

The zest in Zee

Through a series of changes, Zee Telefilms has moved rapidly ahead. **Ryan Rodrigues** reports



A few years ago the average viewer in India had written off Zee Telefilms as a potential No 1. A media and entertainment company, it had been a market leader in the Indian television space for long. But stiff competition had started to take its toll. At its offices in Mumbai, senior managers would walk in - and then they walked out. One successful show on rival Star TV, followed by a serial onslaught, had whittled down homegrown Zee from prime position to No 3.

"Things weren't good," says an analyst. "Massive investments in programming weren't paying and distribution was ignored," he adds. Back at the Zee office, Ashish Kaul, vice-president of the corporate brand development group, agrees things went awry. "But change was the word," he says.

Among the first moves, the parent company was restructured. Then down the line at its largest group company, Zee

Telefilms, softer changes were introduced. The traditional rectangular Zee logo was given a contemporary look, with bends and curves to target a younger audience. Headquarters shifted from the suburbs to a swanky building in the centre of the city.

Today behind the glass walls of this two-storey structure, executives buzz around with purpose in their feet.

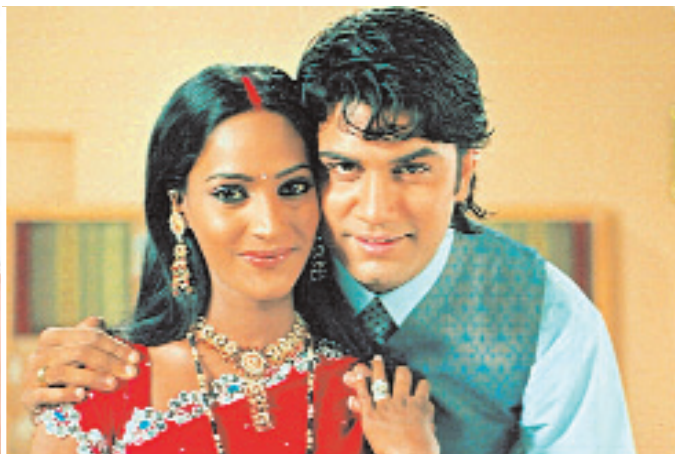
The verdict first came from TAM Ratings in June. The industry's audience measurement system lists 10 Zee shows in the country's top 100. By doing just this, Zee has crowned itself into second place in general entertainment, a position occupied by Sony for the past four years. Three recently launched serials - *Jabb Love Hua*, *Kasamh Se*, and *Saath Phere* - in primetime slot, have seen TRP ratings jump from three to six.

Then in mid-June came a report from Enam Securities India Research, which calls Zee an 'outperformer'. "Post restructuring we believe that the company will

benefit from the increased management focus on respective businesses," it says. Next was a Merrill Lynch report. "Zee TV has finally overtaken Star Plus in the 9-10 pm band in the first week of June with its shows beating Star Plus after six years," it says. "Developments reinforce our view that improving content and platforms will be key triggers to sustain Zee's premium valuations."

Stock analysts' now stick their necks out for Zee; the company has become a hot pick. Subhash Chandra, the company's chairman and managing director, credits it to the changes that have come through. "You need to constantly reinvent to be relevant to the new consumer," he says.

Chandra roped in Pradeep Guha from the popular daily the *Times of India* as chief executive officer in early 2005, to focus on the content business. In almost the same breath he brought in son Punit Goenka and brother Laxmi Goel, to serve as full-time



A SURGE IN RATINGS: Popular shows *Kasamh Se*, *Saath Phere*, and *Jabb Love Hua*

At 100,000 subscribers a month, Zee has pulled it off in the direct-to-home business.

directors. Then he moved from the managing director's seat to that of chairman. "Having the right people, in the right position, doing the right things is today a critical factor at Zee," he says.

Chandra has seen all the ups and downs at Zee. And if reinvention is the word of the day, then all his re-engineering by year-end will come in full force. In fact, by March 2007 the company itself will cease to exist.

Zee Telefilms is being pieced into three parts. Its distribution business will be called Wire and Wireless India (WWI). The general entertainment business will be called Zee Entertainment Enterprises. And the last cluster of regional channels will come under the third company, its news channel Zee News. Like Zee Telefilms, all three entities will be listed on the exchanges as separate companies.

This move will address the current "mashed up" situation. At the Essel Group,



IN THE PULSE

SUBHASH CHANDRA, now 56, was born in Hisar, Haryana, a northern state in India. The son of Nandkishore Goenka, a cottonseed trader, he was the eldest of seven children and grew up preparing to be an engineer. But by the age of 19 he took a liking for business, and started a vegetable oil unit.

Chandra's big break came in 1976. When Food Corporation of India began to expand storage capacity, he took up an order to cover the produce with polythene sheets. This gave him exposure to both food grains and packaging. Soon he shifted into exporting food grains through his firm Rama Associates, where some Russian deals proved very profitable.

Then further diversification continued. After a visit to a packaging exhibition in 1981, Chandra began manufacturing laminated tubes through his firm, Essel Packaging. In 1988, he formed Pan India Paryatan to develop amusement and theme parks. First was EsselWorld (1988) and then Water Kingdom (1998), both in Mumbai. French architect Jean Michel Rouls designed Water Kingdom to give it a "tropical theme of a lost jungle temple". The park has entertained more than 11 million visitors till date.

In 1990, after a casual meeting with a friend at Doordarshan, the state-owned terrestrial network, Chandra set up a broadcasting business, and India's first satellite channel, Zee TV. He outbid many top businessmen, and signed a lease deal for a transponder on Asiasat with Richard Li, then chief of Star TV, for \$5 million. Later he set up a satellite business Agrani which, in a \$300-million project, signed a contract for India's first private sector satellite, a geostationary, C & Ku band satellite from French company Alcatel.



REINVENTING ZEE: Chairman and managing director Subhash Chandra

In all this Chandra has a few things to his credit. He seized an opportunity whenever he sensed one, and has been a first mover in each field. These fields were as diverse as media and packaging, but the performance has been remarkably sound in each. Chandra had zero knowledge about programming, distribution and film rights when he got into broadcasting. But that did not stop him. Now there's Zee Interactive Learning System (ZILS) that provides learning solutions to segments of education like the Internet, multimedia, print and television.

The takeover and merger of Swiss packaging company Propack with Essel has today formed Essel Propack, the largest producer of laminated tubes in the world. It has manufacturing units in India, Egypt, China, Germany, Philippines, Indonesia, Venezuela, Colombia and Mexico. And Zee Telefilms, despite setbacks in the past, is heading for the top again.

Changing Colours

in \$ million

Year	Sales	PAT
2005	282	69
2006	309	47
2007*	417	66
2008*	488	85

* Estimates.

Source: ENAM Securities India Research

Chandra's umbrella company for all his businesses, the strategists are sure this will give rise to new opportunities. Says Rajiv Garg, Essel Group CEO (corporate strategy and finance): "Huddled together under Zee, some businesses were not given the right strategic focus. In cable, for instance, we felt that we were not doing justice to its growth potential."

Garg is referring to WWI, which will be Zee's distribution business. The ace up its sleeve is SitiCable, a cable company with a subscriber base of seven million. What started out at Zee through the acquisition of a small cable company in the state of Andhra Pradesh is today a fully-fledged business.

"Internationally, a cable company's valuation is estimated at \$1,000 to \$1,500 a subscriber," says an analyst. Even at a conservative estimate, this makes WWI a \$155 million company. "This is hidden value that does not reflect in Zee's share price," says the analyst. Its biggest competitor in this field is the Hinduja-promoted InCable, with a subscriber base of less than half SitiCable's size. Upgradation work is underway. Digitising the network - shifting from coaxial to fibre optic cables - and the laying of a digital platform, sources say, will receive an investment of around \$100 million.

WWI is also gearing up for triple play - which will converge high speed Internet, television and telephone services over its broadband platform - and is expanding into value-added services. In fact, work has already started for quadruple play or wimax. "Data can be transmitted to terminals and handheld devices through wireless means," says Kaul. Next in line is the setting up of a company styled Digital Media Services (DMS), for which Zee has tied up with Intel for a digital platform. Through DMS, content will be distributed on terminals, cellphones and other handheld devices. There is also talk of its subsidiary Siti Energy getting into the power business. Investments are being lined up

and projects are being identified.

The focus on the general entertainment business has already started to pay dividends. Bringing the marketing and programming teams together has helped Zee to sell its content better. Analysts say Zee had the right content all along, but could not bring in viewers due to stiff competition. A stronger marketing technique is now doing the trick.

At Zee News, director Laxmi Goel says the functioning of the organisation will remain more or less the same. "It has just taken a different avatar," he says. Goel feels the splitting of Zee Telefilms will benefit each company. "We are now free to take independent decisions on expansion, which will always be guided by market forces," he adds. As far as regional channels are concerned, they will play their part south of the state of Maharashtra, where few people watch Zee in Hindi.

The forming of Zee News is also in line with Indian regulatory requirements (its turnover is expected to be about \$40 million). Other newly-launched channels like Zee Telugu apart from existing channels like Alpha Gujarati and Alpha Kannada will come under this entity. While it costs around \$3 million to launch a new channel in India, breakeven can vary from one to 10 years, depending on the target audience.

But if there is one emerging business at Zee - the dark horse in its stable - it is the new distribution platform DTH (direct to home). Ascel, also an Essel Group company, holds the DTH operator licence. "DTH has been working well," says Kaul, "especially in large parts of the country that are not connected by cable." In areas like the northeast, a sea of newly fitted dish antennas can be seen atop small houses.

At a subscriber level, DTH involves the setting up of a low-noise booster, a dish antenna and a set-top box. These enable reception of a set of channels that the user pays for - per channel or by the bouquet. Zee sources its set-top boxes from two Korean companies, Kodax and Telenor. "India has a billion people. The potential of this business is enormous," Kaul adds. How "enormous"? Growing at 100,000 subscribers a month - that's 3,000 a day - Zee has pulled it off. In fact, based on the potential of this business, it may later set



PREPARED FOR A FIGHT: vice-president, corporate brand development group Ashish Kaul

up separate, smaller companies to cater to different states in India.

And, mind you, all this is in addition to Zee's huge fan following in the overseas Indian community. With nearly 500,000 subscribers, the overseas business accounts for a large part of the total number of DTH subscribers. It also contributes half of the company's total revenues. Zee is a leader by far in this segment. Zee is today beamed into 127 countries across the globe, in seven different languages. The subscriber figure grew 12 per cent over 2004-05, and 80,000 subscribers were added.

So what does the future hold? First, its DTH business is growing, but the Tata-Star DTH venture will be launched in October. Zee will have to weather that competition. But its first-mover advantage should be its key strength here.

Secondly, "successful serials have boosted employee morale," says Kaul. More than anything else, moving into second position will have a direct effect on Zee's advertising revenues, says the Enam Report. But the challenge will be in maintaining this position, indeed in moving further ahead. "Being the channel of choice, competitor Star can afford a month of slow marketing. Zee can't afford a similar luxury," points out the analyst.

Those at Zee know this all too well. "Competition's been around for some time," says Kaul. But this time Zee's better prepared for a fight. 🏹