



ZEE NEWS LIMITED

3Q FY2007 TELECONFERENCE
JANUARY 31 2007, 12:30 P.M. INDIA TIME

Moderator: Good afternoon ladies and gentlemen, I am Sunil the moderator for this conference. Welcome to the Zee News conference call. For the duration of the presentation, all percipients' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over the proceedings to Mr. Atul Das. Thank you and over to you sir

Atul: Thank you. Good afternoon and good morning ladies and gentlemen, and thanks for joining us today to discuss the results of Zee News Limited for the nine-month ended December 31, 2006. We do hope that you had a chance to go through the earnings release of these results, which is uploaded on the site www.zeenews.com.

This is the first earnings call we are conducting for Zees News Limited. Hence results have been published for the nine-month period ending December 31, 2006. For comparison purposes, we have provided an illustrative financials of Zee News Limited for the nine-month period FY 2006 as well in our earnings release. To discuss the results and performance, we have with us Mr. Subhash Chandra, Chairman of Zee News Limited, and members of the senior management team of Zee News including Mr. Harish Doraiswami, CEO, Mr. Hitesh Vakil, Mr. Boman Moradian, Mr. Nitin Vaidya.

We will start with a brief statement from Mr. Chandra on the nine-month performance an outlook for the quarter and year ahead, 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 risks that we face. With this I now hand over to Mr. Chandra.

Subhash: Thank you Atul and I would like to welcome everybody to this call ladies and gentlemen. We appreciate you joining us for our nine months report.

Zee News Limited finished the nine months with a good performance highlighted by strong advertising revenue growth of 54% and robust operating profit growth of 179%. We believe that Zee News Limited has the potential to grow into a media giant with the regional focus. The restructuring exercise of Zee News Limited is now complete. Zee News Limited is ready to exploit the vast emerging opportunities and we will deliver long-term shareholder's value; that is our belief.

Let me first summarize the results for the third quarter. Advertising revenue was Rs. 1,213 Million for the nine months ended December 31, 2006, an increase of 54% as compared to the pro forma numbers of the corresponding period last year. Subscription revenue was Rs. 416 million for the nine months ended December 31, 2006, an increase of 12% as compared to the pro forma numbers of the corresponding period last fiscal. Operating profit was Rs. 131 million for the nine months ended December 31, 2006, an increase of 179% as compared to pro forma numbers of the current corresponding period last year. Operating margin on the ongoing existing businesses have improved to 31%.

Zee Marathi, Zee Bangla continue to climb the rating charts. Zee Marathi is the number one undisputed channel in its genre with Zee Bangla moving towards the same maintaining its strong number two position. Zee News continues to remain very strong in northern India.

Now let us look at our performance during the nine months in some more detail. Zee News Limited reported a nine-month revenue of Rs. 1,665 million, representing a 39% growth over the corresponding period in the previous fiscal, compared on the pro forma numbers. Operating profits stood at Rs. 131 million after expensing an initial investment in new activity mounting to Rs. 356 million. In other words, you can see that the existing business of Zee News as a channel is giving close to Rs. 487 million of operating profit. These are higher by 76% as compared to the pro forma numbers of the corresponding period last fiscal.

Operating margin on the existing business has improved to 31.3%. Profit before tax for the nine months of the fiscal 2007 was Rs. 150 million, net profit was Rs. 93 million.

Many of our channels have turned in strong performance in this third quarter. Zee Marathi now leads the Marathi entertainment zone while Zee Bangla continues to build a strong number two position. Zee News continues to deliver stable ratings and as the only pay channel in Hindi News zone has been successful in garnering strong revenue from both advertising and subscription. Chowbees Ghanta, a Bengali News channel operated by our subsidiary company, has quickly vaulted to a strong number two position with few weeks of exception, where it was number one also. We continue to reinforce our competitive advantage and deliver more value to viewers and the shareholders.

Coming to the corporate developments in Zee, as a result of demerger, shareholders of erstwhile Zee Telefilms Limited now called Zee Entertainment Enterprise Limited have been allotted equity shares in Zee News Limited, and Zee News Limited is now listed and is trading at the stock exchanges with effect from January 10, 2007. Zee News Limited has an equity share capital of 239.76 million equity shares of rupees one each.

We will continue to reinforce our competitive advantage and deliver more value to viewers and shareholders. We will look at investments that build on our current competencies and enable us to take advantage of the existing growth opportunities ahead. Thank you very much.

Now I would like to open the floor. Atul, we can now start taking questions.

Atul: Thank you sir. Ladies and gentlemen, we are ready for questions now. Before that I would request all participants to please limit themselves to two questions so that we can get more and more people. Thanks.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 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, please press *1 now. Participants who wish to ask questions, please press *1 now.

First in line we have Mr. Girish from ASK Raymond James.

Girish: Sir one question on break up of revenues. Could we get break up revenues in terms of news and non-news business?

Subhash: Hitesh

Hitesh: As a policy we would not like to disclose channel wise revenues. I can at best share the break up of revenue in terms of advertising revenue and the subscription revenue, which is in the ratio of 75 to 25.

Girish: Okay, could you share the margins for non-news and news or that is also not..?

Subhash: Well Girish, the non-news business is the existing businesses earlier were the Marathi, Bangla, and the general entertainment channels and the Zee News channel. These three are all profitable, if we look at these three are as I said 31% margins on these. The other three, 24 Ghanta, Zee Telugu, and Zee Kannada, they are new businesses launched during last year, they are still in losses.

Girish: Alright sir. Okay, thank you sir.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line we have Mr. Miten from HDFC.

Miten: Good afternoon sir. Just wanted to understand sir on a longer-term basis do we really see the regional entertainment channels as being driven by advertising or subscription or do you think both simultaneously can sustain?

Subhash: Miten, both revenue streams will be there going forward in regional entertainment channels.

Miten: Even in a 100% digital CAS environment you think?

Subhash: That is correct.

Miten: Okay, and in each of these markets, I am sure you would have a sense of what the target subscriber base can be. Could you give us some sense of that sir?

Subhash: Well we don't have the break up for each of our own regional channels, but we do sell from the Zee Turner team sells the channels in each of these markets as a bundle, but we can work it out and we can give you later.

Miten: Sure sir. Right now all these I assume are pay and they are priced as the bouquet, as a part of the Zee Turner bouquet, is it?

Subhash: Not yet. I mean on the new channels only at the moment Zee Telugu has been put under pay mode. Theoretically, Kannada is also pay mode, but there is hardly much revenue coming in because we are still not pressing for payments and so is Chowbees Ghanta (24 Ghanta) is also free to air at the moment, but we will be getting in the subscription revenues mode from next quarter onwards.

Miten: Okay.

Atul: Miten, just to answer your question differently, for the Andhra market for example, the advertising market on television is around Rs. 350 crores and the Kannada market is around Rs. 130 crores, so that is the pie that we are looking at from the advertising part. Also, we know that the south Indian market in fact has the highest number of cable penetration and therefore cable homes, and therefore if you can monetize that aspect on the subscription revenue side it can be a big upside to this business.

Miten: Sure, I was actually looking at it more from a number of households in each of these markets kind of a number if you had that readily, otherwise we can probably take that some other time. The other question as a result of this would be since these are currently being priced as a bouquet and now we have two separate entities Zee Entertainment and Zee News, how does one segregate that bouquet pricing into these two entities, I mean how does it flow through, if you could get some understanding on that.

Hitesh: Well price per channel has already been fixed and it has been prevailing since last three years and it is already registered with TRAI, so individual channel pricing has not undergone any change and subscription revenue will keep continue to flow as per the price.

Miten: Okay, if I understand correctly, I am sorry I think I am taking more than my fair share of time, but if I understand correctly, the bouquet is priced at I mean the price is less than the sum of individual channel prices, in which case the revenue from the bouquet will have to be allocated in some ratio, isn't it?

Subhash: Hitesh, why don't you tell on the Zee News Limited all the channels what is the price as a clubbed entity?

Hitesh: I will have to work out separately because it is different pricing for different packages, but on an average news plus regional channel bouquet put together is roughly around Rs. 20.

Subhash: Miten does that answer your question?

Miten: Yeah sir thanks a lot for that. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line, we have Mr. Prashant Jain from HDFC.

Prashant: Good afternoon sir, can you just give a cost break up roughly, how much does it cost to operate a new regional channel, channels which are mature and which are one years old, I mean what is the total operating cost of the channels per year.

Subhash: Regional channels up and ready will cost you to run anywhere between Rs. 20 to 30 crores given the market differentiation on an annualize basis.

Prashant: Sir you are right now operating four regional channels.

Subhash: No, we are operating ...

Prashant: Marathi, Bangla, Telugu, and Kannada you said now.

Subhash: Now we have also there is a Zee Gujarati and also there is Zee Punjabi.

Prashant: You have six regional channels and you have

Subhash: Three news related channels, one is Zee News Hindi, one is Chowbees Ghanta in Bangla, one is Zee Business, the business channel.

Prashant: And six regional channels.

Subhash: Yeah.

Prashant: And your total operating cost is about 200 crores a year sir, based on nine-month numbers, if we analyze that.

Subhash: Yeah.

Prashant: Sir company like I mean TV Today is incurring about Rs. 130 crores of cost for two news channels of which one is the main channel, so how do you I mean

these costs don't add up if you work on Rs. 25 crores per regional channel into six is 150 crores.

Subhash: No bhaiyya, aisa hai, that the entertainment channel do cost more than the news channels, so I am not saying that every channel of regional language is same. For example Gujarati we are running and maintaining at Rs 7-10 crores. Punjabi channel, there is hardly any cost may be 4-6 crores, because we are running more of music over there.

Prashant: Okay.

Subhash: So this is the beauty of Zee Network you know, that this is able to run more efficiently the things in a proper way.

Prashant: Sir how do you expect the new channels to grow in terms of revenues over next one to two years.

Subhash: Well, next 12 months is the target that the Telugu and also the Kannada channel should breakeven in next 12 months and start adding to the bottom line.

Prashant: Telugu and Kannada should breakeven.

Subhash: Yeah, these are the basically two channels which are bleeding.

Prashant: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line we have, Mr. Ritesh from Daulat Capital.

Ritesh: Hello sir, do we see our subscription revenue growing at a faster rate because of CAS and DTH implementation, any indication on that?

Subhash: Yeah this should grow faster than the past, yes you are right.

Ritesh: Okay, so can we expect about double growth than the past, something indication.

Subhash: Yeah in subscription we must get 20% plus growth.

Ritesh: Yeah okay, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now.

Atul: Before we move on, I would like to answer Miten's question who had asked on the subscriber numbers in the Southern markets. Miten, Andhra market has around 11.5 million cable subscribers and Karnataka market has around 6.5 million cable subscribers.

Moderator: Next in line, we have Mr. Amit from Prudential ICICI.

Amit: First of all, I wanted to understand at what kind of the market share for your Telugu and Kannada channels would you be reaching a breakeven?

Subhash: Mr. Moradian.

Moradian: Yes sir. It should be in a vicinity of about 13 to 14% channel share we will be able to breakeven. More rest upon the subscription revenue that you can gather, as it will increase breakeven will be earlier, this lead to the channel share also.

Amit: Okay the other thing sir, if you look at the numbers, it seems that for the third quarter existing businesses would make only about 2.1 crores of EBITDA while the new business had had a EBITDA loss of 2.7 crores. It seems that the profitability of the existing business has fallen down, is that correct assessment sir?

Subhash: I don't think so, Hitesh.

Hitesh: No, that is not the correct assessment. In fact margin from the existing business has gone up in third quarter and presently we are operating at around 31% of the margin at nine-month level. See perhaps you are referring to pro forma numbers published in Zee Telefilms Limited earlier and now you are trying to link it with this, but then there were lot many inter company adjustments which we could not really include in this financial results and as a result, the correct way to look at it is to look at the last audited numbers of Zee News Limited that was effective November and now this results for nine months ending December.

Subhash: Amit what Hitesh is saying is that please don't compare it to proforma numbers since there were certain adjustments, which were not taken then.



Amit: Okay, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Participants who wish to ask questions, please press *1 now. Next in line, we have a follow-up question from Mr. Ritesh from Daulat Capital.

Ritesh: Sir we are going to launch Zee Marathi, Chowbees Taas (24 Taas) as a news channel, so what would be the likely opex for that channel.

Subhash: Yeah Harish.

Harish: Yeah opex for channels like Chowbees Taas will be to the tune of about 15 crores.

Ritesh: Okay.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line we have Mr. Shirish from Anand Rathi.

Lady: Hello, just wanted to ask how much debt the company is having right now and for further expansion or further capex investment in the company how much you will require and how do we intent the fund the same sir?

Subhash: Hitesh, can you tell?

Hitesh: Well, at this moment company does not have any debt except for some working capital to the tune of about 20 odd crores, and most of our future expansions will be made out of internal accruals and we don't have any significant debt raising plans.

Lady: Okay, any further capex capital investment in anything new venture or something?

Subhash: Not at the moment which has been planned, as earlier we said that at the moment it is only Chowbees Taas is the only thing which has been approved by the board and with these existing three channels like new ones or four new channel like the Kannada, Telugu, Chowbees Ghanta, and Chowbees Taas, the investments or losses would be funded through the internal accruals. There is no other capex which is beyond the internal accruals.

- Lady:** Right.
- Subhash:** So if there is any further expansion, then it is a different thing.
- Shirish:** Just one quick question here. This is Shirish. When we are saying that CAS has been successfully implemented, what kind of revenue we can expect in next quarter?
- Subhash:** On this Zee News Limited?
- Shirish:** Yes.
- Subhash:** See, currently you are seeing that there is average of Rs. 13.5 crore quarterly subscription revenue, isn't it Hitesh?
- Hitesh:** Right.
- Subhash:** So, we should see the growth in this business going forward from there, growing to about 25% on an annual basis growth on subscription.
- Shirish:** Thank You.
- Moderator:** Thank you very much sir. Next in line, we have Mr. Kapil from BRICS Securities.
- Prabhat:** Yeah hello sir, this is Prabhat here. I wanted to know the cost base of the channels which are in place, are we likely to see any inflation that is especially you know in the attempt to increase the revenues on the new channel or this is largely going to be stable what we are seeing for example over nine months to look in average of quarterly cost. Do we expect an inflation in these costs which is going to be let us say beyond the normal 10%?
- Subhash:** I don't think Prabhat is not going to be beyond that kind of a thing except in Telugu and Kannada, the earlier thinking was not to have the movies there and try to build on a general entertainment, but it seems that in both markets we will have to spend some money onto the movies, so Telugu programming expenses of last 12 months versus next 12 months, I will request Mr. Moradian to give.
- Moradian:** It will be up by about 20% to take care of this additional movie acquisition and broadcasting.

Prabhat: Okay, alright. Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Nikhil Vora from SSKI Securities.

Bhushan: Hello sir, this is Bhushan here. Just right now you said that we don't have any debt on our books and first nine months we have a finance cost of close to around 4 crore, just wanted to know about that?

Hitesh: Yeah I mentioned there is some working capital debt that is sitting in these books.

Bhushan: But that we are saying it is to the tune of Rs. 20 crores, that is why a disconnect, like finance cost we are having is close to around 4 crore in first nine months.

Hitesh: There is some cost allocations which has happened on the restructuring and as a result this is the cost loaded there.

Bhushan: Okay, so which means going forward we will not have such kind of finance cost.

Hitesh: Yeah.

Bhushan: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line, we have a follow-up question from Mr. Amit of Prudential ICICI.

Amit: Sir if you look at the one-month revenue numbers, it seems like EBITDA is in about Rs. 6.7 crores, it seems like that has been mainly from the reduction in cost structure. Can you explain this?

Subhash: Hitesh.

Hitesh: Well December has been really good month in terms of advertising revenue to be specific, and cost is more or less same, and as a result December being an exceptional month has shown abnormal growth. This is being a seasonal trend, so I would request you to take the trend on the basis of nine-month performance.



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Amit: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Participants who wish to ask questions, please press *1 now.

Atul Das: If we don't have anymore questions Sunil, can we end the call.

Moderator: Sir, as of now we don't have any questions sir. Sir you can go ahead with the final remarks.

Atul Das: Okay, thank you ladies and gentlemen for joining us for the nine-month report for Zee News Limited and we hope to speak to you again very soon or at the end of the fourth quarter. Have a great day. Thank you.

Subhash: Thank you. Bye bye.

Moderator: Ladies and gentlemen, thank you using WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
