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INSTITUTIONAL EQUITY RESEARCH

17 September 2007

Initiating coverage

TV18

Accumulate | **Current Price: Rs827** | **Target price: Rs935**

Great growth but rich valuations

We like TV18's business model and are bullish on its growth prospects because of the strong and buoyant ad market, its loyal and affluent audience, its dominant position in business broadcasting, upside from subscription revenues due to increasing addressability, growth of Newswire18 and the likely value unlocking from the spin-off of Web18. We expect a CAGR of 36% and 80% respectively in revenues and profits over FY07-10. However, valuations are now rich and leave little room for upside in the near-term. It makes sense to buy only on dips and hence our **Accumulate** rating.

A buoyant industry will drive growth. The ad industry will show a strong growth of 15-18% in the next 4 years as ad revenues are a leveraged play on GDP growth. TV ad and subscription revenues are expected to grow by 13% and 26% CAGR respectively during CY06-11. Internet ad revenues will grow the fastest at 43% CAGR over CY06-11. These trends create a benign environment for TV-18.

TV18 is well poised to capture this growth. CNBC-TV18 and CNBC Awaaz have a strong franchise with a loyal and affluent audience. This will drive a strong growth in ad revenues at 26% and 51% CAGR over FY07-10 respectively for the two channels, much faster than the industry. With CAS/DTH set to become compulsory in 55 additional cities, circulation revenues will get a boost and grow at 28% CAGR over FY07-10. Internet advertising is booming and internet revenues from its 15 websites/properties will grow at 75% CAGR over FY07-10. Newswire18 revenues will grow at 69% CAGR over FY08-10. The possible spin-off of Web18 in FY09 will unlock value and be an additional trigger.

Valuations are rich and offer limited upside in the near term. TV18 currently trades at 50x 1-year forward earnings and EV/EBITDA multiple of 44.9x FY08 and 26.8x FY09. Our SOTP valuation for TV18 gives a target price of Rs935. We have valued the TV broadcasting business of TV18 at 30x 2-year forward earnings and the internet business at a market cap/ sales multiple of 8. The current valuations, capture the future growth and offer limited upside. So, much as we like the story, we recommend buying only on dips.

Figure 1: Financials

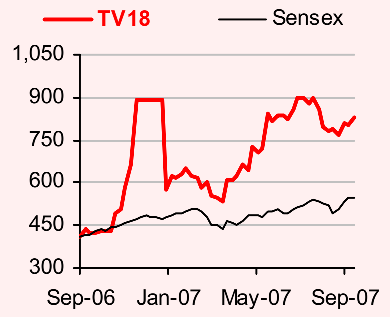
Year to 31 March	FY04	FY05	FY06	FY07	FY08E	FY09E
Net Revenues (Rs mn)	537	988	1,520	2,470	3,522	4,792
EBITDA (Rs mn)	157	365	696	637	1,052	1,810
PAT adj (Rs mn.)	108	252	372	322	703	1,234
EPS adj (Rs.)	4.6	10.6	12.6	5.7	12.3	20.8
EPS diluted (Rs.)	4.6	10.6	12.6	5.7	12.3	20.8
EPS growth (%)		133	19	-55	117	69
P/E (x)	180.9	77.7	65.4	145.4	67.1	39.7
Div. yield (%)	0.1	0.2	0.3	0.2	0.3	0.3
RoE (%)	41.0	30.4	21.2	11.9	21.0	29.0
Price/BV (x)	23.4	12.4	7.3	15.5	12.9	10.1
EV/EBITDA (x)	79.2	38.6	24.5	72.5	44.9	26.8
EV/Sales (x)	23.2	14.3	11.2	18.7	13.4	10.1

Source: Company, Religare Institutional Equity Research

Key data

Sector	**Media**
Market Cap	Rs47bn / US$1.1bn
52 Wk H/L (Rs)	949 / 414
Avg. daily vol. (6 month)	142,615
BSE Code	532299
NSE Code	TV18
Bloomberg	TLEI IN
Reuters	TVET.BO
Sensex	15,604
Nifty	4,518

TV18 Vs Sensex



Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FIIs NRI, Adr/GDR	18.3	18.3
MFs and institutions	12.7	13.2
Promoters	51.9	51.9
Others	17.1	16.6

Absolute returns (%)

	1 mth	3 mth	12 mth
TV 18	2.8	1.5	96.3
Sensex	4.0	9.9	30.3

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A buoyant industry will drive growth

Ad industry to sizzle at 15-18% over the next 4 years

Advertising is a leveraged play on GDP growth and we expect to see a strong growth of 15-18% in the ad industry, given the strong outlook for GDP growth in line. Ad spend in India is just 0.47% of GDP, much lower than the world average of 0.98%. It is also lower than the spend in other developing countries like China, Philippines and Thailand.

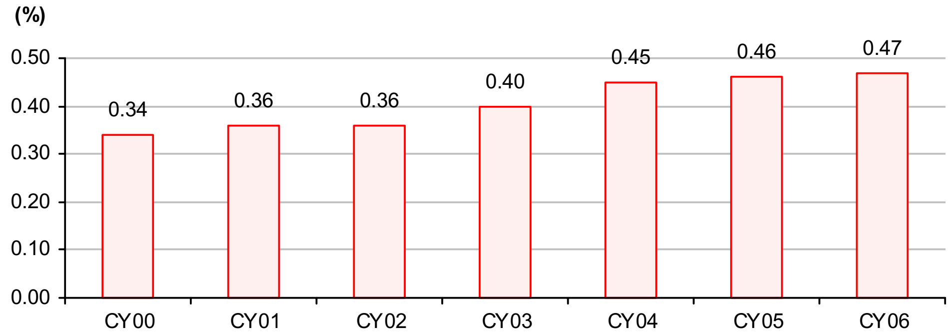
Figure 1.1: Low ad spend in India

Country	Ad Spend as % of GDP
India	0.47
China	0.55
Philippines	0.72
Singapore	1.12
New Zealand	1.38
Thailand	1.60
World	0.98

Source: Zenith Optimedia, Religare Institutional Equity Research

In fact, ad spend as per cent of GDP in India has been on a continuous rise in the last 6 years, rising to 0.47 from 0.34 in CY00.

Figure 1.2: Ad/GDP % - India



Source: Zenith Optimedia, Religare Institutional Equity Research

- Ad spend rises much faster than GDP growth when GDP growth is high. For example, between 1995-1997, when the economy grew at a high rate of 7% plus, ad spends grew at an average of 2.6 times the GDP growth rate.
- A deceleration in GDP growth hits ad spend sharply. In 1998, when GDP growth decreased sharply to 4.8% from 7.8% a year ago, ad spend declined. The reason for this is that advertising is seen as a discretionary item, and is therefore one of the easiest to cut in case of a slowdown. If the slowdown in the economy is prolonged, as seen from 2001-03, ad spend recovers after a lag. This is again because of the discretionary nature of the ad spend. It increases only after the financial performance of companies shows a sustained recovery.

Indian TV Industry to grow at 22% driven by subscription revenues

Television has dominated the entertainment and media industry and is expected to do so even in future. The revenues of cable and satellite broadcasters consist of the following sources:

- Advertising
- Subscription
- Content syndication/ Others

As per the PWC report, the TV industry is expected to grow from Rs191bn in CY06 to Rs519bn by CY11, at a CAGR of 22%. This growth will be driven more by subscription revenues which will grow at 26%. TV ad revenues are expected to grow at 13% CAGR during CY06-11

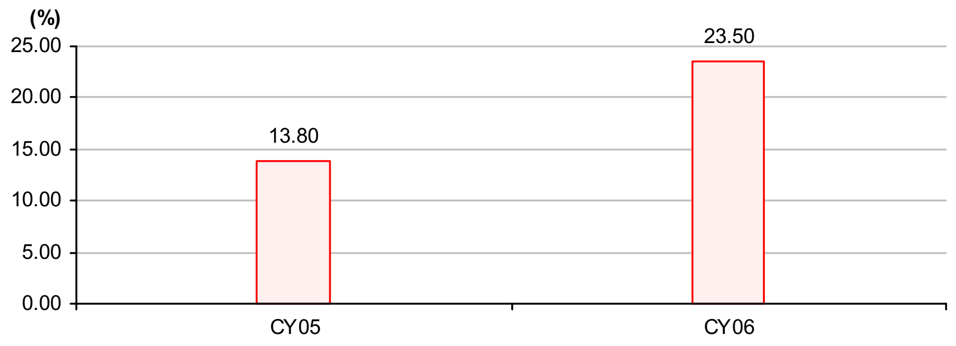
Figure 1.3: TV industry growth

Projected Growth of Indian TV Industry (Rs mn)	TV Ad Revenues	TV Subscription Revenues	TV Content Revenues	Total Revenues
2004	48,000	75,000	5,700	128,700
2005	54,500	97,000	7,000	158,500
2006	66,200	117,000	8,000	191,200
2007E	74,000	136,500	9,400	219,900
2008F	83,000	172,000	11,000	266,000
2009F	94,500	224,000	12,800	331,300
2010F	109,000	306,000	16,000	431,000
2011F	123,000	378,000	18,000	519,000
5 year CAGR CY06-11	13	26	18	22

Source: FICCI-PWC report – 2007, Religare Institutional Equity Research

In fact, growth may well continue to surprise on the upside as it did in 2006 when the industry grew by 23.5%.

Figure 1.4: % Growth YOY - Ad Industry - India



Source: TAM Adex – 2005 & 2006, Religare Institutional Equity Research

Subscription revenue-the tip of the iceberg!

Subscription revenues are projected to be the key growth driver for the Indian television industry over the next five years with a CAGR of 26% over CY06-11.

We expect subscription revenues to grow faster than advertising, because of

a) The government mandated transition to conditional access in cable and Direct-To-Home (DTH) Satellite industry.

b) Growth in cable households

a) Shift to CAS/DTH:

Conditional access was made mandatory by the government from 1 January 2007 in the metros and was to be implemented in phases. Phase 1 covered approximately 2.5-3m households out of a total of around 68m cable households in total. Pricing is currently government determined and is capped at Rs5 per channel and Rs77 for the free to air- FTA channels. We believe that the intention is not to freeze pricing longer term, but to protect consumers during the transition from analog to digital systems. We expect that once 6-7mn households have converted to digital, the pricing caps will be removed. Industry expects this to happen by the end of FY08.

A transition to digital provides a solution to the perennial under-declaration of subscribers which has hurt broadcasters for years. KPMG expects the share of broadcasters' in the subscription revenue to now expand from 18% to 33% over the next four years, as shown in the table below:

Figure 1.5: Indian subscription revenues

Share of total (%)	CY03	CY04	CY05	CY06	CY07E	CY08E	CY09E	CY10E
Broadcasters (%)	18.5	17.6	17.8	17.8	21.5	25.6	29.0	32.9
Distributors (%)	1.5	4.1	5.6	10.3	11.9	14.0	15.0	16.5
Last mile Operators (%)	80.0	78.4	76.7	72.0	66.7	60.4	56.1	50.6

Source: KPMG, Religare Institutional Equity Research

Figure 1.6: Distribution of revenues

Rs bn	2003	2004	2005	2006	2007E	2008E	2009E	2010E	CAGR 2006-10
Pay TV revenues to broadcasters	12	13	16	19	29	42	62	82	44%
Distributors' retention	1	3	5	11	16	23	32	41	39%
Last Mile Operators	52	58	69	77	90	99	120	126	13%
Total Subscription revenues	65	74	90	107	135	164	214	249	23%

Source: CII KPMG Report 2005 – Indian Entertainment Industry

However, based on the experience of the rollout of CAS/ DTH so far, we expect that the conversion to a digital platform will be slower than that expected by KPMG. So the growth rate in the subscription revenues will be lower than 44%. We have assumed a 28% growth rate in subscription revenues for TV18.

The current structure of the cable industry results in high 'leakage' of revenues as cable operators under-declare their subscriber bases to broadcasters of pay-TV channels. The under-declaration results in a very small share of subscription revenues for broadcasters, with the lion's share being retained by local cable operators (who provide the cable connection to subscribers and receive monthly payments from subscribers) and multisystem operators (MSOs, who download encrypted signals of pay-TV channels and retail it to the local cable operators). Currently Indian broadcasters receive approximately 18% of the total subscription revenue, while in developed markets such as the U.S. broadcasters get close to 40%.

Figure 1.7: % distribution of revenues

	Operator	Broadcaster
US	60	40
UK	63	37
Australia	65	35
Japan	65	35
India	82	18

Source: Media Partner Asia, Religare Institutional Equity Research

This indicates the potential for subscription revenues that can accrue to Indian broadcasters with greater addressability.

The incentive for consumers to migrate to digital platforms is the poor quality and poor service levels currently offered. Analogue channels can carry only upto 70 channels. This means that cable operators are constantly switching channel lineups depending on which networks are paying them for carriage. The digital platform can carry up to 400 channels-this offers consumers a degree of certainty and wider choice.

b) Increase in Cable Penetration:

India had approximately 68mn cable and satellite households at the end of March, 2007 as compared to approximately 0.4mn households in 1992.

According to the FICCI PwC Report, the number of TV owning households is expected to rise to 130mn respectively by 2011 at a CAGR of 3%. The growth will come largely from the rural areas with the spread of electricity and higher incomes. Currently TV penetration in rural areas is only 19%. The TV households as a % of total households will rise from 58.9% to 61.3%. The number of C&S households is expected to rise to 101 mn, at a CAGR of 8.2% over CY06-11. The C&S households as a % of TV households will rise from 49% to 77.7%.

Figure 1.8: Projected Growth of Television, C&S Households

CY	House Holds (mn)	TV Households (mn)	% of HH	C & S Households (mn)	% of TV HH
2004	180	102	56.7	50	49.0
2005	185	109	58.9	61	56.0
2006E	190	112	58.9	68	60.7
2007F	195	115	59.0	70	60.9
2008F	200	119	59.5	75	63.0
2009F	205	123	60.0	80	65.0
2010F	210	128	61.0	90	70.3
2011F	212	130	61.3	101	77.7

Source: FICCI – PwC Report, Religare Institutional Equity Research

Figure 1.9: Low TV penetration

Indian TV Industry	
Number of households (mn)	190
Number of TV households (mn)	112
Number of Cable & Satellite households (mn)	68
% of households with a TV	58.9
% of Households with Cable & Satellite	60.7
TV Penetration in urban areas	64
TV Penetration in rural areas	19

Source: TRAI, FICCI-PwC, Religare Institutional Equity Research

The outlook for the growth in cable TV penetration in India continues to remain strong. Over the next few years, cable and satellite, along with emerging delivery platforms like digital cable, DTH and IPTV will drive this growth. We have given the details of these platforms in the Annexure 5.

Internet industry to grow at the fastest rate

As per the FICCI PwC report, internet advertising will see the fastest growth in the next 4 years (internet has the smallest base) among all media segments.

Figure 1.10: Outlook for ad revenue growth rate

Media segment-advertising	5 year CAGR CY06-11
Internet	43%
Radio	28%
Television	13%
Outdoor	17%
Print	15%
Total	**15%**

Source: FICCI PwC Report, 2007, Religare Institutional Equity Research

TV18 is well poised to capture this growth

All of TV18's businesses are operating in a high growth environment. This combined with the company's strengths in its business, a strong brand and market leadership will drive strong revenue and profit growth.

Figure 2.1: TV18 Business Mix

TV Channels

- CNBC TV18
- CNBC AWAAZ

Internet sites/ properties (Web18)

- Moneycontrol.com
- Tech2.com
- Compareindia.com
- CricketNext.com
- Yatra.com
- JobStreet
- Commoditiescontrol.com
- Poweryourtrade.com
- Ibnlive.com
- Indiwo.com
- Bigtree entertainment
- Buzz18.com

New Businesses

- Stock broking (JV announced)
- Newswire (already functional)
- Regional Channels (planned)
- Business paper (planned)

Source: Company, Religare Institutional Equity Research

Revenue to grow at 38% CAGR over FY07-10. This is expected to be driven by a 26% CAGR growth in ad revenues of the English channel and a 51% CAGR growth in the ad revenues of the Hindi channel. We have assumed a 17% CAGR growth in the subscription revenues from the cable platform and have assumed incremental subscription revenues of Rs92mn from the DTH platform in FY08.

Figure 2.2: Revenue Growth

TV 18 - Consol-Revenues-29.7.07	FY06	FY07	FY08E	FY09E	FY10E	CAGR FY07-10
CNBC TV18 - ad	1,116	1,583	2,058	2,572	3,138	26
Growth %		42	30	25	22	
CNBC Awaaz - ad	0	281	492	738	959	51
Growth %			75	50	30	
TV ad - Total	1,116	1,864	2,550	3,310	4,097	30
Growth %			37	30	24	
Subscription - Total	252	280	414	495	592	28
Growth %		11	48	20	20	
TV - Total	1,368	2,144	2,964	3,805	4,689	30
Growth %			38	28	23	
Web 18	149	257	488	855	1,367	75
Growth %		72	90	75	60	
Newswire			70	133	200	69
Growth %				90	50	
Total Revenues	**1,520**	**2,401**	**3,522**	**4,792**	**6,256**	**38**

Source: Company, Religare Institutional Equity Research; *-CAGR FY08-10

TV ad revenues to grow at 30% CAGR in FY07-10

Figure 2.3: Revenue Growth

TV 18 – News operations (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E	CAGR FY07-10
CNBC TV18	1,116	1,583	2,058	2,572	3,138	26
Growth %		42	30	25	22	
CNBC Awaaz	0	281	492	738	959	51
Growth %			75	50	30	
TV ad - Total	1,116	1,864	2,550	3,310	4,097	30

Source: Company, Religare Institutional Equity Research

The key reasons are as given below:

Ad revenue growth in the TV channels: TV18 will have a high growth in CNBC AWAAZ and moderately high growth in CNBC TV18.

- **CNBC AWAAZ:** CNBC AWAAZ was launched a little more than two years ago in Jan, 2005 and in a short period has emerged as the channel of choice for the Hindi-speaking population and dominates this space (currently, Zee Business is a weak competitor). CNBC AWAAZ's unique blend of market and consumer focused programming is the reason for the rapid growth of the channel since its launch in January 2005. This leadership will drive the growth in its ad revenues. Currently approximately 15% of CNBC Awaaz's revenues are being sold through package sales along with CNBC TV18.
- **CNBC TV18:** CNBC TV18 is a joint venture between TV18 and CNBC, the global leader in business television. CNBC TV18 had created the business category in the Indian TV industry. It has consistently maintained/ improved its ratings. TV industry ad revenues are expected to increase by 15-17% every year for the next three years. We expect CNBC TV18 to grow faster than the industry, given its specialized nature and leadership in its segment. The inflation in ad rates seen currently in the top three general entertainment channels is a positive development for TV18.

The key positive triggers for ad rate hikes for TV18 are as given below:

- **Growth in satellite TV audiences:** As per NRS 2006, the average weekly viewership of satellite TV across the country grew from 207mn individuals in 2005 to 230mn individuals in 2006. The number of cable and satellite (C&S) homes showed an increase of 12% from 61mn to 68mn in 2006.
- **Credible viewership data is now available for 77 more towns:** Television Audience Measurement (TAM) has expanded its panel from 4,800 people meters to 7,000 because of which credible viewership data is now available for 77 more towns.
- **TV ad revenues much lower than print segment in the business genre:** In print, Economic Times (ET) has ad revenues of Rs4,000mn while TV18 had only Rs1,864 mn in ad revenues in FY07. This implies a huge scope for increase in ad rates for TV18 in the years to come as both are the dominant players in print and TV respectively.

- **Ad rates of TV18 are far lower than for General entertainment channels (GEC):** Currently the effective ad rate for CNBC TV18 is Rs5,000-6,000 per 10 seconds which is quite low when compared to GEC like Star Plus and Zee. While news channels in general do have lower ad rates than General Entertainment Channels (GEC), the recent inflation in the ad rates of the GEC channels could provide TV 18 with opportunities to raise rates.
- **Launch of new TV channels:** TV18 is looking to launch regional language business channels. The logic is that there are a large number of viewers who are not comfortable with English (served through channels like CNBC TV18, NDTV Profit etc) and Hindi (served through channels like CNBC Awaaz and Zee Business).
- **Strong programming:** TV18 has a strong repertoire of programs like 'Power Breakfast', 'Bazaar Morning Call' , 'Your Stocks' , 'Corporate Radar', 'Mid Cap Radar' , 'Closing Bell' , 'Business Centre' , 'India Business Hour' and Saas, Bahu & Sensex' in the capital market genre. It also has shows from other genres like 'Auto Show' , 'Storyboard' , 'Young Turks' , 'The Tech Show' , 'Job Show', 'Get A Life' , 'Business Legends', 'News on the Loose' , 'High Rise' , and 'Oriental & Occidental'. This helps in increasing viewership even when stock markets are closed and in getting product specific advertising.

Focus on revamping content and going beyond the stock markets: TV18 constantly revamps its content in order to attract and retain viewers. The key strategy of TV18 on content side is as given below:

- Leverage the interests of viewers in auto, realty and jobs to create programs / reality shows.
- Connect with the youthful aspiration of the emerging India through shows like 'Young Turks', 'Kaun Rahega Crorepati'.
- Connect with the housewife through shows like 'Saas, Bahu & Sensex'.
- Leverage driver programs to create a buzz for its new programs. This is done by advertising and promoting new programs during driver programs.

Over the past three years, TV18 has widened its coverage beyond stock markets to include features, events, commodities, interviews and fine arts. Its stock market coverage has also been expanded to include mutual fund investments, investments in debt, housing finance and personal insurance. This widening of its programme coverage was primarily intended to reduce the business risk of over-concentration on the stock market.

We believe there are currently around 7 mn demat accounts in the Indian stock market. Even if we assume two to three accounts per household, that would imply 2-3mn homes investing in the stock market, which is a committed market for CNBC TV18. The expansion of content coverage, we believe, could lead to a doubling of target viewership over the next couple of years.

The past five years have seen significant gains for news channels in terms of viewership share. However, growth in ad revenues has lagged viewership growth due to a proliferation in the number of channels, which has led to fragmentation in the viewership (currently there are more than 40 news channels compared to just a few channels in 2001). From an investment point of view, this tells us that it is very important to pick the leader, as in media, the top 3 players at best make money.

News broadcasting accounts for Rs6,000mn of the total annual TV ad revenues of Rs66,200mn. TV18 accounts for a 20% market share of the total news ad revenues. Ad revenues from news broadcasting have grown by 33% per annum over the past three years. However, ad revenues from business broadcasting have grown faster at 59.3% CAGR over the same period.

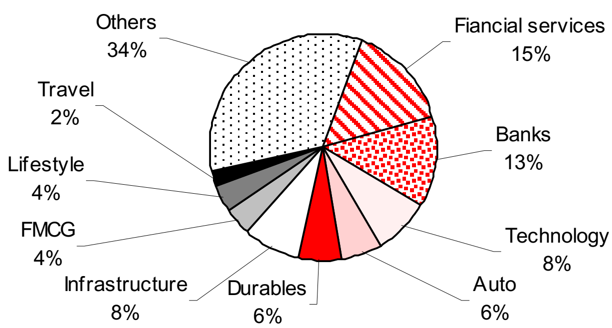
Figure 2.4: Share of India TV viewership and advertising revenues: News channels are significant gainers

(%)	2001		2002		2003		2004		2005	
	Share of viewership	Share of revenues	Share of viewership	Share of revenues	Share of viewership	Share of revenues	Share of viewership	Share of revenues	Share of viewership	Share of revenues
Mass entertainment	54	59	46	57	36	47	40	52	39	42
Regional language	35	15	39	17	40	18	37	20	37	25
News channels	1	10	2	11	3	10	5	10	7	12
Hindi film channels	3	5	4	5	4	5	8	4	8	6
English entertainment	2	4	2	4	2	4	2	4	2	4
Sports	2	3	4	3	10	13	4	6	5	7
Infotainments/ kids	2	2	2	2	3	2	3	2	2	3
Music channels	1	2	1	1	2	1	1	2	1	2
Total	100	100	100	100	100	100	100	100	100	100

Source: TAM Adex, Religare Institutional Equity Research

Diverse set of advertisers: TV18 has a diversified advertising client base. Based on its genre, CNBC TV18 is an ideal advertising platform for financial services firms. However, when the sector went through a slump during FY00-04, TV18's sales team cultivated relationships with non-finance sectors like auto, telecom, retail, technology, FMCG and consumer durable companies. These sectors accounted for 38% of TV18's advertising revenues in FY06, while financial services and banks accounted for 15% and 13%, respectively.

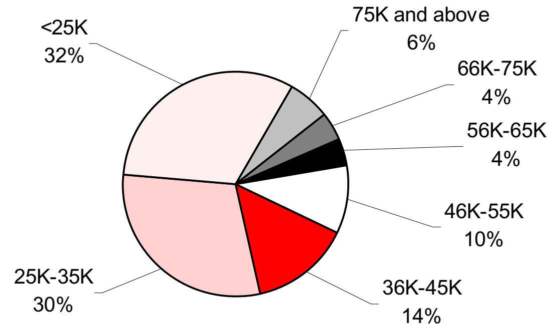
Figure 2.5: Sector-wise split of TV18's advertising revenues (FY06)



Source: Company, Religare Institutional Equity Research

Affluent viewers: CNBC's viewers are a highly desirable audience for advertisers. 68% of the viewers are in India's upper-middle or affluent urban households, with monthly income of Rs25,000 or more representing the top 19% of urban homes and over three-fourths have a net worth exceeding Rs0.5mn.

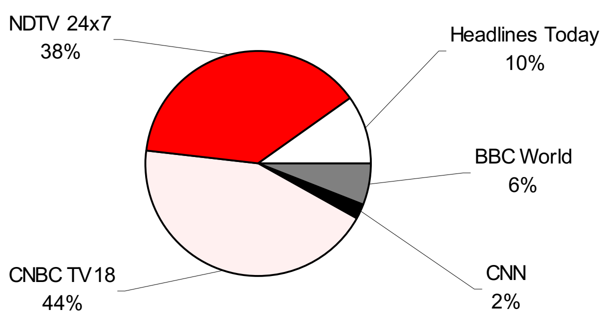
Figure 2.6: Split of CNBC-TV18 viewers by monthly income



Source: TAM Adex, Religare Institutional Equity Research

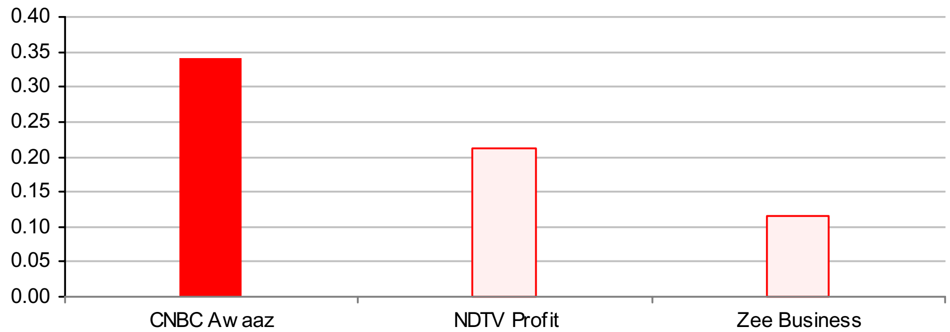
NDTV Profit is the only other 24 hour English business channel which has good content. CNBC TV18 remains the preferred channel of viewers as they are used to it due to its huge first mover advantage. While Star News and Times Now do offer some business news during market hours, they remain general news channels. In media lack of a clear positioning (i.e.. a mix of general news and business news) does not work. According to TAM, the Indian TV ratings agency, CNBC-TV18 leads the English news channels, but there is a significant out-of-home viewership (audience watch the channel at their offices) that is not captured by TAM data. However, as per the company, TAM has started the process of capturing this data. We have given below the respective market share numbers.

Figure 2.7: Market share of English news channels (FY2007)



Source: TAM Adex, Religare Institutional Equity Research

Figure 2.8: CNBC Awaaz has managed strong viewership as can be seen below



Source: TAM Adex, Religare Institutional Equity Research

Subscription revenues to grow at 28% CAGR in FY07-10

Figure 2.9: High growth in Subscription Revenues

Subscription Revenues (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E	CAGR FY07-10
Subscription - Non DTH	252	280	322	380	448	17
Growth %		11	15	18	18	
Subscription - DTH	0	0	92	115	144	25*
Growth %				25	25	
Subscription - Total	**252**	**280**	**414**	**495**	**592**	**28**
Growth %		11	48	20	20	

Source: Company, Religare Institutional Equity Research; *- CAGR FY08-10

The strength of its ratings has ensured that TV18 has consistently been able to pull off a very attractive subscription deal with Zee Turner even in a non-addressable environment.

Domestic pay TV revenues: TV18's subscription revenues will grow due to an increase in the number of subscribers and greater addressability because of the conversion from analog cable to digital cable/ DTH. Although some industry reports like KPMG have forecasted a much higher growth for distribution revenues, we have taken a lower growth due to the delay and partial success of CAS/ DTH rollout seen in the past 2 rounds. TV18's channels continue to be distributed in the Zee-Turner bouquet/offering, with built-in minimum guarantees ensuring growth. CAS has been implemented with a fair amount of success in the notified areas of Mumbai, Delhi and Kolkata and has been mandated for 55 more cities. With more subscribers opting for digital services even in other parts of the country, subscription revenues will get a big boost in the coming years. DTH players are expected to add 2.4 mn Households (HH) per year. Once new players come like SUN, Bharti, ADAG and Videocon (yet to get a license) enter, 5-7mn HH per year will get added.

Figure 2.10: Growth in C&S, DTH

	C & S Households (mn)	DTH Households (mn)
2004	50	0.1
2005	61	1
2006	68	2
2007F	70	3.5
2008F	75	5.5
2009F	80	8
2010F	90	10
2011F	101	12

Source: FICCI PwC Report, Religare Institutional Equity Research

TV18 has its own distribution team of around 40 people which distributes channels like CNN IBN and ABC. TV18 has an exclusive distribution deal with the Australian Broadcasting Corporation (ABC) to bring its infotainment channel 'Australia Network' to India. TV18 gets an annual fee for this.

The average revenue per subscriber (ARPU) will also rise as the current costs in India are one of the lowest.

Figure 2.11: Average revenue per cable subscriber

	US$/month
USA	54
Canada	54
UK	35
Japan	28
Hong Kong	23
Thailand	21
Singapore	21
Australia	18
New Zealand	16
Malaysia	13
Indonesia	9
Korea	7
Taiwan	6
Philippines	5
India	4

Source: CRIS INFAC, Religare Institutional Equity Research

Distribution Strength is a key positive: TV18 enjoys a strong distribution for its channel because of its tie up with Zee Turner. This translates into high viewer loyalty and strong brand equity. Currently TV18 gets Rs2.40 per month per channel per declared subscriber out of the Rs5 price cap on CAS. The price cap of Rs5 in CAS areas is temporary (expected till end of FY08). We expect TRAI not to continue this for too long. This looks plausible as DTH does not have any price cap. In our assumptions we have not taken any price hikes.

Internet revenues to grow at 75% CAGR in FY07-10

Figure 2.12: Web18 revenues to grow sharply

Web 18 – Revenues (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E	CAGR FY07-10
Web 18	149	257	488	855	1,367	75
Growth %		72	90	75	60	

Source: Company, Religare Institutional Equity Research

Internet industry to grow at the fastest rate: As per the FICCI PwC report, internet advertising will see the fastest growth in the next 4 years (internet has the smallest base) among all media segments.

Figure 2.13: Outlook for Revenue growth rate

Media segment	5 year CAGR CY06-11
Internet Advertising	43%
Radio	28%
Television	22%
OOH Advertising	17%
Filmed Entertainment	16%
Live Entertainment	16%
Print Media	13%
Music	4%
Total	**18%**

Source: FICCI PwC Report, 2007, Religare Institutional Equity Research

TV18 has built, acquired or allied with partners to create a family of 15 internet sites/ properties. The revenue model of these sites can be of two types: advertising or subscription. The detailed descriptions of all these properties are given in Annexure 3.

Figure 2.14: TV18's internet sites/ properties

Name	Type	Revenue Model
Moneycontrol.com	Finance	Advertising
Poweryourtrade.com	Finance	Subscription
Indiaearnings.com	Finance	Advertising
Easymf.com	Mutual fund	Advertising
Tech2.com	Technology	Advertising
Compareindia.com	Consumer goods	Advertising
CricketNext.com	Cricket	Advertising
Yatra.com	Travel	Subscription
JobStreet.com	Jobs	Subscription
Commoditiescontrol.com	Commodities	Subscription
Ibnlive.com	General news	Advertising
Indiwo.com	Women	Advertising
Homeshop18.com	Home shopping	Subscription
Buzz18.com	Entertainment	Advertising
Bigtree Entertainment	Movie ticketing	Subscription

Source: Company, Religare Institutional Equity Research

All the major internet companies are very bullish on revenue growth:

- Bennett, Coleman & Co. (BCCL) will get about Rs3,000mn in revenues from internet in FY07 (through Indiatimes, Timesjobs etc)
- New Delhi Television has set a revenue target is Rs1,000mn by FY10 from internet.
- From 'The Hindu' in Chennai to Zee and Mid-Day Multimedia in Mumbai to Living Media in Delhi, almost every company has set up either a Net division, a subsidiary or allied with an internet firm.
  (Source: Business World)

Figure 2.15: Internet advertising (Market size Rs2,250mn)

Category	Spends (Rs mn)
E-COMMERCE	450
FMCG	340
ONLINE SERVICES	230
BANKING PRODUCTS	230
INVESTMENT PRODUCTS	230
TECHNOLOGY/IT	230
AUTOMOBILE	110
TRAVEL/TOURISM	110
MEDIA/ENTERTAINMENT	110
OTHERS	230

Source: Starcom Mediawest Group, Religare Institutional Equity Research
Note: This does not include classifieds (Rs5,000mn) and search ad (Rs2,300mn) revenue.

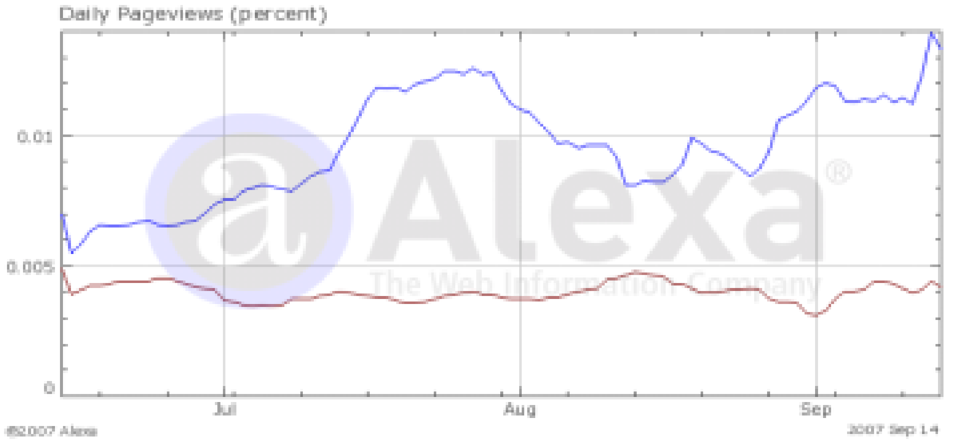
Figure 2.16: What they spend on the net

Advertisers	Share of spend (%)
Ebay/Travelguru/Makemytrip Yatra/Sulekha classifieds	60
Beverages/chocolates/liquor	5
Bharatmatrimony/Shaadi/99acres/Naukri	50
Bank accounts/credit cards/loans	50
Insurance/mutual funds/e-trading	5
PC/laptop/durables	20
Maruti/Honda/Hyundai	10
Incredible India/Mah. Tourism/Singapore Tourism, etc.	17
TV channels/media houses/firms/production houses	5

Source: Starcom Mediawest Group, Religare Institutional Equity Research
Note: Share of spend refers to online spends as a proportion of ad budgets

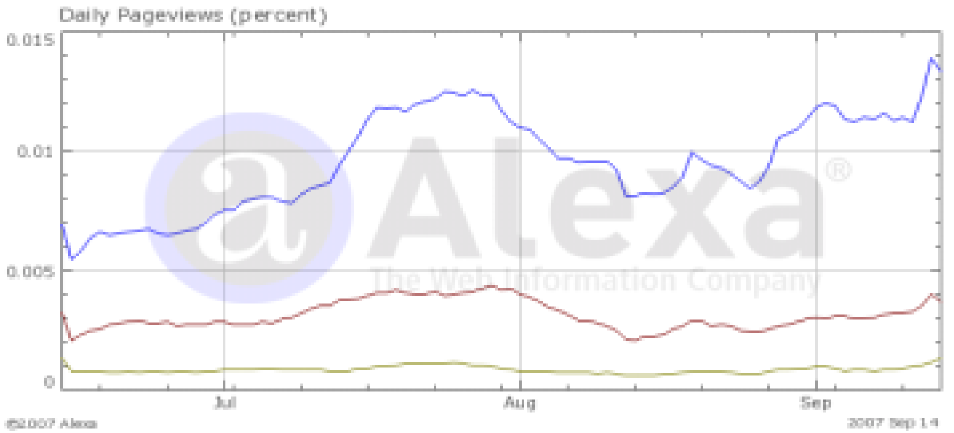
Moneycontrol.com: Moneycontrol.com has 6mn unique visitors and 130mn page views per month. It has become one of the largest financial portals in the world and will fetch additional revenues in advertising and value added services. Moneycontrol.com has surpassed its nearest rival, wsj.com, in daily page views per million. It is way ahead of other finance portals like Bseindia and Nseindia.

Figure 2.17: Moneycontrol ahead of Wall Street Journal



Source: Alexa.com (Blue line-moneycontrol.com; Brown line-wsj.com)

Figure 2.18: Moneycontrol way ahead of BSE and NSE



Source: Alexa.com (Blue-Moneycontrol.com; Brown-Bseindia.com; Green-Nseindia.com)

Figure 2.19: Moneycontrol has premium ad rates despite of being a niche site

Portals	Page views (per month)	Ad rates (2003)	Ad rates (2007)
MONEYCONTROL	**50,000,000**	**75**	**125**
REDIFF	700,000,000	75	125
YAHOO!	600,000,000	150	200
INDIATIMES	400,000,000	75	125
MSN INDIA	300,000,000	75	100
SIFY	150,000,000	75	100
SULEKHA	100,000,000	50	100
WEBDUNIYA	60,000,000	100	125
INDIAINFO	30,000,000	50	100
INDYA	20,000,000	150	150
NDTV	80,000,000	150	125
HINDUSTANTIMES	40,000,000	75	100
CRICINFO	90,000,000	100	150

Source: Starcom Mediawest Group, Religare Institutional Equity Research
Note: Ad rates refer to Rupee cost per thousand impressions (CPM)

Although Moneycontrol.com currently accounts for the major part of internet revenues, the other websites also hold a lot of potential. We have given details of the websites/properties in the Annexure 3.

Newswire18 revenues to grow at 69% CAGR in FY08-10

Figure 2.20: High growth in Newswire Revenues

Newswire18(Rs mn)	FY08E	FY09E	FY10E	CAGR FY08-10
Revenues	70	133	200	69
Growth %		90	50	

Source: Company, Religare Institutional Equity Research

TV18 launched India's first real time News & Data platform, NEWSWIRE18 and competes with global majors such as Reuters and Bloomberg. The Newswire18 platform is a combination of the strengths of the erstwhile CRISIL MarketWire news service that has powered Moneyline Telerate in India for the past five years and TV18. The Newswire 18 News & Data platform has all the features and functionalities of a state-of-the-art market data platform, including customizable views. It has news on India, Indian exchange data, Indian OTC data, global News from several sources including Dow Jones, global exchange data, and global OTC data, along with all news and data histories.

The revenues from this segment will be primarily based on number of terminals. We are bullish on Newswire18 due to the following reasons:

Strong and large team of journalists: NewsWire18 has more than 100 editorial staff across 9 bureaus and provides extensive coverage of the Indian economy and financial markets. We have seen a long list of exclusive news items reported by its team which shows its capability.

Much cheaper: Newswire18 is much cheaper than both Bloomberg (68% cheaper) and Reuters (50% cheaper). Newswire18's attractive price point could pull in customers because of its affordable pricing.

Figure 2.21: Newswire18 vs. competition

Company	Cost per terminal per month for a standard package (US$)
Bloomberg	1,750
Reuters	1,000
Newswire18	550

Source: Company, Religare Institutional Equity Research

Growing customer base and demand- will appeal as it is strong in news and commodity space: There is a huge market for real-time news as also analysis. Already Newswire has signed up more than 1,000 customers in India on a trial basis. Key clients include the Ministry of Finance, the Reserve Bank of India, the State Bank of India and its associate banks, Unit Trust of India Mutual Fund, Life Insurance Corporation, Punjab National Bank, Indian Bank and United India Insurance.

Caters to different segments: Newswire18 publishes the MoneyWire, the EquityWire, the CommodityWire, and the FundWire—each designed to meet the specific information needs of participants in each of these growing markets. The Newswire18 WorkStation provides real-time data feeds from several dozen local and global exchanges, real-time updates on more than 100 currencies, and live rate updates from the domestic over-the-counter market.

International tie up: It has a tie up with Dow Jones for all international data and news. The new service has been launched through a new platform, Tenfore Systems which is London based. Tenfore has a large corporate clientele and 45 re-distribution clients including Thomson Financial. It will be reaching out to institutional customers complementing the retail audience.

Strong management team in place: Newswire18 is headed by Pankaj Aher, a financial journalist with 15 years' experience. Pankaj and his colleagues — Feroze Chandra, Abhijit Doshi, and Kalyan Ram — are founder-shareholders of NewsWire18. This is the same team that set up CRISIL MarketWire in 2001 from BridgeNews, to which the team traces its lineage.

Marketing support of group companies: Newswire business complements the current brands of TV18 in the financial news and information space. Newswire gets huge exposure on all group companies like CNBC TV18, Awaaz and Moneycontrol.com.

Strong financials – low debt, increasing free cash flows

TV18 is expected to report Rs3,522mn in revenues in FY08 and a have a 3 year CAGR of 36% till FY10. EBIDTA will be Rs1,052mn in FY08 and a 3 year CAGR of 62% till FY10. PAT is expected to be Rs703mn in FY08 and a 3 year CAGR of 80% till FY10. EBIDTA margins fell in FY07 as CNBC Awaaz and web18 were in an investment phase. As the returns from these investments start flowing in, EBITDA margins will improve.

Figure 3.1: Strong growth

Key Financials	FY06	FY07	FY08E	FY09E	FY10E	CAGR FY07-10
Net sales (Rs mn)	1,520	2,470	3,522	4,792	6,256	36
EBIDTA (Rs mn)	696	637	1,052	1,810	2,725	62
EBIDTA %	45.8	25.8	29.9	37.8	43.6	-
Adj Net profit (Rs mn)	372	322	703	1,234	1,862	80

Source: Religare Institutional Equity Research

Increasing free cash flows: TV18 is expected to have positive cash flows FY09 onwards. In FY06 and FY07, TV18 had negative cash flows due to higher working capital requirements and capex.

Figure 3.2: Free cash flow

TV18 (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Free cash flow	(223)	(364)	(56)	552	1,073

Source: Religare Institutional Equity Research

Low Debt: TV18 will have a low debt.

Figure 3.3: Low Debt

TV18	FY06	FY07	FY08E	FY09E	FY10E
Debt/Equity (x)	0.8	1.1	0.6	0.3	0.2

Source: Religare Institutional Equity Research

Increasing RoE, RoCE: TV18 will see an increase in the average RoE from 11.9% in FY07 to 34.0% in FY10. Similarly, RoCE will rise from 10.1% in FY07 to 39.8% in FY10. RoE and RoCE fell in FY07 due to the QIP of Rs2,000mn and the restructuring.

Figure 3.4: TV18

TV18	FY06	FY07	FY08E	FY09E	FY10E
Average RoE %	21.2	11.9	21.9	30.9	34.0
Average RoCE %	19.5	10.1	17.8	31.9	39.8

Source: Religare Institutional Equity Research

We expect the next 1-2 quarters to be disappointing due to high losses in Newswire and Web18. We expect better performance in the TV business due to CNBC Awaaz losses coming down in the coming quarters.

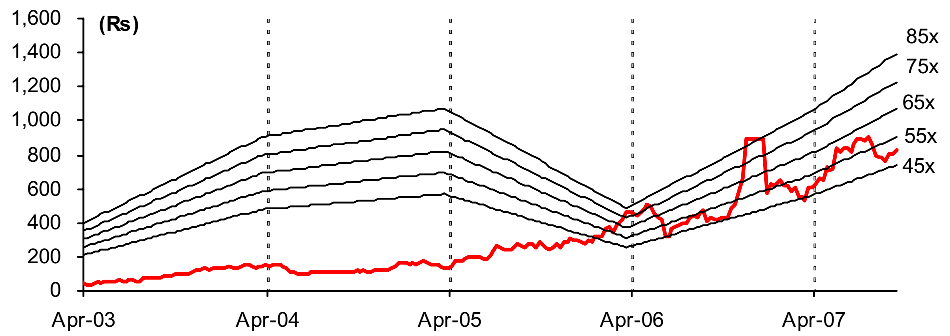
Valuations and Recommendation

TV18 saw a very sharp re-rating from November, 2006 and is currently trading at 50x 1-year forward P/E band. However, due to the restructuring of TV18 in FY07, the P/E band is not very meaningful and has been shown only for illustrative purpose.

The re-rating of the stock was due to the following reasons:

1. Restructuring of TV18 which led to value unlocking.
2. Listing of Naukri.com (Info Edge) which led to higher valuations for Web18
3. Announcement of deals like outsourcing JV with Infosys, MarketWire acquisition, websites acquisitions etc.

Figure 4.1: TV18 P/E Band



Source: Religare Institutional Equity Research

We have valued TV 18 on a sum-of-the-parts basis to capture the fact that different businesses are at different stages of growth. Our per-share value works out to be Rs935.

Figure 4.2: SOTP valuation

SOTP	per share value	Methodology
TV18-TV	727	earnings of TV business
Web18	120	Market cap/ sales
Newswire18	9	Market cap/ sales
18% stake in GBN	79	Market cap of GBN
Total per share value	935	

Source: Religare Institutional Equity Research

Valuation method - TV business

We have valued the TV business of TV18 using a P/E multiple of 30, based on a comparison with other companies in the broadcasting sector. This P/E multiple is higher than of ENIL which is in the radio segment and lower than that of ZEEL which is in TV segment. The reason for a higher multiple than ENIL is that we believe TV18's dominance of its space is stronger than that of ENIL which face more competition and little differentiation in content. Hence ENIL commands a lower multiple as it is exposed to a higher risk of competition. We have given a higher rating to Zee due to the following reasons:

- Zee TV has been a turnaround story and is poised to take a shot at the number one position.
- Unlike TV18, Zee is a mainstream GEC wherein the operating leverage is higher compared to that of a business news channel. The largest revenue segment lies in the GEC segment and it will always remain the topmost from an ad sales point. Also, stickiness is far higher in soap operas (mainstay of Zee entertainment) compared to a news channel. A large share of CNBC revenues are linked to the stock market like IPOs etc.
- CNBC Awaaz is still in the investment phase.

Figure 4.3: Media Sector

Media Sector	Price (Rs)	Rating	Mkt Cap (Rs bn)	EPS (Rs)		P/E (x)		EV/EBIDTA (x)		EV/Sales (x)		EBIDTA margins (%)		P/BV (x)		RoE (%)		RoCE (%)	
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
TV 18	827	Accumulate	46.8	12.3	20.0	67.1	41.4	44.7	27.8	13.3	10.2	29.9	36.8	13.8	10.7	21.9	29.8	17.8	30.8
Prime Focus	961	Buy	12.2	36.1	53.6	26.6	17.9	11.0	7.6	4.0	3.2	36.4	41.7	4.7	3.7	21.1	24.9	27.7	33.5
HT Media	213	Accumulate	49.8	7.2	10.1	29.6	21.1	20.6	14.4	4.1	3.3	20.7	23.4	5.5	4.5	19.1	21.9	27.0	31.8
Jagran Prakashan	564	Accumulate	34.0	18.4	21.8	30.6	25.9	18.8	15.3	4.4	3.7	23.6	24.4	5.8	5.0	19.6	20.1	22.3	24.1
Deccan Chronicle	204	Accumulate	50.2	10.3	12.4	19.9	16.4	14.2	11.6	7.3	5.7	51.5	49.3	4.8	3.8	23.7	22.9	31.0	31.3
ENIL	476	Accumulate	22.7	9.4	16.8	50.9	28.3	24.3	13.8	5.0	3.5	20.5	25.1	6.7	5.5	14.2	21.5	15.1	30.1
Zee Entertainment	306	Buy	132.7	7.2	10.8	42.5	28.4	25.0	16.9	6.7	5.3	26.8	31.4	4.6	4.1	11.1	14.6	14.9	20.6
Info Edge	1161	Accumulate	31.7	15.2	22.4	76.5	51.8	55.1	34.9	13.9	9.3	25.2	26.6	13.1	10.8	16.6	20.1	24.5	29.8

Source: Bloomberg consensus estimates, Religare Institutional Equity Research

Based on a P/E multiple of 30, we get a target price of TV business of TV18 as Rs727.

Figure 4.4: SOTP - TV18-TV

VALUATION - METHOD	FY07	FY08E	FY09E	FY10E
EPS	5.2	16.3	21.4	27.0
% Growth		212	31	26
EPS two year forward				**24.2**
Target P/E				**30**
Target Price (Rs)				**727**

Source: Religare Institutional Equity Research

Valuation - Web 18

Internet companies offer high growth, and therefore command higher valuations as compared to other media segments. Internet companies in India trade at a market cap/ sales multiple of 7-10 of FY09. We have valued Web18 on market cap/ sales multiple of 8. We have given a valuation to Web18 at the lower end of the range due to the following reasons:

- Although, Web18 has a bouquet of 15 different internet sites/properties, only a few of its sites like moneycontrol.com dominate their space. Most of the sites are still in the investment phase.
- Web18 is currently not profitable and in the earlier part of its growth phase compared to Rediff and Info Edge.

Figure 4.5: Peer comparison

Media Sector	Price (Rs for Info Edge and USD for Rediff)	Mkt Cap (US$ mn)	Sales (US$mn)				Market cap/Sales		
			FY07E	FY08E	FY09E	FY10E	FY07	FY08E	FY09E
Rediff	15.78	459	28.6	44.6	67.0	N.A	16.1	10.3	7
Info Edge	1160	772	34.0	51.8	76.4	109.7	22.7	14.9	10.1

Source: Religare Institutional Equity Research

Based on a market cap/ sales multiple of 8, we get a target price of Web18 as Rs120.

Figure 4.6 SOTP - Web 18

VALUATION - METHOD	FY07	FY08E	FY09E
Sales	257	488	855
% Growth		*90*	*75*
Market cap/ sales multiple			8
Target market cap			6,836
Number of shares			57.1
Target Price			120

Source: Religare Institutional Equity Research

Valuation - Newswire18

We do not have any comparable listed peers of Newswire. We have valued Newswire18 on a lower market cap/ sales multiple of 4 as compared to its internet business (revenues of Newswire are in any case very low as a % of total revenues of TV18). The reason for a lower multiple is due to much stronger competition faced by Newswire from established global players like Bloomberg and Reuters. Based on a market cap/ sales multiple of 4, we get a target price of Newswire18 as Rs9.

Figure 4.7: SOTP - Newswire18

VALUATION - METHOD			
	FY07	FY08	FY09
Sales	0	70	133
% Growth		N.A	90
Market cap/ sales multiple			4
Target market cap			532
Number of shares			57
Target Price			9

Source: Religare Institutional Equity Research

Valuation - GBN stake

As per the company, the 18% stake in GBN is likely to remain with TV18. We have valued the GBN stake at the current market cap of the company.

Figure 4.8: SOTP - GBN Stake

SOTP	per share value (Rs)	Methodology
18% stake in GBN	79	Market cap of GBN

Source: Religare Institutional Equity Research

Based on the above methods we have arrived at a target price of Rs935 for TV18. The valuations now are clearly rich. This is despite the fact that we have been fairly generous in multiples that we have used for valuing TV-18's different business. The growth is now largely in the price and it makes sense to enter the stock only when there is a correction in the price. Hence our **Accumulate** call.

Triggers

Value Unlocking due to demerger of Web18: TV18 plans to demerge its internet business which will lead to value unlocking. This is likely to happen in FY09. This period will allow TV18 to scale up this the revenues and profits of this business.

Launch of regional business channels: TV18 is looking at the possibility of launching business news channels in regional languages. The strong viewership of CNBC Awaaz seems to suggest that there is demand for business news in regional language.

Media Process Outsourcing - Source18: TV18, along with Infosys, has formed a JV – Source18, to operate in the media process outsourcing space. Source 18 will offer services in enabling content for digital media including digital archiving and metatagging, repurposing content, work flow charting, ideation, reediting, transcoding, quality control as well as media process outsourcing which shall include promo production, traffic management, uplinking, inventory management. The services will also offer Analytics, Finance and Accounting services, Order Management, Rights Management, HR and other outsourcing services.

Stock broking business - JV of Ambit-Web18-Centurion bank: Ambit, Web18 and Centurion Bank of Punjab have a JV to pursue stock broking business. Apart from stock broking, a range of financial services including distribution of third party products, portfolio management services etc. will be offered by the venture. With increasing internet penetration in the country, retail customers will be serviced online with this venture. It will leverage upon the online presence of Web18's several internet properties including moneycontrol.com, easymf.com, poweryourtrade.com and commoditiescontrol.com as well as the extensive branch reach of Centurion Bank of Punjab.

Overseas Subscription/Geographical expansion: Geographical expansion is possible by providing feeds into the US, UK and Middle East. The company has set up a channel (South Asia World) to provide 12 hours of content that it generates from CNBC-TV18 and source 12 hours of niche content. The channel is available on DTH platforms, such as EchoStar in the US and BSkyB in the UK. While the management has indicated a pricing of US$2-4 per home per month, we have not assumed any revenues from this source over the next two years.

Acquisition of business daily, internet sites: TV18 is interested in entering the business daily segment. Print is a key segment in the business genre wherein TV18 is not present. This entry is likely to be through an acquisition or a JV. TV18 had earlier tried to acquire 'Business Standard' and is still in talks with it. This will help TV18 to have a presence across all major segments of business genre. TV18 plans to keep on acquiring internet companies. In the past it has acquired Moneycontrol.com, Bigtree entertainment, jobstreet.com, cricketnext.com etc.

Risks to our call

Slow GDP growth could put pressure on overall Ad revenue growth: Advertising Revenues are susceptible to economic cycles.

Stock market correction may slow ad revenue growth

- This is one of the key risks that could derail our earnings forecasts. We have, however, been conservative in our growth estimates for CNBC.
- Hardly 15% of CNBC's advertising revenue comes from financial services, the sector that is likely to be hit the most by any slowdown. Moreover, viewership could fall in a prolonged downturn.

CNBC AWAAZ may grow more slowly than expected
CNBC AWAAZ could grow more slowly than expected. We, however, believe that it is a personal finance and stock market channel. This implies that advertising on the channel is driven by personal finance products, such as mutual funds, health insurance, real estate developers and automobile companies that offer financing options, and to that extent it is relatively insulated from stock market volatility and IPO advertising.

Subscription revenue deal may take time to materialize
The ramp up in subscription depends to an extent on the mandatory CAS/ DTH implementation.

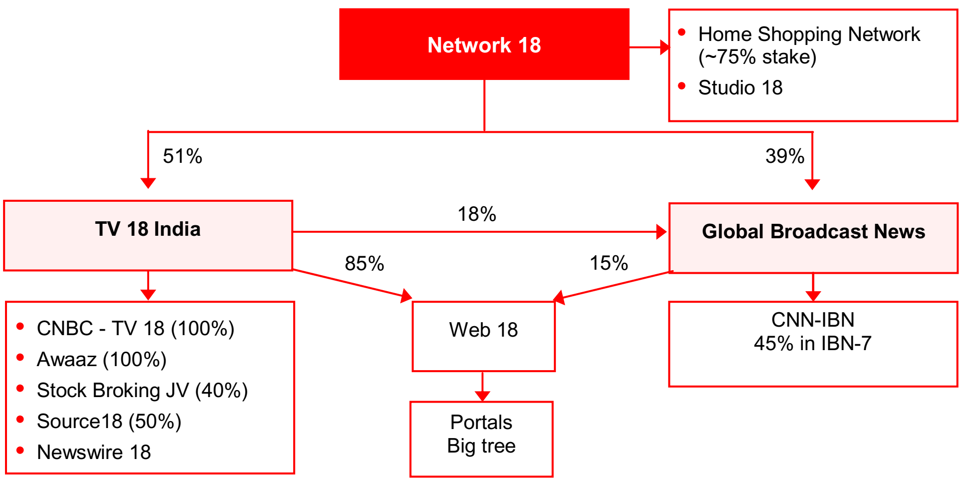
Higher Competitive Intensity
Entry of new players into TV18's markets could lead to price wars, losses, etc and depressed return ratios. We expect UTV, BCCL and HT Media to launch a business channel in the next 2-3 years.

Annexure 1

Company background

TV 18 was set up in 1993 by Raghav Bahl and Sanjay Ray Chaudhuri, both of whom started their careers in Doordarshan. 'The India Show' for Star Plus, 'India Business Report' for BBC and 'The Road Show' (a car and bike magazine show) for Star Plus were its first shows. TV18 is a part of the Network 18 group that has interests in business broadcasting, stock broking, general news broadcasting, personal finance portals, home shopping network, media process outsourcing and film production business. Network 18 owns a 51% stake in TV18 and a 39% stake in Global Broadcast News. The former owns business news channels while the latter has interests in general news channels. TV18 also owns an 18% equity stake in GBN. The company had recently completed a Rs2,000mn QIP. The company plans to spin off Web 18 into a separate company. CNBC TV18 & CNBC Awaaz are the number one & number two channels in the business news segment in the country. Both the channels have seen healthy growth in their viewership numbers. The ad revenues of business news channels are expected to grow at a higher rate than that of the TV industry. Higher addressability through CAS/DTH will also drive higher subscription revenues in the coming years. TV18 does not have any major capex plans, but may launch business news channels in some regional languages and may acquire a business paper and some more internet companies.

Figure 7.1: TV18 group structure



Source: Company, Religare Institutional Equity Research

Annexure 2

SWOT Analysis of TV18

Strengths

- Strong viewership ratings & Strong brand equity
- Strong relationships with Brokerages/ Analysts
- Strong management track record
- Strength across media vehicles in group companies
- Strong balance sheet

Opportunities

- Business Channels in Regional Languages (planned)
- Media outsourcing (has a tie up with Infosys)
- Business paper (planned)
- Strong growth in subscription revenues due to DTH and digital cable

SWOT Analysis of TV18

Weaknesses

- Exposed to risk of downturn in Stock markets
- Lack of experience in regional language space
- Losses in Newswire and Web18
- Lack of experience in print media space

Threats

- Business Channel launches likely by UTV (already announced), Bennet Coleman and Hindustan Times
- Likely improvement in ratings of NDTV Profit and Zee Business

Source: Religare Institutional Equity Research

Annexure 3

TV18's internet sites/properties

Moneycontrol.com: Moneycontrol.com was launched 1999 and acquired by TV18 in the year 2000. It has been growing at a fast rate ever since. Today, Moneycontrol is the premier end-to-end business and finance portal for Indian consumers and market watchers. It is the country's No.1 online financial destination. It is also comparable to the world's largest financial destinations like the Wall Street Journal's online edition (wsj.com), Fool.com and Yahoo Finance. The audience profile is indicated by the fact that more than 85% of the members using the site's portfolio tracking service have a portfolio of investments worth more than Rs500,000 (on a base of approx 600,000 portfolio users).

Tech2.com: It is TV18's technology media website. Tech2.com focuses on providing quality technology information and buying advice to the masses. Tech2 tests all its hardware and software at India's most comprehensive technology test labs, has a dedicated soundproof Audio / video testing room to test the latest HDTVs, gaming consoles, speaker systems, and high end A/V receivers. The Tech2 editorial team has a cumulative tech editorial experience of over 70 years, and has contributed to India's top technology magazine brands like CHIP, Digit, PC Quest and Network Computing.

Buzz18.com: This site is the latest in the family of web18. This site gives the latest news and features from the world of movies, music and television. It features celeb galleries, gossip, videos, bands, debates over stars etc..

Compareindia.com: This site was acquired by TV18 Network. The uniqueness of the portal lies in the fact that it operates at two levels: at the back-end, it is a research organization & at the front-end, it is a free information service. It uses research as a tool to provide consumers, free information on products they want to buy. Currently, the site features 37 product categories: Audio systems, televisions, washing machines, microwave ovens, refrigerators, fax machines, photocopiers, and printers. Compareindia.com is purely an information site, and does not sell or endorse any product.

CricketNext.com: It was launched in 2000 and was acquired by Web18 in FY07. It offers volumes of information and opinion and contests. However this space is cluttered. The interactive features include a daily poll question, celebrity chats and discussion boards besides encouraging surfers to express themselves by writing in their own columns. It has a team of specialist weekly columnists.

Yatra.com : It is the travel site and it provides travel-related information, pricing, availability and reservations for airlines, hotels, railway, buses and car rentals across 5000 large cities and small rural areas throughout India. The site helps businesses and consumers book airline, railway and bus tickets online and by calling its call centre. Users can also reserve hotel rooms and rent cars by calling or online. Yatra's investors include Norwest Venture Partners (NVP), a leading venture capital firm, Reliance Capital apart from TV18 group.

JobStreet.com: It is a comprehensive recruitment services and solutions provider. Jobstreet.com has over 5,000 corporate clients in India and 20,000 worldwide. And it has 1.5mn jobseekers in India and 5mn worldwide. More than 20,000 live jobs in India across sectors available at any given time. Most global clients with a presence in Asia are JobStreet.com customers, and the client-list in India is impressive with global and Indian names such as HP, Wipro Cadbury, Colgate, Aditya Birla Group, Intel, Glaxo-SmithKline, Oracle, Freescale, Bajaj Auto, TVS Motors, HAL, Progeon, Ernst & Young etc. JobStreet.com offers to help employers manage their entire recruitment process online using its "on-demand" SiVA interface – a robust, standard front-end system which is easy to learn and use. It also includes a very flexible and time-tested applicant tracking system. In addition, based on unique client requirements, JobStreet also offers assistance on recruitment by way of resume processing and candidate assessment.

Commoditiescontrol.com: It brings to its users an understanding of the Indian commodities space with coverage of real-time market information and the live interplay between various market participants. Commoditiescontrol.com has price data, information and news flowing in from more than 100 commodity mandis and markets across India and globally, data from trading exchanges in all critical commodity trading markets, critical insights from commodity traders, dealer, experts, analysts, industry bodies.

PowerYourTrade.com: It is a portal that brings the trader and the "investor" on the same platform. The prime feature of the site is its trading calls - four top chartists give two trading picks each every morning, before trade begins. But things change after opening bell. The site's ‘MIDDAY CALLS’ gives users six trading calls from three technical experts at 12 noon everyday.

IbnLive.com: It is CNN-IBN's news portal. It provides streaming video feeds, downloadable tickers, and gives news alerts on cell phones ensuring that viewers are always the first to know even when they aren't near their TV sets.

IndiWo.com: IndiWo is meant for the Indian woman. Its aims to empower women to make informed decisions, learn new things and choose the best products and services. It is a platform where women can find out about issues related to every aspect of life and also connect with others to seek advice and share experiences.

HomeShop18.com: It is a nationally televised home shopping service, which brings credible brands through interactive electronic media, primarily through cable TV and internet. It is committed to providing quality, value and convenience. It is heavily promoted on TV18 channels.

Bigtree Entertainment: Web18 had acquired a majority stake in Bigtree Entertainment Pvt. Ltd., the industry leader in Movie and Entertainment Ticketing. It was founded in 1999. Over the past 8 years, Bigtree has established a strong brand presence in the Indian market by offering its integrated entertainment ticketing solutions and services across 35 cities in India. This is done through a complete suite of software products ranging from box office ticketing, concessions management, web ticketing, mobile ticketing, loyalty management software, film programming, bar code ticketing, voucher management, etc. Bigtree also specializes in ticket selling services to end consumers. It currently handles over 2.5mn ticketing transactions annually for all major exhibition chains/centers across the country.

Annexure 4

Alternate Distribution Platforms

DTH

DTH is currently offered in India by Dish TV, Tata sky and DD Direct Plus. There will be other entrants like Sun, Bharti, Reliance ADAG and Videocon(yet to get a license). The Indian broadcasting industry is witnessing the high growth of DTH subsequent to the regulatory changes that permitted such services. DTH broadcasting utilizes a dish antenna that is available at the viewer's premises and is capable of directly receiving television signals form the broadcast satellite. DTH broadcasting is expected to provide an alternative means of reaching satellite television viewers, especially in relatively inaccessible areas. DTH broadcasting may offer revenue growth opportunities to broadcasters through the creation of additional channels or distribution of their existing channels through this additional distribution platform.

IPTV

IPTV is a system where television or video signals are distributed to subscribers or viewers using a broadband connection. Often this is parallel to the subscriber's Internet connection. Advantages of IPTV include two-way capability, which is lacked by traditional TV distribution technologies, point-to-point distribution that allows each viewer to view individual broadcasts. This enables stream control (pause, wind/rewind etc.) and a free selection of programming. IPTV would enable broadcasters to provide value added services, help improve addressability and increase the scope for niche channels for smaller audiences.

Mobile Broadcasting / Value added services

Mobile Broadcasting is referred to as broadcasting of content over mobile phones. With the advent of improved connectivity, several mobile operators are allowing streaming news and video over mobile phones. Now, mobile phones allow broadcasting and streaming of news, media, film content etc. as value added services to attract customer base and improve market share. In fact, the channel 'Times Now' was first launched through the mobile medium.

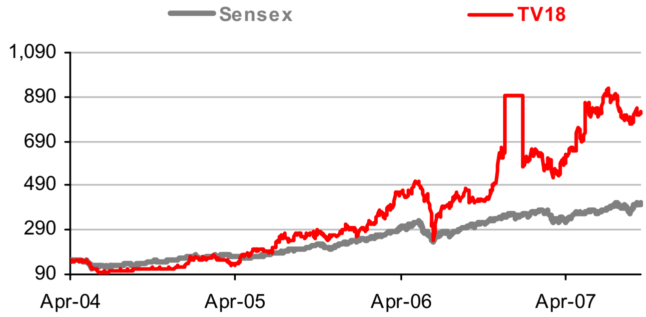
International revenue

According to the Annual Report – 2006 prepared by the Ministry of Overseas Indian Affairs there were approximately 25mn non-resident Indians and persons of Indian origin living outside India in over 110 countries. These persons represent a potential source of subscription revenues for the Indian broadcasting industry. There is an upswing with the increase in the demand of Indian content abroad. Due to commitment towards economic reforms and globalization, Indian markets are generating interest from both foreigners and persons of Indian origin living outside India. This represents a significant opportunity for Indian broadcasters and quality content providers in terms of potential revenue from international subscription, advertising and content syndication. With the demand for 'local flavor' worldwide, there is a steady growth in international broadcasting. This is done through various technologies, such as cable, DTH and terrestrial broadcast, through arrangements with broadcasters, cable operators and other industry participants. Typically, these are revenue-sharing arrangements based on the total number of subscribers.

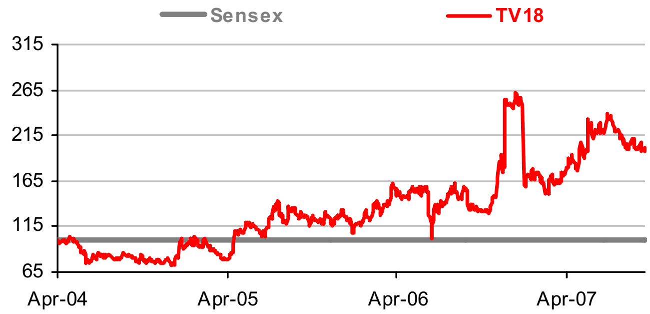
Stock performance

TV18

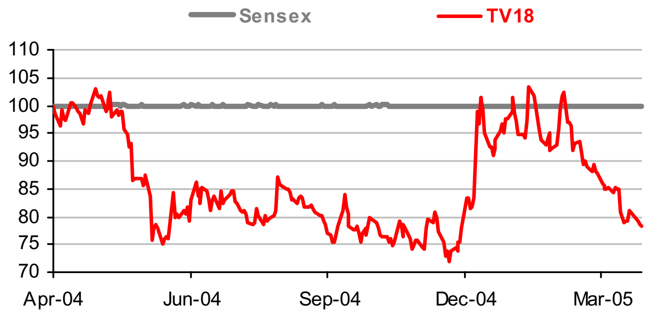
Absolute Perf. From Apr 04



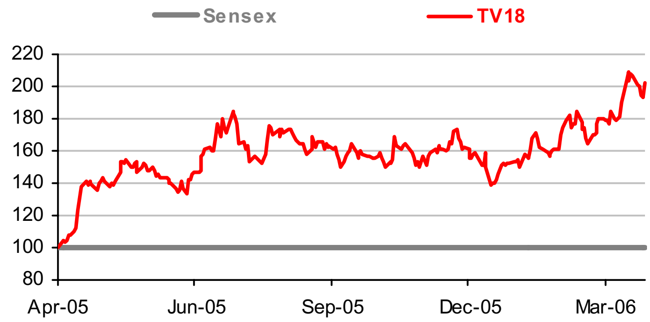
Relative Perf. From Apr 04



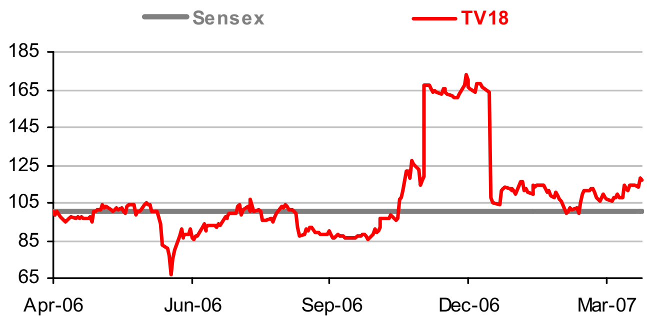
Relative Perf. From Apr 04 to Mar 05



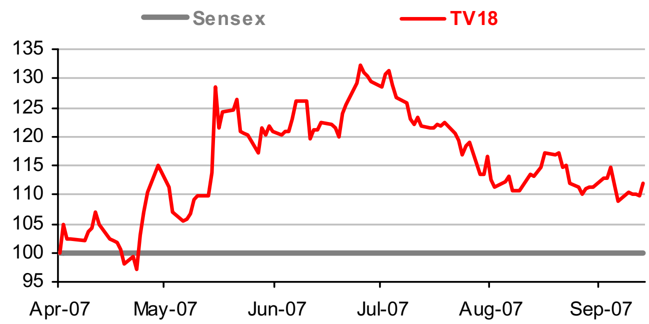
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From April 2007

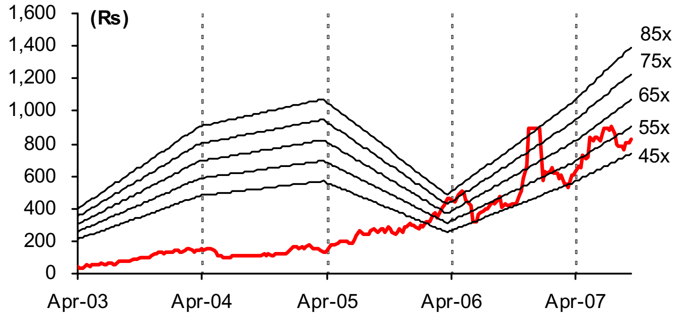


Source: Bloomberg

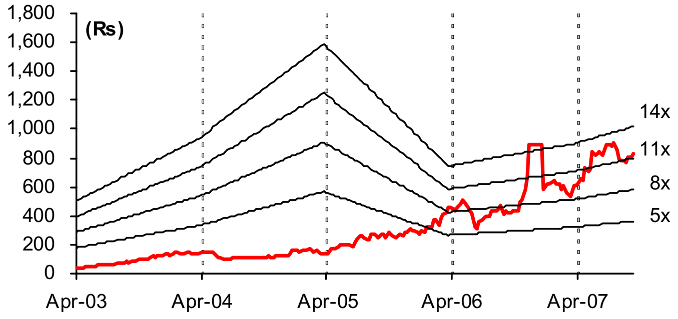
12 month forward rolling band charts

TV18

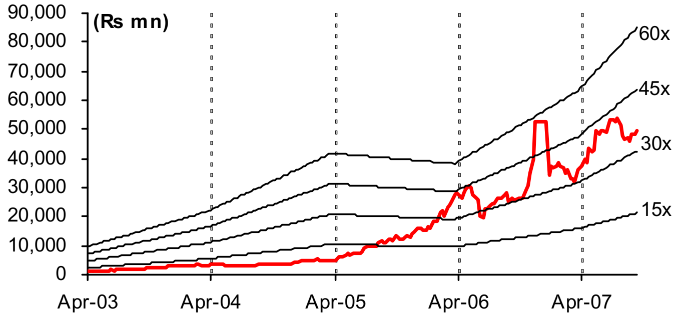
P/E Band



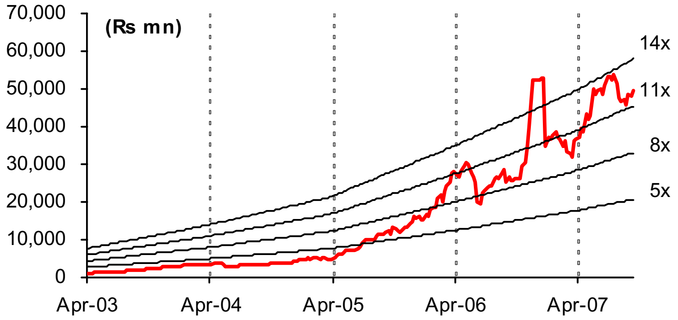
P/BV Band



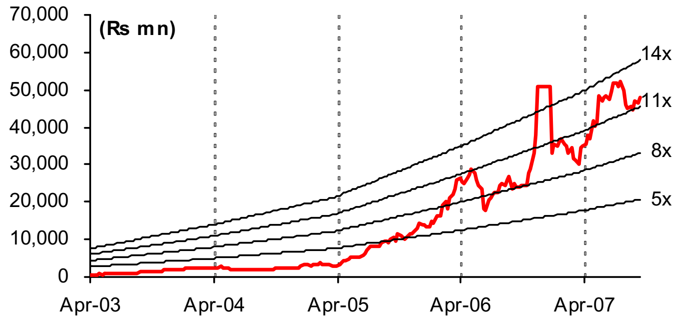
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net Sales	**1,520**	**2,470**	**3,522**	**4,792**	**6,256**
EBITDA	**696**	**637**	**1,052**	**1,810**	**2,725**
EBITDA margin (%)	45.8	25.8	29.9	37.8	43.6
Depreciation	136	188	270	290	310
EBIT	**560**	**449**	**782**	**1,520**	**2,415**
Other income	69	114	300	340	390
Interest exp/ (inc)	121	244	240	260	260
PBT	**509**	**319**	**842**	**1,600**	**2,545**
PBT margin (%)	33.5	12.9	23.9	33.4	40.7
Taxes	126	(3)	150	352	636
minority shareholders interest	10	0	(11)	14	47
PAT	**372**	**322**	**703**	**1,234**	**1,862**
PAT margin (%)	24.5	13.0	20.0	25.8	29.8
Adj PAT	**372**	**322**	**703**	**1,234**	**1,862**
Adj PAT margin (%)	24.5	13.0	20.0	25.8	29.8

Quarterly – Financials

(Rs mn)

(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net Sales	454	530	648	804	682
Change (%)	68.5	72.0	67.1	50.2	50.3
EBITDA	239	235	294	317	103.5
Change (%)	89.0	45.0	47.6	10.8	(56.6)
Margin (%)	52.6	44.3	45.3	39.4	15.2
PAT	182	162	194	235	45
PAT adj	182	162	194	235	45
Change (%)	94.3	35.7	37.0	24.8	(75.3)
Margin (%)	40.0	30.5	30.0	29.3	6.6
EPS adj (Rs)	3.7	3.2	3.1	3.4	0.8
EPS dil (Rs)	3.7	3.2	3.1	3.4	0.8

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	53.9	62.5	42.6	36.1	30.5
EBITDA (%)	90.7	(8.5)	65.1	72.1	50.6
PAT adj (%)	47.9	(13.6)	118.5	75.6	50.9
EPS adj (%)	18.8	(55.0)	116.6	68.9	45.4
EPS diluted (%)	18.8	(55.0)	116.6	68.9	45.4
Valuations					
P/E (x)	65.4	145.4	67.1	39.7	27.3
Price/BV (x)	7.3	15.5	12.9	10.1	7.7
EV/EBITDA (x)	24.5	72.5	44.9	26.8	18.1
EV/Sales (x)	11.2	18.7	13.4	10.1	7.9
Profitability					
EBITDA margin (%)	45.8	25.8	29.9	37.8	43.6
Adj PAT margin (%)	24.5	13.0	20.0	25.8	29.8
RoE (%)	21.2	11.9	21.0	29.0	32.4
RoCE (%)	19.5	10.1	17.4	30.5	38.4
RoIC (%)	18.7	12.2	16.3	24.9	33.0
B/S ratios					
Inventory days	1.2	1.3	1.2	1.1	1.1
Creditor days	131.4	138.5	135.0	130.0	130.0
Debtors days	233.2	241.6	235.0	230.0	230.0
Working Capital days	292.6	258.9	231.2	221.1	216.1
Net debt/equity	0.8	1.1	0.5	0.3	0.2

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	210	282.8	285.3	296.6	307.8
Total Res. & Surplus	2,179	2,746	3,380	4,557	6,320
Total Shareholders' funds	**2,389**	**3,029**	**3,665**	**4,854**	**6,628**
Convertible debt	99	0	0	0	0
Others	1,752	3,219	1,900	1,500	1,350
Total loans	**1,851**	**3,219**	**1,900**	**1,500**	**1,350**
Deferred tax liability/ Minority Interest	**126**	**487**	**123**	**142**	**142**
Total liabilities	**4,366**	**6,735**	**5,688**	**6,496**	**8,120**
Assets					
Net fixed assets	893	1,083	1,399	1,445	1,471
Goodwill/CWIP	68	90	90	90	90
Total non-cur. assets	**960**	**1,173**	**1,489**	**1,535**	**1,561**
Inv - non cur.	**588**	**610**	**610**	**610**	**610**
Current assets					
Inventories	5	9	12	15	18
Sundry debtors	971	1,635	2,268	3,020	3,942
Cash & cash equivalents	1,646	3,202	1,536	1,667	2,510
Cash	445.7	1,847	1,036	917	2,410
Liquid investments	1,200	1,355	500	750	100
Other current assets	789	1,046	1,254	1,576	1,971
Total current assets	**3,412**	**5,891**	**5,070**	**6,278**	**8,441**
Total current liabilities	**547**	**938**	**1,303**	**1,707**	**2,228**
Total provisions	**72**	**41**	**203**	**245**	**290**
Net current assets	**2,792**	**4,913**	**3,564**	**4,326**	**5,922**
Other assets	**26**	**40**	**26**	**26**	**27**
Total assets	**4,366**	**6,735**	**5,688**	**6,496**	**8,120**

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from op.					
PBT	509	319	842	1,600	2,545
Tax Paid	(126)	3	(150)	(352)	(636)
Dep&other amor. exp.	136	188	270	290	310
Net change in WC	(524)	(533)	(479)	(672)	(799)
Others	130	(41)	11	(14)	(47)
Net cash from op.	**124**	**(64)**	**494**	**852**	**1,373**
Cash from inv.					
Capital expenditure	(347)	(300)	(550)	(300)	(300)
Sale/pur. of inv & others	(73)	(950)	0	0	0
Net cash from inv.	**(420)**	**(1,250)**	**(550)**	**(300)**	**(300)**
Cash from fin.					
Issue of shares & sh. premium	786	2,091	0	0	0
Dividends paid	(59)	(129)	(163)	(186)	(193)
Debt change	1,020	1,368	(1,319)	(400)	(150)
Others	(128)	(461)	(128)	165	113
Net cash from fin.	1,619	2,869	(1,610)	(421)	(230)
Net change in cash	**1,323**	**1,556**	**(1,666)**	**131**	**843**

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS Basic	12.6	5.7	12.3	20.8	30.3
EPS Adj	12.6	5.7	12.3	20.8	30.3
EPS diluted	12.6	5.7	12.3	20.8	30.3
CEPS	21.3	6.7	14.2	22.6	32.2
Book value	113.5	53.6	64.2	81.8	107.7
Dividend	2.5	2.0	2.5	2.8	2.8
O/s shs.-actual (mn)	21.0	56.6	57.1	59.3	61.6
O/s shs.-adjusted (mn)	29.5	56.6	57.1	59.3	61.6

Technical View

TV 18 (Close Price Rs. 827.45)

The weekly candlestick chart of TV 18 shows that the medium as well as the long-term trend is up at this moment. In the recent fall it corrected almost 50% of the entire rise from Rs.518 to a high of Rs.949, when it made a low of Rs.741.

At this moment the Histogram MACD is below the median line, implying that the current recovery should be treated as a corrective one only and the stock has to consolidate further for a sustained rise to begin. A crossover of the Histogram above the median line will confirm a resumption of the uptrend. Till this happens expect a range bound activity in this stock between Rs.740-876. One should continue to hold TV 18 with a strict stop loss below Rs.729 for a minimum target price of Rs.937 and a maximum of Rs.1049 in the medium to long term.

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Sachin Jadhav		sachin.jadhav@religare.in	+91 22 6655 0189

Rating definition

Buy	: > 15% returns relative to Sensex	**Accumulate**	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	**Reduce**	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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