



Extraordinary Together

## **Zee Entertainment Enterprises Limited**

**Q3 FY18 Earnings Conference Call**

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Edited Transcript

**MANAGEMENT:**

Mr. Punit Goenka - Managing Director and CEO

Mr. Bharat Kedia - Chief Financial Officer

Mr. Bijal Shah - Head, Corporate Strategy and Investor Relations

**Moderator:** Good Day, ladies and Gentlemen and welcome to Q3FY18 Earnings Conference Call of Zee Entertainment Enterprises Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bijal Shah. Thank you and over to you, Mr. Shah.

**Bijal Shah:** Thanks Margaret. Hello everyone and welcome to Zee Entertainment's Earnings Call to discuss company's performance in Q3 FY18.

Joining us today on this call is Mr. Punit Goenka – Managing Director and CEO of Zee Entertainment, Mr. Bharat Kedia – Chief Financial Officer of Zee Entertainment, along with the senior management of the company. We will start with a brief statement from Mr. Goenka on the 3<sup>rd</sup> Quarter performance. Subsequently, we will open the call for question-and-answer.

Before I pass it on to Mr. Goenka, I would like to remind everybody that anything we say during this call that refers to our outlook for the future is a forward-looking statement and must be taken in context of the risks that we face. Thank you and over to you, Mr. Goenka.

**Punit Goenka:** Thank you, Bijal.

I would like to welcome everybody to this call and appreciate your joining us for the discussion on the results of the third quarter of fiscal 2018.

We are delighted to deliver a strong operating performance during the quarter. The slower growth in the last four quarters was due to specific events which required our advertisers to recalibrate their spends. As the impact of these factors is now behind us, ad spends have bounced back strongly and outlook remains encouraging. The recent cut in GST rates across a wide category of products should aid the growth in ad spends.

Our domestic ad revenue growth of 26% is a testimony to the fact that television continues to remain the most effective medium for brand building. With a dominant time share along with an increasing reach, television will remain an important medium for advertisers in the foreseeable future. On top of this, digital platforms are driving incremental video consumption which represents another growth opportunity for us to monetise content. Our new digital platform, Zee5, scheduled to be launched in February, will enable us to capture this growth.

The domestic subscription growth for the quarter was at 7.5%. Subscription growth so far has been lower than what we had achieved last year as the content deals with

our distribution partners are taking slightly longer to conclude due to litigations regarding the TRAI tariff regulation. Last year we had closed majority of these deals in the second and third quarter. Having said that, we don't think that this will have any significant impact on our full year outlook for subscription growth.

EBITDA for the quarter was Rs 5.9 bn with an EBITDA margin of 32.3%. The cash & cash equivalents for the quarter ended Dec 31<sup>st</sup> stood at Rs 32.6 bn.

I am sure that a lot of you are aware that on the occasion of completing 25 years of operations, our businesses adopted a new and vibrant look. With a fresh brand identity, and new philosophy of '*Extraordinary Together*' we think that we will be able to establish a closer connect with our consumers.

Now I will cover the operating performance starting with the domestic broadcast vertical.

During the quarter, we maintained our position as the No. 1 non-sports entertainment network with a viewership share of 18.3%. Our performance in several regional language markets improved while we continued to be the leader in pay Hindi GEC segment. In continuation with our focus on premiumization, HD versions of *Zee Telugu* and *Zee Cinemalu* were launched following launch of *&privé HD* and *Zee Tamil*.

Zee TV was the leader in the pay Hindi GEC segment and &tv maintained its market share. In the Hindi FTA category, Zee Anmol retained its leadership position. With a strong portfolio of four channels, the cinema cluster retained its leadership position in the Hindi movie genre.

Regional entertainment portfolio continued to exhibit strong performance. In the HSM regional market Zee Marathi and Zee Sarthak maintained their No.1 position while Zee Bangla continued to be the second most watched channel. In Southern markets, Zee Telugu improved its market share significantly in the Urban market to become the No. 1 channel, Zee Kannada maintained its position as second ranked channel and Zee Tamil improved its market share reaching 17% share in urban market in the month of December.

In English genre, Zee Café, with its strong line-up of shows, continues to be an audience favourite for English entertainment content while our recently launched premium movie channel, &privé HD, gained leadership position in the first quarter of its launch.

Moving on to other businesses.

Our movie production division, Zee Studios, released 2 Hindi movies - *Secret Superstar* and *Qarib Qarib Singlle* and one Marathi movie - *Faster Fene*. While *Secret Superstar* performed well at the box office, the other two movies received rave reviews.

Zee Music Company, our music label, continued with its library expansion with acquisition of rights of both Bollywood as well as regional music. In Q3, our music label registered ~3.0 billion views on YouTube.

OZEE saw a sharp improvement in performance metrics with an average of 145 mn+ video views per month during the quarter. DittoTV continued to see improved traction leveraging its partnerships with telecom operators. The strong performance of the two platforms provides a sound launch-pad for the new digital platform Zee5.

With these opening comments, we would like to address any questions you have.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

**Kunal Vora:** First question on subscription revenue, should we expect a strong fourth quarter as you conclude all the domestic subscription deals, at least that is what you implied if I am not mistaken? And also, post the exit from Sports business have you seen any reduction in bargaining power with the distributors? That is question one. Second is, on Zee5. Are there any costs which are related to Zee5 which are already being getting booked or it is all completely getting capitalized? And how do we see the impact of this on margins going forward?

**Punit Goenka:** So, let us take the last question first. On the Zee5, no cost have come into the P&L so far. It will only happen once the launch takes place. Currently the P&L only accounts for OZEE and DittoTV on the digital side. On the subscription revenue, yes, as and when we close out the contracts with the distribution partners we will see a bump up in the subscription revenue for domestic business. Our overall annual number guidance should not change, it should remain in the low teens as we have already spoken about. Can you repeat your first question? I missed it.

**Kunal Vora:** So, the Sports business exit, has it impacted subscription revenue in anyways, like say your bargaining power with MSOs or the DTH companies, not having sports in that.

**Punit Goenka:** No, it has not. As I mentioned to you, we are already expecting the number where we are, so I do not expect it to be any different.

**Kunal Vora:** Sure. And on Zee5, how do we look at the margin impact of Zee5 in coming quarters?

**Punit Goenka:** Kunal, as we have guided, our margin guidance still stands at 30% plus irrespective of all the investments that we are making including Zee5. Barring a few quarters, when it could be higher or lower, on an annualized basis it should be 30% plus.

**Moderator:** Thank you. The next question is from the line of Sachin Salgaonkar from Bank of America. Please go ahead.

**Sachin Salgaonkar:** I have three questions. Firstly, clearly ad growth was super strong at 30% domestically. Just wanted to understand how you look at the sustainability and if you could throw some light in terms of what did the industry grow at and have you grown at a rate slightly higher than the industry?

**Punit Goenka:** We are not guiding for the next year right now. I think, let us see how quarter four plays out and we will be in a better position to give you a number by end of the year.

**Sachin Salgaonkar:** Okay. But generally, Punit, you believe you have gained some market share in this quarter?

**Punit Goenka:** On the back of all our market shares that we have gained in terms of viewership, definitely we will outperform the market.

**Sachin Salgaonkar:** Okay, got it. Second question is you know clearly now you have visibility on Zee5 launch which is in February. Can you help us understand broad range of investments you believe Zee5 would need to make it a proper launch?

**Punit Goenka:** Sachin, as I have said, this is a bit of a competitive information. We would not like to share division-wise profitability at this stage. We are committed to investing in Zee5 to make it a success, whatever it takes for us. And my margin guidance already takes into account any investments that we are making in Zee5.

**Sachin Salgaonkar:** Okay, got it. And is it fair to assume that even after this year, because we have sort of three quarters already done in FY18, so even in FY19, more or less your guidance will remain the same 30% plus?

**Punit Goenka:** Yes. That is correct.

**Sachin Salgaonkar:** Okay, got it. And last question is to Bharat, this is on the debentures of Rs. 167 crores. I do see a footnote which says that company has initiated legal action in terms of enforcing that. Can you help us understand what exactly happened and what could be the time frame for recovery?

**Bharat Kedia:** Thank you very much, Sachin. Well, yes, we have taken legal action. But we are adequately secured, and we are very confident the recovery will not be an issue for us.

**Sachin Salgaonkar:** Sorry, can you help us understand what exactly happened and what is the time frame for this?

**Bharat Kedia:** See, we are adequately secured, but the money has not come. The money is now overdue, so, we have taken legal action. And we believe that the money should be available to us in due time.

**Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

**Ankur Periwal:** My first question is on ad itself. So, any specific trend we are seeing in terms of whether national ad spends have increased or is it largely driven by the regional recovery after the GST implementation?

**Punit Goenka:** I can only give you some examples. We have seen strong volume growth of almost 11% plus with the largest advertiser that we have on our network. And we have also seen in their results this quarter, there has been almost 25% increase in their ad spends on a year-on-year basis. So, that is all a function of both volume as well as value.

**Bijal Shah:** On the regional side, we are not seeing anything specific. The recovery on the advertising side is very broad based. It is across categories, across regions, across national and regional advertisers also. And 26% kind of a growth is not possible if any of the important advertiser is not really doing well. So, it is very broad-based advertising growth across the board.

**Ankur Periwal:** Sure, that is helpful. And secondly now the BARC is already working on digital ratings, so to say probably by the end of this calendar year. So just wanted to understand in terms of TV ad yields, on a per eyeball basis, we are still probably lower than other advertising medium, let us say print. So, do you think any discussions you will be having with the advertiser on that front, if there is any uptick in terms of ad yields on the anvil?

**Punit Goenka:** So, ad yields are going up on a year-on-year basis. If you look at our growth numbers, those are not achievable by just volume growth because we are not adding that level of inventory. Whether the currency shift happens or not that is an industry wide call. We do continue to work with the industry to see how we can fast track that. But I will not be able to give you any commitment as to when that is going to take place.

**Moderator:** Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** Punit, I will bore you with the advertising question again. Now, this performance was superlative. Now, I was also of the belief that we would have outperformed because of our brand refresh and the 25-year celebration, which also meant big budget programs or events and therefore higher advertising, and this will normalize going forward relatively. Would that understanding be right?

**Punit Goenka:** Yes, you are right Vikash that we had the brand refresh but in terms of events which are purely 25-year driven, no we did not do any extraordinary events other than having the Zee Cine Awards in the third quarter this year, unlike normally when we have it in the fourth quarter. That is the only difference from the regular plan going forward. The number of hours that we have increased has had an impact on the ad revenue growth and the only exceptional thing was preponement of Zee Cine Awards. Other than that, as I have said earlier, whatever the market expectation is, our endeavor will be to beat that going forward as well.

**Vikash Mantri:** Great. Now coming on to the &TV. If I were to look at Star Bharat's performance after it has been available on Free Dish, let us not use FTA, clearly, they have become, let me not say as strong but at least in terms of impressions, the ratings are quite similar to us. And when I say us, I mean Zee TV. &TV, however, seems to have now plateaued at this point. So, what needs to be done or should we go with the Star Bharat model?

**Punit Goenka:** I think it is too early to say that we need to go with the Star Bharat model because as you will be aware Vikash, '&' as a brand has been built for the new India and the urban market. So, just being available on DD Free Dish will not have the same impact necessarily as you have seen on Star Bharat. Definitely, if we were to change our content strategy and our positioning of the channel, that is one route what we can look at. But we believe that the brand that we have created with '&', and not just with &TV but &Pictures and now &Privé, has a really solid brand recall in terms of differentiated content not coming from the house of Zee, let me put it that way. And I think, we need to build on that by having more sharper content execution on &TV for it to start moving. So, the word plateau, while I accept you are right that it is been stable at that number, but our endeavor will be to continue to grow it further within the same genre as it is.

**Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

**Sanjay Chawla:** My question is on Zee5. How are we planning to differentiate Zee5 offering vis-à-vis others in the market like Hotstar and Voot? Given the lack of sports and also, for example, could there be a greater emphasis on original programming and are we going to have original programming on Zee5 from day one? That is first question. And secondly, just a housekeeping question, would there be any spillover of 25th anniversary related events in cost into 4Q?

**Punit Goenka:** So, on the 25-year related cost, very minuscule amount, if any, is left in quarter four. It is more or less done in quarter three itself. So, there will not be any impact on quarter four of that. On Zee5, our strategy is purely content driven, and the breadth of content that we want to offer will be our differentiator compared to anybody else out there. Yes, we will have original content on day one on Zee5. And also, in the application itself we are trying to build in certain features which may not be available on the current OTT platforms.

**Sanjay Chawla:** Any thoughts on how the content related cost would be amortized with regard to Zee5?

**Punit Goenka:** I do not see why it should be anything different from the way we are doing it on television, which is an aggressive policy that we have.

**Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

**Alankar Garude:** My first question is from a movie acquisition perspective, should we expect Zee to be as aggressive in FY19 as we have seen in FY17 and FY18? And perhaps a linked question to that would be, do you expect content exclusivity in digital movie rights to continue in the future or rather not?

**Punit Goenka:** So, I do not think there are that many films available to buy any more in financial year 2019, like what we have done in the past. Also keep in mind that a lot of the investments we have done in the last 18 months are for future rights where the rights are yet to kick in starting from year 2020 etc. So, that is the first part. In terms of exclusivity on content, movie content for digital, I think that strategy is going to play out as we speak. I think right now we want to have exclusive content for our digital platform, not just movies but even on television shows. But that is something that we will have to answer as we go along.

**Alankar Garude:** Sure, sir. And secondly, one question on high definition. We have launched two more channels in this quarter. Can you comment on the overall HD ad market and how big is it, how fast is it growing? Any color on this?

**Punit Goenka:** I mean it is a very small number today because the total universe of HD in the country would not exceed 10-12 million homes. So, from that perspective, it is a very-very small market and it is a subset of the overall ad growth that you see in any case.

**Alankar Garude:** Okay, sir. And just one final book keeping question on other income to Bharat. It has been low for the second consecutive quarter. So, is there any one-off in this quarter?

**Bharat Kedia:** No, there is no one-off in the other income in this quarter. In fact, there was some one-off in the last quarter and that was not there this quarter.

**Alankar Garude:** Okay. But then, Bharat the yields seemed slightly on the lower side, any particular reason for this?

**Bharat Kedia:** So, the other income actually has yield and also it also has an exchange fluctuation in it. So as the exchange fluctuation moves from one direction to the other that also impacts our other income. So, the total other income is not just the yields.

**Alankar Garude:** Okay. And are we quantifying the impact of Forex?

**Bharat Kedia:** The impact of FOREX on our international revenue over nine months has been about 4%.

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

**Abneesh Roy:** My first question is on the content cost QoQ which is the like-to-like comparison. Your content cost is up 16%, but you have called out that that is because of the Hindi movies and special programs. But your number of programming hours is up. So my question was, even if your programming hours are going up it seems cost is not going



up. But you have called out that revenue wise it is quite accretive. So where do you see this number eventually? You have guided earlier at 32 hours in Q4. But are you also long-term thinking a much larger, much higher number of programming hours because it is much more revenue accretive, but cost does not seem to be increasing much?

**Bijal Shah:**

So Abneesh, this quarter you are seeing programming cost increase that is on account of the movies which we released in theater. So it is the movie production cost which has come. Secondly, ZCA - Zee Cine Awards, was there in this quarter as compared to that was not being there in the previous quarter or the corresponding quarter in the previous year. And lastly, also as we were gearing up for the 25-year celebration on our channels as well as brand refresh. There were a lot of properties for that and also the production values and all had gone up this quarter. As such, there is really not much of a change in our guidance on the programming cost and programming cost to revenue ratio should not change materially. This quarter had some specific element which I highlighted. So, I do not think that there is really anything beyond that as far as programming cost is concerned.

**Abneesh Roy:**

No, my question was different. My question was that your programming hours are going up and Punit highlighted that it is helping in terms of the advertising growth. So why stop at 32 itself for example, because cost wise it is not visible. So, one, I wanted to understand, if I take these one-off shows out in terms of your normal fiction content, your original programming hours. How is the inflation there?

**Punit Goenka:**

Abneesh, unfortunately we get stuck on Zee TV's programming hours. If you look at the programming hours on our bouquet of channels, they are going up significantly. So it is not as if we are going to stop at 32. 32 hours per week is our plan till Q4. We are already in the midst of planning what our plan is going to be for next year. So if it makes financial sense for us to take from 32 to 35, we will obviously do that. So it is not something that we have fixed at any given point in time. For example, Tamil will move significantly in terms of number of hours next year. Unfortunately, we tend to get stuck only on Zee TV's numbers, but the network extends way beyond that as well.

**Abneesh Roy:**

Punit, just one follow-up here. A lot of investors want to understand, yes, programming hours are going up in Hindi and even in regional, but that is not visible in terms of the cost item. So, either inflation is coming down and that is why number of programming hours kind of balance each other. So, is inflation coming down in terms of per hour?

**Punit Goenka:**

Yes, so that is why we are just going to say that we work on our per hour cost and we do try and find efficiencies wherever we can. So, yes, we may have improved our per hour cost in certain channels and certain channels would have gone up on an inflationary basis.

**Abneesh Roy:** Right. My second question is on the sector. We have seen Star-Disney deal happen and both companies have very different strategies globally and India also. You have done quite well and you are now focused on overall market share in the non-sports entertainment. What is your sense, Punit? These might be initial days but what is the sense? Is it good for you as a company, you see a big change in the strategy of how Star operate?

**Punit Goenka:** No, I do not think that that should change the strategy of Star's operations in the country. So, I think there is no impact per se on our business. We know what we are doing and we will continue to do that. I do not think just by Disney entering the shoes of Fox will change their strategy on Star India.

**Abneesh Roy:** And one last follow-up - on Tamil market you mentioned cost will go up, content will go up. So in regional market, Punit, is there space for four players Colors will soon enter. So what is the sense you have, you are currently #3 doing well. But I wanted to understand this.

**Punit Goenka:** It is a general rule that I keep talking about Abneesh, that the top two players make money, the third guy breaks even and the fourth guy loses money. That is the order generally that operates in our business. And I expect the same order will prevail even in Tamil Nadu. It is not the fourth player entering, there are already eight players in Tamil Nadu, it is just that the other five do not get noticed.

**Abneesh Roy:** The relevant ones are three. Now, you are currently #3 and Colors is very formidable in South India, especially Karnataka, if you see. So, long-term, you will aim to be in the top two, right?

**Punit Goenka:** Absolutely.

**Moderator:** Thank you. The next question is from the line of Siddharth Behra from Nomura Securities. Please go ahead.

**Siddharth Behra:** My first question is on the subscription side. We are in the process of closing deals, so can you give us some color on how will the next year look in terms of growth because the progress of digitization and monetization in cable operators is also taking place. In this context, how will the growth look for the next year?

**Punit Goenka:** It is again linked to the uncertainty around the TRAI tariff order and therefore, until the implementation of that, it is pretty much fixed fee deals that are being entered into. And as I said, I do expect that there will be some growth. Of course, it will be lower compared to what you have seen during Phase-I and Phase-II because given that the monetization in Phase-III, Phase-IV will be far lower.

**Siddharth Mehra:** But mid-teens growth what we can look at or it can be in the low-teens only?

**Punit Goenka:** Low-teens is what you should factor in.

**Siddharth Behra:** Sir, my second question is on the cost side. We have seen some reduction in the staff costs on a sequential basis this quarter, one is that. And second is on the movie side, we have seen like around Rs. 40 crores of higher revenue coming on the movies. But similarly, our costs on both ad and other expense have also moved up by close to Rs. 40 crores on a sequential basis. I understand there are other brand expenses and Zee Cine Awards, but just wanted to understand the additional benefit from the movie segment at the EBITDA level will be how much?

**Bijal Shah:** See, we have been guiding for consolidated EBITDA margin as guidance. It is a bit difficult to really talk about margin on a quarter-on-quarter basis about a single business. So, we would still refrain from that and we continue to stick with our consolidated EBITDA margin guidance. Our overall movie business is profitable and that is what we can say.

**Siddharth Behra:** Okay. But the basic strategy behind having a movie business, can you help us with that? I understand that they have been profitable at the EBITDA level but what will be our overall strategy for the movie business in the longer-term?

**Punit Goenka:** On the movie business, if you look at historically, we are buyers of almost 50% of rights that we buy through our various divisions, whether it is satellite, digital, music or overseas etc. I think from that perspective, it was a natural extension for us to get into film production business as well because the risks are that much lower for us and it complements our broadcasting and digital business directly.

**Siddharth Behra:** Okay. And my last question was on staff costs. Why have they been lower on a sequential basis this quarter and will they normalize?

**Bharat Kedia:** There has been some realignment in the cost. So, if you look at the staff cost, there has been some cost allocation that has moved from one line item to the other. At an overall level, the staff cost remains flat.

**Moderator:** Thank you. The next question is from the line of Karan Taurani from Dolat Capital. Please go ahead.

**Karan Taurani:** My question was pertaining to the regional content. So English and Hindi is something which is already there on the digital platforms. But regional content consumption on a digital platform is the next big thing. Do you see that as a threat for your regional channels' growth? And secondly, in terms of lot of new players like Sony, Sun TV, launching the new Marathi channel. They are also going very aggressively in the regional space. So, more players coming in the regional channels, do you see that also as a threat for your growth in the regional segment?

**Punit Goenka:** Competition has been intense throughout. If somebody is not competing in a market there are other players which are present. As you said, Sony entering into Marathi or even Sun TV's entry into HSM markets that we keep hearing about. But given our formidable position there, we are ready for the competition as and when it arrives. On

the digital piece, we do have to be cognizant of the fact that regional content also will move the similar way that Hindi and English have moved on the digital platforms. And we have to prepare Zee5 also to be ready to fight in that market space.

**Karan Taurani:** Any focused approach for Zee5 to position it as a regional platform or something of that sort?

**Punit Goenka:** As I said, the breadth of our content will be the differentiator and therefore, regional will be a key to that strategy itself.

**Karan Taurani:** And just one last question if I can add. Will it be an advertising-based platform or a subscription-based platform, any idea on that?

**Punit Goenka:** It is a combination of both.

**Moderator:** Thank you. The next question is from the line of Varun Saboo from Citigroup. Please go ahead.

**Varun Saboo:** Just wanted to understand on ad growth, although you have explained that recovery is across geographies, regional, etc., just wanted to understand any particular sector which is driving it or if you are seeing a jump in any particular sector and if you are okay to share that?

**Punit Goenka:** It is pretty broad-based, Varun. So, there is no one specific sector that is outperforming.

**Varun Saboo:** Okay, why I am asking is because in my few corporate interactions, I understand that there is some rural recovery and a visibility of good 2-3 years plus which people are looking at. So, was just wondering if this trend can continue and probably if this trend can improve going further?

**Punit Goenka:** Well, FMCG does constitute the largest piece of the television market. So, yes, if you are talking about rural recovery, FMCG is direct gainer of that. But from our perspective, the mix is not changing, it is pretty much remaining what it was pre-GST, so it has pretty much remained the same.

**Bijal Shah:** So just to add to that, the overall campaign visibility is pretty high and the outlook for advertising is encouraging. On top of that, the cut in GST rates will also benefit in probably near-to-medium term. So, ad spend outlook is pretty decent at this point in time.

**Moderator:** Thank you. The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

**Vivekanand:** Can you please give us an update on the Free-To-Air advertising market? That is question one. I have follow-ups, which I will ask later.

**Punit Goenka:** So the Free-To-Air advertising market is almost reaching close to Rs. 2,000 crores now.

**Vivekanand:** Right. And this is across genres that you are mentioning?

**Punit Goenka:** Yes, including Doordarshan, Prasar Bharati, everybody.

**Vivekanand:** Right. And in light of the robust ad growth that you are seeing, is it fair to assume that Free-to-Air is continuing to grow faster than the rest of the piece or is the growth rate similar?

**Bijal Shah:** Growth rate of FTA is slightly ahead of the average. But, when we look at the growth of every single channel, there is really not much of difference between their growth rates to influence the average number. So, what I am saying is that from a channel perspective, there is really no one particular channel or one particular genre which is driving this growth.

**Vivekanand:** Right. And in the context of the robust growth in the Free-To-Air market, is it fair to assume that that this is a preferred mode of monetizing rural audience than say subscription, where there are pressures. But it does not seem to be impacting your overall revenue growth and overall EBITDA growth. What I am trying to understand here is, is this trade-off that you are seeing, where advertising is growing at a very healthy pace, offsetting your subscription growth, which at the start of the year was at mid-teens guidance and now it is low teens. So clearly, there must be some impact on subscription growth due to Free-To-Air which is being proliferated because of your efforts. So, is it fair to assume that you have made this choice of wanting to grow the rural market through advertising vis-à-vis subscription?

**Bijal Shah:** So just a slight correction - beginning of the year we had the new tariff order and we have actually not guided anything in the beginning of the year. The low-teens guidance has been there ever since we started talking about FY18. So there is really no change in guidance. Secondly, and more importantly, Free-To-Air is a separate and incremental opportunity. These people were actually watching DD and we were not able to reach these people through our channels because they are either not willing to pay for the content or they are not able to pay for the content. By reaching them through a Free-to-Air route, we are actually adding to our viewership and that is incremental advertising revenue which we are seeing. So, this is a market, which is in addition to the pay market which we serve through our pay channels.

**Punit Goenka:** And, also keep in mind that FTA advertising market is just 5-6% of the total ad pie. So we would not give up subscription revenue just because FTA opportunity has arrived. I think both will be looked at independently of each other.

**Vivekanand:** All right, that makes sense. The other question that I had was on your music and live events business. I can see that over the last year or two, you have aggressively invested in that business. Now, we are also seeing that you are acquiring 9X music

channels and also doing deals with OTT platforms with your library. Any sense that you can give us on how you are monetizing that and what is the kind of inventory position there and contribution to the overall business. Thoughts on this would be helpful.

**Punit Goenka:** Both the businesses that you talked about are still fairly small in terms of overall contribution to the company. The live business is making losses or very small amount of losses and the music business is as per our plan on track to make profits next year itself. But it is still very significantly low compared to the overall number for the company.

**Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** I just have 3-4 quick questions, if you can sort of touch upon the sharp increase in depreciation in this quarter and is this sustainable?

**Bharat Kedia:** So, the increase in depreciation in this quarter is in alignment in the life of the assets. There is a catch-up impact of three quarters in this quarter. So basically, the run rate would be one-third of the increase going forward.

**Rohit Dokania:** Also, if you can talk about what should be the tax rate from a P&L perspective that one should build in for the full year?

**Bharat Kedia:** See, the tax rate for us is slightly complicated because we have a dividend income that we bring through international territory into India. And we also pay the Dividend Tax on it or Income Tax on it. So, for this particular year, our effective tax rate is expected to be between 40% to 41%.

**Rohit Dokania:** Okay. And sir, how will it play out over the next year. Is it expected to sort of move to the nominal tax rate?

**Bharat Kedia:** That remains our endeavor. Correct.

**Rohit Dokania:** Okay. And also is there any update on the redeemable preference shares we are probably thinking of redeeming it earlier?

**Bharat Kedia:** So as of now, we are looking at redeeming 20% value of each of the preference shares that we have which would be done this quarter. And then we will take the decision for the rest.

**Punit Goenka:** We are still to find a tax efficient mechanism to prepone the redemption Rohit. So, we are as of now only guiding for the 20% redemption which is planned.

**Bijal Shah:** And Rohit, just to add to the tax thing. See, I can take you through the tax rate offline, it is slightly complicated. But just to say, if we strip off the dividend related tax, we are pretty close to the marginal rate. There would be some of the subsidiaries where

we might not be taking deferred tax credit and there is another 14A related tax in Income Tax. But still it will be very close to marginal tax rate. Now, what happens is that the incremental 5%-6% of the tax rate which we are paying, that Bharat mentioned, we really get an offset for that fully when we payout dividend to our preference shareholder or dividend to our equity shareholder. Though the tax rate has moved above the net profit line, from the company's perspective, there is really no additional tax outgo. We would have paid that amount in any case as dividend distribution tax while we distribute a dividend. So optically, the tax rate is going up but actually there is really no financial or cash outflow impact on the company.

**Rohit Dokania:** Just one last question from my bit and if you can answer this. So if I look at your sort of expenditure excluding sports expenditure in the base quarter which is 3QFY17, the overall expenditure would have grown by almost 26%. Now I believe there would be some sort of expenses related to the 25<sup>th</sup> year celebration and the brand re-launch and so on and so forth. Can you quantify the like-to-like sort of cost increase that has happened excluding these two factors? Will it be possible on a Y-o-Y basis?

**Punit Goenka:** So, towards the 25-year activity, we have close to Rs. 40 crores that has been spent on the brand refresh and the 25-year celebrations.

**Bijal Shah:** To add to it. See, last year same quarter, we did not have many events. In fact, this quarter we had three movies and it might not give you a perspective even after adjusting.

**Rohit Dokania:** Yes, I understand. You also did not have Zee Cine Awards in Q3FY17, but this number helps, this one-off number really helps in terms of the calculations.

**Bijal Shah:** The underlying cost increase is much lesser than even if you adjust for this in Q4.

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

**Amit Kumar:** Just a quick one on the entertainment share now that sports is sort of completely out of the picture. So this current 18.3% market share that we are basically looking at from India cable and satellite entertainment piece, what would be this number in the same quarter last year, if you have that?

**Bijal Shah:** Yes, we will just get back to you. We have that number.

**Amit Kumar:** Sir, very quickly, the timeline for the digital revamp, do they sort of still remain broadly? So, we are looking at this particular quarter for the launch or is that extended?

**Punit Goenka:** Amit, as I mentioned in my speech itself, it is happening next month.

**Amit Kumar:** Finally, quickly on the other expenses side, so lot of this brand refresh and 25 year celebrations I would presume the impact would get captured in advertising and

promotional spends. But other expenses, which are more like normal overhead that has also inflated quite sharply on a Y-o-Y basis, almost a 35% kind of increase. So, is there anything to that as well?

**Bharat Kedia:**

So let me first give you an overall picture. The total expenditure grew about 26% compared to the last quarter in terms of run rate that has three elements to it. (a) Punit, just spoke that there is an exceptional expenditure which is about Rs. 40-odd crores. (b) we have three movies in this quarter which were not there in the last quarter - *Secret Superstar*, *Qarib Qarib Singlle* and *Faster Fene*. All of those three added both in terms of the marketing spend and administrative spend. However, the counter effect of that is in the other sales and services revenue, which you would have also seen grow significantly. So therefore, if you netted out that impact nullifies and last but not least, (c) we have also increased the original hours of content and therefore there is an increase in content cost. So, if you look at these lines individually, it is difficult to kind of track each item into line-by-line, but overall, this 26% growth in an underlying scenario would have to exclude the film and the exceptional Rs. 40 crores.

**Bijal Shah:**

Just to add to what Bharat said, we all think that the brand refresh and 25-year celebration related costs are all marketing and publicity or advertising and publicity costs, but all of that has not been classified there because some of our events were not related to specifically advertising. We had a very big event in which all 3,400 employees participated, coming from all over the world at one place. So that is coming in the admin expenses. Similarly, there have been lot of events, may be for our distribution partners or for advertising partners, which are really sitting in admin expense or other expenses as put in the SEBI release. And that is the reason why you are seeing that sharp increase. Underlying growth is actually inflationary and the increase that you are seeing is more to do with the 25-year celebration we had.

**Amit Kumar:**

My final question, again just trying to get a handle on the ad growth side of things. So, our understanding is that in last quarter 3QFY17, November and December definitely the ad volumes came down quite substantially post-demonetization. But still, the inventory on the existing channels because these run at a 14-minute limit, there is not sort of much scope to grow that. And majority of the growth will essentially come from yields, so when we look at this 25% like-to-like growth number and how do we sort of broadly look at this in terms of volumes and yields and how does that sort of play out going forward?

**Punit Goenka:**

As I said earlier Amit, a large part of our growth does come from yields itself and not from volume because we are not adding that much inventory year-on-year. This year quarter three would be an aberration because actually in November - December last year, the inventory utilization levels fell down due to the demonetization impact. So, it is not comparable. If it was done on a normalized basis, the impact of inventory utilization is minuscule and a large part of it comes from yields that works for us.



**Amit Kumar:** Punit, that is exactly what I am just sort of trying to understand that you know typically the yield increase that we sort of look at is anywhere in the region of 8% to 10%. So in this quarter, has something sort of changed from there, are we seeing sort of better yields or is it broadly in that sort of region?

**Bijal Shah:** General inflation is around 8%-10% but we also have higher increases as well. So, it is not only 8% to 10%, the yield increase is generally higher than that. But if you are asking from a perspective of inventory as compared to last quarter it is bit difficult for us to segregate that number because it has a significant element of ratings improvement or deterioration, channel by channel and new addition, so a bit difficult to break it out into inventory and into pure play price.

**Punit Goenka:** So if I answer your first question about what was our share in the third quarter last year, we were at 16.3% vis-à-vis 18.3% now.

**Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

**Yogesh Kirve:** Sir, in terms of your time spent on television, especially in the urban Hindi market, what has been the trend over the last one year or so? And secondly, considering that people are spending more and more time on digital devices, not necessarily video, but overall, do you anticipate any changes in the time spent on television over the next two years to three years?

**Punit Goenka:** So as of now, all the trends are showing only growth. On the television, time spent has gone up sequentially from 158 minutes to 161 minutes of consumption. And I also do expect that as more electrification of the country takes place, the consumption of TV will only grow. As I have said in my speech, for the time being at least for the foreseeable future, the digital consumption is all incremental given that 93-94% of our country is still single TV households.

**Yogesh Kirve:** You mentioned about those minutes, so can you just tell us what period you were referring to?

**Punit Goenka:** Q2 to Q3.

**Yogesh Kirve:** And sir finally, few months back we moved Zindagi from television to our OTT. So if you can share how that has panned out? I am just keen to check if OTT's are effective in reaching out to the niche and discerning segments of viewers?

**Punit Goenka:** Definitely our consumption numbers on OTT did go up because of Zindagi content moving there. For competitive reason, I would not like to quantify it, but definitely we did see an impact and therefore we do believe OTT will be the better device to reach out to niche audiences.

**Moderator:** Thank you. We will take the last question from the line of Aliasgar Shakir from Motilal Oswal Financial Services. Please go ahead.

**Aliasgar Shakir:** I just had a follow-up regarding the previous question relating to the secured non-convertible debenture of about Rs. 167 crores that we have seen in overdue. Just wanted to check where has this investment gone towards? And what security do we have to just to get a comfort in terms of the recovery?

**Bharat Kedia:** Yes, so first of all, these are secured non-convertible debentures. So the security is against the company. In addition to that, we also have guarantees. So as we now invoke those security and guarantees through the court procedure, we believe we have more than covered to recover the money.

**Aliasgar Shakir:** Okay. And where has this investment gone and which company, if you could disclose that?

**Bharat Kedia:** It is through our treasury operations, to a company called SGGD.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. On behalf of Zee Entertainment Enterprises Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.