



# ANNUAL REPORT 2005 - 2006



**Aakhir Dil Hai Hindustani  
Dil Apsa Punjab**



**ETC Networks Limited**

[www.reportjunction.com](http://www.reportjunction.com)




# values

*To maintain the Company's pioneering status as a multimedia content and access provider, driven by viewer response and shareholder confidence.*

*We will continue to aim for greater growth in creativity and productivity by adding value to existing properties, both for our viewers and advertisers.*

*Convergence through the flow of group synergies shall make innovation an inevitable part of the **etc** brand.*

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## Chairman

Subhash Chandra

## Board of Directors

C R Mehta

Jagjit Singh Kohli (*from 17 October 2005*)

Rajiv Garg, Managing Director

Sanjay Agrawal (*from 13 March 2006*)

Surjit Banga

Subhash Chand Garg (*up to 2 September 2005*)

Vikas Gupta (*up to 13 December 2005*)

## Senior Management Team

Jagjit Singh Kohli

Chief Executive Officer

Sanjay Agrawal

Chief Financial Officer

Ashish Chakravorty

Business Head – ETC Music

Rabindra Narayan

Business Head - ETC Channel Punjabi

Rajjee Shinde

Sr. Vice President – ETC Channel Punjabi

Alok Rakshit

Vice President – National Sales, ETC Music

Deepak Bondre

Vice President – Accounts

P R Balan

Vice President – Corporate Services & Commercial

Ravindran Acharya

Vice President – Creative & Programming

Sam Mall

Vice President – National Sales, ETC Channel Punjabi

Vijay Shah

Vice President – Legal

## Company Secretary

Vijay Shah

## Solicitors

Thakore Jariwala & Associates

Dutt & Malhotra

## Auditors

MGB & Co.

Chartered Accountants

## Registrars and Transfer Agents

Sharepro Services (India) Pvt. Ltd.

Satam House, 3<sup>rd</sup> Floor, Cardinal Gracias Road

Chakala, Andheri (East), Mumbai 400 099

Tel: +91 22 2821 5168/ 2832 9828

Fax: +91 22 2837 5646

Email: [sharepro@vsnl.com](mailto:sharepro@vsnl.com)

# Directors' Report

To

The Members of

ETC Networks Ltd.

Your Directors are pleased to present 7<sup>th</sup> Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31<sup>st</sup> March 2006.

## Financial Highlights

(Rs. in lacs)

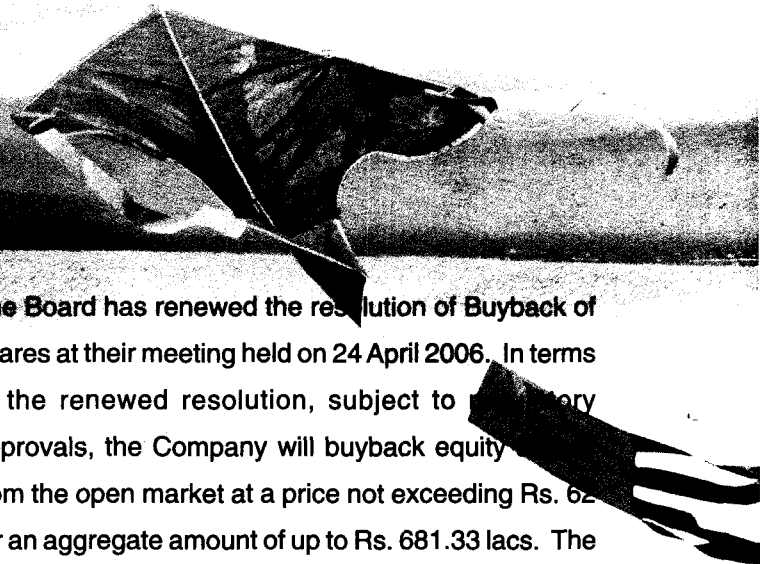
	For the year ended	
	31st March 2006	31st March 2005
Total Income	4521	4791
Total Expenditure	3065	2964
Profit before Financial Charges, Depreciation and Tax	1456	1827
Financial Charges	8	32
Depreciation	347	645
Profit before Tax	1101	1150
Provision for Tax	394	428
Profit after Tax	708	722
Balance Brought Forward	1160	629
Amount available for Appropriation	1867	1350
Proposed Dividend	150	150
Tax on Dividend	21	21
Transfer to General Reserve	20	20
Balance carried to Balance Sheet	1677	1160

## Review of Performance

Total income during the year under review was Rs. 4521 lacs as against Rs. 4791 lacs during the previous year. Profit before tax was Rs. 1101 lacs as against Rs. 1150 lacs during the previous year. Profit after tax was Rs.

708 lacs as against Rs. 722 lacs during the previous year. The fall in revenue and profits were mainly due to lower realizations and increased spending on new programming initiatives, the benefits of which would accrue in the coming years.





ETC channels continued to maintain their leadership positions in a competitive scenario. *etc* Music is a predominantly Hindi Music Channel closely associated with Bollywood and enjoys 40%+ channel share amongst the music channels. ETC Channel Punjabi is commanding highest rating amongst Punjabi channels and is a default channel for Punjabi speaking populace.

#### Appropriations

Your Directors have recommended payment of dividend @ Re. 1 per share (10%) for the year under review. Total payout on account of dividend and distribution tax will be Rs. 171 lacs for the year. Your Directors propose to transfer an amount of Rs. 20 lacs to the General Reserve and carry the balance Rs. 1677 lacs to the Balance Sheet.

#### Corporate Governance

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion and Analysis Report and a Report on Corporate Governance are given as Annexure 'A' and 'B' to this Report.

A certificate from the Statutory Auditors regarding the Compliance by the Company of the conditions stipulated under Clause 49 is also attached.

#### Buyback of Shares

The Company made a Public Announcement on 11 May 2005 for buyback of equity shares from the open market at a price not exceeding Rs. 50 per share for an aggregate value of up to Rs. 616.30 lacs. However the Company could not effect the buyback from the market during the validity of the resolution up to 20 April 2006 in view of regulatory issues.

The Board has renewed the resolution of Buyback of shares at their meeting held on 24 April 2006. In terms of the renewed resolution, subject to regulatory approvals, the Company will buyback equity from the open market at a price not exceeding Rs. 62 for an aggregate amount of up to Rs. 681.33 lacs. The Board shall make a Public Announcement in this regard as soon as the regulatory issues are cleared.

#### Public Deposit

During the year under review, your Company has neither accepted nor renewed any Deposits within the meaning of section 58A of the Companies Act, 1956 and rules made there under.

#### Auditors

M/s MGB & Co., Chartered Accountants, the statutory auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and being eligible offer themselves for appointment as Auditors of the Company. The Audit Committee of the Board recommends the appointment of M/s MGB & Co. as Auditors.

#### Directors

The Board of Directors appointed Mr. Jagjit Singh Kohli and Mr. Sanjay Agrawal as Additional Directors at their meeting held on 17 October 2005 and 13 March 2006 respectively. They hold office till the date of ensuing Annual General Meeting. In view of the rich and varied experience possessed by Mr. Kohli and Mr. Agrawal, the Company stands to benefit from their appointment. Accordingly, their appointment as Directors is included in the Agenda of the Annual General Meeting.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association, Mr. Surjit Banga retires by rotation and is eligible for reappointment.

Brief resume of Mr. Jagjit Singh Kohli, Mr. Sanjay Agrawal and Mr. Surjit Banga, nature of their expertise in specific functional areas and names of companies in which they hold directorship and membership of committees of the Board, as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges are given in the notice convening the Annual General Meeting.

#### Directors' Responsibility Statement

As required under Section 217 (2AA) of the Companies Act, 1956 the Board of Directors confirms and declares:-

- (i) That in the preparation of the annual accounts the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- (iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) That the Directors have prepared the annual accounts on a going concern basis.

#### Additional Information

The provisions of Section 271(1)(e) regarding Conservation of Energy and Technology Absorption are not applicable to your Company. The particulars of

foreign exchange earnings and out go during the year under review are given in Schedule 17, Para 17 to the Notes to the Accounts forming part of the Annual Accounts.

#### Particulars of Employees

Particulars of employees drawing remuneration in excess of limit specified under Section 217(2A) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is as under:

1 Name	Rajiv Garg
2 Designation & Nature of Duties	Managing Director
3 Remuneration Gross	Rs. 24,15,000
4 Qualifications	M.Mgmt., McGill Univ., Canada, PGD in International Management – INSEAD France
5 Date of Commencement of Employment	1 January 2005
6 Total Experience – Years	28
7 Age – Years	50
8 Last Employment	Raymond Ltd., President – Corporate

#### Notes:

1. Remuneration received includes Salary and allowances.
2. Mr. Garg is not related to any Director of the Company.
3. Nature of employment Non-contractual.

#### Acknowledgements

Your Directors place on record their thanks to the advertisers, the Central and State Governments and Shareholders for their continued support and assistance to the Company. Your Directors also sincerely acknowledge the significant contributions made by the employees during the year.

For and on behalf of the Board of Directors

**Rajiv Garg** **Sanjay Agrawal**  
Managing Director Director & CFO

Date : 24 April 2006

Place : Mumbai

# Management Discussion and Analysis

*Investors are cautioned that this discussion contains forward looking statements that involve risks and uncertainties including, but not limited to, risks inherent in the Company's growth strategy, acquisition plans, dependence on certain businesses, dependence on availability of qualified and trained manpower and other factors. The following discussion and analysis should be read in conjunction with the company's financial statements included herein and the notes thereto.*

## Economy and Business Environment

The Indian economy is on a growth trajectory and has maintained its growth momentum in spite of spiraling oil prices and inflationary pressures. The economy has registered a growth of 8% and is expected to continue to grow even at a higher rate. Although, the revenue deficit still remains a cause for concern for some, the Government has been able to keep it confined to manageable levels. Bottlenecks in infrastructure more particularly in power generation, water supply etc. continue to be big gaps in the economy and need to be addressed to achieve sustained GDP growth.

## Industry Overview and Opportunities in the Entertainment Sector

The Indian Film Industry is considered to be the largest film industry in the world in terms of number of films produced and released every year. Hindi Film Entertainment Space popularly known as Bollywood is its largest and most significant component. The Hindi film industry attracts around 60% of the consumer spending on film entertainment products. Bollywood is an expanding industry and is experiencing rapid

transformation in production, exhibition, music, finance, and home entertainment. The current business trends and the growth drivers of the economy provide a strong investment perspective for attracting capital and effecting faster growth in Bollywood. The business model of entertainment industry is evolving and organized financing is replacing the Venture Capitalists of yore. Professional service providers are becoming increasingly significant with the growth of multiplexes and corporatized film production houses etc. which are attaining an increasingly dominant role in the industry.

There has been a visible shift in cinema viewing patterns of cinegoers due to availability of cable and satellite television (C&S) which is one of the alternative sources of distribution for the film industry. The other fact of steady economic growth has led to higher share of consumers spending on entertainment giving an impetus to growth of this industry. The advent of multiplexes with 3-6 screens has given momentum to increased production of movies.

## Home Entertainment

The legitimate home viewing market in India is currently estimated to be in the region of Rs. 2000 millions which is approximately 25% of the total consumers spending. The realization to film producers from the sales of rights to home entertainment has increased by almost 100% in the last two years. This is an area where growth is expected to be strong.

## Growth Drivers

The Company is very optimistic about its growth as the entertainment industry is on a growth trajectory on account of the following.



## 1. Demographics

The consumer spend on entertainment is high amongst the age group of 15 to 45. This is likely to continue in the future aided by increasing urbanization and emergence of new distribution platforms. The Conditional Access System will revolutionize the delivery of television to viewers' homes and change the market dynamics.

## 2. Distribution

The new distribution platforms would be biased towards Free-to-Air channels as it will be mandatory for the service providers to carry them.

## 3. Multiplexes

The advent of multiplexes throughout the country has improved cinema attendances leading to higher revenue generation for the film industry. This revenue generation in turn enables more production and releases of films. Your company is a big beneficiary as the marketing spends of new releases would lead to increase in its exposure income.

### Executive Summary of Operations during the year

- Increase in average revenue realization for time slots
- Focus on tie up with Bollywood by hosting premier shows of new film releases
- Initiatives to create synergy with Bollywood and increase their marketing spend on the etc channels
- Events and road shows in different cities to build direct rapport with the viewers
- Endeavor to be a platform for film and music industry
- Preferred choice as a channel for music companies
- New interactive programs for enhanced viewer participation

## Risk Analysis

The company conducted a study on analysis of risks faced by the business. The study based on framework by Michael Porter in "Competitive Strategy" addressed following factors affecting the business at a broader level.

### Business Risks

- Rivalry amongst existing business
- Threat of new entrants
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitute products

The Company prepared a detailed report on these factors and chalked a risk mitigation strategy to contain/counter the above risk elements at a macro level.

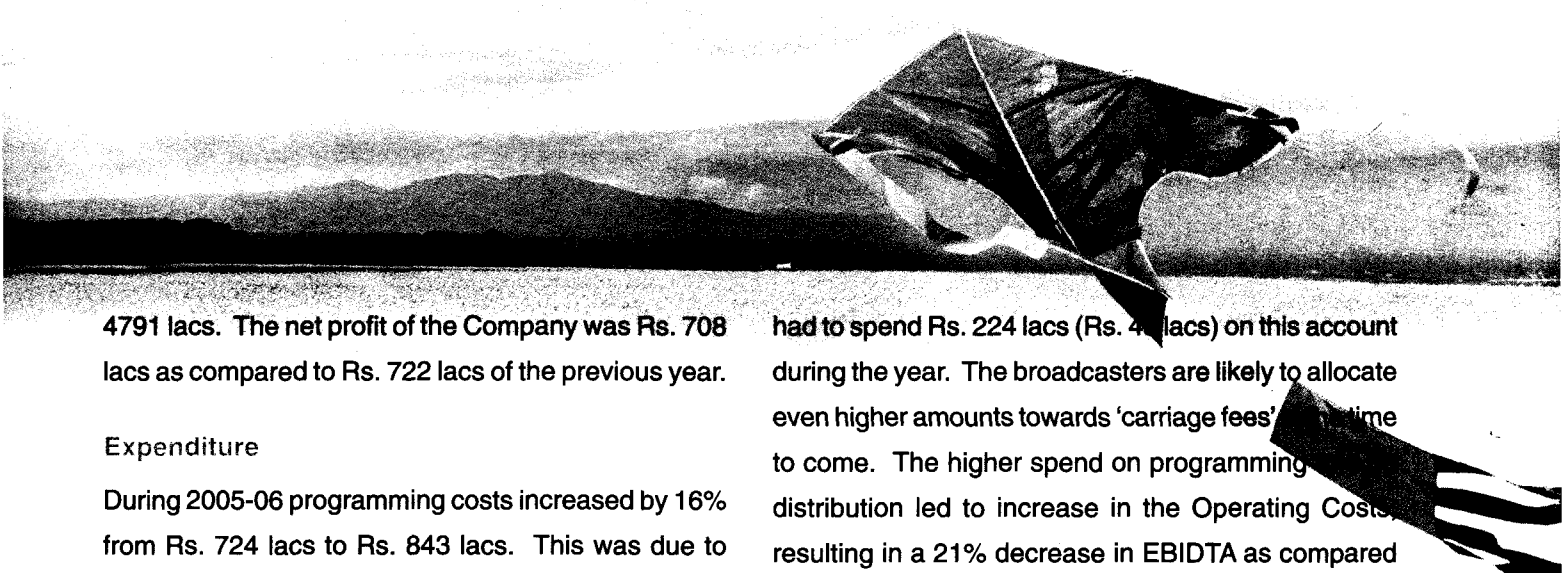
### Operational Risks

The study contained a detailed review of various operations and made a micro analysis of risks associated with these operations. The identification of risks has been done on the PESTLE approach i.e. Political, Environment and safety, Social, Technological, Legal and accounting and Economic. The company has in place a proper risk management strategy at the operational levels to mitigate any type of risk.

### Revenue

During the year under review the Company's revenue from hosting, development and management of web portals remained at a modest level and the major part of the revenue was generated from broadcasting of satellite television channels. The Total Income of the Company decreased marginally by 6% to Rs. 4521 lacs as compared to last year's Total Income of Rs.





4791 lacs. The net profit of the Company was Rs. 708 lacs as compared to Rs. 722 lacs of the previous year.

#### Expenditure

During 2005-06 programming costs increased by 16% from Rs. 724 lacs to Rs. 843 lacs. This was due to mega events like 'Sunidhi Chauhan Nite' and 'Punjabi Music Awards'. The Company also associated with the release of the several Bollywood film like No Entry, Deewane Hue Paagal, Garam Masala, Zinda, etc. These programming initiatives were directed towards capitalizing on the Company's exposure to the Hindi film industry on one side and the viewers' attraction to personally see or meet the film stars on the other. The Personnel cost was higher by 20% on account of the continued efforts of upgrading the skills-set of its employees apart from normal increase. The Administration and other expenses were lower by 21% to Rs. 789 lacs from Rs. 1004 lacs of the previous year. The finance charges were reduced from Rs. 32 lacs to Rs. 8 lacs as the long term loan was fully repaid during the year. The Company has become debt-free in the current year. Amortization cost was lower by 46% at Rs. 347 lacs from Rs. 645 lacs as the major part of intangible assets has been provided for in earlier years. Proliferation of several new satellite television channels has led to intense competition for getting preferred position on the viewers' television sets. The challenge before all the broadcasting companies in the previous year as well as in the coming years is to get and retain premium position on the cable network. This has led to a phenomenon called 'carriage fees' that are being demanded by the MSOs and cable operators for carrying the channels on their network. The Company

had to spend Rs. 224 lacs (Rs. 4 lacs) on this account during the year. The broadcasters are likely to allocate even higher amounts towards 'carriage fees' in the future to come. The higher spend on programming distribution led to increase in the Operating Costs, resulting in a 21% decrease in EBIDTA as compared to the previous year.

#### Working Capital & Financial Management

With strong cash flows, treasury management was a key area of focus for the management. The operating cash flows were directed towards repayment of term loan and effective working capital management.

#### Channel Review

New releases in the Bollywood have to be advertised on Cable and Satellite TV which account for more than 70% of their total spends. The penetration of C&S homes in the country exceeds penetration of telecom in the country. Most of the advertisements on the C&S TV platform are on music channels which do not have appointment viewing.

**etc Music:** The channel continued to attract higher spends of marketing of new Hindi film releases from Bollywood. New count-down shows 'NAUTANKI TOP 9' and 'SMS 7575 Show My Song' have been well received by the viewers.

The company had a new programming initiative by associating with Premiers of films and music albums. A new show 'ETC BADA PARDA' was launched to show case film releases of Bollywood.

2005-06 has been a year of extensive marketing, Events, and Premiers which were graced by best of the producers and film stars. ETC has successfully

conducted, hosted and telecast exclusive Premiers and special events of films like Kyonki.....Its Fate, No Entry, Garam Masaala, Deewane Hue Paagal, Zinda, Ek Ajnabi, Wah Life Ho To Aisi, Bunty Aur Bubli, Fight Club, Shaadi Se Pehle and many more.

ETC conducted events with Sunidhi Chouhan, Inner World & Outer World of Shahrukh Khan, Neal N Nikki and eight musical events at Water Kingdom with artistes like Baba Sehgal, Kashmira Shah, Akriti Kakkar, Band of Boys etc.

As a window to Bollywood, ETC is committed to give viewers that 'Little eXtra' of film industry and Hindi music. Through these exclusive events and Premiers ETC has provided interactive platform for its viewers. In addition the channel successfully conducted road shows and contests at various places and brought the winners to Mumbai to meet their favorite actors at the Premiers.

ETC has become the "must have" platform for film and music industry. Association with the Premieres of the films is just an extension to this relationship. Films are an integral part of ETC culture and programming mix. 'Bada Parda' on ETC associates with films of mega stars and mega directors with power packed performance.

ETC has showcased two exclusive interactive shows on the channel. 'ETC Nautanki Top 9' where viewers choose and vote for the top nine songs for the week. In 'SMS 7575 - Show My Song' the viewers are invited to send their requests along with witty one-liners. This show featured in the list of Top 25 Shows across music channels several times. Both the shows have become viewers' favorite programs and

received participation from across the country. ETC aired its regular shows like ETC Super Mard, ETC Star Giraftaar, ETC Haseena, Pop Ki Aandhi and Unscene. Stars like Amitabh Bachchan, John Abraham, Euphoria, Himesh Reshamiya, Jagjeet Singh, Sonu Nigam, Lara Dutta, Abhishek Bachchan, Shahrukh Khan, Salman Khan, Shahid Kapoor, Kareena Kapoor, Soha Ali Khan, Vidya Balan, Dia Mirza, Bipasha Basu, Sameera Reddy, Akshay Kumar, Akshay Khanna, Amisha Patel, Shilpa Shetty, and many others graced the channel. ETC showcased itself to be a perfect amalgamation of Bollywood, Music, and Entertainment.

**ETC Channel Punjabi:** A complete Punjabi channel, ETC Channel Punjabi caters to all age groups of viewers in Punjab and also neighboring north Indian states. True to its catch line – Dil Apna Punjabi, the channel is all about Punjabis and the things that matter to them. Made for Punjab, in Punjab and by Punjabis ETC Channel Punjabi offered a range of programming to its viewers in year 2005-2006.

#### LIVE Gurbani

ETC CHANNEL PUNJABI telecasts LIVE Gurbani Kirtan from the Golden Temple, Amritsar everyday. The channel enthralls millions of devotees in over 130 countries across the globe with this LIVE transmission.

#### LIVE Events

ETC Channel Punjabi has remained the market leader due to constant innovations and originality in everything that it does – whether it is live telecast of the Gurbani or Mega shows and events. With almost 15 events in various cities showcasing the cream of Punjabi talent and rocking numerous stages in the year 2005 – 06