INVESTMENT PRACTICES OF MEDIA SECTOR IN INDIA : A COMPARATIVE ANALYSIS OF NDTV AND ZEE TV

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ABSTRACT

An efficient management of finances is one of the most important considerations of any business undertaking. Investment decision is the most important part of the financial management process as it lays down the foundation of the entire function. Media industry is no exception to it. It has undergone an experiential phase during the last decade, particularly in India. The present study aims to analyze the investment practices in the said industry, on a comparative basis of NDTV and Zee TV. They both have diverse backgrounds regarding years of operations, business segments, though in the same sector. It will help to analyze the investment scenario in the sector better.

INTRODUCTION

The Indian Media and Entertainment (M&E) industry is poised to enter a golden era. One of the largest markets in the world, the industry is seeing strong growth and has the potential to garner US$ 200 billion by 2015.

The eighth PricewaterhouseCoopers (PWC) Global Entertainment and Media Outlook has ranked India as the fastest growing market in the world for spends in entertainment and media in the next five years. India will be one of the key drivers in pushing the global entertainment and media industry to US$ 2 trillion by 2011. With a compound annual growth rate (CAGR) of 18.5 per cent, the Indian M&E industry is the fastest growing in the Asia-Pacific.

The E&M industry in India has been growing faster than the Indian economy. The Government, on its part, has taken several positive measures in 2005 including liberalizing the foreign investment regime and resolving some of the regulatory bottleneck in certain segments of the industry and is currently working on other policy initiatives to give a further impetus to the industry. With concerted efforts by industry players on deterrents such as piracy and other challenges, the E&M industry has the potential to evolve into a star performer of the Indian economy.

Company Profile - NDTV

NDTV (New Delhi Television Limited), founded in 1998, is India's largest private television production house. It was founded by its current chairman and director, Prannoy Roy. NDTV currently has more than 1,000 employees producing news from over twenty plus locations nationally and internationally As of 2006, NDTV 24x7 held one of the largest market share, at 31%, among English news channels in the country.

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Company Profile - ZEE TV

Zee TV is an India-based satellite television channel in the Zee Network umbrella, which carries broadcasts in Hindi, Urdu, and other regional languages of India. As well as broadcasting in South Asia, it also reaches audiences in Europe, the Middle East, Africa, East Asia, Australasia and North America. It is a part of the Essel Group.

Zee TV was founded by Subhash Chandra and launched in India in October 1992, becoming the first Hindi satellite channel. This channel formerly had a partnership with STAR TV. However, STAR ended their partnership with ZEE TV (now ZEE Telefilms, Ltd.) when Rupert Murdoch's News Corporation acquired STAR TV. Zee TV was launched in the UK in 1995, replacing TV Asia (which still broadcasts in the United States). Zee TV was launched in the USA in 1998.

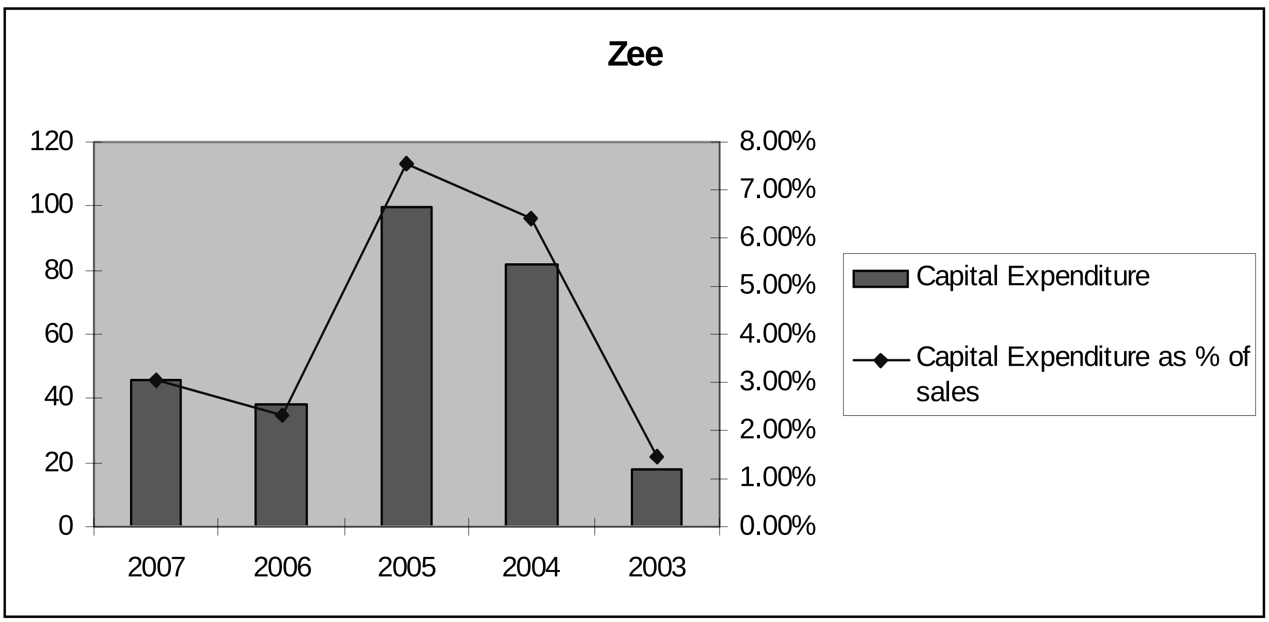
INVESTMENT PRACTICES

A. Capital Budgeting Practices

Capital investment

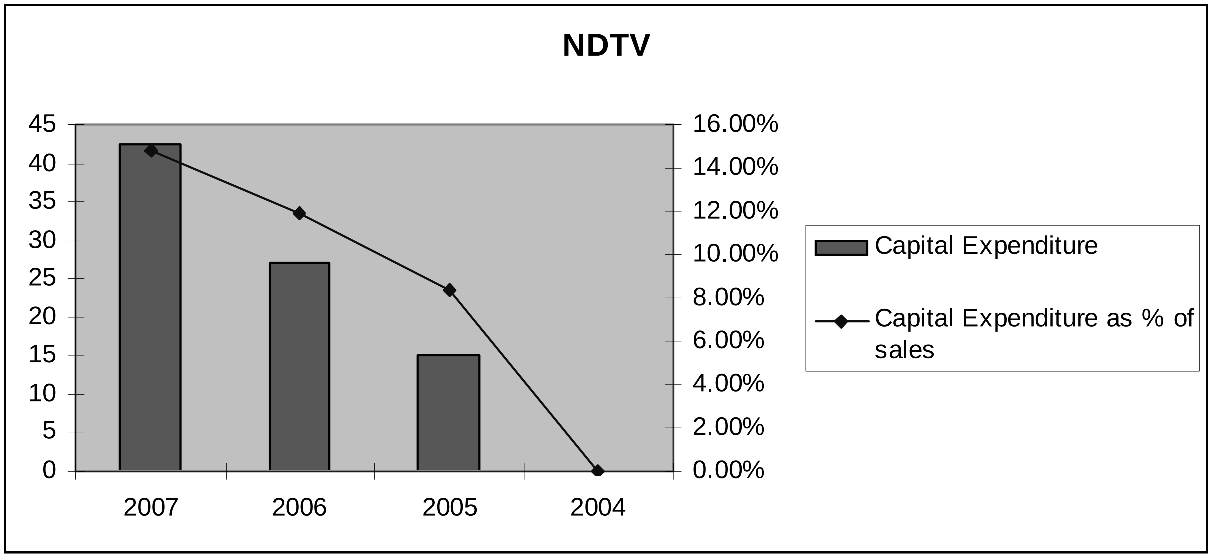
Capital expenditure for any company is a very important factor as it's deciding the quantum of revenue collection that it'll get in future. In capital budgeting decision when and where to do capital expenditure is decided.

ZEE Entertainment Enterprises Ltd



The Capital Expenditure pattern of Zee EE Ltd is not uniform over the period of five years. The very high capital expenditures in 2004 and 2005 is mainly because of expansion of their business. They invested highly in B&C and Access. In 2006 and 2007 they invested mainly in B&C, but not in access.

NDTV Ltd

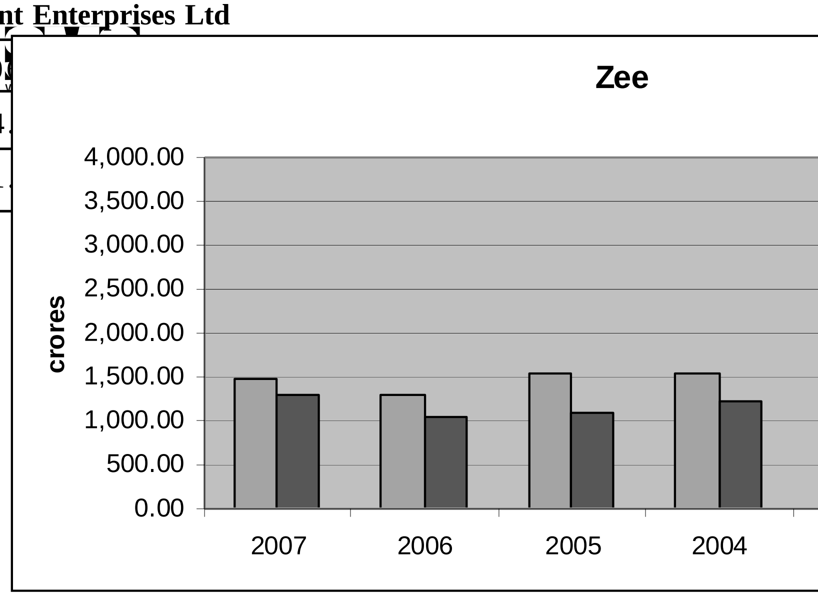


NDTV Ltd on the other hand shows a relatively stable and increasing trend of Capital Expenditure. This is because of its rapid expansion of capacity and launching different channels apart from news channels targeted at different segments.

Fixed Assets vs. Net Current Assets

ZEE Entertainment Enterprises Ltd

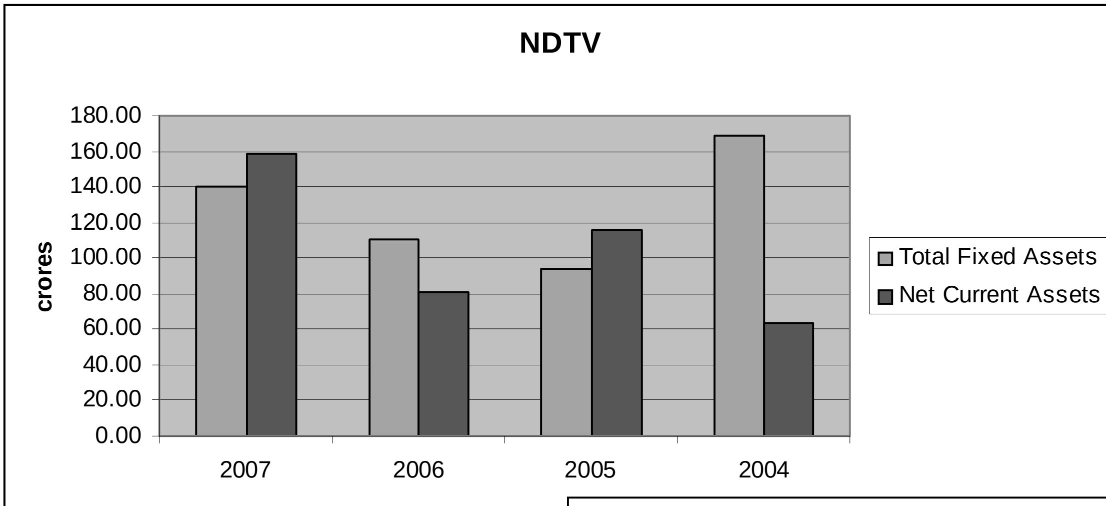
	2007	200
Total Fixed Assets	1,484.11	1,294.
Net Current Assets	1,298.15	1,051.



Zee EE Ltd has maintained a high net current asset to total fixed asset ratio. It means that the company enjoys high solvency. Also it's day-to-day activities are well maintained.

NDTV Ltd

	2007	2006	2005	2004
Total Fixed Assets	140.27	110.39	93.81	169.06
Net Current Assets	158.70	80.74	115.22	63.25

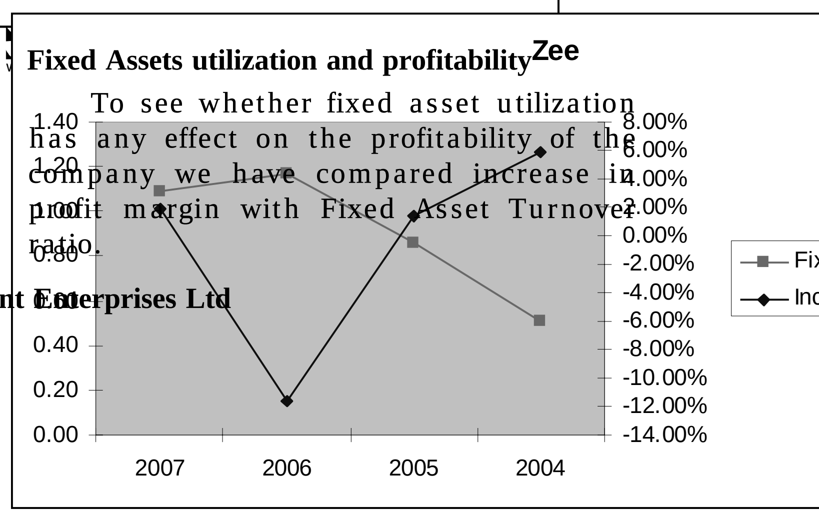


NDTV also shows a similar pattern. Rather in 2005 and 2007 its net current assets exceed its total fixed assets.

Fixed Assets utilization and profitability

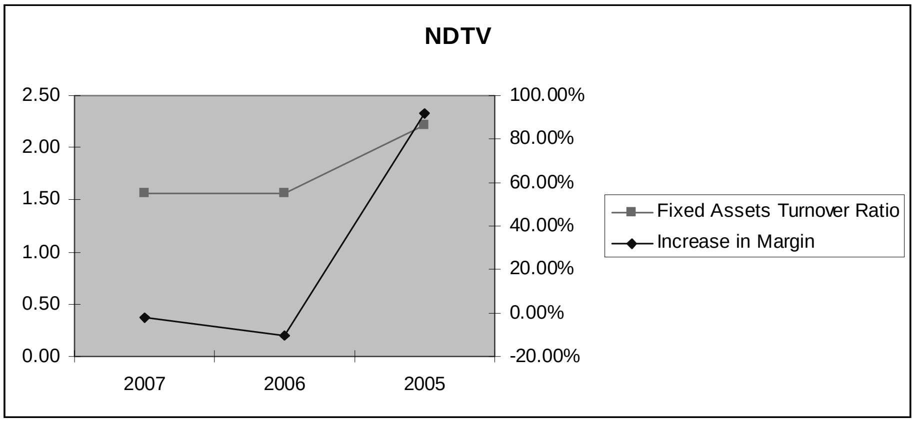
To see whether fixed asset utilization has any effect on the profitability of the company we have compared increase in profit margin with Fixed Asset Turnover ratio.

ZEE Entertainment Enterprises Ltd



In case of Zee, we can see margins have decreased where asset utilization has increased upto 2006. It might seem that there is no correlation between these two. But this trend indicates that Zee was following defensive pricing in these years which lowered its margins and increased its asset turnover. The picture seems to be reversed in 2007 as it shows the opposite trend indicating at a more aggressive pricing by Zee.

NDTV Ltd

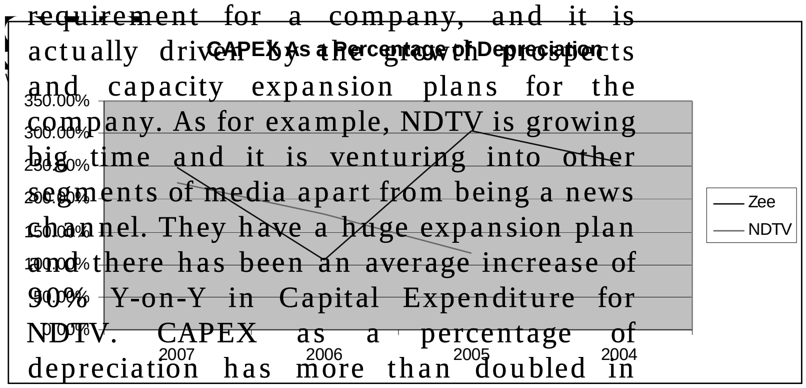


In case of NDTV, both asset turnover and margins dropped simultaneously. So there is a correlation between the two. Therefore, the company needs to focus more on its operations to increase efficiency and increase margins.

Though the two companies show different trends, it might be noted that NDTV is on a rapid capacity expansion, so it will take some time for them to utilize their assets more efficiently.

Depreciation and Assets' requirement

Depreciation is charged to account for wear and tear in assets and thus it can be said that the correlation between depreciation and assets required is quite high. Though, depreciation is not the only factor which decides the assets requirement for a company, and it is actually driven by the growth prospects and capacity expansion plans for the company. As for example, NDTV is growing big time and it is venturing into other segments of media apart from being a news channel. They have a huge expansion plan and there has been an average increase of 90% Y-on-Y in Capital Expenditure for NDTV. CAPEX as a percentage of depreciation has more than doubled in three years, whereas for Zee Ltd it is a fluctuating trend.



Therefore we can say that there is no direct relationship between Asset Requirement and Depreciation, though depreciation is a factor which influences Asset Requirement.

B. WORKING CAPITAL ANALYSIS

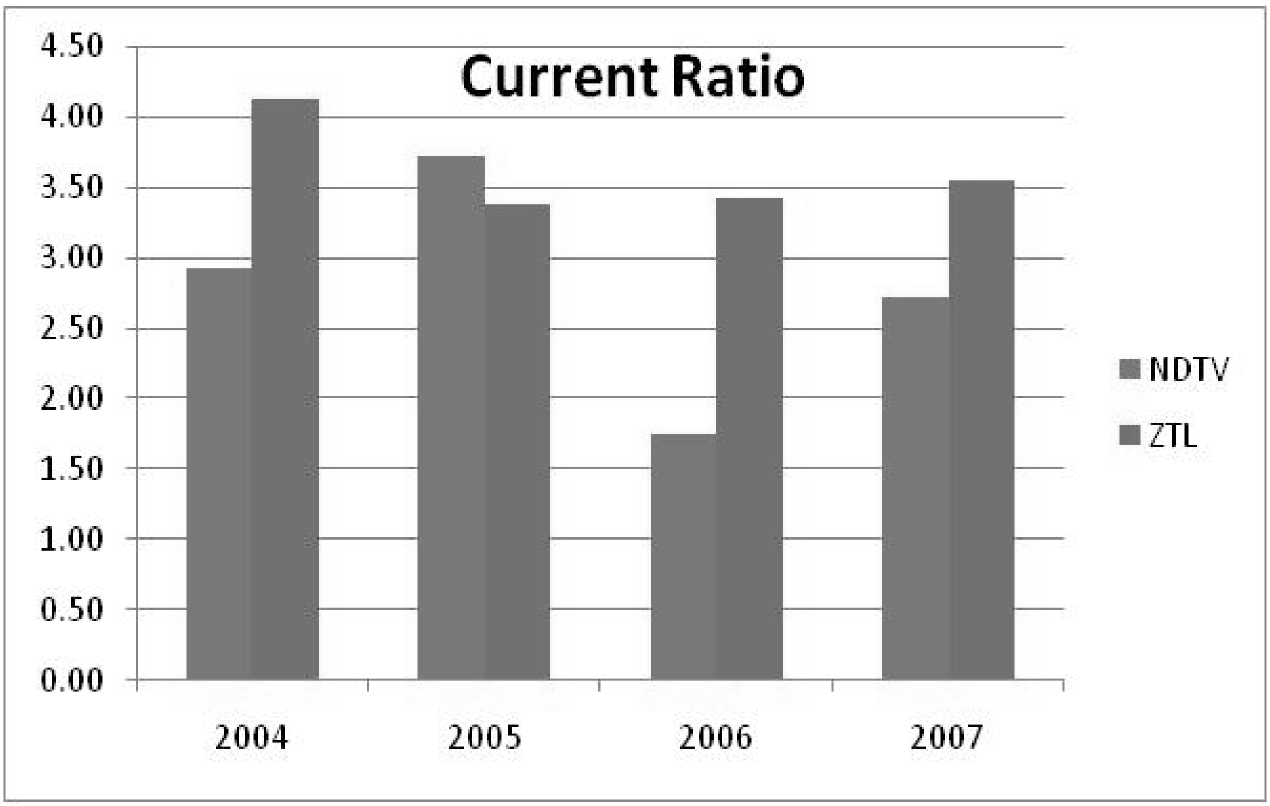
Short Term Solvency

Current Ratio

It shows the availability of current assets to meet short term obligations. It is very popular ratio, though is not the most effective ratio to measure short term liquidity of a company.

The ratio should ideally be greater than 1 as it shows that the company's short term assets can cover its short term liabilities. However a very large ratio is also not desirable as it shows that the company has high amounts of unproductive investments like inventory and cash & bank balances

Current Ratio = Current Assets / Current Liabilities



Interpretation

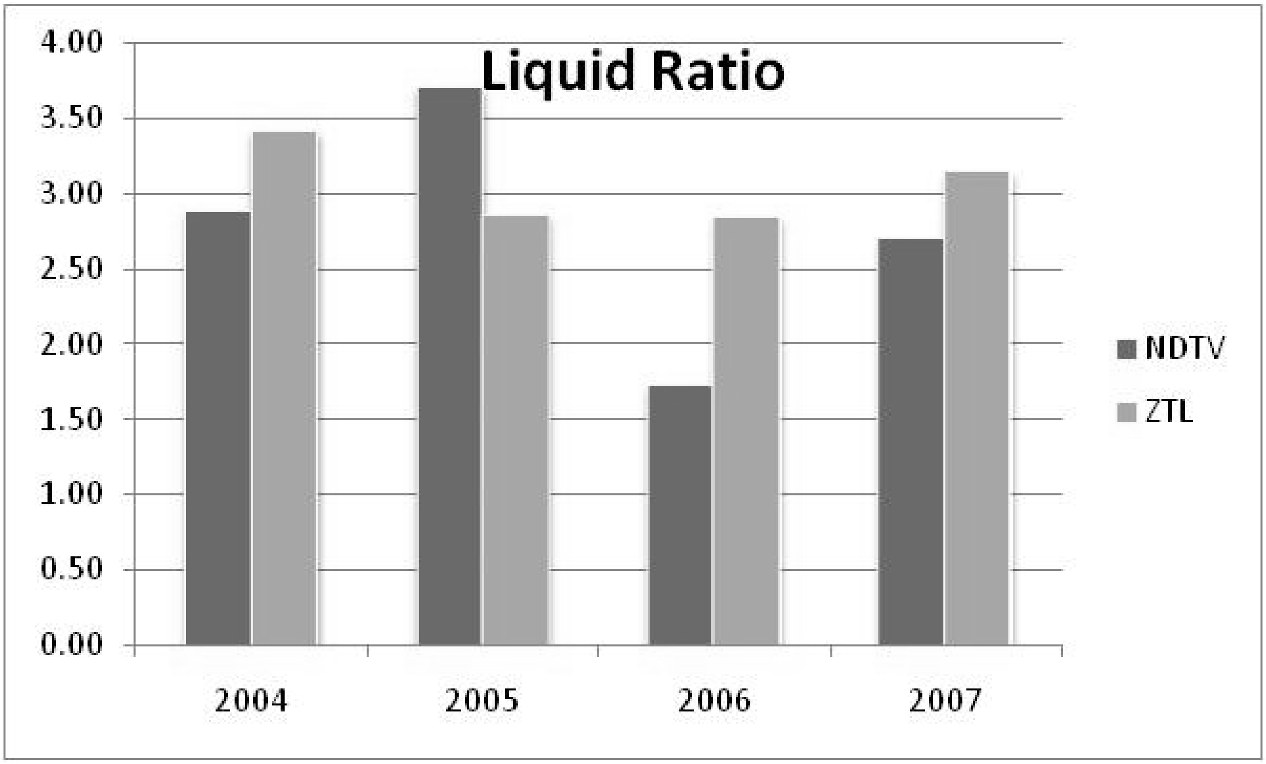
1. **NDTV:** It has been fluctuating over the years. In 2006 the total liabilities had increased significantly, by almost 2.5 times where as the total assets did not increase in the same proportion. They have brought it under control in the current year by reducing on the liabilities part.

2. **ZEE Telefilms:** It has remained fairly constant at around 3.5 which is fairly healthy.

Acid Test / Liquid Ratio

This ratio is a better measure of short term liquidity vis-à-vis Current ratio, as it does not include inventory in the current assets. The reasons for not including inventory are two fold: First a company's inventory is not that liquid and will take time to sell in case of need. Secondly, the company can dress up the value of its inventories.

Quick Ratio = (Current Assets – Inventories) / Current Liabilities



Interpretation

1. **NDTV:** The Inventories of NDTV are small in comparison to their total liabilities hence the Liquid ratio is almost equal to the current ratio.

2. **ZEE Telefilms:** The liquidity of the firm is fairly constant which suggests that the firm's inventory management of the firm has been stable over the period of the years. The liquidity ratio is at failry acceptable levels.

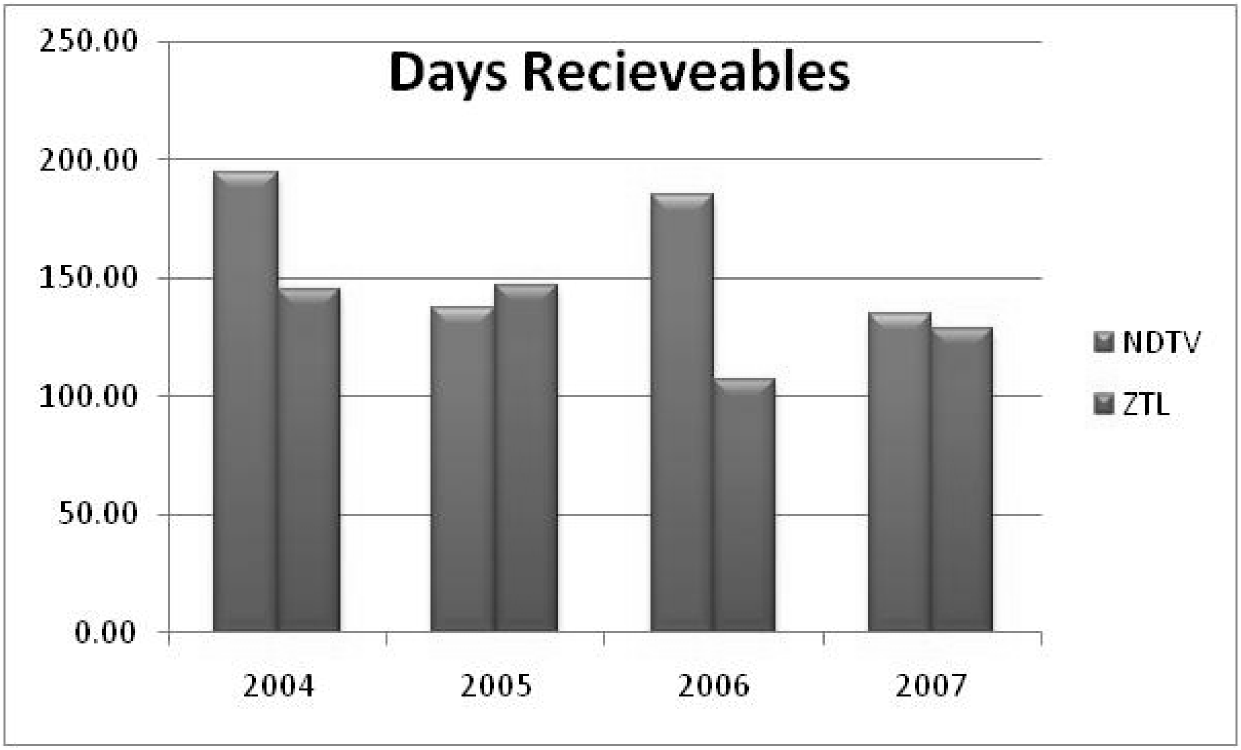
Days Sale Outstanding

It is a measure of the average number of days that a company takes to collect revenue after a sale has been made. A low DSO number means that it takes a company fewer days to collect its accounts receivable. A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect money.

Day's sales outstanding is calculated as:

DSO= (Acc. receivables/Total credit Sales)* Number of Days

Due to the high importance of cash in running a business, it is in a company's best interest to collect outstanding receivables as quickly as possible. By quickly turning sales into cash, a company has the chance to put the cash to use again - ideally, to reinvest and make more sales.



The DSO can be used to determine whether a company is trying to disguise weak sales, or is generally being ineffective at bringing money in. For most businesses, DSO is looked at either quarterly or annually.

Interpretation

1. **NDTV:** There is no clear trend observable in days receivables. This is primarily dependent on the state of economy, the type of customers acquired by the company. Though from the other company's statistics it is observable NDTV is lacking in this regard.

2. **ZEE Telefilms:** They are managing the state of affairs in a better fashion than NDTV with days receivables being the range of 150- 105 in the past four years.

Note: Inventory ratios are not that applicable on this industry as media company's products are storable items. They have been analysed as they do not reflect much upon the company's working capital management.

CONCLUSION

Investment Practices

To conclude, it can be easily inferred that the capital expenditure pattern of Zee has not been uniform over the period of five years, whereas NDTV shows a relatively stable and increasing trend of Capital Expenditure. This is because of its rapid expansion of capacity and launching different channels apart from news channels targeted at different segments. Regarding asset utilisation, Zee has been following defensive pricing in these years which lowered its margins and increased its asset turnover. The picture seems to be reversed in 2007 as it shows the opposite trend indicating at a more aggressive pricing by Zee.In case of NDTV, both asset turnover and margins dropped simultaneously. So there is a correlation between the two. Therefore, the company needs to focus more on its operations to increase efficiency and increase margins.

Though the two companies show different trends, it might be noted that NDTV is on a rapid capacity expansion, so it will take some time for them to utilize their assets more efficiently. Liquidity position of both seems to be at acceptable levels

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