SENSITIVE TO MARKET NEEDS

Diversification is the key to the growth and sustenance of any industry today.

INDUSTRY OVERVIEW

As per the FICCI report 2008, the Indian media and entertainment industry, pegged at Rs. 548 billion in 2008, exhibited a growth of 12.5% over the previous year. This significant growth in the market size is mainly witnessed due to an individual's increasing propensity for discretionary spending. Indian production houses are operating across multiple platforms and are constantly unearthing the potential of under penetrated geographies. Consequently, today they have built scale and are attracting foreign media companies as well as investments. The market is flooded with new content delivery platforms that occupy a significant position in the distribution portfolio of players. However, in wake of the prevalent economic slowdown that began in the last quarter of 2008, the scenario has changed tremendously. The Indian media and entertainment industry is facing tough times. The fragmentation of audiences across media and distribution platforms is compounded by the greater need for accountability and measurability demanded by advertisers today.

Strong Suits

Before hitting the economic slowdown hurdle, the media and entertainment industry enjoyed a reputation of the fastest growing sectors of the Indian economy. It caters to a vast customer base across the segments of television, films and now extending to mobile, internet and other delivery modes.

Diversification is the key to the growth and sustenance of any industry today. Media and entertainment is no exception. With the advent of superior technology platforms the industry is

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ONE OF BALAJI'S GREAT STRENGTHS IS THAT WE HAVE INTERNAL RESOURCES TO FINANCE BOTH OUR CONTENT PROJECTS AS WELL AS CAPITAL INVESTMENTS. WE ARE FINANCIALLY EQUIPPED TO DELIVER ON OUR PROMISE.

exploring newer formats. Online distribution channels, web-stores, multi and mega-plexes are various platforms to showcase content and provide for sound business propositions.

In addition to these, the DTH services have opened a whole new platform for business. With the introduction of pay per view services, DTH has enabled the content providers to make an entry into the homes of the consumers. TRAI's "must carry" regulations and control on pricing are however presently limiting the scope of this business model.

India is the largest producer of films by volume; an estimated 1000[1] films are released annually. However, it is responsible for only 1%[2] of the global film industry revenues. There is a huge growth potential in this space. With the consumer buying behaviour changing there is an emergence of a new segment between the parallel and the commercial cinema - the low budget films. Whilst niche, this segment has exhibited tremendous growth potential what with generation Y demanding out-of-the-box content. Several new films in this segment like Oye Lucky Oye, Dev D and Wednesday have done exceptionally well. There is also a surge of young directors, actors and script writers that has led to the celluloid broadening its horizon.

Challenges

With the good news comes the bad. Whilst there are opportunities available for growth, there are also some hurdles on the way. Average revenue per subscriber, both on television (Rs. 165 per month[3] per household) and films (Rs. 35 Per ticket) remains the biggest challenge. Besides lack of addressability and digitization, continues to be the bane of the television industry. The fact that the sector by itself is largely disorganized and fragmented doesn't help. Lack of integrated production and distribution infrastructure further adds to the woes of the sector. Tier 2 and rural markets are yet to be penetrated. Lastly the prevalent piracy and violation of intellectual properties remains a perpetual threat.

Opportunities

Despite challenges, the sector can pass off as the proverbial 'green pasture'. This is due to several reasons. Launch of alternate distribution platforms has enhanced the viewing experience for

[1-3]FICCI-KPMG Report

the consumer besides focussing on issues relating to addressability. The emerging trend of crossover movies presents an opportunity to cater to a larger audience. The sheen covering the Indian media and entertainment has succeeded in alluring global investors. Further, the sector also presents expansion opportunities on account of poor media penetration among the lower socio-economic sections.

Television

Today, an Indian viewer is exposed to as many as 450[3] channels, as compared to 120[4] in 2003. So much so that, the television industry has evolved to be classified as one of the leading sectors of the Indian economy. The television industry is estimated to have recorded a CAGR of around 13.8% between 2006-08[5]. This growth stems from an upbeat TV distribution industry that witnessed the emergence of digital mediums in the form of DTH, Digital Cable and IPTV. Having sensed the opportunity, several corporates have ventured into the DTH sector to get their share of the pie. This has led to multi service operators (MSOs) investing in digitizing their networks. Moreover, the subscriber base is also on a rise. CAS implementation in the select cities across the country has provided an added impetus to the digitization of cable. As a result, by September 2008 alone, as many as 717,722 set top boxes were installed across Mumbai, Chennai and Kolkata[6]. The emergence of digital platforms has been able to counter the issue of addressability faced by the television industry to a certain degree. Industry gurus project the DTH subscriber base to touch 28 million by 2013[7]. The launch of commercial IPTV services in Mumbai and Delhi is a step that will help the IPTV services to penetrate further and make their presence felt.

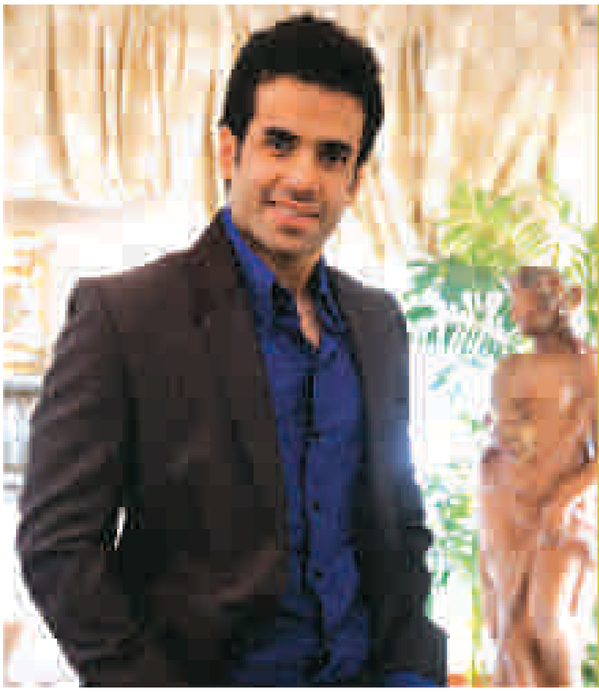
Whilst there are opportunities galore for showcasing of content, one segment is specifically taking a beating in these times of economic downturn. The advertisers have slashed their budgets drastically and are now demanding more value for money. It is a known fact that advertising revenues furnish the requisite impetus to the domestic media and entertainment industry.

It is time to revisit the existing business model and make space for new and innovative business ideas. Economic slump, whilst a bane, can be converted into a lucrative opportunity by exploring newer avenues to sell content and modifying business propositions.

Films

India produces approximately 1,000[8] films annually, making it the world's largest producer by volume. The film industry accounts for over 3 billion[9] theatrical admissions per annum. The success of this industry has been mainly driven by the audiences who have been open to accepting national and international movies. The multiplex culture has resulted into the audience accepting movies from various cultures and genres. The Indian film industry has been estimated to be worth US$109.9[10] billion in 2008. It has recorded a growth of 17.7%[11] over the last 3 years.

Today, the Indian film industry is a major source of content for the music, radio and television sectors. Winds of change have swept past the Indian film industry over the last few years, leaving a positive impact on the entire value chain from producers and distributors to exhibitors. Players in the industry now enjoy access to organized funding and increasing overseas



[3-5, 7-11] FICCI-KPMG Report

[6] TRAI Indian Telecom Services Performance Indicators (July-Sept 2008)

collections. Further, the onset of multiplexes has enhanced the realizations for the industry. The success of films such as Jodhaa Akbar, Singh in King, Slumdog Millionaire as well as deals between DreamWorks-Reliance, Disney-UTV and Warner-People Tree Films has added to the global acceptance of the Indian film industry. With the advent of technological innovations, animation and special effects are the rapidly emerging trends within the industry. Moser Baer's entry into the market has resulted in the availability of DVDs and VCDs at affordable costs and hence given a fillip to the home entertainment market. Consequently, the domestic theatrical life of movies has plunged and with increasing movie-making budgets as well as market spend; the breakeven point of films has upped several notches. With the economic slowdown playing its role, satellite revenues have also been affected. To meet this challenge and ensure better monetization the producers are selling their films on a non-exclusive basis to several broadcasting channels with shortened windows.

WINDS OF CHANGE HAVE SWEPT PAST THE INDIAN FILM INDUSTRY OVER THE LAST FEW YEARS, LEAVING A POSITIVE IMPACT ON THE ENTIRE VALUE CHAIN FROM PRODUCERS AND DISTRIBUTORS TO EXHIBITORS.

Tusshar Kapoor
Executive Director,
Balaji Motion Pictures Limited

Corporatisation, high production costs, rising actor fees and lofty acquisition costs for content are other realities the sector is facing. With changing times, the sector is facing increased competition from other media and major events such as, the Indian Premier League's T20 Cricket Tournament are affecting the occupancy rates in theatres. Home video piracy and illegal movie downloads are adversely impacting the revenue collections. But these issues have been countered suitably as the industry is improving the distribution system, keeping in mind the fact that movies now make most of their revenues in the first 2 weeks of release.

Creation of a new niche within the film business that allows for low cost, quality content model is being seen as a value based proposition by the consumer. The generation Y that is willing to spend an economic amount on watching the movie on the big screen, but is also demanding more contemporary storylines consequently leading to the genre of bold cinema. Several movies in the recent times have shown exceptional collections inspite of new cast, director, producer and storyline. This value for money wholesome entertainment has created a new avenue of business for all movie makers. This type of business model has the potential to be a stand alone profit centre as well as play a cash cow to the existing big budget movie making business.

New Media

New Media refers to new technologies and communication methods in the context of their effects on the established mainstream media. What distinguishes New Media from the rest is the fact that here uniquely individualized information can simultaneously be delivered or displayed to a potentially infinite number of people. Here, all the players involved share equal or reciprocal control over content. New media like internet, mobile, IPTV, etc allows content owner to connect directly with the user and build viable communities around the content.

With shifting trends, the emerging streams of revenues such as entertainment on internet and the mobile phones are fast growing market opportunities. The mobile subscriber base in India has grown rapidly to more than 400[12] million users and Internet User Base in the country is in the region of 80[13] million users. One of the largest segments on the internet is consumption of entertainment content. Internet advertising has

[12]Cellular Operators Association of India
[13]International Telecommunication Union Statistics
[14-17]FICCI-KPMG Report

grown from Rs 200[14] Cr in 2006 to Rs 620[15] Cr to 2008. This is projected to grow to Rs 2,140[16] Cr in 2013 at a CAGR of 28%[17]. Video content consumption is one of the key trends and video advertising will become a key part of the above. This will open up significant opportunities for content companies.

With the ever booming mobile subscriber base that is growing at close to 10[18] million users a month, Value Added Services (VAS) is becoming a significant business for content owners and content producers. The current Mobile VAS business is estimated at Rs 5,780[19] Cr by June 08 and is estimated to reach Rs 16,520[20] Cr by 2010. In 2008, Mobile VAS accounts for 9%[21] revenue for service providers and is expected to grow to 12%[22] by 2010.

With 3G a step away from rooting itself in India, the possibilities of quality content being distributed through a portable medium will soon become a reality. In countries where 3G has got established, entertainment content delivered on the high end mobiles has become a sizeable business for mobile companies and content producers. Currently, Bollywood is one of the largest providers of entertainment content for Mobile VAS. As 3G comes in and better phones allow consumption of content, newer business models and opportunities will emerge to provide entertainment content to users.

With the growth of the Internet bandwidth and subscriber base in India, the market is set for an exponential growth in video and multimedia entertainment content on the Internet. Opportunities are emerging for content companies to look at creating entertainment content for the digital devices and syndicate the same to various digital channels to maximize revenue and viewership

THE BALAJI ADVANTAGE

Driven by an effective modus operandi, coupled with its inherent strengths, Balaji Telefilms Limited is geared for sustainable, long-term growth. The Company's experience and insight have enabled it to further hone its capabilities and give itself the coveted extra edge in the marketplace.

The following characteristic strengths have enabled Balaji to surge ahead and take an undisputable leadership position in the television area.

1. Supply chain management

As an efficient and accomplished production house, the Company has devised a competent supply chain management strategy that is cost efficient.

Conceptualization

An elaborate ideation process, followed by timely feedback collection, has resulted in delivering on audience expectations. Balaji has time and again, produced original, high-quality content that is well-received by its viewers.

Shoot Management

Exhaustive shoot management procedures are the key to the rise of Balaji as a pre-eminent production house. All the intricacies of shoots at Balaji, ranging from responsibility allocation and equipment mobilisation to costumes are meticulously planned. The Company has also well-negotiated artiste rates depending on factors such as, the budget of the programme, criticality of the role, seniority of the artiste and the extent of assignments provided by the Company to the artiste.

Logistics Management

As a leader in the television arena, Balaji has multiple serials on air, simultaneously. Adequate ongoing episode inventory is therefore the need of every hour at Balaji. Leveraging its dexterity and experience, the Company manages the entire procedure in an efficient manner.

Every serial deploys as many as 25-30 artists. Further, every scene demands a director, scriptwriter, cameraman, costume-designers, make-up artists, spot boys, art directors and light men. Their collective availability is imperative for the success of every episode. In order to ensure this, the complete script is finalised well in advance. A detailed schedules plan is then chalked out and responsibilities allocated. Here onwards, every team looks into its own responsibilities. The result then is a comprehensive blueprint that makes way for realistic scene-wise profitability estimates.

Centralized purchase

Independence is integral to the success of Balaji. The procurement of every consumable is done in-house to reduce its

[14-17] FICCI-KPMG Report

[18] TRAI Indian Telecom Services Performance Indicators (July-Sept 2008)
[19-22] FICCI-KPMG Report

reliance on external parties. Such measures not only ensure the timely availability of the required materials, but also result in curtailing expenditure.

Enhanced procedures, consistently
In order to maintain its leading edge, Balaji makes judicious investments in advanced equipment and practices. As a result, the Company enjoys the privilege of a low episode inventory, leaving room for content flexibility as per audience feedback. With efficacious equipment at its disposal, Balaji is in a position to adhere to schedules and deadlines, whilst reducing wastage. Up-to-date technology also results in ensuring scalability.

2. A compelling content deliverer
Balaji leads by example. The Company undertakes unsaid responsibilities beyond the delivery of an episode to the channel. Driving the popularity of its customer channels is one of them. Balaji has explicitly exhibited its capability in this arena over the past decade. Consequently, its programmes are not only revenue magnets but are increasingly becoming an inherent part of its customers' corporate strategy. Such distinct advantages position the Company to better negotiate its content fee.

3. Product Management
Balaji moves beyond creating content to developing brands. Much as the production house itself, most of its programmes are morphing into recognisable brands. The Company's astuteness has enabled it to target a niche genre and create distinctive family blockbusters. However, Balaji is not resting on its laurels. The Company is sensitive to the TRPs of its programmes, fan clubs and word-of-mouth to detect audience taste and consistently work towards meeting their expectations.

4. Talent Management
Scripts and artists go hand in hand, one incomplete without the other. Quality scripts and skilled talent form the strength of Balaji as a content house. The Company traverses an extra mile to develop and retain talent. At Balaji, above-average remuneration is a function of individual effort and team achievement. This motivates every individual to perform to the best of his/her ability. Balaji also 'hand-holds' fresh talent through the learning curve by imparting training under experienced supervisors. Such initiatives help in boosting professional growth of the talent thus bringing in loyalty and talent retention.

5. Stringent internal audit procedures
Robust and disciplined accounting procedures bestow sustainability to the business of Balaji. Today, the Company has a resilient audit process, considered to be one of the best in the industry. The exhaustive audit procedures at Balaji encompass as many as 20 units. These units have helped in:

- Developing the first rung of cost control
- Creation of a detailed log book encompassing episodes, scenes, shoot duration, equipment utilisation, scenes per artiste, attendance report, including reasons for time over-run or under-performance or non-utilisation of resources
- Review of a daily MIS report by the senior management in order to identify excess expenditure
- Development of an efficient request-for-proposal quotation process from multiple vendors resulting in transparent vendor selection

6. An efficient management team
In today's competitive environment, the need to be alert and proficient is even more pronounced. With a clear growth strategy, the Company has put in place, a leadership team of experienced professionals from diverse backgrounds. Balaji is now equipped with a win-win combination of creativity and corporatisation that will see it through the challenges of the future.

BUSINESS MODEL
During 2008-09, Balaji revisited its business model to further its competence in the marketplace. In a bid to avoid stagnation and trigger its growth to the next level, the Company has undertaken several pertinent measures. As part of its model, Balaji is endeavouring to emerge as an outward looking entity by entering into meaningful collaborations in the industry to create compelling fiction content. Balaji is also broad-basing its business by attempting to deepen its presence in the areas of films and new media. It has already set up autonomous business units for each of these new areas. Leveraging its cash rich position, the Company has hired some of the best resources that bring their extensive experience, across all mediums.

MANAGEMENT DISCUSSION & ANALYSIS

Films

Balaji will continue to work with the best talent in the industry, in terms of actors as well as directors to create first-rate content across all genres. With the promoters well networked in the film fraternity, making strategically big alliances do not seem to be a difficult task. While the Company is adequately funded to materialise its plans for the near term, going forward, it will consider alternative funding models as well as options such as, co-production and international studio finance. Balaji already has an ocean of creative talent at its disposal and the production and execution capabilities are unparalleled. Moreover, it is also looking at brand tie-ups at the start of a project to secure funding.

New Media

Going forward, Balaji has plans to emerge as a content aggregator or a producer for new media. The Company is evaluating macro-trends in the New Media sphere such as, the internet, mobile phones as well as gaming to develop efficient revenue models. However, typically, most media companies focus on advertising as a source of revenues. Being the largest content creator in the business, Balaji is geared up to make the most of the 3G era. Mobile Value Added Services (MVAS) are already becoming popular amongst the youth, Balaji will set its eyes on reaping rewards from this sector, banking on its strength to deliver quality content.

OPERATIONAL REVIEW

Balaji conducts periodic company-wide operational reviews to detect as well as mend any discrepancies between its operations and objectives.

Programmes and Programming Hours

The year 2008-09 witnessed as many as 25 Balaji Television serials on air, adding up to 1,497 programming hours. Balaji television serials were present on all major general entertainment channels like Colors, NDTV Imagine, Sony, Star, Zee and 9X. New shows like Bandini, Kitani Mohabbat Hai, Koi Aane Ko Hai, Tujh Sang Preet Lagai Sajana were launched during the financial.

Programming Mix

Sponsored

As per the sponsored programme arrangement, Balaji purchased telecast slots and was entitled to receive free commercial time that is marketed to advertisers.

Commissioned

Under this arrangement, channel owners approach Balaji for content. Unlike the former format, there is no marketing risk associated here. Apart from a fee that is mutually agreed upon, there is room for rate revision based on the success of the programme.

Language mix

Balaji has carved a sturdy presence on television as a large and multi-lingual production house. The Company caters to a wide audience with programmes in Hindi, Telugu, Tamil, Kannada and Malayalam. As of the end of the financial year, Balaji had 6 shows on air in 4 regional languages.

Channel-wise revenues

Balaji continued to have a strong presence in commissioned and sponsored programming. Its business mix is as follows :

Programming Hours

	FY 2007-08	%	FY 2008-09	%
Commissioned programs	918	58.47	927	61.92
Sponsored programs	652	41.53	570	38.08
Total	**1,570**	**100.00**	**1,497**	**100.00**

Revenues

(all figures in Rs. crores)

	FY 2007-08	%	FY 2008-09	%
Commissioned programs	300	91.46	269	91.19
Sponsored programs	28	8.54	26	8.81
Total	**328**	**100.00**	**295**	**100.00**

1st April, 2008 - 31st March, 2009

Name of Serial	Channel	Time Slot	Days Of Telecast
COMMISSIONED			
Kis Desh Mein Hai Meraa Dil	Star Plus	20:30 - 21:00	5 (Mon - Fri)
Tujh Sang Preet Lagayi Sajna	Star Plus	13:00 - 13:30	5 (Mon - Fri)
Kyunki Saas Bhi Kabhi Bahu Thi	Star Plus	22:30 -23:00	4 (Mon - Thu)
Kahaani Ghar Ghar Ki	Star Plus	22:00 -22:30	4 (Mon - Thu)
Karam Apnaa Apnaa	Star Plus	14:00 -14:30	5 (Mon - Fri)
Kasturi	Star Plus	8:00 - 8:30	4 (Mon - Thu)
Kayamath	Star Plus	23:30 - 24:00	4 (Mon - Thu)
Bandini	NDTV Imagine	22:00 - 22:30	5 (Mon - Fri)
Kitani Mohabbat Hai	NDTV Imagine	20:00 - 20:30	5 (Mon - Fri)
Koi Aane Ko Hai	Colors	22:00 - 23:00	2 (Fri - Sat)
Kasamh Se	Zee TV	21:00 - 21: 30	5 (Mon - Fri)
Kahaani Hamaaray Mahabhaarat Ki	9x	22:00 - 22:30	4 (Mon - Thu)
Kaun Jeetega Bollywood Ka Ticket	9x	20:00 - 22:00	1 (Sun)
Kya Dill Mein Hai	9x	20:30 - 21:30	4 (Mon - Thu)
Kahe Naa Kahe	9x	21:00 - 21:30	4 (Mon - Thu)
Khwaish	Sony Entertainment TV	20:00 - 20:30	4 (Mon - Thu)
Kuchh Is Tara	Sony Entertainment TV	21:00 - 21:30	4 (Mon - Thu)
Kabhi Kabhi Pyaar Kabhi Kabhi Yaar	Sony Entertainment TV	20:00 - 21:00	2 (Wed - Thu)

SPONSORED			
Kasthuri	Sun TV	18:30 - 19:00	5 (Mon - Fri)
Kanmaneeya	Sun TV	12:00 - 12:30	5 (Mon - Fri)
Kalyanee	Gemini TV	19:30 - 20:00	5 (Mon - Fri)
Kalyanee	Surya TV	17:30 - 18:00	5 (Mon - Fri)
Kootukaari	Surya TV	22:00 - 22:30	5 (Mon - Fri)
Kaadambari	Udaya TV	18:00 - 18:30	5 (Mon - Fri)
Kankkana	Udaya TV	13:30 - 14:00	5 (Mon - Fri)

EVENTS			
Star Parivaar Awards-08	Star Plus	21.00 - 24.00	Sunday
Diwali Rishton Ki	Star Plus	22.00 - 22.30	4 (Mon - Thu)
Rang Barse	Star Plus	22.30 - 24.00	Sunday

As there have been changes in time slots of certain shows, the latest timing of the shows have been taken.

FINANCIAL OVERVIEW

2007-08 vs 2008-09

- Turnover dropped by 10% from Rs. 328.97 crores in 2007-08 to Rs. 294.92 crores in 2008-09
- Profit before tax reduced by 71% from Rs. 128.48 crores in 2007-08 to Rs. 37.51 crores in 2008-09
- Profit after tax reduced by 70% from Rs. 87.93 crores in 2007-08 to Rs. 26.67 crores in 2008-09

Margins

The PAT margins of the company decreased from 27% in 2007-08 to 9% in 2008-09. The Company's PAT has reduced due to certain extra ordinary events :

During the year, the Company constructed sets exclusively for a serial which went off air. These sets are not expected to be of use for any other serials. In view of this, the cost of the set (net of the estimated residual value) has been fully depreciated which resulted in an impact of Rs. 9.53 crores. Further, the Company also made a provision for bad and doubtful debts of Rs. 18.30 crores due to non-recovery of receivables from the broadcaster.

The Company has made a provision of Rs. 4.40 crores for dimunition in value of certain investments considered to be permanent in nature.

(in %)

	2008-09	2007-08	2006-07
EBIDTA margin	21	43	41
Cash Profit margin	14	30	29
Pre-tax profit margin	13	39	37
PAT margin	9	27	25

Surplus management

The surplus generated during the year was invested to acquire land for a new studio complex with the objective of strengthening the Company's competitive edge.

The investments of surplus funds continue to be focused on relatively safe financial instruments with the overall philosophy of safety and liquidity.

Capital employed

The average capital employed by the Company grew by 13% in the absolute terms over 2007-08 to Rs. 376.86 crores largely on account of the increased surplus. The ROCE decreased from 42% in 2007-08 to 16% in 2008-09.

The capital-output ratio decreased from 1.04 in 2007-08 to 0.84 in 2008-09. Working capital as a proportion of turnover decreased from 17% in 2007-08 to 16% in 2008-09.

Average Capital employed (Rs. in crores)

2008-09	2007-08	2006-07	2 year CAGR
376.86	334.51	277.32	17%

Revenues: The Company's operational income decreased 10% from Rs. 328.97 crores in 2007-08 to Rs. 294.92 crores in 2008-09, on account of a drop in programming hours accompanied by a drop in the average realisations.

Split: The revenue-wise distribution between commissioned and sponsored programming in 2008-09 was as follows:

Programming	2008-09	2007-08	% Increase/(Decrease)
Commissioned	268.44	300.82	(11%)
Sponsored	26.48	28.15	(6%)
Total	**294.92**	**328.97**	**(10%)**

Balaji continued to focus on the commissioned category, deriving 92% of turnover in 2008-09 from this segment. In the sponsored program category, the Company is present in all four states across South India, with programmes running across Tamil Nadu (Sun TV), Andhra Pradesh (Gemini TV), Karnataka (Udaya TV) and Kerala (Surya TV).

The sponsored category consisting of regional content, generated a revenue of Rs. 26.48 crores in 2008-09 as against Rs. 28.15 crores in 2007-08, a nominal decline, given the effect of the slowdown on advertising revenue.

Overheads

In the production of entertainment software, a budgeting discipline at the Company was responsible for a strict control on costs. The Company's budgeting discipline comprised the following priorities:

Profit centre

Taking into account costs comprising of artists fees, technicians, equipment hire, locations and property hire, each programme was appraised as a profit centre to enable the Company to take holistic and specific perspectives.

Project life cycle management

The Company adopted macro perspective to develop a detailed budgetary discipline. Consequently, all the shooting schedules, scene-wise artiste requirement, ongoing shooting progress and final delivery are chalked out well before the commencement of the shooting.

Checks and Balances

Non-budgeted expenses need verification prior to sanction and disbursement, an effective check and balance measure.

Audit

Besides independent internal auditors, the Company also has internal supervisory audit function that maintains control on the shoot process. Each critical element of the shoot cost is are evaluated from a competitive bidding perspective before procurement.

In addition to the above, Company undergoes statutory and tax audit.

Gross block

As a progressive organization, the Company continued to invest in state of the art equipment and infrastructure facilities.

Gross block increased from Rs. 94.77 crores in 2007-08 to Rs. 98.14 crores in 2008-09. The capital work in progress increased from Rs. 17.62 crores in 2007-08 to Rs. 51.39 crores in 2008-09 mainly due to investment in land to build a state-of-the-art studio in the city of Mumbai. The Company's depreciation for the year showed a marked increase from Rs. 12.70 crores in 2007-08 to Rs. 23.52 crores in 2008-09 mainly due to accelerated depreciation to the tune of Rs. 9.53 crores for one of its sets built for a show which has been discontinued.

Over the years, the Company has made the following capital investments to supplement its business related infrastructure requirements.

Sets

This enabled the Company to produce sets in-house and save the cost of hire; it enabled the Company to enhance the quality of sets in line with varied episode and scene requirement. The Company re-uses sets whenever required with marginal alterations, resulting in a progressive decline in production costs.

Land

The Company has invested in purchase of over ten acres of land in Mumbai to construct a state-of-the-art studio which is expected to give it competitive advantage in terms of costs and turnaround period.

Equipment

The Company de-risked itself from dependency on equipment vendors by investing in sophisticated digital cameras, lights, sound equipment and post production facilities.

Investments

The Company's investments had a nominal decline from Rs. 249.89 crores as on 31st March 2008 to Rs. 245.67 crores as on 31st March 2009. The Company invested its surplus funds mainly in debt funds to preserve capital, liquidate at will and generate a fair return on investments. The Company, as a matter of policy, invests a major component of its surplus in high credit quality funds and has only a small proportion in equity funds. The Company's income from investment reduced from Rs. 16.05 crores in 2007-08 to Rs. 14.39 crores in 2008-09. Further, the Company has provided for dimunition in value of certain equity investments to the tune of Rs. 4.40 crores. 'Other income' as a proportion of the Company's revenues stood at 7%.

Debtors

The Company's terms of trade strengthened during the year under review. Average receivable realization period improved from 75 days in 2007-08 (equivalent to days of income) to 74 days in 2008-09. During the year the Company has made a provision for bad debts of Rs 18.30 crores for amount receivable from a broadcaster for shows that have since gone off air.

Inventories
The Company's inventory of programmes declined from 11 days in 2007-08 to 1 day in 2008-09. As a proportion of the working capital, it decreased from 17% in 2007-08 to 2% in 2008-09.

Loans and advances
Loans and advances decreased from Rs. 40.47 crores in 2007-08 to Rs. 23.01 crores in 2008-09, comprising lease deposits for offices and studios, advance tax, subsidiary advances and trade advances. These loans and advances were considered good and related to the company's business.

RISK MANAGEMENT
Balaji's exhaustive risk management procedures are suitably developed to identify, analyse and mitigate operational as well as business risks. The varying nature of risks the Company faces include:

Audience Attrition Risk
An increase in the programmes and channels flocking Indian television has resulted in the sharing of viewership. Balaji takes corrective steps based on timely and accurate programme feedback to adapt its shows to the audience tastes, as required. As a result, the Company is experiencing the loyalty of its viewers towards its programmes.

Stagnation Risk
In a bid to avoid stagnancy, the Company is constantly scouting for business opportunities and is harnessing the untapped potential of the afternoon as well as weekend slots for its programmes. Balaji has also drawn out plans to hedge its creative risks better between the fiction and non-fiction space.

Channel-based Risk
In wake of a plunging popularity of any channel, the negotiating ability of the content provider takes a beating. As a precautionary measure, Balaji chooses leading multiple broadcasters to partner with.

Technology Risk
It is not long before any innovative technology is labeled obsolete. Often times, companies are compelled to replace high-cost equipment, accruing extra expenses. Balaji's investments in digital and state-of-the-art technology as well as its production and post-production equipment, are a result of thorough discernment as well as consultation.

Artiste and People Attrition Risk
Artiste attrition has a direct impact on the TRPs of Balaji's programmes. The Company has entered into contracts with its team members and artists to counter this risk. Further, it also provides one of the best compensation systems in the industry.

INTERNAL CONTROLS
The Company continues to have a strong Internal Audit Process, one of its kind in the entertainment industry. The Audit Team functions independent from the Operations team and is the first cost control tier, though the Docket Management System. Further management control is exercised through a daily MIS and also periodic MIS on qualitative parameters. It is also proposed to computerize the Docket Management System this year.

Furthermore, to streamline operations and to strengthen controls on hiring and requisitions of materials, an independent commercial team has been set up, which also allows the Production team to focus more on operational efficiencies.

HUMAN RESOURCES
Balaji houses an active Human Resource function that is completely aligned with the growth objectives of the Company. It fosters a performance oriented work culture and offers amongst the best opportunities in the industry for professional as well as personal growth of its employees. Balaji aims at maintaining a regular inflow of new talent at a balanced market cost and adequately train its workforce to deliver as per the performance standards of the organization. It identifies the right talent for precise jobs, leading to job satisfaction. Balaji nurtures its technically skilled personnel to deliver quality in a competitive marketplace. The HR function is also responsible in right sizing the organization. It consistently creates a talent pool by hiring from mass-media colleges and MBA campuses. The Company also provides adequate international exposure to its people through participation in relevant exhibitions globally.

Today, Balaji is adopting a fresh perspective towards enhancing efficiency of its workforce. It plans to set up a meticulous performance appraisal system that clearly defines parameters for assessment and increment. It is also involved in the process of designing and implementing a transparent reward and recognition policy. It is further enhancing the internal communications within the organization by launching the Intranet.

OUTLOOK

A leadership position in the Indian television fiction space does not mean that Balaji can afford to be complacent. In addition to moving ahead and bolstering its presence in the areas of films and new media, it is critical to solidify the foundations of the fiction business.

Gauging the changing audience preferences, it is essential for Balaji to broadbase the type of offerings and to experiment with new styles / types of content going beyond the traditional successful formats. Further, given the effect of the economic downturn on the television industry, reduction in realizations and increased competition would be a reality. Focus on volumes and attempt to increase the breadth of clients in the GEC space would be the priority areas for this year.

Films

Balaji has already extended its horizons to capitalize on the opportunities offered by the movie production segment. Having tasted success through movies such as Bhul Bhulaiya, Shootout at Lokhandwala and Sarkar Raj, the Company is working towards the objective of turning its modest beginnings into an established presence in this arena. With this vision, Balaji has unveiled plans to adapt a fully integrated studio model, producing world-class content. With scale and budget as part of its core strategy, Balaji will continue to produce high-quality entertainment content for popular mainstream as well as niche cinema. Armed with the right team and rigorous production capabilities, the Company will conduct meticulous commercial feasibility of every undertaken project. Balaji has already identified as many as 3-4 films for the next fiscal and is looking at hiring the best available talent to emerge successful.

New Media

Balaji is consistently scouting for opportunities that enable it to deliver greater shareholder value. Today, the market is witnessing shifting trends from the traditional mediums to new media such as, the internet and handheld platforms as areas of significant content consumption. Having identified the new media segments as a lucrative business option, the Company has firmed up plans for foray into this promising sector as a move up the value chain. As a content-rich production house, Balaji has a repertoire to leverage and make the most of the available opportunity to interact directly with its consumers. The creation of fresh cutting edge content, whilst adapting the existing content to the new format, is also on the anvil. Currently, the Company is evaluating the dynamics of operating within the new media sector in terms of the latest trends, available capacities and size of the market for music, fiction and non-fiction.