



**Zee Entertainment Enterprises Limited**  
**Quarter One Financial Year 2010- Earnings Conference Call**  
July 16 2009, 1500hrs IST

**Moderator:** Ladies and gentlemen good afternoon and welcome to the Zee Entertainment Enterprises Ltd. Q1 FY2010 results conference call. As a reminder for the duration for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harshdeep Chhabra from Zee Entertainment. Thank you and over to you sir.

**Harshdeep Chhabra:** Ladies and gentlemen thank you for joining us today. This conference call has been organized to update our investors on the company's performance during the first quarter of fiscal 2010 and to share with you the outlook of the management of Zee Entertainment Enterprises Limited. We do hope that you have had a chance to go through copies of the earnings release and the results, both of which have been uploaded on our website [www.zeetelevision.com](http://www.zeetelevision.com). This is the first earnings call we are conducting for the fiscal and to discuss the results and performance joining me today is Mr. Subhash Chandra, Chairman - Zee Entertainment Enterprises Limited and senior management of the company including Mr. Punit Goenka - CEO, Mr. Hitesh Vakil - CFO, Mr. Atul Das - Executive Vice President, Corporate Strategy and Business Development.

We will start with a brief statement from Mr. Goenka on the 1<sup>st</sup> Quarter's performance and we will then open this discussion for question 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 risk that we face. I now request Mr. Goenka to address the audience.

**Punit Goenka:** Thank you Harsh. I would like to welcome everybody to this call and appreciate you joining us for this discussion on the results for the 1<sup>st</sup> quarter of financial year 2010. The media and entertainment industry in India continues to witness a shift in structure driven primarily by a growing consumer preference for digital television. More than 2 Million



consumers opted for digital DTH services during the quarter. The quick adoption of digital services across population strata is indicative of the quantum change that will transform the business of television broadcasting in India in the foreseeable future. Our strategy during the last few years has been to create a formidable entertainment enterprise and invest in the business in a focused disciplined way. During the quarter, performance of the advertising revenue streams were adversely affected by the macro situation. We focused on the factors under our control, which is our operating efficiencies, content improvement, and balance sheet management.

I would now like to discuss some details from the key financials of the 1<sup>st</sup> quarter of fiscal 2010 versus fiscal 2009 which would give a clearer picture of our performance. Advertising revenues were Rs.1.98 Billion, a decrease of 29% as compared to the corresponding quarter last fiscal. On a sequential basis, advertising revenues are down 13%, primarily due to the slowdown in the macro economy, coupled with the impact of two leading cricket properties aired on competing network during the quarter. Intense competition in the Hindi entertainment segment also had its impact. In the 1<sup>st</sup> quarter of fiscal 2009 the company had its premier Bollywood Awards Event, Zee Cine Awards which had then contributed significantly to the advertising revenues then. Given that the awards are delayed for this year, there has been a corresponding effect on the advertising revenues. We do see early signs of recovery in advertising revenues, though the overall ad spends on television may not be as buoyant as they were in the last few years.

Moving along to subscription revenues for the quarter, which were at Rs.2.41 Billion, registering an increase of 12% over the corresponding quarter last fiscal. During the current quarter, domestic subscription revenue stood at 1.32 Billion while international subscription revenues were 1.09 Billion. Subscription revenues from domestic DTH were Rs.467 Million during this quarter, an increase of 88% year-on-year and 23% quarter-on-quarter.

Other sales and services registered revenues of Rs.370 Million. The company has recorded revenues of Rs 470 Million under this head during the corresponding period last fiscal. The decrease in the other sales and services is primarily due to the fall in revenues from the Film Business which showed a drop of Rs.72 Million over the corresponding period.



Consolidated revenue stood at Rs.4.76 Billion for the quarter representing a 12% decrease over the corresponding period in the previous fiscal.

On the cost front, total expenses were Rs.3.59 Billion, indicating a 10% decrease on year-on-year basis and a 9% decrease on a quarter-on-quarter basis. Programming and operating cost were Rs.2.39 Billion as compared to Rs.2.37 Billion in the corresponding period last year. Selling and other expenses reduced by 12% as compared to the corresponding period last fiscal. Personnel cost reduced by 11% over quarter 4 of the previous fiscal.

During the quarter the company's operating profits were Rs.1.17 Billion, a decrease of 19% over the corresponding period last fiscal. Operating profit margin improved sequentially and stood at 24.6%, despite higher cost on sports business due to the cricket rights. While the costs of sports business are written off during the same period, benefits from subscription revenues accrue over the entire fiscal year.

Profit before tax stood at Rs.1.33 Billion while profit after tax was Rs.913 Million. On a like-to-like basis, this represents a decrease of 8% and 12% respectively over the corresponding quarter last fiscal.

I would now like to cover the business performances. The flagship channel of the company Zee TV delivered 231 weekly GRPs on an average during this quarter and attained a channel share of 21%. Zee TV is the only channel in its genre that has shown a steady growth from the beginning of this calendar year and launches from earlier this calendar year including Choti Bahu, Dance India Dance, and Agle Janam Mohe Bitiya Hi Kijo continue to dominate the Top 50 Program Charts. Zee TV now airs 24 of the Top 50 shows in a week. The channel's premier property Sa Re Ga Ma Pa L'il Champs 2009 which was launched this quarter is already a top rated reality show in India. Two new fiction shows Pavitra Rishta and Aap Ki Antara launched during the quarter have been well received by audiences and have grown steadily in ratings, consistently featuring in the Top 50 weekly program charts. Overall the heartening aspect of Zee TV's growth has been consecutive success of six of our latest shows, leading to a steady and sustainable rise in viewership and helping it become the Number #1 channel in India after a gap of several years.



The Hindi movie channel Zee Cinema has 161 GRP and capture over 35% channel share on a like-to-like basis this quarter. Initiatives such as the Children Movie Festival, Dopahar Zee Cinema Par enhance the channel's offering to its viewers. Despite a big ticket cricket tournament on a competing channel in the movie genre, Zee Cinema's ratings continued to grow this quarter.

Zee Café, the network's English entertainment offering, premiered the latest seasons of various international shows and these helped garner 19% channel share for the quarter in its genre.

The English movie channel Zee Studio acquired rights of various blockbusters including movies from studios such as BVITV, WEG, Hanway and MGM.

Zee Sports and Ten Sports continued their strong presence in the sports genre. Towards the end of the quarter, Ten Sports aired India cricket team's tour of the West Indies. In the 2<sup>nd</sup> quarter of the fiscal, Ten Sports would be airing some of the key fixtures featuring the Indian cricket team including a tri series featuring New Zealand and Sri Lanka as also a one day series against Zimbabwe. Other non-cricket sports which were showcased on Ten Sports and Zee Sports includes UEFA Championship League Soccer, The National Soccer League- Nehru Cup, etc.

Zee Entertainment Studios, the film production and distribution business of the company, released two feature films in the quarter- one each in Bengali and Marathi. Zee Entertainment Studios registered revenues of Rs.30 Million and incurred cost of Rs.84.1 Million in the current quarter. Revenues were impacted due to a two month long nationwide multiplex strike.

With this, I would like to summarize by saying that our efforts yielded in us attaining a leadership position across all genres, specifically with Zee TV achieving the number one position in India at the exit of the quarter. We have also made significant reductions across cost heads, without sacrificing on quality. Our choice to strengthen subscription based service has proved correct and timely, and DTH revenue streams have performed better. As a result, despite a 29% drop in advertising revenues, our operating margins have dropped only by 200 basis points as compared to



the first quarter of last fiscal. We are hopeful that a steady growth in ratings will help ZEEL deliver better performance in the coming quarters.

I thank you again for joining us and would now like to open up the floor for question and answers thank you.

**Moderator:** Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, congratulations on good set of numbers in such a challenging quarter. My first question is on ad revenues, we have seen the GRPs improve in the last two to three months significantly and current GRPs are close to 259, but if I see the ad revenues there is a significant decline of 29%. So my question is, is the worst over and from when do you think the improved GRPs will start reflecting in terms of numbers?

**Punit Goenka:** Abneesh thank you for your kind words. On the advertising front the reasons for the decline are three. First and foremost of course the macro economy situation itself, which was going towards was on a downward trend. The second as I said was the sports events in the 1<sup>st</sup> Quarter. And thirdly the increased competition in the Hindi general entertainment space which affected our flagship channel Zee TV. For the network, we saw a reduction in our inventory utilization as well as pricing in the 1<sup>st</sup> quarter but as you rightly said with the improvement in the ratings on Zee TV and other network channels, we do expect that our pricing would improve significantly in the coming months. And on the inventory front, we have already started seeing near fill levels. So even though the visibility still is pretty low on the advertising front, I do expect the market to improve and therefore Zee to garner its share on account of ratings and the turnaround of the economic situation.

**Abneesh Roy:** And sir my second question is, the employee cost there is a 44% decline. So is it fair to assume that these costs are sustainable in the next few quarters?

**Punit Goenka:** It is 44% if you look on year-on-year, the reason for that is that in the 1<sup>st</sup> quarter of last fiscal there was a huge amount of incentive which was paid for the full year. There has not been that much incentive payout in this year therefore the figure looks a little abrupt. However, if you were



to look at the 4<sup>th</sup> Quarter figure our employee costs which was 439 Million, you will see that it has come down to 390 Million for this quarter. I think that is a sustainable number going forward.

**Abneesh Roy:** And sir last question is on the domestic cable revenues there is a 6% increase, so is this a number we should look forward in the coming quarters also because there is a shift happening towards digitization. So is 6% a kind of number we should look for?

**Hitesh Vakil:** At present this is the number which we are projecting and it is likely to continue in the same trend. We are expecting better renewals and this trend should continue.

**Abneesh Roy:** Okay sir, that is all from my side, thanks.

**Moderator:** Thank you Mr. Roy. The next question is from the line of Shubham Majumdar from Macquarie. Please go ahead.

**Shubham Majumdar:** Thank you. I have two questions- one is in terms of 29.3% year-on-year ad revenue drop that you have registered, would you be able to give us some colour in terms of how it breaks up between the three key elements that you have sighted, I) Is competition in GECs, II) Cricket properties on the competing networks and III) Being the macro weakness in the advertising market. And what do you expect each one of these three factors to behave like you know some sort of qualitative colour in the coming couple of quarters. And associated question is that could you just give us a breakdown of the Sports Business regards how much is advertising, how much is subscription, and how much would be syndication revenues out of the 87 Crores that you have booked in this quarter. And my second question is on the cost side, just wondering you know the very, very impressive cost management in this quarter on a year-on-year basis but more importantly on a quarter-on-quarter basis relative to the March quarter, how exactly have you been able to bring about this kind of cost savings in admin and other expenses, selling and distribution expenses and to some extent in personnel costs? And you know is there certain expenses which were flexible in terms of how you sort of booked them or has there been any accounting changes there some color on that please? And just one last one if you allow me to, what is the debtor days at the end of the quarter?



**Atul Das:** There are several questions, the first one you have asked is some colour on the breakdown of the three elements, Shubham, it will be very difficult to quantify that precisely, but I think we can give you some colour on the impact due to sports properties. The sports properties on competing networks during the first quarter were definitely of an exceptional nature than a regular feature and therefore you will not see that repeating and the resultant benefit will accrue to the company.

**Shubham Majumdar:** So Atul if you could just give us some sense as to what is the kind of one-off element in this quarter numbers?

**Atul Das:** I cannot give you the numbers specific to our company but let me take you through the industry numbers. The two tournaments together would have taken away anywhere between 500 to 600 Crores of advertising revenues which is a big amount for one quarter. And even if you look at it from an incremental perspective vis-à-vis last year 1<sup>st</sup> Quarter, there is an incremental change of anywhere between 250 to 300 Crores. So that does impact the trends of a particular genre. And the other aspect is the element of viewership and the competitive atmosphere; you have seen the viewership of Zee TV and Zee Cinema and the other leading channels of the company doing extremely well. In fact Zee Cinema continued to grow viewership during that period even while they were a cricket property on a competitor movie channel. And on Zee TV, we have demonstrated pretty well in terms of all the data points that we gave you. So improved ratings on Zee TV are another element to look forward to as we move into the festival season. And the third element is something that you will know better in terms of macro economy and how things are changing. We cannot really put a handle to it today. You have also asked on the sports business revenue breakdown between advertising and subscription, we do not provide those revenues separately.

**Shubham Majumdar:** Was there any sort of big syndication deal because I think the sense that we are getting was that sports business is going to be soft in this quarter but actually it has done pretty well in this quarter.

**Subhash Chandra:** In the sports business the syndication revenues and advertising revenues have fared better than the subscription revenues. Subscription revenues of the sports business were impacted primarily in the international markets, where they were a bit lower or rather disappointing. In fact, as a result if you see our international revenues have been flat, despite the



dollar pricing which should have benefited us. So our performance in the international markets has been impacted due to the sports business not getting desired subscription revenues while in those markets, our normal subscription revenues from the South Asian Diaspora still grew by around 10%.

**Shubham Majumdar:** Okay. And on the cost management side have you actually reduced the headcount or manpower and was there any major salary cost decreases and also specifically on admin and selling and general expenses, because you were never a company which was very profligate get in terms of spending, so the headroom to reduce costs you know on a quarterly basis?

**Atul Das:** Shubham on the cost side, as we explained there has been a very concerted effort and in fact this we have been talking about in the last five to six months very consistently because as a strategy when the advertising revenue environment is weak we had to necessarily focus on the cost aspect to improve our efficiency and that we have been pretty efficient in terms of managing this quarter. I do not think you should see or expect a huge improvement from here on but at least, the effort will be to continue maintaining at the cost that we are in the 1<sup>st</sup> Quarter. Personnel cost is not really a comparable cost quarter-on-quarter reduction so as Punit explained to you that in the 1<sup>st</sup> Quarter of last fiscal there was an element of increments for the entire year and therefore it is not really comparable which is not there to a large extent this year, but yes the reduction is there and it is there to stay.

**Subhash Chandra:** Shubham, this is Subhash Chandra this side, I hope what I am saying is not out of place here to mention. You see unfortunately in the last couple of years, the broadcasting industry has lent itself to become an unviable industry. For example if you see the personnel cost which went up to almost about 20% of the revenues of the industry, overall industry I am talking. And if you look at rough and ready numbers and I think you guys can do better numbers, other than three or four broadcasters, if you put their EBIDTA numbers may come closer to about 1400 to 1500 Crores maximum on the positive side plus side on an annualized basis, which includes Zee Entertainment as one of them. And if you look at the rest, it may have about 2500 to 2700 Crores negative EBIDTA. So the cost cycle both in terms of human resource cost and programming cost and carriage fees and everything put together the way they were going, the industry was overall negative EBIDTA of more than 1500 Crores. So that has to get



corrected by itself and Zee has been always cautious about it. We were prudent about costs; it is not that we have been miserly in our approach.

**Shubham Majumdar:** Right. And do you think carriage fees had any role to play in this quarter, in the cost dynamics?

**Punit Goenka:** No carriage fees have been as we had said earlier will remain flat for the year so there is no any increase in it.

**Shubham Majumdar:** And lastly if you get us debtor days in any sense, any movement there?

**Hitesh Vakil:** Receivable days are about 121 days.

**Shubham Majumdar:** Okay. Thank you gentlemen thank you so much, very useful.

**Moderator:** Thank you. The next question is from the line of Amit Kumar from Kotak. Please go ahead.

**Amit Kumar:** Thank you so much. Good evening sir, just wanted to have an understanding of your DTH revenues there seems to be very stupendous growth quarter-on-quarter almost 35% so what has been the driver of this, have you taken any kind of price increase or is this led by you know more number of subscribers? And just to follow up on that on a similar side, I am very surprised to see that you know Dish TV which is the largest DTH operator their content cost continues to go down actually on a quarter-on-quarter basis, so can you just explain this differential to me.

**Atul Das:** In terms of our revenues from the DTH yes there has been a strong growth and we have been saying all along that we will achieve these kind of growth numbers. A large part of the growth has come from subscriber numbers. We have not increased rates but due to the rebalancing of packages and subscription packages that consumer take from various DTH operators; we do see some changes in ARPUs so our overall increase has been from 5.5 Million subscribers to 7 Million subscribers this quarter. And ARPUs are not really ARPUs in that sense, but effective ARPUs that we get in terms of yield would be around Rs.22.

**Amit Kumar:** Okay. And just a follow up on that, you know on an absolute basis we see you know content cost of operators falling while you know broadcasters continue to see fairly strong growth in the subscription revenues seems a bit dichotomous to me, can you just help me explain that?



**Atul Das:** Well it would depend on operator to operator how do they negotiate their programming cost with the broadcaster.

**Amit Kumar:** Right sir but you know even if we glance on where Zee TV is present across operators, I would assume that at least half of the subscriber base would be on account of just Dish TV. So I am not able to kind of reconcile those numbers.

**Atul Das:** Numbers Amit are coming from all the operators as you know there are you know other operators beyond Dish TV. In terms of the total 14 Million subscribers that the industry has Dish TV accounts for 6 Million so there is a significant you know 8 Million subscribers which is from other players in the industry. And the growth is coming through the mix of everything. We obviously cannot give you operator wise details but that is the kind of growth we are achieving.

**Amit Kumar:** Right sir not an issue. And just a follow up question on what Shubham was saying you know you have done a pretty impressive you know savings on the overhead side, I just wanted to understand what is the driver because I was just looking at audited annual report numbers for FY2008, the advertising and promotion as well as provision for doubtful debts were the two major items and on top of 2008 your SG&A had gone up by about you know 25% odd and now it has fallen almost 36% on a quarter-on-quarter basis. So just wanted to know you know which one of the overall line items are you essentially saving on and how is the company able to achieve it?

**Subhash Chandra:** The how part is because the company across from top to bottom has become cautious and all employees are speaking the same language because everybody is cautious of cost in various directions. So it is a joint effort across the company that the costs are being managed.

**Atul Das:** Amit, it is a concerted effort, as I mentioned earlier also you should not see continuing reduction in these costs. We have taken in the last two quarters several efforts to ensure that we have cost under control and our effort will continue to remain at these levels, programming cost specifically could vary depending on quarter-to-quarter needs and requirements of the business, but on an overarching policy basis we will try and control cost.



- Amit Kumar:** Thank you so much sir, I will come back.
- Moderator:** Thank you Mr. Kumar. The next question is from the line of Ritesh Poladia from Dolat Capital. Please go ahead.
- Ritesh Poladia:** Good afternoon sir, just a small query, we have a minority interest negative of about 11 Crores, that pertains to Taj TV or Zee Turner?
- Hitesh Vakil:** It is pertaining to Zee Turner. *(Management Clarification: Negative Minority Interest pertains to Taj TV.)*
- Ritesh Poladia:** Sir our total OPEX is in this quarter 359 Crores and Sports contribute about 114. So that leaves about 245 Crores of OPEX. And this kind of a low OPEX we have not seen since about Q2FY2008. So since over here we have meant serious cost reductions, sir are we looking at almost similar kind of OPEX going forward also?
- Atul Das:** It is not possible for us to comment on each line item, though like what we have mentioned earlier, our endeavor is to maintain the costs, while not affecting the business performance.
- Ritesh Poladia:** Okay.
- Atul Das:** First quarter as we all have seen there were major properties at the competing level, so all our plans to that extent were kind of deferred, which have started from June onwards. So definitely there will be some kind of spend happening in 2<sup>nd</sup> and 3<sup>rd</sup> quarter matching with our revenue lines.
- Ritesh Poladia:** True and can we have some advertisement outlook in terms of percentage, what we can expect in FY2010 on rough-cut basis?
- Punit Goenka:** Very difficult Ritesh.
- Ritesh Poladia:** Okay sir, thanks a lot.
- Moderator:** Thank you Mr. Poladia. The next question is from the line of Amnish Aggarwal from Motilal Oswal Securities Limited. Please go ahead.
- Amit Purohit:** Yes good afternoon sir, thank you for opportunity, Amit Purohit here. Sir basically I just wanted to check with you first on the DTH subscriber



revenue which has been showing strong growth, is it a sustainable growth or is it kind of a normally maybe DTH players they give the subscriber number during one quarter and we have been booked at that time and probably the same traction may not be visible in the coming quarter or so, could we extrapolate this number?

**Atul Das:** Amit, we have said earlier in terms of our view on the DTH market, the DTH subscriber growth remains strong, there will be a combination of deals that Zee as a company will enter into with various service providers some maybe on an incremental basis some maybe on a fixed price basis. So as a combination our effort for the full year is to deliver anywhere around 45% to 50% growth on our DTH revenues. And I think we will continue to stick to that.

**Amit Purohit:** Okay. And sir secondly on our interest cost, which has come down to 9 Crores, so I just wanted to check there is a sharp sequential plus YOY decline?

**Atul Das:** Yes, the reason is the combination of three factors. One is the fact that we have repaid loans almost 135 Crores of loans have been repaid compared to last quarter. And the second aspect is that there were elements of FOREX losses as you know we have been talking about the hedging cost that we have incurred and which was suppose to end during this year. We just incurred Rs 2.4 Crores as hedging cost this quarter, versus last year the same period of 11 Crores plus of cost. So there has been a saving on that account and there were also some FOREX remittance losses earlier, so all of the three together have contributed to a reduction of cost. From here onwards I think depending on some level of borrowings which may increase or decrease depending on our business requirements, the cost may trend more closely to the 1<sup>st</sup> quarter levels.

**Amit Purohit:** Okay. And sir what would be our debt level right now, debt in the books after repayment?

**Atul Das:** It is Rs 445 Crores.

**Amit Purohit:** And sir on the loans and advances is there any change on YOY basis?

**Hitesh Vakil:** On this quarter there has been no change, it is maintained at the same level as March 2009.



- Amit Purohit:** Okay that is fine, thanks a lot sir.
- Moderator:** Thank you Mr. Purohit. The next question is from the line of Vikas Mantri from B&K Securities. Please go ahead.
- Vikas Mantri:** Atul sir, sir few data points that I need. Out of the loans and advances, how much has been given to the group entities and how much is to outsiders. And what is the cash position as on the date?
- Hitesh Vakil:** Cash position is about Rs.97 Crores we have on hand as on June 30<sup>th</sup>.
- Atul Das:** On the loans and advances front, I think as we have mentioned the situations remains the same as of March 31<sup>st</sup>, 2009. And we have already detailed out the situation on March 31<sup>st</sup>.
- Vikas Mantri:** And sir could you provide us the details about the other income item. What are the constituents of other income?
- Atul Das:** The biggest component is interest income and we have on a regular basis some treasury income with accrues to us and that is the major portion.
- Vikas Mantri:** That is all from my side sir, thank you.
- Moderator:** Thank you Mr. Mantri. The next question is from the line of Ramchandra Hegde of Primus. Please go ahead.
- Ramchandra Hegde:** Just one question, last quarter last year same period what was the cost that you are incurring on Zee Next which probably is missing now?
- Atul Das:** That has been off hand around 35 to 40 Crores.
- Ramchandra Hedge:** So the quarter savings you are saying is 35 to 40 Crores.
- Ramchandra Hegde:** Okay, which has been run down to what sort of figure now?
- Punit Goenka:** Zero.
- Ramchandra Hegde:** Okay. And second is more strategically you have three channels which are pretty close in terms of GRP on the flagship channel on the general entertainment side, do you see a need going down the line somewhere for you to spend big time on some big ticket events or something to



breakaway from the clutter, is that something that one should really be looking at in the foreseeable future?

**Punit Goenka:** I think our current shows itself are performing very well for us, big ticket items are normally spent on reality shows, and despite not having big stars we have still managed to have Number 1 reality show of the country. And as a philosophy I think Zee has always worked on creating stars rather than hiring stars and we will continue to work towards that.

**Ramchandra Hegde:** Thank you. I will come back later.

**Moderator:** Thank you Mr. Hegde. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

**Miten Lathia:** Hi Atul, just need one small clarification from you, this net interest income other income minus the interest cost, would it be fair for us to assume that this is either stay here or get better over the quarter or would that change a bit?

**Atul Das:** Yes I think that is broadly speaking that is a fair assumption.

**Moderator:** Thank you Mr. Lathia. The next question is from the line of Arjun Khanna from Principal PNB Asset Management. Please go ahead.

**Arjun Khanna:** Well thank you sir for taking my call of, just trying to understand programming a little, in terms of afternoon programming we have actually seen our programming actually shift toward more on the prime time, do we intend to restart the afternoon with considering a prime times doing pretty well?

**Punit Goenka:** Definitely we will consider starting the afternoon bands again, providing the markets pickup and the revenue potential in that band also increases. As of now, we find it difficult to monetize original content in the afternoon brands, given the downturn that we are facing in the economy.

**Arjun Khanna:** Sure. And in terms of the advertising outlook going ahead, do we have any guidance with the rest of the year?

**Atul Das:** Arjun, as we mentioned earlier we would refrain from guiding because environment remains weak and volatile, though we hope for an improvement.



**Arjun Khanna:** Sure, thank you.

**Moderator:** Thank you Mr. Khanna. The next question is from the line of Ritwik Rai from MF Global. Please go ahead.

**Ritwik Rai:** Sir just wanted to check two things with you, firstly what has been reported in many sections of the media that the volumes in TV advertising for the past six months or so have gone up in a very big way. So that is obviously not what you are experiencing so why might that be, one. And second sir, regarding the pricing and given that pricing has fallen in your case as well and you said that you have booked most of the inventories going forward. So I was just wondering what kind of prices would you have booked most of these?

**Subhash Chandra:** See it is basically because the lot of clutter in the industry and lot of broadcasters selling the inventory very, very cheap, but the networks like Zee have still maintained some sanity in terms of yield or the rates or whatever parameter you want to apply. So I think as we go along, we would see a viable and stronger industry emerging.

**Ritwik Rai:** Sir, and the booking that you have done sir, you said you have booked most of the inventory, so should one assume that you know most of because I would think that most of the inventory that stays booked as of now would be your best shows. So might have gone at slightly cheaper price and I mean will you be able to take advantage as things improve in 3<sup>rd</sup> Quarter because if you already have inventory booked then you may not benefit as much, is what I was thinking.

**Punit Goenka:** Mr. Rai the context in which I said the inventory is going full was in relation to the Quarter 1 FY 10 fill level that we saw. We have not booked the entire inventory for the year. We are going full on a week to week basis as we speak but I think going forward we will have ample opportunities to work on revising our pricing upwards.

**Ritwik Rai:** Sure sir thanks very much.

**Moderator:** Thank you. The next question is from the line Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

**Hiren Dasani:** Hi thanks for the question. Just on the interest cost even if you adjust for the derivative expenses of the last year even after the adjusting for that



and even if you look at like 440 Crores of debt, the cost I mean it looks pretty low for the quarter on an annualized basis so any comments on that?

**Subhash Chandra:** The overall debt has decreased and the interest costs have come down.

**Hiren Dasani:** But sir like 9 Crores on an annualized basis it 36 Crores on a 440 Crores of debt it is less than kind of..?

**Hitesh Vakil:** Yeah we have restructured our debt to a low interest bearing debt and we have repaid all our high interest bearing debt and that is why there has been a reduction.

**Hiren Dasani:** Yes so okay.

**Hitesh Vakil:** So right now pretty competitive rate that we are addressing.

**Hiren Dasani:** Okay thanks.

**Moderator:** Thank you Mr. Dasani. The next follow-up question is from the line of Ramchandra Hegde from Primus. Please go ahead.

**Ramchandra Hegde:** Sir just one clarification on the DTH side, have you all filed any annual sort of deals with the Dish TV or just sort of per sub model still that you are running.

**Atul Das:** Ram as you have discussed earlier, specific issues of contracts between specific parties would be difficult for us to disclose at this stage, but on a broader basis we will, depending on our strategic needs enter into contracts which are on per sub-basis with some operators and one a fixed price basis with some operator, some will be long term, some will be short term. So it is more of a strategic call that we take in the interest of the business specifics.

**Ramchandra Hegde:** And my question, other one was on debt really, what was the debt as of year end by the 31<sup>st</sup> March?

**Atul Das:** 576 Crores.

**Ramchandra Hegde:** 576 Crores. Thank you very much.



**Moderator:** Thank you. The next follow-up question is from the line of Shubham Majumdar from Macquarie. Please go ahead.

**Shubham Majumdar:** My question is basically with regard to the interest expenses so you have done 9.1 Crores interest expenses in the quarter on an average debt of about 500 odd Crores so basically if you just do the numbers then you will realize that basically you are running interest expenses which are just going to be about less than 7% and 7.5% rate of interest then if you go back to some of your earlier calls, your interest cost have stayed well above 10% in terms of rate of interest payable in the past. So Punit, could you just throw some light as to how this massive change has occurred?

**Punit Goenka:** Without sharing much of the details I can just say that we have restructured our normal debt on working capital and long term, term loans which have been high cost debt in the 4<sup>th</sup> Quarter last year have been restructured and converted into a low interest bearing debt structure.

**Shubham Majumdar:** Okay. And are these longer term debt or are these like shorter term debt, I would think that...

**Punit Goenka:** It is long term debt that we have secured.

**Shubham Majumdar:** Okay. And just on the cost side also if you just sort of look at on the cost management that we have had, in this quarter actually we will see that in terms of the total overheads if we just look at selling, distribution, admin other expenses and personally if you just sort of combined the three, because all these are essentially in the nature of overheads that has been a 120 Crores this quarter which has never been the case from the last sort of eight to ten quarters. So this has to be some big mega trend in terms of the dynamic in terms of this kind of cost management. So is there something you have done which is very, very dramatic and if you could share some details or is this sustainable more importantly?

**Punit Goenka:** On selling expenses itself saving has been on account of Zee Next where we did not have to incur any carriage cost for that for this quarter. Similarly a lot of number of hours of programming have been brought down in this quarter by us on the flagship channel therefore the corresponding marketing cost have also come down, but again as Atul had also mentioned in the earlier remarks that please do not take this as a



trend. This is something we have done to correct the situation but programming and marketing cost would be fluctuating basis the need of the business and revenue. And if revenues lines will follow, we will spend money to get that, so I think from that perspective the trend on manpower cost, admin is something that one can say that these levels will be maintained, but on programming, marketing as selling expenses is a function of business rather than just overhead costs.

**Shubham Majumdar:** Okay fair enough, thanks Punit.

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

**Prashant Kothari:** Sir, just wanted to know how much were the subscription revenues from the international operations?

**Hitesh Vakil:** Rs.109 Crores.

**Prashant Kothari:** And what was it last year sir?

**Hitesh Vakil:** Our last year 1<sup>st</sup> Quarter was also almost the same level.

**Prashant Kothari:** Sir just wanted to understand this thing because the Rupee level same time last year was quite different so how come you have ended up with same set of revenue?

**Hitesh Vakil:** That is what we have explained earlier that international business is minus the sports has grown by almost about 9% to 10%. Sports property which accrues subscription revenue throughout the year has not grown as anticipated in this quarter.

**Prashant Kothari:** So out of this 109 Crores last year how much would have been in sports?

**Atul Das:** Well we do not share individual property wise numbers, so we will not be, though the sports revenue as of whole has increased but yes there has been an impact on subscription revenue as compared to the last year.

**Prashant Kothari:** You think sports revenue on the whole has increased, advertising has gone up much more, but you have not been able to get that on some subscribers?



- Atul Das:** Yes that will accrue throughout the year, but advertising and syndication revenue will accrue on the time of those matches of events that we play.
- Prashant Kothari:** Okay got it sir, thanks.
- Moderator:** Thank you Mr. Kothari. The next question is from the line of Tanu Kejriwal from Quantum Asset Management. Please go ahead.
- Subu:** Yes hi this is Subu here, I just wanted to know your CAPEX or investment plans going forward?
- Punit Goenka:** We only have maintenance CAPEX plans there is no major CAPEX plan for this fiscal.
- Subu:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Good afternoon sir, this is Vikas here, a good set of numbers, I just wanted to know what is the number of series of ICL planned this year in sports for our company?
- Subhash Chandra:** We have not yet finalized, but we will get back to you soon we can discuss one to one.
- Atul Das:** Vikas, Mr. Chandra said that they have not finalized the plans and we will get back to you and also wanted to add on that for the benefit of all our listeners that ICL is not part of Zee it is a separate entity.
- Vikas Mantri:** Yes, but I was asking in the interest of Zee Sports which will be hosting the tournament in terms of the broadcasting.
- Subhash Chandra:** Yes we will get back to you, we have not yet finalized the schedule but this is not in 2009 this is not planned, as earlier we use to have two seasons.
- Vikas Mantri:** And sir in the interest cost what is your normal interest cost if we remove the FOREX losses that we booked of 2.4 Crores?
- Hitesh Vakil:** It should be in the range of about Rs.9 Crores per quarter.



- Vikas Mantri:** Sir 9 Crores is what you have reported but you have also mentioned there is 2.4 Crores FOREX derivative loss that we had booked for the month of April?
- Atul Das:** Yes but Vikas we are also saying that the loan and debt levels may fluctuate during the year based on our requirements. So it is not like you have to take it as a fixed cost which will be there as a fixed numbers, just take it in that context.
- Vikas Mantri:** Yes sir, but what we will be able to reconcile is on 440 Crores how could you just have this kind of debt interest and then some other expenses?
- Hitesh Vakil:** We have a debt which is linked to LIBOR rather than linked to the bank CLR, beyond that I will not be at a liberty to share the details.
- Vikas Mantri:** Okay sir, right, I will take. And congratulations again.
- Moderator:** Thank you Mr. Mantri. The next follow-up question is from the line of Amit Kumar from Kotak. Please go ahead.
- Amit Kumar:** Sir I just wanted to, again touch upon the SG&A expenses you just on a previous question you noted two reasons why this could have come down, one was on account of Zee Next where there was no carriage cost and so on there. And the second was on account of lower marketing cost because you have obviously cut back on afternoon programming, sir I am surprise with this because as far as I, in fact I am just looking at that your 4<sup>th</sup> Quarter release you had said that Zee Next was pretty much off air even during the 4<sup>th</sup> Quarter and this afternoon programming cuts had largely happened because your content cost was down pretty sharply last quarter sir I am just a little bit surprise why the SG&A expenses have come down with a lag because last quarter your SG&A had actually added highest level ever.
- Punit Goenka:** Yes if you look at actually the pointer we have made, we have got the SG&A coming down was in relation to year-on-year so it was from Q1 to Q1 this year, but anyway if you look at the 4<sup>th</sup> Quarter by just virtue of number of launches that we have had in the month of January to March was the highest.



**Hitesh Vakil:** And 4<sup>th</sup> Quarter last year also had one extra event in the international market because of that there is all increase in the selling and distribution cost.

**Amit Kumar:** Okay what would that event be?

**Hitesh Vakil:** Zee Carnival in UK.

**Amit Kumar:** Okay, fine thank you sir.

**Moderator:** Thank you Mr. Kumar. The next follow-up question is from the line of Ramchandra Hegde from Primus. Please go ahead.

**Ramchandra Hegde:** Punit if you just clarify you know you have three channels now in the GEC side who are doing pretty well, but this sort of clutter, is that hampering sort of the price uptake because presumably there advertisers are able to beat one against the other. And would that mean that the pricing environment would remain tight at least for some time till you have clarity in terms of clear Number 1 and Number2 being established.

**Punit Goenka:** No definitely that has impact in the revenue for the GEC, because it is the same pie which has marginally grown by way of inflation is now probably split between three players rather than being just split between two players a year and a half back, but therefore that is where our cost efficiencies and getting better yield is going to be critical for us to remain and deliver the bottom-line. So you are absolutely right when you say rather than three-player market is definitely a tight situation from the broadcaster's point of view.

**Ramchandra Hegde:** And did I hear correctly that you have carriage fees was flat? It was flat YOY or was this sequential?

**Punit Goenka:** We have actually factored that carriage fee for the year will be flat.

**Ramchandra Hegde:** Okay sir. Thank you very much.

**Moderator:** Thank you Mr. Hegde. The next question is from the line of Ritesh Doshi from First Global Securities. Please go ahead.

**Ritesh Doshi:** Good afternoon sir will you repeat what is the gross block as on today?



- Hitesh Vakil:** Gross block has been Rs.384 Crores before goodwill.
- Ritesh Doshi:** This is as on June 30<sup>th</sup>.
- Hitesh Vakil:** Yes.
- Ritesh Doshi:** So what is the expected maintenance CAPEX for FY2010?
- Punit Goenka:** About Rs.600 to Rs.700 million.
- Ritesh Doshi:** Thank you.
- Moderator:** Thank you Mr. Doshi. Ladies and gentleman we will be taking one last question from the line of Mr. Ankit Kedia from Centrum Broking. Please go ahead.
- Ankit Kedia:** Sir just wanted to know how much was Zee Cine Awards if it would have happened, given us on the advertising revenue for the quarter?
- Punit Goenka:** I am sorry, Ankit I cannot share that kind of detail.
- Ankit Kedia:** Yes and sir my second question is regarding the call option we have, to increase our stake in Taj TV by 1%, and they are having 23% put option, are we going to exercise that in September?
- Subhash Chandra:** We have time up to September to exercise that call and we actually intend to do that because we still feel that we need to consolidate the sports business as a strategy, but the Board has not yet given us approval to do so, because the Board in its wisdom felt that the overall price we had bought earlier 50% at the total enterprise value of \$120 Million and the Board of ZEEL felt that this should be negotiated with the other shareholder because the moment we exercise 1% they have the right to put another 23% to us. So that process is on at the moment.
- Ankit Kedia:** Okay sir, thank you sir. That is all.
- Moderator:** Thank you Mr. Kedia. As there are no further questions, I would like to hand a floor back to the management of Zee Entertainment for closing comments, please go ahead.



**Harshdeep Chhabra:** Ladies and gentleman thank you for joining us, we soon hope to have a transcript of the call on our website [www.zeetelevision.com](http://www.zeetelevision.com). We look forward to speaking to you again at the end of for the 2<sup>nd</sup> Quarter of fiscal 2010 or even earlier on a one-on-one basis. Thank you and have a great day.

**Moderator:** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Zee Entertainment Enterprises Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

*\* This document has been suitably edited for ease of reading*

