



Movies • Interactive • Television • Broadcasting • New Media

UTV Software Communications Limited

INVESTOR CALL – OCTOBER 27, 2008

RESULTS - QTR ENDED SEPTEMBER 30, 2008

Moderator:

Good afternoon ladies and gentlemen, I am *Priyanka*, the moderator for this conference. Welcome to the post result conference call of *UTV Software's* Conference Call, hosted by *Prabhudas Lilladher*. For the duration of the presentation all participants' lines will be in the listen only mode. I will be standing by for the question and answer session. I would now like to handover to *Mr. Mihir Shah*. Thank you and over to you Sir.

Apurva:

Thank you moderator. Firstly, on behalf of *Prabhudas Lilladher*, let me congratulate the management for the Q2 results. From the management today we have *Mr. Ronnie Screwvala* – CEO, *Mr. Rajeev Wagle* – Group CFO and *Mr. Amit Banka* – Senior VP, Business Development & Strategy, *UTV*. Without taking much time I would now like to pass on the floor to *Mr. Ronnie Screwvala* to discuss the quarterly results and other developments for the quarter. Over to you sir.

Ronnie:

Thank you. Good afternoon everyone and thank you for joining us and taking time off in this very challenging time. I am going to spend the first 5 minutes talking, not just about this quarter, but about some of the other overall measures that we believe we have proactively taken in the last 90 days and will continue to do that in the future.

So number one, I think on the overall revenues we have looked at a jump of going to Rs. 170 crores for this quarter versus Rs. 70 crores in the same quarter that I would say has really established the growth pattern that we have set out to achieve and I think we are pretty much on track. On net profit basis this is the first quarter in which we have consolidated our broadcasting and therefore you will see a negative there in consolidated basis, number one. Number two, you will see in new media which is a 6-7 month old business for us, where it is negative as was planned originally and I believe that is pretty much on track to where we wanted it to be. On interactive, even though for Q2 and Q1 there has been negative, overall we are on track for the full year in terms of positives. In the gaming industry, especially in publishing industry worldwide, games get released only in the third and fourth quarter substantially. So I would reiterate that while Q1 and Q2 have been negative in interactive and gaming, we will see that being positive cumulatively for the whole year and as per plans.

As far as Motion Pictures is concerned we had a good first quarter, the second quarter is where we had released small

movies like *Aamir*, *Welcome to Sajjanpur* and *A Wednesday*, which have performed substantially far beyond our expectation but obviously out of the four quarters the second quarter is expected to be the narrowest because these are all small movies that we were releasing as compared to the big ones going forward. So by and large, I think on an overall basis, we are pretty much on track for our 75-80% growth from last year to this year and also pretty much on track for our overall bottom-line that we have projected.

Company Clarification:

In respect to the above exchange, the Company would like to clarify that *Aamir* was released in the first quarter and not the second quarter as mentioned above.

So going through our 5 verticals, number 1, in terms of television I think approximately we have talked about growing 20% year on year in this division on an incremental basis. We have talked about our margins being about 11-13% and I think by the end of the year on an annualized basis we will have sustained at the 10-11% range. This quarter you will see a dip primarily because we had our new shows launching on almost all channels from *Colors* and *Zee* to some on our airtime sales model there. And as we average out over the next 2 quarters we will see on an annualized basis we are on track around the 10% range in terms of the margins on television content.

In our airtime sales model I think that outside of our earlier shows, which still makes us a dominant player in the south is the fact that more than airtime sales we are also migrating to creating our own production and doing co-production there rather than just buying blocks of time on the channel. So I think if you look at the television part of the business this quarter we had 1 show on *Colours*, 2 shows on *Zee*, 2 shows on *Bindass* and a show for *National Geographic* and about 3 shows in co-production or our own production in Tamil and Telugu on the *Sun Network*. That pretty much sums up the TV content division and verticals for us and as I said we are on track in summary for about 20% growth Y-o-Y and margins that would range 9-10-11-12% on an annualized basis, this quarter being specifically one where we were on production, first episode-wise on many of the programmes.

Moving on to new media which is our Internet and mobile business, it has been only 6 months but we have made good progress. I am pleased to mention a couple of things, *UTVi.com* in the ranking order both in terms of page views and in terms of time spent and many other has overtaken some of the more robust sites like *Yahoo Finance* and *MyIris* to land at number 5 slot in the finance portal. We have our technology portal, *Techtree* which is by far the No. 1 site not just in India but overseas also, in many geographies as a technology and gadget site to go to from that point of view. On the digital model, we have aggregated about 8,000 titles of songs and catalogues and I would say that for a company

that has just started up and as a division that is just started up in the internet space, we do see ourselves logging in revenues between Rs. 20-25 crores on first year basis which I would say is quite significant for an internet and digital space model.

Obviously it will be on investment mode and we expect to be negative on the bottom-line but not very substantially. And in the range of Rs. 2-4 crores that we pretty much projected there. We actually see this business growing at 75-80% if not more over the next year also.

In the interactive and gaming model which is our third vertical with 3 ventures there, *Indiagames* has grown 50% year on year this year and we are happy with the progress, it is India's key player when it comes to mobile gaming. *Games on demand (GOD)* is still a very segregated and a very unique opportunity where we are quite clear that we keep our spend on acquisition of our subscriber base to the lowest. We have between 9,000-11,000 subscribers right now and we will see how that grows. So in *Indiagames* we are happy with the 50% growth year on year, and we do see a 60-75% growth year on year in the ensuing year which is next year going forward. *True Games* is a startup operation where we have let the founders and management look at about 20% of ESOPs and we own 80% of that entity. It is a startup, it is in the online gaming space, its origin and hub is in the US and will be producing and creating online games and an online gaming platform. Its revenues will come from online platform in the US and from syndicating around the world the original content and IP's that we create. So the revenues in this will only kick in '09-'10 and some of the expenses in preliminary expenses in development will be in this year, in the overall model under vertical of Interactive.

In *Ignition* as I said outside of the fact that the first 2 quarters did not launch that many games, the Q3 and Q4 will make up for that and overall we are pretty much on target for the year. With respect to the 3 intellectual property games that we have been creating, we are also happy with the progress on those and by December-January-February we will be out there in the market to start building our public relations on those three. So I do believe that 2 out of these 3 games that we released in '09 and '10 will be one of the significant contributors to our '09-'10 growth as compared to almost any verticals. It will be the gaming vertical that will see the maximum level of overall percentage growth in terms of weightage in '09-'10 primarily because *Indiagames* is growing at a good rate, also because primarily True Games will be from zero to the first revenue coming in '09-'10, and also because our publishing activity in *Ignition* will grow substantially and these 2 intellectual properties will be released for the first time.

Moving onto our fourth vertical, which is Broadcasting, I think here I want to pertinently point out that we have looked and relooked at the entire model, the bouquet, the cost, the

investment. I think there are a couple of things that have really changed, number one is the carriage fees that has substantially been increasing quarter on quarter. We do believe that there is a slowdown in the advertising revenue that will hit everyone from 1st of November onwards. We believe that the delay in the digitalization of the space will also create some slowdowns. I think over 90 days the team here has been working over-time to make the corrective model. Pretty soon, I think even the industry will start looking and making corrections to that model. At this point I am not at liberty to share with you exactly what initiatives and steps that would be taken to show results over next 60-90 days but it will be significant for me to state and articulate that while overall we have looked at total investment of about Rs. 560-600 crores in this business. We are scaling that down by about Rs. 100-150 crores totally. We are scaling down our overall investment in this by Rs. 150 crores to land at about Rs. 460 crores. Just to sum that up Rs. 360 crores is pretty much in the business, Rs. 240 crores invested by *UTV* as planned and Rs. 120 crores by *Disney* as planned. And we see that being capped now only at about Rs. 100 crores additional over the next 18 months and a significant reduction and a reduction of over Rs. 150 crores overall in terms of the burn. This will obviously have a cascading effect on the fact that our losses will also stand substantially reduced.

At our last conference call we indicated that our cumulative loss in the year would be about Rs. 50 crores in broadcasting which is still very minimalistic compared to the fact that some of the other channels that have launched now are recording losses double that per quarter. However, we see that loss amount overall going to half from Rs. 50 crores to about Rs. 25 crores cumulatively for the year. So you have got Rs. 8 crores in Q2 and we do not see the overall impact exceeding Rs. 25 crores cumulatively between Q2, Q3 and Q4 on the key bottom-line for this. This is a significant change overall and I think we have been working very rapidly on this. I think we have been most proactive in our broadcasting space. We have been interacting with Disney very closely on the overall plans; they are in full sync with us. They have spent a lot of time to see how we can augment the revenue model and take some of our channels internationally, augment our syndication revenue models for content. Coupled with the fact that our operational cost is where you are seeing the complete save in terms of the investment to scale it down by Rs. 140 crores to peak funding of only not more than Rs. 100 crores which is a very visible one and scaling down our overall burn cumulatively. So we don't see losses of anything more than about Rs. 25 crores cumulatively in this year which is quite a substantial scale down too.

Just overall I would say *Bindass Movies* is pretty much the No.1 Hollywood channel, it has beaten *Star Movies* and *HBO* on its ratings. So there are more people who watch a *Die Hard* or a *Home Alone* in Hindi on our channel than they do on *HBO* or *Star Movies*. *World Movies* in itself has created quite an interesting segment for itself and is no longer a niche

channel so to say. I would say it broader than a niche channel. *Bindass* overall, the objective there, was to create a youth brand and we will continue our *Bindass* legacy to looking at pushing that youth brand. *UTV Movies* which is a Hindi movie channel has done some moderate moves as far as that is concerned in the 5 channels space, atleast the fourth player which is *Filmy* we have overtaken to be 4 out of 5 channels but we have some work to do overall as far as that is concerned.

On our overall steps in broadcasting we work very closely with *Disney* who are active in this space with us because they have a separate investment in the broadcasting enterprise and I think they are very supportive on the very swift, very hard and very strong corrective measures that we have taken in broadcasting because while we do believe this is a business going forward that will be interesting I think it needs to be done in a different moderate style than most people have at this stage and we are happy with the progress that we have put down as far as that is concerned. I think what is pertinent to note here also is that, broadcasting to us is still only one particular segment of our entire business and even in our overall pie at the peak level in `09-`10, it is expected to be at 12-14% as a contribution to our overall revenues. So if you look at that, we have taken corrective measures inspite of it being only one segment of our business and not our only business which I believe is a positive trend for the way we are going.

So lastly the movies verticals, I think we had a very good first quarter with *Jodha Akbar*, *Race*, *Kismat Konnection*, *Aamir Mumbai Meri Jaan*, *Wednesday* and *Sajjanpur*. Our next 6 months will see a minimum of 5 releases which is *Fashion* releasing next week, *Oye Lucky*, *Dev D*, *Delhi 6* with *Rakeysh Mehra* and *Abhishek Bachchan* and *Main Aur Mrs. Khanna* with *Salman Khan* and there could be a 6th release over these next 6 months. We are on track overall for about a 100% growth year on year compared to last year. We had said that we would land at about Rs. 360 crores and we are pretty much on target as we have said in the last quarter as far as that is concerned. Overall I think the industry is correcting, I think we are leading that change and correction, I believe that the models that were spruced up because various people having collected equities in the markets and not having had a slate to produce, who were paying very high prices so buying out of content and because of that content prices were escalating, that correction will happen immediately. Because we are in this space, we are producers ourselves and not really an acquirer in that context which we want to stay out of because it takes the puff out of the industry substantially.

We are clear we are leading the change in terms of correcting the cost model. If someone were to ask us today will the revenue model also coincidentally come down because there is a slowdown, won't people go over less to consume entertainment but we do not believe so. We believe that there may be an insignificant correction in multiplex ticket prices in

few urban cities but not all. We believe that while our broadcasters will pay lesser for satellite rights in the short term, the licensing period given out to them will also be shortened and more channels will be buying the content. So, net-net to the content producer, the overall revenues will be higher though each broadcaster will be paying less for it. So I don't believe that any shrinking will happen of any significant nature on the revenue side and I believe we are leading the change in the cost model that we will have only positive impact for us as we go forward. If this cost model results in less content produced in `09-`10 so be it. I think we have a very strong and robust slate also in `09-`10 and we believe therefore that we are in stronger position than most to exercise this corrective model in the movie part of the business.

So in conclusion I think we have been proactive in the last 90 days and started to review our business not just from cost perspective point of view but from overall looking in the business in its overall aspects, keeping in mind that we are a high growth company. We are looking at growing from Rs. 370 crores odd to Rs. 700-800 crores plus so we are looking at 80-100% growth this year. We are looking at a significant growth next year, keeping all of that in track, I think we are on track for `08-`09. We will look at our growth for `09-`10 in the same manner as we have done now and I believe that some of the corrective measures that we have taken in the last 90 days very swiftly and correctly will standup in good stead, not just in the next year but in the immediate forthcoming quarters Q3 and Q4. Thank you.

Moderator:

Thank you very much sir. We will now begin the question and answer interactive session. Participants who wish to ask questions please press "*" and "1" on your telephone keypad. On pressing "*" and "1" participants will get a chance to present their questions on first on line basis. Participants are requested to use only handsets while asking a question. To ask a question please press "*" and "1" now. First on line we have *Miss. Jasudha* from *Reuters*. Please go ahead Madame.

Jasudha:

Hi! *Ronnie*. Just 3 quick clarifications on your account, firstly on the expenses, it is significantly up is because you have broadcasting and new media segments primarily or anything else?

Ronnie:

No it is because we have incorporated and consolidated for the first time. That is why it is taking the hike.

Jasudha:

Ok. Second question is on the taxes. How exactly are they being accounted for? It looks like there has been added tax also....

Ronnie:

Yeah those deferred taxes are basically based on the carried forward losses in broadcasting. Having said that, we have not taken all our carried forward loses, just those which are permissible as per income tax rules based on the amortization policies at large.

- Jasudha:** Can you elaborate a little bit more?
- Ronnie:** We take our carry forward loses in the past that were there before we consolidated and acquired the company and those are there within the company itself, that's a tax benefit that comes to us cumulatively and as per the accounting norms whatever we can take as deferred tax because otherwise deferred tax needs clear visibility also. So we have taken that based on visibility of recovery.
- Jasudha:** And last question broadcasting you are going to be cutting down expenditure there so you will be spending Rs. 360 crores in this year itself?
- Ronnie:** No we have already spent Rs. 360 crores of which Rs. 240 crores of *UTV* has committed and Rs. 120 crores *Disney* has invested and the further investment we are cutting down by Rs. 140-150 crores to land at a total of only further investments of Rs. 100 crores over the next 18 months.
- Jasudha:** This 100 crores is going to be spent over the next 18 months?
- Ronnie:** That's right.
- Jasudha:** And that is from....?
- Ronnie:** Started from about another 250 that's what we have scaled down in summary.
- Jasudha:** But this Rs. 100 crores is from internal resources?
- Ronnie:** It is from our overall, the way we see our allocation of our resources. We are at this moment still cash positive.
- Jasudha:** Ok. Alright. Thanks.
- Moderator:** Thank you Madame. Next we have *Mr. Pritesh Vora* from *India Infoline*. Please go ahead sir.
- Pritesh:** Hello sir. This is *Pritesh* here.
- Ronnie:** Yes *Pritesh*.
- Pritesh:** My question is little bit larger in nature in terms of this slowdown which we have seen. Many companies will come forward and cut the advertising budget. So how does this affect the media industry also considering the increased competition with so many new media channels that have cluttered the viewership? So how do you see this industry turmoil being met and when do we see this consolidation in the media and improving the profit?
- Ronnie:** I think I can talk only on behalf of *UTV*, 2 headlines to this, not more than 10% of our overall revenues come from the advertising so to speak. This is all substantially retail, our gaming is retail, and all consumers are buying our games at \$30-40. Bulk of our revenue comes from sale of our movie

tickets, our home video and satellite sales. So *UTV's* dependency is very very low on advertising per say. Specifically I think what you are talking about is the broadcasting. There I had mentioned, broadly if we see the revenue mix in `09-`10, broadcasting will not be more than 5-7% now of our entire mix in `09-`10. Therefore, although it is advertising heavy in revenues that would still have the least impact for us as we go forward. On a more philosophical note yes I believe there will be a slowdown as far as advertising is concerned and that will bring about some sense of correction and consolidation in the broadcasting space. And I believe we have taken the initiative well before any compulsion to do so.

Pritesh:

Sir my question was larger in nature, not specifically what you have broken down. What I am trying to say when the slowdown occurs it doesn't leave any section within the value chain of that particular section. So if ad itself or ad revenue goes down how does the content, or rather the content providers get hit....?

Ronnie:

Because content is not advertising dependent in most aspects. Like for example in motion pictures or movies, advertising is not a revenue flow for motion pictures. When you are creating TV content, advertising is not a revenue flow for television content. When you are looking at games and gaming and internet consumption, you will see that advertising is not consumption. And fourth specifically on the internet let me tell you that in our last 2 months of research it has revealed that advertisers are now looking at internet as a very positive medium to increase their advertising spend because that is now the most measurable commodity of the number of views as compared to anything else from television because you never know whether you will fast forward the commercial or not.

Pritesh:

Alright. Thank you.

Ronnie:

Thank you.

Moderator:

Thank you sir. Next in line we have *Mr. Venkatesh* from *Edelweiss*. Please go ahead sir.

Venkatesh:

Hello.

Ronnie:

Yes go ahead.

Venkatesh:

Could you tell me something about the cash situation, how much do you have in the Balance Sheet and how much you plan to spend in the future?

Ronnie:

It is really difficult because we are doing substantial corrections, I would say we are still positive about Rs. 100 crores plus in terms of cash.

Company Clarification:	In respect to the above exchange, the Company would like to clarify that the consolidated debt of the Company stands at Rs 1,508 million and company's consolidated cash and cash equivalent amounts to Rs 1,650 million.
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Venkatesh: This is net cash or it is just....?

Ronnie: Yeah net cash and I would say that pretty much when it comes, the only thing where the investment mode is substantial is the broadcasting segment but here too we have limited what we are looking at and doing overall. So I would say that at this point it is impossible for me to tell you what the cumulative one would be because in movies we are rolling over as we go forward. In broadcasting we cut our burn to about Rs. 100 crores so that pretty much....

Venkatesh: What about interactive?

Ronnie: Only on the gaming interactive there will be about Rs. 80 crores of burn in terms of the intellectual properties. For example India Games is not doubling any more cash at all and it is completely cash neutral when it comes to that.

Venkatesh: And movies would you have estimates for the rest of the year?

Ronnie: Movies is where we are seeing the cost correction as we go forward, it is not for the rest of the year. If you are spending any money on movies right now, it will be for `09-`10 and `10-`11 in terms of that because our capital employed there is already about 700-800 crores. And if you look at that, it is significant for us to now revolve and rotate as we go forward because as we are investing and so are we releasing movies at a rate of one a month so that liquid event is happening.

Venkatesh: So how much is the debt in the books right now?

Ronnie: About Rs. 150 crores.

Venkatesh: So you have Rs. 250 crores of cash and 150 crores of debt leaving your net cash of 100 crores, is it?

Ronnie: I can come back to you on that, I think somebody is working on that, if I can just address that question in a little while, I will come back to you on your specific net cash status.

Venkatesh: Alright. Thanks a lot.

Moderator: Thank you very much sir. Next in line we have *Mr. Nikhil Vora* from *IDFC SSKI Securities*. Please go ahead sir.

Nikhil: Hi! *Nikhil Vora* here.

Ronnie: Hi.

- Nikhil:** Just couple of things, firstly on the income on the film part of it. Have we booked any income from *The Happening*?
- Ronnie:** No there will be no income book from The Happening in this financial year, it will be partly in `09-`10 and then significantly `10-`11.
- Nikhil:** And why is that?
- Ronnie:** Because what happens is that in the theatrical revenue, we are in partnership with *Fox*. So, when *Fox* recovers their print and publicity and then theatrical normally gives you very low recovery on your cost production. Then, most of your profits are coming from DVD and television. DVD cycle in India is 6 weeks of release, in Hollywood they have 6-9 months window for DVD release and television is then 3-4 months after that so that's why it is a slightly more elongated cycle.
- Nikhil:** Do you expect to make money in this?
- Ronnie:** Yes. We have said so and clarified that in the last quarter also that *The Happening* for us has been a profitable venture.
- Nikhil:** What's been the total theatrical revenue from *The Happening*?
- Ronnie:** Total revenues is \$160 million but again that should not be read in any context because from that there is a fair amount of erosion as 50% goes to the exhibitor and from the rest it really depends how much you spend on prints and publicity. So the box office was \$160 million but you should not extrapolate anything from that for our investment of \$30 million.
- Nikhil:** I was just coming from the fact that lot of our income profits from *The Happening* is backended and is still dependent on lot of features, sales of DVD rights and so on. So what makes us so comfortable that *The Happening* will make money for us?
- Ronnie:** That's a fair question and I can tell you that it is not dependent in that context. When a movie does \$160 million in box office, the studio does a fair to reasonable projection on home video sales and we are going on the back of that. Number two, all the television income which is substantial 40% of the total revenue, those are rack rates which are benchmarked and linked to box office. So for example, I mean HBO is paying \$30 million for a movie above \$100 million that means we met their price target or their sales target. Television is not a question mark, in home video they make an extrapolation based on their box office success. Even if it is off by 20% we are still positive. Does that give you some clarity?
- Nikhil:** Yes, fair point. On broadcast you have talked about scaling down in terms of capex, just to get a sense from this while we are in, I would presume, a slightly niche space, wouldn't that actually call for more resources to be deployed for generating enough noise or you think that's the way forward given the

general environment which is there. Because I will presume that lower noise value would only ensure that we become slightly irrelevant in that space?

Ronnie:

No, all three questions, firstly it is not capex, it's burn so there is no real capital expenditure, it is just investment and distribution and programming and all of that, just for the clarification. Two, no I think in the spaces that we are operating, it is not the question of noise levels. When you are running a general entertainment channel then you need to be in the news because you are looking at a largest common denominator. So for example in our youth channel if we get sponsors support for the programme, if the sponsor is happy and out of all audience 15-24 is happy then we go out there and then reach them out on that point of view. We will be cutting our cost where we have actually relooked at the business model. And as you would see over the next 60-90 days we will make some significant announcements from that which will show you why our justifications were. I think they are prudent, I think they are required, I think we are doing it in a very proactive manner and I think that's where the industry is going.

Nikhil:

For the film business our overall capital employed as of date is let's say Rs. 725 crores, can you just break that up please?

Ronnie:

Yeah I would say overall Hollywood is about 160-170 crores between the 3 movies, then you were to look at the facts of our present slate of this year and then as a studio model what is most important is that we are actually looking at movies right now in the slate of `09-`10 and `10-`11. So we look at that and will be broken up between the Hollywood inventory, movies under production, then movies in a developmental stage and then substantial advance given to talent to reserve forward booking for `09-`10-`11.

Nikhil:

So how much it would be Hollywood and how much would be....?

Ronnie:

Well I say about Rs. 200 crs of that Rs. 700 crs would be Hollywood, rest is all Indian clearly and in that it would be broken up reasonably equally between movies under production, movies under development and advance for talent.

Nikhil:

Which would broadly be the next 12-14 months of operations?

Ronnie:

12-24 months.

Nikhil:

Lastly on the gaming part of the business what is the status there and do you expect revenue on games will start to gain from next quarter or rather from the next year onwards?

Ronnie:

Yeah this year as I said we are pretty much on track and will be profitable so I think the Q1, Q2 negatives should not be viewed as an overall year negative, it will get reversed in 3rd and 4th quarter. And next year yes, as I said *Indiagames* is

poised to grow 75%, *True Games* from zero will get to X% whatever that is, and so all of their revenue will be the first time revenue. In *Ignition* with publishing, we will look at escalating that because we have done forward booking for some of our titles and the significant jump in gaming will come from the release of about 2 intellectual properties in *Ignition*.

Nikhil:

Just last thing, just your views on the movie business per say, you know *UTV* is probably amongst the most successful company in this space over last couple of years and yet our profitability is not of a very serious order compared to what possibly one could have made in those movies. So incrementally I am saying it has become more moderate, are the profitability constraints going to only increase because significant parts of our commitments are already made before date?

Ronnie:

I think let me be very clear, our commitments are more in advances and things like that so we have already very clear cut steps in the last 3 months in order to correct the cost model and as you said since we are industry leaders we need to actually lead that change. So we will do and that means if we are to scrap few movies just to establish the point that we cannot proceed on the old cost model, that's what we are completely committed to do. And I think that will prevail in the environment very clearly because of the simple reason that the people came in to just acquire movies and go away, that market has become dead. So people creating content know that they don't just have a marketing outlet, their content also has to work, and they can't pass on the liability to somebody else that will correct the entire model completely. So for us we are not only clear, we are determined to see to it that it will have a positive impact on our margins and I fully agree with you that over the last 9 months to 1 year, in order to retain our leadership position we needed to be in the market and sometimes obviously our cost would take a certain amount of toll primarily because of the simple reason that if everyone in the market is doing it, it is not the most wise thing to completely stay out and say I will wait till market corrects.

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So I think we maintain the right balance between staying in there and not over committing in that context and I think as everyone in the industry corrects, we are in a better position.

Nikhil:

Ok. Thanks, I will come back if there are any more questions.

Ronnie:

Sure.

Moderator:

Thank you very much sir. Next in line we have Mr. Mayur Parkeria from Wealth Managers. Please go ahead sir.

Mayur:

Good afternoon sir.

Ronnie:

Good afternoon.

- Mayur:** Sir I had 3 questions, we have 3 heads of income apart from the normal revenues which is other operating income, other income and then there is an interest income which is also positive. So can you provide breakups for that please?
- Ronnie:** It is basically and broadly interest income and that is possible because we were positive in doing some treasury management.
- Mayur:** Other operational income which is around to the tune of Rs. 16.5 crores for the quarter?
- Ronnie:** That will be forex gains and a few other things.
- Mayur:** And what is there in other income which is Rs. 7.5 crores?
- Ronnie:** That is the interest income.
- Mayur:** Sir, Can you throw some light what has been your feel about the response to the open offer although it is too early to ask but just what has been your feel on that?
- Ronnie:** It is difficult for me to volunteer a feel, I would rather go with the final records because to be honest I have not really kept in touch other than the fact when the Company Secretary comes and tells us what the final tally is. So it has to be the final tally then we need to go and figure out what is necessary. So it is very difficult for me to comment on that.
- Mayur:** But have you received any kind of feedback that there has been abnormal activity over the last 5 days given that the futures were trading at substantially lower value?
- Ronnie:** Nobody gives me any feedback so no.
- Mayur:** A hypothetical situation, if the open offer would have been subscribed, then between the promoters and Disney, we would have been 80-90% holdings. Then we would either have to go for dilution process or we would have gone for delisting had that situation come true?
- Ronnie:** No, no, no, I think if everything was to come into the tender, from what I understand Promoter and Disney holding would be 82-84%, so there is no question for dilution or delisting.
- Mayur:** So we would have maintained that level?
- Ronnie:** Yeah.
- Mayur:** Sir actually I fail to understand as to what is the movies segment revenue which still comes in standalone. 2 quarters back you had given an understanding that it will be there for more 2 quarters?
- Ronnie:** Yes and I think we explained it that time also that basically all our movies that we do, the India distribution component comes into *UTV Software Communication* standalone because

UTV Software is handling only Indian theatrical distribution. So that has to be reported on a standalone basis.

Mayur: And how is it accounted for in UTV and UMP?

Ronnie: What's the question? I understand you asked me what the breakup is all in UMP in that context but India distribution has to be recorded in the standalone because standalone company which is UTV Software Communication is handling the Indian theatrical distribution.

Mayur: Sir we plan to take the Ignition stake to 90%, right?

Ronnie: Yes.

Mayur: Now we are not planning to do?

Ronnie: No, no, we are still in progress on that, we are in the final negotiation process, we have not closed the transaction and it is our intent to do that.

Mayur: It is 90 or 95 we intend to do?

Ronnie: We may go to between 90 and 95.

Mayur: And for going from 70, how much more would it incur?

Ronnie: I think we declared that in the last time, I don't have immediate reference to context on that but we are, I am reiterating, we are in a negotiation process and that is something we will make a final announcement for, once it is finalized.

Mayur: This was my last question on *Disney* warrants which we have in UGBL. Sir, will UGBL receive any money on warrant conversion because that Rs. 120 crores which Disney has committed for broadcasting, is it inclusive of that warrant's money or can you just....?

Ronnie: Firstly the warrant is a trigger only to be reviewed at the end of 4 years. So there is nothing imminent that's happening, just may be investment. So we are 4 years away from any review on that.

Mayur: So Rs. 120 crores is come in right now and that is for 37% stake?

Ronnie: That is for 15% stake.

Mayur: Sir I will come back for later questions. Thank you very much.

Moderator: Thank you very much sir. Participants who wish to ask questions please press "*" and "1" now. Next in line we have *Mr. Ritesh* from *Dolat Capital*. Please go ahead sir.

- Ritesh:** Good afternoon sir. Sir on the broadcasting with regards to scaling down of investments, does that mean some closing down of existing channels?
- Ronnie:** Well, firstly I think as I said at this point we are looking at any and all options and I am not in a position to comment on that. Just because I am not in a position to comment on that does not mean my answer is yes or no, I am just clarifying that but to be very candid we are not in a position to comment on this.
- Ritesh:** Ok, no issues. On our deferred tax of Rs. 33 crores, I guess majority of that is through the broadcasting.
- Ronnie:** That is correct.
- Ritesh:** So have we capitalized any of our carriage fees or content cost for the broadcasting?
- Ronnie:** Zero.
- Ritesh:** Means we have expensed everything?
- Ronnie:** Everything.
- Ritesh:** So what would be the accumulated loses in the broadcasting till date?
- Ronnie:** Firstly I don't think the calculation goes that the deferred tax is basically based on accounting norms of what qualifies for the deferred tax. That doesn't mean that because it is 33 crores, it is 33% and therefore it is 100. It would be, our overall tax deferment and tax expense would be higher than 33 crores. I would not be able to give you an answer but offline may be I think can give you that answer.
- Ritesh:** No problem and other operating income of Rs. 16 crores again if it is of FOREX gains so what would be the underlying transaction for that?
- Ronnie:** It would be many; it would be the fact that basically in our movies we do a fair amount of international exports. In Ignition, with our gaming and publishing business also we are doing a fair amount of cross country so we are in pound to the dollar because lot of our games get exploited in the UK and the US. So it's a combination of movies and gaming mostly.
- Ritesh:** Ok. Thanks a lot sir.
- Moderator:** Thank you very much sir. Next in line we have Mr. Rajesh from Deepen Mehta Stock Broking. Please go ahead sir.
- Rajesh:** Good afternoon sir.
- Ronnie:** Good afternoon.

- Rajesh:** I just had one data, would it be possible for you to share what kind of carriage fees we have paid in the quarter and what is the outlook going forward there?
- Ronnie:** It is impossible to go into that but broadly what I can tell you is today a channel on a speciality basis can spend as much as between Rs. 15-20 crores per annum and as high as Rs. 75-100 crores per annum. So your general entertainment channel and some of the recent ones have spent in that line and if you are specialty channel then that's the range. So that is the overall range, other than that it would be very difficult to get specific.
- Rajesh:** Do you see these fees coming down in the near future or it is difficult to depict?
- Ronnie:** It should but at this point in time there is no indication that it is primarily because for some astonishing reasons there are still people looking at starting new channels.
- Rajesh:** And sir my second data point; I just wanted to confirm that you said you have Rs. 100 crores to burn in the broadcasting venture additional and around Rs. 80 crores in the interactive segment.
- Ronnie:** Yes.
- Rajesh:** Ok sir. Thank you very much.
- Moderator:** Thank you very much sir. Participants who wish to ask questions please press "*" and "1" on your telephone keypad now. We have Mr. Ritesh again from Dolat Capital. Please go ahead sir.
- Ritesh:** Sir one more question on syndication deals. Just wanted to understand some more economics on that, it is like sharing the same cake between many players so how does that improve the economics?
- Ronnie:** Is this question with regards to syndication of movies to satellite channels?
- Ritesh:** Yeah syndication of movies to satellite channels.
- Ronnie:** So here is the story, if I was selling movie X for 10 crores to one channel for 5 years, now what I am doing is I sell a premiere to someone for 6 crores and second telecast rights for 3 crores. I sell the third telecast rights for 4 crores and so on and so forth. Cumulatively 6 channels now get to use the movie for a shorter period of time because I sell them for 2 years and 3 year cycles and not 5 years. They each don't manage to pay 10 crores which is good news for them because their content cost, they need to bring down so they are bringing down and we are sharing the content. We were not doing that what used to happen is our movies used to sell to channels and they were selling between themselves to other channels. So if I am selling Rang De Basanti to Star then

he goes and sub-sells to Sahara, that's not what we are interested in doing. So that's why we don't want to sell outside to a channel.

Ritesh: So it is like your gain is coming from the expense of satellite channels?

Ronnie: Well I wouldn't agree with the wording of it but I would say the bottom-line is yes because of more consumption of movies on general entertainment channel and movie channel and other niche channel. Like our movies get sold to even Cartoon Network and Zoom for example.

Ritesh: And what would be our movie content cost in the broadcasting venture?

Ronnie: You mean the acquisition; basically today we have a library of value of around between Rs. 180-190 crores.

Ritesh: So approximately half of the capital employed is into content cost?

Ronnie: In movies alone and not counting some of the other because in *World Movies* we have rights of about 700 movies. We have taken licensing rights in *Bindass Movies* and *Bindass* has television content in original form.

Ritesh: Ok. Thanks a lot sir.

Ronnie: Thank you.

Moderator: Thank you very much sir. Next in line we have *Miss. Zahara Sheriff* from *ASK Investment*. Please go ahead sir.

Zahara: Hi this is *Zahara Sheriff* from *ASK Investment Managers*. *Ronnie* I just had a question on the gaming side of it. You said that chunk of the growth will come from that segment next year and you are banking on the two launches of *Ignition* for that. Have you sort of lowered down your estimates on that due to what's going on in the US and European economies and stuff. Do you expect any kind of impact there?

Ronnie: Well our projections are really based on 10-20% above breakeven quantities. It is not like we have budgeted for blockbusters in any of the games, so that is really our upside. So we haven't really built in too much of upside into the games. In the first place it has to recover X percentage over breakeven. That is number 1, number 2, basically the hardware manufacturers etc. do a lot because they still need to come with the game repertoire every year for release. And I think of course it is a slowdown but when you are looking at the retail consumption for this kind of a market where somebody can consume 6-7 hours of recreation content of the day on gaming, historically we have got enough empirical evidence to show that there hasn't been that kind of correction in gaming similar to movie tickets.

- Zahara:** But just sort of a worst case scenario; would you care to sort of throw a number out there?
- Ronnie:** I think in the worst case scenario we have a breakeven quantity in our first exploitation cycle and that's not all that bad for us.
- Zahara:** And you say breakeven from a content perspective or I mean would you scale? Is there any other cost other than the cost of creating the content; are there other sales and marketing costs?
- Ronnie:** Yes there is marketing to which we normally turn to Microsoft and Nintendo or a Sony on the platforms to promote them. And then there is cost of material for which we therefore work with the sub-distributor to take that cost normally. It depends, we do not see us necessarily producing these 3 games for worldwide and being our sole distributors worldwide. So we will partner for promotion and publicity. We will partner for distribution, we will sell out few territories, that's the plan.
- Zahara:** Alright. Fair enough. Thank you.
- Ronnie:** Thank you.
- Moderator:** Thank you very much Madame. Next in line we have Mr. Mayur Parkeria from Wealth Managers. Please go ahead sir.
- Mayur:** Sir can you breakup the revenues for movies between the 3 movies?
- Ronnie:** It is not a question of number of movies because each of our titles we may have captured home video rights on something and music rights on a forward. So in effect, that quarter is never about just only the movies released in that quarter. So it is not sequential in that context. But if you were to look at this quarter, *Kismat Konnection* is a fair amount in this quarter, there is not much of the movies that have got released because we are still going forward. But there is revenue of different nature, significantly it is of *Kismat Konnection* because it just got released at the tail end of the first quarter and therefore it has some substantial revenues in the second quarter. And then trickling effect from *Mumbai Meri Jaan*, *Wednesday*, *Welcome To Sajjanpur*, *Jaane Tu Ya Jaane*, *Jodha Akbar*, *Race* and some music releases of *Oye Lucky* and *Fashion* that we have sold to *T-Series*.
- Mayur:** Just wanted to understand if we see all these movies, the overall change has been that from hit movies to a profit making movie the concept and I was wondering why we have made such a low margin on the movies for this quarter sir?
- Ronnie:** Actually that is why I am trying to correct that situation; it is incorrect for anyone analyzing a movie model to start looking on a quarter to quarter basis. I think anyone doing that is making a gross mistake and does not understand the nature of the business model. At a minimum, you have to look at

around an annualized basis which in any case will have cross currents in that because there is theatrical revenue and then there is home video. 90% of the revenues have stopped coming from theatrical where you could make a decision in 3 weeks on a movie, it is a cascading effect. So like I am telling you in Q2 the movies that you are referring to, a low percentage of their revenues are booked in Q3 and they will come into Q3 and onwards. So Kismet Konnection, we booked theatrical revenue last quarter, if you look at the margins it will be very wrong for anyone to analyze anybody's margins, not just ours in Motion Pictures on a quarter to quarter basis.

Mayur: Sir we had on the annual review, just annual report FY `08 there was this unamortized cost on the animation around 11.5 crores in inventories. Does that still remain to be written-off

Ronnie: No. Firstly there was animated stock and in this quarter actually we have sold that and realized half the money and we have written-off and taken a hit on half the amount.

Mayur: Sir, can it be because that is why the interactive is showing a little lower profitability...?

Ronnie: Animation is not in interactive in that context.

Mayur: And also the gaming, when the inventory was appearing at a very low level of 6-7 crores during FY `08. Does it mean that the progress on the 3 games which we are making was very low at that stage and it is picked up only in this?

Ronnie: That is correct.

Mayur: So that is why we have slightly deferred the release which was...?

Ronnie: No. I think we are already into 7 months since that time and the progress is not one up equal 24 months when you are looking at gaming because you start with 20-30 people and when you start all your key artworks and things that's when you ramp up significantly. So it doesn't mean that your cost is divided by 24 months equally.

Mayur: Sir broadly, will it be H1 or H2 of FY `10 the games which we expect?

Ronnie: H2 of FY `10.

Mayur: And sir any update on our own animated movies, when are we expecting to release, because Q4 FY `09 we were expecting one of them to be released?

Ronnie: Yeah which is *Alibaba* and it is going to be released and it is on track.

Mayur: It's on track?

Ronnie: Yeah.

- Mayur:** And the other two?
- Ronnie:** *Arjun* will be released thereafter, on the third one we do not have any release date or any plan at this point.
- Mayur:** Sir, one last question in FY `08 our standalone segment had shown Rs. 160 crores on the movie segment while the consolidated was Rs. 240 crores. Now the audited financials of UMP shows revenue of Rs. 160 crores as well as *UTV* shows 66 crores. So if we add both of these, these two are 240 then how does the standalone still have such a substantial portion?
- Ronnie:** That's a fair point, we make a specific point to comeback on that because on standalone it is only India distribution, otherwise it is all reflected in the UMP, that's how that would be there. But if you can contact *Amit Banka* or *Amit Wadhwa* right after this call we will be able to address your question immediately.
- Mayur:** Sir that will be very good. Thank you very much sir.
- Ronnie:** Thank you very much.
- Moderator:** Thank you very much sir. At this moment there are no further questions from participants. I would like to handover the floor back to *Mr. Mihir Shah* for final remarks.
- Mihir:** Thanks everyone for being on the call and thanks to the management for giving us an opportunity to host the call. On behalf of *Prabhudas Lilladher* I wish you all a very *Happy Diwali* and all the best for the coming quarters.
- Ronnie:** Thank you very much.

Note: This document has been edited to improve readability