



ZEE NEWS LIMITED

Q1 FY2010 TELECONFERENCE
JULY 23, 2009, 3.00 P.M. INDIA TIME

Moderator: Ladies and gentlemen good afternoon, this is Rochelle, the Chorus Call Conference operator. Welcome to the Zee News Limited first quarter FY10 results 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 at the end of today's opening remarks. If you should need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tarun Nanda, Deputy Vice President – Corporate Finance, Zee News Limited. Thank you and over to sir.

Tarun: Good afternoon ladies and gentlemen. Thank you for joining us today to discuss the results for the quarter ended 30th June, 2009, that is the first quarter of fiscal 2010. We hope that you have had a chance to go through the results and the earnings release both of which are uploaded on our website www.zeenews.com.

To discuss the results and the performance of the company joining me today is Mr. Subhash Chandra – Chairman, Zee News Limited, Mr. Laxmi Narain Goel – Managing Director and members of the senior management team of the company including Mr. Punit Goenka – Director, Mr. Barun Das – CEO, Mr. Atul Das – Executive Vice President, Corporate Strategy and Business Development and Mr. Boman Moradian from Corporate, overseeing the Regional Channels. We will start with a brief statement from Mr. Goenka on the first quarter's performance and then open the discussion for questions and answers.

I would like to remind everybody that anything that 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. I would now request Mr. Punit Goenka to address the participants. Over to you sir.

Punit: Thank you Tarun. Good afternoon ladies and gentlemen and thank you for joining us today to discuss the results of Zee News Limited for the quarter ended June 30th, 2009.

The regionalization of the Indian media and entertainment industry continues at an accelerated pace and in doing so continues to redefine the rules of the industry. With television viewers in smaller cities and

towns getting ever increasing content options in their local languages, the regional news and entertainment segments continue to show a high growth potential. Having foreseen the opportunity well in advance Zee News Limited is today best poised to benefit from this changing trend.

Focusing on the key financials of the first quarter, we are pleased to follow up the outstanding performance of 2008 - 2009 with an admirable start to this fiscal as well. In a relatively tough quarter for the overall television advertising market, Zee News Limited has yet again delivered strong growth in both top-line and bottom-line and reiterated its growing dominance within the industry.

Overall consolidated revenues for the quarter were Rs.1.4 Billion indicating a growth of 22% on a year-on-year basis. Within this, advertising revenue grew by an impressive 23% while subscription revenue recorded a 25% growth. Subscription revenue from domestic DTH recorded a 52% increase over the corresponding period last fiscal. The growth in DTH revenues is a reflection of a rapidly digitizing country and going forward we foresee exponential growth from this revenue stream.

Fueled by the growth in operating revenues the operating profit margin for the quarter rose to 18% from 15.3% in the corresponding quarter last fiscal. The existing businesses continue to grow and recorded a 21% growth in operating profit year-on-year. The margins for this segment improved to 42% from 35%. The new businesses maintain their upward drive and closed the first quarter with almost flat growth in operating losses as compared to the same period last fiscal. This was achieved despite the impact of additional new launches namely Zee Tamil, Zee 24 Ghantalu, and Zee News UP.

Comparing operating parameters on a sequential basis the revenue of existing and new businesses remained almost flat, largely due to the seasonality factor. The incremental effect of general elections held in the country during the first quarter was largely mitigated by the slowdown in overall advertisement spend. We consciously decided to further rationalize the cost structure of the company, and the sequential decline in the first quarter's operational and personnel cost is a reflection of that exercise.

Moving on to the highlights of individual channel performances in the first quarter of fiscal 2010, the flagship channel Zee News once again demonstrated being the nation's trusted news channel by garnering the highest time spent per viewer during the general elections. Zee News' 'Aapka Vote, Aapki Taqat' was largely acknowledged as one of the most widespread voter awareness initiatives ever and helped the channel maintain its leadership position. In a first of its kind initiative by an Asian news channel, Zee News went live on a popular social networking site on the elections counting day and registered a total of 5 Million viewers during the counting exercise.

The company's business news channel Zee Business continued with its growth story during the first quarter. It registered an impressive channel share of 26% as compared to 14% during the same period last fiscal. Steady growth in ratings really suggests that the channel is now a must watch for small and medium retail investors across the country.

Zee Marathi, the Marathi general entertainment channel, maintained its leadership across all channels in the State of Maharashtra. The channel delivered 244 weekly GRPs on an average during this quarter and gained a channel share of 46% in its genre.

Zee Bangla garnered 276 average weekly GRPs in this quarter and was a clear leader in the Prime Time and on non-film GRPs. Four of its programs including the leading reality show 'Sa Re Ga Ma Pa Little Champs' and the fiction offering 'Erao Shatru' continued to dominate the Top 50 programs chart of the region.

Zee Telugu, the Telugu general entertainment channel, exited this quarter with 391 GRPs. Zee Telugu was a steady Number two during the entire quarter in its five channel genre.

Zee Kannada, the Kannada general entertainment channel, has shown steady growth since its programming was revamped towards mid May this year. The channel garnered average weekly GRPs of 165 during the quarter and is consistently performing about 200 GRPs since the last four weeks and is a clear Number two in the genre now.

With this, I would like to end by saying that our well balanced bouquet consisting of multiple driver channels has not only outperformed the industry by a significant margin but also helped us set new benchmarks. A systematic and judicious expansion plan coupled with our focus on multiple revenues would continue to help Zee News Limited stand apart and ahead. I would now like to open the floor for questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. If you have a question, please press * and 1 now. Our first question is from the line of Anand Gupta of SBI Mutual Fund. Please go ahead.

Anand: Hi, can you talk about the subscription income both from the analog side and the digital side and is it linked to the subscribers or is it on a fixed basis, if you can give some basic model there?

Atul: Growth has basically come from the DTH side, which has seen a 52% increase over the corresponding quarter last year. Analog has seen comparatively lower growth for this business. Mr. Anand are there any specifics you are looking at?

- Anand:** Yeah just wanted to understand is it that this income will grow in line with growth in the DTH subscribers or it has a fixed content deal or because it is part of a bouquet so it won't get variable share.
- Barun:** Yes Anand we will grow with the growth in DTH subscriber base. The growth would not be limited to DTH only. As you know the main challenge in the analog domain is the declaration of subscriber base which we are constantly adding. So we are confident that going forward the growth would be fueled by DTH subscribers primarily but also by the analog subscription.
- Anand:** And is the breakup public, the breakup between analog and DTH.
- Atul:** No, that is not public.
- Anand:** Okay. If I may ask one follow on question, this is just on a broader level, correct me if I am wrong. In regional media where the competition is with various players in different markets in Tamil, Bangla or Marathi, every three years, how it works is, it gains market share in certain markets and loses market share in certain other markets. So net-net it gets very difficult to grow market share in all the markets and that is the nature of the industry, am I incorrect there?
- Barun:** Anand there is no such trend and the market share would obviously vary if new entrants come in. What you should look at is the absolute growth which steady players like us are enjoying in the market. To summarize, new players might reduce the market share, but that does not hamper the growth potential going forward.
- Subhash:** And what we have done within Zee News Limited is that we have a separate business leader for the News and Business cluster, we have a HSM general entertainment cluster headed by another business leader and a southern bouquet headed by another business leader. As a result, they are all very focused in their markets and hence the trend for the last two years is that everyone is growing, every genre is growing.
- Anand:** Sure, there was an improvement in the last two quarters in Telugu and Kannada market but at the same time there is a loss of market share in the Bengali market. And if we look three years back we gained market share in Marathi and Bengali market but lost market share in the Hindi news segment. So I was coming from that side, this market is so fragile that it is very difficult to say that one can grow market share in all the markets because the players are different and the dynamics are different. The entry barriers are very small and it does not take much to enter.
- Barun:** In the Bengali market, we have lost share because of a strong new player coming in. The growth in market share in the southern markets of Zee Telugu and Zee Kannada is due to our superior performance. They cannot be linked. As the Chairman said we have focused individually on each and every market. So there is no correlation between market shares of two

different markets, neither are they negatively correlated nor positively correlated.

Anand: Sure okay.

Moderator: Thank you Mr. Gupta. Our next question is from the line of Prashant Kothari of ICICI Prudential. Please go ahead.

Prashant: Sir, the question is that the advertising revenues have grown by about 22% to 23% while I do not think the underlying market would have grown by as much, so if you can give some idea on the growth of the underlying market so as to see how much market share we have?

Subhash: It is a combination of elections and secondly the general entertainment channels are on a growth trajectory. So putting together both, we have kind of beaten the industry growth percentage.

Prashant: Okay. And sir how much would be debt on the company as of now?

Atul: Gross debt is Rs. 225 Crores.

Prashant: And is there any cash?

Atul: Yeah there is a little amount of cash so net debt would be around Rs. 215 Crores.

Prashant: Okay. And sir one question is pertaining to your audited numbers versus the un-audited numbers that you had presented last time, there is some increase in the expenditure that you have shown in the audited numbers. Can you just throw some light on what has really happened there?

Hitesh: It is due to re-grouping of expenses however, overall profit has more or less remained the same.

Prashant: Okay fine, thank you.

Moderator: Thank you Mr. Kothari. Our next question is from the line of Abneesh Roy of Edelweiss Capital. Please go ahead.

Abneesh: Sir Congratulations on a decent set of numbers. My first question is on the ad revenue front, we have managed good revenues in the phase of elections, but there was also pressure from the IPL. So many people expect that the second half of this financial year should be good. My question is whether the remaining period, that is the Q2 of this financial year, looks challenging or you expect better growth because of the overall green shoots in the economy?

Atul: Yeah overall from a macro perspective we hope that the pickup will happen in the second half. The only differentiator is that, for the news

focused business the first Quarter has been actually slightly better because of the elections. So from that perspective news is a different category from entertainment products, but overall we do hope that the second half will be better than the first half.

Abneesh: And my second question is that in Zee Entertainment we have seen a massive reduction in interest cost. In Zee News also we have seen reduction, but going forward will it be fair to assume that you will restructure your debt and do we see some further cost reduction here?

Atul: We will update you as we go along Abneesh. As of now you can take this as the run rate for interest cost. As you know, some of our new launches are doing well and therefore they are turning the corner. So as those continue to happen we will obviously repay down debt and reduce the interest cost.

Abneesh: And my last question is on Zee News UP. The elections are over and the language being the same as Hindi, in terms of positioning is it slightly different compared to other states? We are in a cost control mode so any ratings which you can share in terms of medium to long term plans on a channel like Zee News UP will it be more election related or you do see a good revenue potential otherwise also.

Barun: There are two parts in your question. One is, yes it is a different proposition because it is a regional channel but in the same language Hindi. As we have earlier discussed, it is differentiated with content, Zee News UP would always have about 70% local content. And secondly, in terms of market potential we still feel that it's a huge market. Our estimate of the local sales market size is in excess of Rs. 1000 Crores wherein share of television has been low so far. But I am sure that going forward it is going to be a channel which would generate enough profits on its own.

Abneesh: Okay. That is all from my side thanks.

Moderator: Thank you Mr. Roy. Our next question is from the line of Ruchit Mehta of HSBC. Please go ahead.

Ruchit: Sir, in the existing business the revenue growth was 2% so can you give us some sense in terms of what was the ad revenue growth in the existing business?

Subhash: Yeah we had said earlier that our margins have improved to 42% from 35%. Ad revenue growth would have been flat. It is very nominal; it is a single digit growth.

Ruchit: And in terms of the new business the losses are about Rs. 16 to 17cr. obviously you have cut some cost, but for the year as a whole is the

current run rate going to be the same or you expect it to come down even further?

Subhash: No, it has to come down logically.

Atul: It has performed better because of two reasons one because of cost rationalization and secondly, some of the channels in the new business bouquet have performed quite good. Therefore, going forward it should be a function of that and you can expect a similar trend.

Ruchit: And what is the status of Zee Kannada it was expected to breakeven, any update on that?

Punit: Zee Kannada should breakeven this fiscal.

Ruchit: Okay. And just a final question, what is the total debt and cash position at the end of the quarter?

Atul: The total gross debt is 225 Crores.

Ruchit: Okay great thank you.

Moderator: Thank you Mr. Mehta. Our next question is from the line of Ritesh Poladia of Dolat Capital. Please go ahead.

Ritesh: Good afternoon sir. Sir my question is on revenue from the new business and the existing. The existing has remained same but new has grown substantially, so have the elections contributed to the revenue growth of new business as well?

Punit: The elections have contributed to the news channels and marginally to the entertainment channels as well, more on news.

Subhash: See, if there was no election advertising revenue there could have been negative growth in the advertising of Zee News Channel.

Ritesh: Okay. And even on the OPEX front, the existing business OPEX is down about 9% sequentially. So can we see this run-rate of OPEX going forward for existing channels?

Atul: It would not come down sequentially like this but we would be maintaining the current level of OPEX going forward.

Ritesh: So about Rs. 57 to 60 Crores can be maintained for about two to three quarters?

Atul: Yeah, depending upon our investment in programming and marketing, round about there.

Ritesh: Okay, that is all from my side, thank you.

Moderator: Thank you Mr. Polodia. Our next question is from the line of Amit Kumar of Kotak Securities. Please go ahead.

Amit: Very good afternoon to you sir. How much of your subscription revenue this time was contributed by DTH?

Hitesh: We have not made this data public.

Amit: I know that you used to share the DTH contribution previously.

Subhash: We are giving you the growth numbers; we have about 50% growth from DTH.

Amit: Okay sir, not an issue. Sir please correct me if I am wrong, till last year you used to pay this 15% fee to Zee Entertainment on account of inventory selling on your GEC channels, this was part of selling and distribution cost, right?

Punit: Yes that is correct.

Amit: Right, so this fee has gone off, because you have internalized the sales team but still your selling and distribution is up above 13% year-on-year.

Punit: Selling and distribution expenses also include carriage fees along with the other SG&D cost. With the launch of new channels, we have incurred higher carriage cost which has resulted in the increase there.

Amit: Incrementally this is on account of the News Channels because Zee Tamil was already there over the last couple of quarters?

Punit: Not for the whole year, not in the first quarter.

Amit: Yeah but last quarter it was already there, right?

Subhash: Right.

Amit: So this increase is on account of News Channels?

Atul: It has increased on account of all channels. It is also related to the volume of advertising. So therefore the growth of advertising would also result in growth of cost of selling and distribution and then as Punit mentioned, carriage fees is also included in it. So while we have saved the commission cost other costs have come in.

Subhash: Mr. Moradian wanted to say something.

- Boman:** What I was trying to say is that you are looking at it sequentially. There has been the launch of 24 Ghantalu in this quarter whose carriage fees would have come, UP News launch has been there, whose carriage fees has come. So there are additional two channels, whose carriage fees would form a part of this.
- Amit:** Fine. Thank you.
- Moderator:** Thank you Mr. Kumar. Our next question is from the line of Miten Lathia of HDFC Mutual Fund. Please go ahead.
- Miten:** Good afternoon sir. For the last eight quarters we have consistently seen sequential growth in subscription revenues and this quarter seems to put a brake to that sequential growth, was there an aberration in this quarter or should we expect the same sort of growth rates going forward for the rest of the year as far as subscription is concerned?
- Atul:** Perhaps the aberration was in the fourth quarter last year when one of the major DTH platforms had not declared their subscriber numbers in Q3, which got declared in Q4.
- Hitesh:** Miten, I think the initial statement which you made is possibly incorrect. The trend which you have seen in the first quarter this year was there in the first quarter last year as well. So it has not sequentially grown for eight quarters.
- Miten:** True, that was flattish.
- Barun:** The trend is the same as Mr. Vakil just mentioned.
- Miten:** Would you want to put a number to the full year subscription growth that we should expect?
- Atul:** We would not like to give a specific number but we do expect growth to continue.
- Miten:** Not an issue, thank you. Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Rohit Dokania of B&K Securities. Please go ahead.
- Rohit:** Good afternoon sir. Just wanted to know on a quarter-on-quarter basis our program cost is down although we have launched two new channels, any specific reason for that?
- Atul:** This is due to seasonality and general business dynamics Many times it happens that your investment in certain programming can happen in one particular quarter so it is part of that general business process.

- Rohit:** Okay. And there has been no cut in original hours of programming in any of the south-Indian channels that we have. I basically wanted to know that.
- Punit:** There is no such cut. Investment continues.
- Rohit:** Okay sir, thanks a lot.
- Moderator:** Thank you Mr. Dokania. Our next question is from the line of Arjun Khanna of Principal PNB Asset Management. Please go ahead.
- Arjun:** Thank you sir for this opportunity. I have a question in terms of the debt position. In the fourth quarter, as you had mentioned in the transcript, our net debt was around Rs.150 Crores, which is now 215 Crores so the difference comes to around 65 Crores. Assuming the net cash from this quarter was 10 Crores. Could you explain where this Rs.75 Crores was spent?
- Atul:** Yeah the major amount of money has been invested in three areas. Programming and Film Rights has taken away a large part of this.
- Arjun:** Could you quantify that please as a percentage maybe?
- Atul:** Yeah on an incremental basis, roughly Rs. 30 Crores would be on account of Programming and Film Rights, approximately Rs. 20 Crores would have gone for increase in gross block and another Rs. 15 Crores or so would be on account of trade advances.
- Arjun:** Sure. And in terms of Zee Tamil, if you could give us some update in terms of ratings?
- Boman:** We are revamping Zee Tamil. It has not performed as per expectation; you will see some effects of this three to six months down the line.
- Arjun:** So when you say revamping, is it in terms of content or our distribution strategy?
- Boman:** Content. It is already available on DTH as well as in the analog mode.
- Arjun:** Sure, would you have data in terms of our reach for the Tamil market?
- Boman:** Cumulative reach is more than 65%.Distribution is not an issue.
- Arjun:** Sure. We have good success in the Kannada market and the Telugu market, what in your opinion is lacking probably in the Tamil market?
- Boman:** Nothing is lacking, it is only a question of time. We went through the same pain when we started Telugu. So please have patience.



- Arjun:** Sure, thank you so much.
- Moderator:** Thank you Mr. Khanna. Our next question is from the line of Hiren Dasani of Goldman Sachs. Please go ahead.
- Hiren:** Sir, last year you gave some sort of guidance for the losses from the new business can you give sense regarding that this year?
- Atul:** Hiren, this year being slightly different, it is difficult to make very precise predictions. Our endeavor remains the same, that we will keep improving on our performance on the new businesses and therefore we would move towards profitability in each of these channels. So bear with us on that and we will come back to you with more details.
- Hiren:** Okay. Thanks.
- Moderator:** Thank you Mr. Dasani. Our next question is from the line of Mihir Shah of Prabhudas Lilladher. Please go ahead.
- Mihir:** Hi sir, it is a very broad question, do you have any plans as such for tapping international markets for international subscription revenues for our regional GECs going ahead in the future?
- Punit:** Yes, we will be launching some of our GECs in the international market. We will come back to you with the details as and when we do that.
- Mihir:** Alright sir, thank you.
- Moderator:** Thank you Mr. Shah. Our next question is from the line of Anand Gupta of SBI Mutual Fund. Please go ahead.
- Anand:** Yeah on the subscription income can you talk about the reach, how many subscribers are you reaching and what should be the optimal revenue?
- Barun:** Anand, since we are a bouquet of thirteen channels, we really cannot answer this question in terms of reach of a particular channel. Some of them are regional while some are national. Maybe, if you re-phrase your question we will be able to answer that.
- Anand:** Barun, as an analyst how should one model the likely revenue growth in the subscription, my understanding is that if it is bouquet then the negotiation with the bouquet owner has a major role to play. So is that correct or we should focus only on the growth in the DTH homes?
- Barun:** There are two ways an analyst might go about it. One is the DTH growth rate which we have been mentioning and the fact is that we have actually outgrown the DTH growth rate so far. The second as I said, is related to how efficient we are in getting declaration in the analog domain. So therefore if we have to really project or come to some kind of

understanding as far as the future growth is concerned the best estimate would be based on the past trend.

Anand: So one should not focus on the negotiation or the probable pie which the bouquet owner leaves for the particular broadcaster, that is not a major criteria?

Barun: Not really, no major change is happening there.

Anand: Alright thank you.

Moderator: Thank you Mr. Gupta. Our next question is from the line of Amit Kumar of Kotak Securities. Please go ahead.

Amit: Thanks again. Since the last couple of quarters we have been talking about increasing our subscription revenue from the cable side especially from South India. I guess both on Telugu as well as Kannada side we are only about two to three years old and so we are not generating much subscription revenue from that side. So I just wanted to understand what the progress that is being made there and what are the efforts being made by the company to increase subscription revenue on DTH cable side specifically to south India.

Boman: On the Cable side both the channels are pay channels from day one and we are collecting money from the subscription revenue from the cable operators.

Amit: But as I understand the proportion of money flowing through versus the popularity of our channels, we are almost at 12% to 15% market share. It is not proportional in that sense so?

Boman: Yeah there is room for improvement and we are working on that.

Amit: Okay, could you just share your overall subscription revenues, roughly how much will be on account of the southern channels at this point in time?

Boman: We will not be able to give you that breakup, but it is improving.

Amit: Right. On the decline in programming cost, I just wanted to understand on which channel did you have high cost programming previously and which is now kind of gone off?

Punit: It is a combination of various channels in our existing business and largely it has come from the GEC pie.

Amit: Okay, so pretty much across the board is what you are saying?

- Punit:** Yeah, cost cutting measures are run across the company as we speak and any non-performing programming is therefore pulled out immediately rather than waiting for it. And you will notice that Zee Gujarati has been put off- air in this quarter therefore that saving has also come in significantly.
- Amit:** Fair enough. In your financial results if you look at footnote number two it mentions that new business losses are to the tune of Rs. 182.55 million but in the Earnings Release it is mentioned at about Rs. 168.5 million. Am I looking at it wrongly?
- Punit:** No. One is an EBITDA figure and the other is an operating loss figure, depreciation has been added to it.
- Tarun:** The one in the print format is as per the format prescribed by SEBI.
- Amit:** Fine fair enough, thank you.
- Moderator:** Thank you Mr. Kumar. Our next question is from the line of Vikas Mantri of ICICI Securities. Please go ahead.
- Vikas:** Good afternoon sir. Can we quantify the impact of elections and the budget on our advertising revenue for the quarter? And the second question is regarding the cost rationalization benefits, have they all accrued in this quarter or we can expect lower cost because they are significantly less than what the ZEEL has shown in its numbers?
- Boman:** When it comes to cost rationalization, please try and understand that on a quarter-on-quarter basis we have added two new channels in this quarter. So the rationalization effect to an extent has been nullified by the cost of those two channels. Keep that on the horizon when you are comparing.
- Vikas:** But do we expect more cost rationalization benefits to accrue further?
- Boman:** It is an ongoing process, but please do not expect zero costs.
- Vikas:** Okay. And on the advertising side sir?
- Barun:** On the advertising side, primarily the advantage was to news channels. To my knowledge the news industry benefited by about 25% by this election and budget, and once again our benchmark was the industry and we have outperformed the industry by quite a margin.
- Vikas:** Sorry sir, 25% increase in spends because of elections?
- Barun:** It is the advertising growth in the news channels because of elections.

- Vikas:** We grew at about 23% YOY so had it not been elections, we would have seen negative growth this quarter?
- Barun:** The Chairman has already mentioned, without that we possibly would have reported negative growth.
- Vikas:** Thanks for the call and good set of numbers.
- Moderator:** Thank you Mr. Mantri. Ladies and gentleman that was the last question I would now like to hand the conference over to Mr. Tarun Nanda for closing comments.
- Tarun:** Ladies and gentleman thank you for joining us. We soon hope to have a transcript of the call on our website www.zeenews.com. We look forward to speak to you again at the end of the second quarter of fiscal 2010, or even earlier on a one-on-one basis. Thank you and have a great day.

** This transcript has been suitably edited for ease of reading.*