



Movies • Broadcasting • Television • Interactive

UTV Software Communications Limited

INVESTOR CALL – JULY 30, 2007
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RESULTS - QTR ENDED JUN 30, 2007

Moderator:

Good afternoon ladies and gentlemen, thank you for standing by. This is Pallavi, the moderator for your conference call today. We welcome you to the conference call of UTV Software Communications, hosted by Prabhudas Lilladher Pvt. Ltd.. We have with us today Mr. Ronnie Screwvala, Managing Director, Mr. Amit Banka, Vice President (Business Development & Strategy) from UTV, Mr. Apurva Shah, Assistant Vice-President (Sales) and Mr. Mihir Shah (Analyst) from Prabhudas Lilladher Pvt. Ltd.. At this moment all participants are in a listen-only mode. Later we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Mr. Apurva Shah. Please go ahead Sir.

Apurva:

Thank you moderator and welcome everybody to the conference call of UTV Software post-Q1FY08 results. From the management team we have Mr. Ronnie Screwvala CEO, Mr. Amit Banka, Vice-President (Business Development and Strategy), and Mr. Shantonu Aditya (Executive Director of Broadcasting). Without taking any further time, I would like to hand the call over to Ronnie to give us an overview on the quarter and the outlook for the future. Over to you Sir.

Ronnie:

Thank you, good afternoon everybody and thank you for joining us. Thank you for the time you are spending with us in a reasonably turbulent market environment. I shall begin with a three to four minute headline. I think some of you have been with us on conference calls in the past and would have realized that we have been very consciously looking at re-engineering and changing our business model to have 3 focused areas of development. The first one being Content which basically includes television and movies. The second is Broadcasting which is something that we demonstrated with good success in our kids channel and we have gone in for a whole new development in broadcasting which I am happy to share with you. And the third is an Interactive new media business with our aggressive acquisition of two gaming companies plus our scaling up of our Animation business. I think by the end of last year we were also at the end of our investment mode to develop these models. I am pleased to inform all our share holders and investors that starting from this quarter, we have pretty much turned around and we believe that the robust growth that we have been working on over the last 18 months will kick in from this year. We at UTV and the management are pleased with our first quarter results not just because they reflect an overall growth on quarter-on-quarter over the previous fiscal but because it definitely establishes the fact that our key businesses which are really

Content and Movies as well as our acquisition strategies in Gaming and our Animation are showing results.

We believe this quarter represents a good start for the year overall which will more or less continue at the same level in the second quarter but actually we see a very robust jump in the third and the fourth quarter. In the FY07 results, if we were to strip the one-time income or the deferred tax income, I would see that we have a multiple growth strategy in our PAT, PBT, EBITDA numbers for the current year as compared to FY07. In the current year, we also cumulatively see our revenue doubling, if not more than doubling from last year and we shall see the numbers kicking in from quarter-3 and quarter-4 which represents a substantial amount of buoyancy for us in our animation order book and gaming on one side and more specifically on our motion pictures. Outside of this, the three key highlights I would say is, if you noticed in the first quarter, we definitely have been working a lot on our television story where I think we had to a certain extent missed the bus but we have sort of re-engineered that and over the next couple of quarters we see a fair amount of growth there primarily occurring from our broadcasting synergies as we go forward. Two, we are pleased to also say that the unlocking of value in our Motion Pictures business was completed successfully with our listing on the *Alternative Investment Market* in the London Stock Exchange and UTV raising \$70 million in its subsidiary of which UTV Software Communications continues to own approximately 77% and we diluted around 23% for raising \$70 million and achieved a post money valuation roughly around \$300 million. I think that kind of takes our movie story to the next level and completely funds it. As you may have read somewhere, about \$30 million of that \$70 million comes back into the parent company to pay off basically all our work in progress inventory and that will help us meet our capital requirements related to our other growth sectors, specifically as far as broadcasting is concerned. We see this as a very interesting business going forward. One of our first channels which is under the brand name of *Bindass* launches around Independence day between 15th and 30th August. It is by and large a general entertainment channel but aimed at the young India which is in the age-group of 16 to 34 and we believe we are executing this with a fair amount of forward thinking and have a first mover advantage in this space. By and large we have articulated in our broadcasting agenda that we will be looking at launching between 7 to 9 channels in different very critical areas that we believe, in this new wave of broadcasting that is taking place right now, will give us a lot of leeway over the next 2-3 years to grow this part of the business at the top end of the value chain. Two or three key headlines just as far as broadcasting is concerned; the reason why we are getting into this business again after our success with *Hungama* is that it was already a sort of a prescript move even when we had sold *Hungama* to Disney. Two, we believe if there would be a complete second wave in broadcasting like the first one that happened in 1995, it is taking place right now and some of the key triggers are that the general entertainment space

as it has been mostly known by people which was primarily occupied by Star, Zee and Sony has got substantially fragmented and actually the viewers are now disseminating into multiple specialty channels and to other niche channels and that's where we see a huge opportunity. In fact, you would see that the number one player in the market which was Star, which had 850 points has now come down to 350 points, Zee has obviously shown great improvement but it's not like the 500 points that went out of Star went directly only to Zee because Zee only went from 200 to 300. So a fair amount of integration and disintegration has happened and that is one area where we see a huge opportunity for us to capitalize in the broadcasting space. The second is the advent of CAS and DTH over the next 18 months which will have a substantial kicker on pay revenues and could result in the demand for broadcasting niches and specialties zones that we have looked at. While the outlay that we see overall, which we have also communicated from time to time, would be in the range of about 600 crores. We see us raising a minimum of about 450 of that or at least 75-80% of our requirements that we need in broadcasting through strategic or financial investors at a premium. And therefore your Company would be limiting its overall investment into not more than 150 crores in this enterprise. We have made rapid progress on most of our channels with our management teams and the implementation teams in place. In the next 90 days we do see ourselves being able to talk about the strategic or financial investor in our broadcasting venture and we see the launch of most of these channels, or at least 7 of them starting this August and getting completed by March or April of next year. Lastly, with respect to our Gaming and Animation business, seeing the first quarter results, I think we have made some smart decisions in the acquisition of our gaming companies. And I think by the third and fourth quarter we will also see some consistent growth on those. So that broadly explains our strategy for the last fiscal as well as our plans going forward and we would be happy to now take questions.

Question and Answer Session

Moderator:

Ladies and Gentlemen, we will now begin the live question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your question you may press '#' key.

Our first question comes from Mr. Shashank of DDAV Securities.

Shashank:

Hi! Sir, just one question which is on gaming, exactly what is it that we do in gaming and could you also throw some light on the acquisitions that we have done?

Ronnie:

We have acquired a controlling interest in the number one Mobile Gaming and Online Gaming Company in India called Indiagames, which is just about getting finalized. Therefore

their results are not reflected in the first quarter. The second is that we have acquired a UK based company called Ignition which actually specializes in publishing and creating original console games. So essentially our games strategy now includes mobile, online and console. Basically the first quarter revenue and EBITDA that you see in the gaming segments comes partly from animation and substantial part from our Ignition gaming activity.

Shashank:

Apart from console what exactly would be the revenue growth strategy in the mobile and online space in gaming business?

Ronnie:

Well, I think online is definitely the most exciting space for us right now, it's in a very nascent stage because currently the broad band connectivity in India is restricted to less than 2 million. But we see that growing primarily because there is a subscription model there. With respect to the mobile space, we are the largest growing mobile country in the world in that context. Gaming from the mobile has not really been a habit but its pretty much like the way ring tones and wall papers were not, but then they have developed into a revenue stream in itself and we see that same kind of business activity coming necessarily in gaming. And IndiaGames has really had a huge head-start, they have strategic relationships with 60 telcos around the world and I think that's part of what we will capitalize on as we go forward.

Shashank:

How fragmented do you think the market might become in the online space and do we sincerely believe that the subscription based model would work let's say 5 years down the line?

Ronnie:

In the Indian space, I see 3-4 key players coming in because the key is going to be content that you are going to offer. Now essentially along with UTV strengths and its relationship in the movie business with the biggest studios in the world and the already hitting the ground running strategy of IndiaGames, the ability to corner big brands and titles of worldwide games is most important.

Shashank:

Just one last question which is, what kind of margins do we see online subscription model?

Ronnie:

Well, it will be between 25 and 35%.

Shashank:

Just some reports that I heard some where in the newspaper that mentions fantastic margins even 90%?

Ronnie:

You need to get a different critical mass to enjoy that.

Shashank:

What mass would that be what exactly...?

Ronnie:

I don't think we have a number on that, I think it depends on what and how the world broadband play roles out here and what can happen in a South Asian perspective on that.

Shashank:

Got that, thanks.

- Moderator:** Thank you Mr. Shashank. Our next question comes from Mr. Abhishek from Thomas Weisel.
- Abhishek:** I wanted to know, what is the contribution from the movies *Metro* and *Namesake* in this quarter?
- Ronnie:** *Namesake* was released on 16th of March worldwide and a little bit in India. Basically till date *Namesake* has crossed about \$18-19 million of gross box office worldwide. However, as it is more of a Hollywood movie from that perspective, revenues and EBITDA have not kicked in, so there is no revenue recognition that we have done or profit recognition of *Namesake* in this quarter. And it is more likely to come in the third if not the fourth financial quarter of this year because of the cycle of exploitation of international movies is very different from Indian movies. As far as *Metro* is concerned whatever you are seeing there I think is a representation of *Metro* itself which is basically a seven crore revenue and a 1.5 crore EBITDA. And that's without selling certain many rights; DVD has just got released a couple of weeks back and all of television and all new media has not yet been released. So this is primarily, I would say, a reflection of theatrical revenue.
- Abhishek:** Can you give some direction on what was the contribution from Ignition and India Games in this quarter?
- Ronnie:** IndiaGames is zero because, as I said, we have not consolidated it this quarter as we are just in the process of closing that entire deal. So it will be basically Ignition and animation together from that point of view, so I would say by and large it would be 75-80% Ignition and 20% animation in this particular quarter.
- Abhishek:** On the TV content side, what was the breakup between Airtime sales and the Commission based programming?
- Ronnie:** I think in the EBITDA level from that point of view, I would say it is almost 50:50.
- Abhishek:** Okay, thank you Sir, I will come back later.
- Moderator:** Thank you for your question Sir. Our next question comes from Mr. Balaji of Sundaram BNP. Please go ahead Sir.
- Balaji:** Could you tell us as to why there is no revenue from *Namesake*, I mean is it that you are not recognizing it this quarter and you choose to do that in a later quarter or?
- Ronnie:** No, the main thing on *Namesake* is this is a co-production with 20th Century Fox, besides the India revenue which will not be more than 2% of global, Fox handles almost 95-98% of the global revenue from that point of view. So what happens in the revenue cycle is that we get our reports in from Fox. So from a revenue perspective, we can only do that once we have factored the entire marketing and publicity that we spend all over the world. We recover all of that and then we start recovering the cost. So that's how revenue

recognition takes place in an international movie and that will happen more only with Hollywood movies and *Namesake* is not an Indian movie, it is an English language Hollywood movie that also got released in India. We will also see revenues kicking in with worldwide DVD releases and the selling of television rights. For example, here in television we sell to only one network for worldwide. There in *Namesake* it will get sold to almost 130-150 networks worldwide. So that entire accounting system is a bit more mature and therefore a bit more staggered.

Balaji:

Could you just walk us through the cost and the losses that you potentially will make when you launch your TV channels and with CAS and DTH, that you spoke of, the issue is that new channels still have to very often pay to get shelf space to be distributed to the last mile. So what is the kind of cost implication you have on the general entertainment channel and also the Ad revenues that one can potentially see. So how long do you give yourselves to break even in this channel?

Ronnie:

Just first to give you the macro point of view, in our broadcasting agenda one of the key things we are doing here which we didn't do in *Hungama* is that we have a strategic/financial investor from day one. So as I mentioned our total peak outlay funding over the next 3 years and definitely not immediately could be in the range of Rs.500-600 crores and therefore we are looking at raising around 450 crores from various strategic/financial partners at different levels on different channels. So basically, overall from your Company perspective you see an exposure which is substantially limited in that context. Secondly, yes obviously there are carriage fees and in our first year of operation for all the channels we made a very aggressive cost structure for that. But I would say what we are looking at overall is a 3-year breakeven in our broadcasting. But again to just say that clearly there will be a strategic or financial partner in the whole process. So right now we see broadcasting again unlocking value for us as we go forward primarily because we will be getting in strategic or financial investor and a substantial premium to pay a bulk of the cost in broadcasting because of our expertise and our ability to be able to execute these channels at a cost half of what we think market competition will be able to implement them in.

Balaji:

You spoke of this disintegration of media and if that is going to be a long-term trend and every channel and TRP is going to be a random war, what is the kind of USP that you are going to add? Why should we be part of a noise rather than part of something which is going on fine as it stands today?

Ronnie:

Let me be absolutely very clear because broadcasting is a space not very well understood by most people. Therefore perception overtakes reality, let me be absolutely articulate. I have said a fragmentation has happened in the general entertainment space; basically almost 75% of viewership and advertising revenues were focused only on the GEC i.e. the general entertainment channel space. Those general

entertainment channels have in the last six months to a year, got fragmented enough and have actually ended up becoming a 35 plus age group women only channel, and the result is that your core audiences, which at that point in time were the younger audiences, have pretty much gone away. Therefore, we see a huge opportunity in bringing back that younger audience on the television with different kind of niches and specialty channels or approaches to their content. Number two, we are not launching a general entertainment channels like a Star, Zee or Sony because that will have an outlay itself on a single channel of 400-500 crores. We are actually launching a very specific *Bindass* youth oriented channel that will be operated and that too at 1/4th that cost for the same impact, were it to break out. And third, while most of the last ten years of the industry has grown with a balance of almost 80% advertising and 20% in pay, we see the next 2 years it balancing out to almost being 60% on advertising and 40% pay for the newer channels coming about. So we are definitely not in there for the noise value, we believe that at this point in time, UTV could have been in the 1995 broadcasting wave, but we kind of stayed as content producers, what I would call the second tier or the lower level of the value chain at that stage. And we have made a conscious decision that at this stage, given our past experience and our ability to execute as well as our strong creative and commercial skills, we should not miss this second wave. And therefore, we have not planned just one channel but have looked at a unique bouquet.

Balaji:

But over the next 12 months you are going to expect the GBN group as well as the NDTV group to come in with various channels as well. So we really will be having 21 channels hitting over the next 12 months or so. Are we going to make any money at all, is anybody going to make any money at all?

Ronnie:

Let me be very blunt with you, every time a news channel started here the pundits in the process were very clear about saying now we don't need one more news channel. But the content has grown it and the news channel space has also grown primarily because of the multiple channels. In a pay environment anywhere in the world, not just in mature markets like the US but even in the emerging markets that are as nascent as Malaysia or even South Africa and in UAE, pay television and content drives different market segments. So I think that what every one is looking for will require some investments whether it is 21 channels or not and yes you do have the NDTV group looking at 3 channels but those are the more expensive general entertainment variety channels. If you are looking at NDTV you are looking at one or two channels and we also see INX coming on with a few. But all these are perfectly fine because I think the market can sustain this growth as we go forward. We are very clear about that thought process and I think the market will grow and the best example I can give you is the news segment and if anyone did an analysis, they would know that it was a miniscule segment and it is the number of channels that actually pushed growth. The second best example I can give you is the kids' channels

environment again where there was only one *Cartoon Network* and everyone said they own 90% of the share, what's the point in any one starting that. And that market has grown from a 30 point GRP to 250 point GRP primarily because of the content push and the proliferation of other channels. So I think India is at that point where if you just look at the present players, the supply is not going to be enough and the new players have to emerge and I think everyone will find very clear specialties and niches to take it to the next level. And the present players are already blinking, so it's not like you got formidable competitors there that cannot necessarily be given the next round of competition.

Balaji: Carriage fees over cable vis-à-vis DTH as to which is easier for you?

Ronnie: I think they both have a very strong customer base and one of our most important growth paths right now is that the second television set is entering a multiple of homes and that is the key audience that we are after.

Balaji: But would you have to pay higher carriage fee from cable vis-à-vis DTH?

Ronnie: On DTH we don't land up paying carriage fees.

Balaji: You talked about the financial strategy but what about the content strategy for the channels?

Ronnie: May be one can have a 3-hour discussion on this but we can do that offline. But by and large let me be clear, when we started *Hungama* our content strategy was that when cartoon network was in everybody's household as a default kid's channel how are we going to become the number-1 channel. And we picked one animation series from Japan which at that moment was *Doraemon* and then became *Chin Chan* and one locally produced program called *Hero*. We didn't go for 5 hours of original programming; We just did 2 half hours of these two and broke the mould and became the number-1 channel. We are taking a similar approach in the youth space where the content we are looking at is cutting edge. I could give you a very good example for how out-of-the-box we think while we think of a youth channel. We have the first ever commercial tourist vehicle going into outer space and have booked tickets for the first six passengers who would be going into space and that would be a *Bindass* winner on our channel. So that's how out-of-the-box we think creatively and content-wise for us to go forward.

Balaji: Right, thanks a lot.

Moderator: Thank you Mr. Balaji. Our next question comes from Mr. Saurabh of Kotak PMS. Please proceed Sir.

Saurabh: Good afternoon to the management and congrats on a good set of numbers. If you could just give me the EBITDA breakup

in your interactive segment how much would be animation and how much would be Ignition?

Ronnie: Broadly as I mentioned before about 75% from gaming and 25% from animation.

Saurabh: What would be the debt in the balance sheet if you could just give me that number? The consolidated debt we carry on the balance sheet right now?

Ronnie: On consolidation basis we will be cash positive because while one of our companies may have a debt here, we are doing treasury management in another.

Saurabh: The quantum if you could give me that?

Ronnie: The quantum as far as debt is concerned today, as I said before our 70 million raising, we were looking at about 178 crores of debt. But that pretty much has been totally zeroed out and as I said overall we are positive on cash flow today, as a consolidated enterprise we are doing treasury management.

Saurabh: Just one more question, this is more generic across a different business segments since obviously we are having significantly ambitious plans going ahead. What would be the timeline which you would be looking at and probably the quantum of capital requirement which you would be looking at across the segments, be it gaming or be it broadcasting etc. and any timelines which you could throw some light on?

Ronnie: Sure, one as far as movies is concerned with the raising of 70 million we are pretty much intact as far as that is concerned because we also have a lot of inventory and also a lot of our revenues will kick in as we go forward. So we believe that our movie business is now substantially well funded and insulated. As far as broadcasting is concerned we are looking at over the next three months closure on our strategic investors into the broadcasting space. So that becomes a self-funded activity going forward. In our gaming acquisition, right now we have already paid for Ignition and India Games in that context. But for the growth of that we would look at some additional capital but I think that still is 9 months down the line, once we mature the synergies of these stories right now.

Saurabh: So if I get it right probably in the immediate term we will probably look at some sort of capital raising for the broadcasting business and then in nine months we will look at gaming, if I am right?

Ronnie: That is correct, but having said that, we have already got about USD 30 million that's come back from AIM into the working capital inventory which will take care of our broadcasting activities. But at the holding level, we have had discussions with the Board and we are looking at some enabling resolutions for us to look at some sense of raising may be possibly upto about \$100 million if we decide to do so.

Nothing is confirmed at this point but at this Board meeting we did take an enabling resolution for us to raise that money at the parent level which is the UTV Software Communication Limited level.

Saurabh: So the broadcasting venture would be owned by what percent, it would be 75% owned by the parent company?

Ronnie: At this point it would be difficult for me to articulate the percentage before we will get the actual private placement in.

Saurabh: But the gaming is 100%?

Ronnie: We have a whole interactive subsidiary which is 100%, that subsidiary owns 100% of our SFX and post production business, 100% of our animation business, 70% of Ignition and I think 56-57% of India Games.

Saurabh: Okay, thank you so much for the details. And just one last question on the margins, this quarter we have seen margins really move up smartly to around 21% at EBITDA level. I think significant part probably comes on from the profitable interactive segment? What sort of a margin outlook are we having for FY-08 and FY-09? I know overall it would be muted because of broadcasting but just on this business if you were to go on what sort of margins picture are we looking at the next 2-3 quarters?

Ronnie: The margins actually will continue and grow because in this quarter you haven't seen the margins kick in from movies which will be substantial in the quarter-3 and quarter-4.

Saurabh: Okay, thank you so much and all the best.

Moderator: Thank you Mr. Saurabh. Our next question comes from Ms. Jasmina from ING. Please go ahead Madam.

Jasmina: Good afternoon Sir. In your presentation you had given the new media total revenue target of 171 crores for the entire year and the operating margin target of about 9.6%. But if I see allied services and the gaming business margins this quarter it has been 26% and you have also indicated that the margins could improve going forward for the entire company. Does that mean that this 26% margins around this gaming and animation business is sustainable even on a higher revenue base of 171 crores which is the target given by you?

Ronnie: Well, basically I think at this point of time we have full visibility on our target. You could have a game delivery on a quarter-to-quarter basis that starts off there or we have amortized a certain cost in the previous quarter and therefore the high margin kicks in. So by and large I think we would look at improving the margins on what we have stated in our original target.

Jasmina: So, as per your original target operating margins that are targeted at about 9.6% and this...?

- Ronnie:** No, we see that being substantially higher than that more in the range of 16-18% if not 26% as in this quarter.
- Jasmina:** And also for the content revenue you have targeted about 16% operating margin which is what you have done even in this quarter. So there also you are seeing a substantial improvement on a higher revenue base?
- Ronnie:** On the television part we see it as projected which would be around 16%.
- Jasmina:** And Sir, out of the 171 crores of the new media business which you have targeted, what percentage of the revenues will be from animation business?
- Ronnie:** About 20-30 crores.
- Jasmina:** And what is our animation capacity utilization as of now?
- Ronnie:** Frankly, given the fact that we have started on our own movies, it is pretty much 100% but it's not billable 100% in that context because we are starting right now do a lot of research and development and preliminary work and see pre-productions on some of our own motion pictures. But otherwise on a revenue basis it would be between 75-80% utilization.
- Jasmina:** And animation business will have substantially better margins than the gaming business?
- Ronnie:** I think it will be pretty much what we said and it be in same range that we talked about.
- Jasmina:** Okay.
- Moderator:** Thank you for your question Madam. Our next question comes from Mr. Ritesh of Dolat Capital. Please go ahead Sir.
- Ritesh:** Good afternoon Sir, have you written off the Life in a *Metro* fully?
- Ronnie:** What happens in our normal accounting is that we take revenue projections for each right and then we write it off completely from that point of view. So what we would have written off is a substantial part basically because of the theatrical exploitation but we would carry forward an amortized home video and television rights. But that's not a significant portion considering that the overall movie did not cost us more than 6-8 crores.
- Ritesh:** So, substantial portion has been written-off?
- Ronnie:** Yeah.
- Ritesh:** And of our 184 crore capital employed, how many movies would be in pipeline for this?

- Ronnie:** Actually a lot because the big ticket items if I can just tell you is *Namesake*, our second Hollywood movie which is the Chris Rock, *I Think I Love My Wife*, *Jodha Akbar* and a movie called *Goal*. So these four pretty much occupy the lions share of that 178 crores.
- Ritesh:** Sir, which would be the fourth movie?
- Ronnie:** *Goal* which is the movie that we are also releasing this year with John Abraham, Bipasha Basu, Arshad Warsi and Boman Irani.
- Ritesh:** So in this 2-3 quarters pipeline *Jodha Akbar* and *Goal* would be there or apart from that any other movies?
- Ronnie:** No, there will be quite a few there will be about 6-7 more movies all in Q3 and Q4. We have some very minor releases in the second quarter coming up now. But the bulk of everything is in Q3 and Q4, including revenues kicking in from *Namesake* and others that have already been released in March.
- Ritesh:** And *Jodha Akbar* has been delayed that was the report in the press...?
- Ronnie:** No Sir, that's only what you read in Mumbai Mirror.
- Ritesh:** And second question on gaming, what is the status on *Wardevil*?
- Ronnie:** It's pretty much on track, we are looking at early quarter 2009 release and we are pretty much working towards that.
- Ritesh:** Sir, could you give us the animation order book and Ignition order book?
- Ronnie:** The animation order book as I said reflects in our topline right now, therefore we are looking at between about 25-30 crores. Our overall order book if you were to say technically is about \$11 million. And as far as Ignition is concerned this is not a concept of an order book since we are in the publishing business with direct to retail and where we are now originating our own content and out side of *Wardevil* we are looking at originating two more games.
- Ritesh:** Sir, one more question on movies; what would be our peak capital employed a year or two down the line?
- Ronnie:** I think that 175 could go to about 250-275 that's also because we are doing an M Night Shymalan movie with 20th Century Fox. So that's quite a large movie for us.
- Ritesh:** That would be 50:50?
- Ronnie:** 50:50 worldwide in perpetuity.

- Ritesh:** And Sir final question on broadcasting, can we see the financing arrangements would be happening in 2 months?
- Ronnie:** Yes, our internal target is not more than 90 days. The news flow would be there hopefully before 90 days.
- Ritesh:** And Sir could you specify some genres of the 8-9 channels roughly?
- Ronnie:** What we have already announced is *Bindass* channel. Basically there will be a *Bindass* channel for the youth which will be flanked and supplemented by a *Bindass* movies channel which is basically Hollywood movies which will be dubbed in Hindi and we are doing both those 2 channels *Bindass* and *Bindass* movies in another regional language most probably Tamil. That becomes four, outside of that what we have already announced is our World Cinema channel and we are looking at 3 other specialty channels and one non-fiction channel. All of which we are more likely to announce over the next 30 days. So I would not like to pre-empt our competition to know exactly what we are looking at right now.
- Ritesh:** That's all from my side.
- Moderator:** Our next question comes from Mr. Ankit Kedia of ICICI. Mr. Ankit please go ahead.
- Ankit:** I just wanted to know how many quantities of *Mercury Meltdown* did you sell this quarter. What was the average rate of the game and how many more could we sell? Will you see the revenues coming in 2-3 more quarters from this game?
- Ronnie:** I don't have an immediate idea of the quantity and may be my colleague Amit might just give you that offline, but approximately my recollection says about 100,000 units, number one. Number two, yes these games continue to sell quarter-on-quarter and number three I would like to inform you that outside of *Mercury Meltdown*, we now in our publishing business will have about almost 7 or 8 games in the next 3 quarters. *Mercury Meltdown* was our own game, the others are all acquired and published and we are also developing three games of which one is *Wardevil*.
- Ankit:** So do we also distribute these games retail on our own or we give it to the Nintendo people to do it, how is the game distributed?
- Ronnie:** In the US we go direct to retail pretty much like our movie business where we distribute worldwide on our own. In the UK we are direct and in Europe in the significant territories we have an alliance with Atari.
- Ankit:** So the cost of developing the game will be some cost and how much is the cost of distribution?
- Ronnie:** The distribution cost is a percentage of your overall revenue which would range between 8-15% depending on the quantity

and the feasibility to look at. So it's like a movie, you could make a 4 crore movie, you can make a 40 crore movie and obviously your print and publicity would vary depending on the scale of the movie. So it's very game centric.

Ankit:

And for the *Wardevil* game also, are we going to market it on our own or how is it going to be?

Ronnie:

We will be substantially supported by Sony because for them the PS3 platform which is the most developed platform and which will grow as the next couple of quarters go by is primarily driven by the content. And to us today, for example Wii is doing very well as a platform but that is because Wii and Nintendo took a conscious decision that they are going to focus on game play and not necessarily quality of CG and Animation. And I think from that point of view the consumers are having a great time because they are getting a lot of variety of content very quickly available to them. With respect to PS3, Sony is very cognizant that the content will drive their hardware and therefore they are very supportive for the top-end games. And we expect ourselves to be in one of their top five games on the PS3 in 2009. But we would be distributing it our selves worldwide with the same alliances like Atari in Europe, ourselves in US and UK and in Japan.

Ankit:

Do we have the expertise to do that or are we building up a sales team out there?

Ronnie:

We have the expertise, that's what we acquired Ignition for, for their incubation of *Wardevil*, for their ability to spot games, re-version and publish them and also for their distribution capabilities in the western world.

Ankit:

And generally what will be the average price of these games?

Ronnie:

They go from \$29.99 retail to \$59.99 retail.

Ankit:

Okay, thank you.

Moderator:

Thank you Mr. Ankit. Our next question comes from Mr. Nainesh of Tata AMC. Please go ahead Sir.

Nainesh:

Good afternoon Sir, I have got couple of questions. One would be CAS and DTH related, we have seen CAS and DTH not being as successful in the metros itself. Now with implementation of both of these in other cities and probably not being successful, how would that impact your pay revenues and have you factored in any of those scenarios?

Ronnie:

Let me just sort of clarify this for you. In a sense, CAS has been being substantially successful considering that we are a country where since 1981 to 2006 nobody has paid for content other than an average of Rs.50 for 150 channels. But now there is a mindset change and the consumer is starting to pay for content. One year back CAS got very bad publicity because of being mandated and the government wanted to

push it down everybody's throat. But now it's moved in a much more systematic manner.

Nainesh:

Even in the metros it's like that?

Ronnie:

Even in the metros, for example it's only mandatory in South Bombay and voluntary everywhere else. And you will see there that voluntarily people are looking at it because it's a best way for you to be ensured that when ESPN is showing Indian Cricket match with England, it's not going to get pulled of last minute if you are on CAS. So actually CAS is the right step in the right direction and outside of a little bit of media play with vested interest giving a different sense of bad publicity, it's moving in the right direction. We have factored that we will still be 20% dependent on pay revenues in the next 1-2 years and moving to 40% over the next 2 years. So we are not that bullish in our assumptions but we do believe it will happen faster. The DTH story also is a very interesting one because frankly we are now cumulatively at about 4-5 million subscribers in the DTH space which is quite an interesting number. We are 65-70 million cable homes in this country and the declared base is only 5 million. Now you have a 5 million declared base from that 65-70 million, you have another 5 million CAS homes that will be mandatory by December of this year plus you have about 5 million in DTH. So you have gone to 3X, it's a step in the right direction and that's how it should be viewed as a cup half full not as a cup half empty.

Nainesh:

My second question would be related to something that you answered to Balaji's question; this is regarding how much space do you have in the broadcasting space specially niche channels that would more depend upon the TV penetration because as you rightly mentioned the general entertainment channels at this point in time is dominated by 35 plus females. And going forward the success of any of these niche channels or any channels going forward would primarily depend on the TV penetration rate in India. If you just can throw some light on that as to how that is moved up or just give some idea on that?

Ronnie:

Sure, so I think the first big opportunity is, if there were 2000 points of GRPs generally amongst the space as an illustration and the general entertainment three channels who are hogging 1200 points. They have now gone down to 500 and freed up 700 points for specialty and other channels, number one. Number two, as I mentioned the second TV household is the demand that one should not be underestimating that's the key trigger from that point of view. Third, I just want to clarify that our channels as we have identified them, on which I have not been able to articulate much, are not what I would call niche channels; they are all specialty channels which means they have got a very core audience group. Now core audience group of *Bindass* is by no means like that of the specialty channel, it's almost like a general entertainment channel for a focus age group or for a focused demography. So I think that's really where it goes, for e.g. *Travel and Living* and *BBC*

World and *National Geographic* would be niche channels, all our channels are not in that segment. They are all in the specialty segment which is far removed from niche but not as far as general entertainment.

Nainesh:

But the channels that you are talking about like *Bindass* and other channels are focused on the age group of between 16 and 34. Now these are the people who actually don't have the power to decide what channels come into our household. So have you taken all those scenarios and if you can just explain me that again, the TV penetration rate if you could just help me out and understanding that as well because...

Ronnie:

Let me just correct your first impression right here now. In relation to every single buying decision, if you go to any advertiser they are saying, deliver me the 16-25 year old and I will pay you whatever price you want, that's the audience that most people are after in that context totally and absolutely. Overall macro economic the 200 million homes of which 110 million are TV homes, 65 million are in the cable and satellite and we have about 10 million TV sets that are getting sold every year. That's your second TV set population that's getting added. And frankly your core audience was very much there, even when Star Plus and KBC started, but now they have disintegrated because the content that the general entertainment channels showed continued to be regressive soap operas which started appealing to a core audience. And those channels did not dare to change that because it was working for them, knowing fully well that one fine day it will not work for them and I think that day has arrived.

Nainesh:

Alright, that's all from my side, thanks a lot.

Moderator:

Thank you Mr. Nainesh. Our next question comes from Mr. A. Singhal of Brahma Capital. Please proceed Sir.

Singhal:

Good afternoon Sir, most of my questions have already been answered but I will start with the gaming division, like for the *Mercury Meltdown* right now it was released for the Wii platform. It has been immensely successful in the other platform like when it was launched in 2006. So what all platforms do we currently have *Mercury Meltdown* running on?

Amit:

It's PSP, PS2 and Nintendo Wii.

Singhal:

So pretty much all the platforms covered. So do we foresee a release in the PC platform because this has been an amazingly successful game, do we see that?

Amit:

I think that's our six months target.

Singhal:

What is the *Wardevil* platform because I read that it is a separate engine altogether and that's why it took so long in the production. So after it gets released in early part of 2009, are we looking at getting out a platform for other games in development which will have incremental income for us?

- Ronnie:** My initial answer would be no because we want to capitalize on sequels and other games that we are also incubating in that same platform, rather than leasing out a copyrighted platform because when you see the game play that's when you realize that even Sony will be after it which is what they wanted to do, they wanted to acquire the game and we have said we are not in the outsourcing business. We want to be in the retail business, we want to be at the top-end of the value chain.
- Singhal:** So we will be the front-end developer?
- Ronnie:** That's right, that's what we want to be.
- Singhal:** And that's all for the gaming side. I will move on to the content side. So how do you see it going forward and what would be the progress of UTV in that segment?
- Ronnie:** See I think and I have admittedly said so that we have been cognizant about the fact that we need to actually demonstrate the same success in our television segment as we have in our movie segment from that point of view. And therefore we have a very aggressive strategy right now which is going to involve alliances because I think while this space is exciting everyone is right now looking at upping the ante and therefore all the small players are looking at alliances. We are in active discussion and I think our growth will come through by number one, doing more of what we are doing right now. Two, connecting all our content pipelines to our own broadcast channels which is going to be quite significant. Three, having joint ventures with 2 or 3 key leading players who now need to take it to the next level. We understand the business enough to empower these key players to go to the next level. So I think that it is going to be a multi-pronged attack, pretty much like our movie model where sometimes we do our own movies or where sometimes we tie-up with a director and do three movies. And the space is becoming interesting enough where even film directors are willing to dabble in to the television space.
- Singhal:** Will we be actively looking at other regional languages apart from Hindi?
- Ronnie:** We are in the Tamil and Telugu space, we are active in that with the single largest Airtime sales and for the first time this year we have one of our shows actually in Telugu running on Gemini.
- Singhal:** One more question, in film production like for *Jodha Akbar*, I was just wondering if there any ways for me to take out the proportion of production cost or proportion of the movie owned by the co-producer and yourself?
- Ronnie:** It could vary from movie to movie, if we are doing about 28 movies, may be about 6 of them may have back-ends with people and all the others we have 100% of the entire. For

example, *Metro* it's 100% ours, in many of the other movies really including *Goal* is 100% ours. So it will be very specific with a few directors or production houses where we could have that and the formula for that any way for their profit sharing only kicks in after, one, full return of our investment, and two, with an ROI or an interest cost built in and third we charge 15-20% distribution cost on the top dollar.

Singhal:

How is the distribution business going on in movies?

Ronnie:

First basically we distribute our own movies, we are not that active in the acquisition space right now because of our slate that we are doing right now.

Singhal:

Okay, thank you Sir.

Apurva:

Can we take one last question please?

Moderator:

Sure Sir, our last question comes from Mr. Miten of HDFC Mutual Fund. Please go ahead Sir.

Miten:

Thank you Sir for the opportunity. Just wanted to understand the international movies like *Namesake*, we have a partnership for distribution. How would the economics work and at this point in time would we have a fair idea of how it will look at the end of the year or it's still a very open story?

Ronnie:

Firstly we are not in it for the distribution; we are co-producers of the movie along with Fox.

Miten:

I said Fox probably was primarily into it for the distribution bit of it?

Ronnie:

No, they are co-producers too. Until now, whenever we have done co-productions, we have only done it for the production and not for the distribution. We don't get into an international co-production unless we have distribution tied up with a major big 4 or big 5. And also that the distributor has to have an equity risk and stake in the process and that is quite important and that's what we done with all our movies. Specifically on your question on *Namesake*; the revenue will take 18 months but by and large the headline we see is that if we put in say \$3 million, we would get atleast 100% ROI on movies like *Namesake*. How that revenue comes in Q3, Q4 and Q1 of next year is what we are in the process of discovering along with Fox.

Miten:

So even as of today after the movie has had whatever limited releases, it should have had, we are very clear that the movie will be a profitable venture for us to by the end of the year?

Ronnie:

That's implied on a movie like *Namesake* because by and large for example in Indian cinema about 60-70% still revenue comes from theatrical and about 30% from home video and television and everything else. In the Hollywood segment by and large between 30-35% comes from theatrical

and the balance almost 60-70% comes from home video and from television.

Miten:

Okay, that's useful Sir, thank you.

Moderator:

Thank you Mr. Miten. As there are no more questions I would now like to turn over the conference to Mr. Apurva Shah. Please go ahead Sir.

Apurva:

Thanks a lot moderator. Sir just before closing I had a question from my side if you don't mind. Because there has been a fair bit of money that has been raised by various media funds like Eros and some other people as well who have been acquiring movie titles and atleast in the paper we read that one of Sharukh Khan's films has been sold for 75 crores. So I am just wondering is there any discussion we are having with a similar fund for any of our assets and if it's a good price would we be willing to do a deal on these lines?

Ronnie:

Absolutely, I think just now we believe there is lot of cheap equities being raised by people who are film financiers try to get into the movie business. We support that endeavor and we are actually always in active discussion if we get a price above what we think we can exploit in the first cycle, we are happy to give our first cycle rights to somebody at a premium.

Apurva:

Anything active or any figures?

Ronnie:

Active.

Apurva:

Great Sir, thanks a lot for your time and thank you every one for taking time out for the call.

Moderator:

Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using TATA Indicom conferencing services. You may please disconnect your lines now thank you, have a great day.

Note:

1.This document has been edited to improve readability.