NETWORK 18

A report by team EPSILON

Agenda

- Business Analysis
- Financial Analysis
- Cash Flow Statement
- Positives
- Negatives
- Summary of Company Analysis

BUSINESS ANALYSIS

ABOUT

- Network 18 is an Indian media Company with strong roots and a partner of choice for multiple international content powerhouses.
- They deliver the widest variety of information and immersion in languages that reflect India's diversity.
- They offer mediums that span the full spectrum – hyper-growth (Digital), mainstay (Television) and mature (Print).
- Network18 Group has 72 channels across news and entertainment, reaching more than 800 million Indians

FINANCIAL ANALYSIS

Scanning Profit & Loss

- In the expenses notes by using clever accounting the company is showing everything normal but the cost of manufacture increases by the same ratio as increase in sales.
- Ultimately resulting in low or same sales margin.
- Programming,telecast and license cost increase by **560%** in FY2018-19.
- Interest increased by double however additional borrowings are very less compared to it in FY 2018-19.

Sales Growth

Year on year (YoY) sales growth rate from 2015 to 2019.

16%	-51%	-2%	23%	178%

As the sales growth oscillates widely, we need to steer clear of this company.

Operating Profit Margin

The YoY Growth rate of Operating Profit in percentage(2015-2019).

-5%	3%	-10	-2%	1%

Operating Profit Margin for Network 18 from 2015 through 2019 is not consistent.

Net Profit Margin

The YoY Growth rate of Operating Profit in percentage(2015-2019).

-33.90	6.30	-15.66	-8.37	-5.92

Only year with positive NPM was 2016, while having a negative NPM for all other years.

Cash flow Statement

- A drop of **327%** can be seen in net cash flow ‘generated’ from CFO between the financial year of 2017-18 to 2018-19 in the net cash used segment of CFO. This change in inventory may be caused by programming, telecast and license fees.
- There is a sudden spike every alternate year, this means the company is borrowing more money every alternate year even when the profit is negative.
- The interest on liabilities exceeds their income from assets.
- Net cash and cash equiv. have increased from -59.27 Cr. in FY 2015-16 to -21.48 Cr. in FY 2016-17, which is a good sign for the company.
- Net cash and cash equiv. have decreased from +65.58 Cr. in FY 2017-18 to -3 CR. in FY 2018-19, which is a bad sign for the company. This sudden decrement shows cash movements to unusual places.

Cash flow from operation

YoY cash flow from operating activities from 2015 to 2019.

	March 15	March 16	March 17	March 18	March 19
PAT	-1059.91	96.21	-233.44	-153.93	-302.97
CFO	-99.4	87.23	-177.69	89.63	-203.66
cCFO	-303.89				
cPAT	-1654.04				
cCFO / cPAT	18%				

cCFO IS VERY HIGH COMPARED TO cPAT (>5x). THIS MEANS SOMETHING HAS BEEN MANIPULATED. SUDDEN INCREASE IN TRADE PAYABLES/RECEIVABLES.

Cash flow from investing

YoY cash flow from investing activities from 2015 to 2019.

Cash flow analysis	March 15	March 16	March 17	March 18	March 19
CFO	-99.4	87.23	177.69	89.63	-203.66
CFI	134.73	-140.28	-326.34	-56.89	-444.71
CFF	-80.57	-5.5	518.3	130.81	645.4

IN LAST 4 YEARS THE CFI AMOUNT IS IN -VE AND ITS INCREASING YoY.

Cash flow from finance

YoY cash flow from investing activities from 2015 to 2019.

Cash flow analysis	March 15	March 16	March 17	March 18	March 19
CFO	-99.4	87.23	177.69	89.63	-203.66
CFI	134.73	-140.28	-326.34	-56.89	-444.71
CFF	-80.57	-5.5	518.3	130.81	645.4

LAST 3 YEARS THE CFF IS +VE IT MEANS THE COMPANY IS BORROWING MORE MONEY EVERY YEAR. ALSO INVESTIGATE ABOUT SUDDEN SPIKE AND DROP.

Net Cash flow

YoY net cash flow from 2015 to 2019.

Net Cash Flow (CFO +CFI +CFF)	-45.24	-58.54	-21.73	163.55	-2.97

SUDDEN INCREASE IN 2018 (GOOD SIGN) AFTERWARDS SUDDEN DECREASE IN 2019 (BAD SIGN)

FCF and FCFE

(In Cr.)

Attribute/Year	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019
Free Cash Flow (FCF)	208.12	978.96	-333.02	-1160.83	-328.64
Free cash flow equity(FCFE)	94.94	912.14	-412.19	-1257.07	-527.11

FCF and FCFE are negative and also consistently decreasing, which mean the company doesn’t have money to play with or to invest. And also the company is very much cash strained, if this scene persists then there is a huge possibility of liquidation.

Capex investment

The YoY CFO and CAPEX in Cr. (2015-2019)

CFO	-99.4	87.23	-177.6	89.63	-203.6
Capex	-307.52	-891.73	154.33	1250	124.98

Good business grow with low CAPEX required or their CFO can fund the CAPEX.We can see in the last 3 FY the CFO is consistently less than CAPEX which means that the company can’t sustain its own CAPEX from its CFO. This is a very serious red flag for the company.

Self Sustained Growth Rate

The YoY SSGR in percentage(2015-2019).

SSGR	-49	6	-15	13	31

SSGR IS VERY LOW COMPARED TO THE GROWTH TREND WHICH IS A BAD SIGN AND DEPICTS THAT COMPANY CANNOT SURVIVE IN FUTURE WITHOUT MORE DEBT.

Quality of ROE

The YoY ROE = (Profit margin * Asset Turnover * Financial leverage) in percentage(2015-2019).

ROE	-49	6	-15	-13	-31

ROE IS DECREASING YoY FROM 2016.

AND WE CAN SEE SSGR AND ROE FIGURES ARE EXACTLY THE SAME.

VALUE CREATED FROM RETAINED EARNINGS

The YoY SSGR in percentage(2015-2019).

Value created per INR of 5 yrs retained earning - MCM	0.95
Value created per INR of 5 yrs retained earning - EPS	-45.38

MCM should typically be greater than 1.

EPS METHOD SHOULD BE AT LEAST 13%(20% OR MORE IS GOOD)

EVALUATING FUTURE SOLVENCY

The YoY ROE = (Profit margin * Asset Turnover * Financial leverage) in percentage(2015-2019).

Evaluating Solvency	March 15	March 16	March 17	March 18	March 19
D/E	0.62	0.42	1.02	1.94	3.76
Interest coverage ratio	-1.36	0.50	-1.24	-0.17	

D/E ratio is increasing YoY from 2016 and is greater than 0.5 which is not a good sign. As the D/E ratio is increasing we should wait and watch this company. Also the company took debt which can not be supported by its FCF as the FCF itself is negative, hence increment of D/E ratio is not justified.

Interest coverage ratio is very low which should be greater than 3 and is varying for every year.

CHECKING THE VALUE CREATED FROM EARNINGS

EPS

Earning per share YoY (2015-2019)

EPS	-10.12	0.93	-2.25	-1.49	-2.93
YoY Growth of EPS	2782.0	-109.1	-342.64	-34	96.8

EPS from 2015 afterwards is (-ve) and EPS YoY growth is fluctuating heavily and also (-ve) so rejected at this point. The fluctuation in EPS is caused by fluctuations in loss after tax attribute to equity shareholder. When the loss increases the EPS decreases and vice-versa.

Earnings Yield

Earnings Yield	-20	2	-6	-2	-8

IT IS -VE FROM 2015 AND IT SHOULD BE MORE THAN OR = 13% SO IT IS REJECTED FOR VALUE INVESTOR

NO DIVIDEND YIELD

INDUSTRY COMPARISON

ATTRIBUTES	NETWORK18	SUN TV	ZEE ENT.	TV 18	TV TODAY
Sales Growth	8.44%	11.21%	12.4%	13.68%	12.44%
OPM%	-2.6%	66.8%	29%	15.4%	27%
ROE	-11.67 %	25.41%	18.47 %	1.79 %	18.82 %
ROCE	-6.5	39.8%	27.30 %	-6.9%	26%
ROIC	-4.29%	25.16	23.4	1.75	15
Inventory Turnover Ratio	110.7	6178.4	3.7		154.8
cCFO/cPAT	22%	131%	40%	94%	83%
Inventory days + Receivable Days	161.6	109	179		88
ROA	-3.45 %	24.79 %	16.12 %	1.52 %	17.73 %
Net Fixed Asset Turnover Ratio	2.6	2.54	5.18	5.6	3

Positives:

- ICRA has given a credit rating of A+ to network 18.
- CAGR of the company from 2015 to 2019 is 11.37%
- In October 2018, Reliance industries(parent company of Network 18) announced it will buy majority stakes in Den Networks Ltd and Hathway Cable and Datacom Ltd for ₹5,230 crore. And they will be merged with Network 18 and TV18.

Negatives

- While sales have increased YoY, expenses also increased proportionately, which made the OPM inconsistent which in turn makes the business unsustainable.
- Interest cost have risen by 107%in FY 2018-19.
- Net gain arising on financial asset have performed very poor in FY 2018-19, where unrealised (loss) amounted to (-8985)Cr. from 9610 Cr. in FY 2017-18.

SUMMARY OF COMPANY ANALYSIS

- After the merger, it will make the Network18 group the largest listed media and distribution company in the country.
- Company’s financials are very poor where sales and expenses are increasing or decreasing proportionately making OPM stagnant. Also company has negative FCF and FCFE which makes the company prone to liquidation.
- It is very risky investment where risk to reward ratio is poor. medium reward with high risk.

Alok Industries

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- Management Analysis
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BUSINESS ANALYSIS

ABOUT ALOK INDUSTRIES

- Alok Industries is an Indian ISO 9001:2000 certified textile manufacturing company based in Mumbai.
- Its main business involves weaving, knitting, processing, home textiles, ready made garments and polyester yarns.
- It exports 26% of its products to over 90 countries in the US, Europe, South America, Asia and Africa.

BUSINESS ANALYSIS

CHAIRMAN’S LETTER

- I would like to thank you all for your continuous support and trust in Alok Industries.
- Despite the challenges faced by the company in the last few years we remain optimistic for a resolution that will help us rebuild and regain our position in the industry.
- In terms of capacity and potential we continue to be India's largest fully integrated textile company with a dominant presence in the cotton and polyester value chain.
- We continue to be driven by best global practices and a vision for bringing about a positive change. Our state-of-the-art manufacturing facilities built over the years continues to give us strength and confidence in our ability to fulfill customer demand at all times.
- Our major challenge remains the current debt situation and the corresponding working capital crunch which has further affected the utilization levels of all the divisions and overall performance of the company.

BUSINESS ANALYSIS

MANAGEMENT DISCUSSION

- The overall performance of Alok industries in recent past has been impacted by low plant utilization levels due to unavailability of required working capital. However once working capital requirement is addressed all the business divisions of Alok are capable of running on self-sustaining basis and there are good opportunities for each division to grow.
- In the polyester division Alok has developed a very good reputation for quality and developed a good brand name (Alok) for its polyester yarn in the domestic and export market. The Company has developed strong network of agents and distributors for marketing of its products both in the domestic and export markets.
- Alok has a well-established Home Textiles division. Its large scale and integrated operations high product quality competitive pricing and timely delivery schedules has enabled it to add in its portfolio of customers large reputed global retailers and importers over the years. The apparel fabric segment company is the large strevenue generator for the company.
- Alok has been expanding its apparel fabric capacities i.e. weaving knitting and processing from time to time and has emerged as the largest supplier of Apparel fabrics. Alok is also offering more value added products than before and its consumer base includes globally renowned brands.
- Overall Alok's position in terms of its operational capabilities are good technically and sustainable for each of the divisions and capable of growing once the debt resolution is achieved.

FINANCIAL ANALYSIS

Scanning Profit & Loss

- In the expenses notes by using clever accounting the company is showing everything normal but the cost of manufacture increases by the same ratio as increase in sales.
- Ultimately resulting in low or same sales margin.
- Programming,telecast and license cost increase by 560%.
- Interest increased by double however additional borrowings are very less compared to it.

Sales Growth

Year on year (YoY) sales growth rate from 2015 to 2019.

12.93%	-46.4%	-32.5%	-36.7%	-39.2%

- We can see that the sales growth is consistently decreasing and 5 yr CAGR of sales growth is -30.97%. This should be marked as a red flag and we should steer clear of this company.

Operating Profit Margin

The YoY Growth rate of Operating Profit in percentage(2015-2019).

21%	-21%	-15	-246%	-4%

- Opm has decreased and also fluctuated a lot. In 2018, OPM has decreased by 246% which was caused by an increase in expense and decrease in sales.

Net Profit Margin

The YoY Growth rate of Operating Profit in percentage(2015-2019).

1.07	-33.7	-35.3	-336.9	61.9

- **The net profit margin is oscillating heavily between 2015-19 with the highest drop in 2018 of about -300%.**
- **But the good thing is that the NPM seems to have improved drastically in 2019**

Cash flow Statement

- A drop of 327% can be seen in net cash flow ‘generated’ from CFO between the financial year of 2017-18 to 2018-18 in the net cash used segment of CFO. This change in inventory may be caused by PROGRAMMING, TELECAST AND LICENSE FEES.
- There is a sudden spike every alternate year, this means the company is borrowing more money every alternate year even when the profit is negative.
- The interest on liabilities exceeds their income from assets.
- Net cash and cash equiv. have increased from -59.27 Cr. in FY 2015-16 to -21.48 CR. in FY 2016-17, which is a good sign for the company.
- Net cash and cash equiv. have decreased from +65.58 Cr. in FY 2017-18 to -3 CR. in FY 2018-19, which is a bad sign for the company. This sudden decrement shows cash movements to unusual places.

Cash flow from operation

YoY cash flow from operating activities from 2015 to 2019.

Cash flow analysis	March 15	March 16	March 17	March 18	March 19
CFO	3,839	-3,006	-3,032	-98	115
CFI	156	449	-100	211	38
CFF	-4,631	2,457	3,172	-149	-180

- In every year there is a huge difference in CFO & PAT that means the cash flow statement is manipulated.

Cash flow from investing

YoY cash flow from investing activities from 2015 to 2019.

Cash flow analysis	March 15	March 16	March 17	March 18	March 19
CFO	3,839	-3,006	-3,032	-98	115
CFI	156	449	-100	211	38
CFF	-4,631	2,457	3,172	-149	-180

- CFI is oscillating heavily from FY 2015-19 which is not a good thing and means that company have invested in risky/unstable assets.

Cash flow from financing

YoY cash flow from investing activities from 2015 to 2019.

Cash flow analysis	March 15	March 16	March 17	March 18	March 19
CFO	3,839	-3,006	-3,032	-98	115
CFI	156	449	-100	211	38
CFF	-4,631	2,457	3,172	-149	-180

- Cff is very high in FY16&17 which means that company has increased their borrowings heavily in those years.
- However it comes down to -ve in the FY18-19 which is a good thing

Net Cash flow

YoY net cash flow from 2015 to 2019.

Net Cash Flow (CFO +CFI +CFF)	-636	-100	40	-36	-27

- The company has negative cash flow in the past 5 years except the year 2017, but it is improving every year.

Quality of revenues

	March 15	March 16	March 17	March 18	March 19
PAT	258.26	-4357.11	-3083.14	-18579.7	2076.16
CFO	3839.12	-3005.7	-3032.1	-97.89	115.41
cCFO	-2181.22				
cPAT	-23685.6				
cCFO / cPAT	9%				

- The difference between CFO AND PAT is highly negative from years 2016-18 but positive in 2019

Free Cash Flow

Free cash flow (FCF)	3846.26	-11968.23	-3676.12	59.27	60.23
Free cash flow to equity (FCFE)	33.5	-14841.7	-7117.9	-4652.06	-4248.5

- FCFE is continuously negative for last 4 FY. Which indicates that the company is heading towards bankruptcy.
- The FCF was positive in last 2 FY but very low.

Capex investment

Good business grow with low CAPEX required or their CFO can fund the CAPEX

Capex	-7.14	8962.47	644.02	-157.16	55.18

- CAPEX VALUES FROM 2015-19
- SUDDEN SPIKE is observed in 2016 and then DROP in 2017.
- CAPEX should be less than CFO, but it's not the case in every FY in the last 5 year.

Self Sustained Growth Rate

The YoY SSGR in percentage(2015-2019).

SSGR	7	-106	-99	248	-13

- SSGR is very low for the years 2016, 2017 and 2019, but a SUDDEN SPIKE is observed in 2018 which is unusual.
- Then it DROPPED in the year 2019.
- This is a BAD sign

Quality of ROE

The YoY ROE = (Profit margin * Asset Turnover * Financial leverage) in percentage(2015-2019).

ROE	7	-106	-99	248	-13

ROE is fluctuating, a SUDDEN SPIKE in 2018 is observed when compared to others. In the years 2016, 2017 and 19 it in -ve which is not a good sign.

Also the ROE and SSGR have same data which is strange.

VALUE CREATED FROM RETAINED EARNINGS

The YoY SSGR in percentage(2015-2019).

Value created per INR of 5 yrs retained earning - MCM	0.02
Value created per INR of 5 yrs retained earning - EPS	-7.68

MCM should typically be greater than 1.

EPS method should be at least 13%(20% or more is GOOD), but conditions are not met.

EVALUATING FUTURE SOLVENCY

The YoY ROE = (Profit margin * Asset Turnover * Financial leverage) in percentage(2015-2019).

Evaluating Solvency	March 15	March 16	March 17	March 18	March 19
D/E	4.94	4.84	15.10	-1.64	-1.73
Interest coverage ratio	2.22	-1.12	-0.46	-4.27	-0.04

- The company have great D/E ratio but its debt is also increasing every year which is weird and means some clever accounting have been done.
- Also the company took debt which can not be supported by its FCF as the FCF itself is negative, hence increment of D/E ratio is not justified.

CHECKING THE VALUE CREATED FROM EARNINGS

EPS

EPS	1.88	-31.63	-22.39	-134.9	15.07
YoY Growth of EPS	-12.97%	-1787.1%	-29.24%	502.63 %	-111.1 7%

EPS from 2015 afterwards is -ve and eps yoy growth is fluctuating heavily and also -ve so rejected at this point. A SUDDEN SPIKE is observed in the year 2018. The fluctuation in EPS is caused by fluctuation in loss after tax attributable to equity shareholders, when the loss increases the EPS decrease and vice versa.

Earnings Yield

Earnings Yield	25%	-703%	-759%	-4573%	317%

SUDDEN -VE DROP from 2016 and it should be more than or = 13% so it is rejected for value investor, BUT there was a SUDDEN SPIKE in 2019.

NO DIVIDEND YIELD from last 5 years

INDUSTRY COMPARISON

ATTRIBUTES	Alok IND.	Page IND.	Welspun India	Garware tech.	KPR Mill
Sales Growth	-32.72%	13.80%	5.07%	4.03%	5.50%
OPM%	-53%	20.8%	22%	15.2%	18.4%
ROE	NA	45.97%	16.50%	23.4%	20.91%
ROCE	-3.68%	63.76%	16.6%	25.49%	20.41%
ROIC	0.11%	46.5%	11.63%	17.68%	16.9%
Inventory Turnover Ratio	3.28	3.95	5.11	6.09	29.24
cCFO/cPAT	9%	107%	201%	82%	118.5%
Inventory days + Receivable Days	354	111.48	118.23	144.02	95.99
ROA	166%	39.07%	9.40%	213%	13.45%
Net Fixed Asset Turnover Ratio	0.94	9.39	2.31	4.47	11.83

Positives:

- The conflict between India and China resulted in the end of trade for PPE kits, which led to the growth of Alok (as per news)
- Alok had the advantage, as China’s PPE kits were found to be faulty, which in turn boosted up its growth (as per news)

Negatives

- In the expenses notes by using clever accounting the company is showing everything normal but the cost of manufacture increases by the same ratio as increase in sales
- In actual the sales growth is consistently decreasing
- Even though the company doesn’t have profit (-ve profit) still the borrowings are increasing every alternate years

MANAGEMENT ANALYSIS

The Board of Directors of Alok IndustriesLimited consist of 4 key people:

Surinder Kumar Bhoan

Chairman (Independent) of the Company since 30th March. He has served as Director on the board of several companies.

Ashok B. Jiwrajka

Executive Director of the Company. He is a member of the core management committee which takes key decisions about the Company.

Dilip B. Jiwrajka

Managing Director of the Company. He is also a member of the core management committee which takes key decisions about the Company.

Surendra B. Jiwrajka

Joint Managing Director of the Company. He is a member of the core management committee which takes key decisions about the Company.

SUMMARY OF COMPANY ANALYSIS

The overall performance of Alok industries in recent past has been impacted by low plant utilization levels due to unavailability of required working capital.

Once working capital requirement is addressed all the business divisions of Alok seem capable of running on self-sustaining basis and there are good opportunities for each division to grow.