



Movies • Broadcasting • Television • Animation

## UTV Software Communications Limited

### ..... **INVESTOR CALL – July 26, 2006** .....

RESULTS – QTR ENDED Jun-30-2006

**Moderator:** Good morning ladies and gentlemen. Thank you for standing by. I am Johnson, moderator for this conference. Welcome to the first quarter results of *UTV Software Communications Limited*, hosted by ASK Raymond James and Associates Limited. We have with us today, Mr. Rohinton Screwvala CMD of UTV Software Communications Limited; Mr. Ronald D'mello, COO of UTV; Mr. Amit Banka, VP Business Development and Strategy; and Mr. Girish Swar, Equity Analyst of ASK Raymond James. At this moment all participants are in listen-only mode, later we will conduct a question and answer session. At that time, if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Girish Swar.

**Girish Swar:** Good morning ladies and gentlemen. We at *ASK Raymond James* welcome you to the first quarter earnings teleconference of *UTV Software Communications Limited*. We have with us today, the senior management from UTV Mr. Ronnie Screwvala CMD UTV, Mr. Ronald D'mello, COO, and Mr. Amit Banka, VP Business Development and Strategy. We will open up with Mr. Screwvala giving a brief overview of the quarter gone by and the outlook for the year ahead, after which we will open up for Q & A; over to you sir.

**Ronnie Screwvala:** Thank you. Good morning everybody and thank you for joining us. I am going to break this initial brief into two parts. One is our first quarter results, and the second is the recent development of the strategic investment by *Walt Disney Company* into UTV and one of our group companies. Since some of you have had problems logging on, I will go first with the quarterly results and then go on to the strategic announcements, so that most of you have the benefit of our insight into the investment.

These are the quarterly results - I think most have already gone through the financial figures. While we have recorded a moderate growth in top line, our PAT remains flat. By and large this is a satisfactory quarter given the fact that we have had only one single movie release. If I go through some of the key headlines in our main activities of business in a diversified model, our television content business has actually grown to the extent that we have had more shows on the air in this first quarter. As you all know it takes sometime (3-6 months) for television shows, especially the daily shows format that we specialize in, to stabilize and I think that's what we will see in the next two quarters.

Our Airtime sales model has seen a huge jump overall in terms of top line. Again there, these are fresh shows that have started either in the last quarter of the previous financial year or the first quarter of this year where obviously, the shows take some time to gather rating and therefore we do what we call, "bank" our pre-commercial time which carry a certain amount of inventory, so that as the shows mature and develop, we can get a higher per second or per ten second rate on that. Therefore, the first quarter is reflective of the volume in terms of the growth of both these activities and divisions. But in terms of margins, we see that quintessentially coming in the second quarter or more so in the third and fourth quarters in both these divisions.

Moving on to animation, I think our order book is something that you are all familiar with. In this last quarter we have added to our order book, therefore stabilizing our overall investments that we are looking at for the long term. In the course of our regular service work we have moved up the value chain into the 3D animation segments quite a lot. For those of you who are not familiar with our last conference call, we have ramped up to about 225 stations capacity, primarily looking at high-end 3D animation. Presently we are servicing the movies market, specifically the home video market and all our clients and all our products currently are still exported.

In this quarter we have also entered into a co-production with one very popular television series in the US, which has been exported to over a hundred countries. We have along with those producers gotten into a co-production to make a feature film for the direct-to-video market in the US and elsewhere in the world from that television series. As we go forward, we will see the revenues increasing because this is our first quarter in terms of animation, where the deliveries on some of our home video movies have just started and the progressive step on quarter-by-quarter basis will reflect in terms of animation.

As far as the movies is concerned, we have had only one release this quarter which was *Chup Chup Ke* which did well overall for the company and emphasized on our ability to be able to take an average product to a different level both in terms of commercial exploitation and in terms of overall viewership. I am pleased to say that based on some of our past movies, whether it was from the last two years of *Lakshya* and *Swades* or more recently, one of the biggest brands created - *Rang De Basanti* - I think the audience should now become a little familiar and look forward to a UTV branded movie and I think that is a value that we have created over a certain period of time, which we will only strengthen by having the right mix for our audiences as we go forward.

In addition on the movie space, presently, we do not have releases in the second quarter, but primarily in the third and fourth quarter. It is a good mix of some real large movies, some of which we have taken for international rights as well as some movies, which are into production. This year we will see a serious investment being made into ramping up our action plate with actually some of our bigger movies equivalent to *Rang De Basanti* and more coming in, in the next financial year and I will be happy to go into more specifics. We have listed out topnotch directors whom we are associated with.

Our post production business has also grown and we have been able to make an investment and expand our activities not just for the television market but also specifically to look at movie market and I think that segment will start revenue billing from September/October which is therefore in the third quarter of this financial year. Given our movie repertoire we see a fair amount of occupancy coming even for our in-house facility. We have also re-located our post-production facility in the film segment to work closely with our animation segment so that we can really look at how we can synergize those two activities. That pretty much sums up our key activities i.e. movies, small screen, animation and post-production.

Specifically moving onto our yesterday's announcement - over the last three months and I think we sort of gently mentioned the last time when we had a conference call, for those of you who were with us the previous time, that we are looking at our next stage of growth, how we can take this company to the next level over the next two years and part of that is that we have very strong domestic expertise in many of our activities, whether it has been in terms of content which drives pipeline, whether it could be broadcasting or distribution both in the big screen and the small screen and in terms of technology when it comes to animation. We have had lengthy discussions with proposed joint venture partners and after a lot of deliberation we did finalize with the *Walt Disney Company*. Primarily for us, this was much more of an association for the next ten years and the growth of the next ten years. To us the *Walt Disney Company* represents a couple of things. In the last three years, they have been pretty much a market leader worldwide. They are the number one channel in the U.S. and therefore worldwide when it comes to general entertainment.

Their content, which people are familiar with here, actually now, excels. It has become the top content worldwide. Their movies from *Pirates of the Caribbean* to *Cars* to many others, has really taken the box office by storm. Overall we find them a very dynamic company, and specifically in the field of animation with their acquisition of *Pixar*, there has been huge movement for them. We actually found two things. One, their hunger and need to grow the domestic market in India and therefore, a strong dependency on a strong local partner, was very attractive for us for our growth trajectory in the short term, i.e., the next 1-2 years and then even in the medium long term i.e., over the next 5 years. In our association, we therefore started looking at the deal proposals on both sides, while we were also negotiating with some other joint venture partners with equal strength. Their criterion also was for them to really grow in this space. They felt that they needed to align themselves in the broadcasting space with us.

Being a media major, and therefore having different priorities in terms of longer term investments, we therefore felt that in the overall interest of the joint venture, it would be good for us to be able to look at them acquiring our *Hungama* Channel, which they have done for a fair price, and when I end I'll give you a brief summary of the financials in case there are any queries as far as that is concerned. To us, therefore we see our association with *Disney* on a much broader wavelength. Primarily what we are looking at with them is obviously synergies in movie production, television content, animation, new media and gaming. Outside of that we obviously see ourselves as a preferred customer when it comes to the overall process of television content. If I were to sort of introspect in terms of the fact that even though *Hungama* has done exceptionally well, in terms of ratings and performance over the last twenty-two months, we are still staring at and looking at about a hundred-crore advertising market, that's been growing between 20% to 30%, which is an interesting segment overall. With our revenue line, which would have been around 12 crores. Given that I think we have had an interesting valuation proposition when it came to *Disney* for us to look at allowing them to acquire the channel overall.

In the last three months while we moved into a leadership position, we have also found that the key challenges right now for the kids segment is to grow the entire market and that would take the better part of the next two to three years to take one to that level. Also I think the synergies normally that come into the kid segment is a combination of content, strong content creation, obviously the pipelines in terms of broadcasting of which *Hungama* is a representative, and combining that with a strong ground operation in terms of licensing and merchandising to make the entire kids segment an interesting one. Keeping all these in mind, we felt that we could partner with *Disney* on almost all the aspects outside of pipeline, which was actually a heavy investment from our point of view, in fact our content which was really the key aspect that drove us into the kids segment, because of our success of some of our shows on the other channel would only grow exponentially with this kind of association.

So the quick round up on that would give us a lot of synergies in terms of other activities, and therefore as I said, if we had entered into a situation which was just *Disney* acquiring *Hungama* channel and walking away, we would have looked and explored a different option with some of our other strategic partners that we had discussions with. But given their synergies and given their anxiousness to grow this market, and given the fact that our ambition internationally is something they can also fulfill once again in the animation and motion picture production phase or taking some of our content is really the key reason why I think this is going to make a very, very big, and almost I would say a different trajectory as far as UTV is concerned as we go forward.

I think the 14.9% represents the fact that they respect our independence to operate in an absolutely independent manner, which is how we will go forward. There are no output deals between the two companies, and I have learnt in my fifteen years' of experience that works better. When you do not have forced output deals, then you work on synergies and I think this indicates that both companies are very committed to grow.

They are very interested with our movie plates, they are interested with our animation progress and I think they have a great amount of synergies when we look at that. In terms of summarizing of the deals, basically, they are looking at buying and acquiring and have confirmed buying and acquiring of *Hungama* for a consideration of 30.50 million US dollars.

Outside of that they will be making an investment of 14.9% in UTV, which works out to 3.4 million shares at a price of Rs.192.50. I think that more or less summarizes that. Some of you are familiar with these facts and I think the media has covered it recently and extensively in the last 24 hours. With that I think we will be open to more Q & As to go a little bit more into depth. Thank you.

**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on the telephone keypads and wait for your turn to ask your question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing the # key. Our first question comes from Mr. Nikunj Doshi from *Kotak Asset Management*.

**Nikunj Doshi:** Congratulations Ronnie on such a great deal. Just wanted to know if *Disney* will also outsource animation work to UTV going forward, or is it only on the *Hungama* side they will look to work with UTV.

**Ronnie Screwvala:** Their investment of 14.9% in UTV means that they want to synergize in all the areas that UTV is involved in. So definitely animation and movie production is high on their list in terms of synergies. They are high on our list too to work with them.

**Nikunj Doshi:** Okay. How many hours of animation work have you been doing as of today? And how do you keep scaling up, going forward?

**Ronald D'mello:** As of today we are working on fourteen home video deliveries over the next 12-18 months. We are also working on a 20-episode TV series. We also have a movie co-production, which we just declared 3 weeks back. We also have a television series, a co-production with one of the producers. That is the present work that we have. In terms of our capacity, we have 225-station facility. That's where we are.

**Nikunj Doshi:** Okay. Scale up wise do you need to add more seats or with same number go forward?

**Ronald D'mello:** We will have to add more seats. We do have infrastructure, which can be expanded in terms of real estate. We need to get some technical infrastructure.

**Nikunj Doshi:** In terms of movie distribution and production can you give some schedule as to what kind of out put we can look for?

**Ronnie Screwvala:** I think what you will see in the third and fourth quarter for example we have the distribution rights for "*Dor*" which is a *Shahrukh Khan, Farhan Akhtar* movie worldwide outside of India. Three of our movies are on production right now, but we will see the releases in the third and fourth quarter and one more project in terms of distribution. These are something that we have a fine line on. Outside of that we have

signed up with *Ashutosh Gowariker* to produce his next movie, which is called "Jodha Akbar" starring *Hrithik Roshan* and *Aishwarya Rai*. *Rakesh Mehra* with whom we did *Rang De Basanti* with we are looking at doing three more movies over a period of next two to three years. *Vishal Bharadwaj* is right now the director of *Omkara*; his next movie is what we are looking at directing. We actually got a long list of people in all genres that we are working with as far as that is concerned. So I see our plate necessarily in the next year being a very strong one, primarily in production with a little bit of distribution. Lastly, we have a co-production with *20th Century Fox* which is *Meera Nair's* next movie which is a Hollywood movie in English which we get released mid-September in the US.

**Nikunj Doshi:** In terms of TV content after this *Disney* deal of *Hungama* do you see any change in equations with *Hungama* or the same equation will continue?

**Ronnie Screwvala:** I think the equation will only strengthen. It is difficult at this stage to really commit, but I would say that they would strengthen. They know that we have got two winning shows on which they have actually asked us for a long-term contract in terms of that going up to almost five shows. This is just for *Hungama*. We also believe that because they are going to have two more Channels on *Disney* we will be able to expand that also.

**Nikunj Doshi:** Okay. My point was that this *Hungama* production will be on any kind of TRP linked revenues or it will be pure content provider?

**Ronnie Screwvala:** At this point it is on content provision.

**Nikunj Doshi:** Thank you very much and all the best.

**Ronnie Screwvala:** Thank you.

**Moderator:** Next question comes from Shalini Gupta of East India Securities.

**Shalini Gupta:** Hello sir, just a few clarifications regarding the deal with *Disney*. Sir, my understanding was that you in your personal capacity had put in about 20 crores in *Hungama*, out of the total capital investment of about 80-90 crores. Would that be correct?

**Ronnie Screwvala:** No, that is not. The total equity base is 20 crores into the company from that point of view. UTV has looked at a certain funding both in terms of debt and preferential equity. So, essentially in summary what I can tell you is that from the 30.5 million dollars, the only inflow that comes to me personally based on the shareholding investments that I made is a little less than \$1.2 million US dollars and the rest of it totally flows into UTV.

**Shalini Gupta:** No, in fact that was my question, because if you had put in money, that's what I wanted to understand. What was the amount of money that you had put in because the money flowing to you is very small out of the total deal?

**Ronald D'mello:** Out of the 90 crores, if you take 90 crores as capital invested; just to clarify to you, about 15 crores was external debt from UTI Bank. UTV had put in 20 crores equity and another 55 to 60 crores worth in debts which UTV has put into *Hungama*. Out of the USD 30.5 millions, first the UTI debts get repaid, which is about USD 3 million. Then, Ronnie gets repaid for the investment that he had made which is USD 1.2 million. The balance comes into UTV entirely, which is about USD 26 million. And the investment made in UTV share capital is another USD 14 million that comes entirely to UTV. So, UTV gets a total of about USD 40 million funding.

**Shalini Gupta:** Yeah, that's fine. The second thing I wanted to just clarify again the 19 lakhs preferential warrants that are being allotted to Mr. Screwvala on a preferential basis. Mr. Screwvala will be making the payment for those, which will be coming into UTV?

**Ronald D'mello:** That is correct.

**Shalini Gupta:** So, for those 19 lakh shares, he will be paying at the rate of 192.5 rupees per warrant?

**Ronnie Screwvala:** That's right.

**Shalini Gupta:** Okay, then my third question was regarding your television ad sales business. Now, if my understanding was correct as your programs attain some level of maturity you are able to realize better rates for the sales that you make. So, if you have seen a bump up in your top line, it seems to me that it's should flow to the EBITDA also, but that has not happened - specifically with respect to television ad sales. Could you just explain that?

**Ronald D'mello:** No, I think initially what happens when you start the program whether it is television sponsored program or a airtime sale, you need about anything from two to three months for the program to build up so that you get higher rates when you sell. The other aspect is we also bank commercial time. We don't necessarily sell the entire commercial time initially because if you have to sell you have sell at lower price. The fact of the matter, as we had mentioned in the earlier conference call in the last six months we have added significant number of shows in our Air-time sales as well as television model which are just maturing. If you see our margins from the last quarter to this quarter have increased and that increasing trend will continue.

**Shalini Gupta:** Okay, fine. Thanks, sir.

**Ronnie Screwvala:** Thank you.

**Moderator:** I request the participants to press \* and 1 on your telephone keypad for more questions. Next question comes from Mr. Dipan Mehta of Dipan Mehta Shares

**Dipan Mehta:** Congratulations on the great deal, which you have done with Disney. My question actually relates to the March quarter where I believe the *Rang De Basanti* was in

fact released. I was just observing that 49 crores was the segmental revenue from film production and distribution and eight crores was the contribution. So, my question is that when *Rang De Basanti* was a smashing hit then why was it only eight crores coming to the contribution. Could you just elaborate little bit more and also the economic of this entire film production business because despite having *Rang De Basanti* and *Bluff Master* and when you analyze the last two or three quarters it does not seem to be that much of a money making business.

**Ronnie Screwvala:** Two, three things. If you noticed in our third quarter, the third and fourth quarter together basically what we had is two set backs and two of the movies that we distributed which is *Deewane Hue Pagal* and *Shaadi No 1*. If you look at that as a combination those are the ones where you will find, that has put an overall dent in last year when you are looking at the combined part of the entire business. As far as *Rang De Basanti* is concerned, I think given the fact that this is an asset that we will keep maturing and liquidating over a period of time, we need to understand that the production costs on some of these movies are also proportionately high. So, I think the profits that we are reflecting there are the ones that have the capability in its first round of exploitation. But we have a huge asset and a brand from which we can create a lot more that we want to do.

*Bluff Master* actually has been a medium hit. The perception on that more because of this one song that became very popular, but if you look at the overall thought process, I think it's been a medium hit from that point of view. So when you are looking at movie productions as we are evaluating, the key is as much in the cost as in the revenue model, as much in the mix. I think that's part of our learning curve of the last year that we put into practice for this year and more so for in the coming year, where we are completely cognizant of the right budget for the right revenue models of the movies. A bulk of our last year has been more distribution led except for *Rang De Basanti*, which was production led. So, as you will see that mix completely change for more production-led, the entire margin opportunities will substantially change. I think the monetization of our *Chup Chup Ke* has sort of reflected that process. We have been able to take an average good product to a different level in terms of overall exploitations. That's the trend that you will see going forward.

**Dipan Mehta:** Sir, is it possible for you to disclose *Rang De Basanti's* contribution in last quarter in terms of contribution as such.

**Ronnie Screwvala:** I don't have an immediate one here, but if could just mail us, we will be very happy to go into the full details and explain that you.

**Dipan Mehta:** Sir, a second question relates to delivery as such, clearly I think with *Walt Disney* in place, not only you have a partner but you also have a very large customer. That's one aspect as far as UTV is concerned and then on the other hand you are going into film production in a big way and I'm sure all the directors you have signed up expect some amount of creative inputs from the top management or from your creative team as well, not only in terms of story, but I think all aspects of the movie including marketing. So, how are you going about building the organization when its comes to kind of institutionalizing creativity and heading the whole content delivery path in place in terms of attracting talent and how are people structured in the content business because now instead of *Hungama* you have more of a content company and I just wanted to have a take on how that aspect to the business is being organized?

**Ronnie Screwvala:** Sure, I think both are good questions. Let me just answer one by one. Firstly, I think we look at Disney more as a partner now than as a customer and they are both and we need to look at them from both points of view. So, in movie production and in animation they'll actually be our partners than our customers because we want to develop things from that point of view and we are already in discussions with them for them to look at movies out of India from the co-production point of view. In terms of our movie division, it's broken up into three basic segments. There is a different competence for distribution, a different competence for marketing and a completely different competence for creative. For the director that we have signed, if you notice, we are not in the film financing business with them as are some of our other competitors. We act actually as a creative catalyst. We presently have movies on the floor with *Milan Luthria* who directed *Taxi No 9211* or with Anurag Basu who directed *Gangster*. All of the scripts have been originated and incubated by us with separate scriptwriters, and then we pick directors. We have looked to the entire cast and the value addition both at the script and the creative level including casting level, because these are movies where we are actually right now investing in bringing casting.

So, as a separate division, we have people where we work with stars and sign them up for two or three movie deals so that we can find and utilize their talents with some other directors that are coming in. The directors that are working with us actually see their value add both in terms of creative inputs, yet not creative interference once the project has been green lit. Also, there are three criterions now that are making movies successful. Of course, the creative content is one. The second is the actual marketing in terms of creativity & investment and third is the timing of your release date of the movie. I can say very bluntly that these are almost three equal priorities now for the success of a movie and that's been proved time and again that an average product with the right release date can become a super product and a super product with a bad release or a crowded release date can actually become an average product.

So, I think we are doing huge amount of value addition and these directors who are working with us are primarily coming to us because of that value addition and every single director we worked with in the past from *Ashutosh Gowarikar* to *Rakesh Mehra*, or *Chandan Arora* and many others, all of them were doing all the subsequent movies right.

**Dipan Mehta:** Okay, that's partially answers my question. Actually I wanted to understand in terms of number of people in the organization and how you are distributed, a bit about your organization structure? Can you name a few people who are in charge of the key divisions or the partners of your company?

**Ronnie Screwvala:** I don't think names would necessarily make a difference because to you there will be Ram, Seetha, or Gautham, but by in large what I would say is not creative aspect. What we have got is literally three verticals in terms of the overall creative structure specifically for the movies. Each of these Project Heads incubate and develop movies where they strike relationship with staff, strike relationship with director, and strike relationship with actor. If you look at that process, they are constantly in development mode to build those relationships, but most importantly to get the script right. So, we actually start at the concept in script level. Outside of that we have a separate team that actually works on new talent development. We have a separate team that only talks about concept coming in. We have nine people overall internally that read every script and streamline the process as we go through almost three scripts a week and evaluate what is coming or what has been developed for us. So, I think if you look at that, that's pretty much the western studio model that we are forming here which I would say that for all the other corporate companies is much more a financial activity. I think part of overall experience in whatever we have done in content is really what we bring to the table here.



**Dipan Mehta:** Right. Some thoughts on the usage of the funds, which are coming in almost I gather, close to 200 crores or so as you said, how much goes towards it and thereafter what are the plans?

**Ronnie Screwvala:** I think we need to understand one thing, overall if you look at where we are going in our next trajectory of growth, I think it's not that necessarily the broadcasting activity of our kid segment of our business would have contributed hugely in terms of top line over the next one to two years as I think was evident to everybody. Our scaling activity is right now in terms of investment. We are very committed into the animation space. So we see a fair amount our investments going not just into the hardware, in fact it's going to be more into content.

In the movie space, I think we have outside of the Hindi movie space, but I think our next financial year I would say that nobody will be having a larger slate of movies than we will have based on the line up of what we are working on right now. I think we will also have one of the unique specialties of having the largest international co-production movies going within the country and there it's not just Disney. In fact, we are already working with Fox on Namesake. We are expanding that relationship to a second movie, which could be released in the last quarter of this financial year or the first quarter of the next financial year. We are in the last stages of announcing with one more studio and of course this is before the Disney alignment comes into place.

**Dipan Mehta:** Yes sir, but the usage of funds, how much would be towards debt repayment, if you could just highlight this?

**Ronald D'mello:** It's difficult to say now, but to start with we will zero our debt, which is about 100 crores on the balance sheet. Balance all our existing business are self funded, they don't require any additional funding as such, so whatever we have got from this investment will go into expanding our activities or getting into new activities. We are also evaluating some M&A opportunities in new media content, though it is a little pre-mature to go into specifics.

**Dipan Mehta:** Sir, just one last question. Are you looking at setting up production studio the way all the other producers, specially the large ones have done?

**Ronnie Screwvala:** I think we need to be very clear. Setting up a studio is a real estate concept in a business. That's really something that we cannot comment on. If anyone else has done that, I think that they have done that more because they have been in the business for fifty years and for them to have a sort of pedigree on that is really the reason why they have done that. By and large, you can rent a studio. You also need to understand that today if any Hollywood major you ask them whether they would go out and build studio lab, that's the one overhead that they would like to cut and axe permanently. Some of them have converted them into amusement parks. So studios are something we can rent easily. We do not need to make that into a business activity. A lot of the movies are shot on location. We don't really see the studio other than a sort of show-piece for an organization. Overall, when we are talking about a studio model, it is not really realistic. To us a studio model is that you originate your own creative content, you actually stay with the entire project, you own the entire project and all the aspects of exploitation from theatrical distribution to DVD distribution to all new media is done by us. So actually producing as well as marketing as well as distribution is really the key studio model.

**Dipan Mehta:** Right sir. Thank you and all the very best.

**Ronnie Screwvala:** Thank you.

**Moderator:** Next question comes from Ms. Jasmina of ING Investment.

**Jasmina:** Hello sir, congratulations.

**Ronnie Screwvala:** Thank you very much.

**Jasmina:** Sir, I just missed the earlier part of your conversation regarding this *Hungama* stake. Could you highlight how much UTV will get and how that fund will be utilized?

**Ronald D'mello:** Out of the USD 30.5 million dollars that *Disney* is paying for *Hungama*, about USD 3 million will go into repaying the debt from UTI Bank, about USD 1.2 million will go to repay Ronnie Screwvala for his personal investment into *Hungama*, and balance USD 26 million will come to UTV. At the same time *Disney* is also investing into UTV that is about USD 14 million which will come into UTV totaling to 40 million which comes to UTV from Disney. Over and above that there is 1.9 million share warrants which are issued to Mr. Ronnie Screwvala and that will bring in another 30 crores into the company. So, effectively about 210 crores will come into UTV. In terms of usage of funds, to start with we will repay all our debts and make it a zero debt company, which is about 100 crores. All our existing businesses are self-funded so none of the existing businesses would require any of these funds to go into that, so all the funds will be used to expand our existing businesses or to get into new businesses. It is a little bit premature at this stage to give you specifics of any kind of expansion or M&A plans we have. We are in talks for some M&A opportunities in new media content, maybe a month later or so we can disclose those specifically.

**Jasmina:** Yeah. Sir, as I understand, the UTV invested about 80 crores into equity and debt into *Hungama* and we are getting about 90 crores?

**Ronald D'mello:** No. We are getting a capital gain effectively of about 35 crores.

**Jasmina:** Okay. Sir, we are getting about 200 crores of inflow, out of that we will use 100 crores in repaying the debt, to start with. The promoters are also investing about 30-40 crores?

**Ronald D'mello:** Yeah.

**Jasmina:** I just want to understand when all of your existing business are already funded, then at this point of time why are the promoters investing, the rationale is to maintain their stake at a particular lever?

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**Ronnie Screwvala:** Yes, clearly from the promoters point of view, because we were looking at that, we were fully committed to maintain our levels and we were happy to invest the same price Disney was coming in, which was 192.50.

**Jasmina:** So what will be your stake post this dilution?

**Ronnie Screwvala:** About 41%, from the present 43%.

**Jasmina:** Okay. So you have maintained more or less the same.

**Ronnie Screwvala:** Yes, correct.

**Jasmina:** And going forward in future, you would like to maintain this stake?

**Ronnie Screwvala:** No, I don't have a particular clarity as far as that is concerned. This is how the cross roads appear right now. We will evaluate that as we go forward.

**Jasmina:** Okay sir. Sir, I want to understand some of your businesses. In the allied businesses, we have seen a significant fall in the EBITDA margin. What is the reason behind that? The EBITDA has gone down from 3 to 1 million.

**Ronald D'mello:** Yeah. Allied businesses, if you are aware are our post-production and special-effect business, where we have in the last quarter invested into new facilities. The commercial operation of which will start from the next quarter, 1st of August. The first four months we have recruited people, we have spent the money to bring the facility up to working. All the expenses are written off in the quarter, that's why you see a dent because of the expenses in the new facility, which are written off, which will see commercial operation from the 1st of August.

**Jasmina:** Okay. About your animation business, although you have mentioned that your current book order consists of 30 episodes of TV series, 15 DVD features and one theatrical feature film, how much is the revenue, which we have received in this quarter?

**Ronald D'mello:** We started ramping up our facility about four months back. We have done our first deliveries in the month of June, which is what has come in the first quarter. Ongoing every month we will have significant deliveries. We expect to have about 2.5 to 3 million worth deliveries this year and that will continue over the next 12 to 18 months.

**Jasmina:** So this 2.5 to 3 million of revenues, it will be reflected in the next three quarters?

**Ronald D'mello:** Yes.

**Jasmina:** Okay sir. Thirdly on your TV content part, in this quarter, quarter on quarter we have seen some margin improvement from 2.2% to 3.5%, but year on year margins are still lower because of a lot of churning in the TV programs has happened as you have mentioned in your press release. Sir, I would like to know when we will regain our original margin?

**Ronald D'mello:** This increasing trend will continue. Primarily, in the last six months we have added to our catalogue in Air-time sales significantly. As we said earlier, it will take some time for the programs to mature and come to a scale where we can get the full price when we sell. This increasing trend will continue, I think in the second, third quarter you will see it going forward.

**Ronnie Screwvala:** I need to put this television activity into perspective. If you look at it in a comparative basis of all the listed companies and even the unlisted companies, clearly our television activity is number 2. We are a number 2, television content player in the country. In terms of value, number of hours, number of shows, success of shows, diversity of genres, across the customer base of broadcasters, we are clearly and absolutely a steady number 2 for a long period of time.

**Jasmina:** Yeah, true. Sir, in the movie business, we have in this quarter in the September month the release of *Namesake*. Apart from that is there any other movie, which we will be distributing in this quarter?

**Ronnie Screwvala:** In the second quarter? No. I would like to caution you on that. *Namesake* will be a US release. Because it is a mainline Hollywood movie, please do not view it with the same perspective as an Indian cinema movie from that point of view. It means actually that the publicity and advertising cost will be substantially more because of its global release. So from that point of view we do not see any reflection of *Namesake* in the September quarter either.

**Jasmina:** Okay. Apart from *Namesake*, are we releasing any movie for the Indian market?

**Ronnie Screwvala:** Not in this quarter. But as I mentioned in the third and fourth quarters, we have a *Farhan Akhtar, Sharukh Khan* movie, which is "*Dor*" which we will release worldwide outside of India and we have got three of our own productions which will see releases in the quarter three and quarter four.

**Jasmina:** Okay sir. Last question is about the movie business revenues. We have done 28 crores of revenue this quarter. How much of this pertains to *Rang De Basanti* if you can give some idea on that?

**Ronnie Screwvala:** 19 crores is *Chup Chup Ke*. *Rang De Basanti* will be a couple of crores and we have some syndication revenues also.

**Jasmina:** What is that?

**Ronnie Screwvala:** Normally when we sell our library, there will be a break up of these three broadly.

**Jasmina:** Okay. So this library sell is for *Rang De Basanti* or is it for both the movies?

**Ronnie Screwvala:** It is for past movies also, because the company is exploiting their rights worldwide.

**Ronald D'mello:** *Rang De Basanti* was released in the last quarter. For this quarter it's residual revenues, majority is *Chup Chup Ke*.

**Jasmina:** Okay. Thank you very much sir.

**Ronnie Screwvala:** Thank you.

**Moderator:** Next question comes from Mr. Mitun Jain of *Kotak Mutual Fund*.

**Mitun Jain:** Hi Ronnie, congrats on a great deal.

**Ronnie Screwvala:** Thank you.

**Mitun Jain:** Ronnie just want to understand one thing from you, on the rights reversion to you. You sell a movie to a TV company and the rights revert to you after how many years?

**Ronnie Screwvala:** It completely depends on the contract. We do rights from two years, to five years, to seven years, to ten years. We sometimes sell only a territory, or we sell the world. In the world we either sell only satellite, or we sell satellite and terrestrial, or we sell satellite and terrestrial and new media, but actually on a movie-to-movie basis. Having said that, we are now quite cognizant that actually the revenue rights exploitation is becoming a very lucrative business and therefore a complicated rights management business also. So we are looking at obviously, the more we have on the plate and the more powerful that plate is, our ability to negotiate and give limited rights only for limited period windows is really what we are looking at going forward. In some cases that may be possible, and in some cases that may not be possible.

**Mitun Jain:** Just to be on the specific side, the *Rang De Basanti* rights have been sold for how many years?

**Ronnie Screwvala:** They have been sold for eight years I think.

**Mitun Jain:** Similar kind of deal will be in *Swades* also?

**Ronnie Screwvala:** No, *Swades* comes back to us at the end of five years.

**Mitun Jain:** Okay. On the *Disney* funding of movies, you are talking of co-production. When we are talking of co-production are we saying that the movies that you are going to produce now are going to be funded by *Disney*?

**Ronnie Screwvala:** They are not going to be funded. They are going to look at our script and we are going to look at their script. On a movie-to-movie basis they will decide. *Disney* is one of the most possessive companies when it comes to their brand name. So if they lend their brand name and call it *Walt Disney* and UTV present, that will be one of the biggest achievements for an Indian cinema company to do in the first place.

**Mitun Jain:** On the distribution side, is the *Disney* movie distribution business going to be routed through UTV or is it going to be a separate thing all together?

**Ronnie Screwvala:** At this point, we have not really discussed it. This is something we will get into and talk about subsequently. But for us, their direct to home-video shelf space that they have worldwide is something that we are going to use as our mechanism to push our Indian movies to broaden the appeal outside of the South-Asian dias to worldwide.

**Mitun Jain:** Okay. On the money side, you would probably end up with around 120 crores of cash after repaying debt, is that right? And you said the existing business does not require too much of cash. Apart from the M&A activity, which you hinted at, are you looking at any other special payouts?

**Ronnie Screwvala:** Special payouts, at this point, no. I think we definitely want to take this company to the next level of revenue and trajectory. We want to use the resources as a war-chest for a lot of opportunities that are coming in right now, close in the M&A space and I think for ramping up some of our existing activity.

**Mitun Jain:** Okay. Can you give a flavor of the overseas revenue, how is the business in the overseas side going and can you give the specifics also of *Rang De Basanti*?

**Ronnie Screwvala:** I think it has done exceptionally well. Overseas, frankly we have got a fair amount of people doing a lot of statistics, but basically *Rang De Basanti* still remains pretty much a number one movie when it comes to many of the territories overseas. I think, outside of that we have broken completely new market in Eastern Europe and many others. We had a slow beginning, but when we do that, we also have leveled some of our other libraries, like if you want *Rang De Basanti*, you got to take X, Y, and Z movies. I think that the DVD market is growing internationally. We have actually done some sales with Blockbuster and other chains in the US for putting ourselves in the main line library. So, definitely when you have a strong title like that, it kind of reflects. For our marketing we are going to every festival, so positioning comes about. With that positioning we get to be able to see syndicated libraries of other people for us to be able to acquire for India rights. So a lot of things happen from that point of view.

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**Mitun Jain:** Okay. When you talk about new ventures are you looking at music companies or music label of your own?

**Ronnie Screwvala:** No. Let me be absolutely clear. We now believe out of the music rights that we have exploited, actually the audiocassette and CD sales does not consume 25%-35% of the music rights mix. Going forward what we would explore is to individually exploit some of the other rights which are mobiles, ring tones directly because that is a much more organized sector in terms of distribution because we are dealing with Telcos and we are dealing with everything else.

**Mitun Jain:** So what you are saying is that you will bifurcate the music rights into...

**Ronnie Screwvala:** Correct.

**Mitun Jain:** Okay. Also I think there are snippets and trailer rights, are they also giving you money?

**Ronnie Screwvala:** Right now if we were selling what we were doing, all the entire music rights, that will be quite different, because those music companies have the right to sell those clippings, but if we retain all those rights that's what happens.

**Mitun Jain:** You said that the music rights being given to Telcos could you just be specific in that? How much can accrue to you suppose a movie like *Rang De Basanti*, which had A.R. Rahman as a music director, what could be the deal size?

**Ronnie Screwvala:** I think in terms of ring tones, wallpaper and everything else, between forty, sixty, and seventy lakhs almost can happen in a movie sometimes even more to about a crore. But the main point is not just in the first three months. Instead of giving the rights for five years or ten years to a music company, you have the rights for every quarter and subsequent exploitation also.

**Mitun Jain:** Okay. Thanks.

**Ronnie Screwvala:** Thanks.

**Moderator:** Next question comes from Shalini Gupta of *East India Securities*.

**Shalini Gupta:** Yes sir, one or two follow up questions. This is with respect to your film business. Of the 28 crore of revenue that we have seen in the quarter, you said 19 crores are from *Chup Chup Ke*. But you have also done an international distribution of *Humko Deewana Kar Gaye*. Could you give a sense of how much that crossed?

**Ronnie Screwvala:** That was four crores in revenues.

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**Shalini Gupta:** You made something like six crores of profit from your films; can you give a sense of how much came from *Chup Chup Ke* and how much from *Humko Deewana Kar Gaye*?

**Ronnie:** I would say, by and large it would be mostly *Chup Chup Ke*, because that is our own production and we have multiple revenue rights from that point for us to be able to exploit, so a bulk of that would come from there.

**Shalini Gupta:** Okay. Secondly, with respect to yourself, you got yourself a pretty impressive set of producers and directors that you are tying up with, are these co-productions or are they entirely UTV production?

**Ronnie Screwvala:** Many of them will be UTV production and some of them are co-production. Now, you also need to understand when we do our co-production model, the following happens – before we share our profits with anybody else, we take up to 15%-20% from the top for our distribution fee. We also take a 10% finance comp. So basically from the top we take between 25%-30%, recover our full production cost and then get into profit sharing. So, from that point of view, it is pretty much like a studio model, that by the time the actual backend start kicking in, we are on a very high return on investment before we get to that level. So, that's on the co-production. Obviously, the movies that we own, like in *Chup Chup Ke* all revenues and all profits are ours perpetually on our own and we have only entered into a service contract with the director.

**Shalini Gupta:** Okay. Then in *Namesake*, UTV will be doing the Indian distribution? I mean revenues from the Indian territory will be accruing to UTV.

**Ronnie Screwvala:** No. Let me just clarify that. We have worldwide co-productions with *20th Century Fox*. So, profits from the world will come to us as we go forward and release this movie. Specifically in terms of the Indian distribution rights, the revenues would flow to us, but the profits go into the common kitty, which would be shared by us as we do with the entire profit. We do not anticipate the Indian rights to constitute more than about 2%-3% of the global profit. It is an English language main line Hollywood movie.

**Shalini Gupta:** Sir, your order book in animation in the last quarter was about 18 million dollars to be executed over two years. Could you update us on what the animation order book stands as of now?

**Ronald D'mello:** Yeah. To the order book that we mentioned last time, we have added a movie that we will be co-producing with our American producer, where our part of the cost will be about four million dollars. We also have another 26-episode co-production of our TV series again with an American producer that will also pitch in, in the next 12 to 18 months.

**Shalini Gupta:** I understood 22 million. Could you quantify this figure? I mean 22 million is clear, but beyond that?

**Ronald D'mello:** Sorry, in animation?



**Shalini Gupta:** Yeah. In animation, I mean in the last quarter, you had 18 million, now you have added four million and then you have added one more, which I could not catch.

**Ronald D'mello:** Yeah. That is the TV series that we are co-producing with another international producer, where our investment will be about 1.5 million.

**Shalini Gupta:** So what will be the order book from that contract?

**Ronald D'mello:** Financially it is difficult to say, but what we are saying is our order book is 15 DVD series as of now, which we need to produce in the next 12 to 18 months. We have a TV series, which we are already producing for our Dubai customer. We have with it a co-production of a TV series, which I just mentioned, 26 episodes. We have co-production of a movie with a US producer, which we mentioned and I think three weeks back we made a disclosure about that, plus our present order book. When it comes to co-production, you cannot take it from revenue perspective, it is a co-production, it is our own property we are producing. That's the way it works.

**Shalini Gupta:** Okay. Right sir; thank you.

**Ronald D'mello:** Thank you.

**Moderator:** Next question comes from Mr. Saurabh Gurnurkar of Kotak Securities.

**Saurabh Gurnurkar:** Good morning to the management. Most of my questions have already been answered. I just need clarity on one count. Within the television slate, our margins have improved on quarter on quarter; I just want to know what level of the EBITDA profitability would we be able to be comfortable with at the end of FY'07?

**Ronald D'mello:** Yeah it would be about 15%

**Saurabh Gurnurkar:** This is by the end of FY'07, compared to the 3.5% to 4% we made in the first quarter?

**Ronald D'mello:** Right.

**Saurabh Gurnurkar:** Thanks and all the best.

**Moderator:** There is a follow up question from Mr. Dipan Mehta of Dipan Mehta Shares.

**Dipan Mehta:** I just wanted to understand at which particular quarter are you confident that perhaps the lumpiness in the earnings will go away because as you understand that new business typically will be lumpy business. At the same time as you are increasing the number of productions and also content will pick up, so in which year are you confident

that the lumpiness or the uphill down hill will ease out and there will be more of a steady progress.

**Ronnie Screwvala:** I need to say that from an overall perspective when we see media companies, I think the scale that we have been able to achieve is bringing up a lot more stability than what you would see in a business from that point of view and I think that is something that in a quarter in which we do not have a movie released, we still have a fair amount of work going on in all our other activities. I think taking the strategic investment, taking our global revenues that are looking sizeable or possible M&As and next year our movie slate is going to be very steady and that's the investment that we have made over the last one-and-a-half-years of work for us to be able to come up with such a slate. Pre-production and getting things stabilized take almost a year-and-a-half in a cycle.

**Dipan Mehta:** The second question relates to the exhibition aspect of the entire industry and there was news during an earlier release about the producers negotiating with the exhibitors for revenue shares, what are your thoughts on that? Do you feel that will be the trend? Given your position of bargaining with the exhibitors are you doing anything different on that count?

**Ronnie Screwvala:** If I can just clarify, in *Rang De Basanti* we have got better terms than most of the people have talked about. Now it does happen that the Chopras have a much more high profile when it comes to the press, so I think from that point of view what you would hear from them are actions and precedents already taken by companies like us long time back, but we do not necessarily make headlines of those situations. But essentially if you see some of the terms that we have got for some of our strong movies, it really depends from content to content from that point of view. I think we are very cognizant of that fact. The only trend that has happened is that the multiplexes have formed an association and that unanimity has been broken over the last one year. It started to quite an extent with *Rang De Basanti*, it got solidified with Chopras stand on *Fanaah* and I think that it is a much more permanent exercise. To us the minute we start talking about a plate and we actually therefore let exhibitors know pretty much when our movies go on the floor, so they get a sense that here is a company that is going to constantly give them business. So, they cannot mess with us in terms of minimum guarantees and transparency in terms of reporting and second in terms of good terms.

**Dipan Mehta:** Thanks sir.

**Ronnie Screwvala:** Thank you.

**Moderator:** Next question comes from Mr. Nilang Mehta of *HSBC Asset Management*.

**Nilang Mehta:** A very good morning to you sir.

**Ronnie Screwvala:** Good morning.

**Nilang Mehta:** Sir, only thing I wanted to understand is the economics of film producing. In the sense when we say we are producing a film or taking a distribution right, what is the

economic interest in that project we generally have and do we generally disclose that to investors so that we get a better chance of understanding of the revenue and the profits which can flow from these different projects which we generally talk about in a conference call.

**Ronnie Screwvala:** I am not sure if I understand your question fully for me to be able to answer it. But by and large when we make a script and you find a director and a cast, that's the time when we do an entire feasibility on the movie with some sense of projected revenues. We fix the budget independent of that because the budget is really to be based on what we think the movie deserves in terms of overall casting. If the feasibilities do not match the budget, we have to go back to the drawing board or scrap the movie, even if we have spent a little bit of minimal developmental cost. Once we get into that thought process, basically we are looking at the studio model, where we are looking at exploiting every single part of the value proposition of a movie, which is why I gave the example to the gentleman before in terms of just music rights where now there will be a cognizant that each of these rights will be broken up into many more income level. We are looking and seeing how we can exploit each of those on our own. But by and large I would say we have a very strict financial discipline when it comes to feasibility analysis. Having said that, it is obviously open-ended, because your revenue is not guaranteed. It is based on past precedence. That's where cost controls also take an important aspect.

**Nilang Mehta:** I appreciate this, but my question was more related to an economic interest which UTV would have in a particular film it is producing, because it could be co-produced with someone else.

**Ronnie Screwvala:** Normally all our economic interests are 100%.

**Nilang Mehta:** 100% in distribution as well as production activity?

**Ronnie Screwvala:** While distribution would depend on the rights that we pick up, if we are picking up just international, then you would negotiate that and what percentage that would be of that person's cost will be difficult for us to ascertain, because we would have looked at it at a purchase price based on our revenue opportunity.

**Nilang Mehta:** Thank you very much sir.

**Ronnie Screwvala:** Thank you.

**Moderator:** There are no further questions. Now I hand over the floor to Mr. Girish Swar for closing comments.

**Girish Swar:** On behalf of *ASK Raymond James* and *UTV*, I thank all participants for participating in the teleconference and wish you all a very pleasant day. Thanks.

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**Moderator:** Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

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