September 3, 2014

Rating Matrix

Rating	:	Buy
Target	:	₹ 300
Target Period	:	12 months
Potential Upside	:	42%

YoY Growth (%)

(YoY Growth)	FY13	FY14	FY15E	FY16E
Net Sales	1.4	24.6	22.2	9.2
EBITDA	31.6	216.0	55.4	17.5
Net Profit	16.1	402.4	59.5	21.6
EPS (Rs)	16.1	402.1	59.5	21.6

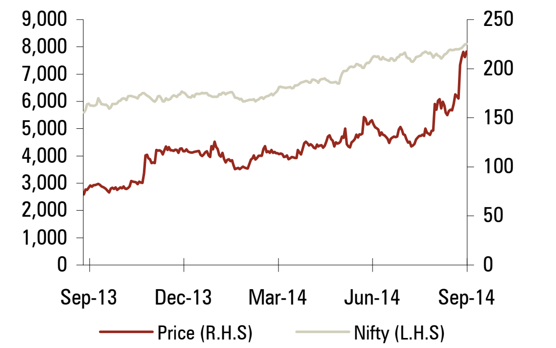
Valuation Summary

(YoY Growth)	FY13	FY14	FY15E	FY16E
P/E	102.9	20.5	12.8	10.6
Target P/E	146.2	29.1	18.2	15.0
EV / EBITDA	35.9	11.0	6.8	5.3
P/BV	3.9	3.3	2.8	2.3
RoNW	3.8	16.2	21.5	21.6
RoCE	4.0	22.4	30.4	30.3

Stock Data

Particulars	Amount
Market Capitalization	₹ 1256.1 Crore
Total Debt (FY14)	₹ 0 Crore
Cash and Investments (FY14)	₹ 57 Crore
EV	₹ 1199.1 Crore
52 week H/L	218 / 72
Equity capital	₹ 29.7 Crore
Face value	₹ 5
MF Holding (%)	3.4
FII Holding (%)	0.0

Price movement



Analyst's name

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TV Today (TVTNET)

₹ 211

'Aaj Tak' – Most tuned in Hindi news channel

TV Today with its flagship channel *Aaj Tak* has been able to maintain its dominant position in the fiercely competitive Hindi news segment for over a decade. The news segment, directly targeting "decision makers" in the family, enjoys a good portion of the advertisement share, which is expected to rise even further as literacy and income levels rise. Ad revenues for TV Today are expected to grow at 16.4% CAGR over FY14-16E to ₹ 460.2 crore, primarily led by rate hikes. Subscription revenue, lower than half of its competitors, has ample scope for growth as digitisation penetrates further. With digitisation in phase III and IV cities, TV Today would be able to better monetise its reach as it enjoys a far stronger position in the smaller cities and towns in the Hindi speaking belt. However, with a delay in shift towards digitisation, we have built in a nominal growth of 7.5% in this revenue stream. The fixed nature of operational cost provides high operating leverage, which is already reflected in 216% growth in EBITDA with 24.6% revenue growth in FY14. Going ahead, with a reduction in carriage costs, we expect EBITDA and PAT CAGR (FY14-16E) of 35.1% and 39.3% to ₹ 199.4 and ₹ 119.0 crore, respectively. TV Today is expected to generate free cash flows of ₹ 71.0 crore and ₹ 129.7 crore in FY15E and FY16E, respectively, which could translate into higher dividend for shareholders. We value the company at 15x P/E multiple based on FY16E EPS of ₹ 20.0 and arrive at a target price of ₹ 300. We initiate coverage with BUY rating.

TV Today - No. 1 player in Hindi news genre; strong ad growth

News segment forming just 7% of TV viewership, garners 21% of total TV advertisement. TV Today, with a leadership position in the Hindi news segment, commands 10.9% of total TV news advertisement. With a gradual recovery in economic activity, we expect the company to post 16.4% CAGR (FY14-16E) in ad revenue to ₹ 460.2 crore.

Operating leverage to kick in quite strongly, carriage costs to reduce, BUY

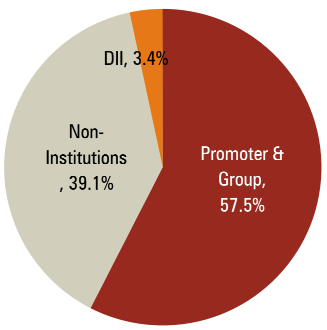
Digitisation would bring twin benefits of declining carriage cost and uptick in subscription revenue as the distribution industry shifts to cost per subscriber (CPS) model. Carriage cost forming about 30-35% of revenue is expected to decline at an annual rate of 10% over the next two years. With most other costs largely fixed in nature, high degree of operating leverage would accrue to TV Today, resulting in 35.1% EBITDA CAGR (FY14-16E) to ₹ 199.4 crore. With a revival in EBITDA margins, valuation multiples are expected to inch up to historical levels. We value the company at 15x FY16E EPS of ₹ 20.0 to arrive at a target price of ₹ 300. We are initiating coverage on TV Today with a **BUY** rating.

Exhibit 1: Valuation Metrics

(Year-end March)	FY12	FY13	FY14	FY15E	FY16E
Net Sales (₹ crore)	308.4	312.7	389.4	475.7	519.3
EBITDA (₹ crore)	26.3	34.6	109.3	169.8	199.4
Net Profit (₹ crore)	10.5	12.2	61.3	97.8	119.0
EPS (₹)	1.8	2.1	10.3	16.4	20.0
P/E (x)	119.4	102.9	20.5	12.8	10.6
Price / Book (x)	4.0	3.9	3.3	2.8	2.3
EV/EBITDA (x)	48.2	35.9	11.0	6.8	5.3
RoCE (%)	3.6	4.0	22.4	30.4	30.3
RoE (%)	3.3	3.8	16.2	21.5	21.6

Source: Company, ICICIdirect.com Research

Promoter and FIIs & DIIs holding (%) (June 2014)

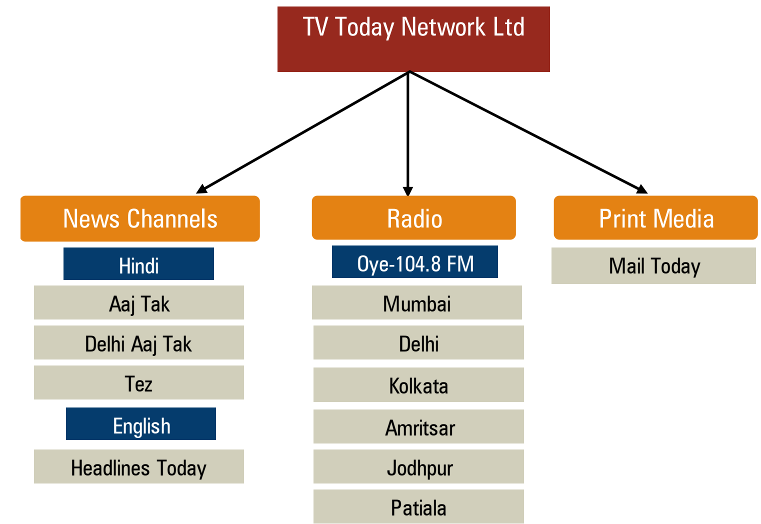


Source: BSE, ICICIdirect.com Research

Company background

TV Today Network (TV Today) incorporated in December, 1999, is a part of the India Today Group and a leading news broadcaster in India. It operates as a subsidiary of Living Media, the holding company of the India Today group of publications. The Aditya Birla group also has a 27.5% stake in Living Media currently. Chairman of Living Media, Aroon Purie, has a rich lineage in the news disbursement business. He has been associated with the news business for the past three decades and consistently maintained the company as a leader owing to his vast experience. TV Today is one of the leading news broadcasters in India with four channels viz. *Aaj Tak, Headlines Today, Delhi Aaj Tak* and *Tez* distributed by MSM Discovery. TV Today is the first Indian broadcaster to uplink a 24 hour Hindi news channel from India. The company has an undisputed leadership position in the Hindi news segment through *Aaj Tak*. In addition, Radio Today Broadcasting Ltd, a fellow subsidiary, merged with the company extending the presence of TV Today to the radio segment under the brand *Oye 104.8 FM*. The company has also made a strategic investment worth ₹ 45 crore in FY10 in Mail Today Newspaper Pvt Ltd, which publishes a news paper called *Mail Today* in a bid to enter the print segment for business scalability.

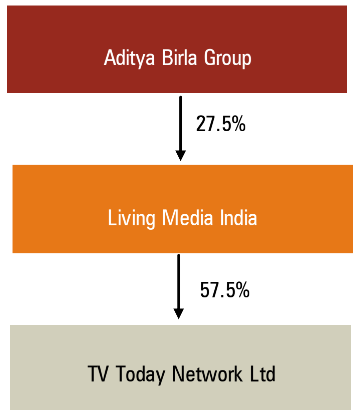
Exhibit 2: TV Today business structure



Source: Company, ICICIdirect.com Research

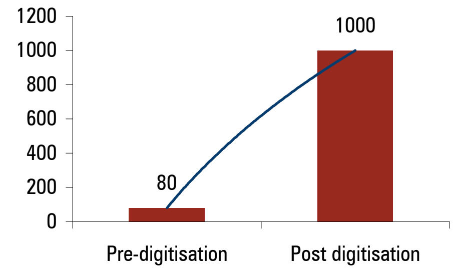
TV Today Network tapped the capital market in 2003-04 raising ₹ 95 crore with a public issue of 1.0 crore shares at a price of ₹ 95/share (at a premium of ₹ 90 per share).

Exhibit 3: AB Group investment in TV Today through Living Media



Source: ICICIdirect.com Research

Increase in cable channel carrying capacity



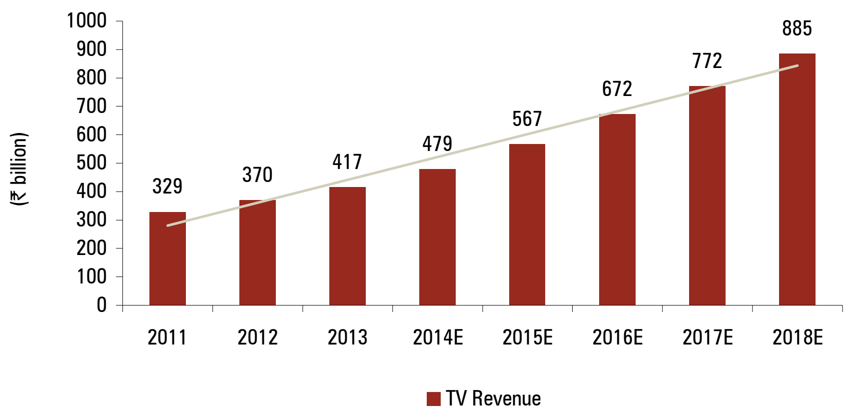
Source: Industry, ICICIdirect.com Research

Investment Rationale

TV industry to grow at 16.2% CAGR (FY13-18E); sees 12% CAGR in FY08-13

The television industry witnessed 12% CAGR in CY08-13 despite the economic slowdown. According to the Ficci KPMG report 2014, the industry is expected to grow at 16.2% CAGR in FY13-18E rising from ₹ 417 crore at the end of 2013 to ₹ 885 crore by the end of 2018E. The number of TV households in India is also expected to increase to 191 million from 161 million currently. The television industry dominates the domestic media & entertainment industry forming 45% of the total industry. The increase in the channel carrying capacity to over 1000 owing to digitisation and revision of minimum channels to be broadcasted to ~500 is expected to bring in additional subscription revenues to broadcasters.

Exhibit 4: Television industry revenue trends



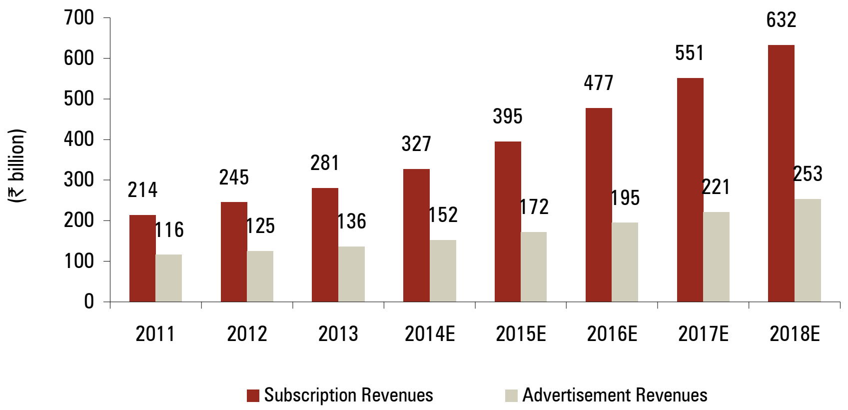
Source: FICCI KPMG Report 2014, ICICIdirect.com Research

Subscription, advertisement revenues to grow at 17.6%, 13.2% CAGR, respectively, in FY13-18E

Industry subscription & advertisement revenues are expected to grow at 17.6% and 13.2% CAGR, respectively, in FY13-18E. Digitisation is expected to be the key contributor to growth in the media industry. Phases I and II are nearly complete in terms of set top box seeding while the focus is expected to now shift to phase III and IV cities. The full benefits are expected to start flowing in once package wise billing commences and there is a shift to the gross billing regime.

As the full subscriber universe becomes addressable and leakages are plugged, broadcasters would be the biggest beneficiaries in the entire value chain, realising the highest operating leverage without incurring incremental capex. Industry subscription revenue is expected to rise exponentially, growing at 17.6% CAGR in FY13-18E from ₹ 28100 crore in 2013 to about ₹ 63200 crore by FY18E. In addition, digitisation gives a better insight into consumer preference and flexibility in reaching the target audience, thus enabling broadcasters to negotiate better advertisement rates. Moreover, with a gradual recovery in economic activity, advertisement revenues are expected to grow at 13.2% CAGR in FY13-18E rising from ₹ 13600 crore to ₹ 25300 crore by FY18E.

Exhibit 5: Subscription and advertisement revenue trends

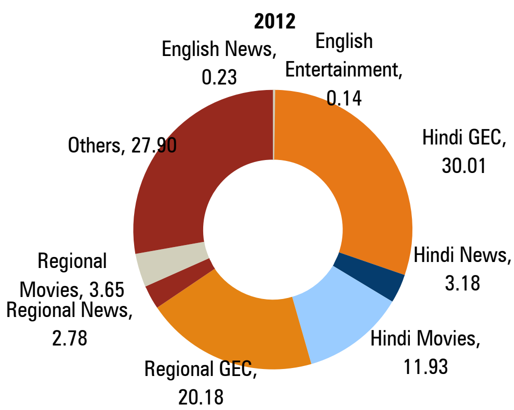


Source: FICCI KPMG Report 2014, ICICIdirect.com Research

News domain beginning to gain ground

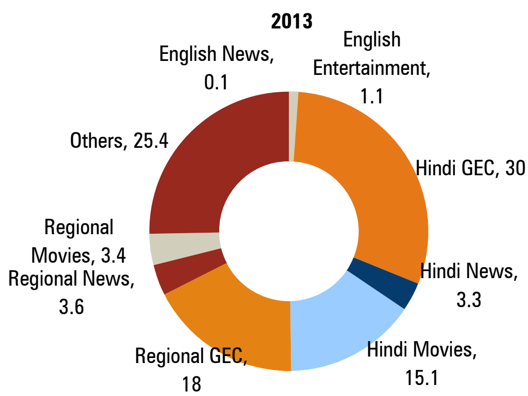
With increasing literacy rates and improving living standards, the need and desire to stay aware has increased. Share of the total news domain (composite of English, Hindi and regional news) in the overall break-up has increased from 6.2% in 2012 to 7.0% in 2013. This shows the growing popularity of the news domain among masses.

Exhibit 6: Break-up of viewership share (%) in 2012



Source: FICCI KPMG Report 2013, ICICIdirect.com Research

Exhibit 7: Break-up of viewership share (%) in 2013

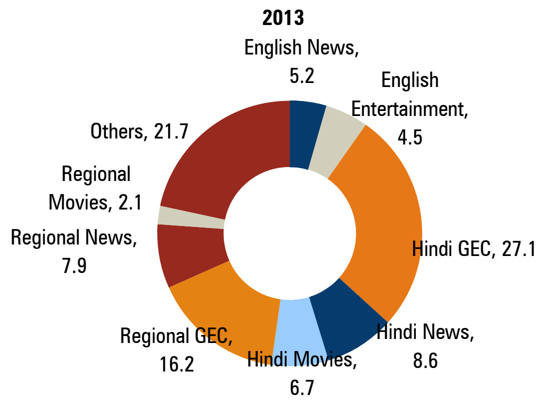


Source: FICCI KPMG Report 2014, ICICIdirect.com Research

Several new channels have started operations, helping the segment to proliferate further. There are about 392 news and current affairs channels out of a total 792 channels currently operational in the country. In the Hindi news genre, *Aaj Tak*, *ABP News*, *India TV* and *Zee News* dominate the segment.

The interesting point to note is that despite the news segment accounting for 7% of the viewership share it commands 21.7% ad revenue share. Hindi news channels have a strong ad revenue share of 8.6%. News channels have a focused target audience and are a cheaper advertisement avenue than Hindi GECs, which makes them preferable to advertisers.

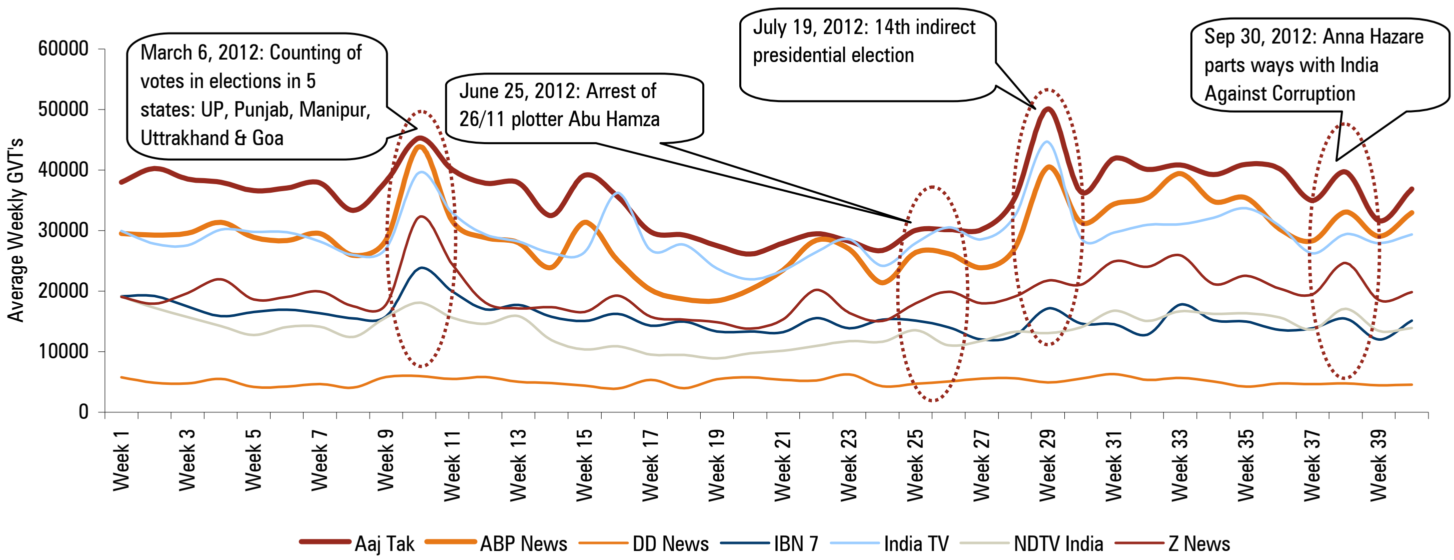
Exhibit 8: Adex share by genre - 2013 (%)



Source: FICCI KPMG Report 2014, ICICIdirect.com Research

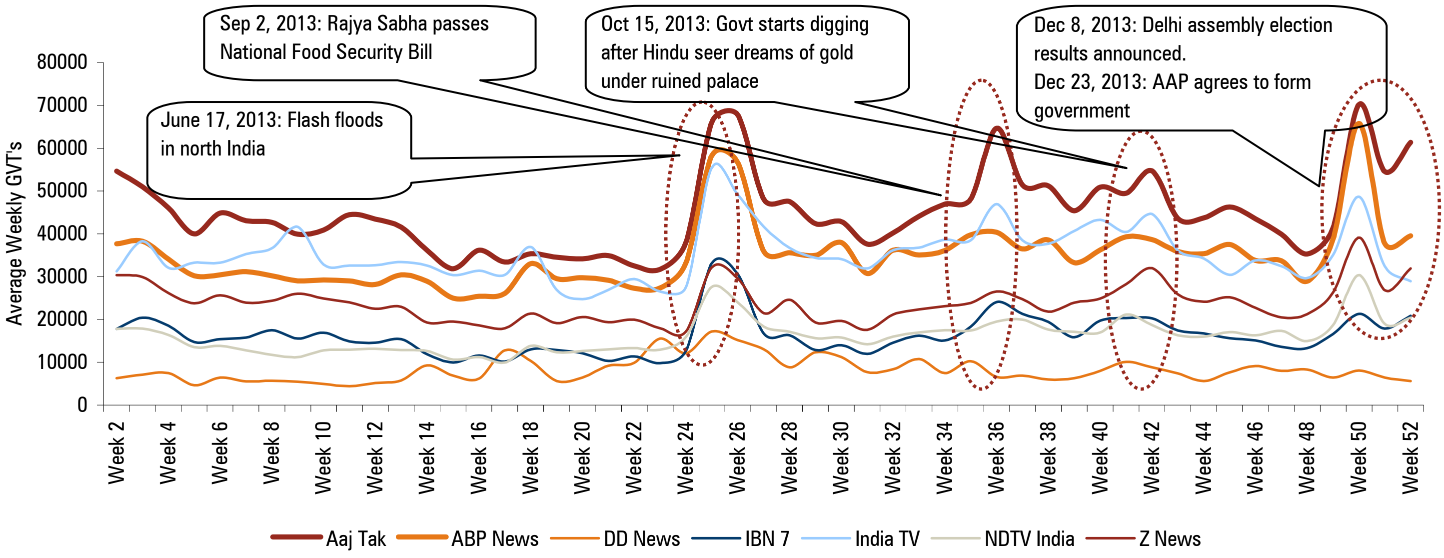
News viewership has been rising in tandem with rising literacy rates and the middle class population. The government is making various efforts to increase the overall literacy rate. It recently announced the National Digital Literacy Mission to make 10 lakh citizens across India digitally literate. This holds good for the news segment, which would clearly benefit from such a socio-economic development in society. A deeper analysis tells us that news viewership peaked in specific eye-catching events that took place in the country. The TAM data below shows us the viewership trends during important events as shown in the charts below.

Exhibit 9: GVT on leading news channels in 2012



Source: TAM 2012 – Week 1 to 40, CS 15+, HSM; ICICIdirect.com Research

Exhibit 10: GVT on leading news channels in 2013



Source: TAM 2013 – Week 2 to 52, CS 15+, HSM;, ICICIdirect.com Research

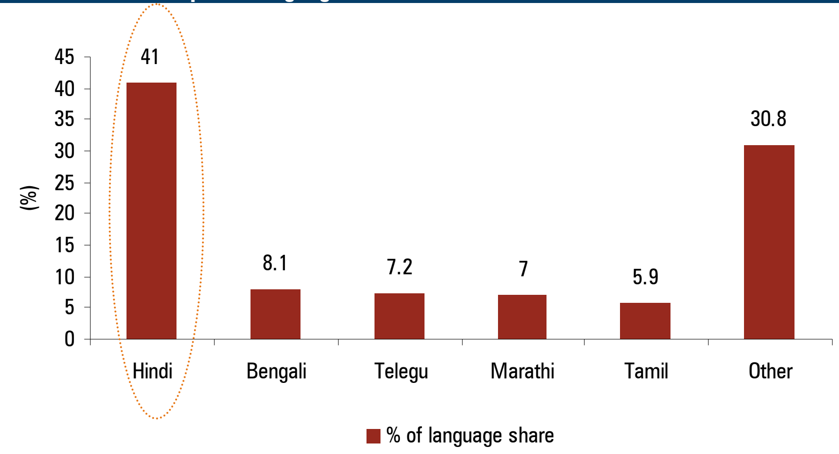
Strong presence in Hindi news genre: Aaj Tak undisputed market leader

News being non-proprietary and largely non-exclusive in nature, the content is largely similar among various news channels. In such a case, the ability to break the news first or give detailed coverage of the event by sending a team to the source becomes the differentiating point. In such a case, where the content is highly homogeneous, usually the top one or two players are key beneficiaries. On those lines, Aaj Tak has been able to maintain a leadership position in the last decade. Hence, it has been seeing an exponential increase in its revenue market share.

With a viewership share of ~18.5% in the Hindi news segment and ~8.7% of the overall news segment, Aaj Tak commands an impressive 23% (as per FY13) of Hindi news and 9.2% of overall news advertisement revenues. This signifies advertiser's preference for Aaj Tak in a fiercely competitive segment populated with 392 news & current affair channels.

According to Census 2011, around 41.0% of the Indian population speaks Hindi, followed by Bengali (8.1%), Telugu (7.2%), Marathi (7%) and Tamil (5.9%). The demographic set-up augurs well for TV Today with its offerings in terms of Hindi news channels, which is also reflected in its higher share of advertisement revenue.

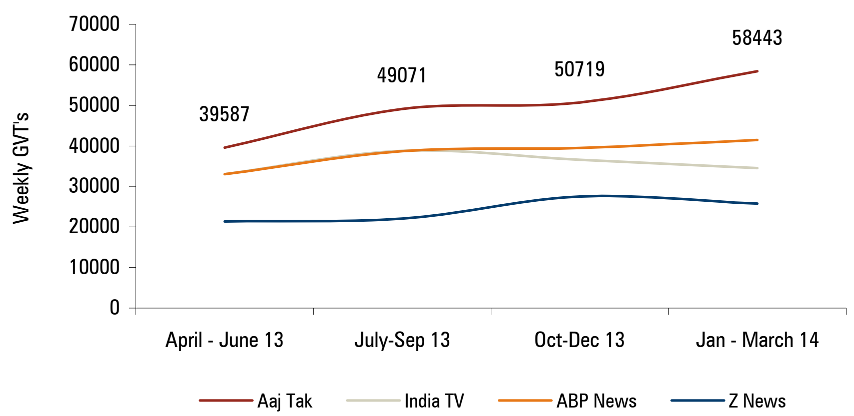
Exhibit 11: Hindi –most spoken language in India



Source: Census 2011, ICICIdirect.com Research

The presence of Aaj Tak in the Hindi news genre dates back to 1995 when it used to broadcast a 20-minute news programme in Doordarshan. Aaj Tak gained immense popularity through Doordarshan. Hence, it was launched as a 24 hour channel in 2000. Owing to its news credibility, quality live feeds and the ability to bring news at the earliest it was soon able to dominate the Hindi news genre. It has remained the No. 1 channel in the Hindi news category ever since the launch. Other news channels like ABP News and India News are its key competitors. However, there are market share differences between the No. 1 player and the second and third players.

Exhibit 12: Aaj Tak leads Hindi news pack



Source:, TV Today Annual report 2014, ICICIdirect.com Research

The revenues of TV Today have grown at a CAGR of 12.4% in FY12-14. Aaj Tak accounts for about 90-92% of the revenues of TV Today. The percentage contribution of Aaj Tak to total revenues would, however, decline as there is acceleration in the tempo of growth in other channels, especially Headlines Today whose advertisement sales were recently unbundled and, hence, would see higher growth.

TV Today to register 16.4% CAGR in ad revenues in FY4-16E; subscription CAGR to remain subdued at 7.5% in FY14-16E

Even though TV Today has registered growth of mere 3.9% in the last two years, digitisation in phase III and IV cities would benefit the company in the coming period. While phase I and II cities covered metros and Tier I cities, which are more inclined towards English or vernacular news, phase

III and IV cities would capture the audience preferring Hindi news in the respective Hindi speaking markets. As can be seen (recent statistics: Week 23-30, 2014), TV Today enjoys leadership positions in most markets with either a No. 1 or No. 2 position with the exception of Bihar. It is a No. 2 player in the metros with the major portion of its target market falling in phase III and IV cities. With the progress of digitisation, its Phase III and IV markets will also get addressable and, hence, allow it to negotiate better terms with advertisers.

Exhibit 13: Region wise market share as per Week 23-30, 2014

Market Share %	Mum	Kol	Del	Chtsgrh	Bih	Guj	Maha	MP	PHCHP	Raj	UP	WB	East	West	North	South	HSM	All India
Aaj Tak	14	13	18	14	11	17	18	13	21	19	14	18	18	18	18	35	18	18
ABP News	13	26	9	13	10	11	15	10	13	17	14	18	15	14	12	15	13	13
India TV	22	11	20	13	16	16	18	19	8	11	12	8	14	17	14	8	15	15
Z News	6	9	9	6	10	10	8	11	13	10	12	16	10	8	11	4	10	10
IBN 7	5	7	6	5	8	5	6	5	7	5	7	5	4	5	6	4	6	6
NDTV India	6	8	6	5	4	5	5	6	7	4	5	5	5	5	5	4	5	5
DD News	1	3	1	1	1	1	1	2	1	1	1	3	2	1	1	27	1	2
Samay	2	4	1	5	2	3	3	3	2	4	2	7	5	3	2	4	2	2
Tez	6	9	5	1	4	3	4	2	3	2	4	5	2	4	4	0	4	4
News 24	5	2	10	12	8	5	5	9	4	5	6	1	4	5	7	0	7	6
P7 News	1	1	0	3	2	2	2	1	3	1	1	1	2	2	1	0	1	1
News Express	3	1	2	1	6	2	3	1	3	2	2	1	1	2	2	0	2	2
News Nation	11	4	5	12	12	10	9	7	8	11	9	7	10	9	7	0	8	8
India News	5	3	7	9	7	11	5	9	8	9	9	2	8	7	8	4	8	8

Rank 1 Rank 2 Rank 3

Source: MCCS India (ABP News) Website, ICICIdirect.com Research
**PHCHP stands for Punjab, Haryana, Chandigarh, Himachal Pradesh*

Further, if the company chooses to enter regional markets, it would be able to leverage its leadership position and brand value of the Hindi channel. However, there has been no guidance on part of the management on any channel scalability.

Owing to its strong presence and a viewership share of ~18%, Aaj Tak has been able to constantly take price hikes and dictate terms with advertisers. The company has seen an increase in inventory from 16 minutes to over 20 minutes as demand for advertisements rose in its platform. As of now, the company is maintaining its inventory at 18 minutes per hour. The advertisement revenue for TV Today has grown at 12.3% CAGR in FY12-14, with ad revenues increasing from ₹ 269.3 crore in FY12 to about ₹ 339.6 crore in FY14 primarily on account of an increase in yields. Going ahead, with the gradual recovery in economic activity and higher addressability of subscribers due to digitisation, the company is expected to register 16.4% ad growth in FY14-16E to reach ₹ 460.2 crore in FY16E.

The subscription revenue growth at 3.9% over FY12-14E has been lagging behind the growth in advertisement revenues over the same period. This may be due to the absence of a large bouquet of channels in comparison to its peers.

Exhibit 14: A la carte rates of various peer channels

A la carte	Non-DAS (₹)	DAS/DTH/HITS/IPTV (₹)
Aaj Tak	8.61	3.62
Headlines Today	3.69	1.55
Tez	2.46	1.04
ABP News	FTA	FTA
ABP Ananda	6.9	2.88
ABP Majha	10.58	4.44
NDTV 24x7	9.1	3.82
NDTV India	8.02	3.37
NDTV Good Times	9.63	4.04
CNN-IBN	5.35	2.25
Zee News	8.02	3.37
24 Ghante	6.42	2.7
Zee 24 Taas	9.09	3.82
Zee Marathi	8.56	3.6
Zee Punjabi	1.6	0.67
Zee MPCG	FTA	FTA
Zee Madhudhara	FTA	FTA
Zee Kalinga	FTA	FTA

Source: TRAI, ICICIdirect.com Research

Exhibit 15: Channel offerings from various companies in news segment

TV Today	Zee Media	NDTV	CNBC	MCCS
Aaj Tak	Zee News	NDTV 24x7	CNN-IBN	ABP News
Headlines Today	24 Ghante	NDTV India	IBN 7	ABP Ananda
Tez	Zee 24 Taas	NDTV Good Times	CNBC TV18	ABP Majha
Dilli Aaj Tak	Zee Marathi	NDTV Profit /Prime	CNBC Awaaz	
	Zee Punjabi	NDTV Lifestyle	IBN Lokmat	
	Zee MPCG			
	Zee Madhudhara			
	Zee Kalinga			
	Maurya TV			
	Zee Business			

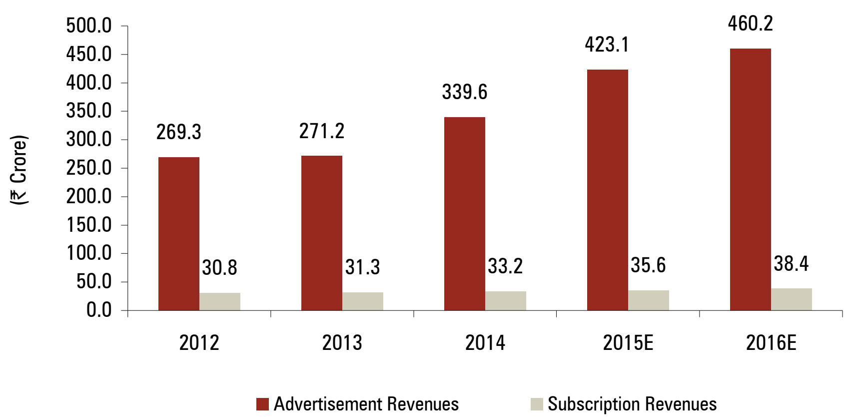
Source: Industry, ICICIdirect.com Research

Hence, the company's subscription revenue may continue to lag that of its peers unless it augments its regional presence. However, once the industry fully shifts to the cost per subscriber (CPS) model, TV Today is expected to witness an exponential growth in subscription revenue. Nonetheless, it will still take a while before higher subscription revenue starts accruing as digitisation is delayed further.

As for TV Today, subscription revenues have grown at a CAGR of 3.9% in FY12-14. Only two (Aaj Tak and Headlines Today) of its four channels have currently been monetised. We have not built substantial growth in subscription revenue due to lack of clarity on digitisation timelines.

We expect these revenue streams to benefit from the economic recovery and digitisation and, hence, witness 16.4% and 7.5% CAGR in advertisement and subscription revenues, respectively, in FY14-16E.

Exhibit 16: TV Today advertisement and subscription revenues



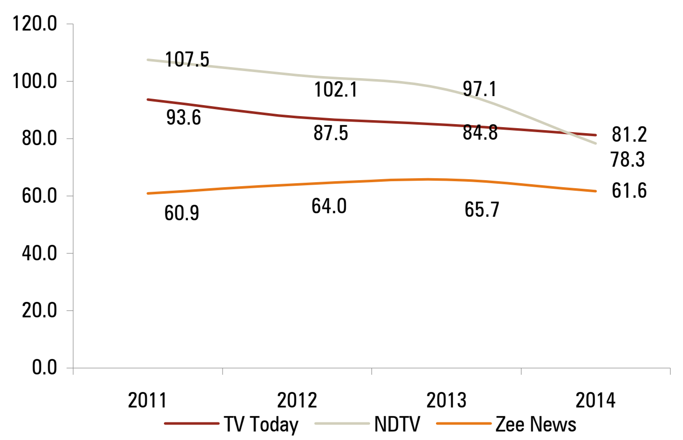
Source: Company, ICICIdirect.com Research

Our advertisement growth estimates are, however, subject to a downside risk in the event of implementation of the 12 minute Trai ad cap. Such an event will reduce the ad cap inventory by 33.3% and, hence, result in significant revenue losses. The companies will, however, try to pass on the impact of ad minute cap through an increase in ad rates but the extent of ad rates hike it will be able to pass on remains to be seen.

Operating leverage to kick in, carriage costs reduction - major EBITDA driver

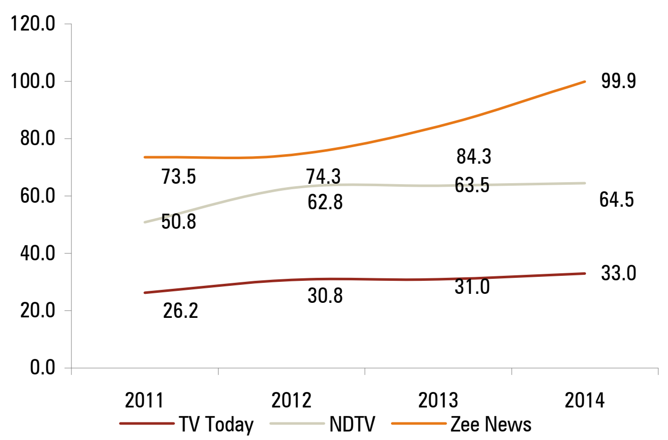
With digitisation, there has been an unprecedented increase in the channel carrying capacity of distributors with the total number of channels increasing from about 80 in analogue cable to over 1000 channels in digital. The increase in carrying capacity has brought about a reduction in carriage costs for all broadcasters. This reduction in carriage fees is critical for news broadcasters, as for them carriage payouts are significantly higher than subscription revenues. News broadcasters shell out about 25-30% of their total revenue in the form of carriage and placement fees. English news channels spend approximately 70% of their distribution costs as carriage in the metros and are yet to receive an equivalent benefit in terms of subscription from the metros.

Exhibit 17: Declining trend in distribution expenses



Source: Company, ICICIdirect.com Research

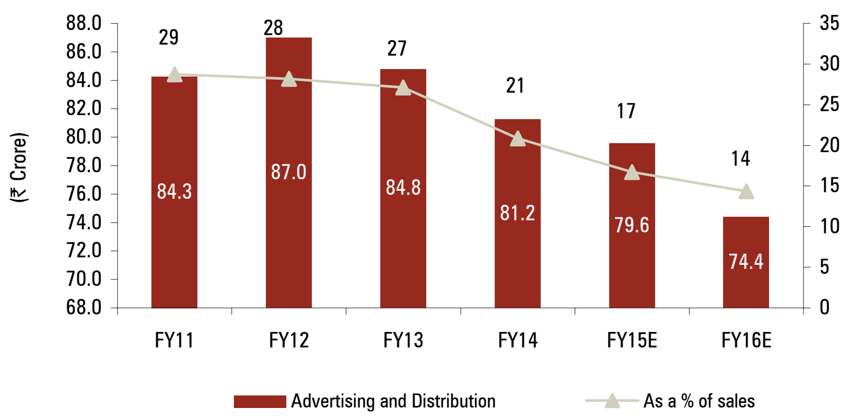
Exhibit 18: Increasing trend in subscription revenues



Source: Company, ICICIdirect.com Research

Hence, with further progress in digitisation, TV Today would benefit from the reduction in carriage costs and a subsequent increase in subscription revenues. Promotion and distribution expenses, which include the carriage cost, have been declining in absolute terms and have fallen from ₹ 87 crore in FY12 to ₹ 81.2 crore in FY14. Moreover, costs have also been reducing as a percentage of net sales, falling from ~28% in FY12 to about 22% in FY14. This reduction has been led primarily by a reduction in carriage costs. The management indicted that carriage costs have come down by ~10% in the last fiscal and would decline by a similar level in the near future. We, therefore, factor in a 4.3% CAGR decline over FY14-16E in this line of cost item.

Exhibit 19: Declining advertisement and distribution expense on account of lower carriage fees



Source: Company, ICICIdirect.com Research

Other channels - Delhi Aaj Tak, Headlines Today and Tez

Other channels such as *Delhi Aaj Tak*, *Tez* and *Headlines Today* form a very small part of TV Today's topline as of now. Some of them are free to air (FTA) channels and the company plans to gradually monetise all of them. *Headlines Today* saw a decline to 185 gross viewership in thousands (GVTs) after recording 218 GVTs in the first quarter of 2013. However, with digitisation and the weeding out of smaller channels, GVTs are again increasing. Even the channel *Delhi Aaj Tak*, which is a Delhi-centric channel, is gaining momentum. In the year gone by, with elections in the state of Delhi, *Delhi Aaj Tak* recorded weekly GVTs of 1410 in the January-March 2014 quarter, up from 1246 GVTs in the April-June 2013 quarter.

Radio business

In addition, Radio Today Broadcasting Ltd, a fellow subsidiary, merged with the company extending the presence of TV Today in the radio segment under the brand Oye 104.8 FM. The company has a presence in the six cities of Mumbai, Delhi, Kolkata, Amritsar, Jodhpur and Patiala.

However, the company has been unable to keep pace with its peers in the radio segment and has been experimenting with different formats. It started off as Meow 104.8 FM for women in 2007. However, since the strategy did not click with listeners, the company re-branded itself to Oye 104.8 FM based on the “filmy” format.

Radio’s current contribution to the overall revenues of the company is minuscule at 4%. Though the radio industry is expected to grow at 18.1% CAGR in FY13-18E from ₹ 1460 crore in FY13 to ₹ 3360 crore in FY16, TV Today’s performance may lag its peers owing to the smaller scale and lower market share. However, once the regulator allows the broadcast of live news on radio, Aaj Tak may be able to leverage its dominance in the Hindi news segment to offer differentiated content on radio. Moreover, the management has not highlighted any plans for the upcoming Phase III frequency auctions. We expect radio revenues to grow at 16% CAGR in FY14-16E to ₹ 20.7 crore from ₹ 15.4 crore.

TV Today enjoys trust of masses

News as a business has very unique dynamics, as news is largely non-proprietary and non-exclusive in nature. Moreover, news as a domain, creates a sizeable impact on the society by not only creating awareness but also influencing decisions and shaping opinions. Hence, it becomes imperative for news channel to be unbiased and disseminate authentic news. Trust becomes the most important parameter to judge the efficiency of a news channel. TV Today enjoys excellent brand loyalty and has emerged as the viewer’s choice news channel. There are larger players with deeper pockets such as Zee News, ABP News and ETV News. However, TV Today still continues to lead the major news channels in the Hindi space, owing to its credibility and quality.

Increasing mobile, broadband penetration to contribute to growth

India is likely to witness a data revolution in the coming future, which holds good for all content rich businesses. The delivery platforms would be amplified creating more demand for the content. Mobile wireless internet users (mobile + dongle) have already reached about 232.66 million users at the end of March 2014 and the number is expected to go up dramatically. Also, when compared to the global level, India imported the highest number of smart phones. With the launch of several OTT applications and mobile applications, people can conveniently watch videos on their cell phones. This opens up more avenues for the delivery of content. TV Today’s news would also reach such additional platforms, which would open up new avenues for revenue growth.

Risk & concerns

Twelve minute Trai ad cap implementation - big blow to revenues

Trai had mandated a 12 minute ad cap implementation on all broadcasters, including news channels. Almost all GECs have already curtailed their ad inventory to 12 minutes in an hour. However, since most of them operated with 14 minute ads per hour, the inventory loss was compensated with price hikes. However, news channels, being heavily dependent on ad revenues, have 18-24 minutes of ads per hour.

The News Broadcasting Association (NBA) had challenged this mandate and, currently, broadcasters are maintaining their ad inventory at 18-24 minutes per hour. Ruling in favour of the Trai ad cap could be a big blow to news channels. In such a scenario, the ad cap on news channels will reduce by nearly 30-50% and cause substantial advertisement losses.

Exhibit 20: Twelve minute ad cap

12 minute ad cap impact	Current Estimates Ad growth		Scenario Analysis- Ad rate Hike		
Ad rate/Slot hike	13%	13%	20%	30%	40%
Inventory	18	12	12	12	12
Ad revenues (FY16E)	460.2	321.5	338.6	363.0	387.5
EPS	20.0	9.9	11.3	13.3	15.4

Source: ICICIdirect.com Research

TV Today currently operates at 18 minutes of ad per hour and will have to reduce the inventory by 33% in this case. As per our analysis, even if the company takes an ad rate hike in the range of 20-40%, it may be unable to negate the impact of the reduced inventory. Moreover, the company needs to take an ad rate hike of ~63% to completely offset the impact of the ad cap, which remains completely improbable.

The NBA has a strong argument that since digitisation benefits are yet to accrue with phases III and IV yet to materialise, news channels have still not seen any commensurable growth in subscription revenue. With a possible delay in the digitisation deadlines, implementation of the ad cap may get further delayed. In addition, there could be some exceptions for news channels, owing to high dependency towards ad revenues. We have not factored in the 12 minute ad cap in our estimates currently.

Growth can be capped if there are no new launches; scalability a concern

TV Today has about 90% of its revenues from a single channel Aaj Tak. Revenue growth has primarily accrued from an increase in yield. However, in the hyper competitive landscape it may be difficult to sustain price hikes, which may limit the growth, going ahead. Moreover, the company does not have a presence in the regional space, which may hamper its bargaining power with media buyers. All major groups such as ABP (ABP Ananda), TV18 (ETV News) and Zee have already forayed into the regional markets with their news offering.

Reputation risk

News being non-proprietary in nature, the content is usually non-exclusive and the success of the news channel is based on the reputation and trust factor it enjoys. Though past cases of news anchors/channels colluding with corporates/politicians for paid news have not impacted those channels materially in the long run, reputation threat remains a constant risk to the business model.

Competition from other news channels

The Hindi news segment has seen the entry of several players in the past and Aaj Tak faces stiff competition from ABP News, Zee News, India News, etc. There are as many as 392 news and current affairs channels, from the total tally of 792 TV channels in the country. Any change in the viewership share of Aaj Tak could take a toll on its advertising revenues and, hence, would be a downside risk to our estimates.

Delay in digitisation

Though we have not estimated major growth in subscription revenue till FY16, the company stands to benefit immensely from complete digitisation wherein the net distribution income can turn positive. A further delay in digitisation could be detrimental to the company.

Financials

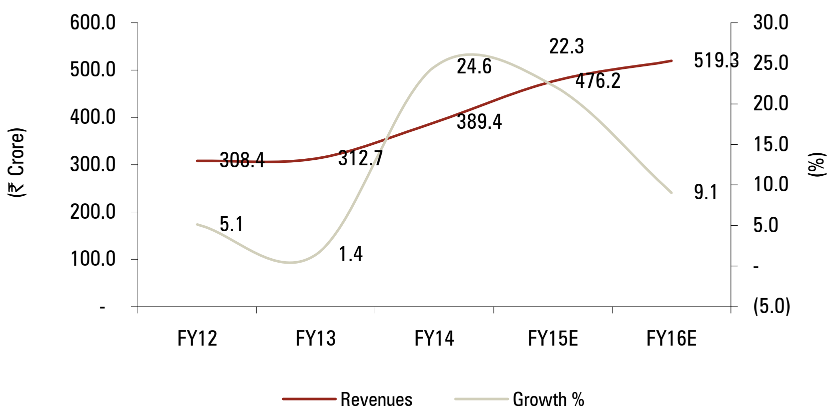
Revenue to grow at 15.5% CAGR in FY14-16E

TV Today posted 24.6% revenue growth in FY14, partly aided by higher government spending in an election year. Moreover, it already clocked 54.1% revenue growth in Q1FY15 on account of higher share of advertisement on news channels in the backdrop of general elections in May. As election euphoria has settled and the economy starts to turn around, we expect revenues to grow at a moderate pace and clock a CAGR (FY14-16E) of 15.5% to ₹ 519.3 crore.

Revenue growth would be primarily led by improving ad yields in the flagship channel coupled with improving utilisation in other channels. While advertisement revenues are expected to grow in tandem with the economy, subscription revenues would be directly correlated to the progress in digitisation. Advertisement revenues and subscription revenues are expected to grow at 16.4% and 7.5% to ₹ 460.2 crore and ₹ 38.4 crore in FY15E and FY16E, respectively.

The radio segment is also expected to grow at 26.5% CAGR over FY14-16E to reach ₹ 24.6 crore in FY16E from ₹ 15.4 crore in FY14. Moreover, the company also plans to participate in Phase III auctions and further augment its radio footprint. This extended presence would also drive its revenues, going ahead.

Exhibit 21: Revenue growth trend



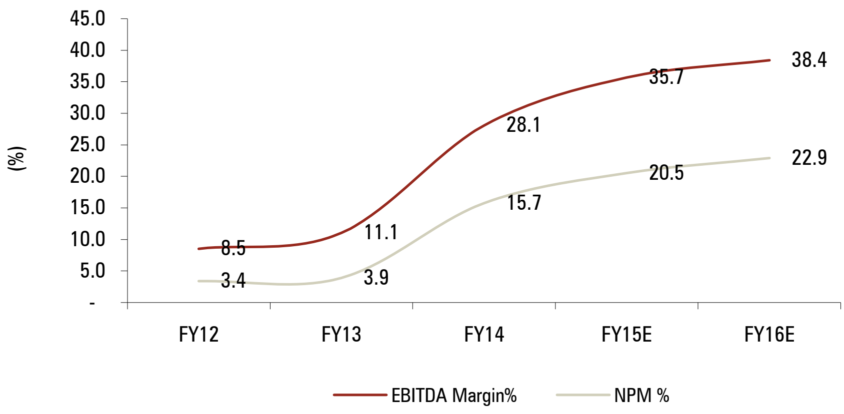
Source: Company, ICICIdirect.com Research

Higher operating leverage, costs mainly fixed in nature

Operating costs in the news broadcasting space are more or less fixed in nature, resulting in high operating leverage. Hence, a further increase in revenue would largely flow to EBITDA resulting in robust margin expansion. With revenue CAGR (FY14-16E) of 15.5%, EBITDA and PAT are expected to grow at 35.1% and 39.3%, respectively, over the same period. EBITDA margins are expected to reach 35.7% and 38.4% in FY15E and FY16E on account of 22.3% and 9.1% YoY revenue growth vs. only 9.4% and 4.4% cost escalation in FY15E and FY16E, respectively. In addition, the reduction in the carriage costs, which form about 20-25% of the total costs, would play a pivotal role in aiding margins.

The company is expected to be cash flow positive and, hence, would be able to fund its capex requirements internally. PAT margins, hence, are expected to reach 20.5% and 23.0% in FY15E and FY16E, respectively.

Exhibit 22: EBITDA and PAT margins trend

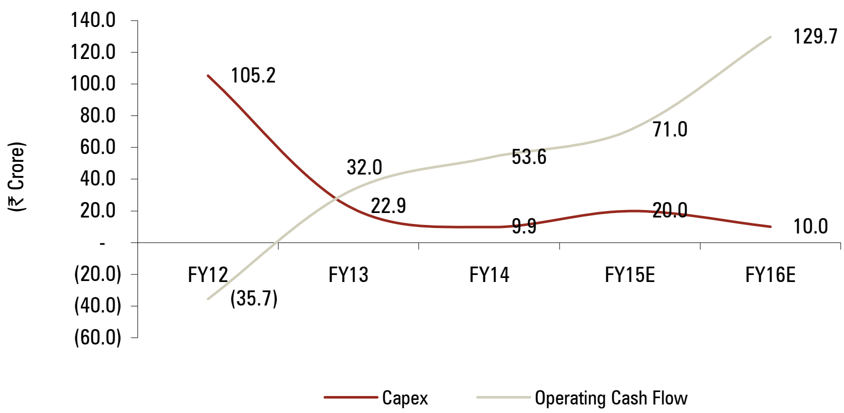


Source: Company, ICICIdirect.com Research

Low capex and huge operating cash flows

The capex has consistently remained low due to less capital intensive nature of the business. The stark rise in the capex in 2013 was due to the acquisition of the Noida facility through which the company currently operates. TV Today would be generating free cash flows of ₹ 71.0 crore and ₹ 129.7 crore in FY15E and FY16E, respectively, after meeting its capex requirement of ₹ 30.0 crore in the coming two years. The capex may be slightly higher than our expectations if there is aggressive bidding during phase III auctions by the company to enhance its radio footprint.

Exhibit 23: Capex and operating cash flows trend

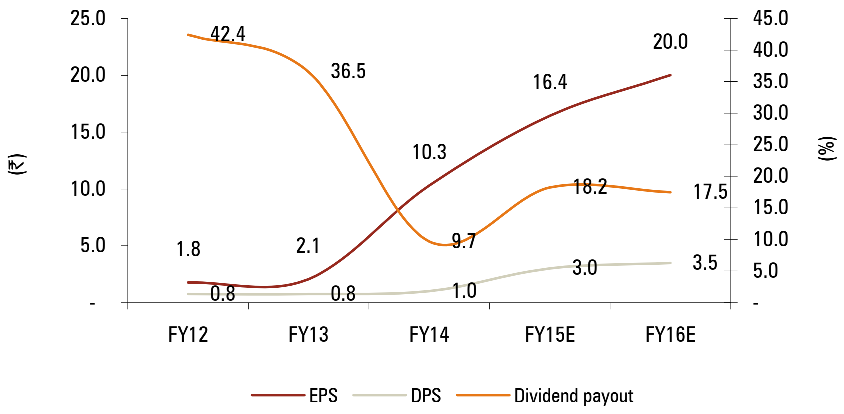


Source: Company, ICICIdirect.com Research

Dividend payout can be improved

The dividend payout by TV Today has ranged between 38% and 45% in FY11 to FY13, respectively. However, during this period, the EPS continued to tread in low single digits. Still, in FY14, the company improved its dividend to 20% at ₹ 1 per share from 16% at ₹ 0.8/share. Though this increased the absolute dividend payout, the dividend payout ratio has fallen to 9.7% as profits nearly quadrupled in FY14 from FY13 levels. Going ahead, we expect the management to increase the dividend payout as the company is free cash flow positive and has a low capex requirement.

Exhibit 24: Dividend payout and dividend yield

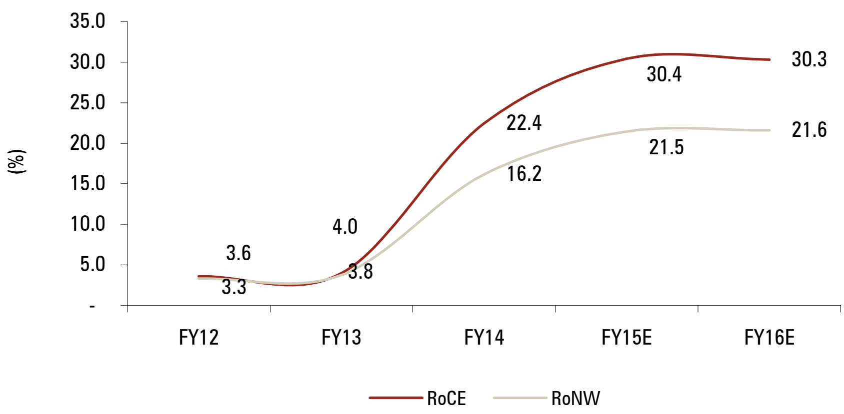


Source: Company, ICICIdirect.com Research

Return ratios to improve

FY14 has been an inflection point for the company with the company's profits nearly quadrupling from the year ago period. Consequent to this, the return ratios, RoCE and RoNW, have reached 22.4% and 16.2% in FY14 from 4.0% and 3.8% in FY13, respectively. Going ahead, with improving operating leverage and lower capex outlay, the return ratios are further expected to improve. We expect the RoCE and RoNW to reach 30.3% and 21.7%, respectively, in FY16. If the company pays higher than estimated dividend the return ratios may trend further northwards.

Exhibit 25: Return ratios



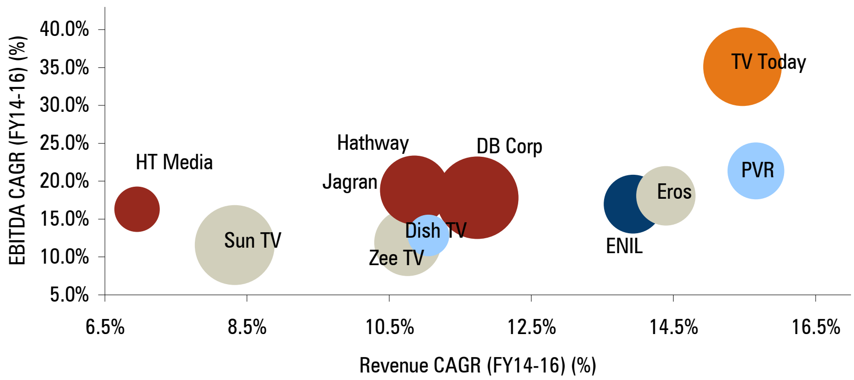
Source: Company, ICICIdirect.com Research

Valuation

TV Today's flagship channel Aaj Tak is the leading Hindi news channel commanding about 10.9% of the total TV news advertisement revenues. With improving economic activity, ad spends are set to rise, which would positively impact the earnings of the company. Benefiting from high operating leverage on account of largely fixed nature of operating cost, the company witnessed 103.9% and 141.5% CAGR (FY12-14) in EBITDA and PAT, respectively, even though revenue grew at 12.4% over the same period. Going ahead, as digitisation picks up, TV Today is expected to see a further decline in carriage cost, which forms 20-25% of the overall operating cost.

We expect revenues to grow at 15.5% CAGR in FY14-16E to ₹ 519.3 crore while EBITDA and PAT are expected to grow at 35.1% and 39.5% to ₹ 199.4 and ₹ 119.3 crore, respectively. TV Today has emerged as one of the strongest growth stories in the media sector with the highest return ratios (as represented by the size of the bubble) and is on the higher end of the spectrum as regards the future growth potential. Even among leading news players, TV today continues to enjoy best operating metrics.

Exhibit 26: Relative standing of TV Today



Source: Respective Companies, ICICIdirect.com Research

Exhibit 27: Relative standing of TV Today

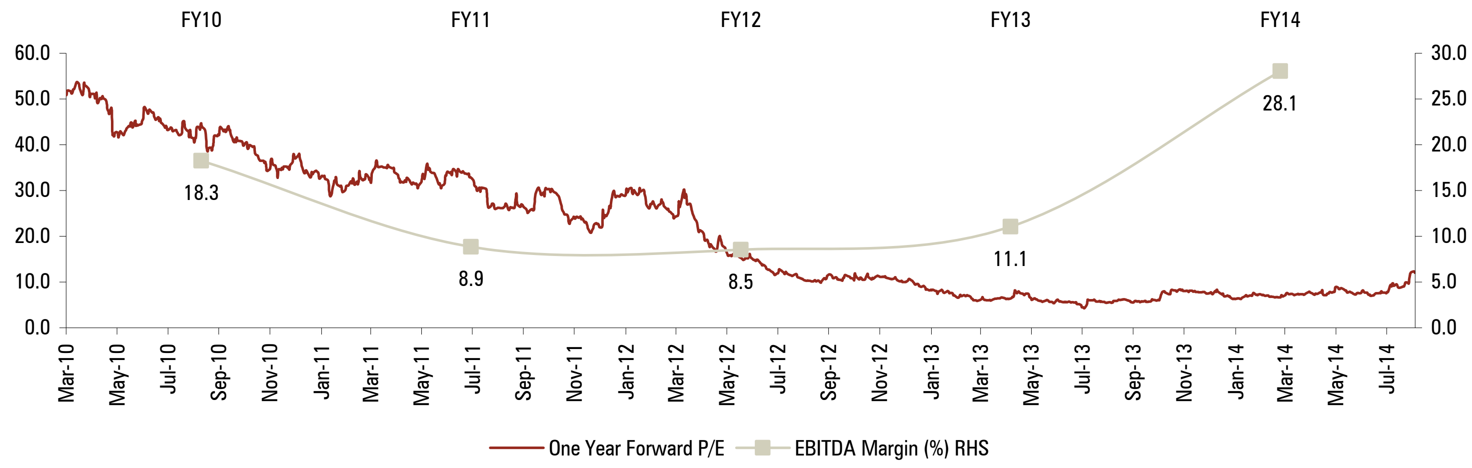
	TV Today			Zee Media			NDTV			MCCS		
₹ Crore	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Revenue	308.4	312.7	389.4	273.3	266.8	304.9	377.9	392.6	349.8	250.8	244.4	NA
EBITDA	26.3	34.6	109.3	23.6	29.6	22.2	-0.3	17.9	-23.5	22.9	-3.5	NA
EBITDA%	8.5%	11.1%	28.1%	8.6%	11.1%	7.3%	-0.1%	4.6%	-6.7%	9.1%	-1.4%	NA
PAT	10.5	12.2	61.3	6.2	24.3	18.8	-19.2	-20.3	-53.6	13.0	-26.1	NA
RoCE(%)	3.6	4.0	22.4	22.7	17.3	11.9	0.0	0.4	NA	27.2	-21.3	NA
P/E(x)	119.5	102.9	20.5	95.8	24.4	31.6	NA	NA	NA	NA	NA	NA
Mcap/Sales(x)	4.1	4.0	3.2	2.2	1.0	0.9	1.4	1.4	1.5	NA	NA	NA

Source: Capitaline, ICICIdirect.com Research

P/E based target share price of ₹ 300 per share

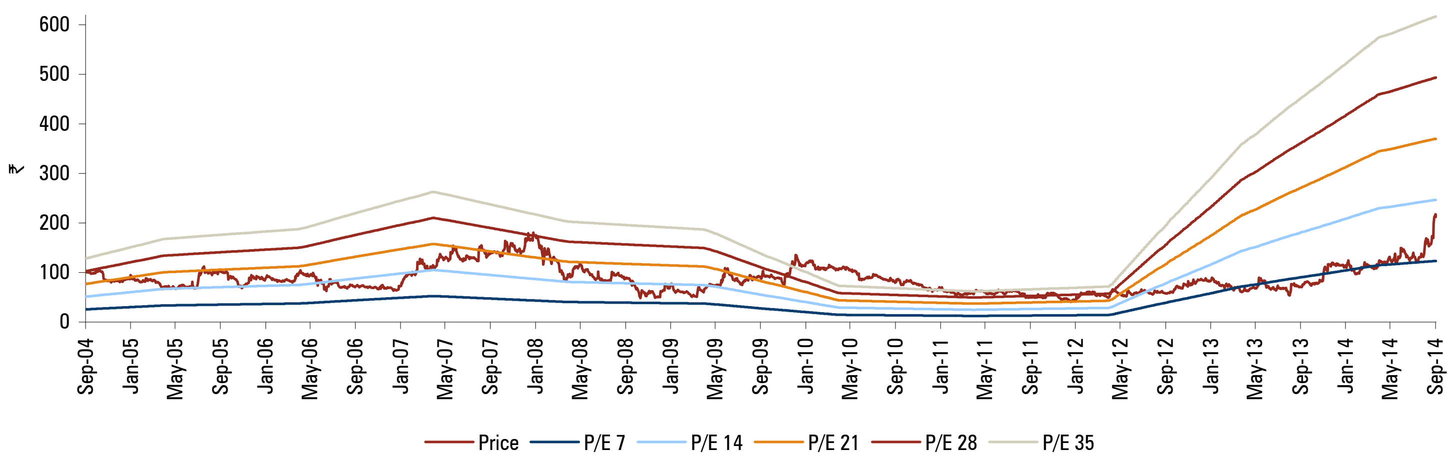
TV Today had been trading at an average ~18x one year forward P/E during economic upturn cycle in FY04-09. However, with sky rocketing carriage costs, the EBITDA margin almost halved from FY10 levels. With a dwindling operating performance, the multiples eventually got de-rated to as low as 7-9x. However, as the distribution cost has started to come down with digitisation, the EBITDA margin has also started to inch towards historical levels. We believe as the company realises further operating leverage, with 15.5% revenue CAGR (FY14-16E), EBITDA would grow 17.5%, recording an EBITDA margin of 38.4% in FY16E. Currently, TV Today is trading at ~10x FY16 EPS of ₹ 20.0. The stock has traded at an average one year forward multiple of 20.3x, over the last 10 years, which covers both high and low economic cycles. However, with the economy still in the earlier phase of revival, we value the company at 15x FY16E (25% discount to the 10 year average P/E) to arrive at a target price of ₹ 300. As the economy gets back on a high growth trajectory and the company's operating performance improves, we may see a further re-rating in the stock. We initiate coverage on TV Today with a **BUY** rating.

Exhibit 28: TV Today one year forward P/E and EBITDA margin trend



Source: Bloomberg, Company, ICICIdirect.com Research

Exhibit 29: TV Today one year forward P/E band over last 10 years



Source: Bloomberg, Company, ICICIdirect.com Research

Financial Summary

Exhibit 30: Income statement

(Year-end March)	FY13	FY14	FY15E	FY16E
Total operating Income	312.7	389.4	476.2	519.3
Growth (%)	1.4	24.6	22.3	9.1
Employee Expenses	93.1	93.0	102.7	111.5
Production Cost	39.0	40.8	49.1	50.9
Advertising and Promotion expenses	146.0	146.3	79.6	74.4
Administrative Expenses	0.0	0.0	75.1	83.1
Total Operating Expenditure	278.1	280.2	306.4	319.8
EBITDA	34.6	109.3	169.8	199.4
Growth (%)	31.6	216.0	55.4	17.5
Depreciation	21.0	24.2	31.0	32.6
Interest	3.3	3.6	2.0	2.0
Other Income	7.4	11.7	11.7	15.5
Exceptional Items	0.0	0.0	0.0	0.0
PBT	17.6	93.2	148.4	180.3
Minority Interest	0.0	0.0	0.0	0.0
PAT from Associates	0.0	0.0	0.0	0.0
Total Tax	5.4	31.9	50.6	61.3
PAT	12.2	61.3	97.8	119.0
Growth (%)	16.1	402.4	59.5	21.6
EPS (₹)	2.1	10.3	16.4	20.0

Source: Company, ICICIdirect.com Research

Exhibit 31: Balance sheet

(Year-end March)	FY13	FY14	FY15E	FY16E
Liabilities				
Equity Capital	29.7	29.7	29.7	29.7
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	294.9	349.3	426.3	520.9
Total Shareholders funds	324.6	379.1	456.0	550.7
Total Debt	17.3	0.0	0.0	0.0
Others	3.2	1.8	2.3	2.8
Total Liabilities	345.1	380.9	458.4	553.5
Assets				
Gross Block	382.6	393.7	413.7	423.7
Less: Acc Depreciation	160.8	178.6	209.7	242.3
Net Block	221.8	215.1	204.1	181.4
Capital WIP	9.6	1.9	1.9	1.9
Total Fixed Assets	231.3	217.0	206.0	183.3
Investments	45.7	45.7	45.7	45.7
Inventory	0.0	0.0	0.0	0.0
Debtors	93.9	110.3	141.5	154.5
Loans and Advances	55.1	46.6	56.9	62.1
Other Current Assets	0.6	0.7	0.8	0.9
Cash	31.1	57.0	105.1	208.4
Total Current Assets	180.7	214.6	304.3	425.9
Creditors	56.7	51.7	53.7	56.8
Provisions	17.0	18.5	17.2	16.6
Other current liabilities	65.2	47.6	48.2	50.0
Total Current Liabilities	139.0	117.7	119.1	123.5
Net Current Assets	41.8	96.9	185.2	302.4
Other non current assets	26.4	21.3	21.5	22.0
Application of Funds	345.1	380.9	458.4	553.5

Source: Company, ICICIdirect.com Research

Exhibit 32: Cash flow statement

(Year-end March)	FY13	FY14	FY15E	FY16E
Profit after Tax	12.2	61.3	97.8	119.0
Add: Depreciation	21.0	24.2	31.0	32.6
Add: Interest Paid	3.3	3.6	2.0	2.0
(Inc)/dec in Current Assets	-18.8	-8.0	-41.7	-18.2
Inc/(dec) in CL and Provisions	34.6	-21.2	1.4	4.3
Others	0.0	0.0	0.0	0.0
CF from operating activities	52.4	59.9	90.7	139.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-22.9	-9.9	-20.0	-10.0
Others	2.5	3.7	0.3	0.0
CF from investing activities	-20.4	-6.2	-19.7	-10.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-6.5	-17.3	0.0	0.0
Less:Interest Paid	-3.3	-3.6	-2.0	-2.0
Less: Dividend and dividend tax	-5.2	-7.0	-20.9	-24.4
Others	-0.1	0.1	0.0	0.0
CF from financing activities	-15.1	-27.7	-22.9	-26.4
Net Cash flow	16.9	25.9	48.0	103.3
Opening Cash	14.2	31.1	57.0	105.1
Closing Cash	31.1	57.0	105.1	208.4

Source: ICICIdirect.com Research

Exhibit 33: Ratio analysis

(Year-end March)	FY13	FY14	FY15E	FY16E
Per share data (₹)				
EPS	2.1	10.3	16.4	20.0
Cash EPS	5.6	14.4	21.7	25.5
BV	54.6	63.7	76.7	92.6
DPS	0.8	1.0	3.0	3.5
Cash Per Share	5.2	9.6	17.7	35.0
Operating Ratios (%)				
EBITDA Margin	11.1	28.1	35.7	38.4
PBT / Total Operating income	5.6	23.9	31.2	34.7
PAT Margin	3.9	15.7	20.5	22.9
Inventory days	0.0	0.0	0.0	0.0
Debtor days	109.6	103.4	108.6	108.6
Creditor days	66.2	48.4	41.2	39.9
Return Ratios (%)				
RoE	3.8	16.2	21.5	21.6
RoCE	4.0	22.4	30.4	30.3
RoIC	4.5	26.4	39.5	48.6
Valuation Ratios (x)				
P/E	102.9	20.5	12.8	10.6
EV / EBITDA	35.9	11.0	6.8	5.3
EV / Net Sales	4.0	3.1	2.4	2.0
Market Cap / Sales	4.0	3.2	2.6	2.4
Price to Book Value	3.9	3.3	2.8	2.3
Solvency Ratios				
Debt/EBITDA	0.5	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.3	1.8	2.6	3.4
Quick Ratio	1.3	1.8	2.6	3.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Media)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY14	EPS (₹) FY15E	EPS (₹) FY16E	P/E (x) FY14	P/E (x) FY15E	P/E (x) FY16E	EV/EBITDA (x) FY14	EV/EBITDA (x) FY15E	EV/EBITDA (x) FY16E	RoCE (%) FY14	RoCE (%) FY15E	RoCE (%) FY16E	RoE (%) FY14	RoE (%) FY15E	RoE (%) FY16E
DB Corp (DBCORP)	333	370	Buy	6,109	16.7	19.6	23.1	19.9	17.0	14.4	12.2	9.6	7.9	34.2	34.3	33.0	26.7	25.3	24.1
DISH TV (DISHTV)	54	61	Hold	5,772	-1.5	-0.6	0.6	NA	NA	87.3	10.8	10.5	8.2	2.5	0.5	16.7	50.4	16.7	NM
ENIL (ENTNET)	419	490	Hold	1,999	17.5	20.9	24.5	23.9	20.1	17.1	13.2	10.5	8.2	16.0	16.8	17.5	14.4	14.7	14.9
Eros (EROINT)	272	260	Buy	2,500	21.7	23.0	28.9	12.5	11.8	9.4	9.1	8.5	7.1	18.5	17.2	18.1	16.5	14.9	15.8
Hathway Cables (HATCAB)	276	320	Buy	4,194	-7.3	-5.5	-4.3	NM	NM	NM	17.5	14.7	12.5	0.1	2.3	3.5	NM	NM	NM
HT Media (HTMED)	108	104	Buy	2,528	8.9	9.5	10.4	12.1	11.3	10.4	6.4	4.4	3.1	9.8	9.8	10.6	11.9	11.2	10.9
Jagran Prakashan (JAGPRA)	123	130	Buy	3,903	7.3	8.4	10.0	17.0	14.8	12.4	10.8	8.3	6.6	21.3	23.1	23.7	23.5	21.4	20.3
PVR (PVRLIM)	681	780	Buy	2,703	13.6	18.7	27.1	NM	36.4	25.1	14.6	11.7	9.8	12.4	14.8	16.9	14.0	16.0	19.1
Sun TV (SUNTV)	364	445	Hold	14,329	19.0	20.2	23.5	19.2	18.0	15.5	8.9	8.1	6.9	31.9	30.7	32.4	23.5	22.9	24.2
TV18 (GLOBRO)	29	30	Sell	4,998	0.6	0.9	1.2	48.2	31.1	24.7	24.4	18.5	13.9	3.9	4.8	6.5	3.0	4.5	5.4
TV Today (TVTNET)	211	300	Buy	1,256	10.3	16.4	20.0	20.5	12.8	10.6	11.0	6.8	5.3	22.4	30.4	30.3	16.2	21.5	21.6
ZEE Ent. (ZEETEL)	283	304	Hold	27,195	9.3	9.4	11.3	30.5	30.0	25.2	21.7	20.4	16.9	24.3	22.2	22.7	18.8	16.7	17.2

Source: ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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