

# TELEVISION EIGHTEEN INDIA



Improving outlook

## ■ News revenue up 5% Y-o-Y, in line with estimate

Television Eighteen India's (TV18) Q2FY11 news business revenues rose 5.0% Y-o-Y to INR 680 mn (in line with our estimate of INR 683 mn); revenues jumped 6.3% Q-o-Q. Business news channels maintained leadership with 57% market share during the quarter. IBN18 reported a strong top line growth of 38.6% Y-o-Y with revenue of INR 1,891 mn.

## ■ News business posts healthy EBITDA margin of 30.9%

The company's news business recorded EBITDA of INR 210 mn against our estimate of INR 160 mn, an impressive improvement from INR 65 mn in Q1FY10. EBITDA margin in Q2FY11 stood at 30.9% against 10.1% in Q2FY10. Margins expanded on the back of the company's strong cost cutting initiatives on the operating cost front including restructuring of back-end operations of CNBC - TV18 and CNBC AWAAZ. Operating costs, as a percentage of sales, declined from 89.9% to 69.1% Y-o-Y. For IBN18, the EBITDA stood at INR 20 mn against an EBITDA level loss of INR 380 mn in Q2FY10.

## ■ News business PAT at INR 60 mn, ahead of our estimate of INR 53 mn

In Q2FY11, TV18 reported an adjusted PAT of INR 60 mn against a loss of INR 331 mn in Q2FY10 on the back of an improved operating margin profile and sharp dip of 98.1% in interest cost as the company used rights issue proceeds to retire debt. Net profit margin stood at 8.9% against 7.8% in Q1FY11. For IBN18, the PAT level losses reduced to INR 129 mn from INR 530 mn in Q2FY10.

## ■ Outlook and valuations: Improving; maintain 'HOLD'

In view of the restructuring at Network18 group we migrate our coverage from TV18 to IBN18 (NewTV18) as TV18's main business will be merged with IBN18 and the former will cease to exist. NewTV18 has one of the strongest bouquets of channels across genres with leading channels such as *Colors*, *CNBC TV18*, *CNBC Awaaz*, *CNN IBN*, *MTV*, *Nick*, and *IBN7*. It has consistently been able to maintain its viewership share and will gain due to sharp uptick in the ad environment. NewTV18 is focusing on building subscription revenues and provides the best scale up due to a low base and strategic alliance with Sun TV. While we maintain our 'HOLD' rating on TV18 we migrate our coverage from TV18 to IBN18 (NewTV18) with a 'BUY' recommendation and rate it 'Sector Performer' on relative return basis.

October 27, 2010

Reuters : TVET.BO Bloomberg : TLEI IN

### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

Note:  
Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR 86
52-week range (INR)	:	98 / 69
Share in issue (mn)	:	180.2
M cap (INR bn/USD mn)	:	15.5 / 348.5
Avg. Daily Vol. BSE ('000)	:	1,156.4

### SHARE HOLDING PATTERN (%)

Promoters*	:	59.5
MFs, FIs & Banks	:	11.3
FIIIs	:	6.3
Others	:	22.8
* Promoters pledged shares (% of share in issue)	:	22.2

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(6.5)	1.1	(2.3)
3 months	10.2	12.2	9.6
12 months	2.1	22.4	36.2

### Financials - TV18 news business

(INR mn)

Year to March	Q2FY11	Q2FY10	% change	Q1FY11	% change	FY10	FY11E
Revenues (INR mn)	680	647	5.0	640	6.3	2,731	2,995
EBITDA (INR mn)	210	65	221.8	150	40.0	501	788
Net profit (INR mn)	60	(331)	NM	50	20.4	(597)	270
Diluted EPS (INR)	0.3	(2.3)		0.3		(3.3)	1.5
Diluted P/E (x)						NM	57.3
M cap / revenues (x)						4.2	5.2

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■ Restructuring at group level: A positive

Network18 had a complex group structure with a lot of cross holdings. The group had five separately listed entities – Network18 Media and Investments, TV18, IBN18, Infomedia18, and the AIM’s listed The Indian Film Company (TIFC). Post the restructuring, there will be just two listed entities. The business news broadcasting operations of TV18 (CNBC TV18 and CNBC Awaaz) will be transferred to NEWTV18 (NewTV18) and all other businesses and investments of TV18 will get transferred to Network18. NewTV18 will house all the TV channels including *CNBC TV18, CNBC Awaaz, CNN IBN, IBN7, IBN Lokmat* and Viacom18 channels (*Colors, MTV, Vh1 and Nickelodeon*). Viacom18 will buy Network18’s 80% stake in TIFC. All new ventures in the TV broadcasting space will now form part of NewTV18. The scheme will be effective from April 1, 2010, the overall process is likely to be completed in 7-9 months, so likely by Q4FY11/Q1FY12. We perceive this restructuring exercise as a positive development. This restructuring will simplify the structure, remove cross holding, provide synergy benefits in terms of ads and subscription and result in two focused entities.

Fig.1 : Network18 group – pre restructuring

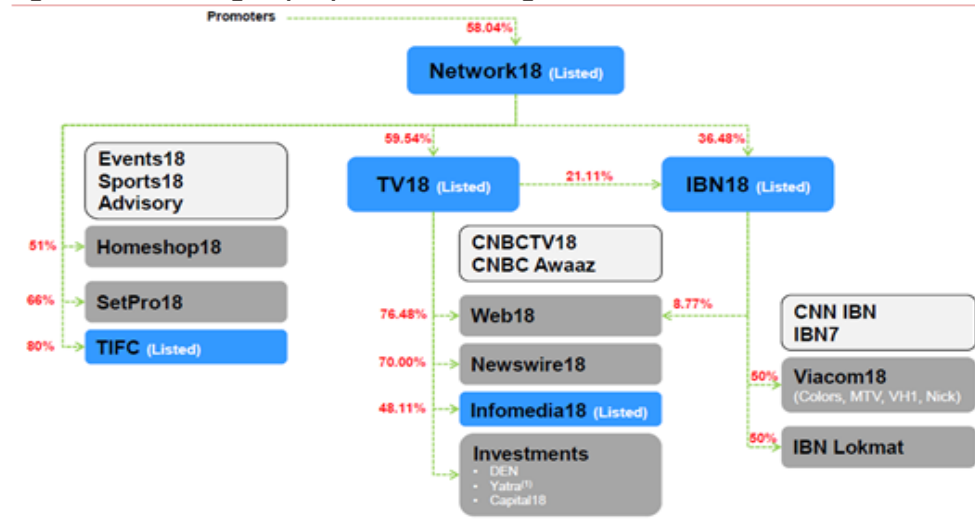
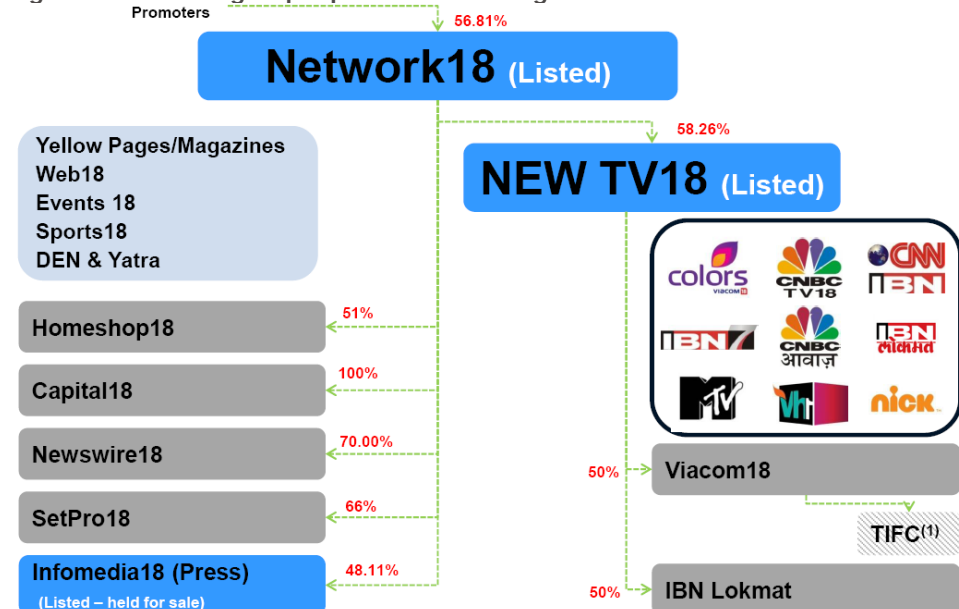


Fig.2 : Network18 group – post restructuring



Source: Company, Edelweiss research

**Table 1: NewTV18 ownership**

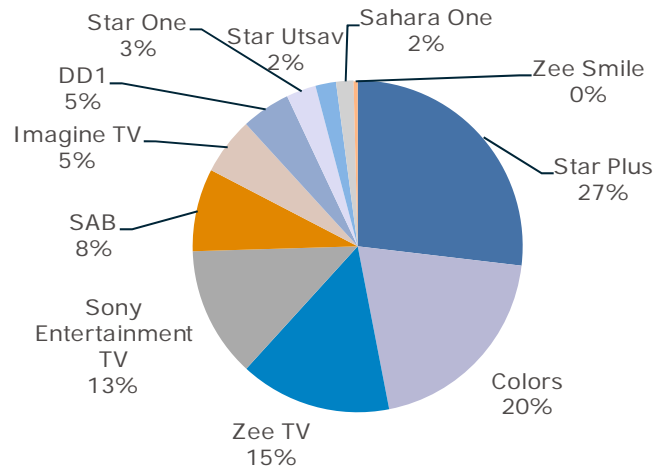
Shareholding	Current (%)	New (%)
Promoter	58.0	56.8
Promoter Stake	58.0	48.7
Treasury Stake	-	8.1
Public	42.0	43.2

Source: Company, Edelweiss research

■ **Leading properties across genres**

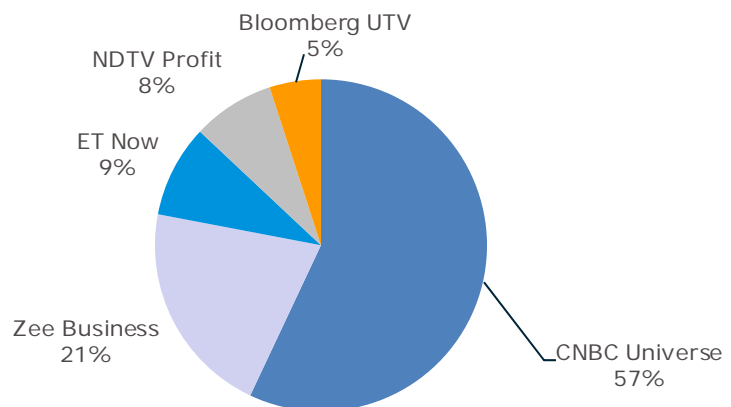
The restructuring gives NewTV18 access to some of the strongest properties across genres such as CNBC TV18 and CNBC Awaaz (business news genre), CNN IBN (english news genre), Colors (hindi GEC genre), MTV (youth and music genre), Nickelodeon (kids genre), and VH1 (international entertainment genre). NewTV18 may look at launching a few more channels including a movie channel. NewTV18 and A&E Television Networks (AETN) have formed a joint venture, AETN-18 India, to launch History, Bio and other popular AETN channels in the Indian market.

**Chart 1: Hindi GEC - viewership share**



Source: TAM, Edelweiss research

**Chart 2: Business news channels - viewership share**



Source: TAM, Edelweiss research

- **Focus on profitability**

Post conclusion of the investment phase, improving the profitability will be the company's key focus over the next few years. Given the improving macro economic environment and ad spends and the leadership position of Network 18's properties, the company will witness robust growth in ad revenues. Increasing digitization and alliance with SUNTV Network for distribution are expected to drive NewTV18's subscription revenue growth. Further focus on prudent cost management will help drive up the company's profitability. Post the restructuring New TV18 has a strong balance sheet with almost zero net debt. As of FY10 NewTV18 had INR 6.03 bn of debt and INR 5.07 bn of cash. The net debt of INR 0.96 bn is largely working capital debt.

- **Subscription revenue growth opportunity**

NewTV18 is already a leading TV company in terms of ad revenue despite having lesser number of channels than competition. However, it lags competitors on the subscription revenue front due to newness of channels and lack of legacy. As of FY10, NewTV18 had subscription revenue of INR 1.2 bn (while ZEEL bouquet gets ~INR 4.5 bn) and the company plans to grow subscription revenues to INR 5-6 bn in the next two years. Network18 group and SUN TV Network have formed a strategic alliance called SUN18 for distribution. Sun18 will be to be a part of NewTV18 and will be one of the biggest distribution bouquets with 33 channels (including Viacom18 channels and IBN channels, Disney Network and Sun TV network channels). The 33 channels distributed by Sun18 include: *COLORS, MTV, Nick, Vh1, Homeshop18, CNN-IBN, CNBC-TV18, CNBC-Awaaz, IBN-7, IBN-Lokmat, The Disney Channel, Disney XD, Hungama TV, SUN TV, KTV, Sun News, Sun Music, Chutti TV, Adithya, Gemini TV, Teja TV, Gemini News, Gemini Music, Navvulu TV, Kushi TV, Surya TV, Kiran TV, Udaya TV, Udaya Movies, U2, Udaya Varthegal, Ushe TV and Chintu TV.*

Sun18's bouquet is already the highest GRP delivering bouquet in the Indian television space. The option to aggregate third party channels is also one of the opportunities that this venture will seek to explore. As part of the strategic alliance, the business has been structured uniquely, whereby two new companies are being formed. Sun18 Media Services North Company will manage the non-South India markets and will be operated by the Network18 Group. Sun18 North will be headed by Mr. Haresh Chawla (Group CEO - Network18 and Viacom18) as its CEO and Director. Rajesh Kamat (Group COO – Viacom18 & CEO - COLORS), will be the COO of Sun18 North. Sun18 Media Services South Company will manage the South India market (non Hindi-speaking-markets) and will be operated by the Sun Network. Sun18 South will be headed by Tony D'Silva as its CEO.

With a strong bouquet of channels and increasing digitization of Indian households, we believe NewTV18 is well placed to grow its subscription revenue stream.

**Fig 3: SUN18 – Alliance signing**



## Financials snapshot - TV18 news business

(INR mn)

Year to March	Q2FY11	Q2FY10	% change	Q1FY11	% change	FY10	FY11E	FY12E
Revenues	680	647	5.0	640	6.3	2,731	2,995	3,280
Total expenditure	470	582	(19.3)	490	(4.1)	2,230	2,208	2,394
EBITDA	210	65	221.8	150	40.0	501	788	886
ESOP charge	10	5	112.8	-	NM	24	-	-
Interest	5	288	(98.1)	40	(86.5)	1,100	250	235
Depreciation	44	54	(17.1)	40	11.0	199	160	180
Other income	-	36	(100.0)	-	NM	432	-	-
PBT	150	(246)	NM	70	114.6	(390)	378	471
Tax	90	28	226.1	20	350.0	54	108	146
Adjusted net profit	60	(273)	NM	50	20.4	(444)	270	325
Extraordinary items	-	58	(100.0)	-	NM	153	-	-
Reported net profit	60	(331)	NM	50	20.4	(597)	270	325
No. of shares (mn)	180	120		180		135	180	180
Diluted EPS (INR)	0.3	(2.3)		0.3		(3.3)	1.5	1.8
Diluted P/E (x)						NM	57.3	47.6
EV/EBITDA (x)						23.3	15.1	13.4
Market cap / revenues (x)						4.2	5.2	4.7

## as % of revenues

Operating expenses	69.1	89.9		76.6		81.6	73.7	73.0
EBITDA	30.9	10.1		23.4		18.4	26.3	27.0
Net profit	8.9	(42.2)		7.8		(16.3)	9.0	9.9

## Financial snapshot IBN18 - Consolidated

(INR mn)

Year to March	Q2FY11	Q2FY10	% change	Q1FY11	% change	FY10	FY11E	FY12E
Net revenues	1,891	1,364	38.6	1,730	9.3	6,035	11,200	14,500
Total expenditure	1,871	1,743	7.3	1,680	11.4	6,363	9,900	11,962
EBITDA	20	(380)	105.2	50	(60.7)	(328)	1,300	2,538
Depreciation	47	50	(6.5)	50	(6.2)	186	657	697
Interest	124	114	9.2	100	24.3	1,135	468	330
Other income	41	8	442.7	10	311.2	554	94	85
Profit before tax	(110)	(536)	79.4	(90)	(22.7)	(1,095)	269	1,596
Provision for tax	18	(6)	408.0	20	(9.4)	1	48	287
PAT before min. int.	(129)	(530)	75.7	(110)	(16.9)	(1,096)	221	1,309
Exceptional items		296		-		-	-	-
Reported profit	(129)	(826)	84.4	(110)	(16.9)	(1,096)	221	1,309
No. of shares (mn)	237	179		237		237	360	360
Diluted EPS	(0.5)	(3.0)		(0.5)		(4.6)	0.6	3.6
Diluted P/E (x)	NM	NM		NM		NM	190.5	32.1
EV/EBITDA (x)						(91.2)	34.3	17.1
Market cap/revenues						4.6	3.8	2.9
ROACE (%)						(10.2)	6.5	15.9

## as % of net revenues

EBITDA	1.0	(27.8)		2.9		(5.4)	11.6	17.5
Net profit	(6.8)	(60.6)		(6.4)		(18.2)	2.0	9.0

## ■ Company Description

NewTV18 is a leading broadcaster in India. It owns and operates, some of the strongest properties across genres such as CNBC TV18 and CNBC Awaaz (business news genre), CNN IBN (English news genre), Colors (Hindi GEC genre), MTV (youth and music genre), Nickelodeon (kids genre) and VH1 (international entertainment genre). NewTV18 and A&E Television Networks (AETN) have formed a joint venture, AETN-18 India, to launch History, Bio and other popular AETN channels in the Indian market.

## ■ Investment Theme

The advertising spend by companies is increasing with revival in the overall business environment. We continue to believe that the overall fundamental dynamics (demographics, income levels, consumption of media) remain strong for the media industry. We also have a positive outlook on growth in subscription revenues, on the back of implementation of cable digitization and higher penetration of DTH. NewTV18 has one of the strongest bouquet of channels across genres with leading channels such as Colors, CNBC TV18, CNBC Awaaz, CNN IBN, MTV, Nick, IBN7. It has consistently been able to maintain its viewership share and will gain due to a sharp uptick in ad environment. NewTV18 is focusing on building the subscription revenues and provides the best scale up due to a low base and strategic alliance with Sun TV.

## ■ Key Risks

Slowdown in the economy, limiting growth in advertising spending

*ET Now* and *Bloomberg UTV* can be a formidable competition. This can lead to a loss of viewership and rise in overall expenses.

Enhanced competition in the Hindi GEC space.

Slower-than-expected off take in subscription revenues.

## Financial Statements – New TV18/IBN18 - Consolidated

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenues	1,312	1,827	6,035	11,200	14,500
Direct cost	253	356	2,675	4,162	5,029
Employee expenses	454	783	1,130	1,759	2,125
S G & A expenses	550	1,256	2,558	3,980	4,808
Total operating expenses	1,257	2,396	6,363	9,900	11,962
EBITDA	54	(569)	(328)	1,300	2,538
Depreciation & amortization	66	175	186	657	697
EBIT	(11)	(744)	(514)	643	1,841
Interest expense	122	205	1,135	468	330
Other income	40	130	554	94	85
Profit before tax	(94)	(820)	(1,095)	269	1,596
Provision for tax	10	17	1	48	287
Core profit	(104)	(837)	(1,096)	221	1,309
Profit after tax	(104)	(837)	(1,096)	221	1,309
Share in loss of associates	(131)	(83)	-	-	-
Profit after minority interest	(234)	(920)	(1,096)	221	1,309
Equity shares outstanding (mn)	134	179	237	360	360
EPS (INR) basic	(1.8)	(5.1)	(4.6)	0.6	3.6
Diluted shares (mn)	134	179	237	360	360
EPS (INR) fully diluted	(1.8)	(5.1)	(4.6)	0.6	3.6
CEPS (INR)	0.7	(3.2)	(3.8)	2.4	5.6

**Common size metrics- as % of net revenues**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Direct cost	19.3	19.5	44.3	37.2	34.7
Employee expenses	34.6	42.9	18.7	15.7	14.7
S G & A expenses	41.9	68.8	42.4	35.5	33.2
Operating expenses	95.9	131.1	105.4	88.4	82.5
Depreciation and Amortization	5.0	9.6	3.1	5.9	4.8
Interest expenditure	9.3	11.2	18.8	4.2	2.3
EBITDA margin	4.1	(31.1)	(5.4)	11.6	17.5
EBIT margin	(0.9)	(40.7)	(8.5)	5.7	12.7
Net profit margins	(7.9)	(45.8)	(18.2)	2.0	9.0

**Growth metrics**

Year to March	FY09	FY10E	FY11E	FY12E
Revenues	39.3	230.3	85.6	29.5
EBITDA	(1146.3)	42.4	496.7	95.2
PBT	(775.0)	(33.6)	124.6	492.9
Net profit	(708.1)	(31.0)	120.2	492.9
EPS	(192.7)	10.1	113.3	492.9

<b>Balance sheet</b>						<b>(INR mn)</b>
As on 31st March	FY08	FY09	FY10	FY11E	FY12E	
Equity capital	267	358	583	770	770	
Reserves & Surplus	828	2,174	1,239	6,581	7,890	
Shareholders funds	1,374	2,817	3,559	7,351	8,660	
Secured loans	768	947	2,535	2,535	2,535	
Unsecured loans	200	361	2,185	1,715	465	
Borrowings	968	1,308	4,719	4,250	3,000	
<b>Sources of funds</b>	<b>2,342</b>	<b>4,125</b>	<b>8,279</b>	<b>11,601</b>	<b>11,660</b>	
Gross block	772	1,362	1,649	10,265	10,890	
Less: Depreciation	150	393	711	6,672	7,369	
Net block	622	969	939	3,593	3,521	
Capital work-in-progress	2	-	6	-	-	
Intangible assets	-	0	3,540	3,700	3,700	
Investments	771	2,360	4	45	45	
Total Current assets:	1,271	1,649	6,254	8,223	9,087	
Debtors	483	588	2,282	3,682	3,932	
Cash & bank balance	166	139	2,569	1,705	1,550	
Inventory	1	1	370	460	655	
Advances	621	921	1,034	2,376	2,950	
Total current liabilities & Provisions	324	853	2,464	3,960	4,692	
Creditors	302	792	2,407	3,901	4,629	
Provisions	22	61	57	59	63	
Net current assets	947	796	3,790	4,263	4,394	
<b>Uses of funds</b>	<b>2,342</b>	<b>4,125</b>	<b>8,279</b>	<b>11,601</b>	<b>11,660</b>	
Book Value per share (INR)	8	16	15	20	24	

<b>Free cash flow</b>						<b>(INR mn)</b>
Year to March	FY09	FY10E	FY11E	FY12E		
Net profit	(920)	(1,096)	221	1,309		
Depreciation	175	186	657	697		
Others	1,050	(221)	54	(571)		
Gross cash flow	305	(1,130)	932	1,435		
Less: Changes in WC	455	(426)	27	(286)		
Operating cash flow	(150)	(704)	905	1,720		
Less: Capex	(136)	(77)	(880)	(625)		
<b>Free cash flow</b>	<b>(14)</b>	<b>(627)</b>	<b>1,785</b>	<b>2,345</b>		

<b>Cash flow metrics</b>						<b>(INR mn)</b>
Year to March	FY09	FY10	FY11E	FY12E		
Operating cash flow	(150)	(704)	905	1,720		
Financing cash flow	2,439	4,577	(2,088)	(1,250)		
Investing cash flow	(2,357)	(1,741)	(2,970)	(625)		
Net cash flow	(68)	2,132	(4,153)	(155)		
Capex	(136)	(77)	(880)	(625)		



**Profitability & liquidity ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	2.0	(35.9)	(34.4)	4.0	16.3
ROACE (%)	(0.7)	(44.6)	(10.2)	6.5	15.9
Debtors days	134	107	87	97	96
Inventory days	1	1	25	36	40
Fixed assets t/o	2.1	2.3	6.3	4.9	4.1
Debt/Equity	0.7	0.5	1.3	0.6	0.3
Interest coverage	(0.1)	(3.6)	(0.5)	1.4	5.6
Payable days	137	124	112	141	158
Current ratio	3.9	1.9	2.5	2.1	1.9
Debt/EBITDA	17.8	(2.3)	(14.4)	3.3	1.2

**Operating ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Total asset turnover	1.1	0.6	1.0	1.1	1.2
Fixed asset turnover	4.2	2.3	6.3	4.9	4.1
Equity turnover	1.9	0.9	1.9	2.1	1.8

**Du pont analysis**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	2.1	(41.2)	(18.2)	2.0	9.0
Total assets turnover	0.6	0.6	1.0	1.1	1.2
Leverage multiplier	1.7	1.5	1.9	1.8	1.5
ROAE (%)	2.0	(35.9)	(34.4)	4.0	16.3

**Valuation parameters**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
EPS (INR) fully diluted	(1.8)	(5.1)	(4.6)	0.6	3.6
<i>Y-o-Y growth (%)</i>		<i>(192.7)</i>	<i>10.1</i>	<i>113.3</i>	<i>492.9</i>
CEPS	0.7	(3.2)	(3.8)	2.4	5.6
Diluted P/E (x)	NM	NM	NM	190.5	32.1
Price/BV (x)	14.1	7.5	7.8	5.7	4.9
EV/Sales (x)	11.9	10.8	5.0	4.0	3.0
EV/EBITDA (X)	287.7	(34.7)	(91.2)	34.3	17.1



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Dish TV India	BUY	SP	M	Jagran Prakashan	BUY	SP	M
PVR	BUY	SP	M	Sun TV Network	BUY	SO	M
Television Eighteen India Ltd	Hold	SP	H	Zee Entertainment Enterprise	BUY	SO	M
Zee News	BUY	SP	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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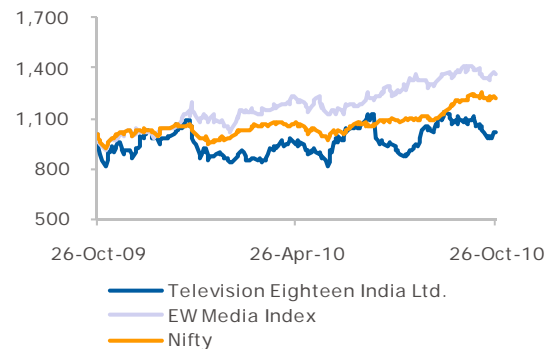
### Coverage group(s) of stocks by primary analyst(s): Media

Dish TV India, Jagran Prakashan, PVR, Sun TV Network, Television Eighteen India Ltd, Zee Entertainment Enterprise, Zee News

#### Television Eighteen India



#### EW Indices



#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	54	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

#### Recent Research

Date	Company	Title	Price (INR)	Recos
26-Oct-10	Dish TV	Hockey stick curve comes to the fore; <i>Result Update</i>	59	Buy
23-Sep-10	Dish TV	Moving into a sweet spot; <i>Initiating Coverage</i>	55	Buy
18-Aug-10	PVR	Improving prospects; <i>Visit Note</i>	162	Buy

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