

Media

Buzzmakers

After several delays, CAS was finally rolled out in the notified areas of Mumbai, Delhi and Kolkata, leading to confusion among viewers and increased competition between CAS, DTH & IPTV operators. Further, a successful box office on the back of a festive Q3FY07 led to CY06 being one of the best years of business. Key factors to watch for in Q4FY07 would be the next phase of de-merger of Zee Telefilms, the impact of CAS roll-out and further plans to extend the same.

- ▶ **CAS versus DTH – The battle heats up.** CAS was implemented in the notified areas of three metros, Mumbai, Delhi and Kolkata, from January 1, '07, leading to confusion among viewers as most pay channels went off air. DTH service providers are trying to make the most of this with Dish TV being the first to come out with an attractive limited period offer followed by Tata Sky. Cable providers such as Hathaway and Siti Cable (WWIL), too, are offering attractive packages. The war is focussed on reducing the entry price and converting viewers using CAS to DTH. The advent of a CAS/DTH regime can lead to a paradigm shift in the pay revenue distribution with complete disclosure of subscribers, besides providing customers with a choice to pay for only what they see.
- ▶ **Upbeat box office.** CY06 was a blockbuster year for Bollywood with overseas revenues increasing significantly (accounting for over 25% of revenues for large production houses) on the back of innovative marketing efforts such as better use of internet for promotion, focus on newer markets (Australia & New Zealand) and more prints & better distribution. Q3 being the festive quarter, most movies have done well with *Dhoom 2* having one of the best openings ever in Bollywood and *Don*, too, becoming a hit. Besides this, there is an impressive line up scheduled for release in Q4 such as *Namaste London*, *Salaam-e-Ishq*, and *Guru*. This augurs well for the entire value chain of film producers, processors and exhibitors.
- ▶ **Zee makes impressive gains in the Hindi C&S space.** Zee Entertainment is making a mark on the TRP charts, giving STAR Plus a tough time. In December '06, it captured 30 of the top-100 TRP slots in the Hindi C&S space. Although STAR Plus continues to lead the pack with 66 slots, its share has declined since the past five months. In terms of content providers, Balaji reigns supreme with 45 or more of the top-100 on a consistent basis.
- ▶ **Quarterly results.** Overall, we expect media companies to register robust growth in Q3FY07. We expect Zee to show the best sequential improvement due to absence of sports-related losses and benefits of the Taj TV (Ten Sports) acquisition kicking in. As regards Adlabs, we expect a sequential increase in revenues but a marginal decline in EBITDA due to margin fall on the film distribution side. For Balaji, we expect EBITDA & PAT to rise 40% YoY & 46% YoY respectively. We reiterate Balaji Telefilms as our top pick in the sector, given its attractive valuations and consistent financial performance.

Top pick

Balaji Telefilms

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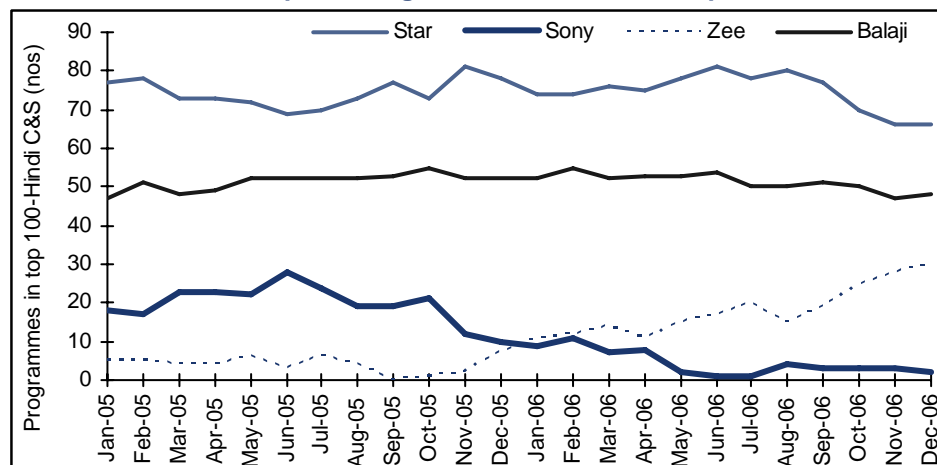
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Table 1: Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	OND 06*	% Chg		OND 06*	% Chg		OND 06*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Adlabs Films#	662	NM	6.4	215	NM	(2.8)	155	NM	(16.0)
Balaji Telefilms	799	14	(2.0)	279	40	(3.9)	190	46	(1.5)
Zee Telefilms @	3,790	NM	8.4	1,071	NM	392	775	NM	269

FY07 nos are on consolidated basis, while FY06 nos are standalone and hence not comparable
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 Source: i-SEC Research * October-December '06

Chart 1: Zee makes impressive gains in the Hindi C&S space



Source: TAM (Target group – Fe 15+), i-SEC Research

Table 2: Media stocks versus benchmark indices

Name	Price (Rs)	O-N-D '06 (%)	% YoY	% YTD
	Jan 3, '07			
Company				
Adlabs Films	438	26.5	27.1	1.1
Balaji Telefilms	132	(6.8)	(12.3)	3.7
Deccan Chronicle Holdings	760	61.3	143.4	(0.5)
New Delhi Television	272	4.4	28.9	18.2
Television Eighteen India	621	34.6	109.7	7.4
Hinduja TMT	755	34.8	100.4	2.4
TV Today Network	84	1.8	(18.1)	8.7
Zee Telefilms *	283	(4.0)	73.9	(3.4)
Cyber Media India	122	40.1	5.9	1.9
PVR	230	(10.9)	(22.3)	1.2
Jagran Prakashan Pvt	322	30.6	NA	0.6
Indices	Value	O-N-D'06 (%)	% YoY	% YTD
Sensex	14015	10.7	45.3	1.7
BSE100	7089	10.3	39.3	1.5
BSE200	1678	10.7	37.8	1.4
BSE Midcap Index	5932	12.8	29.5	2.2

* Zee's stock price performance is not comparable because of the de-merger of WWIL, Zee News w.e.f. December 18, '06

Source: Bloomberg, i-SEC Research

Adlabs Films (Buy)

(QoQ chg: 23.1%; YTD chg 1.1%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)#	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)#
Revenues	662	262	NM	6.4	1,196	436	NM
EBITDA	215	109	NM	(2.8)	363	179	NM
PBT	190	114	NM	(3.1)	394	169	NM
PAT	155	72	NM	(16.0)	323	117	NM

FY07 nos are on a consolidated basis, while FY06 nos are on a standalone basis and hence not comparable

Source: Company data, i-SEC Research

* April-September

- Revenues are expected to be up 6.4% QoQ primarily on the back of significant increase in exhibition revenues due to the festive quarter and addition of 10 screens during Q2FY07
- We estimate EBITDA to marginally decline as the movies distributed by the company did not do particularly well, contrary to the success of *Krissh* last quarter. In fact, *Umrao Jaan* failed miserably in the domestic markets, though overseas markets delivered with movies such as *Vivah* and *Jaaneman* acting as the saving grace. As a result of an increase in revenue and a marginal slip in EBITDA, the EBITDA margin is expected to dip from 35.6% in Q2FY07 to 32.5% this quarter
- The company had received some one-off tax benefits last quarter, leading to low tax incidence. This is expected to significantly correct this quarter

Balaji Telefilms (Buy)

(QoQ chg: -3.1%; YTD chg: 3.7%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	799	700	14.1	(2.0)	1,551	1,335	16.2
EBITDA	279	199	39.8	(3.9)	550	490	12.4
PBT	281	193	46.0	(1.5)	539	444	21.6
PAT	190	130	46.3	(1.5)	367	295	24.2

Source: Company data, i-SEC Research

* April-September

- Q3FY07 revenues are expected to be marginally lower than the last quarter as some programmes such as *K-street* and *Kaisa yeh pyaar hai* went off air during the quarter
- Sponsored programmes are expected to decline further. Last quarter, they accounted for just over 6% of the company's revenues. However, with the spike in Sun TV's ad rates, they should rise in Q4
- PAT is expected to rise 46.3% YoY supported by 39.8% EBITDA growth, higher other income and lower depreciation, though would be muted QoQ

Zee Telefilms (Sell)

(QoQ chg: -6.4%; YTD chg: -3.4%)

Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTFY07*	YTFY06*	YoY (%)
Revenues	3,790	3,777	NM	8.4	6,391	6,499	NM
EBITDA	1,071	365	NM	392.1	879	1,576	NM
PBT	1,077	395	NM	279.3	932	1,552	NM
PAT	775	298	NM	268.5	749	1,172	NM

FY07 nos are on standalone basis (post the de-merger of Zee News and WWIL), while FY06 nos are consolidated and hence not comparable. QND quarter's numbers include Taj TV's (Ten Sports) nos and hence are not strictly comparable with the JAS '06 nos.

Source: Company data, i-SEC Research

* April-September

- Topline growth to beef up QoQ on the back of the acquisition of 50% stake in Ten Sports. Excluding this, revenues are expected to be flat. Expected gains from ad rate hikes in early FY07 (~Rs200mn) and subscription revenues from DTH providers (especially Tata Sky) would likely be neutralised by the absence of revenues from cricket (which accounted for ~Rs300mn ad revenues last quarter)
- EBITDA to rise phenomenally QoQ due to the absence of cricket – Zee Sports registered an operating loss of Rs622mn in Q2FY07; the company writes-off the cost of licenses (US\$5mn per match for this year) during the quarter in which the match is played. The Ten Sports acquisition would also lead to an upside, contributing to 28% QoQ growth
- On the back of the de-merger of Zee News and WWIL (with inconsistent financial performances and lower taxes) and core business gain, the tax provision for this quarter would be much higher, resulting in slightly lower increase in PAT

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