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India Research

Sector: Media

Shredding Sun TV Network Ltd.'s (SUNTV.IN/SUTV.BO) FY10 Accounts

Free Cash flow, Return Ratios, Revenue trend & more…

+

Strong EBITA growth results in increase in operating cash flow, while free cash flow turns positive…

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Expansion in EBIDTA margin leads to improvement in RoE, while higher EBIT margin & lower tax rate drives expansion in RoCE…

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Financial Snapshot (Consolidated)

Key Financials					
YE March 31 (Rs. mn)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**
Total Revenues	**8,700**	**10,417**	**14,530**	**19,658**	**22,505**
Revenue Growth (Y-o-Y)	*28.2%*	*19.7%*	*39.5%*	*35.3%*	*14.5%*
EBIDTA	**5,975**	**7,391**	**10,911**	**15,153**	**17,501**
EBIDTA Growth (Y-o-Y)	*25.9%*	*23.7%*	*47.6%*	*38.9%*	*15.5%*
Net Profit	**3,267**	**3,683**	**5,199**	**7,330**	**8,893**
Net Profit Growth (Y-o-Y)	*32.8%*	*12.7%*	*41.2%*	*41.0%*	*21.3%*
Net Profit Excl. extra-ordinaries	**3,266**	**3,521**	**5,195**	**7,330**	**8,893**
Net Profit Growth Excl. extra-ordinaries (Y-o-Y)	*32.7%*	*7.8%*	*47.6%*	*41.1%*	*21.3%*
Shareholders Equity	**14,486**	**17,016**	**18,856**	**25,033**	**32,773**
Number of Diluted shares (mn)	**394**	**394**	**394**	**394**	**394**

Key Operating Ratios					
YE March 31	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**
Diluted EPS Excl. extra-ordinaries (Rs.)	**8.3**	**8.9**	**13.2**	**18.6**	**22.6**
EPS Growth (Y-o-Y)	*32.2%*	*7.8%*	*47.6%*	*41.1%*	*21.3%*
CEPS Excl. extra-ordinaries (Rs.)	11.4	14.5	21.3	30.1	34.3
EBIDTA (%)	**68.7%**	**70.9%**	**75.1%**	**77.1%**	**77.8%**
NPM (%)	**37.5%**	**33.8%**	**35.8%**	**37.3%**	**39.5%**
Tax/PBT (%)	39.2%	40.3%	37.4%	34.2%	33.4%
RoE (%)	**23.7%**	**21.6%**	**26.4%**	**32.5%**	**30.2%**
RoCE (%)	**22.6%**	**20.4%**	**24.7%**	**30.8%**	**29.2%**
Return on Operating Assets (%)	30.6%	22.9%	29.4%	38.1%	46.9%
Book Value Per share (Rs.)	36.8	43.2	47.8	63.5	83.2
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Dividend Payout Ratio (%)	35.3%	31.3%	66.3%	15.7%	13.0%

Free Cash Flow Analysis					
YE March 31 (Rs. mn)	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**
Operating Cash Flows	3,052	4,912	7,148	9,411	12,273
Capex	4,145	4,254	5,618	3,029	3,032
Investments-Strategic	1,803	2	8	0	0
Total Free Cash Flows	-1,736	-35	3,919	4,113	9,183

Valuation Ratios					
YE March 31	**FY08**	**FY09**	**FY10**	**FY11E**	**FY12E**
P/E (x)				**28.6**	**23.6**
P/BV (x)				8.4	6.4
P/CEPS (x)				17.7	15.5
EV/EBIDTA (x)				**13.4**	**11.1**
Market Cap./ Sales (x)				10.7	9.3
Net cash/Market Cap (%)				3.5%	7.5%
Dividend Yield (%)				0.5%	0.5%

Market Cap. And Enterprise Value as on Dec. 16, 2010		
Current Market Price (Rs.)		532.3
No. of Basic Shares (mn)		394.1
	Rs. bn	**US$ bn**
Market Cap.	**209.8**	**4.62**
Total Debt*	0.00	0.00
Cash & Cash Equivalents*	4.37	0.10
Enterprise Value	**205.4**	**4.53**

**** Debt & Cash & Cash Equivalents as on FY10; Exchange Rate: US$1 = INR 45.39***

DuPont Model

YE March 31	FY08	FY09	FY10	FY11E	FY12E
EBIDTA/Sales (%)	68.7%	70.9%	75.1%	77.1%	77.8%
Sales/Operating Assets (x)	0.9	0.8	0.9	1.1	1.2
EBIDTA/Operating Assets (%)	**63.6%**	**54.7%**	**66.6%**	**82.7%**	**95.6%**
Operating Assets/ Net Assets(x)	0.7	0.8	0.8	0.8	0.6
Net Earnings/ EBIDTA (%)	54.7%	47.6%	47.6%	48.4%	50.8%
Net Assets/ Equity (x)	1.0	1.0	1.0	1.0	1.0
Return on Equity (%)	**23.7%**	**21.6%**	**26.4%**	**32.5%**	**30.2%**

Common Sized Profit & Loss Account

YE March 31	FY08	FY09	FY10	FY11E	FY12E
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Net Raw Material Consumed	8.8%	10.7%	8.4%	7.3%	7.0%
Personnel	11.0%	11.1%	9.2%	9.6%	9.3%
Selling, General & Administrative Expenses	11.5%	7.3%	3.7%	6.1%	5.9%
EBIDTA	**68.7%**	**70.9%**	**75.1%**	**77.1%**	**77.8%**
Depreciation and Amortization	14.2%	21.2%	22.1%	23.1%	20.5%
Interest Paid	1.8%	1.3%	0.3%	0.0%	0.0%
Non-Operating Income	6.4%	4.6%	2.4%	2.1%	2.0%
Extraordinary Income	0.0%	1.6%	0.0%	0.0%	0.0%
Profit Before Tax	**59.0%**	**54.7%**	**55.1%**	**56.0%**	**59.3%**
Tax	23.2%	22.0%	20.6%	19.1%	19.8%
Net Profit	**37.6%**	**35.4%**	**35.8%**	**37.3%**	**39.5%**
Net Profit Excl. extra-ordinaries	**37.5%**	**33.8%**	**35.8%**	**37.3%**	**39.5%**

Source: Company Reports, FG Estimates

SUN TV's Business in Pictures… (FY10) (Consolidated)

(All figures are in Rs. Mn except where stated otherwise. All percentages are percent of revenues, unless stated otherwise)

Operations/ Value added
Total Revenues: Rs.14, 530 mn (100%)

Cost of Revenues: Rs.1, 227 mn (8.4%)
Employees Cost: Rs.1, 340 mn (9.2%)
Other Expenses: Rs.1, 053 mn (7.2%)

EBIDTA
Rs.10, 911 mn (75.1%)

Depreciation: Rs.3, 209mn (22.1%)
Interest Paid: Rs.49 mn (0.3%)
Non- Operating Income: Rs.348 mn (2.4%)

Below Operating Line

Profit before Tax
Rs.8, 000 mn (55.1%)

Taxes
Rs.2, 991 mn (20.6%)

Profit after Tax before Minority Interest
Rs.5, 009mn (34.5%)

Minority Interest
Rs. -182 mn (-1.2%)
Share in Profit from Asso.
Rs.8mn (0.1%)

Profit after Tax
Rs.5, 199 mn (35.8%)

FY10:
Advertisement: Rs. 8,449.6 mn (58.2%)
Broadcasting: Rs. 1,342.8 mn (9.2%)
Program Licensing: Rs. 544.2 mn (3.7%)
Subscription: Rs. 3,431.3 mn (23.6%)
Content Trading: Rs.20.3 mn (0.1%)
Movie Distribution: Rs. 674.9 mn (4.6%)
Aircraft Charter Service: Rs.65.3 mn (0.4%)

TV Broadcasting (Tamil - 5 Channels)
Competition:
Kalaignar TV, Raj TV, Jaya TV, Star Vijay, Zee Tamizh

TV Broadcasting (Malayalam - 2 Channels)
Competition:
Asianet, Amrita TV

TV Broadcasting (Telugu - 4 Channels)
Competition:
Eenadu TV, Maa Telugu, Zee Telugu

TV Broadcasting (Kannada - 4 Channels)
Competition:
ETV Kannada, Zee Kannada

Radio Broadcasting (43 Stations)
Competition:
ENIL (Radio Mirchi), Adlabs (Big FM), Mid Day (Radio One), HT Media (Fever 104), MBPL (Radio City), Radio Today (Meow FM)

Assets
Rs. 25,052 mn

Balance Sheet (FY10)

Liabilities
Rs. 25,052 mn

Fixed Assets: Rs.8, 978 mn (35.8%)
Capital WIP: Rs.3, 149 mn (12.6%)
Investments: Rs.2, 280 mn (9.1%)
Loans & Advances: Rs.1, 589 mn (6.3%)
Debtors: Rs.3, 292 mn (13.1%)
Inventory: Rs.27 mn (0.1%)
Cash & Bank Balance: Rs.4, 367 mn (17.4%)
Miscellaneous Assets: Rs.1 mn (0.002%)
Others: Rs.300 mn (1.2%)

Debt: Rs.1 mn (0.01%)
Sundry Creditors: Rs.1, 839 mn (7.3%)
Provisions: Rs.2, 768 mn (11.0%)
Reserves: Rs.17, 763 mn (70.9%)
Equity: Rs.1, 970 mn (7.9%)
Minority Interest: Rs.371 mn (1.5%)
Deferred Tax Liability: Rs.339 mn (1.4%)

Highlights

Sun TV Network Ltd. (SUNTV.IN/SUTV.BO) delivered a strong performance in FY10, with the company's net revenue increasing 39.5% Y-o-Y to Rs.14.5 bn, driven mainly by a growth of 57.9% Y-o-Y in subscription revenue to Rs.3.4 bn (topline contribution of 23.6%), on the back of a shift from analogue cable to digital cable. Revenue of the advertisement business grew 37.7% Y-o-Y to Rs.7.9 bn, due to the company's strong pricing power in South India (topline contribution of 58.2%), while the Movie business was up 139.1% Y-o-Y to Rs.675 mn (topline contribution of 4.6%) in FY10. The company's broadcasting business reported revenue of Rs.1.3 bn, up 3.0% Y-o-Y, and contributed 9.2% to the topline. The company's radio subsidiary, Kal Radio, achieved breakeven in FY10, with an EBIDTA profit of Rs.81.7 mn, as against an EBIDTA loss of Rs.61.8 mn in FY09, which led to an improvement of 414 bps Y-o-Y in the EBIDTA margin to 75.1%. However, the company's net profit margin improved by 195 bps Y-o-Y to 35.8% in FY10, due to higher depreciation & amortisation expenses.

Revenue of the advertisement business grew 37.7% Y-o-Y to Rs.7.9 bn, due to the company's strong pricing power in South India (topline contribution of 58.2%), while the Movie business was up 139.1% Y-o-Y to Rs.675 mn (topline contribution of 4.6%) in FY10. The company's broadcasting business reported revenue of Rs.1.3 bn, up 3.0% Y-o-Y, and contributed 9.2% to the topline

Moreover, the company's RoE increased from 21.6% in FY09 to 26.4% in FY10, due to an improvement in the EBIDTA margin, while an increase of 322 bps Y-o-Y in the EBIT margin to 53.0% in FY10, coupled with a lower tax rate, led to an increase of 799 bps Y-o-Y in the post-tax operating RoCE to 31.3% in FY10, as against 23.3% in FY09. Also, the company's free cash flow turned positive, on account of a strong EBITA growth and increase in provision for dividend, on the back of special dividend of 150%, despite a capex of Rs.5.6 bn for the year. Sun TV also became a debt free company on a consolidated basis, as the company capitalized the loans of its subsidiary, South Asia FM Limited, by converting it into compulsorily convertible preference shares. Read on for the complete story on Sun TV's financial performance in FY10 and an in depth analysis of the company's overall revenue, margins, return ratios, free cash flow and more…

Sun TV also became a debt free company on a consolidated basis, as the company capitalized the loans of its subsidiary, South Asia FM Limited, by converting it into compulsorily convertible preference shares

Rising inventory days & lower creditor days drives working capital cycle higher

There was an increase in Sun TV's net working capital cycle in FY10, due to a rise in the company's inventory days and a decline in its creditor days, partially offset by a fall in debtor days

There was an increase in Sun TV's net working capital cycle in FY10, due to a rise in the company's inventory days and a decline in its creditor days, partially offset by a fall in debtor days. Sun TV's inventory turnover period increased from 0.2 days in FY09 to 2.7 days in FY10, on account of the company's foray into the film production & distribution business.

Moreover, the company's creditors turnover period declined from 55 days in FY09 to 39 days in FY10, thus leading to an increase in the net working capital cycle from 29 days to 47 days, partially offset by a decline in the debtors turnover period from 85 days to 83 days.

Strong EBITA growth drives operating cash flow, while free cash flow turns positive

A sharp increase of 48.5% Y-o-Y in the company's EBITA to Rs.7.7 bn and 45.6% Y-o-Y in depreciation expenses to Rs.3.2 bn resulted in a rise of 45.5% Y-o-Y in the operating cash flow to Rs.7.2 bn in FY10. Moreover, Sun TV recorded a cash outflow of Rs.5.6 bn on account of its net capex, partially offset by a cash inflow of Rs.2.4 bn, due to an increase in the provision for dividend, as the company declared a special dividend of 150%, thus resulting in a positive free cash flow from operations of Rs.3.9 bn in FY10, as against a negative free cash flow from operations of Rs.130 mn in FY09.

Barometer: What happened to the growth rates, margins, cash flows, returns…

Revenue Mix

Segmental revenue contribution

(YE March 31) (in mn Rupees)	FY09	FY10	% Y-o-Y Change
Advertising Revenues (A)	6057	8450	39.5%
% Contribution to Agg Revenue	58.3%	58.2%	
Broadcast Fees (B)	1304	1343	3.0%
% Contribution to Agg Revenue	12.5%	9.2%	
Subscription Revenues (C)	2151	3431	59.5%
% Contribution to Agg Revenue	20.7%	23.6%	
Programme Licensing Income (D)	540	544	0.7%
% Contribution to Agg Revenue	5.2%	3.7%	
Income from content trading	16	20	28.5%
% Contribution to Agg Revenue	0.2%	0.1%	
Income from Movie distribution	282	675	139.1%
% Contribution to Agg Revenue	2.7%	4.6%	
Aircraft charter services	43	65	52.9%
% Contribution to Agg Revenue	0.4%	0.4%	
Aggregate Revenues	**10394**	**14528**	**39.8%**

Source: Company reports, FG Estimates

India's economic revival in FY10 resulted in a hike in ad rates by media companies, as well as advertisers loosening their purse strings for advertising on television, thereby benefiting media broadcasting companies, including Sun TV. In FY10, Sun TV's ad revenue grew 39.5% Y-o-Y, as against 27.4% in FY09. The company reported ad revenue of Rs.8.45 bn in FY10, marking a topline contribution of 58.2%. Moreover, growing digitization and the implementation of CAS helped the company shore up its subscription revenue, which grew 59.5% Y-o-Y to Rs.3.43 bn in FY10 and contributed 23.6% to the topline. Revenue from the movie production & distribution business grew 139.1% Y-o-Y to Rs.675 mn and contributed 4.6% to the topline in FY10, as against 2.7% in FY09. The company's broadcasting business reported revenue rose 3.0% Y-o-Y in FY10, with its topline contribution coming in at 9.2%.

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Expansion in EBIDTA margin leads to improvement in RoE

DuPont Analysis

YE March 31	FY06	FY07	FY08	FY09	FY10
EBIDTA/Sales (%)	77.1%	70.0%	68.7%	70.9%	75.1%
Sales/Operating Assets (x)	0.9x	1.2x	0.9	0.8	0.9
EBIDTA/Operating Assets (%)	**70.3%**	**84.5%**	**63.6%**	**54.7%**	**65.7%**
Operating Assets/ Net Assets(x)	0.7x	0.6x	0.7	0.8	0.9
Net Earnings/ EBIDTA (%)	50.4%	51.8%	54.7%	47.6%	47.6%
Net Assets/ Equity (x)	1.1x	1.2x	1.0	1.0	1.0
Return on Equity (%)	**26.7%**	**31.3%**	**23.7%**	**21.6%**	**26.4%**

Source: Company Reports, FG estimates

Sun TV's RoE has been on a downtrend since FY08 due to a decline in the EBIDTA margin, as a result of losses incurred in its radio business, decline in the asset turnover ratio and a lower proportion of net earnings to EBIDTA. However, the company's RoE increased from 21.6% in FY09 to 26.4% in FY10, due to an improvement in the EBIDTA margin from 70.9% to 75.1%, as one of the radio subsidiaries achieved breakeven in the year. The increase in Sun TV's RoE was also aided by a higher proportion of operating assets to net assets and an increase in the asset turnover ratio in FY10.

Higher EBIT margin & lower tax rate drives expansion in RoCE

Calculation of Return on Operating Capital Employed (RoCE)

(YE March 31)	FY09	FY10
Cost of revenue as % of sales	10.7%	8.4%
Personnel expense as % of sales	11.1%	9.2%
Selling, General & Administrative expense as % of sales	7.3%	7.2%
EBIDTA Margin	70.9%	75.1%
Depreciation as a % of Net Sales	21.2%	22.1%
EBIT as % of Sales (A)	**49.8%**	**53.0%**
Net Fixed Assets as % of Sales	65.3%	58.9%
CWIP as % of Sales	18.2%	16.2%
Investments in subsidiaries and associates as % of sales	17.3%	12.4%
Net Working Capital as % of Sales	25.4%	16.6%
Non Current Assets as % of Sales	1.5%	1.8%
Capital Employed as % of Sales (B)	**127.7%**	**106.1%**
Pre-Tax RoCE (A)/(B)	39.0%	50.0%
Cash Tax Rate as % of EBIT	40.3%	37.4%
Operating RoCE	**23.3%**	**31.3%**

Source: Company reports, FG Estimates ** Adjusted for excess cash and other investments*

Sun TV recorded a decline in its operating expenditure in FY10, primarily due to one of its radio subsidiaries achieving break even, which resulted in an improvement of 414 bps Y-o-Y in the EBIDTA margin to 75.1%. However, depreciation expenses rose 45.6% Y-o-Y to Rs.3.2 bn, which led to an increase of 322 bps Y-o-Y in the EBIT margin to 53.0% in FY10. There was also a significant decline in the company's asset turnover ratio, CWIP turnover, investment turnover ratio and working capital turnover ratio in FY10, which was partially offset by an increase in the non-current asset turnover ratio, thus resulting in a rise of 1097 bps Y-o-Y in the pre-tax operating RoCE to 50.0%. ***Nevertheless, a lower tax rate led to an increase of 799 bps Y-o-Y in the post-tax operating RoCE to 31.3% in FY10, as against 23.3% in FY09. Sun TV recorded an increase of 433 bps Y-o-Y in the RoCE from 20.4% in FY09 to 24.7% in FY10.***

Robust EBITA growth helps record strong operating cash flow

Free Cash Flow Analysis

(YE March 31) (in Mn Rupees)	FY06	FY07	FY08	FY09	FY10	*% Y-o-Y Change (FY10/FY09)*
EBITA	**1,900**	**3,528**	**4,737**	**5,186**	**7,702**	***48.5%***
Less: Adjusted Taxes	669	1,277	1,859	2,089	2,879	*37.9%*
NOPLAT	**1,231**	**2,251**	**2,878**	**3,098**	**4,822**	***55.7%***
Plus: Depreciation	585	1,218	1,239	2,205	3,209	*45.6%*
Gross Cash flow	**1,816**	**3,469**	**4,117**	**5,302**	**8,032**	***51.5%***
Less: Increase in Working Capital	918	72	1,064	390	883	*126.7%*
Operating Cash flow	**898**	**3,397**	**3,052**	**4,912**	**7,148**	***45.5%***
Less: Net Capex	2,032	2,945	4,145	4,254	5,618	*32.0%*
Less: Increase in Net Other Assets	-303	-93	-1,159	788	-2,394	*NM*
FCF From Operation	**-831**	**546**	**66**	**-130**	**3,925**	***NM***

Source: Company reports, FG Estimates ** NM - Not Meaningful*

Sun TV's EBITA increased 48.5% Y-o-Y to Rs.7.7 bn in FY10 due to one of its radio subsidiaries achieving break even. Also, a lower than proportionate increase in the tax outgo led to a growth of 55.7% Y-o-Y in the NOPLAT to Rs.4.8 bn in FY10. Moreover, an increase of 45.6% Y-o-Y in depreciation expenses to Rs.3.2 bn, partially offset by a rise of 126.7% Y-o-Y in the working capital requirement to Rs.883 mn, resulted in an increase of 45.5% Y-o-Y in the operating cash flow to Rs.7.2 bn in FY10. Sun TV recorded a cash outflow of Rs.5.6 bn on account of its net capex, partially offset by a cash inflow of Rs.2.4 bn due to an increase in the provision for dividend, as the company declared a special dividend of 150%, thus resulting in a positive free cash flow from operations of Rs.3.9 bn in FY10, as against a negative free cash flow from operations of Rs.130 mn in FY09.

Eagle Eye: Reading the fine print…

Increase in working capital cycle…

Working Capital Cycle (in Days)

	FY06	FY07	FY08	FY09	FY10
Inventory Turnover Period	1	0	0	0	3
Debtor Turnover Period	109	111	108	85	83
Creditors Turnover Period	52	60	47	55	39
Net Working Capital Cycle	**58**	**52**	**62**	**29**	**47**

Source: Company Reports, FG estimates

Sun TV's prudent collection policy has led to a continuous decline in the company's debtors turnover period from 109 in FY06 to 83 in FY10. However, the company's foray into the film production & distribution business has led to an increase in inventory days from 1 in FY06 to 3 in FY10. Also, the company's creditors turnover period declined from 55 days in FY09 to 39 days in FY10, thus driving an increase in the net working capital cycle from 29 days to 47 days.

Foray into film production & distribution business drives receivables higher

Common-size Net Working Capital

(YE March 31) (In %)	FY06	FY07	FY08	FY09	FY10
Current Assets (A)	**132%**	**121%**	**141%**	**133%**	**180%**
Inventories	0%	0%	0%	0%	0%
Receivables	43%	26%	41%	36%	57%
Loans & Advances	12%	7%	22%	25%	28%
Cash & Bank	32%	82%	69%	55%	76%
Others	45%	6%	8%	16%	19%
Less: Current Liabilities (B)	**32%**	**21%**	**41%**	**33%**	**80%**
Payables	5%	4%	6%	7%	7%
Provisions	7%	6%	19%	7%	48%
Others	21%	11%	17%	19%	25%
Net Working Capital (A)-(B)	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company Reports, FG estimates

In FY10, Sun TV forayed into the movie production, acquisition and distribution business and released six films in the year. The company's films division manages and exploits multiple revenue streams associated with its films, including theatrical distribution, syndication rights on television platforms, home entertainment rights, music and audio rights. This resulted in an increase of 36.5% Y-o-Y in the company's debtors to Rs.3.3 bn in FY10. Moreover, the contribution of receivables, as a percentage of the net working capital, rose from 36% in FY09 to 57% in FY10. However, the contribution of provisions for tax & dividend to net working capital rose from 7% in FY09 to 48% in FY10, on account of the declaration of special dividend of 150% by the company, thus partially offsetting the pressure on the free cash flow.

Conversion of loans into preference shares results in zero debt levels on consolidated basis

Sun TV's subsidiary, South Asia FM Limited, obtained the necessary approvals from the Government of India to increase the stake of M/s. South Asia Multimedia Media Technologies Ltd. from 6.98% to 20%. This was achieved partly by infusion of cash, share transfers, issue of preference shares and capitalization of loans into compulsorily convertible preference shares. Sun TV Network Limited's stake in South Asia FM Limited was subsequently reduced to 59.15% and South Asia FM Limited became a debt free company. With this, Sun TV also became a debt free company on a consolidated basis as well, as the standalone entity does not have any debt.

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