

TV18 Broadcast Ltd.



TV 18 Broadcast Ltd.

Niche Channels Started Bearing Fruit !!

CMP INR 40	Target INR 57	Potential Upside 42.5%	Market Cap (INR Mn) 69,174	Recommendation BUY	Sector Media
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Result highlights

- TV18 reported its Q2 FY18 results, where revenues fell below our estimates but margins have improved on yoy basis
- Revenue stood at INR 2,272 Mn, up 4% qoq and down 5% yoy
- EBITDA (under Ind AS consolidated) stood at INR (1) Mn in Q2 FY18, an improvement over INR (109 Mn) in Q2 FY17
- PAT was recorded at INR 75 Mn in Q2 FY18, versus INR 51 Mn in Q2 FY17, primarily due to improvement in performance of JVs and gaining operating efficiency

MARKET DATA

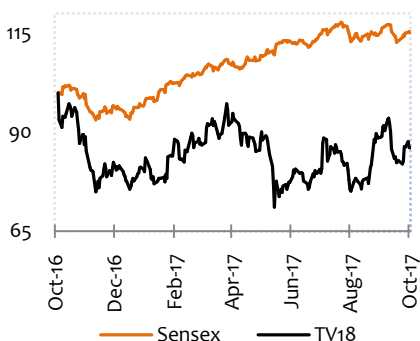
Shares outs (Mn)	1714
EquityCap (INR Mn)	3429
Mkt Cap (INR Mn)	69174
52 Wk H/L (INR)	50/33
Volume Avg (3m K)	6444.5
Face Value (INR)	2
Bloomberg Code	TV18 IN

KEY FINANCIALS

Particulars (INR Mn)	FY17	FY18E	FY19E
Net Sales	9794	10083	10,890
EBITDA	313	445	2,178
PAT	191	1520	3,267
EPS	0.11	0.89	1.91
OPM	3.2%	4.4%	20.0%
NPM	2.0%	15.1%	30.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Highlights of Q2 FY18

- Revenues in Q2 FY18 were largely subdued, as the market is reviving from GST implications, and traders are still cautious to increase their spending for advertisements. We believe that the top-line would improve gradually from the next quarter owing to increase in consumer spending driven by festive season, smooth execution of GST implementation, and increase in viewership.
- Niche channels such as VH1, Comedy Central and Nick witnessed stable growth of 10% even in an adverse economic condition. We believe, the growth would be picking up once the economy reflects sign of positive and boost ad-spending.
- Regional news witnessed a softness in earnings and low profitability due to the gestation period. News viewership share stood at 9.3% in Q2 FY18 from <5% in Q1 FY17. We expect that investments in regional news channels will enable a turnaround in the operations by FY18E.
- Colors Kannada retained the number 1 rank in the regional entertainment space with 33% market share while Colors Super continued to maintain 8% market share.
- Viacom's exclusive OTT platform VOOT has registered 40mn+ download, and it continued to gain excellent traction especially from millennial.

MARKET INFO

SENSEX	31834
NIFTY	9985

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	60.4	60.4	60.4
FIIIs	11.08	11.73	11.58
DIIIs	4.9	4.89	5.14
Others	23.63	22.98	22.87
Total	100	100	100

JVs performance broadened Net Margin in 2Q FY18

Viacom18 has maintained its revenues growth of 9% yoy despite we had lot of slippages in the previous quarter. The growth was primarily driven by the strength of entertainment and regional channels and movies released during the previous quarter. TV 18's JVs — Viacom 18, IBN Lokmat (50% each) and Indiacast (75%)— have generated Net Profit of INR 260 Mn in Q2 FY18 verses INR 170 Mn in Q2 FY17, an increase of 53% yoy.

Expect M&D expenses to decline further as the previous launches gain tractions

Operating expenses reduced by 4.6 percentage points qoq mainly due to reduction in marketing & distribution cost percentage of sales. We believe that as the gestation period of new launches during FY17 completes, Marketing & Distribution expenses will reduce further. 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

Going ahead, we expect advertising revenues to pick up drastically on the back of company's aggressive attempt to invest in regional platform for both news and entertainment, improved viewership driven by localized HD content, and increase in ad spending due to festive season. We expect Marketing & Distribution expenses to reduce for new channels which usually have a turnaround time of 1-2 years and therefore expect to further improve margins.

We maintain a BUY rating on the stock and assign a multiple of 30x to its FY19E EPS of INR 1.9 to arrive at a target price of INR 57.

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Q2 FY18 Result Snapshot

Exhibit 1: Quarterly Income Statement

INR Mn	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %
Net Sales	2,272	2,191	3.7%	2,398	(5.3%)
Less:					
Employees Remuneration & Benefits	997	951	4.8%	847	17.7%
Marketing & Distribution Expense	456	510	(10.7%)	593	(23.1%)
Other Expenses	821	867	(5.4%)	1,067	
Total Operating Expenditure	2,273	2,329	(2.4%)	2,507	(9.3%)
Operating Profit	(1)	(138)		(109)	
Less: Depreciation	152	151	0.5%	118	28.5%
Less: Interest	49	43	13.7%	67	(26.9%)
Add: Other income	77	77	1.0%	102	(24.5%)
Profit Before Tax	(125)	(256)		(192)	(35.1%)
Adjusted Profits	(125)	(256)		(192)	(35.1%)
Less: Total Tax	60	82	(26.3%)	(1)	
PAT before Share of Associates	(185)	(337)		(191)	(3.3%)
Share of Profit of JV/Associates	258	195		192	
Minority Interest	(2)	(23)		(50)	
PAT	75	(120)		52	46.0%
Adjusted PAT	75	(120)		52	
Reported Diluted EPS (Rs.)	0.04	(0.1)		0.03	46.4%
Adjusted Diluted EPS (Rs.)	0.04	-0.1		0.0	46.4%
Margin Analysis %					
Operating margin	0.0%	-6.3%		-4.5%	450
EBIT Margin	-6.7%	-13.2%		-9.5%	274
NPM	3.3%	-5.5%		2.2%	116
Adjusted NPM	3.3%	-5.5%		2.2%	116
Effective Tax Rate %	-48.2%	-31.9%		0.5%	
Cost Analysis %			Change in bps		Change in bps
Employee Cost/Net Sales	43.9%	43.4%	46	35.3%	854
M&D/Net sales	20.1%	23.3%	(323)	24.7%	(465)

Source: Company, KRChoksey Research

Comments

- TV18 reported Q2 FY18 results which were slightly below our estimates, where revenues have dragged and bottom-line has improved on a yoy basis.
- Net Sales were reported at INR 2,272 Mn, below our estimate of INR 2,454 Mn, down 5.3% yoy.
- EBITDA was reported at INR (1) Mn, improved from INR (138.6) Mn in Q1 FY18 on the back of reduction in marketing and distribution percentage of net sales.
- PAT was recorded at INR 75 Mn in Q2 FY18 versus INR (120) Mn in Q1 FY18 and INR 52 Mn in Q2 FY17
- Notably, Share of Profit from JVs increased dramatically from INR 192 Mn in Q2 FY17 to INR 258 Mn in Q2 FY18.
- EPS was reported at INR 0.04.

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TV 18 Broadcast Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
12-Oct-17	40	57	BUY	Buy	More than 15%
18-July-17	39	57	BUY	Accumulate	5% – 15%
19-Apr-17	42	57	BUY	Hold	0 – 5%
16-Jan-17	39	63	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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