

## The Week Gone By

Weekly Newsletter



### Parag's View

"Complexity is not a cause of confusion. It is a result of it."

In the wake of the subprime crisis that all unanimously agree has arisen from the quantitative complexities of derivatives like CDOs and CDO-squared that baffle CEOs from proper risk management, mesmerise institutional funds into blindly buying, and confuse regulators into despairing acquiescence, I think many more people would start to appreciate the beauty of simplicity.

The pinnacle of achieving simplicity will be the ability to reduce stock market behaviour and strategies to a series of equations that can be consistently applied to make money, but as I understand no academic has been able to achieve it yet. But in the absence of such a theory, it'll be good to develop a few mental frameworks to facilitate one's assessment of the overall market and the various sectors and how they will develop in the foreseeable future: a sort of guide on the direction of change, since absolute valuation is obviously not viable. In short, develop a framework to integrate various fundamental developments and then translate them into a sector- and stock-picking strategy that will best ride on your simplified reading of the future.

The idea of simplicity ties in with my views on mental focus. Without reducing the everyday noise to a series of indicators to focus on, decision-making can be fragmented and lack conviction. In fact, everyone can have different frameworks for decision-making (which is why I shall not try to impose any of mine here) and still succeed because there're so many roads to Rome ie. so many different ways of making money in the stock market.

I believe that if one learns to avoid the bad things, the good stuff will naturally come. Many people tend to venture into areas where retail investors with shallow pockets face no competitive strengths, partly out of curiosity, and for the more enterprising --- out of desire for more knowledge and to maximise profits. It's best to avoid when in doubt, though there might be exceptions.

Below are some of these "complicating" ventures that can prove stumbling-blocks, but may some times also be rewarding in case you understand them very well :

#### 1) Derivative instruments.

They are highly quantitative, and more than once have surprised punters with their behaviour (e.g. puts that go down when markets drop). Their time decay aspects are often overlooked as people often only look at the underlying asset aspect, with the result that one can often be fundamentally correct on the underlying asset while still losing money due to unfavourable short-term movements. It is an example of layering complexity on complexity: one needs to be sure about the underlying asset short-term characteristics, and then be sure of the derivative pricing quantitatives.

On the other end, there are derivative products, like long term options contracts on NIFTY which are also mis-priced and can be taken advantage of.

#### 2) Leverage.

If you feel your competitive strength is in understanding the true long-term strength of the company, why complicate it by applying leverage and implicitly betting that (a) this long-term strength will be recognised in the short-term and (b) your buy-in timing is spot-on and that the stock will not do a correction before reversing back upward?

#### 3) Short-selling.

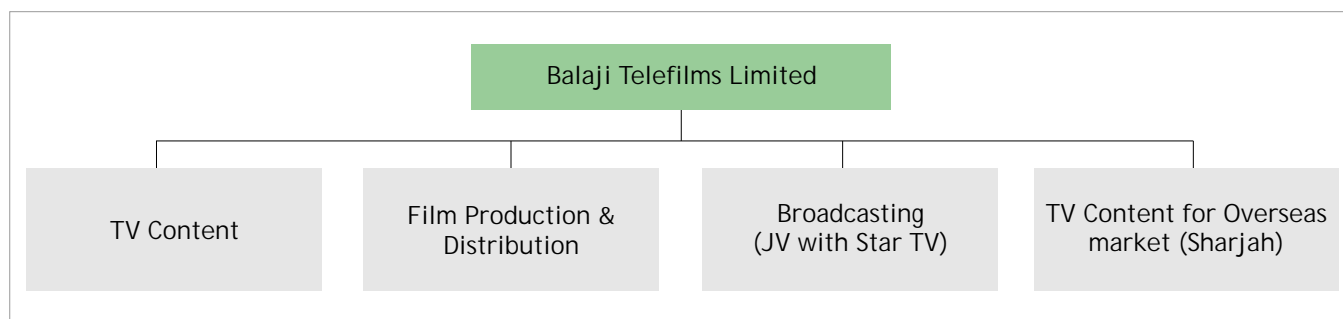
This stems from a desire to take advantage of market downtrend i.e. to continue to make consistent profits even as the market turns. In other words, it has a tendency to stem from greed. Again, leverage is involved, and one needs to understand the calculation of margin. For short-selling, if the position moves against you, it can be a double hit on the margin because numerator (equity) declines while denominator (total asset market value) rises (as opposed to buying on margin where while numerator declines, denominator will also decline). Always understand the risks and work out the possibilities.

Balaji Telefilms Limited

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Balaji Telefilms Limited (BTL) is one of the leading production houses in India and the largest fiction based TV content provider. The company provides content for channels like Star Plus, Zee TV, Sony TV, Doordarshan & regional channels like Gemini TV, Udaya TV, Surya TV & Sun TV, where the Hindi channels accounts for 90% of its revenues. BTL enjoys a leading market share in India's small screen content-providing business, where company's programmes enjoy the highest viewership on Prime Time & continue to appear in the list of top 50 on television.

### Business Mix



In addition to production for small screen Indian TV market, BTL has de-risked its business model by venturing into film production & distribution which it manages through its wholly owned subsidiary Balaji Motion Pictures Ltd. The company has produced movies like Kya Kool Hai Hum & Shootout at Lokhandwala in the past & plans to have 4-5 releases a year.

The company has also ventured into overseas market, providing TV content for UAE audience where the programme is aired in Middle East & Pakistan. The company manages its overseas operations through its wholly owned subsidiary in Sharjah - Balaji Telefilms FZE & also plans to foray into Indonesian market in the near future.

With an aim to start upstream operations in the chain, BTL has entered into a joint venture to create a leading regional TV network of general entertainment channels. As per the agreement, STAR TV would be responsible for the operations where as BTL would use its expertise to create content. This venture would provide BTL access to new regions, additional prime slots & reduce its dependence on Hindi GEC.

Language Mix								
Particulars	FY04		FY05		FY06		FY07	
	Revenues	PH	Revenues	PH	Revenues	PH	Revenues	PH
Hindi	1,462.0	834.0	1,676.6	976.0	2,361.6	1,085.0	2,927.0	1,061.0
Telugu	204.7	305.5	158.0	277.5	117.2	215.5	77.4	128.0
Kannada	112.1	346.0	83.0	298.0	117.5	424.0	80.8	360.0
Malayalam	0.0	0.0	29.9	112.0	58.7	258.5	42.5	173.0
Tamil	0.0	0.0	9.0	56.0	37.6	130.0	44.9	98.0
Total	1,778.8	1,485.5	1,956.5	1,719.5	2,692.6	2,113.0	3,172.6	1,820.0

## Business Model

BTL continues its focus on mass programming that accounts for 48% of the viewership & nearly 57% of total advertising revenues for channels. Within the segment, family-centric entertainment continues to be popular accounting for 79% of overall TRP's of top 150 shows. The company has a very successful track record within the space with serials like Kyuki Saas..., Kahani Ghar Ghar Ki, Kusum, etc to its credit which have become household names & running since 5 years now.

The company operates under 2 formats:

**Sponsored** - Under this format, BTL buys telecast slots from broadcasters for a fee and receives free commercial time (FCT) in return. Here, the company creates content and airs its programmes for free & sells FCT to advertisers. This is a variable revenue model where the entire risk is borne by BTL.

**Commissioned** - Under this format, the broadcasters buy content from BTL for a fee and earn revenues from advertisers. The company renegotiates its charges in line with the performance of the programme, which is measured by Television rating points (TRP's). Here the entire risk is borne by the broadcasters.

Operations				
Particulars	FY04	FY05	FY06	FY07
Sponsored (hours)	667	789	1045	759
Commissioned (hours)	819	931	1067	1061
Total Programming Hours	1486	1719	2115	1820

## Key Drivers

- Indian TV Industry projected to grow at 22% CAGR over the next 5 years to reach Rs. 600bn from present size of Rs. 226bn
- Undisputed leader in the TV content provider space. This has reduced the bargaining power of broadcasters as BTL has many alternatives & can dictate terms to channels
- With over 25 channels waiting to be launched, mainly in the General entertainment space, demand for content would rise.
- Upstream integration in broadcasting & lateral diversification into film production to de-risk the business model & open up alternative revenue streams.
- Estimates of TV's ad-pie share to increase to Rs. 200bn by 2012 from current Rs. 80bn shows the bullishness & demand for quality content providers
- As number of TV households & C&S subscribers rise with launches of DTH, IPTV & CAS implementation, the audience base would widen & more people would migrate toward pay TV. BTL programmes enjoy high viewership and channels earn maximum advertisement revenues from its shows. Here BTL would benefit from both, being a broadcaster & a content supplier

## Key Risks

- Limited hours for prime time slot.
- With low barriers to entry in the industry, many production houses have mushroomed of late. Though BTL is a leader, it has to face competition from other production houses who compete for prime slots & have innovative content.

- Balaji has been successful with family centric soaps in the past. However, a new trend of reality shows has been emerging off late where broadcasters are garnering higher revenues & daily soaps are loosing TRP's.
- Niche channels for genres like sports, cartoon & music are coming up which are gaining viewership & revenues. A survey conducted recently highlighted the drop in TRP's for daily soaps on account of ongoing IPL cricket matches which are broadcasted from 8 pm - 11.30 pm, the prime time slot.
- Unpredictable taste of audience.
- Poaching of actors, directors & creative team common in the industry.  
Star-Balaji's regional channels to face stiff competition from Zee News which has 7 regional general entertainment channels already operational.
- Other entertainment platforms like multiplexes, disco's & lounges, theme parks & vacation can pull the viewer away from the television, which can affect the ratings.

## Our Take

Inspite of all the above mentioned risk's prevailing since a long time, BTL has been able to maintain its uno position. All of its programmes continue to top the list & enjoy high TRP's. On the financial side, key positives for BTL would be its EBIDTA & PAT margins which are as high as 36% & 22% respectively since 4 years. In addition to this, the company has zero debt as on date. The company has now ventured into movie production, regional broadcasting & overseas market which would de-risk its business model, open up alternative revenue streams & bring in scalability. At CMP of Rs173, BTL is trading at 13x its TTM earnings. We are positive in this counter.

## Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	799.7	779.5	2.60%	850.3	-5.95%	2,324.5	2,400.8	-3.18%
Total Expenditure	533.9	449.0	18.91%	509.3	4.83%	1,433.2	1,509.4	-5.04%
Operating Profit	265.8	330.5	-19.57%	341.0	-22.06%	891.3	891.5	-0.02%
OPM (%)	33.23%	42.39%	-21.61%	40.10%	-17.13%	38.34%	37.13%	3.26%
Other Income	36.9	64.3	-42.64%	12.8	188.87%	125.5	57.1	119.93%
EBITDA	302.6	394.7	-23.33%	353.8	-14.45%	1,016.8	948.5	7.19%
Depreciation	29.8	30.7	-3.03%	29.1	2.20%	93.0	84.5	10.09%
EBIT	272.9	364.0	-25.04%	324.6	-15.94%	923.8	864.1	6.91%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	272.9	364.0	-25.04%	324.6	-15.94%	923.8	864.0	6.92%
Tax	84.7	101.3	-16.35%	106.2	-20.25%	288.4	278.9	3.43%
PAT	188.2	262.8	-28.39%	218.4	-13.85%	635.3	585.2	8.57%
Equity Capital	130.4	130.4		130.4		130.4	130.4	
EPS	2.9	4.0	-28.39%	3.35	-13.85%	9.7	9.0	8.57%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(bps)	Q307	Y-Y(bps)	9M08	9M07	Y-Y(bps)
OPM (%)	33.23%	42.39%	(916.0)	40.10%	(686.8)	38.34%	37.13%	121.0
EBITDA (%)	37.84%	50.64%	(1,279.5)	41.60%	(375.9)	43.74%	39.51%	423.2
EBIT (%)	34.12%	46.70%	(1,257.9)	38.18%	(405.6)	39.74%	35.99%	375.0
PAT (%)	23.53%	33.71%	(1,018.0)	25.69%	(215.7)	27.33%	24.37%	295.9

## Balaji Telefilms Limited - Financials

Earnings Statement				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Total Revenues	1,783.0	1,967.5	2,803.7	3,202.2
- Growth (%)		10.35%	42.50%	14.21%
Total Expenditure	915.4	1,293.9	1,867.1	2,007.6
Operating Profit	867.6	673.5	936.6	1,194.5
Other Income	61.5	49.4	86.9	94.4
EBITDA	929.1	723.0	1,023.6	1,288.9
Depreciation	77.4	97.4	143.3	112.9
EBIT	851.7	625.5	880.3	1,176.1
Interest	0.2	1.9	0.5	0.0
PBT	851.5	623.7	879.8	1,176.0
Tax	297.8	208.6	283.4	381.0
PAT Before EI	553.7	415.1	596.4	795.1
- Growth (%)		-25.04%	43.69%	33.30%
Extra-ordinary Items	0.0	0.0	0.0	0.0
PAT	553.7	415.1	596.4	795.1

Ratio Analysis				
Particulars	FY04	FY05	FY06	FY07
OPM (%)	48.7%	34.2%	33.4%	37.3%
EBITDA (%)	52.1%	36.7%	36.5%	40.3%
PBIT (%)	47.8%	31.8%	31.4%	36.7%
PAT (%)	31.1%	21.1%	21.3%	24.8%
Interest Cover (x)	3,639.9	336.7	1,897.2	28,001.6
EPS (Rs.)	10.7	6.4	9.1	12.2
P/E (x)	16.1	27.2	18.9	14.2
P/BV (x)	6.2	5.3	4.5	3.7
BVPS (Rs.)	28.0	32.7	38.4	46.6
Market Cap (Rs. Mn.)	8,912.4	11,281.4	11,281.4	11,281.4
M Cap/Sales (x)	5.0	5.7	4.0	3.5
EV (Rs. Mn.)	8,901.8	11,251.4	11,219.1	11,202.7
EV/EBITDA (x)	9.6	15.6	11.0	8.7
EV/Sales (x)	5.0	5.7	4.0	3.5
ROCE (%)	56.8%	28.6%	34.5%	38.1%
RONW (%)	38.4%	19.5%	23.8%	26.2%
Inventory T/o Days	14.9	44.3	15.1	14.3
Debtors T/o Days	83.2	99.2	95.9	79.3
Advances T/o Days	24.7	32.4	22.2	41.5
Creditors T/o Days	27.1	52.5	44.7	42.4
Working Cap T/o Days	85.0	128.6	66.8	99.6
Fixed Assets T/o (Gross)	4.1	3.5	4.2	4.1
DPS (Rs.)	3.0	12.6	3.0	3.5
Dividend Payout (%)	27.9%	198.6%	32.8%	28.7%
Dividend Yield (%)	1.7%	7.3%	1.7%	2.0%

Balance Sheet				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Equity Capital	103.0	130.4	130.4	130.4
Preference Share Capital	0.0	0.0	0.0	0.0
ESOP Outstanding	0.0	0.0	0.0	0.0
Reserves	1,340.8	2,000.9	2,374.3	2,909.4
Shareholders Funds	1,443.8	2,131.3	2,504.7	3,039.9
Deferred Tax Liability	55.5	57.7	45.7	47.7
Total Liabilities	1,499.3	2,189.0	2,550.4	3,087.6
Fixed Assets	324.3	358.4	413.3	443.3
Investments	760.0	1,137.5	1,623.9	1,770.7
Current Assets				
Inventory	72.8	238.7	116.2	125.4
Sundry Debtors	406.5	535.0	737.0	695.9
Loans & Advances	120.7	174.5	170.5	364.3
Cash & Bank Balance	10.5	30.0	62.3	78.7
Current Liabilities				
Sundry Creditors	132.2	283.2	343.4	372.3
Provisions	63.3	1.9	229.3	18.3
Net Current Assets	415.1	693.1	513.2	873.6
Total Assets	1,499.3	2,189.0	2,550.4	3,087.6

Cash Flow				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Opening Cash & Bank	12.6	10.5	30.0	62.3
Profit After Tax	553.7	415.1	596.4	795.1
Invnt Income	(61.5)	(49.4)	(86.9)	(94.4)
Interest Paid	0.2	1.9	0.5	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
Depreciation	77.4	97.4	143.3	112.9
Deferred Taxation	25.2	2.1	(11.9)	2.0
Others	(105.9)	1,200.2	(49.2)	(38.0)
Change in Working Cap	(63.9)	(258.5)	212.2	(344.0)
CF - Operating Activities	425.2	1,408.7	804.3	433.6
Change in Fixed Assets	(109.5)	(127.3)	(149.0)	(104.4)
Change in Investments	(218.1)	(377.5)	(486.4)	(146.8)
Investment Income	61.5	49.4	86.9	94.4
CF - Investing Activities	(266.1)	(455.4)	(548.5)	(156.9)
Increase in Equity	0.0	0.0	0.0	0.0
Changes in Borrowings	13.4	0.0	0.0	0.0
Interest Paid	(0.2)	(1.9)	(0.5)	(0.0)
Dividend Paid	(174.4)	(932.0)	(223.1)	(260.3)
CF - Financing Activities	(161.2)	(933.8)	(223.5)	(260.4)
Net Change in Cash	(2.1)	19.5	32.3	16.4
Closing Cash & Bank Bal	10.5	30.0	62.3	78.7

## Local Equity Market

INDICES	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
Sensex	17,125.98	16,481.20	3.91	16,015.56	6.93
Nifty	5,111.70	4,958.40	3.09	4,830.25	5.83
CNX Nifty Junior	8,963.80	8,573.35	4.55	7,979.80	12.33
S&P CNX500	4,162.55	4,027.90	3.34	3,862.25	7.78
CNX Midcap 200	6,849.45	6,691.30	2.36	6,137.90	11.59
CNX IT	4,165.60	4,304.20	(3.22)	3,735.10	11.53

## International Equity Market

INDICES	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
DJIA	12,891.86	12,849.36	0.33	12,302.46	4.79
Nasdaq	2,422.93	2,402.97	0.83	2,280.83	6.23
S&P 500	1,397.84	1,390.33	0.54	1,325.76	5.44
FTSE 100	6,091.40	6,056.50	0.58	5,717.50	6.54
Nikkei 225	13,863.47	13,476.45	2.87	12,604.58	9.99
Hang Seng	25,516.78	24,197.78	5.45	22,664.22	12.59
HSCEI	14,221.62	12,675.43	12.20	11,828.84	20.23

## MSCI Indices

MSCI Indices	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
The World Index	1,514.52	1,504.56	0.66	1,435.62	5.50
Emerging Market	1,189.01	1,175.85	1.12	1,112.76	6.85
EM Asia	475.20	459.96	3.31	445.27	6.72
EM India	539.28	522.26	3.26	515.26	4.66

## Commodities

Commodities	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
GOLD (\$/oz)	886.30	917.09	(3.36)	947.20	(6.43)
SILVER (\$/oz)	16.88	17.87	(5.51)	18.44	(8.44)
ALUMINIUM (\$/t)	2,995.00	3,075.00	(2.60)	3,030.00	(1.16)
COPPER (\$/t)	8,575.00	8,570.00	0.06	8,505.00	0.82
CRUDE - BRENT (\$/bbl)	116.34	113.92	2.12	104.78	11.03
CRUDE - WTI (\$/bbl)	118.52	116.16	2.03	106.59	11.19

## Transportation

Commodities	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
World SCALE	160.00	130.00	23.08	137.50	16.36
BALTIC FREIGHT INDEX	9,329.00	8,203.00	13.73	7,884.00	18.33

## Forex

FOREX	26-Apr-08	Week Ago	% Chng	Month Ago	% Chng
USD	40.15	39.85	0.74	40.10	0.12
GBP	79.71	79.61	0.13	80.44	(0.91)
EURO	62.74	63.03	(0.45)	63.23	(0.78)
YEN	38.44	38.44	-	40.22	(4.43)

## Global Listings

Scripts	24-Apr-08	Week Chng	Month Chng	Premium/Discount	Share per ADR/GDR
Infosys ADR	43.12	0.09	16.34	2.78%	1
Wipro ADR	12.77	2.74	10.29	9.93%	1
ICICI Bank ADR	47.20	11.90	3.66	3.47%	2
Satyam ADR	24.61	(6.39)	10.37	11.08%	2
HDFC Bank ADR	114.88	9.06	3.53	2.46%	3
MTNL ADR	5.63	6.63	4.97	0.32%	2
Dr. Reddy ADR	15.63	1.10	7.89	1.77%	1
Reliance GDR	133.00	(1.12)	17.47	1.72%	2
ITC GDR	5.18	(3.00)	11.48	-2.32%	1
Ranbaxy GDR	11.99	(0.66)	8.25	0.48%	1
L & T GDR	76.20	9.48	(8.78)	2.59%	1

## Top Gainers &amp; Losers of the Week

Top Gainers	Apr 26, 08	% Chng
E.I.D. Parry (India) Ltd.	256.05	41.97
Reliance Industrial Infrastructure Ltd.	1,336.90	27.64
Dwarikesh Sugar Industrial Ltd.	69.15	25.39
Blue Dart Express Ltd.	655.30	24.07
Hindustan Sanitaryware & Industries Ltd.	62.75	23.04
Archies Ltd.	113.75	22.51
Taj GVK Hotels & Resorts Ltd.	148.45	20.84
Mirc Electronics Ltd.	21.80	20.44

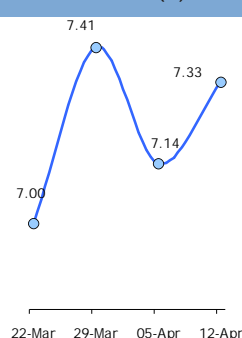
  

Top Losers	Apr 26, 08	% Chng
Orchid Chemicals & Pharmaceuticals Ltd.	234.85	(16.13)
Elgitread (India) Ltd.	22.75	(12.84)
Tech Mahindra Ltd.	812.55	(12.77)
Tata Consultancy Services Ltd.	889.30	(11.15)
Patni Computer Systems Ltd.	250.30	(10.37)
S. Kumars Nationwide Ltd.	103.55	(9.52)
Finolex Cables Ltd.	69.00	(7.88)
CMC Ltd.	792.30	(7.82)

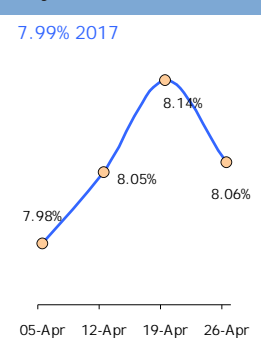
## Sectoral Performance

Sectors	Week	Month	3 Months
Sugar	12.74	26.91	0.75
Diversified	9.27	19.47	(9.56)
Hotels	8.66	18.72	(4.65)
Solvent Extraction	8.62	19.67	(16.08)
Consumer Durables	8.52	26.20	(24.49)
Engineering	7.81	20.60	(17.55)
Steel And Steel Products	6.83	13.33	(11.82)
Castings/Forgings	6.61	27.07	(6.88)
Telecommunication - Services	6.38	10.99	(7.43)
Shipping	5.90	18.20	(4.29)
Financial Institution	5.84	8.31	(19.67)
Chemicals - Speciality	5.65	21.79	(5.58)
Fertilisers	5.58	35.23	(0.07)
Compressors / Pumps	4.94	17.89	(7.75)
Diesel Engines	4.93	13.83	(15.06)
Airconditioners	4.90	7.31	(9.23)
Construction	4.36	9.92	(21.22)
Textile Products	4.25	19.44	(10.41)
Finance - Housing	4.18	8.21	0.95
Textiles - Synthetic	4.12	23.91	(13.95)

## Inflation (%)



## 10 year G-Sec Bond Yield



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