

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.

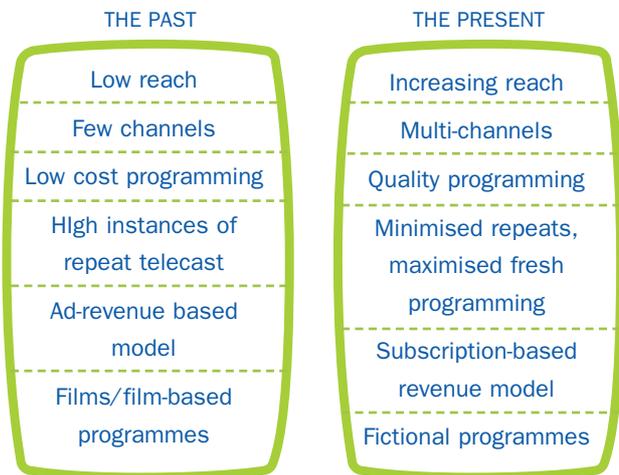
GROWTH OF CABLE TELEVISION HOUSEHOLDS

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.



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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S 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), *Kudumbam Oru Kovil* (Vijay TV), *Kavyanjali* (Vijay TV) and *Kalisundhamra* (Gemini TV).

CUSTOMERS

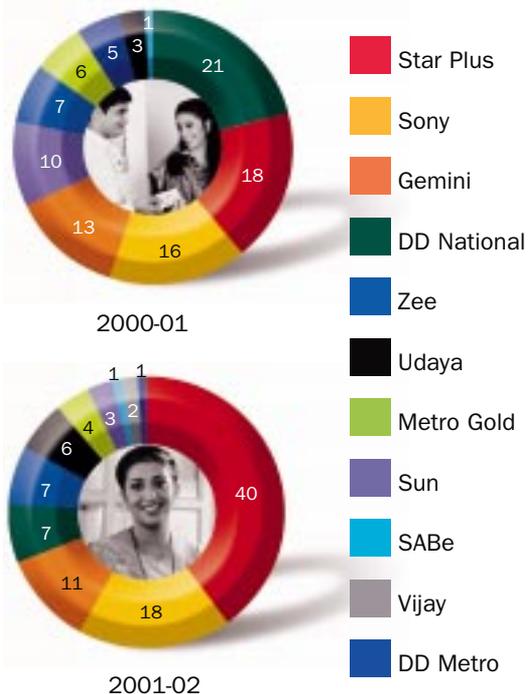
Balaji provided content across 10 popular satellite channels - Star Plus, Sony TV, Zee TV, Vijay TV, SaBe TV, DD National, Sun TV, Udaya TV, Gemini TV, Metro Gold and DD

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.

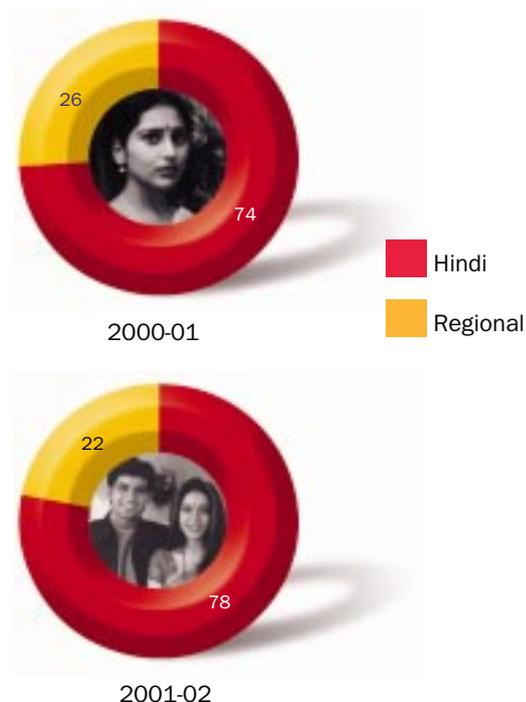
In 2002-03, Balaji expects to commission the production of weekend programmes that is expected to yield higher margins than the realisations from weekday programmes. By being the first-mover in this segment, Balaji is likely to generate 10 per cent of the company's total programming revenues from weekend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

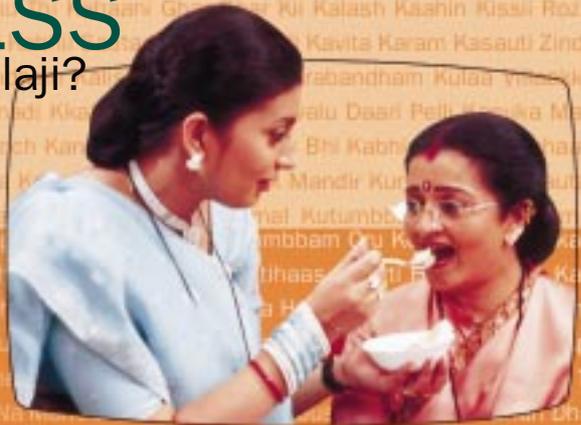
Balaji produced programmes of a daily and weekly frequency. Dailies continued to account for the largest share of the company's programming revenues.

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

S 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.

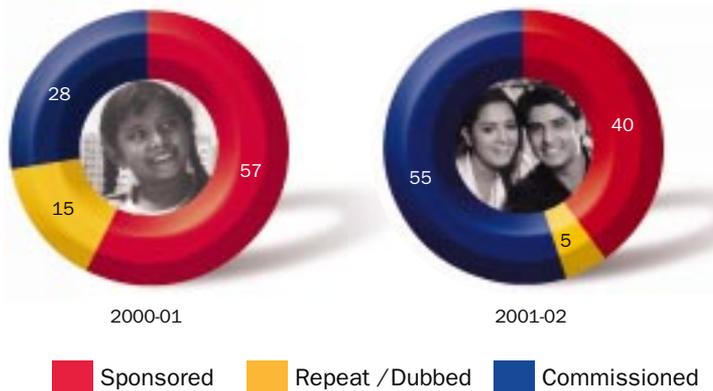
Thanks to this evolved programming mix as well as a stronger negotiating capability, average realisations per hour increased from Rs 3.6 lacs to Rs 7.2 lacs in 2001-02. Nearly 82 per cent of the company's profit in 2001-02 was derived from commissioned programmes.

Revenues

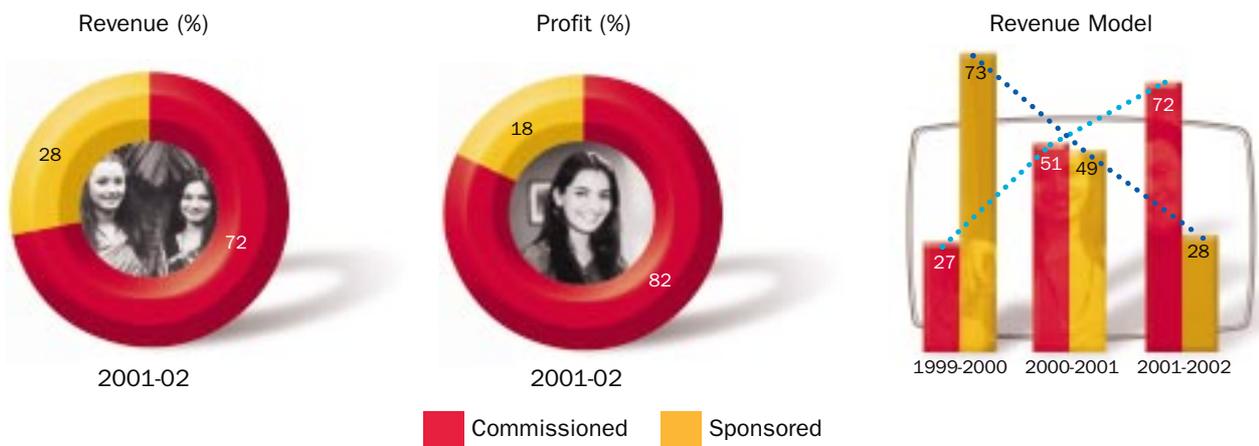
(Rs / cr)

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

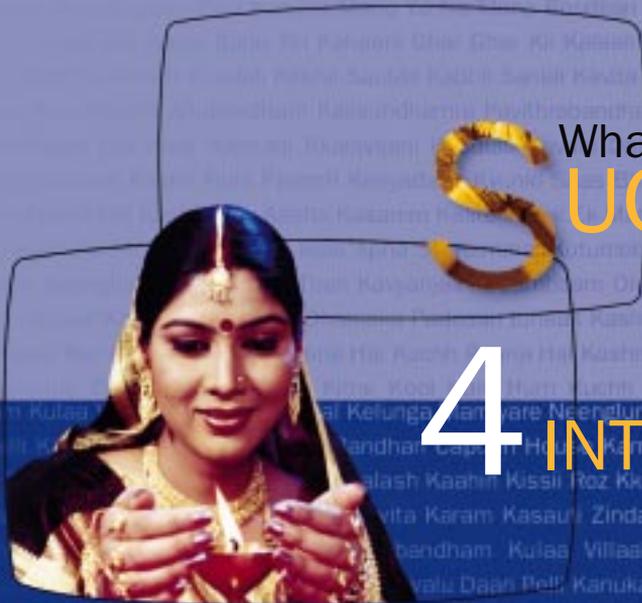


Comparison of two business models

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





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.

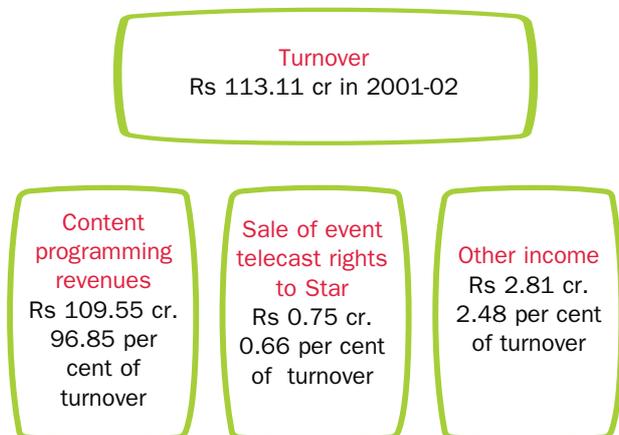
Balaji succeeded in achieving these objectives: all costs (excluding interest, depreciation and tax) declined from 77.38 per cent of the turnover to 51.18 per cent in 2001-02 and the return on total capital employed for the year strengthened from 23.69 per cent in 2000-01 to 82.84 per cent in 2001-02, 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.



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:



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.

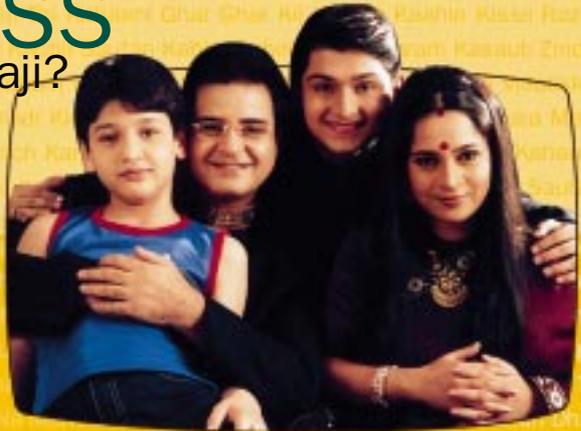
Particulars (Rs in cr.)	Actual Utilization 2001-02	Projected Utilization 2001-02
Equipment and miscellaneous assets	11.67	19.94
Buildings and locations (including advances)	7.36	7.50
Lease rental deposits	7.16	6.00
Preliminary & issue expenses	3.48	4.00

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

Continued on page 44

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.

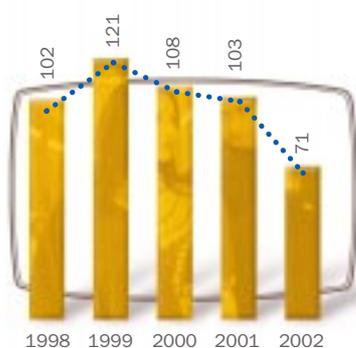
WORKING CAPITAL

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.

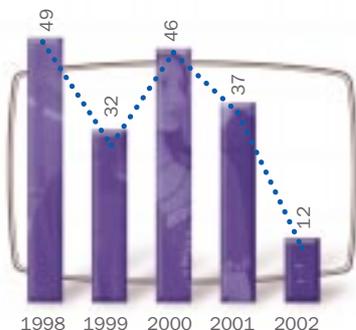
Five-year debtors' cycle (days)



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.