



“Network18 Q3 FY11 Results Conference Call”

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NETWORK18.**

MR. HARESH CHAWLA – GROUP CEO, NETWORK18.

MR. RDS BAWA – GROUP CEO, NETWORK18

MR. SAI KUMAR, GROUP COO

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Moderator

Ladies and gentlemen good day and welcome to the Q3FY11 results conference call of Network18. As a reminder for the duration of this conference, all participant 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. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. From the Network18 Group, we have with us Mr. Raghav Bahl Group MD, Mr. Haresh Chawla, Group CEO, Mr. RDS Bawa, Group CFO, Mr. Sai Kumar, Group COO and Mr. Sarbvir Singh, Head Investments. I would now like to hand the conference over to Mr. Raghav Bahl. Thank you and over to you sir.

Raghav Bahl

Thank you and good evening ladies and gentlemen and welcome to our Q3 call. I must at the outright say that there is a sense of excitement through the group this evening because it has been a long journey of about four years, in which we have invested close to Rs. 2,500 crores to build out a diversified media group. The extent of diversification can be understood from the fact that when we started making these investments, our single channel then -CNBC TV18 is now down to less than 10% of group's revenues. It has been a long journey and it is good to be back in the black, at the conclusion of that phase of the group. And we hope that from here on, we will be entering a very strong profitable growth phase.

A couple of other milestones that I thought I would highlight at the beginning itself. I know it's a small number of Rs. 55 crores operating profit for our television businesses, but in our small little world, it's the highest absolute profitably that we have ever achieved in our television broadcast businesses. We have never hit a Rs. 55 crores number before. Of course, we do believe this is just the beginning and we have also hit a 17% operating profit margin on our television broadcast businesses, which again we believe is a very healthy number when juxtaposed with the fact that the group is just about now beginning to realize its potential in the subscription earnings domain. And as those revenues build up, they will flow directly to this operating margin and we hope that we will reach the industry leaders' operating margin performance of between 20% and 25% soon. You may like to note that we are so close to it, just on virtually a single revenue line. We are quite confident that we should be able to do very well on that benchmark as we start adding cable distribution revenues. In summary, on the television broadcast businesses this quarter has left us pleased with our operating margin performing well and at absolute levels the highest operating profit that we have posted on the television businesses ever. And to repeat that, it's just a beginning.

In terms of other operations in the group, it is also very heartening that every operating business is now in the black, except for two. These two operating businesses are currently in the investment mode. One of these two businesses hasn't been launched yet, so really these are preoperative expenses for AskMe

search - online and voice search business that we are writing off on a conservative basis. And the second is the Home Shopping business, where we continue to invest and that is a very conscious call from the management. The business has been growing well ahead of our expectations, and since we are by far the category leaders and pretty much the whole market, that is a business, that we should invest in. In summary, the two businesses that are currently in the investment mode in the group are businesses that we are extremely happy to invest in and excited about investing in because we see a lot of growth ahead of us. Other than that, every other operating business of the group is in the black. So that is again something that we are quite excited about.

One word on the digital media businesses within the group. While from the outside they look small and don't quite come across as exciting as the television broadcast businesses are because those are the ones which are generating all the cash flows, the fact is that in this very small world of digital businesses in India, amongst our portfolio, there could be India's future Amazon.com, could be India's future Fandango, could be India's future MarketWatch, could be India's future Yahoo and could be India's future CNN.com. These are the kinds of properties that are being incubated and are building out and many of them have already reached operating breakeven. We believe this space is poised for explosive growth in the next 12-24 months. We believe that all these young infant businesses that I have just spoken about, will go on to hopefully achieve the kind of scale that these kinds of businesses have achieved in mature internet markets across the world.

So, all in all, it's an extremely pleasing moment for us at Network18 and we are glad to share it with all of you. I will hand over to Haresh, who will add to my comments and give you, maybe a greater sense of the question that I guess is on everyone's mind, how is the Sun 18 distribution business panning out and the kind of near term revenue and profitability outlook that we have for the group. Just one more comment before I hand over to Haresh. We thought that instead of going the traditional, each company route that we usually follow, we might as well now switch to the new structure of the group that should come into legal operation very shortly. So we will begin with all the questions on the television broadcast businesses in part one of the call and then maybe address all questions on the digital businesses and if there are any balance sheet or P&L related questions on the three companies we could take those as well. If we can structure it in that manner that will probably be more in sync with the way we will now be handling it going forward. So Haresh, Over to you.

Haresh Chawla

Thank Raghav. Hi everybody. As Raghav said, we have had an excellent quarter in which all the work that we have put in on our businesses has started paying off. The TV business is showing an excellent uptick on the advertising front and on profitability. And all the non-TV businesses except the two that Raghav spoke about are also not burning cash now. As you are aware, Q3 is seasonally the best

quarter for both our entertainment and general news businesses. This seasonality will have to be factored in as you think about what will happen to our revenues and profitability going forward. We expect that Q3 will be the biggest quarter of the year. Q4 will lie somewhere in between the first two quarters of the year and Q3.

On the second point, coming to Sun 18, I think we are off to a strong start. As we said even last time, we are in negotiations with several of our distributors to close deals. And what we expect is that the current subscription revenue which is roughly in the range of 10-11% of our overall revenues could grow between 2.5x to 3x over the next three years. And we have quite a good visibility on that front as well as the fact if we really make it, as percentage of our overall revenue it should come into at about 25%, because overall we would also have grown by that time. So on Sun 18 that is the picture that we visualize on the subscription revenues front and most of that revenue, we expect to flow into the bottom line. I think now we are ready to take any questions you have.

Moderator

Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question, may press “*” and then “1” on their touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press “*” and then “1.” The first question is from Vikas Mantri from B&K Securities. Please go ahead sir.

Vikas Mantri

I would like to come to TV18 per se, in TV18, we have seen a decline in terms of Infomedia’s revenue, so primarily, is it on account of the one-time revenue that we had booked in Q2?

Haresh Chawla

I think in Infomedia; the revenues are linked to the release of the Yellow Pages. So, we see seasonality depending on which city closes when. Neither the cost nor the revenue show in the numbers there.

Vikas Mantri

Okay. And sir, we had plans of selling this publishing business, any development on that front that has happened?

Haresh Chawla

We have sold the BPO business of the group and that transaction has already happened. It is the printing press, not the publishing business that we want to sell. Yes, we are in discussions with almost four parties currently, so we hope to conclude that over the next 60-90 days.

Vikas Mantri

Okay and this is broadly an industry question. What is primarily the difference between the subscription revenue uptake market in India and abroad? If you could help me out with that understanding the television subscription model in India and abroad and how do we take to the 2.5 to 3 times that we are talking about?

- Haresh Chawla** I think I will give a brief overview in this call and you can probably contact one of us to give you more details later.
- Vikas Mantri** Sure sir.
- Haresh Chawla** Internationally, almost 40%-50% of the broadcaster's revenue comes from subscription. In India, broadcasters are in general operating within the range of 20%-30%. But as digitization happens, we expect that number to move closer to the global standards. In our specific case, we are more under-indexed on the distribution revenue because when we see our own bouquet, all our channels were not paid and then also our channels are young. Hence we are currently at 10% and we will head to what our peers are at, between 25-30%. That is just on the back of the correction we expect. And post that we expect also the benefit of digitization to kick-in, where again we will grow in line with our peers. If you want more details, we can give them separately.
- Vikas Mantri** Sure, sir, I will get back in case of any other questions. Thank you so much.
- Moderator** Thank you. The next question is from Rahul Sony from SKS Capital. Please go ahead.
- Rahul Sony** What is your outlook for FY11 and FY12 on the industry?
- Haresh Chawla** I think on the advertising front, we will continue to see a robust growth unless there is a slowdown or something else of that kind, we are finding that there are many new brands launching in the market and many new more categories that are being opened. So advertising on TV, will continue to show pretty strong growth. On the subscription front, I think we are seeing DTH players come out with increasingly attractive schemes, plus you will find also that the cable MSOs are also going to invest in digitization. So we will find that probably, we will end the year with another 10-12 odd million digital homes and that will augur well for all broadcasters.
- Rahul Sony** Okay. Thank you Sir.
- Moderator** Thank you. The next question is from Ritesh Doshi from First Global. Please go ahead.
- Ritesh Doshi** I wanted to know there is a huge jump in other income for the quarter, any particular reason for this?
- Raghav Bahl** This is at the Network18 level and as our Investor Update clearly outlines that almost Rs. 95 crores of that has come from the gains that we booked on the sale of TIFC (The Indian Film Company).

- Ritesh Doshi** Again, like you said in the beginning for the outlook for the 4th Quarter, it will lie between H1 and Q3. So considering there is a budget in the January, February, March, revenues will not show an uptake?
- Raghav Bahl** I think Haresh can take this question in detail. There is seasonality across all three businesses. Seasonally QIV is the strongest quarter for the business news channels. So they will certainly show an uptick in revenues. But for the general news and the general entertainment channels, seasonally, Q3, the one that has just gone by is the strongest. Haresh and Sai, do you wish to add to that?
- Haresh Chawla** Yeah I think business news which is only about 12-14% of our revenues will see an uptake. But the other channels, while they will see a year-on-year growth, sequentially you may see a lower number because of seasonality. Overall since they are much larger as a percentage of our total business, we will be impacted.
- Ritesh Doshi** Okay. Thank you.
- Moderator** Thank you. The next question is from Ritwik Rai from Kotak Securities. Please go ahead.
- Ritwik Rai** A couple of things, in terms of subscription revenues could you provide us some breakup in terms of how much is coming from cable and how much is coming from DTH?
- Haresh Chawla** I think we will not be able to give you details right now give that we are in the midst of signing contracts. The industry standard is roughly close to 50-60% today.
- Ritwik Rai** Okay. But you would be signing these contracts; I would suppose that with DTH operators it would be easier negotiating in terms of the number of players involved. So I am just trying to get a sense of, do the subscription revenue that we see as of now, are these contributed in a very big way by DTH?
- Haresh Chawla** In the current results?
- Ritwik Rai** Yes.
- Haresh Chawla** No, the current results, they do not play a big role. As I said, the revenues will move from what they are, to the levels we are talking about over the next three years. So we will see the uptake showing up gradually quarter-on-quarter going forward. There is no big one time, one lumpy chunk here.
- Ritwik Rai** I understand that. No, what I was trying to understand is what will change between here and later with regards to DTH operators that will lead to a substantial increase in revenues?

- Haresh Chawla** These are not annual contracts but longer term contracts that you work with and have annual levels of revenue from each operator. And, therefore, there is a negotiated annual increase that all broadcasters get from operators. We are actually signing those contracts and those revenues will start reflecting. You end up estimating what kind of subscribers you would have. They are not directly subscriber linked because DTH operators need to run their own promotions and their own subscriber initiatives. These typically become flat fee deals per year but over the longer term and they have a paid increase in revenue.
- Ritwik Rai** So then would these deals get renegotiated now in March, is that correct?
- Haresh Chawla** No, the negotiations have already started. We are already in the process of negotiating and closing them and hopefully by March everything should be in place.
- Ritwik Rai** And sir, in terms of international subscription revenues have you started receiving them?
- Haresh Chawla** Yes, we have started receiving them. As I said, our channel has been only on DTH in the US market. Going forward in the next few months we should be launching on the US on cable as well and that's a pretty sizable market as well. So that whole revenue stream will start flowing.
- Ritwik Rai** Okay. And sir the reorganization, by when can we expect it to be complete, by the end of this year, is that correct even now?
- Sarbvir Singh** It is a court driven process, so it is very difficult for us to forecast accurately. Our shareholder approval was done in the last week of December and the way it is looking is that probably another three to four months out from here, we expect to have closure on the process. I mean it could be four months; it could even be a little more depending on how the High Court sets dates and gives us their approval.
- Ritwik Rai** But you expect that by the first quarter of next fiscal year, it should be done.
- Sarbvir Singh** Yes I think towards the later part of 1st Quarter next fiscal, we should be there.
- Ritwik Rai** Got it. And sir, one last thing, if you could give any comments on new channels in terms of movies or regional channels, what spaces would you be looking to enter into and what could be the rough timeline for that in terms of one-two years or whatever?
- Haresh Chawla** I think we have talked about it earlier in our earlier calls as well. We are working on a hindi movie channel and while I cannot disclose you the exact launch date, you should see it on air over the next few months. Post that, yes, we are focused on

bringing out regional services as well, but that will come probably later in the year or towards the next year probably.

Ritwik Rai

Okay. Thank you sir.

Moderator

Thank you. The next question is from Rajeev Ghosh from Wealth Management. Please go ahead.

Rajeev Ghosh

I saw that the net debt has gone up significantly at the level of IBN 18 consolidated, can you explain what has been investments in that company?

Raghav Bahl

Net debt has gone up at the level of IBN 18?

Rajeev Ghosh

Yes.

Sarbvir Singh

That is the investment that IBN 18 had made in Viacom 18 which was used to buy The Indian Film Company. If you see the net debt has gone up by about Rs. 200 crores, which was essentially our contribution and Viacom putting a similar amount from their side.

Rajeev Ghosh

Okay. Sir, how much could be the benefit from this investment, can you share something on that in terms of profitability going forward?

Raghav Bahl

This is essentially a question on TIFCs renewed film business now under Viacom 18 management.

Haresh Chawla

Yeah, our view is that the film businesses will add a critical component to our entertainment platform in Viacom 18 in which already you have MTV, Colors, Nick, VH1. And even as we launch the Hindi movie channel it will be a critical addition there. While we don't expect it to be more than between 10-15% of the overall revenue of Viacom 18, we expect that the synergy will show up extremely strongly as we will be one of the few large broadcast entertainment platforms that will have a leg in the movie business. If you realize a lot of successes of movies at the box-office or even the fact that they get an initial audience depends on how well they are marketed and the marketing costs are now becoming anywhere between 40-50% of the overall project cost. We believe that the fact that we are able to provide a large platform with large number of audiences on MTV and Colors and the upcoming Hindi movie channel, we should be able to drive audiences into the theaters and probably have a lower risk initiative on some of the movies there. I think we are likely to be in a healthier zone than what most other movie players are in today.

Raghav Bahl

Now our re-entry into the business of film is going to release in another three weeks time, so wish us well there.

- Rajeev Ghosh** Okay sure sir. And what is the prospect for subscription revenues in the next one or two quarters, is that going to be significantly moving in some direction?
- Haresh Chawla** Subscription revenues will rise gradually. The way we have done our contracts, as we talked about earlier, is that we will have annual increases in the contract that we are negotiating with the operators. It will all show up as a gradual increase quarter-on-quarter as these contracts get signed.
- Rajeev Ghosh** Sir, four quarters down the line, will the share of subscription revenues be closer to 15% or so, is it possible?
- Haresh Chawla** We expect on an absolute basis subscription revenues to go between 2.5 and 3x over the next year, so you can pretty much draw this line linearly.
- Rajeev Ghosh** Okay sir, thank you very much.
- Moderator** Thank you. The next question is from Ashish Urganlawar from Spark Capital. Please go ahead.
- Ashish Urganlawar** From the disclosures that have been made in the release post the results, I can make out that the cost for Viacom 18 as a whole works to about 1000 crores annually, so can you shed some light on how the cost structure is seen moving maybe one or two years down the line, a kind of number that you could share with us?
- Haresh Chawla** You know on Viacom 18, essentially if you look closely there is the content cost and then there is the carriage cost that we pay to run our businesses. And then on the revenue side, we have the advertising revenue, subscription revenue from domestic market and subscription revenue from the international market. So I can give you a sense of how this is going to go. I think looking at the cost inflation we were talking, content cost to move up in line with that, not more than that, not less than that. We also probably need to add a few hours of programming to Colors, so you will definitely see cost coming up as we expand the number of prime time hours. But we expect an uptake in revenues, as those ratings for the show kick in. So that's on advertising revenues and content cost. On carriage, going forward we expect the carriage fee over a sensible period of time to start coming down as the market hits threshold levels of digitizing. So over the next couple of years and after two years, we expect things to start showing up as a reduction in cost. And on the other side, we would see an increase in both advertising and subscription revenues and both from domestic and international market.
- Raghav Bahl** We will head into a slightly healthier zone in, let us say, couple of years out a much healthier zone.

- Ashish Uppanlawar** Okay. So can we take a number of 15-20% kind of overall cost structure increase for Viacom 18 say one year down the line, FY12-FY13, is that a fair assumption or it will be much more?
- Haresh Chawla** 20% is a bit on the higher side. I think we should be able to manage lower than that.
- Raghav Bahl** That's for the existing operations; it's not with the Hindi movie channel as it is.
- Serbvir Singh** Yeah and those of our existing operations.
- Ashish Uppanlawar** Okay. And on the revenues, I wanted to understand, given our GRPs, are our ad rates, ad yields are at par with peers given our GRPs and the difference between the peer GRPs and ours?
- Haresh Chawla** Yeah we are having a peer GRP issue on overall GRPs. On prime time GRPs all parties are in the same zone. You can see already that we have had good revenues in the last quarter. I think our issue is that Colors is probably having only about 23.5 or 24 hours of content every week versus our peers who have higher number of hours which is what is reflecting in the overall GRPs. I think we need to add a few other programming hours to our network and that will also reflect in more revenues.
- Ashish Uppanlawar** Okay. So the prime time ad rate that we command given our GRPs to peers, it is almost at the industry...?
- Haresh Chawla** Yeah.
- Ashish Uppanlawar** Okay. So now on basically you are saying that non-prime time will be the focus to give us ahead of industry ad revenues as well as the normal industry rate of growth as far as advertising rates are concerned?
- Haresh Chawla** I will not call it non-prime. In fact what has happened is that our competitors have expanded the prime time definition, so I think it's not really strictly non-prime. It's just that the prime time is now being made longer by our peers: 1900 hrs – 2400 hrs and we need to react with that.
- Ashish Uppanlawar** Okay. And on the individual channels that are in Viacom 18, MTV would be a bigger one if we leave out Colors. How is the profitability if you could give us a sense of how things are among other channels except for Colors?
- Haresh Chawla** It's doing fine, I mean it's doing well, I don't think we give out profitability of individual channels within that network, but all channels are making money in Viacom 18.

- Ashish Uganlawar** Okay fine, thank you, thanks so much.
- Moderator** Thank you. The next question is from Sahil Shah from IIP. Please go ahead.
- Sahil Shah** Hello, just on this net debt, as said 200 crores that's gone to Viacom 18, right, what CapEx is that towards?
- Sarbvir Singh** It was towards the purchase of the Indian Film Company, so Viacom 18 essentially bought out 100% of the film company and that transaction was a little over 400 crores- the two partners had to put in their share of money for that.
- Sahil Shah** Any further CapEx, anything going forward?
- Haresh Chawla** CapEx in Viacom 18?
- Sahil Shah** Yes.
- Haresh Chawla** No, we don't expect any extraordinary CapEx because the broadcast business does not need any major CapEx as such.
- Raghav Bahl** And just to add to that, IBN 18 funded about 200 crores of its shares and Viacom Inc. funded their 200 crores, so the entire 400 crores plus was funded 50-50 in cash by both the partners. And as far as Viacom 18's ongoing CapEx program is concerned, while we have a Hindi movie channel on the anvil and as Haresh said, we will look at regional assets as well at some time - I just want you to know that Viacom 18 as a company is generating very good amounts of cash and would probably do upwards of Rs.100 crores this year. It's also a company with hardly any amount of term debt in it, it's a very well capitalized company by promoter equity, is throwing up cash, and is now likely to be solidly profitable with the cable subscription contracts which are coming in. So the ability of that balance sheet to take a little bit of debt to finance any CapEx that it needs to do is not in dispute. I think going forward Viacom 18 will be able to fund its own CapEx.
- Sahil Shah** Okay. And on IBN 18 which will become new TV 18, basically in terms of advertising, what are the price hikes that you all have taken for this quarter?
- Raghav Bahl** Haresh, I guess you can address the entertainment side and then maybe Sai, could you come in and chip in with the news side.
- Haresh Chawla** I do not see any specific price hike, I think we keep negotiating to ensure that we get rightful revenues for our channels. The pricing will actually start now as we start negotiating contracts.
- Sahil Shah** No, I am not talking about subscription, I am talking about advertising.

- Haresh Chawla** The annual contract will get negotiated over the next 60 days. And hopefully we will get the price we deserve for our channels. I think there is no unilateral price hike. You end up negotiating these contracts with large advertisers.
- Sahil Shah** Okay.
- Sai Kumar** Typically because the advertising market is stronger than H2, you find the supply of advertising much higher, so while it's not a planned price hike, you tend to notice that your yields on the unit rate are 10%-15% higher than H1. So it is a phenomenon that happens every year in H2 starting October going all the way till January for general news channels and going all the way to March for business news channels.
- Sahil Shah** Fine thank you.
- Moderator** Thank you. The next question is from Mohan Lal from Elara Capital. Please go ahead.
- Mohan Lal** I wanted to understand the tax benefit that we have in Viacom 18, is it because of the consolidation of the TIFC?
- Raghav Bahl** Tax benefit at Viacom, Haresh.
- Haresh Chawla** Since we had operating losses and we have now broken even, that benefit will start showing up to us. This is not specifically for TIFC; this is for the operating losses in Viacom 18 over the last couple of years before we started making money.
- Mohan Lal** Because in the last two quarters, we were paying 4 crores odd tax every quarter, so what will the tax outgo be going forward if you can roughly guide us for at least H1, FY12?
- Haresh Chawla** I think I will have this query addressed separately, I do not have the details here. We have a tax shelter because of the losses of the past and the tax that we have paid might be MAT or something like that.
- RDS Bawa** Yeah we will end up paying MAT which will be used as future adjustments.
- Raghav Bahl** Sarbvir, you were going to add something there?
- Sarbvir Singh** No, it is essentially what Mr. Bawaji said. I was going to say that when profit becomes very clearly visible then you can take tax writebacks, essentially it becomes the negative tax because you are paying MAT, now that profits are very clearly visible in Viacom18, this will remain at some level for the next few quarters at least.

- Mohan Lal** Sir, my second question is on the expected launch of the movie channel, what kind of cost are we expecting on an operating level for one full year for the movie channel sir?
- Haresh Chawla** I don't think we will be able to give you details, these are all competitively sensitive right now. I think closer to the launch we will be able to talk about all this.
- Mohan Lal** Last question is I want to understand, what was the ad revenue growth on a Y-O-Y basis in Viacom 18?
- Haresh Chawla** You want to know what it is currently or what we expect.
- Mohan Lal** No, what was it in Q3 FY11?
- Raghav Bahl** Q3 over Q3, Haresh, I think we just have to subtract the distribution revenues.
- Haresh Chawla** Yeah Q3 over Q3, I have not done any maths here, but would be in the range of 16-17%. All the growth that you are seeing is primarily from advertising because 90% of revenues of Viacom 18 are from advertising. So that growth that you see which is 21% year-on-year, is largely coming from advertising.
- Mohan Lal** Okay. Why I am wondering about this is because this was a quarter where festival season fell during this year and we had strong ratings because of Big Boss. So I was wondering whether we have reached a kind of top end of one channel potential for advertising for Colors and from here onwards what kind of ad revenue growth we can see? Would it be very close to the industry level growth from here onwards?
- Haresh Chawla** As one of the top tier players in the GEC space I think we will grow with our peers but we would outstrip industry levels. And the other thing is that we are also expecting to add content so there is a case that all GECs have expanded the amount of prime time that they are playing out so those accrue to the business. Therefore, we will not be too far off from the industry growth rate but we will definitely outstrip it as would our peers in the top tier GEC would.
- Mohan Lal** Sir last question is would it be possible to get year-to-date expenses on the Viacom 18 side on marketing and distribution cost?
- Haresh Chawla** Sarbvir are we giving these data?
- Sarbvir Singh** No Haresh. We are not giving out this level of detail. We can have a discussion offline. We can give some guidance but we cannot give you this detail.
- Mohan Lal** Sir Can we ask questions related to other businesses on Network18?

- Haresh Chawla** Yes of course.
- Mohan Lal** Okay, I have three questions then. One is that on a Q-O-Q basis if I look at Home Shop 18 has a flat revenue growth, 17 crores versus 17 crore so what can we expect from Home Shop 18 going forward?
- Raghav Bahl** Okay, Haresh this falls squarely with you as well.
- Haresh Chawla** I think in HomeShop18 we are going through a phase of consolidation where we have basically seen potential in the business and we are now working on improving the product quality and the service levels of the business - so changes in the product portfolio, a lot of investment in inventories and in service deliveries is happening. It's an interim consolidation phase for the business, so I guess another quarter or so of this and then we should be pretty much on a very good growth track.
- Raghav Bahl** A consolidation would mean we are adding strength to our call centers. We are adding to, as Haresh said, inventory, product line and cleaning those up. So I think this is exactly what it is. This is a very strong interim consolidation phase where you are getting ready to shift gears for the business on a higher trajectory.
- Mohan Lal** This has nothing to do with launch of one new channel in the same category?
- Raghav Bahl** No, not at all. In fact, one more channel coming in is actually giving us hope that a whole category will grow. In fact it's comes at an opportune time. As far as market shares goes it is still probably in the high 80%+ odd of the market share in this space.
- Mohan Lal** Sir second is that even in Web 18 and NewsWire 18 growth is not as high as we were expecting. If you look at the Web 18 side the growth is in lower double digit on a Y-O-Y basis also. So why is there no pickup in the ad revenue growth in the internet space at least for Web18? I would not know about the industry.
- Sai Kumar** Well, the fact of the matter is that internet advertising currently is not looking at the kind of ad growth rates that television is. And having said that, if you look at the contribution you see that between moneycontrol.com and in.com which are our two flagship properties, we saw a positive growth on in.com this quarter and I think that moneycontrol would largely start contributing in Q4. This is because unlike in television where a CNBC TV18 has started getting advertising outside of financial categories, outside of brokers, outside of technology clients and so on, Moneycontrol is still lagging behind in the lifecycle of getting a wider category of advertising. Moneycontrol would be showing that growth in Q4. I think it will suffice to say that we have surpassed the industry rate of growth as far as advertising goes.

- Mohan Lal** Would you be able to give quarterly run rate guidance on top line for Web 18?
- Sai Kumar** Well I think for Web18, Q4 would look better than Q3 as I said, because in.com continues to grow and moneycontrol.com will see a fairly good budget quarter. And there is a steady line of movies this quarter so bookmyshow, while it will dip a bit from the Diwali quarter, will still have fairly stable revenues. Overall Web18 should see a further increase in revenues.
- Mohan Lal** Last question is, the losses at the standalone level for Network18, can you please explain these are like 17 crore losses for this quarter and they were 19 crore last quarter and which businesses are seeing these kind of losses and how should we build it going forward?
- Sai Kumar** Okay this is not an operating loss. If you see the operating losses are hardly anything the three operating businesses there are the sport business, the event business and the advisory business. These are not operating losses which are coming from them, this is essentially interest rates charge-out on the investments that Network18 has made in downstream companies. Post the restructuring many of the assets which have been financed through debt are going to be moving to Network18 and would be monetizable. Therefore, post the restructuring you will see that Network18 will monetize quite a few of these investments that have been made and, therefore, we hope to have these non-operating losses met with non-operating income. So if you look at them in isolation they look large but when you look at them on a consolidated basis, when you bring the investments that have been financed through these debts then they are actually profitable but it is just that post the restructuring those investments will move onto the Network18 balance sheet. Just to repeat they are not operating losses, they are non-operating losses. I mean essentially interest payment. Binny sir, would that be a correct description?
- RDS Bawa** Yes, absolutely correct.
- Mohan Lal** Fair enough. Thanks a lot for taking my question. Best of luck to you.
- Moderator** Thank you the next question is from Nupur Agarwal from UBS please go ahead
- Nupur Agarwal** I had one question I wanted to know what your view on the regulatory front is. Could there be any surprises in subscription revenue?
- Raghav Bahl** Haresh, you want to take that?
- Haresh Chawla** Yeah, I think there are several compensation papers out from TRAI and broadcasters are engaged with them trying to resolve these issues. I think we also have gone into litigation on some of these orders that have been passed. Our sense is that regulation will move in the right direction and what is more important

is that the government is also focused on digitization. Therefore, we don't need to worry in the longer term I think we will continue to engage with TRAI and try and find a way that everybody can work together and get it done.

- Nupur Agarwal** Okay thank you.
- Moderator** Thank you. The next question is from Ritesh Doshi from First Global. Please go ahead
- Ritesh Doshi** Sir a follow-up question. Your other income, you said that input income sale from TIFC, so what is this component?
- Raghav Bahl** Sorry, other income from TIFC, what is the amount?
- Ritesh Doshi** Yeah.
- Raghav Bahl** I think it is given in the investor update – around Rs. 95 crores.
- Ritesh Doshi** The other income is Rs. 22.9 crores, if I am not wrong?
- Raghav Bahl** This is awaiting the consolidation. Consolidated is 126 crores.
- Ritesh Doshi** Consolidated other income was 2294.49 lakhs.
- Raghav Bahl** Consolidated Network18 you are looking at?
- Ritesh Doshi** No TV18.
- Raghav Bahl** Consolidated TV18 he is looking at. Okay that I think, Sarbvir you have got that broken up, right?
- Sarbvir Singh** Yeah that is essentially some profits on the sale of the shares that we hold in Den which amounts to about 15 crores of, and the remaining part is essentially some interest income that TV 18 gets.
- Ritesh Doshi** Okay, 15 crores is the extra ordinary income from sale of investment?
- Sarbvir Singh** I will not call it extraordinary in the sense that we own a fair amount of shares of Den so you will find this line coming in future quarters as well.
- Ritesh Doshi** Okay, thank you.
- Moderator** Thank you the next question is from Amit Kumar from Kotak. Please go ahead.

- Amit Kumar** I wanted an update on the status of our legacy disputes with MSM One Alliance and Starden?
- Haresh Chawla** Yeah, these are currently in the courts and proceedings are going on. We will hopefully come to a successful conclusion.
- Amit Kumar** Okay. Sir this demerger of the business news channels from TV18 and then their effective merger into IBN18, what is the effective date of that?
- Raghav Bahl** The effective date is April 1 of 2010, Binny is it?
- Amit Kumar** So the full year of these business news channel financials will get consolidated with IBN18 in FY11?
- Raghav Bahl** Binny ?
- RDS Bawa** It really depends on when the court order comes. If the court order comes before the finalization of our accounts, certainly. But if it comes afterwards then we will have to finalize the accounts under the current structure.
- Haresh Chawla** But you will have to restate them with effect from April 1 in any case.
- Amit Kumar** Okay, got it
- RDS Bawa** We will restate them once the court order comes and the schemes become effective but till such time if we need to close on March financials before that, then they will be closed on the current structure. Ultimately post the court order, the FY11 balance sheet of IBN18 will be restated with the business news channel part with effect from April 1 2010.
- Amit Kumar** I got it, thank you so much. My final question sir, I am a little bit surprised. I am looking at things on a Q-on-Q basis Q3 you had a discretionary or fairly large properties in the form of Big Boss as well as some part of Khatron Ke Khiladi but if you look at your operating expenses they have gone up by only about 20 crores on a Q-on-Q basis while we keep hearing in media how much you are paying Priyanka Chopra and how much you are paying Salman Khan for those two shows on a per episode basis and so on and so forth. So I wanted to understand the increase in operating cost seems to be fairly on the low side on a Q-on-Q basis?
- Haresh Chawla** That just goes to show, you should believe auditors are not journalists. It's vastly exaggerated.

- Amit Kumar** Okay, but can you confirm, at the end of the day Big Boss and the Khatron Ke Khiladi both of these are fairly big ticket properties but at a property level are they profitable at all or we are essentially saying that these are marketing....?
- Haresh Chawla** Since these properties are now old, in most of the cases they are profitable but sometimes you have to take a call on a new property that becomes a loss leader of sorts but it delivers you buzz and those are marketing expenses for the channel. In our case these two properties are profitable.
- Raghav Bahl** Yeah, these two properties made money and they are not being capitalized, therefore, believe auditors and not journalists.
- Amit Kumar** So these are being completely expensed out on the same quarter?
- Raghav Bahl** Yes completely.
- Amit Kumar** Okay, and what is the amortization policy on film content that Colors has been buying. These will be normal programming but as far as the movie content is concerned?
- Haresh Chawla** I think we can give you detail on this separately but clearly the first run takes up a bulk of the cost and if it's a library movie then its amortized on a much more longer term basis. If it is a new movie then your first telecast takes a bulk of the cost. I will have to get this detail for you as to what we do.
- Amit Kumar** Not a problem I can reach out to you.
- Haresh Chawla** If you buy a library movie, let us say a movie that we made 20 years ago, then the amortisation policy is pretty much over the years that you own the rights for. So that is averaged out. But for a new movie it is heavily upfront and then rest is over the life of license. Almost 60% plus of it would be recovered in the first run.
- Amit Kumar** Thank you so much.
- Moderator** Thank you the next question is from Janaki Raman from Franklin Templeton. Please go ahead.
- Janaki Raman** One question on TV18. It has a gross debt of about roughly Rs. 750 crores. How much of this debt will get transferred along with CNBC into IBN18 in the restructuring process?
- Sarbvir Singh** Janaki, I do not have the numbers on the top of my head but I think is around 100 odd to 200 crores.
- Janaki Raman** So 200 out of 765 will go to IBN18?

- Sarbvir Singh** I think you have to look it on a net basis. What we have said was on a net debt basis about 200 or 150 could go with the assets.
- Janaki Raman** Okay. In case of TV 18 the net debt at the end of this quarter stands at roughly about 650 crores but the net interest cost seems to be quite low, so why is that?
- Sarbvir Singh** No, I think if you see we had 23 crores of interest expense and 8 crores of interest income and hence roughly 15 crores of net interest. The best way to look at it, Janaki, is 23 crores versus 750 crores of debt. It works out to about 12% which seems about right.
- Raghav Bahl** Yeah, best to look at gross numbers on gross numbers if you want to see the cost of debt.
- Sarbvir Singh** Yeah. The interest income is little higher because that depends on the timing of certain redemptions, on certain times when you get the money.
- Janaki Raman** Okay. And Raghav, the general news channel has made a very respectable margin. December like you have almost 11% margin. Will that property continue to remain in black over the next year?
- Raghav Bahl** Sai, this is a tough one for you to handle.
- Sai Kumar** Like we said last quarter, the general news environment is such that especially for IBN you have CNN IBN right up there among the top one or two channels. You have IBN7 quickly going up the ladder; it's gone from number six to number four. What we have noticed is that the market for Hindi and English news advertising is growing. When I say Hindi and English news I mean advertisers who want both English and Hindi. We see advertising revenues continuing to grow. We see carriage costs being stable or maybe exposed to a slight increase next year but which will more than be made up by the increase in advertising. So I think that on an annual basis the general news operations can be expected to be in the black. You will always see Q3, largely Q3 and to a small extent Q4, outperforming the rest of the quarters. If you leave aside H1 of this year, then on an annual basis I think that this quarter clearly indicates that general news operations would be in the black.
- Janaki Raman** Okay, thank you. That is all from my side and all the best gentlemen.
- Moderator** Thank you. Ladies and gentleman that was the last question. I would now like to hand over the conference back to Mr. Raghav Behl for closing comments.
- Raghav Bahl** Well ladies and gentleman thank you very much for being with us today. As I said in my opening comments that this is a fairly exciting moment for us. It's a

homecoming of sorts after four years of almost Rs. 2500 crores of investment, to be back in the black, to have the conviction that this is now a sustained period of margin expansion for us especially as one of the critical revenue lines of cable subscription starts flowing in. The digital media assets, while they have been showing anemic growth is really a function of the market and not of the success or lack of it of these digital media assets. And as the market becomes a larger market, as broadband subscribers go up from 2-3 million to the 40, 50, 60, 70, 80 million levels, we believe, that that is a market which is set to grow very fast. We are quite confident that given expanding markets we should be able to replicate the kind of success that we have shown our investors in the television broadcast properties, in our digital media assets too. So with that expectation, once again thank you for joining us today,

Moderator

Thank you very much. On behalf of Network18 that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you