

Operating review

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

Balaji had 14 television serials on air aggregating to 53 episodes a week as on 31 March 2004 compared to 15 serials and 55 episodes per week as on 31 March 2003.

Almost all its programmes figured among the top 50 programmes; most enjoyed the highest TRP grossers or came close to doing so.

Programming hours

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

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

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

Language mix

The company retained its position as one of the few multi-lingual production houses - Hindi, Telugu and Kannada. It continued

to create a majority of its content in Hindi (ten of 14 serials), India's predominant language. Balaji enjoyed an aggregate share of 56.45 per cent of the TRPs of top 100 programmes in C&S homes. This includes repeat runs of its programmes, some of which did better than fresh programming on other channels.

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

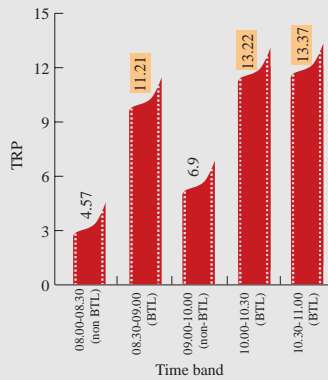
Language wise programming matrix (in hours and revenue terms and percentage of total)

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

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

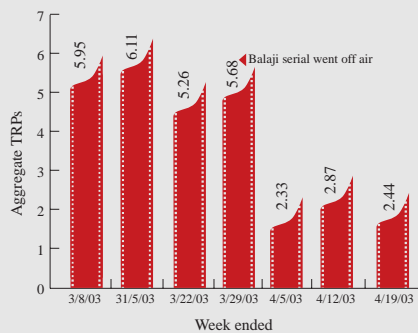
Source: TAM Ratings, Category – Female 15 Plus, 29 Cities C&S, Wednesday 16.08.2003 the highlighted TRPs are for Balaji shows



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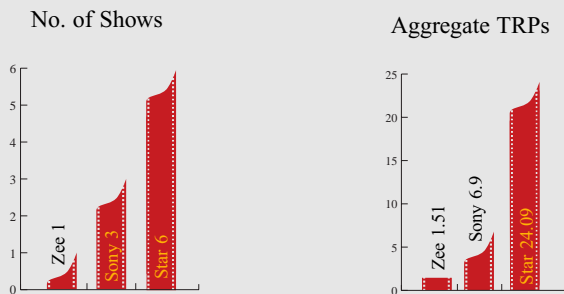
TRP ratings of Zee TV after the Balaji show was taken off

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



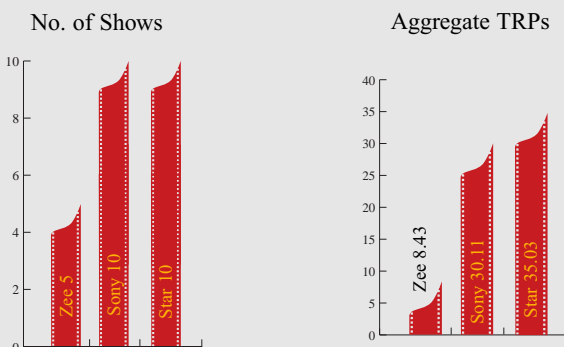
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Position of channels before the launch of Balaji's weekend programme on Sony



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

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



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

Time bands

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

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

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

Channel driving capabilities

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

Channel wise revenues

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

Analysis of financial results

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

Sponsored serials

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

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

Key growth drivers

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

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

Long-term deals: During the year, the company struck long-term deals with key advertisers and media houses, resulting in assured realisations from single client/media houses and a protection from

diverted adspends during high popularity events (cricket or elections).

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

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

Commissioned programming division

Commissioned programmes:

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

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



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

Key achievements

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

Slot filling: The company focused on plugging vacant time slots across all conventional time bands (prime time) and

extending into others as well (weekends and afternoon). Their success is reflected in the fact that Kayamat, the company's weekend offering on Doordarshan has been consistently present in the top five ever since its launch.

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

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

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

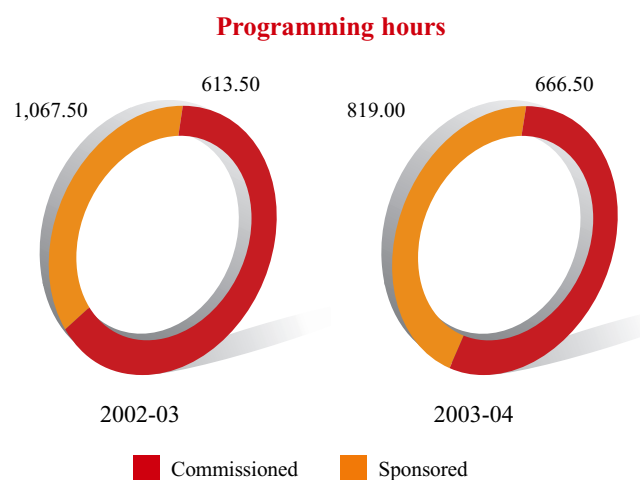
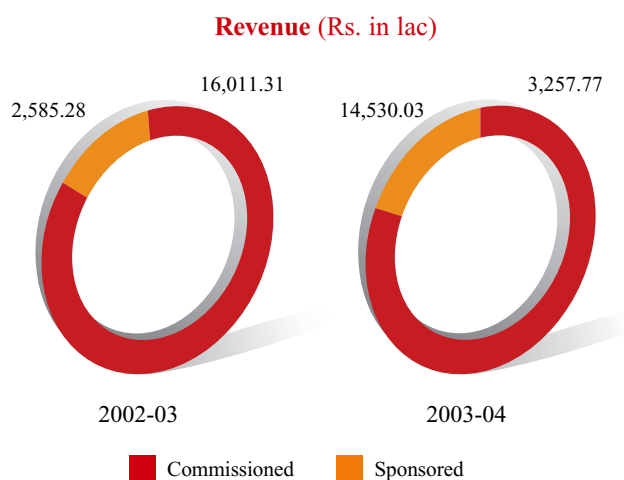


Sponsored serials division

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

Commissioned programming division

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



Financial review



2002-3 to Rs. 615 lacs in 2003-4 as the company booked profits on its investments in debt funds. Subsequently the company switched its positions to more assured return instruments.

Dividend

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

Rs. 774 lacs in 2003-4.

Investments

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

Debtors

The Company's receivables increased from 71 days (equivalent to days of income) in 2002-3 to 83 days (equivalent to days of

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

Revenues

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

Other income

The 'Other Income', representing non-core revenues, increased from Rs. 149 lacs in

recommended for the year was 3 per share (150 per cent on par value of Rs. 2 per share), amounting to an outflow of 1545 lacs.

Gross block

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

income) in 2003-4, influenced by an increase in average hourly realisations and a status quo in the terms of trade.

Inventories

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

Loans and advances

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

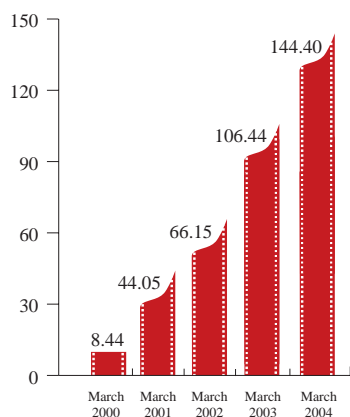
Five-year financial summary

BALANCE SHEET

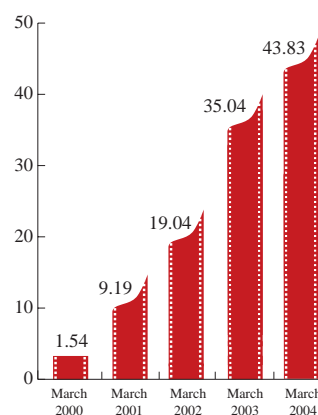
Rs. in cr.

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

Shareholders' Funds (Rs. in cr.)



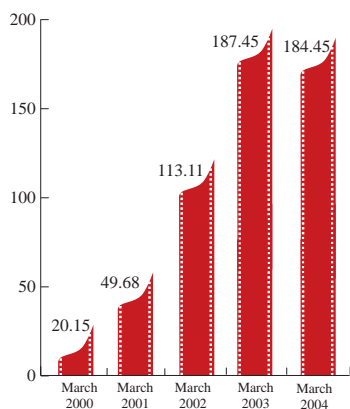
Gross block (Rs. in cr.)

**PROFIT & LOSS ACCOUNT**

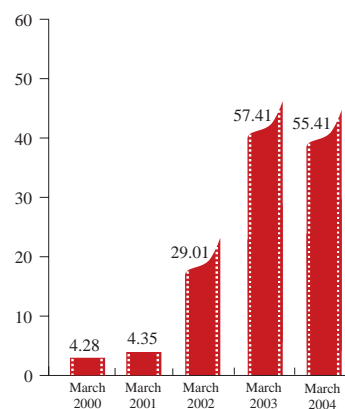
Rs. in cr.

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

Total income (Rs. in cr.)



Profit After Tax (Rs. in cr.)



Ratios

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

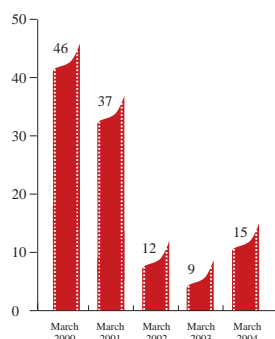
Balance Sheet Ratios	March 2000	March 2001	March 2002	March 2003	March 2004
Debtor's Turnover (days)	107	102	70	69	82
Inventory Turnover (days)	46	37	12	9	15
Current Ratio	2.44	2.61	2.89	2.63	3.12
Quick Ratio	1.94	2.20	2.62	2.39	2.75
Cash and Equivalents/ Total Assets (%)	4.87	28.26	41.75	45.60	51.39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

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

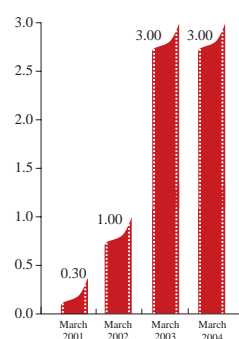
Per share data ratios (Rs.)	March 2000	March 2001	March 2002	March 2003	March 2004
Earnings (less extraordinary Income)	8.56	0.84	5.63	11.15	10.76
Cash Earnings	8.76	0.91	5.84	11.97	12.26
Dividend		0.30	1.00	3.00	3.00
Book Value	8.24	7.76	12.66	20.67	28.03

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

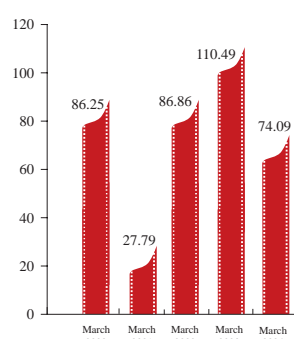
Inventory Turnover (days)



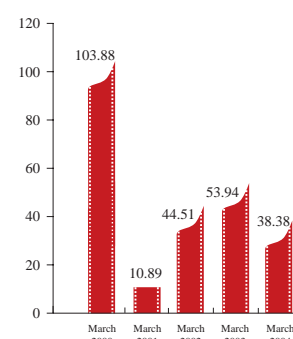
Dividend (Rs.)



ROCE (%)



RONW (%)



Economic Value-Added Statement

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