# Visit Note

June 28, 2007

Reliance Money
Anil Dhirubhai Ambani Group

# Raj Television Network

**CMP : Rs. 248**

### Stock Details

| | |
|---|---|
| **BSE Code** | **532826** |
| **Reuters Code** | **RAJTV.BO** |
| **Market Cap (Rs. bn)** | **3.31** |
| **52 wk High / Low** | **373 / 176** |
| **2 Wk Avg Vol. (BSE)** | **29,000** |
| **2 Wk Avg Vol. (NSE)** | **30,500** |
| **Shares O/s (Mn) (FV Rs. 10)** | **12.97** |

| **Share Holding Pattern** | **%** |
|---|---|
| **Promoters** | **72.48** |
| **FIIs** | **0.48** |
| **FIs** | **3.40** |
| **Public** | **23.64** |

**Avinash Gorakshakar**
avinash.gorakshakar@relianceada.com

**Vinod Hassija**
Vinod.hassija@relianceada.com

**We recently met the management of Raj Television Network. Key takeaways of the meeting are :**

Raj Television started in 1994 currently operates 2 channels under its bouquet viz. the flagship channel “Raj TV” catering to the general entertainment and “Raj Digital Plus” (RDP) which is 24 x 7 Tamil Movie Channel. The Flagship channel is in operation since 1994 with 27,000 sq. ft state of art production facility in place.

The company also has a Telugu Channel called Visa TV under another associate company.

### Aggressive Expansion plans to grab market share

Raj TV intends to launch in total 11 new channels within the next 2 years (FY08 -09). The channel in the name of Kalaignar TV is scheduled to be tentatively launched on 15th August 2007, further 2 more channels will be launched within a period of 2 months. The company plans to start Raj Music & Raj News and a youth channel as a part of this 11 channels bouquet. The current market share of Raj TV is about 7% which it expects to increase once new channels are launched. The recent IPO in February 2007 was for Rs.91 Crore which was made at the price of Rs. 257 and will fund expansion plans for launching new channels, content production, development and construction of new studio and development of distribution channel.

### New Programming Initiatives

- The company is exploring ways to enhance its programming content for which it has planned to start new program with tie –up with a leading celebrity on the lines on KBC which should increase the TRP and advertisement revenues.
- It has recently tied up with Neo Sports for telecasting of matches for the recent Indo – Bangla Test Series and earned about 0.75 Cr. from selling their 9 to 5 slot to Neo Sports.

### Content & Movies Rights

The Content is the life line of any media company, considering the importance of crucial and catchy content, Raj TV’s content is produced in –house which helps it to manage the costs in a better as it saves overall costs to the tune of 20% and constantly innovate the programming content. It has proprietary movie rights of about 3000 movies and this has been valued at Rs.374 crore by an independent valuer.

## Organic & Inorganic Growth

Apart from launching of new channels, the company has tied up with TV – 12 of Singapore for selling some Tamil programmes and in the same way it has tied up with Sri Lanka broadcaster and are planning to target countries like Malaysia, Fiji, Thailand, UK, USA, etc with sizeable Tamil population. The Raj TV Management is also exploring to venture in newer markets of North and East India and is open to acquire channels in Bengali and other regional language space.

## Key Financials

**(Rs. In Crore)**

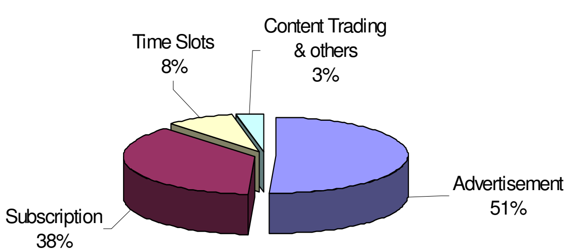
| Particulars | Q4FY07 | Q4FY06 | Growth (%) | FY07 | FY06 | Growth (%) |
|---|---|---|---|---|---|---|
| Sales | 9.23 | 7.88 | 17.1 | 38.78 | 33.79 | 14.8 |
| EBITDA | 1.64 | 5.28 | (68.9) | 18.32 | 8.46 | 116.5 |
| *EBITDA Margin* | *17.8%* | *67%* | -- | *47%* | *25%* | -- |
| PAT | 0.58 | 2.99 | (80.6) | 10.72 | 3.56 | 201.12 |
| *PAT Margin* | *6.28%* | *37.9%* | -- | *27.60%* | *10.54%* | -- |

## Other Positives

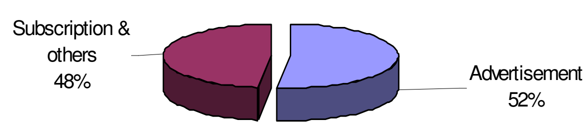
***The management has projected the financial performance for 2008 as follows:***

| Particulars | Amount (Rs. In Cr. |
|---|---|
| Total Income | 70.10 |
| Operating Profit | 39.45 |
| *EBITDA Margin* | *56.28%* |
| PBT | 30.18 |
| PAT | 20.02 |

**Segment wise Revenue Breakup for FY07**




**Segment wise Revenue Breakup for FY08**




The company commands a Ad rates of Rs.2,000 – Rs.3,000 in the prime time slot and major clientele includes HLL, CPRP, P&G, Mindshare, Pepsi, Coke, Saravana Stores (Local Player). The management expects increase in Ad rates post change in political scenario as all the Tamil Nadu government ads will be broadcasted on Raj TV which will boost the advertisement revenues.

**Ramp up in Subscription Income**

The subscription revenue is Rs.6 per channel, since the present subscriber base of Raj TV is around 3 Mn out of total subscriber base of 17 Mn in Tamil Nadu. Raj TV's Management expects the subscriber base to increase to 7 Mn. The company is betting on its quality content which according to the management reflects the success of Serial like "Geetanjali" and has completed 1000 serials, further initiatives like telecast of 50th celebration of Tamil Nadu Chief Minister & also his 84th anniversary has increased its viewer ship substantially.

**Future Initiatives**

- The Company plans to have a joint venture with Moser Bear for the production of DVD / VCD & selling them at Lowest price to establish new source of revenue while creating a market for its own content.

- The company also intends to start up its own MSO (Multi Service Operator). In the Tamil Nadu there are about 6 major cities with more than 80% of total viewership in Tamil Nadu itself. Currently the MSO is monopolized by its rival and competitor SUN TV.

**Impact of New Channels on Raj TV's financials**

- We believe that break even time for any new channel is around 1 year and we believe that these channels will be drag on financials for the initial one year since the new channels won't have subscription income and they won't command good advertisement rates as they would have to establish a strong TRP track record for these content.

- The plans of management to establish MSO requires funding to the tune of Rs.400 crore on a fully operational basis. These plans are yet in drawing board stage but would incur heavy capital expenditure initially for the company.

- The present debt on the balance sheet is around Rs. 8 Cr., however taking in to consideration the aggressive plans the debt is expected to increase substantially and one can also expect dilution in equity to fund its growth plans. The equity dilution though was not confirmed has been indicated by the management sensing that the big opportunity in media business needs to be explored to fund growth.

- We believe that the new channel Kalaignar TV which will be a General entertainment Channel will also be in direct competition with their existing general entertainment channel, though the management has informed that it will be primarily focused on taking the viewer from the competitor.

- Though the advertisement rates are about Rs. 3000 – 3500 for prime time slots & even at 4500 per 10 secs slots which the management expects is much lower than its nearest competitor and rival SUN TV.

- The company also intends to venture in to Radio Business which will again increase the Capex for the company, further it will be difficult for the Radio business to generate revenues for atleast 2 years after launch given the nature of the business, the prevailing competition in the segment and regional reach of the segment.

**Business Outlook & Recommendation**

We believe that Raj TV is one of the few new players in the Indian Broadcasting Media sector space which is yet to emerger as a formidable large player in the broadcasting space. While there is no doubt that Raj TV's fortunes have changed remarkably off late after the change in equation with the DMK government stance towards SUN TV, which was patronized earlier, makes us believe that the company needs to deliver what it projects and post expansion handles its customer base more optimally in Tamil Nadu.

While we believe that both the present channels offered by the Raj TV are matured channels and are profitable, its foray in to 11 more channels over the next 12 – 18 months looks very ambitious and one needs to closely monitor the progress here. Any let down in the execution capability of the management here would impact the company's financials.

Nevertheless we expect strong traction in the current revenue and profit numbers for FY08E from the company's existing channels and we believe the Q1FY08 numbers to be very encouraging. The stock currently trades at a P/E of 15.56 x on FY08E and a EV / EBITDA of 8.4 x on FY08E.

We do not have any rating on the stock but maintain a positive bias on the company and its prospects over the long term.