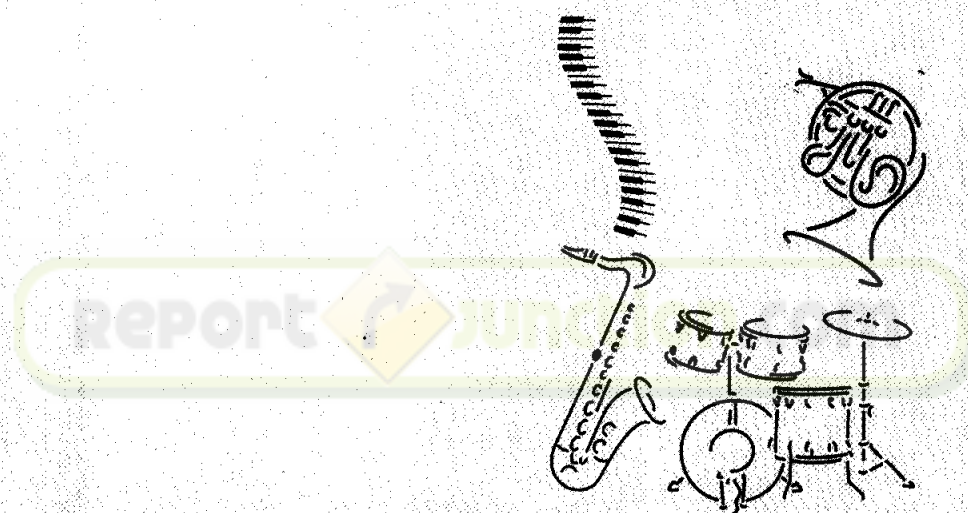




SAREGAMA INDIA LIMITED ANNUAL REPORT 2001-02



SOMETHING

FORWARD-LOOKING STATEMENT

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This Report and other statements that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using

words such as 'anticipate', 'estimate', 'expect', 'project', 'intend', 'plan', 'believe', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.

Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.


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A black and white line drawing of musical instruments. On the left is a violin. In the center are two drums. Below the drums is a triangle. At the bottom is a xylophone. To the right of the triangle is a treble clef. The drawing is simple and stylized, with thick black lines on a white background.

ABSOLUTELY

THE UNIVERSITY OF CHICAGO

In 2000-01, the Company reported a profit of Rs. 5 crores, the highest in its history. In 2001-02, it posted a loss of Rs. 25.76 crores, its biggest ever. However, the Company has embarked on initiatives to assist the Government. The music industry has seen its worst and the acquisition cost of the rights of new film films has declined. Earlier times are ahead and in this improving environment, the Company is in the process of evolving into an entertainment organisation with the objective of maintaining its leadership position in the music industry.



reason one

BOLLYWOOD PLAYED THE BLUES IN 2001-02.

The Hindi film industry, the principal driver of the Company's offtake, went through a trough in 2001-02. For a number of reasons: 119 out of 120 Hindi films flopped at the box-office during the financial year under review [Source: *Trade Guide's* Taran Adarsh]. To make matters worse, a huge video compact disc (VCD) piracy led to a lower attendance in movie halls.

Conventionally, the success of films has contributed to the offtake of film music and vice versa – and has accounted for nearly 65 per cent of the revenues of the Indian music industry.

So, as film successes disappeared, the impact was felt immediately by the Indian music industry, reflected in a lower interest in the purchase of Saregama's music cassettes – or anybody else's for that matter. As a result, Saregama could not recover the acquisition cost paid for the music rights of films and this resulted in losses.

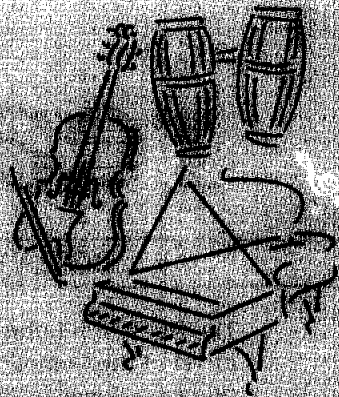
SAREGAMA'S COUNTERMOVE

■ The Company reinforced its existing

strategy of working only with the banners with an established track record of successful films – Yashraj Films and Rajshri Productions, among others – in the conviction that these banners were better placed to make quality music and successful films at the box-office.

■ In a deflationary environment, the Company re-negotiated the acquisition cost of music rights with a number of producers. The Company also re-worked contracts in favour of a larger variable royalty component that was based on offtake and a lower fixed component, which will now help the Company reduce its immediate outgo and link its acquisition price closer to actual revenues.

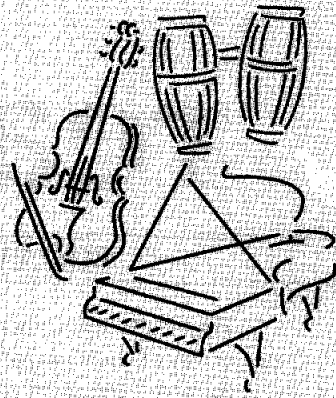
■ Earlier, the Company acquired music rights based on the reputation of the film producer, the music director and the banner. To further de-risk itself, the Company implemented the practice of playing the role of a music creator in partnership with the film producers through a more involved process.



ABSOLUTELY!

In 2000-01, the Company reported a profit of Rs. 5 crores, the biggest in its history. In 2001-02, it posted a loss of Rs. 25.76 crores, its biggest ever.

However, the Company has embarked on initiatives to arrest the downtrend. The music industry has seen its worst and the acquisition cost of the rights of new Hindi films has declined. Better times are ahead and in this improving environment, the Company is in the process of evolving into an entertainment organisation with the objective of maintaining its leadership position in the music industry.



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REPORT

2000-01

reason two

MUSIC CASSETTE PIRATES EXTENDED THEMSELVES TO CDs.

Pirates used the MP3 technology to compress a large number of songs on compact discs (CDs). Thereafter, they flooded the market with these illegal CDs. This cheaper alternative gradually accounted for a larger market share, depressing Saregama's average monthly music cassette (MC) volume from 39 lakh numbers to an average of 28 lakh numbers in 2001-02. The main genres to be affected were New Hindi Films (NHF) and Old Hindi Films (OHF).

SAREGAMA'S COUNTERMOVE

- Saregama reduced its average CD sticker price from Rs. 275 to Rs. 99, clearly aware that while this initiative would squeeze its margins in the immediate future, it would more than compensate the Company through vastly increased volumes and a direct assault on piracy.
- Saregama entered into a strategic alliance with other music companies like Universal

and Venus to combat piracy. For instance, these companies collaborated to create an album that featured the songs of *Don* as well as *Amar Akbar Anthony*.

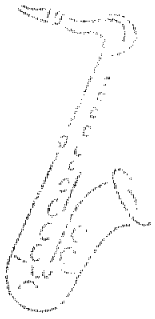
- The Company introduced holograms to increase consumer awareness of legitimate products.

- Saregama worked closely with the Indian Music Industry (IMI) to counter piracy with policing and enforcing actions.

- The Company catered to the Internet customer through its virtual site – hamaracd.com. The Company also empowered the customer to select his / her music and pay, using credit cards through indiatimes.com, rediff.com, sify.com, fabmart.com and 50 other sites, as well as kiosks at Music World, Planet M and Rhythm House. This mode of offtake accounted for a modest slice of Saregama's revenues, but is likely to accelerate with increasing Net penetration in India.

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reason three

THE DROP IN CD PRICES REDUCED MARGINS IN A
SEGMENT THAT USED TO BE PROFITABLE IN THE PAST.

SAREGAMA'S COUNTERMOVE

• The Company expects to extend 90 per cent of its active list from MCs to CDs, and in doing so, expects to add value to its income mix.

• In the face of the ensuing format growth in the music industry, the Company decided to revamp its consumers' MC library to that of CDs at an affordable price.

• The growth of CDs is expected to be

accompanied by an increase in promotional and marketing activity.

• The CD supply chain is likely to emulate that of MCs and move towards a replenishment-based model over the foreseeable future.

• The industry is at an inflection point as consumers are evolving from MCs to CDs. As a result, Saregama sees the prospect of helping consumers revamp their music libraries, accelerating its offtake in the process.

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reason four

THE MUSIC INDUSTRY BECAME ECONOMICALLY TONE-DEAF.

The 9/11 terrorist attacks, the loss in consumer confidence thereafter and the slowdown that followed resulted in fewer people wanting to buy music.

SAREGAMA'S COUNTERMOVE

The Company initiated the first steps to evolve from a music company into an entertainment organisation. As a step forward, the Company entered into the production of television software. It made successful serials for Sun TV. The Company also tied up with AOL Time Warner's Home Video division to market its existing and

emerging library of movies in India. This marketing arrangement is expected to strengthen the Company's clout within the distribution trade for the moment with greater ramifications in the years to come.

The Company is also focussing on the non-English (Indian content) Home Video section.

■ The Company expects to strengthen publishing income from Rs. 2.28 crores in 2001-02 to around Rs. 9 crores in 2002-03.

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TO EVOLVE FROM THE DOMINANT AND
UNDISPUTED LEADERSHIP POSITION IN
THE INDIAN MUSIC INDUSTRY INTO INDIA'S
PREMIER ENTERTAINMENT SOFTWARE
COMPANY WORLDWIDE

corporate description

Saregama (earlier The Gramophone Company of India Limited) has been in existence for almost a century. The Company owns nearly 200,000 tracks, one of the largest musical archives owned by any company in the world. It has been intimately associated with the development of Indian music. Saregama recorded the country's

first song in 1903 and the country's first film song in *Alam Ara* in 1931. Saregama's archives cover 13 languages across eight musical categories. The Company has been a leading player right down to the current day and registered five of the ten biggest hits in the competitive 1990s.