



Movies . Broadcasting . Television . Animation

UTV Software Communications Limited

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INVESTOR CALL – FEB 1, 2006

RESULTS – QTR ENDED DEC-31-2005

Moderator: Good morning ladies and gentlemen, thank you for standing by. Welcome to the third quarter earnings conference call of UTV, hosted by ASK Raymond James and Associates Limited. This is Renuka, the moderator for your call today. We have with us today Mr. Amit Banka, GM (Business Development and Strategy), Mr. Ronald D'Mello CFO from UTV, and Mr. Ruchit Mehta, Research Associate from ASK Raymond James and Associates Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Mr. Ruchit Mehta. Please go ahead Mr. Mehta.

Ruchit: Thanks a lot. Good morning ladies and gentlemen. We at ASK Raymond welcome you to the third quarter earnings of UTV. We have with us today the senior management of UTV. Joining us today is Mr. Ronnie Screwvala, CEO of the company, Mr. Ronald D'Mello CFO of the company, and Mr. Amit Banka, General Manager (Business Development and Strategy). We will begin with a brief comment by Mr. Screwvala on the business outlook and quarter gone by and then open up for Q&A. Thanks and over to you, Sir.

Screwvala: Thank you very much. Good morning everyone and thank you for joining us. We have had this discussion twice and this is our third quarter this year. As you have seen from the results, we definitely have had a serious dip, primarily due to 2 movies distributed. Our business and our fundamentals are obviously as strong as they have been. The movies that we had acquired for distribution for India and overseas that have done miserably, specifically in the Indian distribution setup and not necessarily in the international one specifically, these movies are Shaadi No. 1 and Deewane Huye Paagal. Primarily and wholly because of that on the distribution of movies, we have had a serious dent in quarter 3. Notwithstanding the dent itself, I would like to clarify that in the last 5 years we have been active in the distribution and production of films. I guess, in most aspects we have always got it right and I think this is the first quarter where we really had an issue with the content where both consecutive movies have not worked well leading to this result.

Overall, as an outlook for the year as I had mentioned right in the beginning, I think our business in television continues to see a decent growth. Challenges in the television business will always remain in getting the best content, but I think our relationship with our broadcasters remain intact. We have had additional work out of Zee, which was a client we serviced sometime back and we have a daily soap going on, on Sony in this coming quarter too. By and large, if you see the grid log in the prime time, essentially getting into the slot it normally takes between 3-6 months and I think we have moved in that direction. The other part of the development in our overall TV business is in the South India where we have been able to substantially increase our outlay in terms of the number of programs we have on the Sun Network primarily on Sun TV, Gemini and on Udaya. This has been a good

development in the last one or two months. Some of them have been new shows that we have taken on and these shows normally have a good run for about a year and sometimes even two years. And in three or four weeks we have seen pretty buoyant TRPs on both the shows that we have taken on, one being a sort of reality show and the other one being a daily soap.

In animation, we have completed our overall ramp up in the process of adding number of seats overall. In the last quarter, we have got a decent order book. Animations take between two and three quarters before you actually start materialising revenue and recognising your work and that is the process we are into. So, in animation, I think we are moving along very well both in terms of ramping up of facility, in terms of our order book for us to be able to do what we need to do in 2006-07. And I think animation will see a decent development next year and in the following years. I think in animation the culmination of what we really want to do in that model will come about in 2007-08.

In movies, notwithstanding these two movies, I think we have had a decent run with the other ones that we did in the first and two quarters. I guess it would be heartening to know our own production, which was a big tent pole production for the entire financial year - *Rang De Basanti*. Outside of being very well appreciated by audience and critics, it has also commercially done exceptionally well for us both in India and overseas. In India, we pre-sold it to distributors as part of our balance risk portfolio, but even in that we will see overflows coming in as far as the movie is concerned. But internationally we see the movie having picked up very well in the first week and as I said the box office itself shows some encouraging results.

Outside of that, we released one more movie on the 16th of December called *Bluff Master*, which most of you all may have heard of, which has done pretty well in the box office and in fact just in an interview I did yesterday with a TV channel started off the headline by saying you had a hit ending the calendar year and a hit starting the next calendar year. I guess they were referring to *Bluff Master* and *Rang De Basanti*. So, *Bluff Master* is a package of three movies that we have had from city and the second movie also gets released in the fourth quarter, which is *Taxi Nau Do Gyarah*. And I think between the two we would see decent outlay, difficult to estimate right now because the movie hasn't been released, but in *Rang De* we will see a good visibility going forward. I think overall, this is kind of summary as far as that goes and I think I will be happy now to take Q&A. Amit, Ronald, and I are on standby for that.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first question from Mr. Kaushik Poddar of KB Capital. Please go ahead Mr. Poddar.

Poddar: You had produced this movie called *Blue Umbrella*, which was to be released last year, but somehow I don't see this in the release you have posted the results. Can you throw light on that because that is by one of the best directors?

Screwvala: Different movie where overall the production cost in the movie is between 1.75-2 crores. This is the movie that we found we should get an international anchor for it. In the last 3-4 months, it has participated in the Busan festival in Korea and won some accolades there. So we are trying to time the release of this movie with one big international festival and the May holidays. So at this point, the tentative schedule as far as that movie is concerned is for May. This is also a movie, which will do exceptionally well

more on the DVD and on the home video format both internationally and India and therefore we are looking at combination of these three.

Moderator: Are you through with your question, Mr. Poddar?

Poddar: That's all.

Moderator: Thank you very much. Ladies and gentlemen, you are requested to press '*1' to ask any questions. We have our next question from Mr. Dipen Shah of Kotak Securities. Please go ahead Mr. Shah.

Shah: I just have one question. Can you throw some more light on the financials of *Hungama*, how has it done in this quarter and what has been their performance during the current fiscal and how do you see it going forward if possibly in the next 3-4 quarters?

Screwvala: In summary, it is pretty much on track of what we had said in the last quarter. Our revenues pretty much are in the range of close to a crore for advertising for a month and about 50-52 lakhs from cable. So on average it varies between 1.3 and 1.4 crores per month. Our biggest investment still remains in programming and therefore we do have net burn per month and as per our overall schedule we are targeting for September 2006 breakeven.

Shah: Any take on what was the burn in the current quarter and how it has been for the first nine months?

Amit: Our burn for the third quarter was approximately 6-7 crores going into marketing and since it was a festive season lot of programming was revamped, a couple of interactive shows were put on air and lot of marketing efforts were put in place.

Shah: You are trying to tie-up or may be launch *Hungama* in other languages and countries also, so do you think any more investments will be needed there or you think that the September 2006 breakeven should be pretty well achieved.

Screwvala: Both the channels that we are launching in Malaysia and in Indonesia, we have no investment commitments. It will be done by the local broadcasters there. Actually on the contrary they are giving us management fee for the next two years, which kicks in from February of this year.

Shah: Okay, thanks very much.

Moderator: Thank you very much for your question Mr. Shah. We have our next question from Mr. Ankit Kedia of ICICI. Please go ahead Mr. Kedia.

Kedia: I wanted to know; your margins for television are very less compared to Balaji and others, why so?

Screwvala: Ronald, would you like to comment on that.

Ronald: I think, when we do apple-to-apple comparison Balaji has got most of their infrastructure inhouse while we hire most of the facilities. We do not have inhouse facilities. Obviously, Balaji's depreciation is the result of their inhousing of infrastructure which comes after the margin is calculated. Having said so, in television, we have got lot of airtime shows that was added during the year and airtime sales shows take some time to mature and give margins.

Kedia: Your new serial, which is on Sony and Zee, will be commissioned or sponsored?

Ronald: Sony is on daily commission and Zee is also on commission.

Screwvala: All our shows outside of Doordarshan and Sun are in the commission category. Just to add to what Ronald said, by and large if you compare this with any other television company you will find that our margins are actually decently robust. Having said that, the comparison with Balaji, which you ask very specifically, is primarily because of the rates that they command from the Star Network on three programs. If you scrip those out, they will be pretty market compatible and if you see at this point in time their success ratio on any channels outside of the Star bouquet is something where they run shows three or four months and they pull it off.

The last one being they launched on Zee just before that it was *Hum Paanch* on Zee and before that it was *KKusum* and *Kutumb* on Sony.

Kedia: Okay, one more question on the movie front. How much do you all take from the distributors upfront because the losses are very huge for distribution and even *Rang de Basanti* you all have not distributed yourselves in Bombay and Delhi regions, you have sold it to someone else. Could you say that cost?

Ronald: I would just like to clarify. These two products on which we lost big time on distribution is primarily because the content really worked very badly overall. I mean normally you don't have this kind of business performance for two consecutive content programs especially from huge directors like David Dhawan who otherwise have had a good track record. In our own production, as I said on *Rang de* we pre-sold domestic distribution completely, which in hind sight obviously is still a very cautious thing, but we have had a lot more on the table if we had done that. But we are monitoring and we will have overflows to domestic distribution because we do a minimal guarantee and then profit sharing after that.

Kedia: Okay, one more question. In the last release you all were planning to have foray into exhibition also, so any developments on that?

Ronald: At this point, nothing that I want to necessarily talk about because all is in the absolute planning stage. We will evaluate the entire process, then we will put it into our internal risk committee, after which it will go to our Board of Directors and only if it passes muster in all these three we will give it a serious consideration.

Kedia: Okay, thank you.

Moderator: Thank you very much Sir. We have our next question from Mr. Kaushik Poddar of KB Capitals. Please go ahead Mr. Poddar.

Poddar: Mr. Screwvala, are you looking for any equity tie-up with the Indian market opening up in order to raise funding

Screwvala: The discussions are always in the fray and to be honest we do get approached almost weekly both on a strategic basis and on financial basis. So our discussions are on, but it would be premature for me to comment anything more than that at this point.

Poddar: Okay, thank you.

Moderator: Thank you very much Mr. Poddar. Participants who wish to ask any questions are requested to press '*1'. We have our next question from Mr. Dipen Shah of Kotak Securities. Please go ahead Mr. Shah.

Shah: Just pardon me if I am making this repetitive. I joined in at the end of Mr. Screwvala's comments. Do we have any indications of the kind of revenues you can receive from *Bluff Master* at least and maybe *Rang de Basanti* any take on what was the minimum guarantee received if you can disclose the amounts if at all?

Screwvala: I think *Bluff Master* overall box office-wise it has crossed around 19 crores. Normally, what happens is the distributor-producer's share is about 40 % on an average basis across the border. So that is where we stand on our India part of *Bluff Master* and internationally the revenues could be another 4 crores.

Shah: 4 crores for UTV.

Screwvala: 4 crores coming into the distributor which is to UTV. In terms of revenue, we would see between 9-12 crores in that range. On *Rang de*, it is still very early to talk about it right now. We just had a weekend, but the weekend has been exceptional from box office point of view, but you know the structure is that after the first week the percentages keep going down which for a movie like this because it has worked well we have been able to get good deals with the exhibitors. But it has broken a few records overseas and a couple of cities in India, but the key is the second weekend for us. The second weekend is you know, almost 60-70% of the first weekend then we have got a really big winner on our hand.

Shah: But in terms of recognition of revenues for *Bluff Master* was it on MG plus overflows.

Screwvala: Ya, it was on MG.

Shah: So MG would have been accounted for in the third quarter, December quarter?

Screwvala: It is not accounted for *Bluff Master* at all because it has got released on 16th December. So it was impossible for us to assess income on an overflow basis in the first phase. We have still got 145 prints running in India right now in theatres as we talk. So therefore it was difficult for us to assess and rather than just estimate and then have an inventory we decided that we will account for it in this quarter.

Amit: Just to add to what Ronnie said that as a matter of policy, any movie that is released in the second half of the last month of the quarter, because we are not able to estimate the revenues and have accounting properly, it will always go to the next quarter.

Shah: Okay, thank you very much and all the best.

Moderator: Thank you very much Mr. Shah. We have our next question from Mr. Ram Patnaik of Brics Security. Over to you Mr. Patnaik.

Patnaik: Good morning Sir. I just wanted to know if the whole revenue from *Rang de Basanti* would be accounted in the fourth quarter or something will flow to the next year?

Ronald: Mostly it will be all in the fourth quarter, other than if we do not sell satellite rights between January and March.

Patnaik: Sir, how many prints were released for *Rang de Basanti* as well?

Ronald: Approximately 540 prints worldwide.

Patnaik: All right Sir. What is the deal in overseas as far as the *Rang de Basanti* is concerned?

Ronald: We are distributing it worldwide on our own.

Patnaik: Alright, thank you Sir.

Moderator: Thank you very much Sir. We have our next question from Mr. Ankit Kedia of ICICI. Please go ahead Mr. Kedia.

Kedia: Could you give us the breakup of the television of your airtime serials, animations, and TV content?

Amit: On television content, we have done approximately 8.5 crores and on A&S we did approximately 8 crores, and the balance was between dubbing and animation. Animation was very low because of the delay that we had after the floods and we had to revamp the entire animation facilities to execute our next order book. Otherwise, it was distributed between dubbing and ad filmmaking. Dubbing was the main contributor.

Kedia: Okay, thank you.

Moderator: Thank you very much Mr. Kedia. We have our next question from Mr. Ritesh of KR Choksi. Please go ahead Sir.

Ritesh: Good morning Sir. I just have a question on animation services. What is the current headcount stands now?

Ronald: We are presently about 130 people in terms of animators and others and in another couple of months we will ramp up to almost 200 people. We have taken a new place in Andheri about 25,000 sq ft. which will house our new animation facilities plus our investment in VFX and digital intermediary services for film producers.

Ritesh: Okay, and what kind of work we are looking at, would it be in 2D or into 3D?

Ronald: Predominately 3D, as of now we have started work on 15 DVD titles for a client abroad. We are also working on 52 episodes of TV series for another client. We are also working on a 54 episodes 11 minute TV series for our Dubai based client. These are the three distinctive work orders we are working on presently.

Ritesh: Could you tell us what is the average rate for each episode?

Ronald: It varies from episode-to-episode and also in case of DVD films this is substantially higher because it is done on 3D platform.

Ritesh: Okay, thank you very much Sir.

Moderator: Thank you very much for your question Sir. We have our next question from Mr. Kaushik Poddar of KB Capital. Please go ahead Sir.

Poddar: In lieu of recognizing the revenue from *Rang de Basanti* can you talk about the amortization of the movie expenses over this quarter, how much cost will amortize in this quarter and how much over the next one year or something?

Ronald: I think our movie accounting policy is where we amortize 75% of the total cost of the production in the year of release and balance 25% we amortize equally over the next 5 years which primarily because of the future revenues for the movies that we have. We write-off entire publicity, entire print cost etc on first quarter itself.

Screwvala: So infact on a quarterly basis, we have written down our inventories actually by about 13 million or 1.3 crores on that basis also. So we have got to look at it and it more or less balances itself out.

Poddar: Can you come again on that point, Mr. Screwvala?

Screwvala: I am saying, for example this year we will be correspondingly also writing down the inventory at the rate of about 1.3 crores a quarter or an average of about 4 crores a year of movies as well as that 5% would hit them based on our accounting policy. That is the accounting policy we have been following now for about the last 5-7 years.

Poddar: Okay, thank you.

Moderator: Thank you very much Mr. Poddar. We have our next question from Mr. Ram Patnaik of Brics Securities.

Patnaik: Sir, if I understand *Rang de Basanti* was a co-production for you, right Sir.

Screwvala: That is correct.

Patnaik: How much was your investment in this movie Sir.

Screwvala: 25 crores roughly.

Patnaik: Thank you Sir.

Moderator: Thank you very much for your question Mr. Patnaik. Participants who wish to ask any questions are requested to press '*1'.

Ritesh: This is Ritesh here. I just wanted you to elaborate more on your plans on the home entertainment front. I think we are planning to launch our own DVD label. I think if I am not mistaken *Bluff Master* is supposed to be released by us on our own DVD label. Could you please elaborate more on how do you see that business and what are the plans for that?

Screwvala: We have launched our own DVD label with *Swades*. The entire Miramax library of almost 100 movies plus movies like *Myth* and *Unleashed* that we have released all of them are on our DVD title and they will get released as we go forward. By and large outside of that all the movies that we buy for international, we release it under our own DVD label, but that is for the rest of the world other than India. Specifically in terms of *Bluff Master* and *Taxi Nau Do Gyarah* we have DVD rights for the whole world other than India. As compared to all the other movies like Miramax and *Swades* where we have been developing them for India. Outside of that, the cost process of actually creating original content for DVD is coming, that is work in progress right now, because we need to build the entire model and I think the statistics of DVD hardware penetration of the country is becoming more and more encouraging with every quarter for us to really look at this quite favorably.

Ritesh: The *Rang de Basanti*, are we going to be released ourselves both in India and abroad or is it going to be that the right is going to be sold for that as well?

Screwvala: No, *Rang de Basanti* overseas we will be releasing DVD completely on our own and we believe that will have a good collection and vintage because it has got a status of different movie, we believe we can actually command a premium. Locally, we sold music and DVD together to Sony.

Ritesh: Sir, actually what is the order book in the animation business and how is old deal for, in the last quarter we saw quite a significant amount of deal coming in through, so how do you see going forward with the inflow coming in, are we talking to more and more studios and in animations houses in the US and Europe and places like that?

Ronald: I think just as I said earlier on animation basically we are working on an order book which includes 15 DVD home video titles, movies done on HD platforms. We are also working on 52 episodes TV series for an overseas client. We are also working on 52 episodes 11 minutes short series for our Dubai based client. That is the present work, which is going on in the studio. We have got two business development people sitting in US talking to all the studios. We have a representative in Canada. We have a business development person sitting in India looking after US, Europe, and Asia. So we are putting a lot of focus on animation because we see that as one of our key growth area going forward.

Ritesh: Okay Sir, in *Hungama* I think you were planning to launch the southern market of India as well, I know maybe in the Tamil or Telugu version of *Hungama*. What are your plans in that, are you going forward with that or are things going to take some time?

Ronald: We are going forward on that. I think the partner that we are looking to tie up with has had one or two distractions of either taking his company public or some other political snarls that we have had, but not withstanding that we seem at this point pretty committed on moving forward on that.

Ritesh: Okay Sir, thanks a lot.

Moderator: We have next in queue Mr. Ankit Kedia of ICICI Direct.

Kedia: I would like to know if the contents or special effects going on commission from next quarter is going to be complete, how much growth are you seeing on that front?

Ronald: I think the facilities will be commissioned and up and running from 1st of April. We see at least a quarter in terms of investing and getting people to work with us. You will actually see the revenues in the second quarter of next year. It is very difficult to pinpoint any number on that, but from second quarter of next year you will see revenues kicking in from that part of VFX and DI facilities that are putting.

Kedia: How much burn do you expect in the first quarter?

Ronald: Burn is primarily capital, which is already invested.

Kedia: Okay, thank you.

Moderator: Thank you very much Mr. Kedia. We have our next question from Mr. Kaushik Poddar of KB Capital. Please go ahead Mr. Poddar.

Moderator: I think his line has got disconnected Sir.

Moderator: Participants who wish to ask any questions are requested to press '*1'.

Ruchit: Moderator, if there are no further questions, maybe we can wrap it up?

Moderator: As there are no more questions, I would now like to hand over the conference to Mr. Ruchit Mehta. Please go ahead Sir.

Ruchit: Thank you ladies and gentlemen for joining us. We thank the management for joining us here today. We look forward to seeing a good quarter next time as well, thank you Sir.

Ronald: Thank you very much.

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