



“Reliance Broadcast Network Limited Results  
Conference Call”

**November 15, 2011**



**MODERATORS: MR. TARUN KATIAL – CEO - RBNL  
MR. ASHEESH CHATTERJEE – CFO - RBNL  
MS. SWATI NANGALIA – IDFC**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2FY12 Results Conference Call of Reliance Broadcast Network Limited hosted by IDFC Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Swati Nangalia from IDFC Securities. Thank you and over to you, mam.

**Swati Nangalia:** Thanks Marina. Good afternoon everyone and welcome to the Q2FY12 Earnings Call for Reliance Broadcast Network. Today we have with us representing the management Mr. Tarun Katial, CEO and Mr. Ashish Chatterjee, the CFO along with the Senior Management Team of RBNL. I will hand over the call to Tarun to make the opening comments and give us an outlook of the business post which we can move on the Q & A. Over to you Tarun.

**Tarun Katial:** Good afternoon everybody thank you for making time on the call Delhi at Reliance Broadcast our effort is been sustain our growth on the Radio business which we have seen over the last few quarters post strong results on our radio operations which is our main stay of the business and grow the business through our television as well as our out of home business. In our radio vertical there are two or three things that actually put us in a great advantage position over the last quarter. One on the revenue side if you look at our numbers we have done considerably well considering that this is a very seasonal and free capitalizing quarter for the business. The radio business actually showed us a growth of over 48% year on year part of which came from advertising and part of which came from our ability to manage some cost to the royalty negotiation that have been on the way over the last two quarters on the cost side it been a considerable tight sizing of the cost in our Music Royalty Fee and we are hoping that going forward this in addition with the net working that is actually coming through in the Phase 3 of the radio policy we will see an even further flattening stroke reduction in our cost line on the radio business. If you look at our television business, it was its first quarter but we have done exceedingly well with the product we have actually become the number one English general entertainment network in the country with Big CBS Prime, beating its nearest competition AXN week on week, Big CBS Love beating TLC week on week, as Spark doing exceedingly well in reach across target audiences. We also created the number media platform in the Hindi heartland with Big Magic that with a base of 1 crore viewers now in addition to our radio base in that region is now far out sweeping whether Dainik Jagran whether it is Dainik Bhaskar or whether it is any other TV business that region that in the outlet as we know accounts for fairly large Addx of the country and we are hopeful that as quarter 3, quarter 4 which are the upswing quarters for advertising coming we will see further consolidation of revenues for these platform during this period. Overall Big FM did exceedingly well 41.6 million

listeners nationwide up 17% from last quarter highest reach from all our radio station in the Hindi speaking market. There were lot of exciting work around Ganpati and Ganesha and around Durga in Bengal as well as lot of work during Navratri. Our Big Life Business is consolidated even further, we hosted the award in association with Star Plus with great ratings as well as launched entire new brand of awards the Regional Rising Star Awards which we are completing over quarter 2 and quarter 3 of this year. If you look at the outdoor business that actually touched its highest revenue to date and we also successfully got back a very, prestigious line in DMRC called the Line II which actually covers large tracks of Central Delhi which is Connaught Place and some of the other prestigious radio network stations. So we are hoping that in addition to attraction on Big Cinemas that we have been seeing it will be a near term profitability at least in the gross level for the out of home business in the next two quarters. Lastly Big Production which is our production company did exceedingly well we have very good shows running on Big Hindi GEC, we just finished the Sa RE Ga Ma Pa Little Champs and we did another Big shows on Colors called Badmaash Company, some of our Big shows long running show continued to well whether it is Swapnanchya Palikade on Star Prawah or Motibaa on ETV. We have commissioned 7 new shows which will actually on air this quarter and by quarter four we are hoping to add a couple of new shows on the Hindi GEC again. Two or three things which are changing the dynamics of our business as we stand today in two big areas of business one in the radio part we started to see a complete rationalization of the Music Royalty Cost so the IPRS Royalty judgment is actually very favorable for radio stations and we started to actually save that cost pretty significantly and secondly in the television business the digitization fees will dramatically 30-40% of our OpEx coming to April to June next year. Since most of our business with the premium and channel have been present in the six metros four out of which are now getting digitalized, we are hoping that we are going to see a significant uptake in our subscription revenue but not only that we are going to see a significant reduction with in our placement carriage fees which is fairly large chunk of our OpEx today. So the TV business is probably going to go through a watershed across the category in the next couple of quarters and we are hoping to capitalize very effectively because we are one of the largest content outputs and backing in the country today with both CBS and **RTL 7.36** in place. So rallying both regulatory levers as well as sustained demand on advertising its keeping the business outlook pretty good for quarter 3, quarter 4. We are hoping that even though overall advertising may not grow as much as it grew last year. We will be able to sustain that fairly effectively and add revenue streams from subscription in our TV business. I will now handover to Ashish to actually take you to some the numbers and details.

**Ashish Chatterjee:**

Good afternoon everybody. So if you look at the radio business it has been able clock 57 crores of topline it has remained quarter on quarter EBITDA positive, PAT positive. Yes we have got support of the cost price with the Music Royalty coming down and we have been

able to renegotiate our contracts on the music labels also. On the TV production business this also continues to be EBITDA positive business this is a business that we added quarter and this quarter we have been able to some good shows like the Zee Sa Re Ga, Ma Little Champs which was one of the highest rated event show in the last quarter. In the outdoor business we are growing in size in terms of market share, our Delhi Metro businesses continue to do well and we will soon be edging closer to breakeven on this as now other advertisers and out of home player are largely looking at Reliance Broadcast for their representative business because we have been able to create a leadership position for this business given the kind of quality of work that we have done in Delhi Metro. Delhi Metro is a showcase out of home opportunities that can be talked about in India's context. In TV broadcast early times, but two quarters of good performance by all the four channels that we have launched so far as all of them are leaders in their own right and we continue to go forward as Tarun described. Digitization is going actually pave a new path for the TV industry and if margins are going become much better and breakevens for smaller channels are going to be much faster and we look forward to a stronger radio growth followed by a TV which will start increasing in its size. I would now like to invite any questions from the other hands.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from Abneesh Roy from Edelweiss, please go ahead.

**Abneesh Roy:** Sir thanks for the opportunity. My first question is on radio business 48% y-o-y growth, you said there is some one-off in this and we have seen other radio companies grow by just low single digits. So if you could give us exact color on volume and rate hike and what was the one-off effect.

**Ashish Chatterjee:** So we continued to have good utilization 75% inventory utilization in metro markets and inventory utilization in non-metros. If you take a rate hike last quarter, so this quarter we have remained flattish on the rate side. The one-off have largely been renegotiation on the music label of PPL where we have been able to renegotiate and get the cost to a low number and the second piece is regarding performance royalty now for all performance royalty contract with all our music label. We have reversed the amounts that we would have paid earlier and we have stopped accruing performance royalty from April 1<sup>st</sup>.

**Abneesh Roy:** Sir how much you said was the utilization in non-metros?

**Ashish Chatterjee:** 51%.

**Abneesh Roy:** So what was the impact of the music label cost?

**Ashish Chatterjee:** Because music label if you compare it versus last year has now come down to half.

- Abneesh Roy:** No in terms of numbers because what was the core radio growth?
- Ashish Chatterjee:** Radio growth without looking at the music royalty there is a 15% y-o-y growth.
- Abneesh Roy:** And this music label royalty cost is a cost, right?
- Ashish Chatterjee:** Yes royalty is, the part which was accrued till year as an other income, the one which we have to accrue for this year is now no longer being accrued.
- Abneesh Roy:** But how are you showing this in revenues?
- Ashish Chatterjee:** What has been accrued till March 31<sup>st</sup> Abneesh that is now reversed as part of other income.
- Abneesh Roy:** So this won't be in the coming quarter, right? This is a one-off and it is over.
- Ashish Chatterjee:** Yes one-off.
- Abneesh Roy:** And 15% add growth most of the other media company are saying second half is looking even more pessimistic and more bleak, what is the sense that you are getting?
- Ashish Chatterjee:** Abneesh, what happens is that radio generally tends to show very fairly stable growth in tight markets, right because the reach versus price comparison on radio actually holds very good in slightly slow so recession markets. If you actually go back to the last recession also whether it was us, whether it was any other radio company. Radio company kept performances levels up fairly well. We have seen October go by which has been fairly good. It seem that the lull which we normally see in November is not there and we are tracking fairly good numbers in November. So in my view though the market are tight but brands stroke platforms have delivered great price for value equation will continue to perform very well.
- Abneesh Roy:** And what will your split in terms of local versus corporate?
- Ashish Chatterjee:** Historically we have actually had a fairly good local number now if measure numbers there are two ways to look at local, right? One is the local retail advertising second is local SME stroke generation basis advertising which we tend to get a lot from our TR2 advertisers. We have a fairly large play in the TR2 game and so our play if you add our SME as well as our local game. Is now up to about 40-50% and we do fairly large numbers in lot of very good markets like Rajasthan, like Haryana, like UP and in UP and MP specifically where we have added magic now to the play is actually showing us fairly good growth year-on-year.
- Abneesh Roy:** How does this bouquet selling of magic radio was, normally in media we are seeing bouquet selling or different media segments don't really workout.

**Ashish Chatterjee:** So why do people buy magic? People buy magic because they want to geo target UP, MP and why do people buy radio? Because they want to geo target UP, MP. So when is the geo targeted play then it does work when it is a national play then it is difficult to make it work.

**Abneesh Roy:** And coming to digitization on which you sounded one of the most optimistic people in terms of TV digitization then we really in the next six months do we really expect too much of a difference in your numbers in terms of carriage fees or DTS revenue because of the digitization?

**Ashish Chatterjee:** See you know what from anybody else to us the big difference Abneesh lies in our business pretty lies in the digital homes because the kind of channels we have with CBS are upper HNI targeted channels, right? And for us it really does not matter whether digitization happens on the Tier3, Tier 4 or not but if you look at what is today the case of Bangalore, Bangalore is probably all digital already and so is Chennai rapidly moving towards that and some of the other metros and we are already fairly well present in most of the DTH platforms and digital cable platform and so for us you know our entire game is within the six metros.

**Abneesh Roy:** And are we there in all the DTH operators, how many DTH subscribers we have and how many of them are pa?

**Ashish Chatterjee:** Except for the relevant ones which is except for Tata Sky we are in all relevant ones. We are not in Dish because Dish till now has primarily Tier2 play we will approach them in what their strategy in the metros for the digitization phase is going to be.

**Abneesh Roy:** And any numbers you can share on how much reach we have, how much are we getting paid for, other broadcasters share that.

**Ashish Chatterjee:** At stage we wouldn't want to.

**Abneesh Roy:** And lastly on the radio M&A are you looking at some option it is viable to really go for some M&A options in Radio.

**Ashish Chatterjee:** Unless it really makes sense when bill versus buy we won't do any this.

**Abneesh Roy:** Okay sir thanks and all the best.

**Moderator:** Thank you. The next question is from Aniruddha Kekatpure from JM Financial.

**Aniruddha Kekatpure:** Hi good afternoon gentlemen couple of questions from my side primarily on digitization just wanted to know what is the status are you guys really confident that the government

mandate will be pushed through and whatever dates are suggested will be implemented, one. Two, in your presentation you said you post the digitization you expect your OpEx to go down by 30-40%.

**Ashish Chatterjee:** I didn't say OpEx to go down by 30-40%, I said that our current OpEx is 30-40% and we expect it to go down significantly.

**Aniruddha Kekatpure:** Okay so just then speak on that would the carriage emplacement charges be negligible or would they go down and by what magnitude do you expect them to go down.

**Ashish Chatterjee:** While the world will change and we don't know how it will change. There are two or three things that will happen. If you look at digitization why is digitization being pushed, so everybody obviously has an agenda. The DTH players want a fair ground to compete on and the DTH lobby has been working at the doors of the government for a very long time to make this happen. They are also very fairly well funded whether it is Tata Sky, whether it is Reliance, whether it is Airtel, whether it is Dish they are fairly well funded to actually expand their growth in the metros. Secondly it is also being pushed by the MSOs themselves because they want a foremost structure relationship with the LCO. The current relationship that the MSO have the LCO is strict and it is not long term and stable. In this new set up conditional access system and the SMS system will be controlled by the MSO and so it will be fairly long term value creating proposition for the MSOs. Thirdly, it is also being pushed by the government in one or two reasons. One, the government will have free spectrum after they move from analog to digital to actually redistributed to various other sectors and more importantly today the government gets paid hardly any amount of service or entertainment tax for any of the subscribers. So it will be interesting to know that in Bombay the government probably doesn't get paid more than 225,000 subscribers where in number of subscribers in Bombay would be more than 2.5 million. So there are various general logic at work on why this is being pushed. They are hoping if it is not April but between April and June this should be a significant move towards digitization and in the digital scenario why I said placement in carriage has very little role to play because in a analog scenario the cable operator delivers limited amount of channels because of the bandwidth constraints. In a digital scenario, the cable guy probably will be far ahead than the DTH operator and his bandwidth will allow him to actually distribute close to 500 and 600 channels.

**Aniruddha Kekatpure:** Correct.

**Ashish Chatterjee:** And that bandwidth is actually a **gurgler 11.11** for content which is truly isn't truly available in the market and when you are compelling content like ours both on CBS and RTL, I don't think we are going to be in game to actually push it down people's throat to through placement but we rather work on consumer pulling off the product there.

**Aniruddha Kekatpure:** So what extent would you expect the current charges to go down. Ideally you should not be paying any placement charges.

**Ashish Chatterjee:** Ideally yes and I hopefully...

**Aniruddha Kekatpure:** But do you still expect that broadcasters would be required.

**Ashish Chatterjee:** I mean internationally there is some of a technical fee at the broadcaster tend to pay which is built around some of the bandwidth requirement to carry the channel and all that in terms of sure bandwidth telecom kind of charges and then there is an understanding of co-promotion and things like that between the platform. I guess if not immediately sooner or later the market will move in that direction and you see it anywhere in the world the market tends to move there.

**Aniruddha Kekatpure:** Okay just last related question will be now for these placement contracts that you enter with the cable guys, do you expect that once, say from June if the digitization mandate at least in metro go through. Do you expect, are your current contract terminating around those time or when do you expect these benefits to flow into you.

**Ashish Chatterjee:** As soon as possible and we are trying to time all our contracts around the same time.

**Aniruddha Kekatpure:** Alright fine. That should be it. Thanks and all the best guys.

**Moderator:** Thank you. The next question is from Rohit Dokania from B&K Securities, please go ahead.

**Rohit Dokania:** Yes hi, good afternoon sir. Thank you for the opportunity just one question on the write-back time that we have taken of about 20.9 crores in the first half, I was just wondering how much of actual cash have we been able to collect because as far as my understanding was probably the IPRs would have already distributed this amount amongst the musicians and the artist, etc., so would it be very difficult to actually collect this money from them. I mean if you could just throw some light on that.

**Ashish Chatterjee:** With people like, some of the music labels we will be having continuous pack in the form of music piece. There would be some kind of an adjustment that will happen over the future music royalty. So for labels we have already started adjusting and from that perspective the cash payout for music label is gone away.

**Rohit Dokania:** Okay so that we will not be paying anything further on till the time probably we have recovered that much amount. Okay.



- Ashish Chatterjee:** Some of the legal course to recover the money is also, so it will all move in parallel.
- Rohit Dokania:** Sure. This was helpful. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from Tejas Sarvaiya from Trust Capital, please go ahead.
- Tejas Sarvaiya:** Thanks for the opportunity. I understand other income, we have around 12 crores of the write-back. Can you please make me understand what the rest amount is?
- Ashish Chatterjee:** The balance is renegotiation of the music label cost which has now been aligned to closer to 2% based on the last copyright order on that. So we are acquiring them on higher number but we now got them to agree to the copyright judgment and we are starting to accrue lower and what we have accrued in the past we have adjusted now.
- Tejas Sarvaiya:** So that is 6.9 crores, right?
- Ashish Chatterjee:** It is 2.5 crores for this quarter balance 4 crores is genuine other income in form of interest and other things.
- Tejas Sarvaiya:** Okay so 4 crores is the interest and all other things. Can you give me your take on take on Phase-3.
- Ashish Chatterjee:** No not at all I think it is very good opportunity for the radio business we are just hoping that the government will bring it out sooner than what they are doing currently but the document is actually, the gadget is out, the government is also wanting to close all the previous contract very quickly so that they can move into bidding. Originally it was expected that the bidding will start in Jan we are still hoping that it won't move too much from where the government had announced originally what it does for the business is that it allows us two or three things, one in the new quality scenario it will be good to launch stations in the Tier-3, Tier-4 towns where India seeing fairly a large amount of growth network stations which are very low on OpEx and CapEx in these regions will actually add significantly to the inventory available and to equity overall and it will also allow us to overlap with prints very effectively and move the money in the media mix from print and local advertising and the other count you know multiple frequency in the metros will allow us to actually capitalize on a brand that we have built across the six metros and actually allow differentiated content. Some of the other highlights on the Phase-3 policy are news, current affairs and sports. We currently own the ICC rights for radio and we are hoping that we will be able to capitalize on them very effectively. News and current affairs will also allow us to increase the reach of the medium which in itself is already very high.

- Tejas Sarvaiya:** Okay that is helpful. Can you give me some view in terms of number of stations you are targeting or the expected CapEx to be done?
- Ashish Chatterjee:** So the number of station depends on the number of stations and frequency the government opens up but we are hoping that we would probably be on the top to able add about 60-80 stations with a CapEx of anywhere between 150 to 200 crores.
- Tejas Sarvaiya:** So this the complete CapEx including licensee or just
- Ashish Chatterjee:** Hopefully the CapEx will be not too much because we are looking at networking stations rather than doing standalone stations.
- Tejas Sarvaiya:** And what would be the typical IRR which would not go below that?
- Ashish Chatterjee:** No really we are working different models but there are some station which you would take on good IRR and some station which you strategically need and it will be combination of both.
- Tejas Sarvaiya:** So would be a sense of blended internal payment which will not go beyond that on a blended basis.
- Ashish Chatterjee:** Well this is a part of our strategy I wish I could do that on call.
- Tejas Sarvaiya:** Never mind. Just last question the form of inter-segment revenue is from radio.
- Ashish Chatterjee:** Yes.
- Tejas Sarvaiya:** Okay thanks a lot.
- Moderator:** Thank you. The next question is from Mayur Gathani from OHM Group, please go ahead.
- Mayur Gathani:** Hi good afternoon every one, sir I wanted have some more outlook on the outdoor business, we have been hearing Delhi metro very often but what about others I mean other tie ups with Reliance Infra also that we would be utilize in their properties like for example Sea Link or something else but haven't heard anything much on that front.
- Ashish Chatterjee:** We have actually this quarter 3 is going to see a lot of numbers coming in from the Delhi Airport Metro Express which is tie up with Reliance Infra. This is a first tie up which is actually put in place and we are planning to see very good numbers in utilization as well as revenues come from there. We are also starting to see numbers coming from Big Cinema which is tie up which we have in the group and we are hoping that both the Sea Link and the Mumbai Metro will go live early next year.

- Mayur Gathani:** And coming to the radio business, this write back here in this performance royalties is it what the industry has done or you exclusively has done this right back.
- Ashish Chatterjee:** The industry has all done it and the industry is actually got this benefit. To be honest we were not fronting the litigation but we as an individual been able to take good advantage of the final result that have come out.
- Mayur Gathani:** Okay but this is different from the 2% royalty, right?
- Ashish Chatterjee:** It is the 2% royalty. We were accruing it much higher so part of it is that we readjusted the royalty to 2%.
- Mayur Gathani:** Fair enough and what about the litigation with T series sir any up dates on that because you were still paying them at higher than 2%. Sometime the media had put up a case against them.
- Ashish Chatterjee:** Today even we are in fairly advanced renegotiation conversation with them.
- Mayur Gathani:** Okay fair enough thank you.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand the conference back to Ms. Swati Nangalia for closing comments.
- Swati Nangalia:** Thank you to all the participants for joining us today. Also thanks to the management for removing time for this conference call.
- Ashish Chatterjee:** Yes this is Ashish. So largely I think we are well-poised for the next leap on radio, radio is continuing to do profitable growth and quarter 3, quarter 4 usually are better quarters for the media sector. So we hope radio will throw some good flat numbers coming forward. Our TV production is an EBITDA positive story and we hope to do much better shows in quarter 3, quarter 4 and we await post Phase-3 and digitization which can be too big watershed events for both our radio and TV broadcast business. Overall I think we are on the growth path that we basically aim for and we are confident of looking at profitable growth in each one of our verticals as we move forward.
- Swati Nangalia:** Thanks Ashish and all the best.
- Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.