



Movies • New Media • Television • Broadcasting

UTV Software Communications Limited

INVESTOR CALL – Jan 25, 2007

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RESULTS - QTR ENDED Dec 31, 2006

Moderator:

Good evening ladies and gentlemen. I'm Rekha, moderator for this conference. Welcome to the conference call of *UTV Software* hosted by *IL&FS Investsmart Securities Limited*. Mr. Gaurav Chugh of *IL&FS Investsmart* is your call leader today. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Gaurav Chugh.

Gaurav:

Thank you Rekha. Good afternoon everyone. On behalf of *IL&FS Investsmart* I welcome you to the conference call of UTV Software Communications Limited. We have with us Mr. Ronnie Screwvala, CEO, Mr. Ronald D'Mello, COO, Mr. G. Chandrashekar, CFO, and Mr. Amit Banka, Vice President, Business Development and Strategy. I would now like to hand over the call to Mr. Ronnie Screwvala for taking us through the highlights of the 3rd quarter results. Mr. Ronnie Screwvala - over to you.

Ronnie:

Thank you. Good afternoon everyone and thank you for joining us a day before a long weekend. Just a few key highlights of some of the activities that really happened in this quarter. Financials pretty much speak for themselves and we'd be happy to take Q&As on that. But some of the strategic initiatives and actions that I think will represent themselves in the following quarters, not in any particular order or importance, was the fact that we are consolidating our multiple integrated media stories with the four verticals that we have, a) TV content, b) movie production, c) broadcasting, and d) new media, which is gaming and animation. I think to focus on the c and d, which is broadcasting and new media, both of these have taken form in this quarter in multiple aspects. 1) We have determined that post our sale of *Hungama TV* to *Disney*, that we are re-focusing on broadcasting. We've identified the youth base, specifically the age group of 16-25 to focus on that as we go forward. The main catalyst for this youth activity will be a 24-hour broadcast channel for that space, but outside of that we see our investment into a 360 degree investment in all overall iconic youth brand, that will span broadcasting, Internet, gaming, live events, merchandizing as well as retail as we go forward. To that extent, we therefore are in the staffing mode, we're in the business planning mode, and business development mode for June of 2007 launch, overall give or take a month as it pans out right now. Outside of that we've always got a strategic partner in there, which is *Astro Measat*,

which is part of the *Anand Krishnan* Group from Malaysia, and they will be 50-50 with us in this investment, which allows us to therefore see that the entire investment is well-funded for the next two or three years of its growth in this environment. We see it as an interesting activity, because it is no longer just a single channel and advertising revenue dependent, but with the growing pay revenues, plus all the other augmentation of rights from gaming, merchandizing, and live events will make this into an interesting piece of broadcasting as we go forward. We are examining other avenues in broadcasting, but nothing I can detail at this stage more than the fact that we do not see ourselves in a single space of the broadcasting arena. As far as new media and gaming is concerned, we've done two key aspects in consolidation. Our outsourcing model is very much there in prevalence, but we have in the last quarter got on to the floor two movie productions in animation, we would see them getting released with a working time gap of around 2 years, for its overall release. Outside of that, we've made strategic acquisition of two gaming companies. For us, gaming is an integral part, because creatively we see a large synergy between our movies and our animation. We also see it as an activity that is very synergistic to the entire media play. We see our value addition that we bring to the table with these two gaming companies is 1) cost benefits of outsourcing, 2) marketing, 3) global relationships that we have that we can bring to the table for expanding their entire business model as we go forward. So rather than build from ground upwards, we believe that both of them have unique franchises in two areas. *IndiaGames* a) the geography of India and b) the aspect of mobile gaming and Internet. And as far as *Ignition* is concerned, the geography of UK and the European Union with a strong distribution system in the US, and with core focus in console games, which basically puts us in the gaming category in the console Internet as well as mobile category with these two companies. So that's favorable, and I think our investment will go into now, seeing how we can grow these businesses taking forward.

The Disney sale of *Hungama TV* was completed in this quarter and all the proceeds been released, and I think this quarter's results show the capital gains from the entire process, which also leads us declare an interim dividend primarily led by the fact that we have a capital gain in this quarter, which has really motivated the board to declare an interim dividend, because I believe as a company where otherwise in high investment mode in ramping up a) our movies, b) our broadcasting initiatives, c) our investment in the gaming and many others. So primarily we've always looked at capital appreciation for our shareholders and not necessarily the dividend stream, but because we have a one-time capital gain, I think the board has found it favorable this time to do an interim dividend, and we're pleased to do a 25% interim dividend in this quarter as we go forward.

The headlines I think are with you as far as the financials is concerned and we'll be happy to take Q&A.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

First question comes from Mr. Kaushik of *KB Capital Market*.

Kaushik:

Okay, you have highlighted the various investments you are planning to do, namely in *IndiaGames*, *Ignition*, and all these things. And you have also in the release mentioned that your cash position is around 60 odd crores. So how do you propose to finance all these investments?

Ronnie:

Essentially when it comes to the acquisitions of the gaming, firstly we have a time period on most of these investments, which will be over the next 18 to 24 months overall as we go forward. We see a total peak capital investment of about 200 crores, but that's really over the next 2 years, maybe in the next 2 ½ years. So between a combination of certain internal accruals, the cash that we have on hand, and a little bit of leveraging as we go forward, these are the three aspects as far as we're concerned right now.

Kaushik:

There's no question of any equity dilution to get to this 200 crores?

Ronnie:

I can't say yes and I can't say no, I mean, we constantly have discussions with strategic people, because there's enough interest in media overall for people to look at this phase. So I think we are constantly in dialogue sometimes on a strategic basis. If something strategic comes our way, that would be more of a motivation than just a financial evaluation.

Kaushik:

And is it possible to give us some financial details of *Ignition* and *IndiaGames*.

Ronnie:

Both of them are basically on breakeven mode on a bottom line basis, but by and large represent a top line of around 70 to 75 crores for *Ignition* and about 18 to 20 crores for *IndiaGames*, totaling about 95 crores on the top line.

Kaushik:

Okay thank you.

Ronnie:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Dipen Mehta of *Dipen Mehta Shares*.

Dipen:

Yes sir, some more information on this tie up with *Radaan Media* and how you feel that it will improve the television business.

- Ronald:** *Radaan*, we have tied in exclusively to market all their programs on *Sun TV* Network going forward for three years. They are the largest producers in the South, so obviously we will see a large ramp up because of their shows. On the other hand, we have also signed exclusivity for co-producing films in the South. With that probably, we should be able to look at three or four same co-productions in South Indian languages, primarily Tamil and Telugu going forward.
- Dipen:** That means *Radaan Media* will produce the shows and *Sun TV* will broadcast, but you will do the marketing...
- Ronald:** Yes, this is our existing airtime sales model. Earlier *Radaan* would go to any marketing agency, now they will be exclusively working with us for all their shows.
- Dipen:** So how many shows do they have on *Sun TV*? But this is only for *Sun TV* or this is for all...
- Ronald:** *Sun TV* Network, all the four languages. Presently they have about 15 hours a week. From 10 hours a week it went to 15 hours a week.
- Dipen:** And we get a certain marketing fees for these things?
- Ronald:** This is our typical airtime sales model, where we give some sort of a minimum committed amount for the programming. We pay the telecast fee, and we keep the upside, entire airtime belongs to us.
- Dipen:** What are the estimated revenues from this kind of an arrangement, considering it is the first time for our company?
- Ronald:** It should be about 15 crores to 20 crores per annum.
- Dipen:** And there are virtually no cost for this thing, but
- Ronald:** Sorry?
- Dipen:** Against this there is virtually no cost because the existing overheads that are used for marketing airtime will get utilized....
- Ronald:** No, your earlier question was what would be the revenue on *Radaan* arrangement? It would be about 40 crores per annum, sorry on the top line only from *Radaan* arrangement in the South.
- Ronnie:** And there are two costs really, there's a direct cost for programming, which would also be there proportionate to that increase in revenue, and direct cost on overheads, and you're right about it that there would be no additional overheads to service this, but the direct cost would obviously be there.
- Dipen:** How much would be the direct programming cost, which we pay to *Radaan Media*.

- Ronald:** It depends from program to program. But as a percentage, you can say about 50% of the top line, then comes the telecast fee, then comes little bit of marketing.
- Dipen:** 50% would be the programming cost, and telecast fees will be what %?
- Ronald:** Very difficult to say. It depends on the time slot.
- Ronnie:** Actually it works backwards, because it depends on the ad sales rate that you get as a percentage of revenue, because your cost from telecast fee and programming amount is fixed and depending on how well the program does, your ad sales is where the revenue can go up.
- Dipen:** No, but these are all existing programs, which have got TRPs and I guess that most of them are existing programs with readily available TRPs and the revenue model. What I am trying to get at is that what is the income stream prior to the overhead that we will be able to generate from this particular deal, if you say 40 crores...
- Ronald:** No, our margin on airtime sales business is about 12%, so if you work backwards, rest of it is production cost and telecast fee.
- Dipen:** Okay, that's what, it's basically 12% of 40 crores is what you can expect to get. Then of course depending upon your input in terms of marketing, and depending upon the popularity of the show, the margins will fluctuate generally up or down. Am I right in understanding that?
- Ronald:** Correct.
- Dipen:** Okay, there are some more questions, I will come back later, thank you.
- Ronnie:** Sure.
- Moderator:** Thank you sir. Next question comes from Mr. Ankit of *ABN Amro*.
- Ankit:** Good evening sir.
- Ronnie:** Good evening.
- Ankit:** Sir could you throw some more light on the youth brand that you plan to create, and how will it pan out in the future?
- Ronnie:** Well, just as an overall demographic, 1) it is the most exciting age group today, 2) it is also the most sort-after age group as a brand because every telco, every service company is basically looking at them, because they're the largest spenders and the most emerging spenders as you go forward. 3) We have done an incredible amount of research on a quantitative and a qualitative basis that shows that there's a huge gap for programming. Pretty much as I think we

analyzed when we went into the Kids' space, and pretty much after the entry of *Hungama TV*, I think the entire Kids space took a different turn, otherwise it was a single channel band with just cartoon network there. For us, the channel is the catalyst or the flagship of the brand, but I think in this particular case, this age group is very receptive to live events, campuses, and the entire medium of Internet. They spend as much time on the Internet as they spend on television. Gaming, which is also targeted at same age group and demographic, is pretty much a very synergistic business, and some aspect of retail that we're exploring and also merchandizing.

Ankit:

Sir, could you give the timeframe, the time line, like...

Ronnie:

We're looking at launching the channel around June-July of this year.

Ankit:

Thank you sir.

Moderator:

Thank you sir. Next question comes from Mr. Siddharth Shah of *UTI Mutual Funds*.

Siddharth:

Hi sir. Can you throw some light on your proposed joint venture with Astro Multimedia, what is likely to be done with this joint venture? Has it got anything to do with your broadcasting venture or something like that?

Ronnie:

Yes, I think as I mentioned, this is specifically a joint venture with them on 50-50 basis only for the youth channel and the brand itself. So they will be a 50% partner in this, put 50% of the funding from that point of view. They are strong in Southeast Asia where we want to take the channel. They're also building an overall play, and they have an association in India with one of the largest radio networks in the country. They also have a play in DTH with the Sun Group, so they have existing relationships with all these people right now. And we are looking at strengthening those and the relationships in Southeast Asia. They're a strategic investor who understands the longevity and the long term analysis of broadcasting and at the same time they're passive, because they are not that omnipresent in India and therefore will allow us to take the management lead, which is what we were interested in doing.

Siddharth:

Okay, thank you.

Moderator:

Next question comes from Mr. Brijesh of *Networth Stockbroking*.

Brijesh:

Hello.

Ronnie:

Hi, tell me.

Brijesh:

Hello sir. Sir you mentioned about the two animated movies that you are going to produce, right?

- Ronnie:** Yes.
- Brijesh:** Sir, can you brief me more about the movies, what kind of budget and would it be - 2D or 3D movies, what kind of movies it would be, and how you are planning to market these movies in India as well as the overseas market?
- Ronnie:** Yes, basically I think we've got a good stronghold in movies, so we understand the entire business. So instead of live action movies, these are animation movies. We understand marketing and distribution, so they will go through our existing movie pipeline and thought process of how we market any movie, whether it's live action or not. The budgets as we see them, range between 15 and 20 crores. The stylization and the uniqueness is that the art form that we're looking at doing with these movies will be unique coming out of India as compared to normal animation, and that's why we're spending a little more time and trouble over it.
- Brijesh:** Sir, would it be a 2D or 3D Hindi movie?
- Ronnie:** I think it will be more 3D, or the stylization I'm trying to just say is going to be unique enough for it to not be clearly only 3D.
- Brijesh:** Okay, and sir as of now what is the strength of the animators with the company?
- Ronnie:** About 225 animators.
- Brijesh:** 225?
- Ronnie:** Yes, 225.
- Brijesh:** Okay, thank you sir.
- Ronnie:** Thank you.
- Moderator:** Thank you sir. Next question comes from Mr. Suman of *FE Securities*.
- Suman:** I just wanted to have some idea of the gaming business, what is the size of the market, and what kind of portion you would wish to capture, number 1, and of the 3, 4 verticals you are working in, which one you think would be the biggest driver of growth.
- Ronnie:** If I start giving you overall macro gaming statistics they're huge, and I don't think that will be necessarily relevant. I think telcos in India are reaching 40,000 crores in turnover. They have a mandate by 2010 that 50% of their den revenues should come from non-voice. So that's the potential of just this market in India when you look at mobile gaming, and all other ancillaries. It won't come only from gaming; it will come from gaming, ring tones, and many others. Second, the revenue shares price between the content people who make these games in the telcos is right now more skewed in favor

of the telcos. And while there is no TRAI regulating what the content provider should get, I think over a period of time the share that will come to content people in India, will and have to be higher than what they're getting right now. Because in the international model, content gets the bulk of the money, and here the platform is getting the bulk of the money. And we see that as a second propensity to earn. Third, the console market in India is very, very nascent, and therefore it's going to have a complete growth trajectory, because it's an alternative medium of entertainment, and for that age group again that we're catering to as we go forward. So that's the three synergies. As I already mentioned previously, we have got a 95-crore top line that we're starting with as our base, to grow it exponentially. Out of the four verticals, I think we're very clear that at this point in time, movies, broadcasting, and new media are real growth engines completely, all three.

Suman:

Who are your main competitors, who perhaps are working in a similar, in India, in similar kind of field?

Ronnie:

I think there are no competitors that we have in a direct sense, but that would be naive for us to say so. I don't know whether it's an advantage or a disadvantage that we have multiple competitors in each of our verticals. Sometimes we think it's an advantage, sometimes it can be viewed as a disadvantage. In television, obviously our competitor would be Balaji, in movies, it would be companies like Adlabs, and in animation it would be a few other players. In gaming I think there'll be multiple gaming companies from that point of view, and in broadcasting in the youth base, I think we'll be the pioneers, but almost every broadcaster can get into that business.

Suman:

Thank you.

Ronnie:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Nishant Kumar of *Kotak Mutual Fund*.

Nishant:

Good afternoon sir. I had a question regarding gaming, you are developing this *WarDevil* PS3 game, actually I just wanted to understand what kind of investment goes into for example, take any example of a PS3 game, what kind of an investment goes, how much is the duration, time required for completion of this software, and what kind of revenues also will you see, as in how much revenue does it generate? You can take any example to help us better understand.

Ronnie:

Yes, a game like this would typically cost between 12 and 20 million US dollars. It will take between 21 to 30 months to make, and the revenue potential is really why every one is in this business, because its one of those situations, where you can have a breakeven at maybe 700 - 800 thousand units for a game like that, based on the retail price. And if it sells, two million units, or be it 3, which is still I would say 5 or 10% of the PS3 population, by the time the game comes out, which is

a good ratio. You could be making almost 3 times your investment.

Nishant:

I have another question on animation business. You are doing currently both co-production as well as work for hire kind of thing, the DVDs, movies, all of that, so going forward what kind of strategy do you have, do you want to maintain a kind of balance between the two, or do you want to go to a more risky kind of business, going towards co-production? And also I wanted to understand, in case of co-production, how the rights are actually shared? For example, what kind of deal happens?

Ronnie:

We'd like to maintain a balance. I think the balance, how to define that would be difficult, because there our out-sourcing business would all be on a value basis, and our production of movies can go higher as the revenues go higher. So once that co-production kicks in, obviously the revenues from that could be higher than our outsourcing model as we go forward. In our productions we got two types, one, the ones that we produce - our own movies, so that's pretty much a clearly defined revenue outline like we do here, which is like our live action movies, or Hindi movies. When we look at co-productions on an international front, then you sell country by country, you'll have different distributors, production people who exploit those rights. So it really depends on the deal that we've structured. Normally we don't get into a deal with only some territorial, we look at the whole world as our export issue.

Nishant:

So in case of your deal with *Overbrook* for example, what kind of distribution rights will you have, what are kind of IPR rights that you will have?

Ronnie:

Overbrook, we will most probably go with Sony to distribute the movie world-wide, for a distribution fee, and we will own along with *Overbrook* world-wide rights in perpetuity.

Nishant:

Okay, that's all.

Ronnie:

Thank you.

Moderator:

Thank you sir. Next question comes from Mr. Ankit of *ICICI Direct*.

Ankit:

Sir, my question belongs to your current results. Could you give the breakup from the television segment, how much was from your programs, and how much was from the animation?

Ronald:

For the quarter, animation was about 3.6 crores, and airtime sales was about 10 crores, and television content was about 6 crores.

Ankit:

And sir last quarter, your margins for television segment was 16%, this quarter it's come down to 12%, any significant reason?

- Ronald:** Yes, two reasons. In animation we've started producing something that will deliver only in May; it's a long duration production. Obviously because of that the revenues of animation are lower than last quarter, and also because of that the margins of animation are lower. In TV we have taken a one time cost of one of our programs on Sony, which got abruptly discontinued. We have a claim on Sony, we might get some money out of Sony, but we have taken a full write off in the quarter.
- Ankit:** How much was that amount?
- Ronald:** That was about 1 crore.
- Ankit:** And second question is pertaining to your films business. Like this quarter we saw revenues of *Don*, *Bhagam Bhag* and *Khosla Ka Ghosla*. Could you give the breakup from each movie, how much did we make?
- Ronnie:** *Bhagam Bhag* was not taken; *Bhagam Bhag* will come in the 4th quarter. Usually movies released after the 15th day of the last month, we take into the next month. So the revenues would be partially that of *Don*, because there are some revenues like DVD and all ancillary rights that will flow into the next quarter. So it's basically *Don* and *Khosla Ka Ghosla*, part of *Don*, and most of *Khosla Ka Ghosla*.
- Ankit:** So, how much came from *Don* and *Khosla Ka Ghosla*?
- Ronald:** Around 21 crores, about 18 crores is *Don*, and 3 crores is *Khosla Ka Ghosla*.
- Ankit:** And even in the allied content services, margins are pretty less this time compared to previous quarters. Even the revenue is fairly less, any significant reason?
- Ronald:** Yes, we did invest recently on a new facility in our allied services and VFX, which should have started commercial production sometime in August, but because of some technical hitches, we have started commercial production only from this month, and the facility is already doing two movies. So you will see some thing in the last quarter. But going forward we'll have those new revenues, and new margins pitching in as well.
- Ankit:** And again in this quarter, which movie releases are we seeing?
- Ronnie:** This quarter we will see some revenues streaming in from *Bhagam Bhag*, and we will see a movie called *Hat Trick* that will be released. Outside of that, we have two international movies that are being released in March, but now those revenues will be seen in March.
- Ronald:** In addition to that we'll have home video revenues of *Don* and *Khosla Ka Ghosla* coming in this quarter as well.

Ankit: How much did you sell the rights for home video for *Don* for?

Ronald: We don't sell, we distribute ourselves internationally.

Ankit: Okay, we do it on our own. We see a lot of competition coming from the home video segment, and we also are planning to launch our own home video series, so what is your say on the competition coming from this time?

Ronnie: No, I think that's great. I mean, competition has been there for 40 years, actually in the movie business, when we entered four years back, it would have been intimidating enough, for anyone to enter, so I think competitiveness in a fragmented market will always be there. But the market actually in DVD and home video is growing also if you see.

Ankit: Fine, but do you see the rates slashed down to Rs.34 from the competitors, so is that a good sign for the market?

Ronnie: Yes, I think. If you look at the telcos, and if you look at mobile, I think if you take that same example here, it finally grows the market.

Ankit: Okay, thank you.

Ronnie: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Sandeep Nema of *JM Financial Mutual Fund*.

Sandeep: Hello sir. Just two questions. On this gaming, you were saying that these two companies have a revenue of about 95 crores currently. How is it going to be scaled up over the next two or three years in your view?

Ronnie: Well essentially as far as *Ignition* is concerned, their core competence is really to spot and acquire licenses of games, reformat them and distribute them world-wide. We are looking at therefore taking that two fold, three fold increase over the next two years in just the licenses that we acquire. May be even re-format them in cheaper modes by outsourcing them to India or East Europe, in the second aspect. The other big kick up for us is the actual release of the PS3 game, *WarDevil*, and that in itself which will happen in late or the third quarter of FY-09, will have its own huge contribution in growth there. In the mobile space, here as I mentioned some of the factors already earlier in one of the questions that came up, the opportunities in the mobile space is really a growth area. I think it's a very under exploited area, because nobody has marketed the concept of game downloads. It becomes just one more commodity or facility available on your phone and we now need to create a pull factor and a push factor on this business and that's how we plan to grow it, outside of the fact that *IndiaGames* has launched their own games on demand on the Internet, pretty similar to *Zapak* of *Reliance Entertainment*, but with a subscription model from that point of view and both these will have a push factor.

- Sandeep:** Okay and second question sir, over the next three years, how much contribution will come from each vertical in your view, the four verticals you talked about?
- Ronnie:** Really, it's really difficult to say.
- Sandeep:** Okay, thanks a lot sir.
- Moderator:** Thank you sir. There is a follow up question from Mr. Dipen Mehta.
- Dipen:** Yes sir, if you could just, I couldn't get it exactly, the releases, when are they scheduled for as we have the list over here, the *Hat Trick* is when?
- Ronnie:** *Hat Trick* is in March of this year.
- Dipen:** *Namesake*?
- Ronnie:** *Namesake* is in March of this year, both *Namesake* and *I think I love my wife* are US releases, so they will go out mainline US and *Namesake* will also be released in India but mostly in the US. *Metro* will be a April or May release. *Fear* and *Blue Umbrella* could be released in the first quarter of next year or might go to the first month of the second quarter of next year.
- Dipen:** Means September?
- Ronnie:** Which means September, July to September, so in July. So these are all movies between now and July at the maximum.
- Dipen:** And you next said these are your own productions but you are still looking at like, what we did for *Don* and....?
- Ronnie:** Yes we might look at some pick-ups for acquisition, nothing that we have confirmed at this point.
- Dipen:** Okay and is this the final list or you can expect, because I was under the impression that for FY08 you were targeting one release a month or something?
- Ronald:** Absolutely. This is from now to July.
- Ronnie:** We have got another 12 to 15 movies under production or under shoot, including a large movie called *Jodha Akbar* that is right now being shot and many, many others. We have not gone past June-July in this particular statement here, so we have a large plate.
- Dipen:** So this is what you are saying till July 2007. But are we still right in assuming that towards the end of the current year 2007, meaning FY07-FY08 sorry, you would be having around a movie a month?
- Ronnie:** We should be having about 12 movies yes, that's correct.

- Dipen:** By FY08 you could be having about 12 movies?
- Ronnie:** In that year, yes.
- Dipen:** Okay, there is another thing, which we were having difficulty in trying to understand – the gaming side. The television business, as you explained to us last time is more of stable cash flows and you have been kind enough to disclose even the order book and I asked you the other question about the tie up, sir would it be possible to give some kind of a guidance that okay, this is the kind of steady revenue and segment profit which will come from the television business?
- Ronald:** We can talk about what we are working on, for example in animation, we already have a service outsourcing order book of about \$14 million to be catered to in the next 18 to 24 months. We are also talking to a couple of other clients that could increase our order book by about another \$4 to \$5 million. Airtime sales I explained to you earlier, *Radaan* contract could give us revenues up to 40 crores per annum plus other producers that we are aligned with. Now in television, we do have a base, now that base will sustain and also grow plus our youth channels will obviously increase the demand for content for our television contract business. So while it is very difficult to give a specific number or some sort of trajectory in terms of numbers, we can tell you exactly what our order book is, or what it looks like to us.
- Dipen:** Yes, but that's where the difficulty comes in estimating what kind of contribution would come from television, what was 2.39 crores for the last quarter, I mean do you estimate it doubling, tripling as you go forward given the kind of visibility which is there?
- Ronald:** Airtime sales business will definitely grow; animation will definitely see large growth. On the television content side it will be steady plus when our home channel kicks in, it will grow little bit more, so that's the broad growth as we see it.
- Dipen:** *Ignition* is 70% and *IndiaGames* is 51%, have I got it right?
- Ronald:** Yes correct, *Ignition* is actually 60% that is employee pool that we are creating, after employee pool we will have 60% in *Ignition* while *IndiaGames*, 51%.
- Dipen:** So we paid 68 crores for 51% and *Ignition* 60 crores for 60%?
- Ronald:** 70%, but after we create the employee pool it will be 60%.
- Dipen:** Okay, now given our core competence of entertainment and media content, what are the challenges or the plan in place to integrate these two companies within our group in the sense that what value addition can be offered from the UTV group to these two companies and going forward...

Ronnie:

I think I kind of summarized that little before, I'll repeat myself, which is basically that I think taking it up in terms of revenue to two fold and three fold, creating an overall alliance of all the content people so that we can get a larger share of the pie, bringing about a sense of marketing in this industry where actually nobody is really marketing and only creating a commodity business from that point of view. Some synergy between *Ignition* and *IndiaGames* itself in some sense of outsourcing plus ideation levels, because they're both at different levels working on different platforms. These are some of the initial steps, outside of that, our ability with our relationships and our own marketing externally to bring in larger brand franchises and licenses of games to these companies and introduce them to some of the larger media players with which we have relationship in some form or the other, whether its Disney, Fox, Sony and others.

Dipen:

And these have already taken place, we have paid the money or we are still in the process?

Ronnie:

In the process.

Dipen:

Okay thank you.

Moderator:

Thank you sir. Next question comes from Mr. Manish of *ING Investment Management*.

Manish:

Hi, good evening everybody.

Ronnie:

Good evening.

Manish:

My question was have you ever expressed the intention of getting into multiplex business and if so, if you would explain slightly in detail if you have any intention?

Ronnie:

Well not that we reserve the right to review our thought process in subsequent quarters, but over the last one year, two years, when we have examined this space, we have definitely found this to be a real estate and a popcorn business. We believe that there are some intrinsic advantages right now based on entertainment tax advantages. We believe that city saturation is already taking place and therefore from that point of view, the pressure to refurbish your theatre because a new one comes along five meters away, is very high and we believe that the average occupancy right now which is at 40% will go down to 32% to 33%, whereby, which the margins will get extremely thin. We also believe that the content players who simply sit with their hat on, are going to extract more pound of flesh for their share of content as it goes forward, which at some stage even if the multiplex associations get together will still have a huge problem for that. So for all these reasons and I think that the valuations are little high overall in this industry. We might review this decision if there was a cheap existing player at future date, but to us it's not an important part of our value play when we are looking at broadcasting and our content focus in each of the plays.

- Manish:** Okay and one question on is there any other area where you'd like to do any kind of inorganic growth opportunity, and growth trajectory?
- Ronnie:** I think basically if you look at these four verticals, they are actually serious foundations, they are not just pillars, I mean in that sense. So movies, there is scope for regional, there is scope for direct to home video, there is scope for international co-production, so the whole movie pie is as big as it gets. If you look at new media, gaming and everything else from all medium of console, mobile and Internet is as big as it gets and whereas broadcasting I have already said we are looking at multiple ones. So I think all our expansion will swarm under these pretty large foundations, and there is enough non-linear and linear growth that we are looking at for that.
- Manish:** Thanks a lot.
- Ronnie:** Thank you.
- Moderator:** Next we have Mr. Suman from *FE Securities*.
- Suman:** You have indicated somewhere you have some plans for retailing, can you throw some light what exactly you do in retailing business?
- Ronnie:** No, I just want to clarify. I think in the youth channel space specifically and no other space, we believe that the franchise of what we will create as a brand on the channel can be expanded into youth hangout spaces in retail in various modes to take that same extension of the retail space there. So we are looking at a brand that can go down to various entertainment centers or things like that in that way.
- Suman:** Fine, thank you.
- Moderator:** Thank you sir. Next we have Mr. Nishant Kumar of *Kotak Mutual Fund*.
- Nishant:** I had a question regarding movies, for example, a movie like *Don* or for example or any animation movie, what kind of percentage would the gross box office collection be of the entire revenues that can be generated from multiple sources?
- Ronnie:** Completely varies. So even if I were to give you an answer of 40% to 75%, it would be completely varying from movie to movie, different for domestic, different for international.
- Nishant:** Okay another question was regarding TV, in case the content production you work on, it's a kind of a commission based model, so what kind of margins are there in the content production business?
- Ronald:** About 15%.
- Nishant:** About 15%, okay, thank you.

- Moderator:** Next we have Mr. Siddharth Shah of *UTI Mutual Fund*.
- Siddharth:** Just a question on broadcasting, we have heard plenty of announcements for new channel launches and content creation obviously for those channels and most of it would be targeted at the youth segment or the young people. Can you tell me how UTV proposes to create differentiation in much of this clutter?
- Ronnie:** Before I do, can I answer the question with a question, which is that, what are you referring to because there aren't that many initiatives in the youth space, so if there is any specific reference you have in mind, I could first clarify those references and then take that forward.
- Siddharth:** Okay it's with reference to the youth segment with plenty of talk of new channel launches, so how do you propose to create a differentiation and if you could just give me a better idea of the kind of format that you are thinking of?
- Ronnie:** See, in the youth space basically outside of MTV and Zee, which is completely focused on music, we are looking at the entertainment space; obviously the youth are looking for a very different kind of program, soap operas, that's really going to be our key approach in differentiating program. I still don't believe there is a clutter in that space, I do believe that it takes nothing for people to report that they are going to start a channel, but less of them actually get translated into openings in that thought process. So I do not believe at this stage there is not going to be that much of a clutter. If you take the news space again, every time a news channel started off, everyone thought my God, here's one more news channel and these are the same channels that investors like you are taking public right now at 1,000-crore market caps, so that's the encouragement that the industry has to grow a channel.
- Siddharth:** Yes and another one on your retail venture, any plans to tie up with anyone in what retailing that you want to do?
- Ronnie:** No and if you are referring to the fact that we have a recent induction of on our board of members, a retail perspective, I don't think you should read anything between the two. It's a highly intelligent entrepreneur-driven company and we value it's advise on our media aspect of it.
- Siddharth:** Okay, thanks a lot.
- Moderator:** Thank you sir. Next we have Mr. Ankit of *ICICI Direct*.
- Ankit:** Sir, we are saying we are also going to produce, co-produce movies in the South Indian film market, could you say what will be the budget of these movies and the time line and how big is this market?
- Ronnie:** The entire South Indian market combined is as big as the Hindi movie market overall if you look at it in terms of revenue

potential and it is growing. The budget range again varies in movies. I mean you have a 2-crore movie and you have 12-crore movies and then you have some rare 24-crore movies, but by and large I would say they would be about 50% or 60% of the cost of Hindi movies on a relative basis.

Ankit:

Okay and the movies that we are going to produce will be of what budget approximately?

Ronnie:

Again it will finally depend on the movie; we don't go into a movie based on a budget benchmark, it's more the script, after we have the script, we attach a director and the cast, and then we do the budgeting.

Ankit:

So have we jotted down a script or something for these or it's only the idea now?

Ronnie:

No, they are at scripting stage.

Ankit:

Okay and secondly we have Mr. Biyani on our board, so is it with the retail thing which you are talking about, is it because of that or...

Ronnie:

No, very clearly I think as I said, we view him as a forward looking industrialist who is very entrepreneurial in terms of the ability in which he has been able to grow his businesses and I think at our scale, taking broad examples of how they have grown their businesses, is the valuable input that he would bring of his learning's into the media and entertainment space. Outside of that, there is absolutely nothing to be read into the retailing provision at all.

Ankit:

Thank you sir.

Ronnie:

Thank you.

Moderator:

Next we have Mr. Sanjay from *FE Securities*.

Sanjay:

Good afternoon gentlemen.

Ronnie:

Good afternoon.

Sanjay:

You collected some 18 odd crores in *Don* during this quarter, in this 18 crores have you made money after paying off the producer and the exhibitor and your marketing and all that? I am not talking about the overflow you have made.

Ronnie:

Yes we made about 3 crores on that.

Sanjay:

And when do you see a big production house from US doing a co-production with the UTV over here, I am talking about Universal or...

Ronnie:

Well I think you haven't read our earnings release. We are the first people doing two co-productions with ...

- Sanjay:** No that's why I am talking about big studio name; I am not talking about Will Smith...
- Ronnie:** Making movies in India? Well let me be absolutely blunt, I think all the movies that we are doing, Disney and Warner and Fox would be happy to at least associate themselves with four or five of those movies that we are talking about. We don't see that much of value addition from them, we've built the model completely, and we don't want to share the upside. So I think on our terms if they are willing to come we will be happy to take them in and they are very, very keen to come in with companies like us.
- Sanjay:** I think you have built up a very great company, I think we will sit back and reap the rewards, thanks sir.
- Moderator:** Thank you sir. I request the participants to press * and 1 for your questions. Next we have Mr. Dipen Mehta from *Dipen Mehta Shares*.
- Dipen:** Yes sir, this particular outlay for acquisition on *Ignition* and *IndiaGames* which aggregates to about 128 crores, so do you anticipate at any point given that net, net after the transaction with Walt Disney and the issue options with the promoter, 110 crores inflow for this company, do you anticipate any debt for the company?
- Ronnie:** We don't see it; we have also got some staggered payments in that thought process based on some benchmark so I think we won't see the full outlay going out for almost a year.
- Dipen:** Okay so we don't expect to see debt on account of that particular issue?
- Ronnie:** I mean there could be debt because, a lot of that cash flow has gone into zeroing or at least making our debts negligible, so we have a leveraging position that is there and if we need to draw down on that, we will.
- Dipen:** Okay and the warrants that are still existing, that has still to get converted to equity, the warrant issued for promoters, apart from that...
- Ronnie:** That is correct there is 70 crores due into the company of which 3.6 crores has been paid in as the 10% deposits and 32 crores is still due into the company.
- Dipen:** Okay so that you will then tie it in with the acquisition of these two companies as I understand?
- Ronnie:** Well the promoters group who has an outer date of 18 months to consummate this transaction so it would do it, I don't think its timed with anything other than the deadlines prescribed by SEBI.
- Dipen:** Okay thank you.

- Moderator:** Next we have Mr. Tushar Jain of *Shanti Gestion*.
- Tushar:** Hello sir, just wanted to confirm a couple of numbers. You said that in 07-08 there will be around 12 to 15 movies which will be produced, is that right?
- Ronnie:** Yes I think what we have said is 12.
- Tushar:** Okay, sir can you give us an idea on what are the movies that are already under production and the kind of capital that has been ear marked for that?
- Ronnie:** We are working with multiple directors, from Rakesh Mehra, Ashutosh Gowrekar, Priyadarshan, David Dhawan, Vishal Bharadwaj and many others. At present, we would not like to put too much more information in the public domain because it is an extremely competitive field, a lot of people over bid each other from that point of view. So while most people make large announcements, we are not that keen on making that kind of loud announcements. Our cash investments and outlay would be around 150 crores on a peak funding basis for the rotating productions slate.
- Tushar:** Okay and sir would it be possible for you to give an estimated idea of the number of productions in each quarter or lets say in the coming two, three quarters?
- Ronnie:** I think what we have done right now is given the slate till July. So in terms of releases I think two quarters ahead is the about the best estimate that goes forward because I think getting a release date right for a big movie is very, very important.
- Tushar:** Okay sir, another thing is with regards to the *Ignition*, if I heard it right you said that some where in the third quarter of FY-09 there will be some PS3 game that will be released by it and those as you call them are the affordable versions, right?
- Ronnie:** They will go out at \$59 and 99 cents so it is subjective viewpoint whether that is affordable or not.
- Tushar:** Okay sir can you just give us an idea, though you had mentioned it earlier that it is very difficult to put a number but still if you could let us what's the kind of opportunity because of that?
- Ronnie:** Well as I said if the investment itself is about \$15 million you know what your top line expectations should be on that thought process. It's like you make a movie for 40 crores you can estimate at least what your baseline is going to be for the release, so I think industry views in the same light.
- Tushar:** Okay sir, thanks a lot sir.
- Ronnie:** Thank you.
- Moderator:** Next we have Mr. Brijesh from *Networth Stockbroking*.

- Brijesh:** Hello sir.
- Ronnie:** Hi.
- Brijesh:** Sir you mentioned about the total CAPEX for next two years, it could be around 200 crores, right sir?
- Ronnie:** Total investment into various activities. I wouldn't necessarily term them as CAPEX.
- Brijesh:** Okay its total investment, sir it would be possible for you to give me the breakup of this investment?
- Ronnie:** Well, I think broadly what we've set is about 120 to 130 crores in gaming and about 75 to 80 crores in broadcasting.
- Brijesh:** Okay fine sir and sir one last question on the animation side sir as you mentioned the production cost of a movie, it would be ranging between 15 to 20 crores, right sir, but if we compare the cost of a movie with other studios in India as well as US, it ranges from \$30 million to \$80 million. So how will you be able to produce a movie within a small budget like 20 crores?
- Ronnie:** No, let me be clear, this movie of 20 crores is not the movie that we would do with Will Smith *Overbrook*, because that will have a different model altogether. So this is a movie that is basically an Indian movie going out there to make it, but first and most importantly making into the domestic market, making it for South Asia, world-wide and then international.
- Brijesh:** Okay and sir for distribution we would be having some tie ups with the big distribution houses or we ourselves will distribute the movies?
- Ronnie:** We see ourselves distributing it mostly on our own, where we need the inputs we can do it with Disney and Fox.
- Brijesh:** Okay and sir could you also give me the schedules of the two movies, when they would be releasing?
- Ronnie:** I am saying at least eight quarters from now.
- Brijesh:** From the last quarter?
- Ronnie:** Yes, I'd say at least they are basically early 2009 releases.
- Brijesh:** Okay sir. Thank you sir.
- Moderator:** Thank you sir. I request the participants to press * and 1 for your questions.
- Amit:** Gaurav can we have the last question please, if it is there?
- Moderator:** Last question comes from Mr. Tushar Jain of *Shanti Gestion*.

- Tushar:** Sir one more question is you said that there would obviously be an increase in the airtime sales revenues, now can you just give us an idea about the increase in the number of programming hours and the rate that you would charge for the airtime sales?
- Ronald:** See the rates depend on the time of the day and prime time or non-prime time. Presently we have about, the rates range from anything 6,000 for 10 seconds to 20,000 for 10 seconds depending on whether you are on *Sun TV*, Tamil, Telugu, Kannada or Malayalam and the time of the day. I think at present we have about 20 hours a week, might go up to 30 hours a week in another 9 to 12 months time, that's the most specific we can get.
- Tushar:** Sir can you give us an idea, you said that the airtime sales charges vary between 6,000 to 20,000 depending on the time and the slotting and the program, but if I was to compare on a like to like basis and you would be a better judge of that, do you see an uptrend in the prices?
- Ronald:** Yes I think so there should be uptrend in the prices as well.
- Tushar:** And how much would you anticipate that, 10%, 15%, 20%, how much?
- Ronald:** Very, very difficult to say, it could be upper side 25% as well.
- Tushar:** Upwards of 25% as well.
- Ronald:** Yes.
- Tushar:** Okay, thank you sir.
- Ronnie:** Thank you.
- Moderator:** Thank you sir. Now I hand over the floor to Mr. Gaurav Chugh for closing comments.
- Gaurav Chugh:** Thank you Mr. Screwvala, thank you Mr. D'Mello, Mr. Chandrashekar and Mr. Banka for sparing time for this conference call. Thank you very much everyone.
- Ronnie:** Thank you.
- Moderator:** Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

This document has been edited to improve readability.