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''DOTCOM BUST (1999) & SUPREME CRISIS: AN ANALYSIS OF THE TWIN RECESSION ON US AND INDIAN ECONOMY''

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World has witnessed a tremendous amount of growth in recent years. But as it is said history repeats itself, world is undergoing another crisis as previously in 1929 or Dot Com Bust in 1999. Crisis in general means a unstable situation or occurrence of undesirable event. But in economic terms crisis happens when the economy growth decreases, there is bankruptcy or financial distress in many companies, widespread job cuts and companies major share of assets lose their value.

TWO MAJOR CRISIS AFFECTING THE STOCK MARKET

THE DOT COM BURST

2008 FINANCIAL CRISIS

DOT COM BUST

This was one of the major crises that happened during late 1999 and early 2000. It was related to the widespread usage of Internet in major part of all economic activities. In the first six months of 2001 there were 345 companies filling in bankruptcy.The Dot- Com Bust was not because of a single factor but due to series of factors contributing to it.

The problem started with the large amount of investments in the 'dot-com' companies. Due to hype of these companies investors started to put their money without referring to the fundamentals of the company. This led to hype in the market of investing in these companies.The company asking for investments lured the investors saying that as of now the companies are loss making but given time as they will increase the market share and being in the specific industry they will be able to mark any price required.

As a result of the over-valuation of dotcom companies the stockmarket reacted accordingly, with investors realizing these companies were going up in value. The problem was of course that eventually these companies would have to start to turn a profit, and so many were being started so quickly, all with the business plan of monopolizing their particular marketplace, there were going to be causalities.

The dotcom bubble bust took place on March 10^{th} 2000, when rising interest rates in the USA gradually reduced spending before a massive multi-billion dollar simultaneous sell order from leading technology companies such as Dell, Cisco and IBM triggered a chain reaction of investors liquidating their shares led to a drop in the NASDAQ that has never since been recovered.

Anothercontributing factor to the burst of thedotcom bubble is the poor performance of online retailers in the run up to Christmas 1999, where overly inflated sales forecasts were simply not met. These poor results were made public in March 2000, the exact time of the collapse of the industry.

Sites like Pets.com managed to raise $82.5 million in February 2000, yet didn't make it to the end of the year before collapsing. They even had Amazon.com backing them, one of the few dotcoms to survive the crash.Online grocer WebVan.com was another high profile casualty of the big bad burst. They traded between 1999 and 2001, rising to a peak value of $1.2 billion and occupying eight US cities. However they failed to attract enough customers to justify their rapid growth, and as such ceased trading in July 2001 making 2,000 employees redundant.

COMPARATIVE ANALYSIS OF THE ECONOMIC SCENARIOIN USA VERSUS INDIA

<u>USA</u>

As panic started building up in the stock market world, experts in both the hardware and software industry scrambled to come up with a solution. As a result, various technology-driven companies saw their stocks skyrocket. Solutions guaranteeing a "Y2K-ready" system was being implemented everywhere as the century came to a close. Now that a solution was found, it was time to get greedy.

Investors started buying stocks in the companies that provided the solutions to the Y2K problem. United States Companies such as Zitel, which hadn't crossed the $10/share gap before 1997, saw their stocks go up 700%. Towards the end of 1999, every system was Y2K compliant and companies like Zitel had gone down to $1 per share. Those who

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owned shares of stocks in the companies that promised solutions were also quick to sell their shares in order to get out of a bad deal

In 1999, 457 IPO's were introduced by Internet and technology-based companies. 117 of these companies saw their value go up 100% on their first trading day alone. Greed was fueled by speculation and the promise of instant mega-buck returns were too much to resist for most investors.

THE STORY OF INDIAN SCENARIO GOES LIKE THIS…

Then, on April 14, the NASDAQ index, in which technology stocks are heavily weighted, crashed. Internet company stocks were the worst hit. A direct repercussion of the crisis on Wall Street was felt at Indian stock exchanges on April 16. Technology stocks have been in a bear hug ever since. For instance, Wipro's shares which in February hovered around the Rs.6,000-mark today fluctuates between Rs.1,800 and Rs.2,000. Discussions in financial circles now revolve around whether the dotcom bubble has burst or is about to burst. Perhaps the events of the last few weeks are a precursor to the shape of things to come. What happens now and who will survive the onslaught is the billion-dollar question.

Since none of the dotcoms, apart from Satyam Info way, has gone in for an Initial Public Offering (IPO), it could be assumed that the rapidly increasing tribe of dotcom entrepreneurs is safe. However, owing to the fact that technology companies have taken quite a beating,. Commonwealth Venture Capital, for example, picked up an 18 per cent stake in Satyam Info way for $5 million. It is now worth $800 million.

THE FOLLOWING IS AN ACCOUNT OF THE DIVIDEND YIELD AS WORKED OUT YEAR WISE

Dividend Yield
Dividend yield is a way to measure how much cash flow you are getting for each dollar invested in an equity position.
1999

The year witnessed major hits at regular intervals with a big hit in April with change of negative 20.63% bringing the yield down to 1.19 from 1.50 .And the ending with a change of 8.52% in December.
2000
The year was a volatile year with a high negative opening, along with it came the highest change in dividend yield of 50.31% to 1.54 from 1.02.
2001
The year was a volatile year with a negative opening. The months of volatility were April till July in which April and May were in reds and June and July in green. Ending with a negative again.

PRICE EARNING RATIO

Price to Earning Ratio
The price-to- earning ratio tells the expectations of the investors which are related to the future of the index or the company. Higher the ratio higher the expectations of the investors.
1999
The year was important as the world was going to be hit by the Y2K bug. During the year there was strong growth in the starting to a 13 % change in month of April. But in certain months there was a dip to a negative 0.45 % month of April. But in certain months there was a dip to a negative 0.45 %.
2000

The Year was of the Y2K bug or the Dot-com Bust. And bust it was the P/E of NIFTY fell within a month with a change of negative 5.27 % in Feb, The year most of the months witnessed a negative change in the range of 5-12 %. But the most active months of the year were November with negative 22% change and December with a 41 % change. The highest P/E was achieved in Jan with 28.45 times.
2001
In this year the fear of the bug was finished but the markets did not respond to the elimination that positively rather there some major negatives like 14.81% in Feb. Otherwise the trend remained sideways.

IT INDUSTRY IN INDIA –

THE Indian software and services industry registered a 53 per cent growth in 1999-2000 at Rs. 24,350 crores ($5.7 billions) as against the previous year's turnover of Rs. 15,890 crores ($3.9 billions), according to the National Association of Software an d Service Companies (Nasscom).

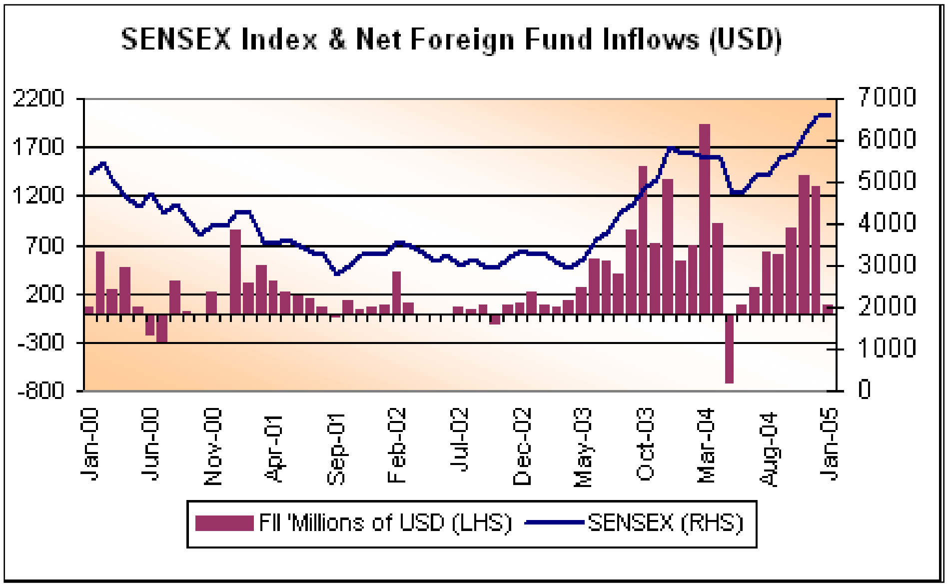
While software exports during the period stood at Rs. 17,150 crores compared to Rs. 10,940 crores in 1998-99, growing 57 per cent, the domestic market was Rs. 7,200 crores vis-a-vis Rs. 4,950 crores in 1998-99, Nasscom said in its annual industry survey.

FII's

The year 1999 saw a sharp upward development in FII inflow. Amid the Kargil war (May 1999), FIIs made net speculation to the tune of Rs 17 billion. This prompted 19% ascent in the Sensex in spite of fringe pressures. The Kargil issue and the decisions in the long stretch of September/October expanded the administration's non-design use. This pushed India's monetary shortfall to 5.1% of GDP from 4.7% out of 1998. All things considered, the Indian programming blast began in 1999, making our business sectors alluring for FIIs.

In 2000, when the Sensex dropped around 20%, 74 FIIs fled the Indian value markets and the quantity of such speculators in India dropped from 556 to 482. The following year ,when the Sensex dropped near 18%, just seven new FIIs entered the market.

The aggregate number of FIIs in India has nearly tripled from 556 toward the start of 2001 to 1,594. A year ago, around 33% of the new FII enrollments were from the US, and the UK came an inaccessible second as the home of new FIIs that entered India a year ago.



<u>JOB CUTS</u>

200,000 jobs lost after the dotcom bubble burst in 2000

<u>IPO</u>

The world has seen several cycles in the IPO market in the past, the last down cycle being the one post the dot-com crash. After the bubble burst in 2000, only 88 IPOs were issued worldwide in 2001 the lowest annual total since 1979

CONCLUSION

This was a crisis, which was cause of dependency on Internet and the sudden boom in the dotcom companies, which invited potential investors to invest in such companies in prospects of making profits in future. But this hyped situation led to strategic complementariness in financial markets, which created a bubble and then leading to its bust. The financial markets had a sideways movement in 1999 but were volatile and forming peak in year 2000 and eventually sliding to form new bottom in 2001.There were major job cuts and a lot of companies going bankrupt. If not bankrupt they lost major asset value of the company.

CREDIT CRISIS

The phase of credit crisis or financial crisis known popularly exists from 2008 till present date. It was a crisis triggered by a mismatch of asset-liabilities of investment banks. One of the first companies hit was Bear Stone. But the major panic was created when investment bank Lehman Brothers filed for bankruptcy.

This crisis was ignited due to banks issuing sub prime mortgage loans to customers. These loans are the most risky loans in the category and generally sold in the secondary markets. Following are incidences, which led to the crisis -

- --Banks were issuing “sub prime mortgage loans”

- --As long as home prices were rising, borrowers who found that they couldn’t afford the higher monthly payments could sell their houses at a profit and pay off the loan.

- --But when the “housing bubble” burstand home prices fell, homeowners with financial problemslost their homes in foreclosures, while banks and other mortgage-lenders lostmoney, as they were unable to recover the amount of the mortgage loan.

- --The financial impact of the foreclosures was magnified throughout the economy due to the widespread marketing of “mortgage-backed securities” (MBSs). A mortgage-backed security (MBS) is an asset-backed security or debt obligation that represents a claim on the cash flows from mortgage loans, most commonly on residential property.

- --Investment firms bought the MBSs and in many cases borrowed money to buy them – which magnified their financial risk.

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2008 FINANCIAL CRISIS TIME LINE

- --In an earlier move that created the conditions for the current crisis, investment banks in 2004 successfully lobbied the Security Exchange Control for a weakening of regulations that allowed them to use more cash reserves to buy MBSs.

- --When the housing bubble burst and sub prime mortgages went bad in early 2008, a highly leveraged investment bank – Bear Stearns – collapsed, Lehman Brothers went bankrupt and other investment banks were sold.

- --Amidst a cascade of fear about the solvency of financial institutions and corporations,

stopped offering standard business operating loans.

- --Without sufficient credit, businesses slowed spending and laid off workers, which in turn reduced consumer spending, causing a vicious circle of declining economic activity.

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March 2008: Bear Stearns, one of the largest global investment banks, was sold for a fraction of its previous value due in large part to the sub prime mortgage crisis.
July 2008:Fannie Mae and Freddie Mac share values plunged in July 2008 due to concern about the value of their mortgage-backed securities and their ability to borrow from credit markets.
July 30, 2008: President signed into law the **Housing and Economic Recovery Act of 2008** which: --Created the **Federal Housing Finance Agency (FHFA) to regulateFannie and Freddie**;

Sept. 7, 2008: Fannie Mae and Freddie Mac seized by Government. The newly created Federal Housing Finance Agency (FHFA) assumed full authority over the assets and operations of Fannie and Freddie – an action that had been viewed in July as unlikely
Sept. 14, 2008: Bank of America buys Merrill Lynch.
Sept. 15, 2008: Lehman Brothers files for bankruptcy.

Sept. 16, 2008: Federal Reserve gives insurance giant **AIG (American International Group)** an $85 billion bridge loan.
Sept. 20, 2008: Bush Administration **proposes** $700 billion financial rescue plan to buy mortgage-related "troubled assets" from financial institutions over a two-year period.
Sept. 29, 2008: House **rejects** $700 billion financial rescue bill by a vote of 228-205. Dow falls 777 points, the largest ever one-day drop.
Oct. 1, 2008: Senate passes revised financial rescue bill (HR 1424) including: --Creation of **Troubled Assets Relief Program (TARP)** that allows **Treasury to borrow up to $700 billion** to purchase, insure, hold, and sell financial instruments related to residential or commercial mortgages issued prior to 3/14/08 • $250 b available immediately • $100 b additional released upon notification to Congress • $350 b if President submits detailed plan, subject to 15-day congressional review
Oct. 3, 2008: House approves revised bailout bill (HR 1424) by a vote of 263-171; President Bush signs into law the same day (PL 110-343).

Oct. 6, 2008: Dow drops below 10,000
Oct. 8, 2008: Federal Reserve loans another $37.8 billion to AIG, on top of the $85 billion loaned in Sept.
Oct. 9, 2008: Dow Falls below 9,000

TOP 10 BANKRUPTCIES IN U.S. HISTORY -

Rank	Company Name	Date of Filling	Assets ($ Billions)
1	Lehman Brothers Holdings	15/09/2008	691
2	Washington Mutual	26/09/2008	327.9
3	WorldCom	21/07/2008	103.9
4	General Motors	01/06/2009	91
5	Enron	02/12/2001	65.5
6	Conseco	17/12/2002	61
7	Chrysler	30/04/2009	39
8	Thornburg Mortgage	01/05/2009	36.5
9	Pacific Gas and ElectricCo.	06/04/2001	36
10	Texaco	12/04/1987	34.9

CURRENT SCENARIO

The US is now sliding into what the IMF predicts will be a "gentle subsidence" yet there is mounting negativity about the capacity of whatever is left of the world to escape solid. England is especially defenseless, as International Monetary Fund (IMF) sliced its development focuses for both the US and the UK.

The world's monetary firms could wind up boring \$1 trillion (£500bn) worth of misfortunes from the credit crunch, the IMF said it anticipates that the US will accomplish GDP development of only 0.5% this year, and 0.6% of every 2009, with the lodging crash deteriorating.

This emergency lead speculation banks like Goldman Sach's changing their status to holding banks. This added to end of speculation banks. The USA emergency affected the economies all through the world exceptionally UK. As England declared to be in subsidence from that point having two negative development in successive quarters.

Amid the stage India is in a superior circumstance due two primary reasons right off the bat, the instrument MBSs which set off the emergency were absent in India . In conclusion , the saving money framework in india was limited and controlled in addition to the outside speculations are topped. However, India was confronting the issue of expansion in the meantime.

<u>Why is the US monetary administrations segment basic for Indian IT?</u>

The present emergency parallels the 2001-2002bustsespecially for India's IT (send out) segment. Around 61% of the Indian IT area's incomes are from US customers. In the event that you simply take the best five India players who represent 46% of the IT business' incomes, the income commitment from US customers is roughly 58%. Around 30% of the business incomes are assessed to be from budgetary administrations. What's more, from a subjective stance, the arms of the money related part business are quitewellentrenchedand have critical auxiliary effect also.

The size and development of the IT business today are a long ways in front of the 2001 days, and the present model has signs of"irreversibility"and long haul upper hand. In the vicinity of 1999 and 2008, the offer of US money related administrations

income as a % of aggregate incomes for the Top 3 Indian players along these lines went up from 25% to 38%.

Top Line Impact

An ongoing report by Forrester uncovers that 43% of Western organizations are curtailing their IT spend and about 30 percent are examining IT anticipates for better returns. A portion of this canleads to off shoring,but the effect of general diminishment in optional IT spends, including seaward work, can't be denied. The moderating U.S.economy has seen 70 percent of firms arranging lower rates with providers and almost 60 percent are decreasing contractual workers. With spending plans pressed, a little more than 40 percent of organizations intend to build their utilization of seaward merchants.

Main concern Impact

It is exceptionally hard to supplant settled expenses with variable expenses at short notice of say multi month. Subsequently, the concentration should move to no matter how you look at it fixedcost cuttingsince making the costs esp. overheads and bolster costs variable at short notice is outlandish.

Estimating has been troublesome in this part contrasted with different divisions: On a normal, the US money related segment has driven mass volumes through lower nearby valuing, higheroff shoringand forceful volume rebates. Thus, a supplanting of money related administrations business with business from different verticals is probably going to decidedly affect the main issue. A rapid substitution is be that as it may, less demanding said than done.

Cost-Side Controls

- **Wages are balancing out and by and large will positively affect gainfulness because of lower steady loss and consequently bring down enlistment costs.**

- **Efficiencies – Indian IT organizations keep on being made of an indistinguishable DNA from amid the dotcom days. A portion of those increases are lasting since the procedures have not been moved back after the Rupee began deteriorating. Potential measures are deliberate compensation cuts, finish ban on pay raises, travel diminishment, fixing of advancement spends, just in timehiring, procure after-contract, and so forth.**

Job Data

The joblessness rate ascended from 8.5 to 8.9 percent, the Bureau of Labor Statistics of the U.S. Branch of Labor revealed today. Since the retreat started in December 2007, 5.7 million occupations have been lost. In April, work misfortunes were huge and far reaching crosswise over about all-real private-segment businesses. Generally, private-segment work fell by 611,000..

GOLDEN MONDAY (18/05/2009)

This was the first day that markets opened after the election results being announced. The result had showed a clean win by UPA and markets were predicted to respond positive to the results announced.

9:55 - **Markets** Open & Close

According to SEBI the circuit would apply on NIFTY at levels with 10% (300pts), 15% (450pts) and 20% (600pts).

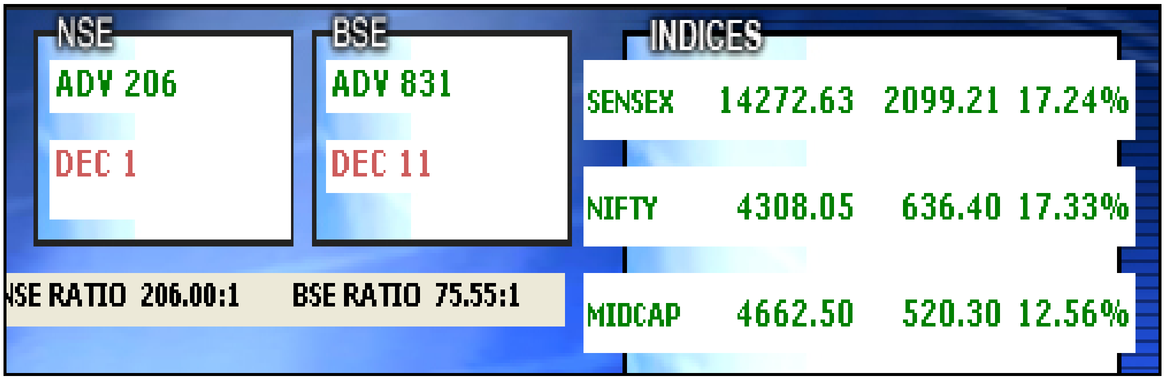
NIFTY 14.48% 4203 @ 531.65 Up

SENSEX 10.73 % 13479 @ 1306 Up

In the initial 30 seconds of exchange, the Sensex crossed the 13,000 stamp. This was the first run through since October 2008 that the Sensex outperformed the 13,000 stamp and the Nifty crossed the 4000 level. Colossal upsurge of 420 focuses or 11.4% in the SGX Nifty was proposing a similar pattern. This was first time showcase has a hit an upper circuit.

The 50-share NSE Nifty was up 531.65 focuses or 14.48% at 4,203.30 and the 30-share BSE Sensex surged 1305.97 focuses or 10.73% to 13,479.39. Not as much as Rs 1000 crore of exchange was found in the money and F&O portion.

11:55 - Trading halted for the day



After the 2-hours halt the markets reopened but there was another circuit breach. Though there were all three circuits breached but applied were two circuits at 15% and 20%. These are applied in accordance to the last quarter closing of sensex.

RECOVERY PROSPECTS

IMF View

The leader of the International Monetary Fund trusts the worldwide financial could begin to make a recuperation by October or November this year. The IMF says the world economy will contract by 1.3 percent this year, its most noticeably awful execution in over 60 years. It says recuperation is relied upon to start just toward the finish of the year and that development will recoup to just 1.9 percent in 2010. Blanchard says there has been phenomenal constriction as of late. World exchange is probably going to dive 11 percent this year, in the wake of extending by three percent in 2008.IMF likewise anticipates that India's development will be at the rate of 4.5 % this year.

From the IMF information, the Wall Street Journal reports that Banks require $875 billion in new value and that US, European and Japanese budgetary parts will endure misfortunes of about $4.1 trillion in the vicinity of 2007 and 2010. Of that, bank misfortunes will add up to $2.5 trillion of which just $1 trillion has been composed down up until this point. The IMF assesses that safety net providers will lose $300 billion and other budgetary foundations $1.3 trillion over this period, yet they didn't gauge what amount has been composed down up until now.

INDIA SCENARIO

During the recession of 2001, the inventory overhang was a massive problem, one that delayed the recovery as companies had to eat up stale product before they could restart production. Further, excess parts are perishable and turned obsolete as suppliers waited for demand to finally return. While the current recession has seen a brutal drop in demand, this time around the industry isn't choking as much on inventory.

For Example,

WIPRO	**2000(Rs. Millions)**	**2008(Rs. Millions)**
Inventories	1340.1	6664
Revenue	22921	199575
Inventory Turnover Ratio	17.10319447	29.94822929
Inventory Turnover Days	21.34104249	12.18769886

The data shows that compared to the dot com bust the inventory and revenues had increased according to the growth in the operations but as calculated the Inventory Turnover Ratio and Days were better in 2008 rather than 2000.

India has been not that deeply impacted with the crisis as compared to US and Europe. Mainly due to firstly, the banking system in India is restricted and closely monitored. Secondly, the absence of the instrument in India which caused the crisis.

The RBI, in its Annual Policy for 2009-10, reduced the reverse repo rate – the interest rate RBI pays to banks on the funds deployed with it – to 3.25 per cent (lower than the savings bank rate of 3.50 per cent) and the repo rate – the interest rate that banks pay on funds borrowed from RBI – to 4.75 per cent.

Since September 2008, the central bank has cut the repo rate and reverse repo rate by 425 basis points and 275 basis points respectively to preserve financial stability and arrest moderation in growth.

Reserve Bank of India (RBI) Governor**D.Subbarao** on Thursday said India's economic recovery will be sharper and swifter than many others, once the world economy starts to recover from the global financial crisis of 2008. Some sectors of the economy have shown incipient signs of recovery, he said.

Former governor ofthe Reserve Bank of India (RBI), **C. Rangarajan,** who released the book agreed with Reddy's view. 'There will be certainly be a dip in rate of decline of economies by end 2009. Things will start to look up from 2010-11,' he said.

GDP of India –

India's economy grew 5.8% in the first three months of the yearcompared with the same period last year, which was better than had been expected. The official gross domestic product figure was down from 8.6% annual growth seen in the first quarter of 2008. It grew 6.7% in the full financial year, which was down from a rate of 9% in the year to the end of March 2008. Among the sectors showing an improvement was farm output, which grew at an annualized rate of 2.7% in the first three months of 2009 having contracted 0.8% in the previous quarter.

- Construction grew 6.8% in the period compared with 4.2% in the previous quarter.

- Butthe manufacturing sector contracted an annual1.4%, having grown 0.9% in the previous three months.

Stock Markets –

It can be seen that in the time of Dot Com Crisis the markets took around 4 years to achieve the same peak levels and started a recovery within a time gap of one and half years from the time it formed its last bottom. The slow recovery was mainly due to presence of the dotcom companies in India and major part of revenues being earned by the exports of software and services. And the authorities did not take that aggressive at that time. Thus, it lasted for 2 to 3 years.

Presently, it's a better situation at least in India. An upward movement has been observed in the exchanges within months of hitting a bottom. And plus a high positive movement after the election results. The crisis may slow down the growth of the economy but recovery may be achieved faster within two to three quarte

INDIA MEDIA

ZEEL Our Preferred Pick; Downgrade Sun TV to Hold

Premium to market still reasonable — While Indian media stocks have moved up with the market, ZEEL & Sun TV Network's premium to market still appears reasonable at ~13%/32%, below their 3-year avg. PE premiums of ~58%/110%, respectively. With expectations of GDP growth picking up, ad revenues should follow, which could result in a premium expansion from present levels.

ZEEL is our top pick — ZEEL has outperformed the market ~26% in the last month owing to a pick up in viewership ratings. We increase FY10E-11E EPS by ~2-9% on expectations of an uptick in ad growth and management commitment to reducing costs. We note that sustaining market share remains a key to higher ad revenues. We reiterate our Buy rating, raising our price target to Rs228 (based on a ~20% premium to market).

Lower Sun TV Network's rating to Hold — High valuations (23x 1-year fwd P/E) and higher losses on radio business will likely limit Sun TV's outperformance, thus we downgrade to Hold (from Buy) with a target price of Rs298. We expect it will deliver above industry growth rates in advertising of 12% yoy in FY10E and 18% in FY11E.

UTV remains a high risk portfolio, retain Sell — We continue to view UTV as a mix of high-risk high-return businesses. In the near-term, we expect movies will be sluggish while gaming upside is still some time away. We raise our target price to Rs375 (roll forward to mid-FY11E from FY10E and incorporate changes in global comps).

KEY RISKS

(1) Recovery in ad market (and hence earnings) may take longer than what stock prices imply.

(2) With easy availability of capital, competitive intensity is unlikely to die down, which could increase fragmentation.

(3) Viewership ratings remain difficult to predict, driving short-term stock performance. (4) 1QFY10

results likely to be poor given the slow ad market, elections, and IPL.

KEY AREAS OF FOCUS

(1) Recovery in advertising growth

Any signs of recovery in domestic ad market growth would be closely watched.

Media buyers had anticipated single digit growth in 2009. If GDP growth rates accelerate, then ad market growth would also benefit. Historically, advertising growth in India has grown at ~1.5-2x the GDP growth rate.

To some extent media rate deflation has manifested itself in lower advertising spends Y/Y in the March quarter results for some consumer companies. Most FMCG companies (~50% of the ad pie) have indicated they will continue to spend in FY10. Yields could continue to be under pressure due to fragmentation, although volumes are likely to continue to grow.

(2) Advertising yields given the high fragmentation

Competitive intensity has risen considerably in the GEC space. It is important to see how the ad yields would vary, given the high fragmentation – the Top 3 players currently have similar GRPs.

Ad rates for the Top 3 players are similar and the movement of market shares would determine any improvement or reduction in yields.

(3) Near-term disappointing 1QFY10E

Ad revenue would have been diverted from the general genres (GECs, regional, etc.) to cricket (IPL and the ongoing T-20 World Cup), and partly also to news channels at the time of election coverage. Thus, we expect advertising revenue growth for the April-June quarter to be muted. The high base effect of 1QFY09 would also come into play this quarter

MAJOR COMPANIES:

ZEEL

SUN TV

UTV

TV18

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NDTV

COLORS

ZEE NEWS

STAR PLUS

SONY ENTERTAINMENT TV

BBC NEWS

CNN IBN

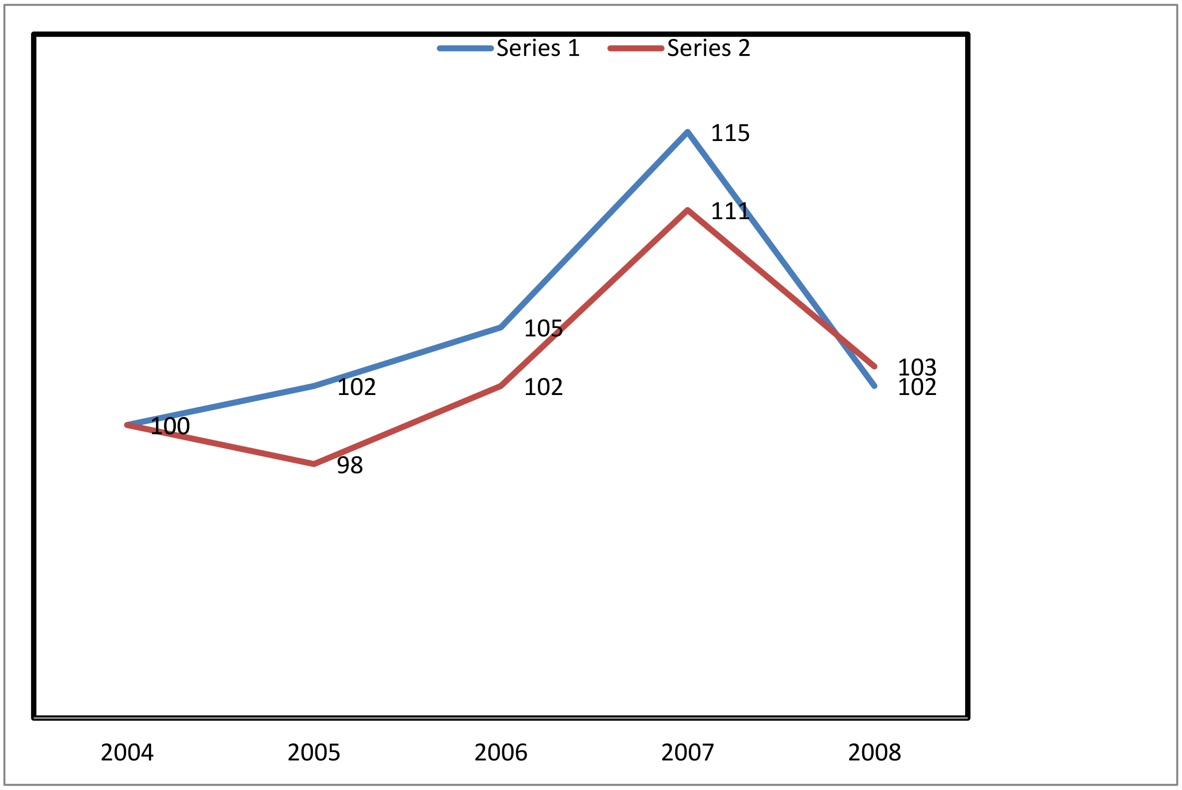
DISCOVERY

NDTV IMAGINE

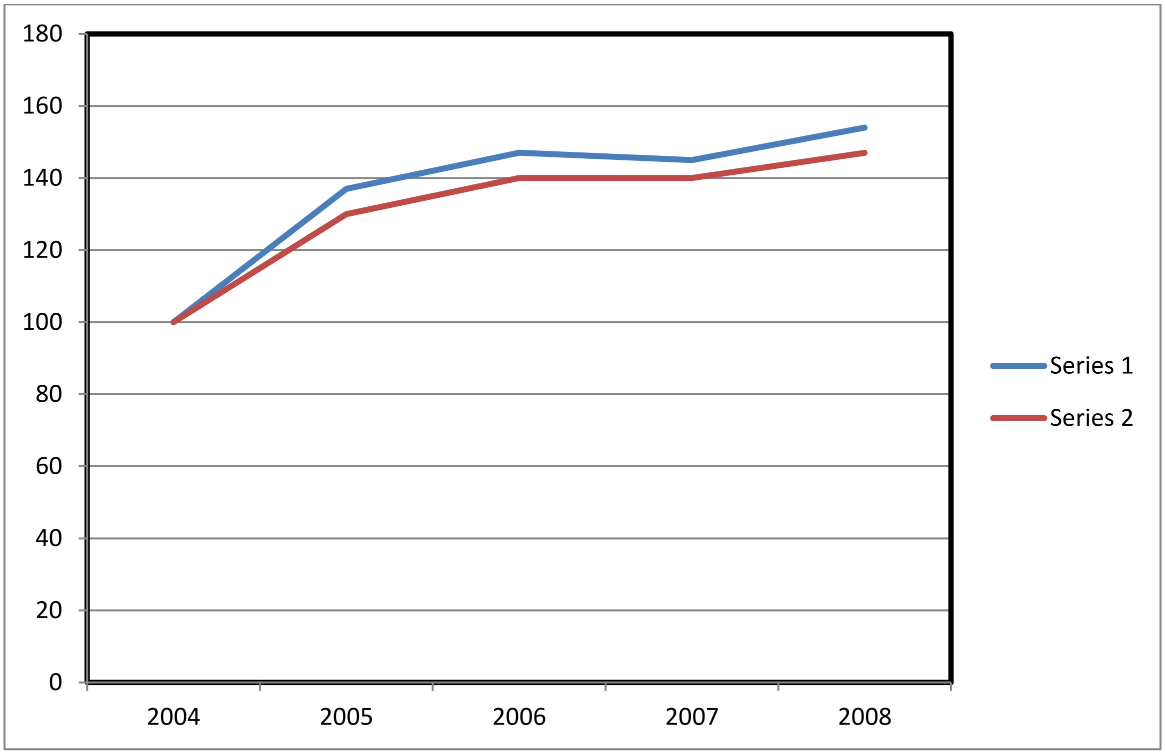
GROWTH CHARTS

MEDIA SEGMENT(INR MN)	2008	2009 PROJECTIONS	%CHANGE
TELEVISION	84000	93530	11.0
NEWS PAPER	100330	107700	7
RADIO	8800	10560	20
MAGAZINE	8030	7220	10
INTERNET	6300	8500	35
OUTDOOR	16900	16900	-
CINEMA	800	720	10

INCREASING SCORE OF ADVERTISERS AND BRANDS IN TV, EXCEPT LAST YEAR



INCREASING SCORE OF ADVERTISERS AND BRANDS IN PRINT



COMPANY PROFILE

CNBC-TV18

Is India's No 1 business media brand and reaches out to more people than any business daily, magazine or channel. The channel has single handedly created the business category in the Indian television industry. CNBC-TV18 today is clearlythe last word in business news. CNBC-TV18 is a joint venture betweenNetwork18 and CNBC, the globalleader in business television.

INDIA'S NO 1 BUSINESS MEDIUM

The undisputed pioneer in business news and data in India, CNBC-TV18, is trusted by business pioneers for its understanding, investigation and continuous market coverage.With one of the biggest and most thorough TV content libraries in India, CNBC-

TV18 has been the stage for thought pioneers crosswise over India, giving India's leaders unparalleled news, examination and point of view. Not just has the direct upset business programming in India, helping watchers to comprehend and benefit from the business sectors and from their organizations, it has additionally assembled steadfast networks, by associating with individuals of any age through non-markets programming, specialon – groundevents and a progression of honors that have set the gauges for industry benchmarks.

CNBC-TV18's viewership is reflective of the fact that India means business! Not only has its viewership been better than general English News channels, but it is also better than the leading print dailies. Currently, it is available in over 28 million households in India.

PROFIT FROM IT

CNBC-TV18

engages its watchers to control their monetary fates and empowers business pioneers to take educated choices about their organizations. The channel today is the business brand of decision for many individuals - business pioneers, experts, retail speculators, agents and merchants, middle people, independently employed experts, High Net Worth people, understudies, housewives, and that's only the tip of the iceberg, all tune in to the channel's assorted and diverse programming. From the metros to the smaller than usual metros and country areas, the channel interfaces with all gatherings of individuals, cutting crosswise over boundaries of age, pay and status, by giving master exhortation and investigation. CNBC-TV18 has developed as the undisputed pioneer in business news, as well as a specialist in the matter of life itself for India's leader.

THE PEACOCK

The six feathered peacock in primary colors with its head towards the right indicates the diversity of the CNBC programme offering and its futuristic attitude.

HISTORICAL ANALYSIS

News business to be impacted by subdued ad-rates

Weak macro environment and turmoil in financial markets continue to affect Television Eighteen India's (TV18) businesses. The advertisement revenues specifically from initial public offerings, new fund offers and capital market participants that contributed a significant portion to the revenues in the past have dried up, impacting the news and the web businesses. We believe though the company's news business has off late been trying to identify new advertisers to make up for the slowdown in therevenues from the banking, financial services and insurancevertical, the revenue growth will continue to be slower. We expect the news business' revenues to grow by 9.4% and 11.8% in FY2009 and FY2010 respectively, as we expect the ad-rate growth to slow down considerably. However, consequent to the increase in the expenses outpacing the revenue growth, we expect the operating margins in the news business to decline from 41.5% in FY2008 to 30.5% in FY2009 and 25.4% in FY2010.

Web18 profitability to be hit by losses from new ventures

The internet business (Web18) still derives 60%+ of its revenues from financial portals—moneycontrol.com, poweryourtrade.com and commoditiescontrol.com—with a dominant contribution from moneycontrol.com. Being strongly related to the state of capital markets, the revenues from these portals are likely to be severely affected. Also the latest big launch by Web18—in.com—will see heavy gestation losses and marketing spends, thus sharply increasing the operational losses for web18. Though in.com within a few months from launch has achieved second position in the list of most viewed Indian websites after rediff.com we believe the venture will continue to bleed financially for a considerable amount of time. Thus we expect Web18's revenue growth to taper to 18.7% and 38.5% in FY2009 and FY2010 respectively, while reporting hefty operating losses.

KEY FINANCIALS

PARTICULARS	FY2005	FY2006	FY2007	FY2008E	FY2009E
NET PROFIT (CRORE)	32.9	37.2	32.2	27	74.7
SHARES IN ISSUE (CRORE)	1.7	2.1	5.7	12.3	12.3
EPS(RS)	19.5	17.7	5.7	2.2	6.1
%Y-O-Y GROWTH	160	-9.1	-	-61.5	176.6
PER(X)	46	50.6	177.2	227.8	82.4
BOOK VALUE	66.9	113.5	53.6	57.5	61.9
P/BV	13.4	7.9	18.9	8.2	7.6
EV/EBITDA	35	27.9	81	71.8	38.3
RONW	29.1	21.2	11.9	5.3	10.2
ROCE%	18.4	19.4	10.4	8.4	12

TV18 pairs Jagran Prakshan for Hindi business newspaper

Mirroring our expectations, TV18 has announced entering the business daily space. The company has entered into a 50:50 joint venture with Jagran Prakashan for launching a Hindi business newspaper. The duo would also launch business dailies in other Indian languages. TV18 has aggressively entered print media by acquiring Infomedia India, which provided it a platform for entry and expansion in the print space. TV18 recently announced acquisition of Infomedia India a leading publisher of special interest magazines and Yellow Pages (for details refer our update "TV18 acquires Infomedia" dated December 12, 2007). The company further forged a partnership with Forbes Media, a leading global business publisher to launch a business magazine in January 2008 (refer our update "TV18 partners Forbes").

Jagran Prakashan.a perfect match

Jagran Prakashan (Jagran) publishes India's largest selling newspaper (in terms of readership and circulation) Dainik Jagran. The daily has 31 editions across the states of Uttar Pradesh (UP), Uttaranchal, Jharkhand, Bihar, Jammu and Kashmir, Haryana and Madhya Pradesh and is no.1 player in UP. Jagran's new launches include City Plus an English infotainment weekly and I-Next a youth newspaper.

We believe Jagran's vast experience in print media, presence in Hindi speaking states, print infrastructure and distribution expertise make it a perfect match for TV18's foray in the business daily space. Increasing business audience across the country makes immense business sense to launch a Hindi business daily on a national scale. While TV18 would leverage on its dominant properties in electronic business media ie CNBC, Awaaz, Newswire and Web18, Jagran would bring in its expertise in print media to ensure a formidable presence in the business print space. The venture thus completes the circle for Network18 in terms of its presence across entire media and entertainment space, as print was the only missing link in its portfolio of media properties. With presence across different media verticals, we now expect TV18 to exploit vast opportunities available in booming Indian media and entertainment industry. We thereby maintain our Buy recommendation on the stock with a price target of Rs571.

VALUATION TABLE

PARTICULARS	FY2007	FY2008	FY2009E	FY2010E
NET PROFIT (CRORE)	32.2	5.4	2.9	18.6
SHARES IN ISSUE (CRORE)	5.7	12	12	12
EPS(RS)	5.7	0.5	0.2	1.6
%Y-O-Y GROWTH	-	-	-45.7	533.5
PER(X)	20.7	131	241.1	38.1
BOOK VALUE	54.1	42.5	42.4	43.3
P/BV	12.7	1.4	1.4	1.4
EV/EBITDA	9.5	5.8	22.5	16.8
RONW	11.8	1.9	0.6	3.6
ROCE%	10.3	9.5	8.4	9.5