will still come through. Phase II has a similar story. While some of the growth has come in, some is yet to come. Once the actual subscriber mapping happens, realignment of contracts will happen based on actual subscriber numbers of each of the MSOs. Right now we definitely have a very good idea on the gross numbers of a city or the gross numbers in the total Phase II but the actual subscriber base of each MSO may change once the reporting happens.

Rajiv Sharma Sorry for being persistent but if let us say the total potential was 100 in Phase II, with the initial work you think you have got 30 or you have got 45?

Atul Das No, I think the number will be higher. We would have got higher than that based on the current ARPUs. As we see an ARPU improvement, there will be further growth opportunity.

Rajiv Sharma Okay quickly last one, what will be the movie CAPEX for FY14?

Atul Das I would say a similar amount. It is difficult to give out a precise number. Rs.200 to 300 crores is the range typically.

Moderator The next question is from the line of Suresh Mahadevan from UBS. Please go ahead.

Suresh Mahadevan I have got a quick couple of questions. One is obviously we spoke a lot on digitization, I mean clearly it seems to be progressing quite well especially this progress on Phase II is quite encouraging. Given Phase III and Phase IV are probably much smaller cities, do you foresee any big delay? How do you think about that because this is a critical aspect of your business?

Punit Goenka Definitely, these phases are bigger in size and hence it will take a little bit longer. If the 1+ million cities have taken 2 months extra and we have still reached 70-80% on the ground it may be a little slower but nothing that is of major concern to us in the mid to long term.

Suresh Mahadevan But basically I think 31st December, 2014, is what the deadline for Phase IV is, may be it will all get done by 31st December, 2015, at least. Is that a fair enough assessment?

Punit Goenka That's what we do hope for.

Suresh Mahadevan Second question, does the digitization which prevents leakage have a positive impact on your advertising as well? Earlier it was all based on TAM, etc., now probably you yourself will have some good understanding based on your deals, I mean how does it impact ad revenues that is what I would like to know?

Punit Goenka It would not impact ad revenues significantly because what you will get from your distribution deals is only the subscriber base. Subscriber base is never a quotient for viewership. The subscription agreement is distinctly different, because if a subscriber is buying the channel it is not necessary that he is watching that for 24 hours. So you still have to depend on whether it is TAM or it is some other body which is giving the ratings data or viewership data for advertising rates. The benefit on advertising will come largely when you move from the currency which is currently in existence called CPRP (Cost per Rating Point) to CPT (Cost per 1000 people reached).

Suresh Mahadevan With this move will Zee have a lot of upside or the industry itself will have a lot of upside?

Punit Goenka I think it is the industry as a whole will have an upside. It is not one party who will have an upside.

Moderator The next question is from the line of Rohit Dokania from B&K Securities. Please go ahead.

Rohit Dokania Just may be two questions, Punit, I was just wondering in the last conference call you had said that you would be increasing the fresh hours of programming from 29.5 hours in 3Q sequentially to about by half an hour or so in this particular quarter Q4 and also I think there was Zee Cine Awards which was there and also some higher investment that was expected in the new businesses. Still if I look at the ex-sports expenditure, it has grown by just about 2-2.5 odd percent quarter on quarter sequentially. So have we invested lesser than 150 crores which we were earlier anticipating in FY13 with respect to the new initiatives?

Punit Goenka No, I think the number is very close to that.

Rohit Dokania Then could you please explain or reconcile as to why the ex-sports expenditure has just grown by about 2-3% QoQ on a sequential basis?

Punit Goenka I think you are looking at an overall cost, what I had referred to, if I am not mistaken, was content cost alone.

Rohit Dokania The other thing was, just two quick questions. One was on the tax rate I believe. You had said we will close the full year closer to about 30% of PBT and I think we have closed it at about 31.4 odd percent excluding that 6 crores which is for previous years. So could you give some sense as to how probably FY14-15 could look like in terms of tax rate of PBT?

Atul Das FY14 will be closer to the marginal tax rate, so you could expect about 34% tax rate.

Rohit Dokania And just one final question if possible for you guys, will the breakup of sports revenue be very similar to the breakup of revenues for the consolidated entities plus-minus 5-10% here and there?

Atul Das As a policy, we do not share this break up.

Moderator The next question is from the line of Bharti Gupta from Sushil Finance. Please go ahead.

Bharti Gupta My question is on the subscription front, when we have witnessed close to 26% growth in our domestic subscription income over the last one year, so how much of it would you attribute to the MediaPro JV and how much would it be because of digitization? If you can just give some ballpark numbers?

Atul Das Overall the effect is obviously because of digitization. What MediaPro joint venture brings us is the strength of negotiating which probably gives us an extra edge but it will be difficult to kind of strip out and say this much is because of MediaPro and this much is because of anything else.

Bharti Gupta Post digitization have the MSOs started declaring their subscription numbers? Are we getting that kind of data from the MSOs?

Atul Das Not fully yet. I think in the course of this fiscal over the next 6-8 months, we should have a much better hold on the actual subscriber base for each of the MSOs. We do have aggregate numbers of the city, how many boxes have been seeded and therefore what is the actual number of digital homes. But it may not be accurately mapped to each MSO because once subscriber mapping happens with the MSO to the subscribers then we will have an accurate idea of which MSO has how many subscribers. So overall numbers are known but mapping to each MSO will be known during this fiscal.

Punit Goenka Bharti I would just like to highlight here, that as we speak here TRAI is conducting audits of all the MSOs in the market of Delhi, which will give a better understanding as to which are the errant MSOs who are not declaring subscriber base either at all or even accurately. So that is another positive from the industry side.

Bharti Gupta Sir just wanted to understand since we are still about to get the exact data from the MSOs, we are still continuing as far as the digital cable is concerned with the fixed fee deals?

Atul Das Yes, in several cases we continue on a fixed fee basis and several we have tried to convert to subscriber linked contracts.

Moderator The next question is from the line of Pratish Krishnan from Antique. Please go ahead.

Pratish Krishnan Just want to understand the subscription revenue better, I mean you have shown 25-26% kind of growth and in your own view the DTH industry base has increased from 29 to 33 which is like a 14% kind of growth. Would it be right to assume that the bulk of the increase comes from the cable in that sense?

Atul Das Not really because digital cable has happened almost at the fag end of the year and DTH has been an ongoing contract that we have been running for the last several years.

Pratish Krishnan So how should the increase be read, because if you are saying the sub base has increased like 4 million, probably ARPU expansion is like 6% to 7%?

Atul Das Since we entered into the joint venture we do not get subscription details split between cable and DTH. It is just from an overall trending perspective that I am explaining and I think cable growth will come in the future as we go along.

Pratish Krishnan Second is in the auditor's report point 6 which talks about these Rs. 33 crores of receivables which is in litigation with some of the broadcasters. Is there a corresponding cost today in your system, if these revenues do not come through is there any hit in terms of the profit that we should be aware of?

Atul Das This is actually a very old matter. If you look at our past annual reports every year this is part of the auditor's note. It relates to something which we had with Prasar Bharti, There was a cancellation of telecast rights several years back, not pertaining to this fiscal, so it is just a continuing observation.

Moderator The next question is from the line of Amit Kumar from Kotak Securities. Please go ahead.

Amit Kumar To begin with just wanted a slightly better understanding of the subscription revenues again, I mean again very broadly if you could give a color on how your overall domestic subscription revenues have grown by 26%, how cable and DTH would have grown separately I mean just a broad color which one has done better than 26% and which one has done probably slightly lower than 26, if at least that color could be given?

Atul Das DTH has been higher, that much I can tell you.

Amit Kumar So that means cable there is a lot of opportunity, I mean in which case Phase I was also pretty large I mean potentially not in terms of sheer numbers but in terms of realizations that you can generate from consumers, you do not anticipate anything incremental coming in from that side?

Atul Das We did not say that. We said there is an opportunity in Phase I for realizations to get better.

Amit Kumar As far as Phase II is concerned or rather what we understand from Phase I is that from the last 6 months the MSOs are really paying from their own balance sheet because their realizations have just about started to go up now. In that context could you give us some color on how many of the Phase

II contracts have been renewed and in terms of timing by when can we expect to close those contracts? Because there seems to be a bit of reluctance on the MSO part to actually close those contracts till such time that 100% of digitization happens and they start to see the incremental gains on their side.

Punit Goenka Amit as per the regulation we have signed agreements with most of them and the ones which are not signed have already been disconnected.

Atul Das That is a requirement of TRAI.

Punit Goenka So you can imagine when I say most of them, we have pretty much covered practically all except a few of them which have been disconnected.

Amit Kumar What was this deadline to be exact?

Punit Goenka 13th May was the deadline before which all MSO agreements with aggregators or broadcasters had to be completed. After which on 13th midnight we disconnected all the MSOs that had not signed the contract. And when I say we, it means the entire industry.

Amit Kumar My second question pertains to the balance sheet, I mean the inventory position as well as loans and advances have gone up very significantly and as you pointed out that this is largely on account of incremental content deals that you tend to do but this is significantly higher than the 15% to 18% number which is there? Inventories have gone up by almost 19% and loans and advances by about 35%. So is there a risk of higher content inflation or on the higher end essentially?

Atul Das A big part of the inventory increase is largely because of the film rights. So we have been acquiring films every year and that reflects in the inventory increase. As far as loans and advances are concerned it is because of acquisition of cricket rights or sports rights as well as advances given for content acquisition.

Amit Kumar So that is what I am saying that the increase which we have seen on a yoy basis is significantly higher than 15-18%. The quantum is much higher, and that is eventually going to flow through into your P&L, right?

Atul Das One of the reasons why it is slightly on the higher side is because of the sports contracts.

Amit Kumar Okay, so this 15-18% is essentially non-sports. That is it from my side.

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

Vikash Mantri Just wanted to get it clear, we said sports revenue in FY14 will be similar to FY13 despite higher activities?

Punit Goenka We were not discussing revenues. We were talking about potential loss.

Vikash Mantri Second thing sir, 4Q was very active in sports calendar in terms of number of cricketing days and stuff like that, compared to Q3 and the earlier quarters but still the revenue did not inch up. Was it a poor performance of the series or generally it was like that?

Punit Goenka All the cricket series were non-India which do not really get that much revenue.

Atul Das The unique part of the sports performance in 4Q was that there were lots of matches but all of them were non-India so the cost on one hand saw some spike, the revenues were not commensurate and therefore on a quarterly run-rate basis you saw losses in the fourth quarter being higher than probably the average of the first few quarters.

Vikash Mantri Sir secondly we have seen with digitization many more channels being launched and we have seen at least Star put in a Star Movies Action channel and there is a Life OK and a Movies OK channel also. We are relatively not hearing much from Zee in terms of new channels per se. Is there a gap that we need to address over the next 12 to 18 months or react to the way the industry is increasing the number of channels. Your thoughts on that sir.

Punit Goenka As we said, in fiscal 2013 also we invested in new businesses and incurred losses of Rs 150 crores and we continue to invest more in coming years.

Vikash Mantri But a lot of that was in Ditto and stuff like that which is not more of broadcasting. So broadcasting we had only an education channel and may be more activity in the Golf channel I guess.

Atul Das Vikash, also there were other channels including the Zee Bangla Cinema, Zee Q and Zee Alwan that we have launched in international markets. And we had re launch of Zee Khana Khazana which was a specific premium channel for the Indian masses.

Moderator Next question is from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah My question relates to the dividend payout in form of preference shares. First question is by how soon do we expect to complete this process of giving preference shares?

Atul Das Bijal this will require several approvals, it will take about 5 to 6 months. There is a procedure to be followed and it will be done through a court process through a scheme of arrangement.

Bijal Shah Now just one follow up on that, if I think of paying back to shareholders, there are three options. One the way which we have done, another is dividend and third is buyback. Now amongst all this three buyback is the most efficient as far as tax is concerned. So why we are doing it through preference dividend because that attracts tax which buyback does not?

Atul Das Bijal we considered all the options, through this route what the company is committing is a payment of Rs. 400 crores of dividend from the fourth year onwards till the eighth year cumulating into Rs. 2,000 crores plus of total dividend payout. From a taxation perspective even this works out to be very tax efficient and it gives the company the flexibility to manage its capital in a very defined manner. So the Board thought of this instrument to mark the 20th year of the existence of Zee.

Bijal Shah Sir one more question on the same, now on this Rs.2,000 crores of preference dividend issue, do we have to pay dividend tax as we redeem the shares or we will have to pay on the day which we capitalize our reserves into preference shares?

Atul Das On issue in the hands of the company there is no tax implication. At the time of the payment of dividend, there will be a dividend distribution tax which will be applicable, which will be paid by the Company. The dividend will be tax-free in the hands of the shareholder.

Bijal Shah Okay, so on the fixed 6 percent there will be a dividend tax and Rs. 2,000 crores there will be no dividend tax. Is that what you are saying?

Atul Das No on the redemption also there will be a dividend distribution tax to be paid by the Company.

Bijal Shah Okay, so the payment of dividend tax is on redemption, it is not on the day when you create a preference share? And when at the receipt end of the bonus issues there is no taxation process.

Atul Das Yes, that would be free of tax.

Bijal Shah Okay, lastly two questions on inventory and the loans and advances again, see this year we launched one Bangla Movie channel and probably last year and this year we saw some sports rights getting renewed so is that the reason why we saw a sharp hike in inventory and loans and advances this year or this kind of hike we should continue to see in any given year?

Atul Das Inventory changes may continue to happen depending on the number of movies or the quantum of movie rights that we buy, I think loans and advances you will see an overall gradual decline because sports rights are acquired for a long period and therefore it is appearing upfront and then it will gradually come down.

Bijal Shah But on movies side also we did have a large expenditure because of the movie channel launch or is that a very small amount?

Punit Goenka Yes, so that is reflecting in the inventory.

Bijal Shah Yes, so that is what I am saying that inventory increase from next year onwards should be lesser unless we launch a new movie channel that is the question?

Punit Goenka Not necessary, it depends on how many movies we acquire.

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 speaking to you again at the end of first quarter fiscal 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.