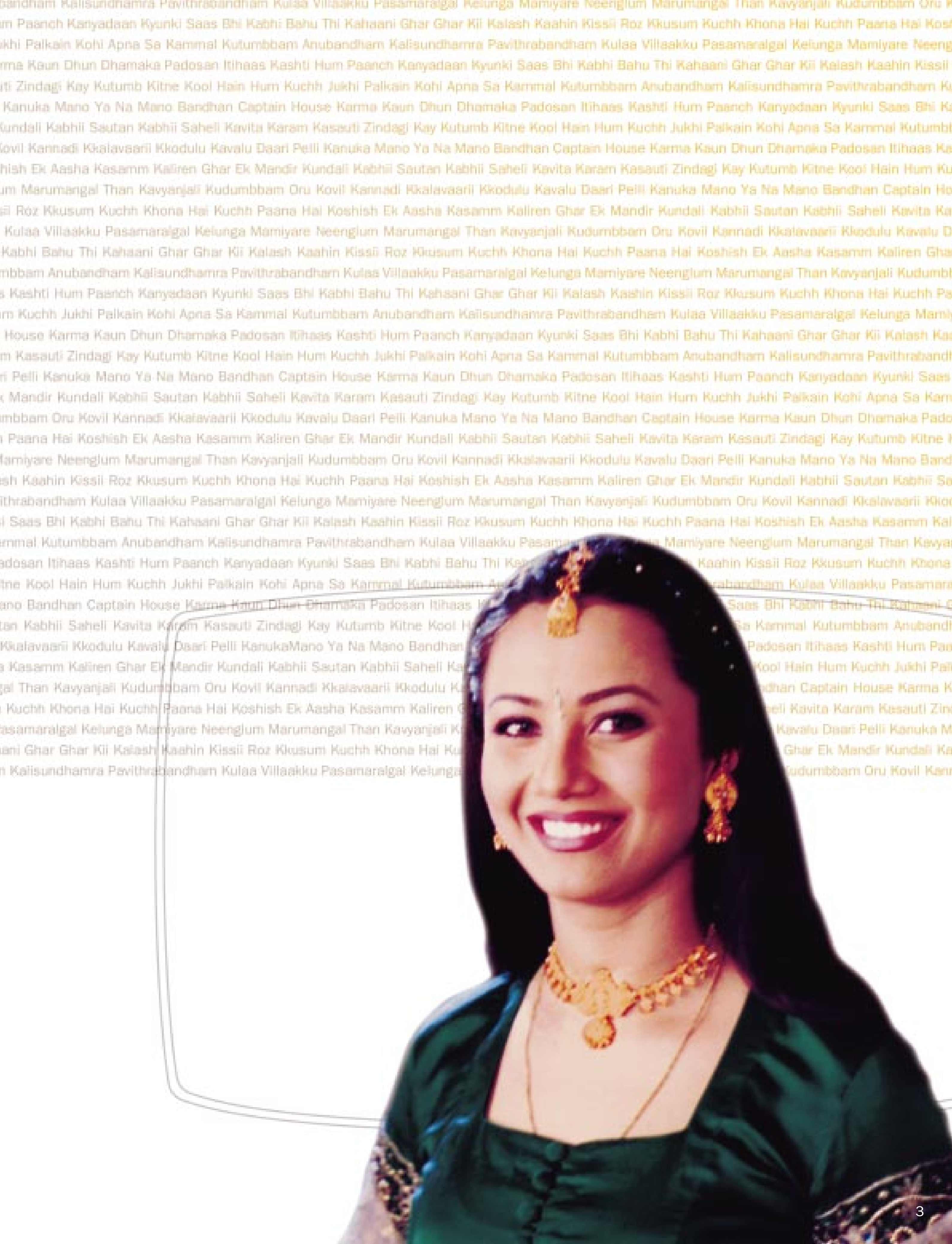
gROWTH story

Advertisers were backing off, said analysts. Television channels were not doing as well as before, they argued. And after 9/11, the world had less time for soap than before, they insisted. Just some of the reasons why people said Balaji would be a marginal growth story at best and a flat earnings script at worst in 2001-02. The climax turned out different from what the audience had in mind. Programming revenues increased 125.63 per cent. Profit after tax jumped 566.27 per cent. And net margin surged from 8.91 per cent to 26.31 per cent.

The Balaji story kept gROWING for a number of reasons...



Growing through a prudently de-risked model.

Creative discipline.

These two words encapsulate our approach to the production of quality entertainment software at Balaji Telefilms.

... the decision to specialize in the stable space of television entertainment content only.

... a tight control of all variables that affect our business at all stages. Hour after hour. Day after day.

... the protection of our receivables through the prudent selection of customers.

... an increase in programmes commissioned directly by the channels, de-risking fees in the process.

... a TRP-linked remuneration structure that protected the downside and removed the cap on income possibilities.

... the aggressive use of digital equipment that protected the company from technology obsolescence.

... the decision to conserve resources through the lease of high-ticket assets as against an outright purchase.

... the increased ownership of in-set equipment to maximise use and cost coverage.

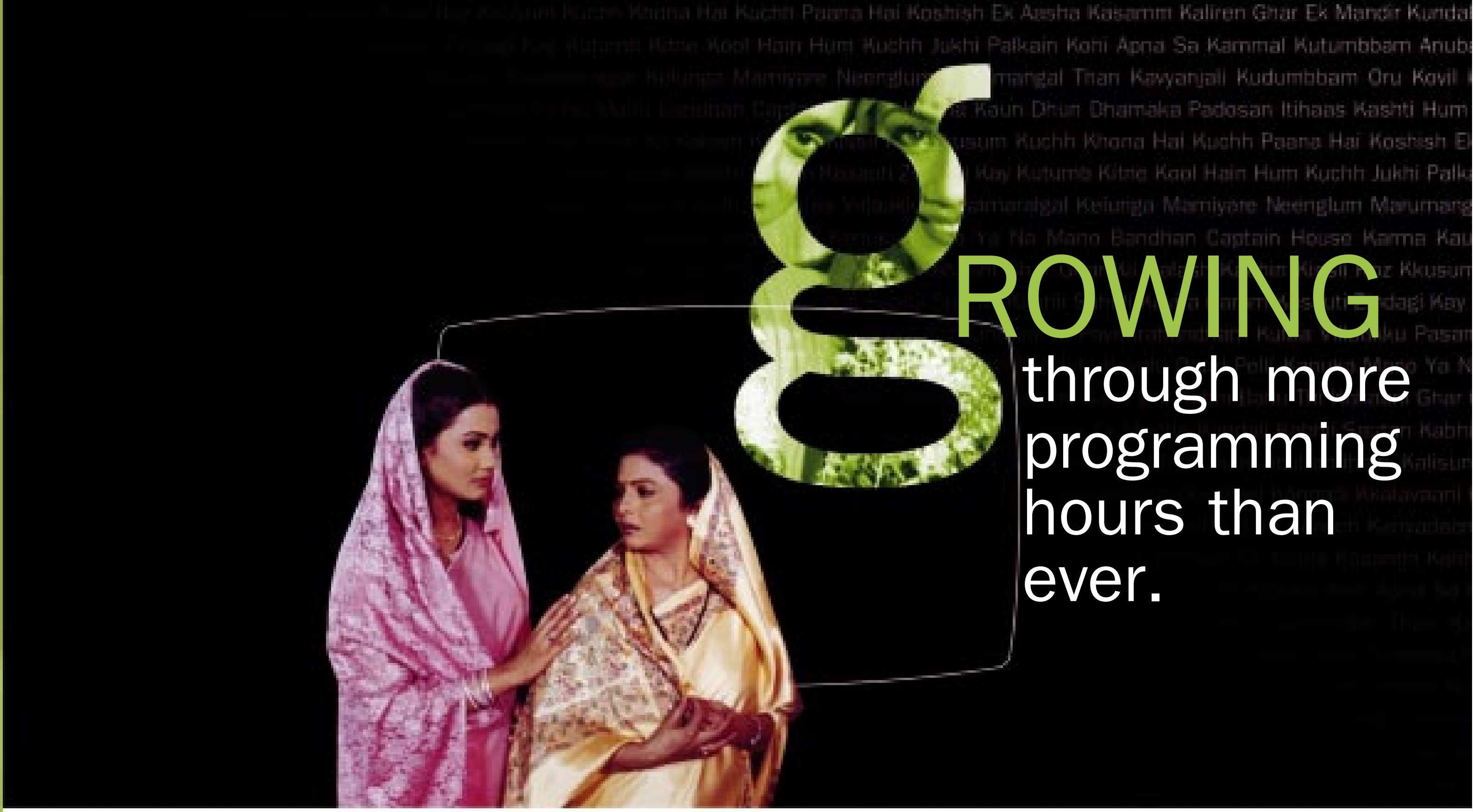
... the company's debt-free status as a liquidity-enhancing initiative.

... the use of family-based storylines that appealed to all age, income and personality types in the country.

"Balaji's programmes are more than just soap. They represent standards of behaviour. For instance, a two-year-old child refused to talk to me because I had slapped Parvati in Kahaani Ghar Ghar Kii. As an extension, let me say that because of its excellent characterization and direction, no other production house has been able to exploit my talents the way Balaji has." - Sweta Kwatra, actress (Pallavi in 'Kahaani Ghar Ghar Kii).

"The big strength at Balaji is its ability to weave an engrossing story around a concept. And if a script appeals to the audience, the budget is never an issue."

- Ms Bharavi Shah, scriptwriter (Kkusum)



gROWING through more programming hours than ever.

At Balaji Telefilms, we reported better numbers simply because as soon as we perfected the quality model, we scaled the size. In an industry when the concurrent telecast of two serials by a single production house was considered an achievement, 13 Balaji serials were telecast towards the close of 2001-02.

In doing so, Balaji programmed more entertainment software than ever in its history.

The company sustained its record of having increased programming hours year after year. For instance, Balaji increased its programming hours from 616.5 hours in 1999-2000 to 1584.5 hours in 2001-02, an increase of 157 per cent.

Balaji increased its fresh programming hours from 472 hours in 1999-2000 to 1507 hours in 2001-02, a 219 per cent increase.

Balaji enlarged its television software library from 919 hours in 1999-2000 to 2463.5 hours in 2001-02, an increase of 168 per cent.

Balaji increased its programming hours per week from 19.5 towards the end of 1999-2000 to 25.5 towards the close of 2001-02, a growth of 31 per cent.

Balaji's popularity in the regional channels resulted in the increase in the original regional programming hours from 312.5 in 1999-2000 to 581 hours in 2001-02, a growth of 86 per cent.

Even as the company increased the number of programming hours, it de-risked itself adequately through the disciplined allocation of programming time: no programme accounted for more than 15 per cent of the total programming revenues of the company, minimizing the dependence on any single serial.

gROWING through a complete domination of India's prime-time.

The prime-time is the Centre Court of India's television entertainment industry.

In this highly competitive environment, Balaji dominated the entertainment proceedings evening after evening, week after week.

Kammal at 8.00 on Zee TV. *Kasauti Zindagi Kay* at 8.30 on Star Plus. *Kkusum* at 9.00 on Sony. *Kutumb and Kohi Apna Sa* at 9.30 on Sony and Zee respectively. *Kahaani Ghar Ghar Kii* at 10.00 on Star Plus. *Kyunki Saas Bhi Kabhi Bahu Thi* at 10.30 on Star Plus. *Kaahin Kissii Roz* at 11.00 on Star Plus.

Balaji's competence was that its complement of programmes covered different subjects that addressed people of different ages, profiles and preferences.

One dealt with the joint family, another with women's issues; one centred around a middle-class family, another on a lady and her daughter-in-law; one a family thriller and another on a relationship between a husband and a wife.

As a result, Balaji went beyond the creation of programmes – and created an audience. So what was initially a prime-time viewership that watched television between 9 pm and 10 pm, now began switching in to Balaji's programmes as early as 8.00 pm and staying glued until it was time to duck under the blanket four hours later.

Making life difficult for all those spartan people who believe in getting home late, having a quick dinner and going to bed immediately thereafter.

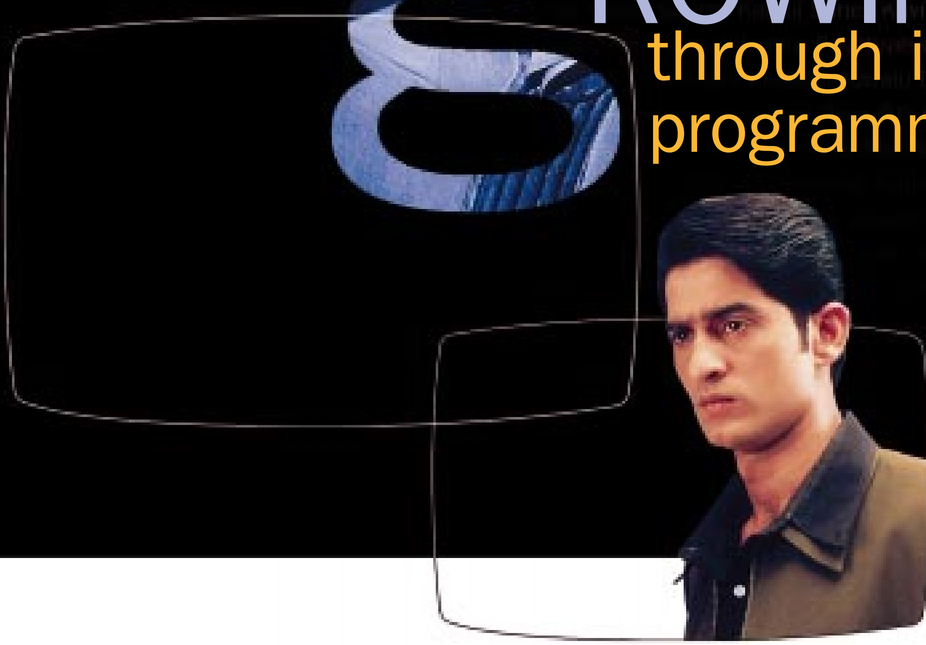
"Balaji stays awake even after viewers have gone to sleep. Since all postproduction is done in-house, the editing division works 24 x 7. It makes quality checks at all stages - from the time the scene is shot to the time it receives it on its table - raw material stage to the finished product- to ensure that standards are met."

- Ravi Bhattarai, Post Production In-charge

"Balaji has been a success because of its remarkable ability to give the story a twist each time the TRP wavers - the unexpected death of Mihir in 'Kyunki Saas Bhi Kabhi Bahu Thi' and his subsequent comeback, for instance."

- Ekta Bahri, Creative Head, Kkusum

gROWING through increased programme life.



The life of a serial is just about as important in our business as the life in a serial.

In view of this, our focus at Balaji was not just to create a good programme but to ensure that it ran - for years.

With good reason.

At Balaji, we treated our popular programmes like a strategic business unit. The story was the product. The mix of artists, dialogues and props represented the raw material. And the customers were the audience.

The longer we could sell the product to the audience, the longer we could generate attractive revenues. As an extension, the more the customer became accustomed to the product, the greater our room to price our products in line with its growing brand equity. As a result, the tenure that the serial was on air was more than just a chronological indicator. It represented the serial’s asset value and its income-earning possibility.

At Balaji, we are delighted to state that for a company that had been in active business for 89 months as on 31 March 2002, our precise understanding of the audiences' preferences resulted in the average life of our popular serials increasing significantly towards the close of the financial year under review.

gROWING through a higher profit per programming hour.

When Balaji sampled public opinion a year ago, this was the feedback: same storylines, similar faces and familiar sets.

The company issued a strict guideline to its storywriters and creative teams: there should be no resemblance, intended or accidental, between any two stories.

A responsive Balaji immediately shuffled its product mix.

When Balaji next tested the result, this is what it discovered: each of the top 10 television programmes was a Balaji production. Each of the top 20 serials was also a Balaji production. And as many as 33 in the top 50 serial were from Balaji.

Result: Balaji strengthened its average realisations per hour from Rs. 3.6 lacs in 2000-01 to Rs. 7.2 lacs in 2001-02 as its realisations moved closer to their intrinsic worth.

"Balaji is a master psychologist in a consulting chamber of a billion people. Its content creation skill is a by-product." - Mauli Ganguly, actress (Shaina in Kaahin Kissii Roz)

"Balaji provides an excellent multi-skilling experience. I had been an editor for seven years, until I shifted to direction some months ago. Thanks to Balaji, I now have the confidence to direct an entire motion picture." - Dharmesh Shah, director, 'Kyunki Saas Bhi Kabhi Bahu Thi'

gROWING through an excellent quality of product.

Television rating points represent the electoral ballot of the television software industry. Television software companies either succeed by it or succumb.

Balaji managed the content and treatment quality of its serials with a competence that inevitably reflected in a high TRP.

This was best reflected in its management of the evergreen *Kyunki Saas Bhi Kabhi Bahu Thi* serial. After a prolonged stay at the top of TRP charts, the index dropped temporarily to its lowest ever of around 9 in 2001-02.

Rather than accept defeat at the electorate's verdict and withdraw the serial, Balaji responded with courage and imagination. It accelerated the story line by 20 years, revived audience interest and strengthened the TRP to 14.84 (for the week ending 31.03.02). This made *Kyunki Saas Bhi Kabhi Bahu Thi* the most successful serial on Star TV and one of the most popular single programme across all satellite channels in India in 2001-02.

gROWING through a stronger value-addition.

At Balaji, we bring a rigorous logistical and financial discipline to the business of storytelling. As a result, production costs and schedules are frozen even before an episode is.

For a start, each director and project head was accountable in that they were required to maximise the number of scenes shot per day without comprising on their quality.

This enabled the fixed production expense to be spread more efficiently, reducing the cost per scene.

To control the actors' fees, the company worked with new and talented artists whose fees were more reasonable than those quoted by the established names in the business.

Thanks to a far-sighted policy of backward integration, the company invested in recurrently-used sets, infrastructure and post-production equipment, resulting in a quicker payback. For instance, the company invested aggressively in the sets of *Kyunki Saas Bhi Kabhi Bahu Thi* and generated a significant value-addition over the prevailing average that translated into a healthy profit.

As a result, the growth and the cost of sales de-accelerated over the last year: whereas cost of sales increased by nearly Rs 26 cr in 2000-01, it rose by only Rs 19 cr during the financial year under review. Besides, the delta between the cost of sales and revenues widened from Rs 8.25 cr in 1999-2000 to Rs 11.06 cr in 2000-01 to Rs 53.85 cr in 2001-02, endorsing the company's ability to cover costs with a greater efficiency progressive with a rise in income.

"Balaji succeeded because the best talent worked with it - the best directors, the best script writers, the best make-up men and the best costume designers. This culture of excellence helped transform relatively unknown artists into household names." - Sweta Tewari, actress (Prerna in Kasauti Zindagi Kay)

"The commitment to excellence comes first at Balaji. As a result, there have been occasions when even though content has been submitted to customers, we recall it to make last-minute modifications so that we have the satisfaction of having sent out something that completely carries our quality seal."

- Anil Nagpal, Script writer, Kohi Apna Sa

gROWING through a seamless production rollout.

Imagine a shop packed with 10 million customers waiting for a product that the factory just informed would be a day late in being delivered.

Balaji's seamless workflow circumvented such embarrassments.

The company planned the rollout of each serial to precision and ensured that a sufficient number of episodes were always available with its customer channel at any time. And that each episode was despatched at least a week in advance of its telecast.

This proactive response was more complex than it appears. Each Balaji episode comprised a high number of scenes. In 2001-02, there were 13 serials on air. Ten serials were always in the pipeline. Each serial comprised 25-30 artists plus another 20 support professionals.

To ensure a seamless synchronisation, the company formed teams that co-ordinated critical group production activities. To rationalise costs, Balaji obtained scripts well in advance so that these production schedules could be planned with precision.

What was saved in minutes was eventually counted in millions. By saving an hour in the production of around 25 minutes of episode time through the year, Balaji succeeded in raising its profit before interest by approximately Rs 7 cr in 2001-02.

WHO WE ARE

BALAJI TELEFILMS LIMITED IS ONE OF INDIA'S MOST SUCCESSFUL TELEVISION ENTERTAINMENT SOFTWARE COMPANY. The company is headquartered at Mumbai, India, and has been promoted by the veteran actor Jeetendra, his wife Shobha Kapoor and daughter Ekta Kapoor. The company specialises in Hindi, Telugu, Tamil and Kannada programmes.

Balaji produced its programme in 1994, a fiction thriller called *Mano Ya Na Mano* for Zee TV. Towards the end of 2001-02, the company had produced programmes for channels like Star, Doordarshan, DD Metro, Sony Entertainment, SABe, Metro Gold, Zee, Sun, Gemini and Udaya.

Balaji is not just a successful content creator, it is a channel driver. Its blockbusters include serials like Hum Paanch (on air for the last five years), *Kyunki Saas Bhi Kabhi Bahu Thi, Kkusum, Kahaani Ghar Ghar Kii, Ghar Ek Mandir* and *Kanyadaan* (Hindi), *Pavithrabandham* and *Kalisundhamra* (Telugu), *Kulaa Villaakku* (Tamil) and *Kavyanjali* (Kannada). The company had 13 serials on air towards the close of 2001-02.

Balaji Telefilms Limited is listed on the Mumbai and National stock exchanges. The company's market capitalization stood at Rs 421.45 cr as on 31 March 2002. Currently, the promoters hold nearly 58 per cent of the company's equity, while foreign institutional investors, mutual funds, financial institutions, banks and private corporate bodies held the rest.

VISION

To emerge as a complete Indian media house covering the widest genres of television programmes.

THE CAUSE

- A 22 per cent increase in fresh programming hours.
- An increase in average hourly realisations from Rs 3.6 lacs to Rs 7.2 lacs.
- Balaji's commissioned programming revenues increased from Rs 22.7 cr to 78.3 cr, a 245 per cent jump over the previous financial year.
- The Shares of Balaji's commissioned programme revenues increased from 46 per cent in 2000-01 to 71 per cent in 2001-02.

THE IMPRESSION

- Balaji emerged as India's largest television entertainment content provider with over 26 hours of weekly programming.
- Twenty Balaji programmes featured in the top 20 across satellite channels.
- Thirty three Balaji serials figured in the top 50 across channels.

THE STRENGTHS

- The company continued to be free from debt.
- An increase in the television software library by 34.5 per cent over 2000-01.

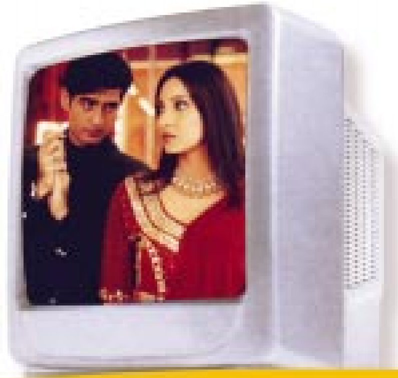
THE FUTURE

- Till date, Balaji has invested Rs 15.76 cr in infrastructure and equipment.
- Balaji launched five serials - *Kaahin Kissii Roz* (Star Plus), *Kkusum* (Sony), *Kasauti Zindagi Kay* (Star Plus), *Kutumb* (Sony) and *Kohi Apna Sa* (Zee TV).
- Balaji was commissioned by Zee TV to deliver two daily soaps on prime time and a daily afternoon soap on Sony.

THE RESULT

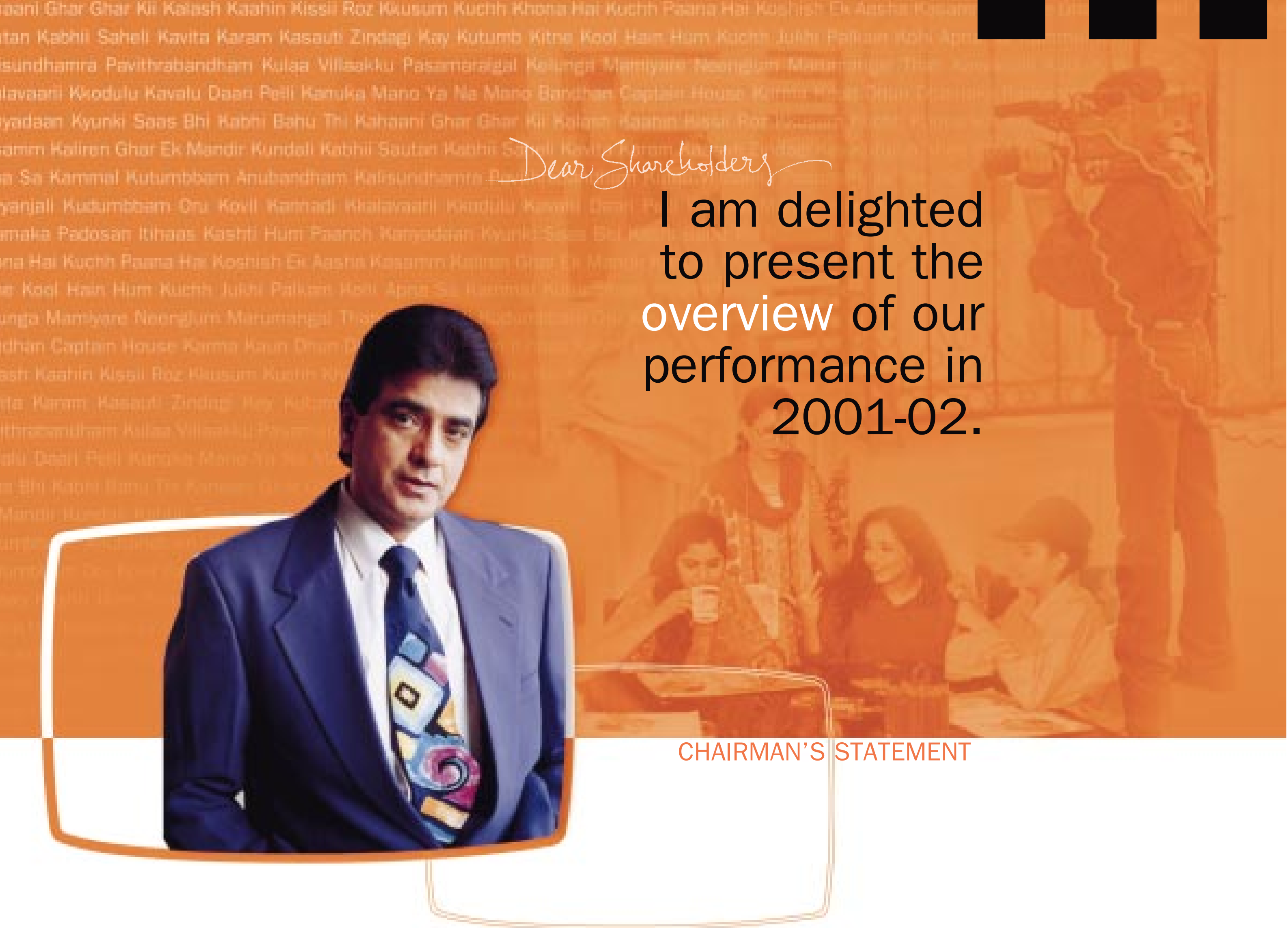
- A jump in programming revenues from Rs 48.88 cr in 2000-01 to Rs 110.30 cr in 2001-02, a rise of 125.63 per cent.
- A rise in profit after tax from Rs 4.35 cr in 2000-01 to Rs 29.02 cr in 2001-02, an increase of 566.27 per cent.
- A rise in operating profit margin from 15.63 per cent in 2000-01 to 41.68 per cent in 2001-02.
- An increase in net profit margin from 8.91 per cent in 2000-01 to 26.31 per cent in 2001-02.
- An increase in the return on capital employed from 23.69 per cent in 2000-01 to 82.84 per cent in 2001-02.

What Balaji ACHIEVED in 2001-02



POST BALANCE SHEET DEVELOPMENTS

- The promoters diluted 10.11 per cent of their equity holding (10,41,600 shares) in favour of FIIs. This was done to institutionalise and broadbase the shareholding.
- The Board of Directors approved the appointment of Deloitte Haskins and Sells, chartered accountants, and Snehal and Associates, chartered accountants, as joint auditors, subject to shareholders' approval.
- The Board of Directors approved the increase in the FII investment limit from 24 per cent to 40 per cent subject to the approval of shareholders.
- Mrs Shobha Kapoor took over as Managing Director and CEO upon the resignation of the erstwhile CEO.
- The company recruited a CFO to handle the finance portfolio of the company.
- Rates for serials on Sony were revised upwards.
- The company signed a contract with Sony to make a weekend programme, tentatively titled *Kya Haadsa Kya Haqeekat*.
- The company signed a contract with Star Plus to produce a weekend programme tentatively titled *Kaalki*.
- The company launched six new serials : *Kitne Kool Hain Hum* (Zee TV), *Kabhii Sautan Kabhii Saheli* (Star Plus), *Kammal* (Zee TV), *Kuchh Jukhi Palkain* (Sony), *Kannadi* (Udaya) and *Kkalavaarii Kkodulu* (Gemini)
- *Koshish Ek Aasha* and *Kitne Kool Hain Hum* on Zee TV were taken off air.



Dear Shareholders

I am delighted to present the overview of our performance in 2001-02.

CHAIRMAN'S STATEMENT

DELIGHTED FOR A NUMBER OF REASONS.

Balaji Telefilms Limited posted a Rs 113.11 cr topline and a Rs 29.02 cr bottom line for 2001-02, a record performance on both counts. On 31 March, 2002, all the top 10 programmes in the satellite channels were Balaji programmes. Thirty three of the top 50 were Balaji productions.

Balaji simply dominated Indian satellite television entertainment industry across time slots, languages, channels and geographies.

UNIQUE INDUSTRY PROXY

Balaji's performance must be appraised not just in the context of what the company achieved in 2001-02, but also in the context of what the other players in India's broad entertainment industry achieved during the financial year under review.

Balaji reported a 125.63 per cent increase in its programming revenues and a 566.27 per cent increase in its profit after tax.

DEPENDABLE INDUSTRY NICHE

Balaji succeeded because it competently leveraged the stability of the television entertainment space in India. In our opinion, this continued to be the most attractive entertainment segment for a number of reasons.

1 One, it enjoyed the widest reach. It reached villages where theatres are not in existence. India has one of the lowest penetration of cinema halls - 12,900 cinema houses, making it possible to screen only 18.9 million shows in a year - as a result, the television set emerged as a sustainable, convenient and economic entertainment alternative.

Two, the reach of films was limited by the reach of its distributors. There was no such restriction in the growth of television entertainment.

Three, content creators in the film production business recovered their earnings from a nationwide network of distributors. In television entertainment, we collected our revenue from a single source and minimized our delay and receivables risk in the process.

Four, film and music makers did not enjoy the luxury of a second-chance. Once a film had not been accepted by the public, it needed to be withdrawn and possibly even consigned to the cans for posterity. The audience was more forgiving in the television entertainment business. Content creators were able to counter falling TRP ratings and evolve their content in line with viewer preferences.

Five, piracy continued to eat into the potential profits of every single sub-segment of the entertainment industry - films and music, in particular. Television content was protected from this threat.

Six, a film represented a considerably higher financial risk than the sequence of serials of television entertainment.

SOLID BUSINESS MODEL

Balaji translated its industry potential into corporate profits in a bigger way than any of its competitors in the business

These financial fundamentals enabled it to do so:

- **Low fixed costs:** Balaji ensured that costs were low through the prudent selection of assets and equipment. In 2001-02, the company's cost of sales declined from 77.38 per cent of the total sales in 2000-01 to 51.18 per cent in 2001-02. In addition, the scale of the company's business in 2001-02 made it possible for the entire year's overheads to be covered in only 1.2 months of working.

- **Low debt:** BALAJI CONTINUED TO REMAIN DEBT-FREE. As on 31 March 2002, the company possessed the capacity to raise Rs 66.15 cr of debt without straining its debt-equity ratio beyond 1:1.

- **High cash:** As the television entertainment business grows, attractive opportunities of inorganic growth could arise for brief tenures, where companies like ours will need to respond with speed to capitalize on the circumstances.

At such junctures, access to owned cash will be critical. As a provision for such opportunities, the company had a cash availability of Rs 27.75 cr in 2001-02. The company intends to utilise this cash availability for capital expenditure to meet the demand for more serials across channels, languages and time slots.

- **High margins:** The company reported a operating profit margin of 41.68 per cent and a net margin of 26.31 per cent for 2001-02, one of the highest across all industries in the country. The company's net margin strengthened from 20.88 per cent in the first quarter of the last financial year to 27.23 per cent in the last quarter.

CHALLENGE

AT BALAJI, WE RECOGNISE THAT TIME IS OUR BIGGEST RESOURCE. AS A RESULT, WE ARE ALWAYS FOCUSED ON MAXIMIZING PRODUCTION FROM A GIVEN PERIOD OF TIME. In 2001-02, the company reported 31.19 inventory turns, 317 per cent higher than in the previous year. Through strong controls, the company expects to increase these during the current year, resulting in more programmes within the given time.

Having demonstrated the solidity and sustainability of our earnings, the big challenge now is to scale the model.

This is how we expect to do so: we expect to produce telefilms and weekend programmes to increase revenue at higher hourly realisations. We expect to grow our presence in the regional channels through fresh content. We expect to leverage our IPRs and market content to international channels, especially in geographies with a high expatriate population. We also expect to extend our presence across other hindi channels such as Sahara and enhance our exposure across different time slots to generate incremental programming revenues.

I am confident that these initiatives will help Balaji emerge as the number one entertainment provider in the second most populous market in the world.

Jeetendra Kapoor
Chairman

10 MINUTES WITH THE MANAGING DIRECTOR AND CEO

At Balaji, we treat each serial like a strategic business unit and a profit centre.

Shobha Kapoor reviews the critical role of production in the company's success in 2001-02

Q. IN WHAT WAY DOES PRODUCTION PLAY AN IMPORTANT ROLE AT BALAJI?

It connects the concept in the mind of the scriptwriter to cash flow in our books. The efficiency with which we can manage the production influences the quality of our earnings and the speed of its inflow.

Q. WHAT HAS BEEN THE BIGGEST ACHIEVEMENT OF THE COMPANY'S PRODUCTION INITIATIVE?

When we got into this business a few years ago, a number of observers said that it could never be scaled because it was essentially creative in character. The fear was that as soon as we tried to scale it, we would lose quality, viewers would switch off and channels would cease to commission us. Balaji's biggest achievement from a production perspective has been that it has protected quality consistently and scaled the business simultaneously.

Q. HOW DID THE COMPANY ACHIEVE THIS?

This can be explained better with an analogy. In a certain sense, our production process resembles that of an automobile company. A number of components must go into the production process at the same time to ensure the rollout of a quality end product. The same is true in our case: all the artists and professionals must be present just when they are required to create quality content.

Q. WHY IS THIS DIFFICULT?

In the automobile production business, components can be inventorised; in ours, people cannot. In the automobile business, one item of the component is generally identical to another thereby reasonably assuring the creation of a standardized product; in our case, an individual may go through two totally contrasting moods in two days. Besides, a component does not need to be inspired to make a great vehicle; in our case, the artiste, the support professional and the director must all be motivated by the environment to deliver a first-rate performance.

We must continue to treat people in a special kind of way across every episode, every day, every week, every month. This makes it an absolutely challenging business to be in. I sometimes feel that managing the viewer's emotions is secondary; if we are able to manage the expectations of our people, the end objective would be far simpler!

Q. SO HOW HAS BALAJI SUCCEEDED IN DOING SO?

Through the creation of a transparent environment where professionals know well in advance what is expected of them. We have succeeded in doing so through a strong planning and documentation system. For instance, after the script has been delivered, we map out an exhaustive calendar of shoots that enables us to correctly forecast what scene will be shot on what day and what artiste will be required at what hour.

Q. IN WHAT IS WAY IS THIS HELPFUL?

It enables us to compress production time and costs leading to an attractive profit. For instance, nearly 25-30 artists are involved in the production of each serial, supported by a team of nearly 40 professionals. The timely presence of each individual directly involved in content creation is directly influenced by a number of variables - someone's wife may be ill, there may be a waterlogged residential area for another or someone may have missed his train. In such an environment, our important objective is to ensure that all the people that are critical to the production of the programme are present at the same place and at the same time so that that content can be produced as per its intended level of excellence. The transparency in our scheduling process enables us to do so.

Q. HOW CHALLENGING IS THIS?

Let me give you an instance. Family shots are essential in the soaps that we make. Earlier, we would have a problem co-ordinating the various schedules of the artists because a number of them would have other professional commitments to meet. We circumvented this problem with a simple solution: we have now made it mandatory for all our artists to be present at our studios on specific days every month.

Q. CAN YOU GIVE SHAREHOLDERS ANOTHER INSTANCE OF THE OTHER PROGRESSIVE PRACTICES THAT HAVE BEEN INCORPORATED INTO THE COMPANY'S PRODUCTION DEPARTMENT?

At Balaji, we treat each serial like a strategic business unit and a profit centre. A programme must pay for its team and growth. Since most of the professionals who work with the company are recruited on a contractual basis, it ensures the following immediately: that teams grow based on the success they generate and that there is no cross-subsidising the failure of a programme with the success of another. This ensures that our teams are always lean and are always scalable as per the demands of the marketplace.

Q. HOW HAS THE COMPANY BEEN ABLE TO TRANSLATE THIS STRUCTURE INTO MATURE COST CONTROL?

Before a day starts at Balaji, all our directors and floor professionals know exactly how many scenes must be shot within the available time before the lights can be switched off. Thereafter, we compare this with what is finally achieved. One-off aberrations are overlooked but as soon as this becomes a trend, the project head is made accountable. The same standard applies right across the simultaneous production of 13 programmes across our various studios - not only across Mumbai but across the country.

Q. WHAT OTHER INITIATIVES HAVE HELPED YOU COMPRESS TIME AND COST?

Our selective backward integration into set manufacturing. We realized early enough that we would be able to take production values into a new league in the country through a captive set-creation infrastructure that would be totally under control. Over the last year, this has helped us turn around projects faster, at a lower cost and a stronger visual appeal. This was backed by the company's guts in the production of one of the most expensive sets in the history of Indian television production for *Kyunki Saas Bhi Kabhi Bahu Thi* for a capital investment of around Rs 1.5 cr.

MANAGEMENT Discussion and Analysis

NATURE OF BUSINESS

Balaji Telefilms Limited produces quality content for a number of popular channels in the country. The company's programmes encompass the genres of family-based dramas, family thrillers, children's fantasy programmes and sitcoms across Hindi, Tamil, Telugu and Kannada. Nearly 62 per cent of the company's weekly programming hours are in Hindi and the rest in regional languages.

2001-02 VS. 2000-01

In 2001-02, Balaji Telefilms (also referred to as the company) recorded a turnover of Rs 113.11 cr as against Rs 49.67 cr in 2000-01, an increase of 127.70 per cent. The company's profit after tax increased from Rs 4.35 cr in 2000-01 to Rs 29.02 cr in 2001-02, an increase of 566.27 per cent. The company's net margin increased from 8.91 per cent in 2000-01 to 26.31 per cent in 2001-02.

INDUSTRY OVERVIEW

The 1990s changed the way of life for a large number of Indians. A revolution transpired in Indian home entertainment as private companies were allowed to launch television channels for the first time, breaking the monopoly of the state-run Doordarshan. Within a decade, private channels increased to nearly 100. Following this first flush, content-weak channels disappeared and stronger brands survived.

INDUSTRY SIZE

The Indian entertainment industry is expected to grow from Rs. 14,363 cr in 2000 to Rs. 48,074 cr by 2005, a CAGR of 27 per cent. The television software industry, estimated at Rs. 8450 cr in 2000, is expected to expand to Rs. 32,365 cr by 2005, a CAGR of 31 per cent. As a result, the size of the television industry as a proportion of the overall entertainment industry is expected to be around 67 per cent three years from now. In the interim, it is expected to report the highest quantum and the second highest percentage growth. Besides, India's television software exports are expected to increase from Rs 350 cr in 1999-2000 to Rs 2000 cr by 2005.

The growth of the Indian entertainment industry (Rs cr)

Year	2000	2005	CAGR %
Television	8450	32,365	31
Films	4000	10,210	21
Music	1800	4479	20
Radio	113	1020	55
Total	14,363	48,074	27

Source : Industry estimates

GROWTH DRIVERS

• Low penetration level: Seventy four per cent of Indians don't own a

The number of cable households, the lifeline for content creators like Balaji, has grown from nearly four million in 1992 to nearly 37 million in 2001-02

television set. As incomes rise and this under-penetration corrects itself, the room for more specialized television content will increase.

Country	People/TV	Penetration %
USA	1.2	333
Japan	1.6	250
France	1.7	235
Brazil	3.6	111
China	4.1	98
India	16.6	26

Source: Industry estimates

DROPPING TELEVISION PRICES

Thanks to lower customs tariffs and lower component prices, television sets are becoming increasingly affordable. The price of a 20-inch colour TV, for instance, has declined from Rs 18,500 in 1996 to Rs 8500 in 2001-02. This, in turn, has driven the growth of television offtake which reported a seven year CAGR (1993-2000) of 10.10 per cent. In 1996, a survey by NCAER showed that television had a 66 per cent penetration in the urban areas and an 18 per cent penetration in the rural areas. It is estimated that currently, urban areas have penetration in excess of 75 per cent, and rural areas would have penetration levels in the region of 40 per cent. It is expected that colour television offtake will touch the 10 million mark by 2003-04, enabling about 32 million new households to own television sets. India will have 100 million television households in the next two years, a small proportion in a population of one billion.

GROWTH OF CABLE TELEVISION HOUSEHOLDS

The number of cable households, the lifeline for content creators like Balaji, has grown from nearly four million in 1992 to nearly 37 million in 2001-02. Even at this increased level, the number of cable households in India accounted for only a small proportion of all the TV owning households. As this penetration rises, so will the scope for content creators like Balaji.

Cable TV growth in urban growth

Year	Cable households (million)
January 1992*	0.41
November 1992	1.2
1993*	3.3
January 1994	7.4
1994 end*	11.8
1995	15
1996	18
1999 end	28
2001 end	37

*Source: *Frank Small studies; the rest are industry estimates.*

THE PAST	THE PRESENT
Low reach	Increasing reach
Few channels	Multi-channels
Low cost programming	Quality programming
HIgh instances of repeat telecast	Minimised repeats, maximised fresh programming
Ad-revenue based model	Subscription-based revenue model
Films/film-based programmes	Fictional programmes

HIGHER ADSPEND

Advertisement spending keeps in step with a progressive economy. The Indian advertising industry grew from Rs 68.24 billion in 1998-99 to Rs 122.83 billion in 2001-02, a growth of 80 per cent.

Television adspend has accounted for an increasing proportion of this allocation. About 350 million adults watch television regularly while 250 million people read

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What drives SUCCESS at Balaji?

1 LOGISTICS MANAGEMENT

If we had just delayed the completion of each episode at Balaji by 60 minutes, our profit before interest for 2001-02 would have been lower by approximately Rs 7 cr.

This is what makes competent logistics management integral to our business:

- Our customers insist on an inventory of sufficient number of episodes.
- Balaji usually shoots more than ten serials simultaneously across its production floors.
- Each serial comprises about 25-30 artists.
- Each episode comprises action packed scenes.
- Each scene is supported by a director, scriptwriter, producer, cameramen, sound recorders, costume designers, make-up artists, spot boys, art directors and light men.

As the first and decisive step towards managing these variables, Balaji freezes scripts way before the first shot can be clapped.

Based on the script, a logistics team sets to work. It matches artists among themselves as per the requirement of the script. From this emerges a shooting schedule, which is announced in advance.

Thereafter, the various teams take over. One co-ordinates the availability of the various technicians required to complete an episode completely and punctually. Another manages availability of the various properties so that they arrive just when they are required - neither early, nor late. A third co-ordinates the costumes to match the mood and flavour of each scene. A fourth fleshes out the budgeted estimate for each scene.

Thanks to this co-ordinated working, Balaji takes lesser time to shoot an episode of around 25 minutes than what it would have taken otherwise.

newspapers and magazines. As a result, television has accounted for an increase in the advertising pie - from 17 per cent of all adspend in 1992 to 40.5 per cent in 2001-02.

Existing and projected adspend and media distribution in India (Rs cr)

Year	Total adspend	Growth rate %	Newspaper	%	TV	%	Radio	%	Cinema	%	Outdoor	%
2000-01	9827	20	5206	53	3931	40	113	1.2	22	0.2	555	5.7
2001-02	12283	25	6280	51.1	5024	40	215	1.8	27	0.2	737	6.0
2002-03	14740	20	7190	48.8	6264	42.5	368	2.5	32	0.2	884	6.0
2003-04	17688	20	8446	47.8	7673	43.4	531	3.0	39	0.2	999	5.7
2004-05	21225	20	9976	47	9261	43.6	743	3.5	47	0.2	1199	5.7
2005-06	25470	20	11716	46	11240	44.1	1019	4	56	0.2	1439	5.7

Source : World Advertising Trends 2000, ETIG

INCREASING PRIVATE CHANNELS

There was only the state-owned Doordarshan to cater to audience requirements at the start of the Nineties. The number of channels has increased to near-100 since. Quality content drives these channels. As more people watch - as reflected in the TRPs - the channels increase advertisement and subscription rates.

NEW FORMATS

As technologies advance, it will become possible to distribute content through media like domestic satellite, terrestrial, DTH, DVD, internet and international rights. This will enable the company's content to be telecast across international geographies to facilitate an anytime-anywhere viewing experience. As a result, Balaji will be able to leverage the value of its IPR and generate incremental revenues.

The government of India has approved the conditional access system (CAS) where viewers, with the help of a set box, can select and pay for the channels they would like to see. Low viewership channels will need at least one mega-hit to draw audiences, widening the market for Balaji's quality content.

Television software 2005 (e)

Source of revenue	Revenues
Domestic Satellite/DTH/Terrestrial	Rs 3907 cr
International satellite/DTH/Terrestrial/ MMDS/LMDS etc	Rs 2025
DTH	Rs 138 cr
DVD	Rs 49 cr
Total income potential	Rs 6119 cr

Source : ETIG

Within the domestic satellite domain, the sources through which revenues can be increased in 2005 are:

Domestic satellite/ DTH/Terrestrial	No. of channels	Original programming per day (hours)	Cost per hour of programming (Rs lacs)	Annual cost of programming per channel (Rs cr)	Annual cost for all channels in the genre (Rs cr)
General entertainment					
– Prime time programming	8	4	7.4	107.6	861
– Other original programming	8	2	3.7	26.9	215
Regional	50	4	3.7	53.9	2690
Music	11	1	–	3.7	41
News	6	–	–	11.8	71
Movie	6	1	–	1.8	11
Niche (includes DTH channels)	21	–	–	0.9	19
Total cost	–	–	–	–	3907

Source : ETIG

"Balaji's competitive edge comes from its strong control on an intangible - the ability to understand what a typical Indian viewer would like to see. Not just on one evening but across four evenings a week across 52 weeks in a year and across the foreseeable future."

- Ekta Kapoor, Creative Director

PROGRAMMES

Balaji had 13 programmes on air totaling 51 episodes per week in 2001-02 (19 serials in 2000-01). Fresh programming hours increased from 472 hours in 1999-2000 to 1507 hours in 2001-02. During 2002-03, the company expects to increase serials on air to 20 in 2002-03.

Forthcoming releases

Channels (language)	Serial	Frequency per week (days)
Star India (Hindi)	Weekend program	Once
Sony TV (Hindi)	Kuchh Jukhi Palkain*	Five
	Weekend program	Three
Zee TV (Hindi)	Kammal*	Four

* Already on air

Programming hours

Programming model	1997-98	1998-99	1999-2000	2000-01	2001-02
Sponsored	131	201	414.5	835	632
Commissioned	26	30.5	57.5	402	875
Repeat / dubbed	–	–	144.5	220	77.50
Total	157	231.50	616.5	1457	1584.50

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What drives SUCCESS at Balaji?

2 CHANNEL-DRIVING ABILITY

At Balaji, we generate robust revenues for ourselves because we generate attractive revenues for the channels on which they are telecast.

Because the high viewership for our programmes enables customer channels to raise advertising tariff and become more profitable. So Balaji's programmes are not seen as a cost but as revenue-generators by its customers.

Over time, Balaji's programmes have evolved: from their ability to generate sustainable revenues for customers into their emergence as integral to their strategies.

For instance, after the phenomenal success of Kaun Banega Crorepati on Star TV, when viewership on the competing channels dropped, Sony TV requisitioned the services of Balaji to produce counter-content.

Balaji crafted Kkusum and Kutumb, Balaji's family-based serials. As a result, the programmes recorded a TRP of 9.77 (the highest TRPs on Sony) and 7.28 respectively, which helped Balaji's customers achieve their objective.

The fact that this storytelling capability extended beyond languages and locations was demonstrated when Gemini approached Balaji in similar circumstances. Not one of the channel's programmes figured in the top 100 TV programmes in Andhra Pradesh three years ago. Balaji's Anubandham and Pavithrabandham reversed the trend and helped TRPs migrate within a year from 3-4 to 8-9 after the introduction of Anubandham and 15.25 with the introduction of Pavithrabandham - the highest across all channels as on 31.03.02.

Today, Gemini is most profitable channel in Andhra Pradesh.

In 2002-03, Balaji expects to commission the production of weekend programmes that yield higher margins than the realisations from weekday programmes

Balaji's programme portfolio - 13 serials and 51 shows per week

Channel (Language)	Serial	Frequency per week	TRPs (week ended 31.3.02)	Top TRPs on the channel (week ended 31.3.02)
Gemini TV (Telugu)	Pavithrabandham	5 days	15.25	15.25
	Kkalavaarii Kkodulu	5 days	14.38	
Udaya TV (Kannada)	Kavyanjali	5 days	12.79	15.11
	Kannadi	5 days	7.87	
Star TV (Hindi)	Kyunki Saas Bhi Kabhi Bahu Thi	4 days	14.84	14.84
	Kahaani Ghar Ghar Kii	4 days	12.82	
	Kaahin Kissii Roz	4 days	9.27	
	Kalash	1 day	6.14	
	Kasauti Zindagi Kay	4 days	8.97	
Sony TV (Hindi)	Kkusum	5 days	9.77	9.77
	Kutumb	4 days	7.28	
Zee TV (Hindi)	Koshish Ek Aasha	1 day	2.77	3.63
	Kohi Apna Sa	4 days	2.54	

In 2001-02 the serials that were taken off the air were: *Kanyadaan* (Sony), *Kulaa Villaakku* (Sun TV), *Pelli Kanuka* (Gemini TV), *Kuch Hona Hai Kuch Pana Hai* (DD National), *Kaliren* (DD Metro), *Kabhii Sautan Kabhii Saheli* (Metro Gold), *Kundali* (Metro Gold), *Kavita* (Metro Gold), *Ghar Ek Mandir* (Sony), *Kelunga Mamiyare* (Sun TV), *Itihaas* -repeat (Sony), *Karam* (SABe TV), *Kasamm* (DD National), *Kudumbbam Oru Kovil* (Vijay TV), *Kavyanjali* (Vijay TV) and *Kalisundhamra* (Gemini TV).

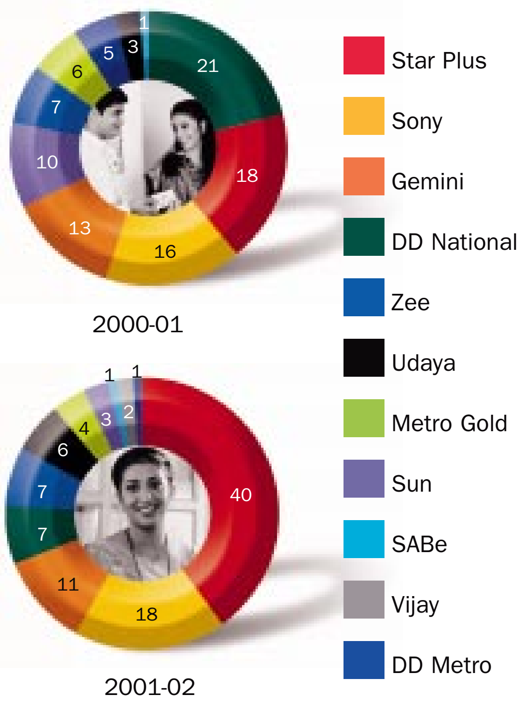
CUSTOMERS

Balaji provided content across 10 popular satellite channels - Star Plus, Sony TV, Zee TV, Vijay TV, SaBe TV, DD National, Sun TV, Udaya TV, Gemini TV, Metro Gold and DD Metro. Towards the close of the year, Doordarshan was the notable omission; in 2001-02, the company ceased to make content for the state-owned television channel since the realisations were considerably lower than those from the other channels.

The company's existing customers offered attractive budgets in which to create content. This made it possible to incorporate superior production values into the programmes - plush sets and better title tracks, among others.

Besides, the company's working relationship with these channels made it possible for a higher remuneration to be negotiated in line with the higher TRPs generated by the company's programmes.

The channel-wise revenue contribution (%)



In 2000-01, revenues from Doordarshan accounted for 21 per cent of total programming revenues, followed by Star - 18 per cent, Sony - 16 per cent , Gemini - 13 per cent, Sun - 10 per cent, Zee - 7 per cent and others. In 2001-02, revenues from Star TV accounted for 40 per cent of the company's revenues, followed by Sony (18 per cent), Gemini (11 per cent), Doordarshan National (7 per cent), Zee (7 per cent), Udaya (6 per cent), Metro Gold (4 per cent), Sun (3 per cent) Vijay (2 per cent), SABe (1 per cent) and DD Metro (1 per cent).

GENRES

Balaji continued to provide a wide basket of entertainment content - family drama, family thriller, social drama, sitcom and children's fantasy programmes.

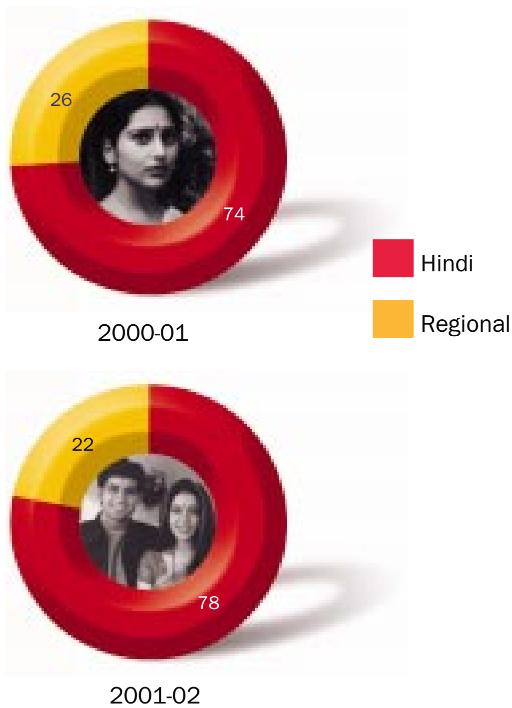
In 2002-03, Balaji expects to commission the production of weekend programmes that is expected to yield higher margins than the realisations from weekday programmes. By being the first-mover in this segment, Balaji is likely to generate 10 per cent of the company's total programming revenues from weekend programming in 2002-03.

In 2002-03, Balaji also intends to produce telefilms with strong scripts and budgets of Rs 1.5-3 cr each. The company expects to release them first through the television network and thereafter through the film distribution network for screening in theatres.

LANGUAGES

Hindi continued to be the mainstay of the company's programming. The company produced nine programmes in Hindi out of 13 produced towards the close of the year . Revenues from Hindi-based content was Rs 84.88 cr, a 160 per cent increase over the previous year. The company also made programmes in Tamil, Telugu and Kannada. Revenues from vernacular content was Rs 24.07 cr in 2001-02, a 105 per cent increase over the previous year.

Language split (revenues)



In 2002-03, the company expects to consolidate its presence in the high-growth south Indian television industry through increased programming hours on Gemini, Udaya and Sun TV.

FREQUENCY

Balaji produced programmes of a daily and weekly frequency. Dailies continued to account for the largest share of the company's programming revenues.

TIME-BANDS

The evening represents the prime time for television viewership in India, followed by the afternoon and morning (in that order). In the evening, all members of the family are able to watch programmes together, while in the afternoon

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What drives SUCCESS at Balaji?

3 DIFFERENTIATED PROGRAMMING

When most companies make a successful product, their first response is to protect it. At Balaji, our first response is to create competition.

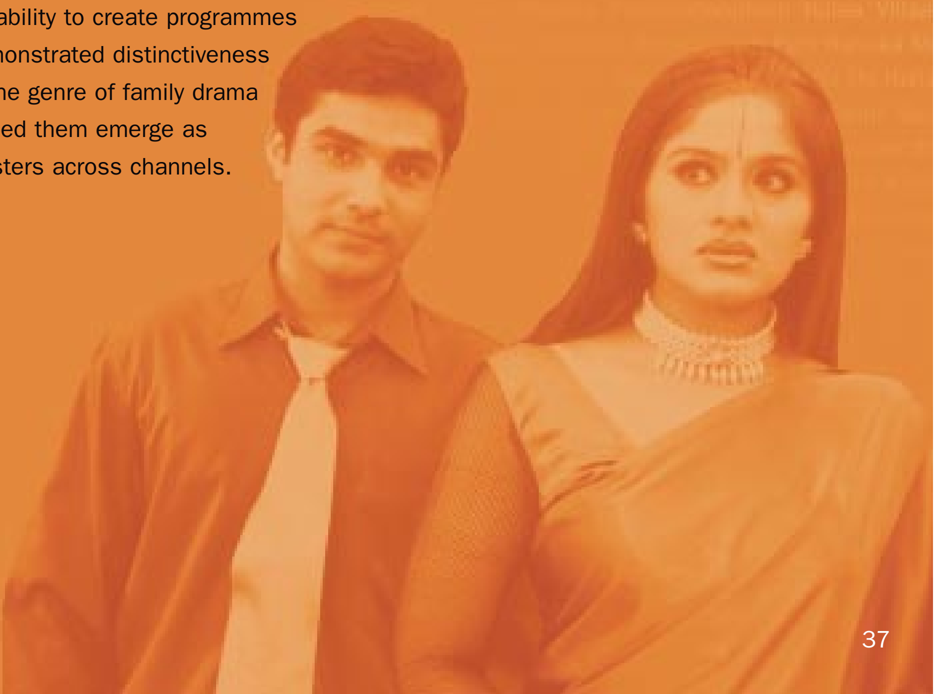
After *Kyunki Saas Bhi Kabhi Bahu Thi* had been firmly entrenched in the minds of viewers as the family serial of choice, Balaji did something entirely unexpected. It created another family serial - and on the same channel.

Most observers said that this would confuse viewers.

However, Balaji demonstrated its deep understanding of the public psyche through its differentiated treatment. For instance, *Kahaani Ghar Ghar Kii,* the new programme, emerged as a mega hit, second only to *Kyunki Saas Bhi Kabhi Bahu Thi* (TRP of 12.82 as on 31 March 2002).

In another instance, Balaji created a family serial - a thriller - called *Kaahin Kissii Roz* with a spine-chilling plot and interesting twists in each episode. TRPs for this programme climbed to 9.27, making it the fourth most popular entertainment serial in India.

Balaji's ability to create programmes that demonstrated distinctiveness within the genre of family drama has helped them emerge as blockbusters across channels.



and morning, only select members of the family get the time to watch.

All the company's programmes were telecast during the evening starting from 8.00 pm with its popular serials having repeat telecast in the afternoon time slot.

GEOGRAPHIC PRESENCE

Nearly all the revenue generated by the company in 2001-02 came out of operations in India.

Among the few exceptions were the sale of the script of Pavithrabandham, Gemini's most popular programme, to a channel in Indonesia. The company generated Rs 6 lacs from its export.

The company expects international revenues to accelerate over the foreseeable future. Balaji expects to leverage the ownership of its existing IPR and broadcasting serials in geographies marked by a high Indian expatriate population (Middle East, East Africa, United Kingdom, USA, Canada, Singapore, Malaysia, Nigeria, Fiji Islands and the West Indies). Balaji also expects to buy the rights of *Kabhii Sautan Kabhii Saheli* from Star Plus and market the same to foreign channels.

NATURE OF PROGRAMMES

Balaji's programmes were either of the sponsored or commissioned variety.

Sponsored: In this structure, Balaji makes an upfront payment to broadcasters to buy a telecast time band and receives free commercial time (FCT). Balaji recoups its investment by either getting sponsors for its programmes or by selling FCTs to advertisers. The intellectual property rights (IPR) remained with Balaji for such programmes.

Commissioned: In this structure, the customer commissioned Balaji to produce episodes on a specific fee per episode basis along with incentivised TRP linked rate structure. When programmes became successful, Balaji renegotiated its remuneration rates in line with its popularity.

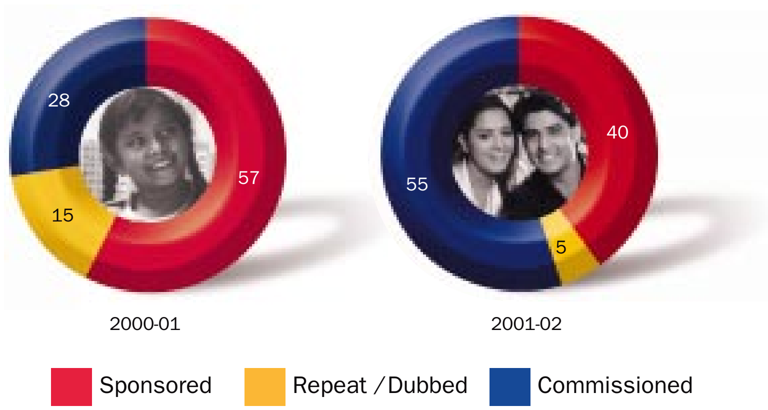
In 2001-02, Balaji evolved its business mix towards commissioned programmes - from 51 per cent of programming revenues in 2000-01 to 72 per cent in 2001-02. Towards the close of the year, Balaji ceased to make sponsored programmes for Doordarshan and Sun TV and provided sponsored programmes only for Gemini and Udaya. This conscious evolution protected the company from a general slowdown within the Indian economy, longer receivables and bad debts.

Thanks to this evolved programming mix as well as a stronger negotiating capability, average realisations per hour increased from Rs 3.6 lacs to Rs 7.2 lacs in 2001-02. Nearly 82 per cent of the company's profit in 2001-02 was derived from commissioned programmes.

Revenues (Rs / cr)

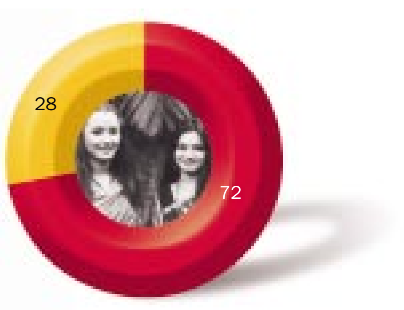
Programming model	99-00	00-01	01-02
Sponsored	12.4	21.8	30.6
Commissioned	4.6	22.7	78.3
Repeat / dubbed	3.0	1.9	0.60
Event	–	2.5	0.80
Total	20.0	48.9	110.30

Programming hours split (%)



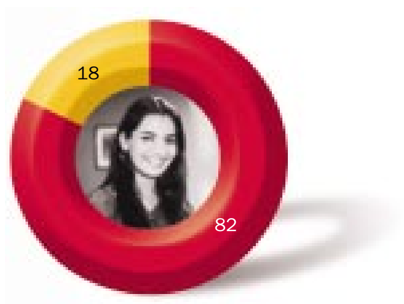
Revenue and Profit split : Commissioned and Sponsored programmes

Revenue (%)



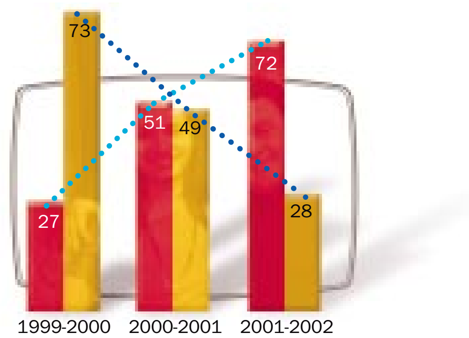
2001-02

Profit (%)



2001-02

Revenue Model



Commissioned   Sponsored

Comparison of two business models

Criteria	Channels	Marketing Risk	Capital risk	IPR	Benefits
Commissioned	Zee, Sony, Star and SABe	Borne by the channel. Revenues are fixed by the channel with in-built	Content provider assured of a fixed return	Owned by the channel	De-risked business model.
Sponsored	Doordarshan, Sun, Gemini and Udaya	Borne by content providers - they have to raise advertising revenues, which depends on the success of the programmes	Content provider may not completely recover the cost of production.	Retained by content provider	High risk. High returns business model.

PRODUCTION PROCESS

Pre-production	Conceiving the idea › Actual story line › Creating a working script › Preparing the pilot
Commercial	Budget for programme › Discussion with sponsors › Contract with sponsor
Production	Logistics › Casting › Technical team › Arranging sets, location, equipment, etc › Shooting
Post production	Dubbing › Editing › Special effects › Music score › Creating the title track
Marketing	Marketing the airtime › Pricing › TRP monitoring › Feedback to creative and production team

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What drives SUCCESS at Balaji?

4 INTELLIGENT STORYTELLING

There was a time when nobody – just nobody – produced a daily soap.

Simply because nobody dared to.

Because nobody knew how to sustain day-to-day interest after the first few episodes. Nobody knew how to introduce twists in daily programming and retain the audience. Nobody knew how to pace the serial four days a week. Nobody knew how to avoid the ‘interest-overlap’ which would distinguish one serial from another. And then, nobody knew how to do all – on a tight budget.

Until Balaji, that is.

- Balaji gave viewers exactly what they wanted.
- It produced serials across a spectrum of genres.
- It combined a prudent mix of traditionalism and modernism wherein the values were traditional and the feel contemporary.
- It made serials which were character-based.
- It continuously churned the storyline.
- It encapsulated a little of fun, happiness, sorrow, manipulation, suspense, revenge and ecstasy in every episode – life’s ingredients.
- And more importantly, it prompted viewers to ask ‘Ab kya hoga?’ at the end of each serial, encouraging them to switch on again the following evening.

In 2001-02, Balaji Telefilms reported a turnover of Rs 113.11 cr compared to Rs 49.68 cr in 2000-01, an increase of 127.70 per cent.

FINANCIAL OBJECTIVE

In 2001-02, Balaji's financial objectives comprised the following: an adequate control on costs, maximising the return on invested capital through intelligent asset allocation, the prudent deployment of funds resulting in a ready availability whenever resources were required and an ongoing protection of the cash surplus.

Balaji succeeded in achieving these objectives: all costs (excluding interest, depreciation and tax) declined from 77.38 per cent of the turnover to 51.18 per cent in 2001-02 and the return on total capital employed for the year strengthened from 23.69 per cent in 2000-01 to 82.84 per cent in 2001-02, the company possessed liquid assets (includes cash-like financial instruments) of Rs 27.75 cr towards the close of 2001-02.

In turn, these initiatives resulted in a profit after tax of Rs 29.02 cr for 2001-02, 566.27 per cent higher than in the previous year.

REVENUES

In 2001-02, Balaji Telefilms reported a turnover of Rs 113.11 cr compared to Rs 49.68 cr in 2000-01, an increase of 127.70 per cent. Content revenues of Rs 110.30 cr were 125.63 per cent higher in 2001-02 compared to Rs 48.88 cr in 2000-01.

Sale of event telecast rights generated revenues of Rs 0.75 cr, 0.66 per cent of the turnover, while other sources of income like interest and dividend were worth Rs 2.81 cr compared to Rs 0.79 cr in 2000-01, a 255.60 per cent increase over the previous fiscal.

Turnover
Rs 113.11 cr in 2001-02

Content programming revenues
Rs 109.55 cr.
96.85 per cent of turnover

Sale of event telecast rights to Star
Rs 0.75 cr.
0.66 per cent of turnover

Other income
Rs 2.81 cr.
2.48 per cent of turnover

ACCOUNTING POLICIES

The company's accounts for 2001-02 were based on the accrual system of accounting. Revenue was recognized as income as soon as the transaction was recorded in the company's books though the actual receipt or disbursement transpired later. The format of accounting corresponded to India's generally accepted accounting principles (GAAP).

The company preferred to be cautious and conservative wherever the treatment of accounts required interpretation. For instance, in the sponsored programming model, the company wrote off all expenses incurred in that very year, distinct from the erstwhile practice of writing off 60 per cent in the year of telecast and carrying the balance forward to be equally written off over the next three years. For the event rights acquired by the company, 60 per cent was written off in 2000-01 and the rest was completely written off in 2001-02. As a prudent practice, the company expects to completely write off the deferred revenue expenditure to the profit and loss account over the coming years.

COSTS

Production and post-production accounts for 85 per cent of the total costs in the television software industry. The cost structure of production in the television software industry is as follows:

Pre-production costs accounted for approximately 15 per cent of the total cost	Story, screenplay and dialogues
Production costs accounted for approximately 65 per cent of the total cost	Artists / technician fees Locations / equipment hire charges Daily miscellaneous expenses
Post-production costs accounted for approximately 20 per cent of the total cost	Editing equipment / studio hire charge, music charges and cost of tapes

In 2001-02, the company strengthened a number of initiatives to rationalize these costs.

• The company worked with new faces to control artiste fees to 8.61 per cent of turnover (11 per cent in 2000-01).

• The company accelerated the production process to maximise scenes per studio per day.

• The savings, ploughed back into production, enhanced realisations by 100 per cent.

• The company purchased facilities and equipment which helped reduce rentals considerably.

• The company invested Rs 5.5 cr in post-production infrastructure - 11 editing rooms with state-of-the-art editing and dubbing machines - so that changes could be incorporated right to the last minute before a programme was dispatched to the customer.

MARGINS

In 2001-02, operating profit margins (PBDIT/Net sales) improved from 15.63 per cent in 2000-01 to 41.68 per cent in 2001-02. Net margin increased from 8.91 per cent in 2000-01 to 26.31 per cent in 2001-02. Interestingly, net margin, which was 20.88 per cent in the first quarter of 2001-02, improved to 27.23 per cent in the last quarter.

CAPITAL STRUCTURE

Balaji's equity capital stood at Rs 10.30 cr in 2001-02 comprising 1,03,03,250 equity shares worth Rs 10 each. There were no warrants pending to be converted into equity. Currently, the promoters hold almost 58 per cent of the company's equity.

IPO PROCEEDS DEPLOYMENT

In October 2000, the company had made an IPO of 28,03,250 equity shares at Rs 10 each. The IPO was oversubscribed, raising Rs 36.44 cr at a premium of Rs 120 per share. Rs 19.4 cr was deployed in 2000-01 and a total of Rs 29.67 cr (inclusive of Rs 19.4 cr deployed in the previous year) was deployed till 31st March, 2002.

Particulars (Rs in cr.)	Actual Utilization 2001-02	Projected Utilization 2001-02
Equipment and miscellaneous assets	11.67	19.94
Buildings and locations (including advances)	7.36	7.50
Lease rental deposits	7.16	6.00
Preliminary & issue expenses	3.48	4.00

RESERVES AND SURPLUS

In 2001-02 the company's reserves stood at Rs 55.85 cr compared to Rs 33.75 cr in 2000-01, a 65.48 per cent

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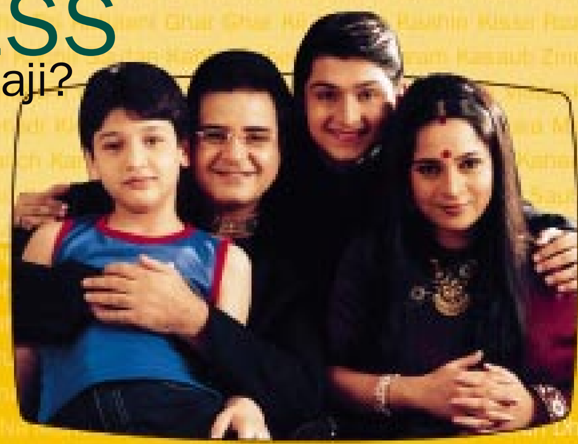
What drives
SUCCESS
at Balaji?

5 SUPERIOR PRODUCTION VALUES



1 PEOPLE: Balaji's creative team is headed by Ekta Kapoor, the creative director. In turn, she is supported by the creative heads of the various serials. Each programme at Balaji is supported with adequate people resources - a director, three assistant directors, executive producers, scriptwriters and art directors. The company's 25-member creative team is assisted by 50 production professionals.

2 CONTENT: Since a majority of India's television-owning families possess just one set per family, all members watch programmes together. As a result, Balaji creates content that is relevant and can be enjoyed by all without any embarrassment to any gender or age group.

3 CHARACTERIZATION: Balaji's serials are not created around one or two characters. They are woven around at least 15 different kinds of characters of which one is central (the one that the viewer most identifies with). These characters are built into icons and personalities in the viewer's mind.

4 DIFFERENCE: Balaji's programmes may be family-based but its themes are completely different from what other production houses are putting out. Besides, Balaji's creative team emphasizes minute characteristics that makes its people and plots stand out from stereotypes.

5 PACE: Balaji accelerated the pace of storytelling. From a once-a-week and four shots-per-serial standard, Balaji evolved India's television software industry towards four serials a week getting them into a habit of watching soaps daily.

6 GLAMOUR: Balaji brought an upwardly mobile feel to production values, reflected in contemporary sets and designer costumes, among other factors.

7 MUSIC: Balaji evolved in-serial music from the title track to one played through the various stages in its programmes - to coincide with the various moods of the episode.

The company expects debtor days to drop further to 55-60 days through a greater focus on the commissioned model during the current financial year.

increase. Nearly 54 per cent of the company's reserves comprised share premium reserves (derived from the IPO) while the balance was generated from the company's earnings. The company did not have any revaluation reserves on its books on 31 March 2002. The company's net worth was Rs 65.19 cr as on 31 March 2002 while book value was Rs 63.28.

LOAN PROFILE

Balaji continued to be debt-free in 2001-02. The company does not intend to raise debt over the foreseeable future.

CAPITAL EMPLOYED

Capital employed increased from Rs 44.05 cr in 2000-01 to Rs 66.15 cr in 2001-02. The increase in capital employed was solely on account of an increase in the company's retained profits. Capital efficiency - turnover to capital employed - stood at a healthy 1.71, compared with 1.13 in the previous year. The company's post-tax return on capital employed improved from 9.88 per cent in 2000-01 to 43.86 per cent in 2001-02.

Capital employed

Year	97-98	98-99	99-00	00-01	01-02
Capital employed	1.30	7.49	12.95	44.05	66.15

Note. The company's capital employed increased from Rs 1.30 cr in 1997-98 to Rs 66.15 cr in 2001-02 largely on account of the IPO proceeds and a steady jump in retained earnings.

GROSS BLOCK

The company's gross block increased from Rs 9.19 cr in 2000-01 to Rs 19.04 cr in 2001-02. Balaji's gross block comprised largely of studios, production (lighting and digital beta camera set up) and postproduction equipment (linear and non-linear editing suites and dubbing machines). This investment was necessary to make a high quality of television software as fast as possible and at the lowest cost. The captive availability of equipment also ensured a high capacity utilisation and greater operational flexibility. As a result, the company's return on gross block increased from 47.33 per cent in 2000-01 to 152.50 per cent in 2001-02.

CAPITAL EXPENDITURE

In 2001-02, Balaji made a capital expenditure of Rs 9.85 cr - in studios, sets, production and post-production equipment (details mentioned above). This investment strengthened the company's capability to scale the business. The company has earmarked Rs 30 cr to be invested in capital expenditure over a period of two years to meet the demand for more serials across various channels, languages and time-slots.

INVESTMENTS

The company's investments stood at Rs 24.40 cr in 2001-02, compared to Rs 9.33 in 2000-01, an increase of 161.52 per cent. The surplus was parked in debt mutual funds and liquidated as and when the need arose. The company's investment policy prefers safety in preference over returns. The company's investments at 36.89 per cent of the total capital employed represented an excellent hedge against the unforeseen requirement of resources.

DEPRECIATION AND AMORTISATION POLICY

In 2001-02, depreciation increased from Rs 0.34 cr in 2000-01 to Rs 1.7 cr in 2001-02 due to an increase in gross block. The company follows the straight-line method in the calculation of depreciation on assets and at rates specified in schedule XIV of the Company Act, 1956.

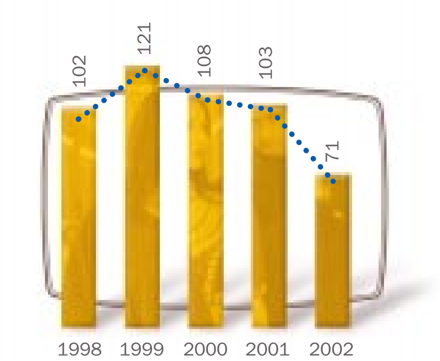
WORKING CAPITAL

To maximise working capital availability, the company embarked on the following initiatives: a stronger negotiation process to increase realisations and shrink the debtors cycle and a strict control on cost overruns. (for details, turn to the finance section under the subheads of 'debtors,' 'inventories' and 'loans and advances'). In 2001-02, net working capital stood at Rs 23.36 cr compared to Rs 19.84 cr in 2000-01, an increase of 17.74 per cent over the previous fiscal. Working capital as a proportion of the turnover declined from 39.94 per cent of the turnover in 2000-01 to 20.65 per cent in 2001-02.

DEBTORS

At the close of 2001-02, debtors were placed at Rs 21.60 cr (Rs 13.8 cr in 2000-01). Debtors (days of turnover) declined from 103 days in 2000-01 to 71 days in 2001-02, due to the company's increased focus on commissioned serials. The company expects debtor days to drop further to 55 - 60 days through a greater focus on the commissioned model during the current financial year.

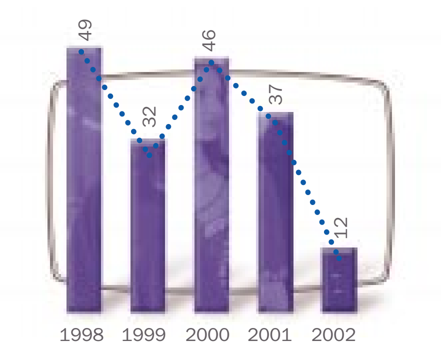
Five-year debtors' cycle (days)



INVENTORIES

In the television software industry, inventories comprise serial episodes to be aired, incomplete episodes and tapes. In 2001-02, inventories stood at Rs 3.54 cr in absolute terms, a decrease of 28.77 per cent over the previous financial year. Inventories (days of turnover) dropped from 37 in 2000-01 to 12 in 2001-02.

Five-year inventory cycle (days of turnover)



LOANS AND ADVANCES

Loans and advances stood at Rs 25.32 cr compared to Rs 11.46 cr in 2000-01, a 120.94 per cent increase over the previous year, largely due to an increase in payment towards income tax. Loans and advances comprised 47.05 per cent of the current assets. Loans and advances comprised deposits for the use of locations for shooting, security deposit for Balaji House, car deposits, loans to employees, deduction of TDS, deposits to channels for sponsored programmes and for the rent of the studios in Chennai.

TAXES

Tax outgo increased from Rs 1.4 cr in 2000-01 to Rs 15.75 cr in 2001-02, nearly a 10-fold increase due to a significant increase in profits. The tax rate applicable to the company was 33.03 per cent in 2001-02 compared to a tax rate of 18.84 per cent in 2000-01.

SURPLUS MANAGEMENT

The company invested its surplus in debt mutual funds. (For more details read 'investment') The company does not invest in equities or risk instruments as a matter of policy.

FOREX

Income from domestic operations constituted almost 99.88 per cent of the total income. In 2001-02, Balaji generated a forex income of Rs 13.64 lacs (Rs 18.46 in 2000-01) of which Rs 6 lacs accrued through the sale of the script of *Pavithrabandham* to a foreign channel.

OUTLOOK

Balaji expects to report higher earnings for the following reasons:

- Increase in programming hours per week,
- Increase in realisations per hour of programming,
- An extension of the prime-time band,
- An extension into afternoon slots,
- Produce high margin weekend programming (which is expected to generate 10 per cent of revenues in 2002-03)
- An extension into telefilms in collaboration with television channels to increase programming revenues of the company,
- Exploitation of the IPRs of its programmes to international territories,
- Increase in regional programming,
- Aggressive cost-control,
- A reorientation of the Hindi programming into English for the benefit of the expatriate population - attractive returns against negligible additional investments.

Risk MANAGEMENT

Risks are present in every business and the television entertainment industry is no exception.

Risks are even more manifest in a creative business where a product must be made to appeal to a customer body that comprises millions with whom there is no direct contact.

For instance, because a risk in the comprehension of viewer preferences would imply, a reduction in one's exposure to television entertainment content. However, one's presence in this business has been justified largely by the possibility of the upside - the fact that returns are often commensurate or even more attractive than the risks present in the business. A responsible corporate's priority is to control the risks on the one hand and uncap income possibilities on the other. As a result, risk and profits are complementary. Risk yields profits. Therefore, risk management does not imply risk elimination but prudent risk management.

At Balaji, we categorise risks across two basic types - risks that should be taken and risks that should be avoided. We manage and minimise risk through our individual and institutional capability to understand the nature of risk. This leads to relevant, appropriate and commensurate responses.

RISK CONTROL AT BALAJI COMPRISES THE FOLLOWING PRIORITIES:

Risk identification, particularly in new public mood, genres, channel selection, costing and realisations.

Risk measurement, using established rating models, which are independently created.

Risk management policies, covering all inherent risk categories both at the operational or corporate level, consistent with the business requirements and international best practices.

Risk reporting to the management.

Risk control, reflected in unambiguous initiatives.






1 IN THE BUSINESS OF ENTERTAINMENT SOFTWARE, THE RISK OF A DROP IN VIEWERSHIP IS REAL. IN BALAJI'S CASE, IF PEOPLE STOP WATCHING ITS PROGRAMMES, IT COULD LEAD TO A DROP IN TRPs AND, IN TURN, REDUCE THE COMPANY'S ABILITY TO NEGOTIATE AN ATTRACTIVE REMUNERATION WITH ITS CUSTOMERS.

In Balaji's opinion, the storyline lies at the heart of the decision to watch its serial or not. As a result, even though there is a considerable creative license and freedom given to script writers to come up with compelling storylines, the company has institutionalized their approach. Storylines must centre around themes of mass interest, not niche appeal. Balaji's subjects must address subjects and issues of the day, not picked out of the past. Balaji's themes must provoke thought and debate, not put the audience to sleep.

Balaji's programmes must be enriched with characters that we see in our daily lives and can identify with, not marked by people where we cannot see a little of ourselves. The pace and treatment of storytelling must always prompt the question 'what next?', not prompt the viewer to conclude that he or she what is going to happen. Most importantly, Balaji's subjects must not be relevant only to a certain age or economic class of people, but address all ages, gender, classes, cultures and income groups. Besides, Balaji has diversified its competence across a number of formats - family drama, family thriller, social drama, sitcom and children's fantasy - to minimize any possible danger of its programmes getting predictable.

Balaji's ability to translate this insight into success in the serial place is reflected in this statistic: 20 of the of the top 20 most watched programmes across all channels in 2001-02 were Balaji productions.

2 THE BIG QUESTION THAT A NUMBER OF PEOPLE ARE ASKING IS WHETHER BALAJI CAN SUSTAIN THIS GROWTH RATE. IN A CREATIVE BUSINESS, IT IS FEARED THAT BEYOND A POINT, THERE MAY BE NO APPETITE OR ROOM FOR ENTERTAINMENT SOFTWARE AMONG THE COMPANY'S CUSTOMERS. THIS POINT REPRESENTS A GROWTH BARRIER FOR THE COMPANY.

The demand-supply gap for compelling entertainment software is huge and could well widen. This room could further grow in the event of an increase in the number of entertainment channels.

Balaji expects to increase programming revenues by enhancing presence across prime channels, extending prime time band, exploiting its existing IPRs in the international market, move from prime-time to non-prime time slots, diversify into vernacular content in a bigger way than it has done in the past, diversify into different genres of programming (medium-budget films, sitcoms etc) and provide high margin weekend programmes. These initiatives are expected to increase the company's programming revenues across the foreseeable future. Balaji's optimism also stems from the fact that currently customer channels are paying content providers only one tenth of what they earn. This poses a huge opportunity for Balaji to scale up revenues.

Twenty of the of the top 20 most watched programmes across all channels in 2001-02 were Balaji productions.

3 BALAJI'S CHANNEL CUSTOMERS WERE NOT MORE THAN 10 IN 2001-02. THIS RISK OF CUSTOMER CONCENTRATION COULD ASSERT ITSELF IF A CHANGE IN THE CONTENT POLICY OF ONE OR MORE CHANNELS LEADS TO A DISCONTINUATION IN THE PURCHASE AGREEMENT WITH BALAJI.

The management considers the prospects of a discontinuation in policy to be low because of a historical reason. The success of the Indian film industry has demonstrated that Indians have a good eye and ear for a compelling visual experience. Soap, which comprises the ingredients of a good story, represents an integral part of the strategy of most general television channels in India. As a result, the content of soap as a proportion of the overall content put out by a television channel has increased over the years, strengthening the market potential for a content creator like Balaji.

The risk could manifest itself in another manner - channel closure due to unviable operations. Should this transpire, Balaji will stand to be affected. As a prudent de-risking initiative, the company has selected to work with only financially sound television channels, who enjoy a fair inflow of advertising revenue.

4 MUCH OF THE COMPANY'S ABILITY TO INCREASE REALISATIONS COMES FROM ITS ABILITY TO NEGOTIATE SUCCESSFULLY WITH CHANNELS. THIS ABILITY TO NEGOTIATE IS NEBULOUS - IT MAY OR MAY NOT SUCCEED.

It is Balaji's endeavour to produce content that is not only popular on the customer's channel but also a channel driver. In other words, Balaji produces content that drives viewership not only for its own programme but also for some of the other programmes on the customer's channel. The increased viewership is reflected in the high TRPs and income for the channel. Balaji's ability to generate revenues for its customers puts it in a better position to seek - and get - better realisations from its customers.

As a result, Balaji generated an 100 per cent increase in its hourly realisations in 2001-02 over 2000-01.

Balaji is aware of the dangers that could arise from the attrition. As a prudent de-risking measure, it ensures that scripts are theme-centric, not character-centric.

5 NEARLY 78 PER CENT OF THE COMPANY'S REVENUE IN 2001-02 WAS DERIVED FROM HINDI PROGRAMMES, A HIGH RISK.

On the other hand, in Balaji's opinion, Hindi represents a low risk for a number of reasons. Hindi is the second most widely spoken language in the world (after Mandarin). Hindi binds most parts of India and its expatriate community. Even in the deeply vernacular regions, the one national language that makes it possible for people to communicate with people from other regions continues to be Hindi. The high programme-to-linguistic population ratio in favour of Hindi makes it a long-term choice in terms of languages for Balaji.

6 IN A BUSINESS WHERE THE CAPITAL IS REPRESENTED IN THE EXPERIENCE OF THE ARTISTS AND TECHNICIANS, ANY ATTRITION CAN REDUCE THE COMPANY'S COMPETITIVE EDGE.

It has been Balaji's experience that the first priority of most professionals is to be engaged in meaningful and resume-enhancing work. Over the last couple of years, Balaji has emerged as the first company of recall within the business of entertainment software in the country. It provides the best opportunity for professionals to strengthen their resumes. Balaji expects to remain an attractive place in which young professionals can make their mark for a number of reasons: the number of serials that the company expects to make are likely to increase during the current year and beyond, resulting in increased growth opportunities. Balaji's treatment of content is distinctively different from the others in the industry and represents an excellent place in which to learn skills and competencies. Balaji offers members an attractive compensation package, which is at par with the best in the industry.

As a prudent de-risking initiative, Balaji has back-up teams and a documented system of process compliance across every discipline so that production can continue uninterrupted and with the minimum quality deviation even in the event of an unforeseen attrition.

Lastly, Balaji hires professionals on a contractual basis for its serials. This reduces the risk of artists leaving the company before the completion of the serial.

7 THE INDIAN TELEVISION SOFTWARE INDUSTRY IS MORE ECONOMY-DEPENDENT THAN MOST PEOPLE THINK. THE BUSINESS DEPENDS ON THE ADSPEND EFFECTIVENESS. IF ADVERTISERS, WHO PAY A TARIFF FOR AD SLOTS, CANNOT GENERATE ADEQUATE SALES IN THE MARKETPLACE, THEY COULD EITHER BACK OFF OR INDUCE CHANNELS TO REDUCE RATES. BOTH COULD POTENTIALLY AFFECT THE BUSINESS CLIMATE FOR BALAJI.

After customer channels have paid Balaji, they generate an attractive spread in the form of advertising revenues. As a result, a decline in ad support is not likely to affect the channel's capacity and willingness to remunerate Balaji, especially if the company's content continues to be of the highest quality.

8 BALAJI'S SIZEABLE INVESTMENT IN CAMERAS AND POST-PRODUCTION MACHINES IN 2001-02 - MAY BECOME OBSOLETE IF BETTER TECHNOLOGIES EMERGE.

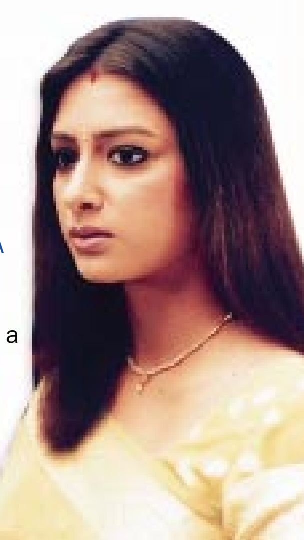
As a prudent investment, Balaji has invested in digital equipment, which is likely to remain as the medium of the future for years. Besides, the company has invested in state-of-the-art assets, so that technology obsolescence, if at all, does not transpire for the next few years. Besides, the company's assets possess room for modular upgradation to the evolving standards of the day at a nominal cost. Besides, the aggressive captive use of this equipment has already enabled the company to cover its investments, so any need for change, even if it is required a few years down the road, will not be a financial burden on the company.

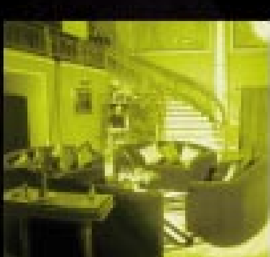
9 A SERIAL REPRESENTS A CONTINUATION OF ARTISTS - SOMETIME FOR A FEW YEARS WHILE THE SERIAL IS TELECAST. ANY UNINTENDED ATTRITION COULD LEAD THE INTRODUCTION OF SUBSTITUTES, WHICH THE AUDIENCE MIGHT NOT BE COMFORTABLE WITH AND LEAD TO A DROP IN VIEWERSHIP.

Balaji is aware of the dangers that could arise from the attrition. As a prudent de-risking measure, it ensures that scripts are theme-centric, not artiste-centric. As a result, most of Balaji's serials possess adequate strength to absorb the attrition without a dent in their respective TRPs. This strength in the company's scripts have been adequately reflected in the past when TRPs continued to stay high following the absence of popular artists.

10 THE COMPANY CAN ENTER INTO TWO KINDS OF RELATIONSHIPS WITH CUSTOMER CHANNELS - AS A MAKER OF COMMISSIONED OR SPONSORED PROGRAMMES. COMMISSIONED PROGRAMMES REPRESENTED A SUPERIOR OPTION OVER SPONSORED PROGRAMMES. BUT 38 PER CENT OF THE COMPANY'S PROGRAMMES CONTINUED TO BE SPONSORED IN 2001-02, AT A TIME WHEN ADVERTISING SUPPORT DECLINED.

In keeping with the fluid business environment in the country, Balaji laid down a business direction in which more commissioned programmes were made for television channels than the sponsored alternative.



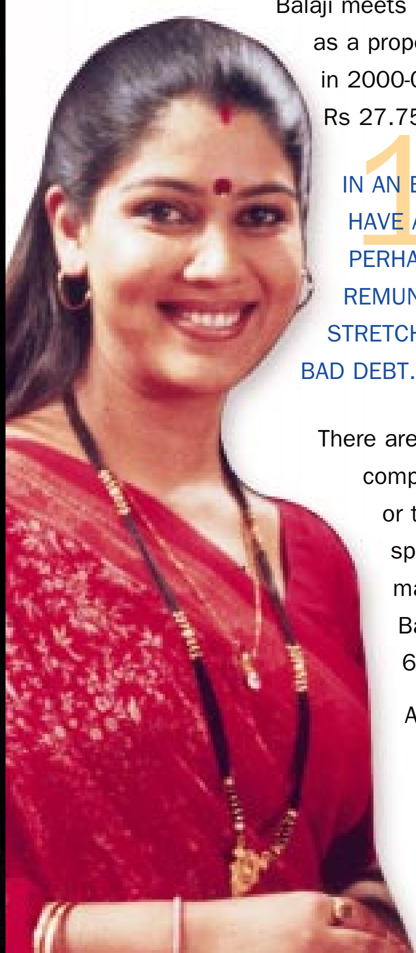


In the process, the company ceased to make sponsored serials for Doordarshan because of low realisations accruing from this channel and retained its exposure on regional channels where the company was adequately confident that its content would generate increasing advertising rates (More details on page 35).

This added value to Balaji Telefilms in two distinct ways. One, the sponsored programmes generated a margin of 31 per cent, while the margins from commissioned programmes were even higher at 56 per cent. Secondly, the proportion of the company's commissioned programme revenues increased from 27 per cent of the total business in 1999-2000 to 72 per cent in 2001-02.

11

FOLLOWING AN INCREASE IN THE NUMBER OF SERIALS, THE COMPANY'S WORKING CAPITAL REQUIREMENT IS EXPECTED TO INCREASE SIGNIFICANTLY. THE INDUSTRY HAS A NEAR TWO-MONTH RECEIVABLES CYCLE. THIS MAKES IT IMPERATIVE FOR BALAJI TO GENERATE A SOUND CASH FLOW AT ALL TIMES. A DELAY IN MAKING PAYMENTS COULD AFFECT THE COMPANY'S REPUTATION AS A RECRUITER AND RETAINER OF FIRST-CLASS TALENT AND AS A CREDIBLE CUSTOMER.



Balaji meets its working capital requirements from its accruals. Working capital as a proportion of the turnover declined from 39.94 per cent of the turnover in 2000-01 to 20.65 per cent in 2001-02. Balaji possessed cash reserves of Rs 27.75 cr which were parked in liquid financial instruments.

12

IN AN ECONOMIC SLOWDOWN, WHEN TELEVISION CHANNELS DO NOT HAVE ACCESS TO A STRONG ADVERTISING INFLOW, ANY DELAY OR PERHAPS EVEN THE INABILITY OF THE TELEVISION CHANNEL TO REMUNERATE BALAJI, COULD LEAD TO THE WORKING CAPITAL BEING STRETCHED AT BEST, OR REQUIRE THE RECEIVABLES TO BE TREATED AS BAD DEBT.

There are two risks to be considered here: the delay / non-payment by the company's channel customers in the case of commissioned programmes or the delay / non payment by the advertisers for the company's sponsored programmes. As a prudent de-risking, Balaji selected to make commissioned programmes for financially sound channels only. Balaji's receivables tenure for commissioned programmes was around 69 days in 2001-02 (94 days in 2000-01), a fair remuneration cycle.

As a result of an evolved business mix - more commissioned programmes than sponsored - Balaji succeeded in keeping its receivables at around 71 days in 2001-02, considerably lower than the industry average of around 120 days.

As a prudent de-risking, Balaji selected to make commissioned programmes for financially sound channels only.

13

BALAJI'S CREATIVE HEAD IS EKTA KAPOOR. A NUMBER OF ANALYSTS AND SHAREHOLDERS HAVE EXPRESSED CONCERN THAT THE COMPANY MAY SUFFER FROM THIS OVER-DEPENDENCE ON HER ABILITY AS IT COULD LIMIT THE NUMBER OF SERIALS AND TELEFILMS AND ALSO PREVENT THE ORGANIZATION FROM GROWING.

Balaji is aware of this risk. In the initial entrepreneurial phase, this individual-centric growth was expected. However, as the company grew, it recognized that it would need to evolve to the managed phase of growth. As a result, the company institutionalized systems and practices to reduce this dependence and create leaders at every level.

Over the years, Balaji has evolved a balanced model, which incorporates the hands-on touch of its creative head and also leaves an adequate room for its technicians and managers to play a growing role in content creation. As a result of this model, Ekta Kapoor continues to be directly involved in the first 20 episodes of each serial, which enables her to set the feel and flavour to the programme. Thereafter, the various production and direction managers take over with clear guidelines on what must be followed and also the extent of innovation that they can bring into content creation.

In one of the earlier paragraphs, we also explained how Balaji recruited and trained aggressively to develop back-up teams for its creative department to provide for broad growth across the organization. Lastly, the south Indian programmes are independently handled by a regional programming head under the creative guidelines laid down by the company. This in turn reduces over dependence on the company's creative head, Ekta Kapoor.






In addition to daily soap programmes, the company also makes tele-films that are later converted into feature films for in-theatre projection.

14

IN A NUMBER OF CONSUMER AND EVEN INDUSTRIAL PRODUCTS, THE CONSUMER'S PREFERENCE CHANGES ONLY GRADUALLY, IF AT ALL. IN BALAJI'S BUSINESS, THIS PREFERENCE IS MOST UNPREDICTABLE - IT COULD CHANGE WITH EVERY EPISODE. THE COMPANY MADE 3014 EPISODES IN 2001-02, AN INDICATION OF THE MAGNITUDE OF RISK OF A DECLINE IN AUDIENCE PREFERENCE.

At Balaji, content is not created by professionals who work in an ivory tower. The company prides in the creation of content whose ideas are picked out of existing issues and events from within society itself. As a result, the company's laboratory of ideas is not within the company, but outside it.

To understand the mind of the public at any point, the company does two specific things: it samples feedback from viewers (through mail) and monitors the TRPs on a weekly basis.

This gives Balaji an insight into what people want to see, their reaction to what the company has already shown and the extent of viewership. At Balaji, content is customized (if necessary) based on these inputs. For instance, after Balaji discovered that the TRP for *Kyunki Saas Bhi Kabhi Bahu Thi* was declining, it immediately re-structured the storyline, advanced the timeline within the story by 20 years and strengthened its TRP to 14.84 the highest TRPs on Star Plus.

15

THE CONTENT PRIORITIES OF CHANNELS CAN CHANGE, LEADING TO A DROP IN PROFITS.

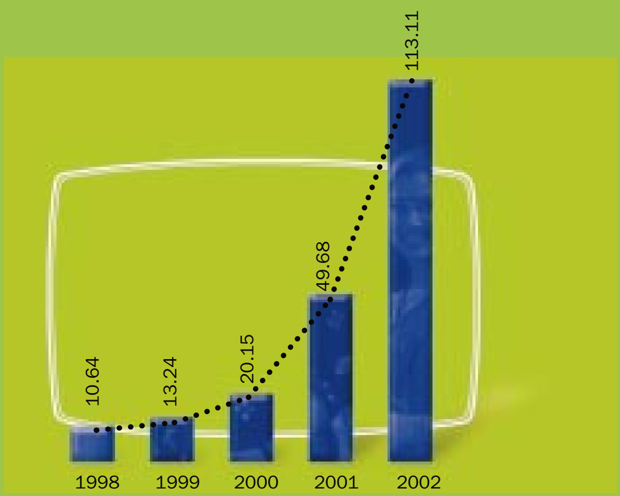
Balaji ensures that its dependence on any single programme does not exceed 15 per cent of the company's total programming revenues at any time.

5 year financial summary

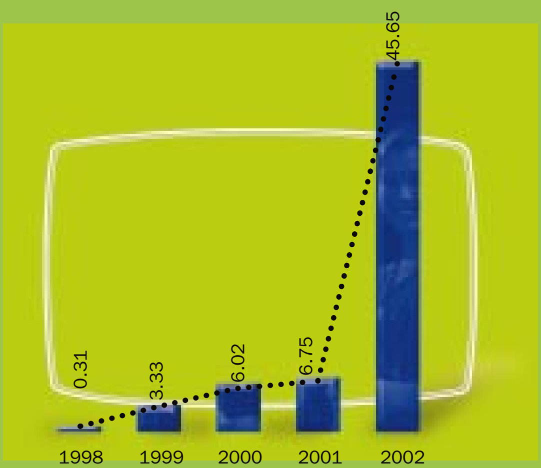
BALANCE SHEET

Rs Cr

Particulars	Mar 1998	Mar 1999	Mar 2000	Mar 2001	Mar 2002
SOURCES OF FUNDS					
Equity Share capital	0.06	1.00	1.00	10.30	10.30
Reserves & surplus	0.36	3.16	7.44	33.75	55.85
Shareholders' funds	0.42	4.16	8.44	44.05	66.15
Secured loans	0.71	3.12	3.96	–	–
Unsecured loans	0.17	0.21	0.55	–	–
Total loans	0.88	3.33	4.51	–	–
Total liabilities	1.30	7.49	12.95	44.05	66.15
APPLICATION OF FUNDS					
Gross block	0.49	0.86	1.54	9.19	19.04
Depreciation	0.08	0.14	0.24	0.53	1.60
Net block	0.41	0.72	1.30	8.66	17.44
Capital WIP	–	–	–	2.12	–
NB + CWIP	0.41	0.72	1.30	10.78	17.44
Investment	–	–	–	9.33	24.40
Current assets					
Inventories	1.41	1.17	2.56	4.97	3.54
Debtors	2.98	4.39	5.97	13.80	21.60
Cash & bank balance	0.06	1.69	0.42	1.96	3.35
Loans & advances	0.37	1.01	3.48	11.46	25.32
Total current assets	4.83	8.26	12.43	32.19	53.81
Current Liabilities					
Creditors	2.91	2.28	3.44	7.22	7.71
Other current liabilities	0.75	0.98	0.12	2.03	3.16
Provisions	0.28	0.39	1.54	3.10	19.58
Total current liabilities	3.94	3.65	5.10	12.35	30.45
Net current assets	0.89	4.61	7.33	19.84	23.36
Miscellaneous expenditure	–	2.16	4.32	4.10	0.96
Total Assets	1.30	7.49	12.95	44.05	66.15



Total Income



PBDIT

PROFIT & LOSS ACCOUNT

Rs Cr

Particulars	March 1998	March 1999	March 2000	March 2001	March 2002
Total sales	10.64	13.23	20.10	48.88	110.30
Other income	–	–	0.05	0.79	2.81
Total income	10.64	13.24	20.15	49.68	113.11
Cost of sales	9.85	8.80	11.85	37.83	56.44
Overhead cost	0.48	1.11	1.56	3.42	7.88
Deferred revenue exp	–	–	0.72	1.68	3.14
Total cost	10.33	9.91	14.13	42.93	67.46
PBDIT	0.31	3.33	6.02	6.75	45.61
Interest	0.11	0.15	0.49	0.66	0.04
PBDT	0.20	3.18	5.53	6.09	45.62
Depreciation	0.04	0.06	0.10	0.34	1.07
PBT	0.16	3.12	5.43	5.75	44.54
Tax	0.07	0.32	1.15	1.40	15.53
PAT	0.09	2.80	4.28	4.35	29.02
Dividend tax	–	–	–	0.16	0.26
Equity dividend	–	–	–	1.55	5.15
Year-end price (Rs)	–	–	–	144.70	409.05
Market capitalisation	–	–	–	149.09	421.45

RATIOS AND ratio analysis

FINANCIAL PERFORMANCE RATIOS	March 1998	March 1999	March 2000	March 2001	March 2002
Domestic Turnover/Total Income (%)	100.00	99.94	99.27	98.04	97.39
Other income/Total Income (%)	0.00	0.06	0.27	1.59	2.49
Cost of Sales/Sales (%)	92.58	66.55	58.94	77.38	51.18
Overheads/Sales (%)	4.58	8.43	7.77	6.99	7.14
Interest/Sales (%)	1.07	1.14	2.43	1.35	0.04
PBDIT/Total Income (%)	2.85	25.07	29.90	13.59	40.36
PBDT/Total Income (%)	1.78	23.93	27.48	12.26	40.32
Depreciation/Sales(%)	0.41	0.42	0.51	0.69	0.97
Tax/PBT (%)	48.28	10.28	21.16	24.34	34.86
PAT/Total Income (%)	0.70	21.09	21.27	8.76	25.65
Cash profit/Total Income (%)	1.12	21.51	21.78	9.44	26.59
RONW (PAT/Net Worth) (%)	17.81	139.74	103.85	10.90	44.51
ROCE (PBDIT/Average capital employed) (%)	33.95	75.52	58.97	23.69	82.84
Capital output ratio (Total income/Average capital employed)	11.92	3.01	1.97	1.74	2.05
Total Income to gross block	21.58	15.46	13.09	5.40	5.94
Total Income to working capital	12.02	2.87	2.75	2.50	4.84

The company's cost of sales as a proportion of the total sales declined from 77.38 per cent in 2000-01 to 51.18 per cent in 2001-02 as average hourly realisations increased from Rs 3.6 lacs in 2000-01 to Rs 7.2 lacs in 2001-02 and the company's programming revenues strengthened by 125.63 per cent.

PBDIT as a per cent of the total income increased from 13.59 per cent in 2000-01 to 40.36 per cent in 2001-02 while the post-interest margin increased from 12.26 per cent in 2000-01 to 40.32 per cent and PAT as a per cent of total income increased from 8.76 per cent in 2000-01 to 25.65 per cent. The general improvement in these ratios was on account of a strong topline improvement by 127.70 per cent.

The company's return on net worth increased from 10.90 per cent in 2000-01 to 44.51 per cent in 2001-02 on account of a 566.27 per cent increase in PAT. The company reported a return on capital employed (ROCE) of 82.84 per cent in 2001-02 compared to 23.69 per cent in 2000-01.

BALANCE SHEET RATIOS	March 1998	March 1999	March 2000	March 2001	March 2002
Debt-equity ratio	2.08	0.80	0.53	0.00	0.00
Debtors turnover (days)	102	121	108	103	71
Inventory turnover (days)	49	32	47	37	12
Current ratio	1.22	2.27	2.44	2.61	1.77
Quick ratio	0.87	1.94	1.94	2.21	1.65
Cash and equivalents / total assets (%)	4.54	31.63	4.87	28.24	42.57
Asset turnover (Total Income / total assets)	8.19	2.48	2.33	1.24	1.73

Balaji protected its debt-free status in 2001-02. Debtor (days) dropped from 103 days in 2001-02 to 71 days in 2001-02 due to a strengthened focus on commissioned programming. The popularity of its programmes and the strong relationships with customer channels translated into a quicker reimbursement cycle (as opposed to sponsored programmes where the proceeds would have to be recovered from advertisers who generally paid up over a longer tenure).

Inventory (days) declined from 37 days in 2000-01 to 12 days in 2001-02 on account of an efficient inventory management and a quick and timely delivery of episode banks to channels.

(details carried under the section on finance).

The company's cash and equivalents increased from 28.24 per cent of the total assets in 2000-01 to 42.57 per cent in 2001-02, reflecting the company's stronger liquidity position.

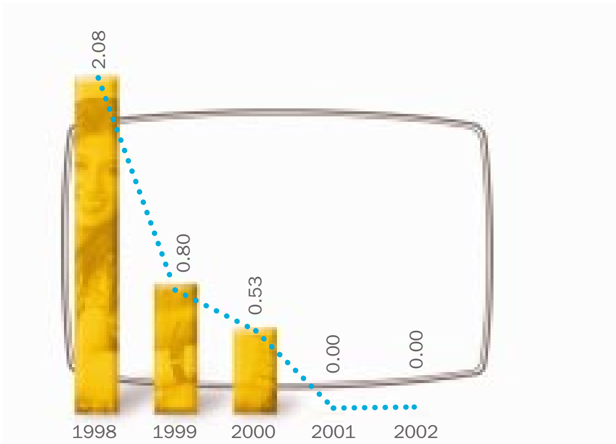
GROWTH RATIOS	March 1999	March 2000	March 2001	March 2002
Growth in Total Income (%)	24.42	52.22	146.50	127.70
Growth in net sales (%)	24.34	51.90	143.23	125.63
Growth in PBDIT (%)	995.38	81.56	12.05	576.05
Growth in PAT (%)	3622.67	53.51	1.56	566.27
Growth in cash flow	2293.28	54.07	6.88	541.39

The company reported a 127.70 per cent increase in total income, a 576.05 per cent increase in PBDIT and a 566.27 per cent increase in PAT, reflecting the improved performance of the company in the year under review. (Details mentioned elsewhere in the annual report).

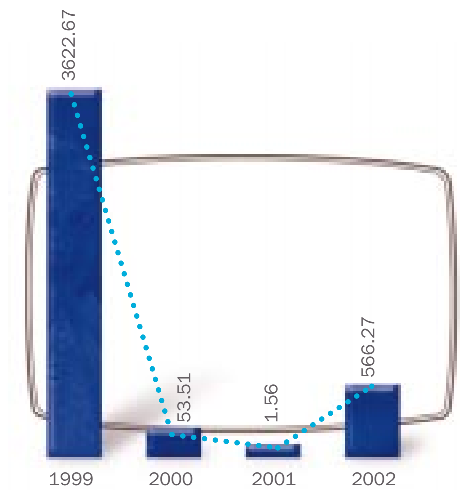
SHAREHOLDER-RELATED STATISTIC	March 1998	March 1999	March 2000	March 2001	March 2002
Dividend per share (Rs)	0.00	0.00	0.00	1.50	5.00
Dividend payout ratio	0.00	0.00	0.00	0.35	0.18
Price / earnings	0.00	0.00	0.00	34.25	14.53
Price / cash earning	0.00	0.00	0.00	31.79	14.01
Price / book value (year end)	0.00	0.00	0.00	3.73	6.46
Growth in market capitalisation (%)	0.00	0.00	0.00	0.00	182.69

PER SHARE DATA RATIOS	March 1998	March 1999	March 2000	March 2001	March 2002
Earnings	11.90	27.92	42.86	4.22	28.16
Cash earnings (Rs)	18.89	28.48	43.88	4.55	29.20
Dividend (Rs)	0.00	0.00	0.00	1.50	5.00
Book value (Rs)	66.83	19.98	41.27	38.77	64.21
Net Indebtedness per share	139.52	33.32	45.10	0.00	0.00

In 2001-02, the company declared a 50 per cent dividend on equity shares. The company's market capitalisation increased 182.69 per cent over 2000-01, indicating improved investor perception.

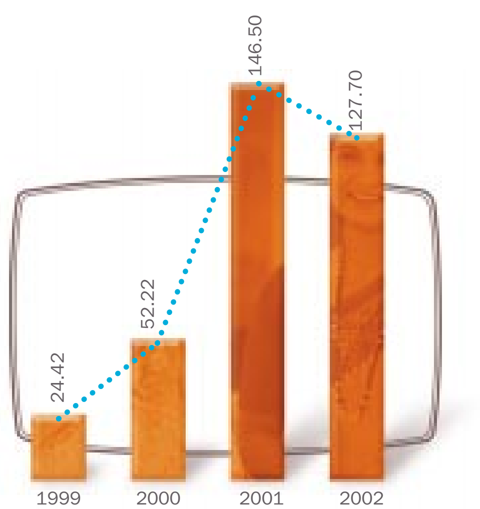


Debt-equity ratio

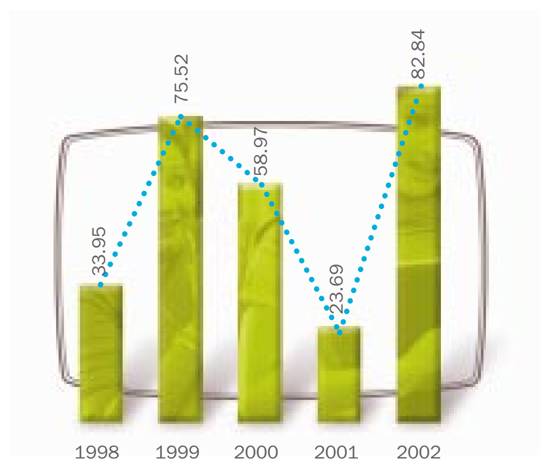


Growth in PAT (%)

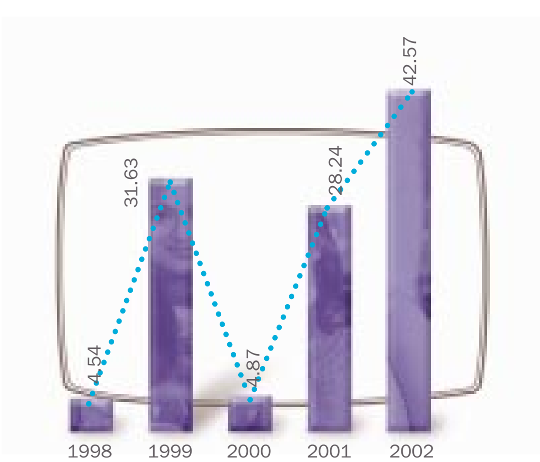
Serial



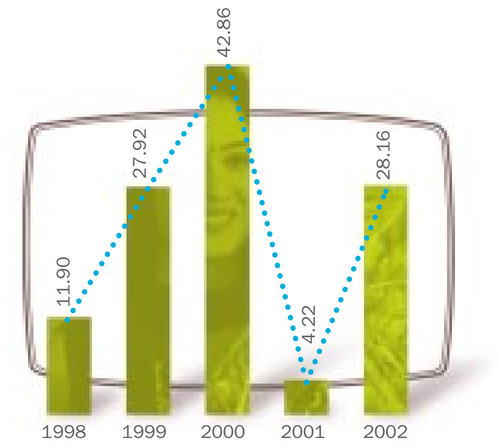
Growth in Total Income (%)



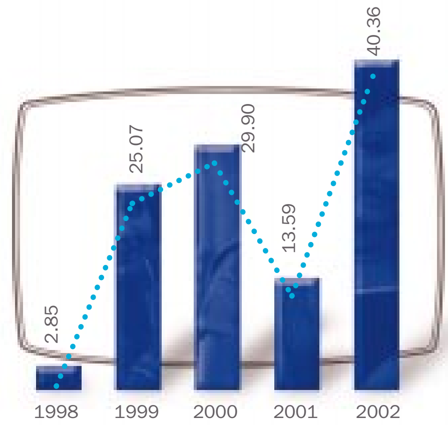
ROCE (PBDIT/Average capital employed) (%)



Cash and equivalents / total assets (%)

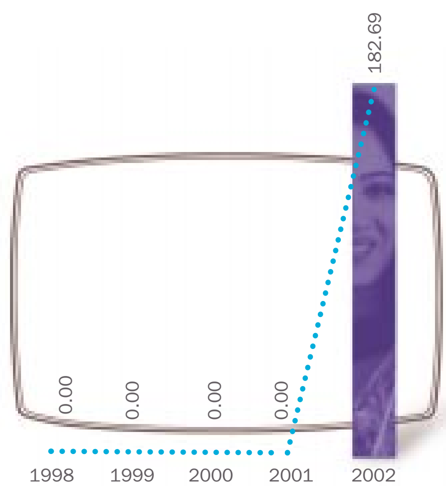


Earnings

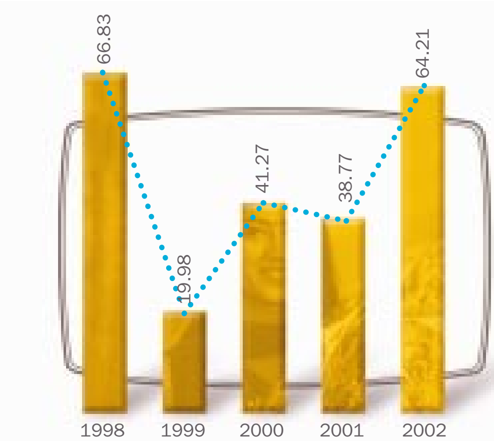


PBDIT/Total Income (%)

numbers



Growth in market capitalisation (%)



Book value (Rs)

CORPORATE governance

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 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 maximized
- Ensure that the Board, the Employees and all concerned are fully committed to maximizing long-term value to the Shareholders and the Company

COMPOSITION OF BOARD

The Board currently has seven members, of whom two are Executive Directors. The Board has a non-executive chairman. 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.

Five meetings of the Board of Directors were held during the year - on May 9, June 29, July 31, October 24 in 2001 and on January 21 in 2002.

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

Name of Member	Board Meetings attended during the year	Attendance at last AGM (September 27, 2001)	Number of other Directorships (Indian & Foreign Companies combined)
Jeetendra Kapoor	5	Present	3
Shobha Kapoor	5	Present	2
Ekta Kapoor	4	Present	1
Ketan Somaia (ceased to be Director with effect from January 21, 2002)	–	Absent	21
Rakesh Roshan	3	Absent	1
Dr. Raj Bothra	–	Absent	–
Akshay Chudasama	4	Present	2
Chandresh Gandhi	4	Present	–

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.

Composition

The Board of Directors of the Company at their meeting held on July 17, 2000 formed an Audit Committee comprising of three Non-Executive Directors, namely Mr. Jeetendra Kapoor, Mr. Akshay Chudasama and Mr. Chandresh Gandhi, majority of the Directors being independent directors. The Chairman of the Committee, Mr. Chandresh Gandhi is a Chartered Accountant by profession. Three meetings of the Audit Committee were held during the year - on June 29, July 31 in 2001 and January 21 in 2002. The meetings were attended by all the members.

SHARE TRANSFER COMMITTEE

Terms of Reference

The functions and powers of the Share Transfer Committee include approval / rejection of transfer / transmission of equity shares, issue of duplicate certificates and supervising of the operations of the Registrar and Transfer Agents and also maintaining investor relations.

Composition

The Board of Directors of the Company at their meeting held on July 17, 2000 formed a Share Transfer Committee comprising of three Directors, namely Mr. Jeetendra Kapoor, Mrs. Shobha Kapoor and Ms. Ekta Kapoor. Mr. Jeetendra Kapoor is Chairman of the Committee. Four Meetings of the Share Transfer Committee were held during the year - on July 5, December 15 in 2001 and January 12 and February 22 in 2002. The meetings were attended by all the members.

SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The functions of Shareholders / Investors Grievance Committee include 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 Board of Directors of the Company at their meeting held on July 17, 2000 formed a Shareholders / Investors Grievance Committee comprising of three Directors, namely Mr. Jeetendra Kapoor, Mrs. Shobha Kapoor and Ms. Ekta Kapoor. Mr. Jeetendra Kapoor is Chairman of the Committee. Four Meetings of Shareholders / Investors Grievance Committee were held during the year - on April 20, October 20 in 2001 January 18 and March 16 in 2002. The meetings were attended by all the members.

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 the shareholders.

Details of the remuneration paid to Managing Director / Whole Time Director during the year ending 31st March, 2002 is as under:

Name	Designation	Remuneration (Rs.)			
		Salary & Allowances	Perquisites	Commission	Employer Contribution to Provident Fund
Mrs. Shobha Kapoor	Managing Director	21,30,000	26,400	15,54,000	1,44,000.00
Ms. Ekta Kapoor	Whole Time Director	21,30,000	26,400	15,54,000	1,44,000.00

No remuneration was paid to non-executive Directors apart from Directors' Sitting Fees.

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
5th Meeting	Wednesday, September 27, 1999	3.00 P.M.	Plot No. 26, Krishna Bungalow, Greater Bombay CHS, Gulmohar Cross Road No.5, JVPD Scheme, Mumbai - 400 049.
6th Meeting	Thursday, May 25, 2000	3.00 P.M.	C-13, Balaji House, Dalia Industrial Estate, Opp. Laxmi Industries, New Link Road, Andheri (West), Mumbai - 400 053
7th Meeting	Thursday, September 27, 2001	3.30 P.M.	'The Club', 197, DN Nagar, Andheri (West), Mumbai - 400 053.

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

DISCLOSURES

1. There are no materially significant transactions with related parties i.e. promoters, directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of company at large, except the following:.

   (a) The Company has leased 10,962 sq. ft. of office space from the promoters, which is located at C-13, Dalia Industrial Estate, Opp. Laxmi Industries, New Link Road, Andheri (West), Mumbai. The terms of the lease are as follows:

   Initial Lease Deposit of Rs. 600 Lacs
   Monthly Lease Rentals of Rs. 1.2 Lacs

   (b) The Company has taken on lease residential premises at no. 602A measuring 1050 sq. ft., on the 6th Floor in the building known "Eternia" Hiranandani Gardens, Powai, Mumbai belonging to the promoters. The terms of the lease are as follows:

   Initial Lease Deposit of Rs. 15 Lacs
   Monthly Lease Rentals of Rs. 12,000

2. There were no instances of non-compliance on any matter related to the capital markets during the last three years.

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 has further strengthened its web site to provide comprehensive information on business segments, financial performance and press releases.

Balaji Telefilms financial results are published in Business Standard, Economic Times and Sakal (regional daily). The financial results, official news releases and presentations are also displayed on the Company's web site www.balajitelefilms.com. Balaji Telefilms has started sending to each household of shareholders a copy of its half-yearly results, from the half-year ended September 30, 2001.

GENERAL SHAREHOLDER INFORMATION

1. Date of Book Closure

August 14, 2002 to August 23, 2002 (both days inclusive)

2. Date, time and venue of the Annual General Meeting

August 23, 2002 at 3.30 p.m. at 'The Club', 197, DN Nagar, Andheri (West), Mumbai 400 053

3. Dividend payment

The Board of Directors has proposed a dividend of 50 per cent for the year ended 31st March, 2002 (inclusive of 25 per cent interim dividend declared and paid during the year). The 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: +91-22-2721233/1234
   Fax:+91-22-2721919/3027 (Stock Code - 32382)

2. National Stock Exchange of Exchange of India Limited
   Exchange Plaza, 5th floor, Plot No. C/1, G Block,
   Bandra Kurla Complex, Bandra (East),
   Mumbai - 400 051.
   Tel: +91-22-6598100, Fax: +91-22-6598237/38
   (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: +91-22-6732275, Fax: +91-22-6732308
Email: balaji@balajitelefilms.com
Web site: www.balajitelefilms.com

8. Share transfers in physical, Communication regarding share certificates, dividends, change in address etc. may be addressed to:

Karvy Consultants 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: +91-40-3312454 / 3320251, Fax: +91-40-3311968
Email: karvyhyd@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 Share Transfer Committee meets as often as required. The total number of shares transferred in physical form during the year 2001-02 were 3,900. There was no share transfer pending as on March 31, 2002.

10. Stock Market Data relating to Shares listed in India

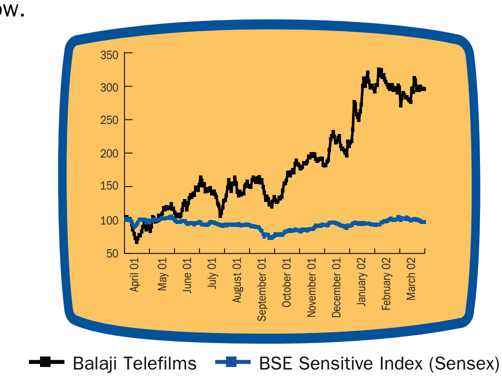
The Company's shares are listed on the Stock Exchange, Mumbai and National Stock Exchange of India Limited, since November 22, 2000. The Company's market capitalisation as on March 31, 2002 was Rs. 421.45 Crores. The monthly high and low quotations as well as the volume of shares traded during the year are as below:

Months	Closing price on last trading day of the months		Volume
	BSE	NSE	BSE + NSE
April	127.05	126.45	39,39,961
May	161.65	161.35	1,36,30,431
June	210.10	210.55	5,86,19,133
July	179.00	179.45	3,69,99,091
August	205.90	206.00	6,58,12,699
September	179.20	177.65	6,12,36,009
October	245.00	244.90	2,74,65,368
November	251.45	251.00	2,25,81,301
December	299.75	301.25	54,10,632
January	416.70	416.25	88,35,163
February	374.10	373.10	41,21,772
March	409.05	411.05	24,57,895

Fact sheet

Items	2000-01	2001-02
Earnings per share	Rs 4.22	Rs 28.16
EPS - fully diluted	Rs 4.22	Rs 28.16
Dividend per share	1.50	5.00
Number of shares	1,03,03,250	1,03,03,250
Share price data		
High	354.60	449.30
Low	132.40	92.70
Closing	144.70	409.05

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



11. Investor Service - complaints received during the year

Nature of Complaints	Year ended 31/3/2002 Received	Disposed
Change / Correction of Address	13	13
Receipt of Refund Order for Revalidation	2	2
Correction of Bank Mandate / Name on Refund Order	2	2
Intimation of Bank Mandate	50	50
Non Receipt of Share Certificate	3	3
Loss of Share Certificate & Issue of Duplicate Share Certificate	1	1
Non Receipt of Dividend Warrant	8	8
Receipt of Dividend Warrant of Revalidation	18	18
Correction of Bank Mandate / Name on Dividend Warrant	3	3
Correspondence / Query relating to NSDL operations	11	11
Miscellaneous Complaints	9	9
	120	120

The Company has disposed of all the investor grievances / correspondence. There is no share transfers pending as on March 31, 2002.

12. Shareholding pattern of Balaji Telefilms as on 31/3/2002*

Category	No. of shares held	Percentage of shareholding
Promoters*	69,96,750	67.91
Mutual Funds, Banks and UTI	10,93,060	10.61
FIIs	8,71,048	8.45
Private Corporate Bodies	6,76,316	6.56
Indian Public	5,16,322	5.01
NRIs/OCBs	6,974	0.07
NSDL Transit Position	1,42,780	1.39
Grand Total	1,03,03,250	100

* Post March 2002 promoters diluted 10.11 per cent of their equity holding (10,41,600 shares) in favour of FIIs.

13. Distribution of shareholding as on March 31, 2002

Number of Shares	Number of Shareholders	Per cent of Shareholders	Total number of Shares	Per cent holding
1 to 500	4,102	94.17	2,98,409	2.90
501 to 1000	133	3.05	1,03,898	1.01
1001 to 2000	50	1.15	74,536	0.72
2001 to 3000	19	0.44	47,876	0.46
3001 to 4000	10	0.23	35,952	0.35
4001 to 5000	5	0.11	23,794	0.23
5001 to 10000	10	0.23	71,736	0.70
10001 & above	27	0.62	96,47,049	93.63
Total	4,356	100.00	1,03,03,250	100.00

14. Shares under lock-in

In accordance with SEBI Guidelines, 20,60,650 Equity Shares held by promoters (representing 20 per cent of the post-issue capital) are subject to lock-in for a period of 3 years from the date of allotment i.e. upto November 16, 2003.

15. Dematerialisation of Equity Shares

The Company's shares are traded in dematerialised form only. To facilitate trading in dematerialised from 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 an account with any of the depository participants registered with any of these depositories. As on March 31, 2002 about 99.83 per cent comprising 1,02,85,648 Equity Shares are in the dematerialized form.

16. Financial Calendar (tentative and subject to change)

Particulars	Date
Annual General Meeting	August 23, 2002
Financial reporting for 1st quarter ending 30th June, 2002	July 30, 2002
Financial reporting for 2nd quarter ending 30th September, 2002	October 30, 2002
Financial reporting for 3rd quarter ending 31st December, 2002	January 30, 2003
Financial reporting for the year ended 31st March, 2003 (audited)	June 30, 2003
Annual General Meeting for year ended 31st March, 2003	August, 2003

17. Plant Locations

The details of regional offices of the Company are available on the inside back cover page of the report.

18. Investors' Correspondence

Investors' correspondence may be addressed to:

Mr. Ajay Patadia,
Company Secretary,
Balaji Telefilms Limited
C-13, Balaji House, Dalia Industrial Estate,
Opp. Laxmi Industries, New Link Road,
Andheri (West), Mumbai - 400 053
Tel: +91-22-6732275, Fax: +91-22-6732308
Email: ajay@balajitelefilms.com

Any queries relating to the financial statements of the Company 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: +91-22-6310941, Fax: +91-22-6317536
Email: devarajan@balajitelefilms.com

19. Nomination Facility

Members are requested to refer to the provisions of Section 109A of the Companies Act, 1956, as amended, wherein the facility of nomination is made available to the members in respect of shares held in the Company. This facility is made available foliowise and would be for the entire shares registered under the folio. A format of the nomination form is attached to this Annual Report. Members are requested to avail of this facility.

The members who hold shares in dematerialised form can contact their respective Depository Participant (DP) for availing of the nomination facility.

The Company is in the process of implementing the non-mandatory requirements as specified in Listing Agreement in the financial year 2001-02.

20. Regional Offices

3, Vedammal Avenue,
Dr. Subrayan Nagar,
Main Road, Kodambakkam,
Chennai - 600 024.

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

DIRECTORS' report

Dear Shareholders

Your Directors take pleasure in presenting the Eighth Annual Report and Audited Statement of Accounts of the Company for the year ended 31st March, 2002.

FINANCIAL RESULTS

Rs. Cr.

Particulars	2000-01	2001-02
Total Income	49.67	113.11
Profit before interest, depreciation and tax	6.75	45.65
Less: Interest and financial charges	0.66	0.04
Depreciation	0.34	1.07
Profit before tax	5.75	44.54
Provision for tax	1.40	15.75
Income Tax for Prior Years	–	(0.01)
Provision for deferred income tax	–	(0.21)
Profit after tax	4.35	29.02
Add: Balance brought forward from previous year	7.44	2.59
Less: Transfer to General Reserve	1.00	4.00
Appropriations		
Disposable Profits	11.79	31.61
Capitalised for issue of bonus shares	6.50	–
Proposed dividend	1.54	2.58
Interim dividend	–	2.58
Dividend Tax	0.15	0.26
Provision for deferred tax	–	1.50
Transfer to General Reserve	1.00	4.00
Balance carried to Balance Sheet	2.59	20.70

RESULTS OF OPERATIONS

During the financial year under report, the Company achieved significant growth in terms of number of hours of programming as well as revenues.

Total revenues grew to Rs. 113.11 cr from Rs. 49.67 cr last year, a growth rate of 127.70%. Operating profit grew to Rs. 45.97 cr (41.68% of net sales) from Rs. 7.64 cr (15.63% of net sales), a phenomenal growth rate of 502%. Profit after tax increased to Rs. 29.02 cr (26.31% of net sales) from Rs. 4.35 cr (8.91% of net sales), an increase of 566.27%.

Detailed discussions of the Company's business activities have been carried in a separate section under the title Management Discussions.

DIVIDEND

Your Directors are pleased to recommend a dividend of 50% (including 25% of interim dividend declared and paid during the year) on the shares for the financial year under report. The total amount of dividend is Rs. 5,15,16,250. Final Dividend, if approved at the Annual General Meeting will be paid to all the members whose names appear on the Register of Members as on 23rd August, 2002. 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.

DIRECTORS

Mr. Ketan Somaia, who was on the Board since 4th April 2000, ceased to be director of the company with effect from 21st January, 2002 in terms of Section 283(1)(g) of the Companies Act, 1956. The Board placed on record its appreciation of the contributions made by him during his tenure.

Dr. Raj Bothra and Mr. Akshay Chudasama, retires from the Board by rotation and being eligible, offers themselves for re-appointment.

AUDITORS

Mr. Dinesh Shah, Chartered Accountant, was appointed as Auditors by the Members of the Company at their last Annual General Meeting to hold office till the conclusion of the forthcoming Annual General Meeting of the Company. Mr. Dinesh Shah has informed the Company about his inability for reappointment as Auditors of the Company. The Board of Directors wish to record its appreciation for the valuable services rendered by him during his tenure of appointment. M/s. Deloitte Haskins & Sells, Chartered Accountants and M/s. Snehal Shah & Associates, Chartered Accountants, Mumbai, have confirmed their eligibility and willingness for appointment, if considered to be made, as Joint Auditors of the Company and certifying that, if they are appointed as Auditors for the year 2002 - 2003, their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES

As per the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employee) Rules, 1975, as amended, the names and other particulars of the employees 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, Managing Director	38,54,400.00	NA	8	10- Nov-1994	53	NA
Ekta Kapoor, Creative Director	38,54,400.00	B.Com.	8	10-Nov-1994	27	NA

Note:
1. Gross Remuneration comprises of salary, commission, allowances, Company's contribution to Provident Fund and taxable value of other perquisites.
2. The nature of employment of Mrs. Shobha Kapoor and Ms. Ekta Kapoor is contractual.
3. Mrs. 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 points g (ii) & (iii) of Section B in Schedule 17 (Statement of Significant Accounting Policies and Notes forming part of Accounts) of this report.

STATEMENT PURSUANT TO CLAUSE 43 OF THE LISTING AGREEMENT

Utilisation of IPO proceeds of Rs. 3644.23 Lacs

(Rs. In Lacs)

	Projected utilisation upto 31.03.2002	Actual utilisation upto 31.3.2002
Equipment & Miscellaneous Assets	1994.00	1167.24
Buildings and Locations (incl. Advances)	750.00	736.28
Lease Rental Deposit	600.00	716.78
Preliminary & Issue Expenses	400.00	348.66

The surplus funds are currently invested in Debt Mutual Funds pending deployment in projects.

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.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation and acknowledge with gratitude the support and co-operation extended by the Bankers, Shareholders, Merchant Bankers to the issue, the Artists, Technicians associated with the Company's programs and the media and look forward to their continued support.

Your Directors also 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,

Chairman

Place : Mumbai
Date : 24/5/2002

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 the year ended on 31st March, 2002, 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 responsibility is limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on financial statements of the company.

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

We state that no investor grievances are pending for a period exceeding one month against the company as per the records maintained by the Shareholders / Investors Grievance Committee.

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.

DINESH SHAH
Chartered Accountant

Dinesh Shah

DINESH SHAH
(Proprietor)

Mumbai, 24TH MAY 2002

Auditors' report

To the Members of BALAJI TELEFILMS LIMITED

We have audited the attached Balance Sheet of Balaji Telefilms Limited as at 31st March, 2002 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto. These financial statement are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with 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 the disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis of our opinion.

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Company Law Board in terms of section 227 (4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 & 5 of the said Order.
2. Further to our comments in the Annexure referred to in paragraph (1) above, we report that:

(a) We have obtained all the information & explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

(b) In our opinion, the company has kept proper books of accounts as required by law, so far as it appears from our examination of these books.

(c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of accounts.

(d) In our opinion, the Profit & Loss Account and the Balance Sheet dealt with by this report are prepared in compliance with the Accounting standards referred to in sub section (3C) of section 211 of Companies Act, 1956, to the extent applicable.

(e) On the basis of written representations received from the directors of the company as at 31st March 2002, we report that no director is disqualified from being appointed as director of the company under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

(f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, read together with the significant accounting policies & other notes thereon, give the information as 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.

(i) In the case of Balance Sheet of the state of the affairs of the company as at 31st March, 2002 and

(ii) In the case of Profit and Loss Account, of the profit of the company

for the year ended on that date.

DINESH SHAH
Chartered Accountant

Place: Mumbai
Date: May 24, 2002

DINESH SHAH
(Proprietor)

Annexure to Auditors' report in 2001-02

(Referred to in paragraph (1) of our report of even date to the members of Balaji Telefilms Limited for the year ended 31st March, 2002)

1) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. In our opinion the management at reasonable intervals has physically verified the fixed assets, having regard to the size of the Company and nature of its assets. No material discrepancies between the books records and the physical verification were noticed on such verification.

2) None of the fixed assets have been revalued during the year.

3) In our opinion and according to information and explanations given to us, physical verification has been conducted by the management at reasonable intervals in respect of goods dealt with the company.

4) In our opinion, the procedures of physical verifications of stocks followed by the management are reasonable according to the explanations given to us. The procedure of verification of stock of tapes and T.V.Software followed by the management are reasonable and adequate in relation to the size of the company and nature of its business.

5) In our opinion and on basis of our examination of the stock records, the valuation of stock is fair and proper in accordance with normally accepted accounting principles and is on the same basis as in the previous year.

6) In our opinion, the Company has not taken any loans from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956, whereby the rate of interest or the terms and conditions are prima facie prejudicial to the interest of the Company. We are informed that there are no companies under the same management as this company within the meaning of section 370(1B) of the Companies Act, 1956.

7) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the registers maintained under section 301 and/or to the Companies under the same management as defined, under section (1B) of Section 370 of the Companies Act, 1956.

8) The parties to whom the loans, or advances in the nature of loans have been given by the Company are regular in repaying the principal amounts as stipulated and interest where applicable.

9) 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 nature of its business.

10) In our opinion and according to the information and explanations given to us the transactions relating to purchase of equipment and services in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and aggregating in the year at Rs.50,000/- or more have been made at prices which are reasonable, having regard to prevailing market prices for such goods, material or services.

11) In our opinion and according to the information and

explanations given to us, the Company has not accepted any fixed deposits from the public during the year.

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

13) According to information and explanations given to us, there are no undisputed amounts payable in respect of income tax, wealth tax, customs duty and excise duty outstanding as at 31st March, 2002 for more than six months from the date on which they became payable.

14) According to information and explanations given to us and records examined by us no personal expenses have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.

15) According to information and explanations given to us the company does not generate any by-product or scrap.

16) The employees provident fund dues have been regularly deposited with appropriate authorities after obtaining coverage under the Employees Funds & Miscellaneous Provisions Act, 1952.

17) We have been informed that the Central Government has not prescribed cost records under section 209(1)(d) of the Companies Act, 1956.

18) The company has a regular procedure for determination of unserviceable stores or damaged consumable stores. Adequate provision has been made in the accounts for the loss, if any arising on the items so determined.

19) In our opinion, there is a reasonable system of authorization at proper levels with necessary controls on the issue of stores and the related system of internal control of the company.

20) The company is not a sick industrial company within the meaning of clause (O) of section 3(1) of the Sick Industrial Companies (Special provisions) Act, 1985.

DINESH SHAH
Chartered Accountant

Place: Mumbai
Date: May 24, 2002

DINESH SHAH
(Proprietor)

The Financial section

BALANCE SHEET

(Amount in Rs)

As at 31 March	Schedule	2002		2001	
SOURCES OF FUNDS					
Share Holders' Funds					
Share Capital	1	103,032,500		103,032,500	
Reserves & Surplus	2	558,508,977		337,459,270	
			661,541,477		440,491,770
			661,541,477		**440,491,770**
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	3	190,351,686		91,939,073	
Less :- Depreciation		15,995,682		5,336,701	
Net Block		174,356,004		86,602,371	
Capital Work In Progress		–		21,181,833	
			174,356,004		107,784,204
Investments	4		243,975,243		93,256,591
Current Assets, Loans & Advances					
A. Inventories	5	35,360,846		49,710,688	
B. Sundry Debtors	6	216,039,097		137,973,165	
C. Cash & Bank Balances	7	33,523,918		19,550,164	
D. Loans & Advances	8	253,196,919		114,613,809	
		538,120,781		321,847,826	
Less :- Current Liabilities & Provisions					
A. Current Liabilities	9	82,946,258		76,968,309	
B. Provisions	10	221,570,398		46,431,272	
		304,516,656		123,399,581	
Net Current Assets (A) - (B)			233,604,125		198,448,245
Miscellaneous Expenditure	11		9,606,105		41,002,730
(To the extent not written off or adjusted)			**661,541,477**		**440,491,770**
Notes To Accounts	17				
The Schedules referred to above & notes attached thereon form an integral part of Balance Sheet					

As per our attached report of even date
For **Dinesh Shah**
Chartered Accountant

For & on behalf of Board of Directors

Dinesh Shah
Proprietor

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Place : Mumbai
Date : 24th May 2002

Ajay Patadia
Company Secretary

Akshay Chudasama
Director

Chandresh Gandhi
Director

PROFIT & LOSS ACCOUNT

(Amount in Rs)

For the year ended 31 March	Schedule	2002	2001
INCOME			
Sales		1,102,951,331	488,824,625
Other Income	12	28,140,621	7,913,565
		1,131,091,952	**496,738,190**
EXPENDITURE			
Cost of Sales	13	564,435,104	378,257,372
Employees Cost	14	19,088,675	8,857,998
Other Expenses	15	59,701,729	25,317,998
Interest	16	387,486	6,616,913
Depreciation	3	10,658,982	3,370,125
		654,271,975	422,420,406
Profit Before Write Offs & Taxes		**476,819,977**	**74,317,784**
Less: Deferred Revenue Expenditure Written Off		31,391,810	16,768,969
Provision For Income Tax		157,500,000	14,000,000
Income Tax of Prior Years		(77,392)	–
Provision For Deferred Income Tax		(2,145,858)	–
Profit After Tax		**290,151,417**	**43,548,815**
Less: Appropriations			
Interim Dividend		25,758,125	–
Proposed Dividend		25,758,125	15,454,875
Dividend Tax		2,627,329	1,576,397
Transfer to General Reserve		40,000,000	10,000,000
Balance Carried to Balance Sheet		**196,007,838**	**16,517,543**
Notes To Accounts	17		
The Schedules referred to above & notes attached thereon form an integral part of Profit and Loss Account.			

As per our attached report of even date
For Dinesh Shah
Chartered Accountant

For & on behalf of Board of Directors

Dinesh Shah
Proprietor

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Place : Mumbai
Date : 24th May 2002

Ajay Patadia
Company Secretary

Akshay Chudasama
Director

Chandresh Gandhi
Director

SCHEDULE TO THE ACCOUNTS

(Amount in Rs)

As at 31 March	2002	2001
1 SHARE CAPITAL		
Authorised Share Capital		
110,00,000 Equity Shares of Rs. 10/- each	110,000,000	110,000,000
Issued, Subscribed & Paid-up Capital		
1,03,03,250 Equity Shares of Rs.10/- each	103,032,500	103,032,500
[Of the above, 65,00,000 Equity Shares are alloted as fully paid-up by way of Bonus Shares by capitalisation of balance in Profit & Loss Account]		
	103,032,500	**103,032,500**

As at 31 March	2002	2001
2 RESERVES & SURPLUS		
Share Premium Account		
Balance as at 1st April	301,524,365	–
Received During the Year	–	336,390,000
	301,524,365	336,390,000
Less : Public Issue Expenses	–	34,865,635
	301,524,365	301,524,365
General Reserve		
Balance as at 1st April	10,000,000	-
Add : Transfers from Profit & Loss Account	40,000,000	10,000,000
	50,000,000	10,000,000
Profit & Loss Account		
Balance as at 1st April	25,934,905	74,417,362
Less : Capitalised for Issue of Bonus Shares		65,000,000
Less : Provision for Deferred Tax	14,958,131	–
	10,976,774	9,417,362
Add : Transferred from Profit & Loss Account	196,007,838	16,517,543
	206,984,612	25,934,905
	558,508,977	**337,459,270**

3 FIXED ASSETS

(Amount in Rs)

Description of Asset	Gross Block				Depreciation				Net Block	
	As at 31.03.2001	Addition During Year	Deduction During Year	As at 31.03.2002	Upto 31.03.2001	For The Year	Deduction During Year	Upto 31.03.2002	As at 31.03.2002	As at 31.03.2001
Building	21,181,833	2,118,400		23,300,233		370,504		370,504	22,929,729	21,181,833
Equipment	42,917,524	18,496,297	–	61,413,821	1,855,369	3,394,465	–	5,249,835	56,163,986	41,062,155
Equipment – computer	17,171,991	5,400,129		22,572,120		2,866,121		2,866,121	19,705,999	17,171,991
Studios & Locations	16,448,320	33,879,301	–	50,327,621	345,810	1,948,217	–	2,294,028	48,033,593	16,102,510
Vehicles	7,522,343	8,102,359	–	15,624,702	2,272,025	1,153,785	–	3,425,810	12,198,892	5,250,318
Furniture & Fixtures	1,731,708	3,721,714	–	5,453,422	213,424	203,170	–	416,594	5,036,827	1,518,284
Computers	2,164,246	1,099,321	–	3,263,567	465,155	438,995	–	904,150	2,359,417	1,699,091
Office equipment	3,286,246	3,776,825	–	7,063,071	175,936	236,475	–	412,411	6,650,660	3,110,310
Electrical Fittings	696,695	636,435	–	1,333,130	8,982	47,248	–	56,230	1,276,900	687,713
Total	**113,120,906**	**77,230,781**	–	**190,351,686**	**5,336,701**	**10,658,982**	**–**	**15,995,683**	**174,356,003**	**107,784,204**
Previous Year	15,387,688	77,984,137	1,432,752	91,939,073	2,371,665	3,370,125	405,088	5,336,701	86,602,371	13,016,023
Capital Work in Progress (Previous Year)	–	–	–	21,181,833	–	–	–	–	21,181,833	–

SCHEDULE TO THE ACCOUNTS

Sr. No.		No. of units as at 31.3.2002	No. of units as at 31.3.2001	Amount as at 31.3.2002	Amount as at 31.3.2001
4	**INVESTMENTS**				
	UNQUOTED				
	IN UNITS OF MUTUAL FUNDS				
	(VALUED AT COST)				
1	J.M. Income Fund - Dividend Plan	4,490,254	3,915,204	47,368,983	41,506,591
2	J.M. Income Fund - Growth Plan - Growth Option	2,199,010	2,199,010	40,000,000	40,000,000
3	Prudential I.C.I.C.I. Income Plan - Dividend	1,314,501	1,151,961	13,416,848	11,750,000
4	Reliance Liquid Fund - Treasury Plan - Weekly Dividend Option	2,036	–	24,275	–
5	GSTD GSSIF - Short Term Plan - Dividend option	7,219	–	72,259	–
6	Prudential I.C.I.C.I. - Short term Plan - Dividend Reinvest	8,964	–	89,798	–
7	Prudential I.C.I.C.I. - Income Plan - Dividend	964,061	–	10,715,564	–
8	GCFW Grindlays Cash Fund - Weekly Dividend Option	5,436	–	54,377	–
9	Chola Freedom Income STF - Cumulative - Semi Annual Dividend	1,870,791	–	30,000,000	–
10	GSSG GSSIF - Investment Plan - Growth Option	1,975,470	–	25,365,037	–
11	Alliance - Income fund - Regular Growth	1,105,219	–	20,778,116	–
12	H.D.F.C. Income Fund - Growth	428,344	–	5,445,111	–
13	H.D.F.C. Income Fund - Growth	1,573,670	–	20,004,491	–
14	K Bond Unit Scheme 99 (Wholesale Plan) - Growth	1,084,904	–	15,132,241	–
15	DSP Merrill Lynch Bond Fund - Growth - Regular	509,166	–	9,546,863	–
16	Prudential I.C.I.C.I. - Income Plan - Growth	670,128	–	10,822,570	–
17	Prudential I.C.I.C.I. - Liquid Plan - Dividend option	13,816	–	163,285	–
		18,222,989	**7,266,175**	**248,999,818**	**93,256,591**
	Less : provision for diminution in value of investment			5,024,575	
		18,222,989	**7,266,175**	**243,975,243**	**93,256,591**

MOVEMENTS DURING THE YEAR
PURCHASE & SOLD
MUTUAL FUND UNITS

Particulars	Cost Nos.	Cost Amount
Prudential ICICI - Income Plan - Dividend	1,050,734	11,332,382
GSSD GSSIF - Investment Plan - Quarterly Dividend Option	2,489,209	26,738,311
Alliance Income Fund - Regular Dividend	2,047,105	22,186,414
Alliance Term Plan - 98 Days - 260901 - Dividend	5,000	5,000,000
H.D.F.C. Income Fund - Dividend	521,263	5,443,220
H.D.F.C. Income Fund - Dividend	1,915,038	20,558,435
K Bond Unit Scheme 99 (Wholesale Plan) - Quarterly Dividend	1,490,127	15,462,173
DSP Merrill Lynch Bond Fund - Dividend - Regular	888,907	10,000,000
Pioneer ITI - SIP - I Plan A st - Dividend	500,000	5,000,000
Pioneer ITI - Income Builder Account Plan A	1,484,502	20,932,213
Pioneer ITI - Treasury Management A/C. - Weekly Dividend	11,109	15,000,000
Pioneer ITI - Treasury Management - Weekly Dividend	58,425	67,789,742
		225,442,890

SCHEDULE TO THE ACCOUNTS

(Amount in Rs)

As at 31 March	2002	2001
5 INVENTORIES (As valued, certified & physically verified by the management)		
Television Serials	35,007,396	49,415,338
Tapes	353,450	295,350
	35,360,846	**49,710,688**
6 SUNDRY DEBTORS (Unsecured, considered good)		
Outstanding Over Six Months	19,127,720	8,760,264
Other Debts	196,911,377	129,212,901
	216,039,097	**137,973,165**
7 CASH & BANK BALANCES		
Cash on Hand	1,309,044	953,743
Balances with Scheduled Banks		
In Current Accounts	7,468,536	7,211,933
In Term Deposits*	24,746,338	11,384,488
	33,523,918	**19,550,164**
* Includes Interest Accrued		
* Under Lien with the bank Rs. 0.47 crores (Previous Year Rs. 1.14 Crores)		
8 LOAN & ADVANCES (Unsecured, considered good)		
Advances Recoverable in Cash or in Kind or for Value to be Received	8,923,508	4,677,876
Payments Towards Income Tax	176,199,911	41,630,873
Deposits *	68,073,500	68,305,060
	253,196,919	**114,613,809**
*: includes amount given to promoters against lease of premises	61,500,000	61,500,000
9 CURRENT LIABILITIES		
Sundry Creditors for Goods & Services	75,828,267	72,202,342
Other Liabilities	7,117,991	4,765,967
	82,946,258	**76,968,309**

SCHEDULE TO THE ACCOUNTS

(Amount in Rs)

As at 31 March	2002	2001
10 PROVISIONS		
Provisions for Income Tax	183,000,000	29,400,000
Proposed Dividend	25,758,125	15,454,875
Provision for Dividend Tax	–	1,576,397
Provision for Deferred Tax	12,812,273	–
	221,570,398	**46,431,272**
11 MISCELLANEOUS EXPENDITURE (To the extent not written off or adjusted)		
Deferred Revenue Expenditure	9,585,067	40,976,877
Preliminary Expenses	21,038	25,853
	9,606,105	**41,002,730**

For the year ended March	2002	2001
12 INCOME FROM OTHER SOURCES		
Interest Received on Bank F.D.s (Gross) [TDS Rs.1.68 Lacs - (Previous Year - Rs.8.46 Lacs)]	998,533	3,797,192
Dividend	26,996,142	3,467,871
Interest on Income Tax Refund	–	248,942
Excess Provision Written Back	–	349,560
Miscellaneous Income	145,946	50,000
	28,140,621	**7,913,565**
13 COST OF SALES		
Opening Stock	49,710,692	25,628,040
Add : Cost of Production	550,085,258	416,962,862
	599,795,950	442,590,902
Less : Closing Stock	35,360,846	49,710,688
Deferred Revenue expenditure	–	14,622,841
	564,435,104	**378,257,372**
14 EMPLOYEES COST		
Salary, Wages & Bonus	15,554,427	7,718,389
Contribution Towards Providend Fund	699,831	280,556
Gratuity	526,830	–
Staff Welfare	2,307,587	859,053
	19,088,675	**8,857,998**

SCHEDULE TO THE ACCOUNTS

(Amount in Rs)

For the year ended March	2002	2001
15 OTHER EXPENSES		
Electricity & Water Charges	5,499,644	2,501,601
Rent	3,895,599	1,691,514
Rates & Taxes	835,242	298,047
Insurance	5,097,117	554,317
Repairs & Maintenance		
- Building	871,447	177,466
- Plant & Machinery	898,767	315,748
- Others	1,348,173	258,215
Travelling & Conveyance	7,077,694	2,364,966
Legal & Professional Charges	5,671,029	6,960,887
Communication Charges	4,202,857	2,739,367
Loss on Sale of Assets	–	424,247
Loss on Sale of Investments	4,526,408	–
Bank Charges	746,034	539,636
Miscellaneous Expenses	9,877,661	4,198,368
Bad Debts	722,076	–
Directors Sitting Fees	80,000	27,500
Auditors Remuneration	157,500	157,500
Preliminary Expenses W/Off	4,815	4,815
Advertisement & Sales Promotion Expenses	3,105,092	1,418,597
Commissions & Incentives	60,000	685,207
	54,677,154	25,317,998
Prov. for Diminution in Value of Investment	5,024,575	–
	59,701,729	**25,317,998**

16 INTEREST		
Interest on Fixed Loans	–	509,842
Other Interests	387,486	6,107,071
	387,486	**6,616,913**

SCHEDULE TO THE ACCOUNTS

17 NOTES TO THE ACCOUNTS

(A) SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention method. All Income and Expenditure having a material bearing in the financial statements are recognized on accrual basis.

The preparation of financial statements in conformity with Accounting Standards requires management to make estimates and assumption that affect the reported amounts of assets and liabilities at the date of financial statement, and the reported amounts of revenue and expenses during the year.

(b) Investments

Investments are carried at lower of cost & quoted / fair value computed category wise. Long term Investments are stated at cost. The company provides for diminution in value of investments, other than temporary in nature, in the financial statements.

(c) Inventories

Inventories are valued at cost. The cost of each episode of a program is determined on the basis of average cost method.

(d) Revenue recognition

Revenue / Income is generally accounted as follows:

a. In respect of sponsored programs, income is recognised in the Profit and Loss Account as and when the relevant episode of the program is telecasted.

b. In respect of commissioned programs, income is recognised in the Profit and Loss Account as and when the relevant episode of the program is delivered to the channel.

(e) Cost of Programs

The Company writes off the entire cost of production of the serials produced during the year while in the case of events, only 60% of the cost of production is written off during the year and the remaining 40% is treated as deferred revenue expenditure and written off in subsequent year.

(f) Fixed Assets

a. Fixed assets are stated at cost and include incidental and/or installation expenses incurred in putting the asset to use.

b. Depreciation is provided on straight-line method in the manner laid down in schedule XIV of the Companies Act, 1956. Depreciation on additions to assets during the year is provided on a proportionate basis.

(g) Miscellaneous Expenditure

a. Preliminary expenses:
It is in written off over a period of 10 years in equal installments.

b. Deferred revenue expenditure:

i) In respect of serial cost, the company treats 40% of the cost of production as deferred revenue expenditure and it is written off in subsequent three years equally.

ii) In respect of event cost, the company treats 40% of the cost of production as deferred revenue expenditure and it is written off in subsequent year.

(h) **Foreign Currency Transactions:**

Transactions in foreign currency are recorded at the rate prevailing on the date of receipt of money.

(i) **Taxation:**

Provision for taxes is made based on the current applicable tax rates. The Company provides for Deferred Tax using the liability method, based on the tax effect of timing differences resulting from the recognisation of items in the financial statements & in estimating its current income tax provision.

17 NOTES TO THE ACCOUNTS (Continued)

(B) NOTES TO THE ACCOUNTS

(a) Contingent Liabilities

(Amount in Rs)

	As at	31/03/2002	31/03/2001
1.	Income Tax Demand In Appeal	7,36,000	7,36,000
2.	Bank Guarantee Issued By Bankers	1,52,08,000	77,00,000

3. The Company has received a show cause cum demand notice from the office of The Commissioner of Central Excise, Mumbai - V as regards levy of Central Excise duty at Rs.3.47 crores for failure to declare the production of recorded video cassettes to the central excise authorities. However the company has been advised that the Central Excise Act 1944 is not applicable to the company.
4. 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.

(b) Auditors' Remuneration

(Amount in Rs)

	As at	31/03/2002	31/03/2001
1.	Audit Fees	1,05,000	1,05,000
2.	Tax Audit Fees	52,500	52,500
3.	Other Services	N.A.	N.A.
		1,57,500	**1,57,500**

(c) Directors' Remuneration

	As at	31/03/2002	31/03/2001
1.	Salaries	42,60,000	17,00,000
2.	Perquisites	52,800	N.A.
3.	Commission	31,08,000	N.A.
4.	Contribution to Prov. Fund	2,88,000	N.A.

Computation of Net Profit in Accordance with Section 198 Read with Section 309(5) of the Companies Act, 1956.

Profit Before Taxation		47,68,19,977
Add: Depreciation as per accounts	1,06,58,982	
Less: Transfer from general Reserves	NIL	1,06,58,982
		48,74,78,959
Add: Loss On Sale Of Investment		45,26,408
Managerial Remuneration		74,20,800
		49,94,26,167
Less: Depreciation As Per Companies Act, 1956		1,06,58,982
Net Profit For the Year		**48,87,67,185**
Salaries, Perquisites, Commission @ 2.00% of the above		97,75,344
Less : Salaries & Perquisites of Directors eligible for commission		43,12,800
Balance Commission		**54,62,544**
Restricted to		31,08,000

However restricted to 2% of the net profits of the company computed in the manner laid down in section 309(5) of the Companies Act, 1956 subject to a ceiling of 70% of annual salary.

SCHEDULE TO THE ACCOUNTS

(Amount in Rs)

As at	31/03/2002	31/03/2001

17 NOTES TO THE ACCOUNTS (Continued)

(d) The Company is engaged in the production / making of software, which requires various types, qualities and quantities of raw materials and inputs in different denominations. Due to the multiplicity and complexity of the items, it is not practicable to maintain the quantitative record / continuous stock register, as the process of making program software is not amenable to it. Hence quantitative details are not maintained. Physical stock is taken at the end of the year.

(e) The Company has requested the suppliers to give information about the applicability of small-scale industrial undertaking definition to them as per clause (i) of section (3) of Industrial Development and Regulations Act, 1951. In absence of this information, company is unable to provide details in schedule 10 & 11 of "Current Liabilities" & "Provisions" respectively, regarding the dues to small-scale industries.

(f) Balances of Sundry debtors, Sundry creditors and Loans and Advances payable or receivable are taken as per books and subject to confirmation and reconciliation. During the year confirmation letters have been issued. However, only few confirmations have been received till date.

(g) **(i) Information required under para 4(c) of part II of schedule VI of the Companies Act, 1956 to the extent applicable**

As at			31/03/2002	31/03/2001
1.	Licensed Capacity	N.A.	N.A.	
2.	Installed Capacity		N.A.	N.A.
3.	Actual Production		N.A.	N.A.

(ii) Earnings in Foreign Exchange

	31/03/2002	31/03/2001
1. Realisation of serials (exploitation of serials)	1,363,697	1,845,791

(iii) Expenditure in Foreign Currency

	31/03/2002	31/03/2001
1. Travelling	8,67,577	6,21,500
2. Imported Equipment	N.A.	1,08,89,127
	8,67,577	**1,15,10,627**

(h) Figures of previous years have been regrouped, recasted and rearranged wherever necessary.

As per our attached report of even date
For Dinesh Shah
Chartered Accountant

For & on behalf of the Board of Directors

Dinesh Shah
Proprietor

Jeetendra Kapoor
Chairman

Shobha Kapoor
Managing Director

Ekta Kapoor
Creative Director

Place : Mumbai
Date : 24th May 2002

Ajay Patadia
Company Secretary

Akshay Chudasama
Director

Chandresh Gandhi
Director

BALANCE SHEET ABSTRACT

Balance Sheet Abstract and Company's General Profile

I. Registration Details

Registration No. 11-82802 State Code 011

Balance Sheet Date 31 03 2002

II. Capital Raised (Amounts in thousands of Rupees)

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

III. Position of Mobilisation and Deployment of Funds (Amounts in thousands of Rupees)

Total Liabilities	Total Assets
661541477	661541477

Sources of Funds

Paid-up Capital	Reserves & Surplus
103032500	558508977
Secured Loans	**Unsecured Loans**
NIL	NIL

Application of Funds

Net Fixed Assets	Investments
174356004	243975243
Net Current Assets	**Miscellaneous Expenditure**
233604125	9606105
Accumulated Losses	
NIL	

IV. Performance of Company (Amounts in thousands of Rupees)

Turnover	Total Expenditure
1102951331	654271975
Profit/(Loss) before tax	**Profit/(Loss) After Tax**
476819977	290151417
Earnings per share in Rs.	**Dividend %**
28.16	50

V. Generic Name of Principal Products / Services of Company

Item Code No. Not Applicable

Product / Service Description Production of Television Serials

CASH FLOW STATEMENT

(Amount in Rs)

For the year ended	2001-02	2000-01
A) Cash Flows from Operating Activities		
Net Profit Before Tax	**4,768.20**	**743.18**
Adjustments for:		
Depreciation	106.59	29.65
Interest	3.87	66.17
Interest & Dividend Income	(281.41)	(75.64)
Preliminary expenses written off	0.05	0.05
Deferred revenue expenditure	–	(146.23)
Loss on sale of fixed assets	–	4.24
Loss on sale of Investment	45.26	–
Sub-Total	**(125.64)**	**(121.76)**
Operating Profit before Working Capital changes	**4,642.56**	**621.42**
Adjustments for changes in working capital		
Sundry Debtors	(780.66)	(783.55)
Inventories	143.50	(240.83)
Other Loans and Advances	(40.15)	(474.69)
Sundry Creditors	59.78	413.48
Sub-Total	**(617.53)**	**(1,085.59)**
Cash generated from operations	**4,025.03**	**(464.17)**
Interest paid	(3.87)	(66.17)
Income tax paid	(1,333.74)	(322.55)
Sub-Total	**(1,337.61)**	**(388.72)**
Net Cash Flow from Operating Activities	**2,687.42**	**(852.89)**
B) Cash Flows from Investing Activities		
Purchase/Sale of Fixed Assets	(772.31)	(981.60)
Interest received	281.41	75.64
Purchase of Investments	(1,602.69)	(932.57)
Public issue expenditure	–	(348.66)
Net Cash Flow from Investing Activities	(2,093.59)	(2,187.19)
C) Cash Flow from Financing Activities		
Proceedings / Repayment of borrowings	–	(450.70)
Proceeds from issue of shares	–	280.33
Share premium	–	3,363.90
Dividend Paid	(412.13)	–
Dividend tax paid	(42.03)	
Net Cash Flow from Financing Activities	**(454.16)**	**3,193.53**
D) Net increase/decrease in Cash & Cash Equivalents	**139.67**	**153.45**
Cash and cash equivalents at the beginning of year	195.57	42.12
Cash & Cash Equivalents at the end of year	**335.24**	**195.57**

For & on behalf of the Board of Directors

Jeetendra Kapoor	**Shobha Kapoor**	**Ekta Kapoor**
Chairman	*Managing Director*	*Creative Director*
Ajay Patadia	**Akshay Chudasama**	**Chandresh Gandhi**
Company Secretary	*Director*	*Director*

Place : Mumbai
Date : 24th May 2002

AUDITOR'S CERTIFICATE

To,
The Members,
Balaji Telefilms Limited,

Dear Sirs,
We have examined the cash flow statement of Balaji Telefilms Limited for the year ended March 31st, 2002. The Statement has been prepared by the Company in accordance with the requirements of clause 32 of the Listing Agreements entered into with the Stock Exchanges and is based on and in agreement with the corresponding Profit & Loss Account and Balance Sheet of the Company covered by our report of 24th May, 2002 to the Members of the Company.

For **Dinesh Shah**
Chartered Accountant

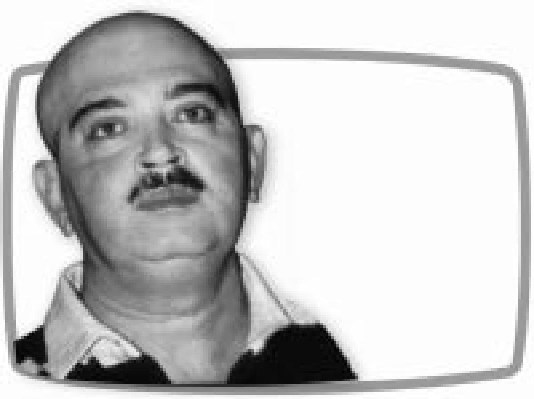
Place : Mumbai
Date : 24th May, 2002

Dinesh Shah
Proprietor

Jeetendra Kapoor, Chairman

Shobha Kapoor, Managing Director

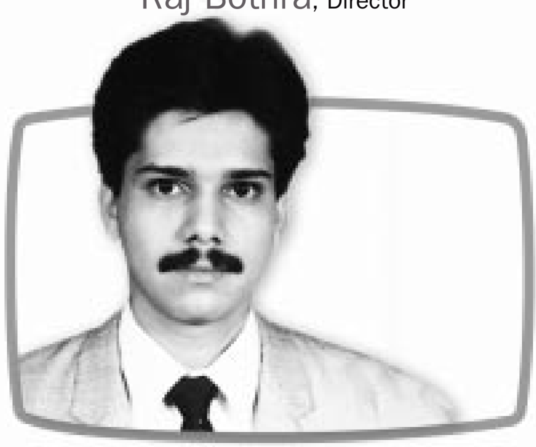
Ekta Kapoor, Creative Director



Rakesh Roshan Nagrath, Director

Raj Bothra, Director

Akshay Chudasama, Director



Chandresh G. Gandhi, Director

DIRECTORS' profile

Jeetendra Kapoor, Chairman (non-executive), is a commerce graduate from University of Bombay. He started his film career as a junior artiste with the reputed filmmaker V. Shantaram. Mr Kapoor has since acted in more than 200 films and received several prestigious awards. His standing in the entertainment industry delivers value to Balaji through the relationships that he enjoys with various television channels, artists, directors and writers.

Shobha Kapoor, Managing Director, is responsible for the administrative and production activities of the company. She is among the few producers in the television industry with a track record of successful programmes over five years. She was instrumental in steering the company into regional South Indian languages.

Ekta Kapoor, Creative Director, heads Balaji's creative division. She is a graduate from the University of Mumbai. She started her career as a producer and creative director at the age of 19. Some of the successful serials credited to her include *'Kyunki Saas Bhi Kabhi Bahu Thi', 'Kahaani Ghar Ghar Kii', 'Hum Paanch', 'Mano Ya Na Mano', 'Dhun Dhamaka', 'Koshish Ek Aashaa', 'Kudumbam'* and *'Itihaas'*. She is actively involved in concept building, script design and overseeing the operations of the creative team. Ms Kapoor was selected as one of Asia's most powerful communicators in a survey conducted by the reputed Asia Week magazine.

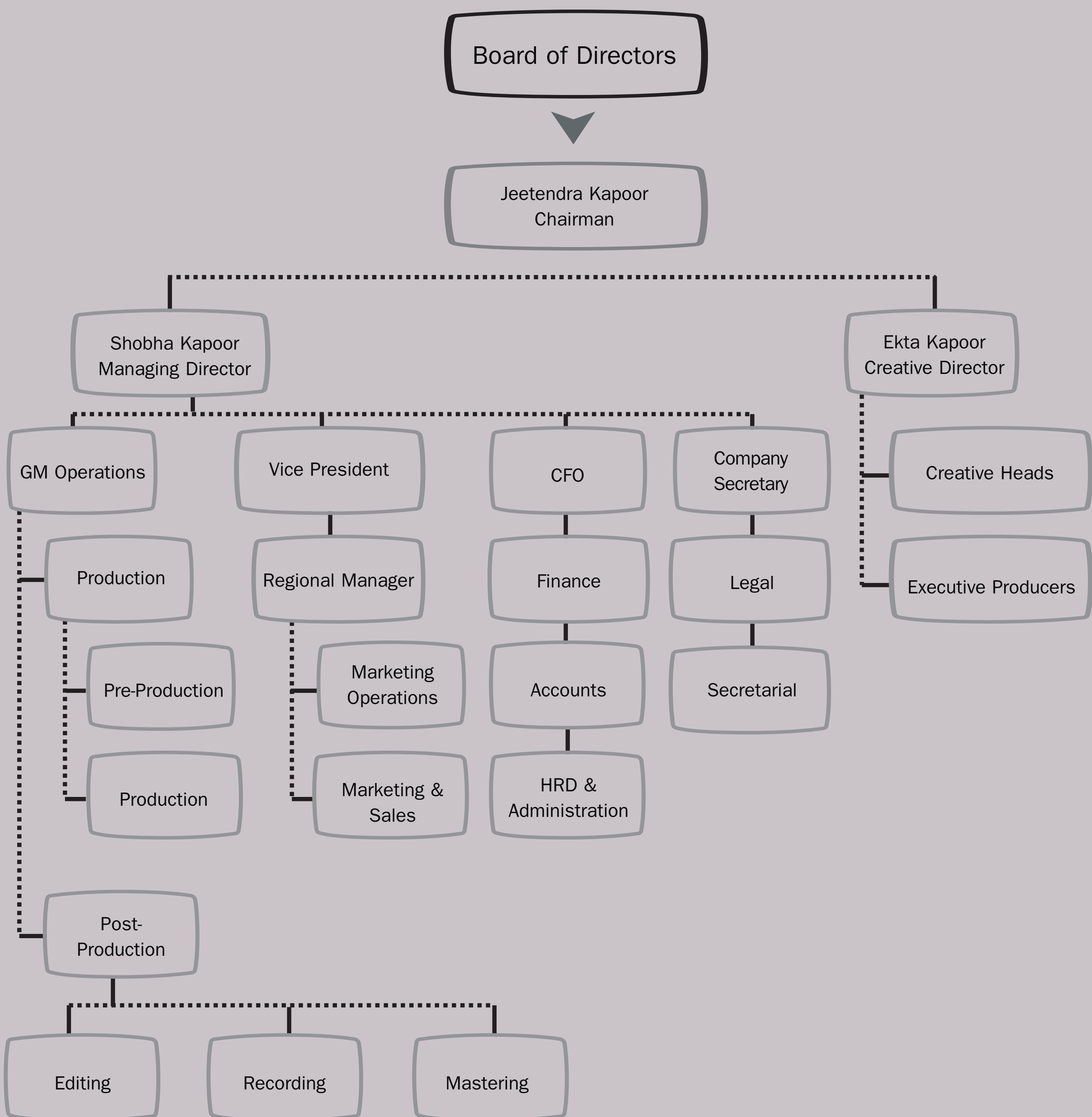
Rakesh Roshan Nagrath, Director, is a successful actor and a film producer. Mr Nagrath has gained fame for being a successful producer and director of motion pictures. His years of experience in the entertainment business is expected to help Balaji in its creative ventures.

Raj Bothra, Director, is a US based surgeon and has been awarded the 'Padma Shree' in March, 1999. He is closely associated with the Indian and other ethnic communities
in USA.

Akshay Chudasama, Director, is an advocate with the Bombay High Court. He has expertise in joint venture, commercial / contractual transaction structuring and documentation, corporate laws, mergers & acquisitions, anti-dumping and related matters, consumer protection, insurance sector privatisation, alternate dispute resolution, Internet and cyber laws.

Chandresh G. Gandhi, Director, is a Chartered Accountant practicing for the last nine years. Presently he is the managing partner of the firm M/s. Dosi & Jain, Chartered Accountants. Mr. Gandhi is an expert at conducting internal & concurrent audits, statutory & tax audits, FERA audits, Company Law and Direct Tax matters.

ORGANISATIONAL structure & key managerial personnel



V Devrajan, Chief Financial Officer, is a Chartered Accountant with multifunctional experience of 13 years. In his position within the company, he will be responsible for all finance, accounts, MIS and HR functions.

Rajesh Pavithran, Vice President, is a commerce graduate and an MBA. Mr Pavithran possesses over nine years of media marketing experience. In his earlier appointment, he was the Group Head - Marketing.

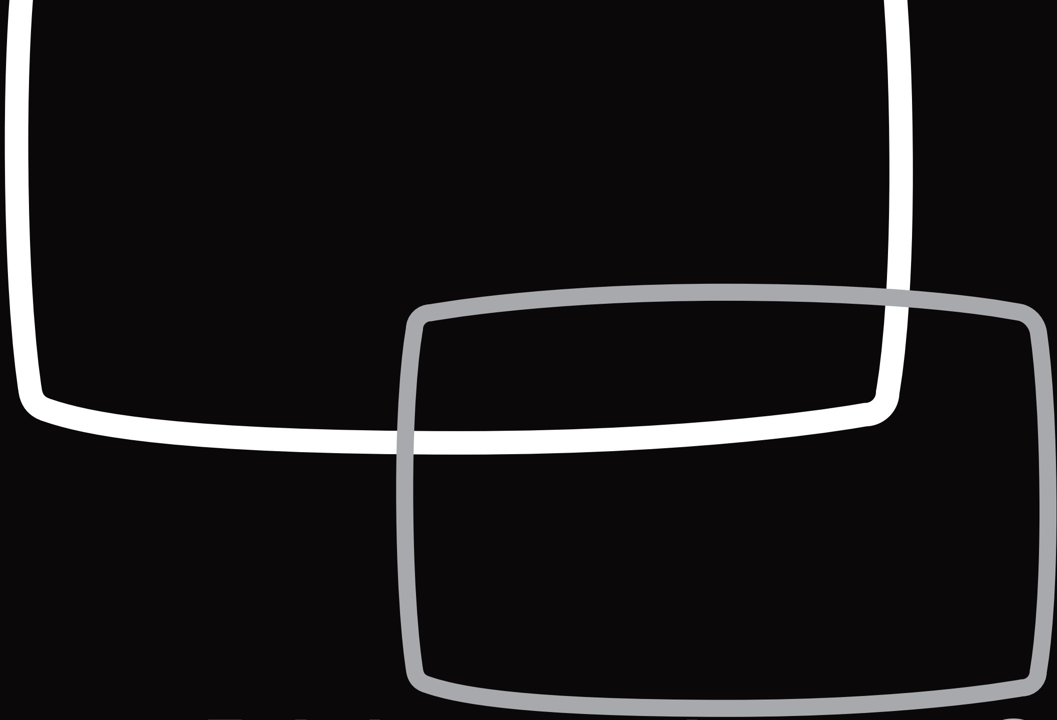
Umesh C Ray, GM Operations, is a Commerce and Law graduate and has been associated with the company for over six years. Mr. Ray heads the production and post-production operations of the Company.

Ajay Patadia, Company Secretary, is a Commerce and Law graduate and Associate Member of the Institute of Company Secretaries of India. He has over seven years of relevant industry experience in the legal and secretarial field.

R. Karthikeyan, Regional Manager - Marketing, is a science post-graduate and an MBA (Marketing). He has several years experience in media marketing.

Prashant Jhadav, Branch Head, is independently responsible for the southern operations and the production of television software from the south. He has been associated with the Company for over six years.

Sunil Pabari, DGM - Accounts, is a Commerce Graduate and a Fellow Member of the Institute of Chartered Accountants of India. He possess over 15 years experience in the field of accounts and finance.



Did you know?

The rate of personal savings in the United States has declined to a sixty-three-year low of 2.1 per cent, entertainment spending is at a high of 8.4 per cent of total consumer expenditures.

Entertainment ranks ahead of clothing and health care as a percentage of household spending (clothes 5.2 per cent, health care 5.2 per cent, entertainment 5.4 per cent). We are looking at a $480 billion industry.

CORPORATE Information

Directors

Jeetendra Kapoor
Shobha Kapoor
Ekta Kapoor
Rakesh Roshan
Raj Bothra
Akshay Chudasama
Chandresh Gandhi

Company Secretary

Ajay Patadia

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 22 673 2275
Fax : 91 22 673 2308
website : www.balajitelefilms.com

Auditors

Dinesh Shah

Regional Offices

Chennai : 3, Vedammal Avenue
Dr. Subrayan Nagar, Main Road
Kodambakkam,
Chennai - 600 024

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