



“Prime Focus Q2 FY11 Results Conference Call”

November 16, 2010



MODERATORS: MR. NAMIT MALHOTRA - MANAGING DIRECTOR, PRIME FOCUS.
MR. NISHANT FADIA – CFO, PRIME FOCUS.
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*Prime Focus Limited
November 16, 2010*

Moderator: Ladies and gentlemen good day and welcome to the Prime Focus Q2 FY11 results conference call hosted by Centrum Broking. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you 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.

Ankit Kedia: Thank you. We at Centrum Broking are pleased to organize the Q2 FY11 results conference call for Prime Focus. To discuss the results and the performance, we have with us Namit Malhotra, Managing Director and Nishant Fadia, CFO. Over to you Nishant for some opening remarks.

Nishant Fadia: Good morning everybody and thank you for dialing in. Just quickly take you through the numbers before I hand over to Namit for strategy. This quarter, we have seen an increase in consolidated EBITDA from 28% to 33% which is primarily owing to percentage of work which was outsourced into India from the U.S. This project called My Soul to Take which was done primarily out of the Indian offices. As you can see standalone numbers have also grown reflecting the same project. Going forward, I think we are expecting a similar consolidated EBITDA margin to continue and I will take more questions at the end on specifics. Namit.

Namit Malhotra: Good morning to most of you. I am in LA so evening for me but basically I think I am very pleased to see our business has been shaping up in the last couple of quarters and we find ourselves at a very interesting position in our business. The structure and the strategy that we are adopted while starting from 2006 through the acquisitions of our businesses in the U.K. and followed by the U.S. in 2007 starting to bear fruit. We have been able to see our international businesses grow out of the recession and coming into a fairly strong position on their own being able to leverage on the Indian operations and being able to come up with some fairly interesting technologies wherein being able to position ourselves Prime Focus in the international markets has now fairly dependable and successful brand provide 2D to 3D services and also making sure that other set of core services in the U.K. and in the U.S. continue to see growth.

The whole strategy that we had adopted right at the beginning as I mentioned when we did an IPO in 2006 was to be able to look at companies in the West, that we are not very expensive to buy, but had reasonable infrastructure base and had a reasonable talent that we could actually buy and integrate into the global operation so that we can start to provide our clients which are primarily clients and operate in the film advertising and television production spaces. This sort of an integrated offering using the Indian cost arbitrage and the international experience and the creative skills that we had and we are trying that now with the way our overall positioning has evolved, we are able to make a very strong impact within these markets and our brand and our



*Prime Focus Limited
November 16, 2010*

acceptance and our offer is being looked at by these companies in a fairly positive manner and they 4:27 suddenly do not have the concern that they are always administrated with outsourcing of creative services into remote locations like India or China or any other place because of the subjectiveness of the business where we are always working towards a creative vision of a film maker or a creative person. There has always been this concern of how this would work and I think we can confidently say that Prime Focus is the first company out there in the world I guess that has been able to break this deadlock has been able to start opening up those doors where our clients which have some of the biggest studios out there are starting to see this strategy and are adopting it.

What I would like to focus on specifically in the last couple of quarters that we have seen a substantial growth has been primarily in this patent pending technology that our facilities, our R&D center in Canada developed called View-D which is basically a technology to convert any 2D image into 3D. The companies that we bought in 2007 called Frantic Films VFX in America was working out really even then in providing some visual effects and we are already working on starting to look at how we could use the understanding of 3D and started to develop some tools which were actually refined and enhanced to a fairly substantial level in what was the world's largest and the biggest film of all times The Avatar and then Prime Focus was the fourth largest on the film. We were able to test this technology, by pitting against the demanding applications, then we found that a film maker like James Cameron sort of validated our process and 6.22 integrated into the film which was followed by having done the world's first 2D to 3D conversion of a film that has not meant to be released in 3D in January which was called Clash of the Titans. This film was done in a record time of 8 weeks with all our global offices working together as one and the Clash has gone on to gross \$500 million at the global box office with 62% revenue coming from 3D. So that has obviously given us a huge starting point. While we did that, criticized by some of the studios where on the process and the fact that we have done it in the record time. One of them being Jeffrey Katzenberg of DreamWorks Animation. In this quarter, we can proudly state that we were specifically called upon by DreamWorks Animation to come and help convert Shrek which is awarded to a completing facility for us to be able to turn it around and deliver in 6 weeks which and again executed between our LA, London and Mumbai and followed by My Soul to Take which is horror film, but has released on the October 8, 2010, which is a product not only was a follow-on to a complete 3D converted film, but also a film that you can probably state 90% of the creative process was done out of India which is sought of putting the opportunity of being able to do more and more of those in the future and the fact that we were able to do with the Indian talent having grown in less than two quarters with no prior experience in the process lends great credibility and credence to our overall strategy and the way we see the business.

Moving into the future, currently we are at a point where we just completed and delivered one of the biggest movies for Hollywood again. The film releases in December 10, it is called The



*Prime Focus Limited
November 16, 2010*

Chronicles of Narnia and which is a huge film and again Prime Focus was the key vendor on this film. Besides these films have been able to lock in some very big deals with some of the big studios here, because of the specific disclosure norms that exist in the studio circuits we have been asked to hold back on specifically announcing, but we can almost certainly say that we are already working on some of these projects and they are probably the world's most valuable franchises or films that have been in libraries of these big studios. So opening up the business not only to new films that come out and release every other quarter, but also in a film that had tremendous resale value and had tremendous value and being able to re-release in 3D and create new revenues for these studios which is what their core business always been. So we are part of starting this see a very interesting culmination of old movies from the libraries which is a steady state business that gives you a reasonable visibility over the next 24 to 36 months plus we have new films that are being signed up as film release every other quarter. I would like to bring out certain clarity to everybody in the group that while historically our business is never order book based because we always work on new film, the new projects. The entertainment business whether in India or America constantly have films going into production every year starting shooting in January and releasing in October, November whatever. So there is constantly a very consistent supply of new film that constantly hit the theatres and hit our production wise. We are in a fairly interesting spot this one when we got the ability to see now 24 to 36 months ahead and know that as we got a reasonable minimum order book and certain minimum margin in terms of our capacity utilization besides having a very keen interest from all the major studio right now in Hollywood to be able to take their new films and convert them to 3D as well and this is starting to become, I think as I said earlier is become a validation for our overall strategy. It helping validate our other firms and processes of services whether it is visual effects or some of our post production services that are also being able to now be used by studio to have an integrated solution. We have a film right now that is currently on shoot which I cannot disclose, but we are the closing points of doing the 3D conversion and the visual effects and big chunk of that would be done in India at some point.

So we are starting to see a fairly big change in the way the studios are looking at us and looking at the offering that we have and are starting to come to us and asking us now more often whenever in terms of what our offering is and how we could actually show them, how we could do things more efficiently brings scaled up teens and being able to take on big thesis of these movies and getting them done and finished and really building a huge competitive advantage over most of our competitors out there. We have also gone ahead and signed up fairly large roll out of our capacity in SEZ in the North of India and Chandigarh with about 3000 people that could be employed there which will also be exclusively used for all the international work that we are starting to see. We actually never had the opportunity to announce, but we built what we believe is the world's largest integrated facility in Mumbai which opens the door about 6 months ago and has been filled up to the point that we have gone ahead and had to take more space and add more people in within the short period of time, but we added close to about 900 people



*Prime Focus Limited
November 16, 2010*

beyond the 500 people that we already had. So we are starting to see a fairly robust increase in our team sizes of infrastructure across the world right now and the brand of Prime Focus is obviously getting its due in terms of its offering and that sort of rolling into the numbers and do able to create this fairly interesting model for us going into the future.

- Ankit Kedia:** Moderator can you take us through Q&A please?
- Moderator:** Sure sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Mayur Gathani from Ohm Group. Please go ahead.
- Mayur Gathani:** These funds with QIP placement that you did recently, the funds will be used for what purposes sir?
- Nishant Fadia:** We have raised about 73 crores by the QIP last week. Primary this will be used to deleverage balance sheet to a certain extent and retire some high cost debt which is currently sitting on the books.
- Mayur Gathani:** And as mentioned, how is your order pipeline looking sir?
- Nishant Fadia:** Without giving a specific number, we are already full through March and in discussions like Namit said for library conversions with some major Hollywood production houses.
- Namit Malhotra:** About next 2 to 3 years actually we already started pilot projects from both those deals that we have been discussing and I think almost there in terms of being able to sign our deals. So we should be able to foresee into the next 24 to 36 months.
- Mayur Gathani:** And sir what is your current level of debt pay after paying funds from QIP sir?
- Nishant Fadia:** We will have 170 crores of net debt plus the FCCB.
- Mayur Gathani:** Okay 170 crores plus the FCCB and sir what is Chronicles of Narnia, this work is basically done out of India or it is primarily done in India?
- Nishant Fadia:** No, this is shared between the facilities in London, India, LA and Vancouver.
- Mayur Gathani:** Because in My Soul to Take which was in quarter 2, primarily work would have been in India so hence your EBITDA margins would have been higher in quarter 2, but for this one probably you will be sharing it and could be higher cost as it is worked abroad?
- Namit Malhotra:** What is to be noted is that different projects get costed differently and out of these, the first one that we did My Soul to Take in terms of its total revenue is significantly lower than what we



*Prime Focus Limited
November 16, 2010*

would get paid on film like Narnia. So even though the operating costs were slightly higher internationally, but source the bill out of the sales services.

Mayur Gathani: And sir good going on 2D to 3D conversion, how does the animation business look sir, I mean are we getting any add-ons to the animation business along with this 2D, 3D?

Namit Malhotra: We do not, primarily not an animation business, we are a visual effects company and visual effects as I said in discussion that we see ourselves currently being validated in being able to do the 2D to 3D conversions and that is actually bringing the studios to the next point in saying. If you can trust Prime Focus in doing a 2D to 3D conversion of the entire film why we would be not give them visual effects which is actually more paying and effectively where they could see greater efficiencies and that is something that we have more of a history on track record to work on any ways because of the pricing in a few weeks or month, I think we should be able to come out with reasonably interesting announcements in that side as well.

Mayur Gathani: And sir can you throw some lights in the Chandigarh, the thing that you mentioned 3000 people what is that I just missed the point?

Namit Malhotra: That is primarily being set up for 2D to 3D expansion and we are looking to set up on the big library titles that are mentioned that mentioned that movies that are going to be done out of for the libraries of the studios. We are putting up a dedicated facility for this huge capacity serving those libraries as we go forward.

Mayur Gathani: Okay fair enough. Final and last question sir. Thanks. What is the cash on the books currently?

Nishant Fadia: Cash is about 7.5 million.

Mayur Gathani: Okay thank you very much and good luck sir.

Moderator: Thank you. The next question is from the line of Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta: Is it possibly for you to share the breakup of revenues between 2D to 3D conversion and 3D for this particular quarter?

Nishant Fadia: The U.S. has done revenues of about 14 million, out of which primarily it is 2D to 3D revenue. So that answers your question.

Mitul Mehta: Now sir just for our understanding on this Clash of Titans which was converted from 2D to 3D, from whatever we have read in the newspapers and in the reports that there was a huge uproar



*Prime Focus Limited
November 16, 2010*

saying highly criticized by the section of the media in Hollywood about the Clash of Titans. So could you just throw some light on this, what was this episode all about?

Namit Malhotra:

I will tell you as I mentioned in my speech that we were criticized primarily by Jeffrey Katzenberg of DreamWorks Animation and reason was because Clash of the Titans was supposed to have been released in 2D on the same date as the DreamWorks Animation film has been released called How to Train Your Dragon on March 26, 2010, and the Clash of the Titans is the same hero of Avatar and Warner Brothers came up with this plan to after seeing the way 3D box office burst open. They came up with this idea that they should convert this film. It was never meant to be a 3D film, but it is only meant to be in 2D and they in the last minute brought up on board and we did it, but what that meant for the sort of the old boys in Hollywood that they saw a company come from nowhere in 8 weeks complete a film from 2D to 3D and DreamWorks Animation ended up losing almost 40% of their 3D theatres to Clash of the Titans, against the distribution muscle Warner Brothers. So that created a huge uproar and they started to make it a full fledge- became like a talk of the industry that how high speed quick conversion can actually thrill the 3D experience and our films would be turned off and people will not watch 3D and higher ticket prices they are charging will start to be impacted. It was actually attracted by them because when Clash went on to actually do bigger business than most average Hollywood films do and the fact that 60% of the revenue came from 3D, that sort of put the entire argument to rest followed by us having done what America called 911 which is emergency support on Shrek which was Jeffrey Katzenberg's own DreamWorks Animation converging effort. The Prime Focus is especially called in please help us out and make this happen in 6 weeks. So they could need their DVD release dead line sort of validated the entire effort on the position. So they are our biggest advocates and have been saying it publicly in forum that if its about 3D conversion, Prime Focus would currently the best in the business.

Mitul Mehta:

And question to Nishant, where do you see the year end debt?

Nishant Fadia:

I think year end putting around number to it, the similar trend looks to continue as we are for the first two quarters has similar run rate.

Mitul Mehta:

But we will be throwing huge amount of cash and plus the QIP that we have recently raised, so is it fair to assume that we can substantially retire debt?

Nishant Fadia:

I think safely we can say that, although there will be some cash outflow on the up-gradation on the expansion of the Chandigarh facility.

Mitul Mehta:

How much was that?

Nishant Fadia:

We are still in the process of figuring that out because we have just signed MoUs couple of weeks back. So we are still putting together the numbers on that.



*Prime Focus Limited
November 16, 2010*

Mitul Mehta: My last question would be that we seen to have successfully migrated 3D job to India, but what is the status on the VFX side, are you seeing the similar trend in VFX also or?

Namit Malhotra: I think as I said earlier that, that continues to remain a big part of our focus. We are clearly scaling up on that end. In a couple of weeks, we will be able to announce some reasonably interesting projects that will be using that Clag did for the first time, a complete Indian pipeline and more than anything else, I think what is important sort of recognizes that we are the first Indian company or probably only company in the world that has had to go out make these acquisitions of almost somewhat broken financial companies and turn them around from being tier II, tier III players to get into tier I and that has obviously meant whole up hill task in the last couple of years and now the fact that today our brand in at least one of the key components are 3D which is actually the biggest revenue earners for studios starts to take center stage we have got fairly interesting opportunity now where we can start to integrate this offering and say you got to do visual effect, you got to do 3D conversion, why do not you give it to us, we are the best company to do because we got the integration capabilities, we got the scale, and we got the feeder of doing some great work like the fact that we have worked on Avatar on the visual effect side represents the fact that we have done work for the Academy Award winning film of the year. So there is clearly very strong growing confidence amongst the studios and the film makers sought of looking at prime focus is offering and see how we can pack it in. As I mentioned, we are bidding on the few project right now. Hopefully, we should be able to announce something very soon.

Mitul Mehta: Namit one question on the CEO who is resigned or separated from Prime Focus, any comments on why at this time given that he was the space of the company in the U.S. and his comments were widely circulated on Bloomberg etc.?

Namit Malhotra: I think because we are in the media business things gets to blown out of proportion he was senior for our post production business in Hollywood which was shut down by us in the month of April and May this year and as part of transitioning strategy, I had kept him on to sort of continue to maintain the momentum as we were making a transition from post production into 3D and it was very clearly understood that he would be transitioning out as I was coming in and taking control of the business here in America. So I do not know if you are aware, but I am actually now full time living here in America with my family and so I have taken control of the business in the last 2 to 3 months and which was clearly something was on the cards and that is something that is a new or sudden development.

Mitul Mehta: One other data point if you can give us Namit is how many movies or whatever are you targeting or you have currently in your pipeline to transition from 2D to 3D in terms of the historic library, also if you can share a little bit about how is the business development going on the TV content conversion of 2D to 3D, is there any good traction or any contracts that you can talk about?



*Prime Focus Limited
November 16, 2010*

Namit Malhotra:

The thing is that this is where the Hollywood industry becomes a little more difficult than one would like because we are right now working on some of the most valuable projects. It is almost like if I name one, we will be able to get 5, almost like that and the thing is that because it is a logical sequence because they make all the franchise over here in the U.S. So what tends to happen is that because they have their own multi multi multimillion dollar market in budgets associates would be announcement of these things hold us back on making any kind of commitments even when we are hiring employees, we have to make then sign non-disclosure agreements. So they cannot talk about it which is pretty unfortunate. The fact of the matter is that as Nishant said, we are clearly booked out for our 31st March year end and the film that we have got take us through over the next 24 to 36 months has a logical transition because you do part 1, you do part 2, you do part 3, goes in that is sort of the order of what we are doing plus as I mentioned that the new revenue streams of the studio is always from new movies and even though we may have contracted revenues today in home entertainment side. We continue to believe that the market with classical Films is not going to go away, it is almost like next year they are anticipating almost 100% increase in 3D releases. Now just wanted to know December 18, Avatar released. So most of the films this year have not been anticipated there being in 3D, but starting now you can be sure that every other film out there is considering or looking at the prospect of being done in 3D and as far as television is concerned, the price point of the television having yet dropped to a level, but television can afford it. We have done a few commercials for advertising for some of the brands, but what we are again anticipating is that with until and unless the distribution become bigger which means that more and more TV sets goes into peoples home in 3D content makers not going to be spending crazy amount of money and converting the library. The other side is that the moment television comes online, television companies who had preliminary composition which was talk about 100 hour in a year which is like 50 movies which means 8000 people, 10000 people to do, it is like. When you talk about TV library, it is an ocean of content at that time. That is a completely different space which we are looking at from a different standpoint. So the answer is that TV right now is still nascent, movies between the library titles and the new movies are in production continue to hog limelight and continue to give us the margins and the scalability to see building this amount quite consistently.

Mitul Mehta:

Nishant one last question for you. What is likely to be the debtor cycle on the loan that we are taking on incremental in the U.S. or in India?

Nishant Fadia:

I think the U.S. industry by nature being so evolved and matured; the payment cycle has never really been an issue. There are milestone based payments trying to take advances and then based on short front sequences being delivered. I do not see any major payment issue on that side. Let us say depends on the length of the project. So if it is a 6 month project, then 45 days doesn't make sense because you had paid on milestones, but rest assured your milestone, the payment comes through. You have to push much for that.



*Prime Focus Limited
November 16, 2010*

Mitul Mehta: Thanks and all the best.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My question is on the Indian business if you can tell us what is your market share, how the margins are, is the competitive intensity increasing?

Namit Malhotra: Indian business for the last year, year and a half has been reasonably dry only because the Indian industry has not been in great shape because lack of new funding coming and I think that has kept the Indian film industry even though we are starting to see signs now in the last quarter or two was picking up, but the last year has been a little slow, but obviously in that time the competitiveness tends to go higher because of the desperation amongst those companies out there to get some kind of revenues. I still continue to believe maintain but we continue to play at the top end of the game in the Indian market and we continue to remain the leaders in as far as the top movie makers and the top ad film makers in the business remains we have on the 19th of November Sanjay Bhansali's new file Guzaarish releasing. We did all the Yash Raj films, we have been associated with My Name is Khan this year, which is Karan Johar's huge film. So we had obviously a reasonable pipeline of films that has always been there either that what you haven't seen in the last year, year and a half are some of the big budget action or big visual effect films which actually end up being reasonably big revenue schemes for the facilities, but that is actually in our particular case is not impacted us much, because we have been able to compensate all our infrastructure and all that, capacity with international work. So it has worked reasonably well.

Abneesh Roy: Namit, two follow-up questions on this in India at least it is a very relationship driven business in terms of deal sourcing. The fact that you have now kind of moved to US and the bulk of business is now outside India, is there a big risk that in India we will kind of start defocusing in market share loss. We will be more of a niche and a premium end product only.

Namit Malhotra: I think I wouldn't categorize it to be India as such, I would categorize for us India represents Chennai, Hyderabad market as well where I have absolutely no relationships and we have been in those markets and providing services quite consistently. I wouldn't take away the fact that mine not being there is an impact to some extent, but I think I probably look at that to be the most positive thing. But you know in a time when the industry has been going through its down, it has given me the opportunity to actually build some key relationships outside where the scale is at least to what I had to do in fact my relationships currently being in India would have proved to be more of a disadvantage than advantage because this is the time when film makers and producers come to you and look for help because as they lose big bucks at the box office, they expect you to be a little more supportive and when the markets are dry, they expect you to be more cooperative. So I think it is sort of timing wise work out interestingly where the market sort



*Prime Focus Limited
November 16, 2010*

of understood from my move that the while it continuous to be outside we build a huge facility in India. We continue to service them better than ever because we have that kind of infrastructure. The film people are starting to see, the company more for what it is than what it provides rather than me as the face of the company providing on that comfort zone. I think it is also help put a lot of pressure on my management teams in making sure that they continue to keep that market share position and continue to use its opportunity to make sure that the business is not falling because of me or just my direct involvement with a particular person and so I look at it like as an overall positive because at this point even my being there would not have been.... it is not that I would have been able to say okay, we got 5 crores more in this quarter because of my being there, it is not, nothing happening there of that real value where I know for the fact that every relationship that we build even when we do a small film for \$5 to 6 million that is like more than what we do across 7 facilities in India. The scale in the opportunity here is clearly and to be perfectly honest even further to what you are saying because it is such a small industry. As the client recognizes that I am actually here in Hollywood there is at some level it is growing inquisitiveness in them to know what I am doing and what we are up to like we have done 3D and 3D such a big initiative. Today, every other film makers come to our facilities in India to see what is Prime Focus up to. We are the only ones in India that can stand and show them movies after movie in 3D which is a very unique offering from any other competitor out there. So it is like I said, in overall it actually helps put the brand up more higher up when the client start to know that now the financial relationship and the creative relationship is now directly managed and maintained in the way it should be and the brand effect that we are doing things that are way ahead of what everybody else is doing also continues to keep that intact that we are evolving and actually making a mark in Hollywood as well in working in some of these big high profile movies. So overall, I think it is a good thing.

Abneesh Roy:

But if you see the Indian Bollywood, recently we had this one of the biggest blockbusters ever "Robot" Rajnikanth's film which was again very high on VFX. So I just wanted to get a complete confidence that we are not missing out that kind of pie because every production company is seeing good growth.

Namit Malhotra:

I think like I said as the industry starts to come back, Robot obviously I think is a very great step for our industry because it clearly represents the fact that this whole vision and this whole thought that these are the kind of movie that are ultimately gross big numbers at the box office is the reality is become more absolute clarity for most of these guys and what that effectively means is that now because we had this visual effect and 3D capability internationally just so Robot is also considering doing 3D conversion which they did touch and then they absolutely lost and because of the lack of time they actually decided not to do it, otherwise Robot would have been a 3D converted film playing in 3D theatres by us for the Indian markets. So because of where things are at as some of the films get bigger and more and more of those kind of projects start getting into production. It just becomes the most obvious case in point that we at Prime



*Prime Focus Limited
November 16, 2010*

Focus are the best in position anyways. We have Indian teams, we have international exposure, we have facilities and access to talent that nobody else in India can today even think of. We have Academy Award Winner that worked for us that would be flown down in the matter of days and we could be consulting and working on some of those things right away. I think what is important is that as the trend move more towards action-oriented and visual effect oriented projects, I believe that the Indian industry will start to boom again for us and we are perfectly poised for taking full advantage.

Abneesh Roy:

My last question would be on your international markets, are you opened to the idea of product development in the sense that you will own the IP rights in that or would you continue to do basically for movies basically dedicated work and not something single product for many clients, something on that line because you have that capability, you have the team in India?

Namit Malhotra:

Abneesh I will tell you frankly, if I wanted to follow that route by now I could have had at least 20 projects in my backyard because in these tough times, financing is not available. Every other project out there in western from a co-production and from IP investment standpoint, now we have been very cautious of not doing that because we believe that our business case has been to provide a **service 40:42** you get paid and we move on. If we are playing the IP model, if want to play the IP in terms of the risk. If we want to open ourselves to that risk profile, then I clearly think that there are lot of other opportunities and lot of better ways to look at it from and I think those operations can be hired the day we believe that is the right way for us to do and build growth, but I think it is great to know that when a film does really gone at the box office like Cash of the Titans when it does so well at the box office and you make money in 3D, you feel like I wish I would be part of the backend, but when you do films like Cats & Dogs where actually on the services side we made a huge profit in this quarter, the big time at the box office. You sort of instantly realize the unprecedentedly you get evolved in this business and you want to be on the safe side of what we provide unless you have playing the IP game as a direct component of your core business strategy. It is just we knew that there is a way to supplement the current offerings. I do not know personally feel that is smart business for us.

Abneesh Roy:

That gives us confidence because that was one this stuff I thought will be there. Are you looking at more acquisitions in the international market still open to that?

Namit Malhotra:

I am not specifically looking for any acquisitions because acquisitions we made fundamentally were to gain market entry. We gained through specific acquisitions in the UK and then gained specific acquisitions in the US. I don't think we have generally been looking to buy companies just for the sake of adding top-line, but I think in a 3D side as we continue to grow, I think some amount of consolidation will happen and I think given the right company, right evaluation, I think we have been successful in doing some of these. I am not averse to it but that is not



*Prime Focus Limited
November 16, 2010*

something we are not like looking around to say okay, who can we buy, it is more of a strategic, the right time, the right opportunity if it presents itself we would consider it.

Abneesh Roy: For example in other Europe markets ex-UK we don't have a presence right?

Namit Malhotra: No we don't want to do anything like that.

Abneesh Roy: That can be....

Namit Malhotra: It can be, but it is not really. Ultimately that fact is that a French film market is not a quarter of what UK or the Australia or the American Market and the Hollywood does not go to these places. So there is no point in being in market where you are relying on just the local businesses because in that regard, then the Indian film markets are the most opportune in terms of scale and profitability on a certain level and security going into German, French, Japanese, film market these are all very generic I don't think that is really what the world has seen in terms of provide real revenues and real opportunities to companies to grow. So I do not see the inclination on expanding horizontally across geographies.

Abneesh Roy: Namit thanks a lot. Nishant thanks a lot. All the best.

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

Pankaj Chopra: Could you give me a comment on the acquisition that it done in the U.S., are you happy doing that or do you think it was in hindsight, do you think it was not well cut out or are we lucky that we have come out of it?

Namit Malhotra: This is very interesting question. I would think about this from a lot of angles. I can certainly say that the acquisitions by itself the companies that we bought went, I think the company was fairly appropriate in terms of what we identified and what we bought. I can certainly say that the two places where we could have been or should have been much more careful was obviously the timing and the means of funding it. I think in the optimism of where the markets were and where everything was the fact that we used the FCCB as an instrument to effectively, which is unsecured debt money at that time which we thought of it as equity to do this acquisition I think on the wrong choice of instrument to have done the acquisition with and the other thing was that I do not know most of you know that Hollywood went into a writer strike starting January 2008 right after that acquisition. So we had the writer strike followed by the actor strike which was called off when the financial crisis happened of Lehman Brothers. I think that point Hollywood has probably been in its worst ever in the history of the Hollywood for the last 100 years. So obviously I think the timing was slow, but I do not think that anybody in Hollywood they are going to be strike and there is going to be Lehman Brothers falling off after that. So I think in



*Prime Focus Limited
November 16, 2010*

fact in order to protect us again that eventuality had we not had FCCB which should have swung us and swung our balance sheet on the other side, had it been equity capital it would have kept us a lot more secure and conducive for bank funding and being able to get some debt from bank, from working capital to other line as and when needed which completely evaded us. So on hindsight side, I think the companies were okay, the timing was not the best and the source of funding, the structure that we used I think was probably the worst. So that is my honest answer.

Pankaj Chopra:

Just adding to that, would you think that the acquisition in terms of business has lives up to your expectations I mean leave aside this strike and the Lehman crisis, but apart from that do you think it is scaling up to your expectations and are you optimistic on further upside coming in from there?

Namit Malhotra:

In subjectiveness in what are you saying in advance front, I am afraid because the businesses went into this recession obviously does not live up to my expectation in those but because we bought these companies that had a fairly good infrastructure base and had this 3D technology and capabilities and R&D centers and ultimately gave us a 3D boost obviously had given up that to stand on it and jump right up a head. So in that regard, business perspective has been excellent because I think we are starting to see the benefits of that through our growth as we see the business transform, buying a weak company during just before the whole industry goes into a recession is always going to be harder from the business perspective.

Pankaj Chopra:

I have one question with regards to 2D to 3D, one do you think it was a lucky break to have got it or do you think it was part of a strategy which we sell out or which is the outcome because this seems to have become the really big piece of your business now?

Namit Malhotra:

On the first of October last year, we did our brand launch on 29th of September in London and 12th of October in LA and as part of that brand launch, we displayed two pieces of our technology. One was Prime Focus technology called which is an Indian technology which we have not yet spoken about and it is a huge cloud computing base technology called CLEAR which is used for digital content management across its entire lifecycle and the other was 3D which is 2D to 3D conversion which is developed sometime in August and we presently to potential as we launched our brand and Prime Focus even before like almost we have 2-2.5 months before Avatar got released. So little bit we know what Avatar is going to do at the box office for us to gaze 3D, but the fact that we had that technology and the fact that we could use that technology to make that to sort of tested and present it to the industry represented the fact that this was not something that this came along the way. We had the interest, in January last year in 2009 January, Warner Brothers gave us a test on doing some of these 3D conversion steps as to **50:27** gater few other companies and so we use that opportunity to develop the technology and develop the tools and we got to January this year a year from then Warner



*Prime Focus Limited
November 16, 2010*

Brothers decided to test us and gave us a first break. So I think while it seems like it all happens suddenly, there will be some mystery to all of these.

Pankaj Chopra:

I understand. What would you say is the barrier to entry in this business of 2D to 3D conversion, is it a big barrier or do you think it is replicable?

Namit Malhotra:

I think the entry barrier in what become interesting about the 2D to 3D business is that this is a business that clearly relies upon huge amount of labor force that has to be dependent upon before you actually do the process and that need huge scale and huge infrastructure in a low cost country whether it is India, China, or any of these places and some of the companies in the U.S. who are even thinking about doing some of these are suddenly being put into this situation where they cannot hire a 1000 people in America today to do any business. I do not think there is any company out here will start off thinking about hire thousand people in America. So for them build themselves up in start up situation with company in India or with some kind of a tie-up and build the whole pipeline and build the whole creative intelligence around it, is something that you know while we are kind of doing and living that for the last 15 years, these guys are clearly very-very, this is a huge block for any other company to just come in and replicate that. Also it needs a reasonable amount of financial infrastructure and technical infrastructure because you are looking at, you need many-many theatres and buildings, they are reviewing our imaging from time to time which is expensive real estate and expensive infrastructure around that. So I think that we because of our understanding of the business and our general infrastructure that we projects for us this became a natural transition because in some cases, 2D to 3D is a halfway street between visual effects and post production and tends to battle in both these areas and most companies whether are visual effects companies or post production companies and they are not necessarily global companies. For them to have a 3D technology, have post production infrastructure, have visual effect experience and the capital to build out this and work it through global pipeline, I do not think it is that easy and I think that is why a lot of companies are finding it very tough to scale up on and really look at how to culturally make it work. Even if they try to scale up, they cannot make it work. One of our key companies had tried to do this, our nearest competitors in India is Reliance MediaWorks had tried to do this with one company in America, their partnership after 6 months and I think some \$8-10 million gone down the drain this went off because they could not make it work. So Reliance made big announcements they had partnership with _____ 53.48 and that entire relationship fell apart in like 12 week after they got into it. So just one thing to say that you can work across markets and across cultures and it is one thing to make it work, I think we went through real challenges over the last few years and we know how to make it work with others.

Pankaj Chopra:

Thank you that answers the question. Just one last one personally I have not had the experience of 2D to 3D, but I was told that they appear like cardboard cutouts stampings like that. So may



*Prime Focus Limited
November 16, 2010*

be it is not such a big market after all. Would you agree with that or do you think that may be there is a lot more to it which will come in and things will be better as we go ahead?

Namit Malhotra:

I think if you start look at the global box office this year, you will get the answer to that question. There is not a single film in which the 3D take or any film releases is not on the 2D where as the number of 2D screen less then two-third and most film cases are one-third of the 3D. Revenue has been either half and half or 60 to 70% almost every film that released and so I think first of all 3D clearly is clearly here to stay. There is not a single film or a film maker that has been making a film in 3D or releasing a film in 3D. Television sets that are available right now _____ **55.24** discs that are going to be available that we have 3D capability on, but then look even better than home entertainment experience even better than what is there on the theatre. You have to see it to believe it if you have the time and at some point, I will ask you to come over to my facility and see exactly how we made it out and how this image looks and all these concerns and criteria when we put to rest that is why it is an artistic and major driven process. Just to make it low end and fast pace conversion service you do not need 2000-3000 people because we do it on the fly and we know that that quality and we will never get that experience if you get it right there sports games on TV or starting to become 3D. Some of the biggest music concerts in the U.S. are starting to be covered in 3D. So it is becoming an ecosystem, gaming, mobile phone. We are starting to see this spread across all forms of distribution media and all forms of consumer media and nothing that clearly giving the signal that this is here to stay now.

Pankaj Chopra:

I admit that. When you say that concert will be in 3D and sports program will be in 3D, but would Prime Focus be involved in that because right now you are more into conversion rather than these programs would actually be created themselves in 3D now. So I do not know whether Prime Focus has the role to play in the newer things coming in?

Namit Malhotra:

There is always going to be positional whether you shoot in 3D or you post-convert depending on the kind of content that we are talking about. I think movies will continue to divide themselves depending on the kind of movies they are and amount of money will be spend between the two formats. What we are finding that currently our technology originated on Avatar becomes that was shot in 3D was in up to the spec and we have to actually do post conversion to fix those shots. That is the origination of our technology that clearly represents the fact that shooting 3D is more uncertain in terms of this technology because some mechanical process, we have been traditional cameras and lenses which is not sort of accurately enough to get it **smallest 57.51**. So we continue to remain very very confident. At the high end of the game, there is no question that 2D to 3D is going to be the way to go. At the consumer mass market level, I would like to believe that there will be a fall off there will be more and more programming in 3D, but what about all the archive, what about Discovery wanting to convert all their old archive, what about National Geographic, what about all the huge movies and the biggest TV programs that have already been created. That is 15-20 years line up of work if somebody actually decided to



*Prime Focus Limited
November 16, 2010*

convert it. There is more than what any other company out there can get it done besides what has been created every year.

Pankaj Chopra: Namit last question for Nishant really. How are the margins panning out in a steady state you had kind of a lumpy margin business on a quarterly basis. So how would we see it over the next couple of years do we see 30s around or 35 or 25000 how do you see that?

Nishant Fadia: I think on consolidated level, the EBITDA margin in last quarter was about 28, this quarter is about 33. So I think close to mid point of 31-32 is very-very reasonable and conservative way to call this.

Pankaj Chopra: And do we see the top-line growth going up by what 15 CAGR or 20 CAGR over the next 2-3 years?

Nishant Fadia: Over the next 2-3 years, I would think it sort of depending on the current demand we have. I do not see why there should be a significant decline or even a steady state. I think we should go at a fairly aggressive pace. I would not put a number to it, but I would say definitely seeing the demand which we have just now and although the contracts which are being negotiated, I would say it is very good aggressive rate.

Pankaj Chopra: Thank you very much for the conference call, it is really very nice. Thank you very much.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from Barclays Wealth. Please go ahead.

Ankit Agarwal: So basically as I wanted to say that in a lot of references were made to the Forbes article which came out recently on 3D and just wanted to make one reference to that with the talk that the recent Harry Porter movie which was supposed to be converted into 3D Warner Bros shared that plan. Just wanted to know if we got that project at Prime Focus and that sort of gives us some negative feeler about the whole 2D to 3D conversion market. Do you see that as a warning for this market?

Namit Malhotra: I think that is the most positive thing that has ever happened for us because this not company able to convert this movie into 3D has caught the studio on a film like Harry Porter close to about \$100 million at least from the box office, if not more. The point being we did two films, one of those which where we did Clash of the Titans and we did Cats & Dogs. So we decided to go to IMAX because IMAX had done the Harry Porter 6 in 20 minutes of Harry Porter 6 and they decided to go there because the filmmakers were more comfortable with that even against our better advice and judgment and they found themselves in a complete mess in being able to convert the film and they came to us in a panic state saying asking me if we could help them out at the last time and convert it. We obviously were way too far away from it and we did not get



*Prime Focus Limited
November 16, 2010*

our head into and we did not convert and that meant that the film did not get released in 3D. Now what that has obviously done is Warner Brother has become a lot more careful about what they do and our relationship with them is actually strengthen significantly since then because they sort of understood now the hard way that the only company that did it for them not once but twice is Prime Focus and all other companies out there that are standing there and making tall claims about conversion and capabilities are exit to be able to see successful deliveries qualitatively and from a time perspective and to not have a film like that in 3D is like I said you have to be in the studios to know what that means because what that communicates to their shareholders and to their entire corporate group. So as you would know that the ticket prices on 3D are about 30% higher. So if you say 60% of the revenue of a film comes from 3D and the ticket price is 30% higher say Harry Porter film which is typically counted to be in the \$700 to 800 million range in box office in 2D when they gone to 3D, they effectively lose to close about \$100-200 million at the box office which is pure profit. So obviously that is very unfortunate decision for Warner Brothers but I thought in some sense it helped add much stronger credibility for us as a group to say that the Prime Focus has delivered for you, you stop claiming this out with everybody else has been trying to commoditize it.

Ankit Agarwal:

Sir but just did not get what was the reason for them not come into you for this project?

Namit Malhotra:

Because of the creative process the film maker that works with IMAX on Harry Porter 6 which is the earlier film that came last year they did about 15-20 minutes of conversion on that which is released by IMAX screen. So the film makers made the decision that they would go with a vendor that they already knew and they realized that in time that IMAX did not have the pipeline or the print or the infrastructure to be able to execute it and as they got delayed, they just could not do it and they had to pull out and say we cannot do it.

Ankit Agarwal:

That was helpful. Sir my second question is on 2D to 3D for television, we have seen lot of advertising happening on 3D television, I assume that content would be a big problem for these televisions, but did you see technology as an impediment as far as acceptance is concerned. A) From the point of view of usage you need to wear these sort of big glasses and heavy sort of glasses and secondly there is also sort of literature which says that a lot of this 2D to 3D conversion could possibly be done by the hardware itself. So your television which is supplying you 2D content would convert that into 3D and sort of throw it out. So is that concern for you as far as the TV 2D to 3D business is concerned for your future long-term growth plans?

Namit Malhotra:

I have a Samsung TV in my house that we press the 3D button it puts you in the 3D and you get an eye strain and you get a headache and you will get fatigue and it looks terrible and that is one of the biggest concerns that all of you as analyst should know this is the technology that the first time while it can enhanced your viewing experience. On the negative side, it can also damage it and that is something most people only realized a little later and that 3D it can give you a



*Prime Focus Limited
November 16, 2010*

headache and make you feel uncomfortable. As far as the glasses technology is concerned, we are starting to see some of the designer glasses that Oakley and some of the other brands coming out of the 3D glasses which are going to be very cool and very casually and very light to wear. This is not currently the case in some situation at least in the US you get glasses that are very comfortable and they are not very expensive or uncomfortable to wear. So what we seeing is that they are also coming out to some kind of lenticular television that effectively have and that reduced that actually eliminate glasses as well if you can sit and look at the 3D TV from a certain angle. So it connects me help remove the need for glasses but I think overall what they are saying is that at a present level for the kind of entertainment the people want like if they are going to watch a big sports game or if they are going to be watching a specific movies, I think people do not mind that where as for regular general viewing, may be it is not necessarily the most preferred option. So but realistically from a analysis from a of these financials magazines and you know press over here also evaluate that the real revenue is ultimately come from places and people like ultimately are serious about viewing or being entertained rather than the people who slip through channels and then means to pass their times. There all kinds of schools of thought right now that we are looking at it, but what they are seeing is that the adoption rate is actually going up rather than going down and which is probably what is becoming more interested for future of this whole technology and how it all pans out.

Ankit Agarwal:

So have you have been approached by any of these content providers for sort of pilot 2D to 3D conversion especially for TV content?

Namit Malhotra:

Yes, we have been. It is our inability to have the time to actually do tests and come up with price points that are effectively good. So then they obviously recognize that. They are not going to get the first window on that because right now the opportunity is fit clearly for the big movies on the big bucks or where the big buck comes from and the television will only happen a little later and that has been the case with almost all kind of technology in our business that you know. All of the state-of-the art technology starts with movie goes into advertising and then slowly gravitates into mainstream television because TV needs to be much more maturing, more cost efficient where as films are the ones that are always experiment with absolute the cutting edge technology and advertising on the brand actually take it up second and which we will see no different in 3D as well.

Ankit Agarwal:

That is all from my end sir. Thanks a lot for your input.

Moderator:

Thank you. That was the last question. I would now like to hand the floor back to Mr. Ankit Kedia for closing comments. Please go ahead sir.

Ankit Kedia:

Thank you everyone for joining the call. Also thank you Namit and thank you Nishant for being on the call.



*Prime Focus Limited
November 16, 2010*

Moderator:

Thank you gentlemen of the management. Thank you Mr. Kedia. Ladies and gentlemen on behalf of Centrum Broking that concludes this conference call and thank you for joining us and you may now disconnect your lines.