



Q1 FY12 Results Conference Call

August 11, 2011

Moderator

Ladies and gentlemen good day and welcome to Network18 FY12 Results Conference Call. Joining us on the call today from Network 18 are Mr. Raghav Bahl, Group Managing Director, Mr. Haresh Chawla, Group CEO, Mr. RDS Bawa, Group CFO, Mr. Sai Kumar, Group COO and Mr. Sarbvir Singh, Head Investments. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Raghav Bahl. Thank you and over to you sir.

Raghav Bahl

Thank you very much and good evening ladies and gentlemen, welcome to our call. It has been a steady performance through this quarter; I guess that would be the best way to describe how Networks 18 has done. This is also the 1st quarter in which we are publishing the restructured group results. We have been focused on getting the restructuring done and assets have moved around quite a bit between the two results of the balance sheet. Strictly speaking the results may not be comparable to the previous years except for the fact that there are some **pro forma** comparisons which can be made. And which we have done to the best possible extent in the investors update that we have sent out, after the results, which you must have received. So what I will do is - give you a quick snapshot of the businesses as they exist today. And then we can go straight into your Q&As.

We will start with our TV broadcast businesses which are all housed in the new entity, TV 18 Broadcast Limited. The numbers actually tell their own story very graphically. The business channels have continued to be the dominant players in the market and have been successful in profitability that they have produced for the quarter. They have maintained their market dominance, and strong operating margins and they have maintained a reasonable amount of revenue growth given the fact that market has been so turbulent in the last few weeks.

The general news channels have also put in quite a strong performance. They were until last year making losses in this particular quarter, since this quarter is the weakest quarter for television operations. But in the current quarter they have actually broken even and have posted a fairly smart revenue growth compared to earlier times, so general news operations are something we are quite confident about going forward. In entertainment the most heartening factors has been the very strong comeback in a sense by Colors to this quarter being the number one operator in the core prime time from 7:30 PM in the evening to midnight. It has been consistently been the number one performer and has now got a very high share of the top-performing shows. To sum up, it has been a remarkably strong performance by Colors. and while it continues to be about 40 to 50 GRPs behind

Star Plus, there are several factors for that, one, of course, the fact that Star Plus does many more hours of original programming as compared to Colors. If you do an apples to apples comparison, Colors has done very well in the quarters gone by and it is consistently getting stronger. However having said that just as everyone in the industry has seen a softening of the advertising growth rate, because of the fact that this quarter had IPL, I think Colors has had its share of softening, nothing remarkable, but it has seen some softening of its advertising growth rate and we will have the details in the Q&A, I am sure. The other entertainment channels have also performed absolutely in line and have been market leaders. So all 3 lines of our television broadcast business have actually done extremely well in the quarter that has gone by and that is reflected in the numbers, where we have seen that the operating profits have gone up smartly as well as the revenues.

Turning now to the digital and the e-commerce businesses which are now entirely grouped under Network 18. One very remarkable trend here is in e-commerce. We have certainly seen an extremely strong growth in e-commerce. And this is again something that we have seen in the rest of the industry. And Network 18 which is perhaps the largest e-commerce player in India has been at the forefront of that very strong growth that we have witnessed in our e-commerce operations. Of course since our businesses are not out there in the VC world because they are funded by the shareholders, we do not get the kind of exciting media buzz, let us say a flipkart.com or a snapdeal.com or some of these other names in the emerging e-commerce business get; but the fact that the two Network 18 e-commerce properties, Home Shop 18 as well as bookmyshow.com, are both market leaders in their space says a lot about them. And as I just said that because the shareholders of this business are funding it, we do not get the same kind of the excitement and buzz around it, but the fact is that our e-commerce businesses are doing extremely well and that we are now attracting very strong private equity interest in those businesses on their own. Private equity players who watch this space are coming and talking to us, so that is giving some sense of the fact that both these businesses are creating a very strong value line for Network 18. And these are also part of the businesses in which we are investing. If you look at the Network 18 results then we have a negative EBITDA of about 14 crores at a consolidated level. And if you look at Home Shop 18 results, you will realize that almost the entire negative EBITDA of the group is just going towards funding our operations in Home Shop and that is a conscious call because we believe that - that business can become a multiple value business from where it is today. So really the two businesses that are taking up the capital from the group, one is Home Shop 18 and the other is the very recently launched Ask me operations launched in Mumbai just about a month back. So these two businesses are the ones which are in investment mode and are primarily responsible for the losses at the consolidated level that you are seeing in Network

18, but these are losses we are very happy to make because they are creating immense amount of value and I think the shareholders of Network 18 will see that value getting visible when these businesses are right for value unlocking. And in the digital content business which is really the last significant revenue line that we have, we continue to see remarkable growth in audiences, we continue to see very strong numbers month on month coming to our website like money control.com or in.com or ibnlive.com or Tech2 or Cricketnext or our Hindi websites like moneycontrol.com in Hindi, in.com, josh18 in Hindi or IBNkhabar.com in Hindi. We are not seeing concurrent or concomitant growth in revenue and that has been the story for digital Internet media for the last few years. We are patiently waiting for this trend to change and we are sure it will, it has all over the world. And once audiences have come in we are sure that our revenues will follow now very soon and this is the first time we have seen a reasonably strong up take in revenue although on a small base in the digital content businesses as well. I would like to mention one the milestone that we recently crossed; we did become the largest digital media company in India as per the last Comscore ratings. We are ahead of India Times and Rediff which are the two principal competitors that we have. So audiences are coming to our website and we believe strong revenues will come sooner than later. This I think would sum up the operations of the group in the quarter Q1. It has been a very steady performance across all relevant revenue and operation lines. Haresh do you you want to add something to that ?

Haresh Chawla

No, I think that summarizes it very well.

Raghav Bahl

Fine we can go to Q&A and perhaps we can do the Q&A first for TV 18 Broadcast which is now all television broadcast business and then we can do digital and e-commerce after that.

Moderator

Thank you very much sir. We will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss, please go ahead.

Abneesh Roy

My first question is on the advertising scenario, Q1 has been challenging for all companies, and you have done still pretty good numbers. My question is do you see signals of a slowdown in the first half and what are the signals you are getting for the second half?

Raghav Bahl

I think Haresh is the big best person to take that on, certainly from Colors and Entertainment and then maybe Sai can come in give some perspective on the news side.

Haresh Chawla

I think the sense is that in H1 there are two issues one is the general slowdown plus the fact that a lot of money got sucked up between all the cricket that happened. So our sense is that a lot of money has been held back because this slowdown was

expected. With the festive season coming up, clearly people will get tired of waiting it out and the brands will be back in the market again. So I do not think there is any fundamental shift that is happening. We expect H2 to be good, hopefully; though I know it is just a conjecture at this stage. And hopefully they will all come back as the festive season opens up.

Raghav Bahl

Sai you want to add on the news front.

Sai Kumar

Yeah, as Haresh was saying there is clear softening, but the good news is that we do not see any signs of change in the festive period. So I think the million dollar question is when we come back after the festive period for say November 1st week, November mid, and that is when we need to wait and watch if the advertising comes back to the predicted levels or they get back to the pre-festival levels. But the festive season seems intact for now.

Abneesh Roy

But this time festive season is a bit earlier.

Sai Kumar

Yes, it is early by nearly about 20 to 22 days. So we could see an upswing starting as early as August end and we see the stretch going up to all the way to October end, November 1st week. And as typically happens there will be a lull for 15 days period after that. Now the pickup after that is what I think Haresh was saying, currently there is a question mark. But we have 3 to 4 months to gauge how it goes.

Abneesh Roy

But coming back to Haresh, with the FMCG players in particular there was a huge margin pressure in Q1 and to an extent in Q2. Any sense you are getting with discussions with FMCG that things are coming back on track for the second half?

Haresh Chawla

Nothing specific, I think there is a little bit of hope in that because in the festive season they will not be able to hold back, Competition will drive everybody now given that they were silent for a longish period now. I think all that money has been held back and we will see it getting released during the festive season.

Abneesh Roy

My second question is to Sai, we have seen market share in the business channels being a bit volatile, while we have controlled costs quite well, the revenues obviously are under pressure because of the overall environment in capital markets. So wanted to get a sense in terms of market share - where do we see our focus being, are we okay with the current market share in the English business segment specially?

Sai Kumar

I assume you are talking about the English business market. The way we look at the market share is on a steady basis, market share will fluctuate in shorter periods - considering the size of the sample. Looking at the **size** of the English business segment, weekly single market vagaries continue and that is a trend that we have seen over the last many years. And therefore we like to evaluate ourselves on a 4 to

6 weeks basis. And I do not see that changing at all. I see a stable state market share of anywhere between 45% to 55% to be fully sustainable.

Abneesh Roy Could you be more specific in terms of cost either in terms of marketing or in terms of content, are you planning any aggression or you are happy with the current state of things?

Sai Kumar At the current cost levels, the current investment levels are estimated to maintain a viewership on the market share of about 50%, which means that we are comfortably **at least twice the** number two player as long as we maintain the current cost levels are. So I do not see an increase unless something dramatic happens in the next month or two.

Abneesh Roy My next question is on Colors, we have again come back strongly. Raghav said in his opening remarks that our number of content and our programming hours are low, lower compared to the leader. What is the sense, do you want to close the gap or would they like to phase it when the ad scenario gets better?

Haresh Chawla Abneesh, we will increase it marginally but we are not thinking of going to the same level as some of our competitors. Because we do not see an ROI on that,, on such a large scale of original content. So we will grow marginally . There are some of new shows that are coming up over the next couple of months and plus we have Big Boss coming up. So nothing really planned except for a couple of new shows and Big Boss that is coming up in the next quarter or next 4-5 months, we will review this after that.

Abneesh Roy How do you see No. 4 player now becoming stronger, Sony in terms of rating and now with KBC shortly starting and what we are hearing is around the 1000 crore funding which they are going to get with the promoters?

Haresh Chawla On the funding point it is secondary, of course you are seeing the battles between the positions for number three going on.

Abneesh Roy Does it impact us?

Haresh Chawla Not really. I think if you look at core primetime, we have been leaders over the last few months or very close even if we take a longer period of time. So in core primetime we are solid. We run a reduced number of hours per day compared to our competitors. So that is where the gap is. So therefore if you take out the ROI on the shows or the number of hours we put out we are pretty much the leaders and that continues to grow stronger as we have Big Boss and other shows coming up as well. So we are watching very carefully but currently not such a big threat.

- Abneesh Roy** And one last one is on subscription, what is the growth expected there especially in light of **Star ZEE JV** and how is our own JV tie progressing, so some color on that?
- Haresh Chawla** I think the tie up is progressing well, as we told you the venture started in August-September last year and that is when the contract kicked in. So therefore we really see the incremental growth of the second year of this contract coming up in the September-October-November kind of time frame. And we will see growth kicking in a much more orderly fashion after that.
- Abneesh Roy** And Star ZEE JV any impact?
- Haresh Chawla** On the ground, currently nothing much has really happened. We are just waiting and watching to see how the developments there go. Digitization continues to be a strong agenda for everybody. But no specific impact so far.
- Abneesh Roy** I will come back if there is more. Thanks for the opportunity.
- Moderator** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities, please go ahead.
- Vikas Mantri** There was a number of 8.5 crores of films business in your press release. So is this 50% or it is the 100% numbers, film production and distribution?
- Sai Kumar** Yes, it is 50%.
- Vikas Mantri** Is it fair to remove 17 crores from Viacom 18 numbers to get the actual revenues there?
- Sai Kumar** Yes, to get the non-film revenues, you are right.
- Vikas Mantri** Which means quite a significant round of 5% sequentially decline and only 9% growth in business over all YOY?
- Raghav Bahl** Would be fair, as I said we have seen a tough quarter for ad sales.
- Vikas Mantri** In terms of our gross debt that we have how is the reorganization taking place after the restructuring given that around 300 crores have gone up at the Network 18 level and at TV 18 broadcast another 300 crores, how was this assumption be?
- Raghav Bahl** Have you seen the numbers that we have given, the debt and the net debt numbers?
- Vikas Mantri** I am looking at the gross debt levels only as of now, so from 1773 in Network 18 they have gone up to 2091, which is 320 crores and at the TV 18 broadcast level they have gone up by 300 crores?

- Sarbvir Singh** I can explain that. At the Network 18 level, 2 changes have happened. There was about 200 crores of debt which was not being consolidated in the old structure in Network 18. And this has been disclosed in our annual report each year. So that has come onto the books. And the second thing is the **SOFCD's** that was given to the promoters that came on to our books. So actually the increase was higher but we repaid some debt etc. so the net increase was the number that you just mentioned in Network 18. As far as TV 18 is concerned the comparable is not that straightforward because some part of the old business news operations carried some debt with them. So if you were to include that part then the increase is very small and it is largely due to working capital. So it is not really a growth, there it is just an impact of the restructuring being reflected in the numbers.
- Vikas Mantri** What would be our gross debt level at the Viacom 18 levels?
- Haresh Chawla** Gross debt at Viacom 18 is about 500 crores?
- Raghav Bahl** Our share it is 50, the Viacom 18 number is 500.
- Vikas Mantri** Going on to Haresh in terms of Colors performance there have been concerns over the ad environment and while most of us are hopeful naturally we do not know, the point here is are we looking at aggressively investing in content and putting in the high ticket programs irrespective of the ad environment given that it will make more sense to capture market share right now?
- Haresh Chawla** No, I answered this earlier. We are only calibrating and increasing the amount of number of hours in a calibrated fashion. So what you are saying is accurate. I think we will see how the market goes. But some of our marquee-properties will play out and they are coming bang in the middle of the festive season, and we're hopeful and we should get a decent off take in the festive season.
- Vikas Mantri** Is it fair to say that the market has now relatively become a four player market given Sony's decent performance or a Sony-SAB TV combo recently good performance? And is it leading to...
- Haresh Chawla** The battle for number three is going on now. Think that is visible, yes, you can say that. It is bouncing between three and four players. That said lets see how this plays about over the next few weeks we will know.
- Vikas Mantri** I think I am through. Thanks a lot.
- Moderator** Thank you. The next question is from the line of Hiren Dasen from Goldman Sachs, please go ahead.

- Hiren Dasen** I just had one question of your Rs. 266 crore of television business revenue, what could be the subscription revenue out of that?
- Sarbvir Singh** Our subscription revenues will be of the order of 12% of our total revenues.
- Hiren Dasen** That would include your 50% share in Viacom?
- Sarbvir Singh** That is correct, that would include our 50% share.
- Hiren Dasen** And would it be possible to bifurcate that 26-27 crores between news and entertainment?
- Sarbvir Singh** It actually at this point is almost half and half.
- Hiren Dasen** In terms of DTH versus Cable?
- Sarbvir Singh** I'm afraid we do not go into that level of detail. But I think it would be fair to say that if you see the results of some of our peers who do give that breakdown, we would be in line with that - in the same ball park at least.
- Hiren Dasen** In that spirit you also should start disclosing that.
- Sarbvir Singh** As we get bigger in our subscription revenues, I think we will disclose.
- Raghav Bahl** As it becomes a significant line for us, we certainly will. I dont think we are staying away from disclosure. Even though we are not required to give you the full results of Viacom 18 separately we continue to do that.
- Hiren Dasen** Thank you.
- Moderator** Thank you. The next question is from the line of Grishma Shah from Envision Capitals, please go ahead.
- Grishma Shah** I just wanted to know there is a 34 crores other income from this quarter. What is that for?
- Raghav Bahl** Sarabvir, I think you have the details, right?
- Sarbvir Singh** You are talking about TV 18 broadcast or Network 18? TV 18, right. That is essentially IBN 18 which was the predecessor company to TV 18 Broadcast, had a share in Web 18 which it sold as part of the scheme of arrangements to Network 18. So that resulted in a gain which is for large part responsible for that number. And just to be clear that gain is not reflected in our consolidated results, our Network 18 results, because it gets eliminated in the consolidation.

- Grishma Shah** Then it is one-time?
- Sarbvir Singh** That is right.
- Haresh Chawla** Yes it is entirely one-time.
- Grishma Shah** Barring this we have not done any substantial increase, EBITDA is 24 crores and interest is 28 crores more, we are not in the black there?
- Raghav Bahl** You are right - this quarter we are not in the black. But this is easily the worst quarter, we do expect to end the year firmly in the black, but you are right - this quarter we are not.
- Grishma Shah** And what kind of de-growth or growth have you seen or ad revenue any percentages that you would like to throw up?
- Haresh Chawla** Overall in the entertainment marginally down and in general news they have been up and in business news a bit down. So I think the trend is there and when the company goes into red, it really goes into the red because of the investments that are happening in the e-commerce front. The TV businesses have been positive and as a network we continue to believe that the digital assets are valuable investments for the future of the group. And that is why you will find that our investments will continue there.
- Grishma Shah** I am confused now. I am asking about the ad revenues, Mr. Raghav just said softening...
- Haresh Chawla** You talked about us going from black to red.
- Grishma Shah** And after that the next question on the ad revenues front?
- Haresh Chawla** On which segment would you like to know the ad revenues?
- Grishma Shah** The TV 18 broadcast?
- Raghav Bahl** I think separately for the entertainment, general news and the business news.
- Haresh Chawla** I think entertainment has been very soft in the last quarter because of the reasons I outlined earlier – cricket and hold back. General news has been positive as you can see and business news again has been flat to a little positive.
- Grishma Shah** Okay, fine thank you.
- Moderator** Thank you. The next question is from the line of Amit Kumar from Kotak Securities, please go ahead.

- Amit Kumar** Just two small points. One is that in the entertainment business taking out this film production numbers we are looking at just about a 9-10% YOY growth, could you please break it out between advertising and subscription for me, how much would be the advertising growth on a YOY basis and how much would be the subscription?
- Raghav Bahl** I think you can assume that it would be 4 to 5% of that 9% that come from advertising, the rest would be subscription. That is the kind of the growth that we are seeing. We have not given specific numbers; I can give you the range.
- Amit Kumar** So the advertising growth is just about 4 to 5% ?**Raghav Bahl** It is just about that.
- Amit Kumar** My second point was, the question has really been asked I am not really sure whether I have understood this point correctly. At the end of March 11 you had a net debt of just about 657 crores in TV 18 entity, the earlier TV 18. I just wanted to understand how has this debt been divided between Network 18 and the new TV 18 essentially?
- Sarbvir Singh** Yes, so the debt was divided if you were to just look at it on a broad basis, about 230 crores went to TV 18 broadcast, or what was then IBN 18. And the remaining part went into Network 18.
- Amit Kumar** This is the point we just slightly wanted to touch upon. Essentially the news broadcasting business came to the new TV 18 and the rest of the businesses went to Network 18. Correct me if I am wrong, but my understanding is that the news broadcasting business has almost always been largely been profitable. Why this amount, why should that particular business have so much of debt or is that more of a- sort of corporate decision- dividing the debt this particular way?
- Raghav Bahl** It is really a valuation sort of decision. When the valuation was done there is a certain methodology by which the debt has to be divided in terms of assets and there are various other tests. And whatever the valuers came up, in this case - Grand Thornton whatever was their verdict was essentially carried out once the restructuring was completed.
- Amit Kumar** Okay fine. Thank you so much.
- Moderator** Thank you. The next question is from the line of Abneesh Roy from Edelweiss, please go ahead.
- Abneesh Roy** Just one follow up question in terms of News how do you see the margins panning out at the costs now under control after so many years?
- Raghav Bahl** General News you mean?

- Abneesh Roy** Yeah, General News.
- Sai Kumar** Yes, I think you can assume that the cost is well under control. The only spike that you would see now is on the wage bill and that constitutes about 25% to 30% of our cost. But if you keep that aside then on every other front whether in placement or marketing - both brand and trade marketing, I think, cost would be more or less at the same levels.
- Abneesh Roy** And coming to Viacom 18 our marketing and distribution costs are down quarter-on-quarter, so is that because of the event related whatever we do, is that the main reason?
- Raghav Bahl** Yeah, that is event related and plus it was a soft quarter - so it depends on events and reality shows and stuff like that. When you do larger shows, then you have to do a bit more marketing.
- Abneesh Roy** Okay, thanks.
- Moderator** Thank you. The next question is from the line of Ritvik Rai from Kotak Securities, please go ahead?
- Ritvik Rai** Just want to understand about the subscription revenues and how we should expect them to move up going forward? So in terms of as of now we are looking at 12%, how much could one expect it to go up in the second half that is one and two. How has it been progressing vis-a-vis our expectations, let's say if you were to expect something one year back, how has it been panning out in terms of your expectations and how are things working on the grounds?
- Raghav Bahl** Maybe the percentage Sarbvir you would have handy, Haresh can answer the rest of stuff on how it is rolling out on the ground. **Sarbvir Singh** Yeah, I think it would be easier talk in terms of full year, Raghav and we expect that for the full year we would be in the range of 14% to 15% in terms of our numbers and that obviously accounts for the fair amount of growth in our ad revenues as well. So on a full-year basis that's where we are headed, I think.
- Ritvik Rai** Okay and sir, just wanted to understand in terms of what would be the key challenges going forward if one were to look at your revenues versus let's say Zee Entertainment? Do you see challenges in analogue or DTH in terms of platforms or in international? Where do you expect revenues to pick up preferably faster and where do you think it will take some time?
- Haresh Chawla** I think international is one place where really our competitors including Zee have been there for many years now and we have just entered those markets about a year, year and a half—really, or 6 to 12 months back depending on the market you

are talking about. I think we see a significant opportunity in those markets and that work has started. We are in about 40 countries so far and some of those players are already in well above 100 countries, so that roll out is still going on. As far as India goes out, our key focus is to grow our analog and digital revenues. The others have lots of legacy primarily because the networks have been around for many years as we even discussed earlier, we believe that there is a legacy gap of about 10 years between us and our competitors and that gap of 10 years we are trying to cover over the next three years. That is the trajectory we are working on and we seem to be making good progress on that.

Rithvik Rai Sir, just one more thing regarding the international revenues. Would you be able to give us some idea of, what would be the share of Zee Entertainment of the total international revenues that is revenues that are contributed by the Indian diaspora to subscription channels that are based in India?

Raghav Bahl You want us to give you details on Zee numbers?

Rithvik Rai Yeah, I'm just trying to understand how the market is restructured like Zee or Star or whichever player. Is there a kind of disproportionate allocation between these players?

Haresh Chawla It depends on how long we have been in the market and how many channels we have. I think it is very clear because all of us are pretty much asking the same size of the market. Of course, as I said, our network is not in as many countries as those 2-3 players operating but otherwise pretty much it is a largely subscription and advertising driven market. The advertising also is pretty strong revenue line. More details of course, Zee will be able to give you.

Rithvik Rai All right sir. Thank you very much.

Moderator Thank you. The next question is from the line of Janaki R. from Franklin Templeton, please go ahead.

Janaki R Hi, few questions on the subscription revenue again. Are we seeing sequential quarter-on-quarter improvement in subscription revenues or next improvement is going to be in the form of a step function like let us say in second half?

Raghav Bahl It will be in the form of a bit of a step function. Some contracts are normalized, some are step, it will be a mix of that but more growth will come from the September quarter onwards.

Janaki R In terms of signing contracts with the DTH operators and the cable side how well have you progressed?

- Sai Kumar** I think that pretty much it is all done, I mean largely completed but everything is largely done. We are seeing our channel on airs. **Janaki R.** So, you have signed up contacts with all the cable operators as well?
- Sai Kumar** Yes, over 90% would be done.
- Janaki R** Okay so now that you have signed the contracts also. Are the contracts structured so that from second-year, your subscription revenue will be significantly better than first year?
- Raghav Bahl** Yes, as I said we will work on a path to cutting down the legacy gap over the next three years. So one year of the contract is done, second year is showing us significant increase and so will the third-year.
- Janaki R** In terms of debt or in terms of interest payment, there seems to be a big jump in interest cost at VIACOM 18 so why has VIACOM 18 assumed that level of debt?
- Haresh Chawla** We are working on a few channel launches. We have a Hindi movie channel that is getting ready for launch and we have two or more niche channels that are likely to come towards the end of this year or early next year. So a lot of work is on getting programming and libraries accumulated for those channels are under way for which money is been utilized.
- Janaki R** Did VIACOM 18 basically borrow to pay for acquisition of that film company?
- Raghav Bahl** No, that was shareholders funded.
- Janaki R** Okay so net of that then still VIACOM 18 had to borrow something like 400+ crore in order to fund this acquisition of the content, is that what you are saying?
- Haresh Chawla** Yeah, I think there is an acquisition of content, there is a scale up of the movie business as well and clearly as the base of network grows, the working capital needs are also growing.
- Raghav Bahl** Yeah, out of about 500 or 480 odd crores of total debt at VIACOM 18 -300 crores is really working capital and 200 crore is term loan.
- Janaki R** Okay, what would be the net debt position at standalone TV18 broadcast now?
- Sarbvir Singh** Janaki, we have to get back to you on that. I don't have that number right on top of my head. You are asking about standalone TV18?
- Raghav Bahl** Standalone TV 18, Viacom 18 not included.

- Sarbvir Singh** I prefer to answer accurately later. *Company Clarification: [TV18 Net Debt (Including IBN Lokmat) is 469 Cr]*
- Janaki R** Okay thank you gentlemen.
- Moderator** Thank you. Next question is from the line of Nikhil Vohra from IDFC, please go ahead.
- Nikhil Vohra** Hi, just one question, across the group companies right now Network18 or TV18 including Viacom 18 as a sub vehicle, each of the ventures right now has a interest cost which is literally higher than the EBITDA that we are making today and given the leverage that we are already on today, is it fair to presume that we are in for the another round of dilution?
- Raghav Bahl** No Nikhil. As we have consistently said we have got plenty of assets to monetize so I think what you will see now is monetization of assets more than dilution of equity at the listed companies. We have got plenty of assets to monetize. There is the whole Yatra stake. There is still substantial portion of the Den stake. We are getting a lot of interest for our two e-commerce properties, Home Shop 18 as well as BookMyShow. And there may some assets at the Capital 18 investing company level which are now ready to be sold. So you will see monetization of a considerable degree in these assets.
- Nikhil Vohra** So what should one really look out for in the next 12 months from here in terms of monetization capabilities? What amount of liquidation should one really look out for? This is clearly an issue for investors and us to really look at?
- Raghav Bahl** It's an issue for us as well. I don't think we are happy carrying this amount of interest burden or debt. So very clearly it is an issue for us as well and we clearly understand it is an issue for the investing community. These assets are unlisted - most of them, Yatra is also unlisted, Den is the only listed asset but since you asked for a range and with all the caveating on the fact that these are bests guess estimates and depend on our ability to sell these assets over the next few months, the number could be in the region of, I would say, 300 to 500 crores.
- Nikhil Vohra** Okay, thanks.
- Moderator** Thank you. The next question is from the line of Raviprachir Ghosh from Wealth Management, please go ahead.
- Raviprachir Ghosh** Sir, can you share some light on why the production expenses have gone up so significantly and is this something that is going to happen going forward also or you can lower this going forward?

- Raghav Bahl** Production expenses at Viacom 18?
- Raviprachir Ghosh** Yes.
- Raghav Bahl** 165 crores now.
- Haresh Chawla** Yeah, we had the Fear Factor season kick in here. Plus you would have had the production expenses for the movie business as well.
- Raviprachir Ghosh** Is that not going to be capitalized and it is expensed out now, the movie business?
- Harsh Chawla** We are seeing a 30 crore gap. Frankly this is largely the Fear Factor, **it is a phasing issue** as well and some other movie expenses, the production expenses.
- Raviprachir Ghosh** Going forward can we expect around 165 crores going to be improved upon or what is the trajectory for the production expenses?
- Haresh Chawla** I think we find Q2 to be a bit more in line with our regular expenses and then Q3 will again rise because we have the Big Boss show coming up. You will find that even revenue and expenses will move pretty much in tandem. **Raviprachir Ghosh** Okay, is there any cost control possible in terms of production distribution expenses because now you have a higher interest cost also so I just wanted to know when can the....
- Haresh Chawla** Our focus frankly is on getting higher ratings for our shows that drives much higher revenue, actually all the leverage lies on the revenue side more than the cost side.
- Raviprachir Ghosh** Has there been any growth in terms of subscription revenues? What kind of growth have you already seen? Can you share something like quarter-on-quarter basis subscription revenue growth?
- Haresh Chawla** As we said we are talking about it on a group level between about 12% approximately of our revenues come from subscription. So, that we expect to move up over the after the September quarter because that is when the second year of our contracts kick in. We find that moving up closer to 14 to 15% for the next few quarters after September.
- Moderator** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities, please go ahead?
- Vikas Mantri** I'm coming back to the movie's question. We have an EBIT loss of around 4 crores as reported in the TV 18 number. Could I know the EBITDA level loss here so that I get a fair number for Viacom 18 per se?
- Sai Kumar** Yeah that is 4 crores and is essentially our share of loss.

- Vikas Mantri** EBITDA loss, not necessarily EBIT loss?
- Sai Kumar** It is similar to EBITDA - I would say.
- Vikas Mantri** Okay. Just to check with Haresh. Haresh, I think correct me if I am wrong, our movies did fairly well "*Pyar ka Panchnaama*" and "*Shaitan*", still we are incurring a loss here. So what should I expect if your movies don't do well?
- Haresh Chawla** We actually had to re-launch that business, so really a lot of expenses that we are talking about are not because of movies project that have done well. We had to have certain expenses and certain setup cost that had to be paid for that business and that is what it is reflecting. On a project basis we had very good performance from these movies.
- Vikas Mantri** Okay on the inventory for the movies. What kind of inventory are we sitting on prior to the launch of our movies channel for which we have to raise a debt? I guess the increase in debt has been in this quarter close to 200 crores at Viacom 18 level. So would it be fair to judge that inventory of movies has also increased by that much amount?
- Haresh Chawla** Yeah, inventory of movies should be up by roughly that amount. I can't give you exact numbers, how much inventory of movies we have for the channel and subs. But you are correct that a large almost significant portion of the amount increasing has gone for movies.
- Vikas Mantri** Haresh, we already after the acquisition of Indian film Company sitting on a large inventory worth a 300 crores valuation or so, whatever level Indian Film Company is valued. Over and above that buying another 200 crores isn't it an expensive deal in this kind of an environment?
- Haresh Chawla** It depends upon the number of movies. For a movie channel you need a certain number of films to run a movie service, and I am talking about movies now, not just Hindi movie channels. Some of the inventory buildup is also gone into our film projects which are on the floor, for the film business. So that is where it splits.
- Vikas Mantri** Haresh, we are already one and a half months into the new quarter and so could you give a sense of the advertising scenario, while yes, festive season we can be hopeful but how has it progressed in this one and a half months per se?
- Haresh Chawla** It is looking a bit soft, I am saying that this quarter is looking a bit soft - but we are maintaining our fill level yet clearly there is pressure. And everybody is just waiting for the whole religious period where people do not buy too much to end and stuff like that.

- Vikas Mantri** Thanks for that and I am waiting eagerly for the Big Boss season.
- Haresh Chawla** Hopefully it will be bigger and better this year.
- Moderator** Thank you. The next question is again a follow-up from the line of **Janaki R** from Franklin Templeton, please go ahead.
- Janaki R** Haresh, in your earlier answer you mentioned that Viacom 18 besides having one film Channel launch on the cards, it is going to launch a couple of niche channels as well. What and when ?
- Haresh Chawla** They are niche channels so they might be in multiple languages, but cannot give you more details on that please at this moment. I think we will make a formal announcement in the next couple of months or so.
- Janaki R** Then from a broader perspective whenever I meet you or some of the people directly involved with Viacom 18, you have expressed an aspiration to get into regional languages as well and in fact a couple of months ago there was a rumor that we are in the running for acquiring some regional channels from ETV turned out to be a false news, but before monetizing whatever success you have achieved in the Hindi space, would you prefer to venture out into regional markets?
- Haresh Chawla** I do not think there is a link because those are now also growth markets and markets there, are currently gaps in our portfolio, so I think over the next 12 months we will definitely look at them. And you will find that these are investments that probably will also strengthen our overall portfolio in a meaningful manner. So clearly we are already monetizing our Hindi assets, the niche channels I am talking about are going to strengthen our portfolio. And regional as well will all bolster our portfolio of services and that will help us get more advertising as well as more subscription in the market.
- Raghav Bahl** I think just to add, it has been mentioned we will have to look for, as a market leader in broadcasting with clearly the maximum number of market leading channels. We will have to look at HD **properties** as well. So there will be a move in HD from us as well, whether you call them derivatives of the existing channels or you call them new channels, that is just terminology, but we will be investing in that space as well.
- Janaki R** Thank you.
- Moderator** Thank you. We have a follow-up question from Amit Kumar from Kotak Securities, please go ahead.
- Amit Kumar** Just a small question I think you mentioned in case of regional channels that it will help you garner incremental advertising and subscription. I just wanted to have a

small understanding of this, that having a large network of channels it certainly helps on the subscription side but does it also help that you have better traction with advertisers or media agencies as well?

Haresh Chawla

We are finding the regional markets are growing in advertising terms must faster than **national** markets. And the second thing is that you also have opportunities to cross leverage both your content and do simulcast and stuff like that, you have been seeing some of those things happen in the market over the last six months. So it does give you an advantage because you can **also play format shows** in different languages and can also simulcast some content as well.

Amit Kumar

But that is more on the cost side, from an advertising revenue side is there too much of a network effect out there?

Haresh Chawla

I would not say that if your channel is doing well it will get its revenue, the network effect is at best marginal.

Amit Kumar

Thanks.

Moderator

Thank you. As there are no further questions I would now like to hand the floor over to the management for closing comments.

Raghav Bahl

Thank you very much for being with us through this call today. I just want to leave you with two or three key thoughts for the coming quarters.

One of course is that for the television broadcasting business this was the weakest seasonal quarter. And in the weakest quarter we have seen an improvement in the operating profitability. We do expect that our continuing channels or the current channels will certainly be on the path to a better profitability in the following three quarters especially with an increase in the distribution revenues expected in the October-November-December quarter onwards. So we expect the profitability to improve at all the current channels. There will be investments we will be making in HD and a two or three other new channels including the History Channel, which will be launched soon. We expect that to take away from our operating profitability. But overall we expect to move on the core trajectory positively.

In the digital and the e-commerce businesses we are clearly seeing a very strong value accretion, in the e-commerce businesses and we hope that we will be able to make that visible to our shareholders with a couple of transactions that we would like and expect to do. And finally monetization of the assets it is very much on our agenda, that we have got assets that have to be monetized and those will clearly go back to pay down our debt. And we are working at monetizing those assets and we hope that over the next few months we will achieve reasonable amount of success in getting the number that we mentioned between 300 to 500 crores of cash from

monetizing these assets. We do expect to be able to hit that number. So thank you very much for the call today and we will meet you next quarter. Thank you.

Moderator

Thank you. On behalf of Network 18 that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: The transcript may have been edited at places to enhance readability while keeping the content intact.