INSTITUTIONAL SECURITIES
India Research

Event update

IBN18

Rs123

OUTPERFORMER

Acquisition of TIFC – No surprises!

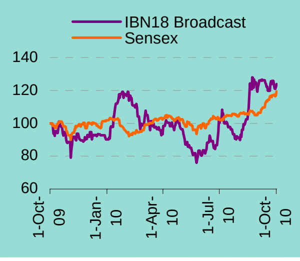
Mkt Cap: Rs29bn; US$645m

4 October 2010

BSE Sensex: 20445

Media

Price chart



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.

Nikhil Vora
91-22-6622 2567
nikhil.vora@idfc.com

Swati Nangalia
91-22-6622 2576
swati.nangalia@idfc.com

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**
Current Assets:	
Trade and other receivables	16.0
Prepayments	0.0
Term deposit	2.4
Cash and cash equivalents	5.0
Current liabilities:	
Trade and other payables	3.6
Secured loan	2.0
Net current assets	*29.0*
Total Assets	**63.6**

- TIFC released nine films in FY10 which was a mix of acquisitions, co-productions and productions. The films released included *Shortkut – 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

IDFC Securities

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Pathik Gandotra	Head of Research; Financials, Strategy	pathik.gandotra@idfc.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish.rane@idfc.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhil.vora@idfc.com	91-22-662 22567
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnath.s@idfc.com	91-22-662 22570
Nitin Agarwal	Pharmaceuticals	nitin.agarwal@idfc.com	91-22-662 22568
Chirag Shah	Metals & Mining,Telecom, Pipes, Textiles	chirag.shah@idfc.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika.nair@idfc.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfc.com	91-22-662 22565
Bhushan Gajaria	Retailing	bhushan.gajaria@idfc.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil.desai@idfc.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement	ashish.shah@idfc.com	91-22-662 22560
Probal Sen	Oil & Gas	probal.sen@idfc.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya.garg@idfc.com	91-22-662 22563
Aniket Mhatre	Automobiles, Auto ancillaries	aniket.mhatre@idfc.com	91-22-662 22559
Abhishek Gupta	Telecom, Metals & Mining	abhishek.gupta@idfc.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals	ritesh.shah@idfc.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfc.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfc.com	91-22-662 22579
Kavita Kejriwal	Strategy, Financials	kavita.kejriwal@idfc.com	91-22-662 22558
Anamika Sharma	IT Services	anamika.sharma@idfc.com	91-22-662 22680
Swati Nangalia	Mid Caps, Media, Exchanges	swati.nangalia@idfc.com	91-22-662 22576
Sameer Bhise	Strategy, Financials	sameer.bhise@idfc.com	91-22-662 22574
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfc.com	91-22-662 22566
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfc.com	91-22-662 22577
Dharmendra Sahu	Database Analyst	dharmendra.sahu@idfc.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh.sonawale@idfc.com	91-22-662 22572
Dharmesh R Bhatt, CMT	Technical Analyst	dharmesh.bhatt@idfc.com	91-22-662 22534
Equity Sales/Dealing	**Designation**	**E-mail**	**Tel. +91-22-6622 2500**
Naishadh Paleja	MD, CEO	naishadh.paleja@idfc.com	91-22-6622 2522
Naishadh Paleja	MD, CEO	naishadh.paleja@idfc.com	91-22-6622 2522
Paresh Shah	MD, Dealing	paresh.shah@idfc.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal.purohit@idfc.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil.gholani@idfc.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay.panicker@idfc.com	91-22-6622 2530
Nirbhay Singh	SVP, Sales	nirbhay.singh@idfc.com	91-22-6622 2595
Suchit Sehgal	AVP, Sales	suchit.sehgal@idfc.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfc.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh.shah@idfc.com	91-22-6622 2536
Suniil Pandit	Director, Sales trading	suniil.pandit@idfc.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh.chaturvedi@idfc.com	91-22-6622 2512
Viren Sompura	SVP, Sales trading	viren.sompura@idfc.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar.hiremath@idfc.com	91-22-6622 2516

Explanation of Ratings:

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% (upside or downside) to Index
3. Underperformer: Less than 5% to Index

Disclosure of interest:

1. IDFC SEC and affiliates may have received compensation from the company covered herein in the past twelve months for issue management, capital structure, mergers & acquisitions, buyback of shares and other corporate advisory services.
2. Affiliates of IDFC SEC may have received a mandate from the subject company.
3. IDFC SEC and affiliates may hold paid up capital of the subject company.
4. IDFC SEC and affiliates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company(ies) mentioned herein.