



## ZEE NEWS LIMITED

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1Q FY2009 TELECONFERENCE  
JULY 25 2008, 3.30 P.M. INDIA TIME

**Moderator:** Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the Zee News Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Hitesh Vakil. Thank you and over to you sir.

**Hitesh:** Good afternoon and good evening ladies and gentlemen. Thank you for joining us today to discuss the results for the quarter ended June 30<sup>th</sup> 2008, which is the first quarter for fiscal 2009. We do hope that you had a chance to go through the earnings release and a copy of the results, both of which are uploaded on our website [www.zeenews.com](http://www.zeenews.com). This is the first earnings call we are conducting for Zee News Limited for the fiscal year 2009 and to discuss the results and performance, joining me today is Mr. Subhash Chandra and member of senior management team of the company including Mr. Barun Das, CEO; Mr. Nitin Vaidya, Head of Regional Channels; Mr. R. K. Agarwal, CFO. We will start with a brief statement from Mr. Chandra on the first quarter performance and then we will open up 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 that must be taken in the context of the risk that we face. With this, I now hand over to Mr. Subhash Chandra.

**Subhash:** Thank you Hitesh. Good afternoon ladies and gentlemen and good evening. Zee News Limited has shown commendable performance during the quarter and has outperformed last year also in terms of numbers in both quarters.

I will summarize the results for the first quarter of FY09. The advertising revenue was Rs. 858 million for the quarter which recorded a growth of 45% compared to corresponding quarter last fiscal. Subscription revenue was Rs. 212 million which was an increase of over 55% compared to corresponding quarter last fiscal. We saw a temporary aberration in the subscription revenue from the southern channels during this period, due to some organizational changes, but that is an aberration for this quarter only. Operating profit was Rs. 152.3 million for the first quarter ended June 30<sup>th</sup> 2008. The EBITDA margin was maintained at 16% despite the losses of the new channels. In the first quarter, the existing business accounted for Rs. 342.5 million and while the new business losses were Rs. 167.7 million, our loss in the new business compared to the previous quarter is mainly attributed to higher

investment in programming cost in Zee Kannada, the monetization of which will be seen in the subsequent quarters. We stand by our committed guidance of losses not increasing beyond Rs. 70 crores for the full year for the new businesses despite the launch of Zee Tamil. Consolidated operating revenues for the first quarter 2009 were Rs. 1127.5 million and consolidated operating profit Rs. 148.6 million. On the expense front, as always, we have spent judiciously and well within the budget, there has been a normal increase in expenses over the previous year and any increase beyond that is of the nature of investment which is going to yield long-term benefits and help increase the efficiency and profitability going forward. Increase in personnel cost is approximately 28% in the first quarter vis-à-vis the previous quarter, which was due to a handsome increment and incentive to boost and retain the human capital of the company.

Coming to our business performance, during the quarter, all channel share of Zee News Limited channels in the total cable and satellite universe grew to 4.5% in 1Q FY09 as compared to 3.8% in the corresponding period last fiscal. Most of the Zee News Limited channels increased their channel shares compared to the corresponding quarter last year. Zee Bangla and Zee Marathi maintained number one position in their respective genres, while the flagship Zee News channel, which was re-launched with a new look is all set to attain imagery leadership of a credible and responsible news channel. The GRP of Zee Kannada and Zee 24 Taas increased by 200% and 127% respectively over the corresponding period last fiscal. Zee Telugu also increased its GRP by 97.5%. Our new businesses performed as projected and delivered close to 170% growth in operating revenues as compared to the corresponding quarter last fiscal and continued gaining ground in the cluttered regional markets. These businesses are firmly on track to breakeven. We will be launching Zee Tamil and Zee Telugu News channel in the second quarter this fiscal. We have been focusing our efforts to establish our presence strongly in the rapidly growing regional markets and we are confident that with our vision and planning, we will continue to reinforce our competitive advantages and deliver more value to the stakeholders. With this, I would like to hand over the floor back for questions and answers. Thank you very much.

**Moderator:**

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may press \*1 or 01 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press \*1 and 01 now. First question comes from Mr. Ritesh from Dolat Capital. Over to you sir.

**Ritesh:**

Good afternoon sir. Some of the websites have said that you would be launching Zee Tamil, Malayalam, and English business channel, like what are the plans ahead?

- Subhash:** No, no, nothing. What currently has been approved by the Board is only Zee Tamil and Zee Telugu News channel.
- Ritesh:** Okay.
- Subhash:** That was only a question asked by journalists, etc. We have said that in the future, we would work...I mean, of course, Malayalam has to be launched because that is the only language which is left.
- Ritesh:** Yes.
- Subhash:** But on English news channel and business channel, still nothing has been approved or finalized.
- Ritesh:** Okay. So, for the two channels, what would be our CAPEX?
- Subhash:** CAPEX, not much for these channels, about 20-25 crores.
- Ritesh:** And there would be huge cost of movie acquisitions also or is it included in 20-25 crores?
- Subhash:** I don't know what you mean by huge costs.
- Ritesh:** Like last time...
- Subhash:** There will be cost of acquisition of movies, yes.
- Ritesh:** Means, these 25 crores include the cost of acquisition of movies also?
- Subhash:** No.
- Barun:** No. This 20-25 crores what the Chairman mentioned is the CAPEX requirement for the Zee Telugu news channel.
- Ritesh:** Okay.
- Barun:** And what we had mentioned earlier, we are going by the same guidance. For our Tamil channel, first year CAPEX plus OPEX would be to the tune of Rs. 90 crores.
- Ritesh:** Okay.
- Barun:** Approx. 40% movie acquisitions, 60% cost towards others.
- Ritesh:** Okay, thanks a lot sir.
- Moderator:** Thank you very much sir. Participants who wish to ask questions may kindly press \*1 on the telephone keypad. Next question comes from Mr. Venugopal of Credit Suisse. Over to you sir.

- Venugopal:** Hi, good afternoon. I had two questions. Firstly, I wanted to understand the seasonality of the business, given that there has been a strong Y-o-Y growth in both top line as well as earnings, but I see some decline on Q-o-Q basis, even if I exclude the investment, startup losses for Zee Tamil, so is it due to any seasonality on the advertisement side and secondly why has subscription revenues not grown on a Q-o-Q basis?
- Subhash:** I said in my speech that there is some aberration in the southern markets for our south language channel subscription revenues, which dropped due to the organizational changes and all, but that will get corrected.
- Venugopal:** But that is on the subscription side, right?
- Subhash:** Yes.
- Venugopal:** What about advertisements, I think that was also pretty much flat.
- Barun:** No, this is the normal norm for the industry. The first quarter is typically the lowest quarter in terms of seasonality for advertising revenues. So, that's why quarter to quarter comparison is not quite rational. So, last year fiscal this quarter versus this year fiscal this quarter is the right comparison.
- Venugopal:** Okay, understood. So, on an advertisement perspective as well as subscription, what kind of growth can we expect this year on a Y-o-Y basis for the entire year?
- Subhash:** Well, our guidance remains the same, 30%, on both subscription and advertising.
- Venugopal:** Okay. My second question pertains to the new channels, essentially wanted to understand what kind of startup losses can we expect going forward in the next three quarters?
- Subhash:** No, we are not giving that, but we told you that we will not be having any dilution or any further thing and for this year, our total new channel losses are Rs. 70 crores, which we have budgeted.
- Venugopal:** Okay, total new channel losses expected this year is Rs. 70 crores.
- Subhash:** Yeah.
- Venugopal:** Okay. And as you have mentioned, most of the funding is going to be a new initiative.
- Subhash:** Yes but Venugopal you should allow others. You already asked three questions, you can come back.
- Venugopal:** Sure, I will queue back. Okay, thanks a lot.

- Moderator:** Thank you very much sir. Participants who wish to ask questions may kindly press \*1 on their telephone keypad. Next in line, we have Mr. Vinay Paharia of Lotus India AMC. Over to you sir.
- Vinay:** Good afternoon sir.
- Subhash:** Good afternoon.
- Vinay:** And congratulations on a great set of numbers.
- Subhash:** Thank you.
- Vinay:** Sir, your annual report talks about quite a few new initiatives, prominent amongst them is your news consultancy division. Can you elaborate more on Zee Chhattisgarh and the strategy of franchisee?
- Subhash:** Wherever we feel that a channel launched by Zee may not be a very viable proposition, we are willing to give franchisee to somebody else for maintaining our editorial control. We are giving the brand and we hold first right of refusal over taking equities if the channel becomes successful and viable in those places.
- Vinay:** And what are the financial terms you are working on?
- Subhash:** No, we can't disclose that.
- Vinay:** Okay, but there is no investment from your side, it is basically royalty?
- Subhash:** Yes.
- Vinay:** Second question is you have also talked about some other related businesses like online business and, you know, media school business, are these going to be significant or these are just ancillary businesses which you just want to expand into.
- Barun:** These are basically support businesses.
- Vinay:** Support businesses, fine. And lastly, your annual report's Chairman Statement especially mentions that you are working on launching global English news and an English business channel soon. So, is that on the anvil?
- Subhash:** Vinay, this is forward looking statement, nothing has yet been approved by the Board, so that is the situation.
- Vinay:** Okay, fine, but why I am asking is we are not digressing away from our core competencies of, you know, regional news and regional GEC sort of competency.
- Subhash:** Well, news is our core competency, nothing regional or national about it.

- Vinay:** Okay.
- Subhash:** Nothing regional or national about it, news competency is news competency.
- Vinay:** And are we also launching a business, any English business news channel?
- Subhash:** Abhi kuch nahin... (Nothing as yet) We have only two channels which have been approved by the Board, one is Zee Tamil, general entertainment channel and the other is the Zee Telugu news channel.
- Vinay:** Fine, thank you.
- Moderator:** Thank you very much sir. Next question comes from Mr. Nikhil Khandelwal from Systematix. Over to you sir.
- Nikhil:** Yeah, good afternoon sir. Just regarding the Zee Tamil launch, you are talking about Rs.90 crores of CAPEX. I think it includes the first year operational expenditure also. I just want to understand, you know, on the content front, what kind of tie-ups we have since it being one of the most competitive markets in the GEC space, what kind of content tie-ups do we have with, you know, the content developers or even in this market, we will be going probably on the in-house made shows, what is the strategy basically, just want to understand.
- Subhash:** How can I disclose to you my strategies for that competitive market.
- Nikhil:** So, regarding the content probably, what kind of, you know, tie-ups we have and what kind of probably, you know, the GEC content to movie mix, what kind of...on that front, how are we planning to move.
- Subhash:** See, we have told you that the channel was approved more than a year back by the Board of Zee News Limited and we are working very diligently on what kind of content, etc., we will be giving.
- Nikhil:** Okay.
- Subhash:** That's all I can say, nothing beyond that, but most of the top established producers of Tamil Nadu are working with us including some new one.
- Nikhil:** Alright. Thanks, thanks a lot sir.
- Moderator:** Thank you very much sir. Next question comes from Mr. Ashish from Sharekhan. Over to you sir.
- Ashish:** Yeah, just wanted to ask that you have given the increase in GRPs of the Kannada and Telugu channel, what kind of market shares are we having now in these states, these channels specially.

**Subhash:** About 11%.

**Ashish:** 11% for these channels.

**Subhash:** Yes.

**Ashish:** Okay. Sir, on the Tamil channel front, I just wanted to understand whether we are sufficiently funded from internal accruals for the CAPEX and OPEX, so is there any need to raise debt or something like that?

**Subhash:** No, we are funded.

**Ashish:** Okay. Okay, thanks a lot.

**Moderator:** Thank you very much sir. Next question comes from Mr. Ruchit from HSBC. Over to you sir.

**Ruchit:** Yeah, hi, good afternoon and congratulations on the numbers. Just wanted a clarification, you mentioned that you are looking at a loss from the new business at Rs. 70 crores, but this was assuming only that Zee Tamil is launched but not the second channel, Zee Telugu News.

**Barun:** No, the way we segregate the business, the new businesses which are reported currently, the channels which are reported on the new business would remain on the new business and these two also will get added. So, the loss from the existing new business, if I may call them so will also include the losses from Tamil and Telugu.

**Ruchit:** Okay, great. And just another thing if we could get a sense as to what is your debt on the books?

**Subhash:** Sorry, we didn't get your question.

**Ruchit:** The debt on the books of the Company?

**Subhash:** The total withdrawal from the bank is roughly about Rs. 20 crores or so.

**Ruchit:** Okay, great. And just a query, when are you looking to launch the news channel?

**Subhash:** Which news channel?

**Ruchit:** You said Zee Telugu News.

**Subhash:** In October, we should be there.

**Ruchit:** Okay, great. Thank you.

**Moderator:** Thank you very much sir. Next question comes from Mr. Abhinesh Roy of Edelweiss Capital. Over to you sir.



- Abhinesh:** Sir, I have a question on the flagship channel, Zee News. Recently, you have seen a lot of change in the positioning and you said you want to be the leader in the imagery section. So, how exactly do you measure that, in term of TAM ratings, is it number one or how exactly is it?
- Subhash:** See, the real measure is by the industry when they stop looking at your rating and still put advertising revenue on the channel.
- Abhinesh:** So, we would not like to compete something like India TV which is more into sensational news.
- Barun:** No, no, that exactly was the point made.
- Abhinesh:** Yeah.
- Barun:** You know, the entire genre is moving in one direction where they are sensationalizing news, we have taken a different route, and I think we have already started seeing the results. Sometime back we lost few slots, but we will get it back. So, I think with right strategies, it has started showing results and as the Chairman mentioned that primarily the advertisers would also take note that this channel stands up for the quality and respectability. So, that is what we are mentioning as imagery leader.
- Abhinesh:** Okay. My second question is on your subsidiary, Zee Akaash News, when do we expect it to break even, will it be in this financial year?
- Barun:** Operational breakeven was achieved towards the end of the last year.
- Abhinesh:** And sir why has the tax rate gone up this quarter?
- R. K:** That is due to deferred tax calculations
- Abhinesh:** Okay. Okay, thanks.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Nainesh Rajani of Tata Mutual Fund. Over to you sir.
- Nainesh:** My question has been answered. Thanks a lot sir.
- Moderator:** Thank you very much. Next, we have Mr. Vikas from ICICI. Over to you sir.
- Vikas:** Good evening sir. Just wanted to have a feeler of what are the costs that we are going to incur in the new business segment. We have significantly upped our spend in the new business segment where you spent close to 29 crores this quarter, so what can be the annual spend?
- Barun:** Because the annual spend would comprise of the numbers which we shared with you, the annual spend would also include spends on the new channels. So, therefore, I don't think the number which has been

disclosed or what we can share with you, you can draw a conclusion from there.

**Vikas:** Okay. And I just wanted to understand why has the new business cost even after not accounting for Tamil increased so much?

**Subhash:** Well, lot of library is being bought and lot of money has been spent for starting the channel.

**Vikas:** But sir, just wanted to understand like last year when we began the first quarter, we said our losses would be close to Rs. 25 crores last year and then subsequently we upped our guidance to Rs. 40 crores and we ended up with Rs. 50 crores. This year, the first quarter has seen a bad start with a Rs. 17 crores loss in the new business and we are talking about 70 crores, so is it likely to go further or what is the plan going ahead?

**Subhash:** No, I don't think we ever said less than Rs. 70 crores for this year.

**Hitesh:** Last year these channels were contributing more losses as compared to losses in this financial year.

**Vikas:** But sir do we still maintain the guidance that we will break even in Telugu and Kannada this year?

**Subhash:** Yes.

**Hitesh:** Yeah, I think we will be breaking even on Telugu and Kannada towards the latter half of the year.

**Vikas:** Okay, fair enough sir.

**Moderator:** Thank you very much sir. Next, we have Ms. Tanu from Quantum. Over to you ma'am.

**Tanu:** Thank you. Hello...just one question from my side. You'll be entering the Tamil market where Sun TV has a very strong market, so just wanted your comments on that, you know, Sun is known to arm twist the talent and let them work whether it is your artists or content rights specially, not work on the competing networks and now you'll be entering there, so just wanted to some comments from your side.

**Subhash:** That is no more the case.

**Tanu:** That's as in...they are letting people work in competing firms?

**Subhash:** Yes, yes.

**Tanu:** Okay, alright. Actually I just met them recently and this is actually not what I was told, so my question is there.



**Subhash:** Yeah, Mr. Ramprasad who is the CEO of South is also here, I will ask him to answer.

**Tanu:** Sure, thanks.

**Ramprasad:** Yeah, in fact, we have got most of our programming in place and we should be launching very shortly. So, there is no recess at all in terms of engaging the production houses.

**Tanu:** Okay. So, are the content people overlapping with what Sun has or you'll have different set of people.

**Subhash:** That much detailing if you want to have Tanu, then we welcome you to come to our Chennai office and go over the details.

**Tanu:** Alright, sure. Thanks, thanks a lot.

**Moderator:** Thank you very much ma'am. Next question comes from Mr. Anupam from Reliance. Over to you sir.

**Anupam:** Sir, good evening and congratulations on good set of numbers.

**Subhash:** Thank you.

**Anupam:** My best of luck for you. Sir just wanted to understand what would be your accounting policy for film acquisitions, whether we would be writing them off in the first year or we would wait for showing off the film and then write it off?

**Barun:** You mean films on television channel?

**Anupam:** Yeah.

**Subhash:** Yeah, we write off.

**Barun:** We write it off over five years.

**Anupam:** Okay. So, every year, close to 20% we will write it off.

**Barun:** Yes.

**Anupam:** Thank you sir thanks a lot.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may kindly press \*1 and 01 now. Next, we have Mr. Ritesh from Dolat Capital. Over to you sir.

**Ritesh:** Sir, some time ago we had plans for production of regional movies, what is the status on that?

**Subhash:** Ramprasad...

- Ramprasad:** Yeah, we have already started production in Telugu and Tamil and we will be starting in Kannada also.
- Ritesh:** Okay. So, how many movies would be produced or distributed on this year in Zee News?
- Ramprasad:** Sorry, to correct you here, nothing on account of Zee News, it is all part of Zee Entertainment business.
- Ritesh:** Even the regional movies also?
- Ramprasad:** Yes. Zee Entertainment Studios will be producing films in six languages.
- Ritesh:** Okay. And we said one channel Zee Maha Movies which is right now housed in Zee Entertainment, has this shifted to Zee News?
- Barun:** Is it Zee Talkies?
- Ritesh:** I am sorry, yeah, Zee Talkies, Marathi movie channel, yes.
- Hitesh:** It is part of Zee News Limited.
- Ritesh:** Now it is part of Zee News?
- Hitesh:** Right.
- Ritesh:** Okay. Thank you very much sir.
- Moderator:** Thank you very much sir. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Hitesh Vakil for final remarks.
- International Moderator:** We have Mr. Aditya from Singapore, Nikko, Singapore with a question.
- Moderator:** Please go ahead.
- Aditya:** Yeah, hi, Aditya here. I had a question on the loss in new businesses which has gone up, and I think Mr. Subhash Chandra in his opening remarks said that it was due to Zee Kannada, higher expenditure in Zee Kannada, now two questions. One was what is your...when these two channels, Zee Kannada and Zee Telugu would break even and second question is whether any expenses related to Zee Tamil have been booked in Q1?
- Subhash:** No, Aditya, I mentioned to you that this quarter there is higher loss due to the Kannada, investment in the programming, but overall we will still be within the Rs. 70 crores guidance which we gave for full one year on the overall losses.



- Barun:** And as far as the breakeven is concerned, as we just mentioned, Mr. Ramprasad mentioned, Zee Telugu would be breaking even expectedly in this quarter and Zee Kannada towards the end of this year.
- Aditya:** Okay. So, that guidance still remains?
- Subhash:** Yeah, I will exactly repeat what I said. In the first quarter, the existing business accounted for 342.5 million EBITDA while new businesses losses were 167.7 million. Our loss in new businesses compared to the previous quarter is mainly attributed to higher investment in programming cost in Zee Kannada, the monetization of which will be seen in the subsequent quarters. We stand by our previous guidance of losses not increasing beyond 70 crores for the whole year.
- Aditya:** So, Zee Tamil expenses have still not come into the quarter results.
- R.K:** No, Zee Tamil loss of Rs 22.7 million has been taken in quarter one.
- Subhash:** Yes.
- Aditya:** Okay. Okay, that answers my question. Thank you.
- Subhash:** Thank you. Any more questions?
- Moderator:** Ayesha, any further questions from the international bridge?
- International Moderator:** At this point in time, there are no more questions Sandhya.
- Moderator:** Thank you very much. I would like to hand over the floor back to Mr. Hitesh Vakil for the final remarks.
- Hitesh Vakil:** Thank you. Thank you all for joining us. We hope to have a transcript of the call very soon on our website [www.zeenews.com](http://www.zeenews.com). We will look forward to speaking to you again at the end of second quarter of 2009 or even earlier on a one-on-one basis. Thank you and have a great day.

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