



Market Data	09 th , Sept 2009
CMP (Rs.)	295.0
Shares outs (Cr)	39.4
Equity Cap (Rs. Cr)	197.0
Mkt Cap (Rs. Cr)	11,623
Face Value (Rs)	5.0
Bloomberg Code	SUNTV.IN

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Operating income grew at a CAGR of 10.1% from FY05 to FY09

Management Discussion & Analysis

- ✍ In terms of competition, for Telugu market, there has been a slew of new News channels launched over the last year which had some impact on the market share during Election time. However, the Company has been strong in the GEC segment and would regain the lost market share. For Kannada market, the market has not seen a lot of activity in terms of addition and also, the Company is 2 times its next competitor.
- ✍ Company's dominant market share has enabled Sun TV Network to strike unique content partnership deals and attract the best production houses to churn quality programs. Content providers in south India prefer the platform provided by Sun TV Network as it has 15 channels in its fold that tap viewers across all southern states. Besides control over 50,000 hours of original content, the company is constantly adding value to this vast trove of content. This guarantees the channel a high number of viewers, translating into high advertising revenue.
- ✍ The annual budget for films division is Rs 70-80 crore to produce 10-12 films. The Company has a big budget film 'ENDHIRAN (The ROBOT)' with a budget of Rs 70 crore. The return on investment in movie production is about 20-25%.

Outlook for FY10

- ✍ **Advertising Revenue:** Going forward, for FY10, the Company is targeting to maintain current level of growth in advertising revenues. The growth would come from some momentum coming back in the advertising market from Q2FY10 onwards. Also, the Company has launched 5 Channels in CY2009 which would start contributing. Advertising revenues are expected to grow at 12-15% for FY10.
- ✍ **Subscription Revenue:** For FY10, the Company expects subscription revenues to register a growth of 40% to ~Rs 300-320 crore up from Rs 215 crore for FY09. Of the FY2009 revenues, DTH revenues were Rs 84 crore and analogue cable revenues were Rs 131 crore.
- ✍ **Radio Business:** The Radio business is expected to break even in FY2011. the management expects Kal Radio which is predominantly in South based stations is likely to be OPM positive in FY2010.

Significant Event

- ✍ Singapore-based Nalanda Capital has picked up a 1.8% stake in the company for a little over Rs 100 crore through an open market bulk deal transaction on the Bombay Stock Exchange. Its other investments through the bulk deal route include Kirloskar Oil Engines and Carborundum Universal.
- ✍ Sun TV Network raised its advertising rates in February 2008 by 5-25%, depending on the time slot and channel, with an average hike of 13% while the previous hike was in January 2007. "The company's rates still constitute merely 10-15% of the Hindi general entertainment channel's (GEC) advertisement rates and hence, the scope for improvement is huge.
- ✍ In September 2008, the company entered into film production business through its new division, Sun Pictures.
- ✍ Sun TV Network has launched its FM radio station at Siliguri under the brand 'S FM' from 28 October 2008 through its Subsidiary South Asia FM. This station can be heard at 93.5 MHz frequency in Siliguri and will cater to the audience of all age groups. With the launch of this FM station, the total operational FM stations of Sun TV goes up to 43

Company has generated 2 additional sources of income.

Advertising revenue contributes 58.3% to total revenue, which is higher than previous year.

Debt to equity ratio increase by 0.02 to 0.07.

Addition of Rs 279.4 crore in gross fixed assets through Plan and Machinery.

Net debtor's days decreased from 108.1 to 86.0 due to better realization.

■ Financial Scan - Income Statement

- ✍ In terms of total revenue in FY09, advertising revenues contributed 58.3%, Broadcast fees 12.5%, Program licensing income 5.2%, Subscription income 20.7% and other operating income 3.3%.
- ✍ In FY09, the company has generated 2 additional sources of income: **Movie distribution and Aircraft services**. This 2 segment has contributed ~ 3.1% to net sales.
- ✍ Advertising revenue register a growth of 27.4% y-o-y to Rs 605.7 crore. The company was able to post a healthy growth, despite the economy slowdown and reduction in corporate spending. The company has a dominant market share in the four southern states of India (Tamil Nadu, Kerala, Karnataka and Andhra Pradesh) and more concentration towards local advertisers led company to post a health growth.
- ✍ Of the FY09 revenues, DTH revenues were Rs 84 crore and analogue cable revenues were Rs 131 crore.
- ✍ Other expenses as % of sales declined by -442 bps to 8.09%, was mainly due to cost rationalization method adopted by management. They adopted this method due to slowdown in the economy which led advertising segment to hit the most, which contributes more than 50% to net sales.

■ Financial Scan - Balance Sheet

- ✍ **Secured loan-** The total Loan funds of the Company increased from 27.6 crore as on March 31, 2008 to Rs 97.7 crore on March 31, 2009. On standalone basis, the company is the debt free but the company has loan and advances on its subsidiary Kal radio limited (Rs 48.5 crore) and South Asia limited (Rs 20.31 crore). The company has also repaid its secured loan of Rs 64.7 crore. The average cost of debt is ~14.1%.
- ✍ **Fixed Assets:** During the year, the Company's Gross Fixed Assets block increased by Rs. 279.4 crore to Rs 756.17 crore. This increase is mainly on account of new plant and machinery. The Net Block increased by Rs 229.4 crore from Rs 283.0 crore as on March 31, 2008 to Rs 512.5 crore as on March 31, 2009. This increase is on account of increase of Gross Fixed Assets.
- ✍ **Non-current assets-** During the year, company has bought film and broadcasting rights of Rs 163.8 crore, which led to increase non-current assets from 8.4 crore to Rs 23.28 crore.
- ✍ **Sundry Debtors:** After netting off provision for Doubtful Debts and Bad Debts written off, Net Debtors as on March 31, 2009 stood at Rs 244.9 crore. This was at Rs 257.57 crore as on March 31, 2008. The decrease is sundry debtors was mainly due to better realization which was observed in debtors days. Debtors days decreased by 22 days to 86 days.

FII's holding in the company increased by 159 bps Y-o-Y to 8.96%.

Shareholding Pattern & Fund holding.

Shareholding Pattern

	FY06	FY07	FY08	FY09
Promoter & Promoter Group	90.0	90.0	77.0	77.0
Mutual Funds & FII	8.6	8.4	8.4	11.6
Public and Other	1.4	1.6	8.4	11.4

Fund Holding

Date	Fund House	% Net Asset	Amt inv (Rs in Cr)
Aug-09	Morgan Stanley Growth	2.60	53.63
Aug-09	Sundaram BNP Paribas Select Focus Reg	2.14	27.71
Aug-09	HSBC Equity	1.43	23.22
Aug-09	DSPBR Top 100 Equity Reg	0.70	14.27
Aug-09	DSPBR Top 100 Equity Inst	0.70	14.27
Aug-09	Reliance Media & Entertainment	9.78	13.59
Aug-09	AIG India Equity Inst	2.07	10.48
Aug-09	AIG India Equity Reg	2.07	10.48
Aug-09	Principal Services Industries	5.34	7.39
Aug-09	HSBC Dynamic	2.59	7.34
Aug-09	Tata Equity Opportunities	1.72	7.31
Aug-09	SBI One India	0.47	5.67
Aug-09	Tata Pure Equity	1.41	5.66
Aug-09	HSBC India Opportunities	1.37	4.89
Aug-09	Canara Robeco Multicap	3.44	4.68
Aug-09	Principal Tax Savings	1.56	3.95
Aug-09	Tata Dividend Yield	2.82	3.25
Aug-09	Principal Growth	1.56	3.17
Aug-09	Sundaram BNP Paribas Entertainment Opportunities Ret	3.78	3.14
Aug-09	Tata Contra	2.62	3.11
Aug-09	Canara Robeco Equity Diversified	1.22	2.91
Aug-09	Tata Balanced	1.13	2.71
Aug-09	Tata Service Industries	1.74	2.45

Source: Value Researchonline.com

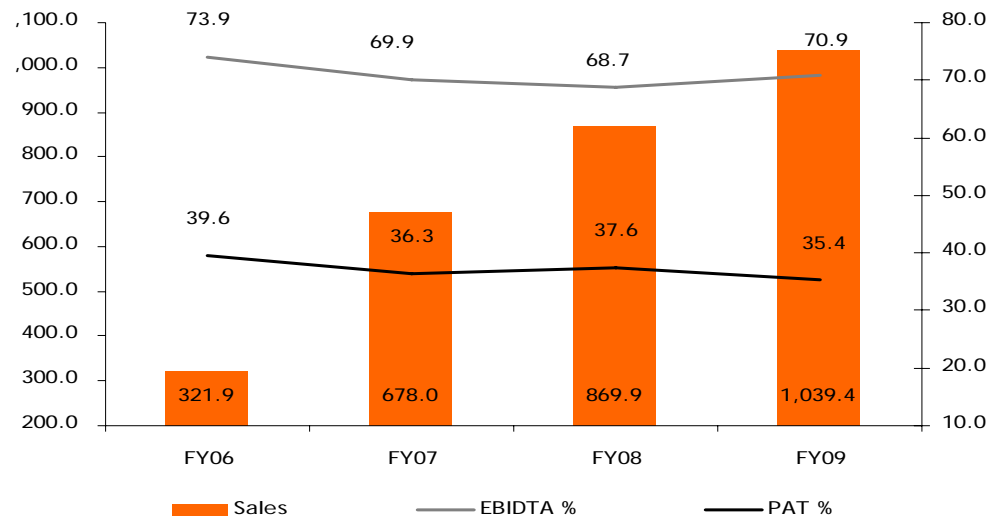
Operating margin improved by 220 bps to 70.9% on the back of cost rationalization efforts made by the management by reducing other expenses significantly. Other expenses as % of sales declined by 442 bps y-o-y to 8.09%

Company posted a decline in net margins by 210 bps to 35.4%, despite improvement in OPM. Decline was mainly due to increase in depreciation cost as a % of sales by 200 bps.

Operating margins improved was mainly due to reduction in other expenses as % of sales by ~ 400 bps. Some improvement was set-off by increase in COGS as % of sales by 180 bps, increase was mainly due to launch of new program.

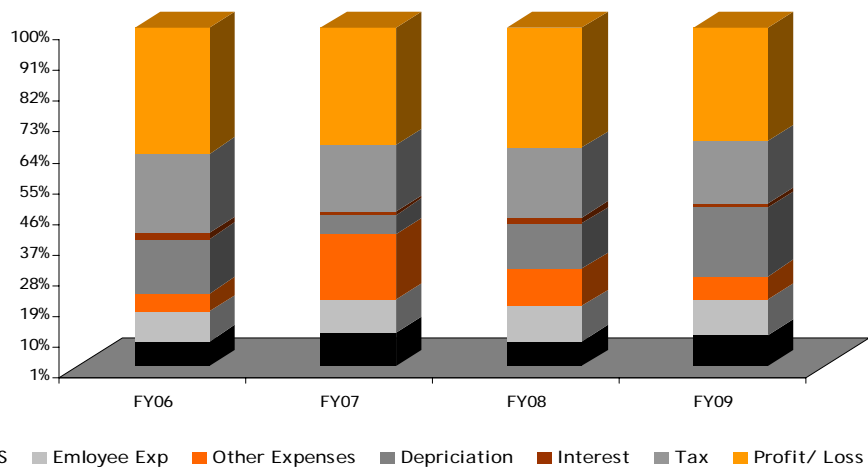
Contribution of subscription income to sales decreased by 570 bps y-o-y to 20.7% due to problem in collections of Analogue revenue.

Operational Check



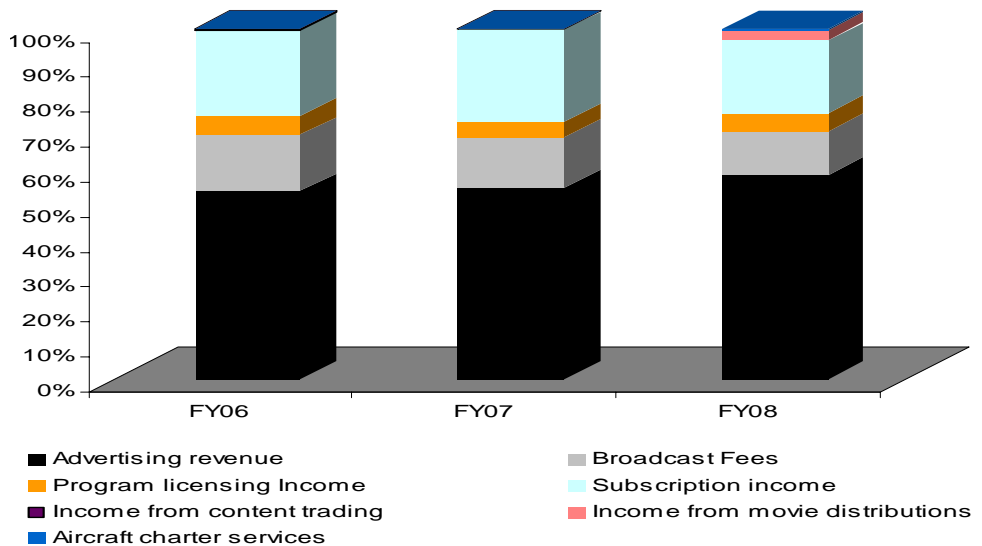
Source: Company Data, KRC Research

Income Statement Analysis

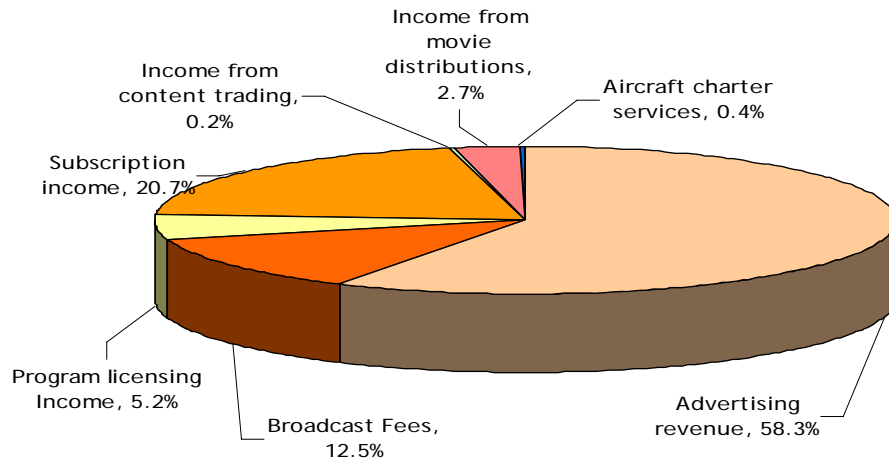


Source: Company Data, KRC Research

Revenue Mix

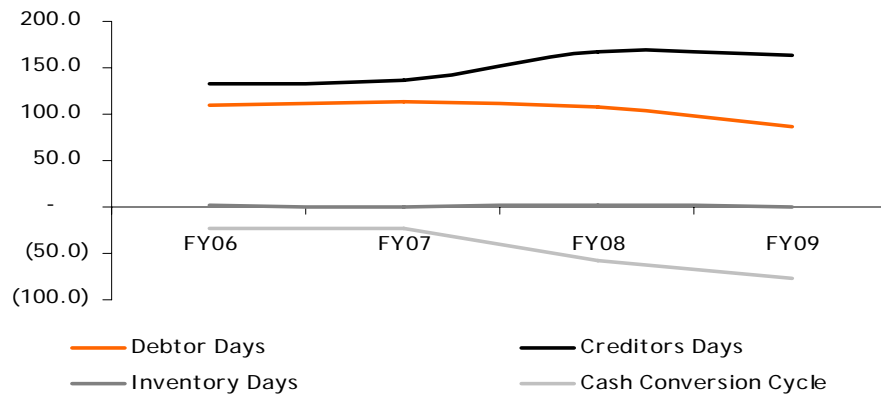


Contribution of advertising income to sales increased by 360 bps y-o-y to 58.3% due to launch of new channels which open new streams of revenue.



Cash conversion cycle negative due to low inventory days and high creditor's days.

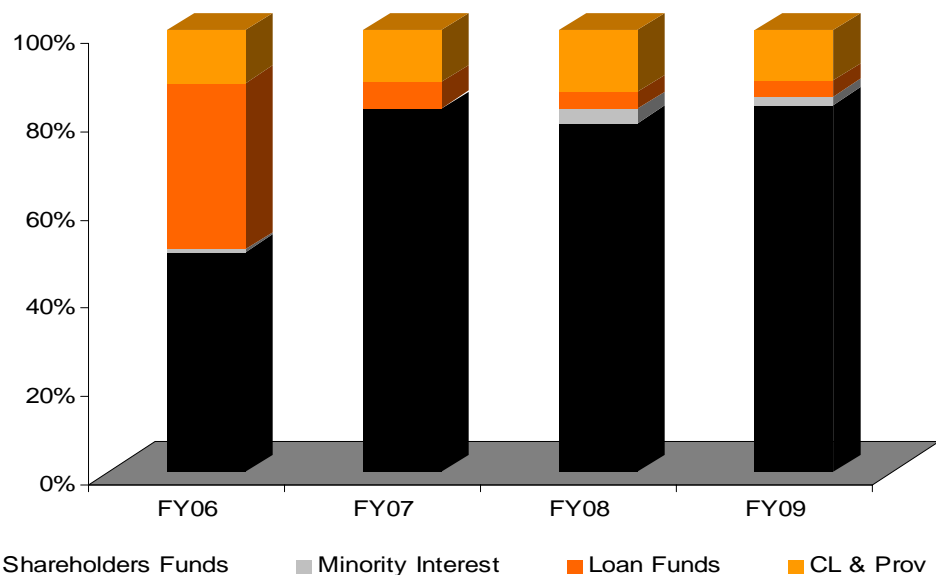
Working Capital Cycle



Debtor's days decreased from 108.1 to 86 days, due to effective realization.

Source: Company Data, KRC Research

Sources of Funds

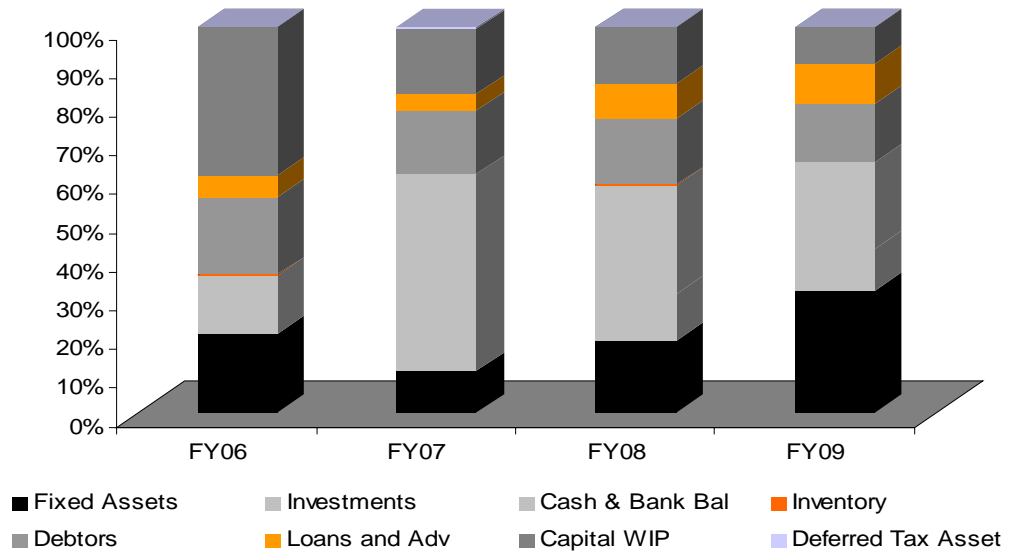


Company is well placed in terms of expansion because of debt/equity ratio at 0.06.

Source: Company Data, KRC Research

Company's generate cash of Rs 100 crore in every quarter, that's translates Rs 400 crore for the year. Net fixed assets as % of total assets has increased by 931 bps to 24.7%.

Application of Funds



Source: Company Data, KRC Research

Our View

Sun TV Networks is one of the largest television and radio entertainment company in India with a dominant position in the southern states of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala with over 20 TV channels. It has 45 radio licenses including its subsidiaries.

75-80% of Sun TV's daily content programs are produced in-house and therefore this strategy helps them to keep cost under control. The company has an extensive movie library of about 8,500 titles. The cost of acquisition of movie rights is written off at the time of first screening; no cost is attached to subsequent screenings. For its outsourced content, Sun TV has an agreement with independent producers for the production of serials under the time-slot model. This low cost-high quality structure is a huge entry barrier for new players planning to enter this regional market.

We believe company is better placed than its peer group and will outperform when economy will show revival signs. Company's is trading at 31.5x its FY09 EPS of Rs 9.3, which is premium to its peers and deserves the premium valuation because of its unique business model (time slot model), highest operating margin as compared to its peers and industry, and strong balance sheet with cash position of Rs 350 crore and no debt on standalone basis.

Key Ratios

Particulars	FY07	FY08	FY09
Per Share Data			
EPS	6.2	8.3	9.3
Book Value	172.6	37.3	45.5
Equity Dividend %	50%	50%	50%
Operating Ratio %			
EBIDTA %	69.95	68.69	70.88
NPM %	36.30	37.55	35.44
Interest Coverage	14.5	29.77	37.44
Debt/Equity	0.07	0.05	0.07
Return Ratios			
RoE	20.5%	21.6%	21.2%
RoCE	34.1%	30.3%	28.3%
Dividend yield	1.69%	0.85%	0.85%
Valuation Ratios			
P/E	47.23	35.58	31.56
P/BV	1.71	7.90	6.48
EV/Sales	16.32	12.81	10.79
EV/EBIDTA	46.54	23.50	18.77
M.Cap/ Sales	17.15	13.36	11.19

Source: Company Data, KRC Research

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