

## TV 18

Rs700  
OUTPERFORMER

## RESULT NOTE

Mkt Cap: Rs14.7bn; US\$320m

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**Result:** Q2FY07

**Comment:** Prime show!

**Last Report:** 31 July 2006 (Price: Rs617, Recommendation: Outperformer)

## Key valuation metrics

Year to March 31 (Rs mn)	Revenues	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)	EV/E (x)
2004	537	47.9	116	8.8	10.1	79.8	63.8
2005	984	83.3	329	20.7	135.8	33.9	27.0
2006	1,520	54.4	430	22.7	9.8	30.8	19.3
2007E	2,195	44.4	651	31.0	36.7	22.6	15.0

Television Eighteen (TV18) has reported consolidated (including Awaaz) revenue surge of 70% at Rs530m in Q2FY07. While the internet ventures have grown multifold at Rs53m, Awaaz is expected to have contributed Rs60m to the revenues. Owing to inclusion of Awaaz, which is yet to contribute to profits, EBITDA margins have dipped by 830bp at 47% in Q2FY07. PAT has inclined by 42% at Rs162m, aided by lower tax rate.

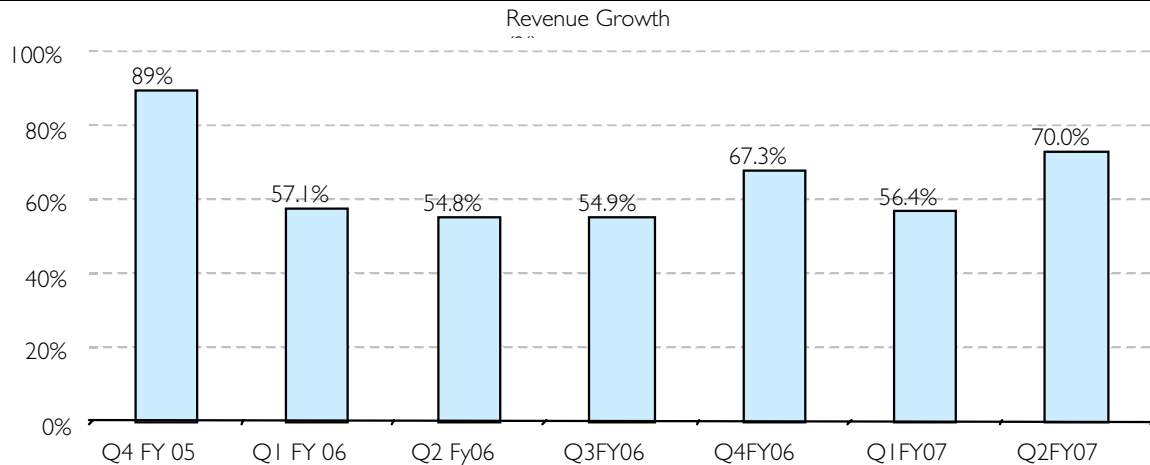
What excites us the most in TV18 is its ability to scale up the business model and monetize each of its business properties. TV18 has successfully leveraged upon its dominance in the business news space (TV18) to various other properties (Awaaz, moneycontrol.com, commoditiescontrol.com, poweryourtrade.com, indiaearnings.com). TV18 and the group companies have been amongst the fastest in terms of adding newer growth drivers and now pan across business news (CNBC TV18, Awaaz), general news (CNN IBN, IBN 7), internet ventures (yatra.in, cricketnext.com, ibnlive.com, jobstreet.com, compareindia.com, etc.) and Home Shopping Network. TV18 has also lined up fund raising in various businesses – Rs1.25bn in GBN and Rs3bn in TV18 (mainly for internet ventures). While we are confident of growth coming from all quarters, key drivers to growth will be internet ventures and distribution revenues from broadcasting business. Given the captivating business model, tie up with two of the largest global broadcasters (CNN and CNBC) and TV18's ability to scale up, we reiterate our Outperformer call.

*Note: De-merger record date is 24<sup>th</sup> November 2006*

## KEY HIGHLIGHTS OF Q2FY07 RESULTS

## □ Strong revenue growth

TV18 has reported consolidated results for the quarter, including Awaaz. Revenues have surged by 70%. This is seventh quarter in a row, wherein TV18 has reported 50%+ revenue growth. Internet venture has growth multifold at Rs53m in Q2FY07 (Rs17m in Q2FY06), on the back of strong advertising as well as subscription revenues from moneycontrol.com, commoditiescontrol.com and poweryourtrade.com. Of the Rs477m of revenues from news operations, we expect Awaaz to have contributed Rs60m during the quarter. However, EBITDA margins have dropped by 830bp on account of inclusion of Awaaz business, which does not add to the profits of the business.

**Exhibit: Sustained high growth momentum**

Source: SSKI Research, Company

### □ Key growth drivers – pay revenues and internet ventures

TV18 has not only been amongst the most aggressive players to enter newer business segments, but has also been successful in monetizing each of its business properties. What excites us the most about TV18 is its ability to leverage its existing content and equity to add newer revenue earning avenues. TV18 and its group companies, currently pan across news broadcasting (English as well as Hindi business and general news), internet ventures and Home Shopping Network. Studio 18 (group company) has also announced its foray into film production and film distribution business, however, we have apprehension owing to high risk and low valuations attached to this business. We see high scale up potential in the internet venture and distribution income for the broadcasting business.

### ***Broadcasting – niche positioning to drive distribution revenues***

While dominant position in the business news space and strong content in the general news genre space assures sustained advertising growth, we see more potential in pay revenues. With structural shift happening on Indian distribution front, we see merit in niche broadcaster like TV18. TV18 group also commands a premium on account of its strong broadcast bouquet across news genre. Besides, TV18 is also aggressively vying for other distribution platforms like broadband, mobile, DTH, etc.

### ***Internet ventures***

TV18 has been very keen to scale up its internet venture and in the last one year, besides adding newer properties (poweryourtrade.com, indiaearnings.com), TV18 has also taken inorganic growth route (cricketnext.com, compareindia.com, Yatra Online and jobstreet.com). With a view to scale up internet venture rapidly, TV18 has also hived off the internet ventures under Web 18 Caymans, subsidiary of TV18 group companies. TV18 intends to invest Rs3bn towards internet ventures and has also raised USD10m from Tracer Capital. We believe that internet ventures not only offer high growth opportunity as also attracts high valuations.

### □ Restructuring the business

TV18 has proposed restructuring of its businesses under four different entities, viz TV18 India, Network 18, Global Broadcast News (GBN) and internet ventures. TV18 India will comprise of CNBC TV18 and Awaaz. GBN will include CNN IBN and Channel 7. Internet ventures will include all the internet properties and will be a wholly owned subsidiary of TV18 India. Network 18 will be the holding company, with stakes in TV18 India, GBN and Home Shopping Network. TV18 has announced 24<sup>th</sup> November as record date for de-merger.

## Restructuring – potential value capturing

Current	Post restructuring
<ul style="list-style-type: none"> <li>• 90% CNBC TV18</li> <li>• 80% in moneycontrol.com</li> <li>• 78% in commodities</li> <li>• 100% poweryourtrade.com</li> </ul> <p style="text-align: center;"><b>For 5% stake in existing TV18 India</b></p>	<p>4.4% in TV18 India (CNBC TV18, Awaaz and all the internet ventures)</p> <ul style="list-style-type: none"> <li>+ 1.7% in CNN IBN</li> <li>+ 0.75% in Channel 7 (45% held by GBN)</li> <li>+ 1.9% of Home Shopping Network</li> <li>+ 1.75% of the distribution company</li> </ul>

Source: SSKI Research

### □ Ability to monetize – Reiterate Outperformer

Captivating business model, tie up with two of the largest global broadcast properties (CNBC and CNN) and TV18's ability to monetize every business property assures us of sustained growth traction of TV18. The stock trades at 23x FY07E earnings. Reiterate Outperformer.

#### Quarterly Results

(Rs m)	Q1FY06	Q2FY06	Q3FY06	Q4FY06	FY06	Q1FY07	Q2FY07	FY07E
<b>Net Sales</b>	<b>266</b>	<b>312</b>	<b>381</b>	<b>535</b>	<b>1520</b>	<b>416</b>	<b>530</b>	<b>2195</b>
% yoy growth	57.1	56.9	54.9	67.3	54.4	56.4	70.0	44.4
Expenditure	141	148	186	249	767	215	295	1238
<b>EBITDA</b>	<b>125</b>	<b>164</b>	<b>196</b>	<b>286</b>	<b>753</b>	<b>201</b>	<b>235</b>	<b>956</b>
Margin (%)	47.0	52.5	51.3	53.4	49.5	48.4	44.3	43.6
Other Income	0	0	0	0	2	0	0	4
Interest	12	12	21	8	53	20	30	78
Depreciation	30	32	48	36	136	35	38	168
<b>PBT</b>	<b>84</b>	<b>120</b>	<b>127</b>	<b>242</b>	<b>566</b>	<b>146</b>	<b>166</b>	<b>714</b>
Tax	4	7	7	49	126	2	5	29
<b>PAT before minority Interest</b>	<b>80</b>	<b>114</b>	<b>120</b>	<b>193</b>	<b>440</b>	<b>144</b>	<b>162</b>	<b>686</b>
% yoy growth	27.9	61.6	46.9	92.2	33.6	80.5	41.9	55.7

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