

IBN18

Rs123

OUTPERFORMER

Acquisition of TIFC – No surprises!

Mkt Cap: Rs29bn; US\$645m

4 October 2010

BSE Sensex: 20445

Event:

Viacom18 (a 50:50 JV between IBN18 and Viacom) has made an offer for acquisition of The Indian Film Company (TIFC), a film fund listed on the AIM Stock Exchange where Network18 owns 80.4% stake. Viacom18 has valued TIFC at GBP63.6m (or at 115.56 pence per share), which is 1x the total capital deployed in TIFC. With Viacom18 proposing to launch a movie channel post this acquisition, IBN18 (or the New TV18) would join the league of larger networks such as Star and ZEE.

□ Details of the transaction:

Valuations – no surprises!

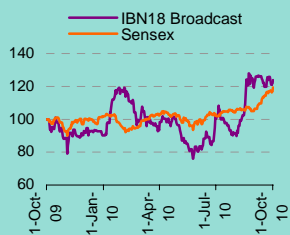
- TIFC is a film fund listed in AIM (current market capitalization of GBP21m), where Network18 owns 77%, Viacom 4.5% and another 3.45% is owned by BK Media (a wholly owned company of Raghav Bahl). As a part of the restructuring exercise of Network18 Group in July 2010, the management had indicated likely transfer of their 80.4% stake in TIFC to Viacom18 for an estimated consideration of GBP50m-55m (thereby entailing a value of ~GBP64m to TIFC).
- On expected lines, Viacom18 has made a bid for TIFC to acquire 80.4% stake (Network 18 + BK Media ownership) for a consideration of GBP51m and follow it with an open offer for the remaining ~20% stake. Minority shareholders include HSBC, Altima Partners, Kellusa, etc. The transaction values TIFC at GBP63.6m (or USD100m).
- In addition, the investment management firm which managed the AUM of TIFC will also be folded into Viacom18 for a consideration of USD0.5m. The investment manager firm, which is entitled to 1% of the film funds as management fees (2% earlier), has a 50% ownership of Network18. There remains ambiguity with regards to the ownership of this management firm as indeed the need for a separate investment managers.

TIFC – Financial details

- We analyzed the FY10 Annual report of TIFC to understand the proportion of the total capital deployed in the company which is 'monetizable'. Of the total BS size of GBP63.6m of TIFC, GBP45.9m is in the form of movie assets. Of this, GBP30m are related to movies which have been released over a year back (implying 60% of the cost amortized) and GBP16m relates to movies currently under production.

Media

Price chart



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TIFC FY10 Balance Sheet Synopsis

	(m GBP)
SOURCE OF FUNDS:	
Distributable reserve	54.1
Foreign exchange translation reserve	9.5
Total equity shareholders' fund	63.6
APPLICATION OF FUNDS:	
Exploitation rights for movies	30.0
Investments in films and films under production	15.9
Total non-current assets	45.9
<i>Current Assets:</i>	
Trade and other receivables	16.0
Prepayments	0.0
Term deposit	2.4
Cash and cash equivalents	5.0
<i>Current liabilities:</i>	
Trade and other payables	3.6
Secured loan	2.0
<i>Net current assets</i>	<i>29.0</i>
Total Assets	63.6

- TIFC released nine films in FY10 which was a mix of acquisitions, co-productions and productions. The films released included *Shortcut – The Con Is On*, *Luck*, *Life Partner*, *Fruit 'N' Nut*, *Striker*, *Road Movie* and *Hum Tum Aur Ghost*.

Network18 has underwritten the movie library

- As indicated above, TIFC has a monetizable movie library of GBP45.9m, as per the books. As a part of this deal with Viacom18, Network18 has given an undertaking that if the realized value of the library is lower than the current book value (of GBP45.9m) over the next four years, the shortfall will be compensated by Network18.

□ Our View:

Valuations – the divide between the past and the future: The GBP63.6m valuation ascribed to TIFC by Viacom18 is 3x the current market capitalization of TIFC. More importantly, Network18 has increased its stake in TIFC from 18% to 77% in the last one year valuing the entity at GBP22m. With Network18 being a common promoter of TIFC and New TV18 (promoter group owns 58.3% of the New TV18 post re-structuring), we remain perplexed with the valuation differential between acquisition and divestment.

Network18 underwriting – a sweetener: We view the underwriting of TIFC's movie library by Network18 as a pure deal sweetener. The valuation arbitrage earned by Network18 fairly justifies this. Viacom18 would bear the capital risk of GBP45.6m for four years, which if not monetized will be compensated by the interest bearing surplus of Network18.

Uncertainty behind, IBN18 now a candid growth story: While we continue to have our reservations with the deal valuations, the announcement of the deal on 'expected' lines helps resolve the ambiguity pertaining to the transaction. With the deal offering no surprises, our sense is that the stock may not see a significant correction. With respect to the business, we do believe addition of a movie channel will aid in strengthening the overall bouquet offering of IBN18 (or New TV18).

Maintain Outperformer: Scale up of Viacom18 (Colors in particular) has been ahead of expectations with Colors reigning the GEC space and Viacom18 clocking revenues of Rs8.3bn in its second year of operations. As Colors narrows its differential in rack rates with Star Plus, advertising revenues are expected to tread a strong growth trajectory. Incrementally, our long held apprehension on distribution revenues being capped by the sub-optimal

deal with Sony One Alliance, now stands addressed. With ZEEL garnering ~Rs10bn of distribution revenues annually from India and international markets, we see immense potential for #2 GEC channel – Colors (albeit with a lag especially for international markets). Further, we believe the recent restructuring of the TV18 Group is positive for IBN18 (or New TV18) given the addition of strong properties such as CNBC TV18 and CNBC Awaaz. With IBN18 proposing to add new channels in the lifestyle and movies genre, IBN18 would join the league of larger networks such as ZEE and Star. With overall operational performance of IBN18 looking strong, distribution revenues poised to gain traction and addition of strong properties from the TV18 fold, we believe the valuation discount between ZEEL (valued at USD3.3bn) and IBN18 (at USD645m) is bound to narrow. Maintain Outperformer.

Key financials

Year end March 31st	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E (x)	PER (x)
FY08	1,311.8	66.3	(234.4)	(1.8)	n/a	n/a	n/a
FY09	1,831.2	39.6	(918.1)	(5.1)	n/a	n/a	n/a
FY10	6,035.3	229.6	(1,098.0)	(6.0)	n/a	n/a	n/a
FY11E	8,035.0	33.1	80.6	0.3	n/a	48.4	n/a
FY12E	9,585.3	19.3	947.6	4.0	1,075.6	18.6	30.6

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