

Conference Call Transcript

Network 18 Group

Q4FY10 Results

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Corporate Participants

Mr. Raghav Bahl
Group MD

Mr. Haresh Chawla
Group CEO

Mr. R D S Bawa
Group CFO

Mr. Sarbvir Singh
MD Capital 18

Questions and Answers

Moderator: Ladies and gentlemen, good evening and welcome to the Network 18 Q4FY10 Results Conference Call hosted by Edelweiss Securities Ltd. 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 opening remarks. If you should need any assistance during this conference please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abneesh Roy of Edelweiss Securities Ltd. Thank you and over to you sir.

Abneesh Roy: Thanks. Good afternoon to everyone. We at Edelweiss Securities are very pleased to hold the Q4FY10 results investor conference call of Network 18 Group. From the Network 18 Group we have Raghav Bahl – Group MD, Mr. Haresh Chawla – Group CEO, Mr. Bawa – Group CFO and Sarbvir Singh – MD Capital 18.

Raghav, congratulations on a very good set of numbers. Over to you for your brief overview on the overall Group performance and at each of the group companies. Post that, we can have question & answer sessions for each of the three companies - TV18, IBN18 and Network18 in that order. Over to you Raghav.

Raghav Bahl: Abneesh, thank you very much. Ladies and gentlemen thank you very much for joining us this evening and a very good evening to all of you. I am assuming here that you would have got our rather comprehensive investor update that was sent out on Friday evening. It contains lot of details and one will skip that in the introductory remarks at least. I am sure that will be the basis for a few of the questions that will follow, assuming that you have been able to go through the comprehensive and disaggregated update that was shared with you.

An overview would be that this has been – I would say a very deeply satisfying quarter and year end for us at Network 18 across all our companies. And you can see that there was a fairly decisive upswing in the second half of the year compared to H1 FY10 or H2 FY09 and it has almost been a discontinuous swing where we have seen the revenue really beginning to get tailwinds. Revenues were buoyant not just in one or two businesses, but across the group and across every operation. We saw fairly strong buoyancy across revenues and as we had indicated to our shareholders earlier on last year, that we would enter a phase of profitable growth in H2 and move the EBITDA at the Group level into positive territory along with turning EBITDA positive across most of the Group's operations; we are delighted to have delivered that for our shareholders. Almost every significant operation is now EBITDA positive in a sustainable way, not just as a single quarter kind of flash in the pan. So that has been a deeply satisfying

thing for us in the quarter.

I would like to highlight a couple of things, which usually get hidden in the aggregated revenues – one that the two business news operations, which are the two CNBC channels, really bounced back very strongly and are now displaying the kind of strength that was witnessed in 2007-08 in terms of revenue buoyancy behind them. So the fact that they are back is fairly clear to us from the kind of growth we are witnessing.

The other of course extremely delightful thing for us is the fact that Viacom 18 has broken through not just to EBITDA positive performance but to a second consecutive quarter of positive profit after tax and a higher profit after tax than the previous quarter. And we do again believe that the existing channels or the existing operations of Viacom 18 will be consistently profitable through the coming year. So these are two operations which have really broken through and are deeply satisfying for the management.

The third one is Web where we have seen a very smart revenue performance in Q4. And I think it is important just to juxtapose it with the performance of the market leader in the Indian space and since that is a published result as well, we have the luxury of comparing our performance against that. If you compare the performance of Rediff which is No. 1 by audience share in India, Web18 had better absolute revenues when you compare India Online Revenues to India Online Revenues and a better profitability than Rediff. So while we may be at No. 2 in audience share, we certainly have performed much better on revenue and profitability and the numbers back that up because both Rediff's and our results are published.

And I think the fourth little component in our revenues is the absolutely splendid performance from HomeShop18 which has not only posted a very smart increase in revenues but has also posted gross sales of Rs 212 crores in just this second year of operations. As we had shared earlier, it is now doing almost a crore a day of gross sales. Further, it now has a very strong balance sheet with strong strategic partnership with GS HomeShopping (earlier known as LG Home Shopping) of Korea, which is the world's third largest player in the Home Shopping space.

So these four or five operations have exhibited extremely strong performance and are hopefully now at a stage where having crossed the operating cost-line, with reasonably modest improvements in revenue, they will give us extremely strong increments in profits.

The general news channels have had a challenging year and therefore you will see the revenues have not been as buoyant as other entities but within the general news channels, the Hindi news channel has posted a very strong growth. The Marathi news channel too has posted, although on a small base, very strong growth. CNN IBN has held its own in a fiercely competitive market and having held its own in perception as well as audience share terms, we hope to see revenue traction very soon.

The final thing that I would like to point out here, again, in an effort to throw

more attention on dis-aggregation of our revenues rather than looking at them only at an aggregated level, is that we as a group would have managed roughly Rs 2,100 crores of revenue last year. When I refer to managed revenues, I am including 100% of Viacom 18 because it is managed by the Group, although, in accounting terms, when we publish our results we take only 50% of those. So, about Rs 2,100 crores of revenues were managed by the group in the financial year which has just ended. Of that, share of advertising revenues is about Rs 1,600 crores, marginally more, but let us take Rs 1,600 crores of advertising revenue that the group got across all its television channels and internet portal, with television channels being the significant contributors. Now, if you compare that with the advertising revenue posted by the listed leader in the space in terms of market value viz Zee TV, it would have posted advertising revenues in the region of Rs 1,500 to 1,600 crores and those revenues have come over many more channels, perhaps about 22 channels and channels which are about 10 or 15 years old, while Network 18 has managed over Rs 1,600 crores in advertising revenues i.e. almost same or marginally more, on a channel base of only 11 channels - less than half the channels of Zee TV. Also the comparison needs to be done keeping in consideration the fact that these channels are much younger - Colors is not even two years old, it is going to be two years old in July 2010 only. So on a much younger and on a much smaller number of channels, Network 18 has posted an advertising revenue performance which is equal to or better than Zee TV and this is on the basis of published data from both the companies. Now the challenge before Network 18 is to substantially grow the subscription revenues, having taken the lead in the country on advertising revenues in the television broadcast space. The challenge before us is to bring our distribution revenues up so that the profitability gap that we have with a player like Zee TV is closed extremely quickly and then we can post the kind of profitability that our peers are showing. If we can do as well or better on advertising revenue, there is absolutely no reason why we will not do as well on the distribution revenue front, given the strength of our various channels. So this is the one thing that is important for our investors to recognize that in the last year we not only have turned around the revenue performance across various operations, the fact is that Network 18 today can boast of being the single largest advertising revenue earner in the television broadcast space and this too from a smaller and much younger set of channels. This feat could be achieved primarily because of the fairly large leadership position enjoyed by our channels. I think these are the key things that one would like the investors to focus on. I will just check with Haresh if he wants to add anything to this and then we can go straight into the Q&A.

Haresh Chawla: No, I am fine. We can just go ahead for the question answer.

Raghav Bahl: So Abneesh we are ready to have Q&A. As we normally do, we can divide Q&A across the three companies into specific sets. Let us first field questions on TV18 for the first 15 to 20 minutes after which we can take questions on IBN18 and finally we can take questions on Network18.

Abneesh Roy: Yes, we can start with TV18.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press * then 1 on your touchtone telephones. If you decide you want to withdraw your question from the questioning queue you may press * then 2. Participants are requested to use only handsets while asking a question. To ask a question please press * then 1 now. The first question comes from the line of Rohit Dokania from B&K Securities, please go ahead.

Rohit Dokanai: Yes, hi and good evening Raghav, congratulations on a good set of numbers. Just two or three questions, could you tell me what is the book size of the MVCT Trust in TV18, the Media Venture Capital Trust that we have, what could be the book size be?

Raghav Bahl: Binni, you want to come in with that.

Binni Bawa: Well it would be about Rs 275 crores.

Rohit Dokanai: Do we expect more derivative losses going forward or we are done with them?

Binni Bawa: We are done with the derivative losses.

Rohit Dokanai: Okay. And sir could you give us the gross debt and the cash levels across the three group companies and Viacom18?

Raghav Bahl: We have published in our Investor Update the gross debt and cash position at Network18 and TV18. IBN18 really had very low cash. I am sure Binni can give you that number but if you look at what we have given you in the investor update, the cash at the group level was Rs 1251 crores consolidated and the cash at TV18 was Rs 520 crores. The gross debt across the group was Rs 2054 crores and at TV18 was Rs 937 crores. So if you look at net debt numbers, those are Rs 803 and Rs 417 cr and if you further reduce the net current assets of the group, the net indebtedness is really down at the group level to Rs 300 crores, which is something we are very comfortable with.

Rohit Dokanai: Sure. Thanks a lot Raghav, all the best. I will come back.

Moderator: Thank you. The next question comes from the line of Vikas Mantri from ICICI, please go ahead.

Vikas Mantri: Okay, on the revenue front Raghav the news operations of TV18 have done really well where we have seen a sequential jump of around 25%. Now in your opening remark you have mentioned this is very sustainable, just wanted to know if this could be more because of the IPO activity and stuff.

Raghav Bahl: Okay, let me get Haresh in here. The fact is there is seasonality, so when I say sustainability I guess we mean for the year but Haresh would have a much closer perspective on this.

Haresh Chawla: Yes Vikas I think Q4 is seasonally high if you compare it with other quarters because of the budget. So a lot of that growth has come from the budget, almost half of it, but we are seeing signals of strong buoyancy on the advertising front right now across all categories. We are enjoying both rate and volume increases. So we see pretty good advertising buoyancy now across

the board. Automobile category, the telecom players and a lot of new categories are coming up. They are spending quite a decent amount of money on our network.

Vikas Mantri: Thanks, and on the Infomedia side, do the numbers include the sale of assets?

Raghav Bahl: The Infomedia numbers do not include the sale of assets. However, there was an impairment that had been made into the accounts in the earlier years in the business process outsourcing side. That impairment made earlier has been written-back.

Vikas Mantri: Okay but on a quarterly run rate on the operations side, was there a major swing in the regular operations?

Haresh Chawla: Yes, what has happened is that the first cost cutting benefit has started showing up. We are seeing some buoyancy on the advertising front as well because a lot of SMEs were under lot of duress over the last year. So we are seeing buoyancy across the board on advertising and that has become primary revenue for us now since with BPO businesses out, both the Yellow Pages and our special interest publications as well as our consumer magazines, will be the revenue generators - all three are seeing an uptick in their revenue.

Vikas Mantri: Okay. And on the internet side of the business generally we see Q4 as the highest quarter in the year end and every time in the June quarter we have seen a major slippage to the tune of 25%. Should we be expecting a similar trend?

Raghav Bahl: Vikas, I think the kind of the leverage that Web18 numbers had on moneycontrol.com has reduced a bit. Of course the budget was there in this quarter and therefore you are seeing an extra revenue line there but my sense is that moneycontrol.com is now contributing a smaller percentage to Web18 and it is going down. So the impact we are going to see is getting lower.

Vikas MantriL: Thanks.

Moderator: Thank you. The next question comes from the line of Nikhil Vohra from IDFC Securities, please go ahead.

Nikhil Vohra: Hi Raghav, just a few things. One, what is the distribution income that CNBC standalone gets right now on a yearly basis?

Raghav Bahl: Do you want to go through the rest of your questions?

Nikhil Vohra: One was on the distribution income of CNBC and the rest of the properties. Second was what is the status with regards to Web18 in terms of funding structure and the way forward for Web18? What was the investment that we have in DEN and is it now worthwhile to still stay put on the invested capital or are we looking at monetizing the same? And lastly there has been a fair bit of talk about revised structure within the TV18 group or Network18 group. Could you just roll through that, what is the structure likely to look like?

Raghav Bahl: The first one is distribution income of the two CNBCs. Nikhil, you know that distribution revenues are now becoming a fairly critical business

parameter. They are no longer sort of small, piffling numbers. So I am not sure we will be comfortable now giving breakups because this will now mean giving too much information out which is quite critical for us. So suffice it for us to say that they are growing. They have traditionally been in the sort of 15% space for the CNBC channels. They would not have broken away too much from that percentage except that we now believe that the time has come to make them break away a bit more. So excuse us from giving very specific information here because we believe now this is becoming critical information. On Web18 I will leave the discussion on operational performance to Haresh who can fill you in on that. On funding we are well-funded at Web18. The money that was put in by Nokia is very much there. And Web18 hopefully will be EBITDA positive through the year. And really there is no major CAPEX need that exists at Web18. So Web18 is well-funded. Operations should be throwing up cash and we do not really need lots of capital for any of the ongoing properties. Investment in DEN has a one-year lock-in because of the IPO which will get lifted when DEN completes one year of listing sometime in November. We are very clear that we will take a decision in the best interest of our shareholders. We are running nearly Rs. 180 crores unrealized gain on that investment and we will act in a manner that we believe would be in the best interest of our shareholders. On restructuring in the group perhaps we will talk about it when we come to Network18 because that is something that will be applicable across the group. Haresh?

Haresh Chawla: Nikhil, what was the question on the operations on Web18?

Nikhil Vohra: Raghav, you talked about not being able to share the distribution stats on CNBC. Can you just provide broadly the range at which it is at currently?

Haresh Chawla: Nikhil all of this information is quite sensitive right now. Do excuse us from providing the specifics. It is roughly about 15% of our top-line

Raghav Bahl: It is in that region. It always has been in that region.

Nikhil Vohra: Okay. Web is okay I guess Raghav already talked through that. On the revised structure I guess you will take it up later in the call

Raghav Bahl: Yes, we will, as and when we talk about Network18.

Nikhil Vohra: I am done. Thank you.

Moderator: Thank you. The next question comes from the line of Venkatesh Sanjeevi from ICICI Prudential, please go ahead.

Venkatesh Sanjeevi: I have two questions. One, what is this large Other Income in news operations of Rs 22 crores? Secondly, on the Infomedia side, could you explain the sequential increase in turnover - quarterly revenues going from Rs 33 cr up to Rs 76 crores?

Raghav Bahl: The Other Income component, Binni correct me if I am wrong, is the monetization of the trust share held for the benefit of TV18 shareholders. These have been monetized and that comes in as profit for the TV18 shareholders. These are the trust shares or the treasury stake that was created

3 years ago through the scheme of de-merger when Network18 came into being. Some shares of Network18 were held for the benefit of TV18 shareholders. It is that monetization.

Venkatesh Sanjeevi: So how many more of these shares are left now?

Raghav Bahl: We are left with about 13 or 14 lakhs

Venkatesh Sanjeevi: Apart from 21% in IBN18?

Raghav Bahl: Yes, this is apart from the 21% in IBN18. IBN18 is a strategic stake. The Network18 shares were a treasury stake created at the time of de-merger about three years ago. We are left with 13.7 lacs or something like that. Haresh will be able to answer your question on Infomedia.

Haresh Chawla: The rise is because of two components. One is the write-back of the impairment that happened at the BPO, and the other is on account of Yellow Pages. When the Yellow Pages directories are closed for a particular city the revenues get recorded in that quarter. Last quarter we had substantially more number of directories closing, which is getting reflected in the revenues. Even the costs get recorded in the quarter when we close the directories. Essentially therefore you see lumpiness in the revenues. Several directories closed during Q4 and therefore there is an uptick in the revenues.

Venkatesh Sanjeevi: Okay. How much would be the impairment amount?

Raghav Bahl: Impairment write-back?

Venkatesh Sanjeevi Yes.

Haresh Chawla: Was about Rs 16 crores.

Venkatesh Sanjeevi Okay thanks.

Moderator: Thank you. The next question comes from the line of Bhushan Gajaria from IDFC Securities, please go ahead.

Bhushan Gajaria: Hi, sir, a couple of questions. One was regarding the long term investments in quoted shares which has increased from Rs 48 crores to around Rs 277 crores in this year Can you throw light on that? And secondly, in the news operation, the cost on the quarter-on-quarter basis has moved up despite actually cutting down on our staff strength. Also, you have written off some one-time items. Can you throw some light on that also?

Raghav Bahl: I think Binny can take you through the long term investment increase from Rs 48 crores to Rs 277.

Binny Bawa: It is by the merger of Iven Interactive with Infomedia. Because of that, the shares got clubbed into Infomedia's long term investments. If you see the balance sheet, then this was shown under the section, unquoted investment in the previous year. This has now moved from unquoted into the quoted investment in the current year because of the merger of Iven Interactive with Infomedia.

Raghav Bahl: Okay just to add a little more perspective, if you recall we were holding our stake in Infomedia through an unlisted entity, an unlisted holding

company which was Iven Interactive. In the current year Iven Interactive has merged into Infomedia and therefore given us directly quoted shares of Infomedia. So really it is nothing, just a pass through entry which was earlier being shown under unquoted investment which has now become quoted. Rs 177cr of this Rs 277 cr is what was earlier held on the balance sheet but under unquoted investments. This has now moved to quoted investments. And the remaining would be the Infomedia rights as well as the IBN18 rights issue and the earlier stock that was held. I reckon that answers that question.

Raghav Bahl: We can now talk about the news operations cost. Haresh do you want to take that? it is not a major increase for Q4 frankly because Q4 does have a higher cost base on account of the budget but I am sure Haresh can take you through this.

Haresh Chawla: Yes, it is largely because of the budget and the events associated with that. We should have it down again in this quarter.

Bhushan Gajaria: But what would be the quantum of the one-time that you have written off as restructuring cost.

Raghav Bahl: Restructuring cost was expensed in the previous quarter (Q3) and not in this quarter. In Q4 we normally end up taking bad debt provisions and all of that for the end of the year which is what we do every Q4. And this Q4 has not been extraordinarily high or anything like that. So probably Rs 2 or 3 crores would be coming from that is my guess. Binni would probably have more details.

Binny Bawa: Other thing you must realize is that Q4 FY09 are derived numbers in the sense that they are annual numbers less YTD 9M and at the end of the year we just put provisions, which get bunched into one quarter.

Bhushan Gajaria: Thanks.

Moderator: Thank you. The next question comes from the line of Manish Gandhi who is an individual investor, please go ahead.

Manish Gandhi: Yeah Mr. Raghav, congratulations on good set of numbers. Sir, can you give me some idea about the pricing in CNBC and CNBC Awaaz, like what pricing exists right now, where do you see it going forward and where is it as compared to the peak pricing at 2008 level?

Haresh Chawla: We have a bit of differential pricing policy for the financial services category and that category has essentially been under the weather over the last couple of years. So you know it will be unfair to take the peak pricing that we had in 2007-2008 and compare it to today. What I can say is that our price has hardly moved over the last year and we are seeing financial IPOs and stuff that have come back and therefore that will get us premium pricing again. But they are not yet back to the peak levels. The peak pricing, is largely for the financial services category. The average price for the whole network was static for the last one and half years and we have started moving it up over the last quarter.

Manish Gandhi: Right, when do you see us reaching that top pricing, which we

had in 2007-08?

Haresh Chawla: I think the peak pricing really depends on how active the whole financial services category gets. I think in a sense we are to some sensible degree index bound to what is happening in the financial markets. So as soon as we have a bigger rush of more IPOs and more activity on the financial markets, we should get that peak pricing back.

Manish Gandhi: Okay, thank you very much and all the best.

Raghav Bahl Thank you.

Moderator: Thank you. The next question comes from the line of Sadanand Shetty from Taurus Asset Management, please go ahead.

Sadanand Shetty: Congratulations to all. My question is to Haresh. What kind of growth do you expect to see in Web18 top-line?

Haresh Chawla: I think I will not be able to hazard a guess but our focus is on two fronts. One is that we keep it profitable at PBT level. The other is that over the next one and half to two years, we will see a substantial jump in the internet audiences in the country. I think it has been a long time and each of the players is just waiting. The fact is that the internet audiences are growing, and the number is anywhere between 30 and 50 million. So our hope is that with the whole Wi-Max, 3G and higher broadband penetration taking place over the next one and a half years or so, we should see a significant inflection point in the kind of revenues and audiences we get in Web18. So I guess till that happens, we are looking at growth rate of between 20 and 30%. But if that happens and suddenly we see a jump in internet audiences we could possible see a lot more than what we are talking about because even now the entire advertising market on the internet is a fairly small number in the range of about Rs 800 odd crores which is fairly small compared to the kind of audience web can potentially deliver.

Sadanand Shetty: So would it be fair to say that medium term you are dependent on 3G and broadband to scale up the revenue?

Haresh Chawla: Yes, I would say that. I think normal growth will come just because of the fact that there is a lot of advertising buoyancy in the market. This year has been good for everyone and it looks to be pretty good as we go forward but I think that the inflection point or a complete change in the revenue profile of the Company will happen only once we move from 30-40 million internet users to 70-80 million internet users.

Sadanand Shetty: Money Control has been the revenue driver so far, which are the other verticals within Web18 you think will incrementally revive the revenues?

Haresh Chawla: Everything will peak up the moment the audience base goes up and more and more revenue moves onto the web. Money Control and In.com are the two big drivers right now but with the financial markets coming back we hope to see a rise in our subscription revenues as well and of course IBNLive and Cricketnext are other revenue lines that are growing pretty strongly.

Raghav Bahl: And Bookmyshow is also showing fairly good traction.

Haresh Chawla: Yes, BookMyShow again is going pretty well. Our mobile revenues have started inching up very smartly. All of this is moving up but as I said you know we have been waiting and a lot of other internet companies also have been waiting for some kind of sudden jump in the base of internet users.

Sadanand Shetty: Thank you very much and all the best.

Haresh Chawla: Shall we move to the next company?

Abneesh Roy: Before the questions start, I would like to ask one question on IBN18 Where are we in terms of the international subscription revenues front? You also have a brand ambassador for the international operations

Haresh Chawla: Yes, we have been actually running a free preview since January in both US and UK, so essentially our paid revenue start kicking in, in a real sense from this quarter onwards. I do not think we are in a position to give you much more information because of the sensitivity that we have but clearly all I can say is that all our deals are intact in US and UK and we are pretty much on similar terms as what is been given to broadcasters of our size. Clearly we have to now get the audience conversion onto us. We are on the main packs of the large bouquets and also we have a good traction on the a-la-carte front. So the revenue will pick up. I cannot disclose more information at this stage.

Abneesh Roy: And on the Indian end, we see that STAR has again become number one for some time. Does it really impact our ad revenues or is it that all the top three are really getting similar kind of ad rates currently?

Haresh Chawla: I think gross GRPs are somewhat misleading indicators because our revenue activities are dependent on the slot leadership that we have and the kind of rates we derive for those programs because when advertisers buy a particular plan they do not buy your gross ratings or anything like that. So it is not only GRPs that affect your monetization directly. What we do still have is the highest reach among the GECs. We do have slot leadership in several of the slots during the week and therefore our revenues continue to really come from there. We have gone through a long period of IPL. A lot of audiences have gone into Cricket. Colors, probably has a very different audience profile, to some extent a different profile of audiences from the other two older GECs and these audiences will come back post IPL and we will obviously be back in the ratings game again.

Moderator: Ladies and gentlemen if you wish to ask any questions at this time, you may please enter * then 1 on your handsets. Next question comes from the line of Nikhil Vohra from IDFC Securities, please go ahead.

Nikhil Vohra: Hi. Just a couple of things, what is the distribution income that we are getting internationally right now?

Haresh Chawla: We have just started getting that income. We were in a preview mode. We would turn fully pay over March and April. So that revenue line has just started creeping in.

Nikhil Vohra: But what is the broad sense that we have about how large it can

become?

Haresh Chawla: See the other networks have a substantial revenue coming from international markets. We are in those exact bouquets and networks in two of those markets. We will be launching in the Middle East shortly and in some other parts of the world as well. I guess it is a bit of a legacy issue where it will take us sometime to catch up to those revenue lines. My estimate is that hopefully within 18 to 24 months we should be hitting those kinds of numbers as they are.

Nikhil Vohra: So broadly we are saying that we could have close to around \$70-80 million in the next two-three years.

Haresh Chawla: My sense is that you would have to get a better sense of the numbers. I am not so sure if those numbers are in that range for anybody. But no, I would not want to comment on those numbers. I can talk about the fact that we declare our numbers on the net basis on everything. So I guess you know we will have to look at some of the calculations. And we can do that analysis but these are substantial and my sense is that the numbers will become reasonably large over the next 24 months.

Nikhil Vohra: Okay. Second was on the domestic distribution arrangement that we have right now. Has that been up for change or renegotiation either on the value of the contract or with the carriage partner itself?

Haresh Chawla: Nikhil, this is competitive information, too sensitive for us to comment on at this stage.

Raghav Bahl: So we cannot comment on that as of now.

Haresh Chawla: But as Raghav pointed out in his earlier discussion that we are extremely focused on the fact that we have been able to do such good monetization of the assets from the ad sales front and continue to do so. Now our focus has really shifted into seeing how we can scale up the subscription revenues, given that we are a substantially large network and a brand starting to show signs of stability and maturity,

Nikhil Vohra: Haresh, why is it an issue to just disclose the distribution income? One is not really asking where you get in the distribution income stream from.

Haresh Chawla: You know I think we have a shared estimate. If you are asking of the status of the current contract, all those are competition sensitive. I think the range of income there again is in the range of about 15% so far as the current status is concerned. All we are saying is that currently 15% is a number but I think we are focused on changing that number and we hope to be like other networks which are deriving close to 35-40% of their revenues from subscription.

Nikhil Vohra: Okay. And lastly if you can just shed some light on the deal with Viacom with regards to potential IPO of Viacom18.

Haresh Chawla: There is nothing to discuss on that.

Nikhil Vohra: Is there a timeline within which Viacom can force an IPO?

Haresh Chawla: No, there is no discussion that I can share with you or anything of that nature. I don't know where this question is coming from.

Nikhil Vohra: Okay, thanks a lot.

Haresh Chawla Thank you.

Moderator: Thank you. The next question comes from the line of Vikas Mantri from ICICI, please go ahead.

Vikas Mantri: Yeah, just on understanding of the rights issue funds, how they have been utilized and the current debt and cash levels.

Raghav Bahl At IBN18?

Vikas Mantri Yes.

Raghav Bahl: Yeah, okay. Binni, if you can just pick up the balance sheet of IBN18 while I just give Vikas a little background. See in the period up to March 31, only the first call money had come in. So I think only about Rs 150 odd crores of money had come in. Even that because of listing guidelines is lying in the balance sheet as share application money and not lying as equity. Binni will give you that the debt and cash position at IBN18.

Vikas Mantri: Meanwhile, I would like to get an understanding of the utilization of funds, in terms of operations. What do we plan to do in terms of Viacom18. Do we launch new channels?

Haresh Chawla: Vikas, actually Viacom18 is a network that has currently three No. 1 channels in it. No other network currently has three No.1 entertainment channels in it. Therefore we have been able to build an operation that really is in a position to further build out the network. So I think we will definitely be focused on adding to the bouquet of already existing entertainment channels.

Vikas Mantri: One channel that we are missing majorly has been the movies channel. Any immediate plans of launching the same?

Haresh Chawla: I guess so. You can also see we are missing couple of other platforms that we potentially should look at, but over a period of time we will grow the business and enter those spaces. I cannot disclose anything more on this side but as I said we are focused on building out this network.

Vikas Mantri: Fair enough, just if I could get the numbers of debt.

Binni Bawa: The gross debt IBN 18 is 470 crores.

Vikas Mantri: And can we break this into IBN standalone and Viacom?

Binni Bawa: We will give you the information offline.

Vikas Mantri: I will take it offline later.

Management Note: The following table explains the debt position at IBN18 on a Consolidated basis Gross Debt of Rs 472 cr was split into Rs 22 cr of Viacom18 contribution, Rs 9 cr contribution from IBN Lokmat and Rs 441 cr of IBN18 Standalone. Of the Rs 472 cr of Gross Debt, Rs 203 cr is from Group entities

Raghav Bahl: Suffice to say that the Viacom18 level is fairly low. About Rs 340 crores of the balance rights issue money has yet to flow into the IBN 18 balance sheet which should happen hopefully over the next few weeks.

Vikas Mantri: Just an understanding of the cash flow, will it be immediately used to pay the excess debt that we have in IBN18 books?

Raghav Bahl: There is a full schedule of the end use of funds on rights issue which we have to adhere to. That is part of the prospectus, so we will absolutely adhere to that end use.

Vikas Mantri: Okay, thanks. Raghav, just one question on the news channels. Where are we seeing the cost elements spanning out there because no one is really making money there?

Raghav Bahl: On the general news channel?

Vikas Mantri: General news channel.

Raghav Bahl: Its an intensely competitive space at the English Language Level. Frankly at the Hindi Language Level, even though we are a No. 5 player in that space, we are certainly seeing a revenue traction which is fairly strong. So we are seeing pretty strong growth at the IBN7 level, coming of a smaller base, no doubt, but it is still fairly strong. It is in the general English News space that we are witnessing fairly intense competition. We also need to note that we currently continue to be a Pay Channel which is not the situation of our competitors. Haresh, do you want to add to the revenue potential of the general news space?

Haresh Chawla: My sense is that advertising is going along with the rest of the market which is definitely improving. I think overall the space will see double digit growth, because of the way the whole advertising and the keynote advertising marketing is going. So in that sense we see a reasonable level of advertising buoyancy.

Vikas Mantri Okay.

Abneesh Roy: Raghav, we can go to Network18.

Raghav Bahl: Sure we move to Network18. Before we field questions on Network18, it would be fair to answer the question that I think Nikhil had raised about any restructuring plans that we may have across the group. I think it is important for us to give you just a context here because if there is any specific restructuring plan, the first people we will share with will be our shareholders obviously. As of now there is nothing that we have specifically carved out or specifically framed but there is a general sense. For the very first time in the group we have managed to increase our stakes across our group companies. Today for instance, we have, close to 60% shareholding in TV18. I think we have probably never been more than 53% at any stage. So this gives us a headroom there. We are close to 58% in IBN18. So that is also a significant headroom. We are close to 55% and counting at Network 18 which again gives us a possibility.

So we are for the very first time frankly in a situation where we are enjoying significantly more than 51% plus stakes across our group companies. Do

remember that 51% is a legal minimum that we have to adhere to as per our licensing conditions. So therefore for us 51% is the minimum that we have to keep and we have always been around that number. We never had the luxury of having any headroom in various companies but as I have just pointed out to you we now have that. We have increased our stakes across the group companies. Now, this gives us the ability to see if we can organize our assets in a far less complex, in a much more shareholder friendly and in a far more consistent manner. That is the stated sort of objective of any plan that we would like to work on. So at this moment we can only say that having the benefit of this headroom across group companies is letting us explore different shareholder value accretive structures. Do remember that there are a lot of possibilities but we have to look at a possibility which we believe will be really in the interest of all shareholders across the group wherein business models can be made more streamlined and consistent and cross holdings can be removed because these are some of the things which sometimes take away value. Any reorganization that we do will be communicated to our shareholders at the earliest possible moment when we firm it up. But for now, we can say that we for the first time have the luxury of a headroom to attempt it. Any attempt that we do will be to make it simpler, more linear, remove cross holding and have a very consistent model and ensure that it is completely shareholder value accretive for shareholders in all companies across the group. I think we can now take questions on Network18.

Moderator: Participants with questions may please press * then 1 on their handsets. We have a question from Vikas Mantri from ICICI, please go ahead.

Vikas Mantri: Raghav, more of an observation rather than a question. We have had a situation in the last two months where we have seen the holding company Network18 stock perform exceedingly well, whereas surprisingly the operating companies which are TV18 and IBN18 stocks have been going down which is very strange Network18 stock should mirror the performance of IBN18 and TV18. So it is definitely that more people know about the restructuring you are planning and therefore the stock movement. So just wanted to tell that I hope shareholder investors are protected in the operating companies as well.

Raghav Bahl: As I said, with any plan that we do, it will be completely value accretive for all shareholders. Since you have made an observation I would just like to add to that observation. If you look at what the group holding company has been doing recently, it has been purchasing shares in the operating companies. We have bought more of TV18 than we ever had and we have bought more of IBN18 than we ever had. So therefore as far as the group holding company is concerned, it is clearly signaling to shareholders that it is so confident about its operating companies that it is going out and buying its operating companies. So you could not give a more definite vote of confidence in the prospects of a company other than go out and buy its shares as the holding company has done. Now it is also a fact that the group holding company, if you did a simple arithmetic of the underlying assets, was suffering a huge discount. So perhaps, and we as the management don't really know why

markets and investors do what they do, you are the experts there, it is just a question of removing that discount which existed and align that with the value of the underlying assets. That's the only rational explanation that one can think of to explain what has been the phenomenon you have just laid out. But I just repeat that the group holding company has given its vote of confidence in its operating companies by going ahead and purchasing, as I said in TV18, up to the legally permissible limit of 60%. We are there.

Vikas Mantri: But Raghav we know that holding companies trade at a discount generally. You can argue about the quantum of discount, but when we do re-structuring, we give the benefit to the holding company saying that we are doing it at current market prices, where there is no discount assumed and therefore, the benefit goes to the holding company rather than the operating companies. So I just want you to keep this point in mind that shareholders of the operating companies should not lose out in this offer.

Raghav Bahl: Your observation is completely on board and as I said, our job is really to go and run businesses and to see what we can do to add value to shareholders. I am just making an observation on your observation. Also giving the observation that as far as the group holding company is concerned, it has put its vote of confidence in the operating companies by going out and increasing its stake in the last six months from 51% to 60% in TV18 and 51% to 58% in IBN18.

Vikas Mantri: But Raghav, the first step happened when the promoters increased their stake in Network18?

Raghav Bahl: No, Network 18 is still at 55%. See again I am just giving you facts that in Network18 the percentage has gone up by only 4% points, while it has gone up by 9% points in TV18 and by 7% in IBN18.

Vikas Mantri: Perfect, thanks.

Moderator: Thank you. The next question comes from the line of Nikhil Vora from IDFC Securities. Please go ahead.

Nikhil Vora: Hi Raghav, I am not asking specifics but want to understand the broad objective of this entire re-structuring. Is it to get all your news assets into a single entity? What is the broad thought process which is being deployed apart from making it shareholder friendly, which I think is more a byproduct rather than the main product.?

Raghav Bahl: Nikhil, these are conversations that you had with us as well as several other investors and share holders and commentators and analysts have had, and there are two or three things that they have felt about our group structure. One, that there are too many listed companies. At last count actually there were five including the Indian Film Company which is listed on AIM in London. So there are five listed companies, was one observation. Two, there are cross holdings between the various companies and it was the view of several very intelligent people that those things become difficult to value for experts. And the third thing was that the business model of each company has elements of overlap in it; for example IBN18 does general news, TV18 does business

news, and Network18 has some other businesses in it. So there was a feedback which would come to us often that is there a way of making the business models more consistent so that shareholders would know forever that a particular company will be undertaking a specific type of business? That is, if tomorrow you were to go out and do a new business we do not have to wonder where that business will go. We know for a fact from the business model of that company that, that specific business would go there. So these are the three observations that have come to us from, we believe extremely sensible and intelligent people. And the thought process for any possible re-structuring that we may do would be to address these three observations once and for all so that we can then say that observation one, two and three have been completely addressed in any possible new model that we have and therefore, we need not worry on these three counts anymore. That's the thought process. We can only put our best efforts and our best thoughts into the various possibilities. How ultimately it pans out and if we are able to do that, remains to be seen. However, the minute we are absolutely ready with it, we will come back to our shareholders. But the thought process certainly is to eliminate the three above mentioned weaknesses of our group structure. Our intention is not to lessen it, but to eliminate these three weaknesses.

Moderator: Thank you.

Abneesh Roy: I have a question on HomeShop18. We have seen good traction there. How does your channel compete with, for example, a GEC which is also showing Home Shopping content. So as a viewer there will be more attraction towards the GEC and then they might sample the Home Shopping Content. So any sense on what is the market share we would be having against those players and plans to really ramp up the viewership for your Home Shopping because I don't know how its been panning out?

Haresh Chawla: The big difference is that are you running a whole 24-hour full fledged service rather than buying slots on a GEC. And the kind of products that are being sold by us are very mainstream. We have a pretty decent loyalty rate with our customers. We service them. So therefore, the kind of service and our offering is very different from a sauna belt or any of the other things that are being sold in the slot purchase. And I think our customers are realizing that which is why we get consistent business from them. So I think that is one power of the equation that we are a full fledged 24-hour Home Shopping company and are available to service the product, available to get called again and again by the customer to address any issue. So we have very different kind of brand imagery and relationship that we enjoy with the customers - that is one. Two, HomeShop18 has frankly ramped up quite a bit in the smaller markets. We have not yet put all the resources out on the larger cities right now because its quite expensive distributing in those markets and as the business gets more mature we will start hitting those markets as well.

Abneesh Roy: But is that how it pans out in mature countries also?

Haresh Chawla: No, here we have an issue of really the carriage fees which is quite expensive in the larger markets. So we are taking it as it comes and we

are getting more than what we can handle already. You need to remember we have to service these customers. We have a large call centre. So I think our issues are that we are investing as and when, to grow the operational and the logistics part of the business. That's where we are today. So as we grow, we will scale up our capacity. We have just added another 250 odd seats now which we will get hold of in about a month or so and then we will go and open up newer territories as well.

Abneesh Roy: Farah, do we have a question?

Moderator: Sir there are no further questions at this time.

Abneesh Roy: Okay Raghav maybe you can just summarize the call. You have already given details on businesses, can you just give an overall summary?

Raghav Bahl: Well thank you very much once again for joining us today. Just to repeat, we believe it has been a remarkable year for Network 18. We have seen a sharp swing in the second half of the year. In monetary terms its an EBITDA swing of roughly Rs. 70-odd crores. But much more than the monetary swing, we have gone from (-55) crores in H1 to (+18) crores in H2, across the group. Much more important for us has been the fact that almost every single business has contributed to this swing. It is not just one or two. And the fact is that we now believe that after having gone through a huge phase of investment for the last four years, we are re-claiming that very solid ground of profitable growth where we were in 2005. We came out of it because we went into an investment phase which is now bearing

forward we are now back in the phase of profitable growth with contributions coming from almost every business. I think for that very reason, it has been a most heartening and a very deeply satisfying year. Thank you very much for joining us today and for sharing with us your thoughts.

Abneesh Roy: Thank you Raghav.

Raghav Bahl Thank you.

Moderator: Thank you. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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