I. Executive Summary

Introduction

The Indian motion picture industry is the largest in the world in terms of number of films produced, and films are a key source of entertainment to a vast domestic audience that devours the industry's huge output of simple love stories and action films. The Indian government accorded it industry status less than a decade ago; the film industry remains fragmented however and individuals instead of institutions form the pillars of the industry.

The majority of India's lower middle class population (which numbers over 500 million) enjoys its films in approximately 150,000 *commercial 'Video Parlours' (VPs)* nationwide. These VPs are local outlets, small - mostly a room with a TV or small screen - and typically informal, often run by the local shopkeeper. The VPs display films using video cassettes and CDs meant for home use, both licensed and pirated; and are largely unregulated. Due to their low-margin customer base and relative inaccessibility, VPs have so far been largely ignored by all the players in the film industry.

Company

Video Distribution Network Private Limited ("VDNL") was incorporated in Mumbai, India, in September 2003. VDNL aims to harness the potential of these VPs which at present are not well served by other media distribution channels. VDNL's four promoters will own 30% of VDNL's equity. The company is in final stages of negotiation with a strategic investor for taking a 30% equity stake in VDNL. It is also looking for funding by an outside investor for an amount equal to a 40% stake in VDNL.

Service Offering

VDNL plans to purchase *commercial video rights* ("CVRs"; which are different from cinema, satellite, cable and overseas video rights, and less expensive) from production / distribution houses and licence these film copyrights to the VPs for a nominal fee. In the process, VDNL will build a franchisee VP network to distribute its films in certain states first and then nationwide, and generate profits from franchise fee arrangements in stage 1(years 1 & 2) and also advertising revenues in stage 2 (years 3 to 5). In Stage 3 (year 6 onwards), VDNL plans to partner with a satellite player who will then have access to its distribution network. VDNL and the satellite player plan to use this vast VP network to develop cable distribution hubs in these local remote areas. The merged entity will deliver its content to the VPs in the form of VCDs/VHS tapes who will then provide the content through the local cable network.

Strategic Analysis

The VP industry generates annual revenues of approximately US$ 3 billion. This relatively untapped market is difficult to reach and has been ignored thus far, and just the reason why VDNL wants to be the first to tap into. VDNL has exclusive access to purchase a vast bank of film rights to offer to the VPs. This gives VDNL a distinct advantage over potential competitors with similar offerings, who would have difficulty finding suitable content and even greater difficulty building a franchise. Thus far, no 'direct competitor' to VDNL has emerged. The company's strengths also include credibility and dynamism of its management and copyright enforcement on VPs. Its principal weakness relates to the scale required for the venture to succeed, while one of its challenges is to create and sustain the nationwide network of franchises in light of the competition that its business model will inspire.

Financials

The total amount of US$ 4.0 million of shares would be jointly invested by the promoters, strategic investor and the VC in accordance with their holding in the Company. Based on a discounted cash flow analysis, the project has positive NPV of $ 251,140 at the end of the 5th year when discounted at a rate of 30%. The exit strategy, ideally suited for the end of the first 5 years, includes an IPO on the Indian stock market; a buyback of shares by the remaining shareholders; or sale of shares to a strategic partner, such as a satellite TV company.