Q2FY2009 Media earnings preview

Mixed bag

Industry

- As per expectations, viewership fragmentation in the Hindi general entertainment channel (GEC) genre is becoming visible now. Three strong new players have entered the genre in the past 12 months. So far *9x* and *NDTV Imagine* have failed to shake the leaders, *STAR Plus* and *Zee TV*, from their positions but the latest entrant *Colors* from Viacom 18 promises to be in the top league.

- *Colors* has been one of the most impressive launches in the Hindi GEC genre in recent times. Since its launch (on July 21, 2008) the channel's viewership has grown by leaps and bounds with a sharp increase in its gross rating points (GRPs) from 81 in the week of the launch (30th week of 2008) to 217 in the 38th week of 2008. This has been achieved on the back of refreshing content and by doing away with soap operas and talent hunts.

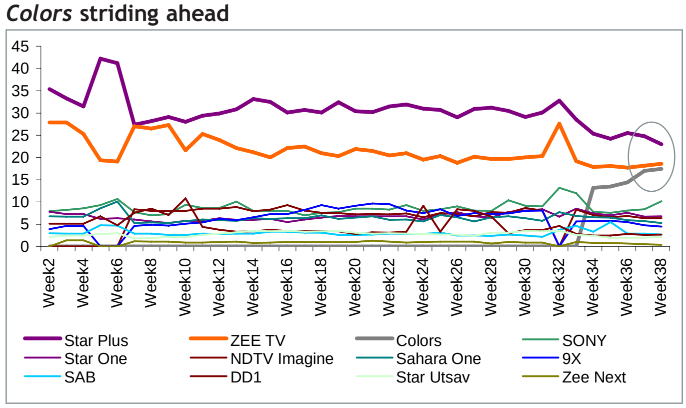
  Within a couple of months *Colors* has established itself as a strong number three with a market share of 17.4%, far ahead of *Sony* that has a market share of 10.2% currently. While in terms of viewership (GRPs and market share) *Colors* is a tad behind *Zee TV*, the Viacom 18 venture draws 80% of its GRPs from three key shows: Big Boss, *Balika Vadhu* and *Jai Shri Krishna*. In contrast, the GRPs of *STAR Plus* and *Zee TV* are better distributed across their content portfolio.

- As evident from the table below, the incumbents *STAR Plus* and *Zee TV* have lost market share (as well as GRPs) on the entry of the new players from strong media houses. If an entrant like *Colors* manages to sustain its viewership in the medium to long term and the other new entrants pull up their sleeves, this would affect the advertising rack rates commanded by *STAR Plus* and *Zee TV* going forward. The launch of the new channels has also increased the overall GRPs by ~15% for the Hindi GEC space, pointing towards an expansion in the viewership of the genre as a whole.

Decline in market share of STAR Plus and Zee TV

Channel	% market share			
	Week 1 (Dec 30, 07-Jan 5, 08)	Week 33 (Aug 10-16)	Week 35 (Aug 24-30)	Week 38 (Sept 14-20)
STAR Plus	36.8	25.5	24.2	23.0
Zee	27.4	17.2	18.1	18.6
Colors	-	10.5	13.5	17.4
Sony	9.1	10.7	7.6	10.2
STAR One	7.3	7.6	7.0	6.8
NDTV Imagine	-	7.4	6.6	6.4
Sahara one	6.5	5.0	6.5	5.3
9x	4.0	6.2	5.5	4.5
SAB	2.5	2.3	2.5	2.7
DD1	4.5	4.1	5.8	2.7
STAR Utsav	2.0	2.5	2.0	2.2
Zee Next	-	0.9	0.8	0.4

***Colors* striding ahead**



Programmes in Top 50 (week 38)

	Serials	Reality shows	Mythology	Others	Total
Zee	17	0	0	0	17
STAR Plus	15	0	1	0	16
Colors	5	2	4	0	11
Sony	0	3	0	2	5
NDTV Imagine	0	0	1	0	1
Total	**37**	**5**	**6**	**2**	**50**

- We expect the competition in the regional broadcasting market to intensify as well. STAR has already spread its wings by launching Bangla GEC, *STAR Jalsha*, in September 2008 and by making clear its intentions of entering the other regional markets with channels in Marathi, Gujarati and the four south Indian languages.

  Zee Tamil and *Zee Telugu News* channels are expected to be launched in October 2008. Also, the other regional players like *Raj TV* and *TV9* are eyeing the regional entertainment and news markets. However, the regional broadcast market has been expanding with the entry of the new players. Also, the advertisers are finding it more lucrative to advertise on the regional channels.

- During Q2FY2009, Reliance launched its direct-to-home (DTH) services under the brand *Big TV*. Bharti Airtel is expected to enter the DTH market by the end of the calendar year followed by Videocon. The DTH market is expanding rapidly with the incumbents, *Dish TV*, T*ata Sky* and *Sun Direct*, luring TV households with a flurry of packages across price points and significantly lower hardware cost.

  However, the increase in the subsidy incurred on subscriber additions has prolonged the gestation period for the business and forced players to infuse more funds into the business from time to time. We expect the bleeding of the financials of DTH service providers to continue for a long time.

- The print media continues to reel under cost pressures because of the sharp increase in newsprint prices in the past year. The international newsprint prices have increased ~30% year on year (yoy) to $774 (for 27 lb) due to the consolidation of mills in the USA; an increase in crude oil prices; a rise in demand for newsprint due to the Beijing Olympics, 2008; the forthcoming presidential elections in the USA; and the appreciation in the Canadian Dollar vs the US Dollar.

  However, the Indian print media companies expect the newsprint prices to start softening by the end of FY2009 due to the decline in crude oil prices, and the conclusion of the Beijing Olympics, 2008 as well as the US elections, which would reduce the demand for newsprint. A decline in the newsprint prices would ease the pressure on the earnings of the print medium companies most of whom have increased their advertising rates significantly in the recent past. However, the depreciation in the rupee would add to the cost of imported newsprint in the near term, thereby escalating the newsprint cost to a certain extent.

- While advertisement spends by the fast moving consumer goods and telecom sectors continue to be buoyant, the banking and financial services, automobile and real estate sectors (sensitive to interest rates) have cut down their advertising spends. Thus, we believe the revenues of TV and radio broadcast sectors might witness pressure during the quarter. Also, cost escalation on account of an increase in competition would affect their profitability. We expect the profitability of the print medium companies to be subdued for the quarter due to the high newsprint costs.

  From the multiplex industry's point of view, the second quarter had hit movies, *Singh is King*, *Rock On* and *Bachna Ae Haseeno*, which should help the industry post better revenues. However, the overall inflationary environment does not augur well for the multiplexes and would affect the overall occupancies.

Q2FY2009 preview for Sharekhan media universe

We expect Q2FY2009 to be a comparatively subdued quarter for the companies in Sharekhan media universe except Zee News. We expect the operating revenues of our media universe to grow by 30.1% yoy. However, the profit growth is expected to lag behind with the operating profit expected to grow by 17.7% yoy and the adjusted net profit likely to increase by 20.6% yoy despite the hefty profit growth expected from Zee News.

Zee News

- The portfolio of channels owned by Zee News maintained its strong performance in the July-September 2008 period. Zee News continues to fight out in the highly

Q2FY2009 Result estimates

(Rs crore)	Operating revenue			Operating profit			Adjusted PAT			Reported PAT		
	Q2FY09	Q2FY08	% chg	Q2FY09	Q2FY08	% chg	Q2FY09	Q2FY08	% chg	Q2FY09	Q2FY08	% chg
Zee News	116.0	79.81	45.3	22.0	10.6	107.5	12.2	5.6	117.5	12.2	5.6	117.5
TV18	113.1	88.3	28.1	26.3	23.5	11.8	10.8	5.0	114.6	8.0	3.9	105.2
Balaji Telefilms	90.9	77.9	16.6	30.8	33.0	-6.9	21.5	26.3	-18.1	21.5	26.3	-18.1
Total	**320.0**	**246.04**	**30.1**	**79.1**	**67.2**	**17.7**	**44.5**	**36.9**	**20.6**	**41.7**	**35.8**	**16.5**

fragmented Hindi general news genre. *Zee Marathi* remains leader in the Marathi GEC market with ~55% market share, far ahead of *ETV Marathi*, which has a 30% market share. The Bangla market saw the entry of *STAR Jolsha* in September 2008. *Zee Bangla* continues to be at the second position, behind *ETV Bangla* that leads by a thin margin.

- *Zee Telugu* and *Zee Kannada* have been recording impressive gains in their viewership market share. Against a 5-6% market share a year back, *Zee Telugu* has ~11% (ranked fourth) and *Zee Kannada* has ~15% market share in their respective genres. We expect Zee News to monetise these viewership gains in the quarter.
- Against this backdrop we expect the overall revenues of the company to grow by 45.3% yoy to Rs116 crore, leading to a 107.5% jump in the operating profit and a hefty 117.5% increase in the net profit to Rs12.2 crore.

TV18

- The Q1FY2009 results of Television Eighteen (TV18) showed the initial signs of the impact of the slowdown in financial markets with the revenue growth in the news and Internet businesses falling short of expectations. Considering the co-relation of its news, web and newswire businesses with the current state of the financial markets, we expect TV18 to post a lower growth of 28.1% in its revenues to Rs113.1 crore.
- We believe the increase in competition with the launch of *UTVi* and the upcoming launch of a business news channel from the Times group (Bennet Coleman and Co) should also lead to a considerable increase in the staff cost for the news business. Talent being the crux of business news, the loss of key staff to competitors also affects programming.
- Therefore, we expect the company's operating profit for the quarter to grow by 11.8% yoy to Rs26.3 crore and adjusted net profit to increase to Rs10.8 crore from Rs5.0 crore in Q2FY2008.

Balaji Telefilms

- We expect Q2FY2009 to be a bad quarter for Balaji Telefilms in terms of profits. The revenues of the company are expected to grow by 16.6% yoy to Rs90.9 crore, driven by the higher volumes in the commissioned category. We expect the volumes in the commissioned category to increase substantially to 307 hours (against 190.5 hours in Q2FY2008). On the other hand, in the sponsored category, we expect the volumes to be at 102 hours (against 129 hours in Q2FY2008).
- We expect the realisations in the commissioned category to decline by 26.1% yoy to Rs28 lakh per hour because of the tilt of the content portfolio towards new shows that have lower realisations, the lower television rating points of the established shows and the partial impact of the end of the company's exclusivity contract with STAR Plus.
- On account of a combination of lower realisations and higher production and staff costs we expect the operating profit margin of the company to decline by 854 basis points to 33.9%. Thus, the operating profit is expected to reduce by 6.9% yoy to Rs30.8 crore. Aided by a lower other income and a higher tax rate, the net profit is expected to decline by 18.1% to Rs21.5 crore.
- The above estimates are for the stand-alone operations of the company and exclude the results of its movie subsidiary, Balaji Motion Pictures. During the quarter the company released two movies, *Mission Istanbul* (a co-production with Popcorn Entertainment) and *C-kkompany* (own production), with both resulting in losses for the company.

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