sharekhan special

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Q4FY2008 Media earnings preview

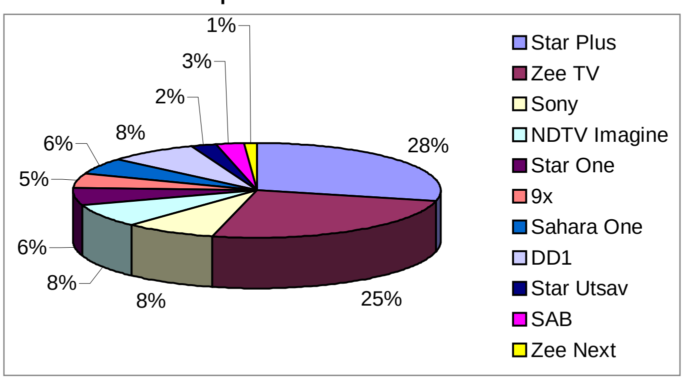
Expect a good show

Industry

Hindi GEC space—competition intensifies

While Q3FY2008 witnessed the launch of *9x* in the Hindi general entertainment space (GEC), Q4FY2008 saw NDTV Imagine making its way in (January 2008). The competition in the genre is set to intensify further with Viacom 18 entering the space in the coming months. Though these are early days, the fragmentation in viewership seems inevitable with strong contenders challenging the incumbents. We believe this would impact the rate of growth in advertising rack rates especially for Zee TV and Star Plus though, the overall industry size is expected to witness a strong growth traction. Zee TV continues to scale up its content with its programs consistently occupying 38-40 places of the top 100 programs in the genre and five-six slots of the top 10 programs.

Hindi GEC viewership share



Media Entertainment industry—growth visibility intact

The Indian Media and Entertainment industry (M&E) grew by 17% in CY2007 and is expected to grow at a compounded annual growth rate (CAGR) of 18% till CY2012 to Rs115,700 crore, as per the recently released study by FICCI-PWC at Frames 2008. The categories that are expected to lead the pack are television, radio, animation gaming & VFX and online advertising, which are expected to register a CAGR of 22%, 24%, 25% and 32% respectively. However television is going to be the key contributor to the growth of the M&E industry maintaining a stupendous growth rate of 22% over the period to reach Rs60,000 crore by CY2012 (approximately half the size of the M&E industry).

Print—soaring prices of newsprint might play spoilsport

Newsprint prices continued the uptrend and rose ~10% during the quarter to reach $660 per tonne. The consolidation of the global newsprint industry, the increase in the prices of old newsprint that is used to manufacture recycled newsprint in China, the rise in crude and wood pulp prices and the increase in freight costs are the key reasons for the spurt in newsprint prices. We expect the increase in the cost of newsprint, which accounts for 40-50% of the revenues for newspaper publishers, to impact their margins.

TRAI recommendations on radio—steps in the right direction

The Telecom Regulatory Authority of India (TRAI) has recommended sweeping improvements in its suggestions

Quarterly estimates

(Rs crore)	Net sales			Operating profit			Adjusted PAT			Reported PAT		
	Q4FY08	Q4FY07	% chg	Q4FY08	Q4FY07	% chg	Q4FY08	Q4FY07	% chg	Q4FY08	Q4FY07	% chg
TV18	136.5	80.4	69.8	40.7	31.7	28.4	20.1	23.1	-13.0	17.3	19.4	-10.8
Zee News	108.9	71.1	53.2	22.4	-0.9	-	12.9	-0.5	-	12.9	-0.5	-
Balaji Telefilms	87.8	77.4	13.4	30.3	30.4	-0.3	21.4	21.3	0.5	21.4	21.3	0.5
Total	**333.2**	**228.9**	**45.6**	**93.4**	**61.2**	**52.6**	**54.4**	**43.9**	**24.0**	**51.6**	**40.2**	**28.4**

to the Information and Broadcasting ministry on radio policy. Following are the recommendations made by TRAI.

- Geographical area per licence should be a district and not a city. We believe this will ensure better profitability per licence and would also enable expanding radio to smaller towns and cities that are not financially viable propositions individually.
- Multiple licenses per player (in one city) should be allowed (subject to certain conditions) as against single licence per player, which is currently the case.
- Private radio channels should be allowed to air news, as of now only All India Radio (AIR) has the right to broadcast news. This would provide richness to the content of radio channels, which currently air music only.
- Foreign investment cap for non-news players should be increased to 49% from the current 20% and for those who would air news is recommended to be increased to 26% from the current 20%.

Q4FY2008 Preview

Q4 is the best quarter for the media industry with the union budget being the key revenue driver. We expect media companies under Sharekhan universe to register a 45.6% year-on-year (y-o-y) growth in revenues with TV18 and Zee News putting up a strong show. However the net profit growth on an overall basis is expected to be 28.4% with Zee News outperforming its peers.

TV18: We expect TV18 to post a robust growth of 69.8% in its revenues to Rs136.5 crore. All the three segments—news, web, and Newswire—are expected to register strong revenue numbers, with the news and the web businesses expected to grow by 55% and 140% respectively. However, we expect the net profit (adjusted profit after tax) to dip by 13.1% year on year (yoy) to Rs20.1 crore as the Internet and Newswire businesses continue in their investment modes. The decline in the net profit is on account of our expectation of a 97% rise in the operating expenditure to Rs96 crore. TV18 has been spending heavily on augmenting its web properties and adding new properties, which has led to operating losses for Web18. The new business, Newswire18, is also in a startup phase and is expected to report marginal losses. Thus the operating profit growth is expected at 28.4% in spite of strong revenue growth and the bottomline is expected to continue under pressure. We maintain our positive outlook on the company.

Zee News: Zee News reported a 52.5% revenue growth in M9FY2008 on the back of a much-improved performance by its channel portfolio that ensured a strong 63% growth in advertising revenues. We expect the revenue growth momentum to continue in Q4FY2008 and expect a 53.2% y-o-y growth in the revenues to Rs108.9 crore. Zee News is a play on the Indian regional entertainment space. The company presents a high profit growth opportunity with high operating leverage. We believe the performance of its south Indian channels remains the key for its superior performance. For the quarter, we expect it to report a net profit of Rs12.9 crore against a loss of Rs0.5 crore in Q4FY2007. The stupendous performance on the bottom line would be driven by a hefty improvement in the operating profit margin (expected at 20.6% against -1.3% in Q4FY2007). We expect the OPM to improve on account of better performance of the existing business and lower losses in the new business (Zee Telugu, Zee Kannada, Zee 24 Taas and Zee 24 Ghanta).

Balaji Telefilms: We expect Balaji Telefilms Ltd (BTL) to report a y-o-y growth of 13.4% in the revenues to Rs87.8 crore driven by higher volumes in the commissioned category. We expect the realisations in the commissioned category to witness a quarter-on-quarter (q-o-q) decline of ~5% to Rs30 lakh per hour on account of closure of one of its top rated shows "Kasautii Zindagi Kay" which has been replaced by a new soap "Kis Des Mein Hai Mera Dil" that would have significantly lower realisations. We expect the volumes in the commissioned category to increase to 273 hours (against 201 hours in Q4FY2007) with three new shows launched in Q3. While in the sponsored category we expect it to do 130 hours (against 162 hours in Q4FY2007). The operating profit is expected to remain flat yoy at Rs30.3 crore leading to a flat net profit at Rs21.4 crore. The above estimates are for the standalone operations of the company that exclude results of its movie subsidiary Balaji Motion Pictures.

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