Q3FY2008 Media earnings preview

Another quarter of strong numbers

Industry

- Reflecting the festive season, Q3 will record higher revenues for most media and entertainment companies. The sector is expected to witness a healthy revenue growth for the quarter with strong traction of existing businesses and increasing contribution from new businesses. However, the profitability of several companies may remain subdued on account of gestation of new businesses as these companies continue to expand to capture the opportunity available in the buoyant Indian media and entertainment space.
- The quarter witnessed the entry of a new player 9x in the Hindi general enterntainment channel (GEC) space challenging incumbents like *Star*, *Zee*, and *Sony* among others. 9x is seen as a strong player with its content quality comparable to the existing leaders in Hindi general entertainment. Q4 will see another strong player *NDTV Imagine* emerging on the blocks. With ex-Star executives at the helm of these two ventures, the Hindi GEC space is set for acute competition. Also, Zee entertainment launched its second GEC *ZeeNext* during the quarter.
- One of the important events that took place in the third quarter is TV18's acquisition of Infomedia India. The acquisition of the publishing house gives TV18 access to printing assets along with existing portfolio of special interest magazines, yellow pages, search database and expertise in print. TV18 followed this up by partnering Forbes for its content and launching the latter's globally acclaimed products in India beginning with the launch of a business magazine in January 2008. TV18 also entered into a 50:50 joint venture (JV) with *Jagran Prakashan* for launching a Hindi business newspaper. The duo would also launch business dailies in other Indian languages. Entry in print media thus establishes Network18 group's presence across all the major media and entertainment verticals.

Companies under coverage

- **Balaji Telefilms:** We expect Balaji Telefilms Ltd (BTL) to report almost flat (standalone) year on year (yoy) revenues at Rs86.4 crore. While the realisations in commissioned programming are expected to be up by 18.1% yoy at Rs35 lakh per hour and in the sponsored programming segment by 24.3% yoy at Rs4.5 lakh per hour, the flat revenues are attributed to lower programming hours. We expect BTL to do 230 hours of programming (against 264 hours in Q3FY2007) in the commissioned category and 130 hours in the sponsored category (against 187 hours in Q3FY2007). During the quarter the company launched three new prime time shows, "Kuchh Is Tara" on Sony and "Kahe Naa Kahe" and "Kya Dil Mein Hai" on 9x. Our expectation of a lower quarter-on-quarter (q-o-q) blended realisation in the commissioned segment is on account of launch of these new shows. The operating profit is expected to remain flat at Rs33.9 crore. However, we expect the net profit to increase by 11.9% yoy on account of higher other income. The above estimates are for the standalone

Quarterly estimates

(Rs crore)	Net sales			Operating profit			Adjusted PAT			Reported PAT		
	Q3FY08	Q3FY07	% chg	Q3FY08	Q3FY07	% chg	Q3FY08	Q3FY07	% chg	Q3FY08	Q3FY07	% chg
Balaji Telefilms	86.4	85.0	1.6	33.9	34.1	-0.6	24.4	21.8	11.9	24.4	21.8	11.9
TV18	105.5	64.8	62.8	32.5	29.4	10.5	13.9	19.2	-27.6	11.0	16.4	-32.9
Zee News	92.7	NA	-	18.4	NA	-	10.9	NA	-	10.9	NA	-

Balaji Telefilms estimates are standalone, remaining are consolidated.

operations of the company, as the company will report consolidated numbers including the business of Balaji Motion Pictures at FY2008 end. We maintain our positive stance on the stock in view of buoyant scenario for television content, rapid scale-up in the movie business and expected launch of regional channels by its JV with Star beginning February 2008.

- **TV18:** We expect TV18 to post a robust growth of 62.8% in its revenues to Rs105.5 crore. The news business is expected to maintain strong revenue growth and Web18 revenue is expected to double on a year-on-year basis. However we expect the net profit (adjusted profit after tax) to dip by 27.6% yoy to Rs13.9 crore as the Internet and Newswire businesses continue in their investment modes. The decline in the net profit is on account of our expectation of a 147% rise in the operating expenditure to Rs73crore. TV18 has been spending heavily on augmenting its web properties and adding new properties, which has led to operating losses for Web18. Also, the new business, Newswire18 is in a start-up phase and is expected to report losses. We believe the loss making trend to continue for coming quarters. Thus the operating profit growth is expected at 10.5% despite strong revenue growth and the bottomline is expected to continue under pressure. Web18 is expected to list on NASDAQ in the next few months. We like the niche business model of TV18 that spans across dominant properties in business news and diverse Internet properties that have huge potential for revenue and profit growth. We maintain our positive outlook on the company.

- **Zee News:** Zee news reported a 57.4% revenue growth in the first half of FY2008 on the back of a much improved performance by its channel portfolio that ensured a strong 74% growth in ad revenues. We expect the revenue growth momentum to continue in Q3FY2008 and expect a 16.2% q-o-q growth in revenues to Rs92.7 crore (Q3FY2007 numbers are not available). Zee News is a play on the Indian regional entertainment space. The company presents a high profit growth opportunity with high operating leverage. We believe the performance of its south Indian channels to remain the key for its superior performance. For the quarter, we expect it to report a 97.6% q-o-q growth in its net profit to Rs10.9 crore driven by a 73.8% growth in operating profit as the margins are expected to show hefty improvement on account of a much better performance of the new businesses (Zee Telugu, Zee Kannada, Zee 24 Taas and Zee 24 Ghanta) that would lead to lower losses from these channels.

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