



Zee Entertainment Enterprises Limited

CONFERENCE CALL

October 25, 2016

Moderator: Ladies and gentlemen, good day and welcome to Zee Entertainment Enterprises Limited Q2 FY2017 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bijal Shah. Thank you and over to you, sir.

Bijal Shah: Thanks, Imba. Hello, everyone and welcome to Zee Entertainment’s Earnings Call to discuss Company’s performance in Q2FY2017. This is Bijal Shah from Investor Relations team. Joining us today on this call is Mr. Punit Goenka - Managing Director and CEO of Zee Entertainment, along with Mr. Mihir Modi - Chief Finance and Strategy Officer.

We will start with a brief statement from Mr. Goenka on the second quarter performance and subsequently we will open the call for question. Before I pass it on to Mr. Goenka I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward -looking statement and must be taken in the context of the risks that we face.

Thank you and over to you Mr. Goenka.

Punit Goenka: Thank you, Bijal. I would like to welcome everybody to this call and appreciate you joining us for the discussion on the results of the second quarter of fiscal 2017. I would like to start the call with an update on the new organization structure and corporate developments followed by financial and business performances.

As one more step in transforming Zee from a broadcasting company to an entertainment content company, we have reorganized our business into five

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verticals. These five verticals are Broadcasting, Movies and Music, Digital, Live Events and International. All of these will be run separately by business heads or vertical heads.

During the quarter, we have entered definitive agreement to sell our Sports business to Sony Pictures Network for a cash consideration of \$385 million. We expect to close the transaction by end of this fiscal.

Now, I move on to the financial performance.

It was yet another satisfying quarter, both on the advertising as well as subscription front. Our advertising revenue grew 15.7% year-on-year, well ahead of the industry. This strong growth is despite the high base created by 34.7% year-on-year growth in Q2FY2016.

We have been able to deliver strong growth, even though there was moderation in the ad spends, especially in e-commerce segment, and a slight drop in ratings of flagship GEC in the previous quarter. This reflects the strength of our diversified portfolio.

Total subscription revenue in quarter two grew by 21.7% to Rs. 5.88 billion. The strong growth in domestic subscription revenue is attributable to early closure of content deals this year as compared to previous years. It also includes catch-up revenues for previous quarter.

Unlike earlier years, the growth in domestic subscription revenue in fiscal 2017 will be skewed towards H1. The outlook for the full year growth in domestic subscription revenue remains unaltered.

EBITDA for the quarter grew by 36.4% year-on-year to Rs. 4.89 billion and the EBITDA margin stood at 28.9%. The cash and cash equivalents for the quarter ended September 30 stood at Rs. 16.06 billion.

Now, I would like to cover the business performance starting with the Broadcasting vertical.

During this quarter, Zee Network's viewership share, excluding Sports, increased by 0.9% as compared to the last quarter. The Company launched three new channels in

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domestic market, Zee Anmol Cinema, a Hindi movie channel for the free-to-air audiences; Zee Yuva, a youth focused Marathi GEC, and Zee Cinemalu, a movie channel in the Telugu language. With increasing uptake of High Definition, we are in the process of launching HD version of our regional channels.

The quarter saw an improvement in our ranking and viewership share in the Hindi general entertainment genre. The two national GECs, Zee TV and &TV, had a combined share of 24% in the genre. Our flagship channel, Zee TV, was the second ranked Hindi GEC for the quarter.

In the Hindi movie cluster, we continued to retain our leadership position through our seven channels. Programming rejig of Zee Classic has been well received in the market.

We retained our strong position in the region of entertainment space. Zee Tamil saw a sharp increase in viewership and was the second ranked channel in the months of August and September in the Tamil Nadu market.

Our English cluster continues to perform well, bringing the best entertainment content and movies from around the world.

Our International business continues its strong performance driven by global demand for our content. We launched two new channels, Zee One and Zee Mundo in the international markets. This takes our total number of international channels to 40 and channels dedicated to native audiences to 12. Zee Mundo is targeted at Spanish speaking Hispanic population in the United States and Zee One is a Bollywood movie channel in Germany which airs movies dubbed in German.

Moving on to other businesses.

Zee Studios, our movie production arm, released Akshay Kumar starrer “Rustom”, a crime thriller. The movie has become one of the highest grossing Hindi movies of the year. Zee Music Company, our music label, has built significant market share, especially in acquisition of music rights of new Hindi movies.

The Live Events business rolled out its first property, Wicked Weekends, which is a series of 40 events across six cities.

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During the quarter, we re-launched Ditto TV with a reduced subscription price. The platform clocked 200 million video views in quarter two.

On the regulatory front, TRAI has released draft regulations for broadcasting services and interconnection arrangements to increase transparency in content pricing and payment of carriage and to allow consumers to choose channels. These draft regulations are steps in the right direction and propose a host of changes to the existing system. Although it still remains to be seen what form the final regulation will take, we hope that improved transparency will enable various stakeholders to get their rightful share in subscription revenues.

The first half of fiscal 2017 has been strong for us. Growth in advertisement spend has held up so far. Moderation in FMCG and e-commerce spends may have some impact on industry growth in the coming quarters. On the positive side, increasing competition in telecom business would help the ad spend growth. GST roll-out in the coming years could boost advertising spends as a part of potential savings in tax outgo might be reinvested.

Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Vivekanand Subbaraman of Ambit Capital. Please go ahead.

Vivekanand Subbaraman: I had a couple of questions on subscription. Just wanted to understand, is the entire impact of Phase-III deal renewals that we have done with the cable MSOs reflecting in the current quarter's numbers? And, it would help if you would quantify the magnitude of the catch-up revenue. Thanks a lot.

Mihir Modi: Hi. So, the way I would look at this is that the Phase-III numbers which are slowly being factored into our deals are indeed a part of these numbers and they will be a part of the full-year number. Of course, as we have been saying the entire Phase-III will not get factored in overnight as a switch-on switch-off mode. For the second part of your question, the way I would look at the impact of the catch-up is that we expect the full year growth to be about 14% -15% and therefore, the remaining part in that sense would be relating to catch-up revenues.

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Vivekanand Subbaraman: Right, understood. And a follow-up on the subscription part of our business. Now, that the draft orders are out and you have commented that the draft orders are positive because they bring in transparency. So is it fair to assume that as a company you will support the regulators draft orders that have been brought out in the current form, or are there any tweaks that you would want to suggest because we are having a hard time to figure out now how the industry structure will look like and how packaging will now evolve?

Punit Goenka: So Vivekanand, we also have certain concerns and issues that we want to address with the regulator going forward and we had requested them for a change in the deadline for submission of comments which they have agreed to. We have up to November 15 now do that. So, we will be engaging with the regulator on certain clarifications and certain inputs that we want to give them especially with regards to the implementation of this on the ground because theoretically, this could mean that each consumer could have an independent package of their own which I am not sure whether the industry has the infrastructure and are capable to handle that yet. So, I think the implementation and the timing of the orders implementation is something still in question. So, we will be engaging with the regulator to address it.

Moderator: Thank you. We will take the next question from the line of Rajiv Berlia of Edelweiss. Please go ahead.

Abneesh Roy: This is Abneesh here. For Ditto the prices have been lowered and you did mention that downloads have been very good. So, wanted to understand in terms of pricing do you think now it is the right level or you would need to tweak it further?

Punit Goenka: Abneesh, it has just been a couple of months since we have done the re-launch and as I said in my speech, we have had over 200 million video views that we have seen, which is definitely a significant increase over what was being consumed before. So, it is still very early days, let us watch it for a couple of more quarters before I give you more color on that.

Abneesh Roy: But for online, with Sports not being there, do you see some original content also being created just for online at some stage for you?

Punit Goenka: So I can classify that, as original content means it could be digital first content which means it will go on digital first and then find its way on other platforms for our linear

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channels. So, I do not think there is anything that needs to be exclusive for any one platform. The windowing can be exclusive and that is how we will tackle it.

Abneesh Roy: My second question is on the international ad revenues. It has been volatile of course based on the specific property. So, here if you could tell us what is the steady state growth rate? You said that there are 12 native channels, so how are those shaping up? How is the growth there?

Mihir Modi: I think the response of all the channels, all the native channels that we have launched has been pretty good. For example, Zee World in Africa, which we launched has hit its highest rating ever now. It was already in the top six when it was launched. So, from a response standpoint, clearly it is a great response. We hope to get similar response for the other channels that we have launched and now there are about 12 of those including the latest two, Zee One in Germany and Mundo in U.S. for the Hispanic population. I think the two new channels will take a few quarters to start translating into ad revenue numbers but I clearly see a high single-digit to low double-digit kind of ad growth with the support of these channels as they scale up.

Abneesh Roy: And one follow-up on this part of the business, in steady state what is the margin profile for these businesses because the number of subscribers will be quite low obviously, ARPU per subscriber will be much higher, but what is the steady state margins versus your overall margin, is it much lower?

Mihir Modi: So, I think every channels like every market of this sort will differ but the way to look at this is that given that it is predominantly our existing content which has been repurposed, the investment in content is relatively lower compared to a fresh content offering. Therefore, the margins will definitely be healthy but every market and every channel will have its own dynamics of how the viewership picks up, so it is difficult to kind of give you one number; but it is certainly be healthy given the cost structure.

Moderator: Thank you. Our next question is from the line of Parag Gupta of Morgan Stanley. Please go ahead.

Parag Gupta: Actually we got patched into some other call in the middle, so apologies if I am repeating a few questions. Punit, if you could give us a sense of the five verticals that you have divided your business into. Could you give us some sense of how do you see those as a percentage of revenues in the medium-term? And whether if the growth

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rates could be higher relative to your other parts of the business? The second question is in terms of Zee TV's ratings, we have seen some decline out there. Could you give us a sense of what is causing that and what do you think you need to do to get those back up? And the final question is on Sports losses. So, your first-half has actually been pretty good for Sports with almost break even. So, how are you looking at rest of the year?

Punit Goenka:

Okay. Let us take Zee TV first. I think regarding what went wrong, I think it is a question of implementation that went wrong. I mean selection of a few line up of bad shows, which has resulted in the ratings being down but we will fix it. We have a new team, a new leader at Zee TV, who has come in about 4-5 months back and he is putting a pipeline together for re-launch in the fourth quarter of this fiscal itself. So, we should start to see some positive movement on that from the fourth quarter itself. On the sports losses, Mihir you want to take that?

Mihir Modi:

Yes. So before I go to Sports losses Parag, just one more addition to what Punit mentioned relating to Zee TV, I think the fact that our overall Company performance is robust despite Zee TV rating being a little lower than what we would have liked also shows that we have a fairly balanced portfolio mix now and therefore our dependence on any particular channel or type of business is reducing as we go along. And I will let Punit talk about the other verticals beyond Broadcasting as well which will only make the portfolio even more balanced. On the Sports losses, I think at the start of the year, we had guided Rs. 100 crores loss. Of course, there is an additional element now of how much of that will sit in our books given that at a certain point of time during the year before the end of year hopefully we will be taking it off our books. But keeping that aside, we will certainly be on the favorable side of the Rs. 100 crore loss as we see right now but there are these couple of other variables which will decide the exact number.

Punit Goenka:

Now coming to the five verticals that you asked about, of course Broadcasting and International businesses will remain significant pieces of our portfolio. On the Digital side, it is still a matter of discovering the market and see how that business is going to play out for any content owner in the business, but having said that, given that we are a content company and with the advent of the 4G and telecom play that is happening we believe that there is a big opportunity in Digital for us to grow our revenues both on advertising and subscription front. But to give you what size it will be, it is a little difficult for me to do that at this stage. On the Movies and Music side,

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I am quite hopeful that this will be a significant piece of our portfolio given that we are diversifying not just in Bollywood films, but also in regional markets. If you remember, last quarter we had a very significant movie in the Marathi genre called Sairat, which did almost Rs. 100 crores of Box Office revenue. So, I expect Movies and Music to be a significant piece of our portfolio. In Music, Zee Music Company is already getting close to 60% of all new Hindi content that is being released. Live Events, which has just started off in this quarter is still the youngest baby of the Company and will take some time before it becomes a significant piece. But I expect in 2-3 years' time it will add significantly to our top-line and bottom-line. So, each of the vertical selected is keeping in mind that they can be a significant piece of our top-line and bottom-line.

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

Vikash Mantri: I might have missed a few of the questions earlier, so might be a repetition, sorry for that. Mihir, we made a comment clearly that FMCG and e-commerce are not doing well or at least seeing some slowdown. Now, given that entertainment portfolio, which is what Zee is, largely tends to get a significantly higher share from FMCG. Can this slowdown in the second-half be significant, can it slow down to single digit ad growth?

Mihir Modi: So, what we said is that it will not be a euphoric growth. I may not have used the exact word, but what we meant to say is that it will not be a euphoric growth for FMCG, but we do not see a slowdown, we see probably a moderation from those euphoric growth times. So, the way to look at it is that even if FMCG slows down by 100 bps to 200 bps, let us say hypothetically, it will still have an impact of about 100 bps on overall ad revenue, given that it contributes about 55% to 60% to the total TV ad spends. It may slow down the total TV ad growth by about half of that, which is about 100 bps. So, that is the range of fluctuation that we are talking about. It is not very significant in our view and while there are these two which are kind of growing at a normal pace, the Telcos etc are probably going to be grow at a faster pace than what we saw last year, given the new launches and the 4G competition, etc. Last but not the least, I think eventually, while the market will grow at what it will grow at, we are very confident that our portfolio, particularly the regional channels and the Hindi movie cluster is gaining viewership share and that should help our advertising growth.

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- Vikash Mantri:** Okay. On the Tamil market we have seen very sharp improvement in terms of performance of Zee Tamil. Now, sometimes we attribute this to getting a few shows right or lucky if I may use that word, is there a process in this improvement in market shares or it is just that few shows clicked at the same time?
- Punit Goenka:** No, Vikash it is not just that. I think it is a process. Firstly, identifying the right team which will select the right product and the right shows. So, I think we have been fortunate with the new team that has come in. I think we are far more grounded and the growth is definitely sustainable.
- Vikash Mantri:** Is the ground issues which had been an issue earlier in terms of trying to wrestle market share in Tamil now relatively non-existent?
- Punit Goenka:** Today, they are non-existent, what will happen six months from now, I cannot really comment.
- Vikash Mantri:** Okay, Punit, on the regulatory front now while we have welcomed the new tariff order, I still see a comment saying we do not know how it will take the form. Personally, my read was this present form was very negative for big networks trying to do make bouquets and pushing their mid-tier channels, when I talk about mid-tier I mean maybe Life OK and &TV, in the Hindi GEC space which will now have to go probably from pay to free-to-air. So, if the regulations were to be accepted in this form that they have given right now will you be worried?
- Punit Goenka:** Vikash, firstly you know very seldom I get worried.
- Vikash Mantri:** And we do a lot as analyst.
- Punit Goenka:** So, I think what you are saying in theory can happen. But if they are implemented in the same form as it is, would I convert my channels to free-to-air? No, I would not. In fact, I would use that as an opportunity to market directly to consumer to create the pull for my channel rather than the current way of working as a push from these DPOs and that is why I say that it may be, from the medium-term to long-term perspective, definitely beneficial. The penetration level may take some time to be achieved but is easily doable as long as you have good content with pull.
- Moderator:** Thank you. Our next question is from the line of Rajeev Sharma of HSBC. Please go ahead.

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Rajeev Sharma: Just a couple of questions from my end on the regulatory side only. Punit you said you are not worried but the free-to-air and pay channels cannot be bundled and so, will it mean that to earn the same subscription revenue there could be more marketing spends which could mean that at the EBITDA level we may see some pressure for the transition let us say 18-24 months? Also, now when we bundle free-to-air and pay channels there is an aggregation of audience and ad revenues. Will that ratio get disturbed with this new regulatory regime? And also, an update on it where does the programming hour stands for Zee and &TV and has there been any increase in this quarter?

Punit Goenka: So let me try and understand your question. On the regulation side, firstly, we do not do any bundling of our channels. The bundling is done by the DPO currently. What we do is actually push our content, as much as possible, on the best bouquets of the DPO that we want. So from that perspective, I do not see much changing and even if we need to do a lot of consumer marketing, as you rightly pointed out, there may be a case to do that if the regulation is implemented in the spirit as it is. Right now you will also notice that in the draft of the regulation, the carriage fee will significantly come down from where it is today. So, for me to basically just move whatever I save on carriage fee to consumer marketing is the easiest thing to do, therefore, having no negative impact to the EBITDA even in the short-term. On the programming hours, currently Zee TV is at 25 hours a week and &TV is at 21 hours. By the end of the fiscal 2017, we expect Zee TV to be at around 30 hours of content and &TV will be around 24 hours. But these are projections, based on how the launches go and these vary from quarter-to-quarter.

Rajeev Sharma: Just a small follow-up on the carriage part and I really do not have the answer and that is why I am asking. In the 100-channel pack, the initial pack, there are some guidelines. But one of the guideline does talk about maximum permissible discount as 35% but still the placement and marketing fee part is not very clear. There will be so many free-to-air channels and only 75-80 channels which can go into the DPO base pack. So, does that mean that there will be actually an increase in placement and marketing fee?

Punit Goenka: If you look at the viewership data today 80% of the free-to-air viewership is captured by 8-10 channels. So, those become a must from a consumer pull perspective in any case. So, just because there are 100 channels in the base pack it not that all the 800 channels will scamper to get into that. These channels also need to have capability of

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paying and getting into that bouquet basis of viewership. Also from experience, I do not think that is the case. So, there has to be certain balance between DPO and broadcaster, and content also has to have a certain amount of pull and therefore we will find space there itself.

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

Amit Kumar: Just a couple of questions at my end. One, I just wanted to understand this arrangement between Airtel and the Ditto TV, because as I understand Ditto TV is priced at Rs. 20, but as part of 'My Airtel' pack it is being offered right now free to the consumer. So, who is bearing the cost here? I mean are you giving it for free or is Airtel sort of bearing the cost of that bit? And is it like a teaser offer or do you expect this arrangement is going to continue? Let us start with that and I will come back for more.

Punit Goenka: We have integrated Ditto on to the Airtel platform and we do get paid for that content by Airtel. Whether they are bundling it into the data packs or selling it to the consumers is their strategy. They do not pay us the full Rs. 20 but it is a subset of that number that gets paid to us. Also in the current Rs. 20 that we charge consumers, we do have to incur cost of distribution, etc. So it is pretty much comparable on a non-Airtel subscriber versus an Airtel subscriber.

Amit Kumar: All right, understood. Just a very quick question on the balance sheet. The inventory level seems to have picked up again in the last six months. Now, you have had a couple of movies, but the budget seemed to be fairly low and it was indicated that any which ways majority of the cost will get booked in the quarter in which the film gets released. I am just trying to understand what is driving this increase?

Mihir Modi: I think there is a fluctuation in terms of the period of the year. So when you compare it with March end inventory, on an absolute basis indeed it has gone up, but when you compare it with September of previous year, on a number of days basis it has actually marginally improved. So from a proportionate point of view, given how the business is growing, number of days calculation on a programming cost basis, we are pretty okay with the inventory. Though I agree that absolute versus March it looks a little bigger but that is just a function of when some of those deals have happened.

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- Amit Kumar:** Again, if you could just break it out a little bit for me as to if there is any specific area, I mean is it just driven more by the Broadcasting business or by the Film Studio business? Any sort of color what is sort of driving the increase in the last six months?
- Mihir Modi:** The large chunk of it is indeed the Broadcasting business, where the inventory has gone up. Also, over the last couple of years, Music is something that has gotten added. So, while we write that off very aggressively, it also sits in that inventory line item now, compared to two years back.
- Amit Kumar:** All right, that is very-very helpful. My final point, when we look at &tv and it has almost been six quarters to seven quarters since that channel has been launched. Are you broadly happy with the performance or do you see any sort of changes there because I think the indication was that around 9-10% kind of market share is what it needs sort of get to a break-even situation. You are still little bit behind that number. So, if you could just highlight any sort of plans on the &TV side, please?
- Punit Goenka:** So if you look at &TV, in fact from Q1 to Q2 itself, we have seen a 12% improvement in the viewership. So, I think we are moving in the right direction. Whether I am happy with the performance, I am never happy with the performance. I am always expecting more to come out of my assets. And you rightly pointed out, 9-10% is the mark when we would be heading towards the break-even point. So, we have plans in place for the current fiscal and for the coming fiscal as to how we want to achieve that. We had guided you that it will take three years for us to reach that kind of break-even point to start with and I think we are within control of that, as of now.
- Moderator:** Thank you. Our next question is from the line of Rahul Maheshwari of IDBI Mutual Fund. Please go ahead.
- Rahul Maheshwari:** Two questions from my side. First of all, can you tell what would be the FTA market size? Also, Zee Anmol is the number-one ranked channel in the FTA space, so what kind of growth are you expecting there? And on a subsequent basis, you have also launched the Zee Anmol Cinema which is a Hindi movie channel for the FTA audience. So what is your future strategy in the FTA space? Plus, the TRAI has come out with a guidance of basic pack for Rs. 100 in which 100 FTA channels would be there. So, what kind of growth would be there in terms of ad revenue growth for Zee Anmol, and how much would it be for the entire industry? And second, as we are finding that the regional bouquet has given a good growth in the current quarter, it has been

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highlighted that Zee Tamil has been ranked second channel, so what is the strategy for the other markets like Kerala which are untapped right now? Can you give some color on strengthening of the region-to-region specifics?

Punit Goenka: So, currently, the FTA market in our opinion would be in the range of about Rs. 1,500 odd crores of advertising revenue. This includes Doordarshan/Prasar Bharati as a part of that. Growth, I think it would be a little slower than urban growth but definitely we should see some growth coming in the FTA market going forward, also especially with the inclusion of the basic service tier in the cable market.

Rahul Maheshwari: But in Zee Anmol, are you finding the double-digit growth rate right now for that?

Punit Goenka: We do not give it product by product break-up Rahul, so this is confidential data. They are part of our national numbers that we have declared.

Rahul Maheshwari: Okay. Second, what is your strategy for regions which is untapped, like Kerala market? Also, you have grown in the Tamil market, the ratings have gone up and you have been ranked second channel for the month of August and September. So, how is the strategy to grow more into those regions apart from Maharashtra and some Telugu?

Punit Goenka: I think if you look at our strategy, it has been to first enter any market with a general entertainment product and once we have done that successfully we have then followed it up with the second genre which is followed by films. Tamil, we have just tasted success in the last two months. We will build on the base and continue to grow our market share further in the Tamil Nadu market. Kerala is something, that as a market we are studying. We do not have any definitive plans that I can share with you today but maybe few quarters down the road we will have more color.

Rahul Maheshwari: But in Kerala you would be going for organic or inorganic growth?

Punit Goenka: If I find a good compelling inorganic opportunity, why not, but if I do not then I will go organic.

Rahul Maheshwari: And last, what kind of target you are expecting in Tamil, as you have been grown significantly. So, what is the best target where it can be equal and where you can get good ad growth rates?

Punit Goenka: Target for any channel is to be number one.

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- Rahul Maheshwari:** Yes, but in terms of the percentage, right now it is 12% kind of thing in viewership share. So what is the estimate target?
- Punit Goenka:** We do not give our targets channel by channel, Rahul. We have our internal strategy for our network share and Tamil contributes significantly to that. I think we have done well in Tamil from the last two months and we will continue to build on that as we go forward.
- Moderator:** Thank you. We will take the next question from the line of Arjun Khanna of Kotak Mahindra Asset Management. Please go ahead.
- Arjun Khanna:** Sir, just to understand the subscription growth, if you can help us in terms of HD channels, do we get a significantly higher amount currently?
- Punit Goenka:** Yes, the yield on HD channel is higher than these standard definition channels.
- Arjun Khanna:** Right. And could we quantify for a similar channel, what would the difference be?
- Punit Goenka:** It varies from channel-to-channel, Arjun, so difficult to quantify that.
- Arjun Khanna:** Sure, fair enough. Secondly, in terms of regulations, so while we are talking of TRAI the earlier mandate of 10 plus 2, where are we at on that currently?
- Punit Goenka:** We are following with the regulation or the advisory as was put out by TRAI. The matter is still subjudice some of the industry channels have moved the court and the hearings are going on, so no outcome yet. But at Zee Entertainment we are following the 12-minute guideline.
- Arjun Khanna:** Sure, fair enough. And lastly, in terms of BARC, there were a lot of articles regarding some tampering at the BARC end, in the sense that some broadcasters were indulging in the same. Any comments or do you see this actually having an issue on the currency of BARC going ahead?
- Punit Goenka:** Arjun, you should address that with the BARC CEO.
- Arjun Khanna:** Sure, fair enough. No, just in case because you are the IBF President also.
- Punit Goenka:** Sorry, this call is for Zee Entertainment.

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- Moderator:** Thank you. We will take the next question from the line of Rohit Dokania of IDFC. Please go ahead.
- Rohit Dokania:** Just 2-3 quick questions. One is, if you look at the non-Sports cost, that has increased by about 10%-odd to 11%-odd in the first-half. So, would it be a similar range in the second-half as well or that could accelerate?
- Mihir Modi:** It will depend on the calls that we take. Normally, for example, Q3 is heavier on cost and therefore that depends on how we have done in Q3 last year as well. I think we plan to add some hours that Punit mentioned in response to one of the questions earlier. So if that goes through, then yes, you will see some acceleration as well. Having said that, some part of the cost in H1 was also relating to the new channel launches that we have had and the film "Rustom". So, overall, I do not expect that to accelerate too much but these are the drivers that will come into play.
- Rohit Dokania:** Sure, that is helpful. The other thing is can you talk about any plans of entering the kids genre, because I think that could probably become more relevant going forward, if at all that is a-la-carte?
- Punit Goenka:** We are just exiting the kids genre.
- Rohit Dokania:** Yes, I know but any plans to probably have a full-fledged launch.
- Punit Goenka:** Sorry, jokes apart, what we are planning to do on the kids genre is that it will be a digital only strategy, we are not going to have a linear service for that.
- Rohit Dokania:** Okay, perfect. And just the last piece, can you qualitatively talk about in terms of domestic subscription revenue growth? Do you see cable growing faster or DTH going faster for you in the future?
- Punit Goenka:** In the current scheme of things it is difficult to comment on that, but let us see how the regulation plays out. My personal view is that DTH will be far better poised in the current scheme of things given the implementation difficulties for.....
- Rohit Dokania:** No, assuming let us say for once, let us put aside the new tariff order if you just talk of as is currently?

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Punit Goenka: So, as you know, Phase-III and Phase-IV being fragmented and so widespread, DTH will definitely have a distinct advantage in terms of penetrating that market faster than cable would. Having said that, I think cable will continue to have advantage in Phase-I and Phase-II, versus DTH in Phase-III and Phase-IV. So from my perspective, it kind of evens out as half and half.

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

Ritwik Rai: Sir, I wanted to ask you first about the tariff order. In the last conference call, you had said that if it is detrimental to business or if there is something unsaid about it you would contest it. So in the present form, do you see it as something that you will contest or would you accept it as it is?

Punit Goenka: The thing is, it is still a draft. I had said also that we are going to engage with the regulator. We need certain clarifications regarding what needs to be done. Our rights to any legal recourse still remains with me even once the regulation comes out. So let us see, it is early days, we are still engaging with the regulator and we will see how it plays out.

Ritwik Rai: All right. And, just one more thing, 2-3 years ago, of the total international subscription revenue market for Indian channels, you were having about 60-65% market share. What would that percentage be now, sir?

Punit Goenka: It is still pretty much the same.

Ritwik Rai: The contract that you have with the distribution entities, are they annual or are they still 5 years and 10 years contracts?

Punit Goenka: Every market has its different dynamics.

Moderator: Thank you. Our next question is from the line of Naval Sheth of Emkay Global. Please go ahead.

Naval Sheth: I have question on tariff order. Sir, the way I understand is that price discovery of a particular channel might be the most difficult task. So, can the broadcasting industry come together to price their channels, because if carriage goes down the rental revenue for the MSO has to come up and hence the proportionate share for the

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content goes down. In the current ARPU regime, increasing ARPU in India has been a tall task in the consumer industry, if I look at telecom as well?

Punit Goenka: Well, I do not know how the broadcasters can come together to do price discovery. That may land us into problems with things like CCI, but I think one has to figure the strength of the brand, the channel, the content pull and then price the content. Going forward, I do not see any other way how it will happen. It is something that needs to happen over a period of time and we will have to all figure it out, as broadcasters.

Naval Sheth: Okay. Because I was wondering, not to use the word cartel, but still some sort of collaborative approach, because ARPU growth would be important for the broadcasting industry to drive subscription growth?

Punit Goenka: Naval, how will I ever agree that my channel is priced lower than the competitors'; that will never happen. I mean we can argue till the cows come home, and we will never agree to a differential pricing amongst broadcasters.

Moderator: Thank you. Our next question is from the line of Ashish Das of Sharekhan. Please go ahead.

Ashish Das: Most of the questions have been answered. Just two book keeping questions. What is the reason for the depreciation which has sharply gone up this quarter? And will this run rate continue?

Mihir Modi: We have had some upgrade in the fixed assets, including the infrastructure that we build. We had an acquisition of a company, which had its own set of fixed assets and that has pushed up the depreciation to the extent that you see.

Ashish Das: So the will the run rate be like same or is it going to be lower by Q4? I believe it is a Sports business adjustment?

Mihir Modi: Anyway the absolute numbers when you look at it are not very-very large so, the deltas to that will not be significantly moving the needle.

Ashish Das: Okay. So this will continue at this run rate?

Mihir Modi: There may be some little bit of change, but like I said, it will not move the needle.

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Ashish Das: Okay. And tax part, is that effective tax rate is around 40% this quarter. So, this rate will continue for FY2017?

Mihir Modi: No, it is a quarter-on-quarter, the tax rate depends on what profitability has happened in which subsidiary, and we have 25 entities plus subsidiaries. So on an average, you can assume a 33-34% tax rate, some quarters maybe higher like Q2 and some quarters maybe lower.

Ashish Das: So FY2017 it will be 33-35%?

Mihir Modi: Yes.

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

Vivekanand Subbaraman: Just a couple of questions, one pertaining to the competitive activity in the regional space. So, Sun TV has recently pointed out that they have revamped their programming in the Telugu market and even in the overall BARC ratings, urban plus rural, they seem to be doing better this quarter compared to the prior quarters. Anything that you want to call out in competition in the regional space, especially in the Southern markets excluding Tamil? And secondly, with respect to the other expenses and ad spends, is there also an element of reduction in carriage in the current quarter which is flowing through in the P&L? Thanks.

Punit Goenka: Yes, so, there is a small amount of reduction in carriage that is flowing through the P&L in this quarter. You are correct on that. On the regional side, what you see in Telugu market is largely driven by movie strategy of Gemini. If you were to dissect the data and look at the non-film data or the fiction category data, you will find that Zee Telugu leads in that genre. So, because of certain legacy issues we do not have very large library of films that we can burn to generate ratings and that is the only difference that we see. In Kannada also, Colors has a larger number of hours of content that they run compared to us and also a lot of high-cost non-fiction content like Bigg Boss, etc., that runs on their channel.

Vivekanand Subbaraman: Right. So you are essentially implying on an comparable basis we are still going strong in these two markets?

Punit Goenka: That is right.

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

Amit Kumar: Just coming back to the broad strategy, the five verticals, I understand the logic of being in each one of them except for the Live Events and Theatre piece because that does not seem to be a very large or even a very scalable sort of model. Events business and Theatre business has been there in India for a very long time but we have not seen any companies that have organically become very significant in that business. So, if you could just call out what are your thoughts on the business and how do you see that shaping up for you?

Punit Goenka: See, firstly, Amit nobody from the organized sector has really entered the Live Business in a big way. So it has not really been attempted. It has predominantly been done by mom and pop shops so far. Let me tell you, in terms of market size the BTL advertising spends in our country would be almost equal to the television ad spends, that is my estimate, or maybe little less than that. Now, I am not suggesting all of that is going to be spent on Live-Entertainment activities, but I think a significant piece of that can be brought in as sponsorship revenues, etc., for Live business apart from the typical ticket sales that one looks at. If you look at live entertainment in the global space, it is definitely a very large revenue driver or a profit driver in terms of entertainment category. So, we are not building this business only for India we are building this business again from a global perspective. Therefore, we do believe that it can be large enough both in top-line and bottom-line for us.

Amit Kumar: Just one small bookkeeping question. I also saw your other expenses/overheads actually decline both on a Y-o-Y as well as on a Q-o-Q basis. As you mentioned carriage, is there any other element to that, any one-off or any write back of provisions, anything on that?

Mihir Modi: No this is just tightening of our operations on the admin and other expenses side.

Amit Kumar: So, it would be sustainable even in the future quarters as well?

Mihir Modi: I would think so, yes.

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