



## UTV SOFTWARE COMMUNICATIONS LIMITED

### Company Release – Management Discussions FY2010 & 2011

24/06/2010

.....

Over the last 8 Quarters, we have been steadily investing and growing our businesses (a) Motion Pictures (b) Broadcasting and TV Content (c) Games Content & New Media. We have always maintained 2009-10 would be the culmination of our “investment and restructuring” mode and each of our business verticals would mature in 2010-11. We are now pleased to report that we feel good and confident for the year ahead.

2009-10 financials as concluded and announced today accurately represent our status of “investment and restructuring” mode in the year. On an annual consolidated basis, we have reported revenue of Rs 6,812.14 million, EBITDA of Rs 677.61 million and PAT Rs 501.72 million.

As we start the new Financial Year, we thought it appropriate to send out this communication for the year ahead.

We have covered:

- a) Each Business
- b) Consolidated review
- c) Risk Mitigation / Value Enhancement

Per Business:

1) Motion Pictures

2010-11 is our Best Slate of movies till date and we have started the year off extremely well with *Raajneeti*.

The two key factors of our positive outlook for the upcoming slate, outside of them being great creative products are-

- (a) our cost model has achieved optimal levels and we feel these levels are sustainable for future growth
- (b) we have an internal mandate to pre-sell/ sell all Satellite TV Rights on an outright basis for limited years, Audio/ Music and Home Video Rights and we believe this now accounts for close to 50% of cost of production for respective movies.

1. *Raajneeti* – Directed by Prakash Jha is on the way to becoming the top 3 grosser of all time. Overall with sale of TV and Music rights, *Raajneeti* will have net revenue to UTV in excess of Rs 800 million.
2. *I Hate Love Stories* - Co-production with Karan Johar, starring Imran Khan and Sonam Kapoor is already a winner. With the strong marketing on the film, we have been able to pre-sell rights of the movie already to the extent of Rs 380 million on this low cost movie.



## COMPANY RELEASE

---

3. *Peepli Live* – Co-production with Aamir Khan.
4. *Udaan* – The first Hindi film in competition at the Cannes Film Festival in 16 years.
5. *Guzarish* – Directed by Sanjay Leela Bhansali with the hit duo of Hrithik Roshan and Aishwarya Rai.
6. UTV Spotboy's *No One Killed Jessica* – Starring Rani Mukherjee and Vidya Balan
7. UTV Spotboy's *Pan Singh Tomar* – Biopic on a shoestring budget.
8. UTV Spotboy's *Chillar Party* – Small budget Kid's movie
9. *We Are Family* – Co-production with Karan Johar and Sony Pictures, starring Kareena Kapoor, Kajol and Arjun Rampal.
10. *Saat Khoon Maaf* – Directed by Vishal Bharadwaj starring Priyanka Chopra, John Abraham and others.
11. *Tees Maar Khan* – Directed by Farah Khan, starring Akshay Kumar, Katrina Kaif, Akshaye Khanna and as a Christmas release promises to be the biggest blockbuster of 2010.
12. *Delhi Belly* – Co-production with Aamir Khan Productions.

Till date, we have undertaken pre-sale of some TV and Music rights for some of the above titles exceeding Rs 800 million.

On an annualized basis for 2010-11, we estimate revenues of over Rs 4,500 million with an EBITDA margin of around 40%.

## 2) BROADCASTING & TV CONTENT:

The small screen (TV) business comprise our 4 successful specialty channels including a Hindi Movie Channel, TV Content Production arm that creates content in 6 different Indian languages for various Broadcasters, the air time sales business with the South Indian based Sun Network and our Dubbing Division.

- a) Bindass in a short span of less than 2 years has become the leading youth channel and is further entrenched in 200 college campuses across India. Under tight cost control and driven by limited number of innovative/ edgy original programs (eg: Emotional Atyachaar), Bindass is now a household name within the 15-24 age group.
- b) UTV Action – The refreshingly and crazily dubbed Hollywood Channel – took off from its day of launch and now is one of the Top Channels viewed by Young Male audiences. The channel is not sold to advertisers as a "Movie" Channel, but more as an alternative to a "Cricket" Channel.
- c) UTV World Movies – Soon to renamed "UTV World" is a Power Brand reaching out to the High Networth Individuals. Its revenue base once positioned well – will be akin to the Top English



## COMPANY RELEASE

---

- News Channels – but at one fifth their cost. Revenue potential from ground events for this channel has started and display strong potential.
- d) "UTV Movies" is our GEC in our specialty Network, which offers mass reach and leads the bouquet both for advertising as well as Subscription Revenue. UTV Movies also has launched its services in various countries around the world and generates significant revenues from overseas territories.
  - e) This year Broadcasting revenues including both Advertising Revenue and Subscription Revenue will see a 100% jump over last year for the 4 Channels, which makes it one of the fastest growing Network in India.
  - f) We are no longer in investment mode for these channels. All further investments will be directed towards building Library & Catalogue of Hindi, Hollywood & World Movie titles for multiple years. As of today, we hold multiple year rights for approximately 1,000 movies for our channels and in some cases the right to syndicate.
  - g) Our Air time sales business will see some growth in this year. However, we expect margins to increase as compared to the previous year because around 40% of the shows being marketed on Sun Network channel in southern markets are produced by UTV
  - h) Our TV Content business, which produces shows for various broadcasters in Hindi and regional space, will see a close to 200% growth. In the coming months, you will see various shows across channels like Star Plus, Imagine and Sony in the Hindi space. Some of the existing shows include *Raktha Sambandham*, *Ratha Saptami*, *Prajaktaa* across channels such as GeminiTV, UdayaTV and MiMarathi, respectively. Every quarter we will see addition of new shows across various broadcasters.
  - i) Dubbing will maintain its previous year's business.

On an Annualized basis we expect to achieve Rs 2,200 million of revenue in 10-11 and this figure also excludes Syndication Revenues as these are not planned or Budgeted but could occur one off. Around 80% of this projected revenue will come from Advertising Revenues and 20% from subscription.

Furthermore, our visibility for this growth is high as we have already achieved the revenue target on a Quarterly Run Rate basis.

The Television Content Business segment (which includes TV Content, Air Time Sales and Dubbing) should see a 60% increase in revenues to approximately Rs 1,600 million for the year.

Overall, on a combined EBITDA basis, Broadcasting will be negative for the first and the second quarters & estimated to breakeven and profitable during the third and the fourth quarter. TV Content should record a 9-10% EBITDA margins, therefore, on an Annualized basis this vertical will end the year with overall revenue of Rs 3,800 million.

These businesses mentioned above – Broadcasting and Television Content will be reported as one segment from the first quarter of fiscal 2011.

### 3) Games & New Media

- a) UTV Mobile Games: Indiagames enjoys a leadership position in mobile gaming in India, has strong and relationships with most telecom companies. The company has the exclusive right for the franchise for IPL Mobile games and had a great response to its recently released *T-20 Cricket Mobile Game*. The Company is also the Only online subscription games platform with GOD (Games On Demand) and has tie ups for game channels on DTH in India. With a highly



## COMPANY RELEASE

---

cost efficient studio set up in Vashi, Mumbai to create games, it is best poised to capture opportunities for 3G & 4G in India.

We see Indiagames growing to approximately 500 million in revenues this year and should achieve 10-15% EBITDA margins.

- b) Online Games: with a creative studio in Austin, Texas, a strong backend outsourcing in Beijing, China – the Online Games entity will have 4 games on the floor – with the first one releasing in July/August 2010 – “*Mytheon*”. The MMOG multiplayer platform in the US has been built and is owned by UTV to earn revenues through micro transactions on Online Games in the US. Furthermore, the model is to pre-sell/ sell our Games to the rest of the world through upfront license fees on minimum guarantees for *Mytheon*, the process of pre-sale has already begun.

2010-11 will be the first year of Revenue for our Online Games and we expect to achieve a base of around Rs 400 million and operating margins of 15%.

- c) Console Games: this business already has a growing Publishing business. Over the next year we will have our IPs ready for release. Along with the 3 Big IPs – *El Shaddai*, *Reich* and *War Devil*, - these are created on Multi Platforms – *PS3* & *Xbox 360* and later can go on more platforms including PC– this vertical also has 2 more smaller IPs – “*Hells Cook*” and “*Dragons Crown*”.

The Key – to our Console business is that over the next 6 months – we would be actively negotiating a combination of (a) Publishing deals for one or more game in one or more territories globally for a License fee / minimum guarantee (b) Co-Production Deals pre-release of a game. (c) Investment into one of our 3 Studios based in London/ Florida/ Tokyo along with the IP of that studio.

The Company is also in discussion with *Sony (PS3)* and *Microsoft (XBOX)* for Publishing and/ or Distribution rights for our IPs.

The final dates of release would be locked, based on the final outcome of the Publishing/ Co Production deals. However, for the purpose of our planning and projections – we envisage at least one of 3 major IPs releasing in this calendar year – even though we may have pre-sold the others.

We envisage our Publishing business to meet targets based on the titles blocked for release during 2010-11. We estimate console games business to contribute around Rs 3,000 million in revenues largely driven by release of our own developed game *El Sheddai* and around Rs 1,000 million from existing Publishing business. No pre-sale revenue of the IPs to Publishers or others has been considered as of now. On this revenue base we envisage a 20% EBITDA margin.

- d) New Media: our initiatives here comprise all Mobile and Web business including Voice based products and services like Audio Cinema and Voice Blogs. While we believe we have some interesting and scalable business here – for 10-11 we envisage a revenue base of around Rs 300 million with marginal profit.



## COMPANY RELEASE

---

So overall and on an Annualized basis for Games Content and New Media businesses – we see a revenue base of around Rs 4,000 million.

### CONSOLIDATED

Based on above business descriptions we estimate consolidated revenues for the fiscal 2010-11 to be around Rs 12,000 million recording a growth averaging approximately 65% as compared with the previous year.

On EBITDA, we believe that growth will be manifold as compared to last year – mainly as all our businesses turn black. However, on the Revenue projected above we see a 16-18% EBITDA margin for 10-11. It is important to note that we do not intend to pursue any dilution or fund raising at the parent listed entity and so in year 2010-11 there will be an interest component in financials for the company. Our consolidated net debt for the group is Rs 8,716.0 million as of March 31, 2009.

We wish to clarify that all our workings are only on an annualized basis and cannot be prorated or broken on a QoQ basis.

### RISK MITIGATION / VALUE ENHANCEMENT:

We are actively engaged in following specific Value Unlocking and Risk mitigation initiatives.

- 1) In Motion Pictures – Co Producers / Financers on our already existing slate – to share risk, and expansion of slate.
- 2) Pre-Sale of Music, Home Video and Satellite TV Rights for each movies of our slate. This again is to mitigate risk by pre-selling / selling estimated up to 50% of cost of production.
- 3) The Board of our Broadcasting subsidiary is expected to meet to evaluate combining TV Content part of the business together with our Broadcasting subsidiary. This is with a view to combine all Small Screen businesses together for a public offer soon. This will allow us to unlock value for this growing business, achieve market determined valuation benchmarks which it does not enjoy today and help us raise capital for future growth.
- 4) In Console Games, Multiple initiatives include –
  - a) Publishing with minimum guarantee License fee per game
  - b) Co Productions for each game
  - c) Investment in each studio independently by an investor
  - d) Partner into the overall console vertical.
- 5) UTV Software: had an “enabling” resolution to raise up to Rs 7,500 million by any instrument, including a QIP. We wish to clarify that we have not proceeded with this option as we do not see a match at current valuations and we do not believe any dilution at the listed entity is the best option for present or future shareholder’s value creation. We will keep tracking this but as of the present we do not envisage pursuing a dilution.

### TO SUM IT UP –

- 1) All our narratives are for an Annual Basis, not QoQ or in any way prorated.
- 2) Movies has its own inherent risks and so we cannot predict with accuracy. However, we would say that (a) we have got our costs per movie in a good place (b) we have not factored-in our overall projections – any “Super” Hit or a major flop (c) we do believe that by pre-selling Music, Home Videos and Satellite TV rights - we have taken adequate steps to mitigate risks.



COMPANY RELEASE

---

- 3) In Broadcasting – there is greater predictability and based on our present Run Rate we do not see any significant deviations.
- 4) In TV Content – we have good visibility – based on already On Air and Contracted shows.
- 5) In Mobile Games – we believe it’s a mature model so we do have good visibility.
- 6) In Online Gaming – this is their first year of Revenue and activity and so we have no precedent. However given that a fair portion of revenues flow from syndicating the game worldwide – we believe the range in the revenues is not too aggressive.
- 7) In Console Games – the variables on all the various liquidity events are there. But on the balance we already have an existing publishing business – where our projections for this year are not overtly aggressive – and for our IPs – we have projected only one of the three & part revenue of that as also not taken any revenue from any other pre-sale or sale.

.....

**Caution Concerning Forward-Looking Statements**

*This document includes certain forward-looking statements. These statements are based on management's current expectations or beliefs, and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein due to changes in economic, business, competitive, technological and/or regulatory factors. The Company is under no obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.*

\*\*\*\*\*