



**Eros International Media Limited**  
**Q2 & H1 FY2011 Results Conference Call**  
**November 12, 2010**

**Moderator:** Ladies and gentlemen, good day and welcome to the Eros International Media Limited Quarterly Results Conference Call. As a reminder, for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anoop Poojari from Citigate Dewe Rogerson. Thank you and over to you.

**Anoop Poojari:** Thank you Melissa. Good afternoon everyone and thank you for joining us on Eros International Media Limited Q2 and H1 FY 2011 results conference call. On behalf of the management team of Eros International we would like to extend a very warm welcome to all of you at the Company's maiden conference call post the listing in October 2010. We have with us Mr. Kishore Lulla, Executive Director of Eros International, Mr. Sunil Lulla Managing Director, Ms. Jyoti Deshpande Executive Director, and Mr. Kamal Jain, Group CFO. We will begin the call with brief opening remarks from the management following which we will have the platform open for an interactive question and answer session.

Before we begin this call, I would like to point out that some statements made in today's call may be forward looking and a disclaimer to this effect has been sent out in the conference call invite e-mailed to you earlier. I would now like to invite Mr. Kishore Lulla to make his opening remarks.

**Kishore Lulla:** Good afternoon everybody, a warm welcome to everyone present and thank you for joining us today to discuss Eros International's operating and financial performance for the second quarter and the half year ended September 30, 2010. This is our first conference call post our Company's listing on October 6, 2010 and it will be our endeavor to always have best practices in investor interaction at all times. This quarter is special and memorable for us since we had an extremely successful listing on the stock exchanges. I would really like to thank you and all the investors for their whole-hearted response to our IPO which was well oversubscribed 29.6 times and we are excited with our listing and even more excited about the

business opportunities going forward. Through this IPO, Eros International raised Rs. 350 crore. We intend to utilize the funds for acquiring, co-producing Indian films including Hindi as well as Tamil and other regional languages. We believe that the Indian film entertainment sector is at the threshold for substantial growth considering factors such as growing per capita income, changing demographic compositions and discretionary spending patterns.

Given Eros international's global presence and diversified business model we believe that we are truly placed at the forefront to capitalize on the unfolding potential in this sector.

I would now like to provide a brief insight of our Company and the business model. Eros international is a substantial part of the Eros Group which is the largest Indian integrated film studio. Eros Group was established over three decades ago and is a global player within the Indian media and entertainment sector. Our core business comprises of monetizing our 1,000 films catalogue and new releases mainly through theatrical releases, home entertainment, TV syndication and new media. Our ancillary business includes EyeQube and music publishing. Over 30 years of presence in Indian Cinema can be largely attributed to our dynamic and robust business model wherein we source or acquire our film content through entering into co-production/acquisition arrangements with various talents. The film content is then distributed through multiple formats such as theaters, home entertainment, television and digital new media. Further since we operate in a dynamic sector we have formulated and implemented innovative business strategies for diversifying our business model through co-production deals, regional diversifications and revenue generation through other sources of media platforms.

Many of you may be interested to know that the total addressable market for Indian films exceeds 1.35 billion people of which 1.1 billion is in India, so overseas market is also significant. Eros through its international operations under Eros International Plc. has an extensive global distribution network. In India, we have our own distribution offices in major circuits like Mumbai, Delhi and Punjab, which covers about 65% in the Indian theatrical market, and we often utilize the widespread distribution capabilities of our subsidiary – Ayngaran, to distribute films in the South.

We have a distinct de-risking strategy that is part of our operating model and which provides us a unique advantage of having revenue visibility to the extent of 80-90% of the cost of our film slate through a combination of television presales, music presales, international rights presales and other related options to monetise a film. Thus we mitigate the risk at the cost level and at the same time continue to have a share in the potential upside of our business.

Now let me briefly provide the details of our formal relationship agreement with Eros International Plc., which is a win-win arrangement for both companies where we draw on each other's strengths. This agreement allows Eros International to apportion 30% of the film's cost towards the international rights and transfers it to Eros International Plc., at a mark-up. Further there is a sharing of profits in the ratio of 70:30 between Eros International Plc., and Eros International Media Limited, after the recoupment of the cost and commission. We strongly believe that this arrangement gives us a competitive advantage.

Another distinguishing factor for Eros International is its extensive and growing content library consisting of more than 1,000 movies. Our movie library contributes significantly to our revenues and also enables us to diversify our distribution strategy by combining new releases with the films from the existing catalogue. Going forward, we will further channelize our efforts on capitalizing the technological developments and re-monetize the films from our content library across different formats. This will enable us to creatively structure our content across all formats as per the needs and demands of the industry whereby creating win-win deals for us as well as our partners. Our rich experience in this industry has enabled us to attain a competitive advantage through our portfolio strategy and extensive distribution network. Our portfolio approach to films facilitates the implementation of the 'bundle model' wherein we combine the categories of the films including our new releases and catalog films for distribution on television, home entertainment, and digital new media. Our widespread distribution network enhances our ability to monetise our film content without relying excessively on sub-license to third parties and also enables us to offer a global end-to-end distribution solution to our content partners and co-producers. I take great pride in informing you that we have now strengthened our foothold in 50 countries and we are a popular household name since we cater to 1.1 billion Indians, 50 million South Asians living outside India and the numerous 'dubbed' markets such as Europe and South East Asia

Moving on let me brief you on the operational development across our business segments this year. In H1 FY 2011, we have released a total number of 39 films, highest by any player in the industry. Our theatrical releases such as Housefull, Anjaana Anjaani (globally) and Dabangg, and Endhiran (internationally), Ravanaan, Singam, Sura in Tamil and Hapus in Marathi have enjoyed huge success at the box office and consequently resulted in strong revenues. Going forward, we have a strong lineup of about 30 movies with leading actors and thus anticipate our movie slate to contribute significantly to the box office collections. Our Diwali release Golmaal 3 grossed Rs. 700 million in just three days of its release. Our Hindi movie slate for H2 FY 2011 comprises of Toonpur Ka Superhero, No Problem to be released in December and Game to be released in Q4

FY2011. In addition, we have an enviable line up of films releasing in FY 2012 such as Shahrukh Khan's Ra.One, Shahid Kapoor's Mausam; Saif Ali Khan's Agent Vinod; Akshay Kumar's and John Abraham's Desi Boyz; Hrithik Roshan's Zindagi Na Milegi Dobara; Ranbir Kapoor's Rockstar just amongst the list. In this quarter Eros International signed a multi-film content licensing deal worth Rs.640 million for broadcasting its films across Zee Entertainment thus taking the cumulative value of television and music syndication deals to Rs. 2,400 million. These deals also include a deal for broadcasting different set of films on STAR Network for Rs. 1,000 million under which we have already delivered some films. We expect such agreements to enhance revenue and earnings in FY2011 and FY2012.

As a leader in our sector we continue to address new emerging opportunities and have taken several pioneering initiatives under the new media segment to showcase films from our extensive movie library. These initiatives include tie-ups with mobile operators, such as Airtel, internet monetisation for You Tube, DTH platform and cable licensing. I am also happy to share that EyeQube our visual effect facility which was set up in 2008 has delivered a few prestigious Hollywood projects and is also working on select high end shots for Shahrukh Khan's Ra One and Desi Boyz. Let me now discuss the financial performance for the period under review. Total revenues were Rs. 1,879 million in Q2 FY 2011 and Rs. 3,149 million in H1 FY 2011, the box office success of Housefull and Anjaana Anjaani contributed to the revenues. Going forward we expect strong revenues from our diversified movie slate to be rolled out in H2 FY 2011 and FY 2012.

PAT stood at Rs. 453.3 million during the quarter and was at Rs. 608.4 million in H2 FY 2011. To conclude Eros International has achieved a remarkable place for itself in the Indian entertainment sector. Going forward, we will continue to further build upon our key strengths and enhance our competencies to extend our formidable lead in the industry. We will strive to achieve greater milestones and look forward to the continued support from the investment community to achieve our goals and aspirations in the future. I would now like to hand over to Mr. Kamal Jain who is our CFO who will take you through our financial performance.

**Kamal Jain:**

Thank you Kishore and welcome you all once again. I shall briefly provide you with an overview of our company's performance for the quarter and half-year ended September 30, 2010. Eros International has reported an encouraging set of numbers. Before I get into the details let me give you an overview of our financials. Firstly all results that I will discuss today are pertaining to the consolidated performance of the Company. Secondly the nature of our business is such that the revenues can vary on quarter-on-quarter basis depending on the contributions from individual business segments. Therefore our revenue performance is best monitored on annual

basis and we intend to achieve sustained growth on a year-on-year basis going forward. Further what is important to us is our earnings growth in absolute numbers, the margin may vary depending on the revenue mix although we continue to focus on building attractive margins across every aspect of our operations. I am glad to report that our performance for Q2 FY 2011 and H1 FY2011 has been encouraging with a PAT growth of 12.9% and 29.5% respectively. Total Income in Q2 FY 2011 stood at Rs. 1,897 million, largely attributable to the box office successes of Housefull and Anjaana Anjaani.

Regarding our profitability, I would like to highlight that the operating margins of the company are better during the quarter. For Q2 FY2011 EBIT was at Rs. 562.7 million and our operating margins improved from 21.5% to 30.5% primarily on account of satellite broadcasting licensing, bundling of new releases of films from existing catalog and better realization from music and new media licensing and lower direct costs due to brand tie ups and increased use of digital distribution. In Q2 FY 2011, our PAT was at Rs. 453 million witnessing an increase of 12.9% as compared to Rs. 401.6 million in Q2 FY 2010.

To give you a brief overview of H1 FY2011 our total income stood at Rs. 3,149.1 million, EBIT was at Rs. 809.2 million as compared to Rs. 672 million in H1 FY2010. The corresponding EBIT margins stood at 25.7% and 19.9% respectively. In H1 FY 2011 PAT increased by 29.5% to Rs. 608.4 million compared to Rs. 470 million in the same period of the previous year.

Going forward, Eros International continues to focus on strengthening its leadership position in this sector. We anticipate H2 FY 2011 and FY 2012 to witness robust growth in revenues and profitability as we have a strong movie slate across Hindi, Tamil and other languages. It is our constant endeavor to formulate and implement innovative business strategies to suit the changing dynamics of our industry and optimally utilize the opportunities present. On that note, I conclude my remarks and would like to thank you all for joining us on this conference call. We would now be happy to discuss any questions, comments or suggestions that you may have. Thank you.

- Moderator:** Thank you. The first question is from the line of Abneesh Roy from Edelweiss Securities Limited. Please go ahead.
- Abneesh Roy:** My question is we have seen 850 basis points improvement in the EBIT margin to Y-o-Y and even quarter-on-quarter there is good improvement. I wanted to understand if this is sustainable and what is driving this? You said about the satellite rights. You said about the business mix. Could you add some more color to that?
- Kishore Lulla:** Sure. At Eros, our total focus is going to be on PAT and cash flows going forward. The margins could be volatile, quarter-to-quarter and the margins

actually have improved this quarter because of high margin licensing deals, as Kamal mentioned, and the digital distribution and the direct cost of the brand tie-ups. We are confident of bottom line growth and the cash flow and yes definite improvement in the margins as well. But please do not look at the quarter-to-quarter basis; look at the margins on a yearly basis.

**Abneesh Roy:** Sir could you tell us about the brand tie-ups? How are you sourcing this? How is it looking, because overall advertising is looking up so wanted to understand if the same trend is visible in this also and whether we do this on our own or we outsource this?

**Kishore Lulla:** We also work with lot of agencies. Normally what happens is suppose for example Shahrukh Khan's Ra.One. There are 18 brands working with Shahrukh which he is endorsing, so when it comes to promotion of Ra.One we will sit down with Shahrukh and plan to subsidize the marketing and promotion cost through brand endorsements.

**Abneesh Roy:** In the past in the satellite rights we have seen that, for example Jab We Met had a multichannel contract. You have recently signed a contract with Zee for Rs. 64 crore, is it a multichannel contract or is it giving exclusivity to Zee for certain amount of time, then you will open that?

**Kishore Lulla:** I think we normally are very flexible in doing that but these contracts of about Rs. 240 crore are on exclusive basis to all these channels and they have certain number of years, so these channels will in-turn have the right to syndicate and have limited number of telecasts per year.

**Abneesh Roy:** So those channels can sell to their competitors also?

**Kishore Lulla:** Yes. Within the parameters of the master contract with us.

**Abneesh Roy:** How is the rate looking up in satellite rights? Is it going up again because it had reached high levels and then it came down?

**Kishore Lulla:** I think the whole television sector is growing. If you saw that how 3 idiots delivered a TRP of about 13. Because of the consolidation happening in the television sector and the subscription market growing, DTH is growing. Movies are the drivers, whether it is advertising or whether it is subscription and you have seen that cricket and movies drive the TRP. So in that way the channels which are also paying us are actually recovering more and it is the sector which is growing, it is very healthy.

**Abneesh Roy:** Sir one last question was on your share of net box office, you have 52.5% share. How has that moved over to the past few quarters?

**Kishore Lulla:** It is the agreement that we signed with the multiplex that was last year. This agreement is for three years and 52.5% is the first week and then it keeps

on declining up to 40% depending upon the week and how much is the collection, so this will be the same for the next two more years.

**Abneesh Roy:** After that what happens?

**Kishore Lulla:** We re-negotiate with the multiplex. And with the single screens we have different arrangement Single screens locally in India there will be different arrangements whereby some would be on rentals and from some we even get up to 70% or 75% of week one

**Abneesh Roy:** Sir regarding regional, will you focus more on Tamil and Marathi or are you going beyond that?

**Kishore Lulla:** No, no all regional. We are already doing Tamil. We are already doing Marathi. We are already doing Punjabi so we will be looking at Bengali and some other regional languages which gives us good EBITDA margin and good bottomline.

**Moderator:** Thank you. The next question comes from the line of Neerav Dalal from Sharekhan Limited. Please go ahead.

**Neerav Dalal:** I just want to know that Rs. 140 crore deal how would the revenue be booked?

**Kamal Jain:** We have a policy that we book revenues under various segments, be it satellite, be it music or be it other segments. We generally book the revenues on the delivery of the movie. Whenever we deliver that movie to the contracted party, the revenues will be booked.

**Neerav Dalal:** But then this would be across how many years?

**Kamal Jain:** We book the revenues for a particular film on its year of delivery.

**Neerav Dalal:** So this is for the coming movies?

**Kamal Jain:** A combination of new, forthcoming and catalogue films.

**Neerav Dalal:** Could you explain a little bit more about the T-Series tie up?

**Kamal Jain:** The T-series tie up also is part of the pre-sales deal and we may not be able to divulge much about it because there are some kind of NDA's which we have with the channels and our partners, but it is basically to do with music licensing and distribution.

**Neerav Dalal:** Okay so that is included in this particular. Okay thanks a lot.

- Moderator:** The next question is from the line of Mihir Shah from Alchemy Share and Stock Brokers. Please go ahead.
- Mihir Shah:** Sir you were explaining at the analyst meet that the arrangement with your parent Eros Plc., I am just curious to know for the first half in terms of our revenue and EBIDTA what kind of contribution we would have had from such an arrangement?
- Kamal Jain:** As you know the arrangement which we have with PLC is –if the total cost is Rs.100,30% is what we export to PLC at a fixed margin , which is a strength for the Indian entity and because Eros Plc., has got network in more than 50 countries and then distribute movies and in 22 different languages. The kind of network they have, they are in the best position in terms of exploiting the Indian cinema worldwide, so they have their own margins over there but at the same time they provide a very big strength to Indian identity which I would say is something which is not there with peers
- Mihir Shah:** Sir, can you quantify of this Rs. 350 crore how much could have been booked from Eros Plc., because I mean in this particular quarter especially we have had a good contribution with exploitation of Dabangg and Endhiran on international territory.
- Kamal Jain:** On overall basis, around 30% of our total revenues come from overseas; generally the trend more or less remains the same.
- Mihir Shah:** Can we assume 30% is coming from the parent then?
- Kamal Jain:** on an overall basis, generally this is our trend.
- Kishore Lulla:** It could be 30 or 35%.
- Kamal Jain:** Yes.
- Mihir Shah:** And 30% of that further would flow in to our EBIDTA?
- Kamal Jain:** Yes right.
- Mihir Shah:** Also the interest cost comes to be quite low considering our debt of Rs. 225 Crore. Is it fair to assume that a part of our interest cost is getting booked as cost of production?
- Kamal Jain:** Yes, apart from that since we have exports, we have packing credits so effective interest rate is about 9% and regarding further credits, we have some fixed deposits over which we earn some interest incomes, so that gets further set off, so that is how interest rate is lower at about 5-6%.

- Mihir Shah:** Any interest that we pay for the advance payment made by the Plc. to the parent?
- Kamal Jain:** No. Those are interest free. Those are business advances.
- Mihir Shah:** Sir lastly on the proceeds what has been the status on that, how much has been deployed and where has this amount been deployed till date?
- Kamal Jain:** As far as the IPO proceeds are concerned, almost one third of that was already deployed using internal accruals before that and therefore recouped, the balance is still parked in mutual funds.
- Mihir Shah:** Any plans to reduce the debt level or are we happy to maintain the current debt level considering the slate which is lined up?
- Kamal Jain:** We are fairly underleveraged. We might restructure some of the high cost debt but are well funded to complete and release the slate lined up.
- Mihir Shah:** So can we assume that you will be maintaining the same debt level end of this year?
- Kamal Jain:** Yes, more or less the same debt level
- Kishore Lulla:** And actually if you look at the net debt of the company it is around Rs. 100 crore with an EBITDA of more than Rs. 350 crore.
- Moderator:** The next question is from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.
- Avinash Nahata:** Yes, I have three questions pertaining to this advance from Eros International Group to Eros international. First, is this agreement for 100% of the Indian movies, which are acquired by Eros International?
- Kishore Lulla:** Yes. That is for all 100% movies. The relationship agreement if you see is for the next five years, so whatever content Eros India buys the entire content (international rights) will be exported to Eros Plc., under this arrangement.
- Avinash Nahata:** Okay. Secondly this is a commercial arrangement so effectively Eros International is enjoying funds to the tune of Rs. 340 crore as on date, so just for my understanding are we saying that had this fund not been there then our margins for international distribution would have been higher, just to understand the relation. But for this advance it is like 30% arrangement?
- Kishore Lulla:** You see I think if you look at the arrangement, let's understand how did we come to this arrangement? #1, it was from the past, the way the group was dealing from India to Plc. Also if you look at the FICCI Report, if the

revenue is \$100 of a movie, , \$40 roughly comes from Indian box office, \$20-30 dollars used to come from satellite syndication and about \$25-30 used to come from international rights and \$5-10 from ancillary rights. That is how the revenue pie is actually divided. So on that basis and on our past experience, when we had our IPO last month the bankers and lawyers we sat down so that the minority shareholders who have come into this Company should be totally protected and should be a win-win situation for the Company here as well as the Plc. and Plc. has a distribution network across the whole globe built across last 33 years. So in that way Eros International Media Limited enjoys that distribution network, which has been built across and on the fair formula arriving from the industry standards. Further, the 30% margin is also supported by an overflow share of 30% to Eros International so upside participation is not lost.

**Avinash Nahata:** Okay and this is probably a pipeline you can say in advance towards 25-30 movies if you consider Rs. 30-40 crore movie at 30%, so considering these 25 movies, is this here to stay till this agreement has life for period of five years or this would get knocked off with the profits which are going to come back from the company and get set off against this Rs. 337 crore?

**Kishore Lulla:** The deal with whether it is Star TV or Zee TV or any other exhibitor or any other distributor, those are normal advances. There are various agreements against retaining such advance -, so against that basis with the advances which are sitting in our balance sheet, is against that five year's supply which Eros International Media is going to give to Eros Plc.

**Avinash Nahata:** See two years down the line probably that just said, is this on rolling basis, what I am trying to understand it is a five year agreement so when you are in year three basically you will extinguish this Rs. 337 Crore to something Rs. 170 Crore.

**Kishore Lulla:** Yes, the advances will go down and then other future advance will also keep on coming.

**Avinash Nahata:** So that's what I am saying, on a rolling basis this amount is here to stay if we assume that the agreement which has been entered for the five years is extended.

**Kishore Lulla:** You see, what we will do every year is that there will be a basic review in the agreement depending upon what is the market condition. Let us assume tomorrow if FICCI is reporting or the market condition in the international rights is contributing 50% or let us assume 40%, then we could also revise upside to Eros International Media's favour.

**Moderator:** The next question is from the line of Dhaval Gada from Edelweiss Securities Limited. Please go ahead.

- Dhaval Gada:** Sir, my first question is can you give me the breakup of our revenues, how much came from theatricals and other segments?
- Kamal Jain:** Generally, in the revenue pie around 40% is from Indian box office, other 25-30% from satellite and 30% from overseas and balance 10% from others; this generally remains more or less the same.
- Dhaval Gada:** In H1 we have maintained the same composition?
- Kamal Jain:** Yes, more or less around that. It can vary quarter-on-quarter basis depending on the kind of revenues from each segment but generally it remains more or less around that.
- Dhaval Gada:** So this quarter basically our revenue from theatricals would be higher because the margins have improved significantly?
- Kamal Jain:** Depends on which segment the revenues are coming from, because in a particular quarter we may have revenues from catalogue revenues and if you have catalogue revenues, generally you may not have a higher topline because the catalogue revenue maybe low, let's say that 100% EBIT or PAT so it will be higher margins, so depending on which quarter the catalog revenues are coming and that is how you know basically the margins can vary on quarter to quarter basis.
- Dhaval Gada:** Second question was on the library, you mentioned that we have 1,000 plus library with us. Sir, What percentage of this is unmonetised and what percentage of this is monetized?
- Kamal Jain:** On constant basis we monetize our library, it is an ongoing business and this is one of the biggest strengths that we have. Generally between 15-20% of revenues gets contributed through catalogue, which is the library.
- Dhaval Gada:** Can you explain a little bit, let us say if I have 1,000 movies and if I have given rights for those movies to digital partners for next three years, so then what percentage of it currently in our portfolio of 1,000 movies is given to the satellite players?
- Kamal Jain:** Again, as I said we have some business sensitivities around us, so we may not be able to divulge much in to it, but generally the percentage is as you said, works around that only.
- Dhaval Gada:** But for the next two to three years would it be a significant contributor for the company in terms of monetizing?
- Kamal Jain:** Yes.

- Dhaval Gada:** Sir, the third question was on the international front. In this particular two years what is the trend? I understand FICCI reports 30% kind of international revenues contribution. How many times has Plc. given us more in terms of contribution post the movie success?
- Kishore Lulla:** It depends upon the huge success the movie has had. We should also see it is not only the South Asian Diaspora, we are servicing internationally. Eros Plc., does the movie in to 27 different languages, so it is like German, Polish or Russian or even Thai watch the Hollywood films in the dubbed environment, they are watching even the Bollywood films dubbed into that local environment and the pie is growing and growing in that phase. And the digital new media internationally has really matured whereby in India it is yet to mature because of the launch of 3G and 4G and IPTV and the broadband which is yet to pick up in India in a big way in next two to three years. But internationally You Tube today channel has generated 400 million views already from outside of India which is being monetized. So the content is getting monetized through various platforms whether it will be IPTV or mobile, or whether it is dubbed languages, theatrically, DVD or subscription video on demand, so in that way I think the pie internationally is also going to rise.
- Dhaval Gada:** Would it be fair to assume that it is contributing more than 30% of the cost of the movie?
- Kishore Lulla:** Historically we have taken the average, it is anywhere between 25% and 30%, so we took it at 30%. We will keep on reviewing the policy going forward, it is definitely the industry standards and the percentages of international will grow. But I think India percentage is also growing and Indian theatrical box office is growing, Indian satellite syndication is growing, I think the whole pie is growing.
- Moderator:** The next question is from the line of Amit Purohit from Dolat Capital Market Ltd. Please go ahead.
- Amit Purohit:** When you say that any movie or co-production or production that we enter into, we have a parallel deal with Plc. also for international rights?
- Kishore Lulla:** Yes, for every movie.
- Amit Purohit:** And for 40% we will get it or we will get it from Plc., the remaining 60%, in terms of cost that we have, how are we apportioning it, is it in the first year or how do you do it?
- Kamal Jain:** We have an amortizing policy whereby if a cost of the movie is Rs 100, Rs 30 gets allocated to overseas which is directly written off in year one itself under the direct cost itself and the balance 70 which is the Indian pie, we amortize it at Rs 60 rupees in year one and balance over a period of nine

years, which means, we have Rs. 72 rupees which we write off in year one itself.

**Amit Purohit:** You are saying out of the 70% which is there; out of that 60% you write it off?

**Kamal Jain:** Yes, write it off in year one and balance over a period of 9 years.

**Amit Purohit:** Okay, that means all advances and money receipt is considered as revenue from PLC, right?

**Kamal Jain:** No, advances are treated as advances in the balance sheet and it turns in to revenue only on the delivery.

**Amit Purohit:** Delivery in the sense?

**Kamal Jain:** When the movie gets released.

**Amit Purohit:** It will be a onetime entry right?

**Kamal Jain:** Yes.

**Amit Purohit:** And also of the total library of 1,000 movies, what would be the break up in terms of Hindi and new or old? Some kind of a break up that can help us in terms of understanding?

**Kamal Jain:** Around 50-50.

**Amit Purohit:** 50 would be Hindi.

**Kamal Jain:** 50 would be regional languages.

**Amit Purohit:** Regional will be largely Tamil in South right?

**Kishore Lulla:** Tamil and Marathi and others.

**Amit Purohit:** Okay and in terms of old and new what would be the break up like?

**Kishore Lulla:** Old I think, we do not have anything in 50s or 60s after the 70s. So between 70s and 2000 if you will go on to our website and look at the hits and the block buster you can yourself do the analysis, lots of block busters are in the Eros library.

**Amit Purohit:** Lastly I could not get the revenue break up sir?

- Kamal Jain:** Revenue break up as we mentioned is generally is the ratio, which we have said just now, 40% from Indian box office, 25% from satellites and 30% from overseas, remaining 5% from other ancillary rights.
- Amit Purohit:** This 30% from overseas is largely the entries from the loans and advances right?
- Kishore Lulla:** Yes, correct. The loans and advances convert to revenue when films are delivered to Eros Plc.
- Amit Purohit:** And also when we have a satellite transaction with any of the broadcasters, is it a multi-year contract or one-year contract or every contract is different?
- Kishore Lulla:** Every contract is different. There is no uniform formula that this is how we will sell, it depends upon what is the best deal whether it is a multi-syndication deal or whether it is a single exclusive deal, it could be ranging from one year to multiple years.
- Amit Purohit:** And sir just your view on one important point which I wanted to, just for the industry as a whole, you feel the shelf life of any movie which earlier used to be very long, probably Sholay is still the most watched movie but going forward the new movies shelf life is going down, do you feel that there will be some pressure in terms of monetizing?
- Kishore Lulla:** No, actually the shelf life is doing better. Let me give you some examples okay. I will just take an example of movie called 'Devdas', just came to my mind. 'Devdas' got released in 2002. We syndicated 'Devdas' satellite rights roughly about at Rs. 8-10 crore at that time.
- Amit Purohit:** For per year?
- Kishore Lulla:** Per satellite for about four or five years, just giving you one example. Now after the second time when we syndicated to get back along with the new titles in the other catalogue category we got more than what we had syndicated in the year of release, because you see the sectors are rising. The television sector is rising; we are seeing that at the time of release, sometimes we are getting that price and, we are even getting more after the next 3 years or 5 years cycle. And then you are seeing the various formats also opening up. Now the digital new media will open up. When digital new media is opening up, subscription video on demand, video on demand, IPTV, 3G network. All these new formats when they are coming, you will be able to exploit the library, in fact the library shelf life will increase and give you more revenue and that is the trend we have seen internationally in the last 30 years. So assuming in 80's we should have got X% of the revenue coming from the library and the shelf life were less, in fact now we are getting it more.

- Amit Purohit:** Because avenues have increased, because the example that you are mentioning one Devdas one movie got Rs 8-10 crore, right, then you must have sold a bundle of movies.
- Kishore Lulla:** We sold a bundle of several movies and the deal was made.
- Amit Purohit:** Okay, for you it does not matter even if you are selling one single movie I mean after you have exploited for the first time, the second exploitation bundling up also should give you a decent revenue experiment.
- Kishore Lulla:** Yes, like in the DVD now. DVD, for example, blue-ray has come in, now let us assume, this December, internationally, Disney and Warner and other studios are launching 3D DVDs. So you have got the same, actual catalogue is getting again and again re-monetized for different formats. Now you will be seeing You Tube or whether you are seeing downloads for movies to own, when 3G is being launched by all the networks in India, you will be able to see movies on the 3G platform on the mobile itself.
- Moderator** Thank you. The next question is from the line of Saurabh Gurnurkar from Pramerica Asset Managers Pvt. Ltd.; please go ahead.
- Saurabh Gurnurkar:** What is your CapEx plan for the next year and how does your balance sheet look in terms of receivables and loans, advances, etc., absolute terms please?
- Kamal Jain:** As far as the content CapEx is concerned from now to let us say 12-18 months' time we are assuming somewhere around Rs. 900-1000 crore, for content CapEx investments. As far as debtors are concerned, it will grow slightly because the scale is increasing, but not into the same proportion because the new deals which we are doing right now, involve significant pre-sales.
- Saurabh Gurnurkar:** Okay but typically how long is your receivables cycle?
- Kamal Jain:** Generally if you see the cycle of a movie, it is generally 12 months and most of the money what we pay is towards the end of cycle which we saw and the movie gets delivered So the average cycle for working capital movie would be 6 months but that is further getting lowered because you are getting advances from satellites or music syndications or other syndications, so effectively you are t down to about 3 months, so about 90 days.
- Saurabh Gurnurkar:** Three months is roughly what you are targeting over a period of time? Just one more quick check I wanted is that I have not seen the balance sheet but what is the sort of ROCE your business generates and what is targets you have set for yourself from that metric for next two to three years to scale up?

**Kamal Jain:** If see the ROCE, we have delivered in the past almost 30% ROCE and we will continue to grow our margins and that is how, the ROCE and even ROE will also grow.

**Saurabh Gurnurkar:** What do you think the risks to your business at this point?

**Kishore Lulla:** I think the number1 risk for the business would be one the India risk and number 2 would be the execution risk of the projects we are taking for production, which we have actually de-risked through insurance, so each and every co-production that we are doing we have insured it so that in case anything goes wrong with that co-production, you get paid by the insurance and the third is the terrorism risk, which, you know, tomorrow when the movie gets released, if there are certain riots or certain things that revenue does not come in that is also de-risked through the insurance, we have insured against that also.

**Moderator:** Thank you. The next question is from the line of Rohit Dokania from Batlivala & Karani Securities India Pvt. Ltd., please go ahead.

**Rohit Dokania:** What would be your tax rate for the full year because I believe this quarter it was just about 14%?

**Kamal Jain:** Average tax rate, which is normal, which is about 33%, but on consolidated basis we have few international entities, that is why our average tax rate is little lower. But as far as this particular quarter is concerned there are some previous tax credits that is how tax rate is lower, otherwise generally it ranges between 25%-26%.

**Rohit Dokania:** Okay, so 25%-26% something that you can build in for FY11 as well?

**Kamal Jain:** Yes.

**Rohit Dokania:** Looking at the topline of the Company this first half we have done about Rs. 315 crore, so if I were to just annualize it we would do about Rs. 630 crore, so if I look at the past three years which is FY2009, FY2010, and FY2011, our topline more or less remains the same, so I was just wondering how do we actually grow our topline going forward. I believe the number of slate of movies that we do probably is difficult to increase the slate, I mean I really wonder how we will be able to grow the revenues?

**Kishore Lulla:** As I said in my opening remarks that we at Eros management's first focus is bottom line and second focus is cash flow then comes topline. Definitely there will be a growth in topline in March 2012 and March 2013. This is because we did Rs. 350 crore this year, which will be deployed in the CapEx, so scaling is not a problem. I think if you look at the regional pie itself is growing, you know, the Indian Box office is growing, satellite syndication is growing, even if we do not do anything let us assume and do

not scale the business up if itself will grow at 15%-20% or 25%, but definitely it is scaling up in the regional and other avenues opening up with the new media, digital media opening up in the future that will give us a bigger topline, but our focus is, we do not try to do a business, which will drive our topline. Therefore the catalogue is on a 98% EBITDA margin deal hence we try to deliver when we do the deals, the focus remains on those two things. But definitely the topline growth will come.

**Rohit Dokania:** Sir, is it safe to assume that the number of Hindi movies that we do particularly, our hands are full, we will not be able to increase the slate is that a safe assumption?

**Kishore Lulla:** No, it is not that. I think if you look at the studio model in the US, for the 5 Studios, normally the rule of the thumb is 22 movies every studio does and if they cross 22, they setup a new label. So I think the way I am seeing in the next five years what will pan out in India, there are 1200 movies being released every year let us assume including all languages. So would you have five studios in India like Eros, five or six studios each having 200 movies slate basically in every language, so it could be 20 in Hindi, 20 in Tamil, 15 in Telugu like that and that would be contributing. I think the industry will get consolidated and that is where we are heading to.

**Rohit Dokania:** How do we actually arrive at this figure of Rs. 70 crore, which Golmaal 3 has done in the first three days, I believe we have about three to four distribution offices and I believe that the Golmaal 3 would have got released in more than 1,500 screens, so how do actually arrive at Rs. 70 crore, is it an estimation or we actually speak to all the theatre owners or the sub distributors?

**Kishore Lulla:** I will just give you an overview how international works and how India is going to work in days to come and how we arrived at this figure. Internationally, normally what happens in UK US Market is all the theatre chains have a direct link with AC Nielsen, so in the night AC Nielsen picks up the gross from the theatre chain directly and it gets reported and you can log on in AC Nielsen and look at what is happening to the gross and even theater wise. In fact at the industry level we are asking that AC Nielsen to come into India, so that can be linked also to all the multiplex chains as well as single screens can have that. Eventually I think in the next two to three years that will happen. How do we arrive at that is that we have our own offices in Mumbai, Delhi, UP and 65% of the Indian Market, so our distribution office reports actually through the finance department in Bombay, every night the figure of every theatre wherever the prints are released or the digital screens are deployed. Similarly from International also. So if you look at the Rs. 70 crore gross, Rs. 40 crore was the net box office without the entertainment tax and if you take the entertainment tax that is about Rs. 60 crore gross in India, so we will have full breakup of the Rs. 60 crore, which theatre and how much gross came from every theater

and then the international gross wise X coming from US, UK, Dubai, Singapore or Malaysia wherever the prints are deployed, so on that basis we report.

**Rohit Dokania:** We had a net of say Rs. 40 crore, could you divulge if it is possible probably the agreement that we have with Ashtavinayak as to how Rs.40 crore is shared. I believe about say 45%-50% will be kept by the multiplex and single screen theater owners, so how the rest of 50% will get divided between Eros and Ashtavinayak?

**Kishore Lulla:** I will not get into specific original arrangement but I will tell you how it will normally work. Say suppose Golmaal's cost maybe Rs. 10 crore. So Golmaal is a co-production agreement with Ashtavinayak and Ashtavinayak was paid Rs.10 crore by us. After Rs. 10 crore we had a P&A of say suppose Rs. 2 crore, so on P&A of Rs. 12 crore we take 20% commission. Let us assume that commission comes to X and after that X whatever the gross receipt whether it is from theatrical, whether it is from satellites or whether it is from any format we do it, then it gets shared with the co-producer and the ratio could be 80% trade off and 20% to the producer, at the maximum we pay is 50% depending upon how we structure the deal. The whole idea is to de-risk the strategy that means our cost is low, that means we do not lose and we should not be dependent on a hit, that means, Eros should not only report profit because we will deliver hits. Let us assume Golmaal bombed at the box office and it did not do well then also we should be able to recover money and make a decent kind of margin on that movie. That is the kind of deals we workout.

**Rohit Dokania:** Sure. Just another question; I was just looking at the FICCI-KPMG report that you were referring to, I believe it says about 7% came from overseas theatrical in 2009, so is it that, you know, for the whole of the box office it is different, for Eros it is different at 30% is that the reading?

**Kishore Lulla:** That is theatrical, but you know you have other satellites, you have dubbed or you have digital media and other rights as well.

**Rohit Dokania:** Okay, will that be fair that makes 23% for the total overseas to contribute 30%?

**Kishore Lulla:** I think the way Eros International has worked if you look its P&L since last 10 years, so about 25%-32% came from international and that is how we have derived a formula and if you look at the overall satellite rights and the syndication rights and the other digital new media rights and if you will put a value that comes to around 25%-30%.

**Moderator:** Thank you. The next question is from the line of Manish Shah from Sunman Investment Advisors Pvt. Ltd., please go ahead.

- Manish Shah:** Sir, can you tell me the CapEx for next year?
- Kamal Jain:** As we just now said the overall CapEx what we are planning to do is between Rs. 900-1,000 crore in the next 18 to 24 months' time.
- Manish Shah:** And the funding will be from internal accruals?
- Kamal Jain:** Yes, it is largely from internal accruals, if you see the company's cash flow position is very strong, so it will be largely from internal accruals.
- Manish Shah:** Sir, we are maintaining our guidance of Rs. 110 crore of profit for this fiscal?
- Kamal Jain:** We have done well as far as the first H1 is concerned about Rs. 60 crore PAT. So yes, we are comfortable with the Rs.110 crore guidance for the full year.
- Moderator:** Thank you. The next question is from the line of Kesvinder Suri from Span Capital Services, please go ahead.
- Kesvinder Suri:** Just going back to your arrangement with the PLC entity if I got it correct the 30% of cost would be your share of co-production that you proportion to the international entity right with a 30% markup, so in year one itself you are recognizing 39% on to your revenues?
- Kishore Lulla:** Yes.
- Kesvinder Suri:** And the balance you allocate 60% in year one and the balance in over nine years?
- Kishore Lulla:** Yes.
- Kesvinder Suri:** And it is a rolling thing right, I mean does the Plc. always maintain X amount with you or how does it work?
- Kishore Lulla:** No, the advances, which we get are always on project basis. If you look at the whole thing, it is absolutely at arm's length transaction, if you look at the way the industry works. If we are making a movie and pre-selling it to a satellite or to a music or to another digital media, so when we are pre-selling, there is certain set of advances, which we get from these segments so similarly overseas for us is an arm's length transaction from where we will get an advance against the project, which we are actually delivering to them, so it is absolutely a business transaction and normal trade advance.
- Kesvinder Suri:** With regards to the exploitation of the library internationally, non-India region per se totally lies with PLC, right?

- Kishore Lulla:** Yes.
- Kesvinder Suri:** Okay, and in a recent answer when you were trying to explain the de-risking in terms of say when you gave the example of Golmaal, if it costs X; could you just go over that example again because I could not understand how you de-risk with the 20% commission you charge?
- Kishore Lulla:** Okay sure. So let us assume the movie cost Rs100 and revenue is Rs 200, there are two models normally, 100 plus 20 is P&A cost or 10 is P&A cost we either charge 20% commission on 110 or we could take 20% commission from the revenue, which is 200, so it depends upon different arrangements we make with the co-producer. So let us assume the movie costed Rs 110 and 20% is our commission that comes to let us assume Rs 22, so Rs 132 is the cost; Rs 200 is the revenue, Rs 132 is the cost, with our commission, the balance Rs 68 can get divided between Ashtavinayak and Eros either at 50-50 or it could be 80-20 in our favour, so every movie is different.
- Kesvinder Suri:** This Rs 20 what you are charging what is that all about?
- Kishore Lulla:** This is for the distribution network because Eros is not a trader or a financier, we are not acquiring and trading the rights, Eros is actually the exploiter and that is the reason our margins are better in the business, see otherwise the financier can come and tell, look I will finance you and then I will trade to people like Eros and give the rights, hence that 20% is for the studio let us assume in the US or any exploiter will charge as distribution commission for the exploitation network.
- Kesvinder Suri:** Is this 20% a fixed amount of gross contracts or again it varies from contract to contract?
- Kishore Lulla:** It varies, if we want to bring down the cost from Rs.100 to Rs.50 and we could settle for 15%. Eye is on the bottomline. That means what happens at any cost, we should not be able to lose on the movie, you know, that is what is the management focus, so it is not a success driven model.
- Kesvinder Suri:** In any case you still mint, right?
- Kishore Lulla:** Yes, now assume a movie did Rs. 70 crore or let's assume Rs.40 crore or let us assume it bombed. Our model is that we should not lose out our cash, what we have given out and in any worst circumstances we should be able to recover 100% of the capital outlay we have done in a movie and then the catalogue will keep on giving us the return on the movie.
- Kesvinder Suri:** When you actually get in to a co-production agreement with another producer what do you bring on the table besides A) part-funding the project, B) exploitation of the rights that is what you bring to the table, right?

- Kishore Lulla:** Yes, I agree. If you look at the Hollywood model, which has been successful over 100 years, what Sony pictures or Warner Brothers or Universal brings to the table. What they bring to the table is their distribution expertise and then the marketing expertise, and third the balance sheet. You see, it is a nuts and bolts driven business. Why nobody in 100 years has been able to establish a distribution network in US today? Why it is governed by the five top studios in the US? Similar thing, you know, in India it is a complicated business, it is not only about the Indian box office, which theatre to play, how to play, which theatre to be placed then how do you exploit from DVD, how do you syndicate your television rights, satellite rights, DTH and then different formats of the rights.
- Moderator:** Thank you. The next question is from the line of Namarata Sharma from Pinc Research, please go ahead.
- Namarata Sharma:** I just have two questions; one, is what is the CapEx plan for non-Hindi movies for the next two years?
- Kamal Jain:** Generally as we said about Rs. 900 to Rs. 1,000 crore is what our CapEx plan for the next two years is and out of that we will be allocating about 80% to Hindi and balance to others.
- Namarata Sharma:** Okay. My next question is looking at your half-yearly numbers, subsidiary contributes around 33% to the topline but if you look at the EBIT margins of subsidiary it has gone down from 43% to 27%, so I just want to understand the reason for it?
- Kamal Jain :** You are looking at the current margins?
- Namarata Sharma:** Yes, half-yearly margins, subsidiary EBIT margins?
- Kamal Jain :** On a consolidated and standalone basis, the half-yearly margins have gone up. As far as the subsidiary margins are concerned there is no reduction there. It is the sum of the total absolute amount of the revenue what we have done there.
- Moderator:** Thank you. The next question is from the line of Mayur Gathani from Ohm Stock Broker Pvt. Ltd., please go ahead.
- Mayur Gathani:** I just wanted to know regarding the Dabangg overseas distribution, Eros International ties-up with the producer locally here for the exploitation rights overseas, right?
- Kishore Lulla:** Yes.
- Mayur Gathani:** Eros Plc. is just a holding company and not directly contribute anything that is produced here?

- Kishore Lulla:** You see the arrangement is basically that when we filed our RHP. It is a private agreement that Eros Plc. through its subsidiaries, we have offices in UK, US, and every part of the world wherever the South Asian diaspora is, we will not deal directly with the Indian producer, it has to be dealt with Eros India, so Eros India normally makes an agreement and then sells it on that formula basis to Eros International Plc. Then the Eros International Plc. exploits it and we have a 70-30 revenue share.
- Mayur Gathani:** Post this second one is, for the DTH revenue and syndication revenue. Is there a sharing with the producer also or do you own the IP rights perpetually?
- Kishore Lulla:** It depends upon case to case there is no uniform formula, some movies could be outright, the old catalogue we do not have to share anything, but there could be the co- production agreement since there we are owning it either in perpetuity, so there could be the sharing formula, which we talked about 50-50, 80-20 and all those commission structure. So I will not be able to generalize the comment, but yes definitely it could be sharing.
- Moderator:** Thank you. The next question is from the line of Rajesh Zawar from Antique Stock Broking Ltd., please go ahead.
- Rajesh Zawar:** One confirmation I needed regarding the Eros Plc.; the rights or the agreement is for all the rights including the theatrical, satellites and digital rights for the overseas?
- Kishore Lulla:** International all rights, yes.
- Rajesh Zawar:** So, how will the digital work in that case, I mean t for the You Tube, you said it is divided between depending on who subscribes or who pays for the movie depending on where they are based?
- Kishore Lulla:** That is right, normally you can have geo-blocking and you can even know which consumer is locked in from which country.
- Rajesh Zawar:** Secondly, when we talk of the cost for the movie where the 30% plus the markup, does it mean that the 30% is up to the stage of the marketing?
- Kishore Lulla:** No, marketing is totally borne for international by Eros Plc. and India by India, it is the pure cost of the co-production.
- Rajesh Zawar:** So, it is basically till the date of the release till the production schedule is completed?
- Kishore Lulla:** You are right.

- Rajesh Zavar:** Couple of housekeeping questions. This is regarding the work in progress movies, where does it get reflected in the balance sheet?
- Kamal Jain:** Basically if we are doing production of a movie that gets reflected into inventories; if these are co-productions or these are the acquisitions. If we have given some advance, it sits in advances, advances to consumers, it is an asset.
- Rajesh Zavar:** So, basically WIP depends on how you define the recognition of the WIP, one is loans and advances, but then if I look at the inventories quarter-on-quarter for FY2010 or the first half it has not grown as such, I mean it is constant at Rs. 40-41 crore?
- Kamal Jain:** See the inventory, which you see here I mean this inventory basically has three parts, one is the DVD, VCD the physical ones and then you will have for negative roles and for some of the movies under production. So this particular quarter more or less the things have been same so there is no movement over there.
- Rajesh Zavar:** From debtors part of it when we look at that would be related also to the satellite rights apart from because what the advances and everything how does the debtor cycle works?
- Kamal Jain:** Debtors as I said basically belong to all segments, be it satellite, theatrical, other media, new media, it belongs to all segments and generally the debtor cycle remains about 80 to 90 days.
- Rajesh Zavar:** What we are looking at is bring it down from six months to three months that is what our intention is?
- Kamal Jain:** Yes.
- Rajesh Zavar:** When we look at the liabilities part of it, the liabilities will be apart from the Rs. 350 crore what we have from Eros International Plc., the international arm, and the rest of it is related to our normal work in progress or as such?
- Kamal Jain:** On the liabilities part, these are advances, the Rs. 347 crore is definitely on Eros Plc. and then we get advances from satellite channels also We have done syndication deals, this Rs. 240 crore syndication, we have received some advances from our channel partners also, those advances are also sitting in liability as creditors because we will not recognize till the time we deliver the movies.
- Rajesh Zavar:** Right Sir. I have two strategic questions for Mr. Lulla; one, there is a significant opportunity we look at on the new media side, so according to you both from the content part of it and also from the DTH distribution how the market is evolving and how do you see the trend translating over next

two to three years where we are looking at the pay per view, which is also growing substantially?

**Kishore Lulla:**

I think in India the DTH, IPTV, internet, 3G, 4G all are growing. Let me give some concrete example what we did in US. In US we have a joint venture with Comcast. It is a joint venture whereby we launched subscription video on demand platform across the Comcast platform and also with Time Warner, Cox Cable and others. What we did was we provided 50 hours of programming on subscription media on demand and charge \$12.99 to the customer. \$12.99 gets split up, 50% with the JV and 50% Comcast keeps or 50% Time Warner keeps. And that 50% contributed; say suppose in the last nine months after the launch we have both 15,000-20,000 subscribers on the various platforms, so that is generating X revenue and that is how the market is growing and then we also have transitional video on demand per movie, the new movie, which comes for which we charge anywhere from 299 to 399. I think the similar pattern will follow in India, deal is whether it is on DTH or digital cable, which has a return part and also on the 3G you will have short form content going on the You Tube we actually monetize to advertising. So you will have within the new media different verticals, the verticals would be first cable VOD, SVOD, second DTH, third would be IPTV, fourth would be 3G and 4G, and fifth would be licensing different companies, which are coming to us who want to have our content and they pay us a minimum guarantee and a revenue share, so that will be the kind of model we will be working with in India.

**Rajesh Zawar:**

Going forward that should start contributing more from the current 20%-30, overall including the satellite rights and everything?

**Kishore Lulla:**

I think the ancillary rights has to grow in overall pie, the ancillary rights is contributing anywhere from 5%-10% today. If you look at the US studio model they have ancillary rights contributing 30% of the overall pie. You will see the consolidation happening in India. The good thing is that Indian box office is growing. Today Golmaal let us assume this Diwali has done more than the last Diwali, this is because of the multiplex screens going up, the per capita income, consumers having the disposable income, more and more joining the middle class, all those factors are also contributing towards the India box office. The satellite is growing, but you will see the digital and new media sector definitely contributing more in the years to come.

**Rajesh Zawar:**

Regarding the capital allocation when we talk of after the fund raising at Rs. 350 crore, so does it mean that we would move only from acquisition, we move towards co-production or production mode, and second is looking at the scale of operations when we are talking of bring it to a newer level compared to Rs. 650 crore, so up to what level will it suffice to?

**Kishore Lulla:**

I think there will be two factors in that, number one thing the eye is on the cost whether it comes to acquisition or co-production, with production alone

module you cannot scale up that much, how much creative can you be. So we are following the Warner Brothers or Sony Picture model, they produce fewer movies a year and the rest of the co-production or the acquisition model. Idea is that how do we keep the cost down .So that you do not get into a risk strategy whereby you paid heavy for the movie and then suddenly you are dependent on the performance of the box office to break-even. We are also getting into regional because the regional strategy has really worked for us because the cost is very low and there are 150 towns, within India itself the disposable income, which the middle class is having they are going to the theatre and we have seen a big upsurge whether it is Marathi, Punjabi or other regional languages. So the scale will come and along also with that, the growth which is happening in the sector. So you will have both, the increase in scale as well as the growth and also increase the revenues in ancillary rights.

**Moderator:** Thank you. The next question is from the line of Srinivas Seshadri from RBS Equities India Ltd, please go ahead.

**Srinivas Seshadri:** My first question is with regards to the kind of fairly good turn around we have seen in the industry fortunes both in terms of the higher TV syndication plus structural increase in the box office collections. So given the fact that the economics are improving quite rapidly over the last year, what kind of competitive activities you have seen A) from point of view of say new studios or new competitors coming in or even the existing competitors getting more active; as well as what is it happening in terms of the talent cost, have we seen escalation happening there of late, which is not reflected in the current finances because of the lead time in making the movie?

**Kishore Lulla:** I think we are moving towards the US studio model totally. India being such a diversified country and, you know, we are producing 1,200 movies. I would foresee a six to seven studio model roughly in India at the moment like Eros, whereby you will have these 1,200 movies being consolidated by six or seven studios and every studio undertaking anywhere 100 plus movies every year including regional. So there is a room for another three to four studios entering the sector that is number #1. In fact, that will work better for us because you know the investors or the analyst could actually have the peer group analyze the whole sector and this is how it works and it will get mature. #2 competition, I think in fact if you look at our strategy since last three years, there is a huge competition in the last three year because of the sector everybody got in whether it is Warner, Sony, everybody wanted to get into India and you must have seen the prices escalating to Rs. 100 Crore or Rs. 120 Crore, Rs. 150 Crore as well. At Eros I think if you look at the cash flow over the last four years we had a CapEx of about Rs. 1,250 crore and as on March 31, 2010 our advances to the producers, work in progress was about Rs. 400 crore so that means we

had the CapEx for the released movies in the last four years for about Rs. 850 crore. But against that Rs. 850 crore we generated Rs. 1,000 crore of cash flow. So in the worst times when there was enough competition we generated that kind of cash flow, so Eros management keeps the eye on the bottom line and cash flow. We do not want to get driven into the competition saying that okay fine we want to take this movie at any cost. As long it will work for us, the numbers will work for us and Eros management thinks that we will not be exposed to high risk strategy and we work on that. In the years to come we have got about 50 projects whether it is Hindi, Tamil, Marathi, and Punjabi already locked in and 30 have been disclosed already today, you must have seen in the announcement. So we have worked diligently and the players who work with us, the co-producers they have been working with us repeatedly. Now with Shahrukh Khan actually we have been working say for example for last 10 years. So that trust you build with that co-producer and that is not only about the price, you know, that co-producer moves to the other studio, it is the relationship we develop and how you place that movie and the distribution network we have built.

**Srinivas Seshadri:** The second question I had was particularly in relation to this quarter. We had Anjaana Anjaani, which was released officially in October so obviously we would have some music rights sales or maybe the TV and the international bid, we just wanted to understand what exactly has been booked at least in terms of the lines, even if you are not comfortable sharing this?

**Kishore Lulla:** You have totally answered your question.

**Srinivas Seshadri:** I just wanted to clarify whether the international rights pertaining to Anjaana Anjaani were booked in this quarter as well as the TV write-ups?

**Kishore Lulla:** Yes.

**Kamal Jain:** As we mentioned earlier we generally book our revenue on delivery basis whether it is music, satellite or overseas. So most of the things were delivered on as far as this specific case is concerned and thus there could be some overflow which would come in Q3 FY2011.

**Srinivas Seshadri:** How do you handle the minimum guarantee, which you get from distributors are they also booked or that is something which will come in the next quarter?

**Kamal Jain:** See, again as I was saying it depends on the delivery if we have taken a minimum guarantee but we have not delivered the movie it will not get booked. Or if we have taken the minimum guarantee and we have delivered. Also because let us say the movie got release on October 1, 2010, but we have to deliver the movie, two to three days before so possibly whatever MGs we have done we have booked it in this quarter.

- Srinivas Seshadri:** So, it is only to the extent you are not covered by MGs, they would to come in Q3 FY2011?
- Kamal Jain:** Yes, correct.
- Moderator:** Thank you. The next question is from the line of Akhil Jain from Aditya Birla Money, please go ahead.
- Akhil Jain:** My question is regarding Ayngaran, how much did Ayngaran contribute to this quarter's topline?
- Kamal Jain:** As I mentioned earlier, around 75% to 80% our revenues basically come from Hindi and the balance come from other regional languages, so about 15%-20% is its contribution.
- Akhil Jain:** Your minority interest is about Rs. 25 Lakh, so if I were to extrapolate that as Rs. 50 Lakh profit from the Ayngaran subsidiary for the total entity, Ayngaran entity?
- Kamal Jain:** Yes, that is right.
- Moderator:** Thank you. The next question is from the line of Virendra Verma from Global Holding Corporation Pvt. Ltd., please go ahead.
- Virendra Verma:** In the release you have mentioned like 39 movies were released, so all these 39 movies were co-production deal or partly will be co-production and distribution and going forward also will be following this co-production model?
- Kishore Lulla:** It is a co-production acquisition mostly, so it is not necessarily co-production, it could be an acquisition. I think there is no such formula, which I can guide you that what we will do in the way going forward, it could be acquisition, co-production, and production; but production will be very less, it is all about the costing and say suppose today many producers have made the movie and they are lying ready, if the management likes the movie and if we can get it to the cost we think that we will recover and make money on it we will definitely do it.
- Virendra Verma:** Just to understand, you gave the example of Golmaal 3, so from Eros point of view Golmaal 3 was a co-production or an acquisition?
- Kishore Lulla:** That is an acquisition. Let us assume if any co-producer has made a movie we will work on that model saying that okay this is what we will pay you upfront, and this we will be sharing after that so that our initial cost is very low. See, always every producer thinks that my movie will become a big hit and I will be able to get so much, if you talk outright to them saying that

okay fine I will pay you X amount and I am not going to share with you anything, you will always end up paying more.

**Virendra Verma:** Sir, Rs. 240 crore deal you have announced with various TV content, I just want to know is it inclusive of the past thing only or like ongoing production, which is on the slate also?

**Kishore Lulla:** It is an ongoing production as well as catalogue.

**Moderator:** Thank you. The next question is from the line of Sakshi Malhotra from Eureka Stock & Shares, please go ahead.

**Sakshi Malhotra:** I firstly wanted to understand how this amortization policy works? If I get it correctly 30% of the cost is borne by Eros Plc. and out of this 70% how do we do it in the first and the following years?

**Kamal Jain:** As I have mentioned earlier if the cost of the movie is Rs.100 you rightly said Rs.30 gets allocated to Eros Plc. so that gets knocked off from the direct cost and the balance 70% which we retain in India, we amortize 60% of that in year one and balance we amortize over a period of nine years, which means Rs.42 gets amortized in year one from domestic and Rs.30 gets knocked off from the direct cost for Plc., which means overall Rs.72 is getting written off in year one for the movie.

**Sakshi Malhotra:** Out the distribution system that Eros has, we have about 2,000 screens right? So can you give us a breakup in percentage as to how many of them would be multiplex or single screens and how is the revenue shared between in the first week as well as in the following weeks?

**Kishore Lulla:** I think on the 2,000 screens worldwide we have gone across there will be different arrangements. With the multiplex as per the agreement which we have, 52.5% gets into the first week or 50% depending upon the gross of the movie and then it declines down to 40% in the various weeks. In single screens in India, you know, you could have a different arrangement anywhere ranging from 65% to 70% for the first week and declining to 45% in the subsequent weeks.

**Sakshi Malhotra:** Okay, 70% in the first week and about 40%-45% in the other weeks.

**Kishore Lulla:** It is not a formula, but this is sort of an indication we get.

**Sakshi Malhotra:** How many of them would be actually multiplex, do we have more number of single screens or multiplex, what would be the breakup?

**Kishore Lulla:** Normally of this 2,000 you take out about 500-700 internationally, so out of 1,300-1,400 in India you would have some 400 multiplex and the balance single screens. If it is a multiplex driven movie you have more in multiplex

and less in single screen. For example, Golmaal 3 is actually a multiplex as well as single screen movie so went out wide on both.

**Sakshi Malhotra:** I guess you discussed earlier also but I did not really get it very clearly. In case of co-production how is it? How does Eros put in the capital share into the cost of the movie?

**Kishore Lulla:** As we explained, the cost is Rs.100 normally, lot of costs are deferred till the release, you would have may be 30% on that release and if the movie takes about 12-18 months to complete so you will fund at various co-production stages and also you will be taking advances from the various syndications deals we do. So it is a whole working cycle.

**Sakshi Malhotra:** Would it be in percentage share, if I were to say you fund the production of the movie say 50-50, are there various other deals signed like that?

**Kishore Lulla:** Yes.

**Moderator:** Thank you. The next question is from the line of Rajiv Ghosia from Wealth Management, please go ahead.

**Rajiv Ghosia:** Sir, you were saying that over the next two years your CapEx could be around Rs. 900-1,000 crore, can you give the corresponding figure over the last two years to get a comparison?

**Kamal Jain:** In the last couple of years, we have spent around Rs. 700 crore in terms of CapEx and going forward we are scaling it up to Rs. 900-1,000 crore.

**Rajiv Ghosia:** Of the Rs. 240 crore satellite deal that you have signed how much of that will be booked in FY2011 and how much will be booked in FY2012?

**Kamal Jain:** Out of this Rs. 240 crore, as I said this is mostly about future deals, around 40% may be booked this year.

**Rajiv Ghosia:** You were saying something about the insurance, terrorism insurance?

**Kishore Lulla:** That was the production insurance and the distributor and risk insurance. In case of any mishap, that means whatever the revenue expected there are different formulas that insurance companies have worked out and we are trying to insure so that there is no loss to the Company, for any event which happens outside our control.

**Rajiv Ghosia:** You are getting 20% of your revenues from regional currently right?

**Kamal Jain:** Yes, around 15%-20%.

**Rajiv Ghosia:** Where do you see this number in the next two years?

- Kamal Jain:** As I mentioned the overall business is growing so, may be today if we are doing Rs. 1,000 crore we go to Rs. 1,200 crore, may be the percentage more or less would remain the same because the growth is there in all the sides and we would be expanding ourselves into various regional languages also. So from that perspective this percentage can go little higher, may be 20% to 25%.
- Moderator:** Thank you. The next question is from the line of Neerav Dalal from Sharekhan Limited, please go ahead.
- Neerav Dalal:** When you book the international revenues you book 39% in the revenues and 30% in the cost, right?
- Kamal Jain:** Yes, correct.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Kishore Lulla for closing comments, please go ahead.
- Kishore Lulla:** Thank you so much, it gives me immense pleasure actually to interact with you all on a regular basis to address your questions and comments on Eros International. We hope to have your valuable support on a continued basis and to move ahead and if you have any further queries we would be available outside this forum. On behalf of the management I once again thank you for taking time to join on this call. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Eros International Media Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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*Note: This is a transcription and may contain transcription errors. The Company takes no responsibility of such errors, although the transcript has been edited to ensure high level of accuracy.*