Equity Research
August 27, 2009
BSE Sensex: 15770

INDIA

Media

Discovering roots anew

Reason for report: Sector report

"Wisely and slow; they stumble that run fast." - Shakespeare, Romeo and Juliet

The Indian media sector hit a roadblock in FY09 after a period of strong growth in FY05-FY08 driven by expansion in the economy and easy availability of capital. During the boom when capital chased scarce media properties, media entrepreneurs beamed. In the slowdown in FY09, all media segments were badly hit with no place safe for investors. However, some media companies exhibited grit even in the slowdown, largely due to three key underlying strengths in business model: i) focus on regional advertising with strong market standing, ii) higher proportion of non-cyclical revenues and iii) building scale with focus on core businesses. Going forward, we expect these underlying strengths to act as differentiators and trigger likely outperformance irrespective of the state of the economy. The three companies, which we identify as the strongest plays in the Indian media sector, are Jagran Prakashan, Zee News (ZNL) and Sun TV Network.

- **Focus on regional advertising.** With growth shifting to tier II & III towns we expect regional advertising to pick up steam – Hindi in Print media and regional Broadcasters will be the key beneficiaries.
- **Higher proportion of non-cyclical revenues.** Media companies focussed on non-cyclical revenues such as Pay TV and circulation revenues (i.e. companies focussed on getting paid for quality content) are likely to outscore ad-focussed media companies. General entertainment broadcasters are relatively well placed to benefit from the ongoing digitalisation wave through direct to home (DTH).
- **Building scale with focus on core.** We prefer media companies which focus on building scale in core capabilities rather than following 'hot investor trends' to raise capital. Also, diversification to de-risk alone does not help as all media assets are correlated and largely dependent on the overall economy; we prefer expansion focussed on monetising content better or enabling higher reach for content.
- **Upgrade Sun to BUY; downgrade Zee Entertainment Enterprises to HOLD and IBN18 to SELL.**

	CMP (Rs)	Mkt cap (Rs bn)	EPS (Rs)			P/E (x)			EV/EBITDA (x)		
			FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Balaji Telefilms	64	4.2	1.6	2.7	3.5	40.4	24.0	18.1	11.7	8.7	6.3
ENIL	209	10.0	(12.7)	(2.8)	5.6	NM	NM	37.2	NM	22.7	11.3
HT Media	119	27.9	0.9	5.0	6.6	139.8	23.6	18.1	33.0	11.6	9.4
IBN18	123	22.1	(5.0)	(2.2)	(0.5)	NM	NM	NM	NM	NM	NM
Jagran Prakashan	105	31.6	3.0	4.7	5.5	34.5	22.3	19.0	23.6	14.1	12.0
NDTV	162	10.2	(81.4)	(30.0)	(5.9)	NM	NM	NM	NM	NM	256.5
Sun TV Network	275	108.5	9.2	11.6	13.6	29.8	23.7	20.3	14.5	11.4	9.7
TV Today	98	5.7	5.8	8.7	10.2	16.9	11.2	9.6	9.4	5.7	4.7
Zee Entertainment	218	94.7	8.5	10.0	11.8	25.7	21.9	18.5	17.7	16.6	13.8
Zee News	44	10.6	1.9	2.1	2.5	23.6	20.8	17.4	14.4	11.8	9.7

Top picks

Jagran Prakashan
Sun TV Network
Zee News

Top sells

IBN18

Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

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COMPANIES

Prices and Sensex as on August 26, 2009

Investment summary

The Indian media sector hit a roadblock in FY09 after a period of strong growth during FY05-FY08 driven by expansion in the economy and easy availability of capital. During the boom period, while capital chased scarce media properties, media entrepreneurs beamed. In the slowdown in FY09, all media segments were badly hit with no place safe for investors. However, a few media companies exhibited great grit even in the slowdown, largely owing to three key underlying strengths in business models, which enabled greater comfort for the companies versus the sector.

i) Focus on regional advertising with strong market standing
ii) Higher proportion of non-cyclical revenues through subscription
iii) Building scale with focus on core businesses

Going forward, we expect these underlying strengths to act as differentiators and trigger likely outperformance irrespective of the state of the economy. We identify three companies which are the strongest plays in Indian media sector – Jagran, ZNL and Sun. While stock performance will also be subject to execution risks, inherent business strengths will enable these companies to comfortably override broader scrotal trends.

Focus on regional advertising. The regional advertising market In India is relatively under explored, whereas growth for sectors such as FMCG, Telecom and Autos has largely shifted to tier II & III cities and rural areas from metros & tier I cities. Regional media sustained its growth even in FY09 as focus of advertisers shifted to maximising RoI by exploring cheaper options.

Higher proportion of non-cyclical revenues through subscription. Media companies with focus on advertising revenues are largely dependent on economic expansion for growth. Media companies focussed on non-cyclical revenues such as Pay TV and circulation revenues (i.e. companies focussed on getting paid for quality content) are likely to outscore ad-focussed media companies. General entertainment broadcasters are relatively well placed to benefit from the ongoing digitalisation wave through DTH.

Building scale with focus on core. Quest for scale is a global theme for media companies; however, it has not translated into the desired results for Indian media companies. We prefer media companies which focus on building scale in core capabilities rather than following ‘hot investor trends’ to raise capital. Also, diversification to de-risk alone does not help as all media assets are correlated and largely dependent on the overall economy; we prefer expansion focussed on monetising content better or enabling higher reach for content.

Valuations relatively cheap

The Indian Media sector commands higher valuations owing to it being a sunrise sector with digitalisation and under-penetrated nature of regional markets providing immense scope for growth. We select Media stocks based on three key parameters – Stable revenues, growth opportunities and focus on core business. We recommend Sun, Jagran and ZNL as quality focussed plays based on the strength of their business models.

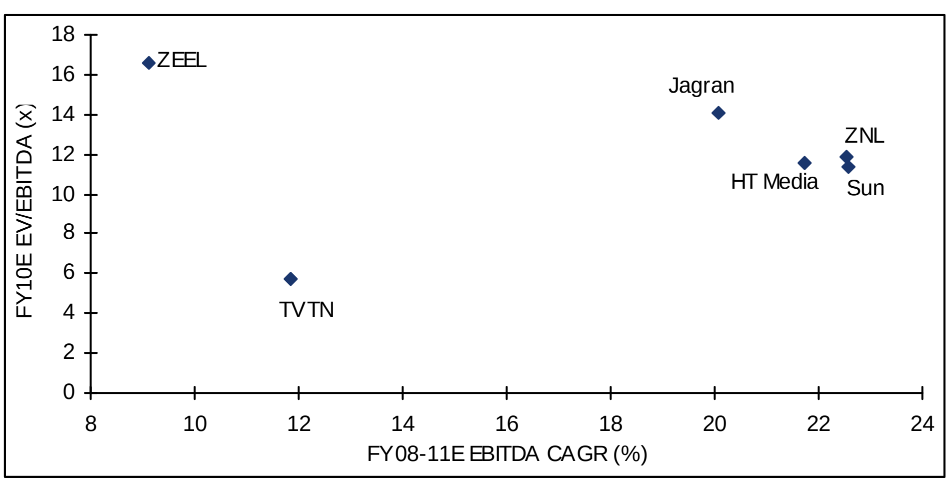
Table 1: Media companies – Snapshot

	Mkt cap (Rs mn)	Regional play	Non-cyclical as percentage of revenues (%)	Growth Strategy	Comments
Sun	108,452	Largely	35#	Market penetration	Launching bouquet of channels in new genres
ZNL	10,634	Partial	19	Market & product development	Entering new markets of Tamil Nadu and Uttar Pradesh; Launching niche channels in regional markets
Jagran	31,638	Largely	24	Product development	Launching flanking brand – *iNext*, a bilingual daily
ZEEL	94,679	None	42	Market development	Expanding reach for international subscription revenues
HT Media	27,932	Partial	13	Market & product development	Hindi and English daily expansion and business daily launch. Radio and Internet – low synergies
TVTN	5,676	None	2*	None	None
ENIL	9,959	Partial	0	Diversification	Diversification into OOH and Events – low synergies
NDTV	10,151	None	12	Product development/ Diversification	News to Entertainment – low synergies Diversification into BPO outsourcing, Movies and Internet – low synergies
IBN18	22,098	None	7	Product Development	News to Entertainment – low synergies

Note: * FY08; # Includes broadcast fees also; OOH-Out of Home; Source: Company data, I-Sec Research

While the media stocks look expensive on an absolute basis, the high multiples are justified given the evolving nature of the industry. We prefer Sun, ZNL and Jagran as our top picks in the Media sector and recommend investing in ZEEL and HT Media only on dips. NDTV remains a BUY (mostly from a trading perspective), whereas we recommend SELL on Entertainment Network India (ENIL) and maintain our negative stance on TV Today Network (TVTN) owing to low growth opportunities and IBN18 due to high valuations.

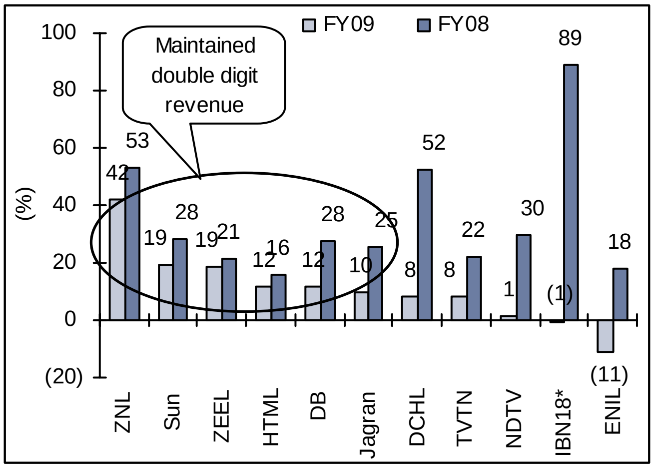
Chart 1: Snapshot of growth expectations versus valuations



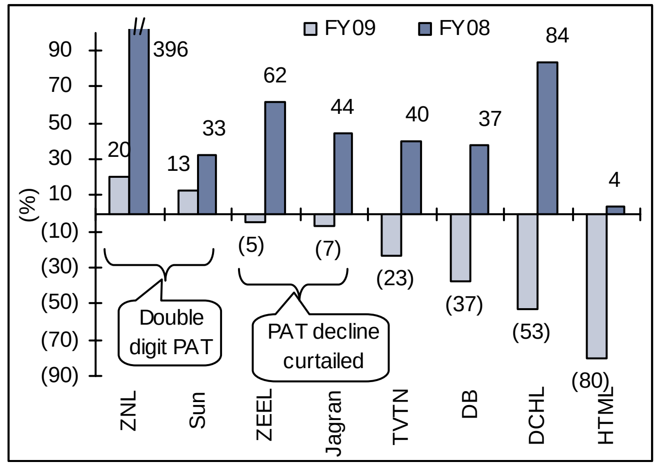
Source: Company data, Bloomberg, I-Sec Research

Chart 2: Stock screens

YoY revenue growth – FY09 versus FY08

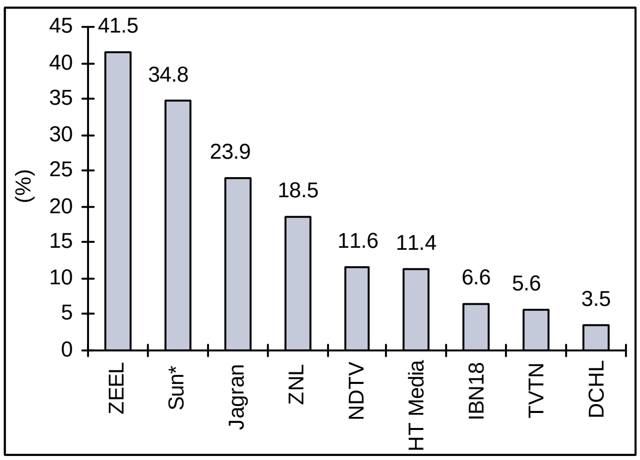


YoY PAT growth – FY09 versus FY08



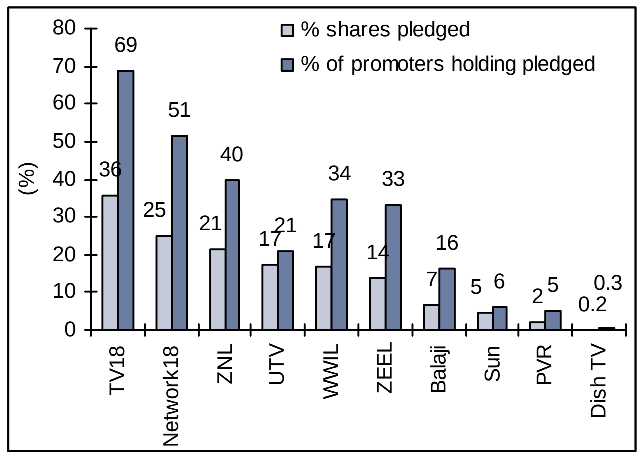
Note: DB – Dainik Bhaskar, DCHL – Deccan Chronicle
* News business only and pro forma for IBN7 consolidation

Non-cyclical revenues as percentage of total revenues in FY09



* Includes broadcast fees also

Promoters shares pledged (as of June '09)



NDTV, IBN18, ENIL lead in fund raising

	Funds raised in FY08-09 (Rs mn)	% of market cap	% of FY09 revenues
NDTV	6,868	67.7	139.5
IBN18*	3,819	17.3	108.4
ENIL	2,000	20.1	46.9
ZNL	2,000	18.8	38.3
Sun	750#	0.7	7.2
ZEEL	500	0.5	2.3

* Includes 50% Viacom18 revenues
\# estimate

One-off items & provisions in FY09

	One-off items & Provisions (Rs mn)	% of revenues
NDTV	405	8.2
Balaji	322	9.5
TV18	834	17.2
ENIL	266	6.2
HT Media	191	1.4
Jagran	101	1.2
ZEEL	(1,451)	6.7

Source: Bloomberg, Company data, I-Sec Research

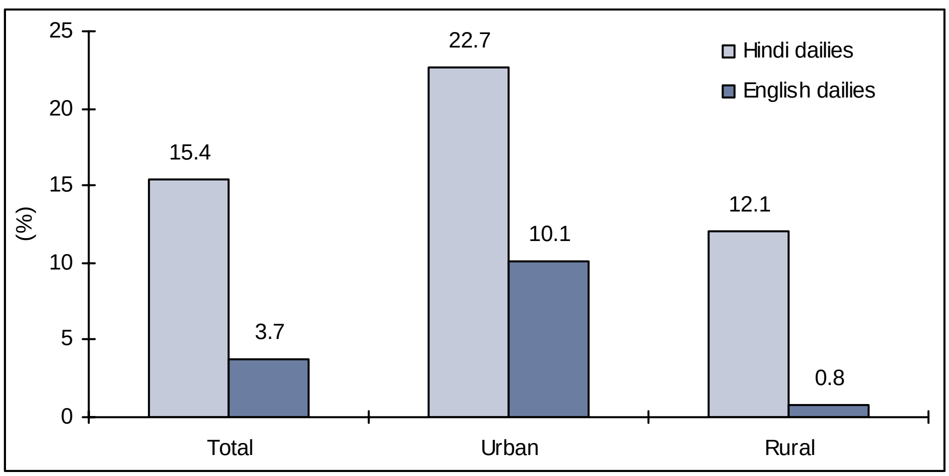
Investment arguments

Regional advertising – Entertain me in MY language!

Regional media in India offers high reach, but from an advertiser's perspective is largely unexplored and significantly cheaper. Advertising in India has been heavily polarised towards national media, with Hindi general entertainment channels (GECs) and English newspapers gaining disproportionate share of revenues. Regional advertising has not been able to get its true share of total advertising spend in spite of high share of consumption as growth has shifted base from metros and tier I towns to tier II and rural India. As more investment in quality content happens in Broadcasting, the ongoing trend of regional outpacing national media properties is likely to continue.

In Print, English accounts for >50% of the ad spend, whereas in Broadcasting, Hindi accounts for ~66%. This is despite the fact that penetration of English print is only 3.7% versus 15.4% for Hindi. In terms of TV viewership, after Hindi GECs, regional GECs command the highest reach and time spent.

Chart 3: Print – English versus Hindi readership penetration



Source: IRS 2009, I-Sec Research

Table 2: Broadcasting – Genre-wise reach and average time spent*

	Avg. weekly reach (%)	Avg. weekly time spent (mins)
Hindi GECs	**73.0**	**253.7**
Regional GECs	**71.1**	**300.0**
Hindi Movies	70.2	145.4
Hindi News	52.5	34.3
Kids	48.4	57.8
Music	47.9	22.6
Sports	42.2	27.4
Regional News	**37.6**	**19.4**
Infotainment	34.8	10.4
English News	33.6	7.7
English Movies	28.9	8.1
Business News	18.9	3.5
English Entertainment	10.8	1.2

* Q1FY10

Source: TAM CS4+, all markets

Growth patterns in many sectors such as Automobiles (Chart 4) and Telecom (Chart 5) are witnessing a shift towards tier II & III towns and rural areas. As growth percolates to tier II & III towns and rural areas, an increasing need is felt by the advertisers to communicate in a language and medium which is more local and closer to the audience. This has led to the concentration of advertising in top six cities shifting to tier II and tier III towns, where regional Print and Broadcasting players provide more reach, better audience engagement and higher RoIs.

Chart 4: Automobiles – Growth shifting to tier II & III cities and rural areas

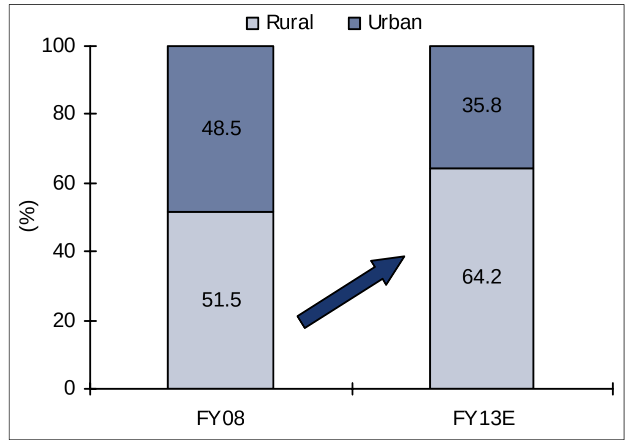
Cars – FY09 YoY sales volume growth

(%)

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Total
Top 10 cities	7	(7)	(23)	(9)	(8)
Next 10 cities	8	0	(12)	8	1
Next 20 cities	14	(4)	(11)	10	2
Next 60 cities	17	12	2	23	13
Other cities	31	22	11	34	25
All India	**12**	**(1)**	**13**	**4**	**0**

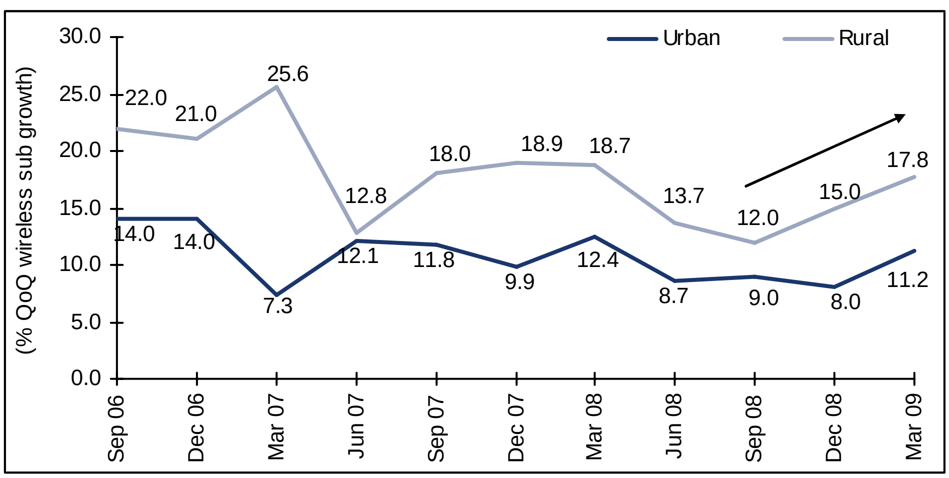
Source: Maruti Suzuki India FY09 Annual Report

Motorcycles – Urban versus rural share



Source: Industry

Chart 5: Telecom – Rural wireless subscriber additions driving overall growth



Source: TRAI, I-Sec Research

Regional media cheaper

Owing to the poor perception of regional media's demographic reach and the relatively recent investment in regional content, ad yield realisations from regional media are low vis-à-vis national media. As a result, regional markets provide immense cost effective opportunity for advertisers to reach the masses.

Print – Hindi and vernacular cheaper than English

In case of Print media, advertisers are currently valuing an English reader 8x vis-à-vis a Hindi reader and 13x vis-à-vis a regional reader, whereas the demographic profile does not suggest a similar difference.

Table 3: Print – English readers valued 8x vis-à-vis Hindi readers

	Readers (000s)	Per reader revenues		
		Advertising	Circulation	Total
English	16,751	3,507	1,048	4,555
Hindi	56,630	416	320	736
Regional	94,602	272	302	574
Total	**325,470**	**332**	**198**	**519,245**
Premium of English over Hindi		**8x**	**3x**	**6x**
Premium of English over Regional		**13x**	**3x**	**8x**

Source: FICCI-KPMG M&E sector report '09, IRS2009 I-Sec Research

In terms of reach, Hindi Print media offers similar reach in all demographic profiles other than SEC A1.

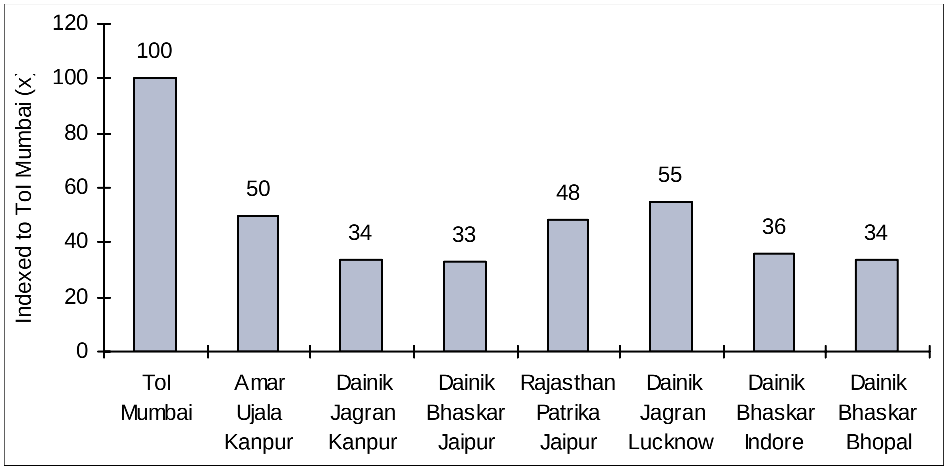
Table 4: Hindi offers similar reach in all SECs other than A1

Daily ('000)	All	A1	A2	B1	B2	C	D
Hindi							
Dainik Jagran	17,114	781	1,347	1,487	1,241	1,914	1,266
Dainik Bhaskar	12,514	477	1,230	1,218	1,101	1,701	1,311
Hindustan	9,052	400	694	771	553	842	587
Amar Ujala	8,255	348	676	640	646	964	683
English							
The Times Of India	6,781	2,158	1,751	1,061	542	739	238
Hindustan Times	3,331	1,074	929	550	246	277	74
The Hindu	2,209	468	438	421	161	302	85
Deccan Chronicle	1,311	221	324	208	126	238	81

Source: IRS

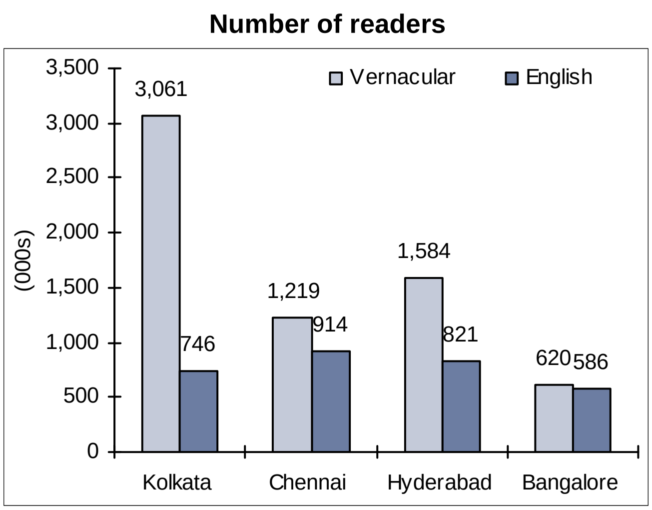
On advertising cost per thousand (CPT) basis, reaching readers via English newspapers is much more expensive than reaching through Hindi and regional language papers. In case of Hindi newspapers, CPT is 45-70% cheaper than English newspapers. In tier I cities, reaching the same reader through English newspapers is 3-8x more expensive than reaching through vernacular newspapers.

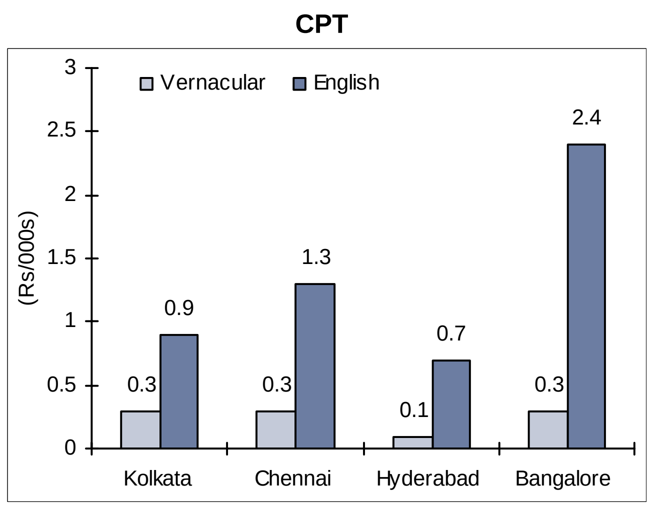
Chart 6: English versus Hindi – Black & White CPT comparison



CPT indexed to 100 considering *The Times of India* (*ToI*) Mumbai as base
Source: E&Y report – *The Dhoni Effect: Rise of Small Town India*, Company data, I-Sec Research

Chart 7: English versus vernacular – English CPT is 3-8x vernacular CPT





Kolkata – *Ananda Bazar Patrika* (Bengali) compared with *The Telegraph* (English)
Chennai – *Daily Thanthi* (Tamil) compared with *The Hindu* (English)
Hyderabad – *Eenadu* (Telugu) *Deccan Chronicle* compared with (English)
Bangalore – *ToI* (English) compared with *Prajavani* (Kannada)
Source: E&Y report – *The Dhoni Effect: Rise of Small Town India*, Company data, I-Sec Research

Broadcasting – Regional markets inexpensive vis-à-vis Hindi markets

The disparity between national and regional advertising can be seen in the Broadcasting segment as well. Even in the Tamil market, which is the most mature among regional markets, TV ad spend per house hold (HH) is 39% lower than TV ad spend per HH in HSM markets. The other South Indian markets – Telugu, Kannada and Malayalam – are relatively cheaper with TV ad spend per HH at 49%, 47% and 46% discount respectively to HSM markets.

The Bengali and Marathi markets are the most inexpensive among the regional markets at present with TV ad spend per HH 60% and 67% lower than in HSM markets respectively, largely owing to the recent investments in these markets in content. We believe that the Marathi and Bengali markets are likely to inch slowly towards more mature regional markets such as Tamil Nadu.

Table 5: Ad spend per HH in key regional markets at discount to that in HSM markets

	Hindi	Bengali	Marathi	Tamil	Telugu	Kannada	Malayalam
Total ad revenues – FY09 (Rs mn)	51,000	3,000	3,000	7,080	6,600	4,000	2,250
No. of C&S HHs (mn)	47.1	6.9	8.3	10.8	12.0	7.0	3.9
Ad revenues per HH (Rs)	**1,083**	**438**	**360**	**658**	**552**	**574**	**581**
Discount to HSM (%)	**-**	**60**	**67**	**39**	**49**	**47**	**46**

Note: C&S - Cable & Satellite; Source: I-Sec Research

The discrepancy in ad spends exists in spite of mostly similar split in viewership across different demographic profiles for regional GECs and Hindi GECs.

Table 6: Viewership share across different SECs

(%)

Markets Channel	Bangla Zee Bangla	Marathi Zee Marathi	Tamil Sun TV	Telugu Gemini TV	Kannada Udaya TV	Hindi Zee TV	Hindi Colors	Hindi STAR Plus
Sec A	19	20	15	14	14	20	21	21
Sec B	28	20	22	17	27	27	27	27
Sec C	23	30	26	27	27	22	22	22
Sec D/E	30	30	37	42	32	31	30	30
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: TAM, I-Sec Research

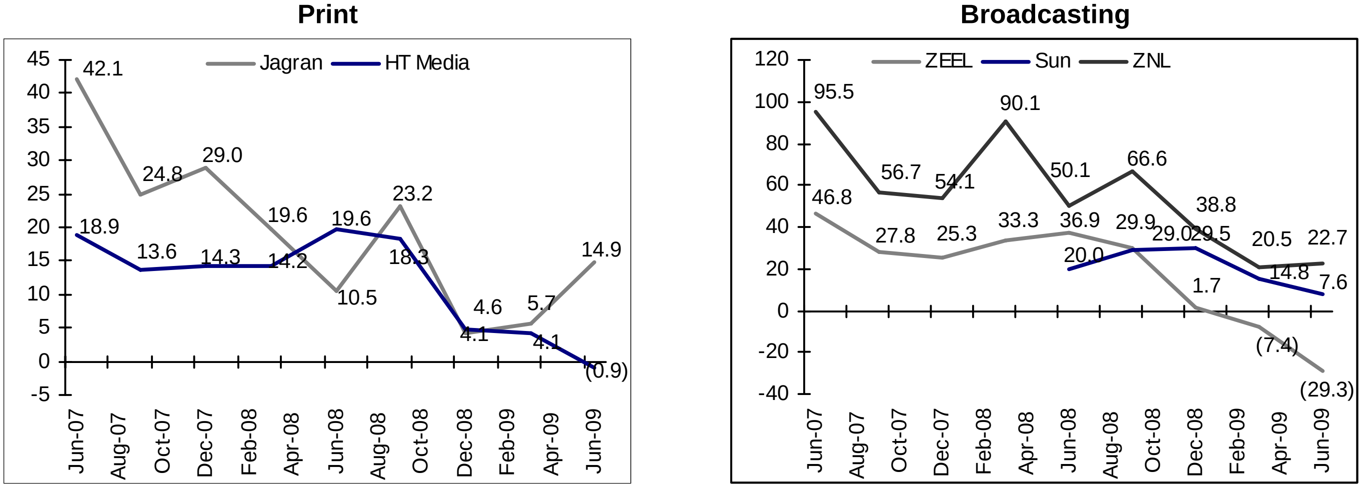
As the importance of regional media grows, we expect the discrepancy in ad rates between national and regional media to narrow down, resulting in ad spends being evenly shared between national and regional media, which should lead to higher investment in regional media.

Regional media growth higher and more stable

Regional media is gradually increasing its share in total ad revenues driven by: i) change in India's growth drivers from metros & tier I towns to tier II and tier III towns, ii) rise in investments in regional media leading to better reach and audience engagement and iii) emergence of new advertising sectors such as education, real estate and local retail, which are dominated by local brands and companies.

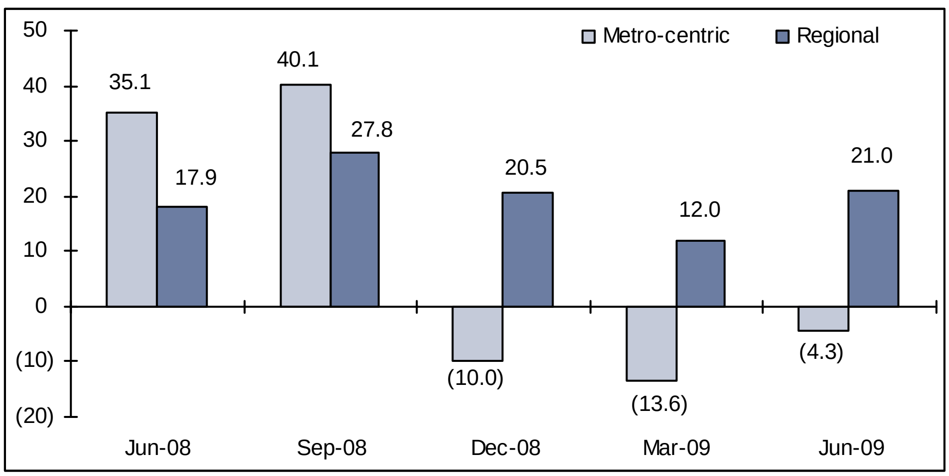
Given the traction in regional advertising in India, regional media companies have seen higher growth than media companies concentrating on national media in FY06-09. Moreover, during the ad slowdown, regional media companies were able to maintain growth better than national or metro-centric media companies, since regional ad revenues were relatively unaffected by the macro slowdown.

Chart 8: Regional media growth outscored national media in FY06-09



Source: Company data, I-Sec Research

Chart 9: Regional media more stable than metro-centric media during ad slowdown



Source: Company data, I-Sec Research
Metro-centric – News Broadcasting + Radio including NDTV (standalone), TV18 (standalone), TVTN, IBN18, ENIL; Regional – Sun, ZNL, Jagran

Regional media unexplored

Though regional media offers better growth outlook and advertisers are increasingly more receptive to regional advertising, regional media continues to be largely unexplored with highly polarised markets. We see huge potential for further investment in the regional space.

The regional broadcasting market in India has scope for huge investments, with the four Southern markets, Bengali and Marathi markets being the regional hotspots. While Telugu and Tamil markets and to a small extent the Kannada market, have been inundated with many channels, Marathi, Bengali and Malayalam are largely unexplored. Other regional markets such as Gujarati and Punjabi do not offer as much scope since the current Hindi national channels meet the requirements of viewers in these markets – ZNL's *Zee Gujarati* was shut down and *Zee Punjabi* remains a marginal contributor to ZNL.

Table 7: Key regional markets – Southern states, Marathi & Bengali

State	Language	No. of GECs	No. of news channels	Other genres	Total no. of channels
Tamil Nadu	Tamil	9	3	6	19
Andhra Pradesh	Telugu	7	4	3	15
Karnataka	Kannada	6	3	4	13
Kerala	Malayalam	5	5	2	12
Maharashtra	Marathi	6	5	1	12
West Bengal	Bengali	6	4	1	11

Source: Company data, I-Sec Research

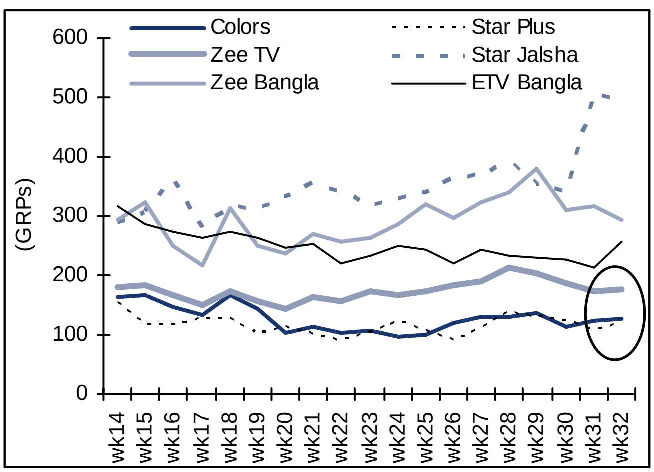
Bengali & Marathi markets offer huge investment potential

In terms of reach and GRPs, regional GECs deliver better value as they have higher GRP share and reach when compared with national properties. This is true for not just South India, where Hindi language programming is not very popular, but also for Bengali and Marathi markets, which are traditionally clubbed under HSMs.

In the Bengali market, the top three regional GECs, *STAR Jalsha*, *Zee Bangla* and *ETV Bengali* outscore the top three Hindi GECs in terms of GRPs and reach. In the Marathi market, the #1 GEC, *Zee Marathi* has GRP and reach comparable with that of Hindi GECs.

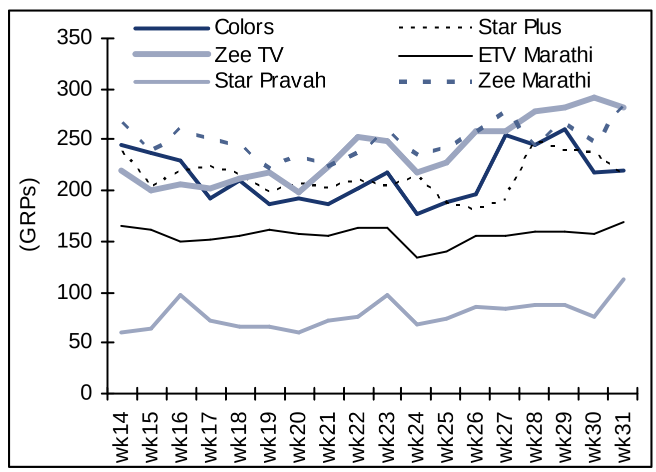
Chart 10: GRPs – Regional GECs versus Hindi GECs

Top three Bengali GECs way ahead of top three Hindi GECs



Source: TAM CS4+, West Bengal

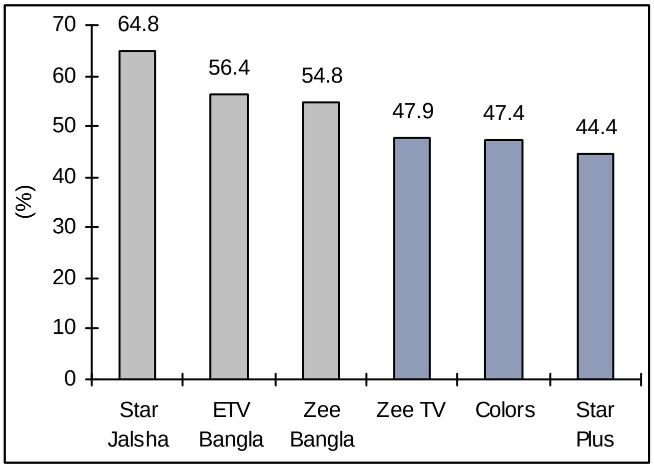
Marathi – *Zee Marathi* comparable to *Zee TV*, better than *STAR Plus* & *Colors*



Source: TAM CS4+, Maharashtra

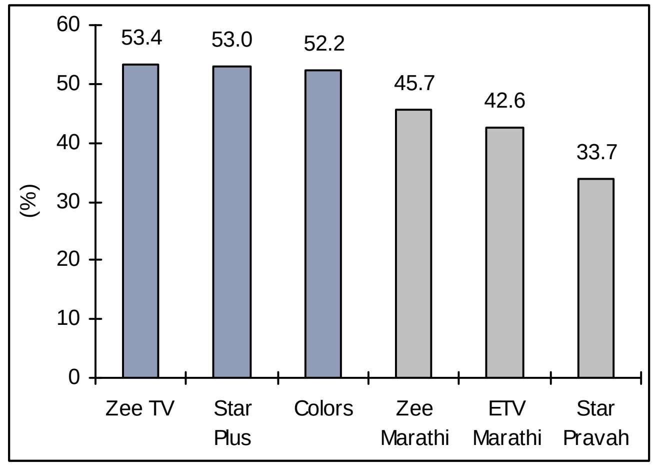
Chart 11: Weekly average reach* – Regional GECs versus Hindi GECs

Bengali GECs much better than Hindi GECs



Source: TAM CS4+, West Bengal
* Average of weeks 14 to 32 of CY09

Marathi GECs comparable with Hindi GECs



Source: TAM CS4+, Maharashtra ex-Mumbai

Too much focus on regional news; other genres prime for investment

The News genre has seen the highest action in the regional broadcasting space since local news is a ready differentiator from national news channels. At present, there are >25 regional news channels, with many local news channels being launched recently – *NDTV Metronation* (Delhi), *NDTV Hindu* (Chennai), *Sahara Samay UP*, *Zee Telugu News*, *Zee News UP* and *Zee Chhattisgarh News*.

However, niche genres in regional languages such as movies, music, kids, comedy are under explored. Sun has music channels in all the Southern languages and movie channels in two of them. After the success of Tamil kids channel, *Chutti TV*, Sun launched kids channels in Telugu, *Khushi TV* and Kannada, *Chintu TV*. ZNL has a Marathi movie channel, *Zee Talkies* and has plans to launch a Telugu movies channel. However, by and large, niche genres in regional broadcasting are uncharted.

Table 8: Niche genres in regional broadcasting

Language	Kids	Music	Movies	Comedy
Tamil	Chutti TV	Sun Music, Raj Music	KTV	Aditya TV, Comedy Thirai
Telugu	Khushi TV	Gemini Music		Navulla TV
Kannada	Chintu TV	U2	Udaya Movies, Ushe TV	
Malayalam		Kiran TV		
Marathi			Zee Talkies	
Bengali			Channel 8 Talkies	

Source: Company data, I-Sec Research

Investments in regional media picking up

Sun and ZNL remain the largest players in the regional broadcasting space, with Sun polarising the market share in South India and ZNL in Bengali and Marathi markets. In FY09, many other national media companies increased their regional focus, of which the STAR Group was the most active. STAR Group formed a 50:50 JV with Rajeev Chandrashekhar's Jupiter Entertainment to take 100% stake in Asianet for housing South Indian language GECs and launched Bengali and Marathi GECs. *STAR Jalsha* reached #1 spot in the Bengali market within 31 weeks and *STAR Pravah* is giving a tough competition to *Zee Marathi* and *ETV Marathi* in the Marathi market. STAR Group plans to invest US$100mn in the regional markets over five years.

Table 9: Recent investments in regional media (FY08-09)

Group/Company	Investments
Sun TV Network	Launched kids channels in Telugu & Kannada
Zee News	Launched *Zee Tamizh* and news channels *Zee 24 Ghantalu* & *Zee News UP*
STAR India	JV with Asianet for South Indian language channels; launched *STAR Jalsha* (Bengali) & *STAR Pravah* (Marathi); plans to invest US$100mn in regional channels
Sony	Sony Pictures Television International (SPTI), the majority-stake holder (62%) in MSM, acquired 100% stake in Bengali Entertainment that operates *Channel 8 Talkies*, for Rs600mn
NDTV	Launched two local news channels – *NDTV Metronation* (Delhi) and *NDTV Hindu* (Chennai)
IBN18	Launched *IBN Lokmat*, Marathi news channel
TV18	Has received approval for launching *CNBC TV18 Gujarati*, *CNBC TV18 South* and *CNBC TV18 Channel 3,* but plans have been deferred
HT Media	Has increased number of editions of its Hindi newspaper from 9 to 13 over FY08-09
Jagran Prakashan	Has increased number of editions of its Hindi newspaper from 31 to 37 over FY08-09

Source: Company data, I-Sec Research

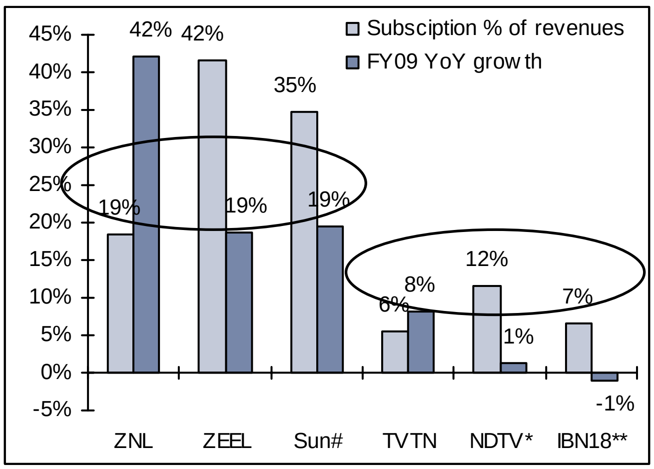
Betting on non-cyclical revenues

Increasing focus on subscription revenues

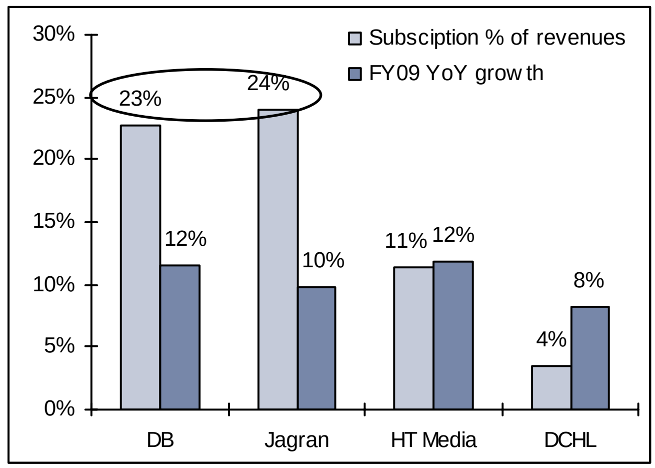
Advertising revenue growth is closely linked to economic expansion and the overall sentiment, both of which took a knock in FY09. Media companies were visibly one of the most impacted in the ongoing macro slowdown since a high proportion of media revenues were dependent on advertising. However, media business models in India are changing for the good, with increasing shift to subscription revenues, largely non-cyclical, from cyclical ad revenues. Companies which exhibited stronger performance in '09 had relatively higher share of subscription revenues. We see broadcasting companies in a mature phase with the leaders likely to be the key beneficiaries of the change in the revenue mix.

Chart 12: Companies with higher share of non-cyclical revenues fared better in FY09

Broadcasters with higher proportion of subscription revenues had better revenue growth in FY09



Hindi newspapers have higher proportion of circulation revenues

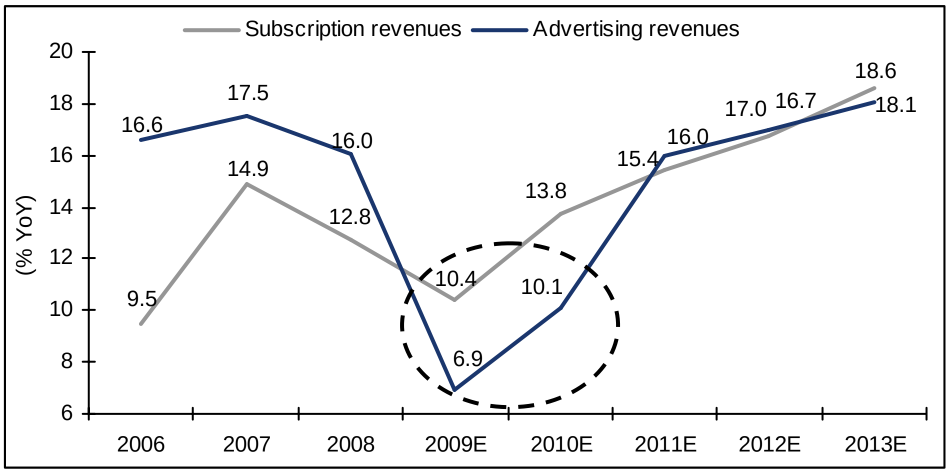


*NDTV – Standalone (news) business only, **IBN18 – News business only, pro forma for *IBN7* consolidation, # Sun includes broadcast fees also
Source: Company data, I-Sec Research

Broadcasters to ride digital wave

In the Broadcasting segment, till date, advertising-focussed models were built with little emphasis on differentiated content, largely owing to poor addressability of Pay TV revenues. However, we expect the increasing digitalisation of TV distribution to alter the revenue profile of broadcasting companies, making them less vulnerable to macro conditions and providing more stability to revenues. The key benefit to broadcasters will be driven by increasing addressability, resulting in Pay TV revenue growth likely outpacing ad revenue growth.

Chart 13: Pay TV revenues not cyclical

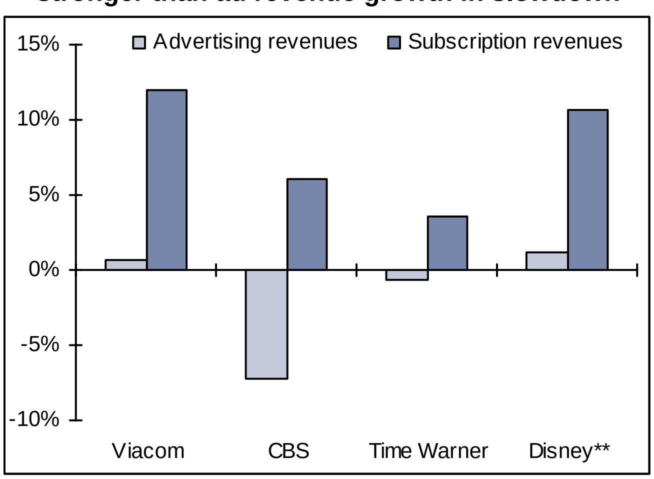


Source: FICCI-KPMG M&E sector report '09, I-Sec Research

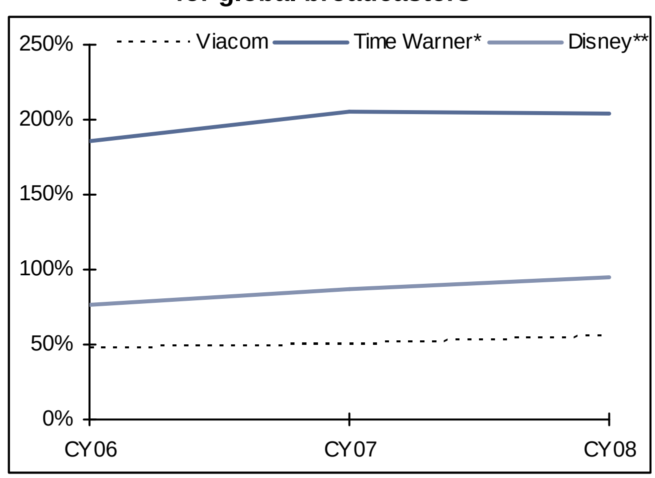
Globally, subscription revenues form a higher proportion of total revenues for broadcasters. In the US, subscription revenues have been driving revenue growth for broadcasting companies, given the disastrous impact of the macro slowdown on the advertising revenues.

Chart 14: Global broadcasters – Non-cyclical subscription revenues driving growth

Subscription revenue YoY growth in CY08 remained stronger than ad revenue growth in slowdown



Subscription revenues – Ad revenues ratio high for global broadcasters



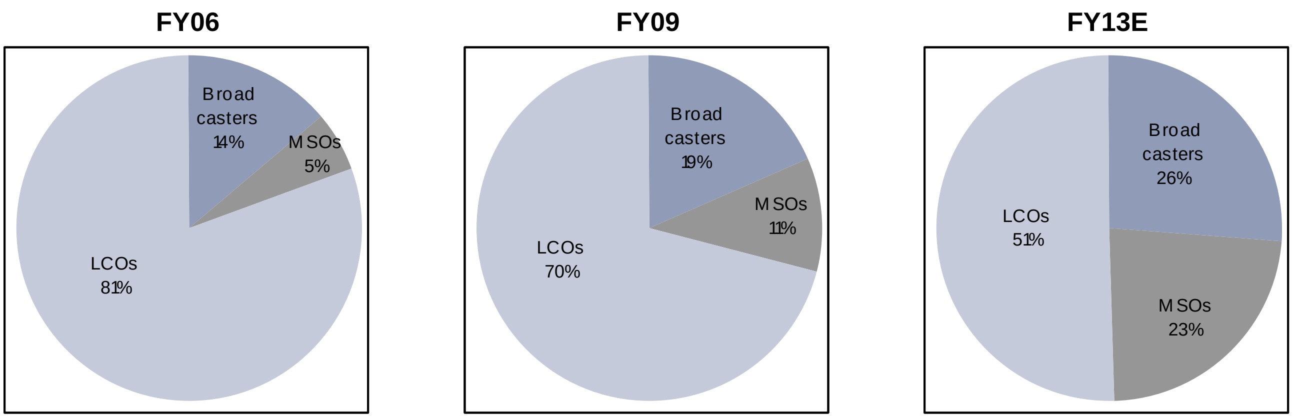
* Time Warner refers to Networks segment
**Disney is for Media Networks segment; CY08 refers to FY08
Source: Company data, I-Sec Research

Pay TV revenues lost in transition at present

The average Indian C&S household pays ~Rs180/month for subscription to Pay TV channels, resulting in a massive Rs164.4bn (US$3.4bn) Pay TV industry. However, owing to gross under declaration of subscribers by local cable operators (LCOs), Indian broadcasting companies capture only ~Rs33/sub/month or 19% of the Pay TV revenues as compared with the 45% share mandated by the Telecom Regulatory Authority of India (TRAI) on digital platforms. As a result, in spite of total Pay TV revenues being ~1.7x TV advertising revenues, subscription revenues contribute only 24% of broadcasters' revenues. We expect this to change with the increasing adoption of DTH platforms by HHs leading to better addressability.

The share of broadcasters in the subscription pie is expected to increase to 26% in FY13E from 19% in FY09, driven by better declaration of HHs or paying subscribers in the digital regime. We expect broadcasters' revenues from Pay TV to grow at 26.3% CAGR during FY09-13E.

Chart 15: Broadcasters' share in Pay TV revenues increasing

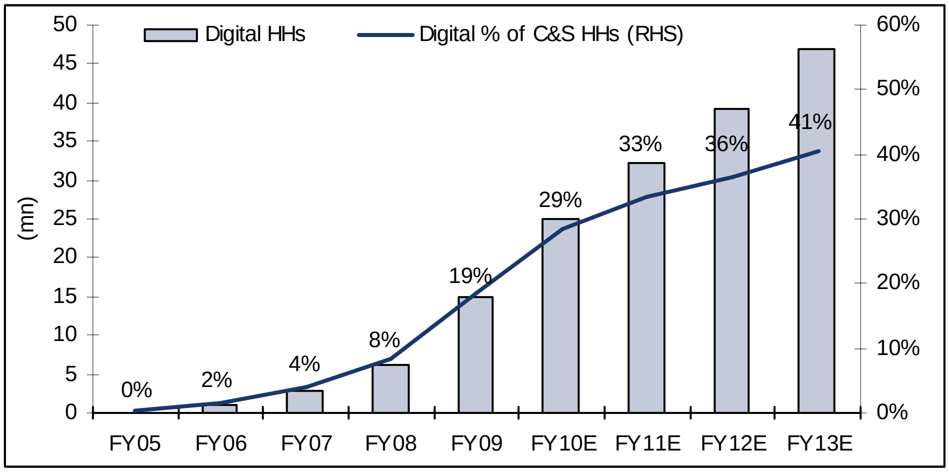


Source: Company data, I-Sec Research

Sizing the Pay TV opportunity

The Indian Pay TV market was estimated at Rs164.6bn in FY09 and we expect it to grow at 15.9% CAGR to Rs297bn in FY13E. The Indian cable distribution segment is undergoing a substantial shift with the advent of digitalisation and the entry of organised players, with strong investment backing. As of end-FY08, digitalisation of C&S HHs in India was at a dismal 8.2%, which increased significantly to 19.6% as of end-FY09 led by DTH proliferation. Increasing competition in the DTH scene on entry of many new strongly-backed players, led to DTH operators vying with each other for providing better value proposition at inexpensive prices to the consumers, led to surge in DTH adoption. We expect the share of digital subscribers, as a proportion of C&S HHs, to further increase to 29% by FY10E and grow at a slower rate post-FY10 to 41% in FY13E.

Chart 16: Digital share of C&S HHs to rise to 41% in FY13E from 19% in FY09



Source: Company data, I-Sec Research

Table 10: Pay TV model

	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E
Total HHs (mn)	**193.1**	**196.0**	**198.9**	**204.0**	**209.1**	**214.4**	**219.8**	***2.5***
C&S HHs (mn)	**70.0**	**74.0**	**80.7**	**87.9**	**96.7**	**107.3**	**115.9**	***9.5***
C&S penetration of TV HHs (%)	*62.5*	*64.3*	*67.8*	*70.3*	*73.6*	*77.9*	*80.1*	
Analogue Cable HHs (mn)	**67.1**	**67.8**	**65.6**	**62.9**	**64.4**	**68.2**	**68.9**	
Analogue Cable ARPUs (Rs)	166	172	180	186	194	202	212	
Analogue Cable revenues	**127,398**	**139,414**	**143,858**	**143,562**	**147,837**	**160,794**	**174,072**	***4.9***
Digital Cable HHs (mn)	**0.6**	**1.3**	**2.0**	**3.7**	**5.9**	**8.2**	**11.3**	
Digital cable penetration of C&S HHs (%)	*0.8*	*1.8*	*2.4*	*4.2*	*6.1*	*7.7*	*9.8*	
Digital Cable revenues	**437**	**1,730**	**3,510**	**7,038**	**13,643**	**22,086**	**33,532**	***75.8***
DTH HHs (mn)	**2.3**	**4.9**	**13.1**	**21.4**	**26.4**	**30.9**	**35.7**	
DTH penetration of C&S HHs (%)	*3.3*	*6.6*	*16.2*	*24.3*	*27.3*	*28.8*	*30.8*	
DTH revenues	**2,851**	**6,221**	**17,270**	**36,427**	**55,086**	**71,312**	**89,446**	***50.9***
Total Subscription revs (Rs mn)	**130,687**	**147,365**	**164,638**	**187,027**	**216,567**	**254,192**	**297,049**	***15.9***
Growth (% YoY)	*21.3*	*12.8*	*11.7*	*13.6*	*15.8*	*17.4*	*16.9*	
Broadcasters subscription revs (Rs mn)	**19,878**	**23,693**	**30,801**	**40,346**	**51,564**	**63,833**	**78,293**	***26.3***
Growth (% YoY)	*31.5*	*19.2*	*30.0*	*31.0*	*27.8*	*23.8*	*22.7*	
Share of total (%)	*15.2*	*16.1*	*18.7*	*21.6*	*23.8*	*25.1*	*26.4*	

Note: Detailed model in Annexure 1; Source: Company data, I-Sec Research

DTH – Driving force behind digitalisation

We expect DTH penetration to increase to 31% of C&S HHs by FY13E from 16% as of end-FY09. Post the entry of three new players, the DTH space saw monthly additions of 680,000 in FY09, which we expect to continue in FY10. We expect DTH to grow from 13mn subscribers as of end-FY09 to 36mn by FY13E. While initial growth for DTH came from regions where cable was not accessible, the rapid growth in DTH in FY09 has come from targetting the concentrated middle class in cities by the DTH operators with low cost set top boxes (STBs), low monthly fees and freebies. Apart from improving addressability, leading to higher subscription revenues, broadcasters also stand to gain from lower carriage fees in a DTH environment.

Table 11: DTH model

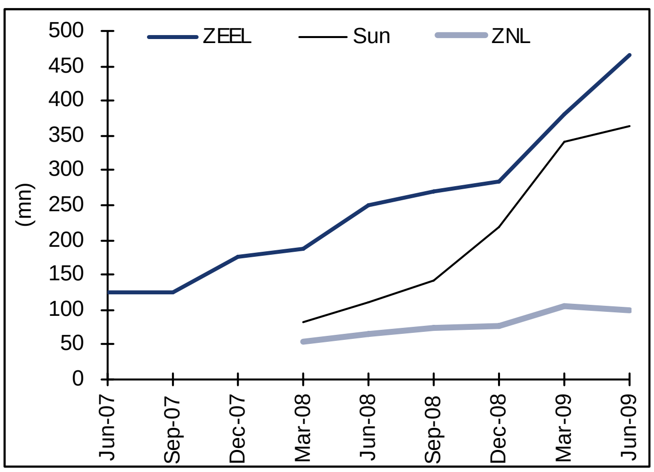
	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E (%)
DTH Households (mn)	**2.3**	**4.9**	**13.1**	**21.4**	**26.4**	**30.9**	**35.7**	*28.5*
DTH % of C&S HHs	*3.3*	*6.6*	*16.2*	*24.3*	*27.3*	*28.8*	*30.8*	
DTH % of Digital HHs	*80.0*	*78.8*	*86.9*	*85.4*	*81.8*	*79.0*	*75.9*	
DTH % of C&S HHs in CAS areas	*23.2*	*30.7*	*35.0*	*40.0*	*20.0*	*15.0*	*18.0*	
DTH % of C&S HHs in non-CAS areas	*2.8*	*6.1*	*15.8*	*24.0*	*28.0*	*32.0*	*35.0*	
% of paying subscribers	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	
DTH revenues (Rs mn)	**6,221**	**17,270**	**36,427**	**55,086**	**71,312**	**89,446**	**111,367**	*32.2*
Growth (% YoY)	*200.0*	*118.2*	*177.6*	*110.9*	*51.2*	*29.5*	*25.4*	
ARPU (Rs)	180	180	200	220	240	259	280	*8.8*
Broadcasters DTH revenues (Rs mn)	**2,799**	**7,772**	**16,392**	**24,789**	**32,090**	**40,251**	**50,115**	*32.2*
% share	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	
DTH operators revenues (Rs mn)	**3,421**	**9,499**	**20,035**	**30,298**	**39,221**	**49,195**	**61,252**	*32.2*
% share	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	

Source: Company data, I-Sec Research

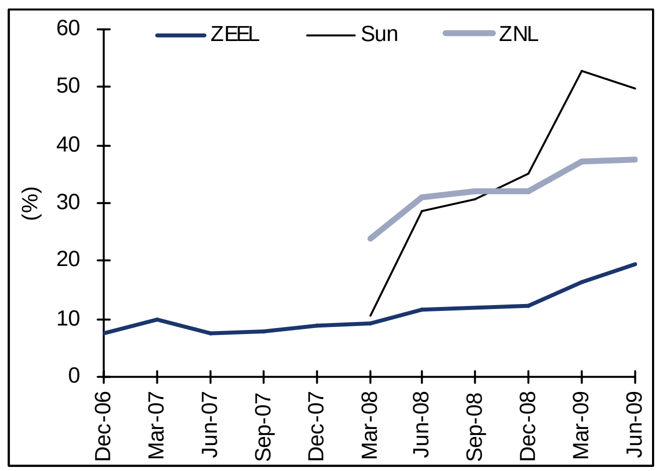
We believe that companies such as ZEEL, ZNL and Sun TV with strong bouquets of channels are well placed to reap the most benefit from the DTH-driven digital wave.

Chart 17: ZEEL, Sun, ZNL best placed to reap digitalisation benefits

Rise in quarterly DTH subscription revenues



DTH as a percentage of total subscription revenues



Source: Company data, I-Sec Research

CAS a disappointment; digital cable roll-out uncertain

Conditional access system (CAS) has been a non-starter owing to lack of regulatory support, which also led to the introduction of mandatory CAS facing severe roadblocks. TRAI had first initiated mandatory CAS in ’03 in four metros, of which it was introduced only in Chennai. Finally, mandatory CAS was introduced in other three metros in ’07. Even after making CAS mandatory, its adoption has languished at only 0.77mn STBs or ~44% of the total implemented area in the four metros as of end FY09. Mandatory CAS was expected to be extended to the remaining areas of metros and top 55 cities in a phased manner, starting in FY09, but so far there has been no inclination by the Government to do so. Our estimates for digital cable are based on the assumption that the extension of mandatory CAS throughout the metros will start in FY10 and the first phase of deployment in the top 55 cities will begin in FY11.

Table 12: Digital cable model

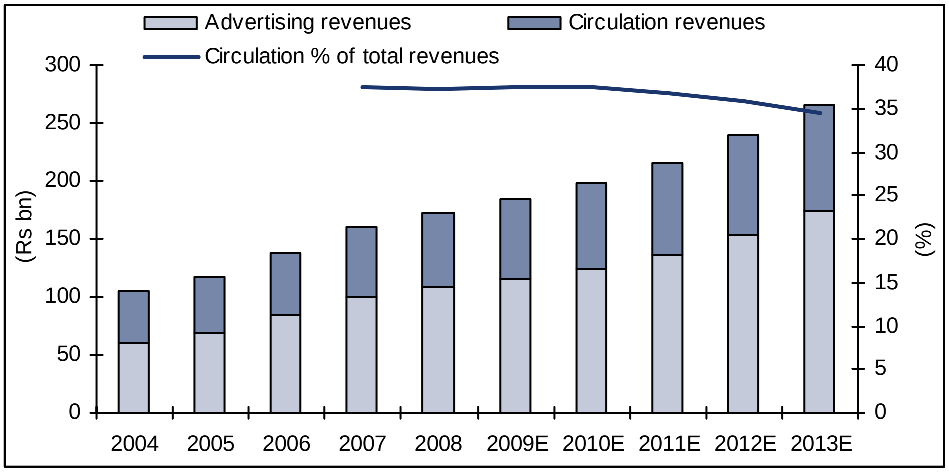
	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E
C&S HHs in CAS mandated areas (mn)	**1.5**	**1.6**	**1.8**	**1.9**	**8.3**	**20.3**	**28.9**	***101.3***
CAS HHs as a % of total C&S HHs	*2.2*	*2.2*	*2.2*	*2.2*	*8.6*	*18.9*	*24.9*	
CAS HHs (mn)	**0.6**	**0.6**	**0.8**	**0.9**	**1.3**	**2.4**	**4.0**	***51.0***
CAS % of C&S HHs in CAS areas	*38.0*	*37.2*	*43.7*	*48.0*	*16.1*	*11.7*	*13.9*	
CAS revenues (Rs mn)	**437**	**1,077**	**1,462**	**2,016**	**3,018**	**5,507**	**10,494**	***63.7***
Growth (% YoY)		*146.3*	*35.8*	*37.9*	*49.7*	*82.5*	*90.6*	
C&S HHs in non-CAS areas (mn)	**68.5**	**72.4**	**78.9**	**86.0**	**88.4**	**87.1**	**87.0**	*2.5*
Non-CAS HHs as a % of total C&S HHs	*97.8*	*97.8*	*97.8*	*97.8*	*91.4*	*81.1*	*75.1*	
Digital cable HHs in non-CAS areas	**-**	**0.7**	**1.2**	**2.2**	**3.5**	**4.4**	**5.2**	*44.9*
Digital cable % of C&S HHs in non-CAS areas	*-*	*1.0*	*1.5*	*2.5*	*4.0*	*5.0*	*6.0*	
Digital Cable revenues in non-CAS areas (Rs mn)	**-**	**638**	**2,000**	**3,995**	**7,616**	**11,703**	**15,753**	***67.5***
Growth (% YoY)			*213.3*	*99.7*	*90.6*	*53.7*	*34.6*	
Total digital cable HHs	**0.6**	**1.3**	**2.0**	**3.1**	**4.9**	**6.7**	**9.2**	*47.4*
Digital cable % of C&S HHs	*0.8*	*1.8*	*2.4*	*3.5*	*5.0*	*6.3*	*8.0*	
Total digital cable revenues (Rs mn)	**437.4**	**1,715**	**3,463**	**6,011**	**10,633**	**17,210**	**26,247**	***65.9***
Growth (% YoY)		*292.2*	*101.8*	*73.6*	*76.9*	*61.8*	*52.5*	

Note: Detailed model in Annexure 1; Source: Company data, I-Sec Research

Circulation revenues hold up revenue mix for Print players

In the Print segment, circulation revenues contribute ~35% of total revenues and we expect it to more or less remain in this proportion. Low cover prices in India imply huge scope for increase, but we believe it will be difficult to implement cover price hikes, given the current competition and significant decline in newsprint price since September '08.

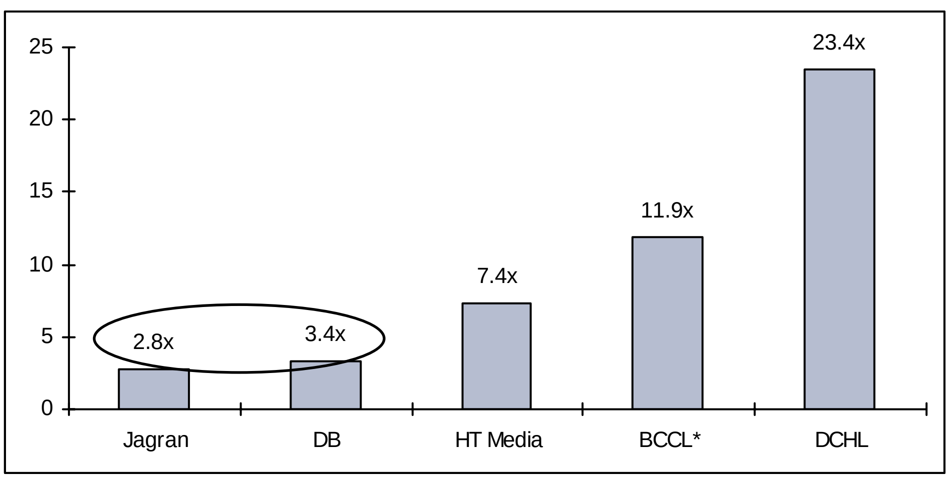
Chart 18: Circulation revenues to remain ~35% of total Print revenues



Source: FICCI-KPMG M&E sector report '09, I-Sec Research

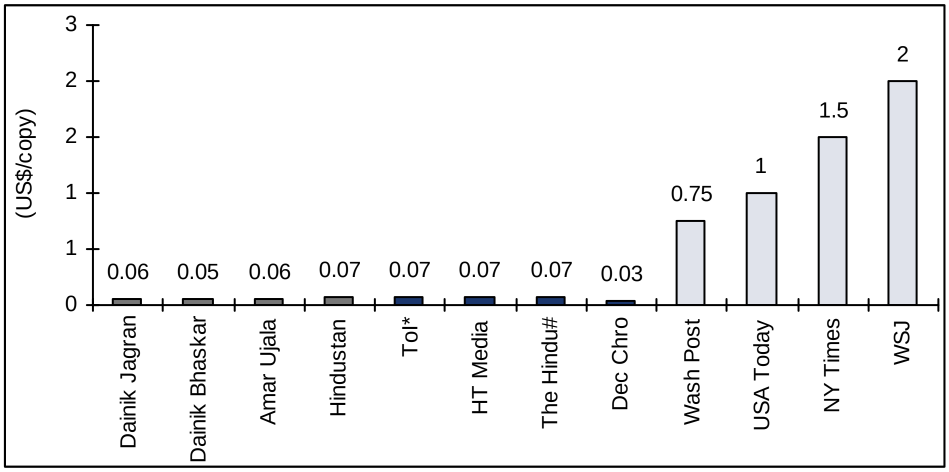
For Hindi Print media companies such as Jagran and Dainik Bhaskar, revenues are split in the ad:circulation ratio of 3:1, whereas for English Print media companies, revenues are split in 9:1. This difference exits mostly due to higher number of pages in English newspapers (>30 pages/copy), while Hindi newspapers have ~20 pages/copy on an average.

Chart 19: FY09 ad:circulation ratio – Hindi Print media companies best placed



* FY08 for BCCL – Bennett Coleman & Co
Source: Company data, I-Sec Research

Chart 20: Cover price comparison for leading dailies – India versus the US



* Combo with *Mumbai Mirror*, # Monday-Saturday prices
Dec Chro – *Deccan Chronicle*, Wash Post – *Washington Post*, WSJ – *Wall Street Journal*
Source: Company data, I-Sec Research

Achieving scale – Focus on core

The persistent theme for all Indian Media groups over the past three years has been gaining scale via attaining presence in multiple media segments. This strategy is in sync with the strategy adopted by global peers which have emerged as media conglomerates through expansion in all media-related fields. However, we believe that acquiring scale is productive only when it is through better monetisation of content or enabling higher reach for content. Diversification of the business to de-risk from a particular segment may not be productive as all media properties are highly correlated to advertising growth and hence, the state of the economy. During FY09, all media segments – Print, Broadcasting, Radio, OOH, Events and Movies – witnessed pain.

A closer look at scaling-up endeavours of media groups suggests that expansions relating to sweating asset (content) better through geographical expansion or a different medium have been fruitful, whereas efforts to just de-risk without synergies have not been productive.

Table 13: Profitability and market cap lag revenue growth

(Rs mn)

	Revenues			Market cap			PAT (or EBITDA)		
	FY07	FY09	CAGR (%)	FY07	Current	% growth	FY07	FY09	CAGR (%)
Sun	4,210	6,655	25.7	100,251	108,452	8.2	2,461	3,683	22
ZEEL	7,035	10,593	22.7	104,034	94,679	(9.0)	2,375	3,673	24
Jagran	3,882	5,517	19.2	22,299	31,638	41.9	707	916	14
HT Media	8,731	11,299	13.8	40,416	27,932	(30.9)	971	9	(90)
IBN18#	769	3,522	114.1	13,599	22,098	62.5	(218)	(2,088)	NM
ZNL	1,628	4,089	58.5	8,883	10,634	19.7	75	446	144
NDTV	2,469	3,883	25.4	17,833	10,151	(43.1)	302	(4,535)	NM
ENIL	2,351	4,262	34.6	14,911	9,959	(33.2)	428	(92)	NM
TVTN	1,843	2,359	13.2	6,830	5,676	(16.9)	311	335	4

Note: EBITDA considered for IBN18, NDTV and ENIL; # IBN18 – FY09 includes 50% Viacom18
Source: Company data, I-Sec Research

Table 14: Companies, wherein growth was funded via internal cashflows, outperformed

	Stock price returns (%)		Capital raising (Rs mn)		Comments
	1-year	2-year	Debt	Equity	
Sun	14.2	(10.9)		750-1,000*	Sun re-rated; stock performance lags revenue growth
ZEEL	(1.3)	(25.6)	500		Stock de-rated as expectations rationalised and competition heightened
Jagran	51.2	(3.9)			No fund raising; promoters increased stake
HT Media	(1.4)	(44.9)	2,100		Debt-funded expansion plan; stock performance marred by high newsprint and diversification
IBN18	64.4	1.8		3,819	High equity dilution along with poor profitability has limited shareholder returns in spite of increase in market cap
ZNL	10.6	(24.7)	2,000		Debt-funded growth; strong execution has driven market cap creation
NDTV	(49.3)	(51.0)	4,050	6,868	Strong fund raising enabled the company to launch Entertainment business; stock performance lags
ENIL	(29.8)	(53.3)		2,000	Revenue growth strong but stock returns lag; stock de-rated on expectations becoming more realistic
TVTN	2.4	(33.8)			Revenue and market cap growth both lag the sector

*Estimate; Source: Company data, I-Sec Research

Globally, consolidation has led to huge media conglomerates

Globally, the Media sector has witnessed active consolidation leading to the formation of conglomerates spanning most media sub-segments and different geographies. The consolidation was largely in order to achieve scale and enable easy capital raising at best with no major gains on the operational front. Given the nascent stage of the Indian Media sector, we see more value in companies focussing on their core businesses and expanding in their domain of expertise to leverage their content or content-creating abilities. Any move towards diversification with the objective of obtaining scale alone is unlikely to be perceived as value creating. TV Broadcasting (entertainment), Movies and Print have little synergies with respect to content.

Table 15: Global Media conglomerates – High on scale, low on synergy

	Time Warner	**Disney**	**Newscorp**	**Viacom**	**NBC Universal**	**CBS**
TV Broadcasting	Turner Networks & HBO Inc -*TBS, CNN, TNT, Cartoon Network, HBO*	*ESPN, Disney, ABC TV* TV content - *ABC Studios*	Fox Broadcasting & MyNetworkTV STAR Group (Asia)	*MTV, Nickelodeon, Vh1, Comedy Central*	*NBC, CNBC, USA Network, MSNBC, Telemundo* (Spanish language network)	*CBS TV Network, CBS News* TV content – *CBS Paramount*
Filmed entertainment	Warner Bros	Walt Disney, Miramax, Pixar	20th Century Fox	Paramount Pictures	Universal Studios	CBS Films
Print	Magazines - *People, Sports Illustrated, Time, Fortune, InStyle*		Newspapers - *WSJ, Times, Sun* Magazines – *The Weekly Standard* *Book Publishing - HarperCollins*			Book publishing - Simon & Schuster, Pocket Books
TV distribution	Triple play – TV, high-speed data and voice		DTH - Sky Italia (Italy), Tata Sky (India) Cable – BSkyB			
Radio		ESPN Radio, Radio Disney	Fox News Radio Network			CBS Radio
Internet	*AOL.com, MapQuest, Moviefone, Engadget, ICQ, Bebo*		Fox Interactive Media - *MySpace, RottenTomatoes*			CNET Networks, *cbs.com, cbssports.com*
Others		Disney theme parks & Disney Stores (Merchandise sale)	Dow Jones - Business content NDS - Digital media technology News Outdoor - Out of Home			OOH – CBS Outdoor & CBS Outernet

Source: Company data, I-Sec Research

Growth strategies that create value

We prefer media companies which have scaled up organically by expanding their current operations to newer geographies or extending their current product profile. Diversification of media companies though newer products without synergies has not necessarily led to the desired result.

Table 16: What growth strategies create value for media companies?

	For sweating the content better through geographical expansion or product extension – YES		To own the distribution network which enables content to reach out – YES
✓	**HT Media – Second largest English daily player** Launch of *Mint* (business daily) & *Hindustan Times* in Mumbai; Increase of presence for *Hindustan* in Uttar Pradesh; hindustantimes.com	✓	**Essel Group – Second largest national broadcaster** Diversifies into TV distribution – Dish TV (DTH) & WWIL (analogue cable), Zee Turner (channel distributor)
✓	**Jagran – Largest Hindi daily player** Launch of *i-Next* (bilingual daily), *City Plus* (weekly tabloid)	✓	**STAR Group – Largest Broadcasting play** Diversifies into TV distribution – Tata Sky (DTH), Hathaway (analogue cable), STAR Den (Channel distributor)
✓	**Dainik Bhaskar – Second largest Hindi daily player** Launch of *DNA* (English daily) & *Dainik Bhasker* in Punjab	✓	**Sun Group – Dominant regional player in South India** Diversifies into TV distribution – Sumangali Cable Vision (analogue cable) & Sun Direct (DTH)
✓	***ToI* – Largest English daily player** Venture into News Broadcasting - *Times Now* (English News), *ET Now* (business News) and indiatimes.com		
✓	**India Today – Largest English magazine player** Launch of newspaper *Mail Today*		
✓	**Zee News – #1 regional player in Marathi & Bengali** Launch of regional GECs in Telugu, Kannada & Tamil and regional news channels		
✓	**Sun TV – Dominant regional player in South India** Launches kids and comedy genre channels in South markets		
✓	**Star Group – #1 national broadcaster** Tie up with Jupiter for South regional GECs – Asianet Launch of Marathi & Bengali GECs		

	To provide more options for advertisers without content synergy – NO		To enter new segment with low synergies – NO
✗	**Print and Broadcasting players foraying into Radio Broadcasting expecting synergy in targetting local advertising** HT Media (*Fever FM*), Jagran Group (*Jagran Radio*), Dainik Bhaskar Group, Times Group (*Radio Mirchi*), India Today group (*Meow FM*), Sun TV Network (*Kal Radio & SAFM*) and NDTV Group (*Red FM*)	✗	**Broadcasters entering Movie production & distribution business** ZEEL – Zee Entertainment Studios STAR Group – Fox STAR Studios IBN18 – Studio18
✗	**TV18 – #1 business News player** Foraying into classifieds and specialty magazine publications – Infomedia Venturing into internet portals such as in.com, yatra.com	✗	**Content producer entering broadcasting business** UTV entering broadcasting business
✗	**HT Media – Leading Print player** Foraying into internet classifieds and social networking sites – shine.com, desimartini.com		

Source: Company data, I-Sec Research

We favour companies that focus on core strengths

We believe focus on non-core areas for scale or diversification by media companies is unproductive and not a strategy that will drive long-term value creation. Over the past few years, Movies, Radio and Hindi GECs have attracted huge capital, but value creation was dependent on relevant fit with the core. Entry into Movies and Radio are largely diversification moves with low synergies evident. We prefer companies such as Jagran, Sun and ZNL, which have judiciously invested and stayed away from the temptation of raising easy capital driven by hot investor trends.

Key forays into non-core areas by media companies are:

Flavour 1 – Movies

After two movie production companies – Indian Movies Fund (IMF) and UTV Motion Pictures (UMP) – raised US$109mn and US$70mn respectively in London’s AIM market, most media companies aggressively forayed into movie production & distribution. Immediately, ZEEL announced a multi-year schedule of movie production and the intention to raise capital to fund the same. This was followed by STAR India collaborating with Fox Studios and Sun launching Sun Pictures for movie production.

Flavour 2 – Radio

The phase II of radio licence auctions witnessed inordinate interest by media companies with more than 266 licences bagged by paying~ Rs11.5bn. The high valuations commanded by the only pure radio play ENIL post its listing, led to high investment in the sector despite the challenging economies of the Radio industry.

Flavour 3 – Hindi GECs

Before ’08, the Hindi GEC market had seven players and was considered crowded given the low addressability impacting pay TV revenues. In mid ’08, *9X* was launched, which was a Hindi GEC floated by ex-STAR India executive, Peter Mukherjea. *9X* received funding from a clutch of private equity investors including Temasek Holdings, New Silk Route, Kotak Mahindra Capital and New Vernon Private Equity. Soon after, *NDTV Imagine* was launched by NDTV and received a funding of Rs6bn (US$150mn) by NBC Universal pre-launch. At the same time, two youth-based GECs, *Zee Next* from ZEEL (winded up within a year of launch) and *UTV Bindaas* by UTV Software Communications were launched. These launches were further followed by *Colors* (by Viacom18, a 50:50 JV between IBN18 and Viacom) and *Real* (by Real Global Broadcasting, a JV between Miditech and Turner International).

Valuations – Buy into strength

The Indian Media sector, being a sunrise sector with multi-year growth drivers intact, is likely to trade at a significant premium to the broader markets. While we have outlined business models that we prefer based on long-term business trends, short-to-medium term stock performance is likely to hinge on current valuations. We expect Indian Media stocks to continue to trade at a premium to the broader markets on account of: i) expectations of continuing economic expansion, ii) sweeping changes owing to digitalisation and iii) under penetrated nature of regional media, hence, leaving immense scope for growth.

We prefer Print and regional Broadcasting

- In Print, we prefer Jagran and HT Media, which are likely to benefit from the favourable newsprint cycle and witness revival in ad growth.
- In Broadcasting, at the current price, we prefer ZEEL and ZNL. We expect the two to be prime beneficiaries of DTH revenue growth and anticipate the Essel Group to witness re-rating post the sorting out of balance sheet issues with the distribution companies, Dish TV and Wire & Wireless India (WWIL).
- We have a strong negative bias for cash-rich companies such as TVTN and Balaji Telefilms, which are unlikely to distribute free cash and have low avenues for growth. ENIL, a play on secondary media such as Radio and OOH, is likely to continue to be hurt by the slowdown.
- We are concerned about companies which are 'buying' scale from growth initiatives funded by constant capital raising and business strategy determined by investor trends.

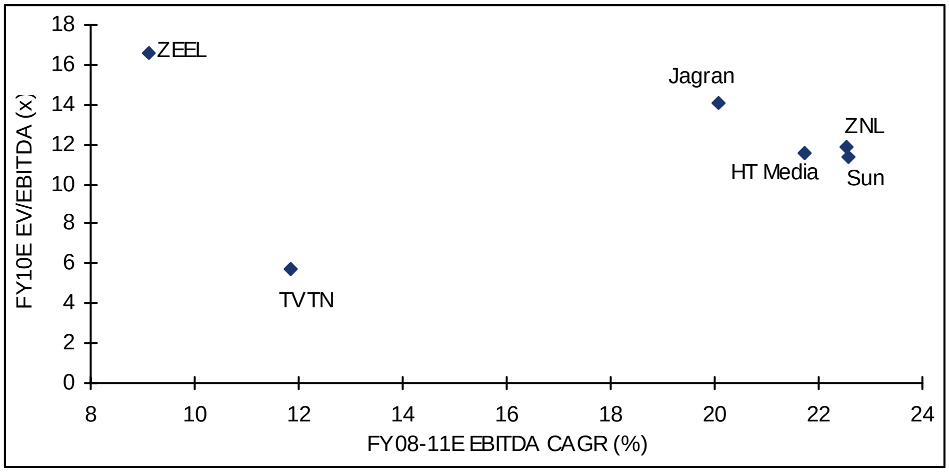
Table 17: I-Sec Media universe – Valuation snapshot

	Reco	CMP (Rs)	Mkt cap (Rs bn)	EPS (Rs)			P/E (x)			EV/EBITDA (x)		
				FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Balaji Telefilms	SELL	64	4.2	1.6	2.7	3.5	40.4	24	18.1	11.7	8.7	6.3
ENIL	SELL	209	10	(12.7)	(2.8)	5.6	NM	NM	37.2	NM	22.7	11.3
HT Media	HOLD	119	27.9	0.9	5.0	6.6	139.8	23.6	18.1	33	11.6	9.4
IBN18	SELL	123	22.1	(5.0)	(2.2)	(0.5)	NM	NM	NM	NM	NM	NM
Jagran Prakashan	BUY	105	31.6	3.0	4.7	5.5	34.5	22.3	19	23.6	14.1	12
NDTV	BUY	162	10.2	(81.4)	(30.0)	(5.9)	NM	NM	NM	NM	NM	256.5
Sun TV Network	BUY	275	108.5	9.2	11.6	13.6	29.8	23.7	20.3	14.5	11.4	9.7
TV Today	HOLD	98	5.7	5.8	8.7	10.2	16.9	11.2	9.6	9.4	5.7	4.7
ZEEL	HOLD	218	94.7	8.5	10.0	11.8	25.7	21.9	18.5	17.7	16.6	13.8
Zee News	BUY	44	10.6	1.9	2.1	2.5	23.6	20.8	17.4	14.4	11.8	9.7

NM – Not meaningful; Source: Bloomberg, Company data, I-Sec Research

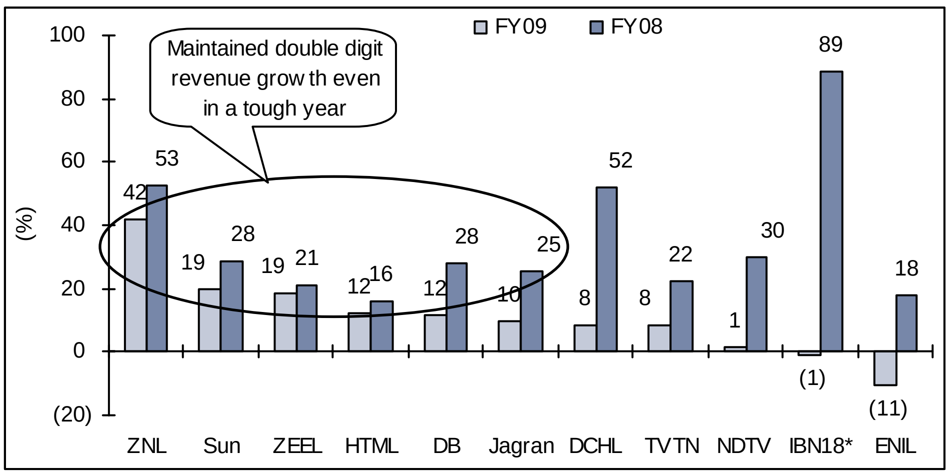
Stock screens

Chart 21: Snapshot of growth expectations versus valuations



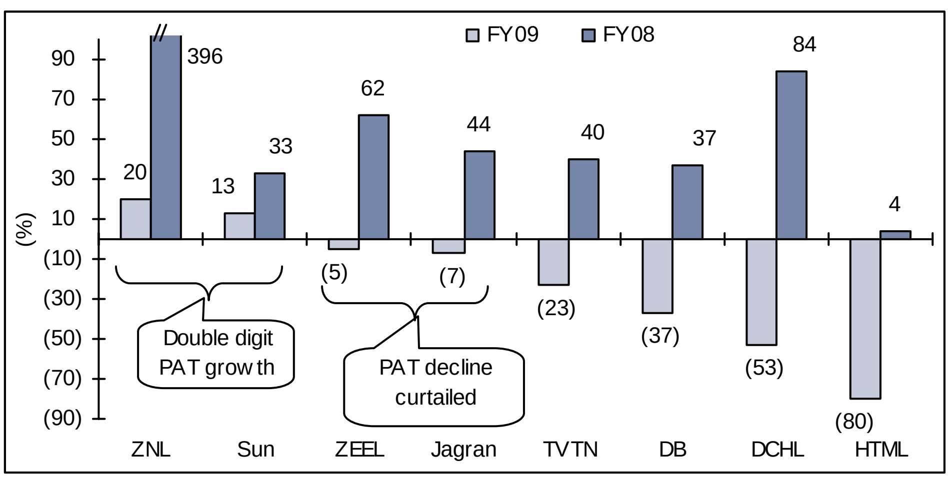
Source: Company data, Bloomberg, I-Sec Research

Chart 22: YoY revenue growth – FY09 versus FY08



*IBN18 news operations only, pro forma for *IBN7* consolidation
Source: Company data, I-Sec Research

Chart 23: YoY PAT growth – FY09 versus FY08



Source: Company data, I-Sec Research

Table 18: Foreign exchange fluctuations

(Rs mn)

	FY09	FY08
ZEEL	889	182
TV18	268	9
HT Media	102	102
Jagran	85	-
NDTV	7	-

Source: Company data, Bloomberg, I-Sec Research

Table 19: FY09 was the year for cleaning books for media companies

(Rs mn)

	One-off items & provisions	% of revenues	Comments
NDTV	405	8.2	Severance pays, provisioning for bad debts and other employee benefits
Balaji	322	9.5	Rs140mn for diminution in value of investments & Rs183mn write-off of dues from *9X*
TV18	834	17.2	Various items
ENIL	266	6.2	One-off items and loss on exited properties
HT Media	191	1.4	Rs113mn on ad-for-equity & Rs75mn on business consultancy charges
Jagran	101	1.2	Provision for doubtful debts
ZEEL	(1,451)	6.7	Write back of Rs1,425mn in prior tax provisions & Rs26mn diminution in value of investments

Source: Company data, Bloomberg, I-Sec Research

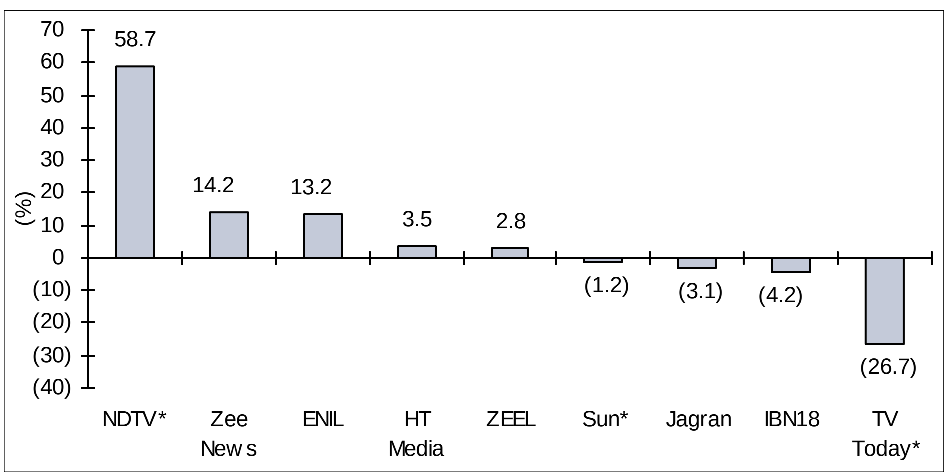
Table 20: Media companies – Shares pledged

(mn)

	Total shares	Pledged shares	% shares pledged	Promoters shares	% of promoters holding pledged
TV18	120	43	35.7	62	69.0
Network18	96	24	25.2	47	51.4
ZNL	240	51	21.4	130	39.5
UTV	34	6	17.3	28	20.8
WWIL	217	36	16.7	106	34.4
ZEEL	434	60	13.8	180	33.3
Balaji	65	4	6.6	26	16.4
Sun	394	18	4.7	303	6.1
PVR	23	1	2.2	9	5.3
Dish TV	946	2	0.2	689	0.3

Source: NSE, I-Sec Research

Chart 24: FY09 net debt as a percentage of current market cap



* Estimates; Source: Company data, I-Sec Research

Table 21: Snapshot of media companies

	Description	Market cap (Rs mn)	Revenues (Rs mn)	FDI Limit (%)	Foreign investors	Promoter holding (%)
Sun	Monopoly in South India	108,452	6,655	100	Astro Malaysia holds 20% in SAFM, radio subsidiary	77.0
ZEEL	Second largest Broadcasting play	94,679	10,593	100	None	41.5
Jagran	Owner of #1 Hindi daily	31,638	5,517	26	Independent News & Media (INM) holds 13.5%	52.1
HT Media	Leading Print player with presence in English, Hindi and business dailies	27,932	11,299	26	None	68.8
IBN18	Broadcasting play in News and Entertainment	22,098	3,522	26	Viacom holds 50% in Viacom18	52.0
Zee News	Regional Broadcasting and News play	10,634	4,089	26	None	54.1
NDTV	Broadcasting play in News and Entertainment	10,151	3,883	26	NBC Universal holds 25% in NDTV Networks	63.2
ENIL	Leading Radio and OOH player	9,959	4,262	20	Goldman Sachs & Lehman Brothers each hold 8.3% in OOH & Events	71.2
TV Today	#1 Hindi news player	5,676	2,359	26	None	55.9

Source: Company data, Bloomberg, I-Sec Research

Annexure 1: Detailed models

Table 22: Pay TV model

	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E
Total HHs (mn)	**193.1**	**196.0**	**198.9**	**204.0**	**209.1**	**214.4**	**219.8**	*2.5*
Growth (% YoY)	*1.5*	*1.5*	*1.5*	*2.5*	*2.5*	*2.5*	*2.5*	
TV HHs (mn)	**112.0**	**115.0**	**119.0**	**125.1**	**131.4**	**137.9**	**144.7**	*5.0*
Growth (% YoY)	*2.8*	*2.7*	*3.5*	*5.1*	*5.0*	*5.0*	*4.9*	
TV penetration of total HHs (%)	*58.0*	*58.7*	*59.8*	*61.3*	*62.8*	*64.3*	*65.8*	
C&S HHs (mn)	**70.0**	**74.0**	**80.7**	**87.9**	**96.7**	**107.3**	**115.9**	***9.5***
Growth (% YoY)	*12.9*	*5.7*	*9.0*	*9.0*	*10.0*	*11.0*	*8.0*	
C&S penetration of TV HHs (%)	*62.5*	*64.3*	*67.8*	*70.3*	*73.6*	*77.9*	*80.1*	
Analogue cable HHs (mn)	**67.1**	**67.8**	**65.6**	**62.9**	**64.4**	**68.2**	**68.9**	*1.3*
Analogue cable ARPUs (Rs)	166	172	180	186	194	202	212	*4.1*
Analogue cable revenues	**127,398**	**139,414**	**143,858**	**143,562**	**147,837**	**160,794**	**174,072**	***4.9***
Digital cable HHs (mn)	**0.6**	**1.3**	**2.0**	**3.7**	**5.9**	**8.2**	**11.3**	***54.8***
Digital cable penetration of C&S HHs (%)	*0.8*	*1.8*	*2.4*	*4.2*	*6.1*	*7.7*	*9.8*	
Digital cable % of digital C&S HHs	*20.0*	*21.2*	*13.1*	*14.6*	*18.2*	*21.0*	*24.1*	
Digital cable ARPUs	127	152	177	200	223	247	274	*11.6*
Digital cable revenues	**437**	**1,730**	**3,510**	**7,038**	**13,643**	**22,086**	**33,532**	***75.8***
DTH HHs (mn)	**2.3**	**4.9**	**13.1**	**21.4**	**26.4**	**30.9**	**35.7**	***28.5***
DTH penetration of C&S HHs (%)	*3.3*	*6.6*	*16.2*	*24.3*	*27.3*	*28.8*	*30.8*	
DTH % of digital C&S HHs	*80.0*	*78.8*	*86.9*	*85.4*	*81.8*	*79.0*	*75.9*	
DTH ARPUs (Rs)	180	180	200	220	240	259	280	*8.8*
DTH revenues	**2,851**	**6,221**	**17,270**	**36,427**	**55,086**	**71,312**	**89,446**	***50.9***
Total digital C&S HHs (mn)	**2.9**	**6.2**	**15.1**	**25.1**	**32.3**	**39.1**	**47.0**	*32.9*
Growth (% YoY)	*187.4*	*116.3*	*142.3*	*66.4*	*28.8*	*21.2*	*20.1*	
Digital penetration of C&S HHs (%)	*4.1*	*8.4*	*18.7*	*28.5*	*33.4*	*36.4*	*40.5*	
Digital penetration of urban C&S HHs (%)	*6.7*	*13.8*	*30.6*	*46.4*	*54.3*	*59.8*	*65.4*	
Total digital revenues	**3,289**	**7,950**	**20,780**	**43,464**	**68,730**	**93,398**	**122,977**	***56.0***
Total subscription revs (Rs mn)	**130,687**	**147,365**	**164,638**	**187,027**	**216,567**	**254,192**	**297,049**	***15.9***
Growth (% YoY)	*21.3*	*12.8*	*11.7*	*13.6*	*15.8*	*17.4*	*16.9*	
Broadcasters subscription revs (Rs mn)	**19,878**	**23,693**	**30,801**	**40,346**	**51,564**	**63,833**	**78,293**	***26.3***
Growth (% YoY)	*31.5*	*19.2*	*30.0*	*31.0*	*27.8*	*23.8*	*22.7*	
Share of total (%)	*15.2*	*16.1*	*18.7*	*21.6*	*23.8*	*25.1*	*26.4*	
MSOs subscription revs (Rs mn)	**7,990**	**10,656**	**17,311**	**28,978**	**41,717**	**53,947**	**68,222**	***40.9***
Growth (% YoY)	*36.3*	*33.4*	*62.5*	*67.4*	*44.0*	*29.3*	*26.5*	
Share of total (%)	*6.1*	*7.2*	*10.5*	*15.5*	*19.3*	*21.2*	*23.0*	
LCOs subscription revs (Rs mn)	**102,819**	**113,016**	**116,527**	**117,703**	**123,285**	**136,412**	**150,535**	***6.6***
Growth (% YoY)	*18.5*	*9.9*	*3.1*	*1.0*	*4.7*	*10.6*	*10.4*	
Share of total (%)	*78.7*	*76.7*	*70.8*	*62.9*	*56.9*	*53.7*	*50.7*	

Source: Company data, I-Sec Research

Table 23: DTH model

	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E
DTH HHs (mn)	**2.3**	**4.9**	**13.1**	**21.4**	**26.4**	**30.9**	**35.7**	*28.5*
DTH % of C&S HHs	*3.3*	*6.6*	*16.2*	*24.3*	*27.3*	*28.8*	*30.8*	
DTH % of Digital HHs	*80.0*	*78.8*	*86.9*	*85.4*	*81.8*	*79.0*	*75.9*	
DTH % of C&S HHs in CAS areas	*23.2*	*30.7*	*35.0*	*40.0*	*20.0*	*15.0*	*18.0*	
DTH % of C&S HHs in non-CAS areas	*2.8*	*6.1*	*15.8*	*24.0*	*28.0*	*32.0*	*35.0*	
% of paying subscribers	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*	
DTH revenues (Rs mn)	**6,221**	**17,270**	**36,427**	**55,086**	**71,312**	**89,446**	**111,367**	*32.2*
Growth (% YoY)	*200.0*	*118.2*	*177.6*	*110.9*	*51.2*	*29.5*	*25.4*	
ARPU (Rs)	180	180	200	220	240	259	280	*8.8*
Broadcasters DTH revenues (Rs mn)	**2,799**	**7,772**	**16,392**	**24,789**	**32,090**	**40,251**	**50,115**	*32.2*
% share	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	*45.0*	
DTH operators revenues (Rs mn)	**3,421**	**9,499**	**20,035**	**30,298**	**39,221**	**49,195**	**61,252**	*32.2*
% share	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	*55.0*	

Source: Company data, I-Sec Research

Table 24: Digital cable model

	FY07	FY08	FY09	FY10E	FY11E	FY12E	FY13E	4-yr CAGR FY09-13E
C&S HHs in CAS mandated areas (mn)	**1.5**	**1.6**	**1.8**	**1.9**	**8.3**	**20.3**	**28.9**	***101.3***
CAS HHs as a % of total C&S HHs	*2.2*	*2.2*	*2.2*	*2.2*	*8.6*	*18.9*	*24.9*	
CAS HHs (mn)	**0.6**	**0.6**	**0.8**	**0.9**	**1.3**	**2.4**	**4.0**	***51.0***
CAS % of C&S HHs in CAS areas	*38.0*	*37.2*	*43.7*	*48.0*	*16.1*	*11.7*	*13.9*	
CAS % of digital HHs in CAS areas	*62.1*	*54.8*	*55.5*	*54.5*	*44.6*	*43.8*	*43.5*	
ARPU (Rs)	127	152	177	200	223	247	274	
CAS revenues (Rs mn)	**437**	**1,077**	**1,462**	**2,016**	**3,018**	**5,507**	**10,494**	***63.7***
Growth (% YoY)		*146.3*	*35.8*	*37.9*	*49.7*	*82.5*	*90.6*	
C&S HHs in non-CAS areas (mn)	**68.5**	**72.4**	**78.9**	**86.0**	**88.4**	**87.1**	**87.0**	*2.5*
Non-CAS HHs as a % of total C&S HHs	*97.8*	*97.8*	*97.8*	*97.8*	*91.4*	*81.1*	*75.1*	
Digital cable HHs in non-CAS areas	**-**	**0.7**	**1.2**	**2.2**	**3.5**	**4.4**	**5.2**	*44.9*
Digital cable % of C&S HHs in non-CAS areas	-	*1.0*	*1.5*	*2.5*	*4.0*	*5.0*	*6.0*	
Digital cable % of digital HHs in non-CAS areas	-	*13.7*	*8.7*	*9.4*	*12.5*	*13.5*	*14.6*	
ARPU (Rs)	127	152	177	200	223	247	274	*11.6*
Digital cable revenues in non-CAS areas (Rs mn)	**-**	**638**	**2,000**	**3,995**	**7,616**	**11,703**	**15,753**	***67.5***
Growth (% YoY)			*213.3*	*99.7*	*90.6*	*53.7*	*34.6*	
Total digital cable HHs	**0.6**	**1.3**	**2.0**	**3.1**	**4.9**	**6.7**	**9.2**	*47.4*
Digital cable % of C&S HHs	*0.8*	*1.8*	*2.4*	*3.5*	*5.0*	*6.3*	*8.0*	
Digital cable % of digital HHs	*20.0*	*21.0*	*13.0*	*12.2*	*15.1*	*17.2*	*19.6*	
Total digital cable revenues (Rs mn)	**437.4**	**1,715**	**3,463**	**6,011**	**10,633**	**17,210**	**26,247**	***65.9***
Growth (% YoY)		*292.2*	*101.8*	*73.6*	*76.9*	*61.8*	*52.5*	
Broadcasters digital cable revs (Rs mn)	**77**	**381**	**880**	**1,594**	**3,027**	**5,176**	**8,279**	***75.1***
% share	*17.7*	*22.2*	*25.4*	*26.5*	*28.5*	*30.1*	*31.5*	
MSOs digital cable revs (Rs mn)	**52**	**254**	**587**	**1,063**	**2,018**	**3,451**	**5,519**	***75.1***
% share	*11.8*	*14.8*	*16.9*	*17.7*	*19.0*	*20.1*	*21.0*	
LCOs digital cable revs (Rs mn)	**308**	**1,081**	**1,995**	**3,354**	**5,588**	**8,583**	**12,449**	***58.0***
% share	*70.5*	*63.0*	*57.6*	*55.8*	*52.5*	*49.9*	*47.4*	

Source: Company data, I-Sec Research

Annexure 2: Index of Tables and Charts

Tables

Charts

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Equity Research
August 27, 2009
BSE Sensex: 15770

Media

Target Price Rs298

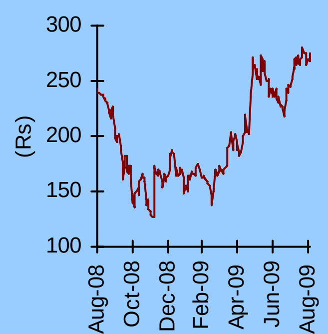
Target price revision
Rs298 from Rs271

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	77.0	77.0	77.0
Institutional investors	11.6	11.6	10.6
MFs and UTI	2.5	2.5	2.1
Insurance Cos.	0.1	0.1	0.1
FIIs	9.0	9.0	8.4
Others	11.4	11.4	12.4

Source: NSE

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

INDIA

ICICI Securities

Sun TV Network

BUY
Upgrade from Hold

Sun shines in all seasons

Rs275

Reason for report: Company update

Sun TV Network (Sun) dominates the South Indian regional markets, with leadership in the three South Indian markets of Tamil, Telugu & Kannada, and is #2 in the Malayalam market. Sun has further strengthened its leadership via launch of niche regional channels. Owing to its huge bouquet of channels and significant distribution influence via promoter companies, Sun is best-placed to benefit from the increasing digitalisation of C&S distribution. Also, the company is largely immune to the ad slowdown owing to wide lead from competition in the key markets of Tamil Nadu and Andhra Pradesh. Sun's extensive movie library built over the past +10 years has created a strong entry barrier for competition. We upgrade Sun to BUY from Hold with target price of Rs298/share (earlier Rs271/share) based on FY11E P/E of 22x.

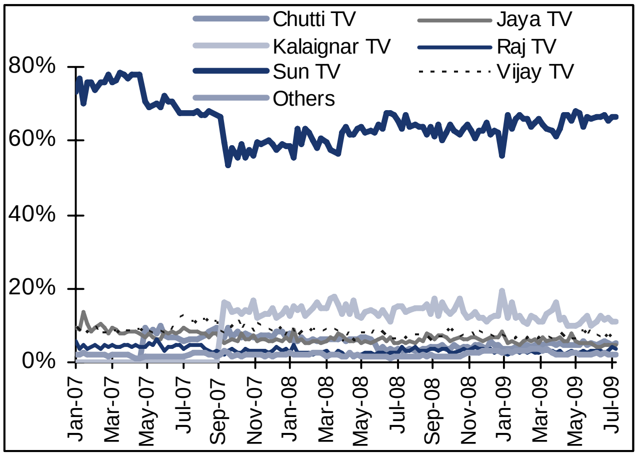
- **Fortifying market leadership.** Sun is further strengthening its leadership in key South Indian markets via launch of channels in niche genres such as comedy and kids, which will enable it to garner a larger share of the ad pie. Sun owns >20 channels in South India, with market share of over 50%. The company's ad revenues (TV + Radio) contribute only <60% to its overall revenues, thereby limiting impact of economic slowdown.
- **Subscription revenues to drive growth.** Sun is best positioned to leverage on the digitalisation wave as it enjoys considerable distribution control via promoter companies such as Sun Direct (DTH player) and Sumangali Cablevision (Chennai-based MSO). Sun's subscription revenues are expected to post CAGR of 36.7% over FY09-11E, driven by 75% increase in DTH revenues.
- **Radio and movies businesses, a concern.** Sun's radio business with 44 licenses has been bleeding and the company expects Rs600mn losses in Radio in FY10E. The company's foray into the movie production business is justified since it annually purchases TV distribution rights for over 75% of the movies produced in South India; however, the venture is likely to increase volatility in profitability, especially owing to the big ticket project *Endhiran*.
- **Valuations – Expect relative outperformance.** Sun currently trades at FY10E P/E of 23.3x, which is at 20% premium to the Sensex. Historically, Sun has traded at a premium of 50-60% to the Sensex and, we believe, the strength of the business model justifies the 30-40% premium range.

Market Cap	Rs108.4bn/US$2.2bn
Reuters/Bloomberg	SUTV.BO/SUN IN
Shares Outstanding (mn)	394.1
52-week Range (Rs)	285/122
Free Float (%)	23.0
FII (%)	8.4
Daily Volume (US$/'000)	1,840
Absolute Return 3m (%)	5.3
Absolute Return 12m (%)	12.8
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

Year to Mar	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	8,699	10,394	12,964	14,979
Rec. Net Income (Rs mn)	3,267	3,634	4,574	5,346
EPS (Rs)	8.3	9.2	11.6	13.6
% Chg YoY	32.2	11.2	25.9	16.9
P/E (x)	33.2	29.8	23.7	20.3
CEPS (Rs)	11.4	14.8	19.2	22.0
EV/E (x)	17.9	14.5	11.4	9.7
Dividend Yield (%)	0.9	1.1	1.4	1.9
RoCE (%)	22.5	19.7	23.0	25.0
RoE (%)	23.6	21.5	24.2	24.8

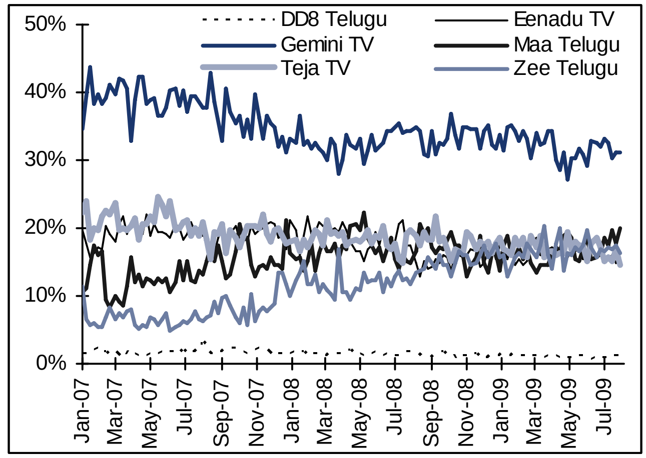
Chart 1: Sun dominates South Indian regional markets

Tamil – *Sun TV* is undisputed #1



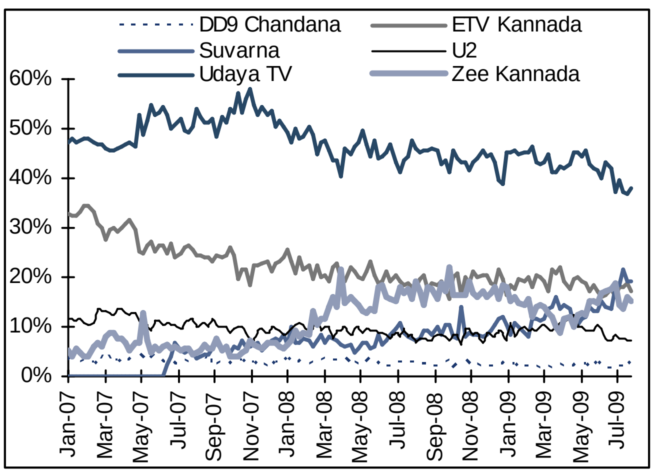
Source: TAM CS4+ Tamil market, I-Sec Research

Telugu – *Gemini TV* #1; *Teja TV* contender for #2



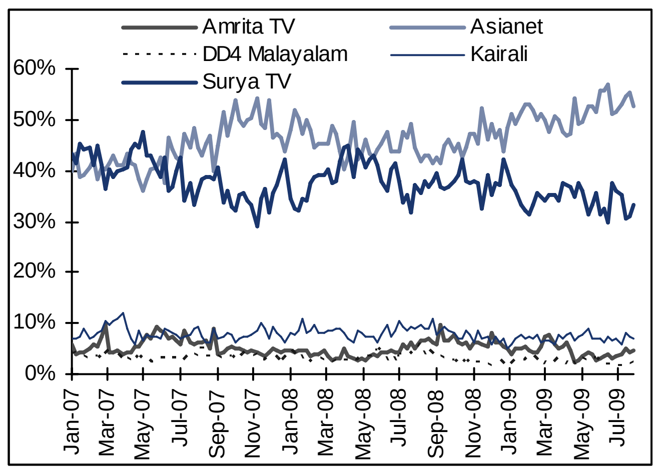
Source: TAM CS4+ Telugu market, I-Sec Research

Kannada – *Udaya TV* #1, recently seeing some pressure from *Zee Kannada* and *Suvarna TV*



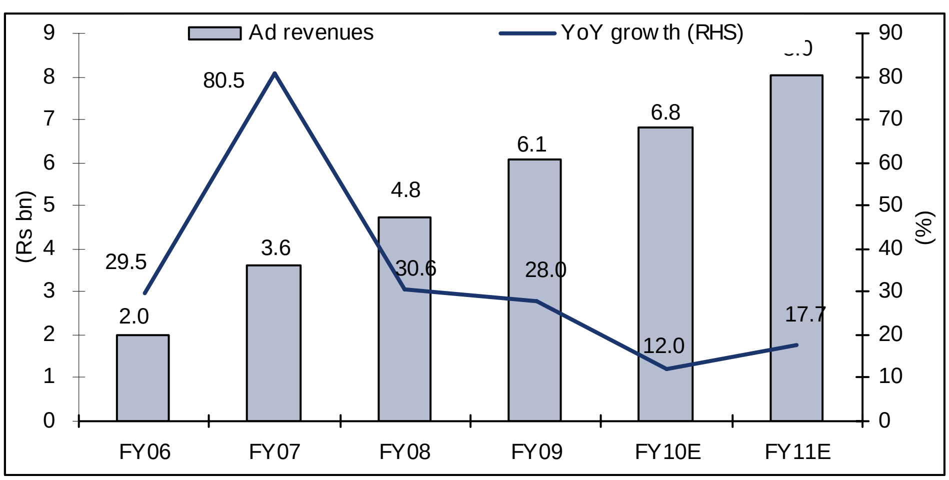
Source: TAM CS4+ Kannada market, I-Sec Research

Malayalam – *Surya TV* is strong #2; Asianet is #1



Source: TAM CS4+ Malayalam market, I-Sec Research

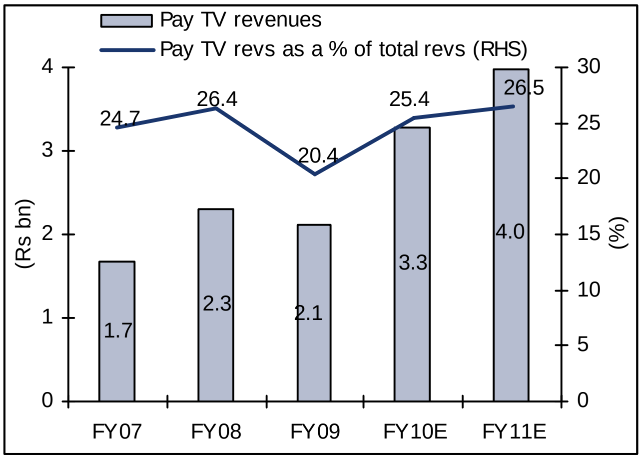
Chart 2: YoY ad revenue growth to be muted in FY10E



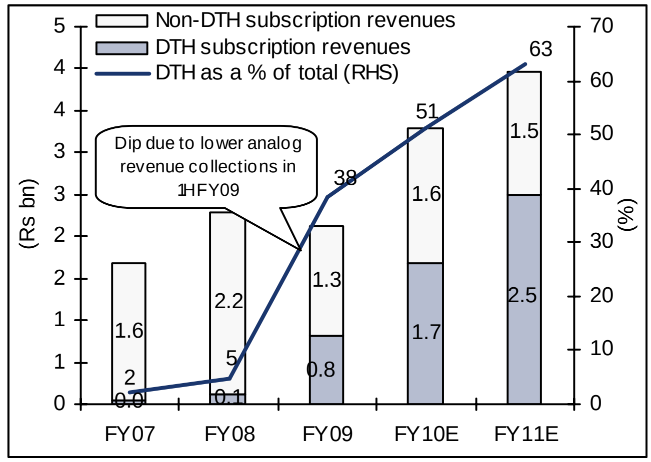
Source: Company data, I-Sec Research

Chart 3: DTH revenues to drive subscription revenue growth

Pay TV revenues decline in FY09 due to lower analogue subscription revenues in H1FY09

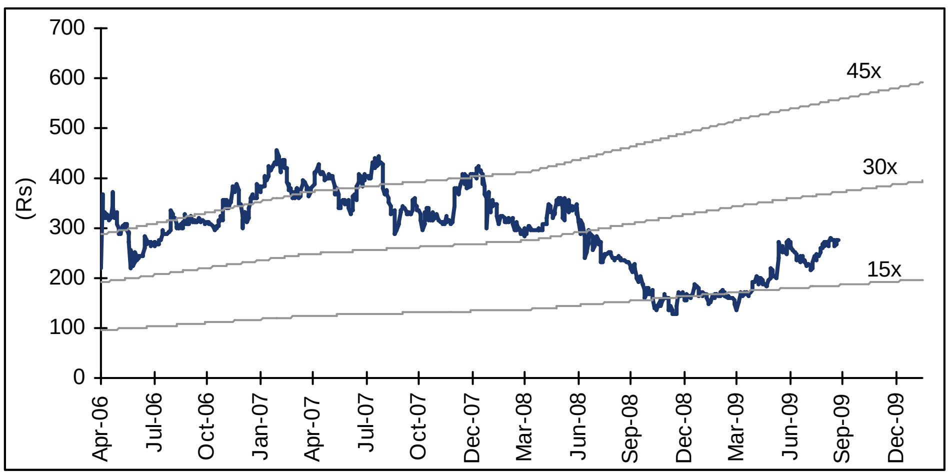


DTH revenues to contribute 51% of Pay TV revenues in FY10E



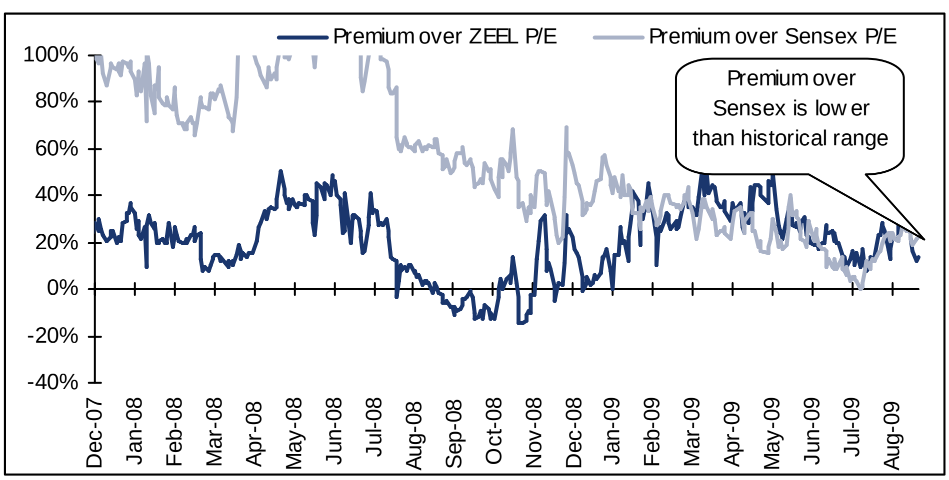
Source: Company data, I-Sec Research

Chart 4: P/E bands



Source: Bloomberg, Company data, I-Sec Research

Chart 5: P/E premium to Sensex and ZEEL



Source: Bloomberg, Company data, I-Sec Research

Financial Summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**8,699**	**10,394**	**12,964**	**14,979**
of which Advertising Income	*4,755*	*6,086*	*6,818*	*8,021*
of which Pay Channels Income	*2,293*	*2,123*	*3,290*	*3,968*
of which Broadcast fee	*1,256*	*1,498*	*1,478*	*1,567*
Operating Expenses	**2,724**	**3,026**	**3,542**	**3,970**
EBITDA	**5,975**	**7,368**	**9,421**	**11,010**
% margins	*0.69*	*0.71*	*0.73*	*0.73*
Depreciation & Amortisation	1,239	2,205	2,973	3,320
Gross Interest	159	138	120	122
Other Income	556	668	694	629
Recurring PBT	**5,133**	**5,693**	**7,023**	**8,196**
Add: Extraordinaries	-	-	-	-
Less: Taxes	2,015	2,342	2,640	3,016
- Current tax	1,908	2,237	2,575	2,941
- Deferred tax	67	23	25	30
- Others	39	82	40	44
Less: Minority Interest	(148)	(283)	(192)	(165)
Net Income (Reported)	**3,267**	**3,634**	**4,574**	**5,346**
Recurring Net Income	**3,267**	**3,634**	**4,574**	**5,346**

Source: Company data, I-Sec Research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	8,755	11,417	10,960	13,578
of which cash & cash eqv.	*4,297*	*3,298*	*833*	*1,877*
Total Current Liabilities & Provisions	2,516	4,858	5,622	6,204
Net Current Assets	**6,239**	**6,559**	**5,338**	**7,374**
Investments				
of which	**1,803**	**2,303**	**2,803**	**2,803**
Strategic/Group	*1,803*	*2,303*	*2,803*	*2,803*
Other Marketable	*1*	*1*	*1*	*1*
Net Fixed Assets	**7,668**	**10,179**	**11,428**	**12,158**
of which				
Capital Work-in-Progress	*2,218*	*2,218*	*2,218*	*2,218*
Deferred Tax Assets	**-**	**-**	**-**	**-**
Total Assets	**15,796**	**19,128**	**19,655**	**22,421**
Liabilities				
Borrowings	**695**	**2,095**	**50**	**50**
Deferred Tax Liability	**11**	**11**	**11**	**11**
Minority Interest	604	321	130	(35)
Equity Share Capital	1,970	1,970	1,970	1,970
Face Value per share (Rs)	*5*	*5*	*5*	*5*
Reserves & Surplus*	12,515	14,730	17,493	20,425
Net Worth	**14,486**	**16,700**	**19,463**	**22,395**
Total Liabilities	**15,796**	**19,128**	**19,655**	**22,421**

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	2,379	2,708	2,759	2,877
% growth (YoY)	10	22	24	12
EBITDA	1,763	2,013	2,257	2,236
Margin (%)	74	74	82	78
Other income	1,650	1,703	1,739	1,822
Add: Extraordinaries	-	-	-	-
Net profit	1,083	1,122	1,140	1,198

Source: Company data, I-Sec Research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**4,724**	**5,193**	**6,878**	**8,068**
Working Capital Changes	(1,216)	(1,320)	(1,243)	(992)
Capital Commitments	(5,936)	(5,216)	(4,721)	(4,051)
Free Cash Flow	**(2,428)**	**(1,342)**	**914**	**3,025**
Cash flow from Investing Activities	**556**	**668**	**694**	**629**
Issue of Share Capital	985	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(172)	1,400	(2,045)	-
Dividend paid	(1,153)	(1,469)	(1,811)	(2,414)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**(2,196)**	**(999)**	**(2,464)**	**1,044**

Source: Company data, I-Sec Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (Rs)				
Recurring EPS	8.3	9.2	11.6	13.6
Reported EPS	8.3	9.2	11.6	13.6
Recurring Cash EPS	11.4	14.8	19.2	22.0
Dividend per share (DPS)	2.5	3.1	3.8	5.1
Book Value per share (BV)	36.8	42.4	49.4	56.8
Growth Ratios (%)				
Operating Income	28.3	19.5	24.7	15.6
EBITDA	26.0	23.3	27.9	16.9
Recurring Net Income	26.3	7.5	30.8	18.2
Diluted Recurring EPS	32.2	11.2	25.9	16.9
Diluted Recurring CEPS	22.0	29.6	29.3	14.8
Valuation Ratios (x)				
P/E	33.2	29.8	23.7	20.3
P/CEPS	24.1	18.6	14.4	12.5
P/BV	7.5	6.5	5.6	4.8
EV / EBITDA	17.9	14.5	11.4	9.7
EV / Operating Income	20.2	18.4	15.0	12.9
EV / Operating FCF	30.5	27.7	19.0	15.1
Operating Ratio				
Cost of revenues / Revenues (%)	8.8	10.7	8.9	8.7
Selling Expenses/ Sales (%)	11.0	7.3	8.3	7.9
Other Income / PBT (%)	10.8	11.7	9.9	7.7
Effective Tax Rate (%)	39.2	41.1	37.6	36.8
NWC / Total Assets (%)	12.3	17.1	22.9	24.5
Receivables (days)	97	119	135	140
Payables (days)	43	68	93	97
D/E Ratio (x)	4.9	12.6	0.3	0.3
Return/Profitability Ratio (%)				
Recurring Net Income Margins	33.7	30.3	32.1	33.2
RoCE	22.5	19.7	23.0	25.0
RoNW	23.6	21.5	24.2	24.8
Dividend Payout Ratio	30.2	33.7	33.0	37.6
Dividend Yield	0.9	1.1	1.4	1.9
EBITDA Margins	68.7	70.9	72.7	73.5

Source: Company data, I-Sec Research

About the company – Sun TV Network

Business overview

Sun TV Network is India's largest regional broadcasting company, with leadership in the three key South Indian markets of Tamil Nadu, Andhra Pradesh and Karnataka, and is #2 in the Kerala market. Further, Sun has forayed into the film production & distribution business via its subsidiary Sun Pictures. Sun along with its two radio subsidiaries – Kal Radio (98% stake) and SAFM (65% stake) – operates 43 radio stations and holds 48.9% stake in Red FM.

About the promoters

Sun is promoted by the Maran family, with Kalanithi Maran as the Chairman & Managing Director. Sun's promoters also own distribution companies, Sumangali Cablevision (an MSO in Chennai) and Sun Direct (a DTH operator). The promoters have presence in the print media with two daily newspapers – *Dinakaran* & *Tamizh Murasu* – and four magazines.

Table 6: Diversification & Expansion

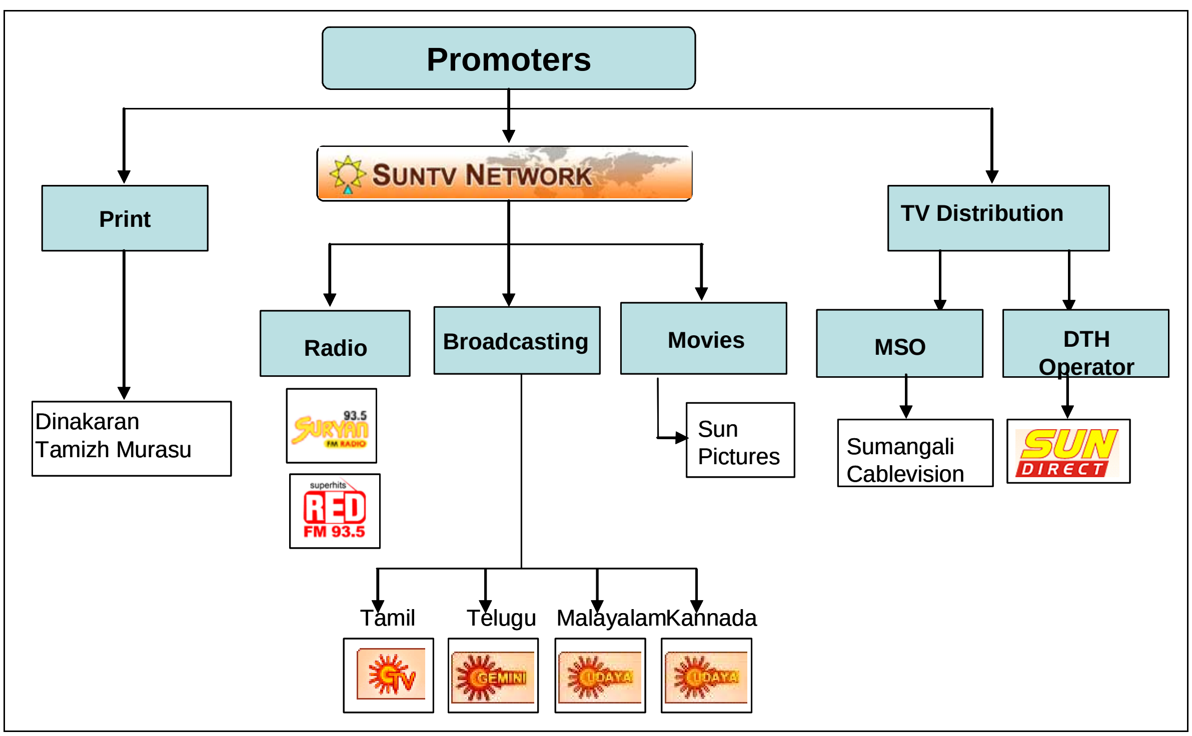
Product	New	Product development ✓ Comedy channels ✓ Children channels	Diversification × Sun Pictures × Radio – SAFM, KAL radio
Product	Present	Market penetration ✓ Increasing DTH subscription revenues	Market development
Sun TV Network		**Present**	**New**
		Markets	

Source: Company data, I-Sec Research

Foreign collaboration

Astro Group, Malaysia, via its investment arm South Asia Multimedia Technologies, recently increased its stake in Sun's radio subsidiary SAFM to 20% from 6.98% with investment of Rs750-1,000mn. Astro Group is also an investor in Sun Direct, with 20% stake.

Chart 6: Promoter-owned companies



Source: Company data, I-Sec Research

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Equity Research
August 27, 2009
BSE Sensex: 15770

INDIA

Zee Entertainment Enterprises

HOLD
Downgrade from Buy

Bottom-line driven

Rs218

Reason for report: Company update

Media

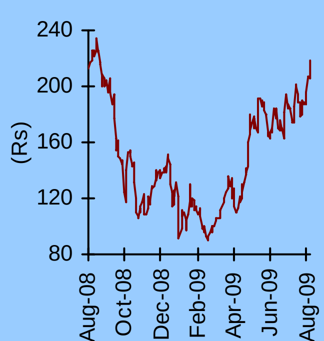
Target price Rs200

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	41.5	41.5	41.5
Institutional investors	50.5	50.3	50.1
MFs and UTI	11.6	10.0	11.9
Insurance Cos.	10.7	10.8	10.7
FIIs	28.1	29.5	27.5
Others	8.0	8.2	8.4

Source: NSE

Price chart



Zee Entertainment Enterprises' (ZEEL) is the leading broadcaster with a huge bouquet of channels across multiple genres and is in an enviable position to benefit from higher Pay TV revenues owing to increasing digitalisation. ZEEL's flagship channel, *Zee TV,* has regained significant lost ground in the Hindi GEC space and is currently a strong contender for the #1 position. ZEEL is bottom-line focused and has displayed strong financial prudence, leading to profitability being maintained in a tough year. Resolution of funding issues in Group distribution companies via capital raising should lead to stock rerating. We downgrade ZEEL to HOLD from Buy post the recent run-up; maintain target price of Rs200/share.

- **Focus on subscription revenues pays off.** In Q4FY09, ZEEL's subscription revenues overtook ad revenues and, as per management, will account for ~70% of revenues in three years. ZEEL has been active in monetising its content via Pay TV and garners ~50% of subscription revenues from outside India on the back its strong distribution network. ZEEL's DTH subscription revenues have increased as a percentage of revenue share, from 2.1% in FY07 to 5.4% in FY09.
- **Profitability-driven.** ZEEL successfully cut costs in a tough Q1FY10, registering operating costs lower 9.8% YoY and EBITDA margin at 24.6% even post ~30% decline in ad revenues. Promoter-driven management coupled with focus on the bottomline facilitated ZEEL's strong performance in FY09, even after GRP slippage and loss of market standing for *Zee TV* post launch of *Colors*.
- **Strong GEC player with diversified bouquet.** *Zee TV* is currently the #1 Hindi GEC player as regards prime time GRP share. *Zee TV*'s current GRP share is more or less the same vis-à-vis pre-launch of hugely successful *Colors*. ZEEL's bouquet of 15 domestic channels with strong presence in movies, English entertainment and sports genres has enabled it to maintain advertiser traction even in tough times.
- **Losses of Group companies a key concern.** Essel Group companies in distribution business – Dish TV and Wire & Wireless India (WWIL) – continue to see significant losses. Numerous related-party transactions to fund losses of Group companies have led to undue increase in ZEEL's working capital. We expect fundraising in distribution companies to ease strain on ZEEL's balance sheet.
- **Fundraising in distribution arms to enable rerating.** ZEEL currently trades at FY11E P/E of 18.5x, which is at 5% premium to the Sensex compared with average of 40% premium over FY07-09. We expect resolution of balance sheet issues in Group companies to result in rerating of the stock.

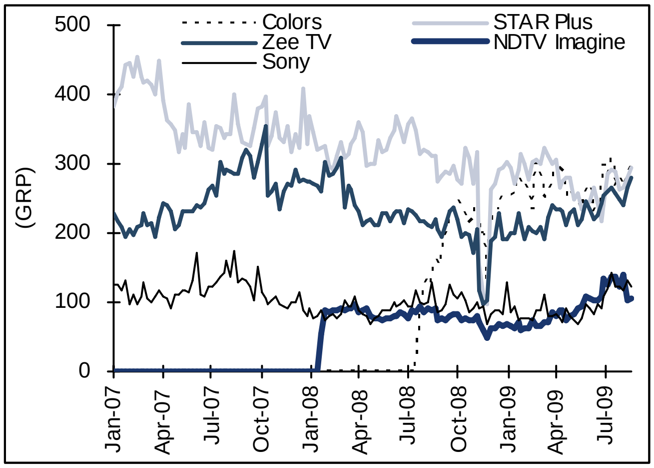
Market Cap	Rs94.6bn/US$1.9bn
Reuters/Bloomberg	ZEE.BO/Z IN
Shares Outstanding (mn)	433.6
52-week Range (Rs)	255/88
Free Float (%)	58.5
FII (%)	27.5
Daily Volume (US$/'000)	7,500
Absolute Return 3m (%)	23.5
Absolute Return 12m (%)	1.9
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

Year to March	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	21,773	22,421	25,824	29,658
Rec. Net Income (Rs mn)	3,673	4,325	5,116	5,960
EPS (Rs)	8.5	10.0	11.8	13.7
% Chg YoY	(4.6)	17.8	18.3	16.5
P/E (x)	25.7	21.9	18.5	15.9
CEPS (Rs)	9.2	11.0	13.0	15.1
EV/E (x)	17.7	16.6	13.8	12.1
Dividend Yield (%)	0.9	1.0	1.2	1.4
RoCE (%)	8.7	7.3	8.3	8.3
RoE (%)	11.7	12.1	13.1	13.7

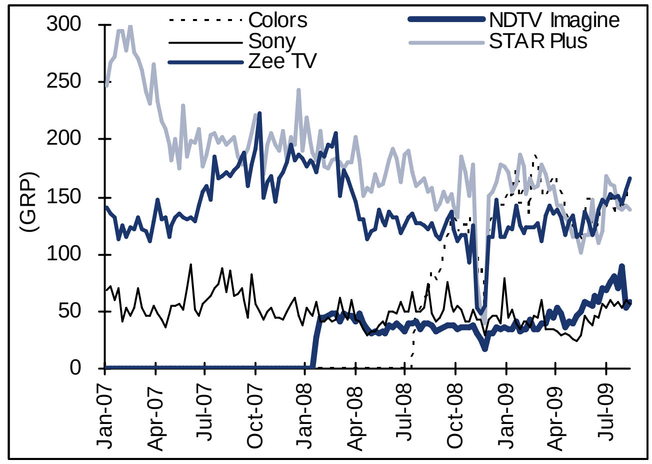
Vikash Mantri, CFA
vikash.mantri@icicisecuritiescom
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

Chart 1: GRPs – *Zee TV* is close contender for #1 position in Hindi GECs

All day GRPs – *Zee TV* is strong #3



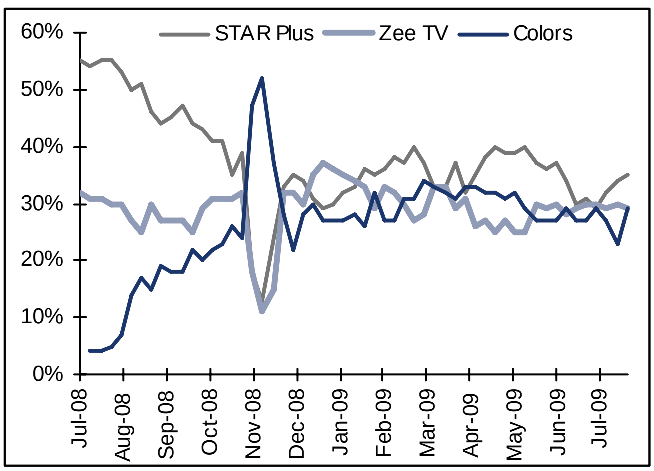
Prime-time GRPs – *Zee TV* on top



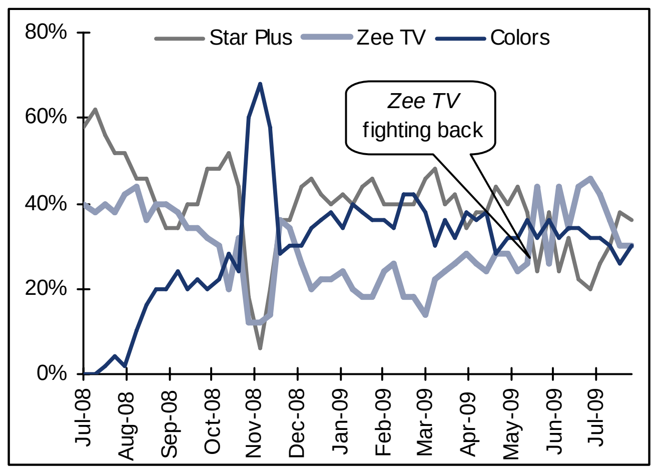
Source: TAM CS4+ HSM market

Chart 2: Share of top programmes – *Zee TV* regaining lose ground

Top 100



Top 50



Source: TAM CS4+ HSM market

Table 1: Weekday prime-time – *Zee TV* leader in two slots; strong #2 in three slots

Time slot	Zee TV's show	TRP*	Rank	TRP* of #1 show	#1 show	Comment
7:00-7:30PM	Ghar Ghar Mein	0.6	2	1.5	Bhagyavidhaata (Colors)	
7:30-8:00PM	Chhoti Bahu	3.5	1	-	-	Leader by a wide margin
8:00-8:30PM	Maayka/Jhansi Ki Rani	1.8	3	5.3	Balika Vadhu (Colors)	Rani Laxmi Bai launched recently
8:30-9:00PM	Aap Ki Antara	2.5	3	3.1	Jai Shri Krishna (Colors)	Inching closer to #2
9:00-9:30PM	Pavitra Rishta	3.4	2	4.9	Bidaayi (STAR Plus)	Inching closer to #1
9:30-10:00PM	Agle Janam Mohe Bitiya Hi Kijo	3.9	2	6.5	Yeh Rishta Kya Kehlata Hai (STAR Plus)	Strong #2
10:00-10:30PM	Betiyaan	3.4	1	-	-	Recently overtook Uttaran (Colors)
10:30-11:00PM	Shree	3.1	2	3.5	Na Aana Is Des Laado (Colors)	Inching closer to #1
11:00-11:30PM	Pavitra Rishta Repeat	1.4	2	2.3	Balika Vadhu Repeat (Colors)	

* Average TRPs for last ten weeks (25-33) of CY10

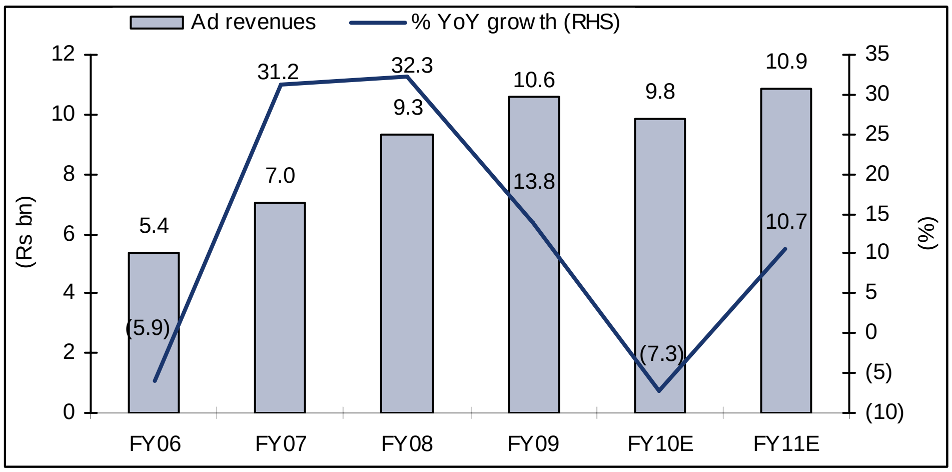
Source: TAM CS4+, HSM markets, I-Sec Research

Table 2: Strong bouquet of channels

Genre	Channels	GRP share* (%)	Comments
Hindi GEC	Zee TV	20.0	Strong contender for #1 spot
Hindi movies	Zee Cinema, Zee Classic, Zee Premier, Zee Action	35.0	4 channels combined – Leader by wide margin
Sports	Ten Sports, Zee Sports	35.0	Share depends on cricket programming
English (movies)	Zee Studio	8.0	Marginal player
English (Others)	Zee Café, Zee Trendz	15.0	Niche plays
Music	Zee Music, ETC**, ETC Punjabi**	16.0	Marginal players in a fragmented segment
Others	Zee Smile, Zee Jagran	--	

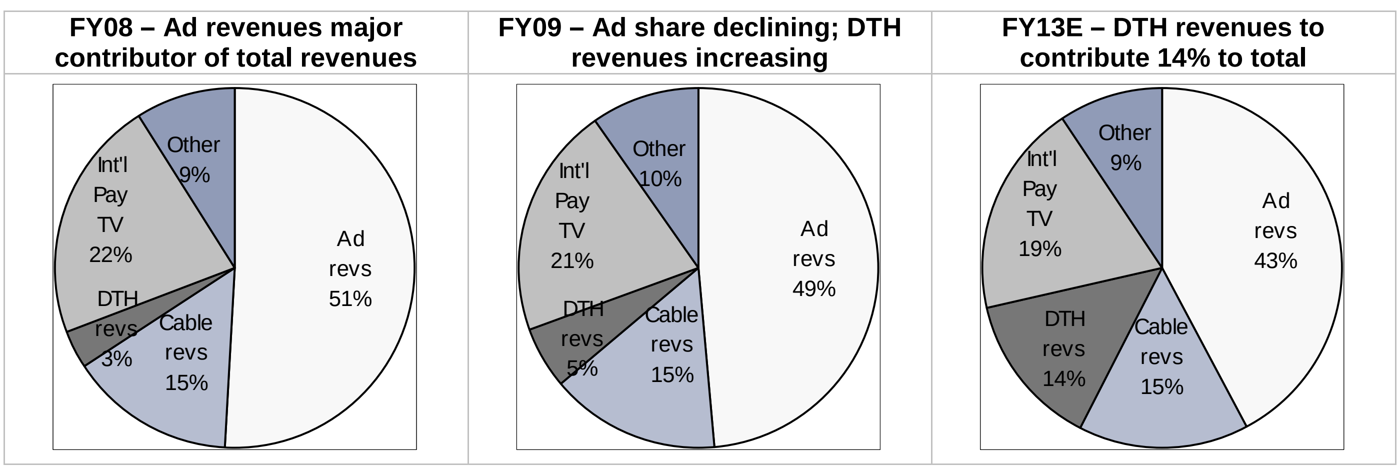
For Q2FY10, except sports; **Owned by ETC Networks, 50.18% subsidiary of ZEEL
Source: Company data, I-Sec Research

Chart 3: Ad revenues expected to decline 7.3% YoY in FY10E



Source: Company data, I-Sec Research

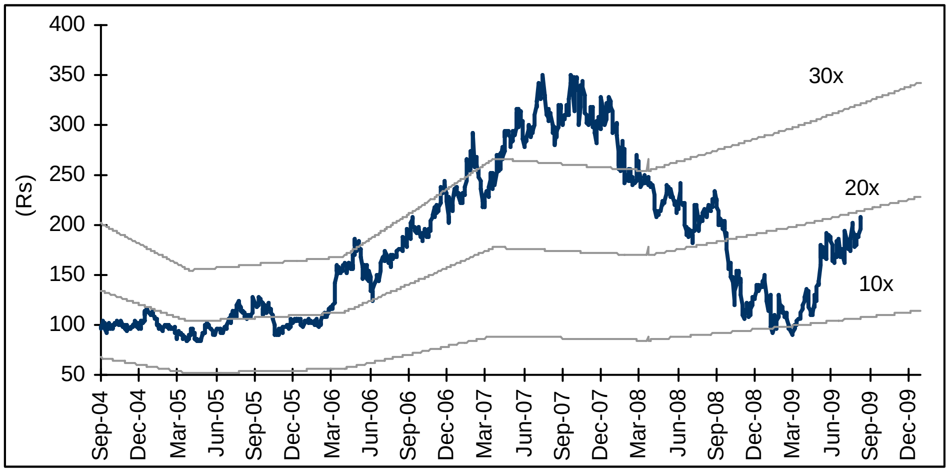
Chart 4: Subscription revenues, led by DTH revenues, to drive topline growth



Source: Company data, I-Sec Research

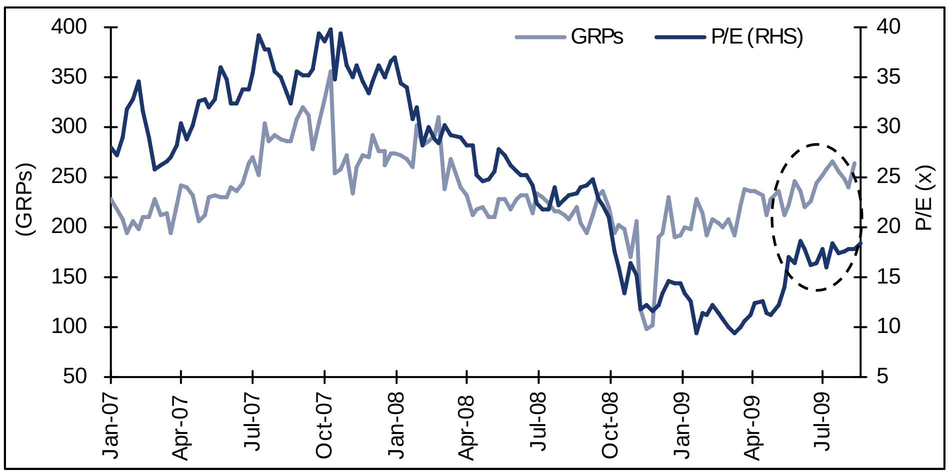
ZEEL's stock performance strongly co-related with *Zee TV*'s GRP performance; further consolidation by *Zee TV* will be a key stock driver

Chart 5: PE bands



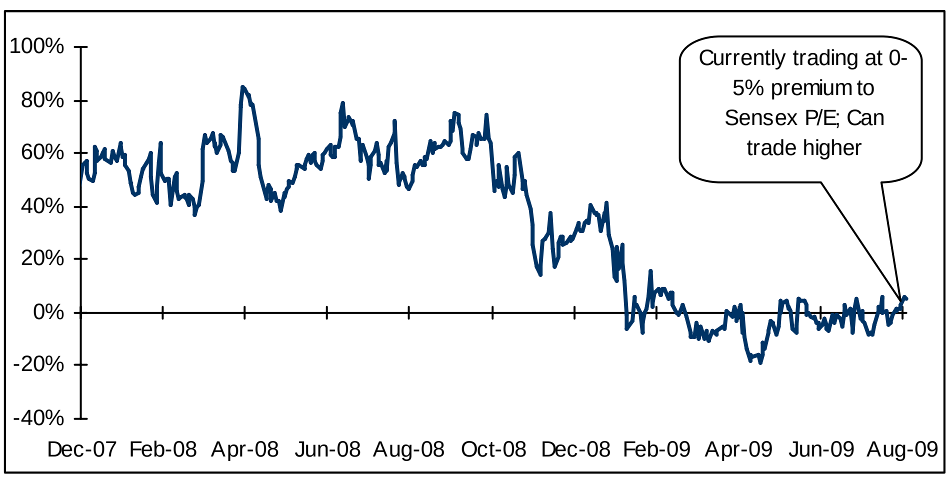
Source: Bloomberg, Company data, I-Sec Research

Chart 6: ZEEL's P/E strongly co-related with *Zee TV's* GRPs



Source: TAM CS4+; HSM markets, Bloomberg, Company data, I-Sec Research

Chart 7: P/E premium to Sensex



Source: Bloomberg, Company data, I-Sec Research

Financial Summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**21,773**	**22,421**	**25,824**	**29,658**
of which advertising	10,593	9,824	10,875	12,092
of which subscription	9,038	10,525	12,532	14,833
of which movies	331	371	463	579
of which others	1,812	1,702	1,954	2,154
Operating Expenses	**16,293**	**16,553**	**18,780**	**21,635**
EBITDA	**5,480**	**5,869**	**7,044**	**8,023**
% margins	*25.2*	*26.2*	*27.3*	*27.1*
Depreciation & Amortisation	310	436	510	566
Gross Interest	1,339	616	696	766
Other Income	1,572	1,682	1,850	2,036
Recurring PBT	**5,403**	**6,499**	**7,688**	**8,726**
Add: Extraordinaries	1,451	-	-	-
Less: Taxes	1,633	2,145	2,537	3,092
- Current tax	1,501	2,145	2,537	3,092
- Deferred tax	108	-	-	-
Less: Minority Interest	948	977	1,012	1,054
Net Income (Reported)	**5,124**	**4,325**	**5,116**	**5,592**
Recurring Net Income	**3,673**	**4,325**	**5,116**	**5,960**

Source: Company data, I-Sec Research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	27,026	29,363	33,074	37,596
of which cash & cash eqv.	*1,926*	*5,135*	*5,989*	*7,463*
Total Current Liabilities & Provisions	5,803	5,901	6,285	6,940
Net Current Assets	**21,223**	**23,461**	**26,789**	**30,656**
Investments	**1,271**	**1,271**	**1,271**	**1,271**
Net Fixed Assets	**2,910**	**3,470**	**4,046**	**4,729**
Goodwill	**15,183**	**15,183**	**15,183**	**15,183**
Total Assets	**40,587**	**43,385**	**47,288**	**51,838**
Liabilities				
Borrowings	5,757	5,257	5,257	5,257
Deferred Tax Liability	(113)	(113)	(113)	(113)
Minority Interest	948	977	1,012	1,054
Equity Share Capital	434	434	434	434
Face Value per share (Rs)	*1.0*	*1.0*	*1.0*	*1.0*
Reserves & Surplus*	33,561	36,831	40,699	45,206
Net Worth	**33,995**	**37,264**	**41,132**	**45,640**
Total Liabilities	**40,587**	**43,385**	**47,288**	**51,838**

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	5,716	5,456	5,137	4,759
% growth (YoY)	43	5	(2)	(12)
EBITDA	1,488	1,200	1,202	1,170
Margin (%)	26	22	23	25
Other income	280	401	639	325
Add: Extraordinaries	(792)	(26)	(65)	-
Net profit	1,162	806	916	1,019

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**1,837**	**3,279**	**3,886**	**4,310**
Working Capital Changes	(5,078)	1,243	(2,429)	(2,418)
Capital Commitments	788	(996)	(1,086)	(1,249)
Free Cash Flow	**(2,454)**	**3,526**	**370**	**642**
Cash flow from Investing Activities	**1,495**	**1,210**	**1,697**	**1,873**
Issue of Share Capital	0	-	-	-
Buyback of shares	-	(0)	-	-
Inc (Dec) in Borrowings	1,891	(500)	-	-
Dividend paid	(989)	(1,085)	(1,283)	(1,495)
Extraordinary Items	**1,451**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**274**	**3,209**	**854**	**1,473**

Source: Company data, I-Sec Research

Table 6: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (in Rs.)				
Diluted Recurring EPS	8.5	10.0	11.8	13.7
Reported EPS	11.8	10.0	11.8	12.9
Recurring Cash EPS	9.2	11.0	13.0	15.1
Dividend per share (DPS)	2.0	2.2	2.6	3.0
Book Value per share (BV)	78.2	85.8	94.7	105.1
Growth Ratios (%)				
Operating Income	18.6	3.0	15.2	14.8
EBITDA	1.1	7.1	20.0	13.9
Recurring Net Income	(4.6)	17.8	18.3	16.5
Diluted Recurring EPS	(4.6)	17.8	18.3	16.5
Diluted Recurring CEPS	(2.5)	19.5	18.2	16.0
Valuation Ratios (x)				
P/E	25.7	21.9	18.5	15.9
P/CEPS	23.7	19.9	16.8	14.5
P/BV	2.8	2.5	2.3	2.1
EV / EBITDA	17.7	16.6	13.8	12.1
EV / Operating Income	4.5	4.3	3.8	3.3
EV / Operating FCF	(30.0)	21.5	66.7	51.4
Operating Ratio (%)				
Production cost/Sales	8.5	9.0	9.0	8.8
Other Income / PBT	29.1	25.9	24.1	23.3
Effective Tax Rate	23.8	33.0	33.0	35.4
NWC / Total Assets	47.5	42.2	44.0	44.7
Inventory Turnover (days)	NA	NA	NA	NA
Receivables (days)	103.5	102.4	93.4	93.5
Payables (days)	82.7	83.5	77.6	74.7
D/E Ratio (x)	0.17	0.14	0.13	0.11
Return/Profitability Ratio (%)				
Recurring Net Income Margins	15.7	17.9	18.5	18.8
RoCE	8.7	7.3	8.3	8.3
RoNW	11.7	12.1	13.1	13.7
Dividend Payout Ratio	23.6	22.0	22.0	22.0
Dividend Yield	0.9	1.0	1.2	1.4
EBITDA Margins	25.2	26.2	27.3	27.1

Source: Company data, I-Sec Research

About the company – Zee Entertainment Enterprises

Business overview

ZEEL is the third-largest television network in India, with 15 domestic channels in its bouquet, including the flagship channel *Zee TV* (top-3 player in Hindi GEC), *Zee Cinema* (#1 in Hindi movies segment), a cluster of strong English channels such as *Zee Café*, *Zee Studio*, *Zee Trendz* and sports channels *Ten Sports* & *Zee Sports.* ZEEL's subsidiary, Zee Turner, is the distributor of the largest Pay TV channel bouquet. ZEEL has forayed into production & distribution of movies via its subsidiary, Zee Entertainment Studios (ZES), with two banners – Zee Motion Pictures (for mainstream movies) and Zee Limelight (for modest-budget movies). ZEEL also has presence in the education segment through its initiatives Zee Learn, KidZee and Zee Schools.

About the promoters

ZEEL belongs to the Essel Group, a Media & Entertainment conglomerate with presence across broadcasting, distribution, movies and publishing. Apart from the media sector, the Essel Group has a diverse portfolio of assets in packaging, technology-enabled services, infrastructure development and education. The Group is family-controlled and closely managed by Mr Subash Chandra, a serial entrepreneur. ZEEL is the flagship company of the Group under the leadership of Mr Puneet Goenka (CEO), son of Mr Subash Chandra.

Table 8: Diversification & expansion

Product	New	Product Development ✓ Channels across all genres	Diversification ✗ Movies – Zee Motion Pictures ✗ Eductaion – Zee Learn
	Present	Market penetration ✓ Pay TV revenues	Market development ✓ *Zee Arabia*
ZEEL		**Present**	**New**
		Markets	

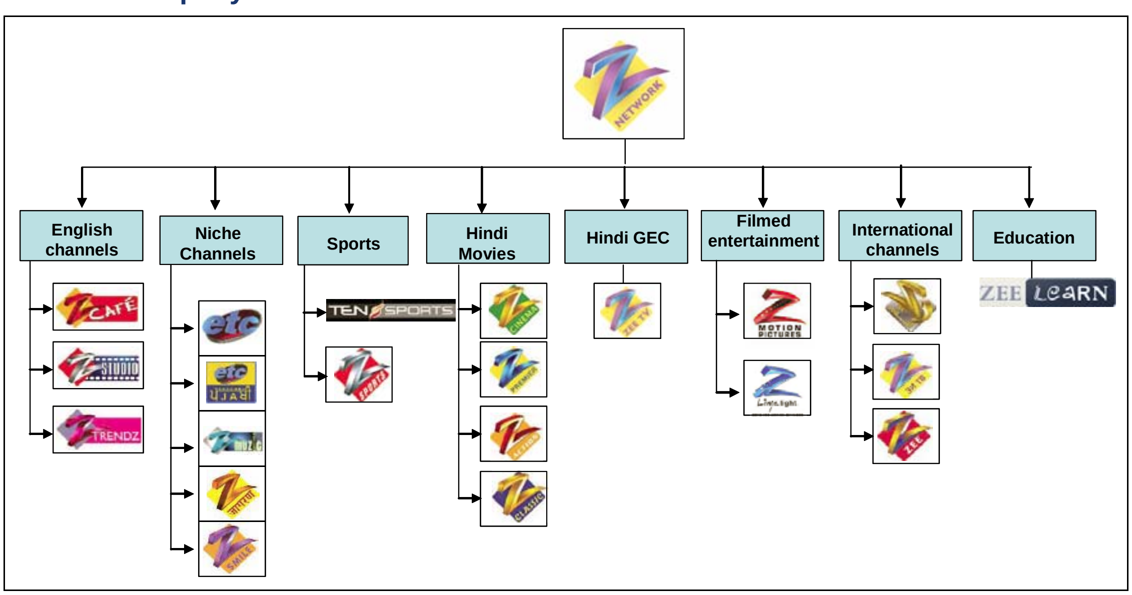
Source: Company data, I-Sec Research

Table 9: Group holdings in media

Company	MKt cap (Rs mn)	Area
ZEEL	94,679	General broadcasting & Movies
Zee News	10,634	News & regional broadcasting
Dish TV	46,041	DTH Opeator
WWIL	9,693	Multi-system operator
Zee Turner		Channel distribution, 50:50 JV between ZEEL & Turner International
DNA		Newspaper publisher, JV with Bhaskar Group
Fun Cinemas & E-city		Multiplexes & movie exhibition
ETC Networks	1,338	Niche channel broadcasting, subsidiary of ZEEL

Source: Company data, I-Sec Research

Chart 8: Company structure



*Owned by ETC Networks, 50.18% subsidiary of ZEEL and consolidated with ZEEL
Source: Company data, I-Sec Research

Equity Research

August 27, 2009

BSE Sensex: 15770

INDIA

Jagran Prakashan

BUY

Maintained

Disciplined play

Rs105

Reason for report: Company update

Media

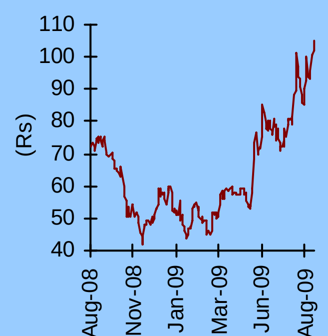
Target price Rs110

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	52.1	52.1	52.1
Institutional investors	16.7	16.6	16.2
MFs and UTI	11.9	12.0	12.1
Insurance Cos.	1.1	1.1	1.1
FIIs	3.7	3.6	3.1
Others	31.2	31.3	31.7

Source: NSE

Price chart



Jagran Prakashan (Jagran), publisher of the largest Hindi daily in India *Dainik Jagran,* offers the strongest regional play in Print, with presence in key Hindi-speaking markets. Jagran has been substantially successful in extending its strong brand franchise to the other key markets of Punjab & Bihar and launching new products to target youth. The company witnessed sharp increase in raw-material costs in FY09 owing to skyrocketing newsprint prices, which have corrected in FY10; this is likely to spur growth and profitability over FY10-11E. We recommend BUY on Jagran and maintain it as our top pick in the sector.

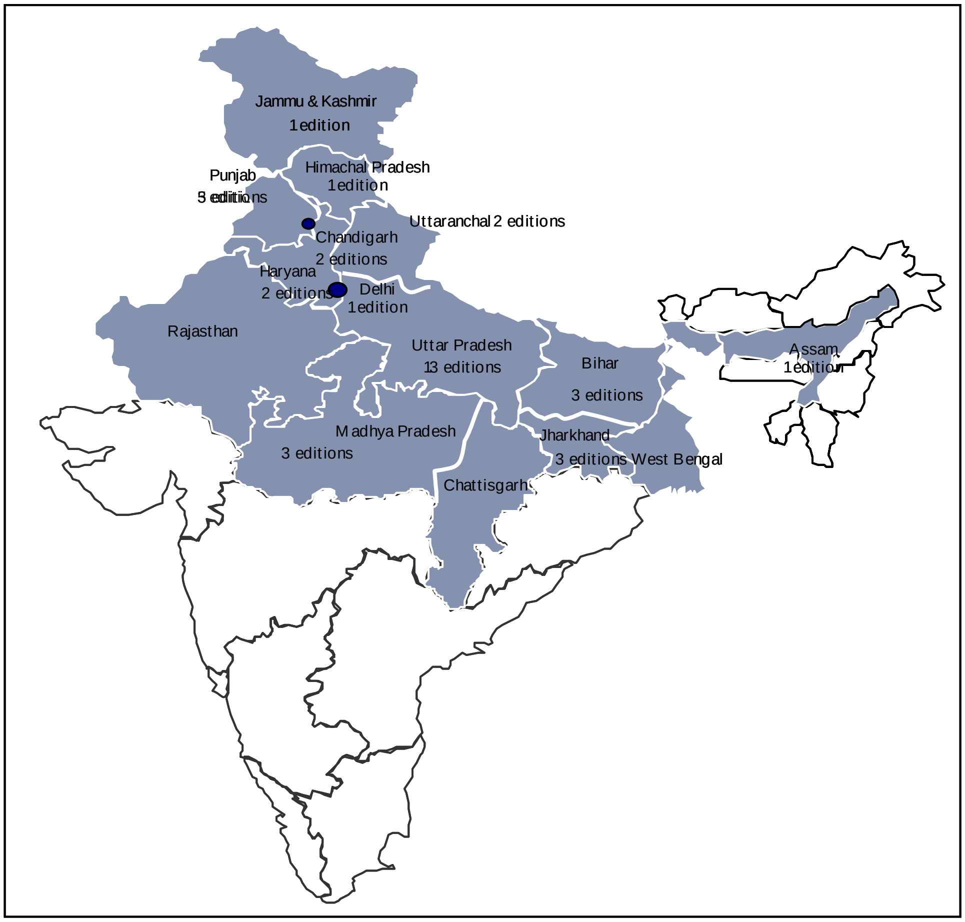
- **Regional play spanning Hindi heartland.** Jagran's *Dainik Jagran* is the most-read Hindi daily in India, having maintained leadership over the past six years. Jagran has fortified its presence in Hindi-speaking markets and boasts of presence across 11 states and 37 editions, of which nine were launched in the past three years.
- **Strategic focus on market & product development.** Jagran has successfully leveraged on *Dainik Jagran*'s strong brand, having extended its market leadership to the key markets of Punjab, Bihar and Jharkhand, where the company has emerged as a strong #2. Further, Jagran has expanded editions of its flanking products – *i-Next*, a bi-lingual daily targeted at youth with nine editions, and *City Plus*, a weekly.
- **Financially prudent.** Jagran's management has overcome the double whammy of the ad slowdown and the +50% rise in newsprint prices in FY09 on the back of judicious cost-cutting and focus on regional markets. In FY10E, we expect Jagran to reap gain from both, revival in advertisers' sentiment and lower newsprint prices. The company registered 10% revenue growth and 6.6% PAT decline in FY09, strongly outperforming peers, which witnessed significant erosion in profitability.
- **Valuations – Upsides remain.** Jagran currently trades at FY10E & FY11E P/E of 22.3x and 19x respectively. We believe the company would see 26% EPS CAGR over FY09-12E on the back of lower newsprint prices and revival in the ad market. We maintain BUY on the stock with target price of Rs110/share and retain Jagran as our top pick in the sector. Key risks to our recommendation are the possible impact of weak monsoons on consumption and overhang of financial restructuring at Independent News & Media, an FII with 13.5% stake in Jagran.

Market Cap	Rs31.6bn/US$647mn
Reuters/Bloomberg	JAGP.BO / JAGP IN
Shares Outstanding (mn)	301.2
52-week Range (Rs)	112/40
Free Float (%)	47.9
FII (%)	3.1
Daily Volume (US$/'000)	730
Absolute Return 3m (%)	49.7
Absolute Return 12m (%)	47.1
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

Year to March	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	8,234	8,897	10,007	11,012
Rec. Net Income (Rs mn)	916	1,416	1,663	1,847
EPS (Rs)	3.0	4.7	5.5	6.1
% Chg YoY	(6.6)	54.6	17.4	11.1
P/E (x)	34.5	22.3	19.0	17.1
CEPS (Rs)	24.3	16.4	14.2	12.7
EV/E (x)	23.6	14.1	12.0	10.8
Dividend Yield (%)	1.9	1.9	1.9	2.3
RoCE (%)	6.4	12.2	13.5	13.2
RoE (%)	16.7	23.7	24.3	23.6

Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

Chart 1: *Dainik Jagran* – Expanding footprint (11 states & 37 editions)



Source: Company data, I-Sec Research

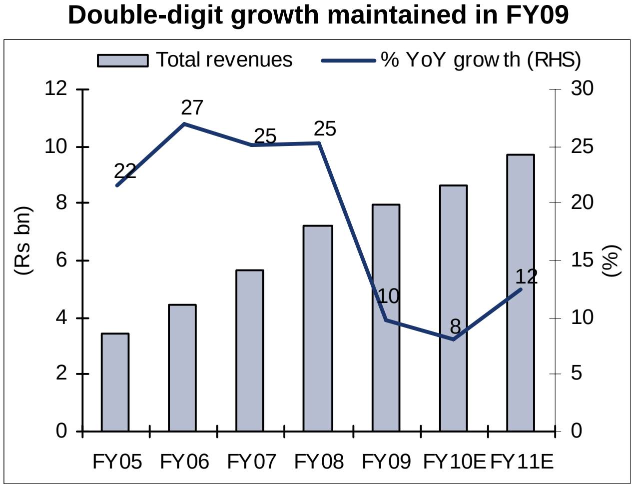
Table 1: *Dainik Jagran* – #1 in Uttar Pradesh and Haryana; gaining in Punjab, Bihar and Jharkhand

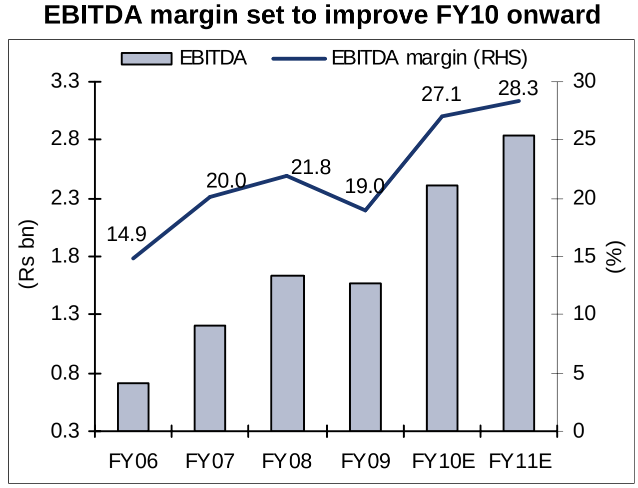
(%)

	2007 R1	2007 R2	2008 R1	2008 R2	Comment
Uttar Pradesh	40.3	42.2	42.6	41.6	Strong #1
Uttaranchal		40.1	39.9	39.6	Strong #2
Bihar	34.1	36.3	38.0	35.9	Strong #2
Jharkhand	26.7	27.4	27.6	28.4	Strong #2
Haryana		20.0	20.6	21.1	Strong #1
Jammu & Kashmir	16.7	13.6	13.7	13.6	#4
Punjab		12.8	12.4	12.4	Strong #2
Madhya Pradesh	8.2	10.2	10.4	11.3	Contender for #2
Delhi	8.9	8.8	9.0	9.4	#4 among Hindi

Source: IRS, I-Sec Research

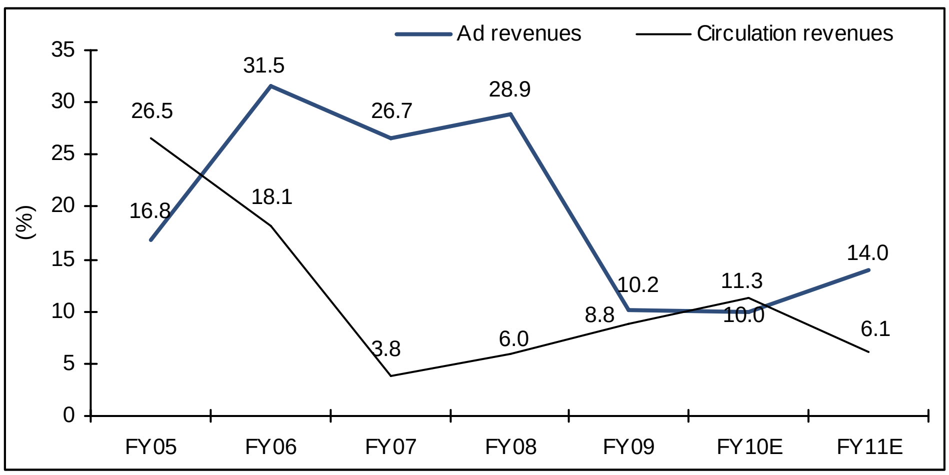
Chart 2: Strong performance even in a tough FY09





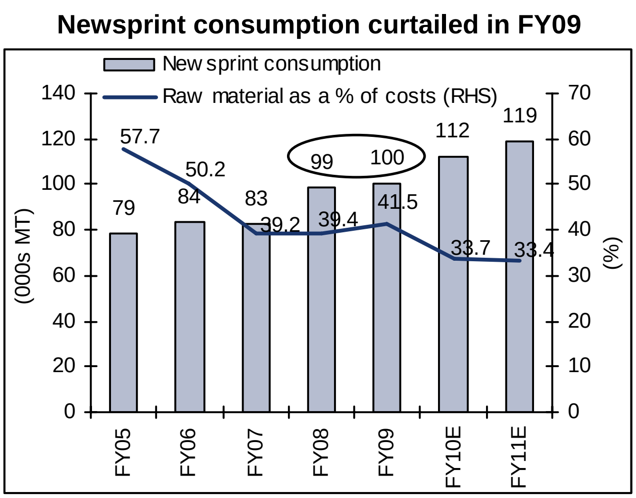
Source: Company data, I-Sec Research

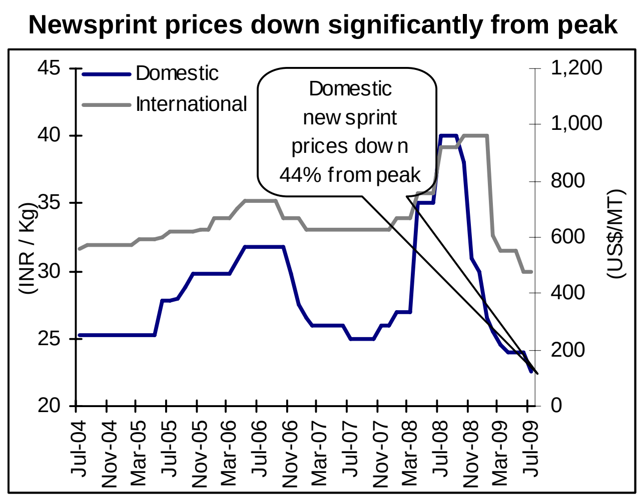
Chart 3: YoY revenue growth – Ad revenue growth to improve FY10 onward



Source: Bloomberg, Company data, I-Sec Research

Chart 4: Newsprint consumption restrained in FY09; significant savings expected FY10 onward

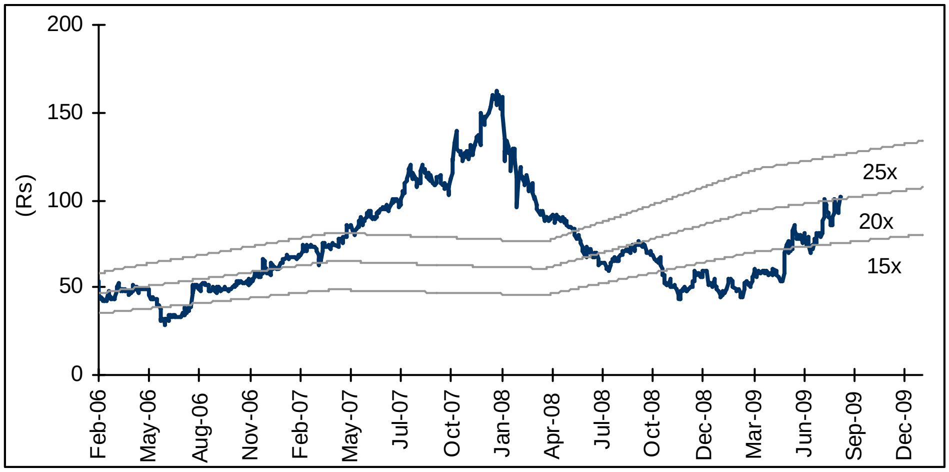




Source: Company data, I-Sec Research

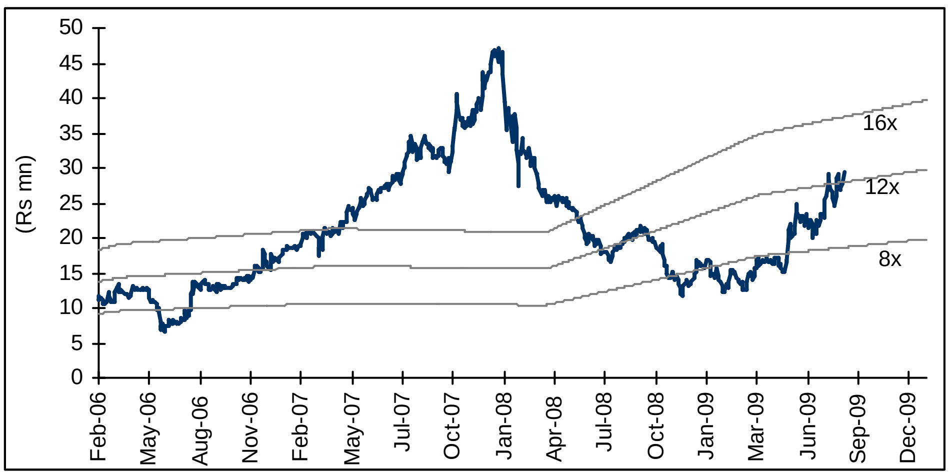
Source: Industry

Chart 5: P/E bands



Source: Bloomberg, Company data, I-Sec Research

Chart 6: EV/EBITDA



Source: Bloomberg, Company data, I-Sec Research

Financial Summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**8,234**	**8,897**	**10,007**	**11,012**
of which advertising	5,517	6,069	6,918	7,749
of which circulation	1,971	2,194	2,327	2,350
of which others	746	634	761	913
Operating Expenses	**6,935**	**6,718**	**7,446**	**8,176**
EBITDA	**1,299**	**2,179**	**2,561**	**2,836**
% margins	*15.8*	*24.5*	*25.6*	*25.8*
Depreciation & Amortisation	383	507	570	635
Interest	59	58	33	33
Other Income	227	273	275	289
Recurring PBT	**1,084**	**1,886**	**2,233**	**2,457**
Add: Extraordinaries	-	-	-	-
Less: Taxes	436	698	844	938
- Current tax	446	453	549	610
- Deferred tax	(10)	244	295	328
Net Income (Reported)	**916**	**1,416**	**1,663**	**1,847**
Recurring Net Income	**916**	**1,416**	**1,663**	**1,847**

Source: Company data, I-Sec Research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	3,601	3,451	4,159	5,467
of which cash & cash eqv.	*828*	*643*	*1,005*	*1,996*
Total Current Liabilities & Provisions	1,624	349	399	452
Net Current Assets	**1,977**	**3,102**	**3,760**	**5,015**
Investments				
of which	**1,568**	**1,568**	**1,568**	**1,568**
Strategic/Group	*1*	*1*	*1*	*1*
Other Marketable	*1,567*	*1,567*	*1,567*	*1,567*
Net Fixed Assets	**3,990**	**3,349**	**3,473**	**3,565**
Total Assets	**7,535**	**8,019**	**8,801**	**10,147**
Liabilities				
Borrowings	1,415	915	415	415
Deferred Tax Liability	521	765	1,060	1,389
Equity Share Capital	602	602	602	602
Face Value per share (Rs)	*2.0*	*2.0*	*2.0*	*2.0*
Reserves & Surplus*	4,997	5,737	6,724	7,742
Net Worth	**5,599**	**6,339**	**7,326**	**8,344**
Total Liabilities	**7,535**	**8,019**	**8,801**	**10,147**

Source: Company data, I-Sec Research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	2,086	2,070	2,013	2,319
% growth (YoY)	18	4	6	12
EBITDA	380	301	390	705
Margin (%)	18	15	19	30
Other income	55	45	64	157
Add: Extraordinaries	-	-	-	-
Net profit	227	155	218	495

Source: Company data, I-Sec Research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**1,176**	**1,478**	**2,260**	**2,530**
Working Capital Changes	(19)	(625)	(304)	(271)
Capital Commitments	(1,107)	(134)	(694)	(727)
Free Cash Flow	**49**	**719**	**1,262**	**1,531**
Cash flow from Investing Activities	**491**	**273**	**275**	**289**
Issue of Share Capital	0	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	624	(500)	(500)	-
Dividend paid	(705)	(676)	(676)	(829)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**459**	**(184)**	**362**	**991**

Source: Company data, I-Sec Research

Table 5: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (in Rs.)				
Recurring EPS	3.0	4.7	5.5	6.1
Reported EPS	3.0	4.7	5.5	6.1
Recurring Cash EPS	4.3	6.4	7.4	8.2
Dividend per share (DPS)	2.0	2.0	2.0	2.5
Book Value per share (BV)	18.6	21.0	24.3	27.7
Growth Ratios (%)				
Operating Income	9.8	8.0	12.5	10.1
EBITDA	(2.7)	67.7	17.5	10.8
Recurring Net Income	(6.6)	54.6	17.4	11.1
Diluted Recurring EPS	(6.6)	54.6	17.4	11.1
Diluted Recurring CEPS	(1.3)	48.0	16.1	11.2
Valuation Ratios (x)				
P/E	34.5	22.3	19.0	17.1
P/CEPS	24.3	16.4	14.2	12.7
P/BV	5.6	5.0	4.3	3.8
EV / EBITDA	23.6	14.1	12.0	10.8
EV / Operating Income	3.7	3.4	3.1	2.8
EV / Operating FCF	26.5	35.9	15.7	13.6
Operating Ratio (%)				
Raw Material/Sales	41.5	33.7	33.4	33.4
SG&A/Sales	16.3	18.1	17.3	16.6
Other Income / PBT	21.0	14.5	12.3	11.8
Effective Tax Rate	40.2	37.0	37.8	38.2
NWC / Total Assets	15.3	30.7	31.3	29.8
Inventory Turnover (days)	21.3	27.5	31.6	31.7
Receivables (days)	70.3	67.5	66.1	66.8
Payables (days)	45.4	32.1	15.6	16.2
D/E Ratio (x)	0.3	0.3	0.2	0.2
Return/Profitability Ratio (%)				
Recurring Net Income Margins	10.8	15.4	16.2	16.3
RoCE	6.4	12.2	13.5	13.2
RoNW	16.7	23.7	24.3	23.6
Dividend Payout Ratio	65.7	42.5	36.2	40.0
Dividend Yield	1.9	1.9	1.9	2.3
EBITDA Margins	15.8	24.5	25.6	25.8

Source: Company data, I-Sec Research

About the company – Jagran Prakashan

Business overview

Jagran Prakashan is the leader in the Hindi print space through its flagship brand *Dainik Jagran*, which is the most-circulated Hindi daily in India. The company is present in 11 states through 37 editions, encompassing almost the entire Hindi belt in India. Within the print space, the company has expanded into: i) bi-lingual publication *i-Next*, ii) weekly English tabloid *City Plus* and iii) premium women's magazine *Sakhi*. Jagran has recently launched the Hindi national edition of *Dainik Jagran*. Further, the company is gradually emerging as a complete media house, with investments in OOH via Jagran Engage, events via Jagran Solutions and value-added services & home-shopping via J9.

About the promoters

The Gupta family headed by Mr Mahendra Mohan Gupta owns the Jagran Group and has over 47 years of experience in Print media; he is also Member of Parliament (Rajya Sabha). Besides the listed entity Jagran Prakashan, the Group has interests in Radio, Multiplexes and Sugar. Jagran continues to be the core business arm of the Gupta family, with the next generation actively participating in the business.

Table 7: Diversification and expansion

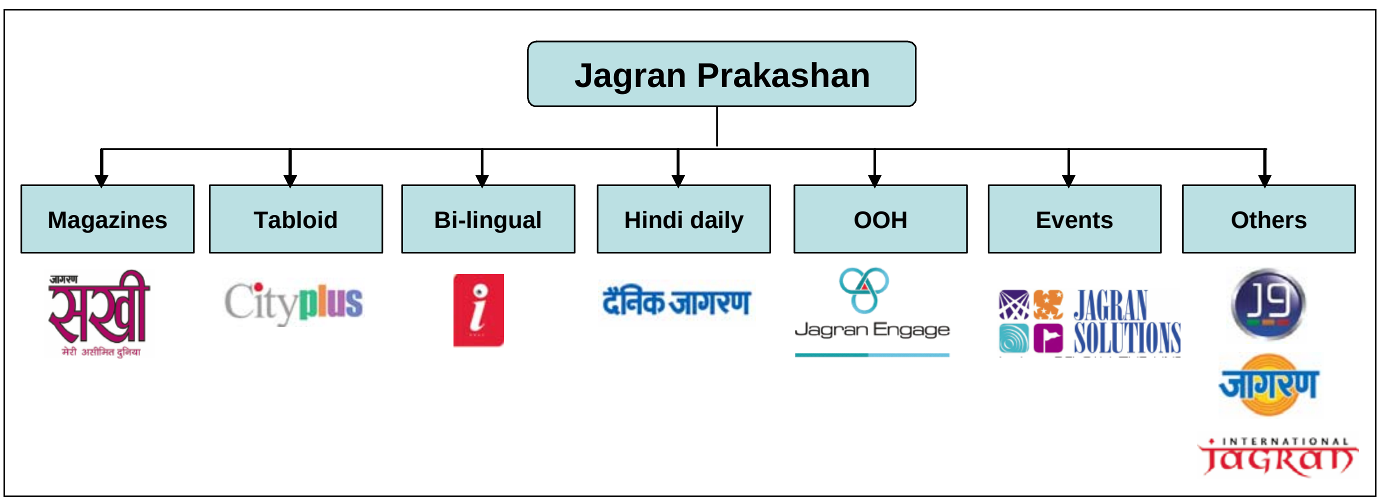
Product	**New**	Product development ✓ *City Plus* (Tabloid)	Diversification × OOH – Jagran Engage × Events – Jagran Solutions
Product	**Present**	Market penetration ✓ *i-Next* (Bilingual daily)	Market development ✓ *Dainik Jagran* launch in Punjab in '05
Jagran Prakashan		**Present**	**New**
		Markets	

Source: Company data, I-Sec Research

Foreign investors

In June '05, Jagran formed a strategic alliance with Ireland's Independent News & Media (INM), wherein INM bought 20% stake in Jagran. In July '09, INM divested 7.5% stake in the company, of which the promoters picked up ~5% stake; INM continues to hold 13.5% stake in Jagran.

Chart 7: Company structure



Source: Company data, I-Sec Research

Equity Research

August 27, 2009

BSE Sensex: 15770

Media

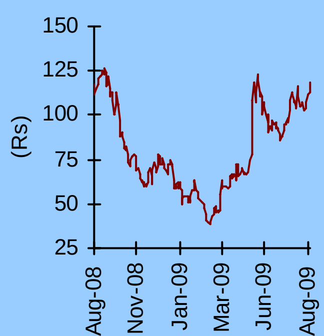
Target price Rs113

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	68.7	68.7	68.8
Institutional investors	29.0	28.5	26.4
MFs and UTI	12.9	12.5	12.7
Insurance Cos.	0.6	0.6	0.6
FIIs	15.5	15.4	13.0
Others	2.3	2.8	4.8

Source: NSE

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

INDIA

HT Media

HOLD
Maintained
Rs119

Time to harvest investments

Reason for report: Company update

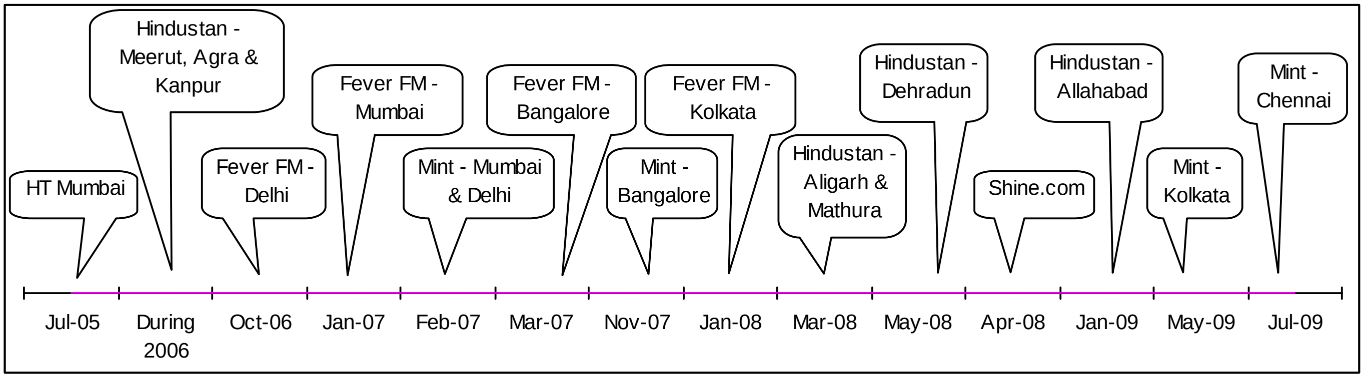
HT Media owns one of the best portfolios of Print media brands in India and made aggressive investments in FY09 to build on its new media franchises such as radio and internet. HT Media's business daily, *Mint*, has been well-accepted and radio is likely to achieve operating break-even in FY10. The company is at the end of its peak investment cycle and we expect strong improvement in profitability driven by lower newsprint prices and reducing losses in new business initiatives – business daily *Mint*, radio and internet. We maintain our HOLD recommendation and advise accumulating on dips.

- **Strong bouquet of brands in Print.** HT media is the publisher of the #2 English daily *Hindustan Times* and the #3 Hindi daily *Hindustan*; it recently launched a business paper *Mint*, with content syndication from the Wall Street Journal (WSJ), that has been well-received by readers. In '05, HT Media had extended its English daily in the key market of Mumbai, which is likely to drive growth.
- **Extending presence in Hindi print.** With regional print more resilient than English print during the economic downturn, HT Media is focusing on expanding the reach of its Hindi daily *Hindustan* to the key markets of Uttar Pradesh (UP) and Uttaranchal. HT Media's Hindi ad revenues tracked a strong 37.5% CAGR over FY07-09, with launch of four new editions during FY07-09.
- **New media initiatives strain financials.** HT Media has made aggressive investments in new media segments – entry into the internet space with launch of job portal *shine.com* in '08 and entry into Radio broadcasting with radio stations in four key metros. Though high license fees in the radio business have pressured financials, the radio business is expected to achieve breakeven by Q4FY10E. We see investments in the online classifieds space as a key drag on HT Media's financials in the short term. Globally, print players have not been successful in making the transition from Print to online classifieds.
- **Improvement in financials key to re-rating.** HT Media is trading at FY10E & FY11E P/E of 23.6x & 18.1x respectively, which is at ~5% discount to Jagran Prakashan. Going ahead, we expect strong improvement in margins driven by lower newsprint prices and radio business breakeven. We advise investing on dips.

Market Cap	Rs28bn/US$572mn
Reuters/Bloomberg	HTML.BO/HTML IN
Shares Outstanding (mn)	235
52-week Range (Rs)	144/36
Free Float (%)	31.2
FII (%)	13.0
Daily Volume (US$/'000)	370
Absolute Return 3m (%)	8.4
Absolute Return 12m (%)	2.3
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

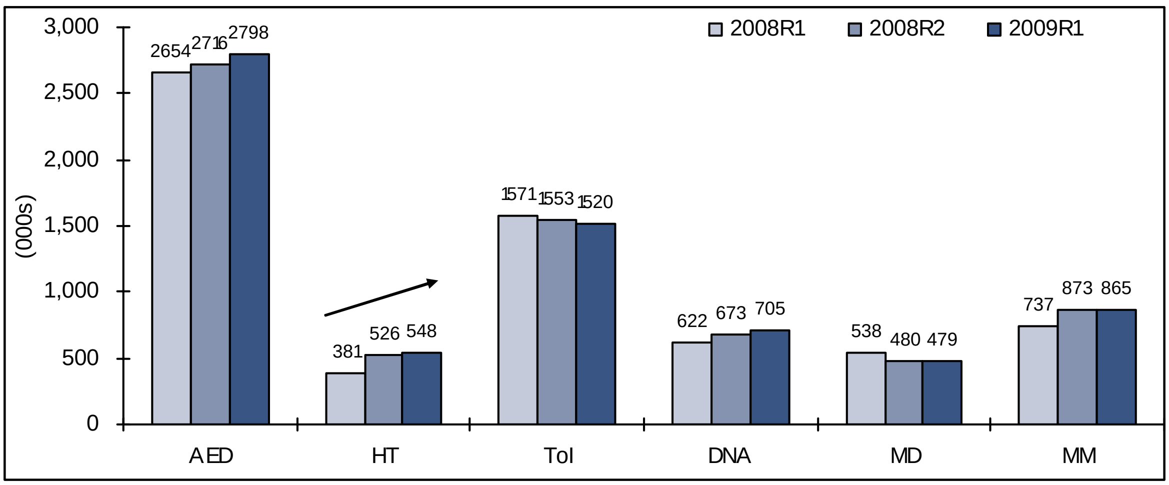
Year to Mar	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	13,466	14,883	16,723	18,732
Rec. Net Income (Rs mn)	200	1,185	1,546	1,808
EPS (Rs)	0.9	5.0	6.6	7.7
% Chg YoY	(80.3)	492.5	30.5	16.9
P/E (x)	139.8	23.6	18.1	15.5
CEPS (Rs)	31.5	13.9	11.3	9.8
EV/E (x)	33.0	11.6	9.4	8.5
Dividend Yield (%)	0.3	1.3	1.7	1.7
RoCE (%)	(1.2)	9.1	10.8	10.5
RoE (%)	2.4	13.5	15.6	15.6

Chart 1: Steady launch of new editions and initiatives



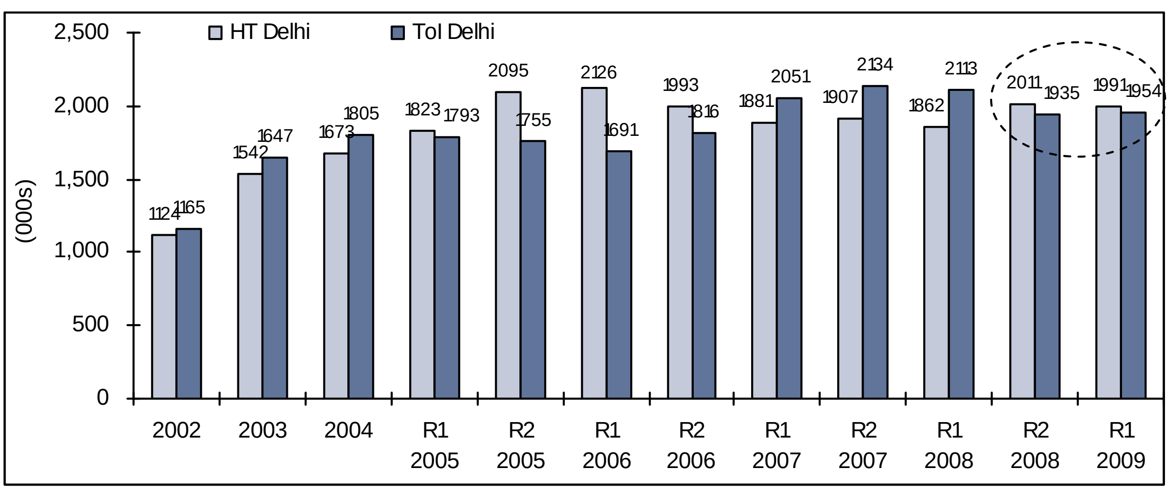
Source: Company data, I-Sec Research

Chart 2: Average Issue Readership in Mumbai – HT making inroads



AED – All English Daily, HT – Hindustan Times, ToI – Times of India, MD – Mid Day, MM – Mumbai Mirror
Source: IRS, I-Sec Research

Chart 3: Average Issue Readership in Delhi – HT maintaining leadership



Source: IRS, I-Sec Research

Table 1: *Hindustan* – Numero uno in Bihar & Jharkhand, gaining in UP

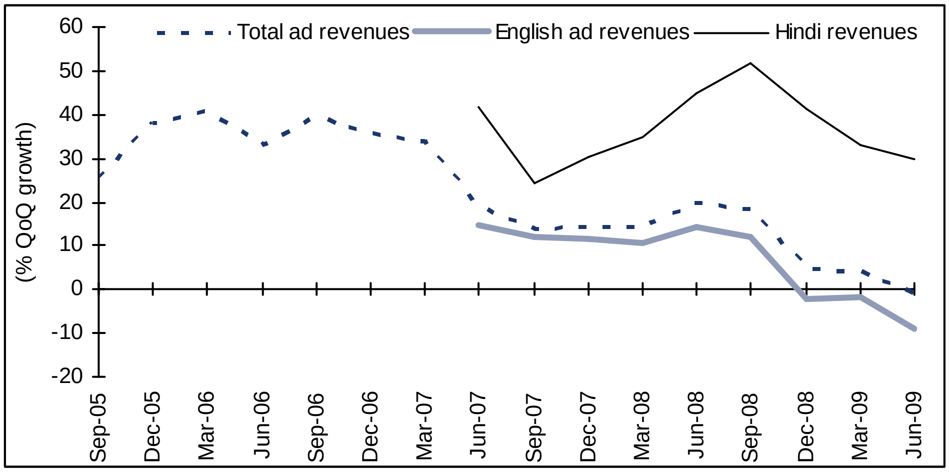
(%)

	2007 R1	2007 R2	2008 R1	2008 R2	Comment
Delhi	10.2	9.6	10.4	12.0	#3 among Hindi
Bihar	49.7	46.6	44.9	48.6	Strong #1
UP	7.7	9.7	9.7	9.7	#3, gaining share
Jharkhand	31.3	30.7	31.2	32.8	Strong #1
Haryana	4.8	0.9	1.2	1.7	Marginal player
Uttaranchal	0.6	0.4	0.4	-	Marginal player

Source: IRS, I-Sec Research

Hindi ad revenue CAGR of 37.5% in FY08-09 versus 8.5% English ad revenue CAGR

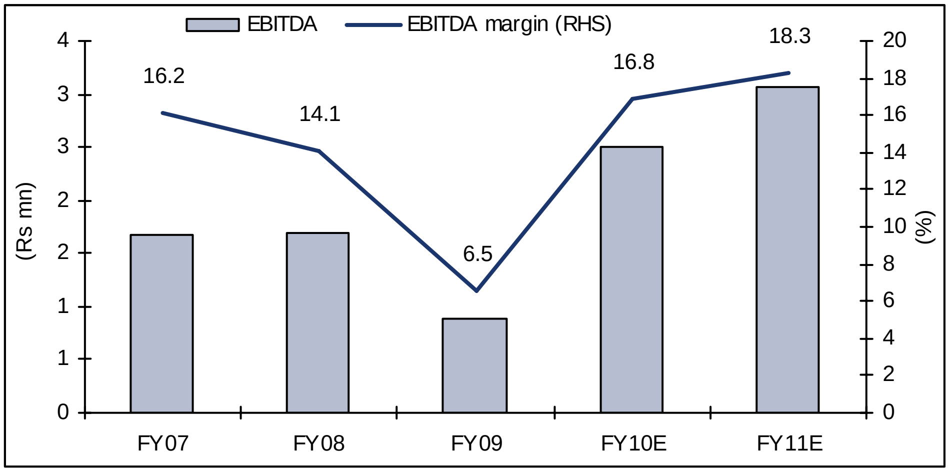
Chart 4: Hindi ad revenue growth has driven total ad revenue growth



Source: Company data, I-Sec Research

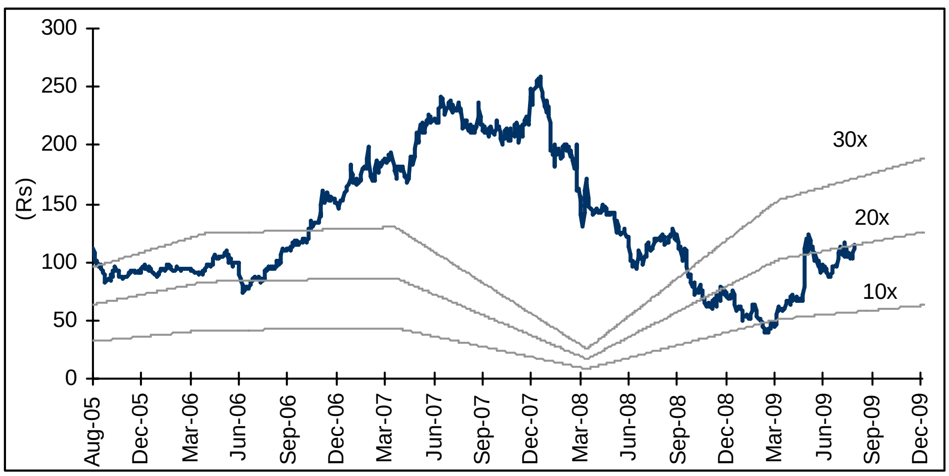
Cost of raw materials expected to decline 10% YoY in FY10E, led by newsprint price declines, thereby driving EBITDA margin improvement

Chart 5: Expect significant improvement in EBITDA margin FY10 onward



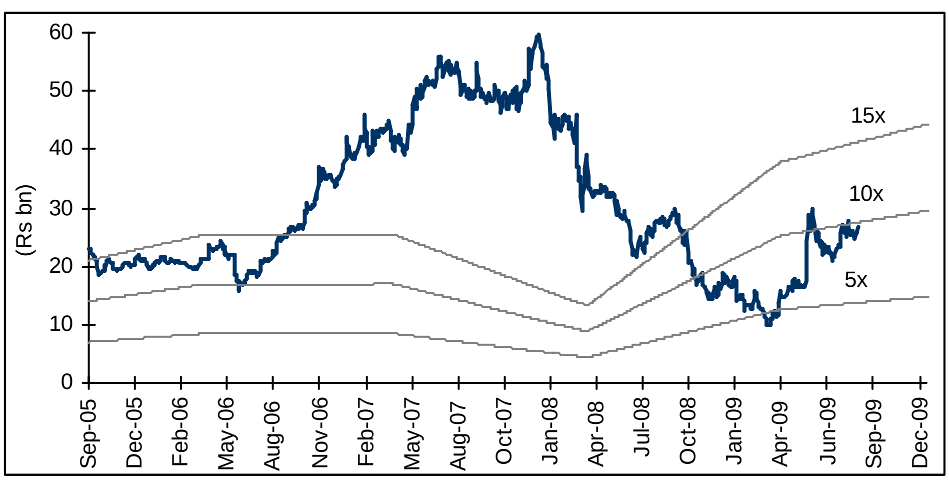
Source: Company data, I-Sec Research

Chart 6: P/E bands



Source: Bloomberg, Company data, I-Sec Research

Chart 7: EV/EBITDA



Source: Bloomberg, Company data, I-Sec Research

Financial Summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**13,466**	**14,883**	**16,723**	**18,732**
Operating Expenses	**12,587**	**12,378**	**13,658**	**15,327**
EBITDA	**879**	**2,505**	**3,065**	**3,405**
% margins	*7*	*17*	*18*	*18*
Depreciation & Amortisation	688	826	925	1,036
Gross Interest	323	349	150	150
Other Income	330	315	317	519
Recurring PBT	**198**	**1,646**	**2,308**	**2,739**
Add: Extraordinaries	(191)	(150)	-	-
Less: Taxes	125	461	762	931
Less: Minority Interest	(127)	-	-	-
Net Income (Reported)	**9**	**1,035**	**1,546**	**1,808**
Recurring Net Income	**200**	**1,185**	**1,546**	**1,808**

Source: Company data, I-Sec Research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	6,976	4,578	4,964	6,776
of which cash & cash eqv.	*705*	*605*	*568*	*2,023*
Total Current Liabilities & Provisions	5,399	2,417	2,625	2,625
Net Current Assets	**1,577**	**2,161**	**2,339**	**4,152**
Investments				
of which	**3,035**	**3,535**	**3,535**	**3,535**
Strategic/Group	*1,025*	*1,025*	*1,025*	*1,025*
Other Marketable	*2,010*	*2,510*	*2,510*	*2,510*
Net Fixed Assets	**7,717**	**6,561**	**6,429**	**6,424**
of which				
Capital Work-in-Progress	*1,946*	-	-	-
Total Assets	**12,329**	**12,257**	**12,303**	**14,110**
Liabilities				
Borrowings	3,706	2,996	1,496	1,496
Deferred Tax Liability	207	207	207	207
Minority Interest	(69)	(69)	(69)	(69)
Equity Share Capital	470	470	470	470
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus*	8,015	8,654	10,200	12,007
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**8,485**	**9,124**	**10,670**	**12,478**
Total Liabilities	**12,329**	**12,257**	**12,303**	**14,110**

Source: Company data, I-Sec Research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	3,342	3,371	3,375	3,351
% growth (YoY)	1,891.3	470.9	770.4	241.4
EBITDA	399	457	439	691
Margin (%)	11.9	13.6	13.0	20.6
Other income	52	46	64	65
Add: Extraordinaries	0	127.9	60.3	45
Net profit	163	78	234	324

Source: Company data, I-Sec Research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**(340)**	**919**	**1,863**	**1,855**
Working Capital Changes	822	(512)	(215)	(358)
Capital Commitments	(2,590)	935	(502)	(562)
Free Cash Flow	**(2,108)**	**1,342**	**1,146**	**936**
Cash flow from Investing Activities	**877**	**(185)**	**317**	**519**
Issue of Share Capital	2	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	1,475	(710)	(1,500)	-
Dividend paid	(80)	(353)	(470)	(470)
Extraordinary Items	**(191)**	**(150)**	**-**	**-**
Chg. in Cash & Bank balance	**(69)**	**(100)**	**(37)**	**1,455**

Source: Company data, I-Sec Research

Table 5: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
Diluted Recurring EPS	0.9	5.0	6.6	7.7
Diluted Reported EPS	0.0	4.4	6.6	7.7
Recurring Cash EPS	3.8	8.6	10.5	12.1
Dividend per share (DPS)	0.3	1.5	2.0	2.0
Book Value per share (BV)	36.1	38.8	45.4	53.1
Growth Ratios (%)				
Operating Income	11.9	10.5	12.4	12.0
EBITDA	(48.3)	185.1	22.3	11.1
Recurring Net Income	(80.3)	492.5	30.5	16.9
Diluted Recurring EPS	(80.3)	492.5	30.5	16.9
Diluted Recurring CEPS	(44.1)	126.4	22.9	15.1
Valuation Ratios (x)				
P/E	139.8	23.6	18.1	15.5
P/CEPS	31.5	13.9	11.3	9.8
P/BV	3.3	3.1	2.6	2.2
EV / EBITDA	33.0	11.6	9.4	8.5
EV / Operating Income	2.2	1.9	1.7	1.5
EV / Operating FCF	60.1	71.2	17.6	19.3
Operating Ratio (%)				
Raw Material/Sales	41.5	33.9	32.7	32.4
SG&A/Sales	25.5	23.5	23.0	23.0
Other Income / PBT	166.6	19.1	13.7	19.0
Effective Tax Rate	62.9	28.0	33.0	34.0
NWC / Total Assets	7.1	12.7	14.4	15.1
Inventory Turnover (days)	61.1	61.6	45.1	42.0
Receivables (days)	56.7	54.5	52.0	52.1
Payables (days)	112.9	112.7	67.4	62.5
D/E Ratio (x)	0.5	0.4	0.2	0.1
Return/Profitability Ratio (%)				
Recurring Net Income Margins	1.4	7.8	9.1	9.4
RoCE	(1.2)	9.1	10.8	10.5
RoNW	(1.6)	12.0	14.5	14.8
Dividend Payout Ratio	35.2	29.7	30.4	26.0
Dividend Yield	0.3	1.3	1.7	1.7
EBITDA Margins	6.5	16.8	18.3	18.2

Source: Company data, I-Sec Research

About the company – HT Media

Business overview

HT Media houses three leading newspapers in English, Hindi and business segments – *Hindustan Times* (#2 English daily, six editions), *Hindustan* (#3 Hindi daily, 13 editions) and *Mint* (#2 business daily, seven editions). The company's subsidiary, HT Music & Entertainment, operates four FM radio stations – *Fever 104* – in Delhi, Mumbai, Bangalore and Kolkata. HT Media also publishes the English tabloid *Metro Now* in partnership with the Times Group, and two Hindi magazines *Nandan* and *Kadambini*.

HT Media, via its subsidiary Firefly e-Ventures, has made foray into the internet space with launch of job portal *www.shine.com* and social networking site *www.desimartini.com*. Further, HT Media has entered into a 51:49 JV with German media group Hubert Burda to form HT Burda, which will operate in the high-end magazine & catalogue printing space in India and the Asia-Pacific region.

Table 7: Diversification & expansion

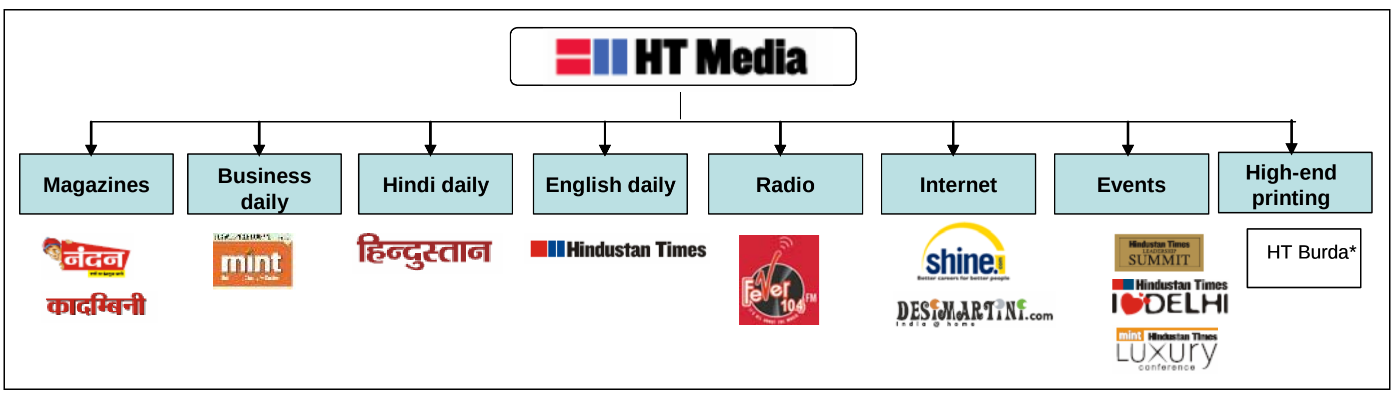
Product	**New**	Product development ✓ *Mint* (Business daily)	Diversification ✗ Radio – *Fever FM* ✗ Internet – *Shine.com*, *Desimartini.com*
Product	**Present**	Market penetration	Market development ✓ *Hindustan Times* launch in Mumbai ✓ *Hindustan* launch in Western UP
HT Media		**Present**	**New**
		Markets	

Source: Company data, I-Sec Research

Promoters & Management

Shobhana Bhartia, the chairperson of HT Media, has been associated with the company since its inception and has over 20 years of experience in the newspaper industry. She is Member of Parliament (Rajya Sabha) and the recipient of the *Padma Shree* award in '05. HT Media was earlier part of the KK Birla Group and its ownership was passed to Shobana Bhartia, daughter of KK Birla.

Chart 8: Company structure



* 51:49 JV with Hubert Burda
Source: Company data, I-Sec Research

Equity Research

August 27, 2009

BSE Sensex: 15770

Media

Target price Rs92

Earnings revisions

(%)	FY10E	FY11E
Sales	↑ 6.3	↓ 3.8
EBITDA	NM	↓ 58.4
EPS	NM	NM

Target price revision

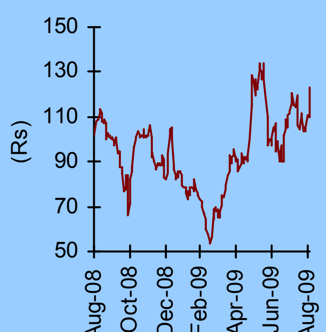
Rs92from Rs101

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	51.0	54.8	52.0
Institutional investors	24.2	19.3	19.9
MFs and UTI	8.4	7.8	10.7
Insurance Cos.	0.1	-	-
FIIs	15.7	11.5	9.2
Others	24.8	25.7	28.1

Source: NSE

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161

Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

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IBN18 Broadcast

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Downgrade from Hold

Rs123

Pricing-in perfection and more

Reason for report: Company update

IBN18 Broadcast (IBN18) owns the hugely successful Hindi GEC *Colors* that was launched in July '08 by the company's 50:50 JV with Viacom. Within ten months of launch, *Colors* reached the #1 spot that it has managed to retain. IBN18 also owns news properties – *CNN IBN* (English) and *IBN7* (Hindi) – that operate in highly commoditised and competitive markets. Further, competition intensity in the Hindi GEC space has increased, with *Zee TV* gaining leadership in prime-time and *NDTV Imagine* and *Sony* recently gaining traction. Though management has displayed strong execution, IBN18's current market price implies FY10E sales of 5x for the entertainment business under Viacom18. We believe this is unjustified as it is in line with valuations of Zee Entertainment Enterprises' (ZEEL), which is highly profitable vis-à-vis Viacom18, which is expected to achieve EBITDA breakeven only in FY11. We downgrade IBN18 to SELL from Hold with revised target price of Rs92/share and recommend Sun as a better play in the entertainment broadcasting space.

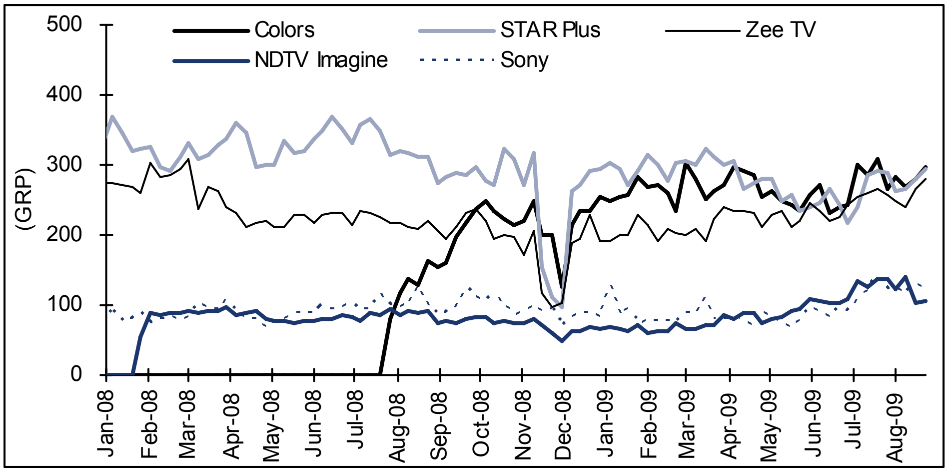
- **Phenomenal performance by *Colors* to drive business.** While *Colors* has displayed exceptional performance, the other channels in Viacom18 – *MTV*, *Nickelodeon* and *Vh1* – have also consolidated their positions in their respective genres. We expect Viacom18 top see revenue CAGR of 63.5% over FY09-11E, mainly driven by ad & subscription revenues in *Colors*.
- **News business – Commoditised assets.** *CNN IBN* has managed to retain GRP share in a competitive market and remains in contention for the #1 spot in the English news genre along with *Times Now* and *NDTV 24x. IBN7*, on the other hand, has failed to improve GRPs and remains a tier II Hindi news channel. While FY10 revenue growth for the news business is expected to bounce back from the 1.1% decline in FY09, EBITDA breakeven is not expected until FY11.
- **High level of fundraising and dilution key concerns.** IBN18's net debt at end-FY09 stood at Rs1.2bn, which is likely to have increased, post completion of 50% stake purchase in Viacom18 from TV18. IBN18 raised ~Rs3.6bn through warrant conversion and QIP in FY09, resulting in 34% equity dilution, and will require further capital raising over FY10-11E to fund its News business losses and invest in Viacom18 tranches.
- **Valuations.** We downgrade IBN18 to SELL from Hold and revise our target price downward to Rs92/share (earlier Rs101/share).

Market Cap	Rs22bn/US$451mn
Reuters/Bloomberg	IBN.BO/IBN18 IN
Shares Outstanding (mn)	179.2
52-week Range (Rs)	138/51
Free Float (%)	48.0
FII (%)	9.2
Daily Volume (US$/'000)	940
Absolute Return 3m (%)	(2.4)
Absolute Return 12m (%)	18.7
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

Year to Mar	FY08	FY09	FY10E	FY11E
Revenue (Rs mn)	1,312	1,827	2,373	2,941
Rec. Net Income (Rs mn)	(222)	(903)	(401)	(94)
EPS (Rs)	(1.7)	(5.0)	(2.2)	(0.5)
% Chg YoY	NM	NM	NM	NM
P/E (x)	NM	NM	NM	NM
CEPS (Rs)	NM	NM	NM	0.5
EV/E (x)	345.6	NM	NM	145.5
Dividend Yield (%)	-	-	-	-
RoCE (%)	(4.5)	(21.6)	(6.0)	1.8
RoE (%)	(16.4)	(43.1)	(15.4)	(4.0)

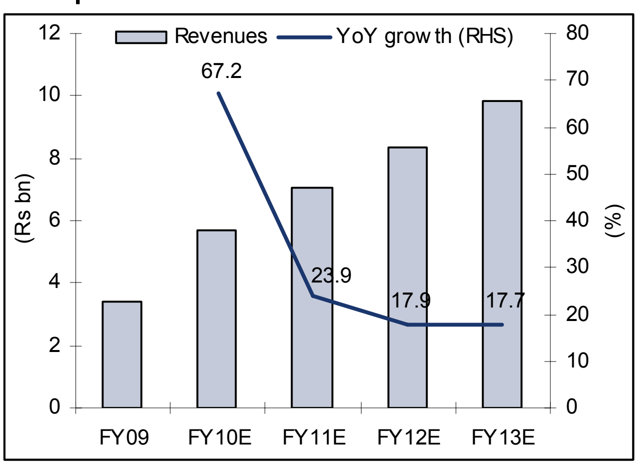
Colors reached #1 spot in 39 weeks, which it has retained

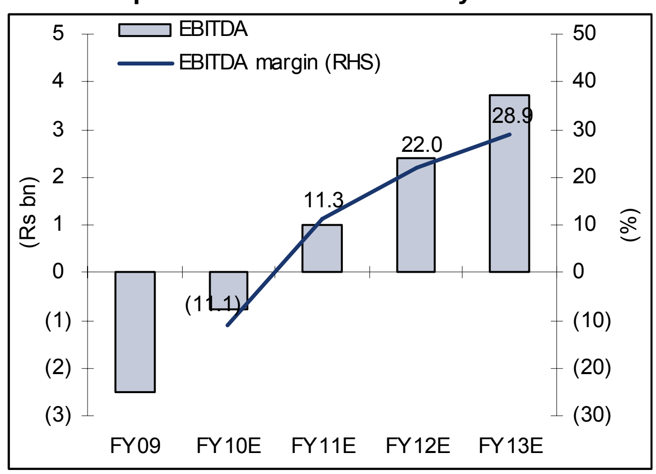
Chart 1: *Colors* – Exceptional performance



Source: TAM CS4+; HSM markets

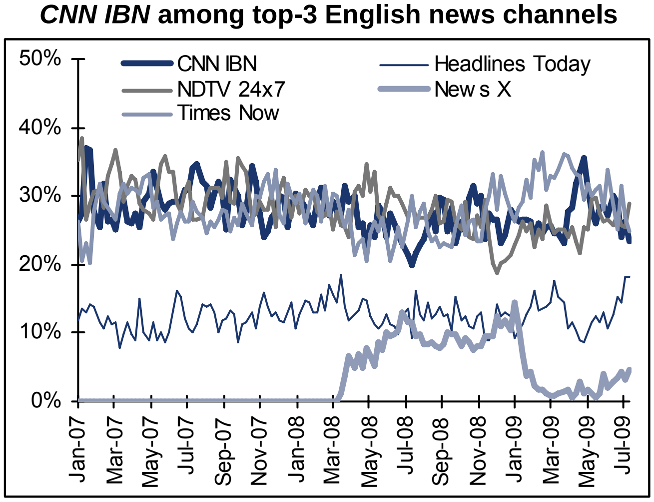
Chart 2: Viacom18 – *Colors* to drive growth

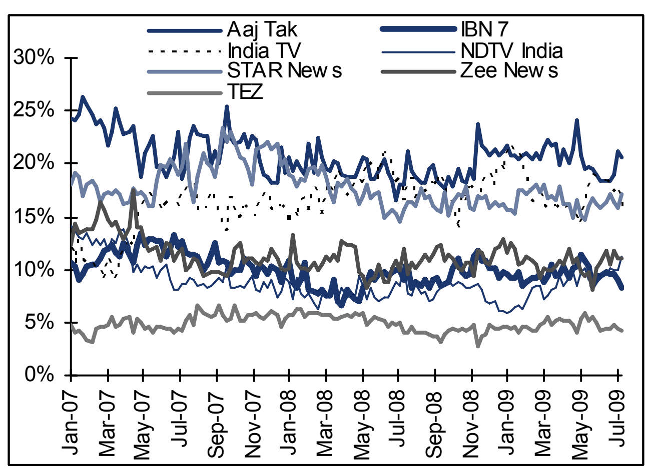




Source: Company data, I-Sec Research

Chart 3: IBN18's news channels maintaining *status quo* in a highly competitive market

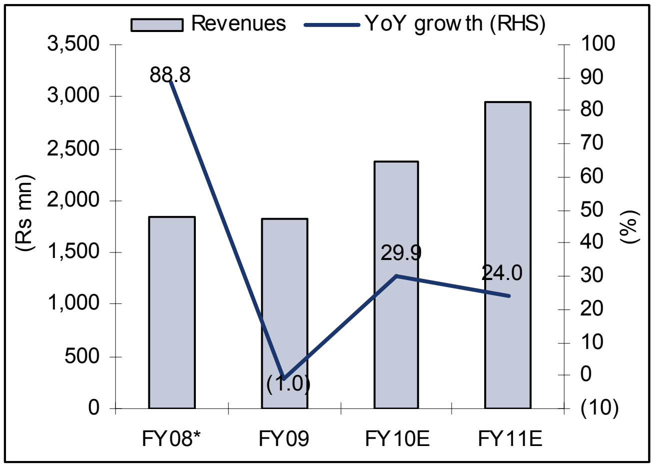




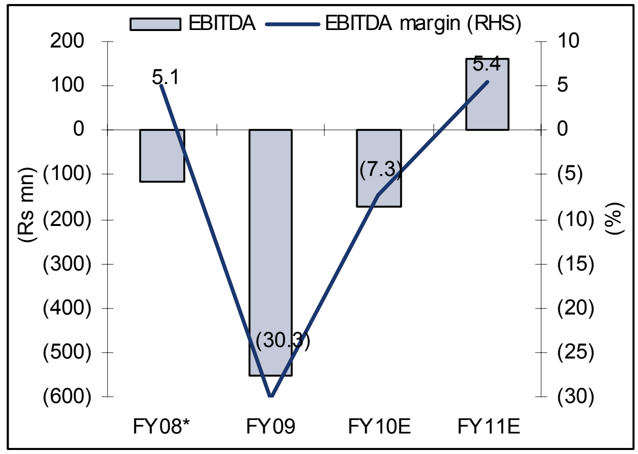
Source: TAM CS4+; HSM markets

Chart 4: News business – Losses to continue; expect EBITDA breakeven only by FY11E

Expect 26.9% revenue CAGR over FY09-11E



Slipped to EBITDA losses in FY09 in a tough year



* *Pro forma* for *IBN7* consolidation
Source: Company data, I-Sec Research

Table 1: Earnings revision – IBN18 news business

(Rs mn)

	FY10E			FY11E		
	Revised	**Old**	**% chg**	**Revised**	**Old**	**% chg**
Sales	2,373	2,163	9.7	2,941	3,155	(6.8)
EBITDA	(174)	(243)	NM	159	384	(58.4)
PAT	(401)	(412)	NM	(94)	236	NM

Source: Company data, I-Sec Research

Viacom18 drives ~75% of valuations of IBN18

Table 2: SOTP-based valuation yields Rs91/share value for IBN18

(Rs mn)

	Base scenario		Positive scenario	
News business	4,746	2x FY10E EV/sales	4,746	2x FY10E EV/sales
Viasom18 (effective 50% stake)	13,894	4x FY10E EV/sales	17,368	5x FY10E EV/sales
Web18 (12.7% stake)	445	5x FY09 EV/sales	445	5x FY09 EV/sales
Enterprise value	**19,085**		**22,558**	
Less: Consolidated net debt at end-FY10	2,550		2,550	
Equity value	**16,535**		**20,008**	
Number of shares (mn)	179		179	
Value/share (Rs)	**92**		**112**	

Source: Company data, I-Sec Research

Financial Summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Income	**1,312**	**1,827**	**2,373**	**2,941**
Operating Expenses	**1,245**	**2,379**	**2,546**	**2,782**
EBITDA	**67**	**(552)**	**(174)**	**159**
% margins	*5*	*(30)*	*(7)*	*5*
Depreciation & Amortisation	66	175	158	179
Gross Interest	122.2	205.1	140.7	176.7
Other Income	40	130	71	103
Recurring PBT	**(81)**	**(803)**	**(401)**	**(94)**
Add: Extraordinaries	(13)	(17)	-	-
Less: Taxes	**10**	**17**	**-**	**-**
Less: Minority Interest	0	0	0	1
Net Income (Reported)	**(234)**	**(920)**	**(401)**	**(94)**
Recurring Net Income	**(222)**	**(903)**	**(401)**	**(94)**

Source: Company data, I-Sec Research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	1,272	1,649	1,818	1,724
of which cash & cash eqv.	*166*	*139*	*517*	*192*
Total Current Liabilities & Provisions	324	853	738	794
Net Current Assets	**948**	**796**	**1,080**	**931**
Investments	**771**	**2,360**	**2,360**	**2,360**
of which				
Strategic/Group	*771*	*2,360*	*2,360*	*2,360*
Other Marketable	*-*	*-*	*-*	*-*
Net Fixed Assets	**624**	**969**	**1,168**	**1,224**
of which				
Capital Work-in-Progress	*2*	*0*	*0*	*0*
Total Assets	**2,343**	**4,125**	**4,608**	**4,514**
Liabilities				
Borrowings	968	1,308	2,208	2,208
Deferred Tax Liability	-	-	-	-
Equity Share Capital	267	358	358	358
Face Value per share (Rs)	*2*	*2*	*2*	*2*
Reserves & Surplus	828	2,174	1,773	1,680
Net Worth	**1,375**	**2,817**	**2,399**	**2,306**
Total Liabilities	**2,343**	**4,125**	**4,608**	**4,514**

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	459	475	479	567
% growth (YoY)	*23*	*(12)*	*(21)*	*36*
EBITDA	(142)	(90)	(183)	24
Margin (%)	*(31)*	*(19)*	*(38)*	*4*
Other income	9	1	18	9
Add: Extraordinaries	7	(83)	(2)	(204)
Net profit	(224)	(139)	(263)	132

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cash flow	**73**	**(584)**	**(341)**	**(15)**
Working Capital Changes	(217)	393	2	(178)
Capital Commitments	(257)	(588)	(356)	(235)
Free Cash Flow	**(485)**	**(2,368)**	**(694)**	**(428)**
Cash flow from Investing Activities	**319**	**(177)**	**189**	**103**
Issue of Share Capital	-	91	-	-
Share Premium	17	2,104	(17)	(0)
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	169	340	900	-
Dividend paid	-	-	-	-
Extraordinary Items	**(13)**	**(17)**	**-**	**-**
Chg. in Cash & Bank balance	**8**	**(27)**	**377**	**(325)**

Source: Company data, I-Sec Research

Table 6: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (in Rs.)				
Diluted Recurring EPS	(1.7)	(5.0)	(2.2)	(0.5)
Diluted Reported EPS	(1.8)	(5.1)	(2.2)	(0.5)
Recurring Cash EPS	(1.2)	(4.1)	(1.4)	0.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	10.3	15.7	13.4	12.9
Growth Ratios (%)				
Operating Income	70.7	39.3	29.9	24.0
EBITDA	NM	NM	NM	NM
Recurring Net Income	NM	NM	NM	NM
Diluted Recurring EPS	NM	NM	NM	NM
Diluted Recurring CEPS	NM	NM	NM	NM
Valuation Ratios (x)				
P/E	NM	NM	NM	NM
P/CEPS	NM	NM	NM	257.1
P/BV	12.0	7.8	9.2	9.6
EV / EBITDA	345.6	NM	NM	145.5
EV / Operating Income	17.7	12.7	9.8	7.9
EV / Operating FCF	NM	NM	NM	NM
Operating Ratio				
Production, admin and other cost/ Sales	40.0	47.6	40.3	35.8
Ad and dist expenses/Sales (%)	21.2	40.6	30.3	25.8
Other Income / PBT (%)	(49.2)	(16.2)	(17.8)	(109.9)
Effective Tax Rate (%)	-	-	-	-
NWC / Total Assets (%)	33.4	15.9	12.2	16.4
Receivables (days)	134.6	117.4	100.0	100.0
Payables (days)	120.0	100.0	100.0	100.0
D/E Ratio (x)	0.7	0.5	0.9	1.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	(16.9)	(49.4)	(16.9)	(3.2)
RoCE	(4.5)	(21.6)	(6.0)	1.8
RoNW	(16.4)	(43.1)	(15.4)	(4.0)
Dividend Payout Ratio	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	5.1	(30.2)	(7.3)	5.4

NM – Not meaningful
Source: Company data, I-Sec Research

About the company – IBN18 Broadcast

Business overview

IBN18 Broadcast, a subsidiary of Network18, hosts news channels – *CNN IBN* (English), *IBN7* (Hindi) & *IBN Lokmat* (regional) – and holds 50% stake in Viacom18, a JV with international media major, Viacom. Viacom18 owns the hugely successful GEC *Colors*, music & youth channel *MTV*, English music & entertainment channel *VH1*, kids channel *Nickelodeon* and movie production & distribution company Studio18. IBN18 also holds a minority stake of 12.7% in Web18, the internet business of the Network18 Group. IBN18 was founded in '05 and was formerly known as Global Broadcast News.

About the Group

Network18 is a diversified media & entertainment group with end-to-end presence across broadcasting, movies, internet, print, home-shopping, newswire etc. Network18 operates mainly through its two subsidiaries – TV18, in which it holds ~49% stake, and IBN18, in which it holds ~40% stake. TV18 operates the business news channels *CNBC TV18* & *CNBC Awaaz*. Network18 is promoted by Raghav Bahl who has 22 years experience in the media sector.

Table 8: Diversification & Expansion

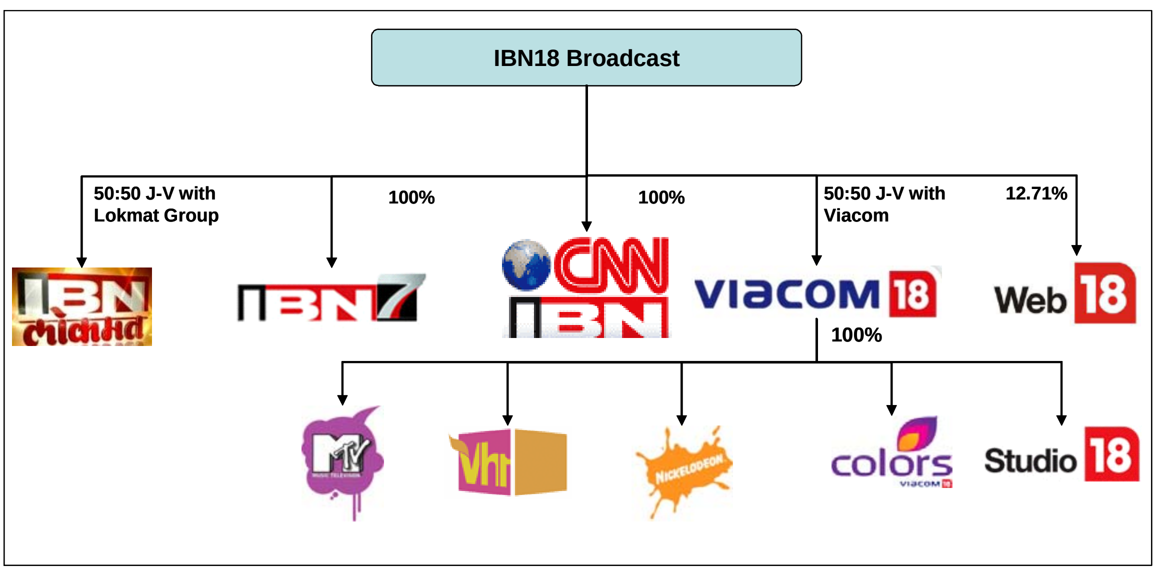
IBN18		Markets: Present	Markets: New
Product	New	Product development ✓ Viacom 18 – *Colors, MTV, Nickelodeon*	Diversification × Movies – Studio18
Product	Present	Market penetration ✓ Pay TV ✓ Hindi news – *IBN7*	Market development ✓ *IBN Lokmat* (Marathi news channel)

Source: Company data, I-Sec Research

Foreign investors

Viacom transferred its three niche channels – *MTV*, *Nickelodeon* and *Vh1* – to Viacom18 for 50% stake in Viacom18. Viacom is a leading global media company with presence in cable & satellite networks (MTV Networks) and filmed entertainment (Paramount Pictures).

Chart 5: Company structure



Source: Company data, I-Sec Research

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Equity Research
August 27, 2009
BSE Sensex: 15770

INDIA

Zee News

BUY
Maintained

Time for consolidation

Rs44

Reason for report: Company update

Media

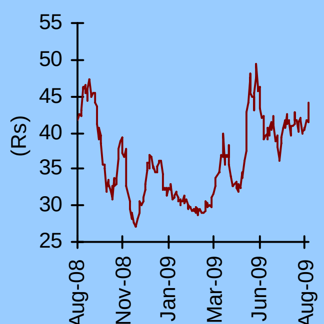
Target price Rs45

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	54.1	54.1	54.1
Institutional investors	31.0	30.9	29.0
MFs and UTI	19.6	20.2	21.8
Insurance Cos.	3.9	3.9	3.9
FIIs	7.5	6.9	3.4
Others	14.9	14.9	16.9

Source: NSE

Price chart



Zee News (ZNL) is rapidly evolving into a powerhouse in the regional broadcasting space, with a bouquet of 12 regional channels and two national news channels. After having gained a strong foothold in the Telugu & Kannada markets, the company is endeavouring to penetrate deeper with launch of channels in regional niche genres such as News and Movies. ZNL is also focusing on increasing subscription revenues via better monetisation of content. However, competition from the regional STAR Group channels and recurring distribution issues remain key concerns. We maintain our BUY recommendation.

- **Emerging as champion regional player.** ZNL offers the second-best alternative to Sun TV Network (Sun) in the regional advertising space. After having cultivated quality regional content for Marathi & Bengali markets, ZNL is consolidating its position in the Telugu & Kannada markets and further strengthening its regional bouquet via launching channels in the regional news and movie genres. ZNL has launched a Tamil GEC and three regional news channels in the past 12-18 months.
- **Focus on increasing Pay TV revenues.** Besides consolidating presence in new markets, ZNL is also focusing on driving subscription revenues from mature regional markets such as Marathi and Bengali. The company's subscription revenues have posted CAGR of 32% over FY07-09.
- **Tamil GEC, a potential drag.** Performance of ZNL's Tamil GEC, *Zee Tamizh*, has been below expectations and, we believe, post resolution of its distribution-related political feud, Sun is unlikely to let *Zee Tamizh* make much headway. Any decision to suspend Tamil operations is likely to be considerably positive for the company; Group company Zee Entertainment Enterprises (ZEEL) had earlier suspended operations of youth-based GEC *Zee Next* owing to poor performance.
- **Valuations cheap on normalised earnings.** ZNL currently trades at FY10E & FY11E P/E of 20.8x & 17.4x respectively and 7.9x FY10E EV/EBITDA of mature business, with new investments being a drag on overall profitability. ZNL's debt increased Rs2bn in FY09, which was largely used for advances to Group companies; this is likely to be reverted within 12-18 months as distribution companies of Essel Group raise adequate capital. We maintain our BUY recommendation on ZNL with target price of Rs45/share.

Market Cap	Rs10.5bn/US$216mn
Reuters/Bloomberg	ZNLI.BO/ZEEN IN
Shares Outstanding (mn)	239.8
52-week Range (Rs)	52/24
Free Float (%)	45.9
FII (%)	3.4
Daily Volume (US$/'000)	1,010
Absolute Return 3m (%)	(7.2)
Absolute Return 12m (%)	5.7
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

Year to Mar	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	5,221	6,204	7,226	8,339
Rec. Net Income (Rs mn)	446	507	605	725
EPS (Rs)	1.9	2.1	2.5	3.0
% Chg YoY	20.4	13.7	19.2	19.9
P/E (x)	23.6	20.8	17.4	14.5
CEPS (Rs)	2.3	2.6	3.0	3.6
EV/E (x)	14.4	11.8	9.7	8.2
Dividend Yield (%)	0.9	1.4	1.7	2.1
RoCE (%)	11.8	11.2	12.9	15.7
RoE (%)	19.9	19.7	20.6	21.5

Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

Table 1: Strong regional and news franchise

Channel	Launch	Genre	Pay/ FTA	Mkt size (Rs bn)	Viewership share**(%)	Major Competitors	Other channels by ZNL	Comments
Zee News	1999	Hindi news	Pay	7.2	11.3	Aaj Tak, STAR News, NDTV India, IBN 7		In the #4 spot
Zee Business	Nov-04	Hindi Business news	Pay	2.4*	21.4	CNBC Aawaz		In the #2 spot
Zee Marathi	Aug-99	Marathi Regional GEC	Pay	3.0	46.5	ETV Marathi, STAR Pravah	Zee 24 Taas (news), Zee Talkies (movies)	Strong #1
Zee Bangla	Sep-99	Bangla Regional GEC	Pay	3.0	32.1	Star Jalsha, ETV Bangla	24 Ghante (news), Aakash Bangla (infotainment)	Upstaged from #1 spot by *STAR Jalsha* recently
Zee Punjabi	Oct-99	Punjabi Regional GEC	Pay	0.7	9.5	ETC Punjabi, MH1		Small market
Zee Telugu	May-05	Telugu Regional GEC	Pay	6.6	15.7	Gemini TV, Eenadu TV, Teja TV	Zee 24 Ghantalu (news)	Strong contender for #2 spot
Zee Kannada	Jun-06	Kannada Regional GEC	Pay	4.0	17.5	Udaya TV, ETV Kannada, Suvarna TV		Strong contender for #2 spot
Zee Tamizh	Oct-08	Tamil Regional GEC	--	7.0	1.2	Sun TV, Vijay TV, Kalaignar TV		Recently launched
Zee News UP	Apr-09	UP Regional news	--	0.3	45.0	Sahara Samay		Has made inroads in a 2-player market

* Including both Hindi and English business news; ** Q2FY10 average of weeks 27-34 of CY09
Source: Company data, I-Sec Research

Table 2: Consolidating GRP shares, but recurring distribution issues continue to nag

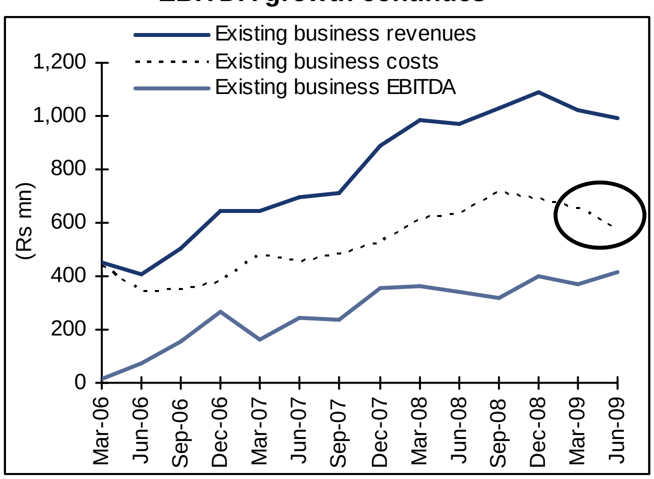
(%)

	Q4FY07	Q1FY08	Q2FYO8	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10*
Zee Bangla	36.8	37.5	36.1	41.6	46.9	44.3	38.8	33.1	33.7	27.6	32.1
Zee Business	15.7	15.5	12.3	15.0	16.4	14.1	17.9	19.8	27.0	24.8	21.4
Zee Kannada	5.9	6.6	5.6	5.6	9.9	15.3	16.8	17.1	14.8	12.3	17.5
Zee Marathi	45.9	47.8	45.1	50.7	53.7	55.1	54.6	55.0	49.8	46.4	46.5
Zee News	14.2	12.9	10.2	11.0	10.6	10.3	10.9	10.9	11.1	10.2	11.3
Zee Telugu	6.4	5.4	6.8	8.3	11.1	10.7	11.7	14.2	14.6	15.5	15.7
Zee Tamizh								0.7	1.6	1.2	1.2

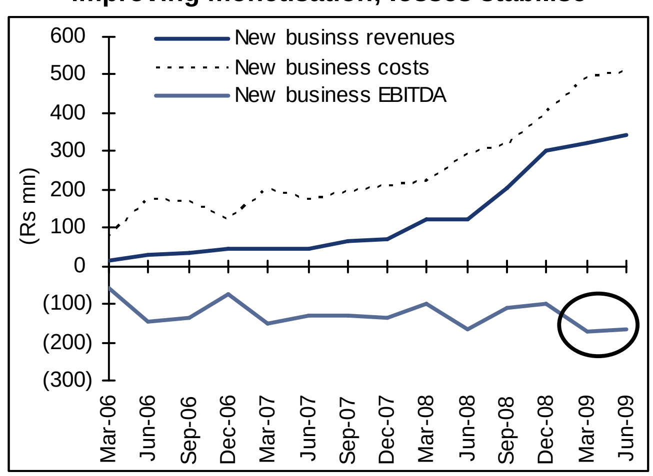
* Weeks 27-34 of CY09
Source: TAM; Respective Markets

Chart 1: New business driving growth; existing business driving profitability

Existing business – Despite revenue dip, EBITDA growth continues

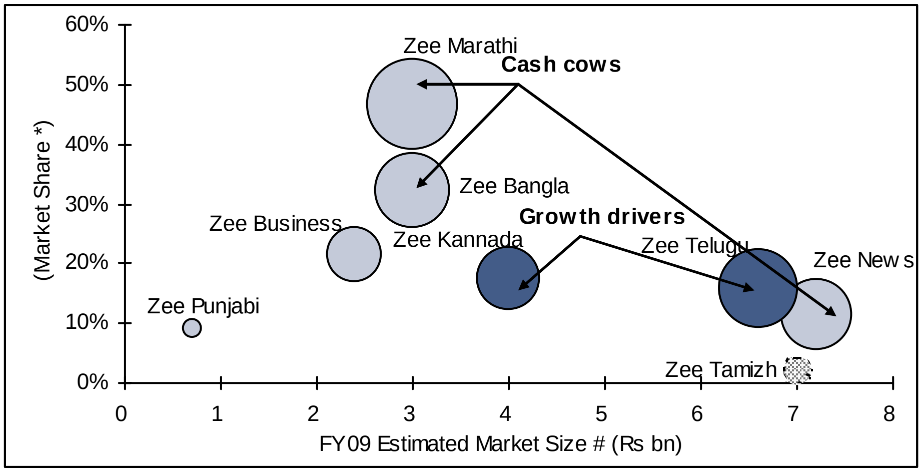


New business – Revenue growth strong on improving monetisation; losses stabilise



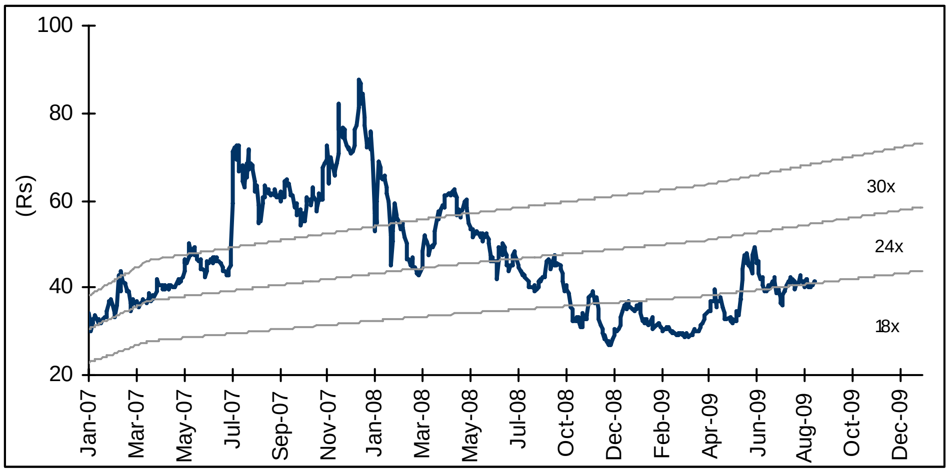
Source: Company data, I-Sec Research

Chart 2: ZNL – Opportunity set



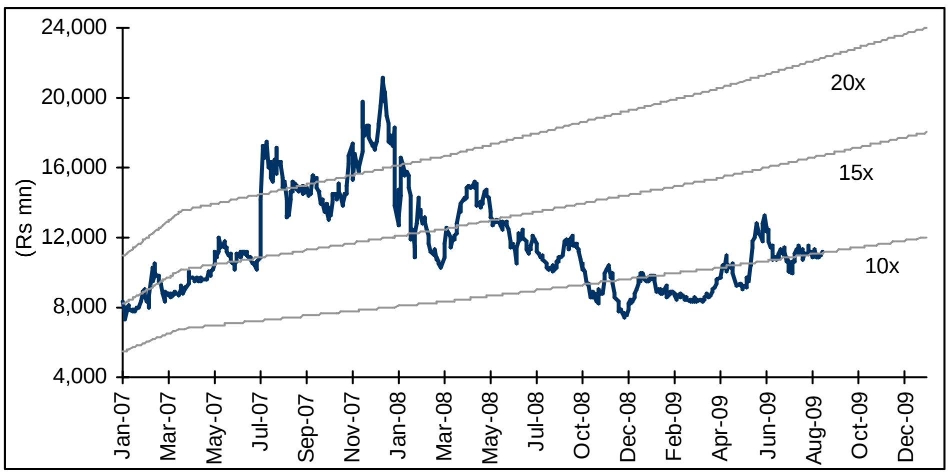
size reflects opportunity (size=market size **x** viewership share); * Average of week27-34 of CY09;
Source: TAM, Company data, I-Sec Research

Chart 3: P/E bands



Source: Bloomberg, Company data, I-Sec Research

Chart 4: EV/EBITDA



Source: Bloomberg, Company data, I-Sec Research

Financial Summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**5,221**	**6,204**	**7,226**	**8,339**
of which advertising	4,089	4,849	5,681	6,533
of which subscription	969	1,224	1,408	1,662
of which others	164	131	137	144
Operating Expenses	**4,385**	**5,179**	**5,979**	**6,876**
EBITDA	**836**	**1,025**	**1,247**	**1,463**
% margins	*16.0*	*16.5*	*17.3*	*17.5*
Depreciation & Amortisation	95	109	126	138
Gross Interest	211	242	279	307
Other Income	176	155	173	190
Recurring PBT	**706**	**827**	**1,016**	**1,208**
Add: Extraordinaries	-	-	-	-
Less: Taxes	259	298	366	435
Less: Minority Interest	1	22	45	48
Net Income (Reported)	**446**	**507**	**605**	**725**
Recurring Net Income	**446**	**507**	**605**	**725**

Source: Company data, I-Sec Research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	5,034	5,912	6,535	7,255
of which cash & cash eqv.	*508*	*1,250*	*1,104*	*994*
Total Current Liabilities & Provisions	1,625	2,057	2,351	2,679
Net Current Assets	**3,410**	**3,855**	**4,184**	**4,576**
Investments	**-**	**-**	**-**	**-**
Net Fixed Assets	**1,047**	**936**	**1,005**	**1,090**
Total Assets	**4,457**	**4,791**	**5,189**	**5,666**
Liabilities				
Borrowings	2,017	2,017	2,017	2,017
Deferred Tax Liability	(19)	(19)	(19)	(19)
Minority Interest	53	53	53	53
Equity Share Capital	240	240	240	240
Face Value per share (Rs)	*1.0*	*1.0*	*1.0*	*1.0*
Reserves & Surplus*	2,166	2,500	2,898	3,375
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**2,406**	**2,740**	**3,138**	**3,615**
Total Liabilities	**4,457**	**4,791**	**5,189**	**5,666**

Source: Company data, I-Sec Research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	1,277	1,430	1,384	1,374
% growth (YoY)	66.6	38.8	20.5	22.7
EBITDA	212	299	207	248
Margin (%)	16.6	20.9	14.9	18.0
Other income	2	24	49	41
Add: Extraordinaries	-	-	-	-
Net profit	115	152	88	119

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**65**	**485**	**603**	**721**
Working Capital Changes	(1,236)	296	(474)	(502)
Capital Commitments	(327)	2	(195)	(224)
Free Cash Flow	**(1,497)**	**783**	**(66)**	**(5)**
Cash flow from Investing Activities	**176**	**155**	**173**	**190**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	(0)	-	-
Inc (Dec) in Borrowings	1,900	-	-	-
Dividend paid	(109)	(174)	(207)	(248)
Extraordinary Items	**-**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**466**	**742**	**(145)**	**(110)**

Source: Company data, I-Sec Research

Table 6: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
Diluted Reported EPS	1.9	2.1	2.5	3.0
Diluted Recurring EPS	1.9	2.1	2.5	3.0
Recurring Cash EPS	2.3	2.6	3.0	3.6
Dividend per share (DPS)	0.4	0.6	0.8	0.9
Book Value per share (BV)	10.0	11.4	13.1	15.1
Growth Ratios (%)				
Operating Income	42.1	18.8	16.5	15.4
EBITDA	23.4	22.5	21.7	17.3
Recurring Net Income	20.4	13.7	19.2	19.9
Diluted Recurring EPS	20.4	13.7	19.2	19.9
Diluted Recurring CEPS	18.9	13.9	18.5	18.2
Valuation Ratios (x)				
P/E	23.6	20.8	17.4	14.5
P/CEPS	19.5	17.1	14.4	12.2
P/BV	4.4	3.9	3.4	2.9
EV / EBITDA	14.4	11.8	9.7	8.2
EV / Operating Income	2.3	1.9	1.7	1.4
EV / Operating FCF	(10.3)	15.5	84.8	50.9
Operating Ratio (%)				
Production cost / Sales	40.9	44.7	44.1	44.0
Other Income / PBT	24.9	18.7	17.0	15.8
Effective Tax Rate	36.7	36.0	36.0	36.0
NWC / Total Assets	65.1	54.4	59.1	57.6
Inventory Turnover (days)	0.5	3.2	5.5	5.5
Receivables (days)	112.3	117.7	120.8	121.3
Payables (days)	100.3	118.2	125.0	126.1
D/E Ratio (x)	0.8	0.7	0.6	0.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins	8.3	8.3	8.8	9.1
RoCE	11.8	11.2	12.9	15.7
RoNW	19.9	19.7	20.6	21.5
Dividend Payout Ratio	21.5	30.0	30.0	30.0
Dividend Yield	0.9	1.4	1.7	2.1
EBITDA Margins	16.0	16.5	17.3	17.5

Source: Company data, I-Sec Research

About the company – Zee News

Business overview

Zee News is a broadcasting company focused on news and regional channels. It has a bouquet of 14 channels, including national news channels *Zee News* (Hindi) & *Zee Business*, regional entertainment channels – *Zee Marathi*, *Zee Bangla*, *Zee Telugu*, *Zee Kannada*, *Zee Punjabi* and *Zee Tamizh*, and regional news channels – *Zee 24 Taas*, *Zee News UP* and *Zee Telugu News*. It also operates *24 Ghanta*, a Bengali news & current affairs TV channel under a JV with Sky B (Bengal) and *Zee Talkies*, a Marathi movies channel.

About the Group

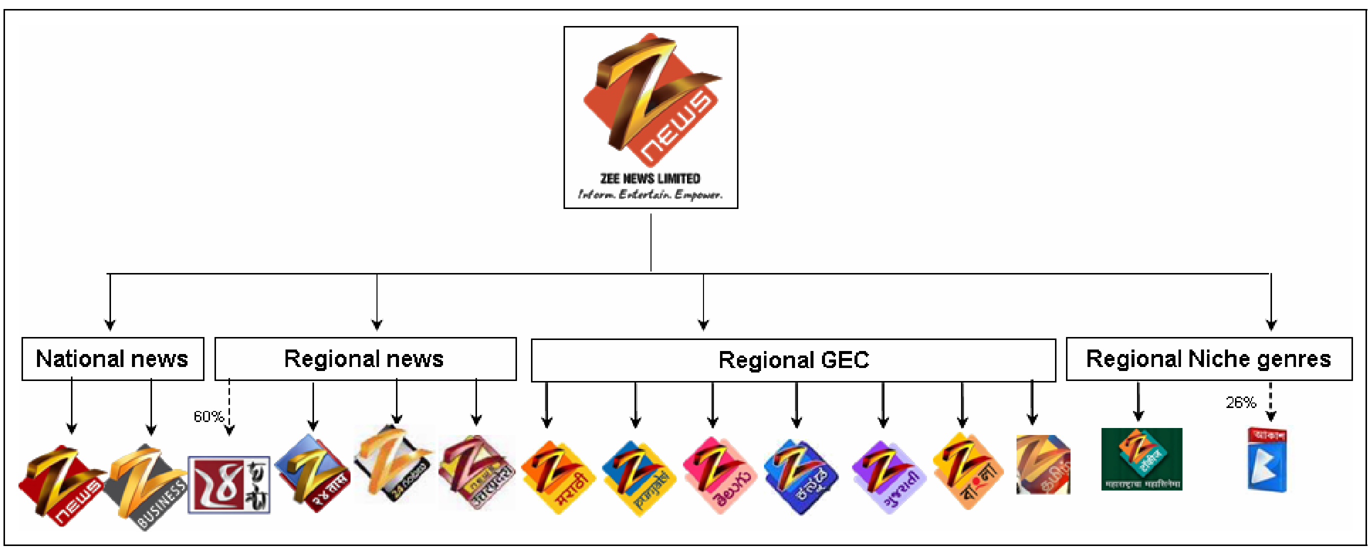
Zee News belongs to the Essel Group, a Media & Entertainment conglomerate with presence across broadcasting, distribution, movies and publishing. ZNL was de-merged from ZEEL, the flagship company of the Group, in '06. ZNL was formed owing to FII restrictions in news media being capped at 20%.

Table 8: Diversification & Expansion

Product	**New**	Product development ✓ Regional news - Bangla, Marathi, Telugu ✓ Regional movies – Marathi	Diversification
Product	**Present**	Market penetration ✓ Increasing DTH subscription revenues	Market development ✓ GECs in Tamil, Telugu, Kannada ✓ News in UP
Zee News		**Present**	**New**
		Markets	

Source: Company data, I-Sec Research

Chart 5: Company structure



Source: Company data, I-Sec Research

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Equity Research

August 27, 2009

BSE Sensex: 15770

INDIA

New Delhi Television

BUY

Maintained

Demerger to drive value

Rs162

Reason for report: Company update

Media

Target price Rs173

Target price revision

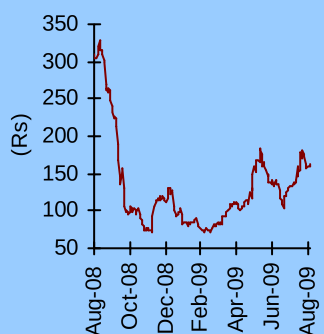
Rs173 from Rs167

Shareholding pattern

	Dec-08	Mar-09	Jun-09
Promoters	63.2	63.2	63.2
Institutional investors	29.4	29.0	26.0
MFs and UTI	5.4	5.0	2.6
Insurance Cos.	0.2	0.2	0.2
FIIs	23.8	23.8	23.1
Others	7.4	7.8	10.9

Source: NSE

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161

Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

New Delhi Television (NDTV), a leading player in the English news space through *NDTV 24x7*, has extended its presence to the Hindi & business news and entertainment genres. While NDTV stands tall on its brand image in the news domain, it has been unsuccessful in leveraging on the same to drive profitability. On the other hand, NDTV has successfully monetised its brands with investors, raising Rs6bn for 25% stake in its subsidiary NDTV Networks, which houses the entertainment business with flagship property *NDTV Imagine*. While the economic slowdown has driven NDTV to prune costs, a lot more is desired in terms of cost-cutting and profitability. Going forward, we expect the proposed demerger of NDTV into news-plus and entertainment-plus businesses as well as improvement in GRPs of *NDTV Imagine* to be key stock drivers. We maintain BUY (largely from a trading perspective) as we expect valuation upside post demerger.

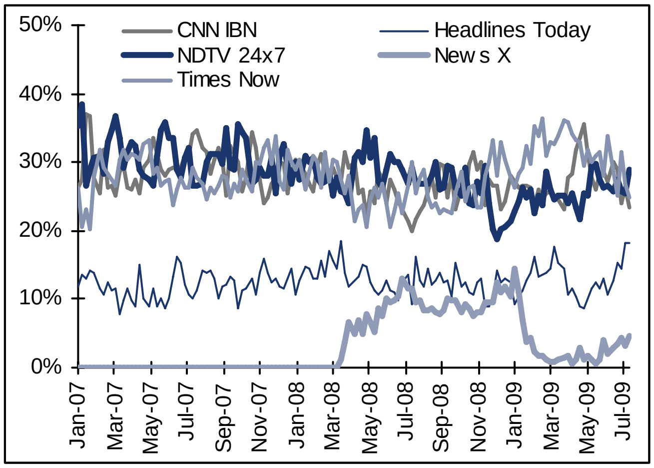
- **News – high on brand, low on profitability.** *NDTV 24x7* is one of the top-3 in the English news genre, while *NDTV India* has remained a tier II channel in the Hindi news segment. In the business news genre, *NDTV Profit* has been unable to catch up with *CNBC TV18* and competition has recently intensified with entry of *ET Now*. Despite being one of the leaders in the news genre, NDTV has been unable to drive profitability. In FY09, while standalone revenues saw only 1.3% YoY growth owing to impact of ad slowdown, NDTV was unable to curtail costs, leading to 44% increase in costs and Rs840mn standalone EBITDA losses.
- **Entertainment – *NDTV Imagine* shows positive signs.** While *NDTV Imagine* made an impactful debut as a new Hindi GEC player, it lost steam post launch of *Colors* from the Network18 stable. Recently, post introduction of fresh line-up of programmes including realty shows, *NDTV Imagine* has consolidated position in tier II of Hindi GECs with >100 total weekly GRPs and ~10% of prime-time GRP share.
- **High debt & funding requirements a concern.** Gross debt-on-books at end-FY09 stood at Rs6bn, up from Rs2.4bn at end-FY08, with *NDTV Imagine* continuing to incur losses. The entertainment business will require further funding.
- **Valuations – Maintain BUY.** We maintain BUY (mostly for a trading perspective) on NDTV, with revised target price of Rs173/share (earlier Rs167/share), based on accrual of upsides from the demerger into news-plus and entertainment-plus businesses. Further improvement in GRPs of *NDTV Imagine* and raising equity will be key stock drivers.

Market Cap	Rs10.1bn/US$207mn
Reuters/Bloomberg	NDTV.BO/NDTV IN
Shares Outstanding (mn)	62.6
52-week Range (Rs)	332/68
Free Float (%)	36.8
FII (%)	23.1
Daily Volume (US$/'000)	2,370
Absolute Return 3m (%)	(1.3)
Absolute Return 12m (%)	(47.9)
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

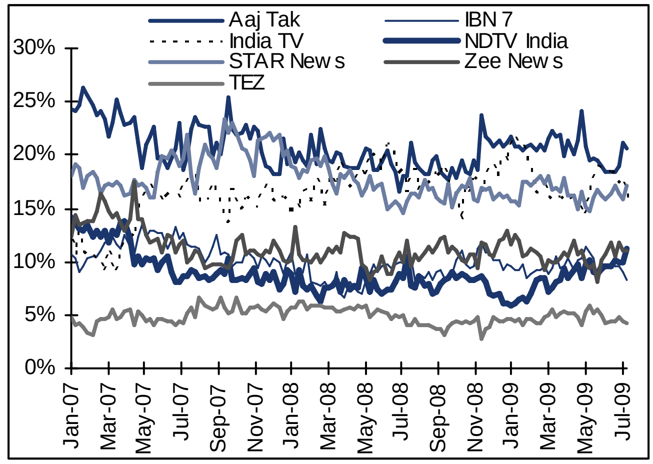
Year to March	FY08	FY09	FY10E	FY11E
Revenue (Rs mn)	3,661	4,923	6,989	9,157
Rec. Net Income (Rs mn)	(1,722)	(5,240)	(2,500)	(677)
EPS (Rs)	(27.5)	(81.4)	(30.0)	(5.9)
% Chg YoY	NM	NM	NM	NM
P/E (x)	NM	NM	NM	NM
CEPS (Rs)	NM	NM	NM	2.3
EV/E (x)	NM	NM	NM	256.5
Dividend Yield (%)	1.2	-	-	-
RoCE (%)	(34.9)	(60.6)	(22.9)	(6.5)
RoE (%)	(76.0)	(249.3)	(103.3)	(53.4)

Chart 1: NDTV's news channels have been unable to consolidate

NDTV 24x7 **among top-3 English news channels**



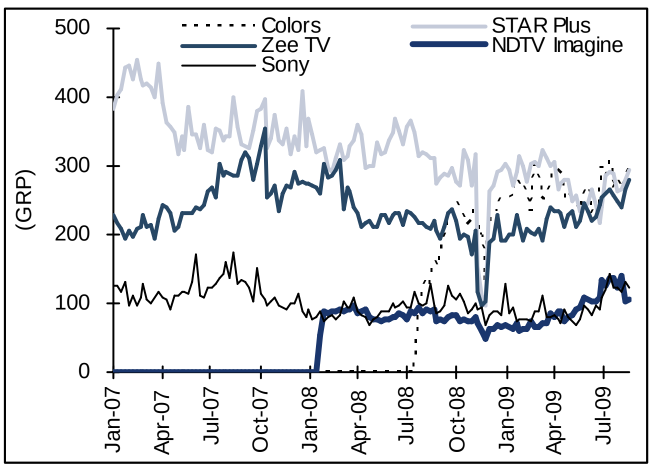
NDTV India **remains a me-too Hindi news channel**



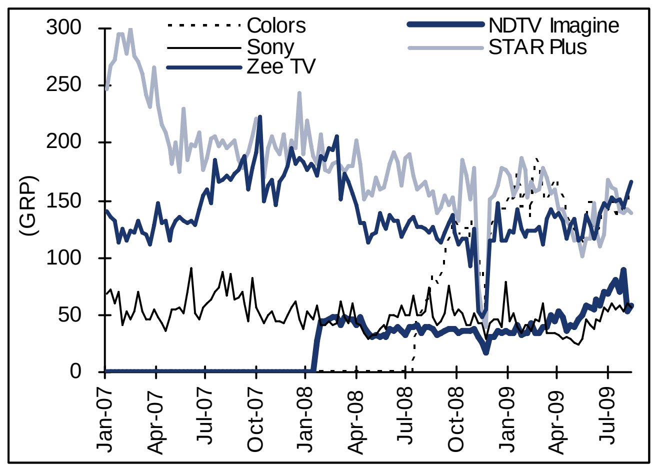
Source: TAM CS4+; HSM markets

Chart 2: *NDTV Imagine* secures its position in tier II of Hindi GECs

All-day



Prime-time



Source: TAM CS4+; HSM markets

Table 1: SOTP-based valuations yield target price of Rs173/share

	Value	Comment
News-plus business		
EV (Rs mn)	4,477	1.2x FY10E sales
Value per share (Rs)	**69**	
Entertainment-plus business		
EV (Rs mn)	8,657	2x FY11E sales
Net debt (Rs mn)	3,990	FCCBs of US$100mn
Equity value (Rs mn)	4,667	
Value per share (Rs)	**72**	
Value of net cash per share (Rs)	**31**	Cash-on-books declined at Rs2bn
Total fair-value per share	**173**	

Source: Company data, I-Sec Research

Financial Summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Income (Sales)	**3,661**	**4,923**	**6,989**	**9,157**
Operating Expenses	**5,040**	**9,459**	**8,475**	**9,094**
EBITDA	**(1,379)**	**(4,535)**	**(1,486)**	**63**
% margins	*(37.7)*	*(92.1)*	*(21.3)*	*0.7*
Depreciation & Amortisation	231	309	439	511
Gross Interest	242	530	630	554
Other Income	218	174	100	377
Recurring PBT	**(1,634)**	**(5,200)**	**(2,454)**	**(626)**
Add: Extraordinaries	(135)	6,438	-	-
Less: Taxes	88	40	46	51
Less: Minority Interest	124	115	(510)	(816)
Net Income (Reported)	**(1,857)**	**1,198**	**(2,500)**	**(677)**
Recurring Net Income	**(1,722)**	**(5,240)**	**(2,500)**	**(677)**

Source: Company data, I-Sec Research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	5,422	4,976	5,043	5,244
of which cash & cash eqv.	*2,581*	*1,090*	*825*	*788*
Total Current Liabilities & Provisions	1,666	2,668	2,471	2,564
Net Current Assets	**3,756**	**2,307**	**2,571**	**2,680**
Investments				
of which	**322**	**4,780**	**1,780**	**780**
Strategic/Group	*322*	*4,780*	*1,780*	*780*
Net Fixed Assets	**2,062**	**2,531**	**2,766**	**2,981**
of which				
Capital Work-in-Progress	*282*	*37*	*282*	*282*
Total Assets	**6,315**	**9,787**	**7,287**	**6,610**
Liabilities				
Borrowings	4,921	7,047	7,047	7,047
Deferred Tax Liability	(64)	(129)	(129)	(129)
Minority Interest	124	115	(510)	(816)
Equity Share Capital	250	251	251	251
Face Value per share (Rs)	*4.0*	*4.0*	*4.0*	*4.0*
Reserves & Surplus*	1,084	2,502	627	257
Less: Misc. Exp. n.w.o.	*174*	*169*	*169*	*169*
Net Worth	**1,334**	**2,753**	**878**	**508**
Total Liabilities	**6,315**	**9,787**	**7,287**	**6,610**

Source: Company data, I-Sec Research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	1,203	1,294	1,233	1,309
% growth (YoY)	*67.6*	*26.8*	*0.9*	*9.6*
EBITDA	(1,035)	(955)	(1,627)	(577)
Margin (%)	*(86.0)*	*(73.8)*	*(131.9)*	*(44.1)*
Other income	76	17	38	21
Add: Extraordinaries	65	59	(199)	27
Net profit	(1,131)	(1,148)	(1,632)	(807)

Source: Company data, I-Sec Research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cash flow	**(1,864)**	**(5,156)**	**(1,247)**	**(236)**
Working Capital Changes	(171)	(62)	(529)	(146)
Capital Commitments	(1,073)	(5,078)	2,037	274
Free Cash Flow	**(3,108)**	**(10,296)**	**260**	**(108)**
Cash flow from Investing Activities	**218**	**174**	**100**	**377**
Issue of Share Capital	0	1	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	4,746	2,127	-	-
Dividend paid	(59)	-	-	-
Extraordinary Items	**(135)**	**6,438**	**-**	**-**
Chg. in Cash & Bank balance	**1,774**	**(1,491)**	**(265)**	**(37)**

Source: Company data, I-Sec Research

Table 5: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (in Rs.)				
Diluted Recurring EPS	(27.5)	(81.4)	(30.0)	(5.9)
Diluted Reported EPS	(29.6)	21.5	(30.0)	(5.9)
Recurring Cash EPS	(23.8)	(76.5)	(22.9)	2.3
Dividend per share (DPS)	2.0	-	-	-
Book Value per share (BV)	15.9	41.8	11.8	5.9
Growth Ratios (%)				
Operating Income	31.5	34.5	42.0	31.0
EBITDA	NM	NM	NM	NM
Recurring Net Income	NM	NM	NM	NM
Diluted Recurring EPS	NM	NM	NM	NM
Diluted Recurring CEPS	NM	NM	NM	NM
Valuation Ratios (x)				
P/E	NM	NM	NM	NM
P/CEPS	NM	NM	NM	71.9
P/BV	10.2	3.9	13.7	27.4
EV / EBITDA	NM	NM	NM	256.5
EV / Operating Income	4.4	3.3	2.3	1.8
EV / Operating FCF	NM	NM	NM	NM
Operating Ratio (%)				
Production cost/Sales	27.1	34.3	30.9	26.2
Other Income / PBT	(13.3)	(3.3)	(4.1)	(60.2)
Effective Tax Rate	(5.0)	(0.8)	(1.9)	(8.1)
NWC / Total Assets	18.6	12.4	24.0	28.6
Receivables (days)	134.8	121.4	103.2	101.2
Payables (days)	77.1	76.1	98.3	90.1
D/E Ratio (x)	3.6	2.5	7.9	13.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins	(44.3)	(100.0)	(26.4)	(3.9)
RoCE	(34.9)	(60.6)	(22.9)	(6.5)
RoNW	(56.2)	(68.8)	(25.3)	(7.3)
Dividend Payout Ratio	(7.3)	-	-	-
Dividend Yield	1.2	-	-	-
EBITDA Margins	(37.7)	(92.1)	(21.3)	0.7

NM – Not meaningful
Source: Company data, I-Sec Research

About the company – New Delhi Television

Business overview

NDTV has diversified from a pure-news player to other media businesses. Its news channels include national channels – *NDTV 24x7* (English), *NDTV India* (Hindi) & *NDTV Profit* (Business) and local channels – *NDTV Metronation* (Delhi) & *NDTV Hindu* (Chennai). NDTV's non-news businesses are housed under NDTV Networks, in which NBC Universal holds 26% stake. NDTV Networks is the holding company for: i) NDTV Imagine that operates three channels – *NDTV Imagine*, *Imagine Showbiz* & *NDTV Lumiere* – and a movie production subsidiary NDTV Imagine Films and ii) NDTV Lifestyle that operates the lifestyle channel *NDTV Goodtimes* in partnership with the Kingfisher (UB) Group. NDTV Networks also has presence in the mobile & web spaces, media software development, media post-production outsourcing and international TV channels. The company is in the process of demerging operations into News-plus and Entertainment-plus businesses.

About the promoters

NDTV was started by Mr Prannoy Roy, Chairman, a news anchor turned entrepreneur, and has progressed from being a content production house to a full media play.

Table 7: Diversification & Expansion

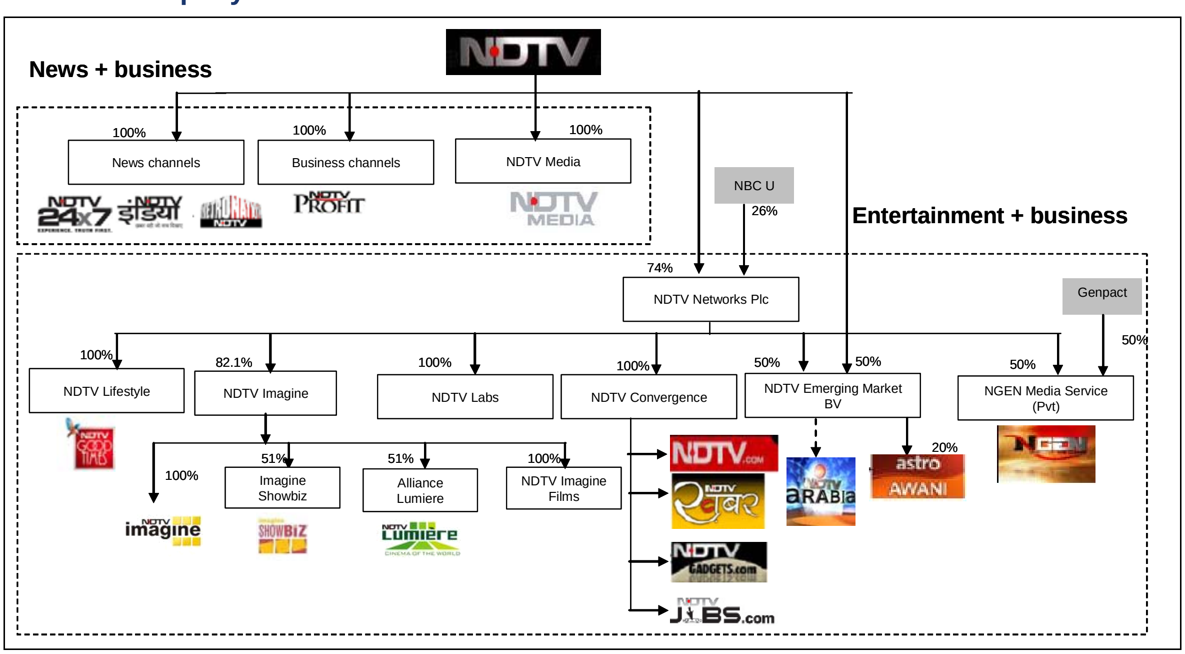
		Markets: Present	Markets: New
Product	**New**	Product development ✓ *NDTV Imagine, Imagine Showbiz, NDTV Goodtimes, Imagine Lumiere*	Diversification ✗ NDTV Imagine Films
Product	**Present**	Market penetration ✓ *NDTV Metronation* (Delhi)	Market development ✓ *NDTV Hindu* (Chennai)
NDTV		**Present**	**New**

Source: Company data, I-Sec Research

Foreign investors

NBC Universal invested US$150mn for 26% stake in NDTV's entertainment business. NBC Universal is a leading global media company with presence mostly in cable & satellite networks (*NBC*, *CNBC* etc) and filmed entertainment (Universal Studios). It is a subsidiary of US conglomerate General Electric (80%); the other 20% is held by French media major Vivendi.

Chart 3: Company structure



Source: Company data, I-Sec Research

Equity Research

August 27, 2009

BSE Sensex: 15770

Media

Target price Rs149

Shareholding pattern

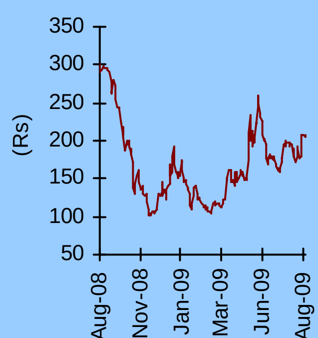
	Dec '08	Mar '09	Jun '09
Promoters	71.2	71.2	71.2
Institutional investors	19.9	18.9	18.5
MFs and UTI	1.3	1.3	1.0
Insurance Cos.	0.0	0.0	0.0
FIIs	18.6	17.6	17.5
Others	8.9	9.9	10.3

Source: NSE

Target price revision

Rs149 from Rs120

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161

Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

ICICI Securities

INDIA

Entertainment Network India

SELL

Maintained

Rs209

Bull-market slips haunt

Reason for report: Company update

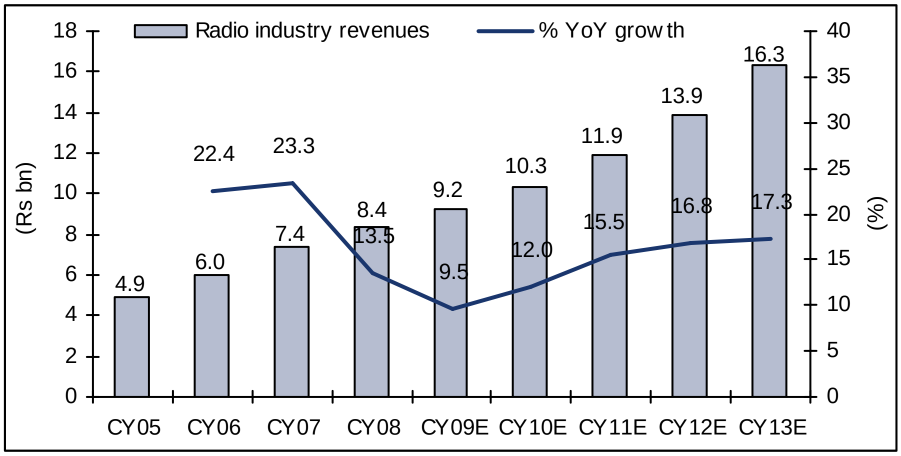
Entertainment Network India (ENIL), a Times Group company, has presence in radio, out-of-home (OOH) and events businesses and is struggling to grow profitably as non-mainstream media takes a disproportionate hit in the sagging economy. ENIL aggressively ventured into the OOH business bagging contracts for Mumbai and Delhi airports at exorbitant bids; the contracts remain loss-making even after two years owing to high fixed-costs. Also, dynamics of the radio industry, which has seen multi-fold rise in ad inventory owing to competition, continues to be challenging. In the radio industry, consolidation, currently limited by regulation, is the need-of-the-hour for profitability. We remain negative on ENIL as the company's financials continue to be strained on account of over-bidding for OOH contracts. We maintain our SELL recommendation. Change in radio industry regulations, allowing consolidation, and favourable revisions in OOH contract terms are the only hope for ENIL.

- **OOH drags on high fixed cost.** ENIL won the OOH ad contracts for Mumbai and Delhi airports for a minimum guarantee of Rs3.9bn for three years in '07. Given worsening of the economic scenario after winning these contracts, ENIL is unlikely to breakeven in the airport OOH business. Going forward, we expect the company to bid at better contract terms and longer duration projects.
- **Radio – Highly commoditised and fragmented.** Strict regulations aimed at restricting polarisation in the radio industry have led to a poor industry structure, with high fragmentation and little differentiation. The radio industry requires consolidation to attain profitability. In spite of being the leader, ENIL has seen reduction in radio business margins to 21.9% in FY09 from peak of 31% in FY06.
- **Valuations – High on brand, low on profitability.** ENIL is likely to continue reporting losses in FY10. Despite being the leader in Radio over its past eight years of operations, ENIL registered profit only in FY06 and FY07, when it was a pure-radio play with little competition. The company has been fortunate in raising Rs2bn in the OOH business for 16.6% stake, valuing the OOH business at Rs12bn, and thereby funding its losses. Key risks to our SELL recommendation are: i) significant changes in radio industry regulations as regards consolidation and ii) better terms for airport OOH contracts.

Market Cap	Rs9.9bn/US$203mn
Reuters/Bloomberg	ENIL.BO/ENIL IN
Shares Outstanding (mn)	47.6
52-week Range (Rs)	323/93
Free Float (%)	28.8
FII (%)	17.5
Daily Volume (US$'000)	550
Absolute Return 3m (%)	0.3
Absolute Return 12m (%)	(30.6)
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

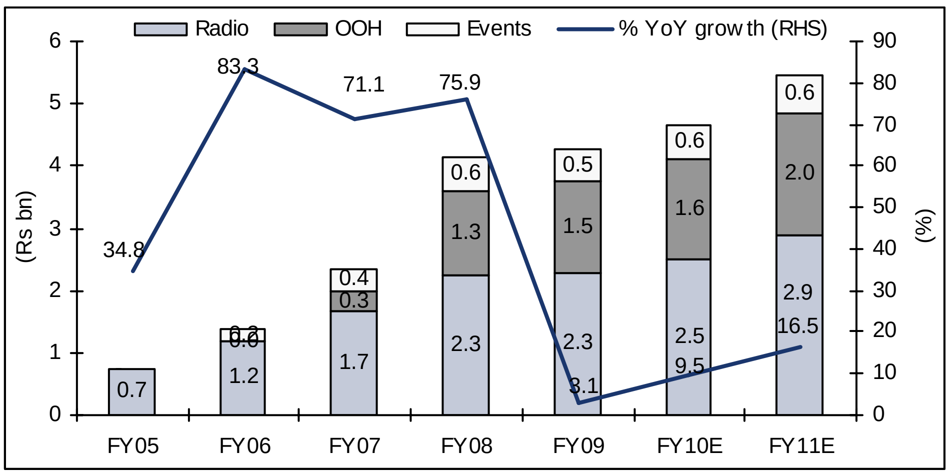
Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	4,135	4,262	4,667	5,439
Net Income (Rs mn)	(170.9)	(602.8)	(132.4)	267.7
EPS (Rs)	(3.6)	(12.7)	(2.8)	5.6
% Chg YoY	NM	NM	NM	NM
P/E (x)	NM	NM	NM	37.2
CEPS (Rs)	4.0	(1.6)	6.4	15.2
EV/E (x)	36.4	NM	22.7	11.3
Dividend Yield	-	-	-	0.4
RoCE (%)	(1.3)	(10.4)	3.1	6.4
RoE (%)	(4.7)	(14.7)	(3.5)	7.0

Chart 1: Radio industry expectations – Muted growth over '08-10E



Source: KPMG-FICCI report on M&E '09

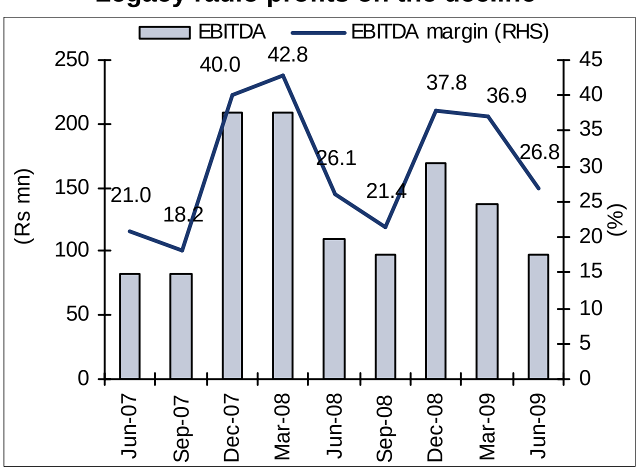
Chart 2: Growth dipped to 3.1% in FY09



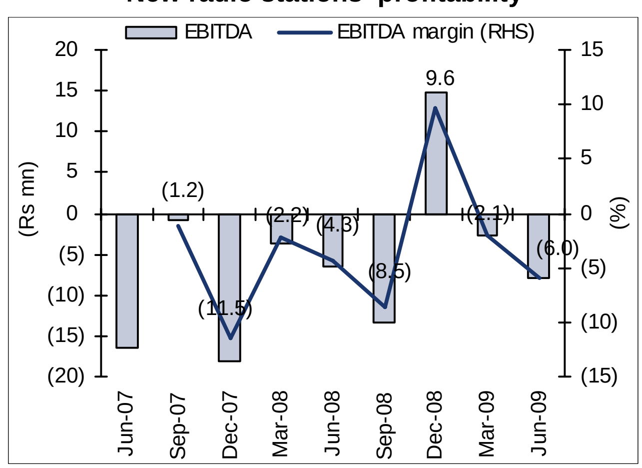
Source: Company data, I-Sec Research

Chart 3: Radio business profitability worsened in FY09

Legacy radio profits on the decline



New radio stations' profitability



Source: Company data, I-Sec Research

Financial Summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Income (Sales)	**4,135**	**4,262**	**4,667**	**5,439**
of which Radio	*2,252*	*2,279*	*2,505*	*2,881*
of which Out Of Home	*1,332*	*1,482*	*1,611*	*1,951*
of which Events	*551*	*502*	*552*	*607*
Operating Expenses	**3,814**	**4,354**	**4,153**	**4,404**
EBITDA	**321**	**(92)**	**514**	**1,035**
% margins	*8*	*(2)*	*11*	*19*
Depreciation & Amortisation	363	526	438	455
Gross Interest	174.0	144.4	208.3	188.1
Other Income	34	30	25	28
Recurring PBT	**(182)**	**(731)**	**(106)**	**419**
Add: Extraordinaries	-	-	-	-
Less: Taxes	**(6)**	**(3)**	**90**	**174**
- Current tax	17	1	90	174
- Deferred tax	(34)	(31)	-	-
- Others	12	28	-	-
Less: Minority Interest	(5.4)	(125.9)	(64.1)	(22.6)
Net Income (Reported)	**(171)**	**(603)**	**(132)**	**268**
Recurring Net Income	**(171)**	**(603)**	**(132)**	**268**

Source: Company data, I-Sec Research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	4,301	3,204	2,989	3,668
of which cash & cash eqv.	*177*	*162*	*170*	*548*
Total Current Liabilities & Provisions	910	994	1,203	1,440
Net Current Assets	**3,391**	**2,210**	**1,786**	**2,228**
Investments	**30**	**-**	**-**	**-**
of which Strategic/Group	-	-	-	-
Other Marketable	*30*	-	-	-
Net Fixed Assets	**3,182**	**3,182**	**3,275**	**2,900**
of which intangibles	*1773*	*1558*	*1343*	*1128*
Capital Work-in-Progress	*110*	*137*	*298*	*264*
Total Assets	**6,603**	**5,392**	**5,061**	**5,129**
Liabilities				
Borrowings	1,933	1,481	1,481	1,281
Deferred Tax Liability	(61)	(92)	(92)	(92)
Equity Share Capital	477	477	477	477
Face Value per share (Rs)	*10*	*10*	*10*	*10*
Reserves & Surplus*	3,930	3,328	3,196	3,463
Net Worth	**4,406**	**3,805**	**3,672**	**3,940**
Total Liabilities	**6,603**	**5,392**	**5,061**	**5,129**

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	1,099	1,103	998	871
% growth (YoY)	28.1	(18.3)	(19.2)	(18.6)
EBITDA	(60)	59	(113)	(66)
Margin (%)	(5.4)	5.3	(11.3)	(7.6)
Other income	3	0	5	3
Add: Extraordinaries	0	0	0	0
Net profit	(182)	(107)	(234)	(194)

Source: Company data, I-Sec Research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cash flow	**128**	**(270)**	**93**	**684**
Working Capital Changes	(2,403)	1,191	410	(75)
Capital Commitments	(520)	(515)	(387)	(81)
Free Cash Flow	**(2,794)**	**406**	**117**	**528**
Cash flow from Investing Activities	**29**	**60**	**25**	**28**
Issue of Share Capital	-	0	-	-
Share Premium	1,991	1	(135)	68
Buyback of shares	(0)	-	-	-
Inc (Dec) in Borrowings	794	(452)	-	(200)
Dividend paid	-	-	-	(46)
Extraordinary Items	**0**	**0**	**0**	**0**
Chg. in Cash & Bank balance	**20**	**16**	**7**	**378**

Source: Company data, I-Sec Research

Table 4: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (in Rs.)				
Diluted Recurring EPS	(3.6)	(12.7)	(2.8)	5.6
Diluted Reported EPS	(3.6)	(12.7)	(2.8)	5.6
Recurring Cash EPS	4.0	(1.6)	6.4	15.2
Dividend per share (DPS)	-	-	-	0.8
Book Value per share (BV)	92.6	80.0	77.2	82.8
Growth Ratios (%)				
Operating Income	75.9	3.1	9.5	16.5
EBITDA	(24.9)	(128.6)	(660.5)	101.2
Recurring Net Income	NM	NM	NM	NM
Diluted Recurring EPS	NM	NM	NM	NM
Diluted Recurring CEPS	NM	NM	NM	136.6
Valuation Ratios (% YoY)				
P/E	NM	NM	NM	37.2
P/CEPS	51.8	NM	32.5	13.8
P/BV	2.3	2.6	2.7	2.5
EV / EBITDA	36.4	NM	22.7	11.3
EV / Operating Income	2.8	2.7	2.5	2.2
EV / Operating FCF	NM	12.7	23.2	19.2
Operating Ratio				
Production expenses / Revenues	15.4	15.2	15.2	14.0
License Fees / Revenues	33.0	39.6	33.7	29.8
Other Income / PBT (%)	(18.5)	(4.2)	(23.9)	6.7
Effective Tax Rate (%)	18.3	4.2	(84.6)	41.6
NWC / Total Assets (%)	49.1	38.0	31.9	32.8
Receivables (days)	117.9	115.3	80.0	80.0
Payables (days)	449.8	530.1	530.1	530.1
D/E Ratio (x)	0.4	0.4	0.4	0.3
Return/Profitability Ratio (%)				
Recurring Net Income Margins	(4.1)	(14.1)	(2.8)	4.9
RoCE	(1.3)	(10.4)	3.1	6.4
RoNW	(4.7)	(14.7)	(3.5)	7.0
Dividend Payout Ratio	-	-	-	15.0
Dividend Yield	-	-	-	0.4
EBITDA Margins	7.8	(2.2)	11.0	19.0

NM – Not meaningful

Source: Company data, I-Sec Research

About the company – Entertainment Network India

Business overview

ENIL operates one of the largest private FM radio networks in India, with 32 stations in 32 cities, through the *Radio Mirchi* brand. ENIL also has two subsidiaries – Times Innovative Media, via which it operates its OOH business *Times OOH*, and Alternate Brand Solutions, via which it operates its event management brand *360 Experience*.

About the Group

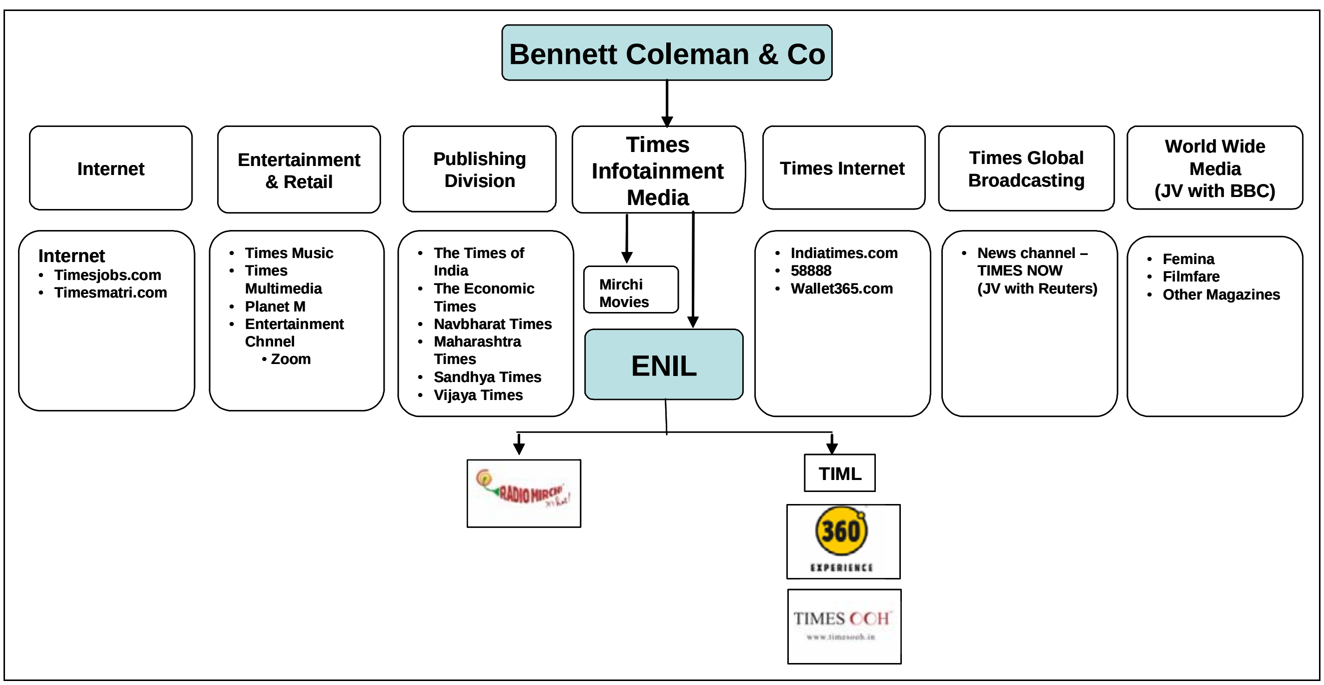
ENIL is part of The Times Group (Bennett, Coleman & Company – BCCL), one of India's largest media groups, with interests across various media platforms including publishing, broadcasting, internet, entertainment and retail. BCCL publishes widely-read newspapers such as *The Times of India* (*ToI*), *The Economic Times* (*ET*), *Navabharat Times* and *Maharashtra Times*. While *ToI* is the largest national and global English broadsheet daily, *ET* is the largest financial daily.

Table 6: Diversification & Expansion

Product		Markets: Present	Markets: New
Product	New	Product development	Diversification ✗ Out of Home ✗ Events
Product	Present	Market penetration	Market development ✓ Bidding in phase II Radio licensing
ENIL		Present	New
		Markets	

Source: Company data, I-Sec Research

Chart 4: Group structure



Source: Company data, I-Sec Research

Equity Research

August 27, 2009

BSE Sensex: 15770

Media

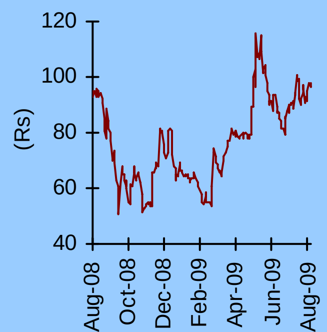
Target price Rs92

Shareholding pattern

	Dec '08	Mar '09	Jun '09
Promoters	55.7	55.7	55.9
Institutional investors	19.2	19.3	19.5
MFs and UTI	14.4	14.6	14.8
Insurance Cos.	4.8	4.8	4.8
FIIs	0.0	0.0	0.0
Others	25.2	25.0	24.6

Source: NSE

Price chart



Vikash Mantri, CFA
vikash.mantri@icicisecurities.com
+91 22 6637 7161
Suchitra W L
suchitra.wl@icicisecurities.com
+91 22 6637 7510

INDIA

TV Today Network

HOLD

Maintained

One-property wonder

Rs98

Reason for report: Company update

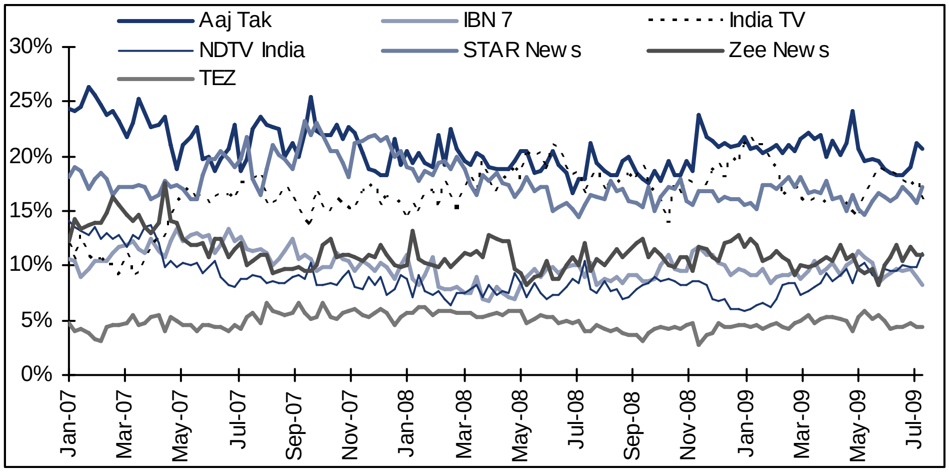
TV Today Network (TVTN), by way of its flagship brand *Aaj Tak*, remains the leader in Hindi news space. The Hindi news space has seen multi-fold rise in competition, with presence of 11 quality players, resulting in drop in market share for *Aaj Tak* to 20% at present from ~45% in FY05. TVTN has been unsuccessful in extending its strong franchise in Hindi to English news, where its channel *Headlines Today* is a poor #4 player. While TVTN's channels turned Pay in FY09, subscription revenue opportunities are low in the heavily commoditised news genre. Continuing high cash-on-books implies the company's lack of intent to invest in growth initiatives or distribute excess cash to shareholders. We recommend HOLD with a negative bias.

- **News genre commoditised.** The Hindi news genre is highly fragmented, with 11 quality players and entry of new players. *Aaj Tak* has witnessed significant erosion in GRP share to 20% from ~45% in FY05. Though viewership share of news genre itself has grown on account of new entrants, the genre has become heavily commoditised and offers limited scope for garnering Pay TV revenues.
- **Pay TV revenues – Long way off.** TVTN's bouquet of channels turned Pay in FY09, with aim to garner subscription revenues. However, lack of differentiated content limits the scope of Pay TV revenues in the news genre.
- **Limited avenues for productive usage of cash.** TVTN is cash-rich, with Rs1.5bn or Rs26/share cash-on-books. The company is expending cash for building the corporate office and modernising equipment, both of which are not likely to lead to significant improvement in productivity. We see limited possibility of productive usage of cash-on-books and maintain a negative stance on the company.
- **Radio business likely to drag profitability.** TVTN is merging its radio business – Radio Today Broadcasting (RTBL) – with itself, at swap ratio of 1:6, which will result number of shares increasing by 1.6mn. The deal values the radio business at Rs700mn, which includes Rs550mn debt from TVTN.
- **Valuations justifiably low.** TVTN is currently trading at of FY10E & FY11E P/E of 11.2x & 9.6x respectively. While cash-on-books limits downside, we expect the stock to lag on account of dull growth outlook owing to nil investment for leveraging *Aaj Tak's* strong franchise.

Market Cap	Rs5.7bn/US$116mn
Reuters/Bloomberg	TVTO.BO/TVTN IN
Shares Outstanding (mn)	58.0
52-week Range (Rs)	120/47
Free Float (%)	44.1
FII (%)	0.0
Daily Volume (US$/'000)	220
Absolute Return 3m (%)	(15.4)
Absolute Return 12m (%)	3.0
Sensex Return 3m (%)	11.8
Sensex Return 12m (%)	10.3

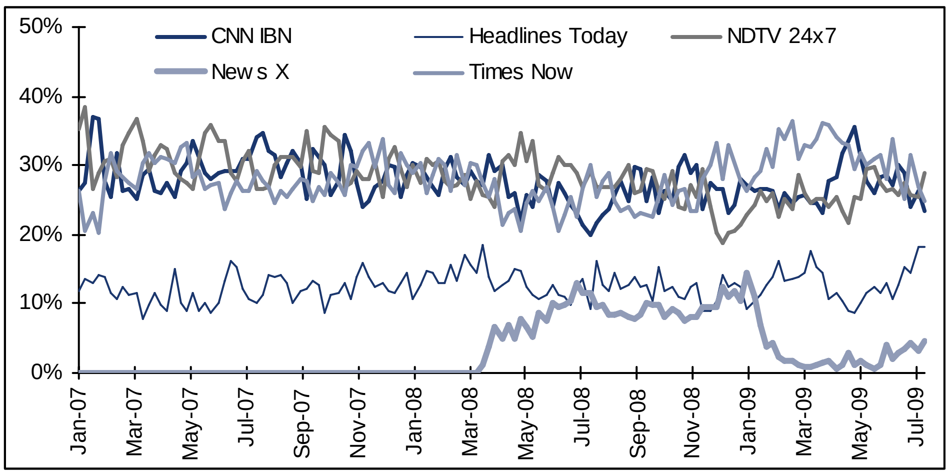
Year to Mar	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	2,311	2,500	2,775	3,115
Rec. Net Income (Rs mn)	438.2	336.4	506.5	590.2
EPS (Rs)	7.6	5.8	8.7	10.2
% Chg YoY	39.8	(23.2)	50.5	16.5
P/E (x)	13.0	16.9	11.2	9.6
CEPS (Rs)	10.3	9.1	12.3	13.8
EV/E (x)	6.6	9.4	5.7	4.7
Dividend Yield (%)	0.8	0.8	1.3	2.1
RoCE (%)	8.5	2.7	5.9	7.4
RoE (%)	16.0	9.6	11.9	12.6

Chart 1: *Aaj Tak* remains #1, but has lost significant share



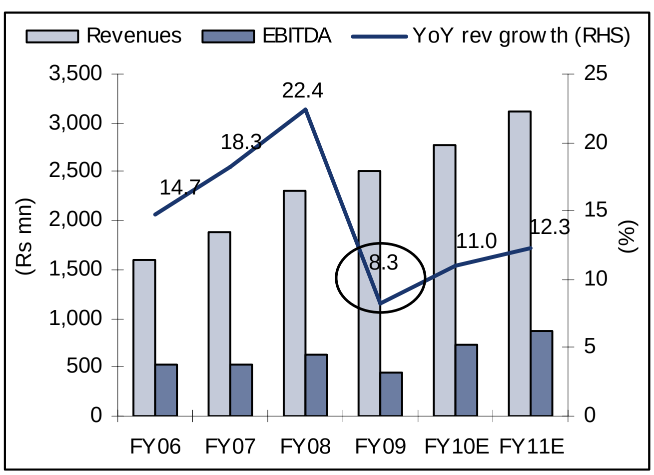
Source: TAM CS4+, HSM markets, I-Sec Research

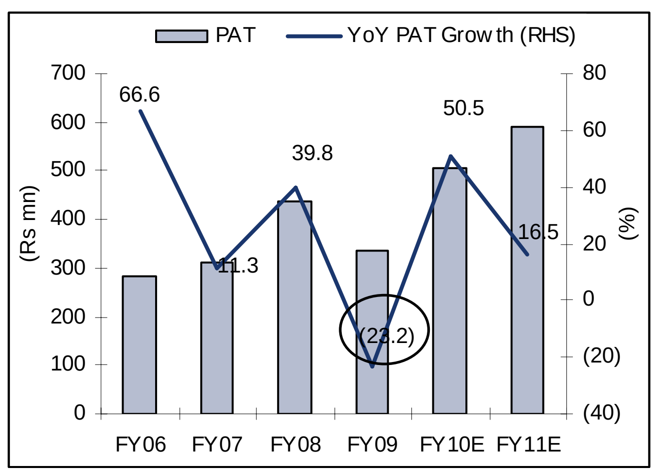
Chart 2: *Headlines Today* shows improvement but remains at #4



Source: TAM CS4+, All markets, I-Sec Research

Chart 3: FY09 – Muted revenue growth and dip in profit





Source: Company data, I-Sec Research

Financial Summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Income (Sales)	**2,311**	**2,500**	**2,775**	**3,115**
Operating Expenses	**1,682**	**2,058**	**2,046**	**2,236**
EBITDA	**628**	**442**	**729**	**879**
% margins	*27*	*18*	*26*	*28*
Depreciation & Amortisation	160	194	204	213
Gross Interest	1	1	-	-
Other Income	204	242	254	241
Recurring PBT	**671**	**489**	**779**	**908**
Add: Extraordinaries	(4)	(1)	-	-
Less: Taxes	232	152	273	318
- Current tax	230	141	273	318
- Deferred tax	(11)	-	-	-
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**436**	**335**	**506**	**590**
Recurring Net Income	**438**	**336**	**506**	**590**

Source: Company data, I-Sec Research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Assets				
Total Current Assets	1,600	1,747	1,914	2,116
of which cash & cash eqv.	*487*	*434*	*686*	*781*
Total Current Liabilities & Provisions	597	541	537	566
Net Current Assets	**1,003**	**1,206**	**1,377**	**1,549**
Investments				
of which	**1,095**	**1,095**	**1,095**	**1,495**
Strategic/Group	*11*	*11*	*11*	*11*
Other Marketable	*1,084*	*1,084*	*1,084*	*1,484*
Net Fixed Assets	**854**	**1,772**	**2,020**	**1,903**
of which				
intangibles	*581*	*551*	*521*	*491*
Capital Work-in-Progress	*77*	-	-	-
Total Assets	**2,952**	**4,072**	**4,492**	**4,947**
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	19	19	19	19
Minority Interest	-	-	-	-
Equity Share Capital	290	296	296	296
Face Value per share (Rs)	*5*	*5*	*5*	*5*
Reserves & Surplus*	2,641	3,756	4,175	4,631
Net Worth	**2,932**	**4,053**	**4,473**	**4,928**
Total Liabilities	**2,952**	**4,072**	**4,492**	**4,947**

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-08	Dec-08	Mar-09	Jun-09
Net sales	669	653	537	710
% growth (YoY)	44	(6)	(16)	11
EBITDA	122	139	51	195
Margin (%)	18	21	10	27
Other income	38	70	89	92
Add: Extraordinaries	(0)	(0)	(0)	(0)
Net profit	76	87	82	167

Source: Company data, I-Sec Research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
Operating Cash flow	**285**	**296**	**504**	**615**
Working Capital Changes	(221)	(256)	81	(77)
Capital Commitments	58	(263)	(500)	(150)
Free Cash Flow	**122**	**(224)**	**85**	**388**
Cash flow from Investing Activities	**(342)**	**242**	**254**	**(159)**
Issue of Share Capital	0	(0)	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(43)	-	-	-
Dividend paid	(51)	(50)	(87)	(135)
Extraordinary Items	**(4)**	**(1)**	**-**	**-**
Chg. in Cash & Bank balance	**(316)**	**(54)**	**253**	**95**

Source: Company data, I-Sec Research

Table 4: Key ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
Per Share Data (in Rs.)				
Reported EPS	7.6	5.8	8.7	10.2
Recurring EPS	7.5	5.8	8.7	10.2
Recurring Cash EPS	10.3	9.1	12.3	13.8
Dividend per share (DPS)	0.8	0.7	1.3	2.0
Book Value per share (BV)	50.6	69.9	77.1	85.0
Growth Ratios (%)				
Operating Income	22.3	8.2	11.0	12.3
EBITDA	20.7	(29.6)	64.9	20.6
Recurring Net Income	39.8	(23.2)	50.5	16.5
Diluted Recurring EPS	39.8	(23.2)	50.5	16.5
Diluted Recurring CEPS	23.7	(11.3)	33.9	13.0
Valuation Ratios (x)				
P/E	13.0	16.9	11.2	9.6
P/CEPS	9.5	10.7	8.0	7.1
P/BV	1.9	1.4	1.3	1.2
EV / EBITDA	6.6	9.4	5.7	4.7
EV / Operating Income	1.8	1.7	1.5	1.3
EV / Operating FCF	65.2	105.7	7.1	7.7
Operating Ratio (%)				
Raw Material/Sales	NA	NA	NA	NA
Production cost/Sales	11.6	10.8	10.7	10.2
Other Income / PBT	30.4	49.5	32.6	26.6
Effective Tax Rate	34.7	31.2	35.0	35.0
NWC / Total Assets	17.5	19.0	15.4	15.5
Receivables (days)	114.5	128.1	118.1	101.5
Payables (days)	66.3	58.6	59.6	56.0
D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	17.4	12.3	16.7	17.6
RoCE	8.5	2.7	5.9	7.4
RoNW	16.0	9.6	11.9	12.6
Dividend Payout Ratio	9.9	12.9	15.0	20.0
Dividend Yield	0.8	0.8	1.3	2.1
EBITDA Margins	27.2	17.7	26.3	28.2

Source: Company data, I-Sec Research

About the company –TV Today Network

Business overview

TV Today Network is one of the leading news networks in India, with flagship Hindi news channel *Aaj Tak*, English news channel *Headlines Today* and secondary Hindi news channel *Tez*. The company is in the process of merging with itself its radio business – Radio Today Broadcasting – that operates in Delhi, Mumbai and Kolkata under the *Meow 104.8 FM* brand. TVTN has fixed swap ratio of 1:6 for the merger, post which the promoters' holding in TVTN will marginally rise ~1%.

About the Group

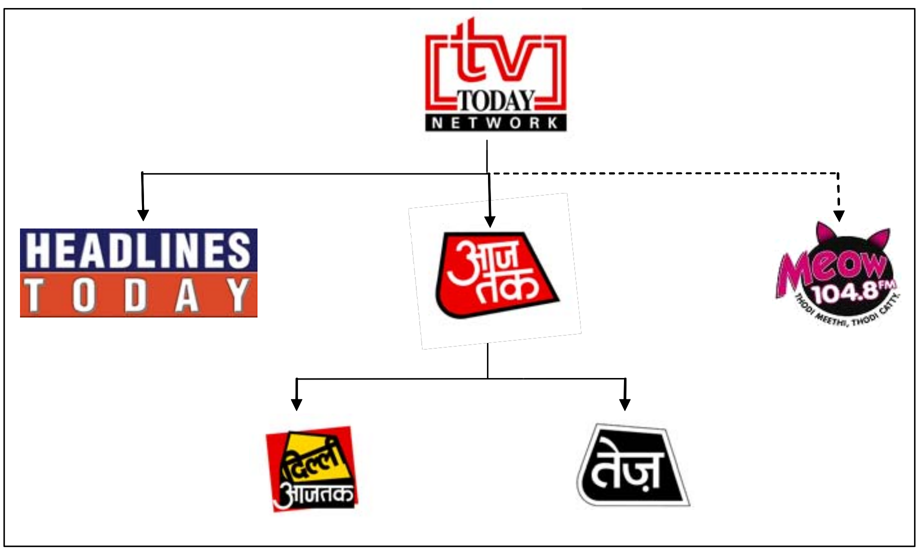
TVTN is part of the India Today Group that publishes India's leading news magazine *India Today* as well as many other magazines. Besides print and broadcasting, the India Today Group also has presence in events, education and publishing businesses.

Table 6: Diversification & Expansion

Product			
Product	New	Product development ✓ *Headlines Today* (English news)	Diversification ✗ Radio – *Meow FM*
Product	Present	Market penetration ✓ Pay TV ✓ *Dilli Aaj Tak* (Delhi) & *Headlines Today*	Market development
TV Today		**Present**	**New**
		Markets	**Markets**

Source: Company data, I-Sec Research

Chart 4: Company structure



Source: Company data, I-Sec Research

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BUY: +10% outperformance; **HOLD**: -10% to +10% relative performance; **SELL**: +10% underperformance

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EQUITIES			
A Murugappan	Executive Director	+91 22 6637 7101	a.murugappan@icicisecurities.com
T S Baskaran	Head Cash Equities	+91 22 6637 7275	ts.baskaran@icicisecurities.com
Equity Research – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2448			
ANALYST	**SECTOR ALLOCATION**	**DIRECT NOS.**	**E-MAIL**
Anantha Narayan	Head of Research	+91 22 6637 7311	anantha.narayan@icicisecurities.com
Amit Mishra, CFA	Oil & Gas, Petrochemicals	+91 22 6637 7274	amit.mishra@icicisecurities.com
Gaurav Pathak	Real Estate, Infrastructure	+91 22 6637 7339	gaurav.pathak@icicisecurities.com
Krupal Maniar, CFA	Technology	+91 22 6637 7254	krupal.maniar@icicisecurities.com
Prakash Gaurav Goel	Agriculture, Utilities	+91 22 6637 7373	prakash.goel@icicisecurities.com
Rajesh Vora	Pharmaceuticals	+91 22 6637 7508	rajesh.vora@icicisecurities.com
Sandeep Shah	Technology	+91 22 6637 7114	sandeep.shah@icicisecurities.com
Sanjay Singh	FMCG	+91 22 6637 7386	sanjay.singh@icicisecurities.com
Siddharth Teli	Banking	+91 22 6637 7298	siddharth.teli@icicisecurities.com
Vikash Mantri, CFA	Media, Telecom	+91 22 6637 7161	vikash.mantri@icicisecurities.com
Gagan Dixit	Sr. Associate (Oil&Gas, Petrochemicals)	+91 22 6637 7480	gagan.dixit@icicisecurities.com
Suchitra WL	Sr. Associate (Media, Telecom)	+91 22 6637 7510	suchitra.wl@icicisecurities.com
Sunil Teluja	Sr. Associate (FMCG)	+91 22 6637 7312	sunil.teluja@icicisecurities.com
Abhijit Mitra	Associate (Metals)	+91 22 6637 7289	abhijit.mitra@icicisecurities.com
Abhishek Murarka	Associate (Banking)	+91 22 6637 7351	abhishek.murarka@icicisecurities.com
Ashish Gupta	Associate (Real Estate)	+91 22 6637 7314	ashish.gupta@icicisecurities.com
Hemant Joshi	Associate (Automobiles)	+91 22 6637 7380	hemant.joshi@icicisecurities.com
Sanket Maheshwari	Associate (Utilities)	+91 22 6637 7159	sanket.maheshwari@icicisecurities.com
Prakriti Singh	Editor	+91 11 2439 0154	prakriti.singh@icicisecurities.com
Simmu Kahlon	Editor	+91 22 6637 7202	simmu.kahlon@icicisecurities.com
Hemant Jathar	Production	+91 22 6637 7135	hemant.jathar@icicisecurities.com
Ruben Fernandes	Production	+91 22 6637 7442	ruben.fernandes@icicisecurities.com
Equity Sales – Asia-Pacific – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2341			
Rishikesh Joshi		+91 22 6637 7229	rishikesh.joshi@icicisecurities.com
Akshay Kothari		+91 22 6637 7504	akshay.kothari@icicisecurities.com
Hitesh Danak		+91 22 6637 7131	hitesh.danak@icicisecurities.com
Kim Collaco Rath		+91 22 6637 7367	kim.collaco@icicisecurities.com
Rishi Agrawal		+65 6823 1557	rishi_agrawal@icicisecurities.com
Vinay Patel		+65 6823 1557	vinay_patel@icicisecurities.com
Equity Dealing – Telephone : +91 22 2281 4570 **Fax:** +91 22 2288 2341			
Pinakin Mistry		+91 22 6637 7279	pinakin.mistry@icicisecurities.com
Ravi Chhugani		+91 22 6637 7316	ravi.chhugani@icicisecurities.com
Equity Derivatives – Telephone : +91 22 2288 2460/70 **Fax:** +91 22 2288 2341			
Dr. C. K. Narayan		+91 22 6637 7365	ck.narayanan@icicisecurities.com
Vignesh Eswar		+91 22 6637 7124	vignesh.eswar@icicisecurities.com
Ankur Jhaveri		+91 22 6637 7118	ankur.jhaveri@icicisecurities.com
Deepika Asthana		+91 22 6637 7473	deepika.asthana@icicisecurities.com
Manish Raval		+91 22 6637 7489	manish.raval@icicisecurities.com
Manoj Shenoy		+91 22 6637 7281	manoj.shenoy@icicisecurities.com
Mayank Mehta		+91 22 6637 7358	mayank.mehta@icicisecurities.com
Sohil Shah		+91 22 6637 7196	sohil.shah@icicisecurities.com
Siddhali Desai		+91 22 6637 7271	siddhali.desai@icicisecurities.com
Sriram Jagdish		+91 22 6637 7455	sriram.jagdish@icicisecurities.com

ICICI Securities Limited
ICICI Centre, H T Parekh Marg, Churchgate, Mumbai 400 020, **Telephone:** +91 22 2288 2460/70 **Fax:** +91 22 2288 2448

ICICI Securities Inc.
Level 57, Republic Plaza, 9, Raffles Place, Singapore 048 619
Telephone: +65 6823 1556/57 **Fax:** +65 6823 1425

ICICI Securities Inc.
461, 5th Avenue, 16th Floor, New York, NY 10017, USA.
Telephone: +1 212-921-2344 / +1 212 453 6704 **Fax:** +1 212-453-6710