



RESEARCH:: COMPANY:: UTV SOFTWARE COMMUNICATIONS LTD.

11th Aug' 2010

Long Term Buy

CMP	Rs 486
Target price	Rs 597
Projected PE	22-24
Investment period	6-12 months

UTV Software Communications Ltd is India's first integrated global media and entertainment company. The company has five business verticals, which includes TV content production & services, motion pictures, broadcast, interactive and new media. It has diversified across all major media platforms and has created highly scalable business models for each of the existing business verticals. This makes it the most respected integrated media companies in India.

Key Highlights

- UTV Software is looking to scale up its broadcasting and gaming business. In console gaming business, the company has invested around \$70 million so far. It would induct a strategic partner in the subsidiary, for divesting as much as 50% stake to ensure good synergy for distribution and marketing of its games. Cash generated through divestment would be used to retire some of its debt to raise its flexibility in the future.
- Company has plans to launch 12 movies this year, of which two movies - 'I hate luv stories' and 'Rajneeti', have already hit the cineplexes. They are expecting projected revenue of Rs.450 crore for the financial year 2010-11, which will be 95 percent up from Rs.230 crore revenue in financial year 2009-10.

Future Outlook

At Current market price of Rs486, the stock is available at a P/E of 18.35x of its FY11E earnings, and 15.2x of its FY12E earnings. We recommend a BUY with target price of Rs597, given that company's future shows potential.

(Consolidated Basis)			
Particulars (Rs Cr)	FY10	FY11E*	FY12E*
Total Revenue	686.05	987	1120
PBIDT	69.22	152.98	178.08
PBT	22.89	107.58	129.88
Tax	-27.28	-	-
PAT	50.17	107.59	129.88
EPS	12.35	26.48	31.96
OPM (%)	10.08	15.5	15.9
NPM (%)	7.31	10.9	11.59

Source: Company Reports, Fairwealth Research Estimate

*Estimated

Why to Invest in UTV Ltd

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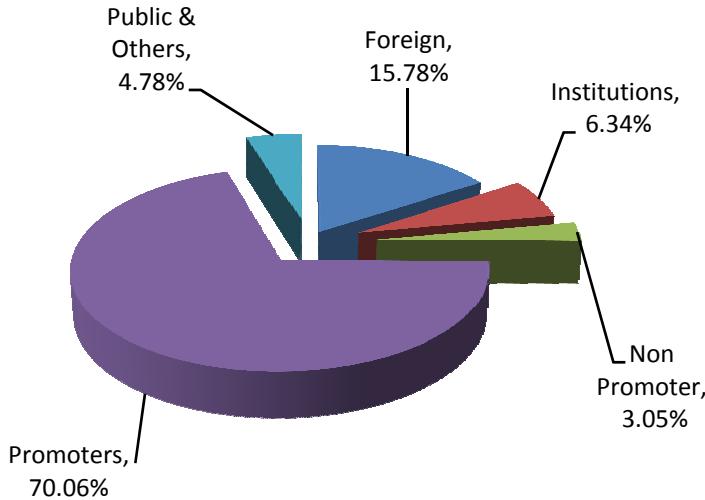
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Fairwealth Research Desk:-
<http://fairwealth.in/Research.aspx>

Contact Us:-

Email: - research@fairwealth.in
Direct Line: - 0124-3024874/840

SHAREHOLDING PATTERN



COMPANY PROFILE

UTV Software Communications is an integrated media and entertainment company. It was incorporated in the year 1990 and got listed in 1998.

The company is engaged in the production and licensing of television content and broadcasting, motion pictures, interactive programs including animation and gaming. It has content creation abilities across platforms and genres

The company has strategic alliances with Hollywood studios like Fox, Walt Disney, Sony, Will Smith's Overbrook, and is the largest movie studio from South Asia.

BUSINESS SEGMENTS:

Earlier, in 1990, it evolved as a television content Production Company and have since developed into an integrated media and entertainment company. Its business is divided into five business streams:

Television involves production of content and the sale of commercial air time to advertisers on networks throughout India. UTV also sells air time on Sun Network, India's largest regional network, across its four channels: Sun TV, Surya TV, Udaya TV and Gemini TV.

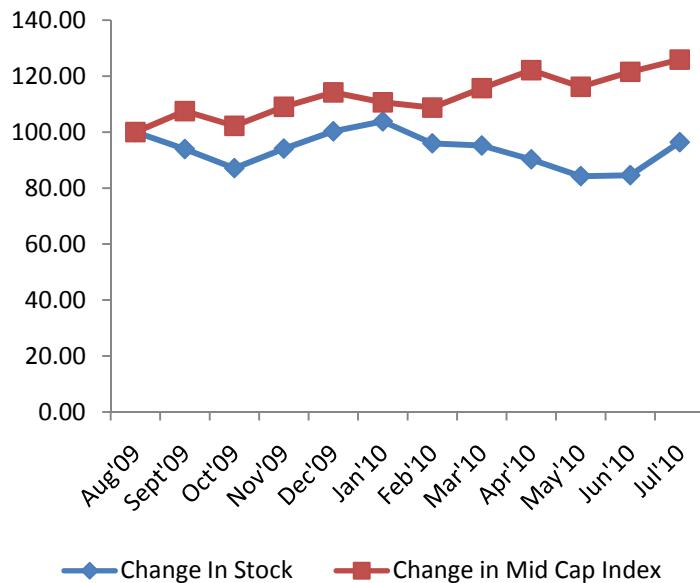
Movies division focuses on the production and co-production of Indian films and the distribution of such films across various platforms. UTV has more than a decade of experience in movie production having produced/co-produced movie blockbusters such as Jodhaa Akbar, Kaminey, Fiza, Swades, Lakshya and Rang De Basanti. It has also co-produced Hollywood movies including The Namesake and The Happening.

Games Content includes video game content development, publishing and global distribution across mobile, online and console platforms. UTV has acquired a majority stake in three Games Content companies - Ignition, which creates cutting edge high-end console Game Content, India games, India's largest publisher of games for mobile phones, and True Games, a U.S.-based start-up company which is developing games for the online PC platform.

Broadcasting involves marketing and broadcasting a diverse set of channels on television in India. UTV has strategically focussed on specialty genre channels which are available on cable and satellite distribution. It includes operations of four channels i.e. UTV Bindass, UTV Action, UTV Movies and UTV World Movies.

New Media is a business that attempts to converge UTV's content development and creative capabilities to the mobile and internet platforms. This segment specifically targets a youth audience in domains such as entertainment (television, films and music), gadgets and technology.

Stock Performance



The company's stock has moved in tandem with broader market index.

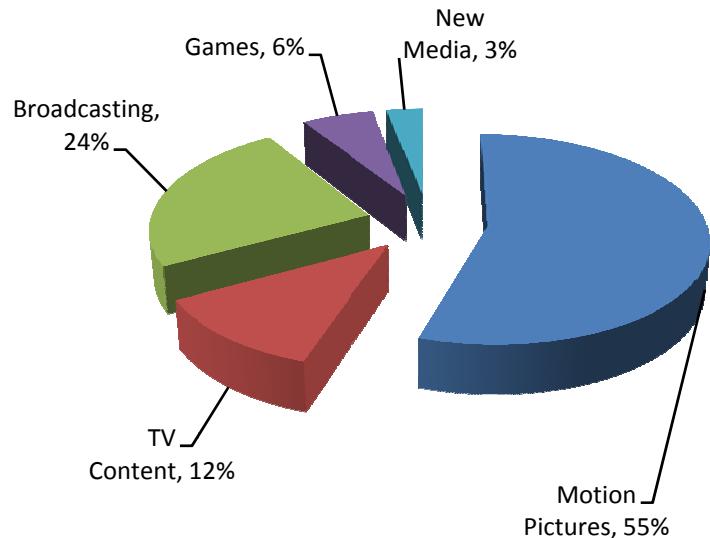
QUARTERLY ANALYSIS

Particulars (in cr)	Jun'10	Jun'09	% Var	Mar'09	% Var
Net Sales	199.27	86.52	130.32	126.84	57.1
Other Income	8.99	4.52	98.89	3.78	137.83
Total Income	208.26	91.04	128.76	130.62	59.44
Expenditure	159.7	123.9	28.89	89.91	77.62
PBIDT	48.56	-32.86	247.78	40.71	19.28
Interest	6.33	6.05	4.63	10.15	-37.64
PBDT	42.23	-38.91	208.53	30.56	38.19
Depreciation	1.86	1.81	2.76	0.64	190.63
PBT	40.37	-40.72	199.14	29.92	34.93
Tax	-0.12	8.97	101.34	-1.06	-88.68
PAT	40.25	-31.75	226.77	30.98	29.92
Equity	40.63	34.2	18.8	40.63	0
EPS	10.14	0	-	7.51	35.02
OPM %	24.37	-37.98	-	32.1	-
NPM %	20.2	-36.7	-	24.42	-

Company has reported a PAT of Rs. 40.25 crore for the first quarter ended June 30th 2010, up from the Rs. 31.75 crore losses in the corresponding quarter last year. The improvement in performance is on the back of a substantial increase in Revenue – Rs. 208.2 crore, compared with Rs. 91.04 crore, largely due to an increase in revenue from the motion pictures business.

A quarterly comparison is perhaps not justified, since the company is invested heavily in the films and gaming business, where costs tend to be taken on initially, and revenues are often lop sided. In terms of revenue contribution, Movies and TV continued to dominate revenues for UTV.

SEGMENTAL REVENUE (Q1 FY11)



Television Segment

During the quarter, this segment reported a decrease of 14% in revenue to Rs. 24.2 cr from Rs. 28.2 cr in the same quarter last fiscal. During the first quarter of the last fiscal, company had a high budget reality show Dance India Dance on Zee. The decline in revenues in this quarter is mainly due to the absence of any such high budget reality show. The contribution from this segment during the quarter ended June 30, 2010 was 12% of UTV's consolidated revenues. The average airtime sale improved by 15 hours during the quarter, i.e. increased to 125 hours as compared to 110 hours during the last quarter.

Movies Segment

The Movies segment during the quarter, reported an increase of 318% in revenue to Rs. 110.8 cr from Rs. 26.5 cr in the same quarter of last fiscal. This increase is primarily attributed to the release of Rajneeti this quarter as compared to no releases during the corresponding quarter last fiscal due to the multiplex-producer standoff. In addition, company also had syndication income this quarter from the sale of rights for some of the older films coupled with a significant realization from the Hollywood slate.

Games Segment

During the quarter, this segment reported a marginal increase in revenue to Rs. 12.2 cr from Rs. 11.7 cr in the same quarter last fiscal. This segment has contributed to around 6% of the operating revenues of the Company.

Media Segment

During this quarter, this segment has contributed to about 3% of the operating revenues of the Company. The segment has reported a profit of Rs 20 Lakh as compared to a loss of Rs. 2.1 cr during the same quarter in the previous year.

Broadcasting

During the quarter, this segment reported an increase of 172% in revenue to Rs. 48.1 cr from Rs. 17.7 cr in the same quarter last fiscal. The segment reported a profit of Rs. 3.8 cr during the quarter against a loss of Rs. 10.4 cr during the same quarter of the previous fiscal year.

FINANCIALS OF THE COMPANY

PAST FIVE YEARS PERFORMANCE

Particulars (In crores)	2009-10	2008-09	2007-08	2006-07	2005-06
Net Sales	664.05	606.55	434.15	174.91	208.42
Other income	22.14	100.73	23.94	33.99	13.81
Total Income	686.19	707.28	458.09	208.9	222.23
Less: Expenditure	616.97	689.7	369.48	167.82	196.83
PBIDT	69.22	17.58	88.61	41.08	25.4
Less: Interest	40.16	7.7	18.33	7.28	3.96
PBDT	29.06	9.88	70.28	33.8	21.44
Less: Depreciation	6.17	6.95	3.89	3.14	4.74
PBT	22.89	2.93	66.39	30.66	16.7
Less: Tax	-27.28	-43.59	-11.3	-16.38	2.48
Net Profit	50.17	46.52	77.69	47.04	14.22
Minority Interest (After Tax)	-3.16	10.9	20.03	0.71	0
Net Profit after Minority Interest	53.33	35.62	57.66	46.33	14.22
Less: Extraordinary items	1.26	0.06	8.27	24.18	4.13
Adj. Net Profit	52.07	35.56	49.39	22.15	10.09
Equity Share capital	40.63	34.2	24.84	22.89	19.49
EPS	12.35	13.6	31.04	20.2	7.3
Cash EPS	13.87	15.63	32.84	21.92	9.73
Operating Profit Margins %	10.42	2.90	20.41	23.49	12.19
Net Profit margins %	7.56	7.67	17.89	26.89	6.82

During FY10, the Net sales of the company witnessed an increment of 9.48% to Rs 664.05 cr as against Rs 606.55 cr during the corresponding period last year. Correspondingly the PBIDT of the company worked out to be Rs 69.22 cr increased by 293.74% as against Rs 17.58 cr over last year. During the year, operating profit margin surged by 753 bps to 10.42% over last year.

Net profit after tax registered a growth of 7.53% to Rs 50.17 cr as against Rs 46.52 cr over the corresponding period last year. The interest cost of the company witnessed an increase of over 421% to Rs 40.16 cr as against Rs 7.7 cr.

The broadcasting business of the company, which comprises of UTV Bindass, UTV Movies, UTV Action and UTV World Movies, accounted to revenues of Rs 151 cr in FY2010 and operating loss of Rs 3.63 cr. The Company deployed Rs 425 cr of capital in its broadcasting sector.

Company's further investments will be directed towards building library and catalogue of Hindi, Hollywood and world movie titles for multiple years. UTV holds multiple year rights for approximately 1,000 movies for channels and in some cases the right to syndicate.

For the FY 2010-11 UTV foresee to achieve Rs 220.0 cr of revenue with 80% of this from Advertising and 20% from subscription.

The Gaming business of the Company reported revenues of Rs 95.09 cr and the New Media verticals posted Rs 11.97 cr as the revenues for the FY2010.

BALANCE SHEET

Particulars(In crores)	2009-10	2008-09	2007-08	2006-07	2005-06
Net Worth	772.29	1387.25	457.22	177.56	133.79
Minority Interest	32.62	142.12	99.75	7.41	0
Loans- Term	283.68	89.05	117.55	29.83	30.37
Loans - Working Capital	678.98	380.95	152.19	133.89	71.11
Deferred Tax Liability	101.6	79.39	25.96	13.46	-2.63
Total	1665.97	1919.98	800.75	335.23	237.9
Net Block Including WIP	459.34	439.23	108.14	87.75	40.73
Investments	20.06	28.42	0.14	17.15	20.05
Net Working Capital	1186.57	1452.33	692.47	230.33	177.12
Deferred Revenue Expenses	-	-	-	-	-
Total	1665.97	1919.98	800.75	335.23	237.9

ANALYSIS & REPORT

Why to invest in shares of UTV Software Ltd.?

COMPANY:

MOVIES

'Studio Approach' to Movie Production and Distribution

Company believes in a 'studio approach' in movie production and distribution business. This involves retaining a strong portfolio of movies under production at all times and is achieved by entering into long-term multiple movie contracts with prominent directors and artists to develop and release movies that appeal to wide audience bases.

'Pre-Selling' Business Model

Company proceeds by pre-selling the music rights and satellite rights and secure the funds from the unexpected performance at the box office. In FY11, company gives the guidance of releasing 9-11 movies during the year.

BROADCASTING

Low Cost Specialty Channels:

Company's broadcasting provides programming tailored to specific audiences. Their target audiences are defined which keeps broadcasting costs low and helps in capitalizing the high demand for special interest content.

TELEVISION

Produce a Wide Array of Television Content

Company has a strong footing in exploring diverse forms of audio visual entertainment and to produce television programmes across a broad range of genres, like comedy, drama, thrillers and reality programming.

Focus on Quality in Airtime Sales:

Company is taking intense measures to increase the airtime sales business, by concentrating on quality more than quantity by having better performing shows.

GAMING

Creating proprietary Games Content

In Games Content, company strategically moved from B2B to a B2C business model by shifting the focus from pure publishing to core Games Content product development. As a result, they have begun to develop console, mobile and online games through its subsidiaries Ignition, India games and True Games.

FUNDAMENTALS:

- The management expects revenue of Rs 160 crore from television segment in FY11 against Rs 100 crore in FY10. The company has many shows to be launched in 2nd and 3rd quarter on GECs (general entertainment channels). Based on number of shows on air, the company is expected to be the leader by Q3 FY11.
- UTV currently operates four channels – UTV Bindass, UTV Action, UTV Movies and UTV World Movies and is further looking at two or three speciality channels with set criteria of low capital employed that can break-even in 18 months.
- The group's interactive arm, UTV New Media, has forayed into celebrity aggregation in the digital space and has tied up with 17 celebrities across cinema and sports. Company will make money through advertisements on the web and mobile Internet, there will be a subscription fee ranging from Rs 5 to Rs 30 on voice and SMS. Company is targeting 10-15 million subscribers across a variety of products.
- Company is offering games on various platforms like DTH, online and iPad/iPhone. In the international market, its game Bruce Lee has come in Top10 Games on iPad/ iPhone—across USA/UK/Japan/EU. In UTV True games, company will launch 3 games in USA in FY11. UTV Ignition, company's first in house developed AAA game El Shaddai - Ascension of the Metatron will be sold this year while one other is ready for sale this year or early next year. Thus, company has potential games in its basket which would drive the growth of its gaming segment.
- Company's Broadcasting revenues had boost up, driven by an increase in inventory utilization and ad rates. It is expected that the broadcasting business will outperform during FY11E.

KEY RISK FACTORS:

- The Company operates in highly competitive environment that is subject to innovations, changes and varying levels of resources available to each player in each segment of business.
- Certain parts of Companies business like production of television content, post production and dubbing are highly fragmented with competition ranging from other organized large players to individual producers.
- Acceptance of the company's film and television programming by the public is difficult to predict, which could lead to fluctuations in revenues, and the Company's business of film production and distribution involves high level of risks.
- Most of the activity undertaken by the Company is creativity driven and Company's long-term profitability is dependent on its ability to attract and retain creative and technical talent.
- The Company's business is significantly regulated and segments of media and entertainment changes in regulations could adversely affect its operations.
- In broadcasting space, company is competing not only with established players having deep pockets but also a whole host of new players planning a foray into the space. The Company believes that there are risk factors inherent to such a new venture, such as execution risk, competitive risk and the risk of unpredictability in viewer reactions.

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**FAIRWEALTH SECURITIES PVT. LTD.
FAIRWEALTH COMMODITY BROKING PVT. LTD.**

H. O. : Plot No. 651-652, Ldyog Vihar, Phase-5, Gurgaon 122001 (Haryana)
Phone : 0124-3024400 - Fax : 0124-3024474
Website : www.fairwealth.in • E-mail: info@fairwealth.in

* **Delhi** : UG-3, Somdutt Chambers, 9 Bhikaji Cama Place, New Delhi-110 066 • Ph. : 46091111 (50 Lines) • **Mumbai** : Unit No.12, 2nd Floor, Sonawala Apollo Building, Mumbai Samachar Marg, Above Oriental Bank of Commerce, Fort, Mumbai - 400 001 (Maharashtra) • Ph. : 022-26200053 • **Haryana** : SCO-250, Sector-16, Panchkula - Haryana, Pin - 134109 • Ph. : 017-25057614, 15, 17 • **Punjab** : SCO - 135, First Floor, Choti Bharadari, Patiala, Punjab - 0175-3241555, 3243555, 3246555 • **Rajasthan** : 411, 4th Floor, Ganpati Plaza, M.L Road, Jaipur 30200, Rajasthan • Ph. : 0141-4073710 • **Ahmedabad** : 206, Peoples Plaza, Nr. Memnagar Fire Station, Navrangpura, Ahmedabad- 380009 • Ph. : 079-27911126 • **Indore** : 101-102, Kalyan Palace, Opp. Sheesh Mahal, Cloth Market, Indore, M.P.-452001 • Ph. : 0731-4250007/8/9 • **Lucknow** : 24, 1st Floor, Mahavir Plaza, B.N. Road, Lal Bagh, Lucknow, UP-226001 • Ph. : 0522-4082901/02/03 • **Kolkata** : 3rd Floor, Tobacco House, Dalhousie Square, 1, Old Court House Corner, Kolkata-1 • **Dehradun** : 1st Floor, City Centre, 54, Rajpur Road , Dehradun (Uttarakhand) • **Surat** : G-10, Empire State Building, Near Udhna Darwaja, Ring Road, Surat, Gujarat - 395002 • Ph. : 0261-3103298, 3102890 • **Raipur** : 1st Floor, Guri Apartment, Main Road, Sadar Bazar, Raipur, Chattisgarh - 4920019 • Ph. : 0771-4243200, 02