

Result Update

India Equity Research

Media

TRADING SELL
INR87/USD 1.8

BALAJI TELEFILMS

BLJT.IN

■ **Second quarter results in line with our expectations**

Balaji Telefilms' second quarter results are in line with our expectations. The company has reported a 23% sequential growth in turnover to INR 489.6 mn. The corresponding YoY growth has been 107%. Its realisations per hour have improved by 12.1% in the current quarter, while operating profits margins have improved from 39.9% to 50.9% YoY. The gains have been made primarily due to the continuous price hikes that Balaji has managed from both Star and Sony. In the last quarter, Star TV hiked content fees by 24% on four of Balaji's programmes. The company remains one of the strongest content providers of Hindi general entertainment programmes. We believe that it will achieve a 60% growth in turnover and double its net profits in FY03.

■ **Scalability remains an issue**

Our concerns, however, pertain to sustainability of earnings growth in FY04, given its dependence on 'Kyunki Saas..', 'Kahani Ghar Ghar Ki' and 'Kkusum'. These are suffering from viewer fatigue and stabilising TRPs. In the current year 41% of Balaji's turnover and 49% of its operating profits are expected to accrue from these programmes. We expect Balaji to replace all these soaps in FY04 (in a phased manner). Realisations from the new programmes are expected to be at least 50% lower than the current realisations. At this level, infact the realisations are 15% lower than the current operating profits accruing from these programmes. It will thus need to compensate on the production values of the newer programmes to sustain the current profitability levels.

■ **Star TV has successfully broadbased its content suppliers**

Balaji would need 11 hours of programming, six hours to replace the three programmes and another five hours of fresh programming to maintain FY03 earnings levels. We believe that it would be able to do so with its planned two new programmes for Star TV and a third programme for Sahara. Balaji's key client, Star TV, however, seems keen to broadbase its content suppliers and has also achieved reasonable success in this endeavour.

■ **Stock expected to continue to underperform in the short term**

We expect Balaji Telefilms' stock price to peak out before growth peaks out and recommend a 'Trading Sell'. We retain our belief in Balaji Telefilms' ability to generate quality programming across genres. Its relationships with the broadcasters and advertisers and its syndication and cost management abilities have made it a strong player in the television content business. We, however, believe that the stock is likely to underperform in the short term.

■ **Valuation**

The stock is trading at 7.6x FY03E earnings and 7.3x FY04E earnings. We estimate an EPS of INR 11.8 in FY03 on the back of 61% topline growth. We recommend a **Trading Sell** which implies 10-15% decline over the next 3-6 months.

Year to March	Revenue (INR) Mn	Growth %	Net Profit (INR) Mn	EPS (INR)	Growth %	P/E (x)	P/BV (x)	EV/EVEBITDA (x)	ROE %
FY02	1,102	124	285	5.2	545	16.3	11.7	13.3	43.6
FY03E	1,775	61	602	11.8	113	7.6	4.3	4.6	55.8
FY04E	1,935	9	632	12.3	3.9	7.3	3.1	4.2	40.1

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Analyst
Harrish Zaveri
91-22-286 4302
harrish@edelcap.com

Market Data		Returns (%)			Share Holding (%)		
52 Week Range:	INR 665/87	Months	3	6	12	Promoters	58
Shares in Issue:	10.3 mn	Company	(14)	(31)	85	FI/Banks/MF	10
Market Cap:	INR0.9bn/USD18.6mn	BSE Sensex	(6)	(13)	(1)	FIIIs	19
Avg. daily Vol. (000):	97.8	BSE Sensex	2966			Others	13

Rooshnil Securities Pvt Ltd
(An Edelweiss Capital Company)
1st Floor, Shalaka, 9 Maharshi Karve Marg,
Cooperage, Mumbai – 400 021
Board: (91-22) 2864400
Email: research@rooshnil.com

Edelweiss
Capital

PUBLIC MARKETS RESEARCH

Nilesh Shah – 2864210
Head - Broking
nilesh@edelcap.com

FMCG, Media & Insurance

Harrish Zaveri – 2864302
harrish@edelcap.com

Information Technology

Ajay Mathrani – 2864282
ajay@edelcap.com

Aashish Agarwal – 2864305
aashish@edelcap.com

Pharmaceuticals

Preethi Shukla – 2864307
preethi@edelcap.com

Telecom & Engineering

Srinivas Rao R – 2864301
srinivas@edelcap.com

PRIVATE MARKETS RESEARCH

Shriram Iyer – 2864256
Head – Research
shriram@edelcap.com

Business Process Outsourcing

Prasad Baji – 2864248
prasad@edelcap.com

Nitika Agarwal – 2864252
nitika@edelcap.com

Isha Kedia
isha@edelcap.com

Technology

George Mathew – 2864249
george@edelcap.com

Satyen Shah – 2864268
satyen@edelcap.com

Harshad Khachane – 2864259
harshad@edelcap.com

EQUITY SALES

Nischal Maheshwari – 2864205
nischal@edelcap.com

Nikhil Gholani – 2864201
nikhil@edelcap.com

Rajesh Makharia – 2864202
rajesh@edelcap.com

Rajesh Gandhi – 2864221
rajeshg@edelcap.com

Lavneesh Mohan – 2864270
lavneesh@edelcap.com

DERIVATIVES TEAM

Rujan Panjwani – 2864286
rujan@edelcap.com

Deepak Mittal – 2864250
deepak@edelcap.com

Vikas Khemani – 2864206
vikas@edelcap.com

Nikhil Johari – 2864281
nikhilj@edelcap.com

EDITORIAL TEAM

Editor

Alexander M. Arackal – 2864199
alexander@edelcap.com

Production

Sridhar B – 2864306
sridhar@edelcap.com

RATING INTERPRETATION

Value Buy	> 25% return over 12-18 months
Trading Buy	10% to 15% return over 3-4 months
Trading Sell	10% to 15% decline over 3-4 months
Value Sell	Over 25% decline over 12-18 months
Not Rated	Not covered by the analyst

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