

Result Update

Sector: Media

News Delhi Television Ltd (NDTV)

Buy
CMP: Rs. 260
Target: Rs. 310-320

19th April, 2006

Sensex: 11,895

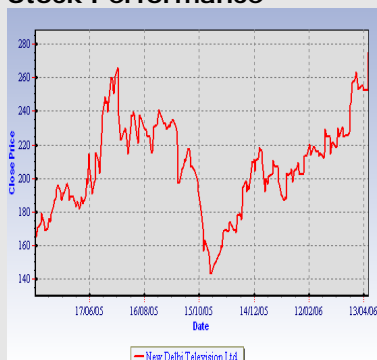
Market Data

Shares outs	6.08 Cr.
Mkt Cap (Rs. Crs.)	1580.0
52 Wk H/L	280/95
Avg Vol (1yr avg)	273,316
Face Value	Rs 4
Bloomberg Code	NDTV@IN

Share Holding (%) as at 31st March 2006

Promoters	54.78
Institution	15.77
FII's/ foreign banks	3.05
Indian Public	9.89
Any other	16.51

Stock Performance



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Result Analysis

- In Q4FY06, Income from operation has reported 43% Y-o-Y growth to Rs 69.9 crore. Q-o-Q growth remains healthy at 2.4%. Since Q3 being festive season, advertisement growth is highest and thus we believe 2.4% Q-o-Q growth over Q3FY06 is good.
- We believe the company has now arrested the growth in operational expenses and it has increased 6.6% Q-o-Q to Rs 52.5 crore. We feel the company will be able to maintain the same operating expenses in FY07.
- Net Profit after ESOP adjustment and before share of minority expense has in fact increased 34% Q-o-Q to Rs 3.6 crore. However during the quarter, the company has booked commission income in its 81% subsidiary 'NDTV Media' and thus, minority interest has jumped from Rs 0.25 crore in Q4FY05 to Rs 1.58 crore in Q4FY06. Net profit before considering ESOP has increased by 9.3% Y-o-Y to Rs 10.9 crore (After minority interest).

Financials and Valuation

At present the media (Television) sector commands premium valuations. We believe such valuation is justified with industry transformation at sight (Issue of under-declaration of households). We believe NDTV would be one of the largest beneficiaries, once its intangibles such as...

- * Media Outsourcing deal with Genpact
- * Revenue from MSN tie up – marketing commission
- * Subscription revenue from international audience and domestic subscription revenue
- * Strategic investment in its portals
- * Joint venture with Astro Broadcast would start reflecting in its financials.

(Rs in Crs)

Particulars (Consolidated)	Quarter Ended		12 Months Ended	
	Mar'06	Mar'05	Mar'06	Mar'05
Net Sales	69.9	48.8	221.0	176.1
<i>Growth (%)</i>	<i>43.2</i>		<i>25.5</i>	
EBIDTA	17.5	14.8	42.6	52.7
<i>Growth (%)</i>	<i>17.8</i>		<i>-19.1</i>	
Net profit (Adjusted)	10.9	10.0	25.0	35.1
<i>Growth (%)</i>	<i>9.3</i>		<i>-28.8</i>	
EPS (Before EO items)	1.8	1.6	4.1	5.8
EBIDTA Margin	25.7%	32.0%	20.6%	32.0%
Gross Profit Margin	25.7%	32.0%	20.6%	31.7%
Net Profit Margin (As adjusted)	15.6%	20.1%	11.1%	19.5%

Key Developments

Various Intangible development to bring quantitative gains in coming time in the form of...

- * **NDTV Profit**
- * **Genpact Alliance**
- * **Subscription revenue from international audience**
- * **Strategic investment in its portals**
- * **Joint venture with Astro Broadcast**
- * **Radio business**
- * **Regional centric news channel**

Core Business Update:

NDTV Profit has broken even within first year of its launch. As per the company, NDTV Profit maintains its leadership position with out slicing any time duration as per TAM data. Normally there is a lag between Advertisement to flow in and viewer ship. We believe NDTV Profit to drive revenue growth in FY07 and there after.

Media outsourcing deal with Genpact (GE Capital)

NDTV has stuck a deal with Genpact for Media outsourcing business which is first of its kind in the world. No one has yet ventured into the Media BPO so far.

What is Media Outsourcing?

Currently 70% of all media is digital and rest is being converted into digital at fast pace. This is very similar to Y2K phenomena. At first stage, all out sourcing activity will be concentrating towards converting analog system to digital.

In the later stage, various media activities right from media planning to part of production activity, editing and post production activity can be out sourced to low cost centre.

The size of opportunity is very huge considering the fact that the entire Global Media & Entertainment Industry was estimated at \$1,340 bn at the end of 2005 and is expected to grow to \$1,777 bn by end of 2009. Even if we take into account of 1% of the above to come to outsourcing, that amounts to in excess of \$ 1.5 Bn.

Both the parties have expertise in the respective domain:

Genpact drives process improvements to help global enterprises improve their revenue, cash, costs, margins, and customer relationships.

NDTV has its expertise in Media related activities with 20 years of experience.

What to expect from such deal?

Im this alliance, NDTV will have a 50% stake. It is too early to quantify the results as at present, the nature of work, investment plans and head counts is not yet declared. We will continue to update on the same once details are out.

International subscription revenue to fillip revenue growth

NDTV has entered into strategic alliances with DirecTV of America, BskyB of England, and ATN of Canada during FY06.

Zee has a subscriber base of 4,56,000 subscribers in US. In Europe it has subscriber base of 1,65,000. We believe ARPU in case of Zee is approx. \$ 5 per month.

Even if one assumes about 2,00,000 subscribers with net ARPU of \$ 1 per month, it works out to about \$ 2.4 million i.e. Rs 10-11 crore, most of which directly flows into bottom line. This is the kind of minimum revenue NDTV can generate from overseas subscriptions.

Relative Valuation & Investment View				
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	NDTV	TV Today	ZEE	TV 18
CMP (Rs)	260.0	104.0	245.0	639.5
EV (Rs crore)	1661.8	603.2	10578.7	1440.8
EV/Sales (x)	6.9	4.0	7.6	11.3
EV/EBIDT (x)	36.7	13.3	42.2	22.5
P/E (x)	63.2	25.8	41.4	33.6
Cash P/E (x)	38.4	14.8	35.8	24.3

NDTV is receiving premium valuations but we believe that is due to a superior business model!

Note: financials of NDTV and Zee are as per consolidated basis and TV Today and TV 18 are as per standalone basis.

Balance sheet figures are as per latest available annual report.

At present the media (Television) sector commands premium valuation. We believe such valuation accorded is justified with industry transformation at sight (Issue of under-declaration of households). Based on above valuation matrix, NDTV (EV/Sales: 6.9x) quotes at a premium valuation to TV Today (EV/Sales: 4.0x), while it is lower than TV 18 (EV to Sales: 11.3x). We believe NDTV would be one of the largest beneficiaries, once its intangible developments starts generating quantitative results.

We expect company to post net profit of Rs 50 crore representing EPS of Rs 8.1 in FY07. In our projection of FY07 we have factored only increased advertisement from NDTV Profit, Rs 10 crore of domestic subscription revenue and balance from core advertisement growth and international subscription revenue. We have not factored in any revenue from Genpact alliance, MSN tie up, strategic investment in portals, share of profit/dividend income from radio business. **We thus reiterate our recommendation of buy and revise our price target of Rs 310-320 over the next 12 months. Key trigger to our recommendations are...**

- **Increased revenue from NDTV Profit**
- **International as well as domestic subscription revenue**
- **Core advertisement growth**
- **Initiation of revenue from Astro deal and Genpact alliance**

Consolidated Financials

(Rs. in Crore)

Particulars	Q4FY06	Q3FY06	Q4FY05	% Chg.	FY05	FY06	FY07(e)
Income frm Operation	69.948	68.31	48.861	43.2	176.12	221.0	315.4
Other Income	0.491	0.57	0.841		3.73	2.9	2.0
Total Income	70.439	68.88	49.702	41.7	179.85	223.9	317.3
Total Expen.	52.49	49.32	34.04	54.2	123.43	178.35	218.61
Prodn. Expense	11.474	10.49	8.577	33.8	30.86	37.7	48.60
<i>% of sales</i>	16.4%	15.3%	17.5%		17.5%	17.0%	15.4%
Personnel Expen	22.082	21.82	13.632	62.0	53.11	80.2	92.38
<i>% of sales</i>	31.5%	31.9%	27.9%		30.1%	36.3%	29.2%
Mktg., Distri. & Promotional Expen	7.568	6.69	3.739	102.4	10.5	23.1	31.27
<i>% of sales</i>	10.8%	9.7%	7.6%		5.9%	10.4%	9.9%
Operating & Admin. Expenses	11.361	10.32	8.09	40.4	28.96	37.3	46.36
<i>% of sales</i>	16.2%	15.1%	16.5%		16.4%	16.8%	14.7%
Operating Profit (Incl. OI)	17.95	19.56	15.66	14.6	56.42	45.6	98.71
Operating Profit (Excl OI)	17.46	18.99	14.82	17.8	52.69	42.6	96.75
Interest	-	0.01	0.01		0.56	0.02	-
Gross Profit	17.95	19.55	15.66	14.7	55.86	45.55	98.71
Depreciation	4.159	4.2	3.758	10.7	12.92	15.77	16.97
PBT	13.80	15.35	11.90	15.9	42.94	29.78	81.74
Prov for Tax	1.242	1.21	1.614	(23.0)	6.72	3.14	12.26
PAT	12.55	14.14	10.29	22.0	36.22	26.64	69.48
Extra Ordinary Item	8.96	11.46	-		0	27.88	20.00
Reported PAT	3.59	2.68	10.29	(65.1)	36.22	-1.23	49.48
Share of Minority	1.58	0.13	0.25	529.9	1.08	1.63	1.72
Net Profit	2.01	2.55	10.04	(79.9)	35.14	-2.86	49.48
Equity	24.32	24.32	24.32		24.32	24.32	24.32
EPS (Rs)	0.33	0.42	1.65	(79.9)	5.78	-0.47	8.14
EPS (Rs.) (Adjusted)	2.06	2.33	1.69	22.0	5.96	4.38	11.43
Ratio (%)							
OPM (Incl OI)	25.7	28.6	32.0		32.0	20.6	31.3
OPM (Excl OI)	24.9	27.8	30.3		29.9	19.2	30.6
GPM	25.7	28.6	32.0		31.7	20.6	31.3
Tax Rate	9.0	7.9	13.5		15.6	10.5	15.0
Net Margin	2.9	3.7	20.5		19.9	-1.2	15.6

(e)=Estimated

The ratings are based on the absolute upside of our target price from the current price.

<u>Upside</u>	<u>Ratings</u>
> 25 %	Strong Buy
15% - 25%	Buy
10% - 15%	Hold
0% - 10%	Reduce
< 0 %	Sell

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