

Balaji Telefilms (BALTEL)

₹ 103

Betting on digital play...

We met the management of Balaji Telefilms (BTL) to get a deeper insight into its strategies for coming years. BTL is one of the leading production houses that distributes content to general entertainment channels (GEC) and is also coming out with niche content for its OTT offering Alt Digital.

Recently launched Alt Digital; remains focus area

Balaji recently launched its OTT platform called Alt Digital, which would be offering 250 hours of annual original programming across genres and undertaking a capex of ₹ 300 crore towards content for the coming three years. The content would be designed with primary focus on top 50 cities with an aim to tap the urban and suburban population. The management is targeting a million subscribers by year end and ~4-5 million subscribers by 2020. The platform is based on a subscription based model with pricing at ₹ 90 per month (pm) while introductory pricing is at an attractive ₹ 300 for a year. The pricing is much lower compared to ₹ 500 pm by Netflix & ₹ 499 per year by Amazon Prime. Further, Alt Balaji can be streamed simultaneously on five devices and entails entertainment for the entire family at a single cost.

Balaji certainly has an edge over competitors such as Amazon Prime & Netflix with regard to original India based content owing to its rich lineage of home based content to TV for the last two decades. Content distribution from the OTT platform will help it to own the content IP as well the consumer. However, monetisation of content, based on popularity of the shows, could be a challenge given the availability of several other free (advertisement based) niche OTT players.

Healthy show line-up for TV production; scaling down movie business

The company has been providing premium content to leading GECs such as Star Plus, Zee TV, etc for an average realisation of ~₹ 25 lakh per hour of content. The company is currently running ~eight to 10 shows on TV and earns ~16-17% EBITDA margin from the segment. BTL expects sustainable growth from the segment. On the movie production business, the company intends to scale down given the relatively higher risk and the company's limited success in the field.

Digital business performance to remain key monitorable

Balaji is aggressively investing in its digital platform (~₹ 165 crore/year towards content, marketing & other expense over next three years) to be funded by a mix of internal accruals & external funding. We wait to see investments bear fruit in an era of hyper competition (major global OTT players such as Netflix, Amazon along with domestic broadcasters betting big) and a huge plethora of free content available across platforms.

Exhibit 1: Key Financials

₹ crore	FY12	FY13	FY14	FY15	FY16
Net Sales	187.8	186.0	407.5	346.5	292.8
EBITDA	(0.4)	8.0	(21.8)	6.1	5.9
PAT	20.4	14.6	-17.2	5.6	2.7
EPS (₹)	3.1	2.2	(2.6)	0.9	0.4
P/E (x)	33	46	NA	119	277
Price / Book (x)	2.0	1.9	2.0	2.0	1.5
EV/EBITDA (x)	-1,880.1	95.9	-35.4	127.0	129.8
RoCE (%)	(1.9)	0.0	(7.3)	(0.6)	(0.7)
RoE (%)	5.2	3.6	-4.5	1.5	0.5

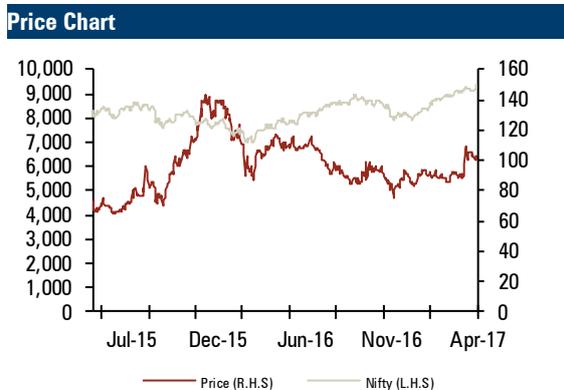
Source: Company, Capitaline, ICICIdirect.com Research

Rating matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key financials				
₹ Crore	FY14	FY15	FY16	9MFY17
Net Sales	407.5	346.5	292.8	262.9
EBITDA	(21.8)	6.1	5.9	(23.7)
Net Profit	(17.2)	5.6	2.7	(30.1)
EPS (₹)	(2.6)	0.9	0.4	(4.0)

Valuation summary				
(x)	FY13	FY14	FY15	FY16
P/E	45.9	NA	119.0	277.1
EV / EBITDA	95.9	(35.4)	127.0	129.8
P/BV	1.9	2.0	2.0	1.5
RoCE (%)	0.0	(7.3)	(0.6)	(0.7)
RoNW (%)	3.6	(4.5)	1.5	0.5

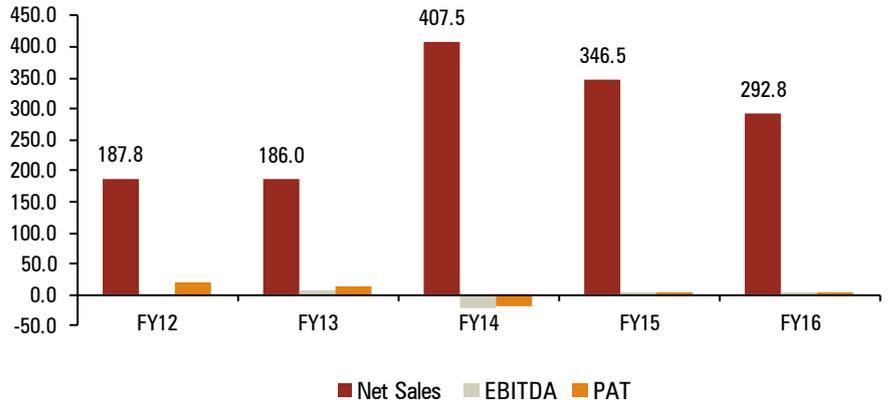
Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	778.7
Total Debt (FY16) (₹ Crore)	-
Cash (FY16) (₹ Crore)	17.3
EV (₹ Crore)	761.4
52 week H/L	120 / 73
Equity capital (₹ crore)	15.2
Face value	2.0



Research Analysts

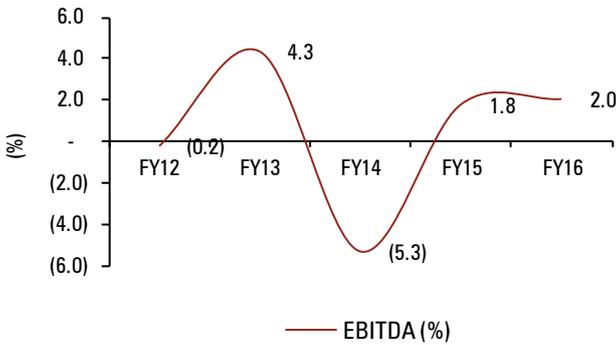
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Exhibit 2: Key Financials



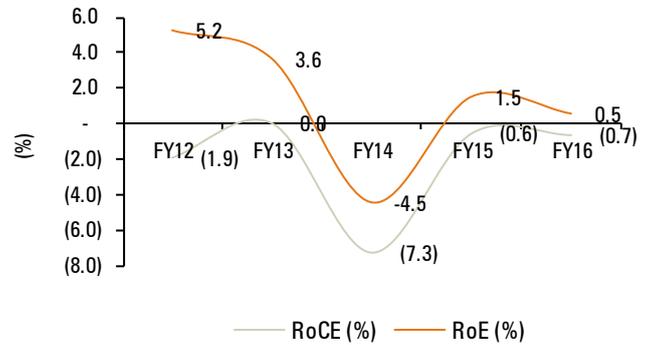
Source: Company, ICICIdirect.com Research

Exhibit 3: Operating margins trend



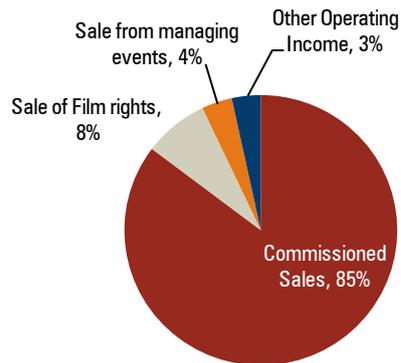
Source: Capitaline, ICICIdirect.com Research

Exhibit 4: Return ratios trend



Source: Capitaline, ICICIdirect.com Research

Exhibit 5: Revenue break-up (FY16)



Source: FY16 Annual report, ICICIdirect.com Research

The company derives majority of its revenues from the sale of commissioned programming and earned ₹ 249.6 crore from the segment in FY16. The segment is a steady business and would continue to witness mid to high teens growth based on the number of shows and realisations earned.

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