

TV18 Broadcast Ltd.



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Short Term Pain, Long Term Gain

CMP INR 39	Target INR 57	Potential Upside 46%	Market Cap (INR Mn) 70889	Recommendation BUY	Sector Media
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Result highlights

- TV18 reported its Q1 FY18 results, which were largely below our estimates but showed improvement on a yoy basis.
- Revenue stood at INR 2,190 Mn, down 21.5% qoq and up 4% yoy
- EBITDA (under Ind AS consolidated) stood at INR (138) Mn in Q1 FY18, an improvement over INR (190 Mn) in Q1FY17
- PAT was recorded at INR (119) Mn in Q1FY18, versus INR (141) Mn in Q1 FY17 and mainly driven by improvement of performance of JVs

MARKET DATA

Shares outs (Mn)	1714
EquityCap (INR Mn)	3429
Mkt Cap (INR Mn)	70889
52 Wk H/L (INR)	50/33
Volume Avg (3m K)	6583.1
Face Value (INR)	2
Bloomberg Code	TV18 IN

KEY FINANCIALS

Particulars (INR Mn)	FY17	FY18E	FY19E
Net Sales	9,794	10,083	10,890
EBITDA	313	445	2,178
PAT	191	1,520	3267
EPS	0.11	0.89	1.91
OPM	3.2%	4.4%	20%
NPM	1.95%	15.08%	30.0%

Source: Company, KRChoksey Research

Highlights of Q1 FY18

- Revenues in Q1FY18 were largely subdued due to GST implementation, which led to deferral of advertising spends. We believe that many advertisers would have postponed their spend due to lack of clarity as far as GST implication is concerned and expect this transition to continue through Q2FY18.
- Performance of JVs was noteworthy as they reported revenue growth of 5% yoy in Q1 FY18, whereas Share of Profit of Associates was at INR 195 Mn in Q1FY18 versus INR 38 Mn in Q4 FY17 and INR 56 Mn in Q1FY17.
- Colors Kannada retained the number 1 rank in the regional entertainment space with 30% market share while Colors Marathi continued to maintain the number 2 spot with a 17% market share.
- Regional news witnessed a softness in earnings and low profitability due to the gestation period. However, viewership share doubled to 4% in Q1FY18 from 1.8% in Q3FY17. We expect that investments in regional news channels will enable a turnaround in the operations by FY18E.

Expect Revenues to pick up post H2FY18 as clarity of GST implications improves

We expect advertising revenues to pick up as the clouds of confusion related to GST dissipate and benefits start seeping in. Estimates suggest that input tax credit available due to GST can enable traders to increase ad spending by as much as 15% whereas manufacturers and service providers are expected to increase ad spend by 1% and 0.5% respectively. (Source: FE Bureau, GST to boost companies ad spend)

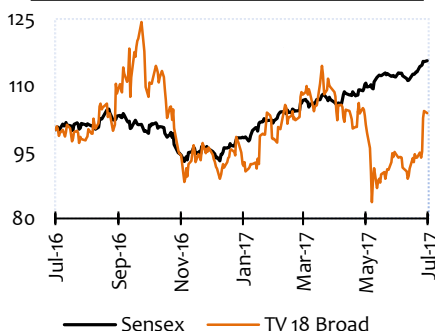
Expect marketing costs and operating costs to reduce going forward

Operating expenses reduced by 7.8% qoq mainly driven by 10.7% reduction in marketing & distributing expenses and 20.6% reduction in Other Expenses. We believe that as the gestation period of new launches during FY16 and FY17 completes, Marketing & Distribution expenses will reduce dramatically. In line with our estimates, we expect the M&D expense to reduce from an average of 21% in FY17 to 15-16% by FY19E.

Valuation and view

We expect advertising revenues to pick up drastically through H2FY18E on the back of increased domestic income and consumption and therefore higher capacity and willingness for ad-spending. We expect Marketing & Distribution expenses to also reduce dramatically for new channels which usually have a turnaround time of 1-2 years and therefore expect a bounce-back in margins. We maintain a BUY rating on the stock and assign a multiple of 30x to it's FY18E EPS of INR 1.9 to arrive at a target price of INR 57.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31712
NIFTY	9827

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep16
Promoters	60.4	60.4	60.4
FIIIs	11.73	11.58	11.86
DIIIs	4.89	5.14	5.71
Others	22.98	22.87	22.04
Total	100	100	100

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Q4FY17 Result Snapshot

Exhibit 1: Quarterly Income Statement

INR Mn	Q1 FY18	Q4 FY17	Q-o-Q change %	Q1 FY17	Y-o-Y change %
Net Sales	2,191	2,789	(21.5%)	2,107	4.0%
Less:					
Employees Remuneration & Benefits	951	861	10.5%	770	23.5%
Marketing & Distribution Expense	510	572	(10.7%)	532	(4.1%)
Other Expenses	867	1,093	(20.6%)	995	
Total Operating Expenditure	2,329	2,525	(7.8%)	2,297	1.4%
Operating Profit	-138	264		-190	
Less: Depreciation	151	178	(14.9%)	95	59.4%
Less: Interest	43	52	(17.1%)	46	(6.3%)
Add: Other income	77	187	(59.1%)	96	(20.2%)
Profit Before Tax	-256	222		-235	8.9%
Adjusted Profits	-256	222		-235	8.9%
Less: Total Tax	82	199	(59.1%)	-9	
PAT before Share of Associates	-337	22		-226	49.2%
Share of Profit of JV/Associates	195	38		56	
Minority Interest	-23	-24		-29	
PAT	-120	84		-141	(15.0%)
Adjusted PAT	-120	84		-141	
Reported Diluted EPS (Rs.)	(0.1)	0.0		(0.08)	(15.0%)
Adjusted Diluted EPS (Rs.)	-0.1	0.0		-0.1	(15.0%)
Margin Analysis %					
Operating margin	-6.3%	9.5%		-9.0%	272
EBIT Margin	-13.2%	3.1%		-13.5%	32
NPM	-5.5%	3.0%		-6.7%	122
Adjusted NPM	-5.5%	3.0%		-6.7%	122
Effective Tax Rate %	-31.9%	90.0%		3.8%	
Cost Analysis %			Change in bps	Change in bps	
Employee Cost/Net Sales	43.4%	30.9%	1254	36.5%	685
M&D/Net sales	23.3%	20.5%	281	25.2%	(195)

Source: Company, KRChoksey Research

- TV18 recorded an operating loss of INR 138 Mn in Q1FY18 largely due to lower ad spends which led to lower revenue realizations and a 10.5% qoq and 23.5% yoy increase in Employee Costs
- Marketing & Distribution expenses stood at 23.3% of revenues versus 25.2% in Q1 FY17

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TV 18 Broadcast Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-July-17	39	57	BUY	Buy	More than 15%
19-Apr-17	42	57	BUY	Accumulate	5% – 15%
16-Jan-17	39	63	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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