

2 June 2006

Daily



from the Research Desk

BSE SENSEX	TV Today (Rs85) - Results Review -	Animesh Singh
Open	10,472.46	<i>animesh@karvy.com</i>
High	10,597.23	
Low	10,017.82	
Close	10,071.42	

Nifty	Outperformer - Target Price - Rs105
Open	3,072.55
High	3,129.10
Low	2,940.65
Close	2,962.25

TV Today Q4FY06 results at the topline were in line with our estimates with highest ever advertisement revenue of Rs487mn, up 24% yoy. This healthy pick up in revenues were on account of series of advertisement rate hike undertaken over last couple of months. Interestingly, this rate hike (Combined for Aajtak and Headlines Today) didn't impact the advertisement inventory utilisation rates thereby resulting in robust pick up in revenues. Operating expenses at Rs299mn, a modest increase of 11 yoy, resulted in operating margin expansion of 800bps. Superior performance at operating level translated into 66% increase in bottomline to Rs 110mn. For the full year TVTN reported revenues of Rs 1.6bn up 15% yoy and PAT of Rs 278mn up 69% yoy.

During the conference call company indicated that the advertisement market in pretty robust state and to take advantage of this company intends to turn its flagship channel "Aajtak" pay during the current fiscal. Among other things TVTN continues to maintain its leadership position in Hindi news genre and its English news channel Headlines Today is also gradually picking up in terms of both additions to topline as well as market share. This is evidenced by status quo maintained in the ad inventory for both the media assets of the company. In this context we may note that TVTN had started selling combined rates for its media properties couple of quarters back.

Rs Million	Q4FY2005	Q4FY2006	% Growth	FY05	FY06	% Growth
Revenues	393	487	24.0	1,390	1,595	15.0
Op expenses	270	299	11.0	1,050	1,075	2.0
Operating profit	123	188	53.0	340	520	53.0
Operating margin	31.0	39.0		24.0	33.0	
Other income	15	27	73.0	74	83	13.0
Interest	0	0				
Depreciation	42	45	8.0	159	176	11.0
Pre-Tax profit	97	170	75.0	255	427	67.0
Tax provision	31	60	94.0	91	149	64.0
Tax rate	32.0	35.0		35.0	35.0	
Adjusted net profit	66	110	66.0	165	278	69.0
Provisions	0	0		0	0	
Reported net profit	66	110	66.0	165	278	69.0

TV Today		Rsmn	FY2004	FY2005	FY2006	FY2007E	FY2008E
Reuters/Bloomberg code	TVTO.BO/TVTN IN	Net sales	1,402	1,391	1,595	1,769	1,998
Market cap. (Rsbn)	4.9	EBITDA	602	341	520	605	734
Market cap. (US\$mn)	110	Net profit	321	164	277	325	404
Shares outstanding (mn)	58	EPS (Rs)	5.5	2.8	4.8	5.6	7.0
52-week High/Low (Rs)	125/73	EPS growth (%)	-	(49.0)	69.0	17.0	24.0
		EBITDA margin (%)	43.0	24.0	33.0	34.0	37.0
		PER (x)	15.0	30.0	18.0	15.0	12.0
Major shareholders (%)		P/BV (x)	2.6	2.4	2.2	1.9	1.7
Promoter/Majority	55.7	Price/sales (x)	3.8	3.8	3.3	3.0	2.7
FII's	6.2	EV/EBITDA (x)	6.5	12.5	7.9	6.6	5.1
Banks/FI's/MF's	12.5	Dividend yield (%)	0.8	0.8	0.8	1.1	1.4
Others	7.7	RoCE (%)	32.1	12.3	18.9	20.0	22.2
Public	17.8	RoE (%)	20.0	7.2	11.3	12.0	13.4

Source: Company and Karvy Estimates

We have revised our recommendation to Outperformer with a price target of Rs105 on back of upgrade in the future numbers. Moreover we believe company is taking steps to maintain its leadership position in Hindi news genre with launch of flanking channel like Tez and local variant of Aajtak Delhi. TVTN has also indicated its plans to add to its existing bouquet in fiscal Fy07, though genre has not been disclosed. Possible upsides may accrue from company entering into a tie up one of the leading broadcasting company in world. We believe any tie would be step in right direction as it will strengthen the bouquet offering, a critical differentiating factor of company turning pay.

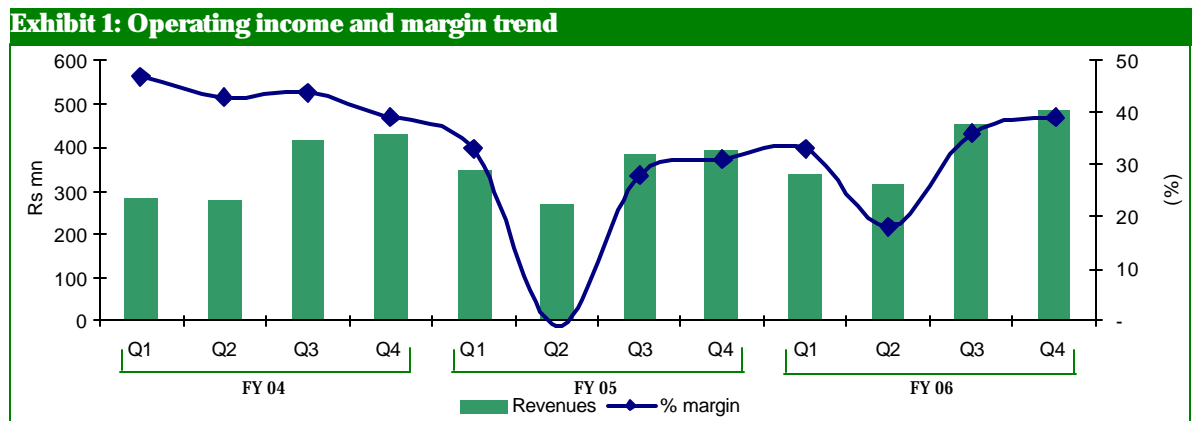
Key Highlights of Results

Highest ever revenue.....

TVTN reported highest ever quarterly revenue at Rs 487mn on account of pick up in the advertisement revenues. TVTN continued to maintain its leadership position in its niche Hindi news genre while its Headline Today continued to gradually inch up in market share & reach. On back of this improved operating performance company undertook upward revision of its combined advertisement rates resulting in stable utilisation rates. Among other things, company indicated that a miniscule amount of subscription revenue has started to accrue from its international foray in US market. To further enhance their international footprint company has indicated its plans to enter the markets of Canada, UK and South Africa. Key metric to watch would be how the pick up in the international subscription revenue takes place since it does not entail any additional expenditure.

.... Led to operating margin expansion of 800bps

The robust pick up in revenues led to operating margin expansion of 800bps as operating expenditure were kept under check. For the quarter, operating expenditure increased by a modest 11% only to reach Rs 299mn. Even on an annualized basis operating expenses at Rs 1.07bn increased only 2% from FY05 level of Rs 1.05bn. **However, we would like to highlight our concern with regard to sharp decline in production & transmission expense from Rs212mn to Rs166mn, a steep fall of 22%.** This is contrary to our expectation. We believe that company has to continuously invest in programming as news broadcasting per se may be easily replicated. This underinvestment in programming assumes greater significance given the fact that company has indicated its plans to turn its flagship channel "Aajtak " pay in FY07. This may, at least in initial phase, result in TVTN losing part of advertisement revenue.



Source: KSBL Research

Valuation

At the CMP of Rs85, the stock quotes at 12x FY08E and 5X EV/E. We believe company is undertaking small, albeit positive steps, to consolidate its position in Hindi News genre and improve its position in the English news genre. Company has also indicated its plans to add to its existing bouquet in current fiscal. Going by the anecdotal evidence of other news broadcasting companies we believe the new offering, if at all, may be in business news genre. We further believe that on back of improvement in operating performance and positive news flows, discount with other listed broadcasting players should narrow. In this context, it must be noted that Mkt cap of TVTN is Rs5bn only. We have revised our recommendation upwards to **Outperformer** with a price target of Rs105.

Research Desk (Tel: 91-22-22895000)

Equity Research

Hemindra Hazari

Head of Research

hemindra.hazari@karvy.com

Stock Ratings		Absolute Returns		Stock Ratings		Absolute Returns
Buy	:	> 25%		Market Performer	:	0 - 15%
Out Performer	:	16 - 25%		Under Performer	:	< 0%

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Karvy Stock Broking Limited

Regd Off: 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034. Tel: 040-23351988, 23354283.
