

## Balaji Telefilms

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Market Performer

Rs87.95

### Stellar sequential growth yet again

#### Delivers Rs153mn as net profits

Balaji Telefilms has recorded a stellar sequential growth for yet another quarter. Revenues have spiked 23% in Q2FY03 to Rs489.6mn, while net profits have grown 20.5% to Rs152.8mn. Net profit is marginally better than our estimated Rs147mn for Q2FY03. However, operating margins have fallen for the first time. They have contracted to 51% in Q2FY03 from 53.5% in Q1FY03. Balaji's operating margins have expanded from over 15% in FY01 to a peak of 53.5% in Q1FY03 on the back of growing exposure to commissioned programming and improving realisations therein. The share of commissioned programming currently stands at 90%.

Currently, no programme accounts for 15% of Balaji's revenues. Programmes older than 18 months are contributing 42% of television ratings on satellite channels. We see a significant risk to earnings from decline of viewership in the coming months (like was recently seen in case of *Kkusum* and *Kutumb*, both on Sony TV). However, the company believes that it would be able to maintain its ratings and turn higher realisation for its older programs by adapting the content to changing viewer taste.

Revenue growth rates would also slow down, as incremental volume growth would not significantly contribute to topline and increased realisation from existing programmes would be difficult to come by. Though we don't see any problems for the company achieving our estimated Rs1.74bn in revenues and Rs548mn in net profits for the current year, we see growth rates slowing down to less than 20% in FY04 to Rs2.09bn in revenues and Rs656mn in net profits.

We retain our **Market Performer** rating on the stock.

Balaji Telefilms	Rs Mn	
	Q1FY03	Q2FY03
<b>Net Sales</b>	<b>397.7</b>	<b>489.6</b>
% Growth QoQ	21.2	23.1
% Growth YoY	68.1	107.3
Total expenditure	184.9	240.3
Chg. in stock (+)/-	7.6	-13.6
Cost of production	155.0	219.5
Staff cost	4.5	4.4
Others	17.9	30.0
Operating profit	212.8	249.3
OPM	53.5	50.9
Other income	0.1	0.2
<b>EBIDTA</b>	<b>213.0</b>	<b>249.6</b>
Interest	0.1	0.1
Depreciation	9.5	9.8
PBT	203.4	239.7
DRE w/off	2.4	2.4
Tax	74.2	84.4
<b>PAT</b>	<b>126.8</b>	<b>152.9</b>
% Growth QoQ	42.0	20.5

Source: Company reports

**Stock Ratings Absolute Returns**

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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