

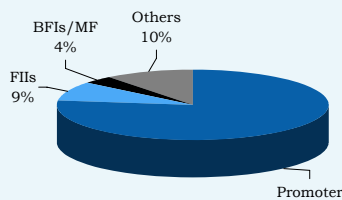
Key points

- Advertisement revenue growth of 44% YoY to Rs2.25 bn.
- Movie business grows by 360% YoY to Rs340mn.
- DTH-based subscribers stands at 5.6 mn.

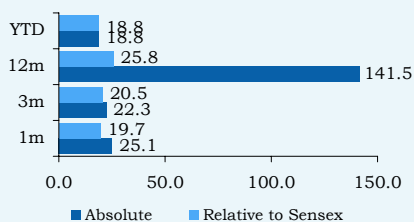
CMP Rs408

Reuters code	SUTV.BO
Bloomberg code	SUNTV IB
Shares o/s (mn)	394
Mkt Cap	Rs161bn/US\$3.5bn
52 wk high / Low	Rs422/136
Avg daily trad vol	0.22(mn shs)
BSE Sensex	17,474
Nifty	5,222

Shareholding pattern



Performance



Share price movement



Shining bright

Outlook

Revenue	To grow by 30% CAGR FY09-11E, on the back of better inventory offtake for new channels and impact of price hike effective 4QFY10.
Margins	Consolidated margins to expand by 323bps as operational loss for radio comes down and increase in contribution of subscription revenues.
Valuations	Appears stiffly priced at current valuations of 31.3x FY10E and 25.9x FY11E earning estimates

Results better than expected: Sun TV Network's (Sun TV's) 3QFY10 results stood above our expectations. Revenue for the quarter reported an impressive growth of 46% YoY to Rs3.95 bn; this was contributed by a robust 44% YoY increase in the advertisement revenues which stood at Rs2.25 bn as also a whopping 86% YoY growth in DTH-backed subscription of Rs440m. Operating profit margins during the quarter stood at 79.1%, expanding by 479bps YoY. However major parts of operational gains were negated by increase in depreciation and amortization charges which nearly doubled to Rs885 mn (depreciation Rs200mn and amortization of content including movie production Rs680 mn). Accordingly, net profit for the quarter grew by 35.4% YoY to Rs1.52 bn.

DTH-backed subscription revenues continue to grow: In 3QFY10, Sun TV had 5.6m DTH-based subscribers, as compared to 5.1m in Q2FY10. In absolute terms, DTH backed subscription revenues grew from Rs400 mn in 2QFY10 to Rs440m in 3QFY10. Majority of Sun TV's DTH subscribers come from *Sun Direct*, which is targeting for a DTH subscriber base of 6m by end of FY10 and has aggressive plans to become a pan-India player.

Strengthening distribution backbone: During the quarter, Sun TV announced its plans to restructure its distribution business and team with the creation of two verticals one focused on managing the South Indian operations and the International business and the second focused on expanding the SUN TV bouquet into the North, West and Eastern Markets of India. For this the company has appointed two senior distribution professionals who would manage these business units namely Mohammed Mujeebuddin (ex-Star-DEN) and Jawed Akthar (ex-WWIL) respectively. As a part of this strategy the company has floated a wholly owned subsidiary, "Sun TV Network Europe Limited" in United Kingdom to broadcast and distribute its channels in U.K. and Europe.

Beyond broadcasting: Sun TV's movie business under Sun Pictures saw two movie releases, with revenues of Rs340m as against Rs80m in 3QFY10. The company had two movie releases during the quarter and has one movie lined up for release in 4QFY10. For 9MFY10 the movie business reported revenues of Rs600 mn.

Sun's radio business is also seeing a steady improvement as the radio subsidiaries till date have reported a robust growth of 58% YoY with revenues of Rs389 mn with KAL Radio turning EBITDA positive. Further, with consolidated cash on books of Rs4.65 bn, the company will be one of the key contenders looking to further scale up its radio business as new licenses come up for bidding under Phase III. For FY10, Sun TV has guided its entire radio business losses at Rs600m (Sun TV's share of Rs400m).

Valuation & View: Sun TV has been the first company to undertake ad rate hike across all its four regional channel bouquets (average of 12-15% hike in card rates) impact of which is yet to be reflective from 4QFY10. This coupled with rise in utilisation of existing and more importantly newly launched channels will result in 20%+ advertisement revenue growth in FY11E. Also with steady growth in the DTH-based subscription revenues and ability to deliver on new business as per guidance (movie business RoI of 17-18%) lends us further comfort.

However, with price to earnings trading at 31.3x FY10E and 25.9x FY11E, the stock appears to be stiffly priced. We recommend **'Reduce'**.

Financial summary

Year end march (Rs.mn)	FY07	FY08	FY09	FY10E	FY11E
Net sales	6,780	8,611	10,394	14,168	17,582
Net Profit	2,469	3,178	3,683	5,144	6,206
EPS RS	6.3	8.1	9.3	13.0	15.7
P/E(x)	65.2	50.7	43.7	31.3	25.9
ROCE(%)	24.6	20.4	19.5	24.1	24.4
ROE(%)	32.9	24.1	23.4	26.7	26.1
EV / EBIDTA	15.8	26.7	21.4	15.0	11.7
P / BV	6.7	11.1	9.5	7.5	6.2

Exhibit 1 - Quarterly financials

Rs (Mn)	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10
Net Sales	2708	2759	2877	3204	3951
YoY (%)	24.4%	12.0%	28.7%	34.7%	45.9%
QoQ (%)	13.9%	1.9%	4.3%	11.4%	23.3%
Cost of Revenues	268	132	208	208	251
% of sales	9.9%	4.8%	7.2%	6.5%	6.4%
YoY (%)	86.5%	-23.7%	5.3%	-4.8%	-6.3%
QoQ (%)	22.6%	-50.7%	57.6%	0.0%	20.6%
Staff cost	257	263	311	319	364
% of sales	9.5%	9.5%	10.8%	10.0%	9.2%
YoY (%)	8.6%	-5.0%	26.8%	24.6%	41.7%
QoQ (%)	0.1%	2.4%	18.2%	2.7%	13.9%
Other Expenditure	171	107	122	241	211
% of sales	6.3%	3.9%	4.2%	7.5%	5.3%
YoY (%)	95.0%	-75.3%	10.3%	71.3%	23.2%
QoQ (%)	21.7%	-37.4%	13.4%	98.4%	-12.4%
Total Expenses	696	502	640	768	826
% of sales	25.7%	18.2%	22.3%	24.0%	20.9%
YoY (%)	48.8%	-43.2%	15.8%	24.8%	18.7%
QoQ (%)	13.0%	-27.8%	27.6%	20.0%	7.4%
Operating Profit	2013	2257	2236	2436	3125
OPM (%)	74.3%	81.8%	77.7%	76.0%	79.1%
YoY (bps)	-422	1767	247	189	479
Other Income	144	154	142	115	84
Interest	8	10	6	2	2
Depreciation & amortisation	446	662	550	571	885
PBT	1703	1739	1822	1978	2322
Exceptional Items	0	0	0	0	0
Tax	581	599	624	672	803
Tax rate (%)	34.1%	34.4%	34.3%	34.0%	34.6%
Reported Net profit after tax	1122	1140	1198	1306	1519
NPM (%)	41.4%	41.3%	41.6%	40.8%	38.5%
YoY (%)	9.7%	24.7%	16.8%	20.5%	35.4%
QoQ (%)	3.6%	1.6%	5.1%	9.0%	16.4%
Adjusted Net profit after tax	1122	1140	1198	1306	1519
NPM (%)	41.4%	41.3%	41.6%	40.8%	38.5%
YoY (%)	9.7%	24.7%	16.8%	20.5%	35.4%
QoQ (%)	3.6%	1.6%	5.1%	9.0%	16.4%
EPS (Rs)	2.8	2.9	3.0	3.3	3.9

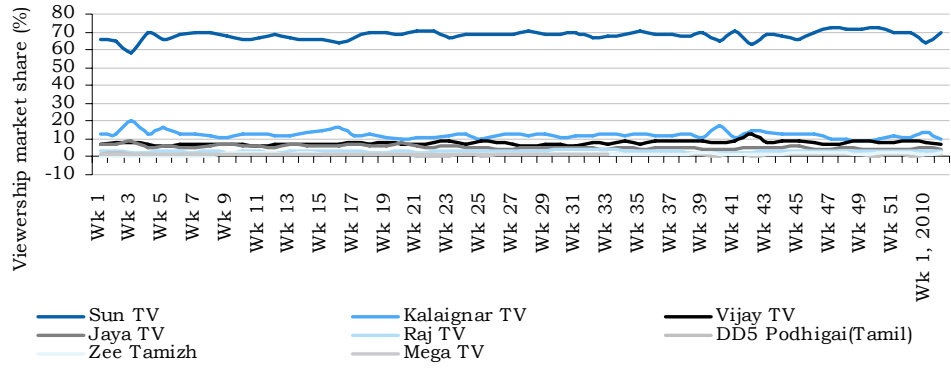
Source: Company, Alchemy Research

44% increase in advertisement revenues and 360% increase in movie business boosted revenue growth

Depreciation & amortisation doubles on a YoY basis due to increase in contribution of movies

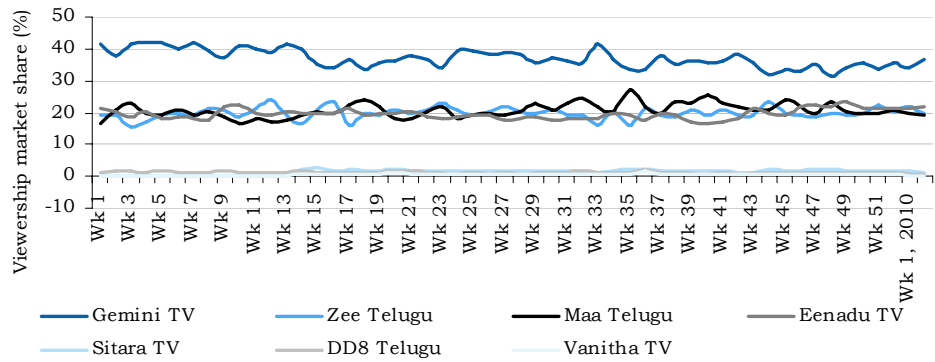
Best quarter in recent times with net profit growth of 35.4% YoY

Exhibit 2 - Tamil regional GEC channel shares



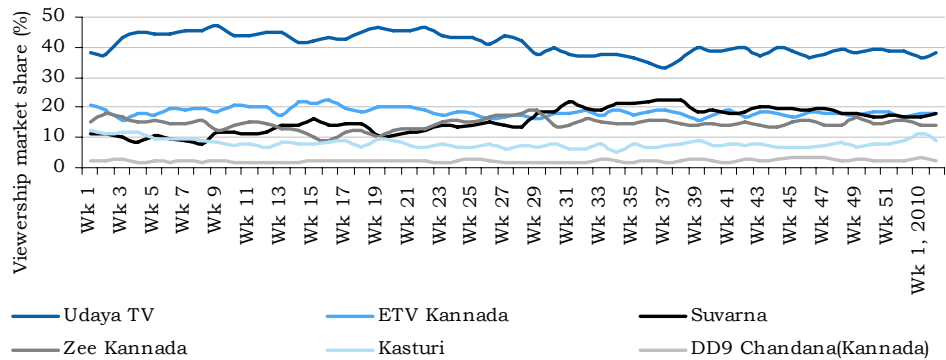
Source: Telepedia

Exhibit 3 - Telegu regional GEC channel shares



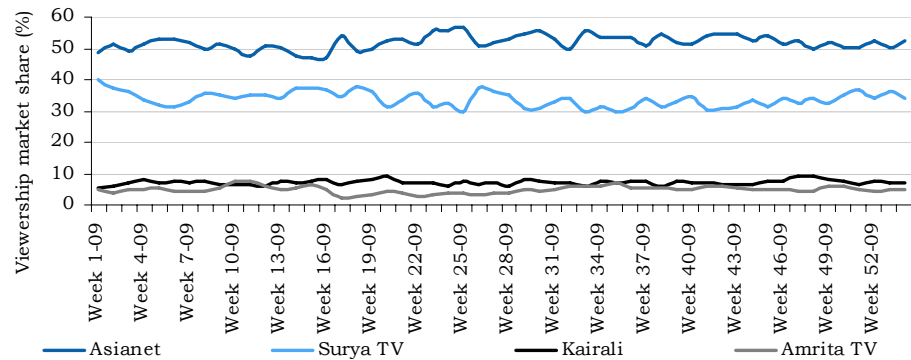
Source: Telepedia

Exhibit 4 - Kannada regional GEC channel shares



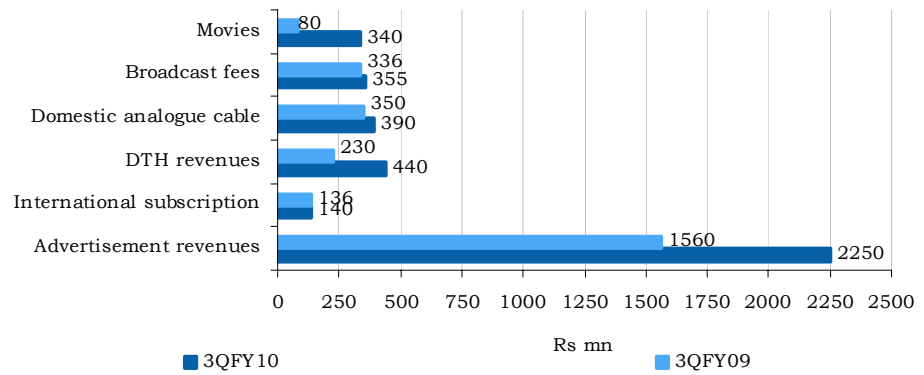
Source: Telepedia

Exhibit 5 - Malayalam regional GEC channel shares



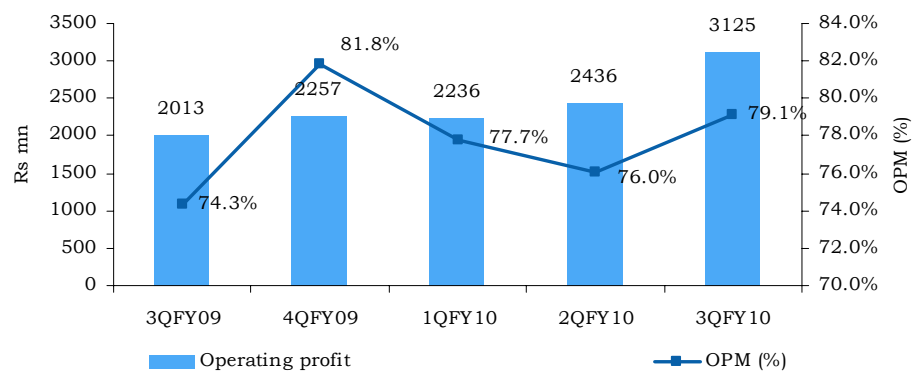
Source: Telepedia

Exhibit 6 - Segmental revenue comparison of 3QFY10 versus 3QFY09



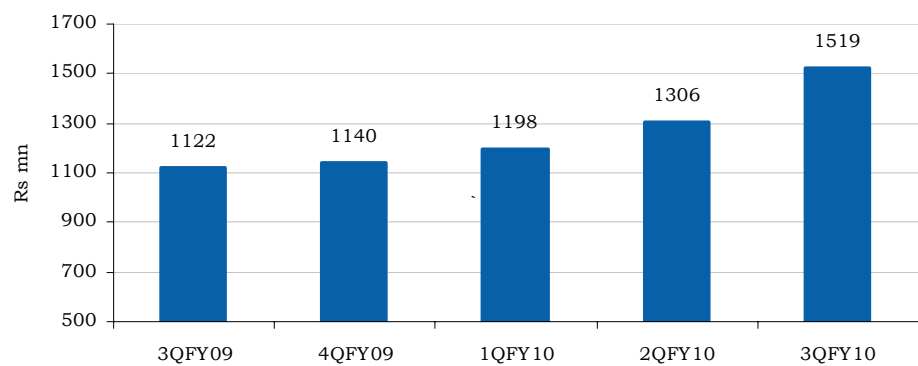
Source: Company, Alchemy Research

Exhibit 7 - Quarterly trend in operating profitability



Source: Company, Alchemy Research

Exhibit 8 - Quarterly trend in net profit performance



Source: Company, Alchemy Research

Income Statement (Rs mn)

March end	FY08	FY09	FY10E	FY11E
Total sales	8611	10394	14168	17582
Cost of revenues	766	1114	1228	1556
Employees Remuneration	958	1155	1514	1861
S,G&A Expenses	1000	757	1003	1134
Total operating costs	2724	3026	3745	4551
EBITDA	5887	7368	10423	13031
EBITDA margin %	68%	71%	74%	74%
Depreciation & Amortisation	1239	2205	3117	4153
Ebit	4648	5163	7307	8879
Interest and Other Income	556.1	668	428	492.2
Finance costs	159	138	12	6
Pbt	5045	5693	7723	9365
Profit before tax	5045	5693	7723	9365
Tax	2015	2293	2769	3268
Tax rate (%)	40%	40%	36%	35%
Reported PAT before Minority	3030	3400	4954	6097
Add share of profit / (loss) in unconsolidated subsidiaries	11	2	0	0
Minority interest	-137	-281	-190	-109
Adjusted PAT	3178	3683	5144	6206
EPS (Rs)	8	9	13	16
Dps (Rs)	2	3	3	4
Shares outstanding (mn)	394	394	394	394
Yoy growth				
Advertisement growth	21%	25%	37%	23%
Subscription growth	33%	1%	38%	24%
Broadcast fees	16%	4%	9%	13%
Radio	0%	108%	36%	28%
Movies	0%	0%	171%	54%
Revenue growth	27%	21%	36%	24%
EBITDA growth	25%	25%	35%	25%
EPS growth	29%	16%	40%	21%

Balance Sheet (Rs mn)

March end	FY08	FY09	FY10E	FY11E
Sources of funds:				
Share capital	1970	1970	1970	1971
Reserves and surplus	12515	15046	19598	23957
Total shareholders equity	14486	17016	21568	25929
Minority interest	604	385	195	86
Secured loans	645	0	0	0
Unsecured loans	50	716	0	0
Deferred tax liabilities	11	261	261	261
Current liabilities	1392	1874	2135	2376
Provisions	1167	468	1394	1856
Miscellaneous Expenditure	-1	-1	-1	-1
Total liabilities	18355	20720	25552	30507
Assets:				
Tangible gross assets	4768	7562	11034	12034
Accumulated depreciation	1938	2437	3274	4254
Net fixed assets	2830	5125	7760	7780
Cwip	2218	1572	1572	1572
Intangible Gross Block	5419	7352	9352	12102
Less : Amortization	2799	4331	6611	9783
Net Block	2620	3021	2742	2319
Investments	1803	1805	1805	1805
Deferred tax assets	0	0	0	0
Non-Current assets	85	233	233	233
Inventories	3	1	2	3
Sundry debtors	2576	2449	3416	4335
Cash and equivalents	4297	3654	4330	7974
Other current assets	524	1192	1442	1692
Loans and advances	1399	1667	2251	2794
Total current assets	8798	8964	11441	16798
Total assets	18355	20720	25553	30507

Cash Flow (Rs mn)

March end	FY08	FY09	FY10E	FY11E
Profit before tax and exceptional	5133	5693	7723	9365
Depreciation & Amortisation	1239	2205	3117	4153
Changes in working capital	-914	413	-615	-1011
Taxes paid	-2127	-2017	-2626	-3184
Others	83	-419	-1703	-80
Cash flow from operations	3415	5875	5896	9243
Purchase of fixed assets/CWIP	-1811	-4290	-1900	-1000
Capex on intangible assets	-2045	-2794	-2000	-2750
Sale of fixed assets	0	2168	0	0
Interest income / Dividend income	523	484	0	0
Net investment	-1791	0	0	0
Net loan (given) / taken	-288	718	0	0
Others	-321	0	0	0
Cash flow from investing	-5733	-3715	-3900	-3750
Proceeds from share capital	762	62	0	0
Proceeds raised through Stakesale in SFM	0	0	792	0
Borrowings	-165	6	-716	0
Interest expense	-302	-312	-12	-6
Dividend and dividend tax paid	-461	-692	0	0
Cash flow from financing	-166	-935	64	-6
Net change in cash	-2484	1225	2060	5487
Cash from Amalgamation of Udaya & Gemini	0	0	0	0
Cash deposits	288	0	0	0
Opening balance	6494	4297	3655	4330
Closing balance	4297	3655	4331	7971

Ratios

March end	FY08	FY09	FY10E	FY11E
% of net sales				
Cost of revenues	8.9%	10.7%	8.7%	8.8%
Staff Exp.	11.1%	11.1%	10.7%	10.6%
S,G&A Expenses	11.6%	7.3%	7.1%	6.5%
Total expenses	31.6%	29.1%	26.4%	25.9%
EBITDA margin	68.4%	70.9%	73.6%	74.1%
EBIT margin	54.0%	49.7%	51.6%	50.5%
Reported PAT margin	36.9%	35.4%	36.3%	35.3%
Asset based ratios(%)				
ROCE	20.4	19.5	24.1	24.4
ROE	24.1	23.4	26.7	26.1
Turnover ratios(days)				
Debtor days	109	86	88	90
Inventory days	0	0	0	1
Growth ratios (%)				
Net sales	27%	21%	36%	24%
EBITDA	24%	25%	41%	25%
EPS	29%	16%	40%	21%
Per share (Rs)				
EPS	8.1	9.3	13.0	15.7
BV	36.8	43.2	54.7	65.8
DPS	2.5	2.5	3.0	4.0
Valuations (x)				
P/E	50.7	43.7	31.3	25.9
EV/EBITDA	26.7	21.4	15.0	11.7
P/BV	11.1	9.5	7.5	6.2
EV/sales	18.3	15.2	11.0	8.7
Solvency ratios				
Quick ratio	3.4	3.8	3.2	4.0
D/E ratio	0.0	0.0	0.0	0.0

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9125 91-22-6639 9126 91-22-6639 9178

Trade Execution

91-22-6639 9121 91-22-6639 9134 91-22-6639 9167

Disclaimer

This report is not a solicitation or offer to buy or sell any securities or related financial products. The information and commentaries are also not meant to be endorsements or offerings of any securities, options, stocks or other investment vehicles. The report is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The securities discussed in this report may not be suitable for all investors. The appropriateness of any particular investment or strategy whether opined on or referred to in this report or otherwise will depend on an investor's circumstances and objectives and should be independently evaluated and confirmed by such investor, and advice should be sought from a financial adviser concerning the suitability of the investment or strategy, taking into account the specific investment objectives, financial situation or particular needs of the investor, before the investor makes a commitment to deal in an investment or implement a strategy.

Investment ideas and/or corporations discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realised. Those losses may equal the original investment. Some investments may not be readily realisable and it may be difficult to sell or realise those investments. Similarly, it may prove difficult to obtain reliable information about the value and risks to which such an investment is exposed. Neither us nor any of our affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained in this report.

Past performance is not necessarily indicative of future results and there can be no assurance that any investment will achieve comparable results or its investment objectives. Investors may not get back the full amount invested and the net asset value of the investment will fluctuate. Exchange rate fluctuations may affect the return to investors.

Alchemy Share and Stock Broker Pvt. Ltd., their respective affiliate companies, associates, directors and/or employees may have investments in securities or derivatives of securities of companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

ALCHEMY SHARE & STOCK BROKERS PVT. LTD.

Navsari Building, 4th Floor, 240 Dr D. N. Road, Fort, Mumbai: 400 001. India
(Tel): 91-22-6639 9100 (Fax): 91-22-2203 3575