

April 29, 2008

Rating	Outperformer
Price	Rs344
Target Price	Rs415
Implied Upside	20.5%
Sensex	17,016

(Prices as on April 28, 2008)

Trading Data

Market Cap. (Rs bn)	41.2
Shares o/s (m)	119.6
Free Float	48.8%
Avg. Daily Vol ('000)	236.4
Avg. Daily Value (Rs m)	86.7

Major Shareholders

Promoters	51.2%
Foreign	18.2%
Domestic Inst.	13.3%
Public & Others	17.3%

Stock Performance

(%)	1M	6M	12M
Absolute	(9.6)	(33.0)	(6.0)
Relative	(14.1)	(18.4)	(28.7)

Price Performance (RIC: TVET.BO, BB: TLEI IN)



Source: Bloomberg

Television Eighteen India (TV18)

Investing in growth; results positive

- **Results:** TV 18 reported better than expected results for Q4FY08; however, for the full year the company's earnings declined 21% on back of losses suffered by its web and newswire businesses. For the quarter, the company's revenue grew by 65% to Rs1,324m from Rs804m, margins shrunk to 25.5% from 39.4%, while earnings declined by 37% YoY to Rs125m from Rs199m.

In FY08, TV18's revenue grew by 63% to Rs4.02bn from Rs2.47bn, operating margin declined to 24.8% from 30.3%, due to losses suffered by the company's web operations (Rs290m) and its newswire business (Rs97.5m). These losses were more of developmental cost for services that the company is likely to launch in the near future.

- **Forays into print media:** During the quarter, the company firmed up its plans to enter into print media. It has forged a JV with the Jagran Prakashan group to launch regional business newspapers. It has also entered into JVs with the Pearson group and Forbes to launch an English business newspaper and a business magazine respectively.

- **Valuation:** We maintain our revenue estimate at 42% CAGR FY07-10E; however, we have reduced our margin estimates for FY09 by 190bps, but have increased out FY10 margin by 290bps on the back of expectation of greater losses by both web and newswire operations in FY09 and the possibility of a turnaround in FY10. As a result our PAT estimates for FY09E declines by 11% and increases by 24% in FY10E.

We maintain Outperformer rating on the company; however, our target price stands reduced by 10% from Rs461 to Rs415 on the back of reduction in our target price of GBN by 39%, in which TV 18 holds 18% stake. Being a little conservative, we have also discounted the value of TV 18's stake in GBN by 50%.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	2,471	4,017	5,348	7,134
Growth (%)	62.6	62.6	33.1	33.4
EBITDA (Rs m)	749	996	1,444	2,233
PAT (Rs m)	322	255	512	980
EPS (Rs)	2.7	2.1	4.3	8.2
Growth (%)	(13.4)	(20.8)	100.5	91.5
Net DPS (Rs)	0.9	2.0	2.0	2.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	30.3	24.8	27.0	31.3
RoE (%)	11.9	6.1	9.5	16.7
RoCE (%)	12.4	7.4	9.0	12.4
EV / sales (x)	8.4	10.5	7.9	5.9
EV / EBITDA (x)	27.8	42.3	29.4	18.9
PE (x)	127.7	161.3	80.5	42.0
P / BV (x)	6.4	7.8	7.4	6.7
Net dividend yield (%)	0.3	0.6	0.6	0.7

Source: Company Data; PL Research

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Highlights

Quarterly and full year result details

On consolidated basis, the company posted 65% YoY growth in revenue to Rs1.32bn - broadcasting (news operations) contributed 83% to revenue, whereas web and newswire operations contributed 14% and 3% respectively. Operating margin slid to 25.5% from 39.4% due to decline in margins across all verticals. Earnings declined by 37% to Rs125m from Rs199m.

Quarterly segmental performance

(Rs m)

Y/e March	News Ops.		Web 18		Newswire	Total	
	Q4FY08	Q4FY07	Q4FY08	Q4FY07	Q4FY08	Q4FY08	Q4FY07
Revenue	1,100	719	180	85	45	1,324	804
<i>% ch. YoY</i>	<i>52.9</i>		<i>112.2</i>			<i>64.8</i>	
<i>% of total revenue</i>	<i>83.0</i>	<i>89.4</i>	<i>13.6</i>	<i>10.6</i>	<i>3.4</i>		
Operating margins (%)	45	48	(75)	(37)	(45)	26	39
<i>Ch. in bps</i>	<i>(350)</i>		<i>(3,790)</i>			<i>(1,390)</i>	
PAT	300	233	(144)	(34)	(32)	125	199
<i>% ch. YoY</i>	<i>29.0</i>		<i>324.9</i>			<i>(37.2)</i>	

Source: Company Data, PL Research

Yearly segmental performance

(Rs m)

Y/e March	News Ops.		Web 18		Newswire	Total	
	FY08	FY07	FY08	FY07	FY08	FY08	FY07
Revenue (Rs m)	3,328	2,144	573	256	116	4,017	2,471
<i>% ch. YoY</i>	<i>55.2</i>		<i>124.0</i>			<i>62.6</i>	
<i>% of total revenue</i>	<i>82.8</i>	<i>86.8</i>	<i>14.3</i>	<i>10.4</i>	<i>2.9</i>		
Operating margins (%)	42	34	(50)	(31)	(84)	25	30
<i>Ch. in bps</i>	<i>800</i>		<i>(1,900)</i>			<i>(550)</i>	
PAT (Rs m)	740	175	(348)	(74)	(135)	255	322
<i>% ch. YoY</i>	<i>322.9</i>		<i>370.1</i>			<i>(20.8)</i>	

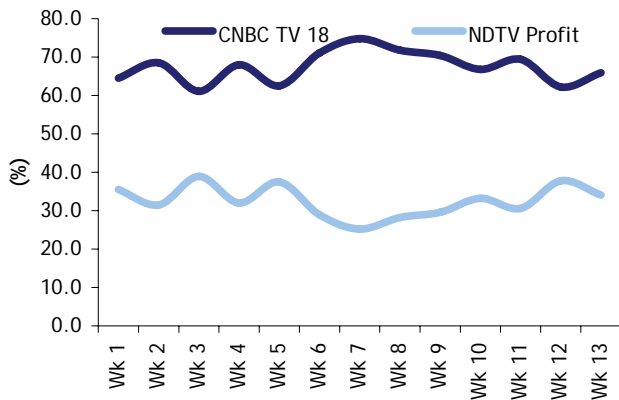
Source: Company Data, PL Research



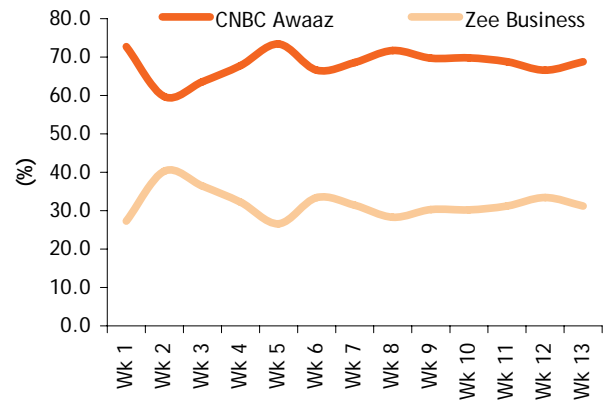
Viewership trends during the quarter

The company's English business news channel *CNBC TV18* maintained its *numero uno* position in its genre by averaging 67.5% viewership against NDTV *Profit's* 32.5%. In the Hindi business news space too, its channel *CNBC Awaaz*, managed to maintain its leadership position with an average share of 68.3% against *Zee Business's* 31.7%.

English business news viewership share



Hindi business news viewership share



Source: *Telepedia*

Outlook

With both the company's business news channels having maintained their leadership positions during the year, the management plans to launch new regional business news channels. The company plans to add an e-broking venture in JV with Ambit Capital and Centurion Bank of Punjab (CBoP) to its portfolio of web properties under Web 18. Its newswire service, which has already clocked 1,500 terminals at the end of FY08, will give it a shot in the arm as it is expected to launch a retail product by H2FY09E.

However, due to lack of clarity on the company's e-broking venture, post CBoP's merger with HDFC Bank and a delay in its proposed fund raising plans for Web 18, the company's stock price has declined 26% during the quarter against the Sensex's decline of 23% for the same period. We expect clarity on both these issues in FY09E.

Change in estimates

We maintain our revenue estimate at 42% CAGR FY07-10E; however, we have reduced our margin estimates for FY09 by 190bps, but have increased out FY10 margin by 290bps on the back of expectation of greater losses by both web and newswire operations in FY09 and the possibility of a turnaround in FY10. As a result, our PAT estimates for FY09E declines by 11% and increases by 24% in FY10E.

Change in estimates

	FY09E		FY10E	
	Revised	Earlier	Revised	Earlier
Revenue (Rs m)	5,348	5,320	7,134	7,095
<i>% ch.</i>	<i>0.5</i>		<i>0.5</i>	
Operating margins (%)	27.0	28.9	31.3	28.4
<i>Ch. in bps</i>	<i>(190.0)</i>		<i>290.0</i>	
PAT (Rs m)	512	574	980	788
<i>% ch.</i>	<i>-10.9</i>		<i>24.3</i>	
EPS (Rs)	4.3	4.8	8.2	6.6
<i>% ch.</i>	<i>(10.8)</i>		<i>24.3</i>	

Source: PL Research

Valuation

We maintain Outperformer rating on the company; however, our target price stands reduced by 10% from Rs461 to Rs415 on the back of reduction in our target price of GBN by 39%, in which TV 18 holds 18% stake. Being a little conservative, we have also discounted the value of TV 18's stake in GBN by 50%.

We continue to value news operations at 30x (PER) FY10E estimates, web operations are valued at 6x m-cap/sales on FY10E at Rs6.55bn for TV 18's 85% stake. TV 18's stake in GBN has now been valued at Rs2.14bn, and its 53% holding in Infomedia is valued at Rs2.35bn.


SOTP valuation

	Valuation methodology	Assumed multiple	Implied m-cap (Rs. m)	Per share value (Rs.)
		FY10E	FY10E	FY10E
News Operations	PER multiple	30	37,358	312
Web Operations (85%)	M-cap/sales	6	6,554	55
Newswire	M-cap/sales	4	1,221	10
Stake in GBN (18%)	% of exit m-cap for GBN @ 50% hldg co. disc.	18%	2,137	18
Stake in Infomedia (53%)	% of current m-cap of Infomedia	53%	2,348	20
Per sh. value for TV-18			47,271	415

Source: PL Research

Q4FY08 result overview
(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net revenue	1,324	804	64.8	1,126	2,471	4,017	62.6
Operating expenditure	986	487	102.4	810	1,723	3,021	75.4
Operating profit	338	317	6.8	315	749	996	33.0
<i>Operating margins (%)</i>	<i>25.5</i>	<i>39.4</i>		<i>28.0</i>	<i>30.3</i>	<i>24.8</i>	
Other income	154	50	206.0	70	114	357	212.2
Depreciation	87	55	59.0	73	188	305	61.8
Interest	190	71	169.2	145	244	494	102.2
PBT	216	242	(10.8)	168	430	554	28.8
Tax	63	7	850.3	42	(3)	152	NM
<i>Tax rate (%)</i>	<i>29.1</i>	<i>2.7</i>		<i>24.7</i>	<i>(0.8)</i>	<i>27.4</i>	
Minority int. & ESOPs	27.93	36.20	(22.8)	41.95	111.36	127.95	14.9
Adjusted PAT	125	199	(37.2)	85	322	255	(20.8)



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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