

Management's discussion and analysis

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Financial and operating review, 2004-05

Total shareholders' return

Balaji Telefilms strengthened its Total Shareholders' Return (TSR) to 52.26 per cent in 2004-05. TSR reflected the gain delivered to the shareholders by the Company - directly and indirectly (directly in the form of the dividend received by them; indirectly in the form of the capital appreciation registered by the stock during the financial year under review).

TSR was derived from the subtraction of the year-start market capitalisation from the year-end market capitalisation, its subsequent addition to the dividend payout during the year, and the division of the subsequent figure by the opening market capitalisation.

The increase was largely influenced by the record dividend payout of Rs 8243 lacs during 2004-05, one of the highest payouts relative to the Company's equity capital.

Revenues

The Company's operational income increased 10.35% from Rs 17830 lacs in 2003-04 to Rs 19675 lacs in 2004-05, largely on account of the launch of 14 new programmes across various channels. The Company also generated Rs 109 lacs in revenues from the export of content to UAE and USA.

The revenue-wise distribution between commissioned and sponsored programming in 2004-05 is as follows:

Programming	Rs / lacs	
	2004-05	2003-04
Commissioned	16481.98	14530.03
Sponsored	3083.87	3257.77

The channel wise revenue for the year 2004-05 is as follows:

Channels	Rs / lacs	
	2004-05	2003-04
Star, Sony, Zoom, MTV and Hungama	16481.98	14530.03
Sun TV	89.94	N.A.
Gemini TV	1580.02	2047.04
Udaya	830.43	1120.73
DD Network	284.25	90.00
Surya	298.83	N.A.

Gross block

The Company's gross block, marked by state-of-the-art equipment and infrastructure, represented its competitive edge. Gross block increased from Rs 4383 lacs in 2003-04 to Rs 5593 lacs in 2004-05 as the Company invested over Rs 1077 lacs in production / post-production equipment and new state-of-the-art studios. Owing to this higher investment, depreciation increased from Rs 774 lacs in 2003-04 to Rs 974 lacs in 2004-05.

Over the years, the Company invested in the following:

Captive sets: This enabled the Company to enrich its domain expertise, produce a variety of sets and ensure their availability within strict deadlines.

Captive equipment: This enabled the Company to de-risk itself from a dependence on vendor equipment with a captive investment in some of the most sophisticated equivalents (lights, sound recording and other technical equipment).

Captive post-production facilities: The Company invested in state-of-the-art post-production suites, which accelerated the conversion of recorded material into episodes and facilitated an ongoing review and improvement of shooting standards.

Overheads

In the production of entertainment software, a budgeting discipline at the Company has been responsible for a strict control on costs.

This budgeting comprises the following priorities:

Profit centre: Each programme is appraised across the creative and commercial filters covering the selection of artiste, location and other costs without compromising production values.

Project life cycle management: The Company's budgetary discipline covers shooting schedules, scene-wise artiste requirements, ongoing shooting progress and final product delivery to ensure timely and budgeted delivery.

Checks and balances: The Company's expenses are prudently covered by the budget so that any non-budgeted expense needs verification prior to sanction, an effective check and balance.

Audit: The Company's actual expenses are compared with the budget through a supervisory audit function, enabling deviations to be corrected in the shortest possible time.

Investments

As on 31st March 2005, the Company's investments amounted to Rs 11375 lacs. It invested its surplus funds in liquid and floating rate funds with the principal aim of safety, liquidity and returns. The market value of these investments was Rs 11530 lacs as on 31st March, 2005. The Company, as a matter of policy, did not invest in risk-based financial instruments.

Dividend

The Board of Directors considered an interim dividend of Rs 16 per share (of a face value of Rs 2 per share) as the final dividend for 2004-05. This worked out to an unprecedented 800 per cent dividend translating into a payout of Rs 8242.6 lacs.

Debtors

The Company's receivables increased from 83 days in 2003-04 to 99 days in 2004-05 (equivalent to days of income). As a policy of protecting its receivables, the Company worked only with credible customer channels with a strong revenue and business model.

Inventories

The Company's inventory of programmes increased from 15 days in 2003-04 to 44 days in 2004-05, largely due to the inventory of feature films, the income of which will transpire in 2005-06.

Loans and advances

Loans and advances increased from Rs 1207 lacs in 2003-04 to Rs 1745 lacs in 2004-05, comprising lease deposits for offices and studios.

Programming hours

The total hours of programming created by an entertainment content provider indicates its inherent capacity to create content as well as the market's capacity to absorb it.

In this respect, the Company reported a favourable 2004-05: It reversed the decline of the previous year with a 16 per cent increase in programming hours from 1486 in 2003-04 to 1720 in 2004-05.

This improvement was largely on account of the introduction of new programmes across channels like MTV, Zoom TV, Surya TV, Hungama and Star TV.

Programming mix

In the business of entertainment content, the Company created programmes for its customer channels under two broad agreements - sponsored and commissioned. From a risk management perspective, it would be relevant to understand the dynamics behind each:

Sponsored: The Company creates content but must recover the proceeds from advertisers, not the channel on which the programmes are telecast. As a result, the Company prudently assumes the risk of content creation and marketing. The Company buys telecast slots and in exchange receives free commercial time, which is then marketed to the advertiser. This is a variable revenue model: if the programme becomes popular, there is an attractive prospect for an upward rate revision.

Sponsored programming hours increased 18.2 per cent from 667 in 2003-04 to 789 in 2004-05; as a proportion of the Company's turnover it declined from 19 per cent in 2003-04 to 16 per cent in 2004-05; average realisations from these programmes declined by 20.04 per cent to Rs 3.91 lacs per hour.

Sponsored programmes in 2004-05 were:

- **KaarthikaDipam** (Gemini TV)
- **Kkalavaari Kkodulu** (Gemini TV)
- **Kanyadaana** (Udaya TV)
- **Kumkuma Bhagya** (Udaya TV)
- **Kadambari** (Udaya TV)
- **Kayamat** (Doordarshan)

■ **Kanavaru Kaaha** (Sun TV)

■ **Kavyanjali** (Surya TV)

Commissioned: The Company creates content at the behest of channel owners, assuming no risk in either its creation or its marketing. As a result, the content is created against a fee with the probability of rate revisions in the event of the programmes becoming successful (as measured by TRPs). These programmes represent an interesting balance between risk-neutrality and income-enhancement. Commissioned programming hours increased from 819 in 2003-04 to 931 in 2004-05; as a proportion of the Company's turnover it increased from 81 per cent in 2003-04 to 84 per cent in 2004-05; average realisations from these programmes declined marginally by 0.23 per cent to Rs 17.70 lacs per hour.

Commissioned programmes, 2004-05

- **Kyunki Saas Bhi Kabhi Bahu Thi** (Star Plus)
- **Kahaani Ghar Ghar Ki** (Star Plus)
- **Kasautii Zindagi Kay** (Star Plus)
- **K Street Pali Hill** (Star Plus)
- **Kahiin To Hoga** (Star Plus)
- **Kavyanjali** (Star Plus)
- **Kesar** (Star Plus)
- **Kkusum** (Sony TV)
- **Kaisa Ye Pyar Hai** (Sony TV)
- **Kyaa Kahein** (Zoom)
- **Kosmiic Chat** (Zoom)
- **Kaarthika Dipam** (Hungama)
- **Kitni Mast Hai Zindagi** (MTV)

Language wise programming matrix (in hours and revenue in Rs/lacs)

Language	2003-04		2004-05	
	Revenues	Programming Hours	Revenues	Programming Hours
□ Hindi	14620.03	834	16766.23	976
□ Telugu	2047.04	305.50	1580.02	277.50
□ Kannada	1120.73	346	830.43	298
□ Malayalam	-	-	298.83	112
□ Tamil	-	-	89.84	56
Total	17787.8	1485.50	19565.34	1719.50

Time bands

In the entertainment content business, it is not enough to report a significant number of programming hours; it is important to make

The programming distribution in 2004-05 was as follows:

Channels	2004-05	2003-04
Commissioned (hours)	931	819
Sponsored (hours)	789	667

Language mix

In the entertainment content business, it is critical to leverage an insight into compelling storytelling across different languages but within reasonably identical audience preferences.

Balaji has done so successfully over the last few years. While the Company is principally recognised as a Hindi entertainment content provider, it has gradually extended its expertise to more languages. In doing so, it has emerged as a truly national entertainment content provider. The number of non-Hindi languages increased to four in 2004-05 and the Company retained its position as one of the few multi-lingual production houses creating content in Hindi, Tamil, Telugu, Kannada and Malayalam. Hindi content was the Company's principal driver. Within it, Balaji focused on family-centric mass entertainment, which enjoyed the highest viewership and generated the highest revenue.

programmes for a time-slot where it will be viewed by the widest number of people leading to the highest TRP and the generation of the highest revenue.



In this respect Balaji has done remarkably well over the years: 85.71 per cent of its content was telecast on the evening prime time band - 7 pm to midnight - across its various customer satellite channels, showcasing its programmes for the most profitable exploitation of content.

The Company retained its position as the undisputed prime time leader accounting for 79 per cent of the aggregate TRP of the weekday prime time shows featuring in the top 100 Hindi cable and satellite shows.

When the Company's repeat programmes were telecast during the afternoon time-slots, it commanded 52 per cent of the total aggregate TRP of the weekday non-prime shows featuring in the top 100 Hindi C&S shows.

In 2005-06, the Company intends to enhance its exposure in unoccupied slots and weekend prime time programmes for leading satellite channels.

Channelwise programming mix (in hours and revenue in Rs/lacs)

Language	2003-04		2004-05	
	Revenues	Programming Hours	Revenues	Programming Hours
Major satellite channels	14530.03	819	16481.97	931
Doordarshan	90.00	15.00	284.25	45
Gemini TV	2047.04	305.50	1580.02	277.50
Udaya TV	1120.73	346	830.43	298
Surya TV	-	-	298.83	112
Sun TV	-	-	89.84	56
Total	17787.80	1485.50	19565.34	1719.50

Growth drivers

In a competitive business, the Company leveraged its insight into content creation capability with the objective to maximise financial returns through the following strategies:

Volume-value mix: The Company optimised its volume-value mix to maximise returns, reflected in its marketing of commercial slots at competitive rates to generate a superior return.

Channel-driving capabilities

In the entertainment content business, it is not enough to market content to channel customers; success is lasting when the Company's content becomes the driver of the success of its customer channels, making the Company integral to the sustainability of its customers.

This is precisely what the Company continued to demonstrate during 2004-05; its content accounted for a high audience retention across its customer channels, reflected in the Company's serials being the top TRP grossers for their respective channels.

Channel wise revenues

In the entertainment content business, success is defined by an ability to customise programmes for different channels and audiences. This is precisely what the Company has done over the years: produced programmes for Star Plus, Sony, Zee TV, Sahara, Gemini TV and Udaya TV. The Company's channel-wise revenues were as follows:

comprehensive production schedule was drawn out. Artiste requirements were scheduled, responsibilities allocated and equipment requirements slotted. Hiring, wherever needed, was done only from approved vendors at pre-negotiated volume-based rates, lower than the prevailing market benchmarks. Changes in vendor or artiste rates were effected only subsequent to a prior approval. Costumes were comprehensively coded and their use prudently rotated. Products that needed to be purchased were sourced directly from manufacturers, eliminating intermediaries. Since this arrangement was scalable, no fresh negotiations need to be conducted, enabling growth to happen smoothly and seamlessly.

Logistics management: To enhance time management efficiency, lights and equipment were located strategically and every professional was delegated clear responsibilities for effective co-ordination. Besides, lead times to delivery were managed and monitored from the script stage onwards, ensuring timely delivery.

Artiste and technician management: The Company announced its dates well in advance leading to the timely availability and attendance of its artistes and technicians.

Centralised purchase: The Company made it possible to procure all equipment, properties and consumables round-the-clock through a single point in-house store. This strategic business unit worked with the objective to reduce dependence on external vendors, provide material on time and generate savings through economies of scale.

Internal audit control

The Company strengthened its audit process during the year under review, possibly the only one of its kind in the Asian entertainment industry. Covering more than 15 units, the audit function translated into the following:

- The creation of the first tier of cost control
- The maintenance of a comprehensive log book comprising episodes, scenes, scene details, shoot duration, equipment utilisation, scenes per artiste, attendance report as well as reasons for time over-run or under-performance or non-utilisation of resources (if any). This led to the creation of a rich database that could be accessed for ongoing benchmarking
- The creation of a daily MIS report submitted to the senior management with a view to identify and prevent wasteful expenditure
- The creation of dockets to standardise all variable costs and analyse all variables
- A methodical hiring clearance system in which the production team documents a resource need which leads to an understanding of whether it is available in-house or needs to be outsourced

- The synchronisation of various production schedules to optimise the use of artistes, technicians and hired property
- The routing of material procurement, based on a quotation process from multiple vendors through the commercial department, results in transparent conscious vendor development

These initiatives translated into attractive savings through a rationalisation of people resources, an increase in equipment utilisation, greater inter-departmental co-ordination and a restructuring of the accounting role in line with the ABC analysis of their function.

Product evolution

Episode-based television content's biggest advantage over the film medium is that the product can be customised in line with viewer feedback derived through the following sources:

TRP ratings: This industry benchmark helps ascertain the quality of the Company's ongoing performance, inspiring corrective action wherever necessary.

Websites: The Company's website invites and generates audience feedback.

Fan clubs: The various fan clubs dedicated to the serials as well as programme actors provide valuable feedback.

Word of mouth: The Company's creative team actively seeks feedback from its circle of influence.

Competition: The Company studies competing content and their respective TRPs to assess audience requirements.

Human resource management

The Company has consistently believed in recruiting the best people in the business. Besides, this was reinforced through the following initiatives:

Transparency: A visible extrapolation between individual effort, team achievement and above-average remuneration.

Hands-on training: The induction of new recruits on to the production floor under supervisory guidance with ongoing appraisal.

Remuneration: A higher-than-industry average pay scale to attract the best talent.

Pride: A pride in belonging, strengthening retention.

