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Tata Opportunities Fund to buy 5% stake in Tata Sky

Arijit Barman & Nandini Raghavendra, ET Bureau May 16, 2013, 05:00AM IST

Tags: ZEE Network | Zee group | Videocon | Tata Sons | Tata Sky | Tata Opportunities Fund | star india | Rupert Murdoch | Reliance communications | News Corp | Ginger Hotels | Bharat Business Channel Ltd. | Bay Tree Investments | Airtel

MUMBAI: Tata Opportunities Fund (TOF) LP - a captive PE fund of the \$100 billion salt-to-software conglomerate -- is all set to buy a 5% stake in Tata Group's joint venture DTH company Tata Sky. TOF, which has a corpus of \$600 million raised last month, will pay Rs 275 crore (\$50 million) for a 5% stake, valuing the loss making JV at \$1 billion.



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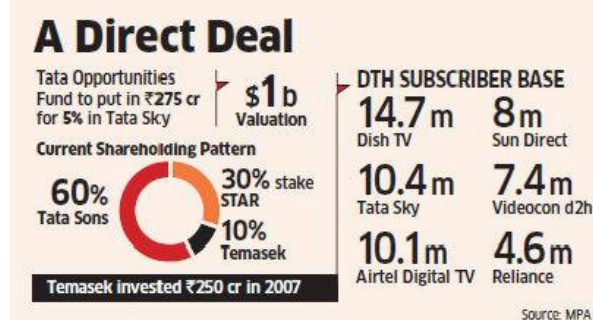
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This transaction is also expected to set a benchmark valuation, say industry experts as the company is likely to list next year. Tata Sky, set up seven years ago, competes in the fast growing direct-to-home TV-service market with Dish TV (part of the Zee Group) Bharti Airtel, Reliance Communications, Sun Group and Videocon.

Tata Sky is a joint venture between the Tata Group and Rupert Murdoch's STAR. Currently Tata Sons owns 60% while STAR owns a 30% stake. STAR is the television unit of News Corp, which also owns The Wall Street Journal and Dow Jones & Co. Singapore's sovereign investment fund Temasek through Bay Tree Investments owns the residual 10%, after it came on board in 2007 with a Rs 250 crore. TOF's investment implies that the company's valuation has doubled since the earlier round of funding.

Tata Sky will issue fresh shares to TOF, which is owned by Tata Capital, the Group's NBFC unit.

Interestingly TOF is currently headed by former Temasek India MD Padmanabh "Paddy" Sinha.



In 2011-12, the company made a net loss of Rs 298 crore on net sales of Rs 1,590 crore as compared to a net loss of Rs 470 crore on net sales of Rs 1,350 crore recorded in the previous fiscal. Total accumulated losses for Tata Sky stood at Rs 4303 crore at the end of last fiscal.

Dish TV, part of the Zee Network, is the only listed company in the space with a current market cap of Rs 7,026 crore and a subscriber base of 14.7 million. Tata Sky has a 10.4 million subscribers.

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Tata Opportunities Fund (TOF) is mandated to deploy the lion's share of its corpus in 'Tata Group related situations.' It has raised institutional money from third party sovereign wealth funds, financial institutions, wealthy individuals and global corporations across North America, Asia and Middle-East. Till date, it has made a single investment in 2011 --- at a time it was still raising funds --- picking up a 10% stake in Ginger Hotels.

Within Tata Capital's private equity franchise that includes a healthcare fund and an innovation fund, TOF is the largest ticket-sized fund. Its recent maiden closure is amongst the largest India-specific private equity raising since the 2008 financial crisis. A spokesperson from Tata Group's external agency partner Rediffusion did not respond to ET's detailed questionnaire till the time of going to press.

Harit Nagpal, Tata Sky CEO declined to comment. STAR India CEO Uday Shankar could not be contacted, as he is overseas.

But sources said the deal is currently awaiting regulatory approval from Information and Broadcasting Ministry. "It is a primary issuance so money will be going in to the company.

TOF will be issued new shares and the existing partners are all to get diluted. But the dilution will be more for the Tatas," said an official familiar with the plans on condition of anonymity as the talks are still private.

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Industry officials add that Tata Sky needs Rs 500 crore of equity infusion each year to service its debt obligation and meet its capital expenditure plans. Last month, WSJ reported that Tata Sky has short listed Kotak Mahindra Capital, Morgan Stanley and Citigroup to manage the upcoming offering. Last month, Videocon's Bharat Business Channel Ltd. which provides DTH services under the brand name Videocon D2H, filed a draft prospectus for a \$130 million IPO.

The Indian DTH market has witnessed double-digit growth on the back of the recent digitization drive across most urban markets. They have made a dent into the cable & satellite market though subscriber acquisition costs and churn rates remain high. In a recent report by Singapore based pay TV research firm Media Partners Asia (MPA), revenues for DTH operators are expected to treble to over \$5 billion by 2020 as mandatory cable TV digitisation would help the DTH players expand their subscriber base.

Estimates are that the India's DTH players raked in \$1.5 billion last year. While Dish TV continues to lead with a market share of 27 per cent in terms of gross additions, Videocon d2h leads in terms of incremental additions in 2012. Tata Sky and Airtel Digital TV have 19 and 18 per cent market share, respectively. These four players together accounted for 88 per cent of total gross additions last year, said MPA.

In September 2012, the government also hiked the foreign direct investment ceiling in the sector to 74%, a move that is expected to trigger consolidation and attract larger foreign capital.

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Bhawna (G)

17 May, 2013 12:09 PM

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Gilbert Dawson (Hyderabad)

16 May, 2013 11:00 AM

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