



“Reliance Broadcast Network Limited Results
conference call”

August 17, 2011



Moderator Ladies and gentlemen good day and welcome to the Reliance Broadcast Network Limited Q1 FY12 Results Conference Call hosted by IDFC Securities. 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. Should you need 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. At this time I would like to hand the conference over to Ms. Swati Nangalia from IDFC Securities, thank you and over to you.

Swati Nangalia Thanks Melissa. Good morning everyone and welcome to the Q1 FY12 Earnings Conference Call for Reliance Broadcast Network. Today we have with us representing the management Mr. Tarun Katial, the CEO and Mr. Asheesh Chatterjee, the CFO, along with the senior management team of Reliance Broadcast. We will start with Asheesh giving us a brief overview on the business, the quarter performance and the way forward, post which we will move on to the Q&A. Thank you and over to Asheesh.

Asheesh Chatterjee Good morning everybody. We at reliance broadcast are very happy to announce our quarter one FY12 results. We have clocked a standalone top-line of 81 crores which has been a significant improvement from 52 crores what it was in the quarter one last year. At the bottom line level, I think we have been able to shrink the loss to a meager 3.5 crores again a very good improvement over a 15 crores loss that was reported in quarter one last year.

The performance has largely been backed up by radio which is now doing exceedingly well. We have been able to clock 50 crores of top-line on radio on a stand-alone basis. And radio has actually turned PAT positive, we have been able to report a bottom line of 7.4 crores this quarter on radio. And again when we compare that with a 6.5 crores negative PAT in THE quarter one last year. It is a huge turnaround story that we have on radio.

The other key piece that comes into our stand-alone this quarter is THE TV production. That is a new business that we added this year. It has been able to clock a top-line of 16.5 crores and is an EBITDA positive business. On a consolidated level, we have been able to clock top-lines of 75 crores and the bottom line of negative 29 crores. The losses are largely on account of TV broadcast business, which largely contributes to 19.8 crores of that loss within that 29 crores number.

The TV business is largely a start up exercise as you would understand, Magic was just a weeks old, Spark the third channel in the big CBS bouquet was also launched only in this quarter. And the other two channels which were launched earlier Prime and Love are also just a few weeks old. The revenues that we see on TV broadcast are largely happening only on Prime. All the channels have established themselves neatly in their segments. so today CBS bouquet is the largest market share holder in the English GEC space.

Prime is infact beating competition in various segments and Love has become a very nicely segmented women's channel and Spark is also showing healthy competition to all its leaders.

Magic has brought actually smite to our face. Magic has been an outstanding success. It has been able to grow the market and also establish leadership over the other channels in that space namely Mahuva by a huge lead number. So I think Magic is firmly on its way to gain on profitability. If we look at each of these segments together now, radio business has matured and is showing profits and is now just waiting for Phase III to take it to the new level. TV production is a new addition to our bouquet which has huge synergies within the segments because we are already so actively getting into the TV broadcast, is a healthy top-line plus a decent positive bottom line business. And TV product broadcast which is a new area, is establishing itself as a leader in every segment that we are getting into. So that's been our performance.

So far on the cost side we have been able to keep cost under control. We continue to keep the cost in check as the market remains completely tight. This tight market we have been able to take a good effective rate increase on our radio businesses, although quarter one was tight across for the entire media world. Our fill levels largely took some pressure but we were able to bring in the effective rate increase which will now start showing up as much better profitability in quarter 2 and quarter 3, when automatically the fill levels go up to 100% levels in metro's and key towns. So it has been a good performance. We are very pleased with the performance and we really eagerly await phase III and the other opportunities that lie ahead of us in the next three quarters.

I will be happy to take questions if they are any.

Moderator

Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

Rishi Maheshwari

I would like to know more from the management in terms of their turn around in radio. How has this come about. Is it the pricing which they have increased and has the advertisers take it well? Our advertisers are now looking radio as a more cost effective as well as more mass reach medium. What is your strategy going forward in radio? How will you participate in phase III? If you can broadly indicate in terms of which circles you are looking at?

Asheesh Chatterjee

You are right. Obviously radio is a mass reach media and we have 45 stations radio networks.

Rishi Maheshwari

I am looking for further color on this in terms of what advertisers are? There are new forms of advertisement coming in there with a more diverse kind of portfolio advertisers who are participating in.

Asheesh Chatterjee

It is a large network and what probably we will be able to get is corporate advertisers, corporate advertisers who are looking into mass penetration reach. National competitive advertisers like FMCGs who actually were not large spenders have actually seen a lot of money moving into radio, one of our largest advertiser now happens to be Hindustan Lever who was very low on radio over the years. And the other big one who has picked up on the radio is P&G . So

advertisers are those who are pretty agnostic to slow downs and are 365 days, 52 weeks a year advertisers and are planning to contribute more towards both good use as well as inventory utilization.

The other big part of the radio business is our ability to be able to control our cost. Also the court case and copyright board and TPR has lastly been decided as 2% and the file is up for negotiation in the copyright board, every one would think it would not be far from there.

The third part of the piece is our own individual ratings in the competitive set, while leadership has been a constant consistent way of life for us in Bangalore and Calcutta. We have also done exceedingly well in Delhi over the last six months and have upped our rank to No.1, No.2 and No.3 fluctuating between weeks.

Lastly on to phase III policy and its advantages. one of the big advantages on the phase III policy is networking and networking allows us to actually lower our operating cost in some of the smaller stations that can now be networked and create a hub and spoke model out of. So our approach to this entire phase III policy will be that, about 6 to 8 of our stations will actually get now networked hopefully, which will add to the bottom line directly. And our phase III bidding policy is a bit of confidential game plan. We won't be able to talk to you more but we are looking at three buckets overall. One is the consolidation bucket in the metrospace , other is the consolidation bucket in our geographical strength space and the third could be venturing into new areas and this is how our order of priority is to.

Rishi Maheshwari

Lastly on understanding the current advertisement market, lot of peers in terms of print or the TV advertisers have not faced a good quarter this quarter. How has radio been received, your numbers specifically show that you have done well? Is the trend likely to continue given that the movement is probably from may be a costlier advertisement medium of television to may be radio?

Asheesh Chatterjee

It has been a tough quarter. We also wanted to see more numbers come in but we have been able to increase the income on the back of brand count. we built a long tail of advertisers. Actually there are 1,600 advertisers this quarter. We are hoping that the season coming in quarter 2 and quarter 3 will actually up the game. It needs to see where the overall macro economy goes but as the economy slows down worldwide, it tends to move to more cost efficient platforms so movement happens from print.

Moderator

Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani

Sir, there is a write-back of 8 crores, is this regarding the royalty payment that we have been paying at a higher percentage and now we are paying at 16.2%.

Asheesh Chatterjee

You are right. It is the IPRS write-back. We have two favourable judgements, one from the Mumbai High Court and the other from the Delhi High Court largely ruling that IPRS has no

right to collect royalty on radio broadcast or music. So we have basically reversed the IPRS royalty from FY09 onwards.

- Mayur Gathani** So that is showing in my top-line.
- Tarun Katiyal** It is the one which we had accrued till last year, the reversal of that is showing in the other income, 8.8 crores and we haven't accrued any IPRS royalty in this fiscal.
- Mayur Gathani** That is showing in the other income?
- Tarun Katiyal** That's right.
- Mayur Gathani** Sir what is the rate hike? Have you taken any rate hikes in this quarter for radio?
- Tarun Katiyal** Yeah, we have taken a 20% rate hike in this quarter.
- Mayur Gathani** Is there a _____ **12.25** against that you had less fills and you have taken a rate hike against that?
- Tarun Katiyal** Yeah, that's what pretty much so. Anyway the industry took a rate on fills and also we thought our fills are anyway going to be tough, so let's take the opportunity and at least be able to fix our rates.
- Mayur Gathani** So, what have been the utilization levels?
- Tarun Katiyal** Utilization levels are actually down to about 55 to 60% nationally.
- Mayur Gathani** Okay that means stop as well as Tier-2 and Tier-3 cities together?
- Tarun Katiyal** That's a blended, yeah.
- Mayur Gathani** And how does it look going forward with quarter 2 and quarter 3 become the ...
- Tarun Katiyal** Obviously the season is in now, so now utilization is not a challenge.
- Mayur Gathani** And what would be your rate for 10 seconds, sir?
- Tarun Katiyal** That's something we cannot discuss here.
- Mayur Gathani** Sir, there was a news article I am not sure how correct I was in that. There was an outdoor advertising contract for BEST AC buses that Reliance Broadcast had taken, is it true? I mean the amount quoted was exorbitant there?
- Tarun Katiyal** That contract actually is going nowhere to be honest. BEST is not clear on its rights, so hasn't gotten it. It is not progressing to any direction because the current owner of the BEST is 13.47

- Moderator** Thank you. The next question is from the line of Rohit Dokania from B&K Securities. Please go ahead.
- Rohit Dokania** Asheesh, if I look at your consolidated radio top-line stands at about 44.4 crores and the standalone is about 14.4 crores. Could you just tell us what has happened there?
- Asheesh Chatterjee** Yeah, basically we were launching the channels both on the CBS network and MAGIC. Radio has been effectively used to launch and promote these channels. There is cross-selling to that extent which in consolidation gets eliminated.
- Rohit Dokania** So it is basically inter-segment sales in standalone that is showing up. Asheesh, I was just wondering this 8.8 crores of write-back that we have taken. Is it segmental, is it a part of the radio revenues, if I take away 8.8 crores from the 44.4 crores, than match stick coming at a decline of 10% to 12% year-on-year on the radio consolidated numbers.
- Asheesh Chatterjee** But if you look at radios standalone numbers, 49.4 crores because eventually we had done this third party promotion for any other channel, we would have still build it at arms length pricing at which it is built. We end up paying even 4% revenue share to the government of this number. So it is something which has to be done and accounted for in that manner and it is a 50% JV ,so there are not really 100% in that sense.
- Rohit Dokania** So, this 8.8 crores has been actually accounted in the radio broadcasting segmental, if I am not wrong?
- Asheesh Chatterjee** If you were to even carve out from that 49.4 crores the 8.8 crores, you will arrive at a number of around 41 crores for radio of which will largely show on account of 1% or 2% flattish growth from quarter one last year, so as Tarun explained we have been able to drive an effective rate increase, inventory fills have remained tight which is true for the entire media sector. They have been able to hold on to the same top-line as last year and we are having some cost upside to IPRS and other areas.
- Rohit Dokania** The other question is 8.8 crores again is a part of the other operational income of 11.5 crores in your book?
- Asheesh Chatterjee** Yeah, that's right.
- Rohit Dokania** One last question on the TV production entity. Is it the same Big Synergy which was a part of the Synergy Adlabs thing that we bought out?
- Tarun Katiyal** No. That is Big Synergy and this is a 100% owned company for big productions.
- Rohit Dokania** Okay and is it possible for you to share at what valuations we would have bought this entity. Are you disclosing that number?
- Asheesh Chatterjee** We are not disclosing that number Rohit.

- Moderator** Thank you. The next question is from the line of Manish Gandhi an individual investor. Please go ahead.
- Manish Gandhi** Actually my question was on the 8.5 crores but the previous question you clarified very well. So I just want to understand on the price hike, when you have taken this in August, sir, in radio?
- Tarun Katiyal** No, we did the price hike in June and the effects of that announced are yet to show up and in fact there have been two or three large advertisers that have been kept out over the last two to three months and you will start to see them come back on air now.
- Manish Gandhi** So you will be getting the benefit in the second quarter after the price hike?
- Tarun Katiyal** A good price negotiation takes about 45 to 60 days, otherwise you have to end up giving in to the advertiser.
- Manish Gandhi** Okay and just one more thing, what about phase III, any CapEx plan, so are you going to have a debt or you are going to dilute equity or something like that?
- Tarun Katiyal** We are channeling both options. Obviously it is not going to be all debt. It will be part debt and part equity.
- Moderator** Thank you. The next question is a follow up from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani** Sir, wanted some highlight on your TV business? I mean is it a revenue of 1.8 crores that you have done this quarter and we are looking at around 8 to 10 crores for quarter 3 onwards. So where do you think this contribution is going to come from, sir?
- Tarun Katiyal** Clearly the channels are just about getting launched. In the last quarter we just about launched Spark and just about launched MAGIC. Any advertiser waits for about 8 to 13 weeks to see whether the trend in ratings of the channel and then starts to induct behind it and makes a part of the business plan and so the advertising plan. We are now seeing a lot of traction on both of our channels. If you watch our channels and if you can see some other English ones, you will probably can't see MAGIC but you will see a long list of advertisers on those channels. Also quarter 3 and quarter 4 is peak of season and has its own list of advertisers getting active. So that side we have well plated to actually take advantage of us being in the market, performing in the market, and the market in itself has been expanding for quarter 3 and quarter 4.
- Mayur Gathani** Any revenue contribution figures that you would give us for television business for this year?
- Tarun Katiyal** I think when we are exiting quarter 4, we are hoping that TV would be up to 20% of our overall pie.
- Mayur Gathani** Okay and the new tie-up with RTL, do we see any launches this year or will it be next year?

- Tarun Katiyal** Probably see that in the quarter 3, one launch may happen in quarter 3.
- Mayur Gathani** Are we looking at any GEC channels or we are focussing on niche only?
- Tarun Katiyal** We have already done regional GEC and we may do some of them. GEC markets are tend to hold up very well in any slow down situation and the impact on sentiments is far lower in Tier-2 and Tier-3 so I think our investments coupled with radio in some of those markets will be a good bet for us in the long term.
- Mayur Gathani** Any CapEx figures that you would like to....
- Tarun Katiyal** No CapEx. These are primarily OpEx led. Television doesn't incur too much capital.
- Mayur Gathani** Will this JV would be like CBS 50:50 ,so the content cost is provided by the CBS fully in that case?
- Tarun Katiyal** It is a 50:50 cash JV and whatever content we buy ,we pay up whether JVs or whether.....
- Moderator** Thank you.
- Tarun Katiyal** Asheesh you may want to do some closing remarks.
- Asheesh Chatterjee** So thank you everybody for taking this time out for our quarterly call. So it has been a good quarter and some great times ahead. I think Radio is looking optimistically for better fills and full realization of effective rate increase that we took in the quarter and the channels which have established themselves are looking forward for growth on their top-line. So I think we will have much better news coming forward in the next quarter and we thank you all for being a participant in this call.
- Swati Nangalia** Thanks Tarun, Asheesh and team there and also all participants for being on this call. Thank you.
- Moderator** Thank you. Ladies and gentlemen on behalf of IDFC Securities that concludes this conference call.