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Sector Update

Prabhudas Lilladher

Media

November 30, 2007

Capital ideas

Key Financials

Balaji Telefilms

Y/e March	FY07	FY08E	FY09E
Sales (Rs m)	3,175	3,408	4,054
PAT (Rs m)	797	895	1,061
PE (x)	28.3	25.2	21.3

Deccan Chornicle Holdings

Y/e March	FY07	FY08E	FY09E
Sales (Rs m)	5,876	8,254	10,522
PAT (Rs m)	1,650	3,098	3,784
PE (x)	28.8	15.3	12.5

Entertainment Network India

Y/e March	FY07	FY08E	FY09E
Sales (Rs m)	2,351	4,405	6,692
PAT (Rs m)	251	286	778
PE (x)	98.1	86.3	31.8

HT Media

Y/e March	FY07	FY08E	FY09E
Sales (Rs m)	10,397	12,114	14,803
PAT (Rs m)	964	1,411	1,844
PE (x)	42.6	35.9	27.5

Pyramid Saimira Theatre

Y/e March	FY07	FY08E*	FY09E*
Sales (Rs m)	1,643	5,387	10,744
PAT (Rs m)	134	561	1,121
PE (x)	73.4	19.9	9.9

PVR

Y/e March	FY07	FY08E*	FY09E*
Sales (Rs m)	1,667	2,300	4,000
PAT (Rs m)	102	215	400
PE (x)	62.1	31.2	16.8

UTV Software & Communication

Y/e March	FY07	FY08E	FY09E
Sales (Rs m)	1,749	4,270	7,793
PAT (Rs m)	463	743	1,153
PE (x)	-	24.5	17.0

** First cut estimates*

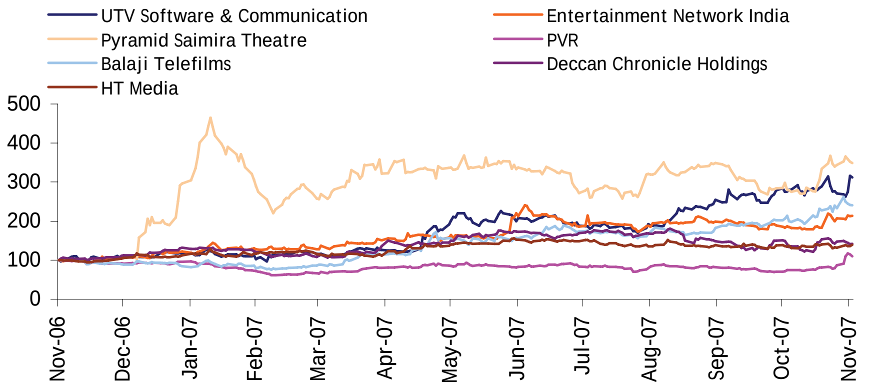
(Stock price as on November 30, 2007)

Stock prices of several companies in the Indian Media & Entertainment sector are being driven by likely corporate initiatives such as private equity investments, strategic investments, subsidiary IPOs, etc. In this note we have tried to bring to the fore seven such media companies that have witnessed some action purely on news flow of probable PE deals, strategic investment, etc.

Fundamentals remain unchanged

Media Segments	Positives	Negatives
Broadcasting	Addressibility platforms infrastructure in place	Increasing competition
	Improving TRPs	Lower than expected pick-up in digitisation
Print	Monetisation of literate, but non-newspaper reading population	Multiple players for single markets
	Declining newsprint costs	
Film production/distribution	Portfolio approach	Increasing content costs
	Alternate distribution platforms	Execution delays
Multiplexes	Improving occupancy levels	Declining avg. ticket prices
		Delay in property roll-outs
Content providers (television)	Increasing number of new channel launches	Increasing competition from unorganised sector
		Declining realisations
Out-of-home	Increase in supply of sites due to growing infrastructure development	Largely fragmented

12M stock performance



Source: Bloomberg, PL Research

Over the next 9-12 months, at least 8-10 deals in the listed media space could fructify, providing positive triggers to stock prices of these respective companies.

Most of the likely deals in the media space are a result of either:

a) Capital requirement for related diversification

b) Capital requirement for scale-up of existing businesses, or

c) Opportunistic value unlocking

In most of these cases, we think these deals will provide a positive trigger for the parent company stock, due to value visibility provided by the same. Companies in which corporate action may happen sooner than six months include UTV, ENIL, Pyramid Saimira and Deccan Chronicle. While those in which developments could take place in 6-12 months from now are PVR, HT Media and Balaji Telefilms.

Deals in the offing

Companies	Transaction likely	Rating
Balaji Telefilms	15% stake sale to PE investors in its motions pictures business, BMP	Outperformer
Deccan Chronicle	24% placement in its subsidiary, Sieger Solutions; 12% to PE and balance to promoters	Buy
Entertainment Network India	Plans to raise upto Rs5bn in the out-of-home media subsidiary (TIML). Funding will include a mix of debt and private equity, thereby unlocking value through the subsidiary	Outperformer
HT Media	Stake sale in its Hindi business subsidiary once it's demerged	Outperformer
Pyramid Saimira Theatre	Looking for an IPO listing by off-loading 10-12% stake in its production subsidiary, Pyramid Saimira Production Ltd. Also plans to raise US$75m (Rs3bn) through private equity investors for 25% stake	Not Rated
PVR	Might rope in a private equity player for funding its production venture	Not Rated
UTV Software & Communication	Considering to bring in a financial /strategic partner at the parent level or for its broadcasting subsidiary	Buy

Source: Industry, PL Research

Balaji Telefilms (BTL) Outperformer Rs346

Likely transaction

As per media reports, BTL plans to divest 10-15% of its stake to private equity firms in a 100% subsidiary, Balaji Motion Pictures (BMP), for Rs1.50bn, valuing the subsidiary at Rs10bn. However, the management neither confirms nor refutes any such development, as would be clear from the statement below.

"We are adequately funded to take care of our needs. We are weighing various options to fund our future growth. However, it is premature at this stage to comment on any specific instrument." ---- CEO Balaji Telefilms, Business Standard, November 26, 2007

Company brief

BMP was set-up by BTL in FY07, to mark its foray into film production and distribution business. The company has already released three of its five scheduled movies in FY08. It has set an aggressive target of 10-12 releases in FY09E.

Film slate for FY08

Movie	Status	Verdict	Remarks
Shootout at Lokhandwala	Released	Hit	Co-produced
Darling	Released	Flop	Co-produced
Bhool Bhuliya	Released	Hit	Only distribution
Wood Stock Villa	Awaiting Release	N/A	Co-produced
Sarkar Raaj	Awaiting Release	N/A	Only distribution

Source: Company, IBOS

Movie Partners

	Scope	No. of Movies
T-Series	Co-Produce	7
Popcorn Entertainment	Co-Produce	2
White Feather Productions	Co-Produce	1
Apurva Lakhia	Co-Produce	1
BMP	In-house Production	2

Source: Company

Since the subsidiary has not filed its financials, we are unable to make any comments.

Valuation

As per media reports a valuation of Rs10bn for BMP would translate into Rs130 per share value for BTL's shareholders. We believe that BMP doesn't merit such a high valuation, considering that UTV's production business is valued at Rs14bn, given its strong movie library, and product pipeline. However, BTL's stock price has appreciated by 10% since the news appeared in the media.

Valuation Table	*(Rs bn)*
EV of BMP	10
15% stake	1.5
Balance 85% stake value	8.5
Per share value (Rs)	130

Source: PL Research

We continue to value the company's core business at 18x FY09E earnings and derive our target price of Rs293; we are not assigning any value to its film production business, purely due to lack of data and management confirmation. We maintain Outperformer rating on the stock.

Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	2,804	3,175	3,408	4,054
EBITDA (Rs m)	937	1,196	1,363	1,632
Margins (%)	*33.4*	*37.7*	*40.0*	*40.3*
PAT (Rs m)	596	797	895	1,061
EPS (Rs)	9.1	12.2	13.7	16.3
PER (x)	37.8	28.3	25.2	21.3
EV / E (x)	24.0	18.8	16.4	13.4
EV / sales (x)	8.0	7.1	6.5	5.4
RoCE (%)	*25.2*	*28.3*	*26.1*	*25.4*
RoE (%)	*25.7*	*28.7*	*26.5*	*25.7*

Deccan Chronicle (DCHL) BUY Rs193

Likely transaction

DCHL plans to divest 24% stake in its 100% subsidiary, Sieger Solutions (SSL). Of the 24%, 12% stake could be taken over by equity firms and the balance by promoters. The company is hoping for Rs15-18bn valuation for SSL. If this happens, it will result in a per share value of Rs46 for shareholders of DCHL. However, since the value has not yet been confirmed by an independent investor, we would not incorporate the same into our target price.

Company brief

In FY07, DCHL set-up SSL as a 100% subsidiary to undertake the sales and marketing initiative of its advertisement space in all edition of the *Deccan Chronicle*.

Through SSL, DCHL also plans to foray into alternate media platforms such as internet portals, satellite radio, etc. SSL has already launched Papyrusclubs.com, a site for schools and colleges to create their own online newspapers and interact with students across the country. The company also plans to revamp Deccanchronicle.com into a full fledged e-paper site, more on the lines of Indiatimes.com. DCHL hopes to garner advertisement revenue from both these sites and also plans to make Deccanchronicle.com a subscription based e-paper. We expect SSL to post revenue CAGR of 79% in FY07-09E from Rs254m in FY07 to Rs819m FY09E.

Valuation

We continue to maintain our target price of Rs280 (18x FY09E earnings), we have not incorporated the possibility of value unlocking to happen through stake sale in SSL, purely because the enterprise value of the company has not been derived by an independent investor. However, as per the management's valuation estimate of Rs15-18bn, we derive a per share value of Rs46 for the shareholders of DCHL. We maintain Buy rating on DCHL.

Valuation Table *(Rs bn)*

EV of SSL	15	18
24% stake sale to PE & promoters (12% each)	*3.6*	*4.3*
Residual value	11.4	13.7
Per share value for DCHL (Rs)	46	56

Source: PL Research

Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	3,309	5,876	8,254	10,522
EBITDA (Rs m)	1,107	2,658	4,875	5,958
Margins (%)	*30.7*	*45.2*	*59.1*	*56.6*
PAT (Rs m)	680	1,650	3,098	3,784
EPS (Rs)	3.3	7.7	13.0	15.8
PER (x)	69.9	28.8	15.3	12.5
EV / E (x)	42.9	18.8	10.0	7.7
EV / sales (x)	13.2	8.5	5.9	4.3
RoCE (%)	*12.1*	*15.9*	*21.5*	*22.9*
RoE (%)	*23.3*	*28.7*	*30.7*	*28.1*

Entertainment Network India Outperformer Rs518

Likely transaction

ENIL's subsidiary, Times Innovative Media Ltd. (TIML), has transferred its event management business to a new subsidiary - Alternate Brand Solutions. TIML also plans to raise upto Rs5bn in the out-of-home media business. The funding will include a mix of debt and private equity, thereby unlocking value through the subsidiary.

Company brief

Entertainment Network (India) (ENIL) with its brand *Radio Mirchi* is a market leader in the fast growing Indian radio industry. The company through its two subsidiaries Times Innovative Media Ltd. (TIML) and Alternate Brand Solutions (ABS) also has presence in the out-of-home (OOH) media and event management businesses in India. ENIL's radio business is expected to be operational across all 32 stations by end of December this year. The company's subsidiaries are currently in investment phase and are ramping up aggressively across all its business segments.

Status of radio station rollout

Operational stations		Stations to rollout by end of December 2007
Varanasi	Jalandhar	Jabalpur
Aurangabad	Kolkata	Raipur
Ahmedabad	Kanpur	Vijayawada
Chennai	Vadodara	Thiruvananthapuram
Bhopal	Rajkot	
Bangalore	Panjim	
Pune	Jaipur	
Patna	Indore	
Nashik	Hyderabad	
Mumbai	Delhi	
Kolhapur	Surat	
Lucknow	Madurai	
Nagpur	Mangalore	
Coimbatore	Vishakhapatnam	

Source: Company Data, PL Research

Valuation & Outlook

We remain upbeat on ENIL's business model of being a city centric player. The company, besides having a proven track record of a market leader in the Indian radio industry, is also one of the few large organised players in the promising out-of-home media segment. In the event management space, ENIL owns some important brands like *Film Fare Awards, Smart Living Awards*, and *Mr. India World*. The company's decision to transfer the event management business into a separate subsidiary will bring in a much focused approach in each of the segments, besides bringing in the right synergies. At the current market price of Rs518, ENIL trades at 31.8x FY08E and 19.4x FY09E earnings. We maintain Outperformer rating on the stock.

Key Figures

Y/e March	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	2,351	4,405	6,692	8,833
EBITDA (Rs m)	435	798	1,582	2,400
Margins (%)	*18.5*	*18.1*	*23.6*	*27.2*
PAT (Rs m)	251	286	778	1,274
EPS (Rs)	5.3	6.0	16.3	26.7
PER (x)	98.1	86.3	31.8	19.4
EV / E (x)	59.0	32.8	16.4	10.7
EV / sales (x)	10.9	5.9	3.9	2.9
RoCE (%)	*7.7*	*8.7*	*16.3*	*22.3*
RoE (%)	*9.0*	*9.4*	*21.7*	*27.6*

HT Media (HTM) Outperformer Rs216

Likely transaction

HTM will demerge its Hindi business into a separate subsidiary by Q4FY08; we view this development as a long-term strategy of the management to monetise its Hindi business and divest part of its stake. However, the likely value of the Hindi business is still not known, but the management indicates that its value is considerable. Once demerged, greater clarity would emerge.

Company brief

HTM is India's second largest print media company. It prints *Hindustan Times* (English) and *Hindustan* (Hindi). It commands a circulation of about 2.6 million copies/day and a readership of 12.6 million.

The company plans to demerge its Hindi business into a separate subsidiary, so as to provide an independent impetus to the growing segment. As the industry is witnessing a change in trend, with advertisers moving to tier II and tier III cities.

The company has planned a capex of over Rs2bn in the next three years. We expect HTM's Hindi business to contribute Rs2.5bn in revenue and Rs300m in earnings during FY08E.

Valuation

We maintain our target price of Rs250 (32x FY09E earnings); this does not factor in any value from the Hindi business. However, our first cut estimates hint at a value of Rs33 per share for HTM's Hindi business. We retain Outperformer rating on the stock.

Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	8,214	10,397	12,114	14,803
EBITDA (Rs m)	1,190	1,680	2,414	3,167
Margins (%)	*14.5*	*16.2*	*19.9*	*21.4*
PAT (Rs m)	356	964	1,411	1,844
EPS (Rs)	1.5	4.1	6.0	7.9
PER (x)	143.0	52.6	35.9	27.5
EV / E (x)	41.6	30.4	20.9	15.6
EV / sales (x)	6.0	4.9	4.2	3.3
RoCE (%)	*6.6*	*11.9*	*15.0*	*16.6*
RoE (%)	*6.7*	*13.4*	*17.0*	*18.9*

Pyramid Saimira Theatre — Not Rated — Rs349

Likely transaction

Pyramid Saimira Productions Ltd. (PSPL), a 100% subsidiary of Pyramid Saimira Theatres Ltd. (PSTL), is planning to issue an IPO to raise Rs1.5bn. The parent company will be offloading 10-12% stake in PSPL, which is engaged in film and television content production. This values the subsidiary company at Rs15bn. PSTL is also considering to raise US$75m (Rs3bn) through its 100% Singapore-based subsidiary, Pyramid Saimira Entertainment Ltd. (PSEL), from private equity investors. PSTL is expected to dilute 25% stake in this subsidiary, which values it at Rs12bn. Against this, the current market cap of PSTL is around Rs9.8bn.

Company brief

Pyramid Saimira Theatre Ltd. (PSTL) is currently India's largest multinational entertainment company with strong dominance in south India. The company is also the world's fastest growing multiplex chains, with over 700 screens globally. PSTL has become the first Indian theatre chain to enter the US markets by acquiring a Texas-based theatre chain, FunAsia. Also recently, the company acquired 51% stake in Dimples Cine Media, which is India's largest cinema advertising company.

Aggressive screen ramp up

Company Name	Theatres		Screens	
	June'07	Sep'07	June'07	Sep'07
PSTL	336	445	371	487
PVR	21	23	82	89
INOX	16.0	19.0	57.0	65.0
Shringar	11.0	13.0	39.0	44.0
Cinemax	13.0	14.0	39.0	42.0
Adlabs	29	34	100	107

Source: Industry

Valuation & Outlook

PSTL has successfully replicated Hollywood's Paramount Studio's model in terms of content production and exhibition, and adopted technology (digitisation) to leverage on its content and wide network of theatre chains across India. The company today is well positioned as an integrated media conglomerate, offering one-stop shop for large media advertisers. At the current market price of Rs349, PSTL trades at 19.9x FY08E and 9.9x FY09E based on broad earning estimates.

Key Figures

Y/e March	FY05	FY06	FY07
Revenue (Rs m)	29	50	1,643
EBITDA (Rs m)	0.2	14	194
Margins (%)	*0.8*	*28.9*	*11.8*
PAT (Rs m)	0.1	17	134
EPS (Rs)	-	1.0	4.8
PER (x)	-	-	73.4
EV / E (x)	-	-	49.8
EV / sales (x)	-	6.0	1.8
RoCE (%)	*0.2*	*13.9*	*18.1*
RoE (%)	*0.2*	*13.9*	*18.0*

PVR | Not Rated | Rs275

Likely transaction

PVR has forayed into film production business through its 100% subsidiary, PVR Pictures. The company currently has a slate of six movies and plans to release close to seven to ten movies every year. The average budget of these movies is expected to be in the range of Rs100-300m. The company will be funding these initiatives through a mix of debt and equity. There is a possibility of PVR roping in a private equity investor, resulting in value unlocking for its shareholders.

Company brief

PVR is one of the leading multiplex players with a chain of 95 multiplex screens across India. As part of its strategy to grow its film exhibition business, the company plans to have 120 screens by FY08 and add another 50-60 additional screens per year going ahead. The company also has a record of distributing over 100 films through its 100% subsidiary, PVR Pictures. Again, PVR which has been so far viewed as a pure multiplex player, is now moving across the value chain with its foray into film production and food court businesses.

High contribution in domestic box office

	All India - net box office (Rs m)	PVR - net box office (Rs m)	*PVR's share in all India box office (%)*
Chak-De India	537	92	*17.1*
Heyy Baby	427	48	*11.2*
Guru	503	54	*10.7*
Partner	502	45	*9.0*
Tara Rum Pum	344	35	*10.2*
Namastey London	296	43	*14.5*
Jhoom Barabar Jhoom	270	29	*10.7*
Shootout At Lokhandwala	240	25	*10.4*
Bheja Fry	116	26	*22.4*

Source: Industry

Valuation & Outlook

At the CMP of Rs275, the stock trades at 31.2x FY08E and 16.8x FY09E, based on broad earnings of Rs8.8 and Rs16.4 respectively. We remain positive on the growth prospects of the company, with its plans to scale-up for newer properties, most of which will be e-tax exempt. This will in turn lead to improvement in margin. As the company scales up in these new ventures, we see the stock being re-rated upwards.

Key Figures

Y/e March	FY05	FY06	FY07
Revenue (Rs m)	683	1,049	1,667
EBITDA (Rs m)	108	173	266
Margins (%)	*15.8*	*16.5*	*16.0*
PAT (Rs m)	38	53	102
EPS (Rs)	2.2	2.3	2.4
PER (x)	124.0	120.6	62.1
EV / E (x)	61.9	34.9	24.9
EV / sales (x)	7.8	4.6	3.3
RoCE (%)	*3.7*	*4.0*	*4.9*
RoE (%)	*3.1*	*4.3*	*5.2*

UTV Software & Communications BUY Rs789

Likely transaction

UTV's 100% subsidiary, UTV Broadcasting, is looking to bring in a financial or a possible strategic partner to fund its foray in to the Indian broadcasting space. The company might also consider bringing in a strong private equity player or a strategic partner (global media company) at the parent level. The company could also be looking to raise close to US$100m for its gaming and new media business.

Company brief

UTV is one of India's leading and most respected integrated media and entertainment companies; its studio currently has a slate of 30 movies. Besides, the company currently delivers close to 100hrs of television content per month. In broadcasting, UTV will be launching a bouquet of seven channels by June 2008. The company also has plans to unveil the much awaited Play Station – 3 console game, War Devil, to be released by the end of 2009.

Movies lined up for release in H2FY08

Movie	Tentative month of release
Atithi (regional)	October (released)
Kannamoochi Yenada (regional)	October (released)
Goal	November (released)
Welcome	December
Tare Zameen Par	December
Jodha Akbar	January
Jaane Tu Ya Jaane Na	February
Mumbai Mumbai	February

Source: Company Data, PL Research

Valuation & Outlook

For FY08, UTV has guided for revenue of over Rs4bn, contributed by way of Rs2.25bn from movies, Rs1bn from television, and Rs750m from the interactive segment. The company also expects to report a PAT margin of 20% for FY08. We expect UTV's revenue to grow at a CAGR of 84% over FY07-10E with earnings CAGR of 267% for the same period. At the current market price of Rs789, the scrip trades at 24.5x FY08E and 17.0x FY09E. We maintain Buy rating on the stock.

Key Figures

Y/e March	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	1,749	4,270	7,793	10,853
EBITDA (Rs m)	71	1,229	2,129	2,370
Margins (%)	*4.1*	*28.8*	*27.3*	*21.8*
PAT (Rs m)	463	743	1,153	1,240
EPS (Rs)	20.2	32.2	46.4	49.9
PER (x)	-	24.5	17.0	15.8
EV / E (x)	-	14.8	8.8	7.9
EV / sales (x)	10.9	4.2	2.4	1.7
RoCE (%)	*1.3*	*14.2*	*14.8*	*13.3*
RoE (%)	*1.6*	*18.1*	*16.3*	*14.3*