



ZEE NEWS LIMITED

3Q FY2010 TELECONFERENCE
JANUARY 22, 2010, 3.30 P.M. INDIA TIME

Moderator: Ladies and gentlemen, good afternoon and welcome to the Zee News Limited third quarter FY10 results conference call. As a reminder, all participant lines will be in the listen-only mode. You may ask questions at the end of the management speech. Should you need any assistance during the conference, you may signal an operator by pressing * 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 of Zee News Limited. Thank you, and over to you, sir.

Tarun: Good afternoon ladies and gentlemen. Thank you for joining us today to discuss the results for the quarter ended 31st December, '09, that is the third quarter of fiscal 2010. We do hope that you 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 performance of the company, joining me today is Mr. Punit Goenka – Director, Zee News Limited and members of the senior management team of the company including Mr. Barun Das – CEO, Mr. Atul Das – Executive Vice President -Corporate Strategy and Business Development, and Mr. Dinesh Garg – Vice President - Accounts.

We would start with a brief statement from Mr. Goenka on the third quarter's performance and then open the discussion for question and answers. I would like to remind everybody that anything that we say during this call that refers to 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 31st December, 2009.

As we move forward towards an era of digitization and convergence, the efficiency and viability of any television news company would largely depend on its network strength. Zee News Limited with its diverse regional news bouquet will certainly have an edge over other players in the genre. To further build on its existing strength, Zee News Limited now is on the path to consolidate its news operations and unlock tremendous cost and synergy benefits going forward.

Coming over to the performance of the third quarter, the company has maintained its growth momentum and going forward with renewed focus on brand building, programming and positioning each of our channels should capture a bigger market share both in terms of viewership and revenue. The overall consolidated revenues for the quarter were Rs.1.7 billion indicating a growth of 19% on year-on-year basis. Within this, advertising revenues grew by an impressive 26% while subscription revenues recorded a 19% growth. Operating profit recorded a growth of 22% as compared to the corresponding quarter last fiscal. The operating margin of the quarter stood at 21.3% compared to 20.9% in the third quarter last year. Both our existing as well as new businesses recorded revenue growth. Operating losses from new business reduced to Rs.30 million compared to Rs.100 million in the corresponding quarter last fiscal.

On a sequential basis, the existing business recorded a year-on-year revenue growth of 7% while the same for new business was almost flat. The existing news operations comprising of Zee News, Zee Business, Zee 24 Taas and 24 Ghanta recorded a sequential growth in revenue and EBITDA.

On the costs front, we largely remained in line with the trend last year. Cost containment initiatives continued thus bringing in sustained operational efficiencies.

Moving to highlights of some individual channels' performance in the third quarter of fiscal 2010, the flagship channel Zee News with its focus on serious news and programming innovations continued to be one of the most profitable Hindi news channels in the country. The company's business news channel Zee Business, frequently emerges India's #1 business channel amongst various industry benchmarks. For the year 2009, the channel had an average 37% market share during business primetime amongst the core business news audiences. Zee 24 Taas was recently re-launched with a completely new look and feel. Our Bengali news channel 24 Ghanta is the undisputed leader in primetime in Kolkata and a perpetual leader in terms of its sheer reach in the Bengal market. Ever since launched in April last year, Zee News U.P has been further accentuating our strength in the Hindi Heartland of the country and holds tremendous promise going forward. Zee Tamil would soon become a predominantly news channel and would see substantial reduction in costs going forward. The channel recorded more than 100% growth in GRP during the third quarter and is expected to continue the good show.

The regional GECs gained traction in their respective genres with Zee Telugu continuing its exponential growth after breaking even last year and Zee Kannada witnessing a remarkable increase in fiction GRPs during the quarter. It ended the quarter with a steady average weekly GRP of 40 from fiction properties.

Zee news Limited has with it all essential prerequisites that would make it a news powerhouse going forward and the next media explosion driven by digitization would surely help this process catch up speed. At the exit of the quarter, Zee News Limited had already emerged as the No. 1 News Network in the country in viewership terms. This is a significant achievement and going forward, it is going to be the key growth driver of the company.

I would now like to open the floor for question and answers.

Moderator: Thank you very much sir. We will now begin with the question-and-answer session. At this time, if you would like to ask a question, you may press * and 1 on your touchtone telephone. If your question has been answered before your turn, you may withdraw it from the queue by pressing * and 2. The first question comes from line of Amit Kumar from Kotak. Please go ahead sir.

Amit: Yeah, thank you so much. Sir actually I joined in the middle of the call, so my apology if this is a repetition. But would you just give us a color on the six regional GECs which are going to be transferred to Zee Entertainment in the next quarter? What was the EBITDA performance in those particular channels?

Barun: Amit, we have discussed their performance during our last quarter results. Let's wait till the finalization of the deal to further discuss on that. But the trend has been similar to what we had discussed during the end of the second quarter.

Amit: Okay. Sir my second question is related to your subscription revenues, I mean we have seen a decent growth, but given the fact that your subscription revenues are growing from a fairly small base, we would have expected a much higher growth to come in from that side. Is there any drag as far as subscription revenue growth of the company is concerned?

Punit: Amit, please keep in mind that this company has only two national channels and therefore there is a smaller market one plays in. I don't think there is a drag from any of the platforms whether it is cable or DTH. It's just that it works on a regional market structure therefore the base itself is quite small.

Amit: Okay. And sir I was actually looking at more from your South Indian channels which, given the increase in rating would have also started to



find more traction on DTH as well as cable platforms, so what sort of an upside is coming in from there?

Punit: I won't be able to give you channel-by-channel details on this but if you keep in mind that our southern channels are fairly new and they didn't go pay on day one, so they are in a nascent stage right now. Going forward, there should definitely be some good growth opportunity from there.

Amit: Thank you. Just one housekeeping question, if you could give us the breakup of subscription revenue from cable and DTH.

Barun: 40% is DTH.

Amit: Thank you so much sir. I will come back.

Punit: Thank you.

Moderator: Thank you. The next question comes from line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh: Sir congratulations on good set of numbers. Ad revenues had a 25% growth, I wanted to understand it better. If I see the leader in the South, they have grown at close to 40% plus. That company has professionalized to a great extent, distribution team has been beefed up, their weekend content has been revamped and new content has been launched. My question is, whether our ad revenues from the South are at a risk due to all these changes in the leaders strategy?

Punit: I don't think so Abneesh. I mean, if you look at the growth that we have seen in the southern markets for ourselves, we have actually eaten into the shares of the leaders there, whether it was number 1 or number 2. So from that perspective, I don't see why there should be any threat as long as we continue to offer good content and therefore retain viewership, we should only continue to grow from there.

Abneesh: Does that mean that in the South the ad market is growing much faster than the rest of the country?

Punit: Well as I keep saying that the regional market is growing faster than the national market, in terms of advertising revenue, so definitely it holds true for the southern market also.

Abneesh: But Zee News is totally regional sir, if I compare it to ZEEL, I see 25% growth. So South is growing much faster I wanted to understand that better.

Atul: Abneesh, even within our system, it is true to some extent because we have seen a fairly large jump in our Southern channels performance. Of course on a smaller base but then commensurately we have been seeing a good amount of revenues coming from South so what you are saying is partially true..

Abneesh: My last question would be on your Bengal strategy, you have mentioned in your note that you continue to be the favorite pick of advertisers. But where are we in terms of the leadership slot? We have time and again said that we want to regain the number1 in terms of the overall viewership. We might be leaders in some slots, but where do we stand what's the strategy going forward in the Bengal market?

Punit: Well , Abneesh, we would have to completely revamp the channel and we have been working on it since the last four months now. As you must be aware, a few months ago, we had some management issues in the Bengal market which we have corrected and the channel has come back on track. You would have seen that the ratings are not slipping as they were in the last six months. But over the next two to three quarters, this channel would be completely revamped and therefore one could expect to get the viewership back over the next two to three quarters.

Abneesh: One small follow-up question, I&B has put on hold any new channel launch, does it impact our expansion because there are so many regional

markets still left untouched? In the English space, we don't have a channel.

Barun: I think that would not be a long-term directive from the I&B ministry.

Abneesh: But why has the Government done that?

Barun: I will tell you why, because there are many applications which are pending and there were licenses given away but the channels haven't been on-air. So I think they want to sort of consolidate everything, take a fresh look at that and that's why temporarily they have put a stop.

Abneesh: Okay sir, thanks a lot. All the best.

Punit: Thank you.

Moderator Thank you, Mr. Roy. The next question comes from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas: Wonderful set of numbers, but just to understand, Q3 is generally a very good quarter because of the seasonal festivity. Naturally our activity also increases for that festival and our cost generally goes up in this quarter. But surprisingly our cost has been flat and I see most of that cost is down because your existing business cost is down. So what could be the impact of Tamil conversion if I may know?

Punit: Vikas, it would be difficult for us to give you channel-specific details but as I said in my introduction speech also that Tamil would be revamped and the cost would come down substantially because moving from a GEC channel to a news based channel itself would bring down the costs substantially.

Vikas: So are we now at a news channel kind of a cost level?

Punit: It's still in the conversion mode, Barun, do you want to add.

Barun: The basic idea is that we didn't want to vacate that space and wanted to continue experimenting in that region at a lower cost and the easier way of doing it, is predominantly news which essentially means that we will have lots of current affairs programming there and therefore the cost would be substantially down.

Vikas: Okay. And can you share the good advertising growth that you have? Can you break it up in terms of how it has been for the news business and how it has been for the regional business in terms of just the growth numbers? I don't want the absolute.

Barun: The news business has also grown double-digit so they are comparable, both the growths are comparable.

Vikas: Okay. And in terms of the subscription revenues, last four quarters, we were stuck to the Rs. 27-28 Crore range, no movement upward from that level, any specific reason because I think DTH continues to grow well and should not be in the case?

Barun: Yeah, I agree that our expectation was a little faster growth in subscription revenue while DTH continues to fuel the growth. I think the other issue is the market, the regular business issues switch on/off etc. You would know sometime in this quarter we had issues with them and we had to switch of our channels for certain period. So those kind of business developments keep happening. So there is no significant reason for us to not grow to the level which we would have expected but I think we are clearly on track and we should be able to generate larger growth going forward from subscription revenues fuelled by DTH revenue.

Vikas: Thank you sir. That was helpful and wish you a good luck again going forward.

Barun: Thanks a lot.

Moderator Thank you Mr. Mantri. The next question comes from the line of Nitin Mohta from Macquarie. Please go ahead.



Nitin: Thanks for taking my question. I just had one question regarding Ad revenue outlook, pretty strong quarter, if you can share what your thoughts are on FY11 that would be very helpful?

Punit: As far as our expectations for industry anywhere between 12%-15% and I am sure because the regional markets are growing faster, it would capture much higher growth than the average of the industry.

Nitin: Thanks Punit, but you know if you can just give what the regional number is because regional as you said has been traditionally higher and you guys even do higher than what the regional average is. So if you can just throw light or if you can tell us what your thoughts are on that. Or if you would like to wait for a quarter more to kind of throw more color?

Punit: I think let's wait till the end of the year and then we can share more details on that.

Nitin: Okay thank you.

Moderator The next question is a follow-up question from the line of Abneesh Roy from Edelweiss.

Abneesh: Sir my question is on the international subscription, Zee Entertainment is very strong there and two of the other media groups are going aggressive there SUN and IBN. So where do we stand in terms of our foray into Europe, and U.S. markets especially for regional GECs?

Punit: All the international business is done through ZEEL as an agent for Zee News.

Abneesh: But have we touched a good number or it's still in the infancy stage?

Barun: Our foray in the international markets has not been as aggressive as we would like it to be. So as of now, we do have sporadic presence in several markets with one of our or couple of our regional languages but it's not very dominant position. So we would like to, once the corporate

action is complete the next quarter, start evaluating those plans and hopefully there would be growth in the medium term. It's not that from one or two quarters you will start seeing the traction but over a period of time, we will start using more aggressive marketing for the regional channels in the international markets as well.

Abneesh: Currently it is negligible, right?

Punit: Yeah almost.

Abneesh: Okay thanks.

Moderator Thank you. The next question comes from the line of Amit Kumar from Kotak. Please go ahead sir.

Amit: Yeah thank you for the opportunity again sir. Sir I just wanted to understand I think we have planned for a new Telugu movie channel, Zee Cinemalu, is that application also still stuck with the ministry or we have clearance for that?

Punit: We already have clearance for that.

Amit: In the previous analyst meet you had said that in a week or two from the analyst meet, we will get down and present a plan to the board, so any color that you could give on that?

Barun: Yeah. That plan has been presented as we mentioned last time in the investors meet, but more detail on that would be shared with you after we finalize it with our board in our next quarterly board meeting.

Amit: Okay. Just wanted a little bit better understanding of SG&A expenses, if I remember last time till 3rd quarter of 2009 we were paying an advertising commission to Zee Entertainment and then starting from 4th quarter we have shifted the entire sales team directly into the P&L of Zee News. However, we have still seen a pretty decent 20% sort of an increase in SG&A even excluding that item and it was a pretty significant item in

itself so just wanted to understand on a year-on-year basis the SG&A would have gone pretty significantly what is essentially the driver of this?

Punit: Amit, when Zee was doing ad sales for Zee News it was charging a commission but not making substantial profits on it. It was basically only the actual cost that we were incurring on the manpower and offices, etc., so therefore, that commission goes out when this thing has come in it is still the same amount plus if you look at the sales force itself has increased over the last year given the numbers of new channels that have launched

Amit: I agree, I take your point on the rising employee cost, what I am saying is that the commission was there in your 3rd quarter FY09 SG&A expenses, it should not be there this time but even excluding that the SG&A has gone up by a pretty significant 20% amount. So I just wanted to understand what is the driving this?

Barun: It has remained flat on year-on-year basis.

Moderator Thank you Mr. Kumar. The next question is comes from the line of Vikas Mantri from B&K Securities. Please go ahead.

Vikas: Good afternoon sir. Sir congratulations on an excellent set of numbers. I wanted to know your gross debt on a company level and also if you could break it down to news operations and regional GEC.

Atul: The gross debt in the books is Rs.225 Crores and out of that Rs.120 Crores would get transferred as a part of the regional bouquet once the restructuring takes place.

Vikas: And sir what is the net debt on a company level as well as on individual level?

Atul: Net debt at the moment would be around 200 Crores.

Vikas: Okay sir thanks a lot.

- Moderator** Thank you. The next question comes from the line of Nirav Dalal from Capital Markets. Please go ahead sir.
- Nirav:** Good afternoon sir. I just wanted your take on the other sales and services? It has seen a drop.
- Barun:** It includes syndication revenue and there is no steady flow of that. It comes from programming as when we book it, it shows. So you would always see there is no specific trend. There would be ups and downs in each quarter.
- Nirav:** But then what would be a normalized amount
- Barun:** A part of our consolidation plan would also be looking at syndication revenue aggressively so it might take some kind of shape and trend going forward.
- Nirav:** Okay sir. Thanks a lot.
- Punit:** Thank you.
- Moderator** Thank you Mr. Dalal. The next question come from the line of Ankit Kedia from Centrum broking, please go ahead.
- Ankit:** Sir most of my questions have been answered. I just wanted to know the operating breakeven of Zee Kannada for the next quarter, is it on track?
- Punit:** This year it will breakeven and next year it will be profitable.
- Ankit:** Okay thank you sir.
- Moderator** Thank you Mr. Kedia. The next question is a follow up question from the line of Vikas Mantri from ICICI Securities. Please go ahead sir.

- Vikas:** Just wanted to understand the demerger process. What steps are remaining to be done or are we in a timeline in terms of doing it by March or any delay in that?
- Atul:** Vikas we are on time for the process to be completed. In fact we hope to have the process completed much before that but definitely latest by March end.
- Vikas:** There are no regulatory issues in terms of clearances that we need to get done. It is just normal process.
- Atul:** Yes.
- Vikas:** Thank you so much sir.
- Moderator** Thank you Mr. Mantri. The next question comes from the line of Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.
- Avinash:** Good evening sir. Just wanted to understand your view on advertising. Have you seen an increase in your inventory utilization in the last quarter and has it increased to a level where you can probably go ahead and take an advertising rate hike?
- Barun:** I don't think the news industry has seen significant growth in advertising rates in the last one year. Whereas for GECs it varies from program to program. We are running inventory at a normal level for both the genres.
- Avinash:** Okay. Thank you sir.
- Moderator** Thank you. The next question comes from the line of Amit Kumar from Kotak. Please go ahead sir.
- Amit:** Thank you sir. I just wanted to have an understanding specific to the Marathi and Bengali markets, it is a sort of theoretical question assuming that GRPs were to remain constant not for the channel but for a

particular program. On a rough cut basis what sort of CPRP inflation are advertisers willing to give?

Punit: Are you talking about the Bengal market?

Amit: Bengal and Marathi?

Punit: It is very tricky.

Amit: Just a rough cut, a range would also do.

Punit: Again very difficult for me to put a range. See what happens in these markets for example Bengal has gone from a two player market to a three player market now. So it is not as simple an answer I can give. But let me tell you that any new deal that we do CPRPs are always increased when we are doing the deals and it could be in the range of low single digits to high double digits.

Amit: Okay so between 5-20% somewhere in that region?

Punit: Depending on the performance and the issues of the regions and the market dynamics of any region.

Amit: Okay sir. Thank you.

Moderator Thank you Mr. Kumar. I would now like to hand the floor over to Mr. Nanda for closing comments.

Tarun: Ladies and gentlemen thank you once again 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 fourth 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.*