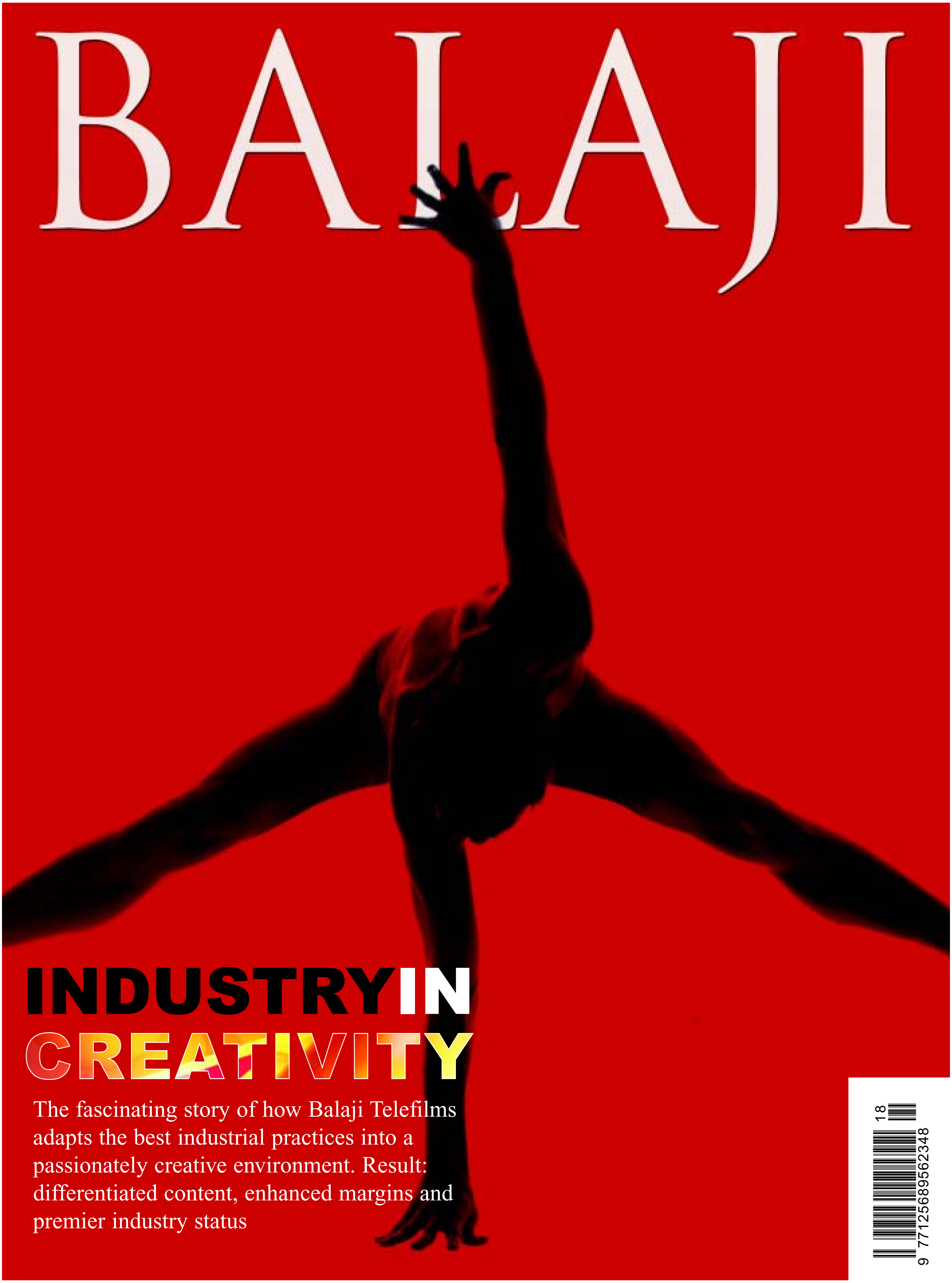


BALAJI

INDUSTRY IN CREATIVITY

The fascinating story of how Balaji Telefilms adapts the best industrial practices into a passionately creative environment. Result: differentiated content, enhanced margins and premier industry status

9 771256 895623 48 18

What is our vision?
To emerge as a complete Indian media house covering the widest genres of television programmes.

FORWARD-LOOKING STATEMENT

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

THE FIVE MINUTE READ

WHO ARE WE?

Balaji Telefilms Limited (BTL) is one of the most successful media companies and the largest fiction-based television content provider in the second most populous market in the world (India). It enjoys a strong pedigree: it was promoted by Jeetendra Kapoor (veteran Indian film artiste), his wife Shobha and daughter Ekta. Headquartered in Mumbai, the company hires more than 500 professionals. In 2003-4, it achieved a gross revenue of Rs. 178.30 cr and a profit after tax of Rs. 55.41 cr.

WHAT DO WE DO?

The company creates popular television entertainment software across a number of Indian languages (Hindi, Telugu, Malayalam and Kannada). Over the years, it created blockbuster programmes that captivated Indian imagination: Kyunki Saas Bhi Kabhi Bahu Thi, Kahani Ghar Ghar Ki, Kasautii Zindagi Kay and Hum Paanch (Hindi) and Pavitrabandhanam, Kalisundaram Ra (Telugu). At the close of 2003-4, the company had 14 serials on air, which translated into weekly programming of 27 hours.

HOW DO WE EXPECT TO MAKE GROWTH SUSTAINABLE?

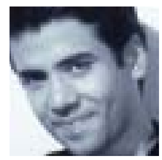
- Make small budget films.
- Create content in slots presently unoccupied by the company.
- Create semi-reality fiction soap for various channels
- Launch a new serial in the afternoon slot on Star Plus.
- Create content for new channels that are being launched.
- Collaborate with international production houses to help them outsource their shooting and infrastructure requirements to the company.

BALAJI TELEFILMS

April 2003 - March 2004

THE BOARD OF DIRECTORS

Jeetendra Kapoor



Jeetendra Kapoor, Chairman, is the company's most visible entity. Mr. Kapoor started his film career as a junior artiste with the reputed filmmaker V. Shantaram and has since acted in more than 200 films. He has received several prestigious awards. The company leverages his industry standing and existing relationships with various television channels, artistes, directors and writers.

Shobha Kapoor, Managing Director and CEO, is responsible for the company's administrative and production functions. She is among the few Indian television producers with a successful track record in a young industry. She has been instrumental in shaping the company's diversification strategy

Ekta Kapoor, Creative Director, heads the company's creative division. She commenced her career as a producer and creative director at the age of 19. Her work has comprised entertainment landmarks in India. She is actively involved in concept building, script design and creative conversion. Ms. Kapoor was selected as one of Asia's most powerful communicators by the Asia Week magazine.

Akshay Chudasama, Director, is an advocate at the Bombay High Court. The company leverages his rich expertise in joint venture, commercial / contractual transaction structuring and documentation, corporate laws, mergers and acquisitions, anti-dumping, consumer protection, insurance sector privatisation, alternate dispute resolution, Internet and cyber laws.

Dhruv Kaji, Director, is a Chartered Accountant with an experience of more than 25 years. A financial advisor and management consultant, his expertise lies in strategic planning. He has been associated with Raymond Ltd. as Finance Director and Pinesworth Holding Ltd. (Singapore) as Executive Director. He possesses experience in evaluating and guiding business projects in India and abroad.

Pradeep Kumar Sarda, Director, is a first generation industrialist. He is the Chairman of the Sarda Group of Industries and has vast experience in businesses such as paper, engineering files, construction and real estate. Mr. Sarda is also Chairman of the Governing Board of Ecole Mondiale World School, Mumbai.

Tusshar Kapoor, Director, is one of the promoters of the Company. He is a management graduate from the University of Michigan. An established actor, he brings relevant experience from the film industry.

Operations

• Entered Doordarshan through the successful launch of Kayamat, a weekend thriller.

• Kahin To Hoga, the new daily soap launched on Star Plus during the year. It has been very successful and is among the top 20 shows since it was telecast.

• Five new state-of-the-art studios became operational, enhancing programming quality and operational efficiencies.

• An investment of over Rs. 9 cr in production and post-production equipment and studios.

• An increased exploitation of the software library by achieving an export turnover of Rs.40 lac.

Realisations

• A nine per cent increase in average realisations per hour from Rs. 11.06 lac to Rs. 11.97 lac.

• A 18 per cent increase in average realisations per hour for commissioned programmes from Rs.15 lac to 17.74 lac.

Public response

• Selection of 26 BTL television programmes in the top 50 across Hindi entertainment channels.

• Emergence as a leading software producer with 56.45 per cent of the aggregate TRP of top 100 Hindi C&S Shows.

Performance

• A 3.50 per cent decrease in profit after tax.

• An increase in the net margin from 30.87 per cent to 31.08 per cent.

• A decline in the cost of sales as a per cent of total sales from 42.65 per cent in 2002-3 to 41.82 per cent.

CORPORATE INFORMATION

Directors

Jeetendra Kapoor • Shobha Kapoor • Ekta Kapoor • Akshay Chudasama • Dhruv Kaji • Pradeep Kumar Sarda • Tusshar Kapoor

Company Secretary

Alpa Shah

Statutory Auditors

Deloitte, Haskins & Sells
Snehal and Associates

Internal Auditors

PSK & Associates

Registered Office

Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate
Opposite Laxmi Industries
New Link Road, Andheri (West),
Mumbai 400 053
Tel : 91 22 2673 2275,
Fax : 91 22 2673 2308
website : www.balajitelefilms.com

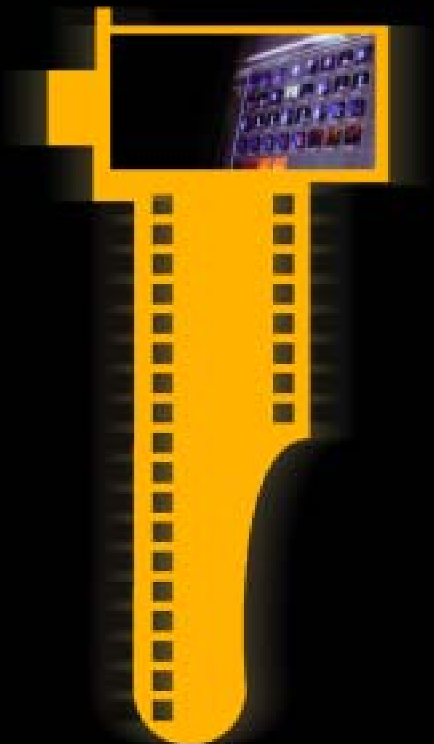
Regional Offices

Chennai: Plot no. 38, K. K. Salai
Kavery Rangam Nagar,
Saligramam, Chennai - 600 093

Bangalore: Plot No. 2058
19th Main Road, 2nd Block,
Rajaji Nagar, Bangalore 560 010

Trivandrum: Ishara, T. C. 36/589,
Perumthanni, Vallakkadavu, P.O.
Trivandrum 695 008

ROLL OF HONOUR



The Economic Times Awards for Business Excellence

- Best emerging company of the year (2001-2)

Ernst and Young Entrepreneur of the Year Award (2001)- India startup

- Ekta Kapoor

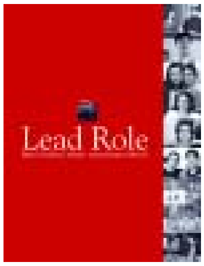
Indian Telly Awards 2003

- TV Production House of the year
- Best continuing TV Programme (Kyunki Saas Bhi Kabhi Bahu Thi)
- The daily serial of the year (Kyunki Saas Bhi Kabhi Bahu Thi)

Indian Telly Awards 2002

- TV Production House of the year
- Best continuing TV show (Kyunki Saas Bhi Kabhi Bahu Thi)
- TV show of the year (Kyunki Saas Bhi Kabhi Bahu Thi)
- Best drama series (Kahaani Ghar Ghar Ki and Kkusum)

L E T T E R S



> **"I watch all Balaji serials because they are an unparalleled source of entertainment."**
>
> MITALI, Delhi.

I REALLY LIKE ALL YOUR SERIALS. MY favourite daily soap is Kahani Ghar Ghar Ki. I am able to identify with the storyline, characters and the thoughts expressed. The traditional values and culture eulogised in the serial are indeed very educative. My entire family finds Kahani Ghar Ghar Ki extremely interesting and we take care not to miss a single episode.

We request you never to discontinue the serial.

HARISH, Jaipur

I WATCH ALL YOUR SERIALS BECAUSE they are an unparalleled source of entertainment. Not only that, you are a source of inspiration for me. That is because achieving so much success at such a young age is rare and it is best described as the dream of any girl in India. I know that it is very difficult to emulate your success, but you have definitely set an example for all of us.

MITALI, (19) Delhi.

I STAY IN A SMALL TOWN CALLED Salimpur in U.P. and feel that the realism displayed in your serials is stark. For instance, I find my own life similar to Kkusum's story. Like her, I was also married to a man who had excellent social standing. Not only this, my husband was also having an affair with another woman. But, seeing Kkusum and her fight back, I decided not to give up. Today, I live happily, having got my husband back. All of this is thanks to you and the hope you kindle in the hearts of young women in India.

SUMAN JAISWAL.

I LIKE ALL YOUR SERIALS BUT AM not happy with the way you are treating Kyunki Saas Bhi Kabhi Bahu Thi. I feel all of this is just a gimmick to keep the serial on top of the TRP charts, without any regards for viewer sensibilities. Also, please refrain from creating larger-than-life characters who become so overbearing that they start carrying the story along rather than the other way round.

MANASI.

I AM A BIG FAN OF ALL YOUR SERIALS. One has to admit that you have brought about a silent revolution on the small screen. We scarcely remember those days when there was a week's interlude between two episodes of a serial. This led to the audience losing track of the story, and therefore, losing interest. However, with your concept of a daily, the entire experience of watching a serial has undergone a sea change. Now it feels as if these stories are part of our lives and one cannot do without watching them. However, you must pay more attention to the costumes of some of the characters, who are just as strong but are deliberately underplayed.

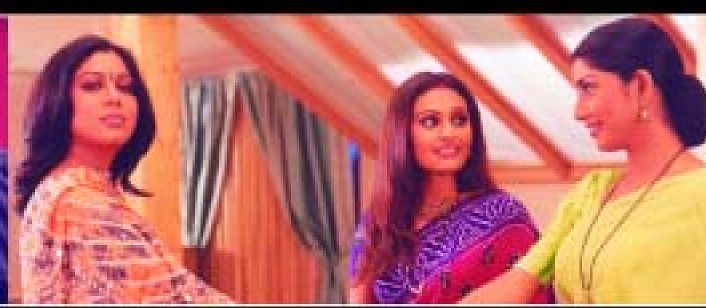
SANDEEP SONU.

I AM 19 AND AM A GREAT FAN OF YOURS. I have a dream. I want to work in television. I always wanted to but my resolve has become stronger after seeing your success. I am not a trained actress, but am confident that I will do well if given an opportunity. As you have also struggled to achieve this success, I am sure you will sympathise with me and allow me the chance to prove my talent. I also have scriptwriting capabilities. I have written this letter with a lot of hope and am sure you will not disappoint me.

PUSHPA YADAV, Bilaspur.

Mon – Thurs
10.00 pm – 10.30 pm.

'HOME IS WHERE THE HEART IS' is the underlying message of this family serial. The larger-than-life characters portray the best and the worst that human beings are capable of, giving the viewer an experience that is both voyeur-ish as well as integral to her own life. One that she cannot help relate to! The eternal story of human emotions compels the viewer to keep waiting for the next episode…It is a serial that simply grows on you.



kahaani GHAR GHAR KII

THE EDITORIAL

JEETENDRA KAPOOR

Thank you for reading this report, which reviews our company's performance in 2003-4. For a quick recap, Balaji Telefilms Limited finished 2003-4 with a four per cent decline in its topline and a 3.5 per cent drop in its bottomline. While at first glance, the decline may be interpreted as a setback, permit me to assure shareowners that this drop must be treated as a brief interruption in our otherwise growth story for a number of reasons:

- We concentrated on high value programmes and consciously pulled out of low-revenue generating programming, thereby improving our average realisation per hour. For instance, in commissioned programming, it increased from Rs. 15 lac per hour to 17.74 lac.
- There was a fair amount of creative inventory that we created over the last year that did not immediately reflect in our topline, a sign that the organisation is building on adequate content fuel in anticipation of a more remunerative industry environment.
- We see our performance not necessarily in mutually exclusive blocks of 12 months each - the accountant does! - but across a slightly longer-term tenure. From this perspective, the fact that we generated Rs. 474.56 cr of revenue in the last three years (compared with Rs. 82.21 cr of turnover from the preceding block of three years) must be seen as the sign of an organisation gradually acquiring a critical mass and momentum, rather than a company that is slowing.

The end of the beginning

Coming as the decline did after years of uninterrupted topline and bottomline growth – from a Rs. 10.64 cr topline and Rs. 8 lac bottomline in 1997-8 - the first question that shareholders will be inclined to ask is: Is this is the beginning of the end? At Balaji, we think that the opposite is true. We see our performance in 2003-4 as the end of the beginning.

We feel that the first phase of our existence – entrepreneurial - where we derived linear growth through a principal revenue stream, is over. During 2003-4, we prepared ourselves for the second phase wherein an increasing proportion of revenues will be

> During 2003-4, we prepared ourselves for the second phase wherein an increasing proportion of revenues will be derived from diverse entertainment formats

derived from diverse entertainment formats and where the ultimate consumer will have a greater role in our revenue-determination process.

In view of this, the organisation embarked on the process to strengthen its business with the following objectives: protect existing revenue streams, create new ones and protect margins in the process.

New future

For one thing, the company's senior management drew out a ten-year business plan. After considerable deliberation, it reaffirmed the company's commitment to continue creating entertainment content through enhanced scale, efficiency and profitability. In view of this, four key strategies were established:

- Business expansion
- Genre diversification
- Comprehensive risk management
- Shareholder value growth.

Industry in creativity

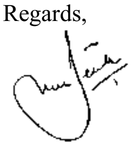
At Balaji Telefilms, we expect to emerge as a Rs. 1000 cr organisation over the coming decade through an ongoing leverage of our biggest competitive strength: operational discipline. We will continue to make differentiated content by adapting the best industrial practices onto our service environment. Over the years, we have extended the budgeting, planning, value chain and backward integration disciplines to our business with increasing success.

It gives me pride to state that in an industry space that is only gradually recognising the need to institutionalise systems, the company enjoys a first mover's advantage. We expect that as sectoral growth continues to be attractive and regulated, the company will be in a position to leverage its resident strengths faster with a view to enhance shareholder value.

Relevantly, the theme of this annual report has been woven around the presence of industry in creativity.

In more senses than one!

Regards,



Jeetendra Kapoor

A REVIEW

SHOBHA KAPOOR

We spent much of last year tightening systems and creating a modular organisation. We focused on partnerships with a view to generating an excellent supply chain dovetailed with an overriding audit function.

How would you assess the performance of the company in 2003-4?

Despite a decline in revenues by four per cent and post tax profit by 3.5 per cent, I am very satisfied. A better indicator of our performance can be derived from our PAT margin, which increased from 30.87 per cent to 31.08 per cent due to a stronger cost control and better terms of trade with our customer channels.

What was the principal highlight of the year?

Business consolidation. In doing so, we made a detailed appraisal of our existing portfolio, exited unprofitable serials, created a more systems-led organisation, put dedicated teams in place and strengthened our capability to address the challenges of the future. The impact of this was visible in the performance of our existing serials: some continued to be on air for more than four years and a number of them topped the TRP ratings.

What other business-strengthening initiatives did the company embark upon during the year under review?

We extended our content-centric competence to the production of films, documentaries, non-fiction content and children's programmes. At Balaji, we believe that this will not only widen our revenue stream but will progressively rationalise our dependence on a single genre. In this connection, we have already been commissioned by a number of to-be launched channels to create content, including MTV.

What is the biggest strength that has allowed the Company to sustain its performance for so long?

In one word: discipline. Over the years, a systems-led approach translated into a growing investment in technology and training as well as a corporate culture of responsibility and accountability. This translated into planned and balanced growth. We spent much of last year tightening systems and creating a modular organisation. We focused on partnerships with a view to generating an excellent supply chain dovetailed with an overriding audit function.

Can you give us an example of how partnerships have helped?

For instance, we struck deals with travel agencies and the respective tourism development corporations. This facilitated an increase in tourism on the one hand and enabled us to shoot abroad at a low cost on the other. Besides, we entered into partnerships with vendors for long-term material and equipment supply at competitive rates in exchange for increased offtake, which translated into a benefit for both.

What are the key challenges that you foresee?

The attraction and retention of people as we are in an industry where the people turnover is high. We expect to attract and retain the best talent through the following ongoing initiatives: invest our business with new industry developments, implement a performance-linked pay system with a regular appraisal and commensurate reward mechanism, provide attractive opportunities for personal growth and institute strong back-up teams to minimise a dependence on individuals.

What is the outlook for the company?

I foresee an attractive topline growth in 2004-5, derived through an increased presence in existing channels, the plugging of vacant slots, the creation of content for new channels and strategic diversification. In view of this, I am confident that the company will continue to deliver excellent value to stakeholders as it has done in the past.

On the sets at Sankraman studios, Balaji Telefilms

Method in madness

EKTA KAPOOR

Most people relate creativity with the process of whimsical conceptualisation and unstructured execution. Balaji Telefilms, India's biggest television content company, and admittedly its most creative, is the complete opposite.

Industrialised creativity

At Balaji, creativity is not a coincidence, but a considered approach marked by continuous evolution and precise execution – the industrialisation of our creativity.

The big idea is the first link in our creative chain. A number of creative organisations are creative dictatorships, where the big idea is shackled and top-ended. At Balaji, we practice a creative democratisation. Creativity is everybody's football field. Everybody contributes. Ideas come in from all levels. Each one is a director in the making. Each one thinks she 'owns' the serial. As a result, the actual director not only inputs her own ideas into creating content but manages the diverse inputs on a continuous basis. Similarly, all projects are addressed by me for the first specified number of episodes, beyond which I provide only the strategic direction so that day-to-day management is best left to professionals.

STRUCTURED CREATIVITY

Creative director

Associate creative directors

Creative heads

Associate creative heads

Executive producers

Associate executive producers.

The next leg in our creative chain is precise implementation. Execution has to be in line with what had been conceived, execution has to be on time, execution has to be at the lowest cost, execution has to be in sync with the other variables of content creation.

The third leg is knowledge sharing. At Balaji, knowledge is not just an understanding of how serials are made but also what needs to be made. This knowledge is not silo-ed, it is scattered. And at the company we believe that there is no better trainer than responsibility. As a result, responsibility is not monopolised, it is delegated. This approach grows income in sync with knowledge, making our business model sustainable.

The last priority is a negligible inventory. Our small content bank not only maintains the team in a state of logistical urgency but creative flexibility and practical humility. This is why: while we do create serials with what we think the audience will like, this is evolved almost in real time in line with the incoming feedback. This feedback works both ways: of what the audience expects to see that we should create and what the audience expects that we should *not* create. The result is an ongoing surprise element that makes our serial the first subject of discussion the following morning.

Approach

This methodical approach must be complemented by flexibly customised people management. So even as we drive our creative business with fixed, inflexible KRAs, we have retained a fair latitude for them to extend well beyond their stated domain of expertise or basis of appointment.

This talent utilisation is supplemented by a shared responsibility, which leads to accuracy in performance assessment because functions are specifically enumerated and evaluated at each superior level. This responsibility-sharing model is supported by a transparent performance-linked remuneration structure.

Systems, systems, systems

I think this sets us apart. Everything at Balaji is systems-directed, which makes all improvement sustainable. To enable this professionalism, the company has embarked on serious succession planning, which ensures that the creative process, largely dependent on individual imagination, becomes progressively liberated of a dependence on specific individuals. As a result, the only realistic competition that our serials have is our own serials, some of which have been on air for more than four years, which is kind of record.

It is this marriage of industry and creativity, which gives me the optimism that Balaji will deliver attractive value to the audience and its owners alike.

BUSINESS MODEL IN

In the business of entertainment content, every evening is a new day. As the collective audience votes with its eyeballs, it is not just an episode or serial that is put to the test each minute; it is the company's business model.

Over the years, in this high mortality creative business, Balaji Telefilms has imbibed some of industry's most effective management practices and evolved its business model faster than its competitors.

Protecting its downside and uncapping growth possibilities. Creating what every management guru encapsulates in one word. Sustainability.

FLEXIBILITY IN RIGIDITY

At Balaji, the revenue side of our business model is rigid in that it helps us de-risk our revenues. At the same time, it is flexible enough to maximise our earnings capability. A combination of the commissioned and sponsored options permits the company to exercise either, depending on the dynamics of the prevailing environment.

A MODEL BUSINESS

Sponsored programmes: When Balaji is confident of its content quality and the support of a longstanding advertising brand, it buys telecast slots. In exchange, it 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.

Commissioned programmes: On the other hand, customer channels can commission Balaji to produce episodes in return for a fixed episode fee. These programmes represent an interesting balance between risk-neutrality and income-enhancement. For instance, even as the programmes generate steady fees, these can be revised upwards if the programmes turn popular.

extended to weekend programming. It intends to make small budget movies across the foreseeable future.

Languages: Over time, Balaji Telefilms has rationalised its excessive dependence on Hindi programming. For instance, 86 per cent of the company's income was derived from Hindi programming in 2002-3; this declined to 82 per cent in 2003-4 as the company marketed content in Telugu as well as Kannada. Extending this further, the company expects to make Bengali and Malayali content over the foreseeable future.

LIBERATED BY A VALUE-CHAIN

Most production houses prefer to outsource equipment and other support structures to minimise their capital

> "The frequency of Balaji's programmes varies in response to the nature of content, available slots and corresponding remuneration covering daily and weekly frequencies."

Presently almost 20 per cent of the company's revenues are contributed by the sponsored programmes. Going forward, the company expects this ratio to be maintained although there will be growth in absolute terms in both the categories.

DIVERSIFICATION WITH A FOCUS

Even as the rest of the industry was focused on the linear extension of its income, Balaji Telefilms was engaged in a lateral diversification for enhanced revenue and profit predictability. Besides the obvious diversification across channels and time-bands, the company has demonstrated its accent on broad-basing through the following:

Content delivery frequency: The frequency of Balaji's programme varies in response to the nature of content, available slots and corresponding remuneration covering daily and weekly frequencies. For instance, 96 per cent of the company's income was derived from daily programming in 2002-3; this declined to 88 per cent in 2003-4 as the company

expenditure. Balaji has done the reverse: as it has acquired scale, it has extended its chain. Over time, it has ploughed its cash flow into a progressive backward integration to reduce costs, accelerated product turnaround and strengthened quality control. Thanks to an aggressive asset utilisation, much of the company's investment has already generated a complete payback, the benefit of which will be visibly reflected over the coming years.

This integration has been reflected in the following initiatives:

Captive sets: A Rs. 18.75 cr. investment in captive set creation has resulted in self-

CRITERIA	CHANNELS
Commissioned	Sony, Star, Sahara, Zee etc.
Sponsored	Doordarshan, Sun, Gemini, Udaya, Surya, Eenadu etc.

sufficiency, lower cost, quicker turnaround time and a stronger quality control.

Captive equipment: Rather than pool expensive equipment from rental agencies, the company purchased its own lights, sound recording equipment and other technical equipment, resulting in a quick payback.

Captive post production facilities: Most content creators 'finish' their recorded material by renting time at post-production studios. Balaji has invested over Rs. 5 cr in state-of-the-art postproduction suites, which don't just accelerate the conversion of recorded material into episodes, but facilitate a review and improvement of shooting standards.

Balaji now owns post production equipment like AVID machines, Graphics machines, DG recorder sets, NIANDO machines and the latest Edit suites as well as BETACAM equipment, to bolster its capabilities and deliver world-class television content.

INELASTIC EXPANSION

New genres, new time-bands and new languages: that is the way ahead at Balaji Telefilms.

New formats: Small budget Indian films.

New channels: MTV, the Times Group channels and United Television.

New genres: Talk shows, children's programming and semi-reality soap for MTV.

New time-bands: An extension into unoccupied slots (afternoon).

New languages: Bengali, Gujarati and Malayalam.

MARKETING RISK	CAPITAL RISK	IPR	BENEFITS
Borne by the channel.	Content provider assured of a fixed return.	Owned by the channel.	De-risked business model.
Borne by the content provider.	Content provider may not recover the cost of production completely.	Retained by the content provider.	High risk, high return business model.

BLUEPRINTING AND BUDGETING

Most mature businesses are masters when it comes to transferring their goals and objectives onto paper.

Once done, they are obedient slaves resulting in a rigorous compliance with this documented system.

At Balaji Telefilms, we have prudently imbibed the spirit of each. The result is a comprehensive organisational mapping that helps it enhance the maximum value from each function and initiative at all times.

Over time, this mapping has translated into some ongoing priorities:

Profit centre: Before a serial is launched, it must stand up to the creative filter as thoroughly as the commercial. This budget incorporates artiste, location and other costs without compromising production values. Only when a script has passed this filter, is it considered viable and serial-worthy.

Project life cycle management: Balaji's budgetary discipline starts from shooting schedules, scene-wise artiste requirements, ongoing shooting progress, final product delivery and remuneration inflow. As a de-risking initiative, some dates, intimated well in advance, require all artistes to be present for group scenes to be shot; besides, the company keeps a minimum buffer between completion dates and respective deadlines so that the delivery schedule is dependably predictable at all times.

Checks and balances: Modern management highlights the increasing use of Total Preventive Maintenance. Our approach is no different. Our studio is the equivalent of the shopfloor; our production professionals are industry's equivalent of workers. Each professional is empowered to 'own' his workspace – in terms of cost management and finding a better way. Even as each professional understands and demonstrates the cost implication of each action, there is an over-riding check and balance: any non-budgeted expense is sanctioned only after complete verification, in-house set usage is maximised and any outdoor shoot must be vetted through an established protocol before it can become a reality. As a result, costs as a proportion of total revenues declined from 42.65 per cent in 2002-3 to 41.82 per cent in 2003-4.

Kanban: At Balaji, we don't just measure 'costs' in terms of money but in terms of organisational time involvement. This broader awareness has translated into an encompassing culture of urgency: over the years, we have significantly reduced the time invested in episode creation.

Audit discipline: Actual expenses are compared against the budget through a supervisory audit function at all times, enabling deviations to be corrected in the shortest possible time.

Surplus management: The company's surplus in excess of its immediate requirement is invested in safe financial instruments. In 2003-4, the company generated Rs. 5.22 cr from these investments, six per cent of its pre-tax profit for the year.

This interplay of advance planning and measured delivery translated into a profitability predictability: as a result, even as the company's income declined during the year under review, its net margin strengthened from 30.87 per cent in 2002-3 to 31.08 per cent in 2003-4.

SUPPLY chain management

Most businesses that require to converge the work of multiple vendors into a single product do so through the integration of their respective production cycles.

As a result, what is manufactured is done so with the right quality and least inventory - *on time*.

At Balaji Telefilms, the absorption of this supply chain has helped marry discipline with creativity with predictability.

Conceptualisation: Just as most product-based companies have a guarded sampling process initiated by their respective R&D teams, we conduct an ideation process, based on whose feedback, ideas are either extended or rejected.

Shoot management: Once the ideation has been accepted and translated into a script, a comprehensive production schedule is drawn out. Artiste requirements are scheduled, responsibilities allocated and equipment requirements slotted. Hiring is done from approved vendors at pre-negotiated rates, significantly lower than the prevailing market benchmarks in exchange for volume commitments. Changes in vendor or artiste rates take place only subsequent to a prior approval. Costumes are comprehensively coded and their use is prudently rotated. Products that need to be purchased are sourced directly from manufacturers, eliminating intermediaries. Since this arrangement is scalable, no fresh negotiations need to be conducted, enabling growth to happen without any extensive re-working.

Logistic management: To enhance time management efficiency, lights and equipment are located strategically and every professional is delegated clear responsibilities for effective coordination. Besides, lead times to delivery are managed and monitored from the script stage onwards, ensuring timely delivery.

Artistes and technicians management: At Balaji, this culture of discipline extends to artistes and technicians, reflecting in timely availability and attendance.

Centralised purchase: A 24-hour single point procurement of all equipment, properties and consumables represents the heart of the company's operations. Since its inception as a strategic business unit, this department has computerised its function and centralised all shooting requirements with the following benefits: a reduced dependency on external vendors, a timely availability of material, cost savings derived from economies of scale and optimum product usage. Result: monthly savings of nearly Rs. 11-16 lac.

Kaizen or continuous improvement: The company continuously invests in better equipment and progressive practices (from single camera to multi-camera shoots, for instance), which enhance programming quality.

This disciplined approach has translated into the following advantages:

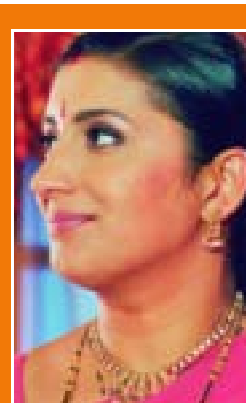
- A low episode inventory facilitates the timely incorporation of feedback into content creation.
- Enhanced reputation among channels as a sustainable creator of excellent entertainment content.
- A compliance with commitments.
- Substantial cost savings due to minimal wastage.
- Easy scalability.

Balaji was the first instance in my career where I was asked to sign in my attendance time. It imbibed a sense of duty and reinforced the seriousness of the job at hand."

- Pallavi Joshi, actor, Kehna Hai Kuch Mujhko

"My advice to all management students is to come to Balaji and learn about optimal resource management and contingency planning. For instance, I sneaked out of my house on the day of my marriage to complete a scene. Nobody in the industry draws that sort of commitment."

- Smriti Irani, actor, Kyunki Saas Bhi Kabhi Bahu Thi



The production chain

- Pre-production: Conception of idea – storyline – creating a working script.
- Commercial: Budgeting - sponsor and/or channel discussion - contract with channels / sponsors.
- Production: Logistics - casting - creating the technical team - set, equipment and location management - shooting.
- Post-production: Dubbing - editing - special effects - composing music- creating title track.
- Marketing: Pricing - monitoring TRPs - production and creative feedback.

INTERNAL AUDIT and

Most industries don't just 'plan' or 'do', but also 'check' on a continuous basis to ascertain a synchronisation between their delivery and planning functions.

At Balaji, a rigorous audit mechanism, serves as the internal check, possibly the only one of its kind in the Asian entertainment industry. Commissioned as a modest cash expense monitoring exercise in November 2002, it has extended its coverage across more than 15 units of 70 production members, each working 24x7.

This is how the audit function has helped change everyday working at the company:

- It has created the first accessible tier of cost checks and it works as the equivalent of supervisors in a conventional shopfloor environment.
- Its function is driven by the maintenance of a comprehensive log book that comprises episodes, scenes, scene details, shoot duration, equipment utilisation, scenes per artiste, attendance report as well as reasons for time over-run or under-performance (if any).
- It has facilitated the creation of a daily MIS report that is submitted to the senior management.
- This helps the creation of dockets that analyse all variables and the standardisation of all variable costs.
- It has evolved into a hiring clearance system, whereby the production team first ratifies a resource need and then confirms whether it is available in-house or needs to be outsourced.
- A usage report, generated daily, identifies wasteful hiring to prevent recurrence.
- The synchronisation of various production schedules optimises 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.

Result: large financial savings driven by a rationalisation of on-shoot people resources, a substitution of a shift-based remuneration system to monthly fees, an increase in equipment utilisation, a greater inter-departmental co-ordination and a restructuring of the accounting role in line with the ABC analysis of their function.

This rigorous internal control system has helped Balaji rationalise production costs in a significant way.

"It has created the first accessible tier of cost checks and it works as the equivalent of supervisors in a conventional shopfloor environment."

control

Product management

In most serious businesses, product sale represents the beginning of a life-long transaction, not the end.

At Balaji Telefilms, this is remarkably true as well: the company faithfully studies audience response as a guide to onward content creation.

Over the years, this feedback management has been institutionalised: while a broad story direction is defined for a block of 100 episodes, the finer elements are frozen in line with evolving viewer expectations. A low product inventory makes it possible to make last minute script changes.

At Balaji Telefilms, we customise our content creation in response to feedback from the following sources:

TRP ratings: This reliable feedback mechanism helps us evaluate our weekly performance, inspiring remedial action in the event of weak TRPs.

Websites: The Balaji website attracts significant serial specific feedback.

Fan clubs: Fan clubs of the key characters in Balaji's serials provide valuable feedback.

Word of mouth: The creative team actively seeks feedback from its circle of family and friends.

Competition: The company keenly studies competing programmes and their respective TRPs to assess audience requirements.

Over the years, this feedback has helped influence not just storylines but also production values. As a result, Balaji has progressively invested in grand sets and fashionable costumes, creating a subtle aspirational value and inspiring a committed viewership.

This feedback-centric product creation and management has not only helped the company but also its customer channels. For instance, Star Plus was faced with the challenge of retaining viewer attention between the concluding time of the blockbuster Kaun Banega Crorepati and the commencement of Kyunki Saas Bhi Kabhi Bahu Thi. It experimented with four programmes in only six months – without success. Balaji Telefilms' deep understanding of audience needs translated into the creation of Kahaani Ghar Ghar Ki, which helped Star Plus climb to the top of the charts in that interim time-slot but also firmly extend the conventional prime time band late into the evening.

Kahin To Hoga

Youthful storyline and star cast. Shot almost like a movie. Rose to a TRP of 8.93 within eight weeks of launch. Shot into the top 15 programmes within this period, a record in itself.

Kkusum

Replaced the central character in spite of sluggish TRPs and the India-Pakistan one-day international at Lahore. Revived audience interest. Climbed to the number two spot on Sony Entertainment Television.

Kahin Kissii Roz

Changed the leading actor and shifted the serial to the 11.30 slot on 8 September 2003. Achieved a TRP of 4.36 for the week ended 3 April 2004 (TAM, F15+, C&S, 29 cities), better than a number of prime time ratings.

Talent management

In every business, the value of the people represents the value of the organisation.

At Balaji Telefilms, this is no different. Over the years, the company has consciously derived best people practices from global human resource models woven around its functional organisational structure.

Balaji Telefilms has drawn the best professionals for a number of reasons:

Transparency: A transparent link between individual effort, team achievement and fair remuneration drive motivation.

Healthy competition: Various inhouse production teams compete to produce the best in-house serial (as measured by TRP).

Hands-on training: New recruits are immediately inducted onto the production floor under supervisory guidance and performance is appraised weekly based on which job profiles and remuneration packages are enhanced.

Attractive remuneration: A higher-than-industry average pay scale has helped attract the best talent.

Pride: The company's industry-leading status has enhanced a sense of pride among its members, strengthening retention.

Over the years, the company has de-risked itself from people attrition through the following initiatives:

- Succession planning for every single function.
- A recruitment of non-celebrity artistes and professionals, saving hiring fees and maximising date availability.
- The maintenance of an extensive database of available talent leading to auditions in the shortest lead-time.

Thanks to these initiatives, the company is a preferred industry employer with the highest retention.

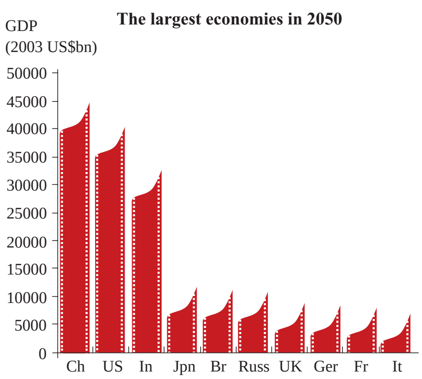
Economic overview and industry analysis

Balaji Telefilms Limited belongs to India's entertainment industry. To facilitate a better understanding of its operations, we have drawn out a comprehensive top-down industry analysis, which will help readers appreciate the company's industry environment, the economy rub-off, regulatory changes and prospects.

A buoyant economy

There is a strong correlation between India's entertainment industry and its economy. Over the last year, interest rates declined, the rupee appreciated against the US dollar and infrastructure grew. Real GDP growth strengthened from just 4.3 per cent in 2002-3 to a historical high of 8.1 per cent in 2003-4 (Source: Central Statistical Organisation).

Long-term prospects appear even more promising. Goldman Sachs has predicted the BRIC (Brazil, Russia, India and China) economies will be the largest in the world by 2050, with India emerging as the third largest global economy after China and the USA.



Source: GS BRICs model projections

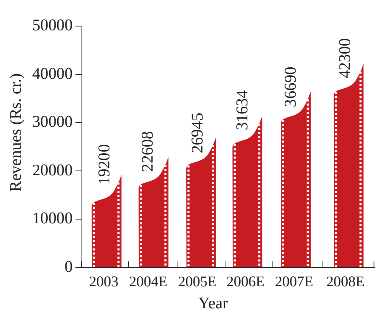
The industry of entertainment

India's entertainment industry has historically outperformed its economy. In 2003, the industry growth of 15 per cent (value Rs. 19,200 cr) was driven by the following factors:

- Higher disposable incomes: As the economy grows, people spend more on entertainment, manifested by a wider acquisition of television sets.
- Changing demographic profile: Almost 54 per cent of India's population is below 25, making it one of the youngest countries in the world, holding out excellent prospects for TV acquisition. This is evident in the numbers: entertainment accounts for about one per cent of India's GDP compared to almost 2.7 per cent in the US. The Indian entertainment industry is

expected to grow at 17 per cent CAGR to reach an estimated Rs. 42,300 cr by 2008.

Entertainment industry revenue projections (Rs. in cr)

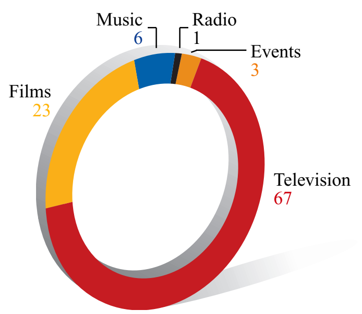


Source: Industry estimates, Ernst & Young

The television industry

Of the Indian entertainment industry of Rs.19,200 cr, television accounts for about Rs. 12,900 cr. It enjoys the widest reach as a mass communication medium across all socio-economic classes. For instance, across India's low-income households, television penetration is higher than print, radio or cinema.

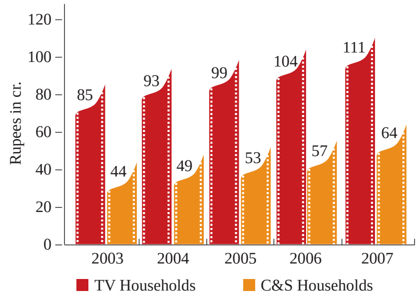
Percentage share of various entertainment modes



Source: Industry estimates, Ernst & Young

There are 8.5 cr television households in India (out of a total of 20 cr households) and a little more than half enjoy an access to cable television. However, its C&S penetration of 22 per cent is low compared to developed countries. Therefore, there is a two-fold opportunity for the industry: television households continue to grow annually at 9-10 per cent and there is a significant gap between TV and C&S households (almost 48 per cent).

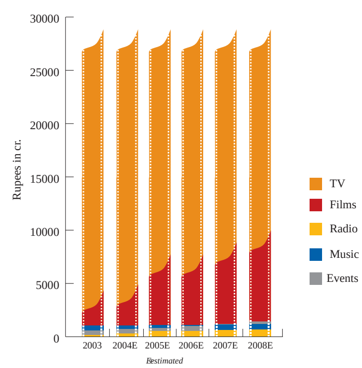
TV and cable households in India (millions)



Source: KPMG estimates

This potential translates into attractive numbers: Industry estimates suggest that by 2008, the size of the television industry will grow to almost Rs. 28,850 cr at a 17 per cent CAGR, making it one of the fastest growing industries in India. Television will continue to retain its lead position in the Indian entertainment context.

Indian entertainment industry - revenue distribution (Rs. in cr)



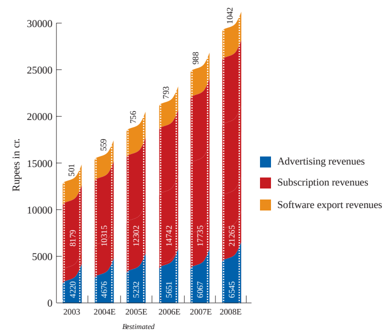
Source: Industry estimates, Ernst & Young

The television software industry

India's television content segment is valued at about Rs. 2516 cr. of which almost Rs. 500 cr is derived from international syndication. This content is beamed across more than 300 television channels. With the increased production of quality content, enhanced realisations, increase in channels and a better exploitation of archives, the television content segment in India is expected to double by 2008.

Television industry revenue model: The revenue model of India's television industry is largely subscription-based (67 per cent of revenues), though advertising (29 per cent) and software exports (4 per cent) account for other income streams. Over the next five years, there is likely to be an increasing bias towards subscription revenues:

Television industry - revenue distribution (Rs. in cr)



Source: Industry estimates, Ernst & Young

Subscription: In 2003, the industry's subscription revenues increased 36 per cent to Rs. 8179 cr. This was facilitated by a ten per cent growth in India's television households and a 20 per cent increase in the average revenue per subscriber. Looking ahead, subscription revenues are expected to grow 21 per cent CAGR to Rs. 21265 cr by 2008, driven by a wider robust cable distribution network and the introduction of new delivery platforms (DTH and HITS).

Advertising revenues: Television advertising revenues grew 12 per cent to Rs. 4220 cr (41 per cent more than the total ad spend across all media, driven by the cricket World Cup and the addition of new channels). Going ahead, a consistent nine per cent growth in ad spend on Indian television is foreseen, rising to more than Rs. 6500 cr by 2008.

Balaji's growth drivers

India's annual television software revenue of Rs. 2516 cr accounts for almost 13 per cent of the country's entertainment industry and 19.5 per cent of its television industry revenues. The company is among the largest Indian players in the creation of

रिश्तो के भी रूप बदलते हैं नए नए साँचे में ढलते है
इक पीढ़ी आती है इक पीढ़ी जाती है बनती
कहानी नई क्योंकि सास भी कभी बहू थी
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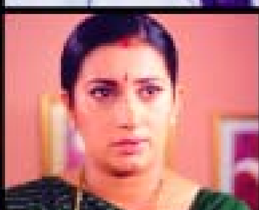
कहानी नई क्योंकि सास भी कभी बहू थी

Mon – Thurs
10.30 pm – 11.00 pm.

STAR PLUS

THE INDIAN SERIAL THAT HAS MADE HISTORY: The highest TRP ratings for over four years running! The story which began with simple Tulsi marrying Mihir, a scion of the rich and influential Virani family, Mihir, is one of relationships evolving within the broad canvas of a large and traditional Indian joint family. As characters move in and out of episodes, we come across confrontations and capers that remind us of our own everyday.



Kyunki...
Saas bhi
kabhi bahu thi...

television software; it was the first to adopt a corporate approach in content production. Its existing industry position and business plan provide the optimism for sustainable growth.

External

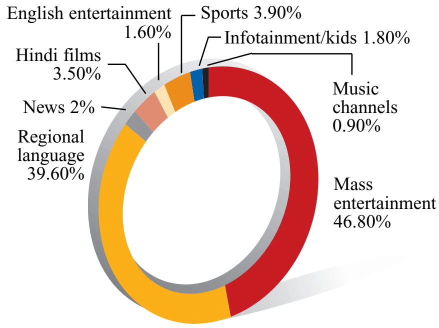
Advertising support: Low cost and a high reach make the TV a popular promotional segment for advertisers (accounts for 41 per cent of the total ad spend in India). Besides, television continues to be the cheapest entertainment vehicle for an Indian household, especially the low-income types. When it comes to ad spend, the combination of significant technology improvements and a low-cost mass reach will continue to provide TV an edge over other media segments.

Balaji caters to the mass entertainment segment, the most attractive viewership category. Its share as a proportion of the total advertisement revenue declined from 57 per cent in 2002 to 47 per cent in 2003, primarily due to the cricket World Cup, a one-off phenomenon that is expected to correct itself in 2004-5. The company was insulated against a direct impact due to 82 per cent of its content being commissioned by the customer channels.

Advertising revenue sources (in per cent)

Genre	2003	2002
Mass entertainment	47	57
Regional language	18	17
Music channels	2	2
English entertainment	1	1
Infotainment & kids	4	4
Sports	13	3
News channels	10	11
Hindi film channels	5	5

Source: TAM Media Research



Source: TAM Media Research

Higher ad spend: Television advertising increased from 17 per cent in 1992 to 41 per cent in 2003-4 of the total advertising spend in the country as it served as an important vehicle for brand building and market dominance among companies/ products/services. It is expected to grow at 20 per cent annually over the next three years. More importantly, the adspend on cable and satellite television is expected to grow at around 18 per cent per annum. To attract this huge adspend, television channels will need to provide quality content.

> The increase in television channels – from two at the start of the Nineties to more than 300 in 2003 - has widened the market for entertainment software.

Increasing private channels: The phenomenal increase in the number of private television channels in India – from two at the start of the Nineties to more than 300 in 2003 - has widened the market for television entertainment software. Today 26 channels are run by Doordarshan, approximately 50 pay channels are distributed over 16 bouquets and others such as regional, news and film channels. Fierce competition is expected to enhance BTL'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 will help channels generate higher TRP, strong advertising and better revenues.

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 deeper than print, radio or cinema (shown in the table below). Not surprisingly, its growth rate is quicker than in any other media and this trend is likely to sustain.

Regulatory changes: (Please refer article titled A CAS environment on page 28)

Newer delivery platforms: Even as there exists a vast potential for reaching cable television to almost 16 cr Indian households who either do not have access to it or do not own a television set, key media players like the ZEE Group, Tatas, Doordarshan and the Rupert Murdoch Group expect to launch direct-to-home services in India. Besides, the I&B ministry has granted permission for the launch of Head-end in the Sky (HITS) mechanism.

Internal

Enhanced regional programming: In 2003-4, the proportion of revenues from regional programming was 18 per cent of

Media reach: Socio-economic segments (per cent)

Household category	Print	TV	C&S	TV	Radio Cinema
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 (per cent)

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

sales, up from 14 per cent in 2002-3. The increase was on account of increased Kannada and Telugu programming. The company has plans to extend to Tamil, Malayalam and Bengali, while consolidating its leadership in existing spaces.

Increased hourly realisations: Balaji's TRP ratings translate into higher hourly realisations.

Increasing satellite channel presence: The emergence of new speciality channels present Balaji with a business expansion and revenue de-risking strategy. Besides, the company expects to gain a foothold in the MTV and soon-to-be-launched channels.

New segments and genres: The company expects to enter children's programming, interactive shows, nature programming and youth programmes to diversify across genres.

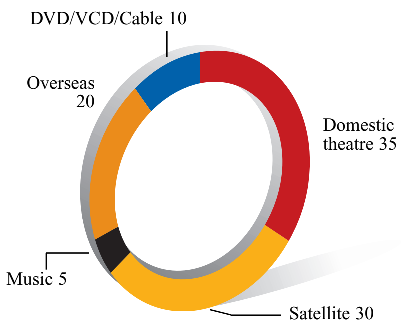
Entry into films: (Please refer writeup below.)

Software library exploitation: The company expects to exploit its software library of more than 3700 hours (as on 31 March 2004) through increased re-runs and sales in international markets with a significant Indian diaspora (the USA, UK, Canada, Malaysia, Singapore, Indonesia, Sri Lanka and Philippines). It has commenced exports to Indonesia and UAE. The creation of a rich software library is being facilitated by the retention of IPRs in sponsored programmes and the buyback of the rights of some commissioned serials from broadcasters.

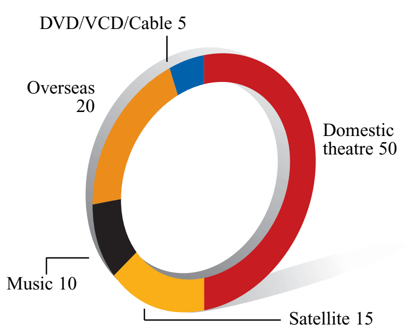
Films diversification

The Indian film industry was worth an estimated Rs. 4500 cr in 2003 and is expected to grow 18 per cent CAGR to gross Rs. 10,100 cr by 2008. The industry is undergoing a radical change following the advent of multiplexes and digital cinema. As film viewing becomes a holistic entertainment experience, more than 45 new multiplexes with more than 150 screens are being constructed, a majority in combination with shopping malls, gaming zones and restaurants etc. Balaji Telefilms expects to encash this emerging environment through the production of small budget films. These small budget films offer the prospect of substantial cost recovery even before the film is launched and a reasonable return following launch. Besides, a diversification into films will use the company's already expensed production infrastructure and a resident insight into storytelling and production values, leading to low costs.

Revenue structure of Hindi films with a budget less than Rs. 5 cr (per cent)



Revenue structure of Hindi films with a budget less than Rs. 10 cr (per cent)



A CAS environment

India's existing distribution chain for television content comprises three national multi-system operators (MSOs), six regional MSOs and thousands of cable operators. Under the existing system, services reach households in the following ways:

• Almost 60 % of India's C&S households are serviced by cable operators who possess independent headends through which signals are provided.

• Cable operators also depend on MSOs for signals, which are redistributed to almost 35 per cent of the C&S households that they reach.

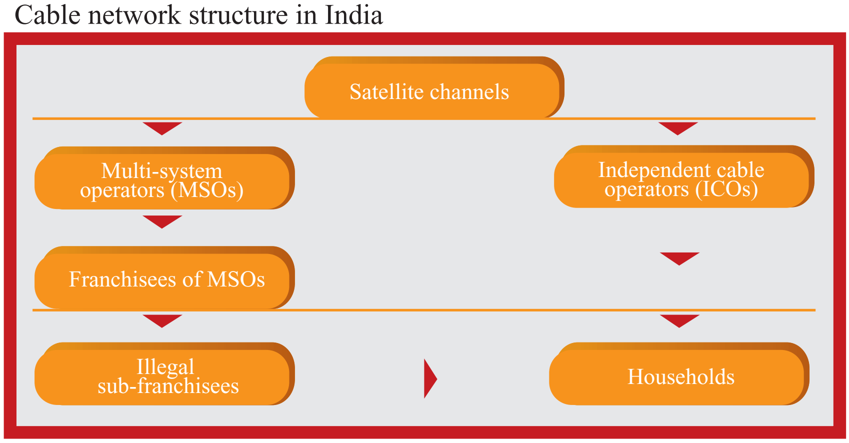
• About five per cent of the households are serviced directly by the MSOs.

Indian broadcasters complain that cable operators underreport their customer base, depriving them of fair subscription revenues. Presently, broad casters receive about 10 per cent of the total subscription fees as against a global average of 30-40 per cent.

This prompted the government to explore the possibility of more equitable distribution resulting in a Conditional Access System.

In January 2003, the amendment in the Cable Network (Regulation) Act 1995, made it mandatory to view pay channels only via a set top box. While 15 July 2003 was fixed as the date for CAS rollout in

Cable network structure in India



Source: Morgan Stanley Research

India's four metro cities, the implementation was postponed to September (Chennai) and Delhi (December).

The prohibitive cost of the set top box accounted for consumer resistance. Estimates suggest that the total capital outlay of 100 per cent rollout in the four metros would cost Rs. 1700 cr. While this cost is normally borne by MSOs in western countries, this is not considered viable in India on account of the low average revenue per unit (Rs. 200-300). As MSOs sought to push the investment cost onto the viewers, the implementation was staggered.

In January 2004, the Telecom Regulatory Authority of India (TRAI) was amended to include broadcasting and cable services within the ambit of 'telecommunication services', thereby empowering it to evolve policies for the orderly growth of the television broadcasting industry. As an interim measure, the regulator froze rates charged by all industry participants to the levels prevailing as on 26 December 2003, throughout the country and on 23 February 2004 postponed CAS rollout by three months.

Opportunity

It is reasonable to expect that the inequities in the cable television distribution system will be addressed through measures such as CAS or DTH, accelerating power away from the cable operator and towards the consumer. A regulator will allocate spectrum, issue and renew broadcasting licenses, determine issue conditions, determine technical planning guidelines and practice codes for programming and advertising.

Since the media industry globally is driven by the competitive dynamics of the marketplace, it is unlikely that TRAI will introduce restrictive clauses such as a ceiling on channel prices, extent and periodicity of price increases, individual channel and package price. It is also unlikely that a cap will be placed on the maximum advertising time on pay channels that is lower than the current industry practice.

As a result, broadcasters will enjoy a fairer share of subscription revenues; besides, advertising rates will be based on actual reach-based data. In effect, content alone will drive revenues, an excellent opportunity for the company to leverage its strength. The company's channel-driving capability will enable it to command a higher premium than prevailing benchmarks and exploit its existing software library more profitably. CAS, therefore, will be a key driver of topline and bottomline growth for the company across the foreseeable future.

“CAS will be a key driver of topline and bottomline growth for the company across the foreseeable future.”

V I E W P O I N T

The Indian entertainment industry – Emerging trends and opportunities, March 2004.

“Although most players in the industry acknowledge content as a driving force in their business model, it is only in the last year or so that quality programming has finally got its due recognition. Strong scripts and high production values, although deemed important for creative satisfaction, were not treated as the critical success factors they have proved to be. Barring a "KBC" or 'Kyunki Saas Bhi Kabhi Bahu Thi", most broadcasters were happy to stick to a tried and tested formula for content and concentrate on pushing production costs down in order to ensure profitability. However, the success of the Balaji dramas have illustrated that content is perhaps the most important critical success factor for broadcasters. The trend is clearly for TRPs to reward innovation in programming and scripts.”

Balaji's serials on air

Serial	Channel	Days	Time Band	Trp ratings	Top TRPs for the channel
Kyunki Saas Bhi Kabhi Bahu Thi	Star Plus	Mon-Thu	22.30-23.00	15.32	15.32
Kahaani Ghar Ghar Ki	Star Plus	Mon-Thu	22.00-22.30	14.07	15.32
Kasauti Zindagi kay	Star Plus	Mon-Thu	20:30 - 21:00	12.77	15.32
Kkusum	Sony	Mon-Thu	21.00-21.30	5.26	5.79
Kaahin Kissii Roz	Star Plus	Mon-Thu	23.30-00.00	4.36	15.32
Kya Haadsa kya haqeeqat	Sony	Fri- Sun	20.00-20.30	1.37	5.79
Kahiin to Hoga	Star Plus	Mon-Thu	23.00-23.30	8.27	15.32
Kkoi Dil Main Hai	Sony	Sunday	21.00-22.00	2.27	5.79
Kkehna Hai Kuch Mujhko	Sony	Fri - Sun	20.30-21.00	2.54	5.79
Kumkum Bhagya	Udaya TV	Mon-Fri	18:30 - 19:00	7.64	16.21
Kanya Daana	Udaya TV	Mon-Fri	18:00 - 18:30	8.30	16.21
Kkalavaari Kkodalu	Gemini	Mon-Fri	22:00 - 22:30	18.27	20.15
Kavyanjali	Gemini	Mon-Fri	21:30 - 22:00	20.15	20.15
Kayaamat	DD 1 (National)	Fri - Sat	21:00 - 21:30	26.40	29.49

Source: TAM India ratings (Female 15+, 29 cities) for the week ended April 3, 2004.

Programming hours

Programming model	March 00	March 01	March 02	March 03	March 04
Sponsored	414.5	835.0	632.0	613.5	666.5
Commissioned	57.5	402.0	875.0	1067.5	819.0
Total	472.0	1237.0	1507.0	1681.0	1485.5

Operating review

The year 2003-4 was one of consolidation for the company as it focused on sustaining the number of programmes by protecting quality and enhancing production efficiencies. Besides, the company drew out a ten-year perspective, incorporating the provision for a diversified revenue stream as well as an entry into newer genres and delivery formats.

Balaji had 14 television serials on air aggregating to 53 episodes a week as on 31 March 2004 compared to 15 serials and 55 episodes per week as on 31 March 2003. Almost all its programmes figured among the top 50 programmes; most enjoyed the highest TRP grossers or came close to doing so.

Programming hours

Total programming hours declined from 1681 in 2002-3 to 1486 in 2003-4, largely on account of the withdrawal of Kahani Teri Meri from Sony Entertainment Television in May 2003.

However, the company sustained a prudent mix of commissioned and sponsored programming.

The company's commissioned programming hours declined from 1067.5 in 2002-3 to 819 in 2003-4 while sponsored programming hours increased from 613.5 in 2002-3 to 666.5 in 2003-4.

Language mix

The company retained its position as one of the few multi-lingual production houses - Hindi, Telugu and Kannada. It continued to create a majority of its content in Hindi (ten of 14 serials), India's predominant language. Balaji enjoyed an aggregate share of 56.45 per cent of the TRPs of top 100 programmes in C&S homes. This includes repeat runs of its programmes, some of which did better than fresh programming on other channels.

Within Hindi programming, Balaji focused on mass entertainment, which enjoyed the highest viewership and generated the highest revenue (explained on page 27). Since regional languages accounted for almost 38 per cent of viewership, the company also retained its share of programming in this segment.

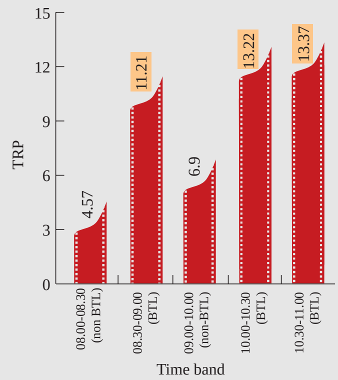
Language wise programming matrix (in hours and revenue terms and percentage of total)

	2002-3		2003-4	
Languages	Revenues	Programming Hours	Revenues	Programming Hours
Hindi	16,009.81	1,067.50	14,620.03	834.00
Telugu	1,283.92	261.00	2,047.04	305.50
Kannada	1,302.86	352.50	1,120.73	346.00
Total	18,596.59	1,681.00	17,787.80	1,485.50

CASE STUDY

1

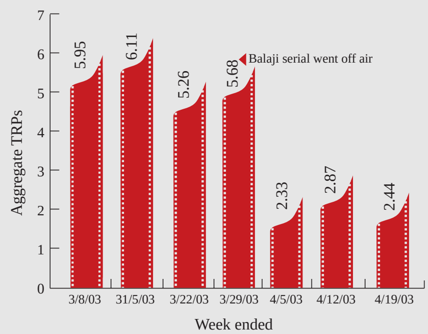
TRP chart of prime time shows on Star Plus, showing the performance of Balaji's programmes vis-à-vis other shows



Source: TAM Ratings, Category – Female 15 Plus, 29 Cities C&S, Wednesday 16.08.2003 the highlighted TRPs are for Balaji shows

2

TRP ratings of Zee TV after the Balaji show was taken off

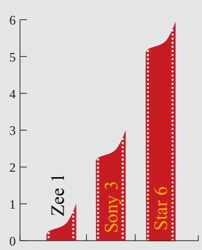


Source: TAM Ratings, Category – Female 15 Plus, 29 Cities C&S

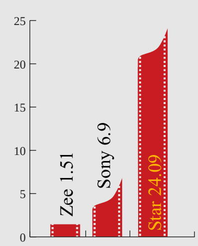
3

Position of channels before the launch of Balaji's weekend programme on Sony

No. of Shows



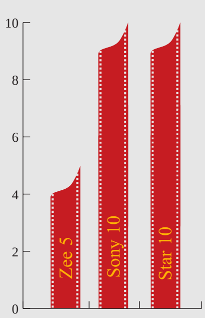
Aggregate TRPs



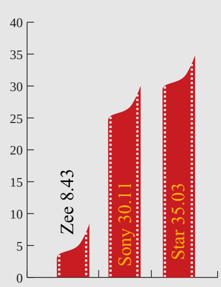
Source - TAM Ratings for the week ended 10/8/02, Category – Female 15 Plus, C & S, 29 cities

Position of Channels one year after the launch of Balaji Weekend Program

No. of Shows



Aggregate TRPs



Source - TAM Ratings for the week ended 09/8/03, Category – Female 15 Plus, C & S, 29 cities

Time bands

The company's serials were telecast across the evening prime time band - 8 pm to midnight - across various satellite channels. In spite of growing competition in 2002-3, the company emerged as the undisputed leader in prime time with 63.42 per cent of the aggregate TRP of the weekday prime time shows featuring in the top 100 Hindi C&S shows, reflecting their popularity. This helped the company enhance its bargaining capability with customer channels.

The company's repeat programmes were telecast during the afternoon time-slots. In this non-prime time segment, the company commanded 47.59 per cent of the total aggregate TRP of the weekday non-prime shows featuring in top 100 Hindi C&S shows.

In 2004-05, the company intends to extend into the unoccupied slot and weekend prime time programmes for leading satellite channels.

Channel driving capabilities

BTL is a preferred content provider because of its ability to drive overall channel viewership. This is borne by the fact that most of Balaji's serials are top TRP grossers for their respective channels.

Channel wise revenues

The company continued to diversify its channel profile to mitigate an over-dependence on any single channel. It produced serials for Star Plus, Sony, Zee TV, Sahara, Gemini TV and Udaya TV. It leveraged the pan-Indian reach of these channels and capitalised on their higher budgets to create serials that were invested with a superior visibility and visual appeal. The company's channel-wise revenues were as follows:

Analysis of financial results

	2002-3		2003-4	
Channel	Revenues	Programming Hours	Revenues	Programming Hours
Major satellite channels	16,011.31	1067.50	14,530.03	819.00
Doordarshan	-	-	90.00	15.00
Gemini TV	1,282.42	261.00	2,047.04	305.50
Udaya TV	1,302.86	352.50	1,120.73	346.00
Total	18,596.59	1,681.00	17,787.80	1,485.50

Sponsored serials

- Kumkum Bhagya
- Kanya Daana
- Kkalavaari Kkodalu
- Kavyanjali
- Kayaamat

The sponsored serials division performed remarkably during 2003-4. Along with an increase in the number of programming hours, revenues increased by 27.53 per cent and the operating profit of the segment rose by 41 per cent.

Key growth drivers

Volume-value mix: The company optimised the volume-value mix to maximise its performance. Consequentially, it marketed its commercial slots at competitive rates to generate a superior serial return.

Slot shift: There was a conscious decision to migrate into the early prime time slots on southern channels to capitalise on lower telecast fees (a saving of almost 40 per cent compared to prime time slots) without a commensurate fee reduction, which translated into a higher cost-revenue differential on the Udaya and Gemini channels.

Long-term deals: During the year, the company struck long-term deals with key advertisers and media houses, resulting in assured realisations from single client/ media houses and a protection from diverted adspends during high popularity events (cricket or elections).

Customer base consolidation: Balaji consolidated its customer base, which ensured that 80 per cent of its divisional revenues were derived from a small number of advertisers.

The extension of a transaction into a relationship de-risked the company's revenue sources from attrition and enlisted partner support in all the company's new projects.

Commissioned programming division

Commissioned programmes:

- Kyunki Saas Bhi Kabhi Bahu Thi
- Kahaani Ghar Ghar Ki
- Kasauti Zindagi kay
- Kkusum
- Kaahin Kissii Roz
- Kya Haadsa kya haqeeqat
- Kahiin to Hoga
- Kkoi Dil Main Hai
- Kkehna Hai Kuch Mujhko

> "The company not only continued to demonstrate its prime time supremacy but also succeeded in extending it by half an hour until midnight."

In the commissioned category, the company consolidated its market leadership and embarked on key initiatives. Although the full impact of the withdrawal of a prime time programme (Kahani Teri Meri on Sony) and the postponement of CAS was felt in 2003-4, the company did well to close with a marginal revenue decline and a profitability improvement.

Key achievements

Increasing realisations: The decline in revenues due to the withdrawal of a primetime show was compensated by an increase in average realisations per hour from existing programmes.

Slot filling: The company focused on plugging vacant time slots across all conventional time bands (prime time) and extending into others as well (weekends and afternoon). Their success is reflected in the fact that Kayamat, the company's weekend offering on Doordarshan has been consistently present in the top five ever since its launch.

Sustained prime time performance: The company's flagship shows continued to dominate prime time, an unprecedented phenomenon. Following a temporary dip, Kkusum returned to the top 50, strengthening its channel's (Sony) popularity. Kahin To Hoga reported impressive TRPs within weeks of its launch.

Prime time extension: The company not only continued to demonstrate its prime time supremacy but also succeeded in extending it by half an hour until midnight with the success of Kahin Kissi Roz (present in the top 50 programmes satellite channels, its ratings being better than some prime time programmes on other channels).

These initiatives enabled the company to command a significant premium over prevailing market rates for mass entertainment content. The outlook remains positive as the company expects to widen its genre presence, enter newer programme delivery formats and dominate newer slots on satellite channels.

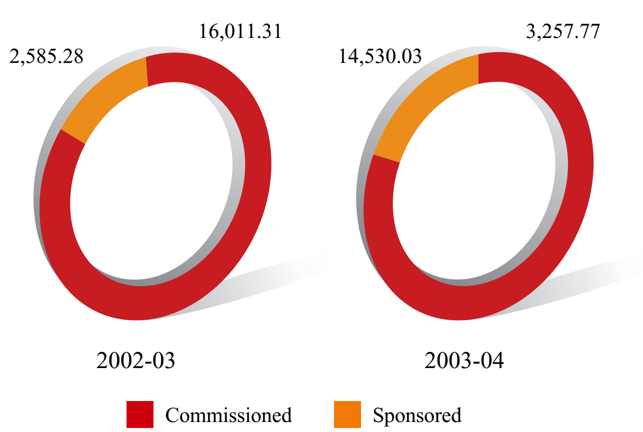
Sponsored serials division

	2003-4	2002-3	% increase /(decrease)
Programming hours	666.5	613.5	8.64
Gross revenues (Rs. in lac)	3299.57	2587.22	27.53
Operating profit (Rs. in lac)	1331.09	1068.12	24.62
Operating profit per cent	40	41	–
Average realisation per hour (Rs. in lac)	4.89	4.21	16.15

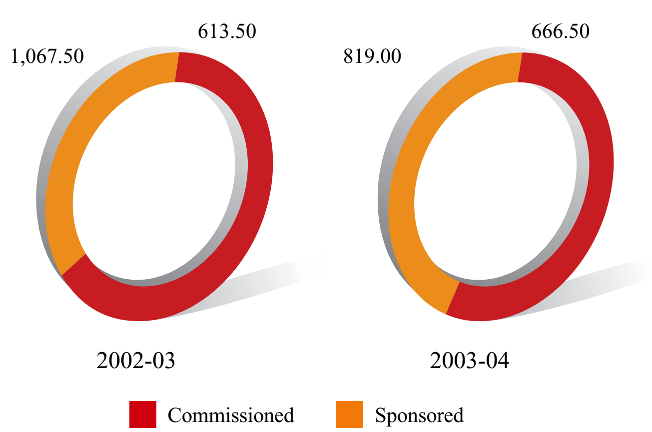
Commissioned programming division

	2003-4	2002-3	% increase /(decrease)
Programming (hours)	819	1067.5	(23.28)
Gross revenues (Rs. in lac)	14530.03	16009.37	(9.24)
Operating profit (Rs. in lac)	8374.37	9240.94	(9.38)
Operating profit per cent	58	58	–
Average realisation per hour (Rs. in lac)	17.74	15	18.27

Revenue (Rs. in lac)



Programming hours



Management's discussion and analysis

Financial review

Revenues

The Company's operational income declined by 4 per cent from Rs. 18596 lacs in 2002-3 to Rs. 17830 lacs in 2003-4, largely due to the withdrawal of under-performing serials. As a result, revenues from commissioned programming declined 9.24 per cent to Rs.14530 lacs while sponsored programming reported a 27.53 per cent growth on the back of enhanced programming hours and improved realisations. The company also achieved forex revenues of Rs. 40 lacs, arising out of the export of television software content to UAE, Indonesia and USA.

Other income

The 'Other Income', representing non-core revenues, increased from Rs. 149 lacs in 2002-3 to Rs. 615 lacs in 2003-4 as the company booked profits on its investments in debt funds. Subsequently the company switched its positions to more assured return instruments.

Dividend

The Board of Directors recommended a final dividend of Re. 1 per share (50 per cent on a par value of Rs. 2 per share) for the year ended 31 March 2004, amounting to Rs. 515 lacs. Including the interim dividend of Rs. 2 per share (100 per cent on par value of Rs. 2 per share) amounting to Rs. 1030 lacs, the total dividend recommended for the year was 3 per share (150 per cent on par value of Rs. 2 per share), amounting to an outflow of 1545 lacs.

> "The increased in gross block enhanced programming quality, helping company maintain its competitive edge in the creation of world-class content"

Gross block

The Company's gross block increased from Rs. 3504 lacs in 2002-3 to Rs. 4383 lacs in 2003-4 as the Company invested over Rs. 918 lacs in production / post-production equipment and the construction of state-of-the art studios. This addressed increased programming requirements and enhanced programming quality, which helped the company maintain its competitive edge in the creation of world-class content. Owing to this higher investment, depreciation increased from Rs. 424 lacs in 2002-3 to Rs. 774 lacs in 2003-4.

Investments

As on 31 March 2004, the Company's investments amounted to Rs. 7600 lacs. The Company invested its surplus funds in debt mutual funds and quality debt paper with the principal aim of safety The market value of these investments was Rs. 7770 lacs as on 31 March 2004.

Debtors

The Company's receivables increased from 71 days (equivalent to days of income) in 2002-3 to 83 days (equivalent to days of income) in 2003-4, influenced by an increase in average hourly realisations and a status quo in the terms of trade.

Inventories

The Company's inventory of programmes increased from nine days (in days of turnover) in 2002-3 to 15 days in 2003-4, largely due to an increasing episode inventory of yet-to-be-launched serials and feature films.

Loans and advances

Loans and advances increased from Rs. 929 lacs in 2002-3 to Rs 1207 lacs in 2003-4, these comprising lease deposits for offices and studios.

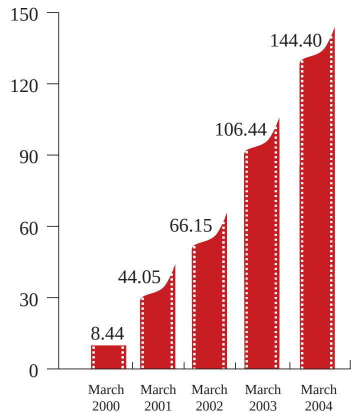
Five-year financial summary

BALANCE SHEET

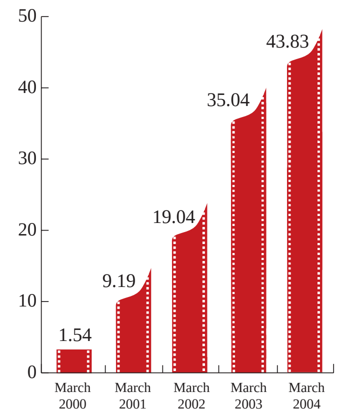
Rs. in cr.

Particulars	March 2000	March 2001	March 2002	March 2003	March 2004
Sources of Funds					
Equity share capital	1.00	10.30	10.30	10.30	10.30
Reserves & Surplus	7.44	33.75	55.85	96.14	134.08
Shareholders' Funds	8.44	44.05	66.15	106.44	144.38
Secured Loans	3.96				
Unsecured loans	0.55				
Total loans	4.51				
Deferred tax asset/(liability)			1.28	3.04	5.55
Total liabilities	12.95	44.05	67.43	109.48	149.93
Application of Funds					
Gross block	1.54	9.19	19.04	35.04	43.83
Depreciation	0.24	0.53	1.60	5.82	11.97
Net block	1.30	8.66	17.44	29.22	31.86
Capital WIP		2.12			0.56
NB+CWIP	1.30	10.78	17.44	29.22	32.42
Investment		9.33	24.40	48.69	76.00
Current Assets					
Inventories	2.56	4.97	3.54	4.69	7.28
Debtors	5.97	13.80	21.60	35.67	40.66
Cash & bank balance	0.42	1.96	3.35	1.23	1.05
Loans & advances	3.48	11.46	9.15	9.29	12.07
Total current assets	12.43	32.19	37.64	50.88	61.06
Current Liabilities					
Creditors	3.44	7.22	8.15	9.75	12.67
Other current liabilities	0.12	2.03	0.15	0.35	0.55
Provisions	1.54	3.10	4.71	9.21	6.33
Total current liabilities	5.10	12.35	13.01	19.31	19.55
Net current assets	7.33	19.84	24.63	31.57	41.51
Miscellaneous expenditure	4.32	4.10	0.96		
Total assets	12.95	44.05	67.43	109.48	149.93

Shareholders' Funds (Rs. in cr.)



Gross block (Rs. in cr.)

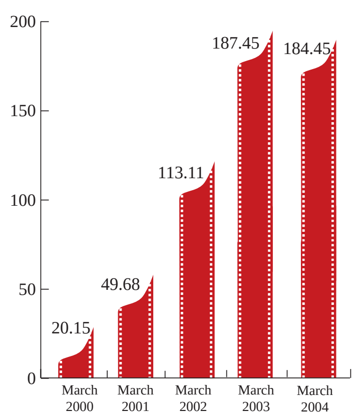


PROFIT & LOSS ACCOUNT

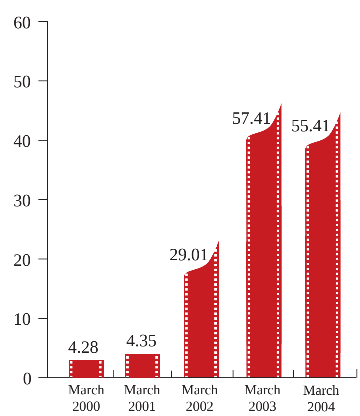
Rs. in cr.

Particulars	March 2000	March 2001	March 2002	March 2003	March 2004
Total sales	20.10	48.88	110.30	185.96	178.30
Other income	0.05	0.79	2.81	1.49	6.15
Total income	20.15	49.68	113.11	187.45	184.45
Cost of sales	11.85	37.83	56.44	79.31	74.57
Overheads	1.56	3.42	7.88	12.36	16.97
Deferred revenue expenditure	0.72	1.68	3.13	0.96	–
Total cost	14.13	42.93	67.45	92.63	91.54
PBDIT	6.02	6.75	45.66	94.82	92.91
Interest	0.49	0.66	0.04	0.06	0.02
PBDT	5.53	6.09	45.62	94.76	92.89
Depreciation	0.10	0.34	1.07	4.24	7.74
PBT	5.43	5.75	44.55	90.52	85.15
Tax	1.15	1.40	15.75	32.03	27.22
Deferred tax			(0.21)	1.08	2.52
PAT	4.28	4.35	29.01	57.41	55.41
Dividend tax	–	0.16	0.26	0.99	1.98
Equity dividend	–	1.55	5.15	15.45	15.45
Year-end price (Rs.)	–	28.94	81.81	55.05	84.45
Market Capitalisation	–	149.09	421.45	283.60	435.05

Total income (Rs. in cr.)



Profit After Tax (Rs. in cr.)



Ratios

Financial performance ratios	March 2000	March 2001	March 2002	March 2003	March 2004
Other income/Total income	0.25	1.62	2.55	0.80	3.34
Cost of production/Net sales	58.96	77.38	51.17	42.65	41.82
Overheads/Total income	7.76	7.00	7.14	6.65	9.20
Interest/ Total income	2.44	1.35	0.04	0.03	0.01
PBDIT/Total income	29.88	13.59	40.37	50.58	50.37
PBDT/Total income	27.44	12.26	40.33	50.55	50.36
Tax/PBT	21.18	24.35	35.35	35.38	31.97
PAT/Total income	21.24	8.76	25.65	30.63	30.04
Cash profit/Total income	21.74	9.44	26.59	32.89	34.24
RONW (PAT/Net Worth)	103.88	10.89	44.51	53.94	38.38
ROCE (PBDIT/Average capital Employed)	86.25	27.79	86.86	110.49	74.09
Capital output ratio (Total income/Average capital employed)	2.89	2.05	2.15	2.18	1.47
Total Income to gross block	13.08	5.41	5.94	5.35	4.21
Total Income to working capital	2.75	2.50	4.59	5.94	4.44

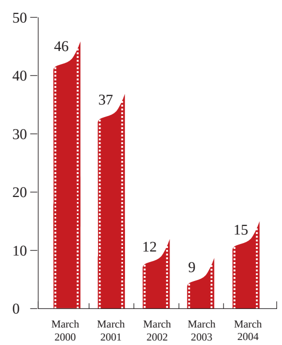
Balance Sheet Ratios	March 2000	March 2001	March 2002	March 2003	March 2004
Debtor’s Turnover (days)	107	102	70	69	82
Inventory Turnover (days)	46	37	12	9	15
Current Ratio	2.44	2.61	2.89	2.63	3.12
Quick Ratio	1.94	2.20	2.62	2.39	2.75
Cash and Equivalents/ Total Assets (%)	4.87	28.26	41.75	45.60	51.39
Asset Turnover (Total Income/Total Assets)	2.33	1.24	1.70	1.71	1.23

Growth ratios (%)	March 2000	March 2001	March 2002	March 2003	March 2004
Growth in Total Income	52.19	146.55	127.68	65.72	(1.60)
Growth in net sales	51.93	143.23	125.61	68.59	(4.12)
Growth in PBDIT	80.78	12.13	576.44	107.67	(2.01)
Growth in PAT	52.86	1.64	566.99	97.87	(3.48)

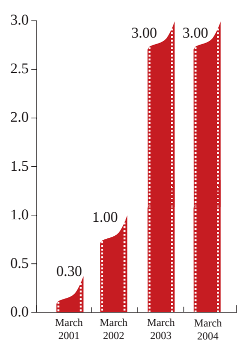
Per share data ratios (Rs.)	March 2000	March 2001	March 2002	March 2003	March 2004
Earnings (less extraordinary Income)	8.56	0.84	5.63	11.15	10.76
Cash Earnings	8.76	0.91	5.84	11.97	12.26
Dividend		0.30	1.00	3.00	3.00
Book Value	8.24	7.76	12.66	20.67	28.03

Shareholder-related statistics	March 2001	March 2002	March 2003	March 2004
Dividend per Share(%)	15	50	150	150
Dividend payout Ratio (%)	35.49	17.75	26.91	27.89
Price/Earnings (times)	34.26	14.52	4.94	7.85
Price/Cash Earnings (times)	31.78	14.01	4.60	6.89
Price/Book Value (year end) (times)	3.84	6.66	2.74	3.10
Growth in Market Capitalisation (%)	–	182.69	(32.71)	53.41

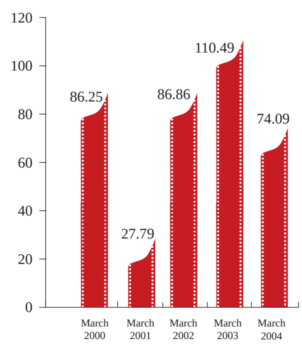
Inventory Turnover (days)



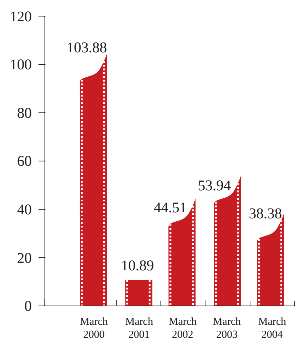
Dividend (Rs.)



ROCE (%)



RONW (%)



Economic Value-Added Statement

Particulars (Rs. in cr)	March 2000	March 2001	March 2002	March 2003	March 2004
Gross Income	20.10	48.89	110.30	185.96	178.30
Add : Other Income	0.05	0.79	2.81	1.49	6.15
Corporate output	20.15	49.68	113.11	187.45	184.45
Less : Cost of production,					
Selling &Administrative expenses	14.13	42.93	67.45	92.63	91.54
Gross value-added	6.02	6.75	45.66	94.82	92.91
Less : Depreciation	0.10	0.34	1.07	4.24	7.74
Net value-added	5.92	6.41	44.59	90.58	85.17
Growth %	81.60	8.28	595.69	103.12	(5.97)
To taxes (inclusive dividend tax)	1.15	1.56	16.01	33.02	29.20
To creditors (interest)	0.49	0.66	0.04	0.06	0.02
To investors (dividend)		1.55	5.15	15.45	15.45
To the company(retained earnings)	4.77	3.30	23.43	42.11	40.52

Risk management

The entertainment industry is influenced by a number of variables.

> Balaji Telefilms has embarked on a methodical identification and measurement process to mitigate the impact of these variables. The following study analyses these risks, their implications and the company's mitigating mechanism.

INDUSTRY RISK

Implication

With the information explosion emerging, attention spans could fragment and the Indian entertainment industry could slow down. This could impact the company's growth prospects and revenues.

Mitigation

The Indian entertainment industry is one of the country's fastest growing spaces. The television segment within it is expected to grow at a CAGR of 17 per cent. Balaji is confident of leveraging its deep expertise and outperforming industry growth.

AUDIENCE ATTRITION RISK

Implication

The uniform nature of content across all serials might pare TRPs, leading to lower realisations.

Mitigation

Balaji specialises in paced storylines with unexpected twists, reinforced by superior production values (sets, music scores, locations and clothing). There is always a large viewership for such content, evidenced by the company's high TRPs and increasing realisations per hour.

STAGNATION RISK

Implication

Balaji may have peaked from a revenue perspective.

Mitigation

The company expects to service more channels, more time bands, more languages, more formats (small budget films) and a stronger exploitation of its IPR in the international markets. Besides, the CAS environment is likely to enhance revenues as well.

CUSTOMER CONCENTRATION RISK

Implication

The company's business revolves around few channels, which could reduce its bargaining strength in the event that they do not do well.

Mitigation

As a corporate policy, the company works only with credible, visible and financially sound TV channels. The company's content helped these channels strengthen their financial viability, increasing its bargaining capacity. Over the next few years, the company expects to service more channels and reduce its over-dependence on a few.

LANGUAGE RISK

Implication

Almost 82 per cent of the company's revenues accrued from Hindi programming, a huge over-dependence on a single language.

Mitigation

Hindi is the second most widely spoken language in the world, a reality that will remain. As a result, a wide presence in Hindi is a business strength. However, the company is making an increasing amount of content in other vernacular languages as well.

CREATIVE RISK

Implication

Creativity is not a quantifiable resource. As such, there is no assurance that the company will continue to create popular soaps. Also, the pivotal role played by Ekta Kapoor, the company's creative head, could be a scalability constraint.

Mitigation

Ekta Kapoor is involved at the conceptualisation stage and the first few episodes of all serials, following which respective creative heads take over. The company has reinforced aggressive recruitment and hands-on training with three back-up teams fully capable of handling the complete creative life cycle of a project.

COMPETITION RISK

Implication

Increasing competition may rationalise realisations.

Mitigation

Despite an open market, the company has dominated the Indian entertainment software industry. It has transformed its growth into a virtuous cycle by reinvesting back into people and infrastructure. As a result, there is a vast distance between the company and the industry number two, a reality that could sustain.

TECHNOLOGY RISK

Implication

As technologies evolve with speed, the company's investments could well become obsolete. Considering that Balaji has invested Rs. 43.83 cr until 31 March 2004 in its assets, their replacement could drain the company of precious resources.

Mitigation

The company's post production and other equipment were digital and state-of-the-art, easily upgradable to the next level, an obsolescence-proof initiative. Besides, their aggressive captive use has already helped the company recover the amount invested in them. Besides, there are a number of years of production life left in these assets, helping the company save cost over the foreseeable future.

ARTISTE AND PEOPLE ATTRITION RISK

Implication

Key artistes and professionals may leave, affecting serial quality, viewership and brand equity.

Mitigation

Favourable remuneration packages, non-artiste centric scripts, long-term contracts, a challenging workplace, a performance-oriented appraisal system, a fast-growth environment, hands-on training, adequate empowerment and multi-level succession planning have helped counter this risk.

REGULATORY RISK

Implication

A delay in the introduction of CAS and DTH could stagger the prospects of higher realisations.

Mitigation

The appointment of TRAI as the regulator is a positive step that is expected to accelerate the introduction of CAS. Independent of this development, the company is enriching its content to mitigate the impact arising out of regulatory delays.

WORKING CAPITAL RISK

Implication

On the one hand, the company suffers from a long receivables cycle while on the other it must remunerate professionals on schedule. Any mismatch could affect the company's reputation as a preferred employer.

Mitigation

Working capital requirements are funded from accruals. The company possessed cash and cash equivalents worth Rs. 77 cr as on 31 March 2004, an adequate hedge against unforeseen resource requirements. Besides, an ongoing audit, centralised purchase, episode progress report and sustained serial cost evaluation helped control costs.

INTERNAL CONTROLS RISK

Implication

In a largely unorganised industry, the absence of a strict financial control could translate into cost and time overruns.

Mitigation

A comprehensive write up on the rigorous internal control system followed by the company has been provided on page 20.


On one of the sets at Sankraman studios, Balaji Teleflims

Your Directors take pleasure in presenting the Tenth Annual Report and Audited Statement of Accounts of the Company for the year ended 31 March 2004.

Financial results

Rs. (in lac)

Particulars	2003-4	2002-3
Total Income	18444.90	18745.70
Profit before Interest, depreciation and tax	9291.11	9482.21
Less: Interest and financial charges	2.34	5.89
Depreciation	773.69	424.30
Profit before tax	8515.08	9052.02
Provision for tax	2722.53	3203.00
Provision for deferred income tax	251.77	107.58
Profit after tax	5540.78	5741.44
Add: Balance brought forward from previous year	5592.79	2069.84
Appropriations		
Disposable profits	11129.90	7811.28
Proposed dividend	515.16	772.74
Interim dividend	1030.34	772.74
Dividend tax	198.00	99.01
Transfer to General Reserve	554.00	574.00
Balance carried to Balance Sheet	8832.40	5592.79

Results of operations

During the financial year under report, total revenues decreased to Rs. 184.44 cr. from Rs. 187.46 cr. last year. Operating profit decreased to Rs. 86.76 cr. (48.66 per cent of net sales) from Rs. 94.29 cr. (50.70 per cent of net sales). Profit after tax decreased to Rs. 55.41 cr. (31.08 per cent of net sales) from Rs. 57.41 cr (30.87 per cent of net sales). Net profit margin has increased to 31.08 per cent from 30.87 per cent. Cost of production has decreased by six per cent.

Detailed discussions of the company's business activities have been carried in a separate section under the title 'Management's discussion and analysis'.

> "Net profit margin has increased to 31.08 per cent from 30.87 per cent. Cost of production has decreased by six per cent."

Dividend

Your Directors are pleased to recommend a final dividend of one Rupee per share (50 per cent on par value of two Rupees per share) for the year ended 31 March 2004, amounting to Rs. 5.15 cr., over and above an interim dividend of Rs. 2.00 per share (100 per cent on par value of Rs. 2 per share) amounting to Rs. 10.30 cr., declared and paid during the year. The total amount of dividend for the year ended 31 March 2004 is Rs. 15.46 cr., same as Rs. 15.46 cr. for the previous year.

Final dividend, if approved at the Annual General Meeting will be paid to all members whose names appear on the Register of Members as on 27 August 2004. The register of members and share transfer books will remain closed from 19 August 2004 to 27 August 2004, both days inclusive.

In respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as per details furnished by National Securities Depository Limited and Central Depository Services (India) Limited for this purpose. Dividend income is exempt from tax for shareholders and the domestic companies are liable to pay a dividend distribution tax at the rate of 12.50 per cent, plus a surcharge at the time of distribution. Accordingly, the company has provided for an amount of Rs. 66.00 lac towards dividend distribution tax on the final dividend of Rs. 5.15 cr. recommended by the board on 21 May 2004.

Directors

During the year, Dr. Raj Bothra, who was on the Board since 4 April 2000 ceased to be Director on the Board of Directors of the company.

Mr. Tusshar Kapoor, Mr. Ajay Patadia and Mr. Pradeep Sarda were appointed as an Additional Director of the company on 23 January 2004, 23 January 2004 and 17 May 2004 respectively. Mr. Ajay Patadia has resigned from Board on 17 May 2004. The Board places on record its appreciation of the contributions made by Dr. Bothra and Mr. Patadia during their tenure as Directors of the company.

Mr. Kapoor and Mr. Sarda holds office upto the date of the ensuing Annual General Meeting of the company and are eligible for appointment as Directors of the company. Notices have been received from the members proposing candidature of Mr. Tusshar Kapoor and Mr. Pradeep Sarda for appointment as Director of the company.

Mr. Akshay Chudasama retires from the Board by rotation and being eligible, offers himself for re-appointment.

Auditors

M/s. Deloitte, Haskins and Sells, Chartered Accountants, Mumbai and M/s. Snehal & Associates, Chartered Accountants, Mumbai, the Joint Auditors of the company retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment and have also confirmed their eligibility and willingness for appointment, if made, as Joint Auditors of the company and certifying that, if they are appointed as Auditors for the year 2004 – 2005, their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

Particulars of employees

Particulars of employees, as required under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, are set out as under:

Name / Designation	Gross remuneration (Rs.)	Qualification	Experience in years	Date of commencement of employment	Age	Last employment held
Shobha Kapoor	1,13,38,400/-	N.A.	10	10 Nov 1994	55	N.A.
Ekta Kapoor	1,13,38,400/-	B. Com	10	10 Nov 1994	29	N.A.

Notes:

1. Gross remuneration comprises salary, commission, allowances, company's contribution to Provident Fund and taxable value of other perquisites.
2. The nature of employment of Ms. Shobha Kapoor and Ms. Ekta Kapoor is contractual and terminable by three month's notice.
3. Ms. Shobha Kapoor and Ms. Ekta Kapoor are related to each other.

Conservation of energy and technology absorption

The company is not engaged in manufacturing activities and as such, particulars relating to conservation of energy and technology absorption are not applicable. However, in studios, post production facilities etc. adequate measures are being taken to conserve energy as far as possible.

Foreign exchange earnings and outgo

The particulars regarding foreign exchange earnings and outgo are given in point 12 in Schedule 16 (Statement of Significant Accounting Policies and Notes forming part of Accounts) of this report.

Fixed deposits

The company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

Corporate governance

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section titled Corporate Governance has been included in this report. The auditors' certificate on compliance of Clause 49 of the Listing Agreement by the company is annexed to this report.

Directors' responsibility statement

The Directors confirm:

• that in the preparation of the annual accounts, the applicable accounting standards have been followed;

• that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;

• that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

• that they have prepared the annual accounts on a going concern basis.

Acknowledgments

Your Directors wish to place on record their appreciation of the contribution made by the employees at all levels, who, through their competence, hard work, solidarity, cooperation and support, have enabled the company to achieve consistent growth.

On behalf of the Board of Directors,

Place : Mumbai — Jeetendra Kapoor

Date : 21 May 2004 — Chairman

SONY
Entertainment Television

Mon – Friday
9.00 pm – 9.30 pm.

KKUSUM, THE PROTAGONIST OF THIS SERIAL, comes from where 75% of all successful Indian women come from – the middle class family! She epitomises the ‘uncompromising’ values of this class and it is therefore no surprise that she commands a large and loyal viewership. The story is all about her evolution from the role of a career woman to that of a business tycoon. Emerging stronger with each failure, she becomes the role model for every aspiring Indian middle-class girl who believes that marriage does not need to be the only goal in life.

Balaji Telefilms Limited is committed to strong corporate governance and believes in its indispensability in investor protection. The company's compliance with the Corporate Governance Code in terms of Clause 49 of the Listing Agreement with the Stock Exchange, Mumbai and National Stock Exchange of India Limited is given herein below:

Company's philosophy on corporate governance

The company's philosophy on corporate governance is as under:

• Ensure that quantity, quality and frequency of financial and managerial information, which the management shares with the Board, fully places the Board members in control of the company's affairs

• Ensure that the Board exercises its fiduciary responsibilities towards shareholders and creditors, thereby ensuring high accountability

• Ensure that the extent to which the information is disclosed to present and potential investors is maximised

• Ensure that the Board, the employees and all concerned are fully committed to maximising long-term value to the shareholders and the company

Composition of the Board

The Board currently has seven members, of whom two are Executive Directors. The Board has a non-executive Chairman. More than one third of the strength of the Board of Directors comprises of Independent Directors. The Board functions either as a full Board or through committees. Policy formulation, setting up of goals and evaluation of performance and control functions vest with the Board, while the committees oversee operational issues.

Four meetings of the Board of Directors were held during the year – on 22 May, 29 July, 24 October in 2003 and on 23 January in 2004. The maximum time gap between any two meetings was not more than four calendar months. None of the Directors of the company held committee membership of more than ten committees nor committee chairmanships of more than five committees across all companies in which the person was a Director.

The names of members of the Board of Directors, their attendance at Balaji Telefilms Board meetings and the number of their other directorships are set out below:

Name of the Director	Attendance particulars		No. of directorships and committee memberships / chairmanships		
	Board meetings	Last AGM	Other directorships	Committee memberships	Committee chairmanships
Mr. Jeetendra Kapoor (P, N)	3	Present	3	3	1
Ms. Shobha Kapoor (P, E)	4	Present	3	1	0
Ms. Ekta Kapoor (P, E)	4	Not Present	1	1	0
Dr. Raj Bothra* (N, I)	0	Not Present	0	0	0
Mr. Akshay Chudasama (N, I)	4	Present	2	2	1
Mr. Dhruv Kaji (N, I)	3	Present	3	2	1
Mr. Tusshar Kapoor # (P, N)	1	N. A.	2	0	0
Mr. Ajay Patadia#, ** (N, I)	1	N. A.	2	0	0
Mr. Pradeep Sarda ## (N,I)	0	N.A.	17	2	0

P = Promoter; E = Executive; N = Non-Executive; I = Independent
* Vacated office w.e.f. 23 January 2004 in terms of section 283(1)(g) of the Companies Act, 1956
# Appointed as Additional Director w.e.f. 23 January 2004
**Resigned as Director w.e.f. 17 May 2004
Appointed as Additional Director w.e.f. 17 May 2004

Audit committee

Terms of reference

The audit committee provides direction to the audit and risk management function in the company and monitors the quality of internal audit and management audit. The responsibilities of the audit committee include overseeing the financial reporting process to ensure proper disclosure of financial statements, recommending appointment / removal of external auditors and fixing their remuneration, reviewing the annual financial statements before submission to the Board, reviewing adequacy of internal control systems and adequacy, structure and staffing of the internal audit function, reviewing findings of internal investigations, discussing the scope of audit with external auditors.

The terms and composition of the audit committee conform to the requirement of Section 292A of the Companies Act, 1956.

Composition

The composition of the audit committee is as follows:

Chairman	:	Mr. Dhruv Kaji
Members	:	Mr. Akshay Chudasama Mr. Jeetendra Kapoor Mr. Pradeep Sarda
Secretary	:	Ms. Alpa Shah
Invitees	:	Representatives of Statutory Auditors and Internal Auditors Mr. V. Devarajan, Chief Financial Officer

Mr. Ajay Patadia, who was the Company Secretary resigned with effect from 23 January 2004 and Ms. Alpa Shah was appointed as Company Secretary of the company with effect from 23 January 2004.

Mr. Pradeep Sarda, who was appointed as Additional Director of the company, was also appointed as member of the audit committee with effect from 17 May 2004.

Meetings and attendance

The details of meetings held during the year, and the attendance thereat are as follows:

Dates of meetings: 22 May and 24 October in 2003 and 23 January in 2004.

Attendance

Name of the Director	No. of meetings attended
Mr. Dhruv Kaji	3
Mr. Akshay Chudasama	3
Mr. Jeetendra Kapoor	3

The Statutory Auditors and Internal Auditors of the company are invitees to the audit committee meetings. The audit committee holds discussions with the Statutory Auditors on "Limited Review" of the quarterly, half yearly accounts, yearly audit of the company's accounts and other related matters.

The company has re-appointed PSK & Associates, Chartered Accountants as Internal Auditors to review the internal control systems of the company and to report thereon. The report of the Internal Auditors is reviewed by the audit committee.

Shareholders' committee

Terms of reference

The functions and powers of the shareholders' committee include approval / rejection of transfer / transmission and rematerialisation of equity shares, issue of duplicate certificates and supervising of the operations of the registrar and transfer agents and also maintaining investor relations and review and redressal of shareholders / investors' grievances / complaints. The details in this respect are given in the Shareholder Information section of this report.

Composition

The composition of the shareholders' committee is as follows:

Chairman	:	Mr. Jeetendra Kapoor
Members	:	Ms. Shobha Kapoor Ms. Ekta Kapoor
Secretary	:	Ms. Alpa Shah

Meetings and attendance

The details of meetings held during the year, and the attendance thereat are as follows:

Dates of meetings: - 28 April, 3 July and 29 September in 2003 and 31 March in 2004

Attendance

Name of the Director	No. of meetings attended
Mr. Jeetendra Kapoor	4
Ms. Shobha Kapoor	4
Ms. Ekta Kapoor	4

The committee oversees share transfers and monitors investors grievances. The committee reviewed the shareholder grievances and the share transfers for the year and expressed satisfaction with the same. The committee also noted the shareholding in dematerialised mode as on 31 March 2004 being 99.88 per cent.

Remuneration committee

Terms of reference

The committee is entrusted with the role and responsibility of approving the compensation packages of the Managing Director/ Whole Time Director, reviewing and approving the performance-based incentives to be paid to the Managing Director/ Whole Time Director and reviewing and approving compensation package and incentive schemes of senior managerial personnel.

Composition

The composition of the remuneration committee is as follows:

Chairman	:	Mr. Akshay Chudasama
Members	:	Mr. Dhruv Kaji Mr. Jeetendra Kapoor
Secretary	:	Ms. Alpa Shah

Meetings and attendance

All the members of the committee met on 22 May 2003 for discussing and fixing the revision of remuneration to be paid to the Managing Director and Whole Time Director. The revision in the remuneration with effect from 1 April 2004 has been approved by the shareholders at the last Annual General Meeting held on 21 August 2003.

Remuneration policy and details of remuneration paid

The remuneration of the Directors is decided by the Board of Directors as per the remuneration policy of the company within the ceiling approved by shareholders.

No fixed component and performance-linked incentives have been paid or is payable to the Managing Director and the Creative Director for the period under review, other than the commission @ of one per cent of the net profit of the company.

No remuneration was paid to non-executive Directors apart from Directors' sitting fees and commission at fixed rate of 0.90 per cent to Chairman and 0.10 per cent to all other non-executive Directors with a ceiling of Rs. 2 lac each, as approved by the shareholders at the last Annual General Meeting.

Details of the remuneration to the Directors for the year ended 31 March 2004

Name	Designation	Remuneration for the year 2003-2004 (in Rs.)					
		Salary	Perquisites	Commission	Sitting Fees	Employer's contri-bution to provident fund & gratuity	Total
Ms. Shobha Kapoor	Managing Director & CEO	2760000	26400	8372000	–	180000	11338400
Ms. Ekta Kapoor	Creative Director	2760000	26400	8372000	–	180000	11338400
Mr. Jeetendra Kapoor	Non-Executive Chairman	–	–	7534000	15000	–	7549000
Mr. Akshay Chudasama	Independent Director	–	–	200000	20000	–	220000
Mr. Dhruv Kaji	Independent Director	–	–	200000	20000	–	220000
Mr. Tusshar Kapoor	Director	–	–	200000	5000	–	205000
Mr. Ajay Patadia	Independent Director	–	–	–	5000	–	5000

The agreement with the Managing Director and the Creative Director is for a period of five years ending 10 November 2004. The nature of employment of Ms. Shobha Kapoor and Ms. Ekta Kapoor is contractual and terminable by three month's notice.

General body meetings

The details of Annual General Meetings held in the last three years are given below:

Annual General Meeting	Day/Date	Time	Venue
7th meeting	Thursday, 27 September 2001	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053.
8th meeting	Friday, 23 August 2002	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053.
9th meeting	Thursday, 21 August 2003	3:30 p.m.	'The Club', 197, D N Nagar, Andheri (West), Mumbai – 400 053.

No special resolutions were put through postal ballot till last year.

Disclosures

1. Related parties transactions

The transactions with related parties have been disclosed vide point no. 8 of the notes to accounts, as detailed under Schedule 16 of the financial statements.

2. Compliances by the company

The company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters relating to capital markets during the last three years. No penalties or strictures have been imposed on the company by the stock exchanges, SEBI, or other statutory authorities relating to the above.

Means of communication

Balaji Telefilms believes that all stakeholders should have access to adequate information, regarding the company's position to enable them to accurately assess its future potential. In accordance with the applicable guidelines / listing agreement with the stock exchanges, all information which could have a material bearing on Balaji Telefilms share price is released at the earliest.

Balaji Telefilms financial results are generally published in Business Standard and Tarun Bharat / Sakal (regional daily). The financial results, official news releases and presentations are also displayed on the company's website www.balajitelefilms.com. Balaji Telefilms has been sending a copy of its half-yearly results to each household of shareholders.

The financial results of the company for each quarter are also put on the website of Electronic Data Information and Retrieval (EDIFAR) maintained by National Informatics Centre and can also be perused from the website www.sebiedifar.nic.in.

General shareholder information

1	Date of Book Closure	19 August 2004 to 27 August 2004 (both days inclusive).
2	Date, time and venue of the Annual General Meeting	27 August 2004 at 3:30 p.m. at 'The Club', 197, DN Nagar, Andheri (West), Mumbai 400 053.
3	Dividend payment	The Board of Directors has recommended final dividend of 50 per cent for the year ended 31 March 2004 over and above, 100 per cent interim dividend declared and paid during the year. The final dividend will be paid within the stipulated number of days once it is approved at the AGM.

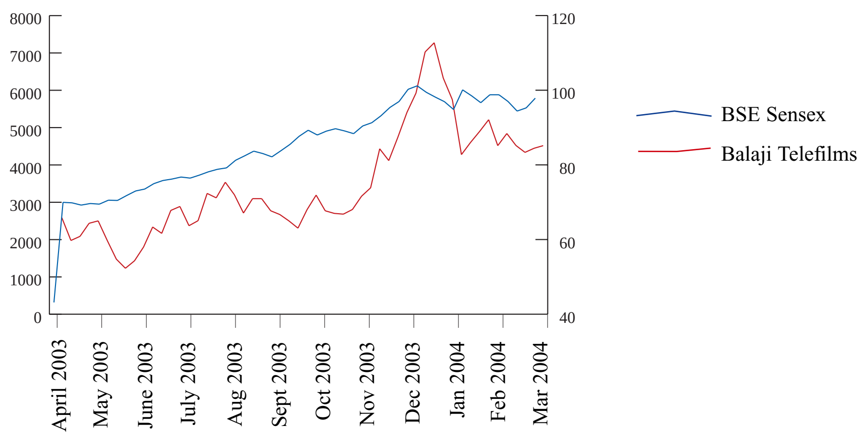
4 Listing on stock exchanges	1. The Stock Exchange, Mumbai, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. Tel: +91-22-22721233/34, Fax:+91-22-22723719/2037 (Stock Code – 532382) 2. National Stock Exchange of India Limited, Exchange Plaza, 5th floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051. Tel: +91-22-26598235 / 36, Fax: +91-22-26598237/38 (Stock Code – BALAJITELE)
5 Listing Fees	Paid for both the above Stock Exchanges as per listing agreements.
6 Listing on stock exchanges outside India	Not applicable
7 Registered office of company	C-13, Balaji House, Dalia Industrial Estate, Opp. Laxmi Industries, New Link Road, Andheri (West), Mumbai – 400 053. Tel: +91-22-26732275, Fax: +91-22-26732312 Email: balaji@balajitelefilms.com website: www.balajitelefilms.com
8 Share transfers in physical, communication regarding share certificates, dividends, change in address etc. may be addressed to:	Karvy Computershare Private Limited (Company's Registrar and Transfer Agents) Unit: Balaji Telefilms Limited, 'Karvy House' 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034. Tel: +91-40-23312454 / 23320251, Fax: +91-40-23311968 Email: mailmanager@karvy.com
9. Share transfer system	Shares sent for physical transfer are registered and returned within one month from the date of receipt, if the documents are clear in all respects. The Shareholders' Committee meets as often as required. The total number of shares transferred in physical form during the year 2003-2004 were --250. There was no share transfer pending as on 31 March 2004.
10.Stock market data relating to shares listed in India	The company's shares are listed on the Stock Exchange, Mumbai and National Stock Exchange of India Limited, since 22 November 2000. The company's market capitalisation as on 31 March 2004 was Rs. 435.05 cr. The monthly high and low quotations as well as the volume of shares traded during the year are as below.

Month	BSE, Mumbai			National Stock Exchange		
	High	Low	No. of shares traded	High	Low	No. of shares traded
April 03	70	52	383609	70.00	52.50	1254722
May 03	69.9	51.7	3539382	70.00	52.00	10662078
June 03	70.5	51.55	17025562	70.0	51.7	45596147
July 03	76.4	62.9	7678725	76.8	62.9	24186797
August 03	76.05	64	2197890	76.25	64	8711349
September 03	76.9	56	2675750	76.75	55.0	8076951
October 03	75.3	63	4212827	80.0	63.0	10621518
November 03	84.85	66.05	5612844	84.7	63.0	14804424
December 03	109.5	80.5	6099989	109.4	78.6	14841520
January 04	115.9	82	6779732	116.7	82.0	11777082
February 04	104	78	1523698	104	72.75	8858316
March 04	94.9	76.05	755527	93.8	68.15	2321207

Fact sheet

Items	2002-3	2003-4
Earnings per share	Rs. 11.14	Rs. 10.75
EPS – Fully diluted	Rs.11.14	Rs. 10.75
Dividend per share	Rs. 3.00	Rs. 3.00
Number of shares	5,15,16,250	5,15,16,250
Share price data (Rs.)		
High	132.98	115.90
Low	52.00	51.55
Closing	55.05	84.45

The performance of Balaji Telefilms equity share relative to the BSE Sensitive Index (Sensex) is given in the chart below.



11. Investor Service – complaints / requests received during the year

Year ended 31 March 2004

Nature of correspondence / request	Received	Disposed
Receipt of Dividend Warrant for Revalidation	74	74
Request for Ecs Facility	6	6
Change/Correction of Bank mandate on Dividend Warrant	38	38
Request for Rematerialisation	2	2
Correspondence relating to NSDL Operations	9	9
Change/Correction of Address	22	22
Non-receipt of Dividend Warrants	33	33
Non-receipt of TDS Certificate	3	3
Non-receipt of Securities	3	3
Receipt of IB for Issue of Duplicate Dividend Warrant	4	4
Correction of Name on Securities	1	1
Request for Consolidation/ Split of Securities	11	11
Change/Correction of Bank Mandate	16	16
Non-receipt of Annual Report	10	10
Receipt of Damaged/Mutilated Securities for Replacement	1	1
Intimation of Nomination Form	1	1
Request for issue of Duplicate Dividend Warrant	3	3
Receipt of Damaged /Mutilated Dividend Warrant	1	1

The company has disposed of all of the investor grievances / requests. There is no share transfers pending as on 31 March 2004.

12. Shareholding pattern of Balaji Telefilms as on 31 March 2004:

Category	No. of shares held	Percentage of shareholding
Promoters	2,72,70,250	52.94
Bank	180	0.00
Mutual Funds and UTI	5,66,593	1.10
FIIs	1,29,00,895	25.04
Private Corporate Bodies	42,74,521	8.30
Indian Public	61,35,668	11.91
NRIs	1,38,278	0.27
HUF	1,32,623	0.26
Trusts	2,200	0.00
Clearing Members	95,042	0.18
GRAND TOTAL	5,15,16,250	100

13. Distribution of shareholding as on 31 March 2004

Number of shares	Number of shareholders	Per cent of shareholders	Amount of paid up capital	Per cent holding
1 to 5000	18146	98.08	7931482	7.70
5001 to 10000	183	0.99	1405748	1.36
10001 to 20000	60	0.32	908032	0.88
20001 to 30000	22	0.12	556488	0.54
30001 to 40000	11	0.06	405624	0.39
40001 to 50000	7	0.04	338392	0.33
50001 to 100000	26	0.14	1844082	1.79
100001 & above	46	0.25	89642652	87.00
Total	18501	100.00	103032500	100.00

14. Shares under lock-in

In accordance with SEBI Guidelines, no Equity Shares held by promoters are subject to lock-in.

15. Dematerialisation of equity shares

The company's shares are traded in dematerialised form only. To facilitate trading in dematerialised form there are two depositories, i.e., National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL). The company has entered into agreement with both these depositories. Shareholders can open account with any of the depository participants registered with any of these depositories. As on March 31, 2004 about 99.88 per cent comprising 5,14,53,313 equity shares are in the dematerialised form.

16. Financial calendar (tentative and subject to change)

Particulars	Date
Annual General Meeting	27 August 2004
Financial reporting for 1st quarter ending 30 June 2004	31 July 2004
Financial reporting for 2nd quarter ending 30 September 2004	31 October 2004
Financial reporting for 3rd quarter ending 31 December 2004	31 January 2005
Financial reporting for the year ended 31 March 2005 (audited)	30 June 2005
Annual General Meeting for year ended 31 March 2005	August, 2005

17. Plant locations

The details of regional offices of the company are available on the page three of this report.

18. Investors' correspondence

Investors' correspondence may be addressed to:

Alpa Shah, *Company Secretary*
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opp. Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053.
Tel: +91-22-26732275, Fax: +91-22-26732312
Email: alpa@balajitelefilms.com

Any queries relating to the financial statements of the company may be addressed to:

Mr. V. Devarajan, *Chief Financial Officer*
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opp. Laxmi Industries, New Link Road,
Andheri (West), Mumbai – 400 053.
Tel: +91-22-26732275, Fax: +91-22-26732312
Email: devarajan@balajitelefilms.com

19. Insider trading

In terms of the SEBI (Prohibition of Insider Trading) Regulations, 1992, the company has framed Code of Conduct for dealing in equity shares of the company.

20. Non mandatory requirements

a. Chairman of the Board

The company has a non-executive Chairman, who is entitled to maintain a Chairman's office at the company's expense. The expenses incurred by him during performance of his duties are reimbursed to him.

b. Remuneration committee

The company has appointed a remuneration committee on 30 January 2003.

c. Shareholder rights

Balaji Telefilms has been sending a copy of its half-yearly results to each household of shareholders starting from the half-year ended 30 September 2001.

d. Postal ballot

No resolutions are being proposed to be passed through postal ballot.

AUDITORS' REPORT ON CORPORATE GOVERNANCE

To the Members of

BALAJI TELEFILMS LIMITED

We have examined the compliance of conditions of corporate governance by BALAJI TELEFILMS LIMITED, for year ended 31st March 2004, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

On the basis of our verification, and as certified by the compliance officer-Company Secretary, we have to state that no investor grievances were remaining unattended/ pending for more than thirty days.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For Deloitte Haskins & Sells	For Snehal & Associates
Chartered Accountants	Chartered Accountants
(A. Siddharth)	(Snehal Shah)
Partner	Proprietor
Membership no. 31467	Membership no. 40016
Mumbai, 21st May, 2004	Mumbai, 21st May, 2004

Financial section

Auditors' Report

To, the members of Balaji Telefilms Limited

1. We have audited the attached Balance Sheet of Balaji Telefilms Limited as at 31st March 2004, the Profit and Loss account and also the Cash-flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government in terms of section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. Further to our comments in the Annexure referred to above, we report that:

   (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   (ii) in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;

   (iii) the Balance sheet, Profit and Loss account and Cash-flow statement dealt with by this report are in agreement with the books of account;

   (iv) in our opinion, the Balance sheet, Profit and Loss account and Cash-flow statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   (v) on the basis of the written representations received from the directors, as on 31st March, 2004, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

In our opinion, and to the best of our information, and according to the explanations given to us, the said accounts, read with the significant accounting policies and notes thereon, give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance sheet, of the state of affairs of the company as at 31st March, 2004;

(b) in the case of the Profit and Loss account, of the profit for the year ended on that date; and

(c) in the case of the Cash-flow statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells
Chartered Accountants

(A. Siddharth)
Partner
Membership no. 31467

Mumbai, 21st May, 2004

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership no. 40016

Mumbai, 21st May, 2004

(referred to in paragraph 3 of our report of even date)

(i) The nature of the company's activities during the year is such that the requirements of clauses (xiii) and (xiv) of paragraph 4 of the Order are not applicable.

(ii) (a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The fixed assets have been physically verified by the management during the year. No material discrepancies were noticed on such verification.

(c) There has not been any significant disposal of fixed assets during the year.

(iii) (a) The inventory (tapes) has been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable;

(b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business;

(c) The company is maintaining proper records of inventory. No material discrepancies were noticed on such physical verification.

(iv) The company has not taken/ granted any loans from/ to companies, firms or other parties covered in the Register maintained under section 301 of the Companies Act, 1956, and consequently, clauses iii(b), iii(c) and iii(d) of paragraph 4 of the Order are not applicable.

(v) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for purchase of inventory and fixed assets and with regard to sale of television serials.

(vi) (a) According to the information and explanations given to us, we are of the opinion that the transactions that need to be entered into the Register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangement entered in the Register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rupees five lac in respect of any party.

(vii) The company has not accepted deposits from the public within the meaning of sections 58A and 58AA of the Companies Act, 1956 and the Rules framed there under. We are informed that no Order has been passed by the Company Law Board.

(viii) In our opinion, the company has an internal audit system commensurate with the size and nature of its business.

(ix) The maintenance of cost records has not been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956.

(x) (a) In our opinion and according to the information and explanations given to us, the company has been regular in depositing undisputed statutory dues, including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth-tax, customs duty, excise duty, cess and other statutory dues, where applicable, with the appropriate authorities;

(b) According to the information and explanations given to us, there are no cases of non-deposit with the appropriate authorities of disputed dues of sales-tax, income-tax, customs duty, wealth-tax, excise duty and cess.

(xi) The company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the financial year covered by our report and the immediately preceding financial year.

(xii) The company has not defaulted in repayment of dues to banks. The company does not have borrowings from financial institutions and has not issued debentures.

(xiii) The company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiv) According to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.

(xv) No term loans were raised by the company during the year and hence the question of commenting on the application thereof does not arise.

(xvi) According to the information and explanations given to us, and on an overall examination of the balance sheet of the company, we report that no funds raised on short-term basis have been used for long-term investment and vice versa.

(xvii) The company has not made any preferential allotment of shares during the year.

(xviii) No debentures have been issued by the company and hence the question of creating securities in respect thereof does not arise.

(xix) During the year, the company has not raised money by public issue(s).

(xx) According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

For Deloitte Haskins & Sells
Chartered Accountants

(A. Siddharth)
Partner
Membership no. 31467

Mumbai, 21st May, 2004

For Snehal & Associates
Chartered Accountants

(Snehal Shah)
Proprietor
Membership no. 40016

Mumbai, 21st May, 2004

BALANCE SHEET

(Rupees in lacs)

As at 31st March,	Schedule	2004	2004	2003	2003
SOURCES OF FUNDS					
Shareholders' funds					
A. Share capital	1	1,030.33		1,030.33	
B. Reserves and surplus	2	13,407.65		9,614.04	
			14,437.98		10,644.37
Deferred tax liability (net)			555.46		303.69
Total			**14,993.44**		**10,948.06**
APPLICATION OF FUNDS					
Fixed assets					
Gross block	3	4,383.08		3,504.07	
Less :- depreciation		1,196.57		582.19	
Net block		3,186.51		2,921.88	
Capital work in progress		56.19		–	
			3,242.70		2,921.88
Investments	4		7,600.10		4,869.25
Current assets, loans and advances					
A. Inventories	5	728.37		469.18	
B. Sundry debtors	6	4,065.48		3,566.97	
C. Cash and bank balances	7	105.39		122.61	
D. Loans and advances	8	1,207.08		929.40	
		6,106.32		5,088.16	
Less :- Current liabilities and provisions					
A. Current liabilities	9	1,322.28		1,009.76	
B. Provisions	10	633.40		921.47	
		1,955.68		1,931.23	
Net current assets			4,150.64		3,156.93
Total			**14,993.44**		**10,948.06**
Significant accounting policies and notes on accounts	16				

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Mumbai, 21st May, 2004

For **Snehal & Associates**
Chartered Accountants

Snehal Shah
Proprietor

Pradeep Sarda
Director

Dhruv Kaji
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer

Mumbai, 21st May, 2004

Mumbai, 21st May, 2004

PROFIT AND LOSS ACCOUNT

(Rupees in lacs)

For the year ended 31st March,	Schedule	2004	2003
INCOME			
Turnover		17,829.60	18,596.59
Other income	11	615.30	149.11
Total		**18,444.90**	**18,745.70**
EXPENDITURE			
Cost of production of television serials / feature films	12	7,456.89	7,931.16
Employee costs	13	423.44	175.77
Administrative and other expenses	14	1,273.46	1,060.71
Interest	15	2.34	5.89
Depreciation		773.69	424.30
Total		**9,929.82**	**9,597.83**
Profit Before Amortisation and Tax		8,515.08	9,147.87
Deferred revenue expenditure written off		–	95.85
Profit Before Tax		8,515.08	9,052.02
Provision for tax			
Current tax (including Rs.2.53 lacs (previous year Rs. 3.00 lacs) for wealth tax)		(2,722.53)	(3,203.00)
Deferred tax (including Rs. Nil (previous year Rs.40.13 lacs) for prior year)		(251.77)	(107.58)
Profit After Tax		5,540.78	5,741.44
Short provision for tax in respect of earlier years		(3.67)	–
Balance brought forward from previous year		5,592.79	2,069.84
Amount Available for Appropriations		11,129.90	7,811.28
Appropriations			
1) Interim dividend (previous year - subject to tax deducted at source)		1,030.34	772.74
2) Transferred to general reserve		554.00	574.00
3) Proposed dividend		515.16	772.74
4) Corporate dividend tax		198.00	99.01
Balance Carried to Balance Sheet		8,832.40	5,592.79
Basic and diluted earnings per share		**10.75**	**11.14**
(Refer note 10 of Schedule 16)			
Significant accounting policies and notes on accounts	16		

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner
Place : Mumbai

Mumbai, 21st May, 2004

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

For **Snehal & Associates**
Chartered Accountants

Snehal Shah
Proprietor

Mumbai, 21st May, 2004

Pradeep Sarda
Director

Dhruv Kaji
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer

Mumbai, 21st May, 2004

CASH FLOW STATEMENT

(Rupees in lacs)

For the year ended			2004		2003
A	**CASH FLOW FROM OPERATING ACTIVITIES**				
	Profit before extra-ordinary item and tax	**8,515.08**		**9,052.02**	
	Adjustments for:				
	Depreciation	773.69		424.30	
	Bad debts written off	16.84		138.43	
	Loss on sale of fixed assets(net)	–		8.43	
	Diminution in carrying value of long term investments (non trade)	–		3.26	
	Profit on sale of long term investments(non trade)	(447.76)		(62.59)	
	Provision for diminution in the value of long term investments written back (non trade)	(3.26)		(50.25)	
	Excess provision of earlier years written -back	(43.66)		(22.69)	
	Interest expenses	2.34		5.89	
	Interest/dividend income	(99.63)		(9.26)	
	Preliminary expenses written off	–		0.21	
	Deferred revenue expenditure written off	–		95.85	
	Operating profit before working capital changes	8,713.64		9,583.60	
	(Increase)/decrease in trade and other receivable	(730.72)		(1,549.71)	
	(Increase)/decrease in inventories	(259.19)		(115.58)	
	Increase/(decrease) in trade payables	351.29		202.99	
			8,075.02		**8,121.30**
	Direct taxes paid		(2,784.84)		(3,375.99)
	Net cash from operating activities (a)		**5,290.18**		**4,745.31**
B	**CASH FLOW FROM INVESTING ACTIVITIES**				
	Purchase of fixed assets	(1,094.51)		(1,619.15)	
	Sale of fixed assets	–		8.10	
	Purchase of investments	(8,652.03)		(5,198.68)	
	Sale of investments	6,372.20		2,878.75	
	Income from investments	98.49		9.26	
	Net cash (used in) investing activities(b)		**(3,275.85)**		**(3,921.72)**
C	**CASH FLOW FROM FINANCING ACTIVITIES**				
	Interest paid	(2.34)		(5.89)	
	Dividend paid	(1,798.19)		(1,030.33)	
	Corporate dividend tax paid	(231.02)		–	
	Net cash (used in) financing activities (c)		**(2,031.55)**		**(1,036.22)**
	Net increase/(decrease) in cash and Cash equivalents (a+b+c)		**(17.22)**		**(212.63)**
	Cash and cash equivalent as at 31.3.2003 (opening balance)	122.61		335.24	
	Cash and cash equivalents as at 31.03.2004	105.39		122.61	

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Mumbai, 21st May, 2004

For **Snehal & Associates**
Chartered Accountants

Snehal Shah
Proprietor

Pradeep Sarda
Director

Dhruv Kaji
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer

Mumbai, 21st May, 2004

Mumbai, 21st May, 2004

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

As at 31st March,	2004	2003
1 SHARE CAPITAL		
Authorised		
5,50,00,000 equity shares of Rs. 2/- each	1,100.00	1,100.00
Issued, Subscribed and Paid-Up		
5,15,16,250 equity shares of Rs. 2/- each	1,030.33	1,030.33
Note:		
65,00,000 equity shares of the original value of Rs. 10/- each were allotted as fully paid up bonus shares by capitalisation of surplus in Profit and Loss account.		
Total	**1,030.33**	**1,030.33**

2 RESERVES AND SURPLUS	2004	2003
Share premium account		
As per last Balance sheet	3,015.24	3,015.24
General reserve		
As per last Balance sheet	1,006.01	500.00
Short provision for accumulated deferred tax liability as on 1st April, 2001	–	(67.99)
	1,006.01	432.01
Add: Transferred from Profit and Loss account	554.00	574.00
	1,560.01	1,006.01
Surplus in Profit and Loss account	8,832.40	5,592.79
Total	**13,407.65**	**9,614.04**

3 FIXED ASSETS

(Rupees in lacs)

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 1st April, 2003	Additions	Deductions	As at 31st March, 2004	Upto 31st March, 2003	For the year	On Deductions	Upto 31st March, 2004	As at 31st March, 2004	As at 31st March, 2003
Buildings	235.75	–	–	235.75	7.62	3.94	–	11.56	224.19	228.13
Plant and machinery - Computers	292.97	32.58	–	325.55	70.42	50.11	–	120.53	205.02	222.55
Plant and machinery - Others	1,167.00	100.48	–	1,267.48	116.34	84.46	–	200.80	1,066.68	1,050.66
Studios and sets	1,249.72	784.49	159.31	1,874.90	298.91	577.74	159.31	717.34	1,157.56	950.81
Vehicles	236.86	46.99	–	283.85	50.79	25.02	–	75.81	208.04	186.07
Furniture and fixtures	104.17	4.46	–	108.63	11.45	6.74	–	18.19	90.44	92.72
Computers	109.31	55.41	–	164.72	17.29	20.24	–	37.53	127.19	92.02
Office equipment	86.35	12.31	–	98.66	7.94	4.34	–	12.28	86.38	78.41
Electrical fittings	21.94	1.60	–	23.54	1.43	1.10	–	2.53	21.01	20.51
Total	**3,504.07**	**1,038.32**	**159.31**	**4,383.08**	**582.19**	**773.69**	**159.31**	**1,196.57**	**3,186.51**	**2,921.88**
Previous Year	**1,903.52**	**1,619.15**	**18.60**	**3,504.07**	**159.96**	**424.30**	**2.07**	**582.19**	**2,921.88**	
Capital work in progress									56.19	–

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

As at 31st March,	NO. OF UNITS 2004	NO. OF UNITS 2003	VALUE 2004	VALUE 2003
4 INVESTMENTS				
Long Term Investments (Non Trade)				
Unquoted				
In Units of Mutual Funds				
Alliance Income Fund - Regular Growth	–	2,113,390	–	407.78
Alliance Short Term Fund - Growth	3,210,570	–	345.53	–
Birla Bond Plus - Plan B	–	917,423	–	100.00
Birla Bond Plus - Institutional Plan - Growth	3,662,513	–	415.77	–
Birla Cash Plus - Retail Plan - Daily Dividend	1,594,184	–	260.58	–
Birla FMP - Annual Plan - Growth	3,000,000	–	300.00	–
Chola Freedom Income Short Term Fund	978,905	–	100.00	–
DSP Merrill Lynch Bond Fund - Retail Growth	–	1,831,917	–	345.47
DSP Merrill Lynch Bond Fund - Short Term Fund - Growth	1,430,159	–	155.49	–
GSSIF - Investment Plan - Growth Option	–	2,714,126	–	353.65
Grindlays Cash Fund - Growth	18,619	–	2.18	–
Grindlays Cash Fund Plan B (Instl. Plan)	–	5,814,356	–	651.23
Grindlays Dynamic Bond Fund - Growth	1,312,198	998,177	143.17	102.09
GSSIF - Short Term Plan - Growth Option	–	897,599	–	105.74
Grindlays Super Saver Short Term Fund	912,400	–	107.53	–
GSSIF - Short Term Plan - Institutional Plan B - Growth Option	1,341,706	–	162.89	–
GSSIF - Medium Term Institutional Plan - Plan B - Growth Option	6,459,840	–	650.00	–
Grindlays Fixed Maturity - Annual Plan Growth	1,000,000	–	100.00	–
HDFC Income Fund - Growth	–	3,384,251	–	454.50
HDFC- Short Term Plan - Growth	1,506,520	934,457	162.76	100.00
HDFC Fixed Income Plan - July 2002 (1) - Growth	–	1,500,000	–	150.00
HDFC Fixed Income Plan - June 2002 (1) - Growth	–	1,002,800	–	100.28
HDFC MIP Short Term Fund - Quarterly Dividend	2,041,077	–	208.35	–
JM High Liquidity Fund - Growth Plan	–	3,457,344	–	577.75
JM Short Term Fund - Institutional Plan - Growth Plan	7,128,910	–	752.95	–
K Bond - Whole Sale Plan - Bonus Option	–	1,531,030	–	161.21
K Bond - Institutional Plan - Growth	625,896	–	107.09	–
K Bond - Unit Scheme 99 - Wholesale Plan - Growth	–	628,836	–	100.00
Kotak Mahindra Fixed Maturity Plan - Growth	–	1,500,798	–	150.08
Kotak Fixed Maturity (8) - Annual growth	3,000,000	–	300.00	–
LIC MF Liquid fund	2,672,746	–	300.00	–
Prudential I.C.I.C.I. Income Plan - Growth	–	670,128	–	108.23
Prudential I.C.I.C.I. - Liquid Plan - Daily Dividend Option	–	1,009,618	–	150.00
Prudential I.C.I.C.I. - Short Term Plan - Cumulative Option	16,217	16,217	1.83	1.73
Prudential I.C.I.C.I. Fixed Maturity- Growth -Yearly - VI	–	3,527,837	–	352.78
Prudential I.C.I.C.I. Flexible Income Plan - Dividend	3,937,686	–	438.81	–
Prudential I.C.I.C.I. Floating Rate Plan - Growth	1,912,759	–	200.00	–
Prudential I.C.I.C.I. Liquid Plan - Growth	1,273,897	–	150.97	–
Reliance Income Fund (Growth Plan) - Growth Option	–	1,125,195	–	200.00
Reliance Short Term Fund - Growth	3,018,650	–	313.38	–
Reliance Fixed Term Plan - Annual - Growth	3,000,000	–	300.00	–
Templeton India Income Builder Account-Institutional Plan	4,413,647	–	504.90	–

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

As at 31st March,	NO. OF UNITS 2004	NO. OF UNITS 2003	VALUE 2004	VALUE 2003
4 INVESTMENTS (Contd.)				
Templeton Treasury Management Account -Daily Dividend	9,991	–	151.06	–
Templeton Treasury Management Account	6,467	–	101.58	–
Templeton Floating Rate Income Fund - Short Term Plan - Growth	3,091,337	1,860,638	350.00	200.00
			7,086.82	**4,872.51**
Quoted				
6.75% Tax free Bonds of Unit Trust of India of Rs.100/- each	500,000	–	513.28	–
			7,600.10	**4,872.51**
Less : Provision for diminution in the value of investments			–	3.26
Total			**7,600.10**	**4,869.25**

(Rupees in lacs)

Notes	COST	MARKET VALUE
Aggregate of Quoted investments	513.28	532.50
Previous Year	–	
Aggregate of Unquoted investments	7,086.82	
Previous Year	4,872.51	
Total	7,600.10	
Previous year	4,872.51	

Details of investments purchased and sold during the year (Rupees in lacs)

Particulars	NOS.	COST
Grindlays Super Saver Short Term Fund - Growth	3,261,004	395.11
GSSIF Short Term Plan B Institutional Plan - Growth	4,088,608	496.39
GGSF - IP	817,160	100.00
Grindlays Cash Fund - Growth	848,716	100.00
HDFC Income Fund - Growth	1,336,059	200.00
HDFC Short Term Plan - Growth	2,101,669	230.58
HDFC Cash Management Fund - Saving Plan - Daily Dividend	1,418,843	150.91
HDFC Liquid Fund - Dividend	2,140,865	215.59
HSBC Cash Fund - Dividend Reinvestment	1,923,693	200.76
Templeton India Government Security Fund	456,965	100.00
Kotak Floater - Dividend Reinvestment	1,504,136	150.48
Birla Cash Plus - Institutional Plan - Growth	6,679,264	1,100.00
Birla Bond Plus - Institutional Plan - Growth	1,721,007	193.38
Birla Income Plus - Growth	933,668	250.00
Alliance Cash Manager - Growth	976,715	150.00
Prudential I.C.I.C.I - Liquid plan - Growth	2,014,410	300.00
Prudential I.C.I.C.I - Short Term Plan - Cumulative Option	1,086,378	122.94
JM High Liquidity Fund Institutional Plan - Growth	997,009	100.00
JM Short Term Fund - Growth	4,904,721	532.62
JM Income Fund - Institutional Plan - Growth	761,986	200.00
UTI Liquid Short Term Plan - Growth	1,000,000	100.00
DSP Merrill Lynch Short Term Fund - Growth	3,679,244	385.68
LIC Liquid Mutual Fund	1,341,910	150.00

SCHEDULES FORMING PART OF THE BALANCE SHEET

(Rupees in lacs)

As at 31st March,	2004	2003
5 INVENTORIES		
Television serials / feature films	713.36	448.81
Tapes	15.01	20.37
Total	**728.37**	**469.18**
6 SUNDRY DEBTORS		
(Unsecured, considered good)		
Debts outstanding for a period exceeding six months	304.40	248.88
Other debts	3,761.08	3,318.09
Total	**4,065.48**	**3,566.97**
7 CASH AND BANK BALANCES		
Cash on hand	19.33	20.95
Balances with scheduled banks		
In Current accounts	13.41	48.52
In Term deposits accounts	72.65	53.14
(on all fixed deposit receipts the banks have a lien)		
Total	**105.39**	**122.61**
8 LOANS AND ADVANCES		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	309.22	90.55
Advance tax	217.04	154.73
Deposits *	680.82	684.12
Total	**1,207.08**	**929.40**
Notes:		
1. *: Includes deposits given to directors for property taken on lease from them	615.00	515.00
2. Maximum amount outstanding at any time during the year for above deposits	615.00	515.00
9 CURRENT LIABILITIES		
Sundry creditors		
(i) Total outstanding dues of small scale industrial undertakings	–	–
(ii) Total outstanding dues of creditors other than small scale industrial undertakings	1,267.53	974.68
	1,267.53	974.68
Advances received from customers	30.66	9.91
Other liabilities	24.09	25.17
Total	**1,322.28**	**1,009.76**
10 PROVISIONS		
Provision for tax	52.25	49.72
Proposed dividend	515.16	772.74
Corporate dividend tax	65.99	99.01
Total	**633.40**	**921.47**

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

(Rupees in lacs)

For the year ended 31st March,	2004	2003

11 OTHER INCOME

Interest on fixed deposits with banks (gross)	5.99	9.91
(Tax deducted at source Rs. 1.14 lacs (previous year Rs. 1.68 lacs))		
Interest on Income tax refund	28.56	–
Dividend on long term investments (non trade)	65.08	1.03
Excess provision of earlier years written back	43.66	22.69
Profit on sale of long term investments (non trade) (net)	447.76	62.59
Provision for diminution in the value of long term investments written back	3.26	50.25
Miscellaneous income	20.99	2.64
Total	**615.30**	**149.11**

12 COST OF PRODUCTION OF TELEVISION SERIALS / FEATURE FILMS

	2004	2004	2003	2003
Opening stock of television serials and tapes		469.18		353.60
Add: Cost of production				
Purchase of costumes and dresses	193.67		268.79	
Purchase of tapes	184.99		223.60	
Payment to and provisions for artistes, directors, technicians and other fees	2,849.32		2,890.39	
Telecasting fees	1,027.18		759.05	
Uplinking charges	418.89		301.17	
Food and refreshments	207.93		233.37	
Set properties and equipment hire charges	355.53		541.11	
Other production expenses	2,478.57	7,716.08	2,829.26	8,046.74
		8,185.26		8,400.34
Less: Closing stock of television serials / feature films and tapes		728.37		469.18
Total		**7,456.89**		**7,931.16**

13 EMPLOYEE COSTS

	2004	2003
Salaries, wages and bonus	397.62	138.46
Contribution to Provident and Other funds	9.45	8.08
Staff welfare expenses	16.37	29.23
Total	**423.44**	**175.77**

SCHEDULES FORMING PART OF THE PROFIT & LOSS ACCOUNT

(Rupees in lacs)

For the year ended 31st March,	2004	2003
14 ADMINISTRATIVE AND OTHER EXPENSES		
Electricity and water charges	159.11	92.98
Rent	170.67	97.71
Rates and taxes	16.22	24.61
Insurance	173.79	70.62
Repairs and maintenance		
– Building	2.42	17.58
– Plant and machinery	9.70	22.47
– Others	63.51	45.07
Travelling and conveyance expenses	106.09	115.17
Legal and professional charges	199.55	90.76
Communication charges	42.11	35.21
Loss on sale of fixed assets (net)	–	8.43
Provision for diminution in value of long term investments (non trade)	–	3.26
Donations	3.93	20.67
Bad debts written off	16.84	138.43
Director's sitting fees	0.65	0.80
Preliminary expenses written off	–	0.21
Advertisement and sales promotion expenses	53.92	43.89
Miscellaneous expenses	254.95	232.84
Total	**1,273.46**	**1,060.71**

15 INTEREST		
On cash credit account	1.13	5.89
On income / wealth tax	1.21	–
Total	**2.34**	**5.89**

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

A. SIGNIFICANT ACCOUNTING POLICIES:

Basis of accounting
The financial statements are prepared under the historical cost convention and on accrual basis.

Fixed assets
Fixed assets are stated at cost of acquisition or construction. They are stated at historical cost less accumulated depreciation.

Depreciation
Depreciation on fixed assets is provided on straight line basis in accordance with provisions of section 205(2)(b) of the Companies Act, 1956, at the rates and in the manner specified in schedule XIV of this Act except for the following fixed assets where higher rates of depreciation have been applied:
Studios and sets @ 33.33%
Plant and machinery - Computers @ 16.21%

Investments
Current investments are carried at lower of cost or fair value. Long term investments are carried at cost. However, when there is a decline, other than temporary, the carrying amount is reduced to recognise the decline.

Inventories
Items of inventory are valued at lower of cost and net realisable value. Cost is determined on the following basis :

Tapes	: First In First Out
Television serials/ feature films	: Average cost

Revenue recognition

a) In respect of sponsored programmes, revenue is recognised as and when the relevant episodes of the programmes are telecast.

b) In respect of commissioned programmes, revenue is recognised as and when the relevant episodes of the programmes are delivered to the channels.

In all other cases, revenue (income) is recognised when no significant uncertainty as to its determination or realisation exists.

Retirement benefits
Provident fund
Contribution as required under the statute / rules is made to the Government Provident fund.

Gratuity
The trustees of Balaji Telefilms Limited Employees Group Gratuity – Cum – Life Assurance (Cash Accumulation) Scheme have taken a Group Gratuity cum Life Assurance Policy from the Life Insurance Corporation of India. Provision is made on the basis of contribution payable in respect of the aforesaid policy.

Foreign currency transactions
Transactions in foreign currency are recorded at the original rates of exchange in force at the time the transactions are effected. At the year end, monetary items denominated in foreign currency are reported using the closing rates of exchange. Exchange differences arising thereon and on realisation / payment of foreign exchange are accounted in the relevant year as income or expense.

Doubtful debts / advances
Provision is made in the accounts for debts / advances which in the opinion of the management are considered doubtful of recovery.

Borrowing costs
Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. All other borrowing costs are charged to revenue.

Taxes on income
Tax expense comprises both current and deferred tax at the applicable enacted/ substantively enacted rates. Current tax represents the amount of income tax payable/ recoverable in respect of the taxable income/ loss for the reporting period. Deferred tax represents the effect of timing differences between taxable income and accounting income for the reporting period and are capable of reversal in one or more subsequent periods.

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

Contingent liabilities

Contingent liabilities, if any, are disclosed in the notes on accounts. Provision is made in the accounts for those contingencies which are likely to materialise into liabilities after the year-end, till the approval of accounts by the Board of Directors and which have a material effect on the position stated in the Balance sheet.

B NOTES ON ACCOUNTS

(Rupees in lacs)

			2004		**2003**
1.	Estimated amount of contracts remaining to be executed on capital account and not provided for :		78.15		50.00
2.	Contingent liabilities in respect of income tax demands disputed in appeal		NIL		5.36
3.	The Company has applied to the Office of the Commissioner of Sales- tax, Mumbai, to ascertain whether the Company's sales are liable to tax under the Sales- tax laws. The matter is still pending before the Sales -tax authority.				
4.	Managerial remuneration under section 198 of the Companies Act, 1956 to Directors (including to the Managing Director)				
	Salary		55.20		44.40
	Commission		248.78		18.00
	Perquisites in cash or in kind		0.53		0.53
	Contribution to Provident Fund		3.60		2.88
	Total		**308.11**		**65.81**
5.	Computation of net profit in accordance with section 198 read with section 309 of the Companies Act, 1956 :				
	Profit before tax		**8515.08**		**9052.02**
	Add:				
	Loss on sale of fixed assets	–		8.43	
	Provision for diminution in value of long term investments (non-trade)	–		3.26	
	Managerial remuneration	307.58		65.28	
			307.58		76.97
			8822.66		9128.99
	Less:				
	Profit on sale of long term investments (non-trade) (net)	447.76		62.59	
	Provision for diminution in value of long term investments written back	3.26		50.25	
			451.02		112.84
	Net Profit for the year		**8371.64**		**9016.15**
	Commission @ 1% each to the Executive Directors (previous year restricted to 2% or 75% of annual salary, whichever is lower)		167.44		18.00
	Commission @ 0.90% (previous year Nil) to the Chairman		75.34		–
	Commission to other Non-Executive Directors (restricted to Rs. 2 lacs each) (previous year Nil)		6.00		–
6.	Payment to auditors				
	a) as auditors		8.00		6.00
	b) in any other manner (certification work, etc)		4.80		1.00
	c) as expenses		0.08		0.01
	d) for service tax		1.02		0.35
	Total		**13.90**		**7.36**
7.	Cash credit facility with a bank is secured by hypothecation of the current assets (both present and future) and library assets of the Company.				

B NOTES ON ACCOUNTS

8. Related Party Disclosures

(a) Name of related parties and description of relationship.

Name of the Related Party	Relationship
Mr. Jeetendra Kapoor	Key management person
Mrs. Shobha Kapoor	Key management person
Ms. Ekta Kapoor	Key management person
Mr. Tusshar Kapoor	Relative of key management personnel
Mrs. Nirmala Sood	Relative of key management personnel
Mr. Ramesh Sippy	Relative of key management personnel
Screentestindia.com Pvt.Ltd	
B.R.A Corporation	Enterprises over which key management personnel and their relatives are able to exercise significant influence.

(b) Details of Transactions with related parties during the year

(Rupees in lacs)

Nature of Transactions	Enterprises over which key management personnel and their relatives are able to exercise significant influence		Key management personnel		Relative of key management personnel		Total	
		Previous year		Previous year		Previous year		Previous year
Directors sitting fees	–	–	0.20	0.30	–	–	0.20	0.30
Rent/ Salary (expense)	0.60	1.80	13.44	13.44	3.60	2.40	17.64	17.64
Recovery and payment of artistes registration fees	2.97	4.69	–	–	–	–	2.97	4.69
Managerial remuneration	–	–	302.11	65.81	–	–	302.11	65.81
Dividend paid	–	–	900.63	514.59	141.36	80.79	1041.99	595.38
Outstanding personal guarantees given by Directors against cash credit facilities taken by the Company	–	–	–	400.00	–	–	–	400.00
Amount payable as at 31st March,2004	0.96	0.60	242.78	14.63	0.10	0.10	243.84	15.33
Amount receivable (Deposits for lease property) as at 31st March,2004	–	–	515.00	515.00	100.60	100.70	615.60	615.70

Note:

There are no provision for doubtful debts, amounts written off or written back during the year for debts due from or due to related parties.

SCHEDULES FORMING PART OF THE ACCOUNTS

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

9. Segment Information:

(A) Information about primary segments

The Company has considered business segment as the primary segment for disclosure.

The reportable business segments are as under:

(a) Commissioned Programmes : Income from sale of television serials to channels

(b) Sponsored Programmes : Income from telecasting of television serials on channels

(Rupees in lacs)

	Commissioned programmes		**Sponsored programmes**		**Others**		**Total**	
		Previous Year		**Previous Year**		**Previous Year**		**Previous Year**
Revenue								
From External Customers	14,530.03	16,009.37	3,299.57	2,587.22	–	–	17,829.60	18,596.59
Add: Inter Segment sale	–	–	–	–	–	–	–	–
Total Revenue	14,530.03	16,009.37	3,299.57	2,587.22	–	–	17,829.60	18,596.59
Results								
Segment result	8,374.37	9,240.94	1,331.09	1,068.12	–	–	9,705.46	10,309.06
Unallocable Corporate Expenses	–	–	–	–	–	–	(1,738.69)	(1,371.67)
Operating Profit							7,966.77	8,937.39
Interest Expenses	–	–	–	–	–	–	(2.34)	(5.89)
Interest income/Dividend on Long-Term Investments	–	–	–	–	–	–	99.63	10.94
Profit on sale of Long-Term Investments (non trade)	–	–	–	–	–	–	447.76	62.59
Provision for Diminution in value of Investments written back	–	–	–	–	–	–	3.26	50.25
Provision for Diminution in value of Long Term Investments	–	–	–	–	–	–	–	(3.26)
Provision for tax							(2,974.30)	(3,310.58)
Profit after tax							5,540.78	5,741.44
Other Information:								
Segment assets	4,937.37	4,286.48	1,122.78	923.02	94.48	–	6,154.63	5,209.50
Unallocated Corporate assets	–	–	–	–	–	–	10,794.49	7,669.79
Total assets							**16,949.12**	**12,879.29**
Segment liabilities	892.45	817.09	81.83	167.50	33.28	–	1,007.56	984.59
Unallocated Corporate liabilities	–	–	–	–	–	–	1,503.58	1,250.33
Total Liabilities							**2,511.14**	**2,234.92**
Capital expenditure	817.07	813.69		–				
Depreciation	627.85	317.74		–				
Significant Non cash expenses other than depreciation								
Deferred revenue expenditure written off	–	–	–	–	–	–	–	95.85
Loss on sale of fixed assets	–	–	–	–	–	–	–	8.43
Bad debts written off	–	–	–	–	–	–	16.84	138.43

(B)The group does not have any reportable Secondary Segments

16 SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

10. Earnings per Share:

Earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of equity shares outstanding during the year as under :

(Rupees in lacs)

			Previous Year
Net profit after tax as per the Profit and Loss account –(Rs. in lacs)		5,540.78	5,741.44
Short provision for tax in respect of earlier years -(Rs.in lacs)		(3.67)	–
(A)	Profit for the year attributable to equity share holders-(Rs.in lacs)	5,537.11	5,741.44
(B)	Weighted average number of equity shares outstanding during the year (Nos.)	5,15,16,250	5,15,16,250
(C)	Earnings per share - Basic and diluted (Rs.)	10.75	11.14
(D)	Nominal value of shares (Rs.)	2	2

11. Components of Deferred Tax assets/(Liabilities)

(Rupees in lacs)

As at 31st March,	2004	2003
Depreciation	(555.46)	(372.57)
Capital loss carried forward	–	68.88
Deferred tax asset/ (liability)-Net Total	(555.46)	(303.69)

12. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of part II of schedule VI of the Companies Act, 1956 (to the extent applicable)

a) Expenditure in foreign currency		
Travelling expenses	42.53	48.92
b) Earnings in foreign exchange:		
Export of television software/ serials	40.19	NIL

c) Amount remitted during the financial year in foreign currency on account of dividends:

The Company has not made any remittance in foreign currency on account of dividend and does not have information as to the extent to which remittances in foreign currency on account of dividends have been made by or on behalf of non-resident shareholders. The particulars of dividend paid to non-resident shareholders are as under:-

16	SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS (Contd.)

12. Additional information pursuant to the provisions of paragraphs 3, 4C and 4D of part II of schedule VI of the Companies Act, 1956 (to the extent applicable) (Contd.)

(Rupees in lacs)

Year to which dividend relates	**2004**	**2003**
a) Final dividend for the financial year 2001-2002	–	257.58
b) Interim dividend for the financial year 2002-2003	–	772.74
a) Final dividend for the financial year 2002-2003	772.74	–
b) Interim dividend for the financial year 2003-2004	1030.34	–
Number of non-resident shareholders		
a) Final dividend for the financial year 2001-2002	–	31
b) Interim dividend for the financial year 2002-2003	–	52
c) Final dividend for the financial year 2002-2003	105	
d) Interim dividend for the financial year 2003-2004	120	–
Number of equity shares held by them on which dividend was due		
a) Final dividend for the financial year 2001-2002	–	9,443
b) Interim dividend for the financial year 2002-2003	–	52,148
c) Final dividend for the financial year 2002-2003	81,398	
d) Interim dividend for the financial year 2003-2004	84,017	–
Amount remitted (net of tax) to banks or power holders in India of the non-resident shareholders		
a) Final dividend for the financial year 2001-2002	–	0.19
b) Interim dividend for the financial year 2002-2003	–	0.62
c) Final dividend for the financial year 2002-2003	1.22	
d) Interim dividend for the financial year 2003-2004	1.68	–

13. Balance Sheet Abstract and Company's General Business Profile

I Registration Details

Registration No. 1 1 8 2 8 0 2 — State Code 1 1

Balance Sheet Date 3 1 (Date) 0 3 (Month) 2 0 0 4 (Year)

II Capital raised during the year (amount in Rs. thousands)

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	Private Placement
NIL	NIL

III Position of Mobilisation and Deployment of Funds (amount in Rs. thousands)

Total Liabilities	Total Assets
1694912	1694912

Sources of Funds

Paid-up Capital	Reserves & Surplus
103033	1340765
Secured loan	Unsecured loan
NIL	NIL

Application of Funds

Net Fixed Assets	Investments
324270	760010
Net Current Assets	Miscellaneous Expenditure
415064	NIL
Accumulated Losses	Deferred tax liability (net)
NIL	(55546)

IV Performance of the Company (amount in Rs. thousands)

Turnover	Total Expenditure
1844490	992982
Profit/(Loss) Before Tax	Profit/(Loss) After Tax
851508	554078
Earnings per share in Rs — Refer Note No. 10 of Schedule 16	Interim Dividend rate %
Final Dividend rate %	100
50	

V Generic names of three Principal Products / Services of the Company (as per monetary terms)

Item Code No.	Not applicable
Product Description	Television serials / Feature films

14. Figures of the previous year have been regrouped wherever necessary to correspond with those of the current year.

As per our attached report of even date
For **Deloitte Haskins & Sells**
Chartered Accountants

For and on behalf of Balaji Telefilms Limited

A. Siddharth
Partner

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Mumbai, 21st May, 2004

For **Snehal & Associates**
Chartered Accountants

Snehal Shah
Proprietor

Pradeep Sarda
Director

Dhruv Kaji
Director

Alpa Shah
Company Secretary

V. Devarajan
Chief Financial Officer

Mumbai, 21st May, 2004

Mumbai, 21st May, 2004

NOTES

TRISYS

Balaji Telefilms Limited