



Movies • Games Content • Television • Broadcasting • New Media  
**UTV Software Communications Limited**

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INVESTOR CALL – APRIL 29, 2009  
RESULTS - QTR ENDED MARCH 31, 2009

**Moderator:**

Ladies and gentlemen, good morning and welcome to the *UTV* Conference Call hosted by *Prabhudas Lilladher*. As a reminder all participants' lines will be in a listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone phone. I would now like to hand the conference over to *Mr. Mihir Shah* of *Prabhudas Lilladher*. Thank you and over to you, Mr. Shah.

**Mihir:**

Thank you moderator. Hello everyone, welcome to the Q4 FY'09 Conference Call for UTV Software. First of all, on behalf of Prabhudas Lilladher let me congratulate the management for Q4 results. From the management today we have Mr. Ronnie Screwvala, CEO, Mr. Rajeev Wagle, Group CFO and Mr. Amit Banka, Senior Vice President (Business Development & Strategy for UTV). I will now like to pass on the floor to Mr. Ronnie Screwvala to discuss the quarterly results and other developments for the quarter. Over to you sir.

**Ronnie:**

Thank you. Good morning everybody and thank you for joining us at this early hour. I think the finance and investor relations team sent out a very detailed earnings release with a note. I think we tried a slight bit of differentiation because over the last 6 months our model has emerged to be a very different and unique model. We always found that at various stages of each business gestation (that we are in), there seems to be a situation where there are some key questions that we keep coming up over the last 3-6 months. The team here has tried to address those in a Q&A manner which might be unusual for an earnings release but we thought that as a media company, it is best to communicate in a manner in which we normally communicate. Specifically as far as the quarterly results are concerned, I think obviously everyone here has seen that there is a net profit drop. Two things I would like to say clearly on the quarterly results before I come to the annual results.

Number One, in the last quarter of the same year we had 2 very large releases in our movies division which was *Jodha Akbar* and *Race*. So obviously from that point of view when you look at it on a quarter-to-quarter basis, this quarter would be disadvantaged only on a comparative basis. On Q-on-Q basis when you look at it, I think that this needs to be factored in for anyone evaluating the quarter. Secondly, and

very clearly, as we have grown our businesses the model has evolved over the last one year. Also, if you look at the same quarter last year, apart from the fact that 2 of our largest movies were not included here, was the factor that broadcasting was not an operating business from the UTV perspective in Q4 of '07-'08, nor was new media to that extent and nor was True Games, which is one of our 3 gaming subsidiaries.

Coming to the annual picture, I think the key highlights there are clearly two things, one a growth story and our growth in revenues. I think we clearly demonstrated that in terms of percentage on a Year-on-Year basis which obviously means that in each of our 5 verticals we have sustained our growth models. We have moved forward on what we had set out to do inspite of the economic slowdown and all the other challenges that may have impacted most of the media and other companies. I think we have stabilized the costs, have not cut back on any of our expansion plans and are very much on course. I think in the earnings release note, for those of you who got a chance to read it, so I will not get repetitive on that and go straight in questions and answers. I think what we tried to highlight there is that the qualitative-ness of our income is really the key aspect that we need to highlight to our existing shareholders and our prospective investors or analysts who look at our company. It is for them to understand that we are completely aware of the fact that this was our gestation period as we had clearly communicated when we went in for the Disney investment on an eight quarter basis which was about three quarters down and five quarters still to go. And clearly from that point of view, we are cognizant of the operating margins that these businesses need to deliver. I could go into each one of them but I think we have covered them in the note and therefore would rather prefer to go for Q&A. And if I believe that some of these points that we wanted to highlight in the note have not really come out in Q&As, I will be happy to do so in my closing remarks. So with that I will be happy to take questions and answers. The team is here with me.

**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. At this time if you would like to ask a question, please press "\*" and then "1" on your touchtone phone. Please use only handsets while asking a question. Anyone who has a question may press "\*" and "1" at this time. The first question is from the line of Mr. Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh:**

Sir, my first question is on the broadcasting business. *UTV Hindi Movies* you said is already profitable in Q4 and going forward you have given a good confidence that it might remain profitable. I wanted to understand because advertising will see a big slowdown, what's the confidence level on this?

**Ronnie:**

Actually if you look at the overall advertising scenario I may need to say that the slowdown has not been as acute as people have anticipated or preempted it to be. If everyone

has looked at 10-15% growth, I think that has slowed down to very small single digit growths but there has been growth in that aspect. Secondly, I would say that the chipping away or the erosion would really happen at a very top end of the pyramid much more substantially. Thirdly as far as movie channels are concerned, the main stay is really on titles and properties from that point of view. So we don't occupy that large a share for the deviation to be that drastic. And fourthly, part of our model in Hindi movies, when this is the most critical point of the answer is, that we have got three sources of income. Firstly, from the advertising revenues, secondly from pay and pay for us is broken into 3 forms of revenue. One from the cable industry in India; second from the DTH industry in India; and third the syndication model of our channel i.e. the full channel being syndicated to various platforms all over the world. And we have gone through quite a few of them including in the US, Japan, starting up in Europe and many others. And lastly is our syndication, having acquired a library we do sub-sell our movie titles to other channels. So if you look at all of those incomes then advertising and its erosion does not become that sensitive for us. And we have obviously taken into account the slowdown when we are talking about next year's projection.

**Abneesh:**

Sir, you have mentioned syndication twice, once in pay and once standalone. What is the difference sir?

**Ronnie:**

Yes sorry, may be the word is wrong, the syndication is really taking movies and selling it to other channels in India and overseas. The one where we take the channel - full channel overseas, we also call it as syndication of a channel but we can use a different word for that if you want. So one is taking the entire channel for which we get paid revenues from our platform and the second is sub-selling our movies with certain rights and territories to our channels.

**Abneesh:**

Sir, you also said that you have taken it to multiple countries and platforms. Any particular geographies wherein we have managed well?

**Shantonu:**

Presently in about 8 countries around the globe including the US where we launched last month on the Direct TV DTH platform. Additionally, we are also there in all the neighboring countries- Sri Lanka, Maldives, Malaysia, Australia, Japan and we will soon be in Europe-in fact from the 1st of May in France and we hope to close Bangladesh and Canada soon.

**Abneesh:**

Sir, coming to your *Bindass* Channel, you said it has crossed *MTV* in some parameters and *MTV* is close to 1 billion over channel. So what's the game plan there because in *Bindass Movies* you have done the comparison with the leaders but in *Bindass* if you can compare with *MTV* in terms of revenue, in terms of time frame?

**Ronnie:**

Yes, I think this is a very important question and it is a fair enough question for the broad parameter. Essentially right now, we are in areas where we evaluated and have spoken in

our note about the headroom and space. So essentially if you are looking at a 100 crore revenues for *MTV*, that's pretty much the same benchmark, which means that *Bindass* has only been around for one year. It takes advertisers and many others to understand the scope of the channel, the facts on the ground and that we are also in many other aspects of the business. So what is referred to in the advertising parlance, which is called the '*power ratio*' as far as channels go is as follows: For example, a general entertainment channel or a movie channel wherever power ratio is 1:1 is where you will get the same ratio to the ratio of your GRPs or your ratings. However the more specialty you get, the more ability for you to get a premium.

So, whether it is MTV-youth genre to the English business news space, to the English general entertainment channel, to the English movie channel, the power ratios go to 4-5-6. So, *MTV's* average ratings for the last 10 years has been about 20 and if they are recording now revenue of 100 crores then the power ratio would be viewed as 5. Now obviously our power ratio is at 1 right now, so that's our scope of growth. At the speciality range, channels are not judged only by GRPs but actually by the target audience and focus of the target audience that they reach. Does that answer your question?

**Moderator:**

Thank you sir. The next question is from the line of Mr. Anand Gupta of SBI Mutual Fund. Please go ahead.

**Anand:**

Good morning! I have two questions: One, to understand the profits from *The Happening*- how they will be accounted for? I mean, if you can clarify what are these forex gains? Is it that from 10 million expected profits of *The Happening*, 40% is recognized in the financial year which has just gone by? And the second question is next financial year 2010 is not expected to be as good as 2009 in terms of overall economy. So, on the movies business have there been any hedging decisions in terms of pre-selling any rights or entering into any long term deals with the broadcasters?

**Ronnie:**

Firstly on *The Happening*, I don't believe that anywhere in the note is there any clear benchmark with \$10 million profit. But let me explain to you the accounting process in that context and I think we have done that in our note by talking how the revenue flow actually happens. So to your specific question, no, not 40% of that has been booked in this year at all. Infact a very nominal amount necessarily has been booked as we go forward because first we attribute that to our recovery of cost as we go on *The Happening* sequentially. On your second point as far as the slowdown on the motion pictures, again I think we kind of addressed that by saying that there is a deferred element to our revenue which is really what would be there in '09-'10. Also before it completely corrects itself- and when I say correct that doesn't mean we are factored in, that the depression will go away or the entire model will change. We are talking about the fact that actually the demonstration of deferred revenue model will be very visible to everyone on a Year-on-Year basis. You would realize that

what had otherwise been outright one time sale won't be there as you go forward on a Year-on-Year basis.

So, I think by '10-'11 you will see that the recurring revenues will also be there and I think that's the answer to that question. Have we made any presale deal? I am saying in a challenging environment like this, channels looking at each slate on a slowed down basis, the opportunity to make a forward deal is very low. So, we have made no forward deals and that in no way allows us necessarily to slowdown our releases. We have listed out our 12-13 releases for next year and they are very much on track.

**Anand:** So the FOREX has been just on a receipt basis, I mean you have booked at \$40 and you are receiving money at \$50 so that's a 20% currency appreciation?

**Ronnie:** Yes, that's a real appreciation when you look at the currency part.

**Anand:** Yeah but when you eventually book profits on 'Happening' then it will be at the same price, at \$40 or whatever the rate, 40 USD in our rate. Is that correct?

**Ronnie:** Absolutely. Or it can be corrected if the dollar goes down at 50 and we start giving at 40 (it will be obviously), this is as per the accounting norms. Today, we don't have a choice if we have recorded a gain or a loss for enough to not recognize it.

**Anand:** And can you elaborate a bit on this deferred tax, deferred revenue which you will get in 2010. Are there any key properties which would flow through in 2010? Can you name 2-3 properties?

**Ronnie:** No, I think the deferred revenue concept that I need here to make very clear, is on all the television rights that happens worldwide and in India- what used to happen is, it used to sell 5 year's rights. So now, when we are selling a year at a time you are getting revenues every year what is otherwise going to be cumulative. So, I think as much as we try to explain that in the note, if we were getting 10 crores for a 5 year outright deal and now we get 4-5 crores for year 1, we will see the balance 5 crores plus more because we have the revenues from rights now again flowing Year-on-Year every year. So it is automatic deferred revenue of already existing properties that are now not sold outright for 5 years but are sold only for 1-2 years at a time.

**Anand:** So just to understand it correctly, you are referring to the contracts which you still enter into and the profits will flow through from those contracts. You are not talking about any movies whose profits still have to flow in into the numbers for 2010.

**Ronnie:** It is about prospective further deals. However, let me be very clear, there is a not a single motion picture right since last 50

years that has not been immediately exploited. So if your question is, whether we don't have the contracts for future sale- it doesn't need to be because the key aspect of being able to address deferred revenue is that we would look at the market price of these and we can only go up from here, not down because this is the base, rock bottom. So, as soon as the rights finish at the end of one year, it is absolutely natural for us to renew these rights automatically with channels. And there has not been a single movies in last 50 years whose rights have remained in limbo for 6 months with no channel buying it.

**Anand:**

Just two more things on the accounting side- One, what is this deferred tax being created, what is it for? Number two, on your amortization policy, I guess earlier it was 60:40, now has it been changed to 60 and 10% then near all?

**Ronnie:**

Yeah, let me take the second question first. The accounting policy has not changed. It has been that way since the inception, which is 60% and 40% equally over 4 years. So I think we just articulated at 60, 10, 10, 10, and 10. So, absolutely nothing has changed. And on your first point on deferred tax, since this year we have consolidated the broadcasting business and they have an operating loss. And because we have full visibility of profits, for example, in our movies channels in that subsidiary then as per the accounting norms we have to recognize deferred tax.

**Anand:**

And just want to know your comments on this stake sale by promoter to listed entity at 30 crores valuation for broadcasting. I mean, is it right to say that since Disney has paid higher numbers, that is a prudent valuation or there would be any other cases also to justify that valuation?

**Ronnie:**

Yes, two things! One, Disney did put in the investment at 800 crores. Second, therefore UTV was to claw up, it should be at much more favorable terms from their perspective and it has been. And thirdly, the independent Board has looked at Ernst & Young valuation that was stable there and the independent Boards along with Disney resolved that, that was a fair price to take this transaction forward.

**Anand:**

Ok. Thanks. Thanks so much.

**Moderator:**

Thank you Mr. Gupta. The next question is from the line of Mr. Siddharth Goenka of JM Financial. Please go ahead.

**Siddharth:**

Good morning, thank you for taking my question. Lot of my queries have already been answered in the press release which we appreciate, I still have couple of more queries. Number one, I would like to know what will be the status of the present standoff between the Producers and the Multiplex Operators and what could be the possible outcome on the same? And number two that you will be releasing some movie titles in single screens probably on 1st of May. What reviews are we expecting from those movies and will there be any cost written off against revenues?

**Ronnie:**

I will try to be brief in that because I do believe neither of these two will affect the profitability of the fortunes of our company in this financial year. Number one, as far as the festival that we are looking at, there will be no profit or loss of any significant nature at all. It is just a very strong symbolic support for single screens, which we will need to look at when we look at some of our releases as we go forward. Outside of that, we are spending no cost at all on it so I think if anything happens and if it is favorable then we will examine that process. And third, for us it was an extremely strong opportunity to establish the brand of UTV because normally in movies it goes title by title. But over a period of time since now, given us an opportunity where it is UTV festival and people can have a recall when they go in and out of screens that almost all the good movies for this year they are watching are UTV movies so it has really been that part. Second, when we are looking at, what was your first question?

**Siddharth:**

The standoff between the producers...?

**Ronnie:**

There are too many minds involved for me to give you an independent comment. All I can say is please don't follow what is said in the media because there is a lot of posturing as far as that is concerned. The core issue is never 50% or the 48%. There are many more aspects of that. I think the integral part of the key dispute is that today as a producer if I want to release some movie is almost like I have to release it in every single theatre because the multiplexes have gone together in the last 2 years. So for example, when we released movie like *Dev D*, our marketing and distribution strategy allowed us to really release 100 prints and then go to 200 prints. But we couldn't do that and we had to release 200 prints together. Now the movie worked successfully but if it hadn't, it would have been an additional cost. So the key is that the ability for every producer to deal with every chain and select how many prints they want to go, is for example much more important business aspect than the 50% or 48%. Having said that, I think it would take a little bit of time and it is difficult to answer how long it will take because when breakthroughs happen, they happen in 24 hours and when they don't they don't happen for long. It would be safe to assume that this quarter has been written off for everybody because even if a settlement were to be reached orally within next 15 days, it would take another 15 days to document it because nobody is going to do it on an oral basis anymore. And then, it would take at least 6 weeks after that for promotions of movies to start before the movies can see itself on the screen.

**Siddharth:**

But don't you think from Q2 onwards there will be lot of movies released by the producers also. So there will be lot of crowd in terms of movies...?

**Ronnie:**

There have always been crowds, I can tell you that clearly. Last year was the most crowded year in motion picture release because so many of these movies were just made

because they thought somebody can buy and somebody can sell. Infact this year you will find that and I said that clearly in many forums that 30-40% of the movies are not going to get released. So if you look at the actual queuing, it is less than last year, number one. And number two, by default it is not very different because even if the flash strike was not on, because of the IPL followed by 20:20, the May-June period would not have been one where anyone would have taken major release out in the first place.

**Siddharth:**

Ok, appreciated. Thank you so much. That's it from my side. Thanks.

**Ronnie:**

Thank you.

**Moderator:**

Thank you Mr. Goenka. The next question is from the line of Mr. Saurabh Gurnurkar of Kotak Securities. Please go ahead.

**Saurabh:**

Good morning to the management. Firstly, thank you for the detailed investor release, it has been quite informative. I have two questions Ronnie, first in your broadcasting business I think you have made around 90 crores revenues for the year. Could you please tell me what is the proportion of pay revenues in this 90 crores?

**Ronnie:**

About 13 out of 90 is pay revenues.

**Saurabh:**

And has this significantly picked up in the last quarter?

**Ronnie:**

Yes it has. So if you were looking at an overall jump in that I think our next year ratio will be 70:30, 70 advertising and 30 pay.

**Saurabh:**

That's good. And your gaming business, you have billed revenues of around Rs. 40 crores for the quarter and Rs. 110 crores for the year. Where do you see this in terms of potential, let's say in couple years from now?

**Ronnie:**

I think again it has been articulated very clearly in that note that we would be quite disappointed if we don't see this as at least a \$200 million business because basically this year is not a year as True Games is a complete startup. Our platforms and all our online games launched till the end of this year and into next year. And all our 3 major IPs in Ignition are all launched next year. So if we have made what I would say cumulatively \$60 million investments in 3 IPs, you can draw conclusions about what the base revenue on that could be as you go forward.

**Saurabh:**

When you say next year, you mean calendar year 2010...?

**Ronnie:**

That is correct. Having said that, we will record growth on our publishing, other businesses and India Games which continues to record very good growth. So, we will see growth this year, this year meaning '09-'10 from '08-'09 in terms of gaming. And 2 out of the 3 of our investments should be profitable i.e.

- India Games and Ignition but True Games will be in investment mode.
- Saurabh:** So basically larger impact will probably be more visible in FY'11?
- Ronnie:** Substantially larger impact will be there.
- Saurabh:** And just another question, what is the tax rate which you are looking at for next year which is FY'10?
- Ronnie:** FY'10 I think it would be a little over MAT.
- Saurabh:** This is because of broadcasting?
- Ronnie:** That is correct.
- Saurabh:** Thank you Ronnie, if there is anything else I will come back again.
- Moderator:** Thank you. The next question is from the line of Ms. Madhuchanda Dey of Kotak Securities. Please go ahead.
- Madhuchanda:** First I have a general question and then a housekeeping question. I will start with a housekeeping one. You could bring me the breakup between the 3 verticals in your gaming business for the quarter and for the year and if possible the EBIT?
- Amit:** For Ignition, which is a console gaming company, we have approximately Rs. 70 crores for the whole year for revenue...
- Madhuchanda:** And for the quarter?
- Amit:** For the quarter it would be around Rs. 30 crores and for India Games it's the balance.
- Ronnie:** There is no revenue yet from True Games.
- Amit:** From True Games, yeah.
- Ronnie:** On EBIT level, True Games will contribute loss.
- Madhuchanda:** Because you might have incurred some startup cost, right?
- Amit:** Yeah absolutely.
- Ronnie:** Yeah, all startup costs.
- Madhuchanda:** And if you could give me the EBIT breakup between Ignition and India Games for the quarter and the year?
- Amit:** I think as far as EBIT is concerned, we have marginal loss for the quarter in Ignition and approximately 10% margins in India Games.

- Madhuchanda:** My next question is to Mr. Screwvala. If you could give us some broad color on the revenue outlook for FY'10 and increased traction, for which you had given a kind of a so-called equal contribution from the verticals. But obviously for the environment and for the startups we are nowhere there. Could you please give us some guidance in these 2 aspects for FY'10?
- Ronnie:** Sure. I think, I would say we are pretty much on track with that. The only variation would be that where I had projected gaming would be almost equal contributors to movies. It will move into the next year primarily because our major 3 IPs are all in '10 and '11. But besides that, I think from the balance of revenues, proportions may not be significantly different this year (which is '09-'10). Except for the fact that broadcasting will obviously grow to a certain extent but it won't get significant percentage growth in that context to the whole mix because there is growth in movies this year as well. So, I think the mix ratio won't be very different: you can take a 5%-7% plus or minus in each of the segment. The only one where there will be variation, will be gaming which will go higher. But '10-'11, I think whatever we have articulated in the past, is pretty much what we are looking at, which is the two equal growths in terms of percentages would be movies and gaming with a strong third in broadcasting. Television content has always been there. It's not going to grow exponentially, it will grow incrementally. And in new media, the business and the value that we have created is huge but it is not necessarily a very top line driven business.
- Madhuchanda:** This year you are about 22% in television, 46% in movies, interactive 18%, new media 3% plus broadcasting. Where do you see this mix broadly in FY'10?
- Ronnie:** I would say, as I said broadcasting can go from 14 to 16-17-18%, television would constitute about 20%, and gaming may go to about 20-23%. New media will be in that 2-3% range and therefore movies would be between 40-45%.
- Madhuchanda:** But the dependence on movies will be still be there significantly in FY'10 and in terms of overall revenue, what kind of growth are you internally looking at?
- Ronnie:** 40-50%.
- Madhuchanda:** 40-50%, I mean same as this year but on the margins outlook if you could...?
- Ronnie:** On the margins outlook, I think we have been very candid on our note on many aspects. Number one-television, I think the margin notes have been very clearly articulated in our note.
- Madhuchanda:** Yeah, right.
- Ronnie:** I would go with those guidances from our perspective because I think very clearly in terms of where we want to go. In gaming we are in the investment mode, in broadcasting we

will be in that context. In gaming (one of our verticals/subsidiaries etc) I think we have quite clearly articulated that.

**Madhuchanda:**

Just one small question. When you have given this kind of guidance in the note, what kind of advertising growth outlook have you factored in? Have you factored in the kind of, I mean if you could just give a sense of that?

**Ronnie:**

Madame, one thing is very clear that you need to understand is that unlike most of the other media companies, for example almost all the big majors which are broadcasting verticals, 70% of their revenues comes from advertising. For us, not more than 17-18% of our overall revenue comes from advertising revenue, either in our broadcasting vertical or in our airtime sales vertical. So, if you look at the sensitivity of advertising, we are not that clearly concerned with that. Secondly where we do deal, there are 2 aspects, one is in our airtime sales business in the South where Sun is a very dominant player. So there will be no shrinkage in that opportunity at all because of the platform we are on. And on the broadcasting, we are seeing growth because our first year was such a low base that our growth bucks the industry slowdown, bucks the trend on the industry slowdown.

**Madhuchanda:**

Sir, just one last question. To what extent do you think if suppose there is a backing in the recovery in the second half, will there be an upside to whatever estimates you have given?

**Ronnie:**

I think the only real good news will come into our syndication and deferred revenue model in terms of our motion picture realization and revenues which otherwise we would have taken on deferred basis, may come much more on cash basis. But outside of that I think I do not see the significant downside and therefore it will be fair for us to assume that we don't see any significant upsides. Our gaming verticals are all in very competitive environments where even if there is an upswing, it is not going to make a difference plus we are launching them next year etc.

**Madhuchanda:**

Ok. Thanks a lot.

**Ronnie:**

Thank you.

**Moderator:**

Thank you Ms. Dey. For the benefit of participants who have joined in late, you may press "\*" and "1" to ask the question. The next question is from the line of *Ms. Tanu Kejriwal of Quantum*. Please go ahead.

**Tanu:**

Hello.

**Ronnie:**

Hi.

**Tanu:**

Hi Ronnie. My first question is on the movies part. You have booked Rs. 276 odd crores consolidated for the entire year. Could you tell me how much would we be accruing from this year's release and anything that you have booked from the library?

- Ronnie:** Broadly, and I could be off 10 crores here and there, you can do an offline with our team but I would say broadly out of that, about 160-170 crores is from this year's release and the rest comes from the various aspects of what we are looking at.
- Tanu:** Alright. And in your note you have spoken about *Namesake* contributing to revenues in Q1 on FY '09-'10. Just wanted to understand, *Namesake* has already been aired on *Star Movies* couple of times so I was assuming that you know that the revenues that have already started flowing. So how does it work? Is there still a time gap in terms of when it comes on air and you know when you get your money back?
- Ronnie:** Yeah, as I said *Namesake*, *Happening*, these are inconsequential territories of India. *Star Movies* is a part of *News Corp. Fox Group* and they have a different priority layout. The revenue comes from 165 networks all over the world and majority of them from the US, specifically on *HBO*. So, those cycles work very differently to a *News Corp/Fox* subsidiary or sister company on telecast. Even if *Star* would have recorded revenue for *Namesake*, it will be insignificant, especially the India footprint.
- Tanu:** But in India if you have a movie which is, let's say, on Colors which is what we have seen, we can assume that money has already come to you?
- Ronnie:** Yes, of course, yeah. Let me again clarify now that I have understood the question little bit more. It wouldn't be received in the general pool with *Fox* but when they are looking at the overall pie, there is revenue coming from multiple sources including home videos. So, I think that the difference that they are queuing it is because we are the first person contact as far as *Namesake* is concerned. All revenues first go to Fox and from Fox they come to us.
- Tanu:** And broadcasting, all the channels are pay if I am not wrong?
- Ronnie:** All the channels are pay from day 1.
- Tanu:** And one last question from my side. This is on True Games which is purely an online gaming platform, right?
- Ronnie:** Correct.
- Tanu:** Now I just wanted to know how big a role would piracy play here and what is the size of the online gaming market if you could put the number to that?
- Ronnie:** Absolutely zero piracy! Again I hope you do realize that True Games is operating in the territory in US. There is absolutely zero concept of piracy in terms of games on the online gaming model that we have. We are not a subscription model there. Basically, everyone enters and plays free and after that they have to start paying per transaction. So the question of piracy doesn't arise because of the simple reason that they are

buying a sword or they are buying a life or they are buying a tyre or buying whatever depending on the game. So, there is no question of being able to pirate or hack into getting a sword back in an online game. As compared to the subscription model where there could be a concept for hacking but that's non-existent for this model. Second and other form of revenues there are that outside of US. Everywhere else in the world we are selling and syndicating the content in partnership with various platforms except may be with the sole exception of a small market which we consider to be an interesting market, which is Turkey. And third is your answer on the broad spectrum, again I think I have noticed China and Taiwan. Those are the two best markets that did not get infiltrated with console gaming and are the best example for you all to see the scalability models. When they launch a game in China, there are 1.8 million subs logging on a MMORPG model. Our benchmark for our first game is launch quantity of about 10,000 that goes on a peak level at the end to 40,000. So that will give you the sort of gap, the headroom, the scope that we are looking at.

**Tanu:** Ok sir. Just to understand correctly, you are saying for online gaming in the US, if I am there I can login and play free and so that's why there is no question of piracy?

**Ronnie:** You will login and play free but as soon as you enter the game and start playing, the minute you are dead, you have to buy a life. So, that's our revenue model. It is not an advertising model, it is not a free model that is what is called multiple game players where you are coming and within 2 minutes you have to start swiping your credit card to keep playing the game.

**Tanu:** Ok. Alright thanks. Thanks so much Ronnie.

**Ronnie:** Thank you.

**Moderator:** Thank you Ms. Kejriwal. The next question is a follow-up question from the line of *Mr. Anand Gupta of SBI Mutual Fund*. Please go ahead.

**Anand:** Yeah, on gaming vertical there was 13 crores loss in '09 at EBIT level. For Ignition, all cost will be capitalized, it's a property development. So, this loss is from India Games and True Games. I mean India Games also doesn't make money at EBIT level for the full year basis. Is that correct?

**Ronnie:** The answer is no that is not correct. So let me clarify that. Number one, India Games, at an EBIT level would be break even and little bit profitable. Having said that, the mobile business is extremely profitable but they are reinvesting and we have reinvested all our profits made from my mobile which is a mature business for India Games into our GOD online game platform. So, on a consolidated basis for India Games you are seeing a break even on marginal profits primarily because a fair amount has gone into marketing, call-centers and all other aspects needed to acquire subscriber base.

True Games, yes contributes to it because all the startup cost with expense to the extent that they need to be expanded.

**Anand:** What will that be True Games costs I mean broadly?

**Ronnie:** Annually on an EBIT level, about a million dollars so about 4.5-5 crores would be the True Games contribution to the loss that you are talking about. And the balance will come from Ignition where actual IPs creation goes to the Balance Sheet but there is a lot more in terms of development cost, staff cost that would get expensed on an annualized basis. Secondly, for our publishing activities we expect everything off in the same year.

**Anand:** Given that Ignition launch is sometime away, is it that gaming vertical for going forward for next 2 quarters will remain in losses at EBIT levels?

**Ronnie:** For the whole year it will not remain as a loss, it will remain as a profit for the next quarter only. For Q1 of this financial year, it will be at a loss.

**Anand:** Ok. Thank you.

**Moderator:** Thank you. The next question is from the line of *Mr. Ram Patnaik* of *Religare*. Please go ahead.

**Ram:** Good morning sir. Just wanted to understand that in FY'09-'10 we don't have any income coming from these 2-3 games being developed at Ignition. You are saying that it will go to FY'11, is it right?

**Ronnie:** That is absolutely correct. But we will get income from India Games which is slated to grow substantially from last year. We will get profits from Ignition, from the launch of all our publishing games which could be as low as 6-7 but may be up to 12-13 games in the year. And it will come from a certain amount from True Games which will have launched its platform with first of our 3 games by Q2 and Q3 of this year.

**Ram:** In terms of size, it will be much smaller compared to your IP that you are going to develop?

**Ronnie:** It will be substantially more than this year but it will be still much less than when we start releasing a full form Ignition and True Games in the year after that.

**Ram:** And what kind of an overall revenue growth you are expecting in FY'10?

**Ronnie:** You mean '09-'10?

**Ram:** Yeah.

**Ronnie:** I think the lady before asked that question and I said the range was between 40 - 50% in terms of our overall revenue growth.

- Ram:** Ok, fine. Thank you.
- Moderator:** Thank you. The next question is from the line of *Mr. Mayur Parkeria of Wealth Managers, Pune*. Please go ahead.
- Mayur:** Good morning sir, and thank you for a very detailed release. Sir, I just have 2 questions in terms of when you started the year way back in April '08, we had a growth outlook of 80-90% growth on the top line. Where do you see in-between, I understand that movies have been definitely a lower growth but where do you think we have not been able to reach the target growth and how do you see in the same light FY'10?
- Ronnie:** Yes, I think that's a fair question and I think the slippages have been in 2 areas: the release of our IP games and in a sense we are quite happy that we are releasing it not in the time at which the market is feeling the most pressure. These are expensive games that will be retailed at USD 59.99 in the States and about 59 Euros in Europe and almost at about \$80 equivalent in Yen in Japan. So in a sense, I think it is good for us to have taken little bit more time on the games but that is really the overall deferment on one side. The second would be the deferred revenue that has kicked into movies because otherwise you would have seen the revenue recognition very differently. Now it is going to be spread over little bit longer period of time. So, I would say in 24 months cycle, we will be pretty much where we set out to be. But on a 12 months cycle, it would look a little bit more distant.
- Mayur:** Sir, can you throw some light on the revenue accrual for *Taare Zameen Par* and *I Think I Love My Wife*? Those were some of the other things for which I actually did not find any information on the release?
- Ronnie:** Yes, if you could mail our IR team, they can give it to you offline. *Taare Zameen Par* is very much in there. For *I Think I Love My Wife* there has been no revenue till date. It will be booked in future years because from home video and going into television there has been a little bit more time lag that *Fox* has informed us about.
- Mayur:** Sir, my last question is on the investment side. Sir, we had earlier indicated that on the movies side Rs. 750-800 crores would be a very reasonable and a good capital to be invested and then it will be more on the rotation side. And on the game side also you are looking at \$75 million so that's Rs. 350-360 crores which we have already reached. But the earnings release broadly still talks about that we will be in an investment mode for T1 FY'10. Now sir, where do we understand this that why would so much of investments still required and where do we see the optimum capital investment going?
- Ronnie:** Sure, I think my first answer kind of answered this but it is an absolutely astute observation and let me answer it very specifically. We do see Rs. 800 as the absolute capital employed for movies. I think the 800 going to 900-950 will

only be primarily because revenues that would have flown in from satellite proceeds and have got rotated are now deferred. It is not like we accelerated up late in any form or increased our investments. Infact, overall cost for the movie making part has come down. In the gaming part again, if one out of our 3 games had released in September to December quarter this year for example then you would have seen that the peak cash flow would have come down. So, I think what we are articulating is peak cash flow from that perspective and these two would add the sensitivity to the gaming. We are not in any investment mode in India Games and in True Games there are cash flow investments. The investment mode is more because the platform has to be released and our investments have to pay off in terms of margins. So, there is no significant investment at all in True Games and none in India Games. And Ignition is not different because for the 3 IPs, some of the cash flow that would have flown in from one of the releases this one to next year have now come in all of next year.

**Mayur:**

Sir one last thing, is our stake in India Games about 80%?

**Ronnie:**

No, our stake in Ignition is 70% and that will get clawed up as we have communicated in the past. It will go up and it is traded to go up. And the investments have always been made it is just a question of conversion. Our investment in True Games is 80% and in India Games is 56%.

**Mayur:**

Thank you sir very much.

**Ronnie:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of *Mr. Bhushan Gajaria of IDFC-SSKI*. Please go ahead. *Mr. Nikhil Vora - IDFC-SSKI*

**Nikhil:**

Hi, this is Nikhil Vora here. Sir just one question, you have signaled your intent to increase your stake in UTVi to 49%. Just wanted to understand the logic of doing the same when on the parallel basis we are trying to reduce losses across all the niche broadcast that we are already in right now. Wouldn't that take up the losses of the entire broadcast operation again significantly higher and what's the rationale of taking it to 49?

**Ronnie:**

Two things, while we are completely and fully invested in the entertainment segment of broadcasting, this is still under Board review. So, I think we have communicated last time also there has been an in principal approval but it is not final, plus we need a lot more of regulatory approvals. So, it is not a done deal under any circumstances at this point in time, the news investment part. The second is overall if you see in broadcasting, the idea has never been necessarily to cut our losses. I think we are pretty much on track to where we want to get. Our growth model has been there in our 4 entertainment channels and I think we will try quite articulately to explain why we believe we have a very good

model when it comes to the 4 entertainment channels in broadcasting.

Sir, when you look at the news network and I know right now in last one year everyone will look at it differently and specifically since the entire financial market, the banking market, insurance market is under most pressure and therefore not in brand building mode. Actually, even if you look at the fixed cost of a news channel, we have pretty much made those investments in the first year. So, in many aspects by the time UTV finally (if it were to) makes the investments upto 49%, will be coming in year and half down the line into the channel. Most of the capital investments have already been made, the running cost would be tight, and the incremental part of cost going up after the channel is running in a non-fiction space which is studio based programming is very low incrementally. And as the revenues kick in, we see that actually the turnaround model at a base level for our cost is quite good. So, in the 5 channel environment also, we are quite comfortable that we would not skew any balances because we are very cognizant about the fact that '10-'11, we really don't want to be in sort of investment mode in any...

**Nikhil:**

So right now it is not really only a decided option?

**Ronnie:**

It is not a consummated option. While it is in principle decided it is still not a consummated option and obviously it is subject to a lot of regulatory approvals.

**Nikhil:**

Ok. Thanks a lot.

**Moderator:**

Thank you Mr. Gajaria. Participants who have a question may press "\*" and "1" on their touchtone phone. Ladies and gentlemen if you have a question you may press "\*" and "1" on your touchtone phone.

**Amit:**

Can we have one last question please?

**Moderator:**

Yes sir. The last question is from the line of *Mr. Harish Zaveri of Deutsche Bank*. Please go ahead.

**Harish:**

Hi! Ronnie first of all congratulations. It was fairly heartening to see your write-ups with the biggies in the multiplex issue. I thought it was a fairly difficult industry for you to breakthrough, for any corporate to breakthrough in the film industry in the first place. The question was basically on delivery vehicles because if NDTV Imagine and 9X are struggling the way they are with the costs, and today you are getting 15 crores for your movie when you sell the satellite rights. Is there a chance that just like carriage fees go off, the revenues that you can get from content that also comes of a little because there ain't many delivery vehicles which have survived this one year. Is that the possibility?

**Ronnie:**

No actually you have to look at it very differently. The entire revenue model, I mean when we had, firstly movies in the last 3 years has gone from single revenue form of box office to 5

main revenue forms and in those 5 revenue forms when we have a line item and we make our feasibility sheet is gone up to about 95 different revenue forms. So when we are looking at broadcasting, we slice and dice it, we sell territories for \$100,000 to Germany, France, Poland, Ukraine, Russia which is never been there before. The 26 countries to which we were selling movies to a year back, this year some of our movies, it will touch 45 countries on 1-2 of the movies in that context. So we are growing those markets. Specifically on the Indian territories, because obviously that's the bulk of the flow and the market expands. I mean there are kid's channels that want some of our movies which are comedy oriented or a sports movie like 'Goal'. So those markets are expanding. When we went into the business we were not really looking at GEC, being the only one buying it from that perspective. I think if we were to sell to 7 channels then our rates would have to be lesser because we are sharing it over 7. If we finally sell to 4 our rates would get higher because then we are attaching weightage to more exclusivity. And that's how the channels also understand it and that's how we understand it. So if you are selling to 7 the rates will be different but if you are narrowing down to 4, people are willing to pay for that. Infact broadcasters today would like to go back to an exclusive model if they could but they are also finding it that they can buy more properties and more movies for lesser price. So it has evolved as a pretty interesting model, I can't today with my hand on my heart say it is a win-win model because it is a new one and has to evolve and people have to find the right base for the pricing and the windows but by and large it is a very positive move.

**Harish:**

Fair enough. Thanks.

**Moderator:**

Thank you Mr. Zaveri. Ladies and gentlemen that is the last question of the day. I would now like to hand the floor back to Mr. Mihir Shah for closing comments.

**Mihir:**

Thanks to all the participants for being on the call and thanks to the management for giving us the opportunity to host the call. Wish you all, all the very best for the coming quarters.

**Ronnie:**

Thank you.

**Moderator:**

Thank you gentlemen of the management, thank you Mr. Shah. Ladies and gentlemen on behalf of *Prabhudas Lilladher* that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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**Note:**

This document has been edited to improve readability