

Company Focus

16 October 2007 | 40 pages

UTV Software Communications (UTVS.BO)

 Initiation of coverage

Initiate with Buy: Set to Entertain

- High-growth Integrated Media Play** — A strong order book and acquisitions of Indiagames and Ignition should drive 113% growth for interactive segment over FY07-10E. *'Wardevil'*, a console game being developed for the Sony PS3 is not built into our forecasts, leaving scope for positive surprises.
- Strong Movie Portfolio, Relationships** — UTV is poised for growth in the US\$2bn Indian cinema market with a slate of 30 movies. Its professional studio-like operating model, relationships with global production houses such as Walt Disney and 20th Century Fox have catapulted it into the international motion pictures market.
- Animation and Gaming to Provide the Next Leg-Up** — A strong order book and acquisitions of Indiagames and Ignition should drive 113% growth for interactive segment over FY07-10E. *'Wardevil'*, a console game for Sony PS3 is not built into our forecasts, leaving scope for positive surprises.
- Enhancing Value in Broadcasting** — Following the success of Hungama TV, UTV is launching eight new channels by mid-08. Besides creating value, in-house channels will also drive UTV's content business. Induction of strategic/financial partner should unlock value in the venture.
- Key Risks** — Potential impediments include slack box office performance of planned movies, delayed channel launches, and cost and time overruns in developing *Wardevil*.

Buy/High Risk	1H
Price (16 Oct 07)	Rs679.95
Target price	Rs887.00
Expected share price return	30.5%
Expected dividend yield	0.3%
Expected total return	30.7%
Market Cap	Rs15,567M US\$397M

Price Performance (RIC: UTVS.BO, BB: UTV IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	91	4.69	-43.8	144.9	9.9	6.8	0.0
2007A	198	8.66	84.5	78.5	8.6	12.6	0.4
2008E	323	13.01	50.3	52.2	6.8	15.1	0.3
2009E	629	25.31	94.5	26.9	5.6	22.9	0.5
2010E	807	32.48	28.3	20.9	4.6	24.0	0.7

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	144.9	78.5	52.2	26.9	20.9
EV/EBITDA adjusted (x)	137.4	nm	22.4	12.6	10.0
P/BV (x)	9.9	8.6	6.8	5.6	4.6
Dividend yield (%)	0.0	0.4	0.3	0.5	0.7
Per Share Data (Rs)					
EPS adjusted	4.69	8.66	13.01	25.31	32.48
EPS reported	7.29	20.24	13.01	25.31	32.48
BVPS	68.64	79.20	99.78	121.51	149.39
DPS	0.00	2.85	1.84	3.58	4.59
Profit & Loss (RsM)					
Net sales	2,084	1,749	3,882	6,246	8,038
Operating expenses	-2,016	-1,709	-3,269	-5,155	-6,677
EBIT	68	40	612	1,091	1,361
Net interest expense	0	-16	-143	-116	-81
Non-operating/exceptionals	48	18	57	62	69
Pre-tax profit	116	42	526	1,038	1,349
Tax	-25	163	-128	-247	-323
Extraord./Min.Int./Pref.div.	51	258	-74	-162	-218
Reported net income	142	463	323	629	807
Adjusted earnings	91	198	323	629	807
Adjusted EBITDA	116	71	703	1,190	1,469
Growth Rates (%)					
Sales	17.9	-16.1	121.9	60.9	28.7
EBIT adjusted	-65.0	-41.7	nm	78.2	24.7
EBITDA adjusted	-53.4	-38.4	887.1	69.2	23.4
EPS adjusted	-43.8	84.5	50.3	94.5	28.3
Cash Flow (RsM)					
Operating cash flow	-503	390	1,073	671	841
Depreciation/amortization	47	31	91	99	108
Net working capital	-711	49	450	-218	-292
Investing cash flow	-194	-472	-1,683	-100	-100
Capital expenditure	-159	-501	-54	-100	-100
Acquisitions/disposals	-35	29	-1,629	0	0
Financing cash flow	630	708	11	-412	-514
Borrowings	830	622	-257	-323	-400
Dividends paid	0	-65	-46	-89	-114
Change in cash	-67	626	-599	159	227
Balance Sheet (RsM)					
Total assets	2,933	4,469	6,083	7,654	8,974
Cash & cash equivalent	66	685	12	9	17
Accounts receivable	582	465	872	1,403	1,806
Net fixed assets	407	877	840	842	834
Total liabilities	1,595	2,581	3,604	4,636	5,263
Accounts payable	484	939	2,212	3,560	4,582
Total Debt	1,015	1,637	1,380	1,057	657
Shareholders' funds	1,338	1,887	2,479	3,019	3,711
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	5.6	4.1	18.1	19.1	18.3
ROE adjusted	6.8	12.6	15.1	22.9	24.0
ROIC adjusted	2.4	8.4	20.5	39.0	42.9
Net debt to equity	70.9	50.5	55.2	34.7	17.2
Total debt to capital	43.1	46.5	35.8	25.9	15.0

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Investment Thesis

We are initiating coverage of UTV Software Communications (UTV) with a Buy/High Risk (1H) and target price of Rs887, implying 31% upside from the current price. UTV Software Communications (UTV) is one of the few listed integrated media players in India straddling the entire media value chain from Motion Pictures, Broadcasting and TV content to high-growth new media businesses such as Animation and Gaming.

1. **Motion Pictures:** UTV has broken new ground in motion picture business in India by operating a studio-like model. Relationships with international production houses like Walt Disney, 20th Century Fox, Overbrook Entertainment has catapulted UTV into the international motion pictures space. UTV has a strong slate of 30 movies to be launched in next three years. We forecast revenue CAGR of 78% in the movie business over FY07-FY10E.
2. **Animation & Gaming:** An \$11m order book and strategic relationships with Walt Disney and other international production houses should drive growth in this business. Gaming revenues will likely be driven by acquisition of Ignition, a UK-based console game developer and Indiagames, India's largest online and mobile company. We forecast a CAGR of 113% growth for interactive segment over FY07-10E.
3. **Broadcasting:** After the success of Hungama, UTV is re-entering the broadcasting space by launching nine channels by mid 2008. Besides creating value, in-house channels will also drive UTV's content business. Induction of strategic/ financial partner will unlock value in the broadcasting venture.

We forecast revenue CAGR of 66% and earnings CAGR of 55% (Pre-exceptional) for UTV over FY07-10E.

Valuation

We use a sum-of-the-parts methodology to value UTV.

1. **Motion Pictures** – Given the high earnings trajectory of movie business at 133% CAGR (FY07-09E), we value it at an EV/EBIT multiple of 23x FY09E EBIT, a premium to the global entertainment universe. We feel this is justified given the scarcity premium applied to UTV – it being the only listed motion pictures company in India making Hollywood, Bollywood and Indian regional movies – delivering revenue CAGR of 110% over FY07-09E.
2. **TV Content** – We value the content business at 18x FY09E EBIT, a premium to existing listed players. UTV's own broadcasting initiatives will deliver UTV content and drive EBIT CAGR of 35% over FY07-10E which justifies the premium, in our view.
3. **Ignition** – We have attributed a premium to global valuations while valuing Ignition as we believe that current earnings do not reflect the potential earnings kick-in from the high-end game *Wardevil*, which will be launched in 2008-09. We have not factored this into our forecasts.
4. **Indiagames** – We value Indiagames at 25x FY09E EBIT, a premium to global peers that trade at 17.8x FY09E EBIT. However, our target multiple is in line with some Asian companies that have similar business models and growth rates as Indiagames. Indiagames also deserves a premium because no listed mobile online gaming company is available in India that plays on the increasing numbers of mobile subscribers in India.

5. **Animation** – We value this business at a premium to the global premium average because we believe that Walt Disney as a strategic investor will bring significant value to the business in terms of joint production of animation content and/or outsourcing work to UTV.
6. **Broadcasting** – We value the broadcasting entity at UTV's cost of investment as the final shareholding structure and UTV's stake in this business is unclear pending the induction of a financial/strategic partner. We expect significant value-unlocking in this business once a partner is brought in and given recent investments in the Indian broadcasting space. Temasek Holdings along with Kotak, have invested close to US\$300m in a new general entertainment venture floated by the ex-head of Star India.

The valuations multiples we have ascribed to the different businesses may appear expensive in the global context, but are at significant discount to the Indian media universe. Please see the chart Figure 3. Indian Media – Valuation Matrix for comparison.

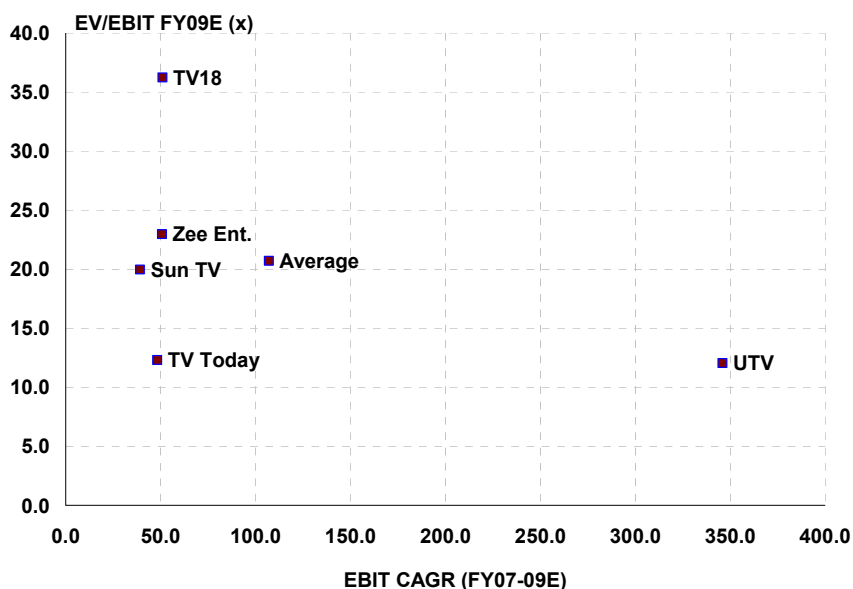
We thus arrive at a sum-of-the-parts target price of Rs887 for UTV.

Figure 1. UTV – Sum-of-the-parts Valuation Summary

	FY09E (Rsm)	2-year CAGR (FY07-09E)	UTV's stake	Target EV/EBIT Multiple (x)	Target EV (Rsm)	Global Comparable Multiples
Movies						
Sales	3,189	111	77%			
EBIT	634	133	77%	23	11,228.3	12x EV/EBIT for 2-year EBIT CAGR of 13%
TV Content						
Sales	1,157	22	100%			
EBIT	157	35	100%	22	3,450.0	12.5x EV/EBIT for 2-year EBIT CAGR of 10.5%
Interactive						
Animation						
Sales	320	63	100%			
EBIT	80	63	100%	22	1,760.0	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Ignition						
Sales	1280		70%			
EBIT	230	72	70%	25	4,032.0	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Indiagames						
Sales	300		59%			
EBIT	53	109	59%	25	774.4	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Broadcasting						
					1,800.0	Valuing at the cost of investment made by UTV in broadcasting
Total EV					23,044.7	
Net Debt					1,047.6	
Implied Market Cap					21,997.1	
No of shares					24.8	
Target Price (Rs)					887.0	

Source: Citi Investment Research estimates

Figure 2. UTV – Relative Valuation Chart



Source: Citi Investment Research estimates

Figure 3. Indian Media – Valuation Matrix

	RIC	CIR Rating	Market Cap USD mn	PE (x)		RoE (%)		EV/EBIT (x)		EBIT CAGR (%)	
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	2-year	3-year
Sun TV	SUTV.BO	NR	3310	31.3	23.9	29.2	32.5	26.7	20.0	39.1	35.6
Zee Ent.	ZEE.BO	1L	3888	37.6	29.2	22.2	25.6	29.8	23.0	50.7	40.6
TV Today	TVTO.BO	NR	259	23.6	18.4	14.5	16.1	15.5	12.3	48.2	nm
TV18	TVET.BO	NR	856	73.7	46.2	21.3	31.5	68.7	36.2	50.9	59.2
NDTV	NDTV.BO	NR	605	76.8	47.0	10.0	14.9	52.8	34.6	nm	nm
UTV	UTVS.BO	1H	405	51.9	26.7	14.8	22.9	14.9	12.0	345.9	191.0
Average			1,783.5	48.6	33.0	19.4	24.1	38.7	25.2	47.2	45.1

Source: Citi Investment Research estimates

Figure 4. Global Filmed Entertainment – Valuation Matrix

	RIC	CIR Rating	Market Cap USD mn	PE (x)		RoE (%)		EV/EBIT (x)		Dividend Yld FY09E	2-yr EBIT CAGR (%)
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E		
Cineworld Group	CINE.L	1M	564	13.1	12.6	45.9	19.3	14.5	10.9	4.8	23.1
Walt Disney Co	DIS.N	2M	68,456	18.3	17.8	12.7	12.9	10.4	10.0	1.0	6.6
Time Warner Inc	TWX.N	1M	71,230	17.5	16.3	6.9	7.1	11.7	11.0	1.3	8.8
Viacom Inc	VIAB.N	1M	25,257	16.5	15.3	22.1	22.1	10.6	9.7	0.0	6.7
Eros	EROS.L	nr	1,012	25.0	20.3	nm	nm	22.7	18.8	0.1	22.6
Average			33,303.8	18.1	16.4	21.9	15.4	14.0	12.1	1.4	13.6

Source: Citi Investment Research estimates

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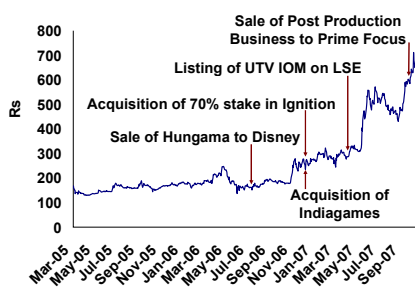
Figure 5. Global Gaming – Valuation Matrix

	RIC	CIR Rating	Market Cap USD mn	P/E (x)		RoE (%)		EV/EBIT (x)		2-yr EBIT CAGR
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	
CJ Internet	037150.KQ	2H	555	16.8	13.8	15.4	15.9	8.5	7.2	18.5
Hanbit Soft	047080.KQ	3H	270	17.6	16.2	14.8	13.8	13.8	11.4	227.3
Ncsoft	036570.KS	1M	1,585	22.7	17.0	13.6	15.6	17.1	13.1	19.2
Neowiz Games*	095660.KQ	1S	561	16.4	14.3	44.6	34.6	11.7	9.8	33.5
NHN	035420.KQ	1M	13,818	41.7	33.4	50.9	41.4	30.7	24.2	34.5
Sina	SINA.O	1L	2,938	46.4	34.0	15.9	18.4	50.0	31.4	52.3
Sohu	SOHU.O	1L	1,646	43.8	32.2	22.1	24.4	51.1	30.7	42.2
NetEase	NTES.O	1H	2,380	15.2	15.4	34.3	26.5	12.2	10.4	1.6
Activision	ATVI.O	1H	6,523	35.4	27.9	13.6	15.7	24.1	16.7	108.3
EA	ERTS.O	1H	19,153	51.6	29.8	9.3	14.8	nm	33.8	181.5
THQ Inc	THQI.O	2S	1,712	18.2	14.4	11.5	12.4	11.3	7.2	37.0
Average			4,649.2	29.6	22.6	22.4	21.2	23.0	17.8	68.7

Source: Citi Investment Research estimates

Stock Re-rating Should Continue

Figure 6. UTV – Stock Performance



Source: Citi Investment Research

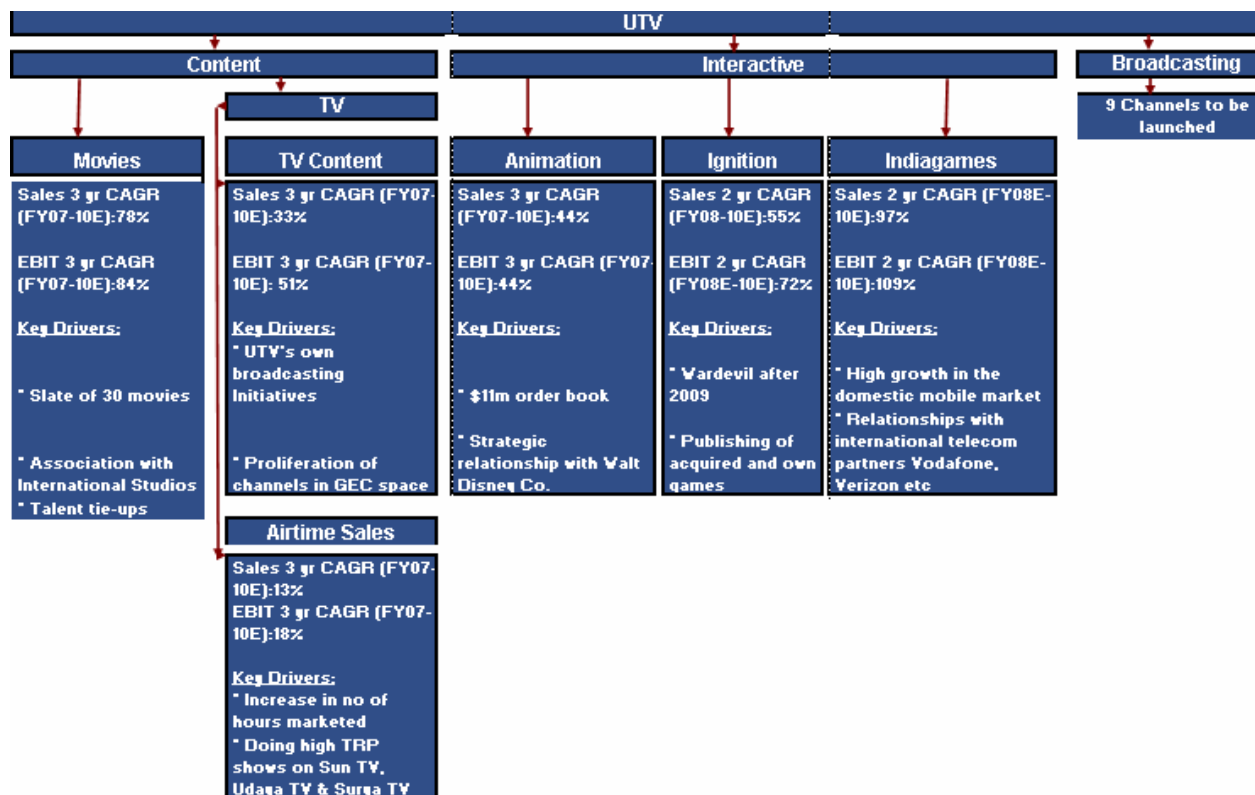
UTV has had a strong run in the past six months, outperforming the Sensex by 66%. However, with a strong movie line up over the next three years, monetization of released Hollywood movies, strong order book in animation and new game launches should support further re-rating of the stock. Potential catalysts for stock performance are:

1. Unlocking value in the broadcasting business through induction of financial and strategic partner in the short term; and
2. Timely completion of the high-end game *Wardevil* accompanied by a good consumer response in the long term.

Value-Unlocking Through Restructuring

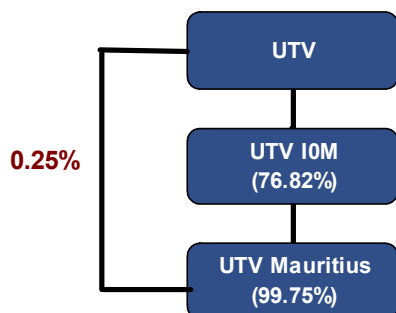
UTV has made significant investments over the past 18 months in diverse areas such as broadcasting and gaming. Given the different funding and operational requirements of each of the new and existing businesses and the obvious synergies and similarities between some of them, UTV has restructured its business along three verticals. Significantly, it has initiated steps to un-lock value in each of these verticals, which would make them self-funding entities going forward. We discuss this value-unlocking in detail below:

Figure 7. UTV – Business Verticals, Growth Expectation and Key Drivers



Source: Citi Investment Research

Figure 8. Movie Business Holding Structure



Source: Company Reports and Citi Investment Research

Movies: Listing of Movies Subsidiary on LSE, AIM

UTV has successfully unlocked value in its movie subsidiary UTV IOM (UTV Isle of Man) by listing it on London stock Exchange's Alternative Investments Market (AIM). UTV raised US\$70m by offloading a 23% stake in UTV IOM.

UTV IOM now houses the entire motion picture business of UTV including production and distribution through its 100% subsidiary UTV Mauritius. UTV, in a separate transaction, transferred all its movie business to UTV Mauritius. Having the Mauritius entity own the movie business is beneficial from the tax perspective because Mauritius taxes offshore profits at 5%.

Of the US\$70m raised:

1. US\$30m will flow back to UTV in-lieu of the transfer of its movie portfolio to UTV Mauritius
2. Remaining US\$40m will be utilized to fund the movie business. We believe the movie business is well-funded till end of 2008.

Broadcasting Value-Unlocking: Still No Clarity on Tie-Up

UTV Global Broadcasting is the holding entity for all of UTV's broadcasting initiatives. UTV has a JV '*GenX Entertainment*' with Astro Multimedia International (BVI) of Malaysia.

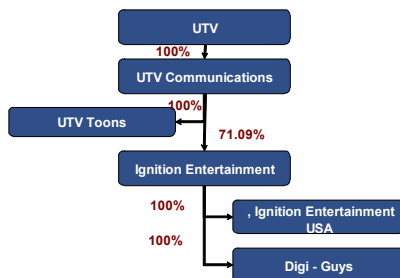
UTV's JV with Astro is limited to 'Bindaas', the youth-centric general entertainment channel launched by GenX Entertainment. UTV is scouting for a strategic and financial partner for its entire broadcasting venture, which besides part-funding, will limit its own exposure to the inherent risk in the business. Since UTV's youth-centric channel 'Bindaas' is already on air, we believe that UTV will now look for higher valuations for its business. Our discussion with the management reveals that UTV expects a valuation of US\$250m for its broadcasting entity.

For lack of clarity on timing the induction of the strategic/financial partner, we deem it prudent not to ascribe a value to UTV's stake in the broadcasting entity. As such, we value the broadcasting entity at cost, i.e. at the book value of the investment made by UTV in the broadcasting entity so far. For more details on the valuation, please refer to the Valuation section.

Interactive Segment: New Acquisitions Bring Value

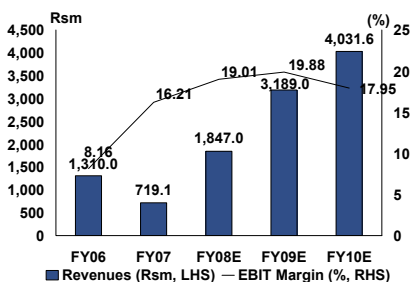
UTV entered the high growth markets of mobile, PC and console gaming in India and worldwide, through acquisition of Ignition and Indiagames. UTV acquired a 71% stake in Ignition for US\$13m and a 59% stake in Indiagames for US\$10.5m in December 2006.

Figure 9. Interactive Business Structure



Source: Company Reports and Citi Investment Research

Figure 10. Movies Business – Revenue and EBIT Margin Trend



Source: Company Reports and Citi Investment Research estimates

Ignition is a UK-based company started by gaming industry veterans, developing and publishing handheld and console games whereas Indiagames is India’s largest online and mobile gaming portal. Indiagames develops and publishes mobile games across 67 countries through 80 telecom partners globally including Vodafone and Verizon. It also has tie-ups with broadband internet players like Airtel, MTNL, BSNL, and Tata VSNL for online distribution of PC games.

UTV’s new media initiatives are housed under its wholly owned subsidiary UTV UK. UTV UK is the holding company of UTV Toons (Animation business) and the Gaming business (Ignition and India games).

Content should drive first leg of growth

We believe UTV’s growth over the next three years will primarily be driven by its content business, which should grow at a CAGR of 53% over FY07-10E on the back of a surge in movie business revenues. A strong slate of movie launches in the domestic and international markets, proven track record and prominent talent relationships should drive movie revenue growth at a CAGR of 78% over FY07-10E.

TV content will also show robust growth on the back of:

1. Own channel initiatives – UTV’s channel launches, part of whose programming will be done in-house; and
2. Strong growth in new channel launches – nine channels should be launched in the next year in the Hindi GEC space alone, which should drive up demand for content.

We forecast revenue growth of 20% over FY07-10E for TV content.

Movies: Replicating the studio model

UTV has a strong slate of 30 movies to be launched in next three years, three of which are Hollywood movies. We forecast revenue CAGR of 78% in the movie business of over FY07-10E.

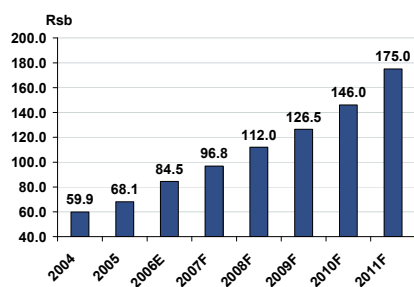
UTV is the only company in India operating on a multi-segment studio-kind-of-model. Its movie operations encompass production, marketing and distribution and have long-term contracts with artists, directors and strong relationships/ associations with international production houses. It is the only motion picture company in India with a slate of Hollywood, Bollywood and Indian regional movies. UTV has 30 Hindi, Hollywood and regional (Tamil and Telugu) films in its portfolio. Relationships with international production houses like Walt Disney, 20th Century Fox, and Overbrook Entertainment add teeth to its business.

Figure 11. UTV – Forthcoming movies

Year	Movie	Director	Comments
Hindi			
FY08	Goal	Vivek Agnihotri	Own Production/Distribution
FY08	Jodha Akbar	Ashutosh Gowariker	Co-production
FY08	Fashion	Madhur Bhandarkar	Co-production
FY08	Tarey Zameen Parr	Aamir Khan	Distribution
FY08	Naa Tum Jaano Na Hum	Aamir Khan	Distribution
FY08-09	Welcome	Aneez Bazmee	Co-production
English			
FY08-09	The Happening	M Night Shyamalan	Co-production
Regional			
FY08	Atithi	Surender Reddy	Distribution
FY08	Kannamochi Yenada	Priya	Co-production with Radaan

Source: Company

Figure 12. India Filmed Entertainment Market



Source: FICCI PWC Media and Entertainment Report, 2007

The **Indian filmed entertainment** market is estimated at US\$2bn, growing at 25% pa. A recent study by FICCI PWC (The Indian Media and Entertainment Industry, 2007) pegs a CAGR of 16% for the Indian filmed entertainment industry to US\$4.4bn by 2011.

India produces the largest number of films and has the largest number of admissions in the world. Corporatisation of the film industry along with improved models for financing films, growth of multiplexes coupled with increased ticket prices are some of the factors driving this growth. The domestic market boom has been accompanied by healthy growth in the overseas market for Indian films. A growing Indian diaspora around the world has created more overseas demand for Indian movies, which should grow at a CAGR of 18% in next five years. The home video market, which grew by 63% in 2005 to US\$162m, however, shows the maximum potential for growth in India.

The table below captures this changing aspect of the Indian Filmed Entertainment industry where film revenues dependence on the domestic box office is gradually decreasing. Even so, it compares starkly with the Hollywood filmed entertainment industry, which derives only 35% of its total revenues from domestic box office, with majority coming from home video and satellite rights of movies.

Figure 13. India Filmed Entertainment – Segmental Breakdown

Segments	2004	2,005	2006E	2007F	2008F	2009F	2010F	2011F
Domestic box office revenues	78%	78%	76%	74%	74%	72%	70%	68%
Overseas box office revenues	8%	8%	8%	9%	9%	10%	9%	9%
Ancillary revenues	8%	8%	8%	9%	9%	9%	9%	9%
Home Video revenues	6%	6%	6%	8%	8%	9%	12%	14%

Source: FICCI PWC Media and Entertainment Report, 2007

UTV, which entered the Hindi movie industry through a distribution foray, has gradually moved towards the top-end of the value chain – movie production, where the perceived risk level is lowest in the movie business. Through its present business model, UTV has greater control over the movie production and distribution process, from incubation of script, finalization of talent to the line production of movies, followed by integrated marketing and distribution.

Since 2005, UTV has produced/distributed some big box-office successes; details of which are enumerated below:

Figure 14. Box office collections of past successful movies

Movie	Release Year	Net Gross (Rsm)
Rang De Basanti	January-06	510.7
Lakshya	June-04	230.0
Chalte Chalte	June-03	165.0
Swades	December-04	157.5
Chup Chup Ke	June-06	149.2
Fiza	September-00	102.5
Khosla ka Ghosla	September-06	45.7

Source: www.boxofficeindia.com

UTV has built strong relationships with global studios, international production houses and leading international and Indian talent, which will help it in creating strong and differentiated content. The big budget Hollywood movie 'The Happening', is a US\$57m film, a co-production with 20th Century Fox and directed by M Night Shyamalan is planned to released in June next year.

Figure 15. UTV – Global relationships

Associates	Comments
The Walt Disney Co.	Strategic investor in UTV India
20th Century Fox	Co-production arrangement between 20th Century Fox and UTV for The Happening.
Overbrook	Will Smith's production co. Association involves co-production arrangement for 2 animation movies
Fox and Fox Searchlight	Movie co-production arrangement for The Namesake and I think I love my wife.

Source: Company

Figure 16. UTV – Talent relationships

Director /Artist	Association
Rakeysh Mehra	5-movie production contract
Ashutosh Gowariker	Movie co-production agreement
Anurag Basu	3 movie agreement
Radaan	3 movie exclusive movie production JV
Actors John Abraham, Priyanka Chopra etc	3 movie agreement

Source: Citi Investment Research

Hollywood movies *Namesake* and *I think I Love my Wife* were released worldwide towards the end of FY07. However, as co-productions and Hollywood movies, the revenue collection cycle was delayed. Also the revenue streams differ in terms of revenue contribution. Theatricals contribute only 30-35% of Hollywood movies whereas for Hindi/Indian movies, this contribution is c70%.

Namesake generated theatrical revenues of US\$18m, which will accrue to UTV in 2H FY08 or latest by 1QFY09. Ancillary revenues will accrue through the rest

of FY09E. *I Think I Love My Wife* ancillary revenues should flow through 3QFY08 onwards.

UTV has ventured into the second high growth market after Bollywood, the South-Indian film industry with its tie-up for the distribution of '*Atithi*', a Telugu film. UTV has a tie-up with South Indian media house Radaan Media for co-production of Tamil and Telugu films. The South Indian film industry is the largest money grosser after the Hindi movie industry. 37% of the 1,090 movies produced in 2006 in India were Telugu (245) and Tamil (162) movies.

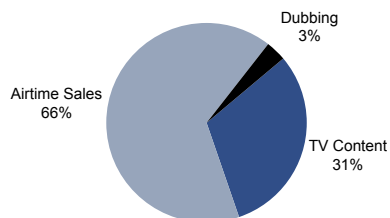
We forecast movie revenues will grow at a 78% CAGR over FY07-10E with EBIT earnings growing at 84% during the same period. The following table details key assumptions and forecasts for the motion pictures business.

Figure 17. UTV Movie Business – Assumptions and Forecasts

	FY08E	FY09E	FY10E
Total Revenues	1,847.0	3,189.0	4,031.6
A Bollywood Movie Assumptions			
No of Movies to be released			
Small budget movies (Rs70-100m)	5.0	8.0	10.0
Medium budget movies (Rs100m- 170m)	1.0	2.0	3.0
Large budget movies (Rs180m-Rs500m)	2.0	2.0	2.0
Total no of movies to be released	8.0	12.0	15.0
Revenues	1,495.0	2,195.4	2,800.4
Total ADJUSTED Cost of Production	802.0	1,297.4	1,804.0
Total Marketing Spend	281.5	540.5	734.2
Total Cost of Movie Production	1,581.5	2,449.5	3,169.3
Gross Profit	411.5	357.5	262.3
B Hollywood Movie Assumptions			
No of Movies to be released	2.0	0.0	1.0
Revenues	0.0	993.7	1,231.2
Total Cost of Movie Production	0.0	302.5	286.2
Gross Profit	0.0	691.1	945.0
C Distribution Only			
Total Revenues	352.0	0.0	0.0
Total Investment	320.0	0.0	0.0
Gross Profit	32.0	0.0	0.0
Total Gross Profit of Movies (A+B+C)	443.5	1,048.6	1,207.3
Operating Costs	0.0	0.0	0.0
Employee Cost	92.4	414.6	483.8
As a % of Sales	5.0%	13.0%	12.0%
Total Movies EBIT (Rsm)	351.2	634.0	723.5
EBIT Margin (%)	19.0%	19.9%	17.9%

Source: Citi Investment Research estimates

Figure 18. FY07 TV Content Revenue Mix



Source: Company Reports and Citi Investment Research

Television Content

Television content includes revenue from producing TV content, airtime sales and dubbing. While airtime sales form 66% of this segment, growth will likely be strongest in the TV content production business.

In **TV content**, UTV will ride on the spurt in demand for content as the Indian broadcasting space witnesses a proliferation of channels in the coming year. In the Hindi GEC space alone, an estimated 21 channels will be launched.

Secondly, UTV's new channels will deliver the majority of its own content. UTV is providing content for its recently launched channel 'Bindaas', which is a youth-centric general entertainment channel.

Thirdly, UTV will look at forging alliances with players in broadcasting space where UTV will be the key content provider.

UTV is now producing shows for Star Plus, Doordarshan and Disney.

Airtime sales are a steady revenue stream for UTV as are sales of free commercial time (FCT) for sponsored programmes on terrestrial broadcaster Doordarshan and cable and satellite channels such as Sun TV. UTV has an existing relationship with Doordarshan and the Sun group (Sun TV, Gemini TV, Udaya TV and Surya TV). UTV is marketing the top two shows on Sun TV. These and other new shows on Gemini and Udaya should drive the number of hours of content driving sales CAGR of 13% over FY07-10E. UTV has a tie-up with Radaan Media, which is a major South India-based media player.

Interactive to drive the second leg of growth

After acquiring Ignition and Indiagames, UTV is now present in the high-growth markets of online, mobile, and console gaming, which have excellent synergies with its animation business. We expect gaming and animation to drive a revenue CAGR of 113% for the interactive segment during FY07-10E.

Ignition

Growth in the console gaming segment will likely come only in 2010 after *Wardevil*, the US\$18m game that Ignition is developing for Sony Playstation3 (PS3) consoles with a planned launch in 2008-09. Ignition was created and is run by gaming industry veterans. It has strong relationships with developers and distributors such as Sony, Nintendo, Microsoft, SNK, Konami, Atari, Virgin, and Walmart.

In addition to *Wardevil*, Ignition is also developing two more IPR intensive games and has acquired 8-9 games that it will publish on its own in the US/UK and through Atari in some territories in Europe. Last quarter, Ignition released the game '*Mercury Meltdown*' on the Nintendo Wii platform.

Analysing Wardevil

Wardevil will be a high-end videogame with in-game graphics that will give the videogame a look typically associated with CGI movies. It is being developed exclusively for the Sony Playstation3 (PS3) platform.

Sony PS3 was launched in November 2006 in the US and sold 3.6m units through March 2007. By the time *Wardevil* is published in 2008-09, the installed base of Sony PS3 should be 25m-30m units. The expected breakeven volume for *Wardevil* is 800,000 units. At this stage it will be difficult to estimate the profitability and sales potential of this game. However, we have run a sensitivity analysis of profitability to the number of volumes sold. The following table sums up different scenarios of profitability from *Wardevil* using number of units sold as the key variable:

Figure 19. Wardevil – Scenario Analysis

No of units sold (units)	2,000,000	1,500,000	1,000,000	800,000	600,000
Realization (\$/unit)	30	30	30	30	30
Revenues (\$m)	60	45	30	24	18
Revenues (Rsm)	2,400	1,800	1,200	960	720
Development Cost Write-off (Rsm)	720	720	720	720	720
Gross Profit	1,680	1,080	480	240	-
Other Operating/Marketing Spend (Rsm)	360	270	180	144	108
As a % of Sales	15%	15%	15%	15%	15%
EBIT (Rsm)	1,320	810	300	96	-108
EBIT Margin (%)	55%	45%	25%	10%	-15%
Breakeven Volumes (no of units)	800,000	800,000	800,000	800,000	800,000
Breakeven ASP (\$/unit)	22.5	22.5	22.5	22.5	22.5
Cost of development(\$m)	18	18	18	18	18

Source: Company and Citi Investment Research estimates

Figure 20. Sony Playstation3 – Installed Base (Units in mn)

Year	Sony Playstation3 (Units in mn)
Mar-07	3.6
Mar-08E	12.1
Mar-09E	25.1
Mar-10E	40.7
Mar-11E	49.7

Source: Company and Citi Investment Research estimates

Given uncertainty associated with long gestation projects such as completion time and cost overruns, we are not including revenues from *Wardevil* at this stage. Management expects revenue from *Wardevil* to kick in during FY09-10.

Indiagames

Indiagames is India's largest online and mobile game operator. It also develops and publishes mobile games in 67 countries through 80 telecom partners such as Vodafone, and Verizon. It also has tie-ups with broadband internet players like Airtel, MTNL, BSNL, and Tata VSNL for online distribution of PC games.

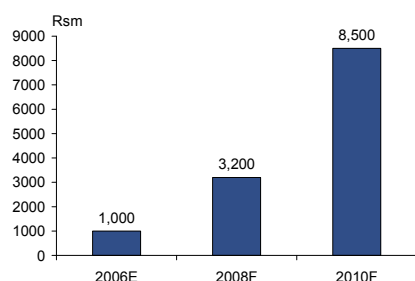
Indiagames founder Vishal Gondal has remained at the helm even after UTV's acquisition. He, along with Cisco and Adobe, are shareholders in Indiagames.

Mobile gaming market in India is small and at US\$25m. However, increasing demand from domestic market as well as offshore outsourcing work should drive segment growth at a CAGR of 69.5% for 2006-10 to US\$212m in 2010E (Source: The Indian Entertainment and Media Industry, 2007 by FICCI PWC).

The outsourced work is mainly in the porting and testing phases of the gaming value chain. India offers cost advantages of up to 100% in porting along with strong engineering and technical capabilities. With more demand for 3D gaming, India should see more outsourced graphic designing work.

Domestic demand also has been buoyed by the increasing number of mobile subscribers in India (expected to grow at a CAGR of 40% during 2007-11E) and an increase in the number of game-capable handsets. We believe strong growth in the mobile gaming market will help Indian developers move up the value chain and adopt the role of a publisher.

Figure 21. India – Growth of Mobile Gaming



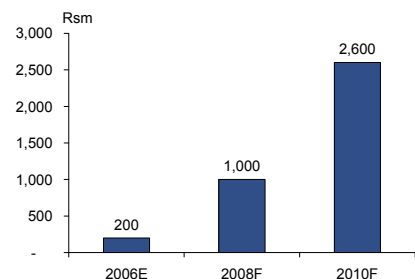
Source: FICCI PWC Report, Nasscom

Figure 22. India – Total Mobile Subscriber numbers ('000)

	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Total Wireless (000)	91,993.4	160,041.0	245,320.6	336,164.7	420,458.6	493,231.7
% Change		72.3	74.0	53.3	37.0	25.1
5-year CAGR						17.3
						39.9

Source: Citi Investment Research estimates

Figure 23. India – Online Gaming



Source: FICCI PWC Report, Nasscom

Online gaming market is nascent in India with revenues of US\$5m. We expect it will grow to US\$65m at a CAGR of 90% during FY06-10E. We believe much of this growth would be domestically driven. Increasing internet usage and favorable demographics will likely be key drivers for online gaming. A large number of online gamers are in the young adult category, which is the main target for online gamers. India, with more than 50% of its population below 25 years of age thus presents a huge opportunity.

Indiagames besides being a publisher also has its own gaming portal. Other India-specific gaming portals in operation include zapak.com, supported by Reliance-ADAG. Indiagames has a distinct cost-advantage over other gaming portals as it develops its games in-house. Also, Indiagames has 'game on demand' which enables users to download games on demand with some security features, which helps it tackle piracy. We expect Indiagames to report revenues of Rs300m and Rs390m in FY08E and FY09E respectively.

Figure 24. India – Broadband subscribers

	2006	2007	2008	2009	2010	2011
Population ('000)	1,100,030	1,116,990	1,133,884	1,150,694	1,167,403	1,183,994
Total broadband subscribers ('000)	2,285	3,255	4,478	6,009	7,780	9,703
Share of population (%)	0.208	0.291	0.395	0.522	0.666	0.820
Households ('000)	195,972	199,235	202,494	205,746	208,987	212,216
Residential broadband subscribers ('000)	819	1,426	2,371	3,575	4,972	6,527
Share of households (%)	0.418	0.716	1.171	1.738	2.379	3.076

Source: Citi Investment Research estimates

Figure 25. Animation Movies line up

Co-Producer	Movie Director
Overbrook Entertainment, Dream Blanket	Simi Nalaseth
Arjun Alibaba	Arnab Goswami Shoumitra Ranade

Source: Company Reports and Citi Investment Research

Animation

Animation business resides in the Interactive vertical and is part of UTV Communications, which is a 100% subsidiary of UTV.

UTV has a strategic partner in Walt Disney, which we believe is likely to outsource a great deal of work to its Indian partner given the cost advantages. Currently however, there is no visibility on any order flow-through from the Walt Disney Co. and we are not building any revenues emanating from this account. However, we believe the current order book of US\$11m will drive revenue CAGR of 44% for FY07-10E.

UTV has a 225+ seat animation studio, now being scaled up and has a strong client base comprising international animation studios such as Disney, BKN, Mike Young and Classic Media. With the strategic holding of Disney in UTV and other international tie-ups, we expect a significant increase in order size going forward. However, presently we are building in only the US\$11m order into our forecasts. Outsourcing based animation revenues would be the major driver, in our view, over the next couple of years.

UTV is also developing IPR intensive animation content – it has three animation movies in the pipeline one of which is the co-production with Will Smith's Overbrook Entertainment. Second co-production is with Porchlight Entertainment. Third project is its own production to be directed by Shoumitra Ranade.

The **Indian animation industry** has three segments: Web designing, Entertainment and E-Education, with entertainment accounting for 67% of the animation development market. The entertainment segment of the Indian animation market is pegged at US\$275m (FICCI PWC - India Media and Entertainment Market Report, 2007) and should grow at a CAGR of 22% through 2011 to US\$725m. India offers significant cost advantage of c60% compared to global animation development cost. Growth which was being driven by the pure outsourcing model due to the cost advantages offered by India is now being supplemented by original content creation. Tie-ups with US companies remain critical in the animation space because of the inevitable comparison of Indian animation movies with the very best in Hollywood animation productions. UTV has a significant advantage here due to its international tie-ups and strategic relationship with The Walt Disney Co.

Re-entering broadcasting after ‘Hungama’

UTV's broadcasting initiatives mark its re-entry of sorts into the space after it exited the market in December 2006. UTV's maiden broadcasting venture, the kids' channel 'Hungama', was a great success and proved its capability in executing a broadcasting channel. Hungama garnered highest TRPs in the kids' genre in the second year of its launch. It was eventually sold off to The Walt Disney Co. in December 2006 for US\$30.5m.

UTV's broadcasting initiatives are housed under the subsidiary UTV Global Broadcasting (UGBL). UGBL has three wholly owned subsidiaries:

- Genx Entertainment
- V & S Broadcasting
- UTV News Ltd.

Since broadcasting has been in an investment phase, UTV has not been consolidating broadcasting financials with the parent company. While it is not clear as to what the final shareholding structure of the broadcasting entity will be after the induction of the financial and or/strategic partner, our discussions with management indicate it could be between 45-50%. We are awaiting an announcement from management on this front. Till further clarity, we have not included broadcasting investment and losses in our forecasts. However, since the parent company UTV has already made investments to the tune of Rs1.8bn in the broadcasting business, we have valued it at book value in our SOTP valuation of UTV. For details on valuation, please refer to the valuation section.

Synergies with Disney

Disney has a strategic holding in UTV and now holds a 14.85% stake. We believe this could be a potential vehicle for Disney to participate in India's strong growth in the entertainment space. In the past Disney has indicated that it plans to enter the India motion picture market, which may include producing Indian content for the Indian masses or Indian content with global appeal.

We believe Disney's strengths in animation bring potential synergies in its relationship with UTV in terms of expertise and technology. Currently UTV does not do significant work for Disney, which we believe could change in coming months with possible outsourcing order flows from Disney, or UTV and Disney engaging in a co-production deal for animation movie content. These likely upsides are not factored into our forecasts or our valuation.

Broadcasting Roadmap

- UTV is planning to launch nine channels before June 2008. One of channels, a youth-centric general entertainment channel called 'Bindaas' was launched in end-September
- The initial outlay is planned at Rs5-6bn over the next three years

- UTV's exposure in this venture would be Rs1.8b. The remaining capital would be raised from strategic/financial investors at various stages for different channels.
- Announcement on the financial and or/strategic investor is awaited.
- Since, one or more channels will be operational by the time any investor gets in; UTV is looking at higher valuations for the broadcasting business. UTV is seeking valuation in the range of Rs8bn-10bn.
- UTV has signed contracts with most of the MSOs to carry most of the first set of channels set to be launched.
- UTV will distribute its channels in the Middle East as it is believed to be an important market for Hindi movie content with the presence of a large proportion of Indian expatriate community.
- Targeted breakeven at three years after launch

Figure 26. UTV – Channel Roll Out Plan

Sr. No	Subsidiary	Channel	Language	Genre/USP of Channel	Expected Time of Launch
1	GenX	Bindass	Hindi	Youth-centric (14-34 years) general entertainment channel	Sep-07
2		Bindass Movies	Hindi	Movie channel with dubbed English movies	Feb-07
3		Bindass	Tamil/Telugu	Youth-centric (14-34 years) general entertainment channel	
4		Bindass Movies	Tamil/Telugu	Movie channel with dubbed English movies	
5	V & S Broadcasting	No name	Hindi	Speciality	Jan-07
6		No name	Hindi	Speciality	Feb-07
7		World Cinema Channel	Hindi	World Cinema with mass appeal dubbed in Hindi	Nov-07
8	UTV News Ltd.	Business News Channel	Hindi	Focused on featured programming where there is a 'perceived' need for more programming	Jan-07
9		Non-fiction Channel	Hindi		Jan-07

Source: Company and Citi Investment Research estimates

Funding in place till FY09

All of UTV's businesses are tied up for funding.

Movies – Part of the money raised on the listing of the UTV IOM subsidiary, around US\$40m, will fund the business over the next few years. Movies business also has a lot of inventory that will get monetized over time. Secondly, revenues from Namesake will also kick in the next 12-18 months, which will make movies a self-funding business.

Broadcasting – Management has pegged the total capital requirement in this business at Rs6bn and has reiterated that UTV's own investment will be limited to Rs1.8b. UTV's investment will partly be funded by money raised after the AIM listing and partly by options that management is now exploring.

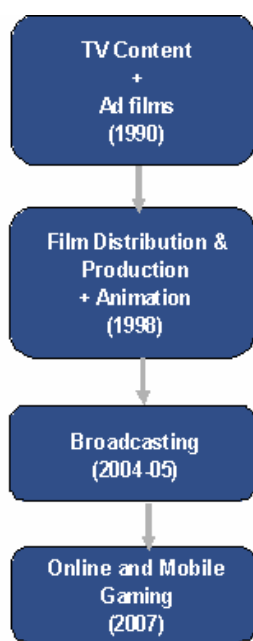
UTV is presently in talks with financial and strategic partners who will bring in the remaining capital. We are awaiting more clarity from management on this.

Interactive – UTV acquired Indiagames for US\$10.5m and Ignition for US\$12.5m respectively. Though these acquisitions will drive growth for the next year for the Interactive division, UTV will need capital in our view. Animation will need some capital, but this will not be significant in our view.

UTV is exploring different options for capital raising. It can raise up to US\$100m through ADRs / GDRs, FCCB, and equity issuance.

Connecting the Dots ... Evolving into an Integrated Media Player

Figure 27. UTV – Business Evolution



Source: Company Reports and Citi Investment Research

Since incorporation in 1990, UTV has evolved from an ad-films and TV content producer to an integrated media business house. After heavy investments in the last 18 months in new businesses such as gaming, UTV has transitioned from being a production and services house to an integrated media company straddling businesses such movie production and distribution, TV content, broadcasting, animation and gaming.

UTV leveraged on content, which had long been its forte by expanding its movie and TV content businesses. It successfully unlocked value in its movie business by listing it on the LSE-AIM exchange and has an impressive line-up of Hindi, regional language and Hollywood production and/or distribution over the next two years. UTV is building on its past success in the broadcasting space – Hungama, the kids channel launched by UTV in 2005 was the top channel when it was sold off to Walt Disney – with an aggressive roll-out plan of nine channels in the next one year focusing on hitherto unattended gaps in the GEC, business news and variety and speciality genres. Recently, UTV forayed into high-growth online; console and mobile gaming businesses by acquiring a 71% stake in UK-based Ignition, a console game developer and Indiagames, India's largest mobile gaming company. UTV also has Walt Disney Co. as a strategic partner with a 14.85% stake which bodes well for its animation business.

The Three Verticals

After the restructuring, UTV's three business verticals are:

Content

Content encompasses both movie and television content business. Movie content business includes both production and distribution revenues from Hindi, Hollywood and regional movies. TV Content business includes airtime sales and dubbing revenues as well.

Interactive

This includes the newly acquired businesses Indiagames (online and mobile gaming) and Ignition (console and PC games). Animation and VFX (special effects) are also part of the Interactive vertical. UTV recently sold its Post production business to Prime Focus for a consideration of Rs120m. Post Production business had revenues of Rs90m in FY07.

Broadcasting

This will cover the new channel initiatives by the company. UTV is planning to launch nine channels over the next 12 months.

Financial Analysis

Robust revenue growth driven by Movies and Gaming

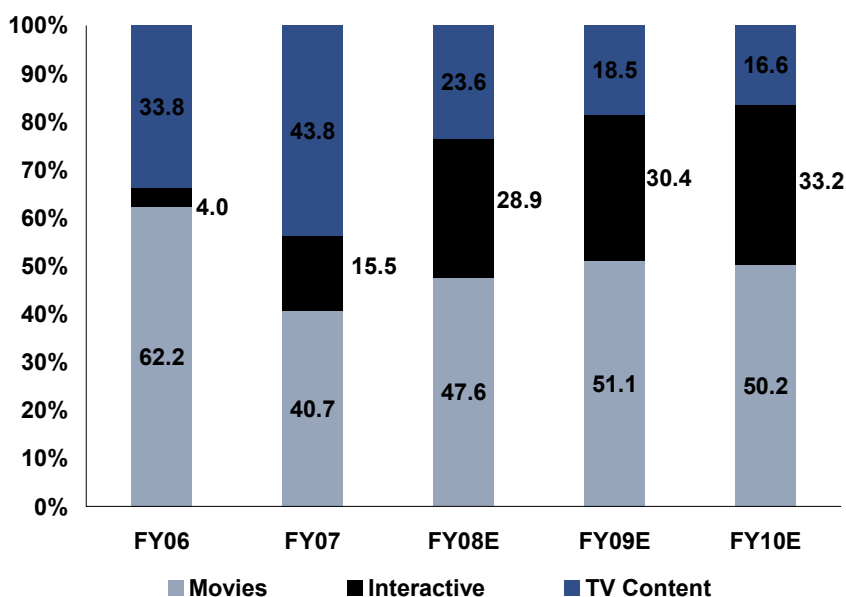
We forecast a revenue CAGR of 66% for FY07-10E for UTV on the back of robust growth in the movie and gaming businesses. Movies should grow at CAGR of 78% while we expect animation will grow at a 44% CAGR over FY07-10E. Movies would remain the primary revenue contributor at 50% of revenues while interactive segment will contribute more than 30% in FY09.

Figure 28. UTV – Revenue Breakdown

Revenues (Rsm)	FY05	FY06	FY07	FY08E	FY09E	FY10E
TV Content	909.3	711.0	774.4	914.5	1,157.2	1,336.7
Movies	774.2	1,310.0	719.1	1,847.0	3,189.0	4,031.6
Gaming	0.0	0.0	65.0	900.0	1,580.0	2,310.0
Animation	0.0	10.0	120.0	220.0	320.0	360.0
Post Production	98.4	74.0	90.0	0.0	0.0	0.0
Total	1,782.0	2,105.0	1,768.5	3,881.5	6,246.2	8,038.3
% Change						
TV Content	18.5	-21.8	8.9	18.1	26.5	15.5
Movies	187.6	69.2	-45.1	156.8	72.7	26.4
Gaming				1,284.6	75.6	46.2
Animation	0.0	0.0	0.0	83.3	45.5	12.5
Post Production	-2.8	-24.8	21.6	0.0	0.0	0.0
Total	57.2	18.1	-16.0	119.5	60.9	28.7

Source: Company Reports and Citi Investment Research estimates

Figure 29. UTV – Revenue Mix

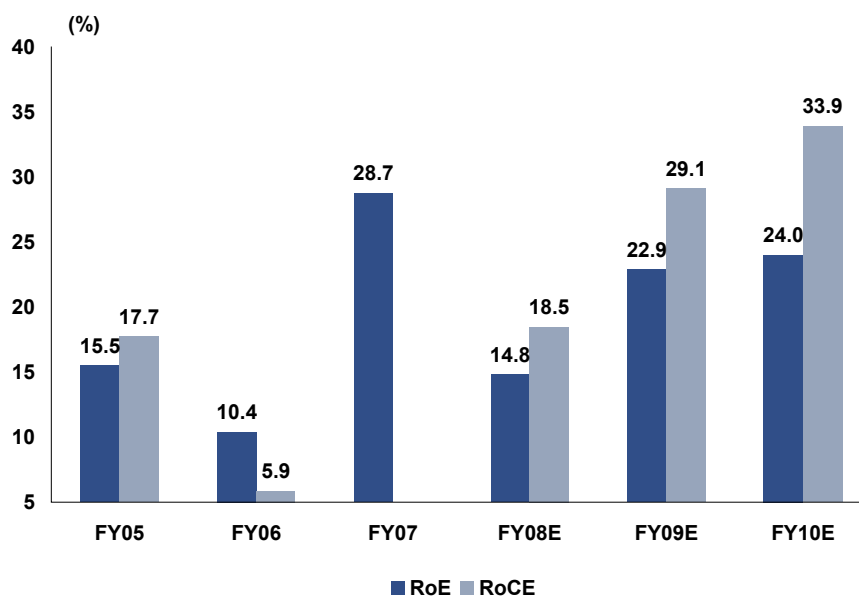


Source: Company Reports and Citi Investment Research estimates

Healthy Return Ratios

UTV has healthy return ratios and they are set to improve going forward as revenues from higher-margin interactive business kicks in.

Figure 30. UTV – Return Ratios Trend (%)

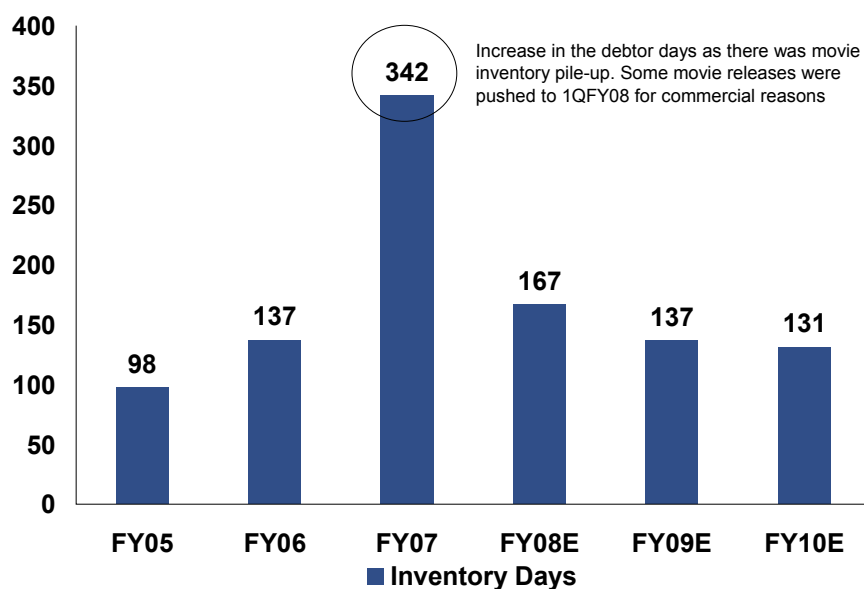


Source: Company Reports and Citi Investment Research estimates

Working Capital Intensive Business

Since, about 50% of UTV's revenues come from movies; working capital cycle exhibits characteristics typical of a movie business. Significant capital remains locked in inventory until completed movies are released and revenues are booked. As can be seen from the chart below, inventory days shot up in FY07 as some movie releases were postponed until 1QFY08 for commercial reasons.

Figure 31. UTV – Inventory Days



Source: Company Reports and Citi Investment Research estimates

Dilution Post Conversion of Warrants

We expect a dilution of close to 10% in UTV's equity base following conversion of warrants issued to promoter Ronnie Screwvala. The warrants were issued in August 2006 at a price of Rs192.5 along with the preference shares issued to Disney. The warrants are convertible into equity shares within 18 months of issue. Our forecasts factor in this dilution. Post dilution, the expanded capital base of UTV would rise to Rs248.4m.

Figure 32. UTV – Likely Cash inflow and dilution in FY08E

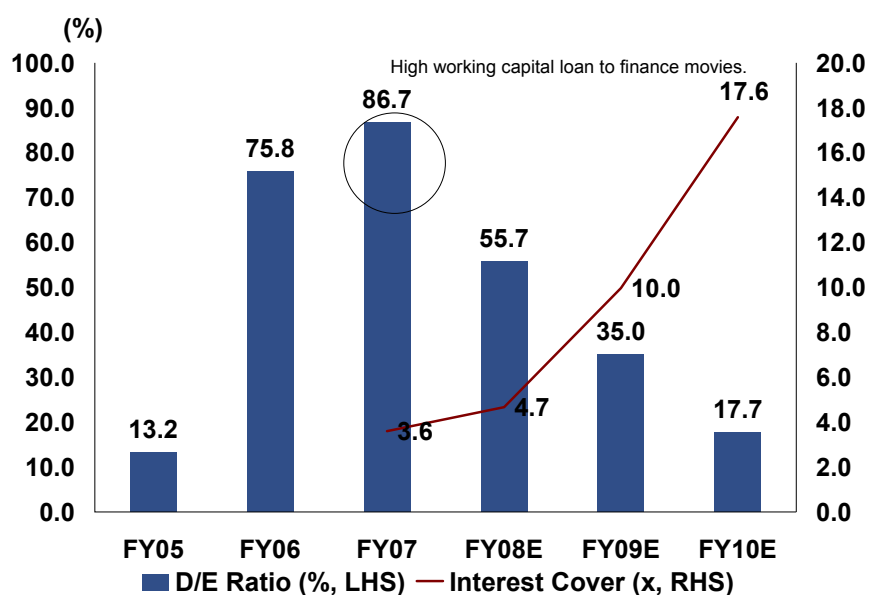
Date	Recipient	Instrument	No of share (m)	Price at which the instrument is issued	Cash received/Share Capital Increase	Comments	Cash to be received in FY08E
24-Aug-06	Walt Disney	Preferential shares	3.4	192.5	654.5	-	-
24-Aug-06	Ronnie Screwvala	Warrants	1.94936	192.5	37.5	10% received. 90% on exercise of warrants	337.7

Source: Company Reports and Citi Investment Research estimates

Debt Position

FY07 saw a jump in the D/E ratio of UTV due to a high working capital loan undertaken to finance the movie business. Interest cover ratio has always remained comfortable. We expect some debt retirement in FY08.

Figure 33. UTV – D/E Ratio



Source: Company Reports and Citi Investment Research estimates

Financials

We are following a consolidated model for valuing UTV. UTV has the following main subsidiaries:

1. **UTV Communications (UK) Limited** – This will be the holding company for all new media initiatives including gaming and animation. It holds 70% of Ignition UK and 59% of Indiagames.
2. **UTV IOM** – Is the movie business holding entity, with 77% of UTV Mauritius, which is the holding business for all movie activities.
3. **UTV Global Broadcasting Limited (UGBL)** – UTV IOM UTV Global Broadcasting spearheads group broadcasting initiatives. This entity has the JV with Astro called Genx entertainment, which has launched the channel Bindaas. It's pertinent to note here that **till March 2007, the broadcasting entity was not consolidated with UTV accounts.** Reason being that since broadcasting is typically a three-year gestation activity, both JV partners agreed not to remit funds from the JV for three years. As a result, under the Accounting Standard 21 issued by the Institute of Chartered Accountants of India, UTV could choose not to consolidate the accounts of broadcasting entity. ***Since there is not much clarity on the final holding structure of the broadcasting entity after the induction of financial and strategic partner, we have not included broadcasting revenues and the imminent losses in the initial years in our forecasts.***

Profit and Loss Summary

Figure 34. UTV – Profit and Loss Summary (Rupees in Millions, Percent)

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net Sales	1,124.6	1,768.2	2,084.0	1,749.1	3,881.5	6,246.2	8,038.3
Total Expenditure	-1,006	-1,519.7	-1,968.2	-1,677.8	-3,178.2	-5,056.1	-6,569.2
EBITDA	118.3	248.4	115.8	71.3	703.4	1,190.1	1,469.1
EBITDA Margin (%)	10.5	14.1	5.6	4.1	18.1	19.1	18.3
Other Income	15.2	36.3	47.9	18.1	56.6	62.3	68.5
Depreciation	-43.5	-52.8	-47.4	-31.4	-91.0	-98.7	-107.7
EBIT	90.0	231.9	116.3	58.0	669.0	1,153.7	1,429.9
Interest	-42.5	-18.3	0.0	-16.1	-143.3	-115.7	-81.4
PBT	47.6	213.7	116.3	41.9	525.7	1,038.0	1,348.6
Tax	-0.8	-50.8	-24.8	163.4	-128.4	-247.1	-323.3
Tax Rate (%)	1.7	23.8	21.3	-389.6	24.4	23.8	24.0
Net Profit before exceptionals and MI	46.7	162.9	91.4	205.3	397.2	790.8	1,025.3
Minority Interest	-0.2	-0.3	0.0	-7.1	-73.9	-162.1	-218.4
Net Profit before exceptionals and after MI		162.7	91.4	198.2	323.3	628.8	806.9
Exceptional	0.0	0.0	50.6	265.1	0.0	0.0	0.0
Net Profit after MI & Exceptional	46.6	162.7	142.0	463.3	323.3	628.8	806.9
No of Shares	29.2	19.5	19.5	22.9	24.8	24.8	24.8
EPS (Rs) - Pre Exceptional	1.6	8.3	4.7	8.7	13.0	25.3	32.5
EPS (Rs) - Post Exceptional	1.6	8.3	7.3	20.2	13.0	25.3	32.5

Source: Company Reports and Citi Investment Research estimates

Balance Sheet

Figure 35. UTV – Balance Sheet (Rupees in Millions)

	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Shareholders' Funds	704.3	1,396.0	1,338.1	1,887.4	2,478.7	3,018.6	3,711.4
Capital	145.9	194.9	194.9	228.9	248.4	248.4	248.4
Advance against Warrants	0.0	0.0	0.0	37.5	0.0	0.0	0.0
Reserves & Surplus	531.0	1,173.9	1,143.1	1,546.8	2,230.3	2,770.2	3,463.0
Loan Funds	351.8	184.4	1,014.8	1,637.2	1,379.9	1,056.6	656.6
Secured Loans	311.5	174.4	1,014.8	1,637.2	1,379.9	1,056.6	656.6
Unsecured Loans	40.2	10.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1,030.4	1,588.3	2,379.2	3,389.9	3,858.6	4,075.2	4,368.0
Application of Funds							
Gross Block	471.4	518.9	529.4	976.3	1,046.3	1,146.3	1,246.3
Less Depreciation	-171.8	-223.1	-246.4	-114.8	-205.8	-304.5	-412.1
Net Block	299.7	295.8	283.1	861.5	840.5	841.8	834.1
Investment	292.4	165.4	200.5	171.5	1,800.5	1,800.5	1,800.5
Current Assets, Loans & Advances	866.4	1,571.7	2,260.5	3,285.1	3,437.9	5,005.7	6,331.2
Inventories	348.2	472.5	783.2	1,637.0	1,773.9	2,338.0	2,892.6
Sundry Debtors	367.3	571.9	581.7	465.0	872.0	1,403.3	1,805.9
Cash & Bank Balances	6.5	132.6	66.0	684.8	11.8	9.0	17.1
Other Current Assets	0.0	1.7	0.1	0.8	3.9	6.2	8.0
Loans & Advances	144.3	392.9	829.5	497.6	776.3	1,249.2	1,607.7
Current Liabilities	429.7	444.7	489.2	944.2	2,224.1	3,579.1	4,605.9
Less: Current Liabilities	422.8	439.9	483.8	938.6	2,212.5	3,560.4	4,581.8
Less: Provisions	7.0	4.8	5.4	5.6	11.6	18.7	24.1
Net Current Assets	436.6	1,127.0	1,771.2	2,340.9	1,213.8	1,426.6	1,725.3
Total Assets	1,030.4	1,588.3	2,379.2	3,390.0	3,858.6	4,075.2	4,368.0

Source: Company Reports and Citi Investment Research estimates

Cash Flow

Figure 36. UTV – Cash Flow Statement (Rupees in Millions)

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net Profit	162.7	142.0	463.3	323.3	628.8	806.9
Change in Deferred Tax Liability	33.5	18.4	-160.9	134.6	0.0	0.0
Depreciation	52.8	47.4	31.4	91.0	98.7	107.7
	0.0	0.0	0.0	0.0	0.0	0.0
Change in Inventories	-124.4	-310.7	-853.8	-136.9	-564.1	-554.6
Chg in Debtors	-204.6	-9.8	116.8	-407.1	-531.2	-402.6
Chg in Loans & Advances & Misc Exp	-248.6	-435.0	331.2	-285.6	-477.7	-362.0
Chg in CL & Provisions	14.9	44.6	455.0	1,279.9	1,355.0	1,026.8
Change in Working Capital	-562.6	-710.9	49.2	450.3	-218.0	-292.4
Cash Flow from Operations	-313.6	-503.1	382.9	999.2	509.4	622.2
Capex	-48.9	-158.9	-501.5	-54.0	-100.0	-100.0
Change in Investments/Assets	127.0	-35.1	29.0	-1,629.0	0.0	0.0
Cash Flow from Investing Activities	78.1	-194.0	-472.4	-1,683.0	-100.0	-100.0
Change in Debt	-167.3	830.4	622.4	-257.3	-323.3	-400.0
Change in Equity	49.0	0.0	34.0	19.5	0.0	0.0
Change in Advance in Warrants	0.0	0.0	37.5	-37.5	0.0	0.0
Change in Reserves	480.2	-172.8	5.7	405.9	0.0	0.0
Div & Div Tax	0.0	0.0	-65.3	-45.7	-88.9	-114.1
Change in Minority Interest	-0.1	-27.2	74.1	-74.1	0.0	0.0
Cash Flow from Financing Activities	361.7	630.4	708.4	10.7	-412.2	-514.1
Increase/(Decrease) in Cash	126.2	-66.7	618.8	-673.0	-2.8	8.1
Opening Cash and Bank Balance	6.5	132.7	66.0	684.8	11.8	9.0
Closing Cash and Bank Balance	132.7	66.0	684.8	11.8	9.0	17.1

Source: Company Reports and Citi Investment Research estimates

Company Background

UTV is an integrated media and entertainment company with a presence in Indian and international film production and distribution business, television content and interactive media such as animation, VFX and online and mobile gaming. UTV started off by producing ad-films and then TV content in 1990 for the state-owned Doordarshan in and consequently for Zee TV. It ventured into movie production and distribution in 1998. In 2005, it launched the kids channel Hungama which became the top kids' channel within a year of its launch. Consequently, UTV sold Hungama to the Walt Disney Co.

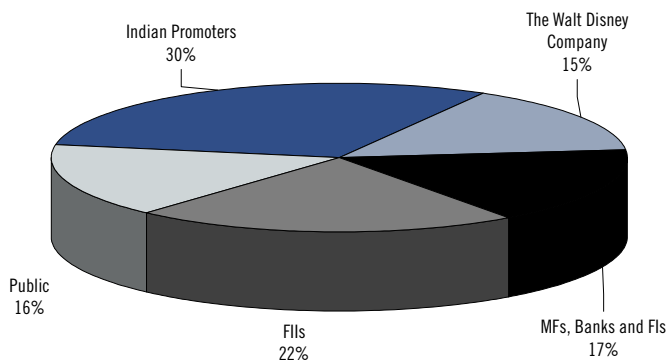
UTV recently listed its movie subsidiary UTV Motion Pictures Plc (UTV IOM) on London Stock Exchange's AIM market raising US\$70m by offloading 23% stake.

Recently, UTV acquired an online and mobile gaming company, 'Indiagames' and a console game company 'Ignition' which would add the final dots in its presence across the integrated media value-chain. UTV has also re-entered the broadcasting space by launching 'Bindaas' a youth-centric general entertainment channel. It has an aggressive nine channels roll-out planned over the next year.

Shareholding Pattern

Promoter Ronnie Screwvala holds 30% in UTV. The Walt Disney Co. acquired a 14.85% stake in UTV in September 2006 for US\$30.5m through preferential allotment of 3.4m shares at Rs192.5. FIIs hold 22% and public holding stands at 16%.

Figure 37. UTV – Shareholding Pattern (As of June 2007)



Source: Company Reports and Citigroup Investment Research

Management Background & Company History

UTV CMD & CEO and promoter Ronnie Screwvala is an industry veteran and one of the pioneers of the studio model of motion pictures production in India. He was at the forefront of the cable TV revolution in India and under his leadership; UTV has diversified into TV content, motion picture production, and animation and gaming businesses. UTV has a successful track record in the movies business (evident from the box office success of many of its movies) and in the broadcasting business with the Hindi kids channel Hungama.

UTV has a strong team of professionals heading various verticals and business functions; most have decades of experience and understanding of their relevant fields. The following chart shows key management personnel:

Figure 38. UTV – Management At Key Positions

Content	New Media	Broadcasting
*CEO is Ronnie Screwvala who has more than 2 decades of experience in the TV content business and a decade long experience in movie content	* Vijay Chadha, founder and MD has been in gaming industry since 1990. He is involved in acquisitions from developers in UK, US and Japan	* Zarina Mehta, CEO GenX Entertainment. Credited with success of Hungama channel
* Sidhartha Kapoor, ex-Star India, is the head of marketing	* Andy Whitehurst - Has more than 15 years of gaming industry experience. Involved in the marketing of DigiGuys * Vishal Gondal - Founder and MD of Indiagames. Has vast experience in mobile and online PC games.	* Shantonu Aditya, CEO V & S Broadcasting. Ex-CEO of Sahara One Media.

Source: Company and Citi Investment Research

UTV was incorporated in 1990 as a private company and mainly engaged in producing content for the state-owned terrestrial television broadcaster 'Doordarshan'. It started producing content for Zee Entertainment (erstwhile Zee TV) in 1992. Its first major success as a content provider was the launch of the daily soap 'Shanti' in 1995. Following that, UTV forayed into post-production, computer graphics, film-making and broadcasting. The company made its initial public offering in March 2005.

Company Background

UTV is an integrated media and entertainment company with presence in Indian and international film production and distribution business, television content and interactive media such as animation, VFX and online and mobile gaming. UTV started off by producing ad-films and then TV content in 1990 for the state owned Doordarshan in and consequently for Zee TV. It ventured into movie production and distribution in 1998. In 2005, it launched the kids channel Hungama, which became the top kids' channel within a year of its launch. Consequently, UTV sold off Hungama to the Walt Disney Co. UTV recently listed its movie subsidiary UTV Motion Pictures Plc (UTV IOM) on London Stock Exchange's AIM market raising US\$70m by offloading 23% stake. acquired an online and mobile gaming company, 'Indiagames' and a console game company 'Ignition' which would add the final dots in its presence across the integrated media value-chain. UTV has also re-entered the broadcasting space by the launch of 'Bindaas' a youth-centric general entertainment channel. It is planning to roll out nine channels till mid-2008.

Valuation

We use a sum-of-the-parts methodology to valuing UTV.

1. **Motion Pictures** – Given the high earnings trajectory of the movie business at 133% CAGR (FY07-09E), we value it at an EV/EBIT multiple of 23x FY09E EBIT, a premium to the global entertainment universe. We feel this premium is justified given the scarcity premium applied to UTV – it is the only listed motion picture company in India making Hollywood, Bollywood and Indian regional movies – delivering revenue CAGR of 110% over FY07-09E.
2. **TV Content** – We value the content business at 18x FY09E EBIT, which is at a premium to the existing listed players. UTV's own broadcasting initiatives will deliver UTV content and drive EBIT CAGR of 35% over FY07-10E which justifies the premium in our view.
3. **Ignition** – We have attributed a premium to global valuations while valuing Ignition, as we believe that the current earnings do not reflect the potential earnings kick-in from the high-end game *Wardevil* which should launch in 2008-09 and is currently not factored in our forecasts.
4. **Indiagames** – We value Indiagames at 25x FY09E EBIT, at a premium to global peers that trade at 17.8x FY09E EBIT. However, our target multiple is in line with some of the Asian companies that have similar business models and growth rates. Indiagames deserves a premium because no listed mobile online gaming company is available in India that is a play on the increasing numbers of mobile subscribers in India.

5. **Animation** – We value this business at a premium to the global premium because we believe that Walt Disney as a strategic investor will bring significant value to the business in terms of joint production of animation content and/or outsourcing of its work to UTV.
6. **Broadcasting** – We value the broadcasting entity at the cost of investment by UTV in this venture as the final shareholding structure and UTV’s stake in this business is unclear pending the induction of a financial/strategic partner. We expect significant value-unlocking in this business once a partner is brought in and in view of recent investments in the Indian broadcasting space. Temasek Holdings along with Kotak have invested close to US\$300m in a new general entertainment floated by the ex-head of Star India.

The valuation multiples that we ascribe to the different businesses may look expensive in the global context, but are at a significant discount to the Indian media universe. Please see the Figure 3. Indian Media – Valuation Matrix for comparison.

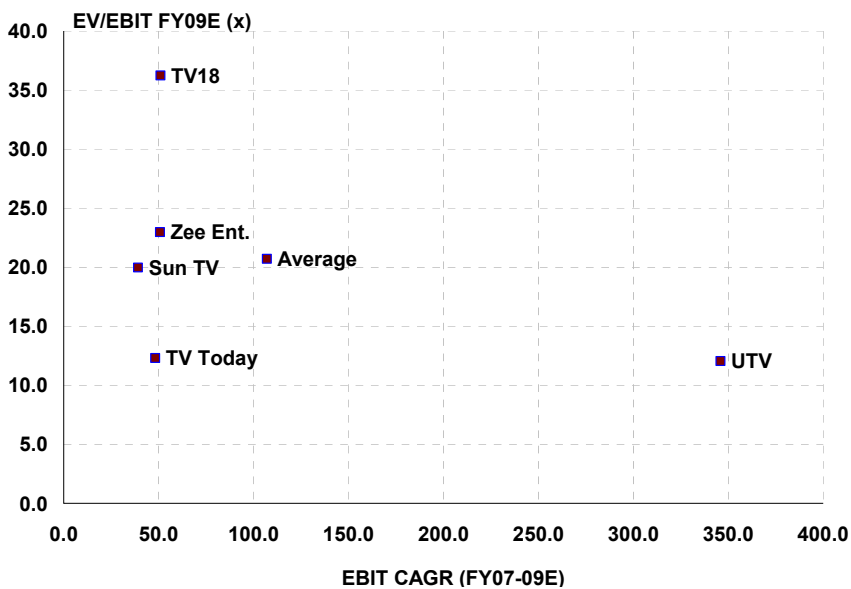
We thus arrive at a sum-of-the-parts target price of Rs887 for UTV.

Figure 39. UTV – Sum-of-the-parts Valuation Summary

	FY09E (Rsm)	2-year CAGR (FY07-09E)	UTV's stake	Target EV/EBIT Multiple (x)	Target EV (Rsm)	Global Comparable Multiples
Movies						
Sales	3,189	111	77%			
EBIT	634	133	77%	23	11,228.3	12x EV/EBIT for 2-year EBIT CAGR of 13%
TV Content						
Sales	1,157	22	100%			
EBIT	157	35	100%	22	3,450.0	12.5x EV/EBIT for 2-year EBIT CAGR of 10.5%
Interactive						
Animation						
Sales	320	63	100%			
EBIT	80	63	100%	22	1,760.0	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Ignition						
Sales	1280		70%			
EBIT	230	72	70%	25	4,032.0	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Indiagames						
Sales	300		59%			
EBIT	53	109	59%	25	774.4	17.8x EV/EBIT for 2-year EBIT CAGR of 69%
Broadcasting						
					1,800.0	Valuing at the cost of investment made by UTV in broadcasting
Total EV					23,044.7	
Net Debt					1,047.6	
Implied Market Cap					21,997.1	
No of shares					24.8	
Target Price (Rs)					887.0	

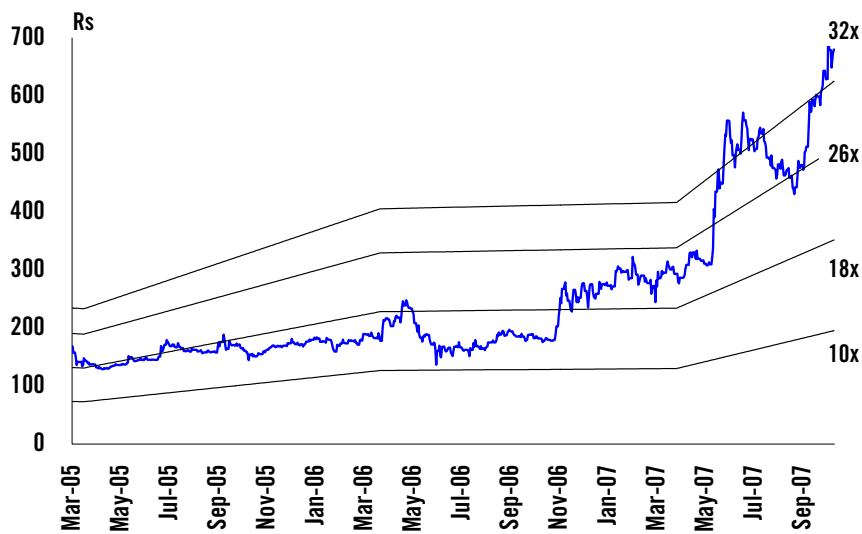
Source: Citi Investment Research estimates

Figure 40. UTV – Relative Valuation Chart



Source: Citi Investment Research estimates

Figure 41. UTV – P/E Band Chart



Source: Citi Investment Research

Risks

Using our quantitative risk rating system that tracks 260-day historical share price volatility, we rate UTV Software Communications High Risk (H). Key downside risks to our target price are:

1. UTV's business is largely content-driven except for the new businesses of mobile and online gaming. This aspect induces inherent risks associated with content into its business model.
2. Timing of film launches and their success/failure at the box office imparts certain lumpiness to UTV's revenues, which we believe will remain.
3. UTV is in a heavy investment phase over the next 2-3 years with investments in the mobile and online gaming businesses, broadcasting initiatives and its movie and television content business. As a result, the return ratios will remain depressed.
4. Broadcasting business in the initial years is expected to make losses. Should UTV consolidate broadcasting accounts with itself, its EPS may be depressed till broadcasting breaks even.
5. Timing of the induction of a broadcasting partner would be critical. Any delays on this front may mean more investment from UTV which may put a strain on its other businesses.

Key upside risks to our target price are:

1. Potential content tie-up with Walt Disney for animation motion picture co-production, gaming, TV content etc as management has indicated in the past or outsourcing orders from Walt Disney would lend substantial upsides to our numbers and target price
2. Induction of a financial/strategic partner at valuations more than that is expected in the market would be positive for the stock price

UTV Software Communications

Company description

UTV is an integrated media and entertainment company with presence in Indian and international film production and distribution business, television content and interactive media such as animation, VFX and online and mobile gaming. UTV started off by producing ad-films and then TV content in 1990 for state-owned Doordarshan and consequently for Zee TV. It ventured in movie production and distribution in 1998. In 2005, it launched the kids channel Hungama, which became the top kids' channel within a year. UTV sold off Hungama to the Walt Disney Co. UTV recently listed its movie subsidiary UTV Motion Pictures Plc (UTV IOM) on London Stock Exchange's AIM market raising US\$70m by offloading a 23% stake. It acquired an online and mobile gaming company, 'Indiagames' and console game company 'Ignition', which would add the final dots in its presence across the integrated media value-chain. UTV has also re-entered the broadcasting space by the launch of 'Bindaas' a youth-centric general entertainment channel. It is planning to roll out nine channels before mid-2008

Investment strategy

We rate UTV Software Communications (UTV Buy/High Risk (1H) with a target price of Rs887. UTV Software Communications (UTV) is one the few listed integrated media players in India straddling the entire media value chain from Motion Pictures, Broadcasting and TV content to high-growth new media businesses such Animation and Gaming. UTV has broken new ground in India's motion picture business by operating a studio-like model. Relationships with international production houses like Walt Disney, 20th Century Fox, Overbrook Entertainment have catapulted UTV into the international motion picture space. UTV has a strong slate of 30 movies to be launched in next three years. We forecast revenue CAGR of 78% in the movie business over FY07-FY10E. An US\$11m order book and strategic relationships with Walt Disney and other international production houses will drive growth in this business. Gaming revenues will be driven by acquisition of Ignition, UK based console game developer and Indiagames, India's largest online and mobile co. We forecast a CAGR of 113% growth for interactive segment over FY07-10E. After the success of Hungama, UTV is re-entering the broadcasting space by launching nine channels by mid 2008. Besides creating value, in-house channels will also drive UTV's content business. Induction of strategic/ financial partner will unlock value in the broadcasting venture. We forecast revenue CAGR of 66% and earnings CAGR of 40% for UTV over FY07-10E.

Valuation

We use a sum-of-the-parts methodology to value UTV. Given the high earnings trajectory of the movie business at 133% CAGR (FY07-09E), we value it at an EV/EBIT multiple of 23x FY09E EBIT, a premium to the global entertainment universe. We feel this premium is justified given the scarcity premium applied to UTV – it is the only listed motion picture company in India making Hollywood, Bollywood and Indian regional movies – delivering revenue CAGR of

110% over FY07-09E. We value the content business at 18x FY09E EBIT, which is at a premium to the existing listed players. UTV's own broadcasting initiatives will deliver UTV content and will drive EBIT CAGR of 35% over FY07-10E which justifies the premium, in our view. We attribute a premium to global valuations while valuing Ignition as we believe that current earnings do not reflect the potential earnings kick-in from the high-end game Wardevil which will be launched in 2008-09 and which is not factored into our forecasts. We have valued the broadcasting entity at the cost of investment by UTV in this venture as the final shareholding structure and UTV's stake in this business is unclear pending the induction of a financial/strategic partner. We expect significant value-unlocking in this business once a partner is brought in. The valuation multiples we have ascribed to the different businesses may look expensive in the global context, but are at a significant discount compared to the Indian media universe. We thus arrive at a sum-of-the-parts target price of Rs887 for UTV.

Risks

Using our quantitative risk rating system that tracks 260-day historical share price volatility, we rate UTV Software Communications High Risk (H). Key downside risks to our target price are: 1) UTV's business is largely content-driven except its new mobile and online gaming businesses. This aspect induces inherent risks associated with content into its business model. 2) Timing film launches and their success/failure at the box office imparts certain lumpiness into revenues, which we believe will remain. 3) UTV is in a heavy investment phase over the next 2-3 years with investments in the mobile and online gaming businesses, broadcasting initiatives and its movie and television content business. As a result, the return ratios will remain depressed. 4) Broadcasting business in the initial years is expected to make losses. Should UTV consolidate broadcasting accounts with itself, its EPS may be depressed till broadcasting breaks even. 5) Timing the induction would be critical. Any delays on this front may mean more investment from UTV, which may put a strain on its other businesses. Key upside risks to our target price are: 1) Potential content tie-up with Walt Disney for animation motion picture co-production, gaming, TV content etc as management has indicated in the past or outsourcing orders from Walt Disney would lend substantial upsides to our numbers and target price. 2) Induction of a financial/strategic partner at valuations more than that is expected in the market would be positive for the stock price.

Appendix A-1

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

NHN (035420.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Charles Uhm (covered since December 7 2006)



#	Date	Rating	Target Price	Closing Price
1:	21 Oct 04	1M	*36,666.67	28,500.00
2:	16 Feb 05	*2M	*34,666.67	30,200.00
3:	20 Oct 05	*1M	*78,333.33	55,566.67
4:	7 Feb 06	1M	*111,666.67	92,333.34
5:	6 Dec 06	1M	*129,000.00	110,000.00
6:	13 Feb 07	1M	*150,000.00	124,000.00
7:	18 Apr 07	1M	*182,000.00	152,500.00
8:	10 May 07	1M	*191,000.00	154,200.00
9:	9 Aug 07	1M	*217,000.00	179,400.00
10:	8 Oct 07	1M	*322,000.00	258,000.00

*Indicates change.

Chart current as of 13 October 2007

NCsoft (036570.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Charles Uhm (covered since September 2 2006)



#	Date	Rating	Target Price	Closing Price
1:	28 Feb 05	1M	*101,000.00	72,500.00
2:	21 Jun 05	1M	*97,000.00	76,500.00
3:	19 Aug 05	1M	*84,000.00	69,700.00
4:	8 Nov 05	*3M	84,000.00	89,300.00
5:	20 Mar 06	3M	*72,000.00	67,400.00
6:	1 Sep 06	*2H	*68,000.00	55,300.00
7:	1 Sep 06	2H	68,000.00	55,300.00
8:	1 Sep 06	2H	68,000.00	55,300.00
9:	9 Nov 06	2H	*66,000.00	60,000.00
10:	9 Nov 06	2H	66,000.00	60,000.00
11:	8 May 07	2H	*81,000.00	70,000.00
12:	19 Jun 07	*1M	*110,000.00	86,700.00

*Indicates change.

Chart current as of 13 October 2007

CJ Internet (037150.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Charles Uhm (covered since September 2 2006)



#	Date	Rating	Target Price	Closing Price
1:	9 Jun 05	*3H	*11,500.00	10,000.00
2:	18 May 06	3H	*18,000.00	28,400.00
3:	1 Sep 06	*1H	*35,000.00	27,600.00
4:	1 Sep 06	1H	35,000.00	27,600.00
5:	1 Sep 06	1H	35,000.00	27,600.00
6:	21 Sep 06	*1H	*32,000.00	24,400.00
7:	12 Jan 07	*2H	*23,900.00	20,500.00
8:	6 Feb 07	2H	*23,500.00	20,300.00
9:	24 Apr 07	2H	*28,000.00	24,100.00

*Indicates change.

Chart current as of 13 October 2007

— Covered
 Not covered

Hanbit Soft (047080.KQ)

Ratings and Target Price History - Fundamental Research

Analyst: Charles Uhm (covered since September 2 2006)



#	Date	Rating	Target Price	Closing Price
1:	1 Sep 06	3H	8,500.00	8,520.00
2:	1 Sep 06	3H	8,500.00	8,520.00
3:	1 Sep 06	3H	8,500.00	8,520.00

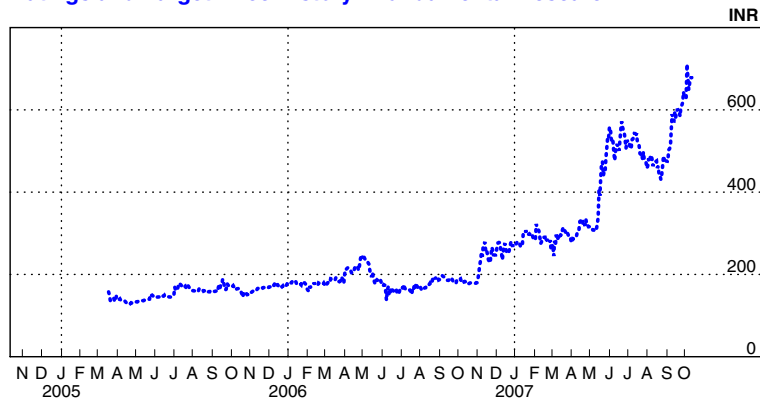
*Indicates change.

Chart current as of 13 October 2007

— Covered
 Not covered

UTV Software Communications (UTVS.BO)

Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price
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*Indicates change.

Chart current as of 14 October 2007

— Covered
 Not covered

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A director of Citigroup Inc. serves as a director and officer of Time Warner Inc. Citigroup Global Markets Inc. is acting as a financial advisor to Time Warner Inc. on the divestiture of Tegic Communications Inc., a wholly owned subsidiary of Time Warner fs AOL LLC, to Nuance Communications Inc.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of UTV Software Communications and Zee Entertainment. This position reflects information available as of the prior business day.

UTV Software Communications

(UTVS.BO)

16 October 2007

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