

## TELEVISION EIGHTEEN INDIA

INR 894

*Value unlocking largely factored in*

BUY



As per the restructuring exercise currently underway, shareholders of TV 18 as on November 24, 2006 will receive 14 shares (FV of INR 5) of TV 18 India and 12 shares (FV of INR 5) of Network 18 for every 10 shares (FV of INR 10) of TV 18. TV 18 India will hold the businesses of *CNBC*, *Awaaz* and Web 18, which houses all the internet portals. Network 18 will be the holding company for TV 18 India and Global Broadcast News (GBN), which controls *CNN-IBN* and *IBN-7*. Network 18 will also be listed subsequently as part of the restructuring exercise.

From our analysis, we conclude that the closing price of INR 894 of TV 18 on the date of de-listing (November 16, 2006) largely factors in the value unlocking on account of restructuring. We arrive at a price of INR 408 for TV 18 India and INR 281 for Network 18 post restructuring. These prices factor in valuations of INR 16.25 bn for *CNBC-TV18 + Awaaz* (25x FY08E PAT), INR 6.25 bn for GBN, INR 4.5 bn for Web 18, INR 2 bn for HSN and Studio 18. From here on, we expect the TV 18 India stock to perform in line with EPS growth, which we believe will continue to be strong. We maintain our 'BUY' recommendation on TV 18 India.

#### \* Structure post restructuring

As per the announced restructuring plan of TV 18, the operations of Hindi consumer channel, *Awaaz*, will be brought under TV 18 India. In addition to *Awaaz*, TV 18 India will continue to hold the English business news channel, *CNBC-TV18* and ~90% of all the internet businesses that are being brought under a new company, Web 18. Global Broadcast News (GBN) will hold 100% of the English general news channel, *CNN-IBN*, and 50% of the Hindi general news channel, *IBN-7*. The newly formed holding company, Network 18, will effectively hold 51% in TV 18 India and about 57% in GBN. In addition, it will also control Home Shopping Network (HSN) and Studio 18, which will be in the business of film production and distribution.

The record date for restructuring was 24 November, 2006. The shareholders of TV 18 as on this date would have received shares of TV 18 India and Network 18. Network 18 will get listed post this exercise. The company has filed for the IPO of GBN, post which GBN also will get listed.

#### Financials (Pre restructuring)

Year to March	FY05	FY06	FY07E	FY08E
Revenues (INR mn)	984	1,520	1,895	2,244
Rev. growth (%)	83.2	54.5	24.7	18.4
EBIDTA (INR mn)	459	753	948	1,106
Net profit (INR mn)	329	372	581	658
Shares outstanding (mn)	16.9	21.0	21.6	21.6
EPS (INR)	19.4	17.7	26.9	30.5
EPS growth (%)	310.9	(9.0)	51.9	13.4
P/E (x)	46.0	50.5	33.3	29.3
EV/EBITDA	41.2	24.6	20.1	17.0
ROE (%)	29.7	15.8	20.4	19.4

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Bloomberg : TLEI IN

#### Market Data

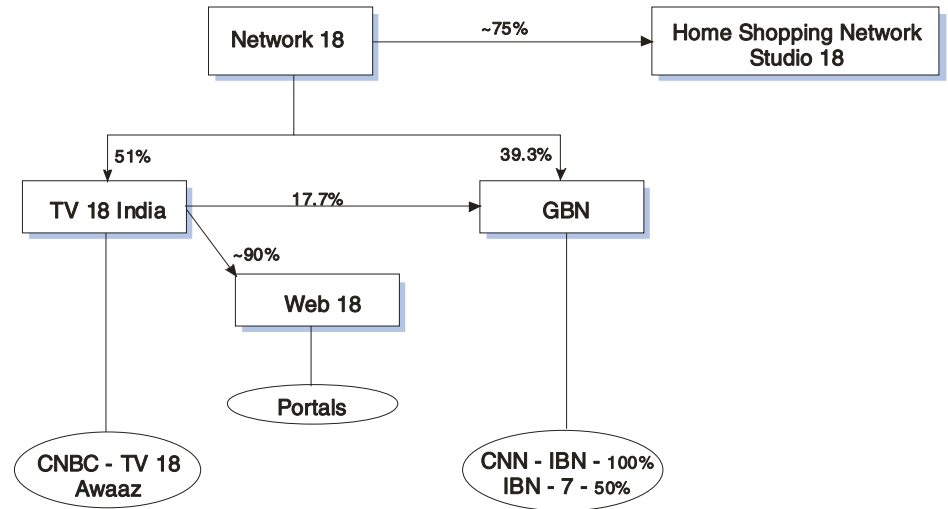
52-week range (INR) : 976 / 316  
Share in issue (mn) : 21.0  
M cap (INR bn/USD mn) : 18.8 / 420.6  
Avg. Daily Vol. BSE ('000) : 143.9

#### Share Holding Pattern (%)

Promoters : 26.2  
MFs, FIs & Banks : 24.0  
FIs : 24.6  
Others : 25.2



Fig. 1: Structure of the group



Source: Edelweiss research

#### \* Shareholding pattern post restructuring

The shareholding of Network 18 and TV 18 India will be as per the earlier announcement. For every 10 shares (face value of INR 10) of TV 18 (pre-restructuring), the shareholders will get 14 shares (face value of INR 5) of TV 18 India and 12 shares (face value of INR 5) of Network 18. Promoter will cease to hold any direct stake in TV 18 India but will instead hold 51% stake in Network 18. Of the remaining stake of Network 18, 10.56% stake will be held in a trust while the rest will be held by the non-promoter shareholders of TV 18. As per the management, the shares held in the trust will be sold post the listing of Network 18 and the money will be transferred to the books of TV 18 India.

Table 1: Network 18 shareholding

	No. of shares	% holding
Promoter	25,449,685	51.00
Non-promoter shares	19,181,667	38.44
Trust	5,269,533	10.56
<b>Total</b>	<b>49,900,885</b>	<b>100.00</b>

Source: Company, Edelweiss research

The shareholding of TV 18 India will be as per the table below. As mentioned earlier, Network 18 will be the holding company of TV 18 India controlling 51% stake.

Table 2: TV 18 India shareholding

	No. of shares	% holding
Network 18	26,727,895	51.00
Shares to be sold	1,084,069	2.07
Accelerated ESOPs	1,377,972	2.63
Non-promoter shares	23,217,700	44.30
<b>Total</b>	<b>52,407,636</b>	<b>100.00</b>

Source: Company, Edelweiss research

As per the earlier announced shareholding pattern of GBN, 51% was to be held by Network 18, 26% by key employees (Sameer Manchanda, Rajdeep Sardesai, Haresh Chawla and others) and the remaining 23% was portfolio investment by TV 18 India. However, post this announcement, GBN raised INR 400 mn from IL&FS PE bringing the shareholding of Network 18 down to 46.21%.

**Table 3: GBN shareholding (Pre-IPO)**

	<b>% holding</b>
Network 18	46.21
TV 18 India	20.82
IL&FS	9.41
Key employees	23.56
<b>Total</b>	<b>100.00</b>

*Source: Company, Edelweiss research*

The company is looking to raise INR 1.05 bn through an IPO. We believe that it is looking at diluting roughly 15% stake for this sum. Therefore, post the IPO, the holding of Network 18 in GBN will come down to 39.28%. At the same time, TV 18 India's portfolio investment in GBN will come down to 17.70%. The combined shareholding of Network 18 and TV 18 India will be 56.98%, which appears to meet the requirement for the dominant Indian promoter shareholding in a news channel company should be at least 51%.

**Table 4: GBN shareholding (Post-IPO)**

	<b>% holding</b>
Network 18	39.28
TV 18 India	17.70
IL&FS	8.00
Key employees	20.03
IPO	15.00
<b>Total</b>	<b>100.00</b>

*Source: Company, Edelweiss research*

#### \* SOTP valuation

As mentioned earlier, for every 10 shares (of face value INR 10) of TV 18, the existing shareholders will get 14 shares (of face value INR 5) of TV 18 India and 12 shares (of face value INR 5) of Network 18. Our SOTP valuation involves valuing 14 shares of TV 18 India and 12 shares of Network 18 and then arriving at the value of 10 shares of TV 18.

In order to arrive at the valuation of TV 18 India, we need to value GBN first because TV 18 India has 17.7% portfolio investment in GBN. Once we have valued GBN and TV 18 India, we arrive at the valuation of Network 18.

#### \* Valuation of GBN

GBN owns 100% of *CNN-IBN* and 50% of *IBN-7*. Our rough estimate is that *CNN-IBN* will make revenues of INR 1.05 bn in FY08E while *IBN-7* will make revenues of INR 400 mn. Taking 50% of *IBN-7* revenues (in line with its ownership), we estimate that GBN will make revenues of INR 1.25 bn in FY08E. At a mcap/sales multiple of 5.0, we estimate the valuation of GBN at INR 6.25 bn.

**Table 5: Valuation of GBN**

GBN	100% of CNN-IBN 50% of IBN 7
CNN-IBN FY08E Sales (INR mn)	1,050
50% of IBN 7 FY08E sales (INR mn)	200
GBN FY08E Sales (INR mn)	1,250
Mcap/sales multiple (x)	5.0
GBN valuation (INR mn)	6,250

Source: Edelweiss research

GBN has filed for an IPO and plans to raise INR 1.05 bn through the issue. We believe that the company is looking at a 15% dilution for this amount, implying a post money valuation of INR 7 bn for GBN.

\* **Valuation of TV 18 India**

TV 18 India owns 100% of *CNBC-TV18* and *Awaaz*, 90% of Web 18 and 17.7% of GBN. We estimate that the PAT from *CNBC* and *Awaaz* will be INR 650 mn in FY08E. At PE of 25.0x FY08E PAT, we value the news business of TV 18 India at INR 16.25 bn.

We have valued the internet business on the basis of the recently concluded private equity deal wherein Tracer Capital paid USD 10 mn for a ~10% stake in Web 18, implying a valuation of INR 4.5 bn for the company.

Taking valuations of news, internet and GBN businesses in proportion of its stake, we get the valuation of TV 18 India as INR 21.4 bn. Post restructuring, it will have 52.4 mn shares outstanding, giving a per share price of INR 408.

**Table 6: Valuation of TV 18 India**

TV 18 India	100% of CNBC and Awaaz 90% of Web 18 17.7% of GBN
TV18 India (CNBC + Awaaz) FY08E PAT (INR mn)	650
PE multiple (x)	25.0
(A) Valuation of TV 18 India (CNBC + Awaaz) (INR mn)	16,250
Amount paid for 10% stake in previous round of PE (USD mn)	10
Web 18 valuation (INR mn)	4,500
(B) 90% stake in Web 18 (INR mn)	4,050
(C) 17.7% of GBN (INR mn)	1,106
TV18 India valuation (INR mn) (A+B+C)	21,406
No. of shares post restructuring (mn)	52.4
Share price post restructuring (INR)	408

Source: Edelweiss research

\* **Valuation of Network 18**

After adjusting for a 10% holding company discount, we value Network 18's stakes in TV18 India and GBN at INR 12 bn. The company will manage the businesses of the Home Shopping Network (HSN) and Studio 18 (movie production and distribution business). These businesses are in the startup stage and we have given them a valuation of INR 2 bn. This gives us a valuation of INR 14 bn for Network 18. At post restructuring number of shares of 49.9 mn, the per share price of Network 18 comes to INR 281.

**Table 7: Valuation of Network 18**

<b>Network 18</b>	<b>51% of TV 18 India 39.28% in GBN Studio 18 and HSN</b>
51% stake in TV 18 India (INR mn)	10,917
39.28% in GBN (INR mn)	2,455
Less: 10% holding company discount (INR mn)	(1,337)
(A) Total (INR mn)	12,035
(B) Valuation of Studio 18 and HSN (INR mn)	2,000
Network 18 valuation (INR mn) (A+B)	14,035
No. of shares post restructuring (mn)	49.9
Share price post restructuring (INR)	281

Source: Edelweiss research

**\* Unlocking of value from restructuring largely factored in**

On the date of de-listing, the closing share price of TV 18 was INR 894 giving a value of INR 8,940 for 10 shares. At per share prices of INR 408 and INR 281 for TV 18 India and Network 18 respectively, the value of the shares issued as per the restructuring scheme comes to INR 9,093. Thus, it appears that the unlocking of value from restructuring has largely been factored into the current price of TV 18.

**Table 8: Value unlocking due to restructuring largely factored in**

Share price of TV18 on date of de-listing (INR)	894
Share price of TV18 India restructuring (INR)	408
Share price of Network 18 post restructuring (INR)	281
10 shares of TV18	14 shares of TV18 India 12 shares of Network 18
(A) 10 shares of TV18 (INR)	8,940
(B) 14 shares of TV18 India (INR)	5,718
(C) 12 shares of Network 18 (INR)	3,375
Gain (INR) (B+C-A)	153

Source: Edelweiss research

With unlocking from restructuring largely factored in, we expect the TV 18 India stock to perform in line with the EPS growth. With structural changes taking place on the distribution front, TV18 India could be a significant beneficiary as it will drive higher subscription revenues. The outlook on ad revenue also remains very positive. TV 18 has also demonstrated its ability to build attractive web business where significant potential value still exists. We remain positive on the outlook of the stock and maintain our **'BUY'** recommendation on TV 18 India.

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### RATING INTERPRETATION

<b>Buy</b>	Expected to appreciate more than 20% over a 12-month period	<b>Reduce</b>	Expected to depreciate up to 10% over a 12-month period
<b>Accumulate</b>	Expected to appreciate up to 20% over a 12-month period	<b>Sell</b>	Expected to depreciate more than 10% over a 12-month period
<b>Trading Buy</b>	Expected to appreciate more than 10% over a 45-day period	<b>Trading Sell</b>	Expected to depreciate more than 10% over a 45-day period

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