

AT A TIPPING POINT



Tips Industries Limited Annual Report 2006-07





## Contents

01 The Tipping Point	10 Chairman's Overview	12 The TIPS Showreel
14 Business Segments	17 Corporate Information	18 Notice
22 Management Discussion and Analysis	27 Directors' Report	
32 Corporate Governance	40 Auditors' Report	44 Financial Section
67 Balance Sheet Abstract		



## THE TIPPING POINT

*Tipping Point is the moment when a small idea becomes big overnight. It's the moment on the graph when the line starts to shoot straight upwards.*

*The virtue of tipping point is that a little input is enough to get it started and it can spread very, very quickly. It's about change. In particular, it's a new way of understanding why change so often happens as quickly and as unexpectedly as it does. Things can happen all at once, and little changes can make a huge difference.*

We are experiencing a similar tipping point in our business. Both our 'music' and 'film production' businesses are witnessing this. A fresh lease of life that has, in a matter of few years, changed the way the business will develop and grow in the next decade or so.

**Music** - From the days of piracy, shrinking physical market and high rights acquisition cost to non-physical revenues and the emergence of fresh

distribution channels like internet, mobiles, radio stations, television, public-performances, etc. The music business has changed. And the change is spreading rapidly, thanks to the increasing popularity of non-physical formats.

**Films** - From the days of unorganized production houses, high cost of financing, piracy and a 'risky' business to an industry that is now backed by institutional and capital market funding to multiple

and incremental revenue streams like multiplexes, digital distribution, home video, satellite television, music, internet and international distribution. The film production business is far more predictable and profitable. Period.

**The Tips tipping point** - In 2006-07, Tips turned around with a net profit (after tax) of Rs. 1.18 cr.

Be part of our tipping point. Read on.

# hitting the right notes



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

**TIPS INDUSTRIES LIMITED**

Regd. Office : 601, Durga Chambers, 278/E, Linking Road,  
Khar (West), Mumbai - 400 052.

**ATTENDANCE SLIP  
ELEVENTH ANNUAL GENERAL MEETING**

Folio No. : \_\_\_\_\_

No. of shares held : \_\_\_\_\_

DPID &amp; Client ID No. : \_\_\_\_\_

I hereby record my presence at the ELEVENTH ANNUAL GENERAL MEETING of the company, on Thursday, 27th September, 2007 at 4.30 p.m. at ISKCON Auditorium, Hare Krishna Temple, Juhu, Mumbai - 400 049.

Name of the Member / Proxy \_\_\_\_\_

Member's / Proxy's Signature \_\_\_\_\_

NOTE : Member / joint member / proxies are requested to bring this slip with them and hand it over at the entrance. Duplicate slips will not be issued at the entrance of the venue.

**TIPS INDUSTRIES LIMITED**

Regd. Office : 601, Durga Chambers, 278/E, Linking Road,  
Khar (West), Mumbai - 400 052.

**FORM OF PROXY**

I/We, \_\_\_\_\_ the undersigned, being equity share holder(s) of M/s. Tips Industries Limited hereby appoint Mr./Ms. \_\_\_\_\_ resident of \_\_\_\_\_ and failing him / her Mr. / Ms. \_\_\_\_\_ resident of \_\_\_\_\_ as my / our proxy, to act for me / us at the ELEVENTH ANNUAL GENERAL MEETING of the Company, to be held on Thursday, 27th September, 2007 at 4.30 p.m. at ISKCON Auditorium, Hare Krishna Temple, Juhu, Mumbai - 400 049.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2007

Folio No. : \_\_\_\_\_

DPID &amp; Client ID No. : \_\_\_\_\_

No. of shares held : \_\_\_\_\_

Affix  
Revenue  
Stamp

Signature : \_\_\_\_\_

**NOTES :**

- 1) Proxy must be deposited at the Registered Office of the Company not later than 48 hours before the Meeting. The Proxy need not be a member of the Applicant Company.
- 2) In case of multiple proxies, proxy later in time shall be accepted.
- 3) All alterations made in the Form of Proxy should be initialed.

## The music industry has come a full circle.

### Look back.

The music industry went through a lot. Quite a lot. To think of an industry that serves a nation of 1 billion people whose passion is movies and music, going into a downtrend seems difficult. We just did that.

**Falling sales:** From the best music selling over 15 million copies of top blockbusters in 1990 to the best chartbusters of 2006, selling under 2 million copies, the music industry went through tough

times.

**Rising costs:** With music finding favour in the past and there being more takers, the cost of music rights witnessed a huge rise.

**Piracy:** Rising piracy led to the music industry not getting what it truly deserved. Piracy cost the industry 50% of sales.

**The result:** All music companies in the Red!

The tipping point.

Look forward.

The past few years have seen the emergence of alternate and organized platforms for music distribution that has

struck the right note for the industry. Our tipping point. Music is increasingly being downloaded on mobiles, on iPods and MP3 players, heard through FM radios and at nightclubs and social events. Music is getting democratized without compromising, for the first time ever, the interest of music companies like us.

And we are prepared for it.

We have strategized. No more expensive music rights acquisition. Create library strength through our own films. Besides, promote new artists and create albums. Use resources effectively.

downloadmusic.com

reportjunction.com

www

The music industry of tomorrow will be very different from that of yesterday.

Tomorrow will see the physical former finding lesser favour. Consumer will be in charge. The limitation of reach is getting eliminated thanks to the emerging virtual distribution channels. And each of the channels of this new distribution is going through its own tipping point. Take a look.

Digitization of Music: The onslaught of iPods and MP3 players has led to a reduction in physical distribution (read lower margin) and rise in

digital

distribution (read high margin) like iTunes, P2P and other internet downloads.

Around 795 million songs were downloaded in 2006, a growth of approximately 89 % from the previous year. This growth has been fuelled by increasing internet

penetration and the emergence of over 500 music sites that allow legitimate

downloads.

Mobile Music: There has not been a better success and penetration story than the mobile industry. In ten years, the mobile penetration has touched over 125 million subscribers and India is adding 6 million subscribers every month. By 2010, over 450 million Indians would be mobile. What is interesting is that music and films being a passion, increasingly mobile is emerging as the medium. 50% of the mobile population

is music enabled. In 2005,

420 million songs were downloaded on this platform globally, 20 times that of 2003! Mobile music is the new

raga.

FM Radio: Indians love radio. We have grown up listening

to our favourites on radio. The radio industry is seeing its tipping point with the implementation of second phase of licensing (revenue sharing). Under the second

phase, 266 licenses were sold and further deregulation is expected in Phase III taking the total number of FM licenses to over 500. And

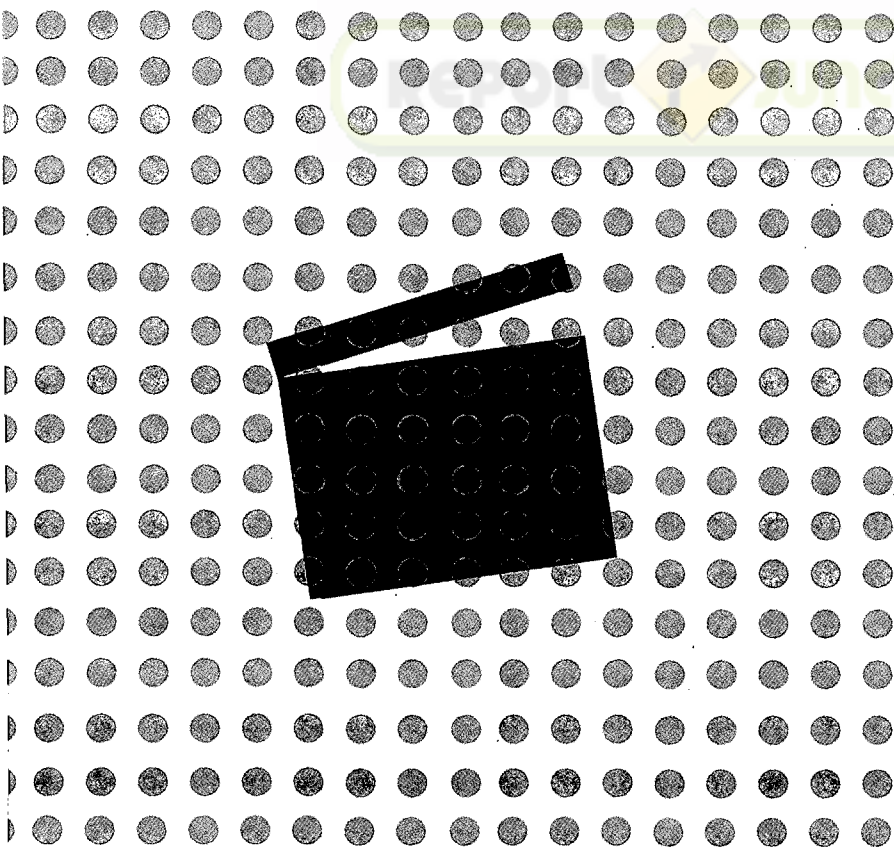
thankfully, they play music. Could we ask for more? Tips has rights to around 25,000 songs. This is getting enhanced through its own

movie productions and the promotion of new artists that costs less. Our tipping point has just

arrived.



# lights. camera. action.



**There is no business like show business.**

India should be rejoining the position. The largest movie producing country with over 1,000 movies made annually and the largest movie watching country with 3.7 billion tickets sold annually. But that was not the case earlier.

Movie making was considered risky. An unorganised industry and the speculative nature ensured funding as a problem. The speculative nature came from low penetration of theatres (around 12 per million). Besides, high incidence of tax ensured incremental investment was low. Movies

could never make the most of the content. It took more than six months for the prints to reach smaller towns, thanks to the cost of the print. Lower ticket realizations never permitted small theatre owners to order prints upfront. Piracy took over. Loss of revenues. Very low investment in content. No experimentation on content. Simply put, a vicious circle. The tipping point. It all happened with "Industry" status being accorded to the film industry. With it came institutional funding. Simultaneously, the decision by several state governments to offer entertainment tax exemption

led to multiplexes and a new experience of cine viewing that brought back audiences. 50% of revenues of the industry are expected to come from multiplexes by 2010. Besides, the indie story being accepted led to culture transmission and the emergence of an international territory for collecting revenues. The proliferation of satellite channels created incremental revenue streams, not to forget the fast evolving home video and digital cinema market. The film industry has turned over a new leaf. That's it. And we are prepared for it. Now, let's watch it, together.