TELEVISION EIGHTEEN INDIA

INR 629

Edelweiss
Ideas create, values protect

Robust quarter, positive outlook

BUY

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Reuters	:	TVET.BO
Bloomberg	:	TLEI IN

Market Data

52-week range (INR)	:	750 / 250
Share in issue (mn)	:	21.0
M cap (INR bn/USD mn)	:	13.2 / 287.4
Avg. Daily Vol. BSE/NSE ('000)	:	156.4

Share Holding Pattern (%)

Promoters	:	27.1
MFs, FIs & Banks	:	26.1
FIIs	:	20.4
Others	:	26.4

TV18 reported Q4FY06 revenues at INR 590 mn, a growth of 86% YoY. While ad revenues contributed INR 514 mn, subscription revenues contributed INR 76 mn. *Awaaz* and the three portals constituted 21% of the revenues in Q4FY06 as against 5% last year, thus reducing dependence on *CNBC-TV18*. EBITDA for the quarter stood at INR 281 mn and PAT at INR 180 mn. For the full year, the company posted revenues of INR 1.7 bn, EBITDA of INR 678 mn and PAT of INR 402 mn. During the quarter, TV18 bought 50% stake in online recruitment site, *jobstreet.com*, and announced plans to start an integrated home shopping network. The company has now announced hiving off all the internet ventures into a separate company so as to attract fresh investments into these businesses.

We continue to remain positive on the outlook of TV18. Our EPS estimate is INR 23 in FY07E and INR 28.1 in FY08E. The stock quotes at P/E of 27.6x FY07E and 22.7x FY08E. We maintain our 'BUY' recommendation.

✻ Strong growth in advertising revenues

TV18 reported better-than-expected results in Q4FY06. The revenue for the quarter grew 85.9% YoY and 36.1% QoQ to INR 590 mn. It includes subscription income of INR 76 mn and ad revenue of INR 514 mn (up 86.7% YoY). The revenue from three portals – *moneycontrol.com*, *commoditiescontrol.com* and *poweryourtrade.com* – was around INR 60 mn. TV18 announced that *Awaaz* has broken even in the quarter, but did not declare revenues for the channel. We believe the channel would have grossed ad revenues of INR 65 mn in the quarter as against INR 55 mn in the previous one.

For the full year, the company achieved revenues of INR 1.7 bn at a YoY growth of 69.9%. We estimate that this includes an INR 1.1 bn contribution from CNBC in the form of ad revenues, INR 185 mn of ad revenues from *Awaaz*, INR 251 mn of subscription revenues and INR 111 mn of revenues from the internet businesses.

✻ Improvement in margins due to robust growth in revenues

EBITDA margins for the quarter stood at 47.6% as compared to 26.6% in Q4FY05. The margins in Q4FY05 were depressed due to the operating expenses of *Awaaz,* which was launched in that quarter. Now that the channel has broken even in this quarter, the margins have improved. In absolute terms, EBITDA for the quarter was INR 281 mn as against INR 84 mn in Q4FY05. For the full year, EBITDA grew 71.9% to INR 678 mn from INR 394 mn in FY05. In our FY06 numbers, we have factored in operating expenses of INR 250 mn for *Awaaz* (housed in a separate company) as these are being funded by TV18.

Financials

Year to March	Q4FY06	Q4FY05	*% change*	Q3FY06	*% change*	FY05	FY06	FY07E
Revenues (INR mn)	590	317	*85.9*	434	*36.1*	980	1,665	2,075
EBITDA (INR mn)	281	84	*232.9*	194	*45.0*	394	678	878
Net profit (INR mn)	180	35	*410.0*	115	*56.8*	236	402	497
EPS (INR)	8.5	2.1	*309.6*	5.5	*56.8*	14.0	19.1	23.0
PE (x)						45.6	33.3	27.6
EV/EBITDA (x)						35.0	19.0	14.8
ROE (%)						24.3	19.8	21.2

The company posted PAT of INR 180 mn in Q4FY06. This figure is not comparable to that in the same quarter last year because of the negative impact of the launch of *Awaaz* on the margins in that quarter. For the full year, PAT grew 70.4% to INR 402 mn from INR 236 mn in FY05.

* Internet business to be hived off into a separate company

TV18 has announced that all the internet businesses will be hived off into a separate company. The company has recently invested in several new internet ventures including a travel portal, *yatraonline.com*, an online recruitment site, *jobstreet.com,* and a home shopping network. These ventures, along with the existing bouquet of portals, make a comprehensive offering. The idea behind hiving them off into a separate company is to attract fresh investments into these businesses.

* CNBC continues to do well; Non-CNBC revenue outlook improves

CNBC-TV18 continues to remain the market leader in business news. The channel has garnered ad revenues of INR 388 mn in Q4FY06 against INR 271 mn in Q4FY05 and INR 258 mn in Q3FY06. At the same time, the percentage share of *Awaaz* and the portals in total revenues has increased to 21% (INR 125 mn) in Q4FY06 from 5% (INR 15 mn) last year, reducing dependence on CNBC. The company is yet to sign a new subscription deal because of the prevailing lack of clarity on the implementation of conditional access system (CAS). However, in case CAS gets the government's green signal, it could lead to substantial increase in TV18's subscription revenues.

* Positive view continues

We have revised our FY07E numbers slightly upwards. We estimate that TV18 will clock revenues of INR 2.1 bn in FY07E and INR 2.5 bn in FY08E. We expect PAT to be INR 497 mn in FY07E and INR 606 mn in FY08E. This translates into EPS of 23.0 and 28.1 in FY07E and FY08E, respectively. The projections include numbers for *Awaaz.* However, we have not included the projections for *CNN-IBN* and *Channel 7*. This is because these channels will still be housed separately post restructuring and also, not much details are available about their revenues and costs. However, our rough projections show that the two channels will make losses of about INR 200 mn in FY07E, but profits of INR 50 mn in FY08E.

At CMP of 629, the stock trades at P/E of 27.6x FY07E and 22.7x FY08E. We maintain our 'BUY' recommendation on the stock.

Financial snapshot (INR mn)

Year to March	Q4FY06	Q4FY05	*% change*	Q3FY06	*% change*	FY05	FY06	*% change*	FY07E	FY08E
Revenues	590	317	*85.9*	434	*36.1*	980	1,665	*69.9*	2,075	2,536
Advertisement	514	275	*86.7*	358	*43.8*	812	1,415	*74.2*	1,719	2,068
Subscription	76	42	*81.0*	76	-	168	250	*48.8*	356	468
Total revenues	**590**	**317**	***85.9***	**434**	***36.1***	**980**	**1,665**	***69.9***	**2,075**	**2,536**
Total expenditure	309	233	*32.7*	240	*29.0*	586	987	*68.4*	1,196	1,460
EBITDA	**281**	**84**	***232.9***	**194**	***45.0***	**394**	**678**	***71.9***	**878**	**1,077**
ESOP charge	34	3	***1,007.7***	8	***319.8***	17	58	***235.0***	69	83
Interest	37	22	*67.4*	40	*(9.7)*	62	120	*95.1*	128	98
Depreciation	36	28	*29.7*	40	*(10.7)*	95	136	*42.1*	168	201
Other income	28	10	*173.4*	20	*42.4*	38	69	*82.7*	61	61
PBT	202	42	*380.4*	125	*62.1*	258	434	*68.2*	575	757
Tax	17	6	*165.5*	7	*151.7*	22	22	*(0.0)*	61	126
Adjusted net profit	185	36	*418.9*	118	*57.0*	236	412	*74.4*	513	631
Minority interest	5.4	0.4	*1,151.2*	3.3	*65.5*	0.5	10.2	*1,907.8*	16.4	24.6
Reported net profit	**180**	**35**	***410.0***	**115**	***56.8***	**236**	**402**	***70.4***	**497**	**606**
Equity capital (FV INR 10)	210	169		210		169	210		216	216
No. of shares (mn)	21.0	16.9		21.0		16.9	21.0		21.6	21.6
EPS (INR)	**8.5**	**2.1**		**5.5**		**14.0**	**19.1**		**23.0**	**28.1**
PE (x)						45.6	33.3		27.6	22.7
EV/EBITDA (x)						35.0	19.0		14.8	11.6
Market cap / revenues (x)						11.0	8.0		6.6	5.4
as % of net revenues										
Operating expenses	52.4	73.4		55.3		59.8	59.3		57.7	57.6
EBITDA	47.6	26.6		44.7		40.2	40.7		42.3	42.4
Net profit	31.4	11.2		27.2		24.1	24.8		24.7	24.9

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period