



“Prime Focus Limited Q3FY14 Earnings Conference Call”

February 13, 2014



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MODERATOR: **MS. POOJA DOKANIA – AVP, FOUR-S SERVICES**



*Prime Focus Limited
February 13, 2014*

Moderator

Ladies and gentlemen good day and welcome to the Prime Focus Conference call hosted by Four-S Services. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Pooja Dokania of Four-S Services. Thank you and over to you, ma'am.

Pooja Dokania

Good afternoon everyone and welcome to the Q3FY14 Earnings' Conference call of Prime Focus Limited. We have with us from Prime Focus: Mr. Namit Malhotra – Chairman & CEO of Prime Focus World; Mr. Ramki Sankaranarayanan – CEO of Prime Focus Limited and Mr. Vikas Rathee – Group COO. We will start the conference call with opening remarks from the management after which we will have the floor open for Q&A session. I will now handover the call to Ramki for his opening remarks.

Ramki Sankaranarayanan

Good afternoon everybody and very warm welcome to all of you. I will start this call with a brief discussion on the overall performance of Prime Focus and will dwell in some detail on Prime Focus Technologies, thereafter, I will be handing it over to Namit who will brief us on the performance of Prime Focus World and then on to Vikas who will update us on the key financial highlights.

At the outset, we are very happy to report a very robust quarter, not only have we delivered a very strong performance with regards quarterly figures both with revenue growth and a strong EBITDA performance, we have revenues up 18% and EBITDA growth of about 52%, but we have also received significant recognition from the global industry as we won several awards which we will talk about in the individual segments.

The strategic decision that we took a while ago to invest in the new businesses has been delivering fruit and is pushing growth for us. Over the years, Prime Focus has evolved from a very classical capacity limited post production company to what it is today - a global fully integrated player offering a unique blend of creative and technical services to the media and entertainment industry. We have made rapid strides in our new businesses that of visual effects & 3D business and Prime Focus Technologies, the technology business, that now together contribute to about 84% of our revenue. We believe that we are at an interesting juncture where we have proved our credentials globally both in the creative and the technical services space and have nurtured deep partnerships with large studios and broadcasters as well as built a robust infrastructure for the future. With a presence in all the key content markets, we are well positioned to grow multifold and deliver a superior return to our shareholders.

Let me brief you on Prime Focus Technologies. During the quarter, in October of last year, I think, we inaugurated True North. True North is a very unique one-of-its-kind infrastructure, the world's largest digital media services cloud, which today manages over 350,000 hours of content



*Prime Focus Limited
February 13, 2014*

in over 100 Television shows on a daily basis and it is a digital backbone today for over 200 television channels. We grew 112% year-on-year for the current quarter driven by an increasing adoption of our cloud based media ERP platform CLEAR as well as addition of new services around it. And we continued to perform at over 30% EBITDA margin in spite of keeping up this growth rate.

I will now share a couple of interesting project highlights. Our successes that we have had, one significant one which most of you sports lovers would probably be enjoying is starsports.com; starsports.com truly has become multi-sports now so not only can you consume cricket the Indian domestic and Indian international cricket that happens in India, but English Premier League, Chinese F1 and much awaited the Indian Premier League, IPL this year is also going to be on starsports.com. So it is extremely exciting for us, it is a direct to consumer platform something that we launched and it has developed significant consumer interest. It has already crossed about 27 million unique visitors and 210 million page views. So this speaks volumes about the work that we have done and we are very happy with the effort that we put in starsports.com. And this bodes very well for digital business which is a big focus area for our customers and this success that we have had with starsports.com gives us a huge advantage as we try to leverage this going forward.

We have started a new client paying services line, which is Cloud Payout, and again we are extending our cloud strategy to actually do payout services. This concept is again very hot in the world called TV Anywhere. So it is an interesting product that we have started for our client. This also takes us strategically to a new operating area in the market place. We had earlier focused more on the distribution side of the business and I think today we have products that are also on the exhibition side. So this is a strategic expansion of an addressable market as well.

We have talked about South Africa, on and off, and we have actually got our first big contract in South Africa with M-Net. Think of it as a Star TV and Tata Sky put together that is the best way to describe them - M-Net in South Africa. They are now a customer of ours and we are doing some interesting work with them.

Overall 72% of our revenues today come from long term annuity based engagements that we would execute over three - five years and that provides us very good visibility and stability of not only revenue but also growth and also proves our credentials with customers that we work with - very large broadcasters and so on. About 28% of our revenue now has started to come from global customers. I think that is in line with our pursued goal of not only have success in India but have success globally for the products that we bring to market.

Again we won two significant awards, one of them is the Aegis Graham Bell Innovation Award where we have been recognized for the innovation in cloud solutions that we have and also the EMC Transformers award for the year 2013.



*Prime Focus Limited
February 13, 2014*

Compared to just being a pure play technology provider, Prime Focus Technologies has unique domain knowledge in media combined with the IT strength. So it is a combination of media and IT helping us significantly to not only compete with traditional media players but also compete effectively with traditional IT players. And this is really why we have enjoyed this tremendous growth and the fact that today we are increasingly becoming a de-facto media ERP solution in the industry.

At this time, I would like to hand over to Namit for his comments on the performances of Prime Focus World.

Namit Malhotra

Thanks Ramki and welcome all to the Prime Focus call. Prime Focus World, as you all know, represents the creative side of the Prime Focus Group that includes 2D to 3D conversion services, visual effect services and animation services. What we have found is that the 2D to 3D conversion market continues to be stable and is growing on the back of a lot of success that the film Gravity has had. The film, that released in October last year, has garnered the highest box office performance on a global basis with 83% of 3D admissions which continues to provide the Hollywood studios tremendous confidence around the format.

And while we continue to be a market leader in that business, we have continued to build our services ability in the visual effects side, as we have spoken before on several calls, we continue to deliver more and more of an integrated service on that end.

Prime Focus World won the International 3D Society Award for the best 2D to 3D conversion of the film for Gravity that continues to revalidate and affirm our position as not just a global company with thousands of people but also on the quality and technology standpoint that represents our leadership in delivering the absolute best that the world has to see in terms of our creative services.

We also provided services on a film called I, Frankenstein, which was released by Lionsgate and was received by the studio extremely well. From our side, it was the first opportunity we had in working with Lionsgate and that continues to open doors for us on several other projects. On the visual effects side, we continued to grow our business and we see ourselves providing more and more value added services on various projects. In the current quarter, we have delivered two projects which we can say were exclusive projects that Prime Focus did, one being Vampire Academy for the Weinstein Company and the other is Non-Stop for Universal Studios.

Vampire Academy was released last week and Non-Stop would release end of this month. Prime Focus' work has been extremely well appreciated by the studio and our producers Joel Silver. We continue to make sure that we can build on what is going to be the biggest project that we have ever done which is Sin City and that is being executed across our key locations of Vancouver and India. It is a replication of our entire strategy and model that we did for the 3D conversion business and now we are doing that in the visual effect side with Sin City -continuing



*Prime Focus Limited
February 13, 2014*

to scale up substantially out of India with adequate leadership coming in from our Vancouver and Canadian facilities.

We have also looked at opening up our office in China and we are currently in the midst of doing a couple of projects: one 2D to 3D conversion and visual effect contract that we have just won for the Chinese film market which again continues to strengthen our brand and our capability in what is becoming one of the fastest growing markets in the world.

We continue to have consistent success on the animation side where we have got a multiyear and a multi season deal with one of the biggest toy manufactures in the world and the show that we have been working on the animation side continues to do extremely well.

As part of our overall strategy on the creative services side, we continue to build ourselves, making sure that we lead from a qualitative and a quantitative side. We continue to be an integrated service provider for the studios and are working on some of the most prestigious projects for them. The current projects that we are currently working on the 2D to 3D side are films such as Edge of Tomorrow that stars Tom Cruise, we have got work on Spiderman and there is another film that we should be hopefully working on. We should be able to announce very, very soon. Some of the other projects that we have worked on are projects like the Seventh Son for Legendary Pictures; Maleficent for Disney and on the visual effect side we have got Hercules which is again a big project for us in terms of scale of work that we are doing on a global basis.

We continue to focus on making sure that we can build on our world sourcing model that is a unique offering within our industry.

And with that, I would like to hand the call over to Vikas for his comments on our financial performance during the quarter.

VikasRathee

Thanks a lot Namit. Gentlemen, this is VikasRathee. I think you have heard from both Ramki and Namit in terms of how the momentum in our business, both in the creative services and the technology services side continues to grow quarter-on-quarter and year-on-year and I think that is starting to reflect in our financial results. As regards our results this quarter and over nine months, it has been a good one across all fronts. We had good deliveries and good contracts on both sides of the business and we have good cost control and efficiency that kept driving in our legacy post production business to ensure that we have the profitability that we need in relation to that. Moving forwards, we would continue to bid on the bundled services side as opposed to bidding on individual, I would say, commoditized type services.

Overall, we drove revenues on the PFW side by about 43% year-on-year; obviously PFT saw more than 100% growth on the revenue side and now comprises close to 20% of our consolidated revenues as compared to about 10-11% last year. On the PFT side, we are also



*Prime Focus Limited
February 13, 2014*

looking very interestingly and with keen focus on replicating the success we have had in India with broadcasters in foreign markets. As Ramki mentioned: in the US, in South Africa, UK and other international markets.

Now let me just dive in a little bit in to the quarterly figures. So this is for the third quarter. Direct revenues up about 18% plus year-on-year to reach about Rs. 214 crores. The EBITDA was up more than 50% to reach close to Rs. 45 crore, this is not adjusted for any of the forex side; including forex we are looking at about Rs. 48 crores to Rs. 49 crores of EBITDA. The EBITDA margin has expanded by 500 basis points. We are up to 21% on consolidated basis and we reported a PAT for the quarter of north of Rs. 10 crores. Now you obviously can respect that this is, on a year perspective, significant improvement on how the Q3 looked in the last Fiscal year. Although we did have the shadow of the FCCB redemption which you also would remember, we successfully redeemed on time and in full.

In terms of the nine months' consolidated figures, revenue is up close to 6% year-on-year to reach almost Rs. 600 crores. EBITDA again for the period up about 13% to about Rs. 133 crores. EBITDA margin expanded again to reach 22.2% and if I include the Forex portion in it you are looking at an EBITDA of about Rs. 171 crores and the margin is about 28.5%. And the reason I talk about Forex is, I mean our world sourcing model, and the fact that a significant percentage of our revenues continue to be derived abroad movements on the Forex side affects our numbers to that extent, but, I think over time, we have seen the US dollar continues to appreciate across most currencies including the Indian Rupee.

So, in relation to the capital side, I will also say our consolidated debt remains basically flat from a year ago period. We continue to look for sources which are lower cost in nature. For example for CAPEX, we are looking at leasing or capital lease which we just show up in our balance sheet as part of term loans but it basically replaces higher cost term loans from the banking system, banks don't finance 100% of the equipment wherein if you get 70%, 30% has to go out in cash.

So we are focusing our efforts on a discipline not just on the revenue growth but also driving efficiencies and I think that is how you can see that even though revenue on a nine months perspective was only up 6%, your EBITDA growth was north of 30% plus. But I think efficiencies are beginning to come through and we expect the momentum to continue going forward.

This ends my prepared remarks and happy to take questions at this point in time and thank you again for being on the call.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Ashwini Agarwal of Ashmore India. Please go ahead.



- AshwiniAgarwal** I want some more details on this foreign exchange gain of Rs. 38.2 crores that you have reported for the nine months period. Could you help me understand how much of this is coming on account of balance sheet items and how much of this is on account of operational income?
- VikasRathee** I do not have those figures exactly in front of me but I think it is a combination of both. It depends on a quarter-on-quarter perspective because the ending rate might end up being different than what the average rate might have been versus the previous year. So, if you ask me, it is a combination of the above. We can come back to you with precise figures. I think it is about 50% odd on the balance sheet items are remaining on the operating side.
- AshwiniAgarwal** And the currencies you deal with outside of the Indian rupee are primarily US dollar, UK Sterling and Canadian Dollar, or, is there anything else?
- VikasRathee** Yeah, that is primarily what it is and I think, to give you a sense, it is not just the variation that are there in the Indian Rupees versus each of the individual currencies. The exposure that we look at is that PFW, our creative business as part of the US, has exposure on the Canadian dollars and the Pound given a lot of the production of the work being housed and to attract tax benefits out of the studios and the customers. So there is a Canadian dollar versus the US Dollar and a Pound versus US Dollar translation volatility that comes on the PFW perspective and then from PFT and PFL on a consol basis is Dollar to the Rupee.
- So it is not a simple Rupee versus each of these we see in currencies.
- AshwiniAgarwal** And does this number include the impact of translation of dollar debt into Indian rupees at the end of each quarter?
- VikasRathee** No. What we do is whatever the debt is in individual currencies. We basically, for ease purpose, have given you a benchmark on that in dollars and in Rupees as of the closing rate on that day.
- AshwiniAgarwal** No, but where do you account for the fluctuation to balance your balance sheet? Does it go in to an FX reserve on the balance or does it flow through the P&L? The question I am asking you is that is it a part of this Rs. 38.2 crores or not?
- VikasRathee** No, that is not. I mean at the end of the day that does not show up. This is more a presentation perspective because on a consolidated perspective we look at rupee if there is a little bit of the previous ending versus this year ending on our total debt perspective but we do not capture that in this number.
- AshwiniAgarwal** And last question from my side. You presented this consolidated debt number of Rs. 750 crores but, I mean, I just wonder, does this not include the two transactions you have done over the last 7 or 8 months by bringing in preference capital which is convertible based on certain milestones to be achieved or based on listing of PFW to be achieved. Are you accruing the kind of YTM on



these instruments anywhere or is there a certain obligation that might materialize at the end of four years based on certain events, right?

VikasRathee

See, I have what you are saying. At the end of the day, these are long dated instruments. I think the actual YTM on these instruments from a cash perspective is actually very low - it is under 5% kind of range. The instruments are there from an equity conversion perspective and lot of private equity investments these days are coming in Indian companies with some of these protections. But no, just like some of the FCCB styles from an Indian GAAP perspective, the investment that Macquarie has made for example at PFW any accretion on that is not accounted as part of our fundamentals.

Moderator

Thank you. Our next question is from Apurva Mehta of KSA Shares & Securities. Please go ahead.

Apurva Mehta

I wanted to ask about this post production business. It is declining and the margins shrinking like anything. So what is your take on that?

VikasRathee

This is Vikas. Let me try and take a crack at it from a financial perspective and let Namit talk a little bit more about this. You see that we are transitioning and we are making our investments in the growth of our new Europe businesses which are not only generating higher growth and revenues but higher EBITDA margins in a continued momentum and generating what we call a non-linear kind of a growth perspective there. We have had the post production business for a long period of time; we have a very dominant and a strong position within India. We have operations in UK as well. What we are doing here is, in the process of transitioning some of these individual services to packaged solutions. So some individual services have more price compression or price competition as opposed to being on a bundle side.

So it is not as if we have no focus on this business, it is a good business; it produces good cash flows but obviously we have to direct our investments in directions where we believe is going to generate the maximum return on the capital that we deploy. So, on this business over the last couple of quarters we are moving towards bundled services. The other point we also have to understand is that this is the business which gets us closest to our customer. For example, in India which movies are coming; who is making what; what they require, they also generate kind of leads in to our more profitable new businesses in 2D – 3D conversion and VFX. There is a significant increase and the attention in terms of VFX that you are seeing in large 10-fold movies - there is Dhoom 3, Krrish or others - an increasing proportion of VFX is getting done.

So, in a way we are being a little unfair on this business by looking at it just on a standalone perspective because it is generating leads and revenues and opportunity of margins in our newer age businesses. So, I think the focus here is package services, monetize and mine these clients for new movies for our newer businesses. On the PFT side, for example we are moving towards using our CLEAR platform not just for the broadcasters but also now for the content producers.



*Prime Focus Limited
February 13, 2014*

And I think we have not made announcement yet but we are working on a couple of pretty prestigious accounts in this. So I think it is creating opportunities both in the technology side and on the creative services side.

And we are moving towards as I said, packaged services, which produce better margins.

Apurva Mehta

But the margins have crashed like anything it is like from 25% we have reached to 10% because normally it is like 20% plus we can think of but this now it is reached like 10%. So what is any specific things there or it is what?

NamitMalhotra

I think let me explain. This is Namit here. I think when you hear the word post production what basically it denotes is traditionally everything after shoot and historically a lot of films and advertising would be shot on a format like film. And, in the last two years, you have seen a huge transition from the format of film and film related services to go down to what is digital now. So, as Vikas was explaining, what post production has become today is that there is a huge shift in the traditional space of working with different formats in film or in advertising or in television to a digital eco system which is frankly where you see PFT's growth substantially take off because it is now whether somebody makes a movie or an ad or a television show there is substantial up lift on at what we call as the digital ecosystem from shoot to distribution.

The other side of what is traditionally post production like visual effects, 2D to 3D conversion historically would be categorized under post production again. Because you have seen again such a rapid increase in our business in the last three years that our global vision for this business was \$10 million which has now grown to about \$80 million in the last three, three-and-half years that has grown to a point where it has become more than a business on its own and that is why what you are seeing as left behind in postproduction is the very old traditional legacy business which frankly with the changes in the technology and the format is where it is at. So there is nothing radically negative that is impacting there, it is just that it is a diverted shift that you are seeing and that uplift has been taken up in our businesses as we focus our services much more intuitively on those sides and not really focus on a large bouquet of what was tabled as post productions.

I think we are also trying to change the way we explain our businesses and that is why we have made sure that the community at large recognizes that there is a technology lead business within the company and there is a creative services lead business so that you can make a much better appreciation of what is actually happening on each part of the company whereas post production was much more generic.

Apurva Mehta

So, what we have to believe that this post production business will gradually come down to around 10% of your business?



- NamitMalhotra** Even smaller may be, with the growth of technologies and the creative services post production, frankly, is just it is going to be where it is and all the uplift in growth is going to be in the other two businesses primarily.
- Apurva Mehta** So what is your outlook on VFX going forward for the next quarter and for the next year because we were gung ho for 2014-15, so what is your outlook for that and how you see the pipeline?
- NamitMalhotra** I think we continue to be optimistic about Fiscal year 2014 to 2015, we probably have much better visibility and much more conversations with visual effect and 2D to 3D conversion than we ever had. I think, on several calls, I have always established that Prime Focus has grown from becoming a brand that did not exist three years ago in the Hollywood markets to becoming now a very well recognized company that is working with some of the most prestigious projects and that obviously at every delivery cycle that we go through, our visibility and credibility just goes up several notches, and it continues to build better and better visibility for us. I think we continue to remain optimistic about the growth that we anticipate over the next Fiscal.
- Apurva Mehta** So what growth we can expect on VFX and 2D – 3D that is an upward of 30% for next year?
- NamitMalhotra** I think between 20% and 30% would be fair.
- Apurva Mehta** And what about this animation business - what is your outlook for this type of business because there is lot of competition?
- NamitMalhotra** In the animation side also, unlike a traditional animation house, we have not really followed the model of being a pure BPO where you end up becoming a commodity provider. We are much higher up the chain, we are directly creatively engaged and not like an outsource provider of services and that has frankly been the fundamental model difference that we really have followed in establishing our brand as a global service provider. Like we are in India on the Indian entertainment side we are doing the same thing in animation or visual effects or 2D to 3D. We are not really an outsourcing provider to other companies, we have direct engagement with the toy company or with the studios on the projects we do. So we continue to see the success on what we have built with one Thai company and we have got several conversations on right now with various other similar opportunities to try and build higher value proposition in the animation side. So, our focus is that we want to be right up the food chain and not really at the bottom end of the BPO side. So we are able to see better price realization and frankly a better customer relationship than what traditionally companies have done.
- Apurva Mehta** Going forward next year and going forward next two years what would be the contribution from animation business – will it be above 10% of so?
- NamitMalhotra** Yeah, it should be in the 10% range looking at the overall growth that we continue to see on visual effects. See visual effects and animation for us in lot of ways go together, there are times when we are using some of our animation talent for visual effect and vice versa. So even though



we categorize that as a separate animation service we tend to have a club offering to the end customers. But to say that 10% is a fair number that we would.

Apurva Mehta

And margins on that for animation business?

NamitMalhotra

I think we are pretty much in line with our 3D business because it is again built on a similar model of having a base in the West and big production capacity in India so it flows in line with our the rest of the business.

Apurva Mehta

Has anything from Sin City contributed in this quarter?

NamitMalhotra

Yes, it has, even though there was a slight delay but there is certainly a reasonably good addition and I think Q4 will be relatively bigger in terms of the overall contribution.

Apurva Mehta

So when this project will be completed from our side?

NamitMalhotra

May 31st is our delivery date so we would be going all the way up to May.

VikasRathee

I think there is one point I would clarify. I think looking at the quarterly numbers of around 10% and I think there is obviously going to be some variation on a quarter-to-quarter perspective. But I think on a nine months' perspective our post production business continues to have about 20%.

Apurva Mehta

Yeah, but that what I was shocked because it just dipped like from 25% traditionally to 20% to 10%. However, it was one-off thing or?

VikasRathee

It is a one off, as we rationalize some of the stuff as Namit said as well I think some of the benefits and stuff of that gets delivered or source through the post production business shows up any other PFT or on the VFX city side of the business.

Apurva Mehta

And this China JV would it start contributing from 2014-15?

NamitMalhotra

Yeah, primarily we are working on couple of projects right now in Q4 that should have some amount of impact but I think most of that revenue hopefully starts to flow in from 2015.

Apurva Mehta

And on the CAPEX front what are our plans on CAPEX for next year?

VikasRathee

I think we have done significant amount of investments over the last 12 to 18 months both on the PFT side as well on the PFW side on the growth of our VFX business.

I mean, to give you a sense, this quarter, our CAPEX is down compared to last quarter. So every quarter you will basically see the CAPEX coming down. So again, rather than giving you a full picture of exactly what we will do next year. What I can tell you categorically is, any CAPEX



that is going to happen in relation to it is going to be incremental in nature and will be driven on a success rate. The other thing we are also doing is installing discipline on our CAPEX side.

We are doing hardly any CAPEX where cash is coming out of our pocket, day one. We are looking at, like I said earlier in the call, leaving situations where obviously vendors are bringing in and providing these equipment and not only at very competitive rates but also on the financing perspective they are much more competitive than what is available in the market from the banking side. Two, we are also successfully pushing CAPEX to our customers. A lot of the CAPEX we saw in the last couple of months came towards the technology side of the business and some obviously on the PFW credit side. We are now in a position and the business has grown to be able to push back and where a significant amount of the CAPEX that is required for project delivery or long term contract delivery we are pushing it back to the customer for them to kind of house that CAPEX.

So I think there is a lot of discipline that has come in to the system and I think this quarter also we saw side benefits from that. Going forward, I think you will see even more benefit. My current estimate is, again we do not want to put the number down, but I think what you will see is the CAPEX for next year, it will be significantly lower than what we spent in the past year.

Apurva Mehta

So there will be free cash flow to even try to repay it?

Vikas Rathee

Even in the course of next year yeah, again like I said we have maintained our debt level while increasing revenue, cash flows and asset base over the last 12 months and I think going forward with the increasing scale on both PFT and better margins coming through on PFT as well as the VFX 3D business we should be able to use excess cash flows towards debt retirement.

Apurva Mehta

And on PFT, what is the outlook on PFT for next year and this coming quarter and this has given a very good margin of 35% EBITDA. So is this margin sustainable or this is one off and will come down to 20% or 30%?

Ramki Sankaranarayanan

The technology part of our revenue mix obviously is becoming higher and obviously contributing to higher margin. So we have had that mix of technology to services in our revenue stream, the technology is obviously growing and I think that sort of really why you see a higher margin that is reflecting. But, moving forward, is this the trend that you will see a higher technology mix the answer is, yes. Is the margin sustainable at this level? I think that is a question that we are working on to kind of make sure that we are spending enough to grow and that trade off it is going to determine whether the margins will be continued to be upwards of 35% or will be in that region. I think that is really something that we are planning as what the outlook for the next year will be. But the reason why the margins are going higher is increased adoption of technology.



*Prime Focus Limited
February 13, 2014*

- Apurva Mehta** This time the rest of the world and India has little; rest of the world has come down to 23% which was 28% last year. So anything to say on that course?
- RamkiSankaranarayanan** No, I think quarter-to-quarter I would say these percentages could kind of operate in that region. But clearly, obviously India has some of our contracts, our existing customers have been extremely happy with the work that we have done and they have put more on our plate as they have grown. So we have obviously seen our India revenues grow faster. But having said that we have something that on the US side that we have under works and so we would see a lot of that pan out over the next 12 months.
- Apurva Mehta** So what is our plan on this mix that going forward in next two years will be 50:50?
- RamkiSankaranarayanan** I think that is kind of our goal eventually we want to be a 30:70 but in the two years I think 50:50 would be a goal that we would definitely be striving towards.
- VikasRathee** So I think one thing we should highlight is both businesses are growing and they are growing well and the aim is to maximize the opportunity in each of the businesses. And given they are technology driven businesses both of them have a very good opportunity for driving non-linear growth. And that is where we are focused. We are at point where we can move forward and start delivering that. We have to be disciplined and we are. We are looking forward to driving these excellences.
- There are two fundamental things that are driving the business we have and you all need to take that in to account. One, there is a significant explosion of media and the quantum that is out there. There are more channels, there are content more on television, there are content being on based on the website, there are more movie being produced. So that is one. So there is an explosion of content which requires management of that content. And I think that is where the technology business is massively relevant. Two, people want better content. In an explosion of content scenario it is important to differentiate the content that you have and that is where the creative services part comes through where you have been creating much better visual experience for video. These two brands are there we have witnessed it over the last couple of years it is only going to increase and improve. So we believe the fundamentals are driving our business so strong in the near term medium term and we believe in the long term.
- Moderator** Our next question is from JainelJhaveri of J&J Holdings. Please go ahead.
- JainelJhaveri** I just had a question. Basically this inflection point that you talk about do you feel like you hit that point when how is the inflection or do you feel like we are still a way away or few months, quarters, year away I do not know. If you can just elaborate on that?
- NamitMalhotra** I think, as a company, overall and, as a brand, I think, we have continued to be very, very close to getting to that point where we have been able to find ourselves really get up to that absolute top Tier level and, while on the 3D side, I can say specifically we have certainly established a certain



*Prime Focus Limited
February 13, 2014*

credibility. On the visual effect side, we find ourselves getting there closer every day. So are we one quarter away or a few quarters away I think it is a slightly more of an organic process of getting to that ultimate place saying that you are clearly becoming from a Tier-3 to a Tier-2 to a Tier-1 company as you deliver better and better at every step exactly closer to the league. And I think the challenge for us has been in as I have explained earlier on several other calls that it is always been about trying to do this by establishing our own credibility as an independent brand coming out of India than being an outsourcing company and I think that is why has is taken a little longer but I think it is getting us to a much better place with all studios. I feel every year if you see the quality of projects we are doing is just significantly getting better and I think 2014-15 should be that point at which we should be able to get some tier 1 opportunities. So I am quite optimistic about that from a PFW standpoint I think Ramki, you can express the PFT side.

RamkiSankaranarayanan Having the scale of managing 350,000 hours clearly it is an inflection point. And today our customers in the US stand up and recognize what we have done and clearly from that perspective it is an inflection point. But having said that we are intensely focused on translating that in to adoption globally.

JainelJhaveri So I mean even in the last conference call I heard basically you were talking about like a network effect that your technology side of business is bringing on. So now do you see that network effect in place working for you over the next 3, 4 months that now that we are having a discussion? And second thing is it like do you see that pull from the customer instead of you trying to push a product to them?

RamkiSankaranarayanan Yeah, that is kind of really how we have grown so far in this context. So clearly we are seeing a pull from the customer and having created the network effect obviously customers want to be on that network and so yes, the answer is yes to that.

JainelJhaveri That is very heartening to hear I mean really good work of you guys, congratulations. Also another thing is just wanted to know what is the consolidated debt as of December now?

VikasRathee We put that number it is \$120 million so it is about Rs. 750 crores.

JainelJhaveri Rs. 750 crores okay. And you will see that being same at the end of this year?

VikasRathee Let me not pre-commit anything. I think our aim is as we said is to continue to bring the debt down. How much of an impact you might see in one particular quarter it is difficult to kind of highlight.

JainelJhaveri I do not know much history about Prime Focus but how did we get to a position where we have so much that? Like what went wrong over the last few years because I have just been tracking it for the past one year and I have been seeing you guys doing good work and following the conference call but what went wrong?



*Prime Focus Limited
February 13, 2014*

VikasRathee

I do not know if anything went wrong. See, we have a company which has been in the media space for the last 15 to 16 years. It is a dynamic field where you have to constantly innovate to be able to catching the next not only catching but driving the next wave and I think that is why you seen a company like us been there for 16 years and continue to drive value and create growth.

So we evolved from a post production base business out of India to global one both on the creative services side as well as the technology side. This requires investment and that is kind of where the money is gone and if you see in the last 12 months the debt really has not gone up. We had taken FCCBs which if you ask me not only with lot of companies had and we are one of the very few companies, which paid them off in time on date and in full. And there is a dollar depreciation or appreciation that hit us in relation to when the FCCBs have been raised and dollar as to when they were repaid. So that alone was a significant hit which contributed to this. But on the business side this money has been very well used and utilized to kind of create the opportunity we have today wherein we have demonstrating quarter-on-quarter stable strong results and positive momentum. We continue to innovate, we continue to go out and make sure that we can capture a bigger piece of the pie and the opportunity for both the technology business and the creative business is global and I think as of now we have select pockets of strengths which we need to expand and get much more leverage out of the asset base we already have.

JainelJhaveri

Sir, one last question from my side is there a comparable company that this is what we are trying to do and this is where we are trying to get at it. Is there a comparable company so that we can understand you guys are better that this is where we are trying to head even not only in India space but even abroad space?

NamitMalhotra

This is Namit here. I think that has been frankly some of our challenges in the past that is frankly to find a suitable comparison for our business because what we have tried to do and made the model that the Indian IT companies sort of built their success on although in the entertainment sector to create this global platform and to have a bunch of creative and technology based services without running it as a BPO there is not direct comparative.

We clearly have companies that do visual effects, there are companies they do 3D conversions; there are companies that provide certain aspects of services that PFT may provide but at an integrated levels and as a group I do not think there is a slightly a like-to-like company in the world and that actually gives us tremendous leverage in terms of how we can position ourselves for all these major media players worldwide to have a company that plays a vital role on the content creation side and on the content management and the content distribution side which is a combination of the media and IT side and I think that is a hugely distinguishing factor and frankly a lot of our efforts in one year as Vikas explained the bulk of our debt sort of came together as part of those acquisitions that were funded through the FCCBs that continue to stay on our overall debt profile. And I think we are as we make more and more progress in



*Prime Focus Limited
February 13, 2014*

establishing our profile worldwide I think the numbers will far exceed the position we are at because of the potential and the opportunity is much bigger.

JainelJhaveri

Right, that is what I was wondering that if it is the kind of work that you guys are doing if nobody else is doing and if it is really good work then there should be a pullaffect for your business and these numbers like they should it looks as if a digit is missing out of your revenues or digit is missing out of your EBTDA like the scope could be so large technically.

NamitMalhotra

That is absolutely the case. I think we have historically established that running a business at very healthy EBITDA margins through the course of our development even in the Indian markets we were unique as a company that demonstrated certain ability to drive profitability in the business and in the last few years the focus has really been about establishing new product portfolio that we can actually present to the global market place and then on the back of that scale up our execution ability so that we can generate those kind of margins that we have historically done domestically in a domestic market which is frankly more price conscious than what we deal with on the international side. So you are absolutely right in establishing the fact that there is a potentially digit missing and that is frankly what is the focus of our core management team is to make sure how can we quickly break in to that mould or in that zone that frankly takes us in to a different orbit.

JainelJhaveri

So means would you need a lot more people or is it just the company is having knowledge of the kind of work that you guys are doing is what is required or what is missing to get you to that next level?

NamitMalhotra

I think it is just in a matured market in the West as I am sure lot of other industries may have validated that and the entertainment industry as much as we like to believe is the new industry may be so in India because of satellite television in the last 90's, the entertainment industry has been there for the last 100 years worldwide. So the companies over there from a technological standpoint, from a creative decision making stand point, tend to be extremely cautious because of how these businesses have worked and they are basically seeing a company like us evolve in to that space they want to believe that our ability is to deliver in every step of the way are absolutely grounded and 100% certain.

And I think that with the weaknesses that 2008 and 2009 had in the global economies certainly put a lot more pressure on these companies to frankly be more risk averse than be risk pro and we find that every stage if you see that is why if you see our trend over the last three years you will see our client portfolio expanding, you will see the quality of product expanding, you will see the revenues growing up and that is a sort of a directional view of how the western players are now seeing us and recognizing us so what we can deliver because in earlier unlike a commodities business cheaper in the entertainment industry is not better ever. Nobody ever makes a big movie or a big TV show says that let me go and find the cheaper solution to make it



*Prime Focus Limited
February 13, 2014*

that is not how the creative industry response to creative service providers or a technology company as well.

People are happier to pay premiums in this business than expect ridiculous discounts which is frankly true of India and it is true of the west. For you to be in that league of being able to get a premium and not a discount is frankly what we have to establish. And as an Indian company most of the times people perceive us to be oh! they do it for so cheap does that mean that the quality will be as good and I think winning an award that is now PFT wins for technology transformation or PFW wins for Gravity as being the best 3D conversion in the world slowly and a very steadily proves to these guys that we are actually truly capable of delivering world stand quality products that is not a function of price but actually our ability and I think that is the real transformation as a brand and another company we have had to make that we are not Indian anymore we are global services provider in the entertainment industry and that has taken in the last 2, 3 years to really make people believe that before they can poster some sale either is the bulk of work of our; our business so far; movies so far our televisions shows and we will hope that it will comes back the way it should on the other side. I think we are certainly like I said in the right place, with right people, it is now the scaling our offering rather than proving now that whether we can do it or not. I think that is the great from my standpoint of now directly yielding that effort here in the US it certainly is a much better place than we will our numbers do not truly reflect that potential yet but as a business as a relationship as a brand I think we made substantial strides forward.

Moderator

Thank you. We will take our next question from Ashwini Agarwal of Ashmore India. Please go ahead.

Ashwini Agarwal

Namit, I had a question for you. We were trying to acquire Rhythm & Hues some a year ago this time and in our conversations you had mentioned that trying to breakthrough that barrier of trying to get a large VFX assignment from one of the Tentpole movies. You need to have that expertise at presence and that relationship with the Hollywood production houses. Do you still feel that you need to make an acquisition to break in to that market?

Namit Malhotra

See I think there are pros and cons to everything as is always the case. In the last one year for reasons as we all know that did not happen. I do not see us regretting frankly the outcome of that because on our own we have actually gone and made and gotten work on some of those absolute top tier projects with some top tier film makers. The point of an acquisition for us was initially to break in to the market place and have an immediate visibility of the market and the acquisition opportunities like the one we talked about were more really transform us instantly to being a Tier-1 player and that I still see that if the right opportunity came along it cannot I think it would only do great help than harm. But regardless I think our brand and our ability continues to stay. So I am frankly not that much concerned because every year that we were now going through we are seeing our profile going up consistently so a little bit of consolidation in the market place



does not hurt relative to where the general industry has been. But I think Prime Focus on its own is adequate in terms of where we are trying to go and how we see we can get there.

RamkiSankaranarayanan This is Ramki here. I just want to make a quick observations on two, three questions that has been on the call. If you look at the IT sector that most of you may also follow companies are TCS and Infosys have really taken 20 to 25 years to reach where we are. As Prime Focus we have been in the international markets for less than 6 years now. So I think I just wanted to put that sort of time frame in perspective because while we are absolutely what gets us every morning is the opportunity that is in front of us. But I just wanted to put that sort of time perspective to say look our global endeavor sort of 6 years as we speak. So I think that is important to keep in perspective.

AshwiniAgarwal The follow up question I had was VFX versus 2D to 3D I mean your 2D to 3D credentials have tended to kind of improve year-after-year and doing a film like Gravity is a real feather in the cap. Anything on the VFX front I mean the Avatar story happened four years ago and still somehow the VFX assignments that are coming are way tend to be small and tend to be very, very focused. What will make that portion of the business pick up?

NamitMalhotra As I have said VFX tends to be a more capability centric like people tend to believe that companies that do great creatures do not do the best explosion and the companies that do great explosions do not create the best water and there is a context of every film comes the different set of variables tasks. So they tends to be of the view that there are different specialty between different companies and what we have been trying to do is we have been trying to build ourselves to be much more holistic so we can be much more scaled up rather than just be static in one kind of work. So what we found ourselves is to be as we try and make that leap forward when I talk about a movie like Vampire or Non-Stop what I am actually talking about is that we are not doing 100% of the work. When I talk about Sin City we are doing 100% of the VFX work and that is a slightly different model to where we have been. The other is that when we talk about an Avatar that was almost exclusively executed in our western offices. We have been consciously try to make certain decisions in the last couple of years since we built up 3D conversion business that we are not really chasing projects from a profile perspective onlybecause there is no point in me saying I did the next Avatar but I did all in America and made a 4% EBITDA margin. That is not really in line with our core strategy as a company or as a business.

So what we are trying to do is we are trying to make sure that we bring projects on that can leverage this global platform, that can have work that are shared between London, Canada, India and where we can see that there is a uplift in margins, cash flow and profitability. So we are frankly trying to go up the foot chain by making sure that we position our offering in line with our platform and represent that as part of our business rather than saying I did the last whatever the big movie is and but did not make a dollar as profit, which is frankly what can happen very easily if you do not have this global platform working.



*Prime Focus Limited
February 13, 2014*

That is part of our development strategy of India as well that India like it scaled up on a 3D conversion side is scaling up at this point as we speak on the visual effect side, last two years all our investment has been in frankly after Avatar the whole focus of the business for the first two years went towards 3D conversion and only in the last 24 months have we focused back on media effects but more specifically to do work that merits our capabilities in India, Canada and London,so we can see some validation that we can prove to our customers that this show was done across all our locations and see the quality and see the scale. And that frankly is the path that we sort of held on to in believing that is the right way for us to build our business rather than just get lost in the glamour of saying we did these big 10 movies but never made any money. That is not the focus of the company,

Moderator

Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Ms. Pooja Dokania for closing comments.

Pooja Dokania

Thank you everyone for joining the call. Those who missed out on any queries please contact us. Thank you.

Moderator

Thank you, Ladies and gentlemen on behalf of Four-S Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.