

May 30, 2019

Visit Update

Key Financials

	FY16	FY17	FY18	FY19
Net Revenue (Rs. m)	5,816	6,523	7,209	7,422
EBITDA (Rs. m)	1,617	1,624	2,076	1,996
Margin (%)	27.8	24.9	28.8	26.9
PAT (Rs. m)	937	937	1,327	1,314
EPS (Rs.)	10.6	17.1	19.9	22.0
Gr. (%)	(21.9)	61.3	16.4	10.5
DPS (Rs.)	1.8	2.0	2.3	2.3
Yield (%)	0.6	0.8	0.5	0.8
RoE (%)	13.4	19.1	19.1	16.9
RoCE (%)	31.1	27.3	31.5	21.5
EV/Sales (x)	3.0	2.0	3.8	1.9
EV/EBITDA (x)	9.4	7.1	11.7	6.9
PE (x)	29.1	15.1	24.6	12.3
P/BV (x)	3.9	2.7	4.4	10.4

Key Data

TVTO.BO | TVTN IN

52-W High / Low	Rs.490 / Rs.259
Sensex / Nifty	39,502 / 11,861
Market Cap	Rs.16bn/ \$ 0.22m
Shares Outstanding	59.7m
3M Avg. Daily Value	Rs.15.7m

Shareholding Pattern (%)

Promoter's	57.52
Foreign	11.67
Domestic Institution	15.35
Public & Others	15.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(14.3)	(29.9)	(40.2)
Relative	(15.7)	(39.8)	(52.4)

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Yield hike to drive growth

In our meeting, management of TV Today highlighted that new tariff order has led to temporary disruption by impacting reach but normalcy will be regained once the transition period is over. While competitive intensity in Hindi news genre market has increased considerably post entry of Republic Bharat; flagship channel Aaj Tak continues to maintain a leading position due to solid content and superior reach. Management expects FY20 ad revenue to be driven by rise in yields (~8-10%) in Hindi news channel Aaj Tak (operates ~100% inventory utilization). Yield for English news channel, India Today (operates at ~69% utilization) is also expected to rise by ~4-5% in FY20. Though application to MIB for transferring radio business to ENIL stands withdrawn we believe a different structure is being explored which could potentially result in cash inflow of ~Rs1.5bn, if the transaction concludes. Merger of Mail Today (daily tabloid published in Delhi) is on track which will result in tax savings as print undertaking has accumulated losses to the tune of ~Rs2.7bn. If the radio transaction concludes in FY20 and TV Today receives Rs1.5bn, total cash to market cap (assuming current price) ratio will be in the range of ~28% (TV Today has cash of ~Rs2.9bn as of FY19). Given market leadership in the Hindi news, strong BS (negligible debt) and high cash on books, valuation at 12x FY19 earnings looks attractive. Not Rated.

Entry of Republic Bharat has intensified competition: The Hindi/English news genre has a market size of ~Rs20bn/~Rs6bn respectively. The news market is highly fragmented in nature with number of players in fray. Entry of Republic Bharat has intensified competition in an already overcrowded Hindi news market. Since news content typically appeals to matured male audience, BFSI and auto are key categories that advertise on the platform. FMCG has turned out to be an emerging category post the recent success of Patanjali. Political advertising is also an important category that advertises on news channels.

Yield will drive growth in flagship channel Aaj Tak: Flagship channel Aaj Tak is currently operating at ~16 minutes of ad time per hour with yield in the range of Rs6,000-7,000 per 10 seconds. The ad time has been cut from ~18-19 minutes per hour to ~16 minutes per hour since June/July 2018 impacting the advertising revenue by ~Rs400mn in FY19. Yield hike of ~8-10% is expected in FY20.

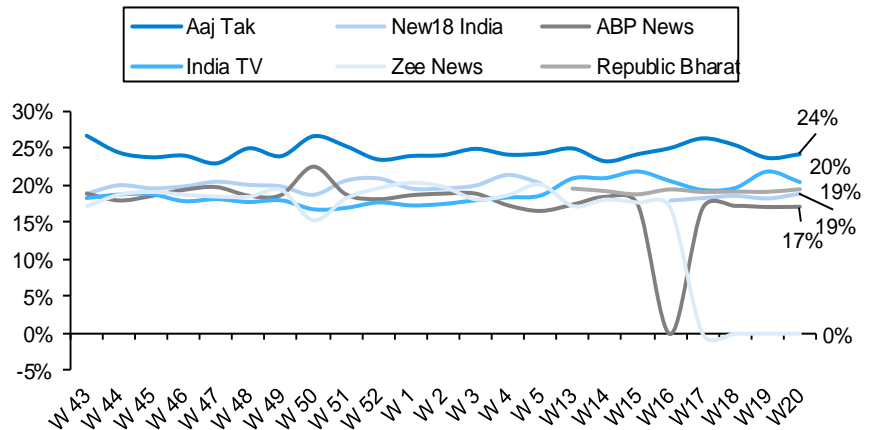
India Today's utilization to remain flat at ~69%: India Today operates at an ad time of ~11 minutes per hour with yield in the range of ~Rs2,000 per 10 seconds. While there is a cushion to increase ad inventory by ~5 minute per hour (targeted base case inventory of ~16 minute per hour) considering competition in the space we expect utilization to remain flat. Growth will be driven by rise in yields (~4-5% per annum).

Sale of 3 radio licenses to fetch ~Rs1.5bn: While application to MIB for transferring radio business to ENIL stands withdrawn we believe a different structure is being explored at the moment (radio business is transferred into a subsidiary). Cash inflow of ~Rs1.5bn is expected from sale of 3 licenses in Mumbai, Delhi & Kolkata to ENIL, if the transaction concludes.

Key highlights from our meeting

News genre is a highly fragmented & competitive market: The Hindi news genre has a market size of ~Rs20bn. The market is highly fragmented in nature with a number of players like Aaj Tak, Zee News, India TV, ABP News, News18 India and NDTV India. Entry of Republic Bharat has further intensified competition in an already overcrowded market.

Exhibit 1: Aaj Tak's viewership is intact despite entry of Republic Bharat



Source: BARC

In 2018, Hindi news genre's advertising volume share was 5%. Since news content typically appeals to matured male audience, BFSI and auto are key categories that advertise on the platform. FMCG has turned out to be an emerging category post the recent success of Patanjali. Political advertising is also an important category that advertises on news channels. While Lok Sabha elections have just concluded, 5 important state elections are scheduled in next 18 months. Thus, traction from political advertising is expected to remain strong.

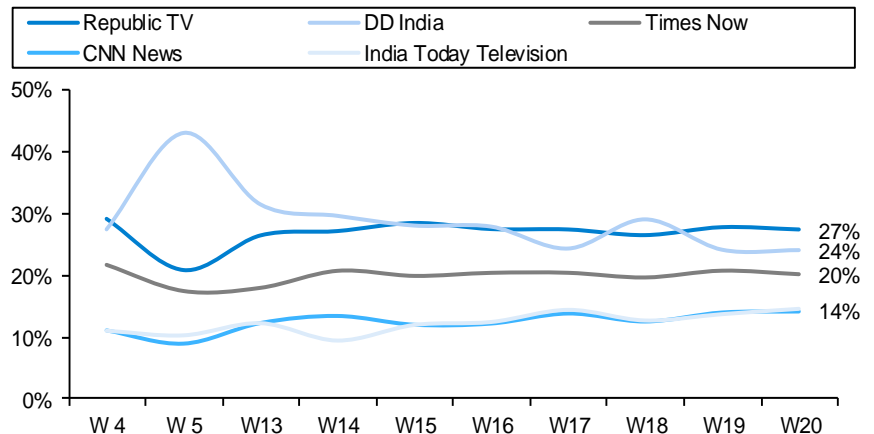
Exhibit 2: 5 States scheduled to go for elections in next 18 months

States	Month & Year
Haryana	Nov-19
Maharashtra	Nov-19
Jharkhand	Jan-20
Delhi	Feb-20
Bihar	Nov-20

Source: Election Commission

The English news genre is comparatively smaller with market size of ~Rs6bn. However, the market is equally competitive with established players like Republic TV, Times Now, CNN News, India Today, WION and NewsX in the fray.

Exhibit 3: India Today's viewership share has witnessed improvement



Source: BARC

Flagship channel Aaj Tak dominates the Hindi news genre: Aaj Tak is market leader in the Hindi news segment with a revenue market share of ~21% (we assume Aaj Tak contributes ~70% of the TV broadcasting revenues of FY19). While the channel operated at an ad time of ~18-19 minutes per hour, since June/July 2108 the inventory has been reduced to ~16 minutes of ad time per hour. Reduction in ad inventory has resulted in revenue loss of ~Rs400mn in FY19. The rationale behind imposing voluntary ad cap is to improve viewership experience. Loss of air time sale is expected to be compensated by increase in yield. Current yield is in the range of Rs6,000-7,000 per 10 seconds and is highest amongst competition.

Exhibit 4: Aaj Tak has highest yield amongst peers in Hindi news market

Channel	Yield per 10 seconds
Aaj Tak	Rs6,000-7,000
Zee News	~Rs4,000
ABP News	~Rs5,800
India TV	~Rs4,750
Republic Bharat	~Rs3,750

Source: Company & Media Ant

English news channel India Today on a catch up game: India Today operates at an ad time of ~11 minutes per hour with yield in the range of ~Rs2,000 per 10 seconds. Average 4 week trailing viewership market share is ~14%.

Exhibit 5: Times Now has highest yield amongst peers in English news genre

Channel	Yield per 10 seconds
India Today	~Rs2,000
Times Now	~Rs7,500
Republic TV	~Rs3,300
CNN News	~Rs4,200

Source: Company & Media Ant

While there is a cushion to increase the ad inventory by ~5 minute per hour (targeted base case inventory of ~16 minute per hour) but considering competition in the space we expect inventory to remain flat. Growth will be driven by rise in yields (~4-5% per annum).

Sale of 3 radio licenses can fetch Rs1.5bn: TV Today entered into an agreement with ENIL in February 2015 to sell 7 radio stations to the latter. While in July 2015, TV Today got consent from MIB to sell 4 stations in Amritsar, Jodhpur, Patiala and Shimla for a consideration of Rs40mn, approval for the remaining 3 stations in Mumbai, Delhi & Kolkata was denied as it violated the minimum lock in period.

Since MIB approval for remaining stations was pending for long, TV Today recently decided to withdraw its application. Post withdrawal, the radio business will now be transferred into a wholly owned subsidiary Vibgyor Broadcasting Pvt Ltd. We believe a different structure is being examined to transfer the licenses to ENIL. TV Today paid Rs714mn as migration fee for transferring these 3 licenses from phase II to phase III regime and potential sale could result in cash inflow of ~Rs1.5bn.

Merger of Mail Today to result in tax advantage: In order to generate editorial & business content synergies it has been decided to merge the newspaper business of Mail Today (print undertaking of the group company) with the company. Mail Today is a daily tabloid published in New Delhi with daily circulation of 1.5-2 lac copies.

As of FY19, the news publishing business reported sales and EBIT loss of Rs327.1mn and Rs16.4mn respectively. Merger of print business with itself is likely to result in tax savings as publishing business has accumulated losses of ~Rs2.7bn. Carrying forward losses post-merger is likely to result in payment of tax at MAT rate and result in tax savings.

Outlook & view: TV Today's sales/PAT have grown at a CAGR of 8.5%/28.6% over FY16-19. Going ahead, top-line growth will be driven by rise in yields as Aaj Tak is operating at ~100% utilization while there is limited scope for utilization to go above ~69% for India Today. Yield for Aaj Tak and India Today is expected to grow by ~8-10% and ~4-5% respectively in FY20E. Current cash on books is Rs2.9bn. **If the radio transaction goes through in FY20 and TV Today receives Rs1.5bn, total cash to market cap (assuming current price) ratio will be in the range of ~28%. Given market leadership in the Hindi news, strong BS (negligible debt) and high cash on books, valuation at 12x FY19 earnings looks attractive.** Not Rated.

Financials

Income Statement (Rs m)

Y/e Mar	FY16	FY17	FY18	FY19
Net Revenues	5,816	6,523	7,209	7,422
YoY gr. (%)	22.0	12.2	10.5	3.0
Cost of Goods Sold	38	31	28	33
Gross Profit	5,778	6,492	7,181	7,390
Margin (%)	99.3	99.5	99.6	99.6
Employee Cost	1,535	1,805	2,025	2,227
Other Expenses	2,626	3,063	3,080	3,167
EBITDA	1,617	1,624	2,076	1,996
YoY gr. (%)	22.8	0.5	27.8	-3.9
Margin (%)	27.8	24.9	28.8	26.9
Depreciation and Amortization	309	294	314	315
EBIT	1,308	1,331	1,762	1,681
Margin (%)	22.5	20.4	24.4	22.6
Net Interest	64	84	37	8
Other Income	206	214	247	367
Profit Before Tax	1,450	1,460	1,972	2,039
Margin (%)	24.9	22.4	27.4	27.5
Total Tax	529	541	645	725
Effective tax rate (%)	36.5	37.1	32.7	35.5
Profit after tax	921	919	1,327	1,314
Minority interest	16	18		
Share Profit from Associate				
Adjusted PAT	937	937	1,327	1,314
YoY gr. (%)	15.6	0.0	41.7	-1.0
Margin (%)	16.1	14.4	18.4	17.7
Extra Ord. Income / (Exp)	-303	86	-138	
Reported PAT	634	1,022	1,189	1,314
YoY gr. (%)	-21.8	61.3	16.4	11.0
Margin (%)	10.9	15.7	16.5	17.7
Other Comprehensive Income			-4	3.82
Total Comprehensive Income			1,186	1,318
Equity Shares O/s (m)	298	298	298	298
EPS (Rs)	10.6	17.1	19.9	22.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY16	FY17	FY18	FY19
Non-Current Assets				
Gross Block	2,445	2,586	3,348	NA*
Tangibles	2,059	2,184	2,227	
Intangibles	386	402	1,121	
Acc: Dep / Amortization	302	591	821	NA*
Tangibles	247	483	613	
Intangibles	55	109	208	
Net fixed assets	2,143	1,995	2,527	2,423
Tangibles	1,813	1,702	1,614	
Intangibles	331	293	913	
Capital Work In Progress	18	31	6	40
Goodwill	0			
Non-Current Investments	72	64	55	53
Net Deferred tax assets	148	145	138	172
Other Non-Current Assets	296	367	1,053	317
Current Assets				
Investments				
Inventories	14	16	17	25
Trade receivables	1,508	1,794	1,849	1,846
Cash & Bank Balance	1,702	2,631	1,995	2,908
Other Current Assets	573	635	704	1,744
Total Assets	6,473	7,680	8,342	9,529
Equity				
Equity Share Capital	298	298	298	298
Other Equity	4,423	5,512	6,319	7,475
Total Network	4,722	5,810	6,617	7,774
Non-Current Liabilities				
Long Term borrowings	111	52	0	0
Provisions	85	107	125	70
Other non current liabilities	10	6	2	27
Current Liabilities				
ST Debt / Current of LT Debt	345	296	0	31
Trade payables	697	913	867	805
Other current liabilities	504	495	732	822
Total Equity & Liabilities	6,473	7,680	8,342	9,529

Source: Company Data, PL Research

* Since AR is not published as yet detailed breakdown of gross block is not available

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	662	495
3	Music Broadcast	BUY	75	59
4	Navneet Education	BUY	142	107
5	S Chand and Company	Hold	234	199
6	V.I.P. Industries	BUY	564	431
7	Zee Media Corporation	Under Review	-	14

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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