



"Prime Focus Q3 FY11 Earnings Conference Call"

February 15, 2011



**MODERATORS: MR. ANKIT KEDIA
MR. NAMIT MALHOTRA
MR. NISHANT FADIA**



*Prime Focus Limited
February 15, 2011*

Moderator: Ladies and gentlemen, good day and welcome to the Prime Focus Q3 FY'11 Earnings Conference Call hosted by Centrum Broking. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should 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. Ankit Kedia from Centrum Broking. Thank you and over to you Sir.

Ankit Kedia: Thank you. Good morning everyone. We at Centrum Broking are glad to organize the Prime Focus Q3 FY'11 conference call. Today, we have Mr. Namit Malhotra, Managing Director of Prime Focus and Mr. Nishant Fadia, who is the CFO. Over to you Nishant for your opening remarks.

Nishant Fadia: Good morning everybody and thanks for attending the call. The way we are going to do this today I am just going to quickly talk for two minutes about the numbers and then over to Namit for business and strategies and then we can go to Q&A. Numbers for this quarter consolidated margins had EBITDA of about 30% for the quarter and as well as for the nine months and that is what we expect going forward as well. India revenues also have grown year-on-year. EBITDA you will notice the minority interest being higher this quarter, which is because of more profit contribution from the London business. Over to you Namit for our business and strategies.

Namit Malhotra: Good morning every one. I think it is fair to say that we have managed to build the business through this quarter again more in line with our overall strategy, which is primarily been driven by the explosion on the growth that we have seen in our conversion business from 2D to 3D. We delivered what was labeled as the best 2D to 3D conversion of a film Narnia, which was done by Fox Studios in America through our completed global pipeline. We were able to execute the entire project across all our key facilities in London, Los Angeles, and Mumbai contributing almost equally towards the finishing of that film in a very, very short order with very high quality speck and really achieving great response from the audiences and from the studios themselves. We continue to see development in terms of our overall capacity with our facilities in Chandigarh finally having opened sometime in January and even though we were through the build out phase in the last quarter of the calendar year 2010. We have grown our staff strength by about 450 people across all our facilities with a huge impetus on training and development towards bringing in all the new techniques and enhancement in our technology that we have been building. We also continue to find that while the general business trends for the international businesses overall have been improving slowly, we have been able to garner some fair amount of traction with having



Prime Focus Limited
February 15, 2011

worked on some of the most high profile projects one that I cannot name, it is probably safe to say that it is one of the most valuable film franchises in the world, it has received extremely great responses back, which is only helping strengthen the overall order book in the pipeline in terms of our workflow through the company. We continue to find greater focus on enhancing our research and development teams here in North America where I am based right now in making sure that we continue to maintain our leadership position in being a company that is steering the course of this business from the front. We stand at almost 3000 people staff strength worldwide and it is sort of growing we have grown from 1200 people in the last quarter of 2009 to almost 3000 people at the end of this quarter, which sort of exhibits tremendous scale up potential that we have been able to present internally as a management team and externally in terms of our capacity to be able to really add value and create substantive performance in terms of our overall delivery. We also see change in the business profile because of now having steered of the television post-production related business in North America towards a more focussed 2D to 3D conversion pipeline and further having consolidated our operations from (indiscernible) 5.52 to Vancouver where we continue to build our film visual effects and R&D capabilities. We have also announced early this quarter that we have rolled out the build out of a brand new facility in new York and brand new facility in london to service for the 2D to 3D and the film visual effect businesses, so we are continuing to march down the path of capacity growth consolidation, rampant scale up of our team capabilities in India and substantial training and R&D initiatives to make sure that we can continue to go down the path of bringing greater work transferred from the International market into India thereby creating much higher bottom line position and subsequent top line growth as well. That is all from me. I would like to open the floor for any questions. Moderator can we have the question and answers.

Moderator: Sure sir. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, wanted to get a sense on the order book in the quarter ahead. Any sense on how the order book looks?

Namit Malhotra: I think the order book is very consistent through what you have seen through the year and obviously while as a public company we are mandated to provide quarterly updates we are working on projects that actually lasts anything between 16-22 weeks, there is a fair amount of revenue spillage across quarters so you may see accelerated revenue in certain quarters over the others thereby also impacting your cost and profitability in that regard, but it is safe to say that we are reasonably evenly placed through Q4 as well.

Abneesh Roy: How are the key cost elements in terms of employee, in terms of other cost elements how are they looking for FY 2012?



Prime Focus Limited
February 15, 2011

- Namit Malhotra:** Obviously there has been a huge ramp up, the whole game and plan has been to create greater infrastructure and talent base back in India because that is where we have naturally the highest margin potential, so we have actively been investing a lot of capital and investment in terms of people and training to make sure that we can transition some of our technologies and build all the infrastructure we need. We can actually do a bigger chunk of work through India and therefore help overall reduce our cost of operations in the US and UK and adding greater margin potential on the bottom line, so I think we are reasonably well positioned. We have actually the rate of scale up as I just explained has been very, very aggressive. At the high end of our game should be doubling our capacities hopefully in the next quarter and that I think is a substantive change in the way the overall business landscape should pan out.
- Nishant Fadia:** Also Abneesh just to add to that we also announced in December that we had got a sizable order from a major Hollywood studio, so that obviously adds to the visibility and the sense of pipeline which we have.
- Abneesh Roy:** That will flow essentially in the next two quarters Q4 and Q1?
- Nishant Fadia:** No it is not over two quarters; it will be about 18 months over which we have to execute the entire work.
- Namit Malhotra:** It is about 18-24 months over the next two years.
- Abneesh Roy:** Sir in terms of utilization for our manpower we have built up large manpower now. What is the current utilization level and where do you see that now that we have got big projects, where do you see that heading, the utilization level?
- Namit Malhotra:** I think there are two ways to look at that particular piece, utilization obviously is reasonably good from a pure time order perspective, that people are obviously sitting and doing there jobs and you do not have as many people sitting on the bench but what is most important in our business is the level of efficiency that you can derive, so it is like you can have 10 people doing a certain job but the real scale up in margin play also adds when you have greater efficiencies when the same job can be done by 7 instead of 10, it is a multiple positioning thing, yes there is a certain redundancies in training and lag lead time between facilities getting ready, recruitment of people, getting on to shows starting to deliver reasonable outputs. This has been the first year for the whole initiatives, so we have obviously got some lives (11:42) in the system which I hope in the next few quarters should even out themselves much, much more effectively but the real focus is on how we can grow and increase our overall efficiencies as well which will make a bigger difference to our output.



*Prime Focus Limited
February 15, 2011*

Abneesh Roy: Sir lastly coming to Indian business you did work for Patiala House, you did lot of work there, the movie has not done well, and so does it really impact us anyway in terms of future orders or in terms of payment for the movie.

Namit Malhotra: No.

Abneesh Roy: So our payment has already been finalized.

Namit Malhotra: That has never been our model historically; we never really played our best from the success or failure of any film.

Abneesh Roy: Sir how is the debtor days moving for us?

Nishant Fadia: Debtor days in India continue to be at about 190 days, so there is not much change in that number but the India piece in proportion to the whole global pieces becomes lower and lower each quarter.

Abneesh Roy: And how much would be outside India?

Nishant Fadia: That is between 90 and 120 through the typical basing cycle.

Abneesh Roy: Sir lastly again on Indian movie business we were speaking to some of the movie producers they were saying that most of the movies which was done in last year did not do well especially the big budgets so this year it is going to be big control on the cost, so does that really impact you in terms of margins in terms of budgets that clients are getting far more conservative in terms of both budget and margins?

Namit Malhotra: See I will tell you, I think we have already experienced that through last year, I think a lot of those control points were already put in place I think right after 2008 through 2009 and 2010 there has been in fact a general slowdown in the overall Indian film industry because the biggest chunk in a movie cost sheet in any case has been the actor cost which is what is actually getting rationalized to a large extent which is also what the producers ultimately are steering themselves toward. What is most important in business for us, for companies like us is the amount of work that is done in a film, so film like Patiala House or Guzaarish some of these films they do not typically tend to be huge billing cycles from our perspective anyway. We obviously bill way more money when we are doing much bigger high profile action movies or big visual effects if you see through the year have been much, much lower and I think what is emerging as a trend which I think is more positive for us is that the film makers are actually realizing that they are to make films that convey or serve a much large audience and I think the coming of movies which will have more action and more visual effects will



*Prime Focus Limited
February 15, 2011*

steer themselves towards us thereby creating greater revenue opportunities. Take a film like Robot, a big chunk of that work was done internationally by a lot of different companies but a success of a film like that with almost 30-35 Cores of money invested in visual effects and post production is the kind of future that Indian films are steering towards and that is where I think lies in a nutshell the real opportunity for us, doing romantic comedies is never going to be, even if they cut their budgets it is not going to be substantial enough from our perspective because we do not do that level of work anyway in them. We have the bread and butter jobs for us here.

Moderator: Thank you. The next question is from the line of Pankaj Chopra from Shanti Asset Management; please go ahead.

Pankaj Chopra: Hi, thank you for taking my question. I was quite disappointed at the top line growth which on a sequential basis has been declining. Could you please kindly explain that? What has been the cause for such a decline on the consolidated number sequentially, I thought it was a nice utility business converting 2D to 3D having nice traction?

Namit Malhotra: Let me explain. What we have done in North America in LA particularly is we have wound down on our post production services business as I mentioned in the earlier speech. What has been happening is that the non-profitable business that we were running in LA in Hollywood for providing post production services to TV and low budget movies has transitioned in to becoming the high margin business of 3D conversion, so even though you are seeing a sort of drop in top line we are starting to see that revenue being replaced by what is a much better higher margin business and that has been a conscious attempt to transition and utilize some of the infracture that was in the post production business towards the 3D conversion side, so that is probably why you are seeing that transition.

Pankaj Chopra: Does that also explain the lower manpower cost sequentially?

Namit Malhotra: Yes because you have taken that whole piece which had high turnover and high cost and low profitability has been replaced by this film (17:45) and that clearly is a biggest cost in North America or in any international territory with manpower cost, so on the post production side there was not much offshoring happening and we used our timing to actually circumvent that whole business and we were able to bring the 3D opportunity right to the forefront.

Pankaj Chopra: Actually it is not getting reflected because sequentially margins are down from the last quarter and so one would have expected actually margins to scale up if that is being the case. I guess maybe the question was time when that picks up, is that how I should read it?



Prime Focus Limited
February 15, 2011

Namit Malhotra:

As I said first of all we are doing projects that stretches across quarters, there was a part of Narnia that was billed in the September quarter, part of it has been billed in the October-November quarter. There is another very high profile project that delivers in March and we are able to recognize revenue on those ends even though our start up costs were higher in the frontline of the business when we commence the work because that is how the clients tend to look at it, so you will not get consistent view of what the quarterly performance is because of these changing realities plus because we are really scaling up the teams in India there is an increase R&D and training cost that is really going to hit overall because of ultimately driving that work on a much larger and wide scale basis to India, so I would obviously recommend that in terms of analysis we look at more of a yearly play and more at the EBITDA level because that is the more direct reflection on where the business is at especially because these projects tend to go across the quarters consistently, so it is like saying if you compare it to last quarter it may seem like the last quarter in that regard may have been little higher than this quarter because of how things got rolled out in that particular quarter like we were able to start and finish a film in that quarter so we got the 100% benefit of that. You will see some jump in that sense a little bit up and down but let us hope everybody is clear. I think we are already at an operating level from what we have projected we have already almost hit that if not bettered that for the current year without even going to Q4 so as a company we are clearly ahead of our initial projections were.

Pankaj Chopra:

Could you give us a sense of the competitive landscape and the rates you are able to get in the current environment.

Namit Malhotra:

Because we have such a diversified operation across so many levels there is obviously the pricing fashions in the US, UK and Indian markets have all been different, obviously there has not been new competition coming in much because the market generally have not been very encouraging for the last couple of years. For us it is less on the competitive standpoint and more on the pricing standpoint where we stay in line with our historic region except the Indian markets where I think there has been a slightly stronger rate realization because of the general state of the Indian film businesses being a little soft. The overall pricing power on the new 3D business that we have managed to get going is actually clearly at the forefront of the market. We are clearly (indiscernible) 21.40 probably what is the highest premium for the quality of service that we are delivering to the studios.

Pankaj Chopra:

What I understand from you is that pricing pressure only exists to some extent in the domestic market maybe for the post production on the 2D, 3D that is really there is not much of it.

Namit Malhotra:

In any business it is wrong to say that there is no pricing pressure, but I would say I think where we are able to hold our position reasonably well on the 3D side because of us being



Prime Focus Limited
February 15, 2011

right of the front of the game. In India even though we stay at the front of the game some of the market forces that have been weakened over the last few quarters in the film side has generally just from a relationship standpoint have put a temporary dip on our margins I think which I am more than confident will bounce back the moment more films get made with us or that use our service most effectively. We won a visual effects award from a movie like Guzaarish, but Guzaarish is a lot of visual effects film; when you attribute a quality level in a quality of work from a financial perspective you will sort of see very quickly that we have been regarded as top tier and doing great work but it is not necessarily in line with what the end product is looking for or the audiences are looking at it, so I think that is a temporary blip according to me which will correct itself but new businesses are coming in to their own, are growing brand popularity and the fact that we are working with some of the main studios here and doing great work clearly has positioned Prime Focus as a known entity amongst all the big international companies out there, so when you ask me competitively the brand profiling has been growing every quarter and I think that is bringing up to the forefront of the studios in saying okay talk to Prime Focus once before we do something or not as against who is Prime Focus some years ago, it is like there is a big transition in that regard.

Pankaj Chopra:

You have currently 3000 people and I guess may be 80% of them would be in the 2D, 3D conversion space is that a correct assessment?

Namit Malhotra:

About 60 to 65%.

Pankaj Chopra:

This has come out from probably the last five quarters. What number do you see this going up to may be one year or two, let us say next one year do we have some vision as to where this numbers could go to?

Namit Malhotra:

I think as I explained little earlier one is that there are lots of people and then there is a productivity on the other side, so I think over the next 6 to 12 months, I have seen that the overall productivity increase itself will be about 30% to 35%, on an artist to artist level in terms of what we see is delivered from an Indian Artist versus a UK or US artist, this on an output parity of work when we say man day in India is not a man day in the US or UK, so there is clearly an improvement there as the India artists are getting more and more skilled. On the other end I think a fair estimate would be about 50-60% growth on that end is where I think we would probably go to. Depending on few items in terms of how things evolve in the next few quarters but we have obviously got one major studio signed up on a certain amount of work, we have got another studio deal that is just on the way, hopefully we should be able to announce that soon, so I think we have a reasonable strong order book to be able to sustain a lot of that and that is where I think the differential exists between what our cost base in India versus what it is in the US, so there is a substantial arbitrage.



*Prime Focus Limited
February 15, 2011*

- Pankaj Chopra:** From around 2000 people now on 2D and 3D there will be about 3000 in a year's time.
- Namit Malhotra:** Which I think would be a fairly organic increase. I do not think there is going to be anything out of the ordinary.
- Pankaj Chopra:** This run rate of revenues could that spin up as quickly as that because what you are saying is these guys who are in training, so may be in next two quarters the output of that coming up by 30% and you have another 50% increase and strong growth?
- Namit Malhotra:** Like I said the increase that even the numbers I am telling you today are actually increases that have happened in the last three months, you could say we have added 400-500 people almost in the last three months, so the efficiencies of people who are added in the previous quarter that has been impacting so if you draw out a scale you can say that it is a balancing act between what the exact timeline of that will be. We have about 17 artists from Los Angeles meant to fly down to India in the first week of March to actually do a full eight week full fledged training program, so we are obviously pushing fairly hard in making sure that we have got substantial developmental cycle happening in India, but what we will see is it takes a project or two for the actual artists to work on to actually start becoming really effective, so I think that impact is towards the later part of the year rather than calendar year or I would say rather than in the first part because we have just done a fairly substantial increase in terms of our people count in the last one, one-and-a-half quarter. I think right now we are just hoping to settle down with what we have and then the next batch will hopefully be ready to get heated up post June I think.
- Pankaj Chopra:** Do you maintain your bullishness on this 2D, 3D opportunity, is it really coming on the ground, your thoughts on this because the 3D television I do not how...?
- Namit Malhotra:** There is in fact, to exactly allay my own concerns and everybody's concern this year we went to what is the biggest consumer exhibition in North America called CES Show; Consumer Electronic Show where it is more than reassuring to see the amount of 3D technology that had been displayed by all the big manufacturers whether they are computers, games or TV sets or portable mobile phones which are playing 3D content, there is an announcement that Apple has patented a technology to have glasses free 3D which will hopefully come out on their iPad sometime next year, so there is obviously all of the consumer push towards 3D is substantial, the flip side is the content pick up and the delivery of content which is clearly a big, big gap and the only way to really get some of, to break the chicken in neck cycle is to have sufficient content which the studios recognize, they are all looking for being able to push through their content, Samsung has been funding through some conversion on Shrek, Panasonic has a tie up with Avatar and some other big films that we are working on right now I cannot name, but it is clearly there to stay it is not like it is a



*Prime Focus Limited
February 15, 2011*

viewing experience that is going away or people are getting bored of it, very clearly a sense of being a longer term player especially in a place like North America where the action really is happening, there is a growing count of TV sets because of cost of these TV also is not very high, the average cost of 3D TV versus a what used to be a HD TV initially actually in some sense lower than what the previous TV sets cost, so I think there is a sense that libraries will unlock value DVDs blue rays, other forms of content streaming opportunities are all headed down that path. Some of the biggest sporting events are clearly going down the 3D route, so there is obviously a greater push down that path and there is absolutely more content than we as a company can think of converting, it is like there are so much content out that is ready to be converted that will take us a lifetime to actually get through if it all actually opens up in its full potential. At a conservative level I would say it is definitely a very strong opportunity, it is a matter of some of these TVs picking up a little bit more traction which also is happening from what you, if you talk to big consumer electronic guys they will tell you they are seeing reasonably good demand pick up even though the amount of content available in the market is very, very minimal like today if you buy a 3D TV you will know what to watch on it.

Moderator:

The next question is from the line of Saurabh Gupta from Siddesh Capital; please go ahead.

Saurabh Gupta:

Good afternoon sir, continuing with this opportunity size of 2D to 3D I just wanted to know that the new content that have been made would be the shooting will happen in 3D, so does this scale down some kind of an opportunity size, was the conversions done pent up for two, three years and then for us, how are we placed in that environment?

Namit Malhotra:

There is a clear divide in terms of how the world perceives what is shot and what is converted. I think what is becoming very, very clear is that ultimately to make a feasible way out, it has to be a hybrid approach because there are clearly advantages in doing what is post conversion in terms of quality and control versus what is shot in 3D now, some of the things that people are not clearly aware of is that when you are shooting in 3D the amount of time taken to shoot that movie and the cost of doing it is actually higher than doing it in conversion. So that is first of all and that is probably why a lot of movies being taken are perceived like they are shot in 3D, they are actually not and I can move a film like Avatar to you which everybody believes was shot in 3D but except 40 minutes in the film the remaining two hours of the movie was actually rendered in 3D, that is all computer animations which was all rendered, so it is all post, so the thing is that shooting at an imperfect science and there are clear cuts laws when you are doing a movie kind of thing. In the ports business shooting is the only option because in a live situation you cannot be getting that kind of speed of conversion, but on the movie side from a story telling perspective, from a film maker's perspective, they continue to see greater opportunities and efficiencies in doing it post rather than shooting their movies.



Prime Focus Limited
February 15, 2011

- Saurabh Gupta:** Sir coming again in 2D, 3D spaces, I just wanted to understand and for a company as we are in terms of how good we are placed is it the software the people or the client relationship will help us having an edge over the competition what is the key differentiation?
- Namit Malhotra:** I think you mentioned all the three key features of the business, they are absolutely the key to the business; it is technology, it is creative people and it is relationships.
- Saurabh Gupta:** In terms of people, could you highlight some level of attrition in domestic and international businesses, what is the attrition level that we are facing, any number?
- Namit Malhotra:** Internationally the attrition is pretty tight because the international markets continue to be buyer driven and the job market is not as good as in terms of the people can run off in their job, so I think clearly in the international side the attrition is not a concern, the domestic side we see a certain amount of attrition only with regards to the amount of people we filter through the system in terms of taking up bunch of like we will have 60 people leaving in a month then we will have 120 people hired in because the circle of we need to run through a sort of our evaluation on training, it is not like we are losing good talented people who deserve that we have to run a rotation of people to know who are the people who have the knack of doing the job and who will save the day, it is a good 30 to 60 day cycle when we figure that out and are able to manage that. Actually I do not know even it will be 10% during a quarter, maybe even lower.
- Saurabh Gupta:** Sir lastly, you said that lot of postproduction business in North America is now moving towards 2D to 3D, so what kind of retraining and retooling timing and cost does this involve for us?
- Namit Malhotra:** I do not think retraining is involved at all, because we have just replaced all those key people with completely new set of people that are in that side, that is the transition that has been happening over the last one year, so it has not just happened overnight, it probably has been managed through the course of the year.
- Moderator:** The next question is from the line of Hiren Dasani from Goldman Sachs; please go ahead.
- Hiren Dasani:** First of all on the stand-alone side why was the revenue down on a quarter-on-quarter basis?
- Nishant Fadia:** In last quarter we did bill a higher amount, we could rather say that the last quarter was little bit of spike rather than seeing it as revenue of this quarter as lower like you are seeing total revenue anyway is 93 Crores for nine months, which is just about as much as last year's entire standalone of 95, so it is more like last quarter was bit of spike when we did 36, but this is approximately the level which you are at.



Prime Focus Limited
February 15, 2011

- Hiren Dasani:** Without going into let us say quarterly as Namit explained that there could be some spillage of the revenues between one or the other quarter but if I were to just look at nine months number on a consolidated basis we have done about 426 Crores of revenue averaging about 140-142 Crores kind of run rate. Is that a fair run rate to assume going forward as well with some growth from thereon?
- Nishant Fadia:** I think that is a fair rate to assume, because like you said when you take a nine month number we expect that even this quarter we should be around hitting similar kind of mark.
- Hiren Dasani:** Around 140 or so?
- Nishant Fadia:** In the region of, it could be plus or minus but it is not going to be 200 or it is not going to be 80, something like that; that is what I mean.
- Hiren Dasani:** On the nine-month margin consolidated were about 30 and 30.2, 30.3% or so?
- Nishant Fadia:** That is the expected margin going ahead as well. We expect that minimum margin will be maintained. Obviously the trick here is that the more work which you send to India, and the more work which is executed in India as more people and more capacity is built in the margin should rise, but like I said we will figure that out in the next few quarters as capacity and people are built up in to the entire India facility.
- Hiren Dasani:** So would it be fair to say that FY 2012 consolidated margin should be better than FY 2011 or would it be more or less the same level, as this more offshoring piece kind of gather steam (39:31)?
- Namit Malhotra:** I think it is naturally true that we will clearly end up standing on that the margin play will definitely get better because the more India output the better the bottomline performances and we are trying to run our (indiscernible) 39.52 in most of our places so obviously capacity utilization plus the work coming out of India to that extent will clearly drive the margin play, margin opportunities up.
- Hiren Dasani:** Nishant, would it be possible to get a geography wide kind of break up of revenue for the quarter?
- Nishant Fadia:** I can give it to you offline, so we can finish the call because it is getting late because Namit has to go that is why.



*Prime Focus Limited
February 15, 2011*

Hiren Dasani: This 2D to 3D we seem to be getting good traction, but any sense on that, on the back of 2D to 3D conversion are we able to make any inroads in the studio for getting VFX work which we can be kind of outsourced to India?

Namit Malhotra: That is actually absolutely the effort that is actually being run right now, in fact we are building a brand new facility in London which hopefully should be operational by April, which is going to be a good visual effects and 3D initiative together because we clearly recognize that we have to use this opportunity of moving into the studio system and trying to offer a more sort of consolidated position of visual effects and 3D conversion, which is how the studios are also steering themselves towards, we have got a fantastic team in place in London where we get major tax breaks and opportunities. We have got a 3D movie currently, I cannot name, but it is completely all the visual effects of that movie are being done between London and India and it is a full 3D film, so we will be managing the entire process for the client, we are anticipating that movie will be in theaters by the end of this calendar year, so clearly all of that together is helping us clear the arguments towards us taking up bigger and bigger pieces of work on visual effects movie, which ultimately I am sure will happen.

Hiren Dasani: But so far we have not got any major order on the VFX side from the international studios?

Namit Malhotra: I would not say major, but we have been working consistently even now there is a film that is currently being, visualized effects are being done in India at this moment in time, I would not call it a major film or a major contract, but it is clearly getting there because the companies we acquired in the international markets in the visual effects side had a history of being smaller and more booking high quality, but low volume kind of company, so we have slowly been building them up to be able to handle more high profile work and have that scale as well.

Hiren Dasani: If you were to invest more in London then would it not have an impact on the margin side because I thought London is also as costly as probably working in US?

Namit Malhotra: Actually London is surprisingly cheaper than working in US, LA and California is probably one of the most expensive locations to do any work right now and London because of its exchange rate and 20% tax benefit that the film studios get is a very attractive destination and clearly the idea is to build London on the premise of how we build the India operation on a 3D side as well which is we able to connect the back end and front end together, so London has been built in that regard much more organically and clearly with a much more focus towards how work will be divided up from between London and India, nothing will be ever done in London as a full-time London Job because there is no legacy and no history, the whole initiative is to be much more well-connected in our entire pipeline and how we share work and resources across the two operations, yes the cost is higher but I think we will have



Prime Focus Limited
February 15, 2011

a bigger revenue upside as well as we get in to visual effects, we shall hopefully steer the overall growth of the company in the right direction.

Hiren Dasani: Namit you did allude to some more orders being in the pipeline, would it be of the similar size what we announced last month on the exchanges or will it be different size?

Namit Malhotra: It would be almost similar if not bigger.

Hiren Dasani: On the funding side from the balance sheet debt equity point of view we are good for now or do we foresee more need for equity rise going forward?

Nishant Fadia: I think currently we are good, was just done by QIP in November, currently we are fine.

Moderator: The next question is from the line of Mitul Mehta from Lucky Securities; please go ahead.

Mitul Mehta: Hi good morning sir. Congrats on a good set of numbers. My question to you is that is it possible for you to give us some sense on the revenue traction going forward, reason why I ask you is that as the earlier speaker said we are currently hitting a run rate of about 130, 140 quarterly, when should we see some step up, the reason why I am asking is because currently we are in a major hiring spree, so lot of those fixed costs are going to hit us in the interim and lot of executions would gets little back-ended, so just to get some flavor on that?

Namit Malhotra: It is important to analyze the fact that revenue traction is one side, the other is in a business like ours where we are transitioning the whole business model as we are building it while the revenue growth is obviously being targeted from our growth in the 3D conversion side and the visual effects business what is more important to see is how the margins play may actually work, how much of the interaction was that we pick up at that revenue that gets executed in a place like India, that is where big investment towards training and development of Indian talent pool is being undertaken by us because as we build a greater capability strength with the Indian team we are clearly going to spread off the bag as we know that our margin play is going to improve substantially and we can therefore start cutting back on some of our unheard of costs in the US and UK markets, so it is a transitioning model, as is being built it is being transitioned, jobs are being transitioned to India as we are going along so right now the focus is more on transitioning the jobs rather than really pushing hard towards revenue growth because if we really push for more increased revenue growth at this point we would be forced to scale up internationally because that is where the availability of ready manpower would be. So, we have to make sure that the Indian operations can really start to expand themselves already, which is reasonably I think impressive from what has been accomplished in just a year to sort of make sure that we get the indian operation to a level where it can sort of be a self-developing vehicle and then we can slowly transition once



Prime Focus Limited
February 15, 2011

the load will start pushing back the revenue end ahead. Currently the focal point of the whole company is to bring India up to speed and make sure that we can do rather than 40% can we do 90% of work in India. That is where the complete focus is right now.

Mitul Mehta: As far as your Chandigarh facility goes, what is the total seat capacity there?

Namit Malhotra: Currently it is 285 seats which is the first phase that we built, the full phase is about a 1000 seats.

Mitul Mehta: And as far as the QIP, which was raised in the month of November, I think we raised about 60-62 Crores, can you please tell us where did we utilize this money and we were supposed to pay some high cost debt, which is of course getting reflected in the interest cost for this particular quarter, so can you just take us through that?

Nishant Fadia: Basically we had raised 72 Crores, like you said some of that has gone into repaying the debt, some of that has been used for the new CapEx for Chandigarh and I think the more impact of that reduction in the debt will be seen in this quarter because that money only came into the account about 20th November, so there is only a 30-day impact in the interest cost for this quarter, but the full of this quarter you will see a differential and the interest.

Mitul Mehta: How much debt we are going to repay out of the total debt?

Nishant Fadia: What we have basically done is for the moment at least we paid down our cash rate facility, so the immediate interest saving is there and as and when we need it will depend on how Chandigarh pans out over how much time we will take that call.

Mitul Mehta: In terms of absolute debt, what is the correct number as on today?

Nishant Fadia: On the India books to about 130 Crores.

Mitul Mehta: I am saying on the consolidated.

Nishant Fadia: Consolidated will be about 230 Crores.

Mitul Mehta: Your CapEx plan for next year sir?

Nishant Fadia: CapEx, obviously part of Chandigarh will spill into next year on the consolidated level we will have London and New York facilities also building out, all are in the build out stage currently, so there will be some spill over of all these.



Prime Focus Limited
February 15, 2011

- Mitul Mehta:** How much is the total number for all the three faculties together how much we are spending?
- Namit Malhotra:** I think it will be close to about 17-18 millions.
- Moderator:** The next question is from the line of Mayur Gathani from OHM group; please go ahead.
- Mayur Gathani:** Good afternoon sir. I just wanted to know regarding the 2D and 3D conversion, do we see some old libraries also being converted, and are we seeing some traction on webcast?
- Nishant Fadia:** Yes, we do. In fact the contract that we have actually signed are primarily relating to older libraries, they are not theatrical, theatricals titles do not come under fixed contract, it will come under as the film gets made, it will come in for conversion. The contracts primarily do reflect the historic titles.
- Mayur Gathani:** What are the net cash on the books as on date?
- Nishant Fadia:** The QIP money, about 45 Crores is on the books currently.
- Mayur Gathani:** What about the tax rate? What tax rate do we see going forward?
- Nishant Fadia:** Obviously because of the STPI coming into force from this quarter there is a tax impact which you can see on the financial but a consolidated tax rate currently again we are working on that to see because there are four jurisdictions involved, the US, UK, Canada and India, so we will have a fix on that closer to the end of the year.
- Mayur Gathani:** Okay, next year also we will end up in the coming quarter.
- Nishant Fadia:** One thing is for sure that given the Chandigarh unit is SEZ and the current Bombay units have been converted to STPI, so on a stand-alone basis definitely the tax impact will be minimal, on a consolidated basis also because there are accumulated losses I do not see that there will be a huge impact of that.
- Moderator:** The next question is from the line of Salil Sharma from Kapoor Sharma.com, please go ahead.
- Salil Sharma:** My question is like one year down the line what will be the 2D to 3D conversion, percentage of total revenue what will that ratio be?
- Nishant Fadia:** It is fair to say that going in to next year I think what was in 2010-2011 it is probably in the 40% range, 40 to 45% range, I think it should be able to grow to close to about 55 to 60%.



*Prime Focus Limited
February 15, 2011*

- Salil Sharma:** Okay and secondly this quarter the minority interest is higher what is the reason for that?
- Nishant Fadia:** That is because of higher profitability which has come from the UK business where there is a 60% holding, so minority interest comes in from there.
- Salil Sharma:** In terms of domestic business do you foresee any 3D movie coming in from here the domestic industry?
- Namit Malhotra:** Yes, in fact we are negotiating on two films right now. There is obviously a growing interest even in India about trying to get on the bandwagon, that is what I said earlier that the moment these movies become the order of the day, it will open up the whole Indian industry for visual effect and 3D perspective and we probably stand at the forefront of that opportunity, we are already in active discussions with two very, very good high profile movies but I am hopeful that one should be looking at coming out later this year.
- Salil Sharma:** Shahrukh Khan has stated that maybe Ra.One, is it one possible?
- Namit Malhotra:** We are not allowed to say that, yes there is clearly one of the high profile wins that should be.
- Moderator:** Sir, we have no further questions. Would you like to make any closing comments?
- Ankit Kedia:** I would like to thank Mr. Nishant and Mr. Namit to be on the call and some closing comments from Namit.
- Namit Malhotra:** I hope his call was informative and gave you all a general texture of the business. I think it is fair to say that we have been building this business and taking the most of the opportunities in front of us through the course of the fiscal year and we continue to remain growing in a zone where I think the emergence of us as a global brand in the entertainment space will hopefully bring us greater upsides and opportunities within the overall space that we operate in. With that I would like to conclude my side of the call and wish everybody all the very best.
- Moderator:** Thank you gentlemen of the management. Thank you Mr. Kedia. Ladies and gentleman on behalf of Centrum Broking that concludes this conference call. Thank you for joining us and you may now disconnect your lines.