Media & Entertainment

June 07, 2011

Sun TV Network

Bloomberg: SUNTV IN Equity
Reuters: SUNTV BO

BUY

CHANGE IN RECOMMENDATION

In the eye of the storm

Over the past five months, Sun TV's share price has fallen by 45%. This drop has been driven by: (1) a change of the state Government in Tamil Nadu; (2) the 2G telecom scam; and (3) the alleged use of illegal BSNL facilities by Sun TV. The extent of the market reaction around these issues seems to have been overdone. We put the stock back on a BUY whilst acknowledging the political risks faced by this company.

1. A change in the state Government of Tamil Nadu and its impact on Sun TV's analog subscription revenue: As cable TV regulation is a Central Government subject, the role of the state is limited. Also, even if the state Government were to subsidise cable consumers, it will need to pay channel charges to broadcasters such as Sun TV. This will provide support to Sun TV's analog subscription revenue.

2. Alleged telecom licence scam: The issue of 2G licences allocation is currently being investigated by the CBI, and it would be imprudent on our part to take a view on this other than to make the simple point that apart from having a common promoter, Sun TV and Sun Direct do not have any cross shareholding.

3. The alleged use of illegal BSNL facilities by Sun TV: Our discussions with industry experts don't seem to suggest any undue advantage to Sun TV's broadcasting business from such a set up. Also, since the telecast cost (1.5% of revenues) is inconsequential given the size of the business, cost saving is clearly not a motive for this.

Where do we go from here?

Whilst we continue to investigate these three issues further, we believe a 45% correction in the stock price should be used as an entry point into what is still the strongest broadcast franchise in India. Hence we are putting the stock back on a BUY (from "under review"). At its current share price of Rs304, the stock is trading at 15x and 12.9x of our new FY12E and FY13E EPS estimates respectively. Our DCF based target price stands at Rs425 (down from Rs530 due to cut in FY12E revenue by 7% and earnings by 9%), implying an FY12E PE of 21x and 40% upside.

Our BUY stance is solely based on our assessment of the fundamentals of the business and hence clearly, the risk to this stance is an escalation in anti-Sun TV initiatives by its detractors and any consequent action on the promoter or the management of the company which could adversely affect the operations of the company.

Exhibit 1: Key financials

Key Financials (Rs mn)	FY10	FY11	FY12E	FY13E
Operating income	14,528	20,135	20,736	23,447
EBITDA	10,909	15,779	15,722	17,733
EBITDA mgn (%)	75.1	78.4	75.8	75.6
PAT	5,199	7,698	7,963	9,319
PAT mgn (%)	35.8	38.2	38.4	39.7
EPS (Rs)	13.2	19.5	20.2	23.6
P/E (x)	23.0	15.6	15.0	12.9
EV/EBITDA (x)	10.4	7.1	6.8	5.7
EV/Sales (x)	7.8	5.6	5.2	4.3

Source: Company, Ambit Capital research

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Recommendation

CMP:	Rs305
Target Price :	**Rs425**
Previous TP:	*Rs530*
Upside (%)	*40*
EPS (FY12E):	Rs20.2
Change from previous (%)	*(9)*
Variance from consensus (%)	*(6.6)*

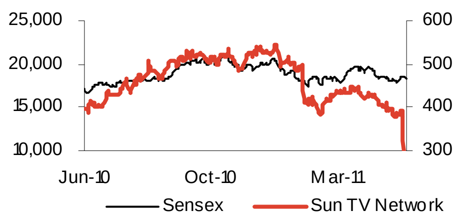
Stock Information

Mkt cap:	Rs120bn/US$2,680mn
52-wk H/L:	Rs557/260
3M ADV:	Rs558mn/US$12mn
Beta:	0.8x
BSE Sensex:	18,420
Nifty:	5,532

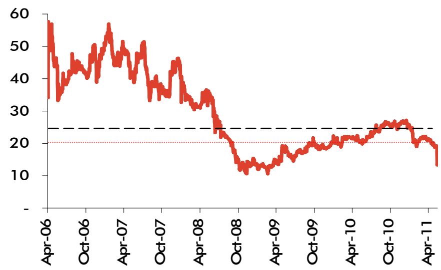
Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-25.1	-26.3	-22.8	-42.1
Rel. to Sensex	-24.5	-27.4	-32.6	-31.9

Performance (%)



1 year forward P/E



Source: Bloomberg, Ambit Capital research

Investment rationale

(1) Change in the state Government in Tamil Nadu: how much of an impact does it have on Sun TV's analog subscription revenue?

AIADMK, the ruling partly in Tamil Nadu, has indicated the possibility of nationalizing cable TV industry in the state. It also intends to provide cable TV connection across the state at subsidized rates. At present, analog subscription revenue accounts for 42% of Sun TV's total subscription revenue and 11% of its total revenue. In FY11, Sun TV earned Rs2.1bn from the analog cable segment out of which it derived Rs800mn revenue from the Tamil Nadu market (16% of total subscription revenue and 4% of its total revenue).

Our view: Cable TV regulation comes under the centre's jurisdiction. Therefore a state Government's ability in terms of changing the regulations in this area remains limited. Even if the Tamil Nadu state Government decides to nationalize the cable industry, Sun TV does not have direct association with any cable company, as Sumangali Cable is promoted by the Maran family. However, given that Sumangali is a key distributor for Sun, any impact will also be seen on Sun's subscription revenues as well as advertising revenues (to the extent of the impact on viewership). Also, even if the Government were to subsidise the consumer, it needs to pay channel charges to broadcasters such as Sun TV.

Assuming that the Government decides to provide subsidized cable TV services through its own network, Arasu Cable, it has to carry Sun TV's key channels on its network and hence would have to make the necessary payments for the same. Given the strong viewership of Sun TV (thanks to its exclusive access to premium content such as its unsurpassable South Indian movie library, a genre which is most popular in the region), it would be very difficult for cable companies to ignore/block Sun TV.

Investors should note that even without any government's support, Sun TV is the market leader in Karnataka and Andhra Pradesh. Therefore, we believe that the market leadership that Sun TV enjoys in the Tamil Nadu market can be sustained even without a supportive state Government. Sun TV's core strength of strong distribution is also backed by strong content, its ability to identify the pulse of the market and its ability to deliver premium content in the south Indian market.

This would provide support to Sun TV's analog cable subscription revenue. However, we have assumed a moderation in Sun TV's subscription revenue growth - from 20% CAGR over the next two years (FY11-13E) to 9% CAGR. Also, going forward, it could be the case that the strong advertising revenue growth exhibited by the company may not continue. Accordingly we expect Sun TV's growth in advertising revenue from the Tamil Nadu market to be moderated - from 20% CAGR (as per our earlier estimates) over the next two years to 11.8% CAGR. We are factoring in advertising revenue growth of 12.4% CAGR over the next two years as against the 37% advertising revenue CAGR witnessed by the company during FY06-FY11.

(2) The 2G telecom license scam: how fundamental is its impact on Sun TV?

In December 2006, the Department of Telecom granted 2G licenses to Aircel. As part of the broader investigation into the 2G license grants, this license grant is under investigation by the CBI. The award of licenses has been linked (by media reports and a "public interest litigation" petitioner) to the stake purchased by the promoters of Aircel in Sun Direct, a Direct-to-Home service provider owned by Sun TV's promoters.

Our view: Given that the 2G scam is currently being investigated by the CBI and the case is being heard by the Supreme Court, it would be imprudent on our part to take a view on this other than to make the simple point that apart from a common promoter, Sun TV and Sun Direct do not have any cross shareholding.

(3) The alleged use of illegal BSNL facilities by Sun TV: is this a financially meaningful issue?

Media reports allege that Dayanidhi Maran (brother of Sun TV's promoter, Kalanithi Maran), in his capacity as the Telecom Minister, had taken 323 telephone lines from BSNL (a Government owned telecom company). This lines were supposedly used connect his home to the SUN TV office. These were ISDN lines, which could supposedly carry a large volume of TV news and programmes faster than satellites. In the media reports which are doing the rounds, the loss to BSNL on this is account is estimated to be Rs4.4bn.

http://ibnlive.in.com/news/maran-has-323-telephone-lines-in-chennai/156169-37-64.html

Our view: Whilst these reports haven't been authenticated yet, our discussions with industry experts don't seem to suggest any undue advantage to Sun TV's broadcasting business from such a setup. According to Sun TV's FY10 annual report, the company incurred Rs211mn as telecast (uplinking and transponder chares) cost during FY10. This translates into a mere 1.5% of Sun TV's revenues in FY10. Another leading broadcaster Zee Entertainment had a telecast cost of Rs149mn during the same period (amounting to only 1.1% of Zee's FY10 revenues).

Given that these numbers are almost inconsequential given the size of the business, cost saving is clearly not a motive for whatever Sun TV is alleged to have done here. When we spoke to the company's management, they, as one would expect, denied the reports and questioned the technological feasibility of transmitting TV content over telephone networks.

SUN TV's Corporate Governance and Accounting

As the political storm around Sun TV has gathered momentum, investors have questioned us about Sun TV's corporate governance and accounting. In this section we seek to address investor questions on both fronts. Our conclusion is that whilst Sun TV is no "knight in shining armour", its governance and accounting issues are not meaningful enough to merit the share price punishment that it has experienced.

Corporate Governance

Our governance checks for Sun TV point to two specific areas of concern:

1. **The purchase of aircrafts for management use**. The company had aircraft worth Rs2,641mn in its gross block at the end of FY10. Against this, the company earned charter revenues of Rs65mn (almost all of which was from group companies; Rs65mn amounts to 0.5% of FY10 revenue). However, company has not made any fresh aircraft purchases in FY11.

2. **Punchy remuneration for promoters**: Managerial remuneration as a % of revenues and earnings for the Sun is the highest amongst its peers. During FY11, managerial remuneration accounted for almost 74% of total employee expense and 18.5% of net consolidated earnings. In contrast, for Sun's closest peer, Zee, during FY11, managerial remuneration accounted for mere 2.2% of total employee expense and 0.7% of net consolidated earnings.

Accounting

In our accounting checks we have not come across significant issues surrounding Sun TV's accounting policies. Rather, it fares much better than the entire Media and Entertainment universe with a score of 268, which is 58% above the average score (in our forensic accounting checks the highest score is 360 and the lowest is zero – see our note dated 30 November 2010 for more details).

Exhibit 1: Scores based on accounting policies across FY06-10

Avg score	CFO/ EBITDA	Dep. as % of Gross Block	Mis Exp as % of Revenue	Other L&A/ Networth	Advances recoverable/Revenue	Provisions as % of Gross Debtors	Debtors days	Contingent Liability/ Networth	Audit fees / Revenues	Overall score
UTV Software	1	6	38	0	35	196	135	166	360	104
IBN18 Broadcast	0	43	105	360	15	162	131	4	215	115
TV 18 India	34	22	26	360	17	319	130	30	246	132
NDTV	2	231	34	90	53	237	133	260	133	130
Ent.Network	48	352	62	360	26	325	134	182	103	177
Jagran Prakashan	180	258	118	0	306	313	137	349	24	187
D C Holdings	211	308	314	360	47	29	132	346	74	202
Navneet Publicat	123	171	242	360	95	28	139	160	360	186
H T Media	345	79	109	90	250	304	138	352	69	193
Sun TV Network	179	357	126	360	264	296	136	338	360	268
BSE 500 sector average	112	183	117	234	111	221	135	219	194	170

Note: 1 is the lowest and 360 is the highest possible score; A high score indicates good accounting quality while a low one corresponds to weaker accounting; based on consolidated financials from Capitalline.

Source: Company, Ambit Capital research

Exhibit 2: Key assumptions and estimates (all figures are in Rs mn unless otherwise stated)

(Rs mn)	FY10	FY11	FY12E	FY13E	Comments
Advertising revenues growth(%)	39	25	12	15	Assumed moderated ad revenue growth to an increase in competition
Subscription revenue growth(%)	58	48	8	10	Political changes and pressure on cable revenue to impact subscription revenue growth
Movie distribution and production (%)	139	230	-62	10	Big budget movie "Enthiran" resulted in strong revenue in FY11, unlikely to repeat next year
Total revenues	14,528	20,135	20,736	23,447	One time income of Rs1.65bn in FY11 (Enthiran) to result in drop in revenue growth in FY12
Total revenue growth (%)	40	39	3	13	
EBITDA	10,909	15,779	15,722	17,733	
EBITDA margin (%)	75.1	78.4	75.8	75.6	Increasing cost structure to put pressure on margins
EBITDA growth (%)	48.1	44.6	(0.4)	12.8	
Depreciation & amortization	3,209	4,805	4,441	4,532	
Other Income (net of finance charges)	300	465	514	603	
PBT	8,000	11,439	11,795	13,804	
PAT	5,199	7,698	7,963	9,319	
PAT growth (%)	41.2	48.1	3.4	17.0	
CFO	7,471	9,789	11,915	12,583	Strong financial performance to result in robust cash flow
Net capex (incl intangibles)	(5,819)	(6,441)	(3,802)	(4,336)	
FCF	1,652	3,348	8,112	8,248	

Source: Company, Ambit Capital research

Exhibit 3: Change in estimates (Consolidated)

(Rs mn)	New estimates		Old estimates		Change		
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	Comments
Advertisement revenues	11,859	13,616	12,631	14,964	-6	-9	Slight moderation in Tamil Nadu ad revenue to result in drop in total ad revenue
DTH subscription rev	5,438	5,990	5,925	7,144	-8	-16	Drop in revenue to factor in state Govt's move to nationalize local cable industry
Program licensing income	814	944	799	919	2	3	
Income from movie distrbn.	850	935	1,000	1,100	-15	-15	
Total revenues	20,736	23,447	22,214	26,252	-7	-11	Potential increase in competition warrants downward revision in estimates
Cost of services	5,014	5,714	5,040	6,002	-1	-5	Rise in cost structure to support revenue growth
EBITDA	15,722	17,733	17,174	20,250	-8	-12	Increase in cost structure to impact EBITDA
EBITDA margin (%)	75.8	75.6	77.3	77.1	(149bps)	(151bps)	Drop in revenue growth and higher cost to take a toll on margins
Depreciation and amortisation	4,441	4,532	4,653	5,112	-5	-11	Lower than estimated depreciation in FY11 leads to drop in depreciation rate
EBIT	11,281	13,202	12,521	15,138	-10	-13	
EBIT margin (%)	54.4	56.3	56.4	57.7	(196bps)	(136bps)	
PBT	11,795	13,804	13,094	16,085	-10	-14	Lower EBITDA to result in drop in PBT estimates
Provision for tax	3,916	4,538	4,402	5,365	-11	-15	
Profit after taxes	7,963	9,319	8,751	10,755	-9	-13	PAT to come down accordingly
Fully diluted EPS	20.2	23.6	22.2	27.3	-9	-13	

Source: Company, Ambit Capital research

Exhibit 4: Comparison with consensus

	Ambit Capital	Consensus	Divergence	Comments
Revenue (Rs mn)				
FY12	20,736	21,865	-5.2	Lower ad and subscription revenue growth resulting in revenue deviation
FY13	23,447	25,074	-6.5	
EBITDA(Rs mn)				
FY12	15,722	16,391	-4.1	Higher cost and lower revenue to lead to lower EBITDA
FY13	17,733	18,952	-6.4	
PAT (Rs. mn)				
FY12	7,963	8,524	-6.6	Accordingly PAT is lower
FY13	9,319	9,927	-6.1	

Source: Company, Ambit Capital research.

SOTP valuation

We value Sun TV on a sum-of-the-parts (SOTP) basis. We add the values of its key businesses such as television broadcasting (standalone), radio business (Kal Radio and South Asia) and other assets.

Television broadcasting – Rs412 per share using DCF based valuation

On the back of change in the political landscape we have assumed pressure on Sun TV's analog cable subscription revenue. We have also assumed moderation in its advertising revenue growth rate in the Tamil Nadu market owing to potential increase in competition. Over the longer term, we expect the gradual entry of competition into Sun TV's core business and accordingly have assumed lower advertising revenue growth of 12.4% over FY11-13E compared to our earlier estimate of 19% growth during the same period. Our standalone business valuation based on DCF methodology with a WACC of 12% and a terminal growth rate of 4% gives us a value of Rs412/ share.

Radio business (Kal and SAFM) – Rs7 per share using a DCF based valuation

On the back of strong advertising revenue growth, Kal Radio turned PAT positive during FY11. Going forward the company expects SAFM to also break even at EBITDA level in FY12E. Our DCF based valuation of radio business using WACC of 12% and terminal growth rate of 4% gives us a value of Rs7/ share.

Apart from these core businesses we are also valuing Inter-corporate deposits and cumulative convertible preference shares in both the radio subsidiaries at their book value of Rs6/ share.

Exhibit 5: Sum of the parts (SOTP) valuation of Sun TV

Entity	Valuation method	Amount (Rs mn)	Outstanding shares (mn)	Value per share (Rs)	Share in value
SUN TV Network Standalone (excl investments & receivables from KAL Radio & SAF)	DCF	162,528	394	412	97%
KAL Radio - Equity investment	DCF	1,213	394	3	1%
South Asia FM Equity Investment	DCF	1,481	394	4	1%
CCPS to SAF (through conv of ICDs & interest accrued)	Book value	1,317	394	3	1%
CCPS to Kal Radio	Book value	529	394	1	0%
Interest accrued on Intercorporate loans	Book value	366	394	1	0%
Total value		**167,433**		**425**	**100%**

Source: Company, Ambit Capital research

Exhibit 6: Valuation sensitivity to key assumptions

	Best case	Base case	Low case
Revenue growth	Continue to maintain high advertising revenue growth at 17.5% over Y11-13E, subscription revenue remains largely unaffected and grows at 12% CAGR during FY11-13E	Advertising revenue growth dips to 12.4% CAGR during FY11-13E, subscription revenue from Tamil Nadu states declines by 25% in FY12E and a further 15% in FY13E. Total subscription revenue grows at 9% CAGR over the next two years	TN ad revenue maintained for FY12E and FY13E, Tamil Nadu analog subscription revenue drops by 50% in FY12E and stays flat in FY13E. Total subscription revenue grows at 8% CAGR over the next two years
EBITDA margins	Marginally declines to 79% by FY13E from 81% in FY11	Declines to 78.5% in FY13E from 81% in FY11	Declines to 76% in FY13E from 81% in FY11
Fair value-standalone (Rs)	468	412	385
Fair value-consolidated (Rs)	480	425	398
CMP	304	304	304
% UP/ (downside)	57.9%	39.8%	30.8%
EPS(Rs)			
FY12E	21.3	20.2	19.1
FY13E	25.6	23.6	21.5
PE (x)			
FY12E	14.3	15.0	15.9
FY13E	11.9	12.9	14.1

Source: Company, Ambit Capital research

Relative valuation

At current market price, the stock is trading at 15x FY12E and 12.9x FY13E earnings. In the past, the stock has been consistently trading at over 20x its one year forward earnings. Another leading broadcaster Zee Entertainment has been trading at 22x earnings currently. This higher multiple was driven by Sun TV's strong revenue and earnings growth led by near monopoly in three south Indian states. However, the change in political scenario in Tamil Nadu has taken a toll on Sun TV's stock price and it has corrected by ~45% over the last five months.

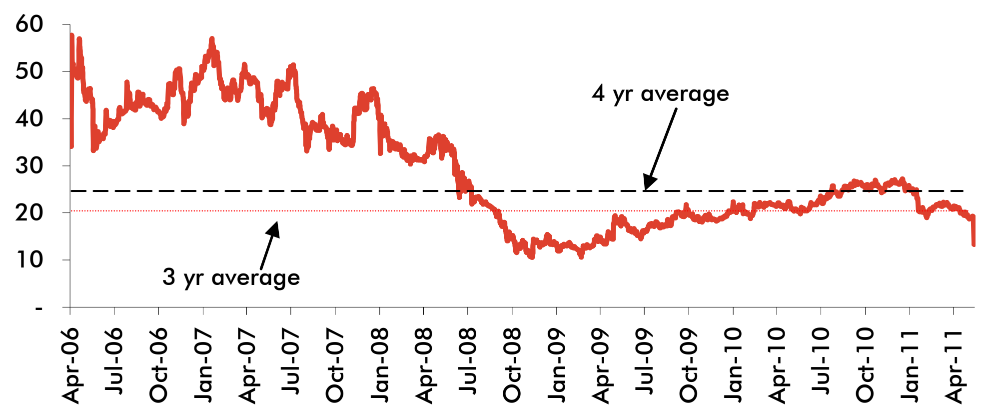
Clearly the change in the political landscape in Tamil Nadu and New Delhi has had a bearing a Sun TV's standing. However, we believe that the fundamentals of the company are in relatively good shape (compared to the precipitous drop in its share price). Our valuation of Rs425 implies PE of 21x FY12E earnings and 18x FY13E earnings.

Exhibit 7: Relative valuation

		MCap	EV	EV/EBITDA		P/E	
	CMP	(Rsmn)	(Rsmn)	FY12E	FY13E	FY12E	FY13E
Sun TV	304	119,802	119,912	6.8	5.7	15.0	12.9
Zee Entertainment	142	138,593	126,922	13.5	11.0	21.0	17.9
UTV	728	29,582	38,707	13.2	11.3	14.9	12.5
IBN18	89	21,198	24,977	11.3	7.8	28.7	17.2
Average (Ex Sun TV)				**12.7**	**10.0**	**21.5**	**15.9**

Source: Bloomberg, Company, Ambit Capital research

Exhibit 8: Sun TV is trading at significant discount to its historical multiples (PE)



Source: Bloomberg, Company, Ambit Capital research

Risks to our BUY call

Higher than estimated drop in analog cable subscription revenue?

The new state Government of Tamil Nadu has decided to nationalize local cable business. On the back of this development, we have assumed a 25% drop in Sun TV's analog cable revenue in FY12E and a further 15% drop in FY13E. As a result, our subscription revenue (analog + digital) will grow at 9% CAGR over the next two years (FY11-FY13E) as against the 30% subscription revenue growth CAGR exhibited by the company during FY08-FY11. Any further drop in the cable subscription revenue would have a negative impact on the company's revenue, profitability and subsequently on the target stock price.

Lower than estimated growth in advertising revenue?

With Sun TV group losing its dominance on the cable distribution network in the Tamil Nadu market, we expect competition to increase in the state going forward. Accordingly, we have assumed moderation in advertising revenue growth of the company. We have built in advertising revenue growth of 12.4% over the next two years as against 28% advertising revenue growth CAGR exhibited by the company during FY08-FY11. A further slowdown in advertising revenue growth would impact the target price negatively.

Further political action against promoters?

Given the fluid nature of Tamil Nadu politics and the fast moving CBI investigation into the 2G scam, Sun TV is in the eye of multiple storms. It is very difficult for us to factor in the impact of such events (or even assess whether these events should fundamentally impact Sun TV). That being said we cannot ignore the reality of how India operates.

Our research shows that legal action against a well known company's promoters by the authorities can result in a **20% price correction** in the 30 day period around the legal action.

Pledge of promoter shares could go up further

Stock exchange data reveals that with a drop in stock price from Rs526 as of end Dec 2010 to Rs449 as of end March 2011, the pledge of promoter shares has gone up from 43.6mn shares (14.4% of promoter shareholding and 11.1% of total shareholding) to 52mn share (17.1% of promoter shareholding and 13.2% of total shareholding. As of March 2011, the pledged shares amount to Rs23bn. With the recent correction in the stock price, the possibility of further shares pledge cannot be ruled out. At the current price, to maintain the pledge amount, the promoters need to pledge further 25mn shares, which could take the total pledge of shares to 25% of promoters holding.

Exhibit 9: Income statement

Year to March (Rs mn)	FY10	FY11	FY12E	FY13E
Operating income	14,528	20,135	20,736	23,447
% growth	39.8	38.6	3.0	13.1
Operating expenditure	3,620	4,356	5,014	5,714
EBITDA	10,909	15,779	15,722	17,733
% growth	48.1	44.6	(0.4)	12.8
Depreciation	3,209	4,805	4,441	4,532
EBIT	7,700	10,974	11,281	13,202
Interest expenditure	49	23	48	58
Non-operational income / Exceptional items				
PBT	8,000	11,439	11,795	13,804
Tax	2,991	3,831	3,916	4,538
PAT / Net profit	5,199	7,698	7,963	9,319
% growth	41.2	48.1	3.4	17.0

Source: Company, Ambit Capital research

Exhibit 10: Balance sheet

Year to March (Rs mn)	FY10	FY11	FY12E	FY13E
ASSETS				
Cash & Equivalents	4,367	6,198	10,737	17,856
Debtors	3,292	4,675	4,803	5,407
Inventory	27	27	27	27
Loans & Advances	1,209	1,827	1,884	2,106
Investments	2,280	2,314	2,323	2,331
Fixed Assets (excl. G/W)	11,649	13,270	12,632	12,436
Goodwill	478	-	-	-
Other Assets	1,751	2,548	2,765	2,997
Total Assets	**25,052**	**30,859**	**35,170**	**43,160**
Current Liabilities & Provisions	4,607	6,475	4,565	5,266
Debt	1	589	829	1,059
Minority Interest	371	315	267	249
Deferred Tax Liability	339	73	73	73
Other Liabilities				
Total Liabilities	711	977	1,169	1,380
Shareholders Equity	1,970	1,970	1,970	1,970
Reserves & Surpluses	16,885	20,559	26,588	33,666
SC Pending Allotment	-	-	-	-
CCPS	878	878	878	878
Total Networth	19,734	23,408	29,436	36,514
Net Working Capital	1,371	1,985	4,308	4,709
Net Debt (Cash)	(4,366)	(5,610)	(9,908)	(16,798)
Total Liabilities & Equities	**25,052**	**30,859**	**35,170**	**43,160**

Source: Company, Ambit Capital research

Exhibit 11: Cashflow statement

Year to March (Rs mn)	FY10	FY11	FY12E	FY13E
PBT	8,000	11,439	11,795	13,804
Other income (expenditure) (Non Cash)	(78)	(487)	(282)	(660)
Depreciation & Ammortisation	3,209	4,805	4,441	4,532
Interest	43	23	48	58
Tax	(2,811)	(3,831)	(3,916)	(4,538)
Incr (decr) in net working capital	(892)	(2,158)	(172)	(612)
Cash flow from operating activities	7,471	9,789	11,915	12,583
Incr (decr) in capital expenditure	(5,819)	(6,441)	(3,802)	(4,336)
Incr (decr) in investments	(742)	(0)	27	27
Interest / Dividend Received	17	396	562	660
Cash flow from investing activities	(6,545)	(6,045)	(3,214)	(3,649)
Incr (decr) in borrowings	(709)	587	240	230
Issuance of equity	1,066	-	-	-
Interest / Dividend paid	(1,196)	(2,780)	(4,123)	(2,044)
Cash flow from financing activities	(838)	(2,193)	(3,883)	(1,814)
Net change in cash	88	1,552	4,818	7,120
Closing cash balance	4,367	6,198	10,737	17,857

Source: Company, Ambit Capital research

Exhibit 12: Ratio analysis

Year to March (%)	FY10	FY11	FY12E	FY13E
EBITDA margin	75.1	78.4	75.8	75.6
EBIT margin	53.0	54.5	54.4	56.3
Net profit margin	35.8	38.2	38.4	39.7
Return on capital employed	44.0	54.6	45.1	42.0
Return on equity	26.3	32.9	27.1	25.5
Dividend payout ratio	56.8	44.8	20.8	20.6
Current ratio (x)	2.2	2.3	4.3	5.3

Source: Company, Ambit Capital research

Exhibit 13: Valuation parameters

Year to March	FY10	FY11	FY12E	FY13E
EPS (Rs)	13.2	19.5	20.2	23.6
Diluted EPS (Rs)	13.2	19.5	20.2	23.6
Book value per share (Rs)	50.1	59.4	74.7	92.7
P/E (x)	23.0	15.6	15.0	12.9
P/BV (x)	6.1	5.1	4.1	3.3
EV/EBITDA (x)	10.4	7.1	6.8	5.7
EV/Sales (x)	7.8	5.6	5.2	4.3

Source: Company, Ambit Capital research

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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