

IBN18

Rs98

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs23.1bn; US\$514m

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Result: Q3FY11

Comment: At the inflexion point!

Key valuation metrics

| (Rs m) | Net Sales | yoy chg (%) | Net profit | EPS (Rs) | yoy chg (%) | EV / E | PER (x) |
|--------|-----------|-------------|------------|----------|-------------|--------|---------|
| FY08 | 1,311.8 | 66.3 | (234.4) | (1.8) | n/a | n/a | n/a |
| FY09 | 1,831.2 | 39.6 | (918.1) | (5.1) | n/a | n/a | n/a |
| FY10 | 6,035.3 | 229.6 | (1,098.0) | (6.0) | n/a | (65.8) | n/a |
| FY11E | 8,181.6 | 35.6 | 0.2 | 0.0 | n/a | 32.1 | n/a |
| FY12E | 9,934.2 | 21.4 | 1,079.1 | 4.6 | - | 12.2 | 21.4 |

Source: Company, IDFC Securities Research

Highlights of Q3FY11 results and post results conference call

- IBN18 has reported a strong set of numbers for Q3FY11 and has moved into the black. Ahead of estimates, IBN18 has reported a consolidated revenue growth of 22% at Rs2.36bn, EBITDA of Rs323m (against Rs85m in Q3FY10) and a net profit of Rs198m (against losses of Rs106m in Q3FY10).
- IBN18's strong performance during the quarter was underpinned by Viacom18 (for 50% stake) reporting a 21% revenue growth at Rs1.6bn, EBITDA of Rs250m (a 5x growth from Rs46m in Q3FY10) and PAT of Rs230m (against Rs28m in Q3FY10).
- IBN18's standalone operations (CNN IBN + IBN7) have reported a strong revenue growth of 23% at Rs720m, an operational profit of Rs80m (against profits of Rs60m in Q3FY10) and a net loss of Rs10m (against Rs110m of losses in Q3FY10).
- IBN Lokmat's (for 50% stake) performance has been subdued during the quarter. Revenues declined by 3% at Rs20m, operational loss stood at Rs10m and a net loss stood at Rs20m in Q3FY11.
- While Star Plus has sustained its leadership position in the GEC space with average GRPs of 370 in Q3FY11, Colors followed as a strong second with GRPs of 275. Zee TV which averaged GRPs of 200 in the quarter is facing stiff competition from Sony which garnered average GRPs of 192. The sustained viewership in Colors has started reflecting in the advertising revenues, with the channel expected to have clocked higher advertising revenues compared to Zee TV (the flagship channel of ZEEL).
- In Q1FY11, IBN18 terminated its distribution agreement with Sony One Alliance wherein Viacom18 would earn Rs3bn over 3 years for distribution of the entire Viacom18 bouquet. **We have always stated that this deal was sub-optimal, given that ZEEL earns revenues in excess of Rs5bn annually from domestic distribution (where as Viacom18 would earn Rs3bn over 3 years).** Viacom18 channels are now being distributed by the newly formed Sun18 alliance, which is an agreement between Network 18 Group and Sun Network. Sun18 will distribute 33 channels which will include channels of Network18 (CNN-IBN, CNBC-TV18, CNBC-Awaaz, IBN-7 and IBN-Lokmat), Viacom18 (Colors, MTV, Nick and Vh1), Disney India (The Disney Channel, Disney XD and Hungama TV) and the Sun Network.

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- We believe the Sun18 alliance will impart Viacom18 the ability to draw the true share of the distribution pie. Viacom18 is estimated to currently garner a quarterly run rate of ~Rs320-350m from distribution. Further, with the GEC channels of Viacom18 and the business channels of Network18 now available in the same bouquet (as against earlier where Star DEN held the business channels and Sony One distributed the Viacom18 channels), we see cross-leverage benefits now coming to the fore. Also, the Disney channels and Sun Network will render further strength to the overall bouquet.
- In addition to domestic distribution through Sun18 alliance, Colors has also entered the international markets of US and UK in January 2010 which is expected to start contribute to revenues significantly from FY12 onwards.
- The Network18 Group had announced a restructuring of its group in Q1FY11 where the business news broadcasting operations of TV18 (CNBC TV18 and CNBC Awaaz) would be transferred to IBN18 and IBN18 will be renamed as New TV18. The transfer is being facilitated through a share swap wherein for every 100 shares held of TV18, a shareholder will get 68 shares of IBN18 (New TV18). Post the transaction, IBN18's number of shares would increase from 237m now to 360m (issuance of 123m shares) and Network18 would directly own 58.26% in IBN18.
- While the transaction would mean 52% dilution in the share capital for IBN18, we see stronger and profitable properties coming into IBN18's fold. Post the restructuring; IBN18 would house few of the strongest broadcast properties in their respective genres. IBN18 would have leaders or strong challengers in the form of CNBC TV18, CNN IBN, Colors, MTV, Nickelodeon, etc. With few more niche channels expected to be launched including movie channel, IBN18 would then come into the league of ZEEL and Star. The transaction is expected to be complete (post approvals from respective High Courts) by the end of FY11.
- During the quarter, Viacom18 (a 50:50 JV between IBN18 and Viacom) has acquired The Indian Film Company (TIFC), a film fund listed on the AIM Stock Exchange where Network18 owned 80.4% stake. Viacom18 has valued TIFC at GBP63.6m (or at 115.56 pence per share), which is 1x the total capital deployed in TIFC. While we continue to have our reservations with the deal valuations (Network18 has increased its stake in TIFC from 18% to 77% in the last one year valuing the entity at GBP22m), the announcement of the deal on 'expected' lines helps resolve the ambiguity pertaining to the transaction.
- During the quarter, TIFC has been consolidated in the reported financials. TIFC has garnered revenues of Rs10m and nil profits for the quarter.
- Net debt for IBN18 as on 31st December 2010 stood at Rs2.8bn (gross debt of Rs3.8bn and cash of Rs1.02bn).

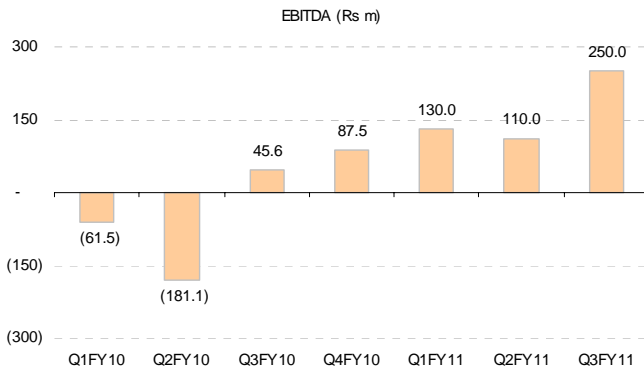
Scale up of Viacom18 (Colors in particular) has been ahead of expectations with Colors reigning the GEC space and Viacom18 clocking revenues of Rs8.3bn in its second year of operations. As Colors narrows its differential in rack rates with Star Plus, advertising revenues are expected to tread a strong growth trajectory. Incrementally, our long held apprehension on distribution revenues being capped by the sub-optimal deal with Sony One Alliance, now stands addressed. With ZEEL garnering ~Rs10bn of distribution revenues annually from India and international markets, we see immense potential for #2 GEC channel - Colors (albeit with a lag especially for international markets). Further, we believe the recent restructuring of the TV18 Group is positive for IBN18 (or New TV18) given the addition of strong properties such as CNBC TV18 and CNBC Awaaz. With IBN18 proposing to add new channels in the lifestyle and movies genre, IBN18 would join the league of larger networks such as ZEE and Star. With overall operational performance of IBN18 looking strong, distribution revenues poised to gain traction and addition of strong properties from the TV18 fold, we believe the valuation discount between ZEEL (valued at USD2.3bn) and IBN18 (at USD514m) is bound to narrow. Maintain Outperformer.

Quarterly segmental performance

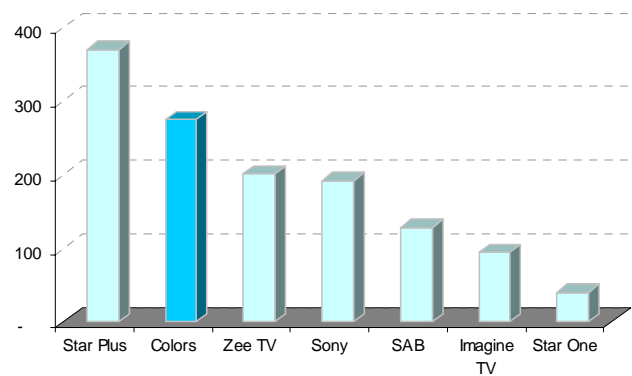
| Rs m | IBN18 Standalone | | IBN Lokmat (50%) | | Viacom18 (50%) | |
|----------|------------------|---------|------------------|--------|----------------|---------|
| | Q3FY11 | Q3FY10 | Q3FY11 | Q3FY10 | Q3FY11 | Q3FY10 |
| Revenues | 720.0 | 585.0 | 20.0 | 20.7 | 1,610.0 | 1,330.9 |
| EBITDA | 80.0 | 59.0 | (10.0) | (14.1) | 250.0 | 45.6 |
| PAT | (10.0) | (109.6) | (20.0) | (21.8) | 230.0 | 28.2 |

Source: Company, IDFC Securities Research

Viacom18's performance (50% stake) ...

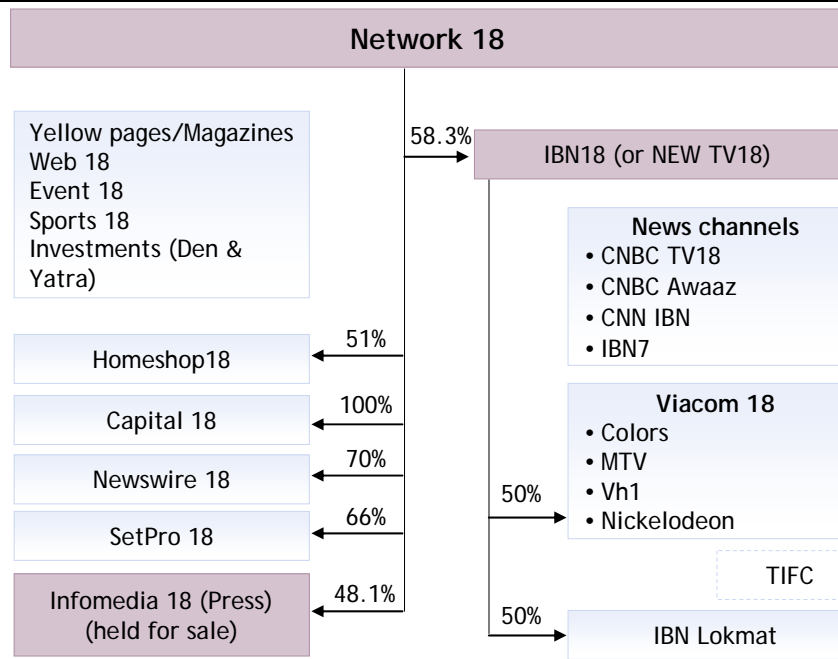


...Average GRPs during the quarter



Source: IDFC Securities Research

New group structure



Source: The Company; IDFC Securities Research

Quarterly results

| | Q3FY10 | Q4FY10 | FY10 | Q1FY11 | Q2FY11 | Q3FY11 | FY11E | FY12E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net Sales | 1,934.2 | 1,688.4 | 6,035.3 | 1,731.9 | 1,890.6 | 2,361.6 | 8,181.6 | 9,934.2 |
| <i>% yoy growth</i> | 162.0 | 262.7 | 229.6 | 62.4 | 38.6 | 22.1 | 35.6 | 21.4 |
| Total Cost | 1,848.9 | 1,664.4 | 6,353.3 | 1,679.6 | 1,870.4 | 2,038.7 | 7,516.3 | 8,248.5 |
| EBITDA | 85.3 | 24.0 | (318.1) | 52.3 | 20.3 | 322.9 | 665.3 | 1,685.7 |
| EBITDA Margin (%) | 4.4 | 1.4 | (5.3) | 3.0 | 1.1 | 13.7 | 8.1 | 17.0 |
| Depreciation | 47.6 | 46.2 | 186.3 | 46.3 | 46.9 | 45.0 | 229.3 | 254.3 |
| Interest | 145.0 | 148.8 | 476.0 | 100.0 | 124.3 | 145.8 | 465.5 | 250.6 |
| Other Income | 2.2 | 2.6 | 547.7 | 5.5 | 41.1 | 24.1 | 107.6 | 118.3 |
| PBT | (105.1) | (168.4) | (432.7) | (88.5) | (109.8) | 156.2 | 78.1 | 1,299.2 |
| Tax | 1.1 | 0.1 | 0.7 | 21.3 | 18.1 | (43.2) | 77.9 | 220.1 |
| Net Profit | (106.2) | (168.4) | (433.4) | (109.8) | (127.9) | 199.4 | 0.2 | 1,079.1 |
| ESOP expenses | - | - | - | 2.0 | 0.5 | 1.2 | - | - |
| Extra-ordinary items | 0 | -56.49 | 0 | 0 | 0 | 0 | 0 | 0 |
| PAT after extra-ordinary | (106.2) | (224.9) | (433.4) | (111.8) | (128.4) | 198.1 | 0.2 | 1,079.1 |

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