



## Q3FY2009 Media earnings preview

*Profitability under squeeze*

### Industry

- We expect Q3FY2009 to be a bad quarter for most media companies as we expect the rate of the year-on-year (y-o-y) growth in their revenues to taper off substantially in the wake of a significant cut in the advertising spends in the key sectors, such as banking, financial services and insurance (BFSI), real estate and automobiles. Also, a general sense of rational advertisement spend (bang for the buck) and fragmentation across media verticals due to an increase in competition would lead to a slower revenue growth. Consequently, as the revenue growth lags behind the increase in costs, we expect media and entertainment companies to report subdued earnings for the quarter.
- The Hindi general entertainment channel (GEC) space continues to witness hefty competition with *Colors* continuing to march ahead. The channel retained its number two position (*Star Plus* remains the leader with a 25.4% market share) throughout the quarter with a year-end (week 52) market share of 21.9%, much ahead of *Zee TV's* 16.4%. Thus, we believe that *Zee TV's* advertisement revenues would come under severe pressure considering the loss of viewership in the coming quarters.
- The third quarter of FY2009 witnessed two significant disruptions in November 2008 in the form of a strike by television workers' union in weeks 46-48 and the terror attacks in Mumbai in week 48. The strike led to a lack of new content on the Hindi GECs for the said period (excluding *Big Boss 2* on *Colors*), forcing the GECs to air reruns of old contents. On the other hand, the terror attacks led to a shift in viewership to news channels. However, we do not expect any spike in the revenues of the news broadcasters due to the increase in viewership during the attacks because the event was aired without advertisements. Consequently, the gross rating points of the Hindi GEC genre as a whole declined by 44% during the period (the genre regained viewership later). Though the advertisers committed to maintain the advertisement rates even during the reruns of the old contents, we expect a marginal impact of the decline in viewership on the revenues of GECs for the quarter.
- However, we expect the strike and terror attacks to have a severe impact on the results of content producers like Balaji Telefilms due to lower hours of programming. Balaji Telefilms' results will also be affected to a great extent by the closure of two of its most profitable shows—*Kyunki Saas Bhi Kabhi Bahu Thi* and *Kahaani Ghar Ghar Ki*—during the quarter. Also, the resolution of the dispute between producers and television workers during the quarter led to a 15-30% increase in wages that is to be borne by the producers. Though we believe progressively that the cost increase will be passed on to the broadcasters, this should add to the cost of production for the producers in the near term. Thus, we expect Q3 to be one of the worst quarters for Balaji Telefilms.

### Quarterly estimates

(Rs crore)	Operating revenue			Operating profit			Adjusted PAT			*Reported PAT		
	Q3FY09E	Q3FY08	% chg	Q3FY09E	Q3FY08	% chg	Q3FY09E	Q3FY08	% chg	Q3FY09E	Q3FY08	% chg
Zee News	147.5	98.3	50.1	22.0	22.0	0.0	11.8	12.8	-7.7	11.8	12.8	-7.7
#TV18	163.4	112.6	45.1	16.4	31.5	-47.9	-1.7	11.5	-	-5.2	8.4	-
<b>Total</b>	<b>310.9</b>	<b>210.9</b>	<b>47.4</b>	<b>38.4</b>	<b>53.5</b>	<b>-28.2</b>	<b>10.1</b>	<b>24.3</b>	<b>-58.4</b>	<b>6.6</b>	<b>21.2</b>	<b>-68.8</b>

\*Adjusted PAT is pre-ESOP expense for TV18 and reported PAT is post-ESOP expense

#TV18 estimates include the estimates for print business (primarily Infomedia), hence not comparable on a y-o-y basis

- ◆ The third quarter of a financial year is seasonally good for moviemakers and multiplexes. The quarter Q3FY2009 had a reasonable slate of releases, the noticeable being *Dostana*, *Rab Ne Bana Di Jodi*, *Fashion* and *Ghajini* towards the end of the quarter. However, we expect lower occupancies due to the general tightening of consumer spends to be the key monitorable in the results (also, terrorist attacks led to lower occupancies in week 48 and beyond in Mumbai multiplexes).
  - ◆ We expect the margins of the Indian print media companies to be under stress in this quarter due to the slowdown in the advertisement rate growth, cut in advertisement spends by the key sectors and raw material cost pressure due to high newsprint prices (up 33% yoy in Q3 aided by depreciation in the rupee). This is likely to dent profitability. However, we believe the international newsprint prices have peaked and do not expect further upmove as demand continues to slacken with the global print media facing revenue pressures. Also, key events such as US Presidential elections and the China Olympics are over and in the absence of any more such events the demand is slowing down. Though major players such as AbitibiBowater are resorting to temporary and permanent closures of capacities to bring down the supply of newsprint and to maintain prices, we believe newsprint prices shall move downwards in response to the slackening demand. Thus, we believe the Indian print media companies are likely to witness relaxation in cost pressures in the coming quarters as newsprint prices ease.
  - ◆ Overall, we believe the media and entertainment industry is in for tough times as advertisers tighten their advertisement spends in a bid to control costs. Also, fragmentation across media verticals has led advertisers to evaluate "bang for the buck spent". We believe alternate media such as radio and out-of-home advertising are likely to face higher pressure compared with the other verticals. We maintain Zee News as our preferred pick in the sector.
- market share in its respective genre. While *Zee Business'* market share increased from ~15% to ~20% in Q3 on a year-on-year (y-o-y) basis, that of *Zee Telugu* and *Zee Kannada* grew from ~8% and ~6% to ~14% and ~19% respectively. We believe the improvement in the ratings of these three channels should be the key revenue and profit drivers for Q3 and beyond.
- ◆ In October 2008 the company launched *Zee Tamizh* (a Tamil GEC). However, owing to distribution problems (as it was not available on Sumangali Cable and Sun DTH) the channel has not had a good performance since its launch.
  - ◆ For the quarter we expect Zee News to post a robust revenue growth of 50.1% on the back of the good performance of its channels. However, the overall profitability will be affected by the start-up losses of the Tamil channel, thereby leading to a decline in the operating profit margin (OPM). Thus, we expect the operating profit for the quarter to remain flat yoy and the net profit to decline 7.7% yoy despite a hefty growth in the revenues.

## TV18

- ◆ Television Eighteen (TV18)'s broadcasting business will be heavily affected by the substantial reduction in advertisement spends by the BFSI industry and the lack of initial public offering advertisements and advertisements from market participants (such advertisements were the major revenue earners in the corresponding period of the previous year). Also, pressure on the advertisement rates should reflect in a much lower revenue growth for Q3, which traditionally (due to seasonality) has been a good quarter for the company. Web 18's key revenue earner *moneycontrol.com* along with *poweryourtrade.com* and *commoditiescontrol.com* is also expected to witness pressures consequent to the state of the financial markets. A further increase in costs (primarily the staff cost due to retention pressures) because of competition in the broadcast operations, and gestation and marketing costs for *in.com* in the Internet operations are likely to lead to a substantial decline in profitability.
- ◆ Thus, we expect TV18's revenues from news operations to grow by only 7% yoy to Rs97.8 crore and OPM to decline by 1,120 basis points yoy to 33% due to a sharp increase in the operating cost. For *web18* we expect an 11.4% y-o-y growth in the revenues to Rs19.6 crore. We expect it to report an operating loss of Rs10.4 crore primarily due to the gestation losses of *in.com*. We expect *newswire 18* to report ~Rs6 crore of operating revenues with an operating loss of ~Rs2 crore.

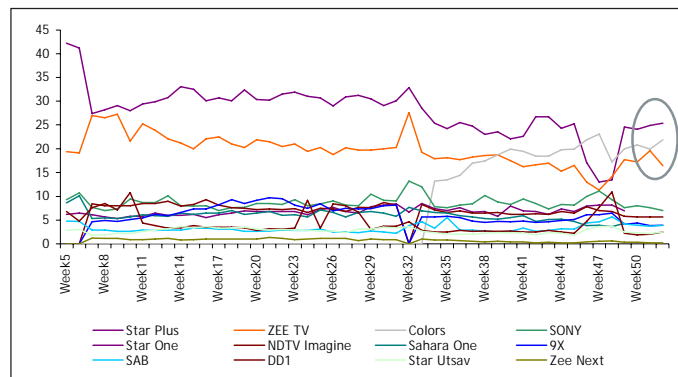
## Q3FY2009 preview for Sharekhan Media coverage

### Zee News

- ◆ The portfolio of channels owned by *Zee News* delivered a good performance in Q3 with all the channels either maintaining or improving their market share and ratings. Despite the good start made by the new channels in Marathi and Bangla launched by *Star*, *Zee Marathi* and *Zee Bangla* maintained their viewership. *Zee Business*, *Zee Telugu* and *Zee Kannada* were the star performers out of Zee News's portfolio with each gaining significant

- ◆ TV18 has consolidated its print media operations from Q2FY2009. Thus, the results for Q3FY2009 will not be comparable on a y-o-y basis. Consequently, we expect an overall revenue growth of 45.1% to Rs163.4 crore. The overall OPM is likely to decline to 10% (against 28% in Q3FY2008) whereas the operating profit is likely to drop by 48% on a y-o-y basis. Thus, we expect TV18 to post an adjusted net loss of Rs1.7 crore against a profit of Rs11.5 crore in the corresponding quarter last year.
- ◆ On a like-to-like basis (excluding the print operations) we expect TV18's revenues to grow by 9.6% yoy to Rs123.4 crore and the OPM to decline by ~1,200 basis points to 16%. We expect an adjusted net profit of Rs1.4 crore for the quarter against Rs11.5 crore in Q3FY2008.

Hindi GEC genre relative market share



The author doesn't hold any investment in any of the companies mentioned in the article.

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