

Dil Apna Punjabi



Akhir Dil hai Hindustani

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Annual Report 2006 - 2007

ETC Networks Limited

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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

(as on 30 April 2007)

C R Mehta

Jagjit Singh Kohli

N C Jain *(from 22 July 2006)*

Rajiv Garg, Managing Director *(up to 5 April 2007)*

Sanjay Agrawal, Executive Director

Surjit Banga

Senior Management Team

(as on 30 April 2007)

Sanjay Agrawal

Executive Director and Chief Financial Officer

Irshwin Balwani

Business Head - ETC Music

Rabindra Narayan

Business Head - ETC Channel Punjabi

Rajjee Shinde

Sr. Vice President - ETC Channel Punjabi

Deepak Bondre

Vice President - Accounts

P R Balan

Vice President - Corporate Services & Commercial

Ravindran Achariya

Vice President - Creative & Programming

Sam Mall

Vice President - National Sales, ETC Channel Punjabi

Vijay Shah

Vice President - Legal & Company Secretary

Company Secretary

Vijay Shah

Auditors

MGB & Co.

Chartered Accountants

Solicitors

Thakore Jariwala & Associates, Mumbai

Dutt & Malhotra, Delhi

Registrars and Transfer Agents

Sharepro Services (India) Pvt. Ltd.

Satam House, 3rd Floor, Cardinal Gracias Road

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Directors' Report

To

The Members of

ETC Networks Ltd.

Your Directors are pleased to present 8th Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March 2007.

Financial Highlights

(Rs. in lacs)

	For the year ended	
	31st March 2007	31st March 2006
Total Income	4998	4521
Total Expenditure	3783	3065
Profit before Financial Charges, Depreciation and Tax	1215	1456
Financial Charges	8	8
Depreciation	285	347
Profit before Tax	922	1101
Provision for Tax	317	394
Profit after Tax	605	708
Balance Brought Forward	1677	1160
Amount available for Appropriation	2281	1867
Proposed Dividend	140	150
Tax on Dividend	24	21
Transfer to General Reserve	20	20
Balance carried to Balance Sheet	2097	1677

Review of Performance

Total income during the year under review was Rs. 4998 lacs as against Rs. 4521 lacs during the previous year.

Profit before tax was Rs. 922 lacs as against Rs. 1101 lacs during the previous year. Profit after tax was Rs. 605 lacs as against Rs. 708 lacs during the previous year.



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 enviable channel share amongst the music channels. ETC Channel Punjabi is commanding highest rating amongst Punjabi channels and is a most preferred channel for Punjabi speaking populace

A detailed review of performance is given in the Management Discussion and Analysis annexed to this Report.

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. 164 lacs for the year. Your Directors propose to transfer an amount of Rs. 20 lacs to the General Reserve and carry the balance Rs. 2097 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

In accordance with the provisions of Section 77A of the Companies Act, 1956 and SEBI (Buyback of Securities) Regulations, 1998 the Company made a Public Announcement on 25 August 2006 for buyback of up to 10,71,401 equity shares from the open market at a price not exceeding Rs. 62 per share for an aggregate value of up to Rs. 664.26 lacs.

Pursuant to the Offer for Buyback the Company purchased 9,54,620 shares from the stock exchanges at aggregate price of Rs. 463.83 lacs up to 31 March 2007. The Company completed the buyback of 10,71,401 shares on 10 April 2007 at the aggregate outlay of Rs. 524.61 lacs. The shares bought back have been extinguished.

Share Capital

Consequent to buyback of equity shares, the paid up share capital was reduced from 14,960,312 equity shares of Rs. 10 each aggregating to Rs. 1496.03 lacs to 14,005,692 equity shares of Rs. 10 each aggregating to Rs. 1400.57 lacs as on 31 March 2007. Upon completion of the buyback on 10 April 2007 the paid up share capital stands at 13,888,911 equity shares of Rs. 10 each i.e. Rs. 1388.89 lacs.

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. N C Jain as Additional Director at their meeting held on 22 July 2006. Mr. Jain holds office till the date of ensuing Annual General Meeting. In view of the rich and varied experience possessed by Mr. Jain, the Company stands to benefit from his appointment as Director.



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

Mr. Rajiv Garg resigned as Director and Managing Director of the Company on 5 April 2007. The Board places on record its appreciation for valuable services rendered by Mr. Garg during his tenure with the Company.

The Board appointed Mr. Sanjay Agrawal as Executive Director under Section 269 of the Companies Act, 1956 on 18 April 2007. Mr. Agrawal has wide experience in the business of satellite television channels which will help company achieve new heights.

Accordingly, the appointments of Mr. N C Jain, Mr. C R Mehta as Directors and Mr. Sanjay Agrawal as Executive Director are included in the Agenda of the Annual General Meeting. Brief resume of Mr. N C Jain and Mr. C R Mehta, 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 18 to the Notes to the Accounts forming part of the Annual Accounts.

Particulars of Employees

Particulars of employee 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 are annexed.

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	
Jagjit Singh Kohli	Sanjay Agrawal
Director	Executive Director & CFO

Date : 18 April 2007

Place : Mumbai



DISCLOSURE

The investors are cautioned that this discussion encompasses future led statements, which involve risks and uncertainties; pertaining to company's growth plans, acquisitions, dependence on certain businesses, dependence on availability of qualified and trained manpower and other factors. The following discussion should be referred in conjunction with the company's financial statements included herein and the notes thereto.

Economy and Business Environment

The Indian entertainment industry, one of the fastest growing sectors in India, out-performs the Indian economy once again. The entertainment sector tends to grow faster when the economy is booming. However, the GDP growth rate exceeding 9% causes some concern due to higher inflation. With unabated inflation at 6.5%, it creates anxiety in the government and political community as well. Higher inflation levels, prompts RBI to re-consider interest rates regime, thereby pushing the interest rates to double digits. Strong rupee vis-à-vis US Dollar adds to the woes of the exporters. The Government and the Reserve Bank of India have taken several measures to control the inflation and its effect would be seen in the coming months.

Industry Overview and Opportunities in the Entertainment Sector

Shifting consumer preferences, evolving technology and convergence of traditional and new media has brought resurgence in the entertainment and media industry. The recent estimates show that TV penetration has crossed the 110 million household mark, of which 61% homes have cable & satellite connection. This massive reach attracts new players into all segments of media to seize on the multi-million opportunities.

The introduction of CAS (Conditional Access System) and DTH (Direct to Home) was an important feature of the year, giving consumers two distribution mediums to choose from. The television advertising revenue estimated at Rs. 6600 Crores is expected to grow to Rs.12,300 Crores by the year 2011. The subscription revenues are expected to touch Rs. 37,800 Crores by

the year 2011. The media and entertainment industry expects to touch the landmark figure of Rs. 1,00,000 Crores by 2011. As per FICCI – PwC Annual Media Report, the year 2006 was the turning point for the media industry and it is estimated to be worth Rs. 43,700 Crores.

The Indian media space is attracting substantial foreign investment and thus increased competition from the world media giants. Hence the India media industry will have to hone its skills and competency to compete with them.

Channel Review

ETC Music: ETC Music's new avatar as a premier Bollywood channel, featuring trailers of latest blockbusters and music albums interspersed with shows and compilations of popular chart busters. The channel programming is primarily B2B, setting a new model for the industry. With the new philosophy of "Bollywood Inside Out" the channel brought new concept "Short duration – High frequency" where the channel-surfing viewers could be grabbed and retained.

The channel introduced short duration capsules like 'Simply South', featuring South Indian film songs dubbed in Hindi, 'Exclusive' where a single song is chosen as the exclusive one and 'Ek ke Peeche Ek' where two songs from one movie are played one after the other. 'Bada Parda' is a much sought after package by the film industry.

'Kahani Kismat Ki' – the famous astrology program is running successfully for the last six years.

ETC Punjabi: Being the soul and heritage of Punjab, the ETC Punjabi entertains a wide range of audiences, even the non-Punjabi speaking audience. Its rich content has made it every Punjabi's dream channel. It takes pride as a channel of the Punjabis, for the Punjabis, by the Punjabis. Probably the only channel to broadcast live shows every month. The channel has forayed into Event Management and produces all events in-house.



The year 2006-07 saw ETC Punjabi going London and Muscat for events. The 'International Widows Day' event in London drew light on the injustice and poverty faced by widows across the world and the need to provide education to their children. A mega musical dhamaka 'Bollywood Concert' was held at the historic Trafalgar Square. ETC Punjabi joined Ms. Cherie Blair, QC, wife of British Prime Minister and the Loomba Trust of London to bring the connoisseurs of London its first ever musical extravaganza. The versatile Shekhar Suman anchored the event, while performances by artistes like Sunidhi Chauhan, Jazzy B, Sophie and others swooned with the audiences into frenzy.

The Muscat event marked the celebration of 50 years of Indo-Oman Diplomatic Relations featuring leading Indi-Pop and Bollywood stars like Jazzy B, Sunidhi Chauhan and Malaika Arora Khan. The show was telecast in India, UK, USA and other Asian countries simultaneously.

'TVS Star City Punjab ka Superstar' – a two month long event to choose the best male and female voice, covering 10 cities, auditioning over 1000 contestants. 'Miss World Punjaban' attracted more than 200 beautiful women from Punjab, London, Canada and Australia for the coveted crown.

ETC Punjabi also launched movies like Dil Apna Punjabi, Ek Jind Ek Jaan and Mannat. All the festivals were celebrated in authentic Punjabi style by doing Lohri Akhara for Lohri, Bhangra Freedom on Republic Day etc.

ETC Punjabi Music Awards, a six hours long event, held in Jalandhar brought together over 10,000 audiences. Performances by the best of Punjab Music world and Bollywood like Hansraj Hans, Juggy D, Yana Gupta, Kailash Kher and others made it a power-packed event.

For the spiritual ones, the channel telecasts LIVE Gurbani Kirtan from the Golden Temple, Amritsar

everyday. Over millions of devotees from over 130 countries across the globe embark on this spiritual journey.

Risks and Concerns

The company conducted a study on analysis of risks faced by the business to identify and prepare for any eventuality. The study based on the framework of Michael Porter in "Competitive Strategy" addressed the following factors:

Business risks

Business rivalry
Threat of new entrants
Bargaining power of buyers & suppliers
Threat of substitute products

The company chalked out a 'Risk Mitigation Strategy' to contain/counter the above risks at a macro level.

Operational risks

The study envisaged a detailed review of various operations and made a micro analysis of risks associated with these operations. The risk identification is done by the PESTLE approach i.e. Political, Environment & Safety, Social, Technological, Legal, Accounting and Economic.

The company has a proper Risk Management Strategy at the operational level to mitigate any type of risk.

Internal Control Systems and their Adequacy

To ensure proper checks and balances of various processes, the company has an elaborate documentation system. An independent firm of Chartered Accountants audit these systems and procedures every quarter and report to the Audit Committee of the Board. The company is committed to ensure effective internal control, to provide efficient operations and security of assets. The company sees internal audit as eyes and ears of the management. The Audit Committee reviews the quarterly and annual financial statements, adequacy of disclosures, treatment of various items involving accounting judgments and internal audit reports.



Revenue

The company earned revenue from broadcasting of satellite television channels. The total revenue registered a 10% growth (current year - Rs. 4998 lacs, previous year - Rs. 4521 lacs). The company has been exporting television software to UK and commenced export to USA during the year under review, earning total export revenue of Rs. 339 lacs.

Expenditure

During the fiscal 2006-07, programming costs increased by 35% from Rs. 843 lacs to Rs. 1140 lacs mainly because of increased thrust on events based programming.

The personal costs were higher by 5% at Rs. 608 lacs.

The administration and other expenses went up by 20% at Rs. 940 lacs from Rs. 789 lacs in the previous year.

The selling and distribution expenses scaled by 35% at Rs. 854 lacs on account of increased outlay on channel distribution in a highly competitive environment.

The finance expenses stayed constant at Rs. 8 lacs, as the company does not have any long-term debt or working capital borrowings.

The Amortization costs were lower by 18% at Rs. 285 lacs from Rs. 347 lacs.

Human Resources

The company aims to be the best service provider in the entertainment industry and believes that the employees are the core to achieving its objectives. They are the key and the primary source of competitive advantage. The company has invested huge sums in formal training programs to improve employee skills.

Looking Ahead

The company's new mantra is to strengthen its bond with Bollywood, covering news, views, features and programming on different Bollywood happenings. The channel will leverage close contacts with Punjabi film and music industry and event management expertise to international arena. An effort that will surely fetch higher dividends in the future. The entertainment and media world poses huge growth prospects for the future. Film distribution in digitalized form is the new buzzword, that's likely to change the face of entertainment industry in the coming years. Technological developments open up new challenges, translating into new avenues of revenue for the company. The company acts upon every technological change and reorients its programming content to meet viewer's preferences.

For and on behalf of the Board of Directors	
Jagjit Singh Kohli	Sanjay Agrawal
Director	Executive Director & CFO

Date : 18 April 2007
Place : Mumbai



ANNEXURE - B

Corporate Governance Report

ETC Networks Limited is a subsidiary of Zee Entertainment Enterprises Limited engaged in the business of broadcasting of satellite television channels viz. etc – Music and etc Channel Punjabi. etc - Music is predominantly Hindi Music channel closely associated with Bollywood and enjoys sizable channel share amongst the music channels. etc Channel Punjabi is commanding highest rating amongst Punjabi language channels and is a default channel in Punjabi speaking households.

1. Company's Philosophy on Corporate Governance

ETC Networks Limited is committed to good corporate governance and has benchmarked itself against best practices. The Company emphasizes on maintaining highest respect for the laws of the land and the rights of its stakeholders - both of which are the fundamental platforms on which the decision making powers of the Board of Directors are based.

2. Board of Directors

The composition of the Board of ETC Networks Ltd. as on date is as under:

Chairman

The members of the Board elect chairman at each Board meeting.

Name of the Directors	Executive / Non-Executive / Independent	No. of other Directorships *	Membership / Chairmanship in other Board Committees	
			Chairman	Member
Surjit Banga	Non-Executive / Independent	-	-	-
C. R. Mehta	Non-Executive / Independent	2	3	5
N C Jain (From 22 July 2006)	Non-Executive Independent	2	-	4
Jagjit Singh Kohli	Executive / Non-Independent	1	-	-
Sanjay Agrawal Executive Director	Executive / Non-Independent	4	-	-
Rajiv Garg (Up to 5 April 2007)	Executive / Non-Independent	3	-	-

Notes:

- *Particulars regarding other directorships and committee membership are based on annual disclosures and amendments, if any, made by the directors.
- Other directorships exclude directorships held in private limited companies.
- For the purpose of reckoning the memberships, Chairmanship / membership of Audit Committee, Nomination & Compensation Committee and Shareholders' Grievance Committee / Investors' Services Committee have been considered.
- Mr. Rajiv Garg resigned as Director & Managing Director of the Company on 5 April 2007.