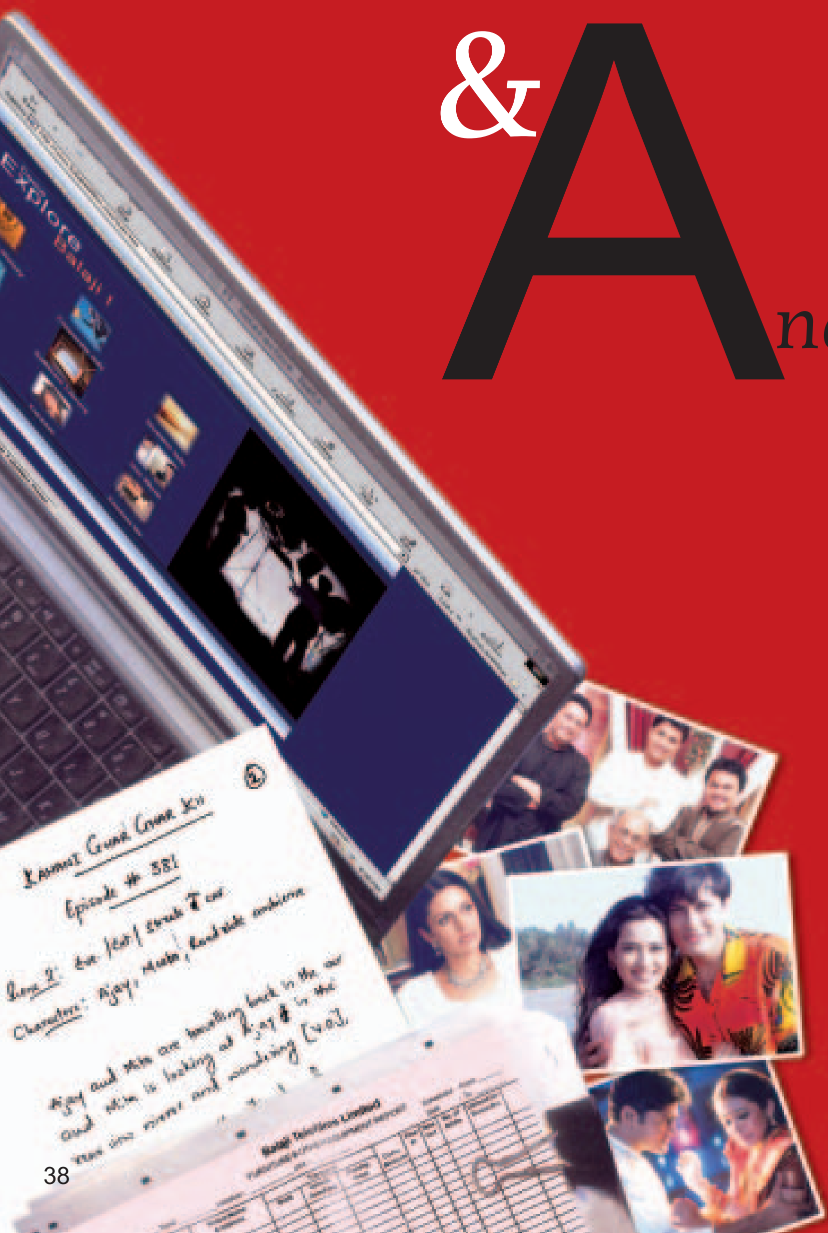
Management Discussion & Analysis



Nature Of Business

Balaji Telefilms Limited produces quality content for a number of popular channels in India. The company's programmes encompass the genres of family-based dramas, family thrillers, horror shows and children's fantasy programmes across the Hindi, Tamil, Telugu and Kannada languages. As on 31 March 2003, 13 of the company's 14 serials on air were daily in nature and nearly 56 per cent of its programmes were in Hindi.

2002-03 Vs. 2001-02

In 2002-03, Balaji Telefilms (also referred to as 'the company' in the copy) reported revenues of Rs 185.97 cr (Rs 110.30 cr in 2001-02), a 68.61 per cent increase. The company posted a profit after tax of Rs 57.41 cr in 2002-03 (Rs 29.01 cr in 2001-02), a 97.88 per cent increase. The company's net margin increased from 26.31 per cent in 2001-02 to 30.87 per cent in 2002-03.

Rationale For Presence

India is one of the largest markets for television content, partly by the virtue of being the second largest population in the world and partly due to the fact that the country has always been driven by the awe of the moving picture.

Balaji Telefilms is attractively positioned to capitalise on this vast market. In 2002-03, it produced 58.10 percent of its entertainment content in Hindi, the most widely spoken language in India. It enjoyed the number one status within this language segment, adequately supported by advertisers.

Within Hindi programming, Balaji prudently preferred to focus on mass entertainment, which enjoyed the highest viewership and generated the highest revenue. Since regional languages accounted for almost 40 percent of the country's viewership, the company increased its presence in this segment with a slew of vernacular programmes.

The Indian television industry went through its biggest expansion in the country's independent history through the Nineties as private companies were permitted for the first time to launch television channels, ending a State monopoly. As a result, by the turn of the millennium, the number of private channels had almost touched the three-figure mark and the television industry, estimated at Rs. 111 billion in 2002, is expected to grow to Rs. 292 billion by 2007, an adequate rationale for the company's sustained presence in it. (*Source: KPMG estimates*).

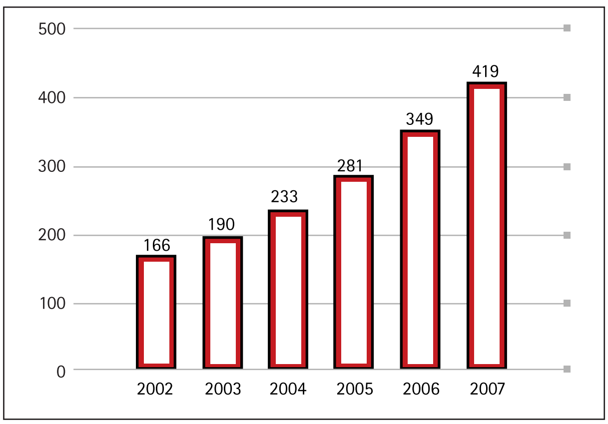
Category	Share of viewership (%)	Share of revenues (%)	ROI
Mass entertainment	46.80	57.40	1.2
Regional language	39.60	17.20	0.4
News	2.00	11.30	5.7
Hindi films	3.50	4.70	1.4
English entertainment	1.60	4.00	2.5
Sports	3.90	2.70	0.7
Infotainment / kids	1.80	1.60	0.9
Music channels	0.90	1.10	1.2
Total	100	100	1
Source: (TAM Analysis on all 4 +)	*TAM Peoplemeter Data*	*TAM TV ADEX*	

Industry Structure

1. The Indian entertainment industry

Entertainment represents one of the largest components of discretionary household expenditure in most developed markets. In India, the opposite is true: the media industry accounts for 1% of GDP as against 2.7% in the US. As a result, India's nascent market offers sustained growth opportunities into the long-term. The Indian entertainment industry - television, cinema, music, radio and live entertainment – was estimated at Rs 166 billion in 2002 and is expected to grow to Rs 419 billion by 2007.

Size of the entertainment industry (in billion)

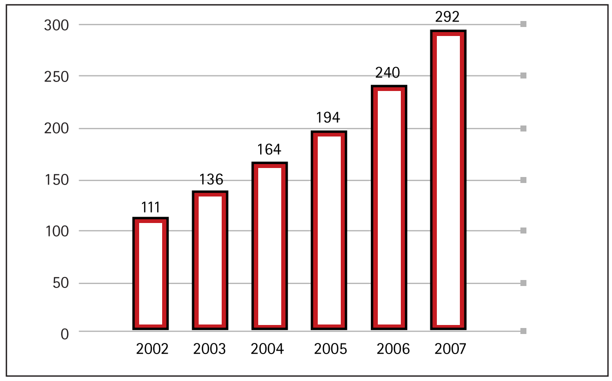


Source: KPMG estimates

1.1 Indian television industry

Television has emerged as the preferred mode of mass entertainment, catalysed by its increasing reach and the popularity of cable and satellite (C&S). The size of India's television market stood at Rs 111 billion in 2002, a growth of 17 per cent over the previous financial year. It accounted for 67 per cent of the revenues of the entertainment industry, one of the largest segments in the media sector. The Indian television industry is expected to grow at a CAGR of 21 per cent and achieve an annual revenue of Rs 292 billion by 2007.

The television industry comprises three segments: broadcasting, cable TV and television software.



Source: KPMG estimates

Balaji's Drivers Of Growth

Advertising and subscription revenues drive the television industry.

With increased reach and penetration of television into C&S households, it is likely to emerge as the preferred medium for advertising, resulting in an increase in the share of the electronic media - at the expense of the print media. The total advertisement expenditure as a per cent of the GDP ratio in India is currently at 0.4 per cent, which is quite low compared to the developed countries. The industry is confident of a robust growth in line with the growth of the economy.

Increase in subscription revenues will be driven by an increase in the cable and satellite penetration and the successful implementation of the Conditional Access System, whereby customers will pay for and receive only those channels that they wish to view.

The television software segment, which provides content to broadcasters, accounted for almost 14 per cent of the entertainment industry and almost 21 per cent of the Indian television industry. This segment is expected to grow at a CAGR of 9 per cent to achieve an annual revenue of Rs 35 billion by 2007.

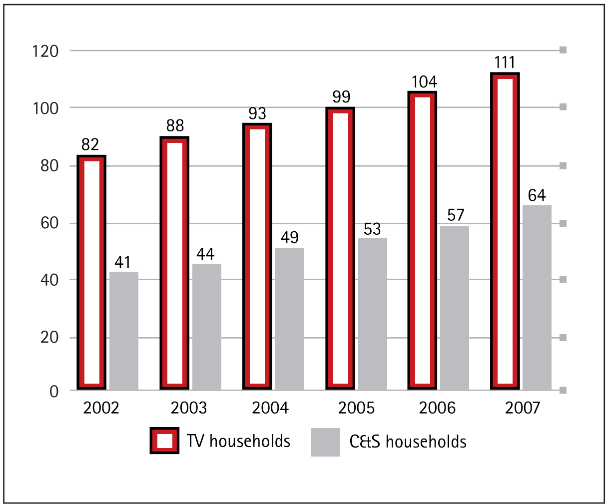
Indian Television Software Industry

Year	2002	2003	2004	2005	2006	2007
(in billion)	23	25	28	31	33	35

Source: KPMG estimates

A. Cable and Satellite penetration

Television connectivity stood at 82 million households at the close of 2002-03, accounting for almost 43 per cent of India's population. Cable and satellite (C&S) penetration increased from 0.4 million households in 1992 to 41 million at the close of 2002. At the same time, the average number of channels on air that a typical C&S household received enlarged from two in 1992 to over 100 in 2002-03. As a result, TV-owning households grew 9 per cent whereas C&S households grew by 17 per cent.



Source: KPMG estimates

As the gap between TV and C&S household remains significant (50 per cent) and the number of households with television sets continues to grow at around 10 per cent annually, the rapid growth in C&S is expected to continue. Balaji expects that the increased requirement for quality television software will drive viewership, advertising and subscription revenues, growing the television software segment in the process.

B. Rural penetration

C&S is no longer an urban phenomenon. With rural C&S penetration at 10 per cent, there is a huge opportunity for growth and conversion. An important determinant of C&S penetration in the rural areas is the growth of the colour TV market outside of metro locations. According to a National Council of Applied Economic Research (NCAER) survey, the penetration of colour television in rural areas is expected to increase from 48 per thousand in 1998-99 to an estimated 185 per thousand in 2006-7.

Parameter (in million)	All India	Urban	Rural
Total households	192	56	136
TV households	82	43	39
C&S households	41	27	13

Source: IRS, NRS, NCAER

C. Higher ad spend

The Indian advertising market has grown 18 per cent annually over the past decade, significantly outpacing the country's economic growth. Television has emerged as the medium of choice for advertisers, with an estimated reach of 350 million adults - substantially higher than that of the print media (250 million people) and low cost compared with other media (details given elsewhere in the report).

Television advertising increased from 17 per cent in 1992 to 42.5 per cent in 2002-03, serving as an important vehicle for brand building and market dominance among companies/products/services in various sectors. It is expected to grow 15-16% annually over the next five years. More importantly, the adspend on cable and satellite television will, in all probability, dominate and grow at around 18 per cent per annum.

To attract this huge adspend, television channels will need to compete with each other for quality TRP-generating programmes.

Ad spend and media distribution in India (Rs cr)

Year	Total ad spend	Growth rate %	Newspaper	%	TV	%	Radio	%	Cinema	%	Outdoor	%
2002-03	14740	20	7190	48.8	6264	42.5	368	2.5	32	0.2	884	6.0
2003-04	17688	20	8446	47.8	7673	43.4	531	3.0	39	0.2	999	5.7
2004-05	21225	20	9976	47	9261	43.6	743	3.5	47	0.2	1199	5.7
2005-06	25470	20	11716	46	11240	44.1	1019	4	56	0.2	1439	5.7

Source: KPMG estimates

As a result OF THE RISING DEMAND FOR quality content, the television entertainment software segment is EXPECTED TO REPORT AN impressive growth: FROM RS 23 BN IN 2002 TO RS 35 BN IN FIVE YEARS.

D. Increasing private channels

The phenomenal growth of private television channels in India – from two at the start of the Nineties to more than 90 in 2001 - has widened the market for television entertainment software. A fierce competition is expected to enhance Balaji's bargaining capacity, leading to stronger realisations. A TV channel's business model is entirely dependent on advertisement and subscription revenues, influenced by viewership and content quality. As a result, popular programmes help channels generate higher TRP, strong advertisers and higher revenues.

Channel Growth in India

TV and CS reach India	F1991	F1996	F2002	F2005E
Households (mn)	153	169	190	203
Television homes (mn)	25.0	45.7	80.3	95.6
Penetration (%)	6.4	27.1	42.3	47.2
C&S homes (mn)	0.2	15.6	40.0	53.0
C&S penetration (%)	0.8	34.1	49.9	55.8
Channels	3	44	110+	NA

C&S = Cable and satellite.

TV E = Morgan Stanley Research Estimates.

NA = Not available.

Source: Industry Data, Morgan Stanley Research.

E. Reach

Television enjoys the highest reach across all socio-economic stratas in India. It has emerged as the most effective mass communication medium especially in low-income households where its reach is higher than print, radio or cinema (shown in the table below). As a result, the growth rate in the television segment is higher than any other media. This reach is expected to enhance, making the medium more attractive for advertisers.

Media reach: Socio-economic segments (%)

Household Category	Print	TV	C&S	TV Cinema	Radio
A1	88	93	62	29	20
A2	80	89	54	27	21
B1/B2	69	85	45	27	21
C	54	77	34	26	20
D	35	63	23	24	21
E	18	45	13	19	20

Media reach: Urban, rural (%)

Media Reach	Press	TV	Cinema	Radio
Urban	62.0	80.3	35.3	25.7
Rural	28.8	41.6	21.6	29.2
Total	38.6	52.6	25.6	28.2

Source: ETIG, Morgan Stanley Research

F. Low cost

Television offers advertisers the lowest cost of reach, making it highly attractive for advertisers. More importantly, since television is the cheapest form of entertainment for any household in the country, the time spent in watching it continues to increase, especially in the low-income category (shown in the table below). Significant technology improvements, coupled with low-cost mass reach, will always make the television the preferred advertiser's vehicle over competing media.

Cost of entertainment in India

Amount a user pays	(Rs)
DVD rental	125
VCD rental	30-80
Movie ticket in a metro area for three hours	25-150
Music cassette	25-125
24-hour TV w/>100 channels per month	200

Source: Morgan Stanley Research

G. Conditional Access System (CAS)

Emerging distribution platforms like Direct-to-Home (DTH) and CAS are expected to provide Balaji Telefilms with an excellent opportunity to exploit its software library. The Government of India has approved the use of the Conditional Access System, whereby viewers can install a set-top box and select the channel of their choice. Result: satellite channels will need to provide quality programmes and are expected to increasingly commission content providers like Balaji to attract or retain viewers. The company is optimistic in this regard: over the years, it has emerged as a channel driver and it expects to leverage this record to build revenues over the foreseeable future.

Outlook

As a result of the rising demand for quality content, the television entertainment software segment is expected to report an impressive growth: from Rs 23 billion in 2002 to Rs 35 billion in 2007. Interestingly, exports are expected to rise, while the increased retention of intellectual property rights by content producers is likely to enrich valuable libraries.

Balaji's Leadership

In 2002-03, the company emerged as the undisputed leader in the production of television serials by controlling a 48 per cent of the total aggregate TRP of the top 150 Hindi C&S shows and the number one position in weekday entertainment.

Balaji dominated the family drama and thriller genres with a 56 per cent and 73 per cent market share respectively.

Thanks to this strong presence, Balaji sustained its position as the India's dominant weekday prime time entertainment provider with a 72 per cent share of the total aggregate TRP of weekday prime time shows featuring in the top 150 Hindi C&S Shows. The company enjoys a 31 per cent share of the aggregate TRP for weekday non-prime time slots featuring in the top 150 Hindi C&S shows, despite no original programmes being telecast in these slots.

This competence rubbed off on the company's ability to provide compelling weekend entertainment. As a result, it emerged as the principal player in the weekend prime time slot with a 12 per cent share of total aggregate TRP for weekend prime time slots (featuring in the top 150 Hindi C&S shows) and a market share of 8 per cent of the total aggregate TRP for the weekend non-prime time slots (featuring in the top 150 Hindi C&S shows).

Weekday domination	Balaji's share*
Prime time	72 per cent
Non-prime time	31 per cent

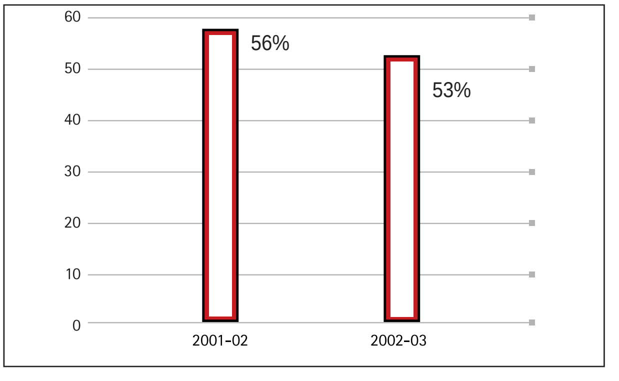
**Balaji serial TRP as a per cent of aggregate TRP across leading entertainment channels*

Weekend domination	Balaji's share*
Prime time	12 per cent
Non-prime time	8 per cent

**Balaji serial TRP as a per cent of aggregate TRP across leading entertainment channels*

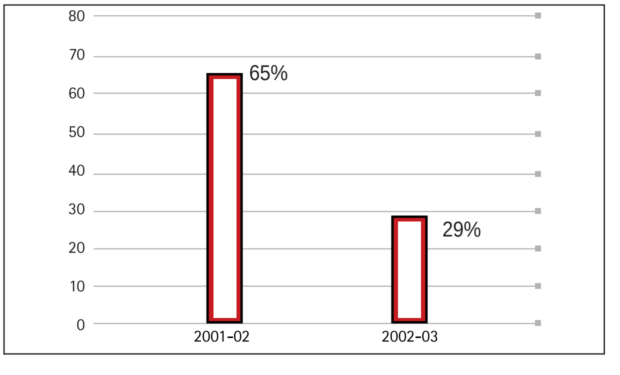
Success ratio - Prime time (8-11.30 pm)

Balaji's share of prime time shows from the top 100 Hindi C&S Shows.



Success ratio - Non-Prime time

Balaji's share of non-prime time shows from the top 100 Hindi C&S Shows.



The company reported a success ratio of 53 per cent in 2002-03 for prime time slots which was creditable as some of its popular serials like *Koshish Ek Aashaa* , *Kammal, Kalash, Kabhii Sautan Kabhii Sahelii* and *Kohi Apna Sa* serials were taken off the air during the course of the year.

Programmes

Balaji had 14 television serials on air aggregating to 62 episodes a week as on 31 March 2003 compared to 13 serials and 51 episodes per week as on 31 March 2002.

Channel	Serial	Frequency per week	TRP	Top TRP for the same channel
Gemini TV (Telugu)	Kalavari Kodalu	5 days	18.83	18.83
	Kkante Kuthrune Kanali	5 days	15.84	
Udaya TV (Kannada)	Kavalu Daari	5 days	10.62	12.38
	Kannadi	5 days	7.16	
	Khshanaa Khshanaa	5 days	6.74	
	Kapi Cheste	2 days	6.06	
Star Plus (Hindi)	Kyunki Saas Bhi Kabhi Bahu Thi	4 days	13.68	13.68
	Kahaani Ghar Ghar Kii	4 days	13.24	
	Kasautii Zindagii Kay	4 days	11.48	
	Kaahin Kissii Roz	4 days	5.97	
Sony TV (Hindi)	Kkusum	4 days	3.18	3.18
	Kahani Terrii Merrii	4 days	2.4	
	Kya Haadsa Kya Haqueqat	3 days	2.58	
Sahara TV (Hindi)	Kahi To Milenge	4 days	0.34	1.12

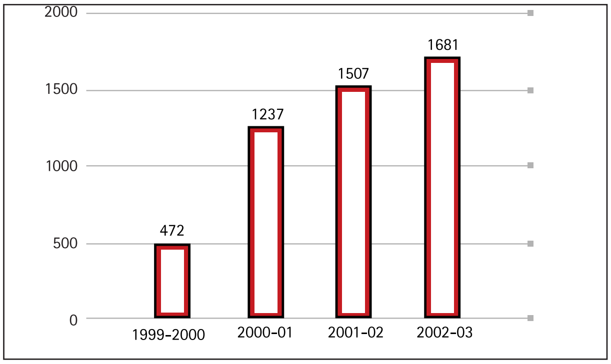
Source : TAM rating for the week 5th April, 2003, Category : Female 15 plus, C&S

Balaji's serials like *Kammal* (Zee TV) *Koshish Ek Aashaa* (Zee TV), *Kutumb* (Sony TV), *Kalash* (Star TV), *Kohi Apna Sa* (Zee TV), *Kitne Kool Hain Hum* (Zee TV), *Kabhii Sautan Kabhii Sahelii* (Star Plus), *Kuchh Jukhi Palkain* (Sony), *Pavithrabandham* (Gemini) and *Kavyanjali* (Udaya TV) were taken off the air during the course of 2002-03.

Programming Hours

The company's quantum of fresh programming increased from 1507 hours in 2001-02 to 1681 hours in 2002-03 (11.55 per cent increase).

Fresh programming hours



Programming Mix

The growing popularity of the company's programmes translated into a strong demand for daily soaps made with bigger budgets.

Programming hours

Programming model	March 1999	March 2000	March 2001	March 2002	March 2003
Sponsored	201.0	414.5	835.0	632.0	613.5
Commissioned	30.5	57.5	402.0	875.0	1067.5
Total	231.5	472.0	1237.0	1507.0	1681.0

The company's commissioned programming hours increased from 875 in 2001-02 to 1067.5 in 2002-03. (22 per cent increase) while its sponsored programming hours declined from 632 hours in 2001-02 to 613.5 hours in 2002-03 (2.93 per cent decrease).

Channels

Balaji produced television programmes for six leading satellite channels - Star Plus, Sony, Zee TV, Sahara, Gemini TV and Udaya TV. It leveraged the reach and penetration of satellite channels to enhance the visibility of its programmes. Besides, satellite channels offered higher budgets, which enabled the company to create programmes with superior production values.

The channel-wise revenue contribution is shown in the table below:

Diversified channel presence

Customer channels	Star, Sony & Zee	Sahara	Gemini TV	Udaya	Sun TV	DD Metro	DD National	Metro Gold	SABe TV	Vijay TV
2002-03	85	1	7	7	0	0	0	0	0	0
2001-02	65	0	11	6	3	1	7	4	1	2
2000-01	41	0	12	3	10	5	21	7	1	0

The company's revenue from leading satellite channels – Star Plus, Sony and Zee - increased from 41 per cent in 2000-01 to 65 per cent in 2001-02 and 85 per cent in 2002-03. Udaya and Gemini TV accounted for seven per cent each of revenues while Sahara TV accounted for one per cent of revenue during the year under review.

Viewership

Balaji's productions accounted for 49 of the top 150 television programmes across leading Hindi C&S entertainment channels.

Channel – Driving Ability

Channel	Top serial on the channel
Star Plus	Kyunki Saas Bhi Kabhi Bahu Thi – Balaji Production
Sony TV	Kkusum – Balaji Production
Gemini	Kalavari Kodalu – Balaji Production

Languages

In 2002-03, Balaji emerged as one of the few production

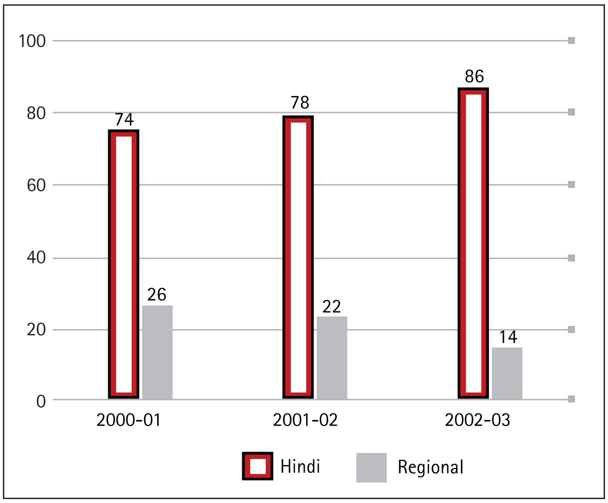
Balaji dominated
THE FAMILY DRAMA & thriller genres with a
56% and 73% MARKET SHARE respectively

houses to produce entertainment content in three languages – Hindi, Telugu and Kannada. Eight of the company's 14 serials were in Hindi while the rest were in Kannada and Telugu.

In terms of hours, Hindi programmes accounted for 63.50 per cent of total programming hour in 2002-03 (61.45 per cent in 2001-02), while regional programme accounted for the balance 36.50 per cent (38.55 per cent in 2001-02).

In terms of revenues, Hindi programmes accounted for 86 per cent of the total revenues (78 per cent in 2001-02) while regional programmes accounted for 14 per cent of the total revenues (22 per cent in 2001-02).

Languagewise revenues



Leader in diverse genres

In 2002-03, Balaji's serials emerged as the most popular in the family-based genre, accounting for almost 56 per cent of the aggregate TRP for family-based shows featuring in the top 150 Hindi C&S Shows.

With thrillers and horrors growing in popularity, the company had two serials that addressed this genre too: *Kahin Kissii Roz* (daily soap on Star Plus) and *Kya Haadsa Kya Haqueeqat* (weekend program on Sony), accounting for 73 per cent of the aggregate TRP for serials in this genre featuring in top 150 Hindi C&S Shows.

Genre	Genre contribution to total viewership	Balaji's share in the genre
Mythology	0.67 per cent	Not present
Family-based programmes and romances	78.48 per cent	56 per cent
Thriller and horror shows	4.24 per cent	73 per cent
Sitcom	3.06 per cent	Not present
Children-based programmes	4.19 per cent	Not present
Games/ talk show/ music	7.17 per cent	Not present
Feature films	2.26 per cent	Not present

The company's presence across a broad spectrum of genres reflects its versatility in content creation, protects against an over-dependence on any particular genre and helps address viewers of different age groups.

Time-Bands

The company's serials are telecast across the evening prime time band - 8 pm to 11.30 pm - across different satellite channels. Inspite of the growing competition in 2002-03, the company emerged as the undisputed leader in prime time with 72 per cent of the aggregate TRP of the weekday prime time shows featuring in top 150 Hindi C&S Shows, reflecting the popularity of its content. This helped enhance its bargaining capability with customer channels.

The company's programmes (repeats) were also telecast during the afternoon time-slots. In this non-prime time segment, the company commanded 31 per cent of the total aggregate TRP of the weekday non-prime shows featuring in top 150 Hindi C&S Shows.

The company entered weekend programming with the release of *Kya Haadsa Kya Haqeeqat* on Sony TV.

In 2003-04, the company intends to extend into the morning slot on Sundays and produce more weekend prime time programmes for leading satellite channels.

Frequency

In 2002-03, the company generally produced programmes with a daily frequency since they helped sustain day-to-day viewer interest, accommodated adequate drama, emotion and twists, helping to evolve serial-watching into a compulsive habit.

Balaji's diversified revenue streams

Balaji produced programmes that were either commissioned or sponsored in nature.

Sponsored programmes:

Balaji makes an upfront payment to broadcasters to buy a telecast time band and receives Free Commercial Time (FCT). The production houses then market the serial to advertisers. In this model, the intellectual property right remains with the production house. Sponsored programming represents a variable income model: if the programme is popular, the production house can strengthen its advertising rates and if the programme does not fare well, it runs a downturn in advertising revenue. Balaji preferred to work with the sponsored programming model with regional channels like Udaya TV and Gemini TV.

In 2002-03 the average realisation for sponsored programmes was Rs 4.22 lacs per hour.

Commissioned programmes:

Customer channels commission Balaji to produce episodes as per its requirements against per episode fees. The channel retains intellectual property rights (IPR). Commissioned programmes are risk-neutral; they generate steady income over the life span of the programme. Although the commissioned model represents a low risk, popular programmes enable the company to increase its fees per episode.

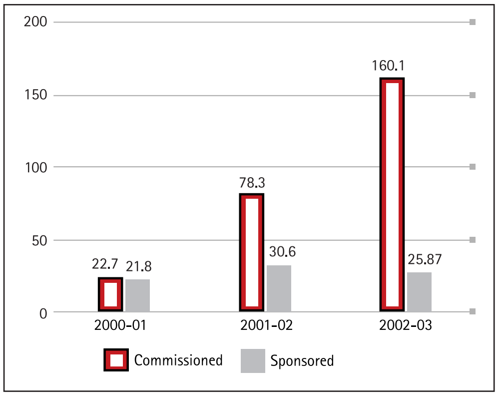
In 2002-03, the average realisation for commissioned programmes was Rs 15 lacs per hour.

Comparison of two business models

Criteria	Channels	Marketing Risk	Capital risk	IPR	Benefits
Commissioned	Zee, Sony, Star, Sahara and Alpha etc.	Borne by the channel.	Content provider assured of a fixed return	Owned by the channel	De-risked business model.
Sponsored	Doordarshan, Sun, Gemini, Udaya, Eenadu etc.	Borne by content providers	Content provider may not recover cost of production completely	Retained by content provider	High risk. High returns business model.

Segmentwise revenue

The company embarked on the conscious decision to increase its exposure to the commissioned programming model, which enabled it to translate a high TRP into enhanced realisations per hour. So even as commissioned programmes accounted for 63.5 per cent of Balaji's total programming hours, they constituted 86 per cent of the company's revenues.



Balaji's emerged AS THE UNDISPUTED leader in prime time with 72% OF THE AGGREGATE TRP of the weekday prime time shows featuring in top 150 Hindi C&S Shows.

Balaji's presence across a

broad spectrum of genres

REFLECTS ITS VERSATILITY IN CONTENT CREATION

protects against an

o v e r d e p e n d a n c e o n

ANY PARTICULAR GENRE AND HELPS address viewers

of different age groups

In 2002-03, revenues from

• Commissioned programmes increased from Rs 78.3 cr in 2001-02 to Rs 160.10 cr (a 104.47 per cent increase) and accounted for 86.09 per cent of (71.90 per cent in 2001-02) of the overall revenue.

• Revenues from sponsored programmes declined from Rs 30.6 cr in 2001-02 to Rs 25.87 cr (a 15.46 per cent decrease), which accounted for 14 per cent of the overall revenues (28 per cent in 2001-02).

Outlook

The company is optimistic due to the following factors:

• Having entrenched itself in prime-time programming, it intends to enhance programming hours across existing and prospective customer channels (volume growth),

• Enhanced realisations per hour (value growth),

• A growing focus on high-end weekend programming and Sunday morning slots,

• The production of small budget films,

• The export of IPR-owned content,

• Increased presence in regional channels,

• A more efficient coverage of costs,

• Re-entry into the terrestial network,

• The extension of the prime-time band.

Internal Audit

The Company has proper and adequate system of internal control to ensure that all assets are safeguarded and protected against loss from unauthorised use on disposition and transactions are authorised, recorded and reported correctly.

Internal control systems are established to ensure that the financial and other records are reliable for preparing financial statements.

In-house Internal Audit System is engaged in evaluation of internal control systems. Internal audit findings and recommendations are reviewed by the Management and Audit committee of the Board of Directors.

Financial objectives

The broad financial objectives outlined by the company during the year under review comprised a stringent control on costs, a maximised return on capital and a prudent deployment of funds so that resources would be available whenever required.

Balaji succeeded in achieving these objectives: the cost of sales as a per cent to sales declined from 51.17 per cent in 2001-02 to 42.65 per cent in 2002-03 & the return on capital employed strengthened from 86.86 per cent in 2001-02 to 110.49 per cent in 2002-03, the company possessed liquid assets (including cash like financial instruments) of Rs. 49.92 cr as on 31 March 2003.

Having entrenched itself
in prime-time programming,

IT INTENDS TO ENHANCE PROGRAMMING HOURS
across existing
and prospective
CUSTOMER CHANNELS.

In turn, these initiatives resulted in a profit after tax of Rs. 57.41 cr in 2002-03, 97.88 per cent higher than in the previous year.

Revenue analysis

In 2002-03, Balaji Telefilms reported a turnover of Rs 187.46 cr compared to Rs 113.11 cr in 2001-02 (increase of 65.73 per cent). Programming revenues in 2002-03 accounted for Rs 185.97 cr (99.20 per cent of the total revenues) compared to Rs 110.30 cr in 2001-02 (increase of 68.60 per cent). This increase in programming revenues was primarily on account of an increase in programming hours and the willingness of competing satellite channels to pay higher realisations for quality content.

Other Income stood at Rs 1.49 cr in 2002-03 compared to 2.81 cr in 2001-02, a drop of 46.98 per cent. This drop in the Other Income was on account of the company's decision to switch its mutual fund investment from the dividend option to the growth option as the former became taxable from 1 April 2002.

Accounting policies

The company's accounts were based on the accrual system of accounting. Revenue was recognised as income as soon as the transaction was recorded in the company's books though the actual receipt or disbursement transpired later. The format of accounting corresponded to India's generally accepted accounting principles (GAAP). The company preferred to be cautious and conservative wherever the treatment of accounts required interpretation.

Margins

The company's margins improved primarily on account of higher hourly realisations from commissioned and sponsored programmes. Operating margin (operating profit / net sales) improved from 41.68 per cent in 2001-02 to 50.70 per cent in 2002-03 while the net margin strengthened from 26.31 per cent to 30.87 per cent in 2002-03.

Capital structure

Balaji's equity capital was Rs 10.30 cr in 2002-03 comprising 5,15,16,250 equity shares of Rs 2 each (previous year 1, 03,03,250 equity shares of Rs 10 each). There was no warrants pending to be converted into equity. In 2002-03, the promoters held nearly 58 per cent of the company's equity.

Reserves and surplus

In 2002-03, the company's reserves stood at Rs 96.14 cr compared to Rs 55.85 cr in 2001-02, an increase of 72.14 per cent. This increase was on account of an increase in the company's profits. Almost 32 per cent of the reserves comprised share premium reserves and the rest accrued from the company's earnings. The company did not have any revaluation reserves on its books on 31 March 2003.

Loan profile

Balaji continued to be debt-free in 2002-03.

Balaji has proper and adequate system of
internal control to ensure that

ALL ASSETS ARE SAFEGUARDED AND
protected against loss
from unauthorised
USE ON DISPOSITION AND TRANSACTIONS.

Capital employed

Balaji's capital employed increased from Rs 66.15 cr in 2001-02 to Rs 106.44 cr in 2002-03, an increase of 61 per cent. The company's capital efficiency ratio – turnover to capital employed - was 1.76 as against 1.74 in the previous year. ROCE (Return on capital employed) improved from 86.86 per cent to 110.49 per cent in 2002-03.

Gross block

Balaji's Gross Block increased from Rs 19.04 cr in 2001-02 to Rs 35.04 cr. This growth was on account of the increased investment in the captive ownership of production and postproduction equipments and the construction of dedicated state-of-the-art studios to address increased programming requirements and to improve production values. This investment will provide the company with increased operational flexibility to roll its resources 24x7, translating into a significant cost and quality advantage.

Depreciation

Depreciation increased from Rs 1.07 cr to Rs 4.24 cr in 2002-03 on account of a larger gross block. The company followed the straight-line method in the calculation of depreciation on its assets.

Investments

Towards the close of 2002-03, the company's investments stood at Rs 48.69 cr compared to Rs 24.40 cr in 2001-02. This surplus was invested in debt mutual funds with the principal aim of safety rather than high returns.

Sundry Debtors

The company's revenues comprised inflows from advertising companies under the sponsored programming model and satellite channels in the case of commissioned programmes. The company's sundry debtors increased from 21.60 cr in 2001-02 to Rs 35.67 cr and its debtors' cycle decreased from 71 days in 2001-02 to 69 days in 2002-03.

Inventories

The company's inventories comprised completed episodes waiting to be aired, incomplete episodes and stock of videotapes. Inventory increased from Rs 3.54 cr in 2001-02 to Rs 4.69 cr in 2002-03 but the inventory cycle contracted from 12 days of turnover in 2001-02 to 9 days of turnover in 2002-03.

Loans and advances

The company's loans and advances increased marginally from Rs 9.15 cr in 2001-02 to Rs 9.29 cr in 2002-03. This comprised lease deposits of Rs 6.84 cr, an advance income tax payment of Rs 1.54 cr and other advances of Rs 0.91 cr.

Taxes

The company's tax outgo increased from Rs 15.75 cr in 2001-02 to Rs 32.03 cr due to a significant increase in profits. The effective tax rate was 35.38 per cent in 2002-03 compared to 35.35 per cent in 2001-02.