



Movies • Broadcasting • Television • Animation

UTV Software Communications Limited

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INVESTOR CALL – MAY 2, 2006

RESULTS – QTR ENDED MAR-31-2006

Moderator: Good afternoon ladies and gentlemen, thank you for standing by. Welcome to the fourth quarter result conference call of UTV, hosted by 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, Analyst from ASK Raymond James and Associates Limited. Please go ahead Sir.

Ruchit: Good afternoon ladies and gentlemen, we at ASK Raymond welcome you to the fourth quarter earnings of UTV Software Communications Limited. We have with us from the senior management of the company, Mr. Ronnie Screwvala, the CEO of the company, Mr. Ronald D'Mello, the COO of the company, and Mr. Amit Banka, General Manager - Business Development & Strategy. We will open with Mr. Screwvala giving a brief overview of the quarter gone by and the outlook for the year ahead and then we will open up for Q&A. Over to you Sir.

Ronnie: Good afternoon every body and thank you for joining in on this conference call. Just a brief summary, which I have already pretty much highlighted in my Earnings Release - Broadly we were coming out of the third quarter, which was a bad one primarily because of our two-movie failure in the last quarter. We have had a very good performance with 'Rang De Basanti', which continues to carry on into the next quarter also. In summary three key aspects, which contributed to our dent are – First, the one-off loss in the third quarter which was from two movies that did not work out. Second, our airtime sales model has seen a huge surge in terms of volume of business that we plan to do on a quarter-to-quarter basis going forward. However there is almost about 8-10 hours of new shows that has been added for a week. All of them have a certain level of margin erosion for the first quarter or three to four months of activity, primarily because we bank inventory and we sub-sell inventory, sometime below costs, just for the early days of the shows. And third, we have moved into our new animation facility and all the expenses for its investment have been included in this quarter including trading, up-scaling, because overall we will increase our staff strength also there for the order book that we have got plus some of the local programs that we are planning in the quarters to come. And based on that we pretty much expend our training expenses and our non-capital investments in the animation space.

Going forward into the coming year, we have an interesting slate of movies with some of the best directors lined up. A good brand recall has been established for UTV in the fourth quarter primarily owing to 'Rang de Basanti', it being the number two movie of the decade despite a few other producers taking numbers to our claim of being number two movie of the decade, which it is factually and otherwise. So if you read anything in the newspapers, it is only the media blowing it out of proportion. Outside of that the brand rub-off has created greater leverage for us both in terms of tracking directorial talent and selecting the right cast. Added to this we are now looked at as serious player in the industry, which in itself speaks good volumes of what we are going to be able to do in terms of our slate in movies. In animation we have got an interesting year ahead. In television and airtimes sales, we have been able to consolidate and we see a growth prospect there.

The only other mention I'd like to make is on our kid's channel, Hungama, where we have really shown some sustained growth in spite of Turner and Disney battling it out with us in the field out there. We have been able to now pretty much capture the number two positioning. Just a quarter back in terms of gross rating points we were in the 80s and we are now in the 140s. Now, that may not be much to most of you who are listening-in. But by and large that pushed us right below Cartoon Network and above all of these names as Nickelodeon, Animax and Pogo. This growth will definitely be captured as we go forward on in terms of our positive run rates. I think that's by and large our entire summary on where we are and we will be happy to go into specific questions in the Q&A.

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. Manish Bhandari from ING Vysya. Mr. Bhandari, please go ahead.

Manish: Good afternoon there. I have got one query on 'Rang de Basanti' or maybe slightly more on the business model. How much revenue has been accounted for 'Rang de Basanti' in this quarter and how much will be the spill over in the next quarter?

Ronnie: At this point in time, we recognize all the revenues earned in this quarter in the accounting of the same quarter itself. So it is difficult to estimate what will be the spill over into the next quarter at this point in time. The revenues for this quarter would mostly comprise most of the theatrical plus music and the satellite rights. So it's difficult right now to estimate what will be the spill over in the next quarter.

Manish: But I am sure, what was the date of release and how much have you already accounted for in this quarter, if you can show that in numbers?

Ronnie: We still have over 100 prints in the market. Outside of that, we have just released our home video world wide both in India and internationally. So these would account for our revenues going forward.

Manish: I was interested in knowing how much you have already accounted in this quarter? What do you have published already? How much revenue has already been captured in this?

Ronald: Revenue is about 36 crores, 36 crores is the overall net revenue to us on the projects up to 31st March.

Manish: And how much is the cost written-off against that?

Ronald: About 28 crores would be the total cost.

Manish: 28 crores as the total profit you mean to say?

Ronald: Around 28 crores is the total cost written-off against that. So the income which is going to come in the next couple of months out of the prints which are in the market plus home video will not have commensurate costs attached to it.

Manish: Yeah, that is what I was interested in, thanks a lot.

Moderator: Thank you Mr. Bhandari for your question. Participants who wish to ask any further questions are requested to press '*1'. Please press '*1' for any further questions. We have our next question from Mr. Harish Krishnan from Kotak Offshore. Mr. Krishnan, please go ahead.

Harish: Good afternoon Sir. Wanted to know, what's exactly in the Animation order books as of now?

Ronald: We are working on an order book, which contains 15 DVD features plus 52 episodes also 120 short series. This is what we are working on, it would take about 24 months to execute the order book for our existing team.

Harish: Okay, but would there be a value that you could put for it?

Ronald: It's about \$15 million.

Harish: What would be the targets in terms of next 6 months Sir, in terms of number of movies that you are looking at releasing?

Ronnie: Are you talking about Animation or...

Harish: No this would be the normal.

Ronnie: In movies, we have 'Chup Chup Ke' releasing on June 9th, we have another movie called 'Khosla Ka Ghosla' which is scheduled to be released in July. We have then got a very large movie that we are taking for international distribution, Mr. Shahrukh Khan's latest one which is 'Don', that comes on in December. In September, we have Vishal Bharadwaj movie that we are releasing and sometime between September and December we will be releasing 'Namesake' world wide along with 20th Century Fox. Outside of these, we also have a few movies that are currently under production.

Harish: So roughly what would be the Capex plan for the next two years?

Ronald: I think we have just finished our one round of Capex on animation as well as post-production. We don't have anything specific at this point of time in terms of Capex other than upgrading our existing facilities.

Harish: Okay, and any outlook on the break even for 'Hungama'?

Ronnie: We are pretty much on track for our September end break-even. All our rating points and the market environment is definitely in that line. Even our distribution subscriber base is up overall. And our GRPs are at about 144 GRPs, which is quite a high benchmark from where we were before.

Harish: Just to confirm your programming content per week, which was about 10 last year, it has been scaled up to 18, is it?

Ronnie: This is the airtime sales in terms of number of hours?

Harish: Yeah, that's right.

Ronnie: Number of hours in airtime sales is now 22 hours of airtime sales a week. That excludes the television content part.

Harish: How much would that be, Sir?

Ronnie: That's another 8 hours.

Amit: 8 hours now would go up to about 14 hours by the quarter end.

Harish: 8 hour now would go to 14 hours by this quarter end, is it?

Ronnie: Yeah.

Harish: Okay, and is there anything happening in your merchandizing business, because for 'Rang De Basanti' you had tied up with some merchandisers, right?

Ronnie: Revenue-wise its still a brand-building exercise right now and basically whatever little revenue comes in is pretty much for the cost that we spend on marketing it. So I think from that point of view it's not a meaningful one and will not be in this coming year.

Harish: Okay, and in terms of your JV with Astro, how is that going upfront Sir?

Ronnie: We have launched the Indonesia channel two weeks back. We are launching the Malaysian channel in June and outside of that we have a term-sheet for them to invest \$7 billion in the company for 26% stake.

Harish: I haven't understood the mode of payment Sir, you said 26% of how much?

Ronnie: 26% of Hungama for a cash injection of \$7 million.

Harish: \$7 million.

Ronnie: Yeah, the company is approximately valued at \$28 million, the channel

Harish: Okay, they are going to infuse it into Hungama's Indian venture, right?

Ronnie: Yeah, you are right.

Harish: You also had some plans for launching a Tamil version of Hungama?

Ronnie: Yeah, its correct and we are pretty much now moving forward on that. The Malaysia-Indonesia channels have been a little bit of a distraction and now we are going to focus on Tamil and Telugu also.

Harish: Tamil and Telugu and by when is that likely to hit Sir?

Ronnie: I do not have a date specifically on that and I think the partner with whom we were going to go with was busy with their own IPO at this point of time.

Harish: Okay, and is there any other scope for another strategic partner in Hungama? Are you looking at it or are you just done with it?

Ronnie: We are in talks actually to be honest. However its too premature for me to talk about any thing else right now. But we are in talks at the UTV level if that kind of cascades down into any option at the kid's level, we will have to see how that goes.

Harish: Okay, fair enough. Also Sir could there be any break up of the worldwide distribution of films, total revenue how much is that contributing to, A rough percentage?

Ronnie: Well, I think off-line if you would like to take that forward with Amit Banka on the mail, may be he will be happy to give you the break up, because it will be difficult to disperse that on a per movie basis. The statistics would change quite dramatically.

Harish: But roughly at what percentage would it be? It would be 2-3% of overall revenue?

Ronnie: What, International?

Harish: Yeah.

Ronnie: No, it would be much more than that. It will be between 15-25% depending on the movie.

Harish: Sir, I didn't get it, have you mentioned the number of minutes that you made in Animation for the last year? Would you have that kind of break up in Animation segment?

Ronnie: No, all I can say is, we have about 130 minutes of television programming per a month in installed capacity. So we would average between 80-120 in terms of number of minutes in this coming year.

Harish: Okay, and what would be the total number of employees in this division, Sir?

Ronald: In animation we are presently at about 200, and are ramping up to 250 in the next three months.

Harish: Okay, that's it from my side, thanks a lot.

Moderator: Thank you Mr. Krishnan. Next in line, we have Mr. Ram Patnaik from Brics Securities. Mr. Patnaik, please go ahead.

Ram: Good afternoon Sir. Just wanted to know that in the results, the revenue from the television has gone down from 22 cores to 19 crores in this quarter. Similarly for the year television revenues have gone down from 90 crores to 71 crores. What is the reason for the decline? Are we seeing a shift in focus for UTV as a company towards films?

Ronnie: Categorically, not at all. Now in the television business you are not in complete control of your destiny. It depends on the broadcasters and their agenda of the slot shows. For example, we have had one daily soap on Sony ready for a long time, however due to lack of space on the prime band the show would be opening on the afternoon band. So broadcasters have their own agenda. So it can slip by a quarter or 4 months in terms of scheduling. To top it some of our shows went off air and one or two didn't come on. But that is clearly not due to lack of focus. In fact our division creates concepts on a weekly basis, which is pitched out to multiple channels everywhere.

Ram: And Sir, going forward what kind of a revenue share would you see in 2007 or 2008 as far as television and films are concerned?

Ronnie: Well, I think 2006-07 combination would be around 60%.

Ronald: Movies have contributed almost 63% of the total revenue. And I think it will be very much in the same line going forward.

Ronnie: 60:40 in this coming year for big screen, small screen.

Ram: Okay Sir, can we know about how many movies will be produced and distributed this year?

Ronnie: I think the question is more on terms of production as compared to release. Now release can move around here and there.

Ram: Yeah, production.

Ronnie: We will have nothing less than about 12-14 movies under production.

Ram: And distribution Sir?

Ronnie: We have found that in the market right now, crazy prices are been offered and therefore we intend to take it a bit of a slow for the next 2-4 quarters till things cool down and all the new money invested right now is spent out. Having said that, we have one large film in December - 'Don', directed by Farhan Akhtar's starring Shahrukh Khan.

Ram: And Sir what kind of budget we will look at for production this whole year?

Ronnie: The outlay will be substantial. We have got movies slated ranging from 4 crores to 25 crores. And that is how it will kind of span out. So it will depend from quarter-to-quarter on the release schedule.

Ram: So are you saying that 12-14 films a year it seems that almost every three films every quarter, that kind of thing will happen?

Ronnie: When there is production doesn't mean that they are going to release, because some movie take a year and half and some movies will be done in nine months, some movies will be done in 18 months. The bigger movies will take a little bit more time.

Ram: Okay, thank you Sir.

Moderator: Thank you Mr. Patnaik. Our next question comes from Mr. Kaushik Poddar from KB Capital. Mr. Poddar, please go ahead.

Kaushik: In the release you have given about your results, you have talked about tie-ups and all those things. Will this tie-up be at the corporate level, at the UTV level or some thing akin to what has happened to Hungama?

Ronnie: We are looking at the UTV level and basically we are looking at a strategic relationship. We have weighed the pros and cons of the financial one and the strategic one. We are very clear we need a strategic one, someone who can play the field with us in the small screen, in the movies and in animation, augment our broadcasting story subsisting

from that point of view and the fact that there is a lot of Indian content now migrating overseas. So it is a combination of all of those. And to that extent we are on advanced talks on strategic investor at the parent level, at the UTV level.

Kaushik: Yeah, this strategic investor will be bringing in some financial contribution also?

Ronnie: Yes.

Kaushik: Okay, and secondly have you set a timeframe for this?

Ronnie: Well, we are pretty much in discussions, so these are global companies from that point of view. So it's really very difficult for us to be able to put down and pin down a schedule with them. Difficult for me to comment any more than that right now.

Kaushik: I appreciate that, thank you.

Moderator: Thank you Mr. Poddar. Participants who wish to ask any further questions may please press '*1'. We have a question from Ms. Shweta Thakur from Birla Mutual Fund. Ms. Thakur, please go ahead.

Shweta: It's a fairly unrelated question. I realize allied content services are only a very small part of your business right now. But you've mentioned in your press release that you all are investing in special effects and DI facilities. I was wondering what kind of Capex there is and what is the potential for that. If you could just explain that market out please?

Ronald: Well, we have been in post-production business for very long-time and it is one of our strong businesses which not only gets us external revenue but also it helps us internally as well. What we have done in the last four months is that we have invested in a facility that caters to film business in terms of special effects and digital intermediary services and we have spent about two million dollars in investment from that. The revenue impact of that will start from the second quarter of this year.

Shweta: Sir your facilities, first of all how many films within India actually go in for digital intermediate work and then what would be the average cost of the revenue percent be?

Ronnie: Budget, when you spend out in terms of films can be as low as 20-25 lakhs and as high as about 60-75 lakhs depending of the entire package deal. I mean, obviously our endeavor would be to take that up from 1-2 films a month to may be 3 films a month in a progressive basis. And therefore while our main post-production facilities right now is in South Bombay Worli, the entire special effects one is in Andheri, which is closer to film Industry.

Shweta: And what would the related cost be, in this case it seems it would just be equipment and employees.

Ronnie: That is correct

Shweta: And what about the equipment I think the sense we got for it is that this equipment dates very quickly, that is there is a lot of very high depreciation and you need to upgrade very quickly.

Ronald: Not really, they need to keep spending little bit on upgradation but that's not equal to the cost that we spent for that scale.

Shweta: So what would be the average life of these facilities like?

Ronald: I think we might have to spend about 10% of what we are spending in maintenance and upgradation.

Shweta: Alright Sir.

Ronnie: These are very software driven from that point of view so the up gradation is primarily on software and cards.

Shweta: Alright Sir, thank you.

Moderator: Thank you Ms. Thakur. Participants who wish to ask any further questions may please press '*1'. Ladies and gentlemen to ask a question please press '*1'. As there are no more questions I would...

Ruchit: Hi Sir, Ruchit here. Just want to know post the infusion of capital by Astro, what would be UTV's stake in the Hungama fall down to?

Ronald: Yeah, UTV ultimate stake will be 49% and 26% Astro and the balance will be held by Ronnie personally.

Ruchit: And apart from 'Rang De Basanti', is it possible to see what kind of revenues you put for 'Taxi No. Nau Do Gyara' and 'Bluff Master' and appropriate cost for that as well.

Ronald: Yeah, 'Bluff Master' was around 120 million and Taxi was another 90 million.

Ruchit: Okay, and what would be the profitability on these two properties Sir.

Ronald: About 2 crores between the two.

Ruchit: Okay, and Sir what kind of growth in ad revenues have you seen currently. I believe they have been doing about 75 lakhs to 1 crores in ad revenues and how do you see that going up for Hungama now that it is the number 2 channel?

Ronnie: It takes a quarter for the rate to react. Outside of that what we have is tent-pole or a sort of a very peak event that kind of pulls, rather than the effective rate, sort of corners budgets of clients. And that is something we have been aggressively doing. We have signed John Abraham as the Brand Ambassador for the channel and basically we are launching in May and June one of the largest Talent Hunt Contest in which for the first time we are asking kids from 4-14 to participate. The value proposition is, "Watch Hungamma and you can act in a UTV movie with John and UTV will manage your career for next three years". So we expect that to be a strong driver and we got a lot sponsorship support for that. So outside of normal, we are looking at these 2 or 3 one-off-events a year. One, the space will be occupying right now is the Talent Hunt connected with movies. The second is our Hungama Captain's Club and the third is the only Marathon for kids that we have done and have done successfully last year in Bombay, Delhi and Calcutta. So these three events should also pump up the overall advertising revenue. And our subscriber base with the star distribution team has also gone from about 3 million to about 3.8 million over the last couple of months.

Ruchit: Can you explain also, if you could just elaborate more on the animation business, which I believe you have added about 3 million dollars in order book in this quarter. How do you see action in that business going forward? Are you working or towards adding more and more to your order book and therefore the businesses should significantly start scaling up over next 12 months or so.

Ronnie: Two things. One is, yes we are definitely pursuing the order book very clearly. Outside of that we are looking at Green Lighting our own production where we will do one or two movies, animation movies and we've got the wherewithal in our movie division for sort of creating it and producing them and distributing it. And since Hungamma is a great vehicle to promote it, we are looking at starting up on two of our own movies, which in itself will augment the capacity outside of our outsourcing base. That's what we are looking at right now.

Ruchit: Okay thank you Sir.

Moderator: Thank you Mr. Mehta. 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 up for this call. We thank the Management of UTV for joining us here and we look forward to an excellent year again next year, thank you.

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.
