



Movies . Broadcasting . Television . Animation

UTV Software Communications Limited

INVESTOR CALL – OCT 28, 2005

RESULTS – QTR ENDED SEP-30-2005

Moderator: Good evening ladies and gentlemen. This is Renuka, the moderator for your call today. We welcome you for the UTV conference call hosted by ASK Raymond James & Associates Limited. We have with us today Mr. Rohinton Screwvala, CEO, Mr. Amit Banka, GM (Business Development & Strategy) and Mr. Apoorva Shah, Senior Analyst from ASK Raymond James & Associates. For the duration of the presentation all participant's lines would be in a listen-only-mode. After the presentation the question-&-answer session will be conducted. I would now like to hand over the conference to Mr. Shah. Please go ahead Sir.

Apoorva Shah: Thank you Renuka. Good Afternoon friends. Welcome to the post-Q2 conference call with the management of UTV. We have with us Mr. Ronnie Screwvala, Chief Executive Officer and Mr. Amit Banka, General Manager (Business Development & Strategy). Without taking any more time I think, I would like to hand over the call to Ronnie for his initial comments on the quarter just gone by and outlook of the future. So over to you Ronnie.

Screwvala: Thank you, good evening everybody, just a quick summary, I think the note and the results are in front of you. On a quarter-to-quarter basis we are not obviously in a comparative mode, because we haven't had audited quarters of the past, this being our very first year after listing. We do have half-yearly results and therefore we have been able to compare half-yearly results to half-yearly results. And to that extent our revenues are up by 21% and our overall PAT up by about 100%. , Besides our entire business is consolidated with a 100% subsidiary. So anyone looking in our business needs to look at the entire consolidated mode only. Primarily because of our US, UK and Mauritius operations overseas represent a part of the entire cluster of our activities. For example, a fair amount of our profits just come from our overseas territories. And therefore, the results need to be looked at in an overall consolidation mode.

I think the headlines for this quarter is that our operating margins have gone up substantially, which is that we need to bring in a lot of feasibility and a lot of economy into the businesses that we have talked about 2 quarters back. And that is promising for us at this point in time. Also promising is the fact that our revenues for this 2nd quarter have held strong without any feature film releases at all. And if you compare it to our 1st quarter we have actually released 3 feature films and none in the 2nd Quarter, which means we are a buoyant model in some of our other business also. Having said that these next 2 quarters we will make up enough business substantially because we have almost 7-8 big releases, all big movies, all high commercial movies lined up. Two of which are our own production, about 4 of which we have acquired for distribution worldwide, and 2 are international productions of Hollywood movies, that we will be releasing in India and then

selling them on Home Entertainment. I think we are happy with our progress in the entire film calendar both in terms of production and distribution.

We are pleased with the progress that we made in animation, in billing an order book, though we do believe that the true reflection of the order books will come into place from the first quarter of next year and not before that. And to that extent we have been ramping up in terms of our capacity. Television and airtime sale business continues to remain stable. And I think over the second part of the 3rd quarter and the 4th quarter we see a jump, primarily because we have 2 daily programmes going on channels of Zee and Sony. Along with the fact that in our airtime sales model, some of the shows that were there on the SUN platform are now beginning to mature. So that's the sort of overview. Outside that the figures are pretty much there and available. And I will be happy to now take questions.

Moderator: Ladies and gentlemen, we will now begin the 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 request, you may do so, by pressing the '#' key. Ladies and gentlemen you are requested to press '*1' to ask any question. We have our first question from Mr. Ram Patnaik of Brics Securities. Please go ahead Mr. Patnaik.

Patnaik: Good afternoon Sir, this is Ram Patnaik here. Just wanted to know what is the EBITDA margin segment-wise for TV, films and your allied services, right now?

Screwvala: That's for the consolidated half year or for the quarter?

Patnaik: Yeah, for the half year.

Amit: The operating margin is approximately 13%, which is excluding the other income. And as far as the EBITDA margin is concerned, it is almost 15% plus.

Patnaik: Okay, overall you are saying.

Amit: Yeah.

Patnaik: Okay, if I ask for TV, Films & allied services, that way, is it possible to give us?

Amit: I think, broadly it is mentioned in our release.

Patnaik: I am afraid, I am not able to get it Sir. That is the problem, I am not able to see the result actually. Okay, thank you.

Moderator: Thank you very much Mr. Patnaik for your question. We have our next question from Mr. Vaibhav Doshi of Networth. Please go head Mr. Doshi.

Doshi: First of all congratulations on a good set of numbers. And I wanted to know where is the weekly programming in terms of number hours currently and what is the target we have for year 2007?

Screwvala: This specifically talking about Television?

Doshi: Yes.

Screwvala: Okay, in Television basically we have about 10 hours presently and we see that another 4-5 hours added as these two dailies go on the air, taking it to about 15 hours. Over and above this our entire Television in South India adds another 10-15 hours, if you look at the entire cumulative of what we are either producing or producing and marketing on the Sun Group network. So the range would be around 20-25 hours a week.

Doshi: Okay, and out of that if you can give a component in terms of commissioned and non-commissioned?

Screwvala: The commissioned which is presently at 10, will go to 15 hours a week, and the balance which is provided with Sun Group is all non-commissioned, which is all airtime sale.

Doshi: Okay, thanks.

Moderator: Thank you very much Mr. Doshi. Ladies and gentlemen you are requested to press '*1' to ask any question. We have our next question from Mr. Sadanand of Kotak. Please go ahead Sir.

Sadanand: If you could give us the breakup between Hungama and non-Hungama programming hours, the average realization per hour.

Amit: Per hour realization is somewhere in the range of Rs 7 lakhs per hour and non-Hungama programming is more than 80%.

Sadanand: Okay

Screwvala: And that's if we look at Television. And if we look at Television with airtime sales then it would be much higher. It would be about not more than 10% is Hungama.

Sadanand: Okay, thank you.

Moderator: Thank you very much Sir. We have our next question from Mr. Ram Patnaik from Brics Securities. Please go ahead Sir.

Patnaik: Sir, what is your overall film budget for 2006 and if possible 2007 as well?

Screwvala: Sir, when you said budget does it mean budget for production or budget for acquisition?

Patnaik: For Production.

Screwvala: Well, we normally look at 5 or 6 movies in production and 5 or 6 movies in distribution. So from that point of view, our range actually on movies is from about 3 crores to 25 crores. But for 2 of our forthcoming releases in the production one is budgeted at 11 crores and the other one is budgeted at 24 crores, depending on the size of the movie. We have an equivalent investment when it comes to acquisition of worldwide distribution rights.

Patnaik: Okay Sir, thank you.

Moderator: Thank you Mr. Patnaik. We have our next question from Mr. Falgun Shah of Cholamandalam. Please go ahead Mr. Shah.

Falgun Shah: Sir, I have just one question. Has there been any change in the equity structure of Hungama TV over the last one quarter?

Amit: No.

Falgun Shah: It has been pretty much the same, I mean UTV software holds 49% and the rest is held by promoters.

Amit: Yeah, that's right.

Falgun Shah: Because there was some escalation clause by which UTV Software could enhance it's holding.

Amit: Option is solely at UTV's discretion to enhance it's holding to 67% of Hungama Equity at par over the next 2 years of operation. We are evaluating it very closely and should do a consolidation and it's not very far.

Falgun Shah: Okay, any guidance from the run rate and burn rate of Hungama TV currently?

Amit: I think it pretty much remains. We are now collecting about Rs 1.5 crores in revenues per month between advertising and pay revenue. , which was a quarter-end break-even and then now we are in our 5th quarter.

Falgun Shah: Okay, thank you Sir.

Moderator: Thank you very much Mr. Shah. Participants are requested to press '*1' to ask any questions. We have our next question from Mr. Sadanand from Kotak. Please go ahead Sir.

Sadanand: Hi, I have a couple of questions. Just wanted to understand what is the status of your movie, which you had signed up sometime back.

Screwvala: Well essentially, it was a co-production and we have pretty much consummated one and delivered the movie to them. It will be aired on Satellite soon. We are pretty much completing of the second movie also.

Sadanand: Okay, which is that movie.

Screwvala: Well, 'D' was the first one that we have completed. And now, 'Mai Meri Pathni Aur Woh', is also being consummated. In fact, both of these will be finished off and that completes our obligation and co-production with Star as of now.

Sadanand: The second question is what kind of revenue potential you see in kids channel, going forward and what are the factors that will drive that kind of growth.

Screwvala: Well, actually two things, one is, right now it is about 100-150 crores market, when you look at just a kids channel. However, the pay market, which was non-existent till about a year back, has grown substantially. And second, if you look at kids advertisement on general entertainment channel, which in turn gets migrated to kids, that's another 500 crore market. So, we put all of that together as a substantial part in the first context. The second is, that this is a business which is not grown because there has not been content that has been given to this segment of the **4-14** and as this is progressing we find that advertisers are becoming more and more responsive to the fact that they find better buyers to buy these focused buys on kids channel. Even the kind of advertisement that we now run has changed - we run insurance companies, bankers, cars, white goods now as against sweets and chocolates and baby products in the past. And so that's really where we see the potential. I think in the next one year it will grow exponentially and not sequentially. And for higher pay revenue having a kids channel is an important part of anybody's bouquet.

Sadanand: You have planned to launch 2 more channels in Southern part, how do you intend to go about it?

Screwvala: Our plan in the south of India is going to be to partner with somebody there. But our investments will be zero. We will not be making any further investments. We look at a strong partner, who can guarantee us ground distribution at 100% without carriage fees. We will re-invest in programming, a lot of that which is already been amortized by us in our presence. They will have to just re-produce and re-package which will be incremental cost and which will be definitely taken care of by the advertisement there.

Sadanand: Mr. Screwvala, we are witnessing entry of large organized players in domestic and international distribution phase. If you could tell us the impact of that on distribution business, in terms of the cost of acquisition of film, in the supply of the film.

Screwvala: Statistically if you looking at the Hindi film market, there are about 200 films produced every year. In the top 10, in the top segment of the 'A' film, there will be about 15-20 films. The next segment is critical, which is about 50 films. If we look at the combination of those two, which are 70 films, those are the ones that are really worth acquiring overall. Players like us, that have been in the line of business for long time need to obviously hold our ground and look at only worthwhile projects and not over extend ourselves because they don't sum up at the end of the day. While we finish the cycle of the one year, where everyone does match prices. Having said that, in that 70th cycle we have forward planning all the time. As I said our next six months time we have 7-8 movies. Well, nobody has those 7-8 movies as a release in next six months calendar. In that 70 movies at least 10 or 12 will be our own production in some form or the other. And therefore, that will be our comparative advantage also because we are producers first. And therefore, our appetite to acquire distribution will not be as desperate as everybody else is. And therefore, I think we will have a rational for that.

Sadanand: You have recently done multimovies with Sippy's. If you can tell us, what is the acquisition cost of those in distribution?

Screwvala: We have acquired 3 movies from them. Basically, what we have acquired is their block buster, atleast we think to be a big commercial recipe, which is 'Bluff Master', starring Abhishek Bacchan and Priyanka Chopra, followed by another movie from them

which is called 'Taxi 9211'. Now, overall we got worldwide rights including all international rights, new media and DVD are three movies package deal from that point of view. The last part of the amount is still under negotiation, because we are trying to vary the minimum guarantee with the profit arrangement.

Sadanand: Okay, if you could tell us the cost of production for 'Rang De Basanti'?

Screwala: It will be in the range between 23 and 25 crores.

Sadanand: I believe you signed already a deal for that distribution at record prices?

Screwala: We have pre-sold India, I mean, we are not distributing India, only because we believe that part of a balance with the portfolio that we do. And, I don't have record prices, but we are happy with the prices we've got.

Sadanand: Okay, thank you very much.

Moderator: Thank you very much for your question Sir. We have our next question from Mr. Ram Patnaik of Brics Securities. Please go ahead Mr. Patnaik.

Patnaik: Sir, I just wanted to know what will be the composition of the revenue going forward by way of Films, TV and Allied services?

Screwala: For this year, I think it will be about 55% in movies and 40-45% coming from TV and Allied services. Next year we see Hungama's revenues also kicking in, which will beat me out, you can put them in the broadcasting as a separate one. So, basically we might see movies static, even though it's growing, we see static at that percentage because the other ones will have to move forward because broadcasting will kick in, in terms of revenue. Basically project mix, but our desired mix will be in that range you see, its between small screen and big screen to maintain an equilibrium 40-60, 60-40, 50-50 in that range.

Patnaik: Okay Sir, thank you.

Moderator: Thank you very much Sir. Ladies and Gentlemen you are requested to press '*1' to ask any question. We have a question again from Mr. Sadanand of Kotak. Please go ahead Sir.

Sadanand: Yeah, in your allied contracts services business you plan to expand further in the special effects and the Digital Intermediary business. If you could elaborate further on that and also specifically what is the digital intermediary business, which you're referring to?

Screwala: Well, DI or Digital Intermediary actually is a technology where you upgrade the entire film processes because if you notice today on the big screen when you see a Hollywood movie and you see an Indian movie, we find the print quality, the entire colour, the texturing, the crackles, the noise levels to be very different, you don't see a thing as great movie. Now, therefore most movies now go through this DI process, which actually colour corrects everything frames and makes the movie into a world-class movie. And, especially the international market is growing for this, it's almost mandatory for every one looking at the international release and the multiplex domestic release to look at that

qualification. So that it caters to the film market. Special effects and middle effect we exactly that, that's pretty much what we've been doing for a fair period of time. Almost each of our movies we have budgeted between Rs 20 lakhs to 1 crore, which goes in the special effects. Take a commercial commodity we want to do, and because we are doing a lot of work in animation and we are getting a lot of international business from there, we also believe that with this special effects we will be able to jointly market animation as well as special effects. (18.33)

Sadanand: Okay, coming to Hungama, what kind of capital structure you have in that company? I mean to say debt and equity and what kind of fund you intend to infuse in that in the next one and 1½ years?

Screwvala: Well, we are looking at some private equity injection and we are at the advance stage of discussing the same with the strategic partner for future equity investment. But for the present equity structure...

Shah: Yeah, the present equity structure is approximately around 20 crores as pure equity

Sadanand: Paid-up equity?

Shah: Yeah, and the debt is approximately in the range of 20-25 crores and the balance funding is as unsecured loans.

Sadanand: How much is that?

Shah: In the range of 10 crores, so round 55 crores of total funding

Sadanand: And what is our total investment in that subsidiary, that company?

Shah: That is in the range of around Rs 43 crores put together.

Sadanand: And how much more you are looking to infuse into that company?

Screwvala: That's the question I was answering first by telling that we are pretty much close to our private equity transaction. Otherwise our burn rate would be about a crore, a crore and 25 per month is the maximum.

Sadanand: Okay, and this private equity could be financial investor or a strategic investor?

Screwvala: It is 99% to be a strategic investor.

Sadanand: Okay, what kind of value you would look from them?

Screwvala: Difficult to say at this stage Sir, really very difficult

Sadanand: Would it be a distribution kind of value you would be looking at?

Screwvala: A distribution value meaning?

Sadanand: I mean, this is someone who has a large distribution network.

Screwvala: No, by strategic meaning a global media company.

Sadanand: Okay, thank you very much.

Moderator: Thank you very much Sir. Participants are requested to press '*1' to ask any further questions. We have our next question from Mr. Vaibhav Doshi of Network. Please go ahead Mr. Doshi.

Doshi: Sir, just wanted your view in terms of Digital processing in the exhibition industry. What do you think about it?

Screwvala: I think, it is definitely a very interesting space in India, because we tend to leap frog in terms of technology because we are very unique in the fact that almost all are partly B towns, but all are C and D towns. We don't get to see a movie the same day as the A and B towns get to release, because of that and certainly because of the piracy invasion. So, we take all of these the carbon cost that can come down on a print cost, See abroad a print cost is equal as a print cost here, but it is negligible compared to the cost of the production for movie. But, in ours the pro-rata scale is substantially higher. So, I think from a print cost point of view, going up there and getting the film shown before pirates get in and looking at the C and B towns as your augmented revenue pie is all three reasons why I think, digital should and will work overall.

Doshi: But, what kind of timeframe, that you would think when it could actually start happening over here?

Screwvala: Well it's happening, it's happening in the sense that there are 5-10 theaters being made across right now in the first place. So I think the tie-ups pretty much have come. The two or three players that get into the business should have capacities of doing a theatre a month, rather a theatre a day. So, if you look at that, you have an installed capacity of doing may be up to a 1000 theatre in one year between three parties.

Doshi: It will pretty much done in say 1½ year, I mean we could probably have...

Screwvala: Yeah of course, because if you look at the whole multiplex scenario, we are still talking about 60-80 theaters, after all 3½ years. So I think, digital will go much faster. Basically I feel theatre is much easier and faster than actually making multiplex.

Doshi: Sir, what I heard is there are some investment between 1½ lakh per screen to be made by each theatre owner approximately. So, how do you think those guys will take this?

Screwvala: I believe that the investment is much higher than that and I don't have to give it out as a generic answer at this point of time. But I would say that, that's not something that I would volunteer. Overall, I can say that the investment is going to be much higher and it will mostly be made by outside parties, who might take a revenue share.

Doshi: Okay, thank you Sir.

Moderator: Thank you very much Sir. Participants are requested to press '*1' to ask any questions. We have our next question from Mr. Sadanand of Kotak. Please go ahead Sir. (23:06)

Sadanand: Sir, if you could tell us your plan on the merchandising side and what kind of business opportunity you are looking at in that particular space.

Screwvala: Nothing substantial for at least a year. It will kick in the year 2007-08 because there is a lot of what I would call donkey work that needs to be done, if not investment it is not very capital intensive in any form. But basically the concept of people paying in India for brands, for branded goods as a premium is the culture that has just come in, as near the right totally.

Sadanand: But something that we have it for the global brand, you know the brands like pokemon and other kind of brands and some of the brands which is basically a Television character. Would you be looking at that kind of model?

Screwvala: Yeah it will, I mean when we did 'Shaka Laka Boom Boom' on star we sold lakhs and lakhs of that magic pencil. So that gives you an indication. In fact Disney for all its big world power has not been able to make a single dent in this country yet.

Sadanand: Okay, thank you.

Moderator: Thank you very much Sir. Participants who wish to ask any questions are requested to press '*1'. To ask any further questions please press '*1'.

Apoorva: Hi, this is Apoorva here. There are just a couple of questions from my side. One is if you can just share the experience on the DVD label that you just launched. How is the experience been and what is the expected...?

Screwvala: Actually, DVDs are hugely growing markets here right now and we believe that when we used to sell out at minimum guarantee of 20 lakhs, then people went to 1 crore, and obviously there is money to be made. This is when we realized that we should be investigating it ourselves. And we started off with this Swades title and started doing it with the others and it's a big market. And the key in that market is that when you get your packaging pretty good, you come up with a premium product for a premium segment of the market in DVD. You come with a Max product in DVD and then you can even lower cost modeling VCD and if you tackle these three, the products shelflife is pretty good and it moves reasonably fast. We don't need to really do much than have a CIF agent in distribution like a normal conventional retail chain and it has worked pretty well for us till date. Returns are not higher than about 4-5% so far. Even though if we do, we **build** in a business standard return of 10%.

Apoorva: When we say 10% this is 10% percent return on investment or...?

Screwvala: No, 10% return of goods sent out that has to be then recycled and sent again, to be resold later.

Apoorva Shah: So what will be your revenue, you know potential that you see over the next you know couple of years?

Screwvala: Its part of our distribution business if you look at that. So when we are distributing internationally or we are distributing domestically, we are buying the rights in such a manner that it will be passed. If our distribution pie is about 150-200 crores on an annualized basis, it should definitely form 10% of the 200 crores pie.

Apoorva Shah: It's quite a number I mean, are you looking at 10-20 crores revenue from this segment?

Screwvala: That's correct. I mean, you know just on a movie like Swades, we will be able to do more than a crore. A movie like 'Rang De Basanti' we will do much more.

Apoorva Shah: And net margins could be fairly good I would assume because of the....

Screwvala: They move depending on how your entire economics of the acquisition cost is. If you are looking at a complete bonus, your acquisition cost to be zero, because your raw material cost is very low. And your marketing costs are very limited, because actually if the movies are well the brand is already been pre-polled.

Apoorva Shah: Also just wanted to understand on the distribution front. How does this entire process work currently in the sense does it typically go to the highest bidder or do producer actually see value with somebody who has an acting talent?

Screwvala: I think people definitely value on two things, one is if we are doing in all India or on all world. They are now looking at dealing with one person. I think transparency does make a difference. And third, what people are valuing is the marketing input that we give, because I think what we can bring to the table in terms of marketing and sponsors to augment the brand of the product and make the product look at least different than what it is even then. These are all value additions that come about. So if the people are looking at an integrated model and not going with the state-wise distribution, and I think it's a discounting mechanism because some of the parts can show on the sum, they will get it higher. But basically on a consolidated basis they might settle for a lower amount only because they believe that it's going to be a larger value addition.

Apoorva Shah: Okay, also you know, all these 4 movies that you have mentioned which are the distribution rights that we have for the second half of this year, are these national international or?

Screwvala: 'Shadi No 1' is all India, 'Dewani Hue Pagal' is worldwide including India, 'Bluff Master' is worldwide including India and 'Taxi 9211' is worldwide including India.

Apoorva Shah: Thanks a lot Sir that's all from my side. If there are any further questions you can go back to the Q&A.

Moderator: Ladies and Gentlemen you are requested to press '*1' to ask any question. Participants who wish to ask questions can please press '*1'. As there are no more questions, I would now like to hand over the conference to Mr. Apoorva Shah. Please go ahead Sir.

Apoorva Shah: Thanks a lot everybody for being on this call today and special thanks to the management of UTV for taking time out with this conference call. We hope to see

strong quarter once again in the coming quarter and hope to see you in the next quarter, thanks a lot.

Screwvala: Thank you very much.

Moderator: Ladies and Gentleman, thus 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 and have a pleasant evening.
