



# Network 18 Fincap

Emerging Star

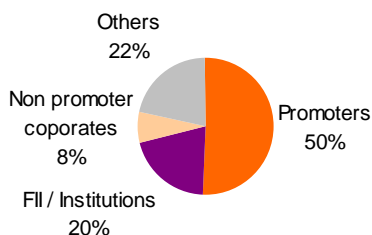
Striking the right(s) note

Buy; CMP: Rs476

### Company details

Price target:	Rs651
Market cap:	Rs2,419 cr
52 week high/low:	Rs630/300
NSE volume: (No of shares)	3.0 lakh
BSE code:	532798
NSE code:	NETWORK18
Sharekhan code:	NETWORK18
Free float: (No of shares)	2.5 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	47.0	-	-
Relative to Sensex	-18.0	29.3	-	-

### Key points

- ◆ **News businesses to flourish:** Network 18 Fincap (Network 18) controls the front-line business channels *CNBC-TV18* and *Awaaz*, and the fast growing general news channels *CNN-IBN* and *IBN 7*. With the digitalisation of cable and advent of DTH platform, the subscription revenues would substantially boost the profitability of the group. Also, *Awaaz*, *CNN-IBN* and *IBN 7* have shown good viewership gains and should drive the growth as they mature over the coming years.
- ◆ **Web properties to add tremendous value:** Network 18 through its associate companies Television Eighteen India (TV18) and Global Broadcast News (GBN; together the two hold 100% in Web18) owns several web properties like *moneycontrol.com*, *poweryourtrade.com* and *yatra.com* among others, covering the news, e-transaction, travel, recruitment, shopping and e-ticketing genres. It has added many new web properties over the last year and started spending heavily on enhancing these sites and popularising them.
- ◆ **Taking big steps in entertainment:** Through GBN it has entered into an alliance with Viacom Inc to launch a Hindi general entertainment channel. The alliance also gives it part ownership of *MTV India*, *VH1* and *Nickelodeon*. The group's movie business would derive synergies from Viacom Inc's world-famous studios.
- ◆ **Group builds war chest for growth:** Sensing the opportunities provided by the booming Indian media & entertainment industry and allied sectors, the TV18 group is building a war chest for exponential growth. While TV18 has raised Rs200 crore through a QIP, Network 18 proposes to raise a similar amount through a rights issue of partly convertible preferential shares. GBN aims to raise \$200 million through an overseas offering while its board members have approved a plan to raise a debt of Rs1,500 crore. We believe with all these funds the TV18 group aims to become one of the big wigs of the Indian media and entertainment business.
- ◆ **Rights issue adds Rs133.6 per share to value:** The company proposes to raise Rs200 crore via a rights issue of 5% partly convertible cumulative preference shares (PCCPS). It will offer one PCCPS for every five equity shares held. Our calculations suggest that the rights add Rs133.6 to the value of each existing equity share and make the Network 18 stock even more attractive.
- ◆ **Valuations suggest a 37% upside:** Our valuation of the Network 18 scrip based on its holdings gives us a value of Rs517.8 per share before the rights issue. The rights issue adds Rs133.6 to the price of the existing float, giving us a fair value of Rs651 for the scrip and indicating a good 37% upside from the current market price of Rs475.5. We initiate a Buy recommendation on the stock with price target of Rs651.

### Company background

Network 18 is the holding company of the media conglomerate, the Television Eighteen India (TV18) group. The TV18 group that started as a business news broadcaster endeavours to be a full-fledged media and entertainment giant in the coming years. Network18 through its holdings controls some of the most lucrative media properties in the Indian news genre.

These media properties include *CNBC-TV18*, *Awaaz*, *CNN-IBN* and *IBN-7*. Network 18 has been associated with the well-known global brand *CNBC* and recently tied up with Cable News Network (CNN) for its English news and current affairs foray, *CNN-IBN*. Moving ahead with its ambitious plans in the entertainment space it formed an alliance with Viacom Inc, the global entertainment major, to form Viacom-18 in which GBN holds a 50% stake. Apart from television the group has taken aggressive steps in the Internet space and is expanding its presence through an array of web offerings. We believe the TV18 group is in the process of becoming a media and entertainment giant with dominance across key genres in the industry.

### Investment arguments

#### Owns the best of media

##### TV18

- ♦ **News:** Network 18 holds a 49.18% stake in TV18. TV18 is one of the country's premier business news broadcasters. It owns *CNBC-TV18*, undoubtedly the best in the English business news space, and *Awaaz*, the Hindi business news and consumer affairs channel. While *CNBC* continues its dominance in the English business news genre with a market share of ~55%, *Awaaz* though not a very old channel has a ~70% share of the Hindi business news genre, far ahead of the only other competitor, *Zee Business*. We remain satisfied with TV18's progress with regard to *Awaaz*, which is expected to see tremendous growth over the coming years. Also the digitalisation of cable with the advent and expansion of the conditional access system and the fast pace of growth seen in alternative platforms like direct-to-home (DTH) lend a great opportunity to TV18 to garner substantial pay revenues going forward. We expect TV18 to enter the print media (with a business newspaper), preferably through the inorganic route, as such an entry would complete the entire bouquet of business news and would be synergistic with its existing broadcast operations.
- ♦ **Web18—much more beyond news:** TV18 holds an 85% stake in Web18, the Internet arm of the group (15% owned by GBN). We view TV18's Internet business as one of the prominent growth drivers. The company has been continuously enhancing its web offerings in terms of their content and adding new innovative web properties frequently to its portfolio. *moneycontrol.com* is one of the premier financial web portals. *commoditiescontrol.com* is the undisputed leader in the commodities information space. Within one year of its launch *poweryourtrade.com* has already crossed 50,000 subscribers. Apart from these, Web18 offers *ibnlive.com*, *easymf.com*, *yatra.com*, *cricketnext.com*, *jobstreet.com*, *compareindia.com*, *homeshop18.com* etc. The new businesses of real-time news and data products (CRISIL MarketWire renamed as NewsWire18),

e-ticketing (Bigtree Entertainment acquired in H2FY007) and broking (in joint venture with Ambit Capital and Centurion Bank of Punjab) will enhance the shareholder value. The addition of these new properties has opened up the avenue for garnering subscription and transaction revenues for Web18. We see great value in Web18 and expect it to be a very high-margin business as and when it stabilises.

##### GBN

- ♦ **General news:** GBN is the group's relatively new but fast growing news and entertainment venture. It owns and operates *CNN-IBN*, a leading 24-hour national English news and current affairs channel headed by prominent journalist Rajdeep Sardesai. Since its launch in December 2005 *CNN-IBN* has garnered a good market share and stands close to the leader in the English news genre with a market share of ~31%. Its Hindi general news foray, *IBN-7*, has a reasonably good audience with a 12% share of viewership vs ~20% share of the eyeballs enjoyed by the leader *Aaj Tak* in this competitive space. GBN owns a 44.1% stake in *IBN-7*. Moving ahead in the news space GBN announced its foray in regional news. The company has set up a 50:50 joint venture with Lokmat, a leading newspaper brand (publishes Marathi, Hindi and English dailies across Maharashtra) in Maharashtra, for a Marathi news channel. Zee News is the only other private player in the Marathi news genre through its recently launched (in February 2007) channel, *24-Taas*.
- ♦ **Viacom-18—a big bang entry into Indian entertainment:** The TV18 group recently announced its foray into the Indian general entertainment space through a joint venture with global media conglomerate, Viacom Inc. The TV18 group would make the investment through GBN to form a 50:50 joint venture, Viacom-18. The first offering of the joint venture will be a Hindi general entertainment channel within a year. This distinguishes GBN as the TV18 group's general broadcast company.

As a part of the arrangement, Viacom Inc will transfer its three operational channels—*MTV*, *VH1* and *Nickelodeon India*—to the joint venture while the TV18 group will transfer its motion picture business to the venture. Currently, the motion picture division is under Studio 18, which would transfer its production, acquisition and distribution of Hindi language films in favour of the alliance. Viacom-18 will also launch its other channels (already successful abroad) in India through the joint venture in future. We see great synergies flowing to the motion pictures business from Viacom Inc's Paramount Pictures and Dreamworks Studios.

GBN has already approved the plans to raise \$200 million through an overseas offering and also has the approval to

raise up to Rs1,500 crore of debt. We believe the funds would be utilised to finance its ambitious plans in the Indian entertainment space. We foresee GBN as one of the dominant players in the fast growing Indian entertainment genre.

### HomeShop18 and E18

Network 18 forayed into the Indian retail space with HomeShop18, a home shopping network. The company entered into a 75:25 arrangement with Saif Partners, a private equity player, for the venture. HomeShop18 aims at providing an integrated platform for home shoppers through the already operating portal *homeshop18.com* and a yet to be launched fully dedicated home shopping channel. Saif Partners has already tasted success in the home shop arena with its investment in the leading Chinese home shop company, Acom International. We believe with the Indian retail space going the organised way, increasing consumerism and greater awareness towards newer shopping platforms, HomeShop18 offers a good value proposition, though we believe the gestation period may be longer for the venture.

Network 18 has formed a new division, E18, to tap the entertainment and news events space. E18 will cover large format events such as concerts by international artists, Bollywood shows, award nights in India and also large format business conferences, conclaves and seminars. We see good potential in the heavily unorganised event management market and expect the company to leverage and establish its brands in the event management space.

### Rights issue of PCCPS

Network 18 has announced a rights issue (the draft offer document has been filed with the Securities and Exchange Board of India) of PCCPS. As per the terms of this issue every holder of five equity shares in the company will be entitled to one PCCPS. A shareholder entitled to a right on payment of Rs200 for the PCCPS will be allotted: (a) one PCCPS of Rs150; (b) one equity share (*pari passu* to the existing equity shares) for the remaining Rs50; and (c) a detachable warrant convertible into one equity share within 24-48 months of the allotment of the warrant. This warrant

will be convertible at a price determined at 50% discount (to the average of the weekly high and low of the closing prices during the 90 days immediately preceding the week in which the board informs the exchanges about fixing the record date for the warrant exercise period) to the then prevailing price.

The company is raising Rs200 crore through the issue for funding its movie production, rights acquisition, distribution venture, Studio 18; the home shopping foray with Saif Partners, HomeShop18 (it is going to launch a full-fledged home shop channel); repayment of debt; and organic and inorganic expansions in the media and allied space.

### Rights issue value accretive for existing equity holders

We have evaluated the above rights issue for an existing holder of Network 18 shares and believe that the same is value accretive. We have considered the cash flows accruing to a rights holder who may subscribe to the rights. As shown in the table below, the rights holder would get cash of Rs517.8 on selling the first equity share allotted simultaneously with the preference share on payment of Rs200. He would get 5% dividend annually for the next five years and at the end of the five years he would get Rs150 redemption proceeds of the preference share. Within 24-48 months of the allotment of the preference share his warrant would become convertible at 50% of the stipulated price. Had the warrants been exercisable now we would have got Rs443.8 as the fair value of the Network 18 stock. However these are convertible at least two years after the allotment of the warrants. Hence we have assumed a 20% price appreciation to this fair value for each of the next two years, considering the growth we are going to see in Network 18's constituents, TV18 and GBN, as well as its other businesses. This gives us a fair value of Rs639 for the share to be issued on warrant conversion and this will be issued at 50% of this price, implying a cash profit of Rs319.5. On discounting the net cash flows at 11% (since it is a preference share) we get the present value of the rights at Rs317.8. This reflects the value of one preference share issued for five equity shares currently held. Thus for one existing share we get a fair value of rights at Rs133.6.

### Calculation of value of rights

Particulars	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
5% Dividend on PCCPS		7.5	7.5	7.5	7.5	7.5
Redemption proceeds of preference share						150
Net cash inflow on selling the shares acquired on warrant conversion				319.5		
Proceeds on selling equity share acquired on part conversion of PCCPS	517.8					
Outflow on subscribing to the PCCPS	200.0					
Net cash flow	317.8	7.5	7.5	327.0	7.5	157.5
Discount factor (at 11% required rate of return, it being a preference share)	1.00	0.90	0.81	0.73	0.66	0.59
PV	317.8	6.8	6.1	239.1	4.9	93.5
NPV	668.2					
Per share value of rights	133.6					

**Some-of-the-parts valuation of Network 18**

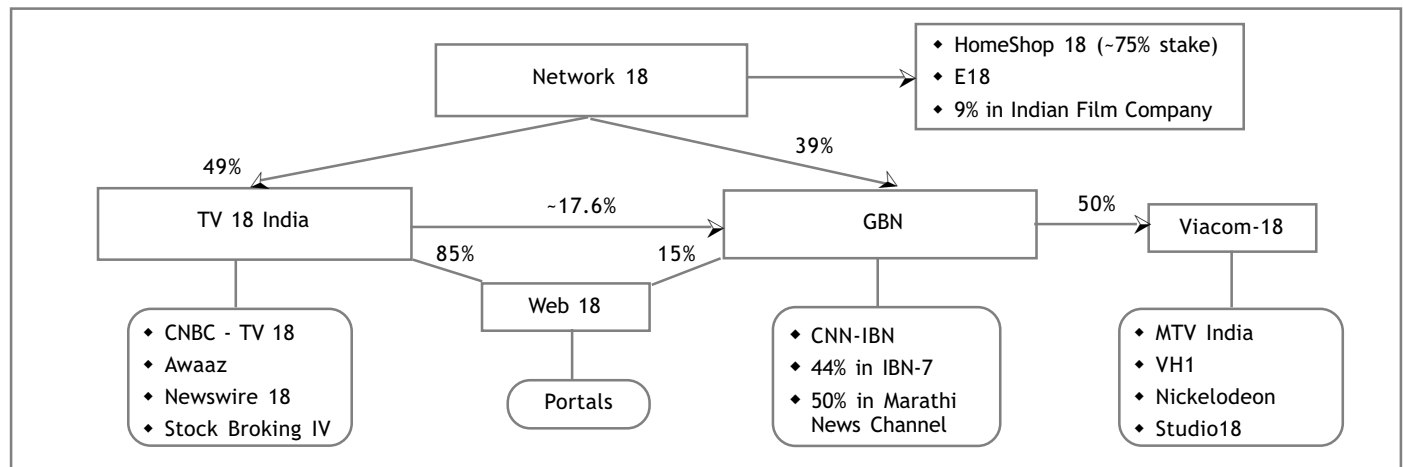
Particulars	Value (Rs cr)
49.18% in TV18 (based on our price target of Rs967)	2,690
Stake in GBN #	1,041
Value of 75% in HomeShop 18, Studio 18 and stake in Indian film company	220
Total value	3951
20% discount-holding company	790
Estimated market cap	3160
Nos of shares (post-rights issue)	6.1
Core value of the share	517.8
Add: value of rights	133.6
<b>Fair value per share</b>	<b>651.4</b>

#Post estimated dilution on raising \$200 mn

**Valuation and view**

We like the way the TV18 group has shaped up over the years and its timely aggression to become prominent in most of the value propositions in the Indian media and entertainment space. While GBN is expected to further add to its tally of new ventures, we believe it will continue to be in the investment mode for the next couple of years. TV18 would have Web18 and pay revenues as its prominent growth drivers. Network 18 provides an opportunity to own the best in the India media and the ensuing rights issue adds to the flavour for equity investors. We initiate coverage on Network 18 with a Buy recommendation and a price target of Rs651 per share, giving an upside potential of 37%.

**TV18 group structure**



The author doesn't hold any investment in any of the companies mentioned in the article.

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