TV 18 which is a great play on Internet and CAS isplanning to **split up its businesses** into two different companies. When ever a company spins its business it creates huge value for shareholders I have **tried doing an academic exercise** as to how the different companies could be valued at post the restructuring.A couple of adys we discussed **how spinoffs can create multibaggers** and I am using that same logic to work here.

Company	**What shall they hold**
TV 18	CNBC TV!18 and AWAAZ plus 85% stake in web18 the internet holding company of the company.
Network 18*	51% in TV 18; 51% in Global broadcast news that shall hold the CNN-IBN news channel

* As reported in Business Standard.

Shareholders will be given shares in the following ratio.	
Share holders holding 10 shares in TV 18	14 shares in **TV 18** of Rs 5 paid up.
	12 shares in **Network 18** of Rs 5 paid up.

Exhibit – 1 Financials of TV 18 in 2008 post split up	
Number of Equity shares @ Rs 5 each	5.24 crores
Revenues (See exhibit 2)	240 crores
Net Profit:	
CNBC TV 18 and Awaaz	Rs 72 crores
Internet 85% of Rs 60 crores	Rs 51 crores
Total profit	Rs 123 crores
EPS	Rs 23.52
Market price	Rs 470

PE	20 times
Market Capitalization (Rs 470 x 5.24 crores)	Rs 2444 crores

Workings:

- Post de-merger TV 18 will derive **revenues from the CNBC TV 18 and the Awaaz.**

Exhibit – 2 Revenue from CNBC TV 18 and Awaaz TV 18			
	Fy 06	Fy 07	Fy 08
CNBC TV 18	Rs 136 crores	Rs 170 crores	Rs 213 crores
Growth		25%	25%
Awaaz	Not reported	Rs 40 crores	Rs 52 crores
Growth		30%	30%
Total revenues		**Rs 210 crores**	**Rs 265 crores**

The expected **revenue from these two channels in Fy 08 works out to Rs 265 crores** I have taken it at Rs 240 crores after accounting for about 10% on account of contingencies etc CNBC TV 18 has **been growing in excess of 45%** over the last few years but I have tried to be conservative in the estimates.

- The **Net profit margin is assumed to be maintained at 30%.** Normally with broadcasting companies any increase in sales add more to the profits because the fixed costs salaries of anchors etc remain the same.
- **EPS** is Net profit/ No. of shares = Rs 123 crores/5.24 crores **= Rs 23.52 per share.**
- The **Internet subsidiary Web 18 would be held 85% by TV 18** . In FY 08 **Web 18 should do a net profit of Rs 60 crores**. See section below. 85% of Rs 60 crores = Rs 51 crores
- TV 18 has consistently **maintained an RoE of more then 30%** but we would **take a PE of 20** to be on the conservative side..
- **Market price = EPS x PE** = Rs 470 (23.52 x 20)
- **Market Capitalization** is equal to number of shares x Market price = **Rs 470 x 5.24 crores**= Rs 2444 crores.

We now analyze the financials of **Network 18** after the split:

Exhibit – 3 Financials of Network 18

Number of Equity shares @ Rs 5 each	5 crores
Net Profit:	
51% in GBN [Rs 40 crores x 51%] (See exhibit 7)	Rs 20 crores
51% from TV18 [Rs 126 crores x 50%] (See exhibit 1)	Rs 63 crores
Total Net profit (Rs 63 crores + Rs 20 crores)	Rs 83 crores
EPS	Rs 16.60
PE	20 times
Market price	Rs 332
Market Capitalization (Rs 220 x 5 crores)	Rs 1662 crores

Workings:

- Total net profit would consist of the **proportionate profits from TV 18 and GBN.**
- **EPS is Net profit/ No. of shares** = Rs 83 crores/Rs 5 crores = Rs 16.60 per share.
- Assuming a PE of 20 times the **stock would sell at Rs 332 (Rs 16.60 x 20)**.
- **Market Capitalization equals Market price x No. of shares = Rs 332 x 5 crores = Rs 1660** crores.

I have assumed the **internet business to grow multifold**. A look at the revenues from **Moneycontrol (see exhibit 6)** indicates that it can grow at that speed.

The growth: The growth from internet revenues has **been taken at over 5 times in Fy 07 and only 2.4 times in Fy 08.** Haresh Chawla (CEO TV 18) expects it to grow 6 times in the current year and for the year after that he has not committed but the **growth could be as strong a 3 times. In that case Revenues from internet ventures should cross Rs 200 crores in Fy 2008.**

Exhibit – 4 Revenues from Internet ventures				
	2005 (A)	**2006 (A)**	**2007 (E)**	**2008 (E)**
Revenues	2.08	14.92	60.00	140.00
Growth in revenues		6 times plus	Read note below	
Net profit			Rs 25 crores	Rs 60 crores

Note: The **net profit percentage should be far higher (see exhibit 6)** where growth in net sales is far less then the growth in net profits. I have been again conservative so that we may err on the side of caution **. In broadcasting and internet companies majority of the costs are fixed and any increase in revenues adds directly to the bottom-line.**

Broadband penetration is happening at 100% y-o-y and with the new internet properties lined up the growth could be even stronger. **By 2010 the total broadband users are expected too rise by 15 times from the present level.** In another two years the Internet ventures of the company could see revenues from the following areas:

Exhibit – 5 Internet properties lined up		
Moneycontrol	ibnlive	Yatraonline
Cricketnext	JobsStyreet	Compare India
Poweryourtrade	commoditiescontrol	Acquisitions/Launch in lifestyle showbiz segment will follow

Out of these **only money control and power your trade seem to have reached traction** and revenues from the others will start to kick in over the next few months.

A look at the financials of e-eighteen for the relevant period **shows the kind of growth moneycontrol and Poweryourtrade** have been able to achieve.

Exhibit – 6 Financials of e-eighteen		
	2005	**2006**
Revenues	Rs 2.22 crores	Rs 9.64 crores
Profits	Rs (0.21) crores	Rs 5.19crores
Revenue Growth		377%

Exhibit – 7 Financials of GBN		
	2008	
Revenues:		
CNNIBN	Rs 120 crores	NDTV 24/7 did Rs 100 crores in 2005.
IBN -7	Rs 80 crores	Assumed
Cost		
IBN	Rs 90.00 crores	GBN prospectus talks about a **cost of Rs 5.25 crore per month** (assumed some increase0
IBN – 7	**Rs 60 crores**	GBN prospectus talks about a **cost of Rs 4.00 crore per month** (assumed some increase0
Profit:		
CNNIBN	Rs 30 crores	(Rs 120 crores – Rs 84 crores)
IBN -7 GBN holds 50% in IBN -7	Rs 10 crores	50%(Rs 80 crores – Rs 60 crores)
Total	Rs 40 crores	Rs 3984 (Rs 332 x 12)

Valuation Matrix	**Value of shares**
10 shares of **TV 18 (listed company)**	Rs 6070
14 shares in **TV 18 Ltd (CNBC TV18 + Awaaz**) Rs 470 x 14shares	Rs 6580
Network 18 – Holding company Rs 332 x 12 shares	Rs 3984

Total value for 10 shares after listing	**Rs 10,564**
Net Absolute Gain per share (Rs 10964 – 6070)/10	449.40
Net percentage Gain 449.40/607 x 100	**74.07%**

Conclusion: Once the restructuring happens **the consolidated value of TV 18 should move up to Rs 1056 implying again of 74.07%.** I have not assumed the

- Value of the **20+% stake of TV 18 in GBN.**
- I have not built in any **positives from the roll out of CAS and DTH** where pricing after the initial period of one year should become market driven.
- I have also not taken the value of GBN's 15% holding in web 18 which TV 18 and network 18 indirectly benefit out of such holding.

There could be many **changes from the above lying assumptions and I have assumed that they would neutralize each other**. For instance lower sales could be offset by higher margins and so on and so forth. This is because I have been conservative in my estimates.

Haresh Chawla *in an interview to Business Standard recently said "I believe that the* ***entire industry is headed for a re-rating of its business*** *model. I expect that in the next 3-4 years we will garner anywhere between 30-35 per cent of overall top line from subscription revenues (in absolute terms it may go up by 4-5 times), about 50 per cent from advertising and the balance from the Web services business.*

Recommendation: Readers may treat this calculation as an **academic exercise because companies in a spin off mode rework a lot of strategies** so any change would affect the price but otherwise I feel that this target of Rs 1056 should easily be achieved over the next year in case these assumptions are met..