



Movies · Broadcasting · Television · Interactive

UTV Software Communications Limited

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INVESTOR CALL – SEPTEMBER 30, 2007
RESULTS - QTR ENDED SEPTEMBER 30, 2007

Moderator:

Good evening ladies and gentlemen. I'm Sanjay the moderator for this conference. Welcome to the UTV software conference call posted by Prabhudas Lilladher. For the duration of the presentation, all participants lined will be on the listen only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Apurva Shah of Prabhudas Lilladher. Thank you and over to you Sir.

Apurva:

Thank you moderator. And welcome everybody to the Q2 FY08 conference call of UTV. We have with us from the management team Mr. Ronnie Screwvala CEO, Ms. Roma Patel Group Director Finance and Strategy, Mr. Amit Banka Vice President Business Development and Strategy, and Mr. G. Chandrashekar CFO. Without taking any more time I'd like to hand over the call to Ronnie for opening remarks after which we shall have the Q & A session. Over to you Ronnie.

Ronnie:

Thank you. Good afternoon everyone and good evening for those joining us from the Far East. And thank you for being on this call. Again just to summarize I think we have had a pretty good quarter which is in line with what we talked about in the last investor conference call. Essentially as I had maintained even then, most of our robustness actually accrues in quarter 3 and quarter 4; in quarter 3 primarily because of our aggressive line up of movies and in quarter 4 again primarily because of our movies coupled with our gaming releases, all of which are releasing in the 4th quarter. Coming to this quarter, out of the broad mix of 70 crores of revenue, about 20 crores comes from our television content business which is a combination of our TV content, air time sales and dubbing in terms of classification. About 40 crores or about 400 million from our movie business and about 10 crores or 100 million from our interactive business which is in this particular quarter more animation with a little bit from the gaming business. Just a clarification over all that, stand alone comparisons are not that relevant going forward and even the stand alone comparison between last year and this year would not be relevant to look at. Because, for example, last year all our motion picture business was included in the UTV Software Communication and subsequently it's been off. So in comparison of stand alone, I think taking into consideration our holding in both our gaming entities and our UK based movies company it is important that we all focus on the consolidated results going forward. Outside of that just as I said, Q3 and Q4 in terms of movies, we are almost looking at a huge movie releasing every month. We've got our first Telegu movie *Atithi* which released last Friday. And it has done exceptionally well with the No.1 star in the Telegu market, which is Mahesh Babu. In November we have our

John Abraham, Bipasha Basu starrer movie *Goal* which has already got a lot of attraction, followed by a very large movie called *Welcome* in December for which we've bought the rights for a long term period. We also have all international rights excluding India for the only Aamir Khan movie which is *Taare Zameen Par*. In January we've got the release of *Jodha Akbar* which does promise to be the biggest movie of the year. Not just in terms of hype but also in terms of the scale of operations. Our television business will continue to its momentum as it has in the last couple of quarters. However we have sort of expanded that base because new channels are starting up. And we do see a few new shows being added to our television. But they will really start coming on air in the fourth quarter and will only reflect in our figures the year subsequent. As far as the international movie releases are concerned, I think it's pertinent for me to point out that while we've had a very good success in *Namesake* and a moderate success in our second international movie, *I Think I Love My Wife*, the revenue accrual and profits for both will really flow into the 08 – 09 financial year. This is primarily because the DVD stream of revenue, which is the second exploitation vehicle of the Hollywood movies, has just started. Television also constitutes a large portion of the revenues and therefore the revenue flows from Fox to UTV will really come in Q1 to Q4 of the next financial year. Coming to the Interactive business, in the gaming space we'll see a fair amount of publishing that will happen in the 4th quarter, primarily coming out of Ignition. Indiagames has still not been consolidated and we hope to consolidate its earnings in this quarter because we haven't yet closed the transaction. However all the long term agreements have been signed and there are some CPs awaiting it. And we will see some reflection of Indiagames hopefully in the 3rd quarter, if not then, in the 4th. As far as broadcasting goes we've launched two of our channels which are *Bindass* and *Bindass Movies*, both of which got released in September. And we are looking at releasing two more in December, one more in January and one in March. That is basically the core aspect for that. So that's the summary and the overview. As usual we'll be happy to explore more as we start the Q&A. Thank you.

Moderator:

Thank you very much Sir. We will now begin the Q&A session. Participants who wish to ask questions please press *1 on your telephone key pads. On pressing *1 participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now.

Moderator:

First in line we have a question from Mr. Vijay Sarthi from Thomas Weisel.

Vijay:

Good afternoon Mr. Screwvala.

Ronnie:

Good afternoon.

- Vijay:** Few questions for you. On the gaming side there's a decline in revenues compared to last quarter, almost from 166 million to 50 million this quarter. Can you talk us through that please?
- Ronnie:** As I said, the bulk of the gaming comes from our Ignition part of the business. We have some releases slotted for the 1st quarter. We have less of them in the 2nd quarter and even in the 3rd quarter. And in the 4th quarter we have it larger than the 1st quarter. So the gaming business is really reflected with our single acquisition before Indiagames comes in. So the 1st quarter will be flattish and the 2nd quarter will be even flat as far as Ignition is concerned. And all our games really come in the post Christmas season which is Jan, Feb, March.
- Vijay:** Okay. And the mercury meltdown has been released for Nintendo so any further update on that?
- Ronnie:** The flows on that have been shipped out to the US right now and there is a positive response there. So as we go forward what you see in this quarter and the next quarter really is a fair amount representation coming from Mercury Meltdown. And the new titles of publishing are coming in, in the Jan, Feb, March quarter.
- Vijay:** So for the entire year FY08, what kind of revenue range can be looked at purely from gaming?
- Ronnie:** From gaming, substantially represented by Ignition it will be around 70 crores plus on the top line. And with Indiagames it might add 8 to 9 crores on the top line.
- Vijay:** Okay thank you. And on the EBITDA margin side between last quarter and this quarter, there is a huge variation in segments. Like films was 43% this quarter whereas it was 15% last quarter and then a huge drop in TV from 23% to 4%. What's the reason for this?
- Ronnie:** I think in the last conference call we had explained our television margin in the range of 10 to 12 to 15% and some times 20% in that range. And the reason for that is we had done a single syndication for a particular broadcaster. It happens with your syndication library. And that was not a recurring event. As far as movies is concerned, there are not any releases we did in the July, August, September quarter. So really the margins are coming from the fact that it was all bonuses. Meaning it was all revenues and profits coming from the exploitation of rights, overflow from *Metro*, selling of our part Miramax library and so on and so forth.
- Vijay:** Okay. Also, within the 40 crores for movies is it possible that there was a compression in the recognition period from your DVD and international releases? Basically what I'm trying to get at is, how do we break up that 40 crores into different aspects?
- Ronnie:** As I said, till the movie is released we don't do any revenue accrual in that case. If we are looking at selling the music

right for a movie that is releasing in August, until we deliver the actual music to the music company we do not and cannot accrue with the revenue rights there in the first place. So there's no comparison, if that's your question, there's no comparison on that. The revenue recognition policy is very articulate. In that it needs to have been released and delivered to the party.

- Vijay:** Okay, thank you. I'll get back into the queue, I'll come back.
- Ronnie:** Sure.
- Moderator:** Thank you very much Sir. Next we have a question from Divya Shrivastav from Sahara Mutual Fund.
- Divya:** Hello Sir.
- Ronnie:** Hello.
- Divya:** Sir, I want to know what percentage of growth you are expecting from next 2 years and the net sales?
- Ronnie:** I would say, broadly last year if you look at our top line which is 175 crores, if you include the one time income of 25 crores which is a gain from our sale of *Hungama*, then the total income becomes 200 crores. On an apple to apple basis if you were to take our last year revenue of 175, this year we are expecting a 2 to 2.5 times growth in the top line for the current financial year. On our bottom line again if you strip off the two one time activities which are basically the same 25 crores coming out of the sale of *Hungama* plus a deferred tax asset, we are looking at nothing less than a 5 to 7 fold increase in terms of PAT for this current year. If you treat these two as our base we are looking at 35 to 40% CAGR for the next year.
- Divya:** Okay, thank you so much.
- Ronnie:** Thank you.
- Divya:** Any other capex plans you are expecting for your company?
- Ronnie:** Nothing of any significant nature. We would consider anything below a million dollars to be not significant.
- Divya:** Okay, thank you sir.
- Ronnie:** Thank you.
- Moderator:** Thank you very much Madame. We take our next question. The next question comes from Mr. Abhishek from Thomas Weisel.
- Abhishek:** Hello Mr. Screwvala. Can you give me some idea about deferred tax liabilities? Like there were some gains this quarter, is there anything further coming in the next two quarters?

- Ronnie:** No, nothing of any significance at all. It is very minimalistic in that context and nothing significant.
- Abhishek:** And in the TV content side, can you give us a rough break up of what was the airtime sales and what was the TV content part?
- Ronnie:** I'll say broadly if you look at about a 100 crores of top line contribution for the whole year which comes from television airtime sales and dubbing. Then about 25 to 30% will come from TV content, about 5% from dubbing and the rest from airtime sales.
- Abhishek:** Okay, that's fine. Is it possible for you to give some kind of a break up for the 40 crore revenue which came from the movie division?
- Ronnie:** Yes, if you broadly look at that. It will be a combination of sale of music rights for one or two of our movies. It would be a combination from the overflow of the Metro movie. It would be a combination of syndication sale from some of our Hollywood movie library which we had, which are the Miramax and Gold Crest library. So it's a combination of all of those.
- Abhishek:** Okay fine, and one last question. On the reported financial side there is a little footnote which gives you more than 10% of cost. So the footage cost given there is, I mean it exceeds the total expense which is there. Like the footage cost is given as 821 million as against total expenses of 536 million on a consolidated basis. Can you explain that?
- Ronnie:** Okay, I'm just taking a look at that. I think we will need to take that offline. Basically you are looking at the P&L, there is a certain amortization so the difference would be from the amortization policy that we have, as compared to all the expenses being reflected in the footage cost.
- Abhishek:** Okay fine, I'll come back later. Thank you.
- Ronnie:** Thank you.
- Moderator:** Thank you very much Sir. Participants who wish to ask question may please press *1 on your telephone key pads. Next we have a question from Ms Pragati from Citigroup.
- Pragati:** Hello Sir. I have one question on the movies inventory. Your motion picture subsidiary account shows an inventory of about 46 million dollars. So assume most of this would be the movie sales which will be released in the 2nd half. I just want to have a sense of what it comprises of exactly?
- Ronnie:** I think the movie inventory will comprise of a lot of things actually. Of the *Namesake* and *I Think I Love My Wife* we haven't accrued the revenue and therefore it would stay in inventory. A part of our investment in the M. Night Shyamalan movie, not all of it, we are there in the opening credits, so a marginal component will be there. The reasons why we have

such large releases in the next six months is because we've invested in those movies over the last 12 to 16 months. So the inventory of *Goal*, *Jodha Akbar*, *Welcome*, *Atithi* and the *Aamir Khan* movie which are pretty much paid up and up for release in the next couple of months, would reflect that. And fourth we pretty much have a slate of 30 movies for the next 2 years. They are at various levels of development. The costs are 2%, 10%, 20% to 50% will be invested in some of our future movies. So that's a composition of this.

Pragati:

I know this will be a difficult question to answer, I mean it is difficult to put a number on this. But is it possible to say how much of the slate would be coming in the next half of the year? How much of the inventory will be the production of those movies?

Ronnie:

I would say, if I would make a broad guess it would be about 140 to 150 crores of that. So you can take that in million dollars.

Pragati:

Sure. I had another question on your interactive side. What's the break up between animation and gaming?

Ronnie:

Animation would be around 1.5 million dollars out of this. It's around 6 crores from animation and 4 crores from gaming.

Pragati:

I just wanted to understand as in animation I think you did Rs156 million last quarter or 15 crores?

Ronnie:

No it was the interactive segment. It was a combination of gaming and animation.

Pragati:

Correct. So last quarter you had done around 208 million interactive out of which I think 75% was animation if I'm not wrong.

Ronnie:

No, the last quarter which was the 1st quarter of this financial year was more gaming and less of animation. As I mentioned to the person who asked a question before, about 15 crore out of those 20 crore came from gaming and 5 crore is from animation in the last quarter and in this quarter of 10 crore, 6 crore from animation and 4 crore from gaming.

Pragati:

Okay, so since we are already half way through the year I want to have a sense of these items again, if you could just reiterate for the different business.

Ronnie:

I think if you go apples to apples to last year of 170 to 175 crores taking the one time. We were looking at the top line of 4 billion plus. So if I were to break up broadly the 4 billion, we would see about a 100 crore coming from our television content business which includes airtime sales and dubbing. About 225 crore or about 2.25 billion coming from movies. And about 75 crores or 750 million coming from animation and gaming combined in the interactive segment. Broadly that's what I can tell you.

- Pragati:** Okay sir, thanks a lot.
- Ronnie:** Thank you.
- Moderator:** Thank you very much Madame. Our next question is from Sudip Mehta from Deep & Mehta Shares.
- Sudip:** I think this is related to the question just asked before me. You said that you also give some kind of indication of 5 to 7 fold increase in net profit. But what is the base you have taken for FY07 because the income over there and our estimate?
- Ronnie:** Around 10 crores.
- Sudip:** Around 10 crores is what you had taken as the base calculation?
- Ronnie:** After stripping one time gain of sale of *Hungama* and deferred tax asset.
- Sudip:** Sir, these estimates are based on basically these movies generally being on what basis, moderate success?
- Ronnie:** Firstly definitely moderate. Definitely not the high side of it, number one. Number two, having said that the Telegu movie that we released, the verdict is out, it's a plus so it's met our target of what we set out to do. As far as *Goal* and *Jodha* is concerned, we have taken it as the overall hype we have on the movies. We will be able to cover pretty much the conservative approach taken, based on the movie including in the first week. On our movie *Welcome* we're looking at actually doing some soft selling. So it's a combination of soft selling, a fair amount of hype on the movies, and expectation. And the mix of the pedigree because basically in these 6 months nobody's got these 6 poles coming out of any studio. We've got the only Aamir Khan movie which is going to be released in these 6 months for the audiences, the only Hrithik Roshan movie that is going to be released for the audiences. There hasn't been an Aamir or Hrithik movie in the whole of 07. So, all these parameters plus moderate success is the basis.
- Sudip:** Sir, in the first half there is no tax provision or very little tax provision. Any specific reason for that? And then if you could give a guidance for tax to pre tax rate for the current year and then going forward on a steady state basis.
- Ronnie:** Our entire gaming business basically is overseas. So Ignition has carried forward losses so therefore it will not have tax liability in the current year. Basically our entire motion picture business is again overseas between Isle of Man and Mauritius. Therefore we see a tax instance between 3 and 3.5%. And the core business in the stand alone would be subject to tax.
- Sudip:** Okay. Because the revenues that are being generated out of India, the movies exhibition and all. So I'm bit, how is it

possible that movie released in India, it was produced in India with Indian stars gets 3% tax. If you could just elaborate please?

Ronnie:

That would take an hour to elaborate if I was to go into that kind of detail. But basically let me give you the broad structure. Firstly, in a revenue cycle if you look at that. Not all our movies are made in India, there are 3 international movies, *Goal* is an international movie. Second, when an international company of motion pictures is commissioning outside producers for e.g. when it comes to *Welcome* or *Atithi* there is no relation with UTV India, it is directly with that producer overseas company. Like if Sony Columbia was to set up something in India, they would do the same thing. Commission somebody to work on that. Three, the revenue cycle broken up outside of theatrical and DVDs in India. The international theatrical overseas, television all world satellite are accrued in any case internationally. Has been approved by us in the past in our merchant subsidiary in any case. And that's how the tax planning is worked.

Sudip:

All right Sir, thank you. I have some more question I'll come back later.

Ronnie:

Thank you.

Moderator:

Thank you very much Sir. Next we have a question from Ms Tanu from Quantum Asset Management.

Tanu:

Hi.

Ronnie:

Hi.

Zaara:

This is Zaara from Quantum Mutual Fund.

Ronnie:

Hi Zaara.

Zaara:

Hi. I just had a couple of questions more broadly speaking.

Ronnie:

Yes.

Zaara:

First you said you were looking at 30 movies over the next 2 years or so. We understand it is a completely unpredictable business to speak in terms of performance. But could you just give us a sense of internally how do you get, I know we try to cover a large part of the cost from pre sales and those kind of things. But really, is there an internal bench mark that you look at that out of 10 movies that we come out with, so many would be blockbusters and so many would not do so well. Is there some kind of analysis that goes on. And if yes can you just help us?

Ronnie:

Yes, if I had to summarize that in that context or it will warrant a much detailed off line conversation. But broadly I think at producer levels today in the way the market is growing with a lot of triggers. One, the dependency on domestic theatrical is coming down substantially so if

someone suddenly finds that one day 2 or 3 self proclaimed pundits have decided the movie is not successful. It is not necessary that the producer is losing money because television channels actually lap up even moderate successes in theatrical by high value because they get higher TRP points. At the end of the day we are now seeing statistics out of our research that 5 out of 10 people are seeing India movies on the small screen not on the big screen. It is primarily television and home video. So in that value cycle, because A, the dependency on theatrical is coming down, at the same time theatrical is going up because of the multiplex tickets are at four times what they were before. Two, the international arena for theatrical is going up. The advent of more satellite channels is putting a lot more pressure in terms of acquisition costs and is actually making that go up. And the home video market which was pretty much zero, these four are giving a revenue kicker at the producer level which is allowing us to get more receipts especially for the mid level movies. Second there is a approach to if you are looking at some kind of pre sale but having said that, our model does not really allow for that as we are building a studio model where we believe not sub selling them is of utmost importance in the long term aspect of the business. Third, yes from a script evaluation point of view and more than the script actually the right budget is a very critical aspect about evaluation of content. In every 20 movies we say no to 19 and accept 1. 19 is to 1 ratio for acceptance. Which is a combination of, besides the talent is A the script and B coming in at the right budget. Today there is a lot of equity flow which is forcing people to look at just picking up movies or green lighting movies on the basis of unlimited budgets, but if you track our record in the past including the 6 movies that are coming in here, they are at very competitive rates. So if we can get a *Jodha Akbar* out at 40, 41 or 42 crores. Than I think is quite epic given the fact that general comedy genre movies are going out at about 60 crores right now.

Zaara:

All right, thank you. Just one more thing, again looking out a couple of years, what do you see your revenue mix like? I know you've mentioned you expect gaming to be one of the highest contributors going forward over the longer term. If at all you could share that with us.

Ronnie:

Broadly if I were to club TV with movies I would say 1/3rd or maybe 40% from movies and 30% from interactive which is a combination of animation and gaming. And 30% from broadcasting. Don't forget broadcasting where we are going to invest more over the next 2 to 3 years. And by the second year we will definitely get a fair amount of revenues in our 5 or 7 channels that we are planning.

Zaara:

All right, thank you so much. I have my colleague here who would like to ask you a question.

Tanu:

Hello, this is Tanu. Just one question on broadcasting. Can you tell us the investments that you've made so far in two channels?

- Ronnie:** We've made a total investment not just in only two channels but in the upcoming 3 to 4 channels coming together. From a UTV perspective in terms of cash flow would be around 45 to 50 crores. But that doesn't necessarily answer the question so I'll take it one step forward. Our over all outlay in broadcasting these 6 or 7 channels over the next 2 and a half to 3 years we anticipate to be around 400 crore plus. Going up to may be 450 crores. That's our total outlay investment for the channels.
- Tanu:** And when you are saying 30% of your revenue going forward will accrue from broadcasting, that's including the TV content business as well?
- Ronnie:** No, that's why I said if I club TV into movies, TV content into movies, that's how I gave that 40%. And broadcasting will be pure broadcasting.
- Tanu:** And lastly on the content on the existing *Bindass* channel and going forward in the entertainment channels. What percentage will be produced in house.
- Ronnie:** Firstly we are not in the general entertainment space because we firmly believe the general entertainment space has now become women 35+. So *Bindass* is in that space of entertainment but it is pure and very demographic. So when we launch our horror and crime channel, it will again be an entertainment channel in that space compared to a general entertainment channel which are what *Star*, *Zee* and *Sony* are. Or what *NDTV Imagine* or *9x* entertainment will be launching. So that is a differentiating factor. If we were launching channels like *NDTV Imagine*, we'd be spending 6 times what we are spending now on a general entertainment channel. So that is the differentiator in the general entertainment part. 2, in terms of the programming mix we hope 75% of the commissioning programming will be in-house. And we'd like to keep that 25% out-house just to keep internal competition going.
- Tanu:** What are the stabilized margins in the interactive business going forward that one can expect post stabilization?
- Ronnie:** In the publishing business it's fair for us to look at 25 to 35%. But in the content business we could go up to 100%. It really depends. It's something that we're in the process of discovering. The *Mercury* gain and Ignition is a very small one but it did give us a clear indication the kind of gains we are investing in others, the prospects are substantial. So that's the range.
- Tanu:** Thank you.
- Moderator:** Thank you Madame. Next is a follow up question from Mr. Vijay Sarthi from Thomas Weisel.

- Vijay:** Hi. For broadcasting the initial outlay on the last call was about 600 crores. Now you said it's about 450. Is there a change in plan or is it due to better cost utilization?
- Ronnie:** No, I think it's definitely the latter. Those plans are at a different stage. I think we've pretty much tightened our broadcasting agenda. Our operating teams have come into place. We've therefore looked at them in much more focus. In some of our channels we were looking at separate channels for horror and crime. We did a lot of research and we've combined these two channels. So a combination of all of those.
- Vijay:** But the mix between internal funds and what you look for from outside investors is it still the same as before, 1/3rd to 2/3rd?
- Ronnie:** I'd like to address this question in a broad manner now that you brought that up. I was going to put that in my concluding remarks in any case. Because it's not a question that came up very clearly. At this point in time I would say we are exploring 2 to 3 different options. That is not to make it into a very distant future. Because the team is looking at these as active options. These 3 options include a strategic investor at the broadcasting level which is very much active and on the cards. The 2nd is raising funds in the parent level as compared to only on subsidiary. And the 3rd one is to move the strategic investor into the parent company because that gives us a lot of fill about at broadcasting depending on the nature of the strategic investor. And then keeping broadcasting internally. We do believe at this time broadcasting will have accumulated losses when we start consolidating this. In all fairness the key value creator which comes into the organization outside of the IPR and the intellectual property that we create in movies and gaming. A fair amount of that is going to come in broadcasting.
- Vijay:** So how much investment have you made in the two channels you've launched so far?
- Ronnie:** Not only in 2 channels in all the other channels under development. So far it's 45 to 50 crores that will be rapidly ramped up. That should not be read as 45 to 50 crores as there is rapid ramp up. 2 channels are already running and the others are getting ramped up for release in December, January and March.
- Vijay:** Provided the option is chosen, when can we expect you to consolidate the broadcasting with the rest of the company?
- Ronnie:** Depending on the outcome of what we do. If it's strategic investment that is coming into broadcasting there might not be a requirement. But at this time we are looking at holding on to the broadcasting value and not evaluating it at this early stage. Given that parameter, we would like to examine that from the next quarter itself.

- Vijay:** My last question is, the gross margins of 40% at the consolidated level. Is it a run rate we can look at for the next few quarters?
- Ronnie:** No, I think it would vary from that point of view. We are looking more into the 25 to 30% range. The PAT level would change substantially. The PAT level there would be a 20% overall margin. That's the range we're looking at without consolidation. Also we have minority interest to consider because PLC has some external share holding.
- Vijay:** So 20% at the PAT level and 25 to 30% at the GM level?
- Ronnie:** The GM level would be much higher, it would be in the range of 40%.
- Vijay:** At what stage is animation order book right now after this quarter?
- Ronnie:** That's a good question. We have a decent order book. More than that we have green lit 3 of our own movies so fair amount of our animation studio is now moving into our own movies. That is a model we also want to pursue. If you combine our 3 order book we've got it for the next 3 to 4 years.
- Vijay:** Thank you.
- Moderator:** Next we have a question from Ms Meena from ING Advisors.
- Meena:** Hello. I have a question on your television business. The new business that you have indicated that we are in the stage of closing few inorganic growth opportunities in this segment. So what type of inorganic growth opportunities are we looking at?
- Ronnie:** We are actually looking at creating JVs with directors and content creators. We have signed two, one with Smriti Irani, which I'm sure we are all familiar with. And the second one with Shekhar Suman. So it essentially uses them as a front. So if we're doing 10 shows on our own and Smriti's doing 4 so we're doing 14 together. And if we're doing 4 with Shekhar then we're doing 18 shows together. So outside of our own shows we are looking at 3 to 4 such alliances. Of which 2 we've find out.
- Meena:** But if you see our content business over the past many quarters it has remained quite stable at 20 to 22 crores. So you think this inorganic growth opportunity can lead to a better growth in the business?
- Ronnie:** It is because it has been flat for 8 quarters is why we are looking at inorganic growth method. Because we believe our over all management time has gone into building movies as our global brand, into gaming and acquisition and into broadcasting. One business that has suffered genuinely is our TV content business. So for us to play catch up we can't do

that only by doing our in-house work. This is an augmented way to do the catch up.

Meena: In the press release you have indicated in the animation business that you will be investing in the content creation leading to ownership of IPR in this business. So can you give us some more detail on this?

Ronnie: We have made 3 of our own movies, one is called *Arjun*, from the Mahabharat Arjun, which is with a in- house director. That will be completely our movie which we will create worldwide. We have also green lit a movie which is *Ali Baba* and the 40 Thieves which we're producing in house which we'll own the content. And the 3rd is slightly more international with a lot of Asian focus called *Dream Blanket*. So these 3 movies outside of television is one way we're going to look at that. The co production will be between our movies subsidiary and the animation division.

Meena: And when these movies are expected to release?

Ronnie: In 2010.

Ronnie: FY10.

Meena: And what type of investments will go into making these movies?

Ronnie: Broadly a rough estimate would be between 22 to 25 crores for the Ali Baba movie. And about 30 crores each for the other 2.

Meena: So this is already invested?

Ronnie: No, it will be over the next 2 and a half years.

Meena: Secondly I have a question on post production facilities which you are planning to sell to Prime Focus. What type of return on investment we have made?

Ronnie: Before the last 7 years that we have been listed we were making 40% returns. What has driven us to that is, it's not a focus area for us. It's a very capital intensive business. We don't want to be in a business in which we are not either number 1 or number 2. A fair amount of that was going to our in house work which is not necessarily the best because our in house team want to get the best of equipment and not just the equipment available in house. So the pressure to keep capitalizing on more did not make sense. So therefore we decided to hire out this business. It's a very small segment of our business. Not necessarily contributing anything to the bottom line and above. And therefore it didn't make sense for us.

Meena: And when do you think this deal will be concluded?

- Ronnie:** In a sense it's pretty much concluded but it will close and concluded in this quarter.
- Meena:** And what type of capital gain we will book in this quarter?
- Ronnie:** Zero.
- Meena:** Okay. My last question is regarding the 2 channels *Bindass* and *Bindass* movies. What type of current revenue run rate and cost run rate we are having per month?
- Ronnie:** Too early to talk about. But overall in our business I think right now between the 6 to 7 channels our total outlay in the next 2 and half years is 500 crores. That's the gap between the investments we're making in these channels to create value and the revenue that will flow in. The bulk of the cost for the channels is (A) programming, (B) the clarity and distribution, and (C) the marketing at launch. So a lot of expenses for all the channels will be front ended. And by the second year they start getting a little better.
- Meena:** Lastly, in your movies you have indicated 4 movie releases in the next few months.
- Ronnie:** 6 actually.
- Meena:** So all these movies, the entire revenue will be with UTV or you are going to share with other partners also?
- Ronnie:** The movies we have produced other than *Jodha Akbar* all the revenues are ours 100%. For the movies we've acquired, after we recover our investments and a 20% profit at that. We share it 60:40 in our favor or 50:50.
- Meena:** So *Jodha Akbar* we will be getting 50% of the revenues?
- Ronnie:** 50% of the revenues after a distribution charge and recovery in finance costs. And when we have done the projection, it takes into account, it reflects all outside payments we make.
- Meena:** And did we already sell distribution rights for *Jodha Akbar*?
- Ronnie:** No not yet.
- Meena:** And what was the total cost of making *Jodha Akbar*?
- Ronnie:** About 41 to 43 crores.
- Meena:** But we are not looking at distributing this movie in India or overseas?
- Ronnie:** Why will we not?
- Meena:** I'm just asking you.
- Ronnie:** We are. We might sell a few territories here and there, but otherwise we are.

- Meena:** Thank you very much Sir.
- Ronnie:** Would you advise otherwise?
- Meena:** No I would advise you to distribute.
- Ronnie:** Yes, that's what we're planning to do then.
- Meena:** Thanks.
- Moderator:** Thank you very much. We'll move on to our next question. It's from Mr. Ritesh from Dolat Capital.
- Ritesh:** My question is, our capital employed was 186 in June and now it has moved up to 325. So where has this extra 135 gone, for which movies?
- Ronnie:** As I said, a lot of it has gone for our accelerated movies that we've done now. *Jodha Akbar*, *Goal*. We've acquired *Welcome*, *Aamir Khan's Taare Zameen Par*, *Atithi* we've paid at least 25% odd on the *M. Night Shyamalan* movie.
- Ritesh:** So this 325 crore capital employed can move to 400 crores?
- Ronnie:** It could if we substantiate up the business. But given the fact that almost 130 to 140 crores could be freed up from our releases here, it depends. Unless we're looking at growth of a different nature. Like over 08-09 we're looking at a growth of 30 to 40% over this year, which itself is a 125% growth over last year. So if we look at that, that's why the capital employment rate is jumping at this rate.
- Ritesh:** Next thing is, you had given a guidance for movie at about 225 crore and in the first half you have done only 50 crores. So do you expect that *Jodha Akbar*, *Goal*, *Atithi* and other movies will have that kind of a run rate?
- Ronnie:** The revenues accruing from the first half is only from *Metro* and other syndications. So that should give you an idea, from only *Metro* and this, so I have 6 big movies in the next 6 months definitely implies that is where it will come from.
- Ritesh:** *Metro* and which movies have contributed?
- Ronnie:** *Metro* and just syndications. Other movies where we've sold rights to our libraries and things like that.
- Ritesh:** My next question is on broadcasting. Whatever content we have for *Bindass*, going forward this content would improve or it would remain at this level. Like we are just putting at 2 shows from *UTV*.
- Ronnie:** Let me clarify that. It's a very fair question. When we launched *Hungama*, it went on to be the number 1 channel in the kids segment in 18 months. It had only one local show called *Hero*. And one animation series called *Doremon* which was later replaced by *Chinchan*. If you were to take the 24

hours of any channel, take *Sahara* and you see their Fixed Point Chart. They have 3 original programs, a movie, the same 3 original programs, a movie, the same 3 original programs, the same movie and the same original programs. So by and large in a general entertainment channel you do have 3 hours of average original programming a day. For an expensive channel like *Star Plus* it goes to 6 hours. For a channel like *Sahara*, they go to 2 hours. For *Bindass* at the moment we have 1 and half hours of original programming. And a lot more original acquisition. At the beginning stage when we are collectively going on, to blow up a lot more in programming makes little sense because we will ramp up as we go forward. Today there are 3 original programs, they may go to 4. But it's how cleverly you program them. Because then I can't spend only a 100 crores for a channel, I have to spend 500 crores.

Ritesh: What would be the approximate reach of the *Bindass* channel right now?

Ronnie: We've already exceeded 30 to 35%, we'll be getting to 75% soon. Now when you say reach, connectivity wise connect at 75% up. So when we say reach, after it's connected the people who tried it. So 30% of the people have tried it and stayed on it. And connectivity is already 75%.

Ritesh: Thank you.

Moderator: Next we have a question from Mr. Ram PatNaik from Religare Securities.

Ram: I just wanted you to throw light on the deferred asset of 40 million.

Ronnie: The 40 million. No that is just on the stand alone. That's what it would be in that quarter. That's the only reason.

Ram: It seems you are planning in a big way to get into the South Indian film industry. Does the industry work the same way as Bollywood works? The modalities, the revenue streams, the percentages are the same way like Bollywood?

Ronnie: 2 points there being subjective. I won't comment in a big way. We are looking at doing 2 or 3 Telegu movies and 2 or 3 Tamil movies next year. I have a total of about 20 movies so that will be the ratio of proportion give or take a few. Yes, by and large the revenue cycles are the same. The revenue exploitation aspects are the same. The scales are different. If I'm doing a big Telegu movie it might cost me 30 crores and a big Hindi movie now costs 60 crores. So that will be the range.

Ram: Thank you.

Moderator: Then next question is from Ms Neha from Angel Broking.

- Neha:** Good evening. I wanted to ask you about this movie library that you've just acquired, the world movies. What is the cost you acquired it at and what exactly is happening with it?
- Ronnie:** The world movie libraries we are acquiring, I'm not sure which one you are referring to. But whatever world movie titles we are acquiring it's for our world movie channel that we're launching in December.
- Neha:** You were going to have a launch, I mean a pre show of this channel in the various theatres. Has this been going on as per schedule?
- Ronnie:** I think you are referring to a proposed joint venture we had with a company called Palador. To do a world cinema channel. After completing our new decisions we were not happy with the acquisition cost and some of the titles so we've aborted that acquisition totally. And we're proceeding with the world cinema channel on our own.
- Neha:** So what is the acquisition cost of the world titles you have acquired within your library?
- Ronnie:** It will be in the range of 5 to 7 crores so far.
- Neha:** And how many world titles would this amount to?
- Ronnie:** I don't know how many this would amount to, but by and large we're looking at 12 to 15 crores in acquisition for about 175 to 225 titles specifically for the world cinema broadcasting channel.
- Neha:** Within your broadcasting channels your advertisement and subscription levels move in the same direction. But still what is it that your exactly focusing on?
- Ronnie:** We're focusing on 3 things actually. It is advertising, it is pay revenue and it is all television revenue which is mobile, internet and the others. And as much as we are looking at revenue in *Bindass* we're as focused on the other side also which is the mobile and the internet side. Right now we've seen the first year of advertising and cable including 20% of paid revenues. And that will come to 60 to 40 in year 3.
- Neha:** Within the slate of movies you are planning to launch right now. Would you consider *Jodha Akbar* having to spend 40 to 41 crores on one movie is a risky asset?
- Ronnie:** At this time we consider it to be the most priceless aspect for us because given the fact that it promises to be the biggest movie of the year. It is an epic, it is an historical, it has 3 large battle sequences. If you've seen the promo it establishes us in a very different scale of activity. And it's got a very talented director and I think right now the star which is even bigger than Shah Rukh is Hrithik along with the Aishwarya combination.

- Neha:** Thank you very much.
- Ronnie:** Can we take the last question please.
- Moderator:** Sure Sir. Our last question is from Mr. Jignesh from HO Business.
- Jignesh:** As you said you expect 225 crores from movies this year. So how much would be the total revenues? Around 55%?
- Ronnie:** You got to take 225 of 400, that's the math basically.
- Jignesh:** And 20% would be the bottom line, right?
- Ronnie:** That would be fair. Let me just qualify that. The bottom line on movies will be higher than the total bottom line of the company.
- Jignesh:** And what is the CAGR? Is it fair as 35 to 40%?
- Ronnie:** Given that as our base, we will look at our base going to about roughly 4 billion rupees. It would be fair to assume 35 to 40% CAGR for the next 2 years.
- Jignesh:** Thank you.
- Ronnie:** Thank you very much.
- Modertor:** Thank you very much. At this moment there are no further questions from any of the participants. Ladies and Gentleman this concludes the conference for today. Thank you for your participation. You may disconnect your lines now. Thank You and have a pleasant evening.

Note: 1.This document has been edited to improve readability.