



Q2 FY2015 EARNINGS CONFERENCE CALL

October 17, 2014; 1530 HRS IST

Moderator

Ladies and Gentlemen, Good Morning and welcome to the Zee Entertainment Enterprises Limited Q2 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kanwaljeet Singh. Thank you and over to you sir.

Kanwaljeet Singh

Thank you Shyma. 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 Second Quarter of Fiscal 2015 and to share with you all 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 and Mr. Mihir Modi - Chief Finance & Strategy Officer.

We will start with a brief statement from Mr. Goenka on the second quarter performance and will then open the discussion for questions & 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 Kanwaljeet. I would like to welcome everybody to this call and appreciate your joining us for the discussions on the results of the second quarter of Fiscal 2015. Let us 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. 6.26 billion, recording a growth of 7.3% year on year. Advertising growth on the non-Sports part of the business is in low teens.

The total subscription revenues for the quarter were Rs. 4.24 billion. During the current quarter domestic subscription revenue stood at Rs. 3.37 billion while international subscription revenues were Rs. 0.87 billion. Though the reported domestic subscription revenue reflects a growth of 0.7%, like-to-like to growth is in high single digits. The difference is due to accounting changes necessitated by the change in TRAI as content aggregator regulation. In case of international subscription revenues, due to change in arrangements in various operators across international territories, the reporting of subscription revenue for the current year has undergone a change and hence previous figures are not comparable with that of current period. On a like-to-like basis the international subscription revenue has increased in low single digits.

On the cost front - programming and operating cost in the quarter were Rs. 4.70 billion. Total costs incurred by the company in this quarter were Rs. 7.97 billion.

During the quarter the company's operating profit (EBITDA) was Rs. 3.20 billion. The operating margin for the quarter was 28.7%. Profit after tax for the quarter stood at Rs.2.27 billion and Profit After Tax (PAT) margins for the quarter stood at 20.3%. As of September 30th 2014, the company has a Gross Debt of Rs. 26 million and Cash & Cash Equivalents of Rs. 13.9 billion.

I would now like to cover the Business Performance:

During the quarter Zee TV recorded a relative share of 18.9% among the top 6 Hindi General Entertainment Channels. The market share was even better in prime-time band where Zee TV recorded a relative share of 22.1%. Zee TV was the No.2 channel in the genre during the quarter. The channel delivered a weekly average of 18 shows amongst the top 100 shows during the quarter led by the top rated shows like Jodha Akbar, Kumkum, Bhagya, and Jamaai Raja. New shows launched during the quarter were Jamaai Raja, Bandhan, Nili Chatrewale and India's Best Cine Star ki Khoj. New launches planned in the forthcoming quarter include Maharakshak, Aryan, Dil Se Naache India Wale and DID Super Mom amongst others.

Zee's Hindi movie cluster lead the genre with a relative share of 30.9%. The key properties during the quarter were Double Mazaa, Shanivaar Ki Raat Sitaron Ke Saath and Lage Raho. This quarter saw the premiere of Holiday, Main Tera Hero and Total Siyappa.

During the quarter Zee Marathi extended its lead as No.1 channel in its genre. The channel recorded a relative share of 49% amongst all Marathi GECs. The channel delivered a weekly average of 6 shows amongst the top 10 shows led by top fiction shows like Honar Soon Me Hya Gharchi and Juluni Yeti Reshim Gathi non-fiction shows such as Chala Hava Yeun Dya

Zee Bangla is one of the leading players in the Bangla GEC genre. During the quarter it recorded a relative share of 33.9%. The channel leads the non-fiction genre with 70% market share. The channel was the slot leader in 5 out of the 14 prime time bands during the quarter led by the top rated fiction shows like Raage Anuraage and Rashmi and top rated non-fiction shows like Mirakkel Akkel Challenger 8 and Sa Re Ga Ma Pa.

During the quarter Zee Telugu increased its relative channel share to 22.7%. The channel was No.1 channel during weekday prime-time in the months of August and September. Overall the channel has become a close No.3 in the Telugu GEC space.

Zee Kannada increased its relative share to 13.4% during the quarter. Zee Tamil recorded a relative share of 5.3% during the quarter.

Zee Khana Khazana, the premium lifestyle channel from Zee continues to be at the top of rating charts with relative share of 38%. It also has the highest

reach across the genre. The channel has firmly established itself as the No.1 Life Style Channel in the country; the channel delivered a weekly average of 5 shows amongst the top-10 shows during the quarter.

The key properties on our Sports Channel during the quarter included telecast of Sri Lanka vs South Africa cricket series and Pakistan vs Sri Lanka cricket series, West Indies vs Bangladesh cricket series, Commonwealth games 2014, Asian Games 2014, US Open and Tour de France. The forthcoming quarter would see the telecast of events like Pakistan vs Australia cricket series, Pakistan vs New Zealand cricket series, Sri Lanka vs England cricket series, WWE Survivor Series, FIH Champions Trophy, ATP Tour World Finals and UEFA Champions Trophy. The Sports business revenues in the second quarter of FY2015 were Rs. 1.18 billion while costs incurred in this quarter were Rs. 1.43 billion.

Zee's international operations constitute a significant part of the company's revenues. The highlights of the international operation during the quarter were as follows.

- In America Zee TV continues to garner the highest viewership share amongst the South Asian networks. Zee TV and Zee Bollywood were launched on an additional platform Charter Communications. In UK locally developed program, Zee Companion continues to consolidate and engage audiences.
- In Middle East Zee TV and Zee Cinema continued to be the #1 South Asian channels in their respective genres in UAE.
- Zee Aflam continued a successful run as #3 movie channel in all Arabs target audiences in KSA.
- Zee Alwan was among the top 10 most channels in the KSA during the month of Ramadan.
- In APAC our recently launched channels Zee Bioscope and Zee Nung has gained popularity within a short period of time and are available on multiple platforms.

Our quarterly performance has been satisfactory. It has been a mixed quarter as far as television industry advertising spends is concerned. Even though the overall economic sentiment was positive during the quarter, it translated into increased advertising spends only during the fag end of the quarter. Our

expectation is that the advertising spends will continue to increase during the rest of the year. Our performance in the quarter reflects the industry wide trend. On the subscription front, the transition of distribution of channels from Media Pro to Taj Television is now complete and we continue to grow in high single digits. Implementation of digitization in the remaining part of this country will push the growth momentum further. We have also enhanced the HD offering with the launch of “& Pictures HD”. As a result of our consistent performance we continue to maintain healthy operating margins.

Though the digitization deadlines for Phase III and Phase IV have been pushed back, timely implementation would greatly benefit the industry. The proposed move to scrap advertising cap for FTA channels would be a welcome step for the industry. Also, the roll out of the BARC in the near future is expected to enhance the representativeness of the viewership data. Creation and acquisition of excellent quality content remains core to our business and we continue to channelize investment to strengthen this core. We also continue to explore growth opportunities in domestic markets, international markets and in digital space. With this I thank you again for joining us and would now like to open the floor for a question and answer session.

Moderator

Thank you very much sir. Ladies & gentlemen, we will now begin the question and answer session. We have the first question from the line of Kunal Mehra of Visium. Please go ahead.

Kunal Mehra

I just have one question. This is either for Punit or Mihir. You know as investors one of the thing we are trying to isolate, what is the cash generation potential of the business? I know this is the question that has been asked previously, but I was hoping to get more color on it. When we reconcile the EBITDA number, whether we take the three month or the six month figure and the movement in Cash line in the Balance Sheet, those numbers do not sync up. You are showing an EBITDA for six months of Rs. 675 Crores while Cash is actually down over Rs. 200 Crores. They are almost in different directions. We tried reaching out to a handful of probably some of the most prominent analysts from the stock market as well but we have not got an answer. We were just wondering if you can help us reconcile, #A the difference, #B therefore the underlying cash generation potential of this business.

- Mihir Modi** Sure. Kunal, this is Mihir here. I think let me address this first at the principle and then we will get into details as much as we can on the short term quarters. At the principle level, the cash generation should be in-line with our PAT over a three to five year period. I think what creates the lopsidedness is the working capital for one (which should get stable in that kind of time frame) and some of our investments in movies and Sports properties. We amortize movies over a five year period in straight line, so that should get cleaned up. Maybe, if in the first half of a five year period the cash has depleted faster, in the second half of that five year period that should correct itself. So, I would say that is the way to look at it at a principle level. PAT is what we will consider as the business' ability to generate cash barring the investment in working capital that would increase with the growth and if we do any inorganic acquisitions.
- Kunal Mehra** Perfect. With that principal as a framework, may I ask you a follow-on question? Has there been any material change in policies on all those three lines, in inventory (movies & Sports) and working capital that has occurred in the last six/nine months that we should be cognizant of?
- Mihir Modi** No. There has been no policy change in any of those lines except on our new business which is the Zee Music Company that we have started. We have taken a slightly more aggressive amortization policy there, where we will amortize 50% of the cost in year 1 itself.
- Kunal Mehra** Perfect. I will then offline follow up with you on this specific reconciliation but appreciate the inputs right now, Thanks a lot.
- Moderator** Thank you. Our next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.
- Vikash Mantri** Two questions. One, there has been a sharp increase in the Inventory and the Loans and Advances. Can you help us with that for the six month period? And #B we have seen a lumpy syndication revenue in this quarter. Now this should largely be related to Sports. However, Sports seems to still have done a higher loss despite little cricket or Sports activity as compared to the past in this quarter. So just wanted to understand the trend in Sports losses and more so with the fact that despite higher syndication revenues it has not helped.

- Mihir Modi** Let me take the Inventory and Loans and Advances together. The Loans and Advances adjustment is essentially the advance taxes that we have paid. That has gotten reclassified to Loans and Advances and that has led to the jump. On the Inventory side, I think there are two factors, more or less of a similar magnitude. One is, ahead of our launch plan for new channel and for Zindagi we have invested in a lot of programs which will pass through the P&L on telecast as per policy. There is some element of film acquisition as well, which is a tactical move so we do not consistently continue to buy or increase our movie buys. They are tactical in nature, and therefore there will be ups and downs in them. So we expect that the movie related inventory increase will pass through the P&L as we go through the year.
- Vikash Mantri** Is there also a Sports related increase there in the inventory?
- Mihir Modi** There will be a small part of advance paid for Sports as well.
- Vikash Mantri** And is any of this inventory other than Zindagi also for the proposed new channel in Q4?
- Mihir Modi** We will continue to invest in programming. We may either use it for future new launches or some of our existing channels. So the answer is yes, there is an inventory which could potentially be used for any of the new launches that we may have. There is another element in there, which is some of our acquisitions under our music business, Zee Music Company which is also sitting in the inventory.
- Vikash Mantri** Yes, on the Sports side now?
- Mihir Modi** Yes. So the Sports losses for the year are expected to be similar to the losses that we had last fiscal and the reason for that is though we have not had India Cricket, we have had other properties like the Commonwealth games, like Pakistan cricket Series with Australia and New Zealand, which is coming up. We have already had a West Indies Bangladesh series, we had US Open so some of those properties plus the renewal on the WWE will keep the losses at around last year's level.
- Vikash Mantri** Mihir, generally earlier while losses were there in Sports, they generally used to spike only when there was India cricket. Now, despite having little or no India cricket this year, you are guiding for similar losses as last year. So is

there a trend of significantly higher rights cost which is showing up in Sports as an industry-wide trend?

Mihir Modi I think the industry-wide Sports costs are indeed going up. For us we are balancing it with practical choices that we make. For this year, clearly it is properties that I mentioned, like US Open, Commonwealth Games, non-India cricket and the WWE renewal which is pushing the cost up. Plus there is an element of Forex sitting in there because a lot of our deals, in fact, most of our deals are in US dollars.

Vikash Mantri Okay, and the explanation of syndication revenues? It should be largely because of Sports. In the last two quarters whenever we have seen syndication revenues to be high, Sports has actually turn profitable, or lower losses.

Kanwaljeet Singh Vikash, in the other sales item there are three important items - one is syndication sales, second is film distribution because we have our film distribution business as well, and third is commission on sales that we get when we sell our partner channels through Taj. Even though on syndication side we have not seen any big jump, the overall jump that you are seeing there is mainly coming in from film distribution revenues. We had four to five films which we distributed in this quarter and therefore that jump that we are seeing.

Vikash Mantri Which will also have a commensurate cost in admin and selling expenses?

Kanwaljeet Singh Yes.

Vikash Mantri Okay. One last question for Punit. Punit I was personally very positive on Zindagi's launch and the programming, but somehow the ratings do not seem to be good enough. Also, I saw a trend of you repeating some of the serials completely, so what is going on there and the strategy going forward?

Punit Goenka Vikash. While you are right that the ratings are not anything to talk about, I never expected the ratings to be very high compared to other GECs in any case. As I said, this channel is aimed at the SEC AB segment and as you will appreciate that. At least I do not know anybody in SEC AB who has a meter in their house and therefore this TAM rating is kind of not commensurate to that. We have independently got our own research done where as much as

10,000 homes across the metro audiences were studied and the results are quite phenomenal. We will be going to market with those results in the next two weeks itself which will help us to take the revenue up on Zindagi. The trend of repeating was always there. We are repeating the shows not in their original slots, but in other slots for more sampling to happen. That is a philosophy of any GEC you look at. The shows get repeated on various other time slots even while the original are in prime time.

Vikash Mantri In case of this I saw actually prime time it getting repeated completely again.

Punit Goenka No, I think you are mistaken there.

Vikash Mantri I watched Punit.

Punit Goenka Prime time starts at 8 o'clock and it ends at 11 o'clock for this channel. So if you saw it at 7pm or something then don't.

Vikash Mantri I am watching too much anyway.

Punit Goenka Keep watching that is all I can say.

Moderator Thank you. We have the next question from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri My first question is pertaining to ad revenues. After several quarters, we have seen it tampering down a bit during this quarter (non-Sports). We have seen the ratings spike quite a lot during the current quarter and obviously with the festive season coming up it seems to be quite good in terms of timing. So can you talk about, if not quantitatively then directionally what to expect in terms of ad growth for the company in the second half based on how the environment right now.

Punit Goenka So Srinivas as I said before, we do expect advertising growth to continue. While this quarter unfortunately saw some slip in the first two months of July and August where the growth was not that great, September saw a spike again in advertising. The industry wide growth of was only about 11% whereas we have managed to deliver low teens kind of number. So from that perspective we continue with our outlook that we will outperform the industry and we should expect that even in the second half. We are already

seeing the effect in the festive season how the revenue is going up so I am quite positive and optimistic about that.

Srinivas Seshadri Okay, and Punit just to dig in a bit deeper here, obviously FMCG as a category is quite large for you. Especially for some other properties you have. There you have seen kind of a slightly weaker trend on some of the listed companies, at least for the June quarter. So is that an ongoing issue or do you see them coming back with more volumes or more advertising?

Punit Goenka Srinivas, FMCG is definitely a low growth category currently as we speak. Also keep in mind that for us to service FMCG, it is very difficult given that they operate at the lowest rates. So the more we get high yield clients like Auto, Telecom, or now the currently booming e-commerce businesses, automatically we tend to service less of FMCG. But I am not seeing any trend that they will remain low, I think with the season coming, they should also come back. Whether in the same rigor as others categories? Maybe not, but definitely not be as low as what we saw this quarter.

Srinivas Seshadri Okay. So in a sense some of the categories which are kind of incremental drivers for you are working well. That is how one should read it?

Punit Goenka That is right.

Srinivas Seshadri Okay. And the second question is pertaining to your margins. At the beginning of the year you did give a guidance of 22% - 26% and also did mention that it is pointing more towards upper end of the range. With two quarters having gone by and the margins are close to about 28.5%. Assuming that in the second half things are likely to improve a bit on the top line front, does that guidance look conservative? Would you like to give some kind of an update in terms of what to expect on that front?

Mihir Modi This is Mihir. Srinivas, the variable in that range of 22% - 26% or the current levels for that matter was the investment in new products that we are evaluating. So the variable still remains and depending on when and how big a launch we do, we believe that it will still fall within that range given where we are in the first two quarters. Probably it will be on the higher side of that range, but, we believe it should be around there.

- Srinivas Seshadri** Okay. And Mihir to my understanding this is the fourth quarter launch, this property which you are talking about?
- Mihir Modi** We have not formally announced the dates yet.
- Srinivas Seshadri** Okay, fair enough. And if I may squeeze in one more question. There are several entries I see on the tax front in the statutory filing. Could you kind of take through what exactly you have done here in terms of the accounting?
- Mihir Modi** Yes. If you remember we were in the middle of a scheme of arrangement which is court mandated, for demerger and merger into our company because of which we were to get tax losses to the tune of 300 Crores. So those entries essentially are reflected there. In Q2 the final court order approving the scheme has come about and we have given effect to that scheme. Essentially it is the Rs. 300 Crore that you see and the effects of that on the MAT. But, the point there is that, that Rs. 300 Crore tax benefit from a tax year perspective pertains to FY14 and therefore, the impact of that will be as a prior period item and the MAT effect that you are seeing on the financial.
- Srinivas Seshadri** Okay, perhaps it is a bit technical. I suppose I will take this question offline.
- Mihir Modi** Sure.
- Moderator** Thank you. Our next question is from the line of Nirav Dalal from SBI Securities. Please go ahead.
- Nirav Dalal** In continuing with the last question regarding the tax. We were of the impression that on a full year basis the effective tax rate for the company would come down. So now what is the status on that?
- Mihir Modi** Like we said the effect of the scheme has happened on a balance sheet basis, on the line by line basis. Considering that the tax adjustment has happened in the previous year on the balance sheet and the impact of that will be seen in the cash over two years. But this year's tax and the next year's tax percentage will not necessarily change.
- Nirav Dalal** Okay. So the effective tax rate might be what we have been seeing over the last two, three years.

- Mihir Modi** Yes. That should continue.
- Moderator** Thank you. The next question is from the line of Mihir Seth from DK Partners. Please go ahead.
- Mihir Seth** Couple of my questions have been answered. Effectively you are running underlying subs growth of 9% or 10%, your ad revenue grew at 13% this quarter. You have seen some green shoots in September so may be that would grow at 15%. Content costs are actually coming down to what are normalized content costs These are a large portion to your cost base. I am just trying to dig a little bit deeper beyond the margin guidance, how should we think about content cost growth over the next two or three years.
- Punit Goenka** The way to look at content cost is a function of let's say what kind of increases we see on a year-on-year basis which are inflationary in nature for the existing product. But when we add additional product whether it is on existing channels or creating new channels it will be a disproportionate impact. We had guided our blended content cost for existing plus new launches for current year to grow at about 15%-16% and that stands where it is. This is because we are adding number of hours to our existing channels. We have added one channel already which is Zindagi and we are working towards adding one more channel sometime in this year.
- Mihir Seth** And if I just follow-on from that. When I did a survey of my friends in India and their pay TV bills, they are paying now in excess of Rs. 1,000. So as you get this incremental channel, incremental product out there and the LCOs start charging for that. When do you expect that incremental revenue to flow back to Zee? How long do you think that will take for a channel like Zindagi when you made a comment about going out to the market with its rating?
- Punit Goenka** For a channel like Zindagi, because it was a mid-year launch, it would remain non-pay till end of this fiscal. From next fiscal onwards it will be added on to the pricing when we charge the MSOs or LCOs. And similarly any new channel that is launched normally has a gestation period of about six to nine months before you turn it pay because first and foremost is the penetration objective. Once you penetrate it then you start charging for it.
- Moderator** Thank you. Our next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta

I have couple of questions, more data related. So firstly can you help us understand depreciation? Last quarter was when the accounting change happened, so the current quarter would be I think normal run rate or are some changes still expected. Second is about Other Income. Can you provide breakup of forex gain and pure interest income kind of thing. Last is subscription-related. We have made some changes. Can you help us understand those changes?

Mihir Modi

Sure. Depreciation, yes the last quarter Q1 of this fiscal is when the accounting change mandated by the new Companies Act happened. So on a quarter-on-quarter basis we should be okay but the effect versus previous year same quarter will last till the end of the year for four quarters and then it will become normalized. So the run rate should be normalized by then. Of course you will see an increase versus previous year same quarter. On the subscription side we had two changes because of the way we do business. One mandated by TRAI, which was that we were distributing our partner channel and under the earlier arrangement we were booking the revenues in our topline and we were paying out cost through the middle line. However, with the TRAI guideline coming in, broadcasters have to distribute their channels themselves or through an agent. We have changed that arrangement to an agency. So now, we just book the net agency revenues in our top line. There is an impact of around Rs.80 crores on an annualized basis about 20 crores for the quarter on account of this change. The second change that has happened is in our arrangements in the international territories with the platforms where earlier we were paying the platforms for their services of agency and therefore we were booking the entire top-line and paying them a service fee through the middle line. That arrangement we have changed to a principle-to-principle arrangement. Now, the subscription services and the subscribers are managed by the platform and we get our share on a principal-to-principal basis. The impact of that in this quarter is 38 crores so therefore a total impact of 58 crores on the subscription line which is lower than the same quarter last year by that amount. If we adjust for that our reported subscription growth which is -7.3% will go up to +5.4% growth.

Dipesh Mehta

Understood. And this 38 crores international subscription impact is likely to continue because now you change to the principal-to-principal thing.

- Mihir Modi** Yes. So it will from a comparison versus previous year perspective it will last this year and then from next fiscal onwards, the reported numbers for this part will be apples-to-apples.
- Dipesh Mehta** Sure. And last remaining unanswered is about other income and any forex gain or loss in that?
- Kanwaljeet** In the other income there is hardly any change with last year. On the exchange rate side we have seen a gain of approximately 11 crores and we had seen a similar gain last year. The numbers are more or less flat.
- Moderator** Thank you. Our next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania** Just a follow-on on the international subscription revenue front. I believe there is no impact on EBITDA because of the change right?
- Mihir Modi** That is correct.
- Rohit Dokania** And the second and the last one would be regarding the whole à la carte. Firstly if Punit can throw some light as to what our perspective is on the fact that the platforms will not be able to probably go ahead and make packages because of Zee going à la carte on Hathway and probably Star also going à la carte on all the MSOs. Secondly, from a Zee perspective Mihir, if you can throw some light as to what has happened in terms of our arrangement with Hathway. Does the current subscription revenue booked reflect the fact that Hathway was supposed to pay us à la carte for the first four months if I am not wrong of this fiscal?
- Punit Goenka** So on the first part Rohit, I think it is high time that the MSOs wake up and smell the coffee. They cannot be taking the broadcasters for a ride forever and ever. It has been over two years since digitization has been mandated and has been completed. And yet, MSOs are not billing the consumers and nor are they collecting the rightful amount of money that they should be collecting from the consumer. So we took a stand early in July itself that we want to increase our pricing in line with what we see from let's say a DTH operator or a digital operator. And hence, we have made the move of going against Hathway. We have been on Hathway and now for over 10 weeks on an à la carte basis. And I think it is in the first time in the history of Indian

television that such a long standoff has happened without either side or at least our side blinking. I am seeing some blinks coming from their side right now but I am not ready to entertain yet. As far as I think, no operator can sustain, if both Zee and Star go on an à la carte basis with them. You know that right.

Rohit Dokania

Yes.

Punit Goenka

And there is no choice for them but to change their business model if they have go forward and work with us. So that is my stand on this and I think we have demonstrated that we are going to stick to this. On the revenue part I will let Mihir answer.

Mihir Modi

Sure. So on the revenue side from April to July till we were negotiating we charged them on a court mandated CPS basis. So that is factored in the numbers. For August and September of this quarter we have been on à la carte and we do not see a significant dip of the number, though there is a difference between what is agreed and we have booked. We have booked on a conservative basis a lower number.

Rohit Dokania

Okay. So there can be probably some one-offs pertaining to these two months in the ensuing months.

Mihir Modi

I think there will be a small increase. The nature of this revenue line is that it does include lumpiness in terms of contract, signing, timing and the catch-up revenues that come with it. So yes, that should get factored in.

Rohit Dokania

I totally understand it. Another follow up with Punit. Punit, so does this mean that we are open to the idea of going à la carte on other cable networks as well if need be?

Punit Goenka

Yes. Absolutely. Why not? If we can demonstrate it with the largest operator why can't we do it with the smaller ones then?

Rohit Dokania

And do you think in the long term this will help us in terms of higher subscription and zero carriage?

Punit Goenka

It should definitely benefit.

- Rohit Dokania** And lastly sir, what about DTH? Are you okay with the kind of payout they are making to us or that is also open to probably the same?
- Punit Goenka** We were never okay with what they are paying us but we are satisfied today and as we renegotiate contract pricing will be taken up.
- Moderator** Thank you. Our next question is from the line of Bijal Shah from IIFL. Please go ahead.
- Bijal** My first question is on BARC. When do we expect BARC to actually roll out and first ratings to come from them?
- Punit Goenka** Bijal, the timeline is not public yet but it will be sometimes towards the end of this year.
- Bijal** End of this year itself? So December sometime or may be January we should expect that?
- Punit Goenka** Yes, you could. But we are not making it public yet. BARC is not making it public yet.
- Bijal** Okay. Now the important question which I have on this, is that how do you see entire carriage revenue thing to change when BARC is launched. Because right now carriage fee is linked to TAM, TAM has a different sample, BARC will have a very different sample. So how do you see that changing?
- Punit Goenka** I think carriage fee will have a larger spread. I think that is what you are trying to address right?
- Bijal** Yes. And it will not be a concentrated also. Cities like Bombay, Delhi will not have disproportionate weightage in overall rating.
- Punit Goenka** No. I think in the analog market you can expect that the carriage fee will go up in the short term but in the digital market they will continue to keep coming down as you have seen is the trend. So, I see the trend going forward also to continue as markets will get digitized the carriage fee will start coming down there as well. But in the short term I do expect that analog markets will see spike in carriage fees, just because the sheer capacity not being available.

- Bijal** Okay. So essentially what you are saying is that in digital market like Bombay and Delhi where in any case we should see a decline in carriage, will continue but in analog market few more markets will get added and we might have to pay carriage. Is that a correct assessment?
- Punit Goenka** Absolutely.
- Bijal** And so in terms of overall carriage expense how does it change, it goes down going forward or it goes up.
- Punit Goenka** No. It should go down Bijal because, those markets are small markets and therefore will not have that much appetite to demand for carriage unlike as you rightly said yourself Bombay, Delhi which have high weightages and demand a lot more carriage. The smaller markets will not do that.
- Bijal** And Mihir I have a bookkeeping question. What you said on tax just tell me if my understanding is correct that you have recognized the tax break as a deferred tax asset and that will offset during next two years, so your current tax rate will be lower but your overall tax rate may be around 30%.
- Mihir Modi** It will get reversed from the deferred tax asset, it is already deferred and the effect is given in the financials. So on the P&L we will not have any impact of that but in terms of balance sheet and actual cash payout to the tax authorities we will see an impact.
- Moderator** Thank you. Our next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla** Just one question in the context of the domestic subscription revenues, can you quantify the amount of catch up revenues you got pursuant to the TDSAT order with respect to Hathway which is based on higher CPS?
- Mihir Modi** Sorry we do not break down to this level of detail, but all we can say is that there is a very small increment there and for year we should have a high single digit growth on the domestic subscription line.
- Moderator** Thank you. Our next question is from the line of Amit Kumar from Espirito Santo. Please go ahead.

- Amit Kumar** Just a couple of questions. There is always a part of Loans and Advances which is really Cash equivalents. Could you give me that number and the overall Cash levels as well?
- Kanwaljeet Singh** We have overall cash and cash equivalents of Rs. 13.9 billion right now.
- Amit Kumar** Alright. And I am presuming that besides current investments in cash level whatever else is there is going to be in that loans and advances figures. Sir specifically to Hathway when we go through the judgment of TDSAT, there is obviously this issue of nondiscrimination which has been highlighted and that judgment at least seems to indicate that Den and Siti Cable were getting a bit of a favorable treatment from our side. Could you just comment on that and how things are going to be going forward?
- Punit Goenka** Every deal is different deal. Depending on the kind of service any platform would provide to me they will get either incentive or penalized. Just the same way as we do in advertising, a person who buys a larger inventory gets a better rate. So, I don't think that a question can arise that why you have given a preferred rate to an x player versus another player. So we are contesting it but because the matter is sub-judice there is hardly anything I can say about it.
- Amit Kumar** And going forward for these platforms? So unlike Star, which has given a commitment that they will offer there channels only on RIO basis across platforms you will still be willing to do negotiated deals across operators?
- Punit Goenka** We are not obligated to do only RIO deals with operators. We are free to do even negotiated deals as long as operators are willing to give us our terms we will do negotiated deals, if they are not willing to give our terms we will go on RIO basis.
- Amit Kumar** Thank you so much. Just one small point, for Zee Music what is the level of scalability. What kind of revenues are we generating from that business? If you could just give us some color on that.
- Mihir Modi** Current the numbers are very small. But what is heartening is that we are picking up market share very quickly and from a pure market share perspective we have become formidable. Typically as we go through the year and build a stronger catalog the revenue will start becoming substantial.

Moderator Thank you. We will take the next question from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi I want to know your thoughts on Sports business. Looks like even without India cricket we are likely to continue with some losses this year and may be next year as well. And then the following two years we have a good amount of India cricket. Do you think that are there any drivers or any sort of levers or anything that can probably change?

Punit Goenka Jay, I think one of the biggest thing that I am expecting to bring a positive flip to Sports business, is this tariff forbearance that TRAI is talking about currently. The moment that happens the price cap that has been put since 2003 gets lifted and on the Sports part of the business as I always maintain that I want it to be a high yield business on the subscription side. Even if it means that I will lose on penetration, this is not like a GEC business where I need 100% penetration. I am happier to go with only 50% of people if they pay me 3x over what they are paying me today. So that is the regulatory part which we are quite hopeful for and why we keep investing in this business for the future.

Jay Doshi Mihir, Are there any components of working capital that we see in the balance sheet as of now or may be FY14 that will normalize at the end of FY15 or may be FY16?

Mihir Modi There are two parts to this. I think the current assets and liabilities are pretty much close to normal. Maybe there is a little bit of room on the current asset side. But within that, the inventories will get normalized over three to four year period.

Moderator Thank you. We will take the last question which is a follow up one from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri I missed this, the entire Rs. 58cr which is adjusted in subscription revenue should be done from the international subscription revenue line?

Mihir Modi No. The Rs. 20cr out of that is in the domestic and remaining is on the international side.

Vikash Mantri So HBO Rs. 20cr at the top at the domestic?

- Mihir Modi** That is correct.
- Vikash Mantri** Another question to Punit. Punit when we are doing CPS deal with Hathway have we got an MIS audit of the subscriber numbers they are declaring to us?
- Punit Goenka** We have done audits on Hathway. As per our contract, we have rights to do audits. But currently because we are not in a CPS deal, any audit has to be mandated through the court. So we cannot go and do audit right now. They are submitting MIS to us which we need to cross check and then take further steps with us.
- Vikash Mantri** So right now it is not a CPS deal is it?
- Punit Goenka** No. We are on RIO with Hathway right now.
- Vikash Mantri** Okay. But for an RIO also you should get an MIS audit.
- Punit Goenka** So we are getting the MIS, the audit of that has to be ordered through the court.
- Vikash Mantri** Okay, but generally with digitization that should be available to everybody.
- Punit Goenka** Absolutely.
- Moderator** Thank you. We will take the next one from the line of Jatin Chawla from Credit Suisse. Please go ahead.
- Jatin Chawla** Just a quick book keeping question. There is a note to the account which mentions that you have capitalized some 100 million of development expenditure. Just wanted to clarify this is completely pertaining to inventory for the new channel.
- Mihir Modi** It is completely pertaining to the development of the new channels and not inventory.
- Moderator** Thank you. The next question is from the line of Jay Gandhi from Antique Stock Broking. Please go ahead.
- Jay Gandhi** Now just in case if free to air channels don't have an ad cap. I just wanted to have a sense of how, what has been the ad inventory run rate let's say for last couple of years?

- Punit Goenka** While free to air channels may not have to have an ad cap we currently have only two free-to-air channels that we operate. But as a conscious decision we have taken a call that we will stick to 12 minutes of inventory even to those channels given that the content duration is now adjusted to take into account 12 minutes.
- Moderator** Thank you. We will have the next follow up question from the line of Kunal Mehra from Visium. Please go ahead.
- Kunal Mehra** Mihir just a quick clarification the development cost that you capitalized for the new channel. Have you previously also capitalized development cost for other channels or is this a first time?
- Mihir Modi** This is the first time that we have capitalized the channel development cost.
- Kunal Mehra** If I could push you just to understand why the change in approach right now. Why capitalize versus how we previously dealt with it.
- Mihir Modi** Sure. I think we have launched three channels in the last 13-14 months and what we realized is that it is not a correct representation of the financials if we do not capitalize the prelaunch development cost. It just does not reflect it correctly. So it was more of a technical call taken. Though, as you would see, the numbers are very small on that. I think it is just to represent the financials correctly from a like-to-like basis that we took this call.
- Kunal Mehra** So one final question on this because I am tying it back into this entire cash flow issue. If we were to put a bar chart of the amount that we have capitalized over the course say over the last 12 quarters not only is that an increasing number which it should logically will have to be, but it is probably increasing at a faster rate than the actual content cost reported in the P&L. That is my hypothesis directionally right?
- Mihir Modi** Not necessarily. I do not have those numbers readily in front of me, but as I think hearing you, not necessarily. The reason for that is that yes, there will be a normal increase as the size of the business grows. But not necessarily keep growing simply because of the lumpiness in our movie purchases and other inventory purchases.

- Kunal Mehra** Okay. At some point it would be good to have that as a part of your representation. If we can just get that detail it will help us to reconcile but whenever you guys are ready for that.
- Mihir Modi** We can look at that and give you a directional sent later on offline.
- Moderator** Thank you. As there are no further questions from the participants. I now hand the floor back to Mr. Kanwaljeet Singh for closing comments. Thank you and over to you sir.
- Kanwaljeet Singh** Thank you Shayma. Ladies and gentlemen thank you again for joining us. We hope to have the transcript of the call on our website www.zeetelevision.com soon. We look forward to speak to you again at the end of third quarter of fiscal 2015 or even earlier on a one-on-one basis. Thank you and have a great evening.
- Moderator** Thank you sir. Ladies and gentlemen with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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