



Q2FY2008 Media earnings preview

Gearing up for growth

Industry

- Media and entertainment companies continued their march ahead. While Q1 marked fund raising activities by majors such as the TV18 group and UTV for their movie ventures and the disclosure of expansion plans in the entertainment business by companies such as Viacom18, Q2 marks the launch of NDTV's lifestyle channel "Good Times" and UTV's proposed launch of youth channel "Bindaas".
- While the television news channels continue to slug it out in the stiff competition, the general entertainment space awaits the entry of new players. Among the existing channels, Zee TV continues to narrow the gap with the leader Star Plus that should get reflected in the increased ad revenues for Zee Entertainment.
- This is the third quarter after the implementation of the conditional access system (CAS) in select areas of Mumbai, Delhi and Kolkata. We believe the impact of CAS in terms of enhanced pay revenues from these metros should be reflected in Q2 revenues of the broadcasters.
- In a major step forward to ensure lower charges to direct to home (DTH) subscribers, the Telecom Regulatory Authority of India (TRAI) has enforced a regulation mandating the broadcasters to offer channels to DTH service providers on an a-la-carte basis. This may spell bad news for the broadcasters as it would curtail their

ability to push weaker channels as a part of the bouquet and thereby impact their pay revenues. However, this may lower the overall content cost for DTH service providers, which may help them expand faster.

- We expect a subdued bottom line performance from TV18 as it continues to spend heavily for future growth, while Saregama India's numbers should be impacted by the lack of major releases during the quarter.

Companies under coverage

- TV18:** We expect TV18 to post a robust growth of 43.2% in its revenues to Rs75.9 crore. The news business is expected to register a strong growth and Web18 revenue is expected to almost double on a year-on-year basis. However we expect the net profit (adjusted profit after tax [PAT]) to dip sharply by 77.5% yoy to Rs3.6 crore. The sharp decline in the net profit is on account of our expectation of a 107% rise in the operating expenditure to Rs61crore. TV18 has been spending heavily on augmenting its web properties and this has led to the operating losses for Web18. We believe the trend will continue in Q2. This coupled with a hefty increase in the operating expenses in the news business (as seen in Q1FY2008) should decrease the overall operating profit by 36.6% yoy to Rs14.9 crore thereby impacting the bottom line. However, with Web18's expected listing coupled with the sound growth proposition that TV18 offers we remain positive on the company.

Quarterly estimates

(Rs crore)	Net sales			Operating profit			Adjusted PAT			Reported PAT		
	Q2FY08	Q2FY07	% chg	Q2FY08	Q2FY07	% chg	Q2FY08	Q2FY07	% chg	Q2FY08	Q2FY07	% chg
Balaji Telefilms	81.0	81.5	-0.6	31.2	29.0	7.4	19.8	19.3	2.4	19.8	19.3	2.4
TV18	75.9	53.0	43.2	14.9	23.5	-36.6	3.6	16.0	-77.5	1.2	13.6	-91.2
Saregama#	29.5	34.8	-15.2	4.0	6.4	-37.9	3.0	4.6	-34.9	3.0	3.2	-6.5

#Stand-alone numbers

- ♦ **Balaji Telefilms:** We expect Balaji Telefilms (BTL) to report consolidated results for Q2FY2008. We believe BTL's revenues for Q2 will remain flat yoy at Rs81 crore. We expect the stand alone revenues to fall by 11.7% to Rs72 crore on account of lower programming hours (around 320 hours against 487 hours in Q2FY2007) due to lesser number of shows on air both in the commissioned and sponsored segments. However, substantially higher year on year realisations would neutralise lower volumes. The Sharjah subsidiary will add revenues from the recently launched show "Khwahish" while the film subsidiary will have spillover revenues from its movie "Shootout at Lokhandwala". We expect the consolidated net profit to grow by 2.4% to Rs19.8 crore. We expect BTL's planned entry into broadcasting in a joint venture with Star to be a key value proposition for the company.
- ♦ **Saregama India:** With no major releases for the audio and home video segments during the quarter we expect Saregama India's revenues to decline by 15.2% yoy to Rs29.5 crore. However, the publishing division, which is going to be the growth driver for Saregama, is expected to continue its robust growth. We expect the operating profit margin to slide from 18.4% in Q1FY2007 to 13.5% for the quarter on account of operating leverage. Thus we expect the company to report an adjusted PAT of Rs3 crore (a decline of 34.9% yoy). Saregama's business model is in the midst of a transition from a higher proportion of revenues from physical sales as of now to increasing proportion of the high margin license fee income. With the rollout of new radio stations to be completed soon, growth in the number of telecom subscribers and an increased penetration in the value added services like ringtones, caller tunes etc, we remain positive on the growth prospects of Saregama India.

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

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