Management Discussion and Analysis

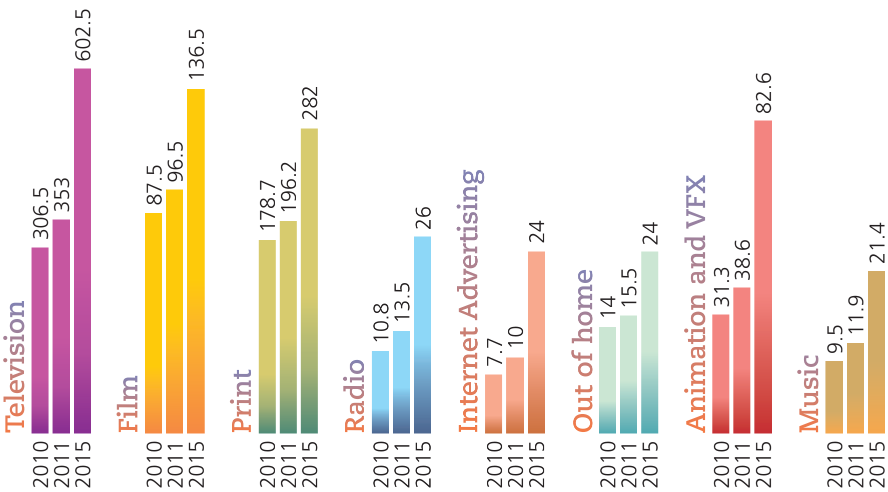
RESURGENCE OF THE MEDIA AND ENTERTAINMENT INDUSTRY IN 2011

Overcoming the effects of economic slowdown, fiscal 2011 emerged as a year of resurgence for the Media & Entertainment (M & E) industry. The industry projected an overall growth of 11.2% in 2010, compared to a growth of 2.2% in the previous fiscal. Growing media consumption and positive industry sentiment helped Indian M & E industry to grow from ₹ 580.8 billion in 2009 to ₹ 646 billion in 2010. Further the industry is poised to reach to ₹ 735.2 billion by 2011 and ₹ 1,198.9 billion by 2015, registering a CAGR of 13.2%.

The television and print media continues to dominate the industry. However, emerging sectors like digital advertising, gaming and animation VFX hold immense potential. India has also emerged as the seventh largest market for social media consumption globally, which brings the sector into focus to reach out to new audiences.

Size and projection of Indian M & E Industry

(₹ in billion)



CAGR %							
14.5	9.3	9.6	19.2	25.5	11.4	21.4	17.6

* Estimation of FY 2011 and FY 2015

KEY TRENDS AND DEMAND DRIVERS

Focus on profitability

Increased competition is creating a huge impact on the industry, despite an optimistic growth projection. The industry players are focusing more on implementation of advanced technologies such as planning, budgeting, CRM and strategic outsourcing to achieve profitable growth.

Increased media penetration

Increased per capita income results in increased spending in entertainment. Moreover, with the saturation in Metros and Tier I cities, media companies are penetrating Tier 2 – Tier 3 cities and rural markets.

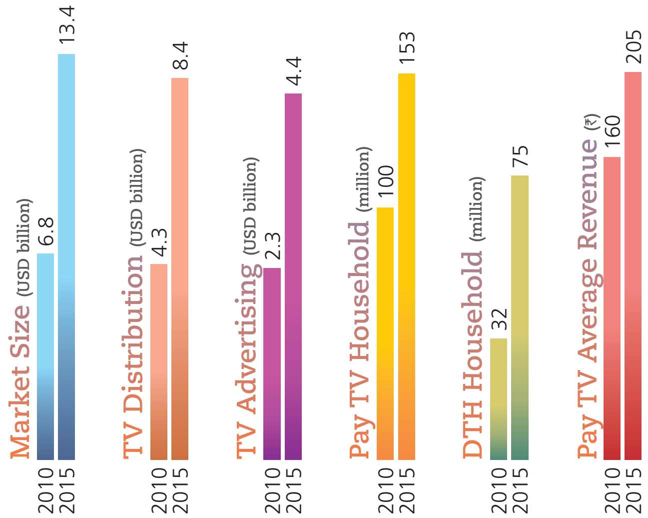
Power of digitization

Digitization appeared as one of the growth drivers of the Indian M & E Industry, with a robust growth of 75% in 2010 compared to the previous fiscal, by adding 12 million subscribers. Regulatory push on digitization, ongoing 3G rollouts, and increased penetration of broadband and mobiles are further expected to drive the digitization growth.

INDIAN TELEVISION INDUSTRY

With approximately 138 million TV households, India is the 3rd largest television market of the world. New technologies, like High Definition (HD) and Set Top Box (STB) with inbuilt recorder and delivery platforms are rapidly making a sound presence in the industry. Cable and satellite (C&S) has penetrated close to 80% of the total market. In 2010, Indian television has added 100 million viewers, where as the number of channels reached to 550 channels in the current fiscal, compared to previous fiscal's 460 Channels. On the other hand, the regional television is growing rapidly with increased viewership. The national players are increasing their presence with new regional channels to tap the market potential.

Indian Television Industry at a glance



CAGR %	14.5	14.4	14.5

TRENDS OF 2010

The growth of the television industry was driven by the advertising revenue

Distribution segment had grown due to incremental growth in DTH

Regional television showed increased growth in advertising

Regional channels are focusing more on kids' channels

Broadcasters are coming up with rebranding for a greater connect with younger audiences

IPL 3 and other cricketing events propelled the growth of Sports channels

The Rural Market: Catalyst to drive the Digital DTH Growth in India

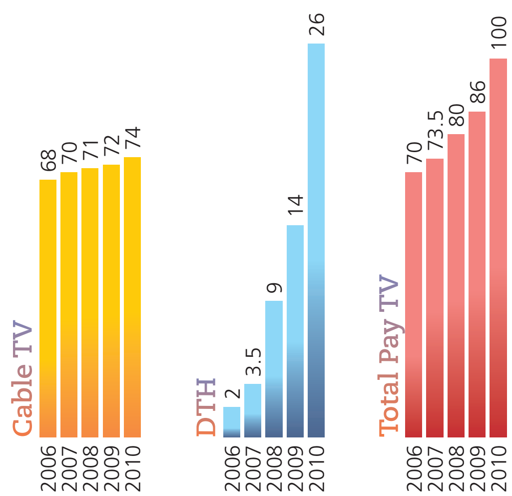
The growth of digital TV in rural India has doubled the share of pay-DTH. The rural segment posted an increase in digital segment of 64% in 2010, compared to a growth of 49% in 2009. The growth is reasonable considering the fact that the rural belts of India face 10 to 12 hours power cut every day.

64% Increase in digital segment

DISTRIBUTION INDUSTRY

The distribution industry is the largest part of the television industry, contributing about 63% of the total revenue. It consists of subscription revenue obtained from the pay TV households. The industry is fragmented with 50,000+ Local Cable Operators(LCO), 7,000+ Multi System Operators (MSO) and 6 Direct to home (DTH) operators, where the top 5 MSOs account for less than 30% of the revenue. The high growth of DTH industry and advances in digitization resulted in a 16.4% growth of the distribution industry in the current fiscal, compared to that of the previous year. The sector is expected to continue its steady growth and add more to the overall television revenue.

Pay TV Households in India (in million)



TELEVISION ADVERTISING INDUSTRY

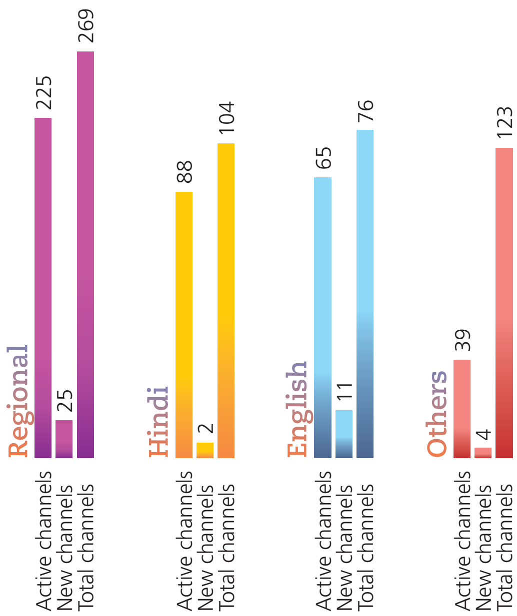
Indian advertising industry has shown strong growth in advertising volumes, aided by the launch of new channels in 2010. Sectors, such as FMCG, telecom and financial services have propelled the growth. The television advertising has grown to ₹ 101.5 billion in 2010, registering a growth of 14% over ₹ 89 billion in 2009. It contributes a third of total television industry revenue, and 41% of the total advertising revenue. However, Indian television advertising industry is still at a nascent stage compared to the developing countries (Indian television advertising market stands at USD 2.2 billion compared to the television advertising market of USD 70.7 billion in USA).

THE CONTENT INDUSTRY

Driven by the growth in non-fiction shows and regional markets, the Indian content industry achieved a growth of 13% in 2010, compared to the last year. The sector reported revenue of approximately ₹ 13 billion in the current year, compared to previous fiscal's revenue of ₹ 11.5 billion.

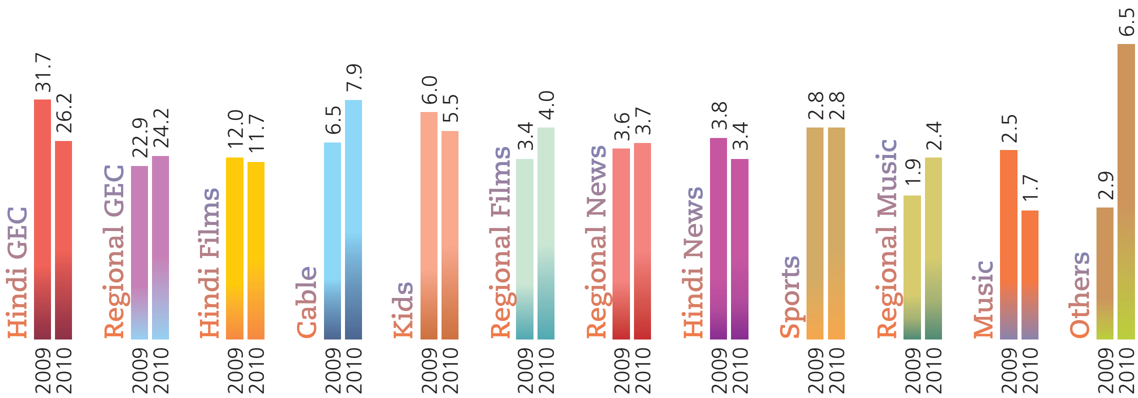
Year 2010 showcased varied trends, with entry of approximately 42 new channels, availability of Hindi General Entertainment Channels (GEC) across the globe, growth of regional GECs, new remakes of popular Hindi serials and popularity of non-fiction shows.

Total TV Channels in 2010



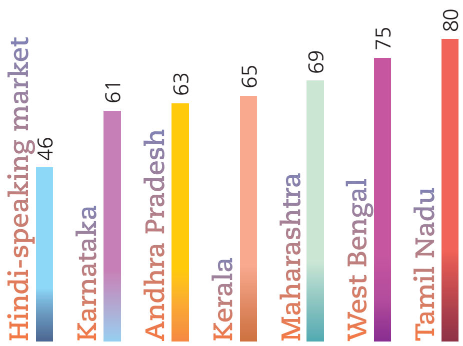
(Source: TAM)

Share of viewership across genres (%)



(Source: TAM CS 4+ YRS All India)

Viewership share of top 2 players in Regional GECs (%)



Market share acquired by top 2 players

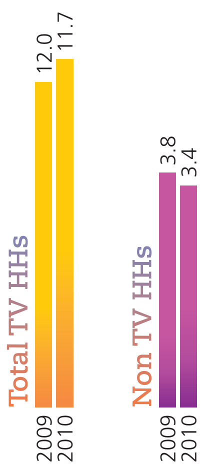
GROWTH POTENTIAL

Compared to the global television industry, the size and scale of Indian television is much smaller and compared to other growing sectors like retail, telecom and IT, the sector registers lower profit margin. However, there are many factors that can create ample opportunities in the sector.

- India is the only country with 88 million non TV households. Nevertheless, the television penetration in the country is growing rapidly.

Growth in number of TV Households in India

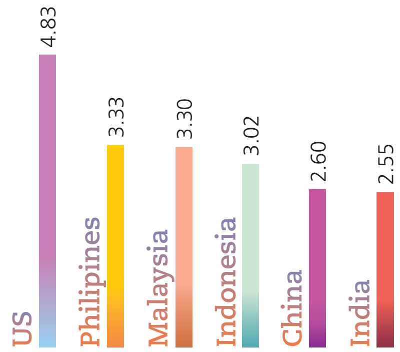
(No. in million)



- Average time spent on television in India is around 3 hours in a metro and 2 hours in a non-metro, which is much lower compared to that of the developed and emerging nations.

Average Time Spent Watching Television

(Hours per Day)



- Indian consumers pay only USD 3.5 per month on pay TV, compared to that of USD 15 by Americans. However, increased time spent on television and changing entertainment requirements result in changing audience behaviour.
- The entry of High Definition channels into Indian Television is expected to drive the growth. On the other hand, increased affordability of LCD TVs and HD ready STBs is expected to increase the overall Average Revenue Per User in the coming years.

KEY ISSUES

- The sector is yet to achieve complete digitization
- The Average Revenue Per User in television industry is still low in India, which may increase payback time
- The measurement tools need to be improved foe measuring viewership

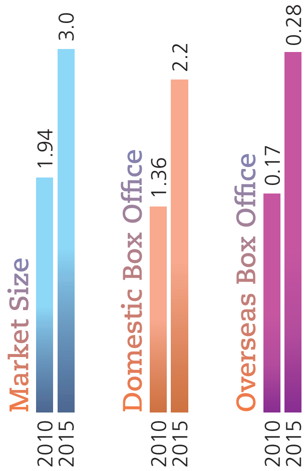
THE INDIAN FILM INDUSTRY

Fiscal 2011 was a challenging year for the Indian film industry as most of the movies failed to create an impact on box office. 215 Hindi movies were released in 2010, compared to 235 in 2009, whereas there were 1,059 regional releases, compared to 1,053 in 2009. The number of movies ensured a reasonably consistent flow of content in Indian films, and there were no multiplex-producer standoff or prolonged back window for releases. However, lack of quality content and support from exhibitors and distributors resulted in a negative growth of 6.7% in 2010, compared to that of previous fiscal. Nevertheless, the industry is expected to reach a market size of ₹ 136.5 billion by 2015, growing at a CAGR of 9.3%.

Key revenues of Indian film entertainment consists of consumer spending on tickets at the domestic and overseas box office, buying and renting CDs and DVDs (home filmed entertainment), revenues from cable and satellite syndication (broadcast syndication), mobile, online and other new age medias (ancillary revenue). Almost 70% of the total film revenues come through domestic box office, with Hindi movies drawing about 50-55% revenues.

Indian Film Industry at a glance

(₹ in billion)



CAGR %		
9.3	10.1	10.2

TRENDS OF 2010

- Though big-budget movies starring superstars had strong opening week collections, they failed to continue foot-falls in the following weeks due to lack of content. However, filmmakers had moderate recovery through presale of cable and satellite rights.
- Small-budget movies with original storyline and innovative content gained wider acknowledgement and took on big-budget movies.
- Single screen theatres had poor profitability due to stiff competitions from multiplexes, high tax regime and high cost of operations. Number of single screen theatres reduced largely (in Maharashtra alone, number of single screen theatres reduced to 650 from 1080).
- Social networking emerged as a pathbreaking and important channel in film marketing.

GROWTH POTENTIAL

Flourishing growth of the multiplexes

The box office revenues were driven by the success of multiplexes. In 2010, the multiplexes registered double digit growth and they are further trying to increase the occupancy rates by adding new properties and introducing new offers and schemes.

Growth potential of number of screens and average ticket price (ATP)

Indian audience have only 12 screens per million compared to 77 screens per million in France and 117 screens per million in USA. The average ticket price of movies in India is also very less compared to the global standard (only USD 0.69 in India compared to USD 7.89 in US and USD 8.19 in Canada). Nevertheless, rising middle class, growing per capita disposable income, growing demand of entertainment and investment by multiplexes can change the scenario and lead the growth of the industry.

Promising cinema advertising

As in-screen advertising is a cost effective way to reach the target audience and get their full attention, advertising agencies are increasing their concentration in this segment. Currently, the in-cinema advertising market is estimated to be approximately ₹ 1.5 billion. With increased attention, the cinema advertising market of India is poised to grow, which will drive the growth of Indian film industry.

Growth of Pay per view market

The Pay per view market (PPV) in India is still at an emerging state in India. However, the sector is gradually making a presence in India, with the DTH operators lowering the price of PPV films (price range: ₹ 25 – 50). Going forward, the PPV market has huge potential to contribute to DTH growth.

Increased revenues from Hollywood films

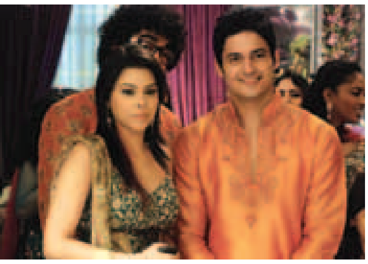
The Hollywood movie market is on a growth path in India. Hollywood movies provided good quality content in 2010, bridging the gap created by lack of content in Hindi movies. Hollywood movies registered a growth of 30% in 2010, growing from ₹ 3 billion in 2009 to ₹ 4 billion in 2010.

KEY ISSUES

- Shortage of movie screens and infrastructure
- Lack of quality content
- New releases during cricketing season lowering the film revenue
- Piracy

FY 2011: PERFORMANCE OVERVIEW OF THE GROUP

- Income from operations increased by 22%, growing from ₹ 15,873.50 Lacs in 2010 to ₹ 19,363.85 Lacs in 2011
- The commissioned programmes had contributed ₹ 12,913.80 Lacs in 2011 compared to ₹ 12,836.16 Lacs in 2010. However, revenue from the sponsored shows declined from ₹ 2,444.25 Lacs in 2010 to ₹ 2,280.34 in 2011.
- The film segment achieved exponential growth of more than 600%, increasing from ₹ 591.09 Lacs in 2010 to ₹ 4,169.71 Lacs in 2011




KEY CONCERNS

- Competition amongst channels, which is leading to higher expectation of speedy performance
- Shortened show life
- Change in Government policies
- Piracy
- Increased talent and labour cost
- Ambiguous Tax and Regulatory environment

RISK MANAGEMENT

Risk: Increased competition due to entrance of small players that has fragmented the market. It may adversely affect the bargaining power of the Company with channels.

Mitigation: Over the years, Balaji has established itself as an undisputed leader amongst the Hindi GEC's content providers and enjoys strong brand recognition with a considerable premium. The Company's focus on creative output ensures a larger show life which reciprocates in premium valuation.

Risk: Changes in the Government policies can increase the overall costs.

Mitigation: The Company academically keeps track of the changing regulations and is well positioned to absorb the changes in tax environment.

Risk: Dependence on a single channel and specific region programming may affect the profitability of the Company.

Mitigation: Balaji offers a diversified business portfolio which includes films, distribution and live events, apart from the television content. Moreover, it has a strong presence across the top 5 Hindi GECs and it is actively foraying into the regional markets.

Risk: Shift in the entertainment preference of the audience may have detrimental effect on the bottom-line.

Mitigation: The talent pool of the Company conceives original concepts and content for television and films to match the changing customer preferences.

Risk: Retention of the talent pool is one of the major concerns of the Company.

Mitigation: The brand name 'Balaji' has always managed to attract and retain cream talent from the industry.

FUTURE OUTLOOK

Balaji Telefilms has strategically positioned itself in the Indian M & E industry to capitalize the future growth opportunities in television and film entertainment strata. The television vertical is focusing on creating original and diverse show content to retain its leadership in Hindi GECs. It is also penetrating the regional GECs to leverage on the increasing opportunities in those markets. On the other hand, the film vertical of the Company is growing rapidly. Recent trend shows a demand for original content for films, making the business environment more dynamic and demanding. The Company is focusing on identifying and nurturing talent to generate out of the box scripts and filmed content to meet viewer expectations. Moreover, it has also focused on increasing the distribution capabilities and marketing of the films. All inclusive, the Company is poised to return on tracks with the tremendous growth opportunities offered by the M & E industry.

INTERNAL CONTROL SYSTEM

The Company understands the necessity of a well-defined organizational structure and strong internal growth. The organizational structure ensures maximum utilization of resources and safeguards the same from misuse; where as the Audit Committee ensures statutory and regulatory control and transparency of all financial disclosures. It also has an internal audit team and an independent commercial team, which monitor and enhance operational efficiencies of the Company. All the internal reports are reviewed by the Audit Committee and the Board of Directors at regular intervals and whenever required, the policies are amended to ensure optimum effectiveness of the Company.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis and the annual report describing the Company's objectives, projections, estimates, expectations may be "forward looking statements" within the meaning of applicable securities laws and regulations in India and other countries. Actual results could defer materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting the domestic market in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors and unforeseen circumstances.

*Sources of information: FICCI-KPMG Indian Media and Entertainment Industry Report, 2011 & India Entertainment and Media Outlook 2011, by PWC