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INDIA RESEARCH

TV18

Rs120
DOWNGRADE TO UNDERPERFORMER

RESULT NOTE

Mkt Cap: Rs14.3bn; US$299m

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Result: FY09

Comment: 'Now' or never!

Key valuation metrics

Year to March 31 (Rs m)	Revenues	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)
FY08	3,981	60.8	60	0.5	(93.5)	237.2
FY09	4,895	22.9	(1,667)	(13.9)	(2,855.8)	(8.6)
FY10E	5,820	18.9	(504)	(4.2)	(69.8)	(28.5)
FY11E	7,224	24.1	116	1.0	(123.1)	123.2

** Financials FY09 onwards includes Infomedia18*

Key Highlights of FY09 results

Given the lack of clarity on segmental results, what we decipher from TV18's results is as under:

- TV18 has majorly disappointed on numbers with consolidated revenues of Rs4.9bn, operating loss of Rs1.2bn and net loss of Rs1.7bn in FY09.
- In FY09 in absence of IPOs and cut down of advertising by BFSI players, news broadcasting revenues have declined by 13.5% at Rs2.9bn. With fix cost structures, operating profits are down by 77% at Rs317m.
- Internet business revenues have grown by mere 17% at ~Rs650m (also impacted by lower revenues from moneycontrol.com). Operational losses is estimated at ~Rs660m, driven by launch expenses of in.com
- Newswire18 revenues is expected to have doubled at ~Rs230m and losses at ~Rs80m
- TV18 has during the year acquired 44% stake in Infomedia18. Infomedia18 is estimated at ~Rs1.2bn for the period since 20th August 2008 and the operating losses at ~Rs500m. TV18 has significantly scaled down Infomedia18's business and is focusing on the business directory services on print, voice and web platforms.
- While Q4FY09 was expected to be the worst quarter for the year FY09, we are negatively surprised by the sharp increase in cost structure. During Q4FY09, TV18 reported revenues of Rs1.36bn, operating loss of Rs1.27bn (Rs120m in Q3FY09) and net loss of 1.2bn (Rs227m in Q3FY09). Continued capital market turmoil in Q4FY09 and no Union budget resulted in 36% decline in revenues of news broadcasting business.
- One time expenditure during the quarter includes Rs120m as provision against lapsed warrants in Infomedia18, Rs200m towards ESOP re-pricing and Rs100m towards bad debt.
- However overall operating expenditure during Q4FY09 is up from Rs1.4bn in Q3FY09 to Rs2.6bn.
- Rs70.8m of share of losses in associates pertains to 2.5 months of 20%+ stake in IBN18
- Other income during the year stood at Rs1.1bn, while gross interest cost stood at Rs1.2bn. Other income includes option premium gain on Viacom18 and Rs270m of gains on sale of some shares of the aggregate 5.26m shares transferred to a Trust.

- Gross debt on books is at Rs13bn and net debt of Rs8.5bn. TV18's balance sheet is extremely stretched with Debt/ EBITDA in FY10 stands at 20x. TV18 plans to raise Rs5.1bn through rights issue to de-leverage its Balance Sheet.

Our concern on TV18 for the past one year has been on the following counts – a) increasing pressure of profit sustainability in the flagship property, CNBC b) inability to continuously fund gestation losses of Web18 and Infomedia18 c) highly leveraged balance sheet d) limited option to unlock value within the group as indeed the complicated group structure. All these concerns are getting reflected in the performance of the recent quarters (Rs1.4bn of overall losses in H2FY09 and the flagship news broadcasting business also incurring losses) and we believe that pain could even aggravate as competition intensifies in the niche of business news broadcasting. Unlike in the past, the competitive risk is higher with the second coming of the BCCL Group (which owns India's largest financial newspaper brand – The Economic Times) in the business news genre through the launch of ET Now and likely entry of Bloomberg TV. Even if CNBC TV18 maintains its leadership in the genre, the cost of leadership maintenance in a niche segment and the nuisance value of the competition could upset the entire economics of the business. Our other concern on TV18 pertains to the highly leveraged books – net debt of Rs8.5bn (Debt / EBITDA of 20x and Interest cost / EBITDA at 2x in FY10e). Inability to internally fund the gestation losses in other businesses and stretched balance sheet makes it pertinent for TV18 to scout for equity capital which is likely to come in the form a rights issue to the tune of around Rs5bn. With continued operational and financial strain in the near future, we further downgrade our rating on the stock from Neutral to Underperformer.

Quarterly results

(Rs m)	Q4FY08	FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY09	FY10E	FY11E
Net Sales	**1324**	**3,981**	**930**	**1303**	**1305**	**1361**	**4,895**	**5,820**	**7,224**
%yoy growth	73.2	60.8	64.4	36.5	47.6	16.3	22.9	18.9	24.1
Expenditure	984	3,174	763	1254	1452	2643	6,139	5,380	5,963
EBITDA	**340**	**808**	**167**	**48**	**(147)**	**(1,282)**	**(1,244)**	**439**	**1,261**
Margin (%)	25.7	20.3	18.0	3.7	(11.3)	(94.2)	(25.4)	7.5	17.5
Other Income	0	373	0	0	270	343	613	309	309
Interest	34.7	551	133.4	151.7	285.5	169.2	740	852	875
Depreciation	87.1	332	73.3	115.3	126.2	166.5	481	528	576
PBT	219	297	(40)	(219)	(289)	(1,274)	(1,852)	(632)	119
Tax	62.7	233	14.5	14.5	(30.8)	(67.4)	(69)	73	63
Minority Interest	-	4	(1.4)	(39.1)	(29.0)	(45.0)	(116)	(200)	(60)
PAT	**155.8**	**60.5**	**(52.9)**	**(194.0)**	**(228.9)**	**(1162.1)**	**(1666.9)**	**(504.1)**	**116.4**

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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