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Every week, the ICICIdirect research team selects a stock based on fundamental and/or technical parameters, which is likely to give a return of 20% or more over a 3-6 month perspective.

Balaji Telefilms (BALTEL)

Current Price: Rs 117	**Target Price: Rs143**
Potential upside: 22%	**Time Frame: 3- 6 mths**

Balaji Telefilms has retained its *numero uno* position in the Hindi television content space with path-breaking programming. It looks set to continue its dominance in the Hindi TV entertainment space with over 50% market share even in the face of a surfeit of reality and game shows. The advent of direct-to-home (DTH) and conditional access system (CAS) is expected to open up more opportunities for the company. We rate the stock as an Outperformer.

Company Background

Balaji Telefilms is one of India's prominent and successful media companies engaged in producing content (serials) in Hindi, Telugu, Tamil and Kannada. Actors Jeetendra, Shobha Kapoor and Ekta Kapoor promoted the company.

The company started operations in 1994 by producing a fiction thriller titled *Mano Ya Na Mano* for Zee TV. Thereafter, its serials have been aired regularly on Star Plus, Doordarshan, DD Metro, Sony Entertainment, SABe, Metro Gold, Zee, Sun, Gemini and Udaya channels.

Some of Balaji's blockbuster programmes include *Hum Paanch, Kyunki Saas Bhi Kabhi Bahu Thi*, *Koshish Ek Aashaa*, *Kahaani Ghar Ghar Kii*, *Ghar Ek Mandir*, *Kanyadan* (Hindi), *Pavithra bandham* and *Kalisundham ra* (Telugu), *Kulla Villakku* (Tamil), and *Kavyanjali* (Kannada).

Business Model

Balaji Telefilms produces programmes under two broad categories sponsored and commissioned.

Sponsored: Here the company creates content and recovers the cost from advertisers, not the channel on which the programmes are aired. The company assumes the risk of content creation and marketing. It buys telecast slots and in exchange receives free commercial time which is then marketed advertisers. This is a variable revenue model if the programme becomes popular, there is an attractive prospect for an upward rate revision.

Commissioned: The company produces content at the behest of channel owners without assuming any risk. Here content is created against a fee with the probability of rate revisions in the event of programme becoming successful (as measured by TRPs).

Investment Rationale

No.1 content provider for TV channels

Balaji retains its position as an undisputed leader accounting for more than 70% of the aggregate TRPs during weekday prime time shows among the top 100 Hindi cable and satellite shows. The company has done remarkably well over the years as more than 80% of its programmes were aired during prime time. Balaji continues to occupy over 20 of the top 25 TRP slots. Its top two serials have sustained high ratings, despite the popularity of programmes like KBC3.

De-risked business model

The company has a de-risked business model with a strategic dependence on commissioned programmes. This strategy represents an interesting balance between risk-neutrality and income-enhancement. A whopping 92% of the company's income is derived from commissioned programming. In future, the company will increase programming hours in this segment by diversifying into new genre, as the realisation per hour is very high compared to sponsored programming.

Programming mix, volumes to drive growth

We expect programming hours to jump to 2,117 in 2007 and to 2392 in 2008. In 2006, Balaji launched its serial targeted at the youth named *Kasam Se* on Zee TV which has clocked the highest TRP rating on the channel. This will again add a new set of viewer profile to its current basket of middle-aged housewives and elderly people. The company is also in the process to launch two new serials soon with one named *Kayamat*. The company has also closed two programmes this quarter named *K Street Pali Hill* and *Kaisa Ye Pyaar Hai,* which were not having high margins. Post closure the realisation per hour has increased to by 15%. We expect the company to command high realisation going forward on back of high TRP rating and rate hike from broadcasters.

DTH to increase bargaining power

One interesting development in the media sector is the acceptance of direct-to-Home (DTH) broadcasting. Though DTH as a medium of transmission is small, we believe that once it finds acceptance, it could transform the sector and has the potential to re-draw business boundaries and dynamics. Currently, subscription revenues of most broadcasters are low due to under reporting by cable operators and MSOs (multi-service operators). This is likely to change with the introduction of DTH and CAS systems with increased transparency in reporting the number of viewers. This will be an additional revenue stream for large broadcasters such as Star TV, Zee and Sony. In such an event quality programming attract viewers and in turn subscriptions. This is where we see Balaji benefiting with its established track record. For the company, it also opens up possibilities of renegotiations for its serials at higher rates pushing up its realisation per hour of programming.

High production value, better margins

Balaji is way ahead of its competitors considering the grip that it has on viewers and their viewing habits. It has an uncanny ability to gauge the pulse of viewers. Dramatic twists at right intervals have helped its programmes overcome audience fatigue to a large extent. Further, the company produces serials on a large-scale. It already has 18 high-tech studios for production and post-production. This helps it squeeze costs and work at higher margins boosting its bottom line significantly. The company enjoys operating margins of 40.10%, the highest in the industry.

Movies to add revenues

The company is expecting the releases of its two movies *Shootout at Lokhandwala Complex* and *Woodstock Villa* in Q1FY08 having a combined budget of approx Rs 20 crore. These movies have a strong cast of stars and are expected to be blockbusters. Though company's success on the big screen is not the same as small screen we believe the company to make 15% from these movies.

Concerns

Change in viewing patterns

The biggest risk to Balaji is that most of the profitable serials are in the same genre and if viewers' preference changes, it could impact revenues significantly. Of late, reality shows such as KBC 3 and Indian Idol are gaining acceptance at prime time-slots. However, Balaji continues to dominate the Hindi C&S space with over 50% market share and has managed to withstand the surfeit of reality and game shows

Financials

We expect the company to clock a top line of Rs 358.84 crore in FY07 and Rs 443.08 crore for FY08 on the back of improved realisations from commissioned programmes and increase in programming hours. Bottom line is expected to jump to Rs 76.14 crore in FY07E and Rs 91 crore in FY08E. Balaji is also a value buy considering the dividend payout of 35%, giving the stock dividend yield of 3.6% and 4.5% for FY07 and FY08 respectively.

Key Financial Ratios

	2006/03	2005/03	2004/03	2003/03	2002/03
EPS	9.11	6.33	10.76	11.14	5.63
CEPS	11.31	7.83	12.26	12.15	6.45
Book Value	38.42	32.68	28.03	20.66	12.84
Dividend/Share	3	16	2	1.5	1
OPM	33.4	35.22	49.61	50.76	42.61
RONW	23.72	17.96	34.95	52.77	45.95
Debt/Equity	0	0	0	0	0
Ratio	1.76	3.24	2.46	2.26	1.77
Interest Cover	2,046.80	34	51.83	1,605.17	439.49

Valuations

The stock currently trades at Rs 117, translating into a P/E multiple of 10x FY07E earnings and 8.30x FY08E earnings. It has successfully retained its prime position in the television content space for past six years and is well placed to remain one of the preferred picks in the entertainment sector. We expect the stock to give a 22% return over the next 3-6 months with a target price of Rs 143.

Technical Outlook

The stock has gone into a sideways consolidation after its recent rally to Rs 180. It formed a good bottom at Rs 105. The Rs 145 level is an important resistance. The RSI indicator is also moving into oversold territory currently trades at 39. The MACD indicator signals accumulation. The stock is also trading below its 200-day EMA, which makes it less risky.

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