

**“Zee News Limited- Analyst Meet”**

**October 23, 2009**

**MODERATORS**

**MR. SUBHASH CHANDRA – CHAIRMAN, ZEE NEWS LIMITED.  
MR. BARUN DAS – CHIEF EXECUTIVE OFFICER, ZEE NEWS LIMITED.**

**Barun Das**

A very good evening and welcome to all of you friends and well-wishers. I would also like to extend a warm welcome on behalf of our Managing Director, Mr. Laxmi Goel, who had to leave for Delhi on some urgent assignment some time back. Well, the statutory disclaimer, I am assuming it read. A quick look at the financials for Q2FY10. All of you must have gone through it. The highlights are as follows: Advertising revenue at 1.3 billion, 26% YOY growth, subscription revenue has not grown that much, but still 18% YOY growth. EBITDA has grown by 21.8% at 258 million. Net profits stands at 131 million as against 115 million last year, EBITDA margin at 15.8% and new business losses remain flat and YOY growth more than 100% in the top line. This is a snapshot of financial performance. Operating revenue at 1.6 billion second quarter FY10, a growth of 26%. EBITDA a growth of 21% at 258 million and Profit after tax after minority interest is 131 million.

Segment wise revenue growth: besides 26% growth in advertising revenue, the encouraging trend has been seen in DTH revenue, as discussed at length in the previous presentation. The other subscription revenue remained by and large flat, but we have always seen that there are quarterly variations because of billing cycles towards the end of the quarter. Not much of concern. The DTH revenue contribution has grown, from 6% last year to 7% this year, because the revenue stream has grown by 50% this year. Cost has been controlled as we have done over the last few quarters. Cost of goods and operations has minor increase because of some provisions being accrued in this quarter.

Well, that is where we are now. Before I progress on what is the future for Zee News Limited, I just want to draw your attention to the year and a half that was. I think that has been the most eventful year any one of us would see in our lifetime. We have seen 26/11 rocking the nation. The 112 years wait for an Olympic individual Gold medal has come to an end. We have seen the two of the most important elections in the world's largest democracy and in the world's oldest democracy. We have seen amendment to Article 377 in India. Well, all of them by and large might

have touched our life in some way or the other. But all of us present here, in this context, have been impacted most by this economic slowdown, the biggest one since the depression in the early 1930s. So while we were going through this economic depression what did ZNL do? We continued to surprise all concerned with robust quarterly results. We exhibited audacity, might sounded audacious on our part, we said that the slowdown in actually rationalization for media industry. The valuation bubble finally burst for media industry and because our focus on current deliverables, maintenance of EBITDA margin, we stood high. We consistently delivered as per our guidance and we claimed that we are best placed for the next big league. We have maintained our focus on current deliverables and as Mr. Chandra said that it is a dynamic process in the organization that we continue to burn midnight oil trying to figure out what next.

And while we introspect and we examine the environment around us there are few key observations surfaced. The advertisers and the infrastructure requirement for any expansion would increasingly favor network operations. Single or limited number channel operations will eventually come to an end or will get merged with larger operations. Focus on news and regional verticals would continue to yield dividends for years to come and then we observed that our operations in ZNL are distinctly divided between two verticals, the news and the regional entertainment. The regional GEC's, we realize, that they draw greater synergies with national GEC's and we also observed that the ZNL news operation is amongst the most successful news operation in the country. So that brings us here Circa October 2009. It is official. The world is coming out of slowdown and we have a new plan in place for us. So we propose the demerger of our focused approach, the term which is very familiar to many of you who we have been making over the last six quarters or eight quarters. So the proposal is, as Atul described, demerger of regional entertainment channels, Zee Marathi, Zee Bangla, Talkies, Telugu, Gujarati, Kannada and cinemalu, primarily to exploit the full potential we are leveraging synergy with National Zee TV. In the process it is obvious that there will be unlocking of shareholders value as the Chairman mentioned.

Eventually we will be able to devote focused attention to create a news powerhouse and we have to charter a three-year growth plan for expansion of news operations. Quickly, the rationale for demerger might sound repetitive. To be able to focus completely on creating a news

powerhouse. Company has already achieved critical mass in the news segment, will come to the detail in some time. Operation of regional entertainment channels does not promote much synergy from news operations. While originally we started the regional markets as a whole with a targeted regional bouquet of entertainment, news, followed by music at some point in time and/or a movie channel. But, in course of our operation we realized that, as each of the regional advertising market grew in size, that the synergy drawn from the regional entertainment channels is quite limited as far as news operations are concerned. And content and advertising sales of regional channels are much in sync with national GEC's operations.

The mechanics of demerger targeted timeline kept 1<sup>st</sup> April, 2010 subject to all statutory requirements. ZNL shareholders to get equity shares of ZEL based on the share swap ratio, to be determined by independent valuer.

Having said that let us have a quick look at the news horizon. The current news market size is 137.8 billion. Television advertising market for news is about 10% of that horizon. The largest share taken away by print which is about 120 billion at this point in time. As I mentioned it is about 15.5 billion television advertising market. The breakup for that is 7 billion is for Hindi News; 5.5 billion for English News and Business and 3 billion which is a surprise pack is for the Regional News Channels. Regional News Channels is of extremely high potential. Just gone to Rs.3 billion in virtually four years. Though the first regional news channel was launched way back in 2000, but the phenomena really caught on in India from 2004 onwards. Just to cite couple of markets for example, 700 million market size is for Kolkata or Bengali news market and Andhra Pradesh is even bigger at 900 million. This entire regional news market has grown by about 25% even during economic slowdown. Fortunately, for us the regional news expansion would never be limited by differentiation of language because we have content differentiation for news so therefore we could have a regional news channel for UP in Hindi, because the content is 70% local and 30% national. The regional news genre is expected to maintain this growth rate in near future.

What has been our news group business operation? Finally, we are with some numbers. Over the last two years I have been asked this question several times that how does the news operation for ZNL do in order to be

compared with our counterparts from other media houses? The ZNL news bouquet post demerger would look like this. The existing business of Zee News, Zee Business, Zee 24 Taas and 24 Ghanta, which is in Bengali. The new business is Zee 24 Ghantalu, Zee News UP which just launched in this year, Zee Tamil to be converted predominantly in news, it is in the process, Zee Punjabi same.

If you look at the each one financials of existing business, these four channels, in 2010 FY, the first six months we clocked about Rs.104 Crore revenue. The EBITDA margin is about 27.7%. I do not think many other news operations in the country would be able to match that figure and this growth is not one-off this year. We see even last year. Our revenue growth over the previous year was over 27% which now this year again is 25%.

If you look at the full year financial last year, these four existing channels closed with 182 Crore of revenue with an EBITDA margin of 29.3%. Now these figures primarily had encouraged us to look at news as a standalone operation.

So going forward we chartered our plan to some extent. We will focus on improving margins and performance of existing business. We would stick to plans for new business, converting Tamil into a predominantly news channel to strengthen the southern bouquet. We currently have 24 Ghantalu which is a Telugu news channel. We have presented our strategy to the Board which had got their in-principle nod to become a news powerhouse in the country. We did discuss today in our Board meeting a three-year growth plan, which we have been advised to rework and which we will be presenting in the Board meeting which is in the offing.

Before I conclude I just want to once again implant a radical thought in your mind. See, the way the news genre or the news operations on television had grown since 1993, we are the first one to carry a news bulletin on private television with a news bulletin in the evening on Zee TV. In 1999 Zee News was the first to come up with a 24-hours news channel and now there are 24 such ones, I am sorry, if my count is wrong, anybody's count would be wrong because there is one every moment!! 2000, as I said the first regional news channel had come up but the phenomenon really caught up in 2004 and today, we have over 40

regional news channels. Now, this existing business itself will continue to grow, more and more regional news channels will come up. But there is a biggest thing which is looming over Indian media industry is the digitization and that will take away the biggest impediments for Indian media industry which is a bottleneck at distribution which results in carriage, which eats away about 30% of the cost of any news operations. So once the digitization catches up, you definitely would have metro city channels which some of us have tried and really did not succeed. And then speciality in news channels at the national level. I do not see why there should not be a sports news channel, why there should not be an entertainment news channel, why there should not be a court and law news channel. They are not there at this point in time because you can produce a channel by spending \$5 million but you will have to pay possibly equal amount to get distributed. But once the distribution bottleneck is taken off the news horizon will explode exponentially once again. Thank you very much. This is the timeline as mentioned in Atul's presentation for same. We can now open the floor for question and answer.

**Participant**

A follow-up to my first question to Zee presentation as well, If Zee News first half EBITDA was 50 Crores, how is it that the news operation also makes 29 Crore EBITDA because the channels which are being transferred are also being transferred with the 50 Crores EBITDA? And second question is that if regional channels are moving out of Zee news, how would that leave the news channels standalone in the subscription market? Are you still confident they would be able to get as much share of subscriptions?

**Barun Das**

The financials which I shared with you are for existing business. There are two parts of the news operations; there are new businesses which are mostly new channels. So I have not shared those financials. That would not have given me a like-to-like comparison because those channels were not there last year.

**Participant**

If I look at the company on a consolidated basis, today as I have the numbers the total EBITDA of Zee News was only 50 Crores and if 60 Crores is moving away with the GEC regional channels, would that leave News with negligible EBITDA?

- Barun Das** No, overall at the company level we would still be EBITDA positive despite funding 3 new channels.
- Participant** Okay and considering that Zee News also has about 200 Crores plus of debt and still more expansion plan, how would Zee News eventually fund its future expansion?
- Subhash Chandra** As far as debt in the company is concerned, some of that belongs to the news channels, but majority belongs to regional GEC's which will move along with the regional GEC's. So, Zee News Limited would have enough room to expand with its own profits plus any borrowing room they can have.
- Participant** Sir, and my other question was considering the competition level in the news market would you still expect Zee News to hold its kind of positioning in subscriptions?
- Subhash Chandra** Yeah, subscription is very independent of the regional GEC's completely. In fact, they have more connectivity with the national GEC rather than the news channels.
- Participant** Thank you.
- Participant** Sir, in the past we have seen that Zee Group is very prudent with cost management and we have closed down channels which have not worked. Two examples being Zee Next and Zee Gujarati. Across the group I am saying. What I see here is that Zee Tamil is being converted from essentially regional GEC position to news position. What we could have done also is that to make it hardcore Tamil GEC you have not done that, you have made into Tamil News. Is it fair to assume that we are kind of vacating that segment as of now; is it too difficult to compete with the current number one player there? Is it fair to assume that or we will launch when the ad revenue market revive? Because why have not we converted that channel into pure Tamil GEC?
- Subhash Chandra** Well, basically the GEC Tamil channel is not finding real distribution. We have lot of difficulties as everyone knows and that market is very different. We can discuss some of the things offline. I do not want to criticize anybody for that matter. But certainly, its not exactly true that we are converting the GEC channel into a news channel. The Tamil channel as it exists has got news content as well as entertainment content. To bring

down the cost and to understand that market really well we had to really go slow in our programming expenditure as you earlier likely said that we are judicious with spending our money. And I think what our competition did was that when we were succeeding in the Tamil language in general entertainment they took away our business head by giving him ten times a salary. So we again are learning these things. So we will have learning at a lower cost. That is what I am saying that we would continue that channel predominantly with news content and slowly and gradually probably we will increase the entertainment content on the same channel.

**Participant** My second question is on the Bengal market. In India normally new entrants do not make a mark. We have seen just two examples. One was Colors and second was Star Jalsa. My question is why Star Jalsa has become No. 1 and has maintained for the last few months. Is it because of carriage fees pumping? Is it because of reality shows which is being seen in Hindi GEC's? And you said there has been some uptick in the last few weeks. Is that sustainable? Do we really think we can become No. 1 because Star is very serious about regional GEC's?

**Subhash Chandra** They came as while our Zee Bangla team was napping. Taking a nap after a long journey of being No. 1 and they got tired and I think they were napping when Star Jalsa came and took them over. But we have woken them up back again. I am sure they will become No. 1.

**Participant** Okay, sir, thanks.

**Participant** I have a question for Barun. Why are you feeling difficult to focus on the news business if you had kept the GEC business intact which you are not answering, actually go to the cash cow what is the best deal? What is that appeal to you the most for agreeing to this deal?

**Barun Das** It is not about our feeling comfortable. It is about what is a better business sense? How would you deliver more value to the shareholders and do justice to the business? It is not about comfort. If you obviously have diverse attention your attention gets diverted.

**Participant** You shared some numbers of regional news business, of it s 10% is TV could you share numbers for the GEC regional as in non-Hindi GEC market for the industry, what would that number be? Do we have such numbers?

- Barun Das** It is between 2,200 to 2500.at this point in time
- Participant** As compared to around 1400 for news, right?
- Barun Das** National news is 1550 Crores or 1600 Crores.
- Participant** All right. Thanks.
- Subhash Chandra** If you have no more questions thank you very much. I will sum up the Zee News business prospect side. That to my mind number one the regulatory compliances which are becoming little more stricter by the day and as indicated by the current I&B Minister, the organized players will have much better chance and much more room to expand the business of the news. Why I say that because the local operators some places are showing news, they are running a local news channel, many people have started satellite news channels in Hindi and other regional languages. I do not know whether anyone will get closed down, but certainly the regulatory compliances will make them to part with quality news and which will either increase their losses or they will be out of the business. The news as a programming is a very easy programming content to distribute it multiple languages, multiple channels into different languages. The same news can be dispensed within different language on different regional news channels. At the same time the technology is now enabling us to press of the button the same news can be distributed through different mediums whether it is television as a medium, print as a medium, internet as a medium or radio as a medium. So it can be same news gathering, operators can be used for all four kind of dispensation or mediums on the news side. And as Barun said that we will not let this company to remain two digit EBITDA (in Crores) company, we will grow it and whatever regional GEC's will take away in terms of EBITDA, The challenge before Barun to make it up in four years to five years' time. Thank you very much.
- Barun Das** That is the most generous timeline I have got from him.
- Subhash Chandra** Thank you.