

23 June 2010

Media Industry

Update

Overweight

Media shines

The media sector reported better-than-expected results in FY10. Robust revenue growth and strong margin expansion resulted in the profitability of some companies almost doubling. Others consolidated their operations in the financial year. We maintain our Overweight stance on the sector, and prefer broadcasters to print media.

- **FMCG advertisers to drive broadcasters' revenue:** Sustained high advertising and promotion expenses by FMCG companies would mainly benefit broadcasting companies. FMCG accounts for more than 55% of spending on television.
- **Consolidation – the mantra in FY10:** FY10 was the year of consolidation for the media industry. For instance, the Zee group consolidated its general entertainment channels (GECs) under Zee Entertainment. TV Today and DB Corp consolidated their radio businesses and HT Media de-merged its Hindi daily for an IPO.
- **High dividend payout:** Companies paid higher-than-expected or in-line dividends through special or interim dividends during the year. Broadcasting companies have increased the dividend payout ratio, while print companies have slightly reduced the same.
- **Prefer broadcasters to print players:** We prefer broadcasters to print companies, considering that ad revenue growth for broadcasters is expected to be over 15%. DTH subscription revenues are expected to increase. With carriage and placement costs remaining flat and programming expenses under control, we expect margins to expand.
- **Top picks and top sells:** We maintain our Overweight rating on the sector. We have a Buy on Sun TV Network, Zee Entertainment and Jagran Prakashan; Hold on ENIL, HT Media and Info Edge; and Sell on Balaji Telefilms.

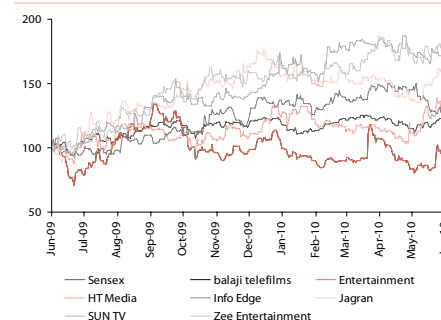
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Key Performance (%)

| | 1M | 6M | 1Yr |
|---------------------|-------|--------|--------|
| Balaji Telefilms | 12.3 | (4.0) | (1.6) |
| Deccan Chronicle | 1.2 | (21.6) | 69.3 |
| ENIL | 18.8 | 22.9 | 38.7 |
| HT Media | 1.8 | 8.1 | 61.6 |
| IBN1 8 | 4.0 | (6.7) | (13.3) |
| Info Edge | (7.0) | 10.9 | 41.3 |
| Jagran Prakashan | 15.5 | (2.4) | 53.7 |
| NDTV | 5.2 | (26.0) | (22.1) |
| Sun TV | (1.1) | 21.0 | 70.0 |
| T V Today Network | (6.9) | (21.0) | 4.4 |
| Television 18 India | 20.5 | 10.2 | (20.5) |
| Zee Entertainment | 1.2 | 9.7 | 80.1 |
| Zee News | 1.5 | (77.3) | (66.4) |
| NIFTY | 7.8 | 6.6 | 25.5 |

Source: Bloomberg, Centrum Research
* as on 22 June 2010

One Year Stock performance



Source: Bloomberg, Centrum Research

| Company Name | Rating | Target Price (Rs) | Upside (%) | M-cap (Rsbn) | PE (x) | | EV/EBIDTA (x) | | RoE (%) | | RoCE (%) | |
|------------------|--------|-------------------|------------|--------------|--------|-------|---------------|-------|---------|-------|----------|-------|
| | | | | | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E | FY11E | FY12E |
| Sun TV Network | BUY | 485 | 17 | 158.6 | 22.9 | 19.9 | 10.9 | 9.2 | 32.8 | 30.4 | 30.5 | 28.7 |
| ZEEL | BUY | 347 | 20 | 141.7 | 22.9 | 20.1 | 15.8 | 13.3 | 14.1 | 14.2 | 11.9 | 12.1 |
| Jagran Prakashan | BUY | 143 | 14 | 37.5 | 18.6 | 15.8 | 11.2 | 9.3 | 29.3 | 29.5 | 26.3 | 26.7 |
| HT Media | HOLD | 166 | 10 | 34.9 | 18.7 | 16.2 | 9.6 | 8.2 | 16.3 | 16.0 | 13.0 | 13.7 |
| Info Edge | HOLD | 937 | 9 | 23.4 | 30.5 | 24.8 | 21.5 | 15.9 | 18.3 | 19.0 | 13.1 | 14.1 |
| ENIL | HOLD | 220 | (7) | 11.2 | 145.0 | 33.7 | 20.1 | 12.7 | 0.6 | 8.0 | 1.9 | 9.7 |
| Balaji Telefilms | SELL | 49 | (11) | 3.6 | 18.2 | NA | 8.1 | NA | 4.9 | NA | 7.0 | NA |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Q4 results review

The Q4FY10 results of media companies were better-than-expected with many companies reporting strong YoY growth in both revenue and profit. Broadcasting companies, in particular, showed strong revenue growth backed by increased ad spend. Print companies' revenues were inline with expectations. Overall, media companies recorded 14.8% YoY revenue growth, though on a QoQ basis, growth was flat. Operating profit surged 150% YoY on the back of margin expansion across the board. As a result, profitability nearly doubled.

Exhibit 1: Snapshot of Q4FY10 results

| Company | Sales | | | EBIDTA | | | PAT | | |
|--------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| | Rsmn | YoY % | QoQ % | Rsmn | YoY % | QoQ % | Rsmn | YoY % | QoQ % |
| Balaji Telefilms | 44.7 | (15.6) | 13.8 | 9.9 | NM | NM | 3.4 | NM | 88.3 |
| Deccan Chronicle | 191.7 | 6.3 | (17.9) | 81.3 | 92.5 | (35.8) | 6.5 | (20.2) | (91.6) |
| ENIL* | 120.0 | 20.3 | 2.8 | 34.2 | NM | 94.0 | 17.1 | NM | 582.8 |
| H T Media* | 385.1 | 14.1 | 5.2 | 56.8 | 29.4 | (23.7) | 48.5 | 107.2 | 37.5 |
| IBN 18 Broadcast | 55.3 | 17.4 | (3.9) | (2.8) | NM | NM | (28.2) | NM | NM |
| Jagran Prakashan | 236.3 | 17.4 | 4.1 | 63.3 | 62.2 | (3.1) | 36.4 | 66.7 | (8.4) |
| NDTV* | 142.0 | 15.2 | (15.0) | (99.7) | NM | NM | (124.5) | NM | NM |
| Sun T V Network | 391.9 | 42.0 | (0.8) | 330.9 | 46.6 | 5.9 | 165.1 | 44.8 | 8.7 |
| T V Today Network | 78.9 | 46.9 | 12.0 | 11.1 | 117.1 | (35.6) | (10.1) | NM | NM |
| Television Eighteen India | 85.8 | (15.5) | 23.6 | 27.4 | NM | 218.1 | 28.9 | 408.8 | NM |
| Zee Entertainment Enterprises* | 649.3 | 26.4 | 22.3 | 183.6 | 52.8 | 16.8 | 128.8 | 33.5 | 2.9 |
| Zee News* | 60.1 | (56.6) | (64.8) | 3.9 | (81.2) | (89.3) | 2.8 | (67.8) | (85.3) |
| Total | 2,441 | 14.8 | (0.1) | 695.6 | 150.1 | (9.9) | 367.0 | 193.8 | (29.5) |

*Note: Consolidated

Source: Company, Centrum Research

Exhibit 2: Snapshot of FY10 results snapshot

| Company | Sales | | EBITDA | | PAT | |
|--------------------------------|--------------|----------|--------------|-----------|--------------|------------|
| | Rsmn | YoY (%) | Rsmn | YoY (%) | Rsmn | YoY (%) |
| Balaji Telefilms | 164 | (45) | 11 | (76) | 15 | (42) |
| Deccan Chronicle | 892 | 10 | 453 | 69 | 261 | 86 |
| ENIL* | 423 | (1) | 44 | NM | (22) | NM |
| H T Media* | 1,438 | 8 | 280 | 41 | 135 | 59 |
| IBN 18 Broadcast | 210 | 15 | (13) | NM | (82) | NM |
| Jagran Prakashan | 942 | 14 | 282 | 80 | 176 | 92 |
| NDTV* | 584 | 19 | (256) | NM | (215) | NM |
| Sun T V Network | 1,395 | 38 | 1,111 | 44 | 567 | 30 |
| T V Today Network | 285 | 14 | 60 | 36 | 31 | (8) |
| Television Eighteen India | 277 | (13) | 99 | 216 | (32) | NM |
| Zee Entertainment Enterprises* | 2,197 | 1 | 609 | 11 | 478 | (9) |
| Zee News* | 529 | 1 | 91 | 9 | 48 | 8 |
| Total | 9,336 | 8 | 2,770 | 74 | 1,361 | 110 |

*Note: Consolidated

Source: Company, Centrum Research

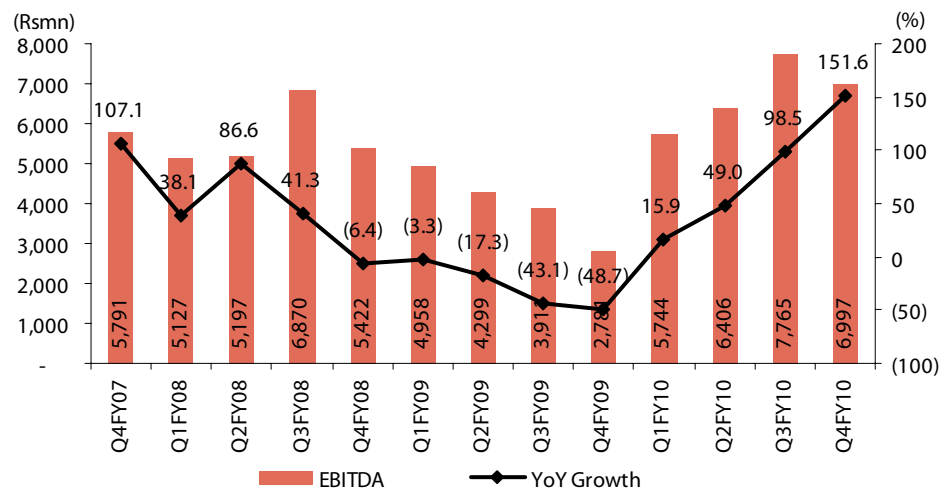
Revenue growth

Driven by strong advertising growth, media companies posted 14.8% YoY revenue growth, while on a QoQ basis revenues were flat due to seasonality factor. Broadcasting companies registered 16.7% YoY revenue growth, with companies such as Sun TV Network posting 61% YoY ad revenue growth, ZEEL posted 14% ad growth ex-RGECs (Regional General Entertainment Channels). With ever high advertising and promotion spend by FMCG companies, broadcasters are expected to benefit, going forward. Subscription revenues also continue to add to the revenue growth, with a predominant increase in DTH subscribers. ZEEL had an 80% YoY increase in DTH subscription revenues, while Sun TV Network had an 85% YoY increase.

Print companies reported 13% YoY increase in revenue on the back of advertising growth, while circulation revenues grew marginally. Jagran Prakashan had an ad revenue growth of 20%, while HT Media had an 8% YoY increase in ad revenue on the back of a 21% rise in the case of its Hindi publication, while its English daily witnessed 4% YoY growth. We believe the nation's advertisers were back to advertising in print media.

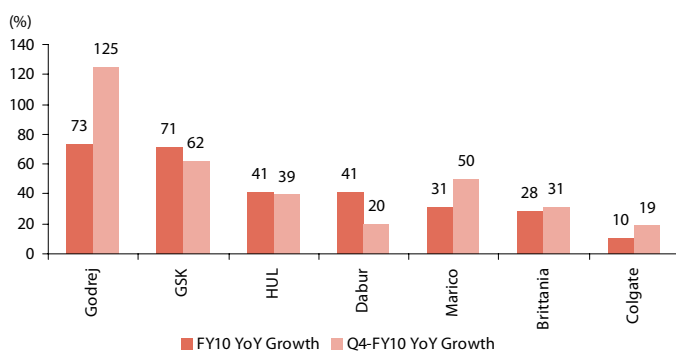
For FY10, regional media companies demonstrated higher growth, which could be seen in the results of Jagran Prakashan, Sun TV Network, Deccan Chronicle and HT Media. The merger of Regional General Entertainment Channels boosted revenues for ZEEL, while TV Today's incorporation of the figures from its radio business in its results also affected the quarter's numbers.

Exhibit 3: Steady growth in sales



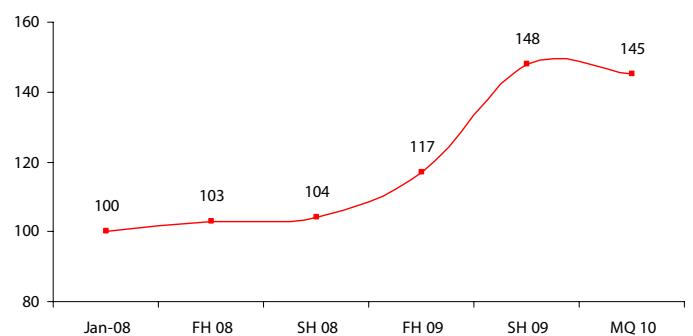
Source: Company, Centrum Research

Exhibit 4: High A&P spend from FMCG companies



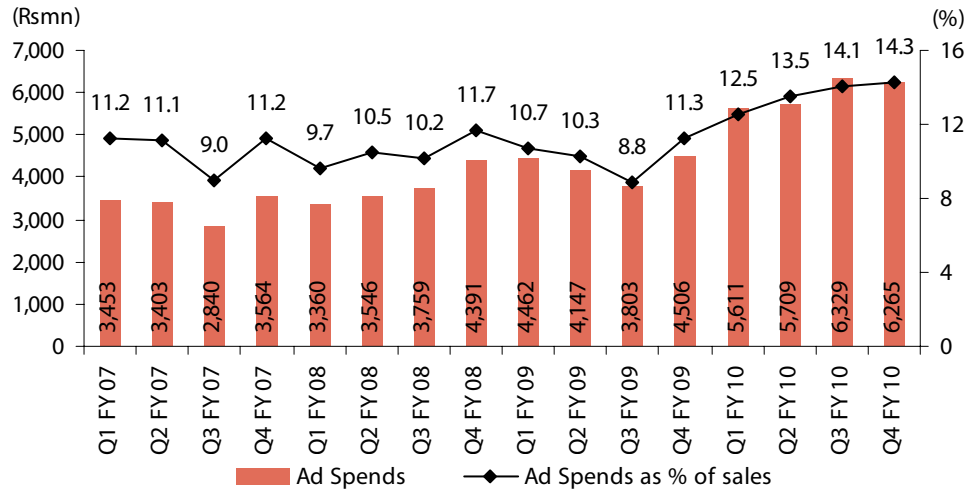
Source: Company, Centrum Research

Exhibit 5: FMCG companies' noise share in GRP terms (Index)



Source: HUL presentation, Centrum Research

Exhibit 6: HUL's advertising & promotion expenses (as % of sales) were the highest

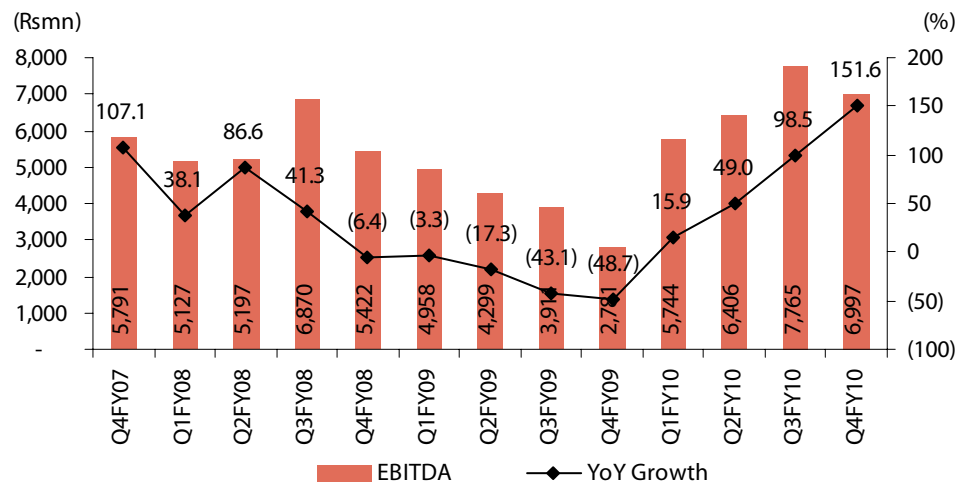


Source: Company, Centrum Research

Operating profit

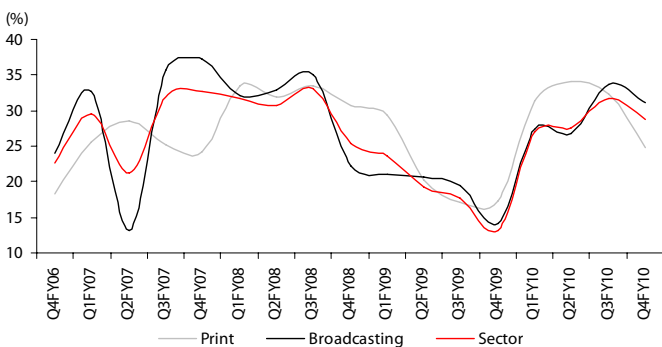
Operating profit for the media companies grew 150% YoY on the back of growth both in print and broadcasting companies. Print companies had their operating profit jump on back of lower newsprint cost. Companies such as Balaji, TV18 have become profitable, while NDTV has significantly reduced its losses, thereby boosting the profitability for the sector. The operating margin for broadcasting companies was at 31%, while for print companies the average operating margin was at 24.8%, predominantly due to lower consolidated margins from HT Media.

Exhibit 7: Operating profit on an uptick



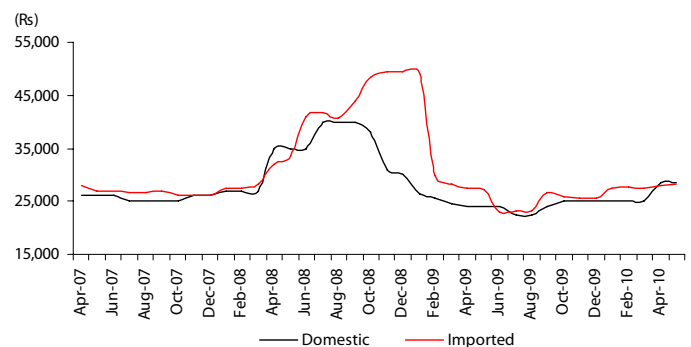
Source: Company, Centrum Research

Exhibit 8: Margins continue to remain healthy



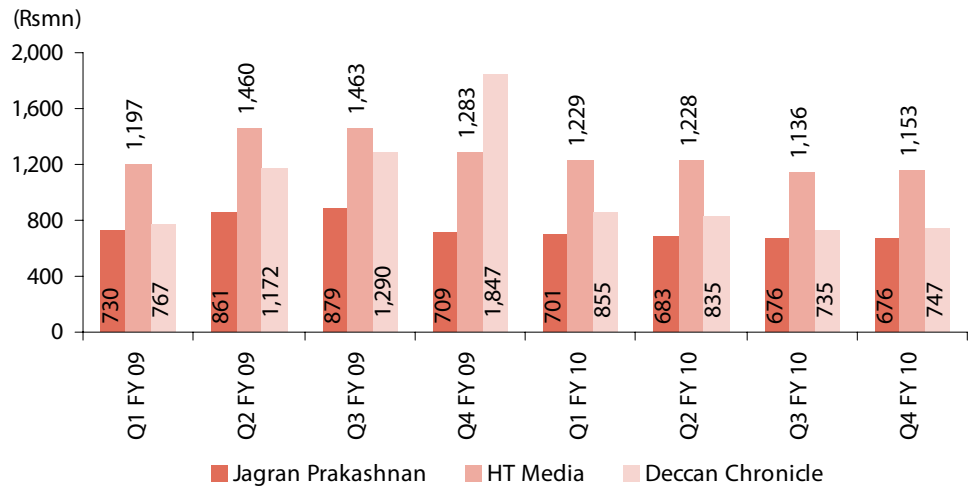
Source: Company, Centrum Research

Exhibit 9: Newsprint price trends



Source: CrisInfac, Centrum Research

Exhibit 10: Declining raw material cost benefits print companies

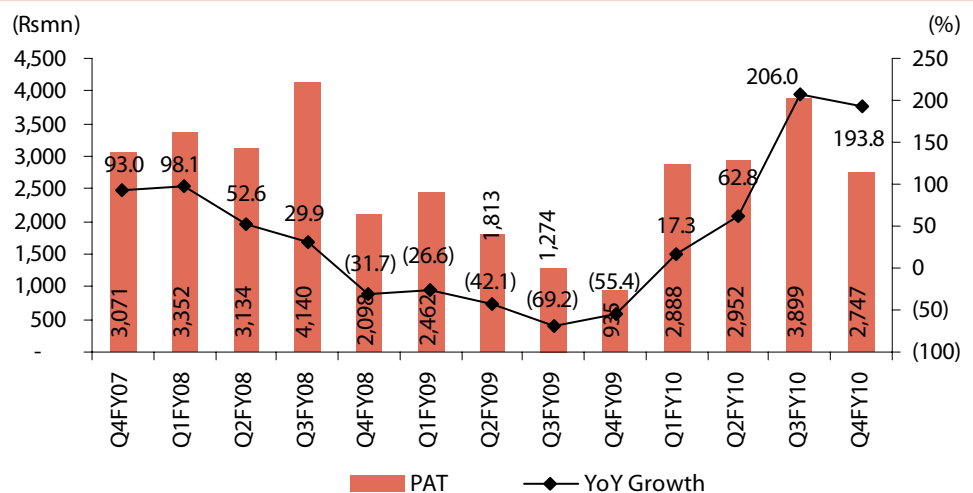


Source: Company, Centrum Research

Profitability

Profitability for media companies grew by 193% during Q4FY10. It was led by broadcasting companies, which saw a turnaround as a result of lower cost and increase in ad revenues. Print companies saw profits grow on the back of higher operating profits.

Exhibit 11: Profitability of media companies



Source: Company, Centrum Research

High dividend payout

This year companies have paid higher or in-line dividends through special or interim dividends. Broadcasting companies have increased the dividend payout ratio, while print companies have slightly reduced the same.

Exhibit 12: Increase in dividend payout for the companies

| Media | Interim FY10 | Final FY10 | Interim FY09 | Final FY09 | Payout Ratio FY10 | Payout Ratio FY09 |
|-------------------------------|--------------|------------|--------------|------------|-------------------|-------------------|
| Deccan Chronicle Holdings | 3.0 | 0.0 | 1 | 1.0 | 27.8 | 34.6 |
| H T Media | 0.0 | 0.4 | 0 | 0.3 | 6.2 | 8.3 |
| Jagran Prakashan | 2.0 | 1.5 | 0 | 2.0 | 59.9 | 65.7 |
| Sun TV Network | 1.5 | 6.0 | 1 | 1.5 | 52.1 | 22.5 |
| TV Today Network | 0.0 | 0.8 | 0 | 0.8 | 14.0 | 12.9 |
| Zee Entertainment Enterprises | 2.0 | 0.0 | 0 | 2.0 | 18.2 | 16.6 |
| Balaji Telefilms | 0.0 | 0.3 | 0 | 0.3 | 12.9 | 7.4 |

Source: Company, Centrum Research

Outlook

We believe print companies would register ~12-18% ad revenue growth as per the management's guidance for FY11. Leaders such as Jagran Prakashan are expected to grow the fastest, while DB Corp is likely to see slowest growth. With the return of national advertisers, we believe HT Media would demonstrate healthy growth, going forward. However, we are concerned about the price cuts in the print media, which could impact the profitability. With a small increase in newsprint cost, margins could also be under pressure for Hindi publications. We maintain our Buy rating on Jagran Prakashan and Hold rating on HT Media

We prefer broadcasting companies to print companies, considering that the average ad revenue growth for broadcasters is expected to remain in the 12-15% range, while for leaders such as ZEEL and Sun TV it would be upwards of 18%. Growth in DTH subscription revenues is likely to positively affect ad growth. With carriage and placement cost remaining flat and programming expenses under control, we expect margins to expand for the broadcasters and profitability to remain healthy. Best Picks: Sun TV Network and ZEEL.

ENIL

Update/ Target price change

23 June 2010

Hold

Target Price: Rs220

CMP: Rs235*

Downside: 7%

*as on 22 June 2010

Triggers awaited

Entertainment Network India (ENIL) continues to surprise positively. It registering strong operating performance in both the radio and OOH segments in FY10. Cost control measures helped boost margins. Going forward, we believe the renewal of advertising rights for the Delhi and Mumbai airport properties would be a big positive. We upgrade the stock to Hold from Sell and have also raised our target price to Rs220 (earlier: Rs176).

- **Q4FY10 results inline:** Q4 revenue surged 20% YoY to Rs1,203mn (our estimate: Rs1,246mn). The company reported an operating profit of Rs342mn (vs loss of Rs112mn in Q4FY09) and PAT of Rs154mn (vs loss of Rs234mn).
- **Yields in radio segment to improve in H2FY11:** We believe yields in the radio segment would start improving only in H2FY11 (when the festive season starts) and players would be in a position to effect price increases. We expect improvement in inventory utilization for new stations, which would be the key for future growth.
- **OOH segment shows positive improvement:** Though the traditional OOH segment incurred a loss of Rs220mn in FY10, it is expected to recover in FY11 (this accounts for a third of overall OOH revenues). Airport properties registered a fast recovery which helped the segment register a marginal profit of ~Rs100mn for FY10. Increased advertising by the BFSI, auto, telecom and consumer durables segment aided the recovery.
- **Renewal of airport properties would be a big positive:** ENIL's advertising rights for the Delhi and Mumbai airports would expire in June and July 2010, respectively. The renewal of these rights would be a big positive for the company as they account for two-third of total OOH revenues. High music royalty issue and much awaited Phase III policy would be critical for the radio business.
- **Radio segment debt-free:** The radio business become debt-free in Q4FY10 when the company retired all the debt on book on back of better working capital (Rs300mn) and cash from operations (Rs600mn). However, on a consolidated basis, net debt was at Rs280mn, largely in OOH business.
- **Upgrade to Hold; target price raised:** We are upgrading the stock to Hold from Sell on the back of the better-than-expected performance in radio and OOH segments. We also have raised our target price to Rs220 (earlier: Rs176).

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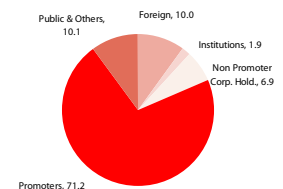
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Key Data

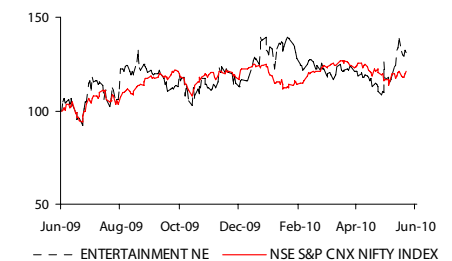
| | |
|--------------------------|------------|
| Bloomberg Code | ENIL IN |
| Reuters Code | ENIL.BO |
| Current Shares O/S (mn) | 47.6 |
| Diluted Shares O/S(mn) | 47.6 |
| Mkt Cap (Rsbn/USDmn) | 11.2/241.7 |
| 52 Wk H / L (Rs) | 260/153 |
| Daily Vol. (3M NSE Avg.) | 131,562 |
| Face Value (Rs) | 10 |

USD = Rs46.3

Shareholding Pattern (%)

As on 31st March 2010

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|-------|------|------|------|
| ENIL | 18.8 | 19.8 | 32.1 |
| NIFTY | 7.4 | 2.9 | 24.7 |

Source: Bloomberg, Centrum Research
*as on 22 June 2010

| Y/E Mar (Rsmn) | Rev | YoY (%) | EBITDA | EBITDA (%) | Adj PAT | YoY (%) | Fully DEPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|----------------|-------|---------|--------|------------|---------|---------|------------|---------|----------|---------|---------------|
| FY08 | 4,135 | 75.9 | 321 | 7.8 | (171) | N.A. | (3.6) | N.A. | N.A. | N.A. | 40.4 |
| FY09 | 4,262 | 3.1 | (92) | (2.2) | (603) | N.A. | (12.7) | N.A. | N.A. | N.A. | (136.4) |
| FY10E | 4,220 | (1.0) | 437 | 10.3 | (153) | N.A. | (3.2) | (5.8) | (1.1) | (73.1) | 27.3 |
| FY11E | 4,116 | (2.5) | 587 | 14.3 | 77 | N.A. | 1.6 | 0.6 | 1.9 | 145.0 | 20.1 |
| FY12E | 4,425 | 7.5 | 917 | 20.7 | 332 | 329.8 | 7.0 | 8.0 | 9.7 | 33.7 | 12.7 |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Financials (Consolidated)

Exhibit 1: Income Statement

| Y/E March (Rsmn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|--------------------------------------|-------|--------|--------|-------|-------|
| Net Sales | 4,135 | 4,262 | 4,220 | 4,116 | 4,425 |
| -Growth (%) | 75.9 | 3.1 | (1.0) | (2.5) | 7.5 |
| Production Expenses | 637 | 648 | 567 | 526 | 571 |
| % of sales | 15.4 | 15.2 | 13.4 | 12.8 | 12.9 |
| License Fees | 1365 | 1689 | 1315 | 941 | 799 |
| % of sales | 33.0 | 39.6 | 31.2 | 22.9 | 18.1 |
| Personnel Expenses | 667 | 772 | 680 | 768 | 850 |
| % of sales | 16.1 | 18.1 | 16.1 | 18.7 | 19.2 |
| Admin and Other exp | 1145 | 1245 | 1221 | 1294 | 1287 |
| % of sales | 27.7 | 29.2 | 28.9 | 31.4 | 29.1 |
| EBITDA | 321 | (92) | 437 | 587 | 917 |
| EBITDA margin (%) | 7.8 | (2.2) | 10.3 | 14.3 | 20.7 |
| Depreciation and Amortisation | 363 | 526 | 526 | 453 | 454 |
| PBIT | (42) | (617) | (89) | 134 | 463 |
| Interest Expenses | 174 | 144 | 121 | 91 | 85 |
| PBT from operations | (216) | (762) | (210) | 43 | 379 |
| Other non operating income | 34 | 30 | 15 | 25 | 87 |
| PBT before extraordinary items | (182) | (731) | (195) | 68 | 465 |
| PBT | (182) | (731) | (195) | 68 | 465 |
| -PBT margin (%) | (4.4) | (17.2) | (4.6) | 1.6 | 10.5 |
| Provision for tax | (6) | (3) | 23 | 45 | 153 |
| Effective tax rate (%) | 3.1 | 0.3 | (11.8) | 66.2 | 32.8 |
| Net Profit (reported) | (176) | (729) | (218) | 23 | 313 |
| Minority Interest | (5) | (126) | (65) | (54) | (19) |
| Net Profit after minority int. (adj) | (171) | (603) | (153) | 77 | 332 |
| -Growth (%) | N.A. | N.A. | (74.6) | NM | 329.8 |
| -NPM (%) | (4.3) | (17.1) | (5.2) | 0.6 | 7.1 |

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital | 477 | 477 | 477 | 477 | 477 |
| Reserves and Surplus | 3,930 | 3,328 | 3,175 | 3,250 | 3,582 |
| Shareholders fund | 4,407 | 3,805 | 3,651 | 3,727 | 4,059 |
| Minority Interest | 325 | 199 | 99 | 45 | 26 |
| Loan fund | 1,933 | 1,481 | 1,529 | 1,576 | 1,375 |
| Total capital employed | 6,664 | 5,484 | 5,280 | 5,348 | 5,460 |
| Gross block | 3,903 | 4,392 | 4,670 | 5,194 | 5,988 |
| Less: Acc depreciation | 831 | 1346 | 1860 | 2386 | 2946 |
| Net block | 3,072 | 3,046 | 2,810 | 2,809 | 3,043 |
| Capital WIP | 110 | 137 | 35 | 35 | 15 |
| Net fixed assets | 3,182 | 3,182 | 2,845 | 2,844 | 3,058 |
| Investments | 30 | - | - | - | - |
| Cash and bank | 147 | 162 | 793 | 959 | 916 |
| Inventories | - | - | - | - | - |
| Debtors | 1,335 | 1,346 | 1,084 | 977 | 1,048 |
| Other CA and loans and adv | 2,819 | 1,695 | 881 | 782 | 651 |
| Total CA and loans and adv | 4,301 | 3,204 | 2,758 | 2,719 | 2,615 |
| Current liab and Prov | 910 | 994 | 443 | 364 | 303 |
| Net current assets | 3,391 | 2,210 | 2,315 | 2,354 | 2,312 |
| Deferred tax assets | 61 | 92 | 120 | 150 | 91 |
| Total assets | 6,664 | 5,484 | 5,280 | 5,348 | 5,460 |

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|--------------------------------|---------|-------|-------|-------|-------|
| CF from operating | | | | | |
| Profit before tax | (182) | (731) | (195) | 68 | 465 |
| Depreciation | 363 | 526 | 526 | 453 | 454 |
| Interest expenses | 174 | 144 | 121 | 91 | 85 |
| Others | 17 | 80 | (56) | (28) | 276 |
| OP before WC change | 372 | 20 | 396 | 584 | 1,280 |
| Working capital adjustments | (2,335) | 1,201 | 515 | 196 | (112) |
| Direct tax paid | (119) | (118) | 4 | (45) | (153) |
| Net cash from operation | (2,083) | 1,103 | 914 | 735 | 1,015 |
| CF from investment | | | | | |
| Capex | (520) | (528) | (177) | (524) | (774) |
| Investments | 24 | 46 | - | - | - |
| Net cash from investment | (496) | (480) | (177) | (524) | (774) |
| CF from financing | | | | | |
| Proceeds from sh cap & premium | 1,991 | 1 | - | - | - |
| Borrowings/(Repayments) | 794 | (452) | 49 | 47 | (201) |
| Interest paid | (174) | (145) | (121) | (91) | (85) |
| Dividend paid | - | - | - | - | - |
| Book OD | (13) | (12) | (34) | - | - |
| Net CF from financing | 2,599 | (608) | (106) | (44) | (286) |
| Net cash increase/(decrease) | 21 | 15 | 631 | 167 | (44) |

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

| Y/E March | FY08 | FY09 | FY10E | FY11E | FY12E |
|----------------------------------|--------|---------|---------|-------|-------|
| Margin Ratio (%) | | | | | |
| EBITDA Margin | 7.8 | (2.2) | 10.3 | 14.3 | 20.7 |
| PBIT Margin | (1.0) | (14.5) | (2.1) | 3.3 | 10.5 |
| PBT Margin | (4.4) | (17.2) | (4.6) | 1.6 | 10.5 |
| PAT Margin | (4.3) | (17.1) | (5.2) | 0.6 | 7.1 |
| Growth Ratio (%) | | | | | |
| Revenue | 75.9 | 3.1 | (1.0) | (2.5) | 7.5 |
| EBITDA | (24.9) | (128.6) | (575.7) | 34.4 | 56.2 |
| Net Profit | N.A. | N.A. | N.A. | N.A. | 329.8 |
| Return Ratios (%) | | | | | |
| ROCE | N.A. | N.A. | (1.1) | 1.9 | 9.7 |
| ROIC | 6.1 | (1.6) | 8.9 | 13.2 | 20.5 |
| ROE | N.A. | N.A. | (5.8) | 0.6 | 8.0 |
| Turnover Ratios | | | | | |
| Asset turnover ratio (x) | 0.8 | 0.7 | 0.8 | 0.8 | 0.8 |
| Working capital cycle (days) | (12.7) | 6.0 | 2.0 | 21.2 | 21.2 |
| Average collection period (days) | 91.1 | 114.8 | 105.1 | 91.4 | 83.5 |
| Average payment period (days) | 103.8 | 108.8 | 103.0 | 70.2 | 62.3 |
| Per share (Rs) | | | | | |
| Basic EPS | (3.6) | (12.7) | (3.2) | 1.6 | 7.0 |
| Fully diluted EPS | (3.6) | (12.7) | (3.2) | 1.6 | 7.0 |
| Book value | 92.5 | 79.8 | 76.6 | 78.2 | 85.2 |
| Solvency Ratio | | | | | |
| Debt-equity | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| Interest coverage ratio | 1.8 | (0.6) | 3.6 | 6.4 | 10.8 |
| Valuation (x) | | | | | |
| P/E | N.A. | N.A. | (73.1) | 145.0 | 33.7 |
| P/BV | 2.5 | 2.9 | 3.1 | 3.0 | 2.8 |
| EV/EBITDA | 40.4 | (136.4) | 27.3 | 20.1 | 12.7 |
| EV/Sales | 3.1 | 2.9 | 2.8 | 2.9 | 2.6 |
| M-cap/Sales | 2.7 | 2.6 | 2.7 | 2.7 | 2.5 |

Source: Company, Centrum Research Estimates

HT Media

Update/ Target price change

23 June 2010

Hold

Target Price: Rs166

CMP: Rs149*

Upside: 10%

*as on 22 June 2010

On the growth track

HT Media is on a positive growth trajectory buoyed by the recovery in the media and advertising industry. Hindustan Times is expected to register margin expansion on the back of ad revenue growth, while losses at Mint are expected to reduce. However, we remain cautious on the outlook as DB Corp, publisher of Hindi daily, Dainik Bhaskar, forays into Bihar and Jharkhand, and HT Media's internet division continues to incur losses. We maintain Hold with a revised target price of Rs166 (earlier Rs144), valuing the stock at 18x FY12E consolidated earnings.

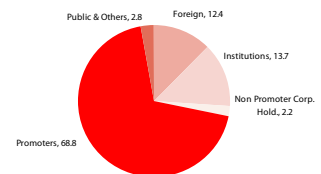
- **Q4 results better than expected:** Q4 revenue grew 12.5% YoY to Rs3,851mn (vs our estimate of Rs3,872mn) and adjusted PAT came to Rs480mn (our estimate: Rs370mn). Ad revenue and circulation revenue grew 8% and 5%, respectively. Margin expanded to 24.1% from 7.3% in Q4FY09 on the back of 15% reduction in raw material costs and 6% reduction in employee expenses.
- **Hindustan Times back on track:** Hindustan Times' ad revenue declined by 5% in FY10. However, it is expected to register 8% CAGR in ad revenue over the next two years. We believe the national advertising market is back on track with advertisers more confident now. Mint, which incurred an EBIDTA loss of Rs180mn in FY10, is expected to breakeven in H1FY12E.
- **Hindustan – ready for IPO:** HT Media plans to raise Rs3bn through an IPO of the Hindi daily in the next 2 months. We expect Hindustan to post revenue of Rs5080mn, EBIDTA of Rs1250mn and PAT of Rs763mn in FY11E.
- **Internet losses to be capped at Rs350mn:** The management has guided that the Internet division's losses would be capped at Rs350mn in FY11. During FY10, the division posted losses of Rs377mn with revenue at Rs56mn.
- **Competition to intensify in Bihar and Jharkhand:** With entry of DB Corp in Bihar and Jharkhand in FY11, we believe the competition will intensify (Hindustan is currently the market leader in these markets). Company would have to cut its cover price and this would have a negative impact of ~Rs100-150mn in FY11.
- **HT Burda Media – operationally positive from inception:** The printing JV between HT Media and Germany's Hubert Burda Media JV is expected to post revenue of over Rs1bn with margin of ~18-20% in FY11. In FY10, it posted revenue of Rs46mn and EBIDTA of Rs31mn.

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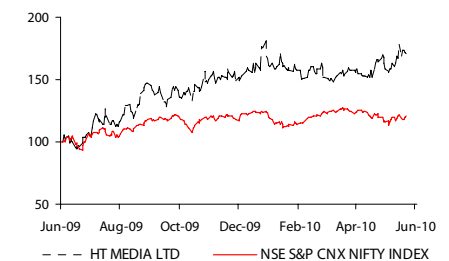
Key Data

| | |
|--------------------------|------------|
| Bloomberg Code | HTML IN |
| Reuters Code | HTML.BO |
| Current Shares O/S (mn) | 235.0 |
| Diluted Shares O/S(mn) | 235.0 |
| Mkt Cap (Rsbn/USDmn) | 34.9/753.4 |
| 52 Wk H / L (Rs) | 174/76 |
| Daily Vol. (3M NSE Avg.) | 49,479 |
| Face Value (Rs) | 2 |
| USD = Rs46.3 | |

Shareholding Pattern (%)

As on 31st March 2010

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|----------|-----|-----|------|
| HT Media | 1.8 | 7.0 | 61.4 |
| NIFTY | 7.4 | 3.0 | 24.7 |

Source: Bloomberg, Centrum Research
*as on 22 June 2010

| Y/E Mar (Rsmn) | Rev | YoY (%) | EBIDTA | EBIDTA (%) | Adj PAT | YoY (%) | Fully DEPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBIDTA (x) |
|----------------|--------|---------|--------|------------|---------|----------|------------|---------|----------|---------|---------------|
| FY08 | 12,033 | 15.7 | 1,699 | 14.1 | 1,013 | 4.4 | 4.3 | 11.9 | 8.0 | 34.4 | 19.8 |
| FY09 | 13,466 | 11.9 | 879 | 6.5 | 9 | (99.1) | 0.0 | NM | NM | NA | 39.8 |
| FY10E | 14,129 | 4.9 | 2,554 | 18.1 | 1,359 | 14,904.9 | 5.8 | 13.9 | 10.3 | 25.8 | 12.6 |
| FY11E | 16,472 | 16.6 | 3,239 | 19.7 | 1,871 | 37.7 | 8.0 | 16.3 | 13.0 | 18.7 | 9.6 |
| FY12E | 18,688 | 13.5 | 3,650 | 19.5 | 2,167 | 15.8 | 9.2 | 16.0 | 13.7 | 16.2 | 8.2 |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Financials

Exhibit 1: Income Statement

| Y/E March (Rsmn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|---------------------------------|--------------|------------|--------------|--------------|--------------|
| Net Sales | 12,033 | 13,466 | 14,129 | 16,472 | 18,688 |
| Growth (%) | 15.7 | 11.9 | 4.9 | 16.6 | 13.5 |
| Cost of Revenues | 4,640 | 5,589 | 4,761 | 4,859 | 5,525 |
| % of Sales | 38.6 | 41.5 | 33.7 | 29.5 | 29.6 |
| Employee Cost | 1,983 | 2,419 | 2,520 | 2,855 | 3,211 |
| % of Sales | 16.5 | 18.0 | 17.8 | 17.3 | 17.2 |
| Admin & other expenses | 3,711 | 4,579 | 4,295 | 5,519 | 6,302 |
| % of sales | 30.8 | 34.0 | 30.4 | 33.5 | 33.7 |
| EBIDTA | 1,699 | 879 | 2,554 | 3,239 | 3,650 |
| EBIDTA Margins (%) | 14.1 | 6.5 | 18.1 | 19.7 | 19.5 |
| Depreciation | 570 | 688 | 707 | 810 | 890 |
| PBIT | 1,129 | 191 | 1,847 | 2,429 | 2,760 |
| Interest expenses | 178 | 323 | 295 | 235 | 235 |
| PBT for operations | 951 | (132) | 1,552 | 2,194 | 2,525 |
| Other non operating income | 439 | 330 | 409 | 405 | 485 |
| PBT before extra-ordinary items | 1,390 | 198 | 1,961 | 2,599 | 3,010 |
| Extra-ordinary expense | - | 189 | 76 | - | - |
| PBT | 1,390 | 9 | 1,885 | 2,599 | 3,010 |
| Provision for tax | 377 | 125 | 537 | 728 | 843 |
| Effective tax rate (%) | 27.1 | 1,405.2 | 28.5 | 28.0 | 28.0 |
| PAT | 1,013 | (116) | 1,348 | 1,871 | 2,167 |
| Share of minority interest | (0) | 125 | 11 | - | - |
| Adjusted PAT | 1,013 | 9 | 1,359 | 1,871 | 2,167 |
| Growth (%) | 4 | (99.1) | 14,904.9 | 38 | 16 |

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 469 | 470 | 470 | 470 | 470 |
| Reserves & Surplus | 8,060 | 8,015 | 9,237 | 10,998 | 13,055 |
| Minority Interest | 1 | (69) | 218 | 218 | 218 |
| Loan Funds | 2,231 | 3,706 | 3,125 | 1,750 | 1,500 |
| Deferred Tax Liab | 122 | 207 | 178 | 178 | 178 |
| Total Capital Employed | 10,882 | 12,329 | 13,228 | 13,614 | 15,422 |
| Gross Block | 7,005 | 8,238 | 9,778 | 10,422 | 11,422 |
| Accumulated Depreciation | 1,765 | 2,467 | 3,174 | 3,984 | 4,874 |
| Net Block | 5,240 | 5,771 | 6,604 | 6,438 | 6,548 |
| Capital WIP | 589 | 1,946 | 1,800 | 1,000 | 1,000 |
| Total Assets | 5,829 | 7,717 | 8,404 | 7,438 | 7,548 |
| Investments | 2,656 | 3,035 | 4,755 | 4,755 | 4,755 |
| Inventory | 1,155 | 1,756 | 1,200 | 1,140 | 1,202 |
| Debtors | 1,983 | 2,199 | 2,423 | 2,798 | 3,174 |
| Loans & advances | 1,287 | 2,315 | 1,995 | 2,148 | 2,448 |
| Cash & bank balances | 774 | 705 | 1,085 | 836 | 1,979 |
| Total current assets | 5,199 | 6,976 | 6,703 | 6,922 | 8,803 |
| Current liabilities & provisions | 2,804 | 5,399 | 6,655 | 5,522 | 5,706 |
| Net current assets | 2,395 | 1,577 | 47 | 1,400 | 3,097 |
| Misc Expenditure | 1 | 0 | 22 | 22 | 22 |
| Total | 10,882 | 12,329 | 13,228 | 13,614 | 15,422 |

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|--|----------------|----------------|----------------|----------------|--------------|
| Cash flows from operating | | | | | |
| Profit before tax | 1,390 | 9 | 1,885 | 2,599 | 3,010 |
| Depreciation & amortization | 570 | 688 | 707 | 810 | 890 |
| Others | (113) | 284 | 259 | (163) | (250) |
| Operating charges before WC changes | 1,846 | 981 | 2,850 | 3,246 | 3,650 |
| Working capital changes | (131) | 1,313 | 1,617 | (1,609) | (554) |
| Cash inflow from operations | 1,715 | 2,294 | 4,468 | 1,637 | 3,096 |
| Income tax paid | (597) | (205) | (538) | (728) | (843) |
| Net cash inflow from operations | 1,118 | 2,089 | 3,930 | 909 | 2,253 |
| Cash flows from investing | | | | | |
| Capex | (1,196) | (2,597) | (1,393) | 156 | (1,000) |
| Investments | (325) | (1,103) | (1,720) | - | - |
| Other Income | 75 | 256 | 522 | 405 | 485 |
| Cash generated from investment | (1,447) | (3,443) | (2,592) | 561 | (515) |
| Cash flow from financing | | | | | |
| Equity shares | 573 | - | - | - | - |
| Borrowings/ repayments | - | 1,491 | (581) | (1,375) | (250) |
| Dividend paid | (82) | (110) | (83) | (110) | (110) |
| Interest paid | (179) | (297) | (295) | (235) | (235) |
| Cash generated from financing | 312 | 1,084 | (959) | (1,720) | (595) |
| Net inc./decrease in cash & cash equiv. | (17) | (270) | 380 | (249) | 1,143 |
| Cash & cash equiv. at beginning of year | 637 | 620 | 705 | 1,085 | 836 |
| Cash at the end of year | 620 | 349 | 1,085 | 836 | 1,979 |

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

| Y/E March | FY08 | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|------|--------|--------|-------|-------|
| Margin ratios (%) | | | | | |
| EBIDTA Margins | 14.1 | 6.5 | 18.1 | 19.7 | 19.5 |
| PBIT Margins | 9.4 | 1.4 | 13.1 | 14.7 | 14.8 |
| PBT Margins | 11.6 | 0.1 | 13.3 | 15.8 | 16.1 |
| PAT Margins | 8.4 | (0.9) | 9.5 | 11.4 | 11.6 |
| Growth ratios (%) | | | | | |
| Revenues | 15.7 | 11.9 | 4.9 | 16.6 | 13.5 |
| EBIDTA | 1.1 | (48.3) | 190.6 | 26.8 | 12.7 |
| Net Profit | 4.4 | (99.1) | 14,905 | 37.7 | 15.8 |
| Return Ratios (%) | | | | | |
| ROCE | 8.0 | NM | 10.3 | 13.0 | 13.7 |
| RoIC | 18.3 | 8.1 | 21.5 | 26.0 | 27.8 |
| ROE | 11.9 | NM | 13.9 | 16.3 | 16.0 |
| Turnover Ratios | | | | | |
| Average inventory period (days) | 90.8 | 114.7 | 92.0 | 85.7 | 79.4 |
| Average collection period(days) | 60.2 | 59.6 | 62.6 | 62.0 | 62.0 |
| Average payment period (days) | 61.4 | 62.6 | 58.7 | 70.6 | 70.8 |
| Working Capital Cycle (days) | 89.6 | 111.7 | 95.9 | 77.1 | 70.6 |
| Per Share (Rs) | | | | | |
| EPS | 4.3 | 0.0 | 5.8 | 8.0 | 9.2 |
| CEPS | 6.8 | 2.4 | 8.7 | 11.4 | 13.0 |
| Book Value | 36.4 | 36.1 | 41.3 | 48.8 | 57.5 |
| Dividend | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 |
| Valuations (x) | | | | | |
| PER | 34.4 | NA | 25.8 | 18.7 | 16.2 |
| P/BV | 4.1 | 4.1 | 3.6 | 3.1 | 2.6 |
| EV/EBIDTA | 19.8 | 39.8 | 12.6 | 9.6 | 8.2 |
| EV/Sales | 2.8 | 2.6 | 2.3 | 1.9 | 1.6 |
| M-cap/Sales | 34.4 | NA | 25.8 | 18.7 | 16.2 |

Source: Company, Centrum Research Estimates

Jagran Prakashan

Update

23 June 2010

Buy

Target Price: Rs143

CMP: Rs124*

Upside: 14%

*as on 22 June 2010

Leader in print media

Jagran Prakashan (Jagran) continues to be the leader in the print media space with the highest readership and ad revenue growth among peers. We believe the company would maintain margins and profitability on account of strong revenue growth and stable newsprint prices. The acquisition of Mid-Day and more acquisitions in foray could throw up positive surprises, going forward. We reiterate Buy with a target price of Rs143, valuing the stock at 18x FY12E earnings.

- **Q4FY10 results inline:** Q4 revenue grew 17% YoY to Rs2,363mn (vs estimate of Rs2,292mn) and adjusted PAT grew 66.8% YoY to Rs364mn (Rs398mn). Ad revenue grew 20% YoY. Operating margin expanded to 26.7% on back of lower raw material cost.
- **Ad revenue growth - best among peers:** Jagran's ad revenue grew by 16% in FY10 against 11% and 1% for DB Corp and HT Media, respectively. We have modeled in 18% ad revenue CAGR over FY10-12E on back of increase in colour advertisements, ad rate hike, increase in inventory utilization and new editions.
- **Circulation revenue to remain flat:** We expect 1.4% circulation revenue CAGR over FY10-12E on the back of increased competitive pressures in Bihar, Jharkhand and UP. We expect cover prices to dip in H2FY11, which will also pressure on circulation revenue.
- **I-Next and City Plus on positive growth trajectory:** We expect the company to launch new editions of I-Next and City Plus in FY11 that would fuel growth. Management maintains that I-Next made profits in FY10 with revenue of Rs0.35bn. City Plus had revenues of Rs50mn.
- **Mid-Day acquisition to be EPS neutral:** We believe the acquisition of Mid-Day would be EPS neutral for Jagran. The acquisition would be completed by Dec 2010.
- **Maintain Buy:** We reiterate our rating and maintain target price of Rs143, valuing it at 18x FY12E earnings.

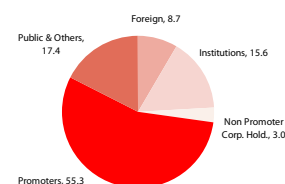
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Key Data

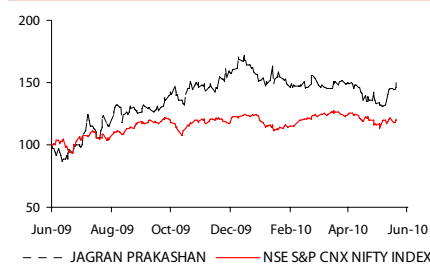
| | |
|--------------------------|------------|
| Bloomberg Code | JAGP IN |
| Reuters Code | JAGP.BO |
| Current Shares O/S (mn) | 301.2 |
| Diluted Shares O/S(mn) | 301.2 |
| Mkt Cap (Rsbn/USDmn) | 37.5/808.5 |
| 52 Wk H / L (Rs) | 142/66 |
| Daily Vol. (3M NSE Avg.) | 206,775 |
| Face Value (Rs) | 2 |

USD = Rs46.3

Shareholding Pattern (%)

As on 31st March 2010

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|------------------|------|-------|------|
| Jagran Prakashan | 15.5 | (2.6) | 58.2 |
| NIFTY | 7.4 | 2.9 | 24.7 |

Source: Bloomberg, Centrum Research
*as on 22 June 2010

| Y/E Mar (Rsmn) | Rev | YoY (%) | EBIDTA | EBIDTA (%) | Adj PAT | YoY (%) | Fully DEPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBIDTA (x) |
|----------------|--------|---------|--------|------------|---------|---------|------------|---------|----------|---------|---------------|
| FY08 | 7,496 | 25.3 | 1,638 | 21.8 | 981 | 28.7 | 3.3 | 18.2 | 16.3 | 38.4 | 22.1 |
| FY09 | 8,234 | 9.8 | 1,567 | 19.0 | 916 | -6.6 | 3.0 | 16.4 | 14.3 | 41.1 | 23.4 |
| FY10E | 9,419 | 14.4 | 2,823 | 30.0 | 1,759 | 92.0 | 5.8 | 28.7 | 25.7 | 21.4 | 12.9 |
| FY11E | 10,793 | 14.6 | 3,274 | 30.3 | 2,027 | 15.2 | 6.7 | 29.3 | 26.3 | 18.6 | 11.2 |
| FY12E | 12,176 | 12.8 | 3,827 | 31.4 | 2,380 | 17.5 | 7.9 | 29.5 | 26.7 | 15.8 | 9.3 |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Financials

Exhibit 1: Income Statement

| Y/E March (Rsmn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 7,496 | 8,234 | 9,419 | 10,793 | 12,176 |
| Growth (%) | 25.3 | 9.8 | 14.4 | 14.6 | 12.8 |
| Cost of Revenues | 2,954 | 3,414 | 2,959 | 3,508 | 3,869 |
| % of Sales | 39.4 | 41.5 | 31.4 | 32.5 | 31.8 |
| Employee Cost | 915 | 1,065 | 1,212 | 1,338 | 1,485 |
| % of Sales | 12.2 | 12.9 | 12.9 | 12.4 | 12.2 |
| Admin & other expenses | 843 | 843 | 933 | 1,044 | 1,188 |
| % of sales | 11.2 | 10.2 | 9.9 | 9.7 | 9.8 |
| Advertising Cost | 1,146 | 1,345 | 1,492 | 1,629 | 1,807 |
| % of sales | 15.3 | 16.3 | 15.8 | 15.1 | 14.8 |
| EBIDTA | 1,638 | 1,567 | 2,823 | 3,274 | 3,827 |
| EBIDTA Margins (%) | 21.9 | 19.0 | 30.0 | 30.3 | 31.4 |
| Depreciation | 336 | 383 | 507 | 556 | 610 |
| PBIT | 1,302 | 1,184 | 2,315 | 2,718 | 3,217 |
| Interest expenses | 60 | 59 | 66 | 50 | 50 |
| PBT for operations | 1,242 | 1,125 | 2,250 | 2,669 | 3,167 |
| Other non operating income | 215 | 227 | 343 | 356 | 386 |
| PBT before extra-ordinary items | 1,457 | 1,352 | 2,592 | 3,025 | 3,553 |
| Extra-ordinary income/(expenses) | 1 | - | - | - | - |
| PBT | 1,457 | 1,352 | 2,592 | 3,025 | 3,553 |
| Provision for tax | 476 | 436 | 833 | 998 | 1,172 |
| Effective tax rate (%) | 32.7 | 32.2 | 32.1 | 33.0 | 33.0 |
| PAT | 981 | 916 | 1,759 | 2,027 | 2,380 |
| Adjusted PAT | 981 | 916 | 1,759 | 2,027 | 2,380 |
| Growth (%) | 28.7 | (6.6) | 92.0 | 15.2 | 17.5 |
| PAT Margins (%) | 13.1 | 11.1 | 18.7 | 18.8 | 19.6 |

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital | 602 | 602 | 602 | 602 | 602 |
| Reserves & Surplus | 4,785 | 4,997 | 5,523 | 6,316 | 7,463 |
| Total Shareholders Funds | 5,388 | 5,599 | 6,125 | 6,918 | 8,065 |
| Secured Loan Funds | 791 | 1,415 | 1,214 | 1,000 | 1,000 |
| Deferred Tax Liab | 531 | 521 | 580 | 580 | 580 |
| Total Capital Employed | 6,709 | 7,535 | 7,919 | 8,498 | 9,645 |
| Fixed Asset | | | | | |
| Gross Block | 3,915 | 4,795 | 5,740 | 6,540 | 7,040 |
| Less:- Accumulated Depreciation | 1,347 | 1,513 | 2,020 | 2,576 | 3,186 |
| Net Block | 2,568 | 3,282 | 3,720 | 3,964 | 3,854 |
| Capital WIP | 479 | 707 | 221 | 350 | 350 |
| Total fixed assets | 3,046 | 3,990 | 3,941 | 4,314 | 4,204 |
| Investments | 1,833 | 1,568 | 1,666 | 1,666 | 1,666 |
| Inventory | 347 | 318 | 533 | 496 | 547 |
| Debtors | 1,585 | 1,586 | 1,812 | 2,218 | 2,502 |
| Loans & advances | 766 | 854 | 717 | 1,079 | 1,176 |
| Other Current Assets | 8 | 15 | 259 | 259 | 259 |
| Cash & bank balances | 367 | 828 | 852 | 230 | 1,207 |
| Total current assets | 3,073 | 3,601 | 4,173 | 4,282 | 5,690 |
| Current liabilities and provisions | 1,244 | 1,624 | 1,861 | 1,763 | 1,915 |
| Net current assets | 1,829 | 1,977 | 2,312 | 2,519 | 3,776 |
| Misc Expenditure | 1 | - | - | - | - |
| Total | 6,709 | 7,535 | 7,919 | 8,498 | 9,645 |

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|--|--------------|--------------|----------------|----------------|----------------|
| Cash flows from operating | | | | | |
| Profit before tax | 1,457 | 1,352 | 2,592 | 3,025 | 3,553 |
| Depreciation & amortization | 336 | 383 | 507 | 556 | 610 |
| Others | (71) | (1) | (218) | (307) | (336) |
| Operating charges before WC changes | 1,722 | 1,734 | 2,882 | 3,274 | 3,827 |
| Working capital changes | (354) | (125) | (311) | (829) | (280) |
| Cash inflow from operations | 1,368 | 1,610 | 2,571 | 2,446 | 3,547 |
| Income tax paid | (421) | (413) | (833) | (998) | (1,172) |
| Net cash inflow from operations | 947 | 1,196 | 1,738 | 1,448 | 2,374 |
| Cash flows from investing | | | | | |
| Capex | (730) | (1,319) | (459) | (929) | (500) |
| Investments | (340) | 378 | (98) | - | - |
| Other Income | 159 | 34 | 343 | 356 | 386 |
| Cash generated from investment | (911) | (907) | (214) | (573) | (114) |
| Cash flow from financing | | | | | |
| Borrowings/ repayments | (271) | 580 | (201) | (214) | - |
| Dividend paid | (352) | (352) | (1,233) | (1,233) | (1,233) |
| Interest paid | (60) | (56) | (66) | (50) | (50) |
| Cash generated from financing | (683) | 172 | (1,500) | (1,496) | (1,283) |
| Net inc./decrease in cash & cash equiv. | (647) | 461 | 24 | (622) | 977 |
| Cash & cash equiv. at beginning of year | 1,013 | 367 | 828 | 852 | 230 |
| Cash at the end of year | 367 | 828 | 852 | 230 | 1,207 |

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

| Y/E March | FY08 | FY09 | FY10E | FY11E | FY12E |
|---------------------------------|------|-------|-------|-------|-------|
| Margin ratios (%) | | | | | |
| EBIDTA Margins | 21.8 | 19.0 | 30.0 | 30.3 | 31.4 |
| PBIT Margins | 17.4 | 14.4 | 24.6 | 25.2 | 26.4 |
| PBT Margins | 19.4 | 16.4 | 27.5 | 28.0 | 29.2 |
| PAT Margins | 13.1 | 11.1 | 18.7 | 18.8 | 19.6 |
| Growth ratios (%) | | | | | |
| Revenues | 25.3 | 9.8 | 14.4 | 14.6 | 12.8 |
| EBIDTA | 36.7 | (4.3) | 80.1 | 16.0 | 16.9 |
| Net Profit | 28.7 | (6.6) | 92.0 | 15.2 | 17.5 |
| Return Ratios (%) | | | | | |
| ROCE | 16.3 | 14.3 | 25.7 | 26.3 | 26.7 |
| RoIC | 27.5 | 24.0 | 41.0 | 42.7 | 45.8 |
| ROE | 18.2 | 16.4 | 28.7 | 29.3 | 29.5 |
| Turnover Ratios | | | | | |
| Average collection period(days) | 4.7 | 5.2 | 5.2 | 4.9 | 4.9 |
| Average payment period (days) | 8.7 | 9.7 | 9.2 | 9.0 | 9.0 |
| Working Capital Cycle (days) | 77.9 | 66.7 | 96.3 | 86.1 | 86.1 |
| Per Share (Rs) | | | | | |
| EPS | 3.3 | 3.0 | 5.8 | 6.7 | 7.9 |
| CEPS | 4.4 | 4.3 | 7.5 | 8.6 | 9.9 |
| Book Value | 17.9 | 18.6 | 20.3 | 23.0 | 26.8 |
| Dividend | 2.0 | 2.0 | 3.5 | 3.5 | 3.5 |
| Valuations (x) | | | | | |
| PER | 38.4 | 41.1 | 21.4 | 18.6 | 15.8 |
| P/BV | 7.0 | 6.7 | 6.1 | 5.4 | 4.7 |
| EV/EBIDTA | 22.1 | 23.4 | 12.9 | 11.2 | 9.3 |
| EV/Sales | 4.8 | 4.5 | 3.9 | 3.4 | 2.9 |
| M-cap/Sales | 5.0 | 4.6 | 4.0 | 3.5 | 3.1 |

Source: Company, Centrum Research Estimates

Sun TV Network

Update/ Target price change

23 June 2010

Buy

Target Price: Rs485

CMP: Rs403*

Upside: 17%

*as on 22 June 2010

Continues to surprise positively

Sun TV Network continues to surprise positively. During Q4, normally regarded as the weakest quarter, it not only registered strong ad revenue growth but also robust increase in subscription revenue, both analog and DTH. The promoters have capped their salaries and the icing on the cake is the high dividend of Rs7.5/share. Losses in the radio business are reducing and the movies business is doing well, which inspires confidence. We remain skeptical on the plan to spend Rs3bn on a new corporate office. We maintain Buy with revised target price of Rs485, valuing the stock at 24x FY12E earnings.

- **Q4FY10 results ahead of expectations:** Q4 revenue surged 42% YoY to Rs3,919mn (vs our estimate of Rs3,370mn) and adjusted PAT grew 44.8% YoY to Rs1,651bn (Rs1,318mn). Ad revenue increased 61% YoY and operating margin expanded to 84.4% on the back of lower employee cost.
- **Ad revenue growth to sustain:** Sun TV saw a 37% jump in ad revenue in FY10 on the back of strong demand from FMCG and local advertisers. We believe the hike in ad rates in Jan 2010, higher inventory utilization in GEC channels coupled with higher viewership share in other channels would drive ad yields going forward. We have modeled in a conservative 21.3% and 19.2% ad revenue growth in FY11E and FY12E, respectively.
- **DTH revenue to lead subscription revenue:** DTH subscription revenue grew by 116% YoY in FY10 to Rs1.83bn on the back of 6mn subscribers and higher channels bundled in the bouquet, thereby increasing the price. We expect DTH revenue to grow 46% in FY11E on back of higher ARPU and subscribers. Analog subscription revenue is expected to grow by 24% in FY11E and 9% in FY12E.
- **Movies and radio to compliment other businesses:** We expect the radio business to turn EBIDTA positive in FY11 and post a marginal PAT loss of Rs0.2bn. The movies business continues to do well (it earned revenue of Rs0.7bn in FY10) and big releases in FY11 will make this vertical critical, going forward.
- **Positive on long-term outlook, maintain Buy:** We remain bullish on long-term outlook of the company and maintain Buy rating on the stock. We have raised our target price to Rs485 (earlier Rs410), valuing the stock at 24x FY12E earnings.

Ankit Kedia

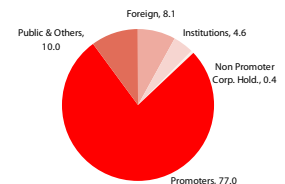
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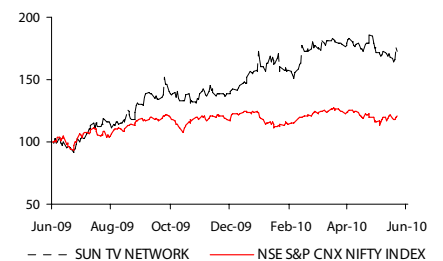
| | |
|--------------------------|-----------|
| Bloomberg Code | SUNTV.IN |
| Reuters Code | SUTV.BO |
| Current Shares O/S (mn) | 394.1 |
| Diluted Shares O/S(mn) | 394.1 |
| Mkt Cap (Rsbn/USDbn) | 158.6/3.4 |
| 52 Wk H / L (Rs) | 453/210 |
| Daily Vol. (3M NSE Avg.) | 157,758 |
| Face Value (Rs) | 5 |

USD = Rs46.3

Shareholding Pattern (%)

As on 31st March 2010

One Year Indexed Stock Performance



Price Performance (%)

| | 1M | 6M | 1Yr |
|----------------|-------|------|------|
| Sun TV Network | (1.1) | 20.5 | 71.4 |
| NIFTY | 7.4 | 3.0 | 24.7 |

Source: Bloomberg, Centrum Research
*as on 22 June 2010

| Y/E Mar (Rsmn) | Rev | YoY (%) | EBITDA | EBITDA (%) | Adj PAT | YoY (%) | Fully DEPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|----------------|--------|---------|--------|------------|---------|---------|------------|---------|----------|---------|---------------|
| FY08 | 8,699 | 28.3 | 5,975 | 68.7 | 3,267 | 32.8 | 8.3 | 24.7 | 22.9 | 48.6 | 26.0 |
| FY09 | 10,394 | 19.5 | 7,368 | 70.9 | 3,683 | 12.8 | 9.3 | 23.4 | 20.7 | 43.1 | 21.2 |
| FY10E | 14,528 | 39.8 | 10,909 | 75.1 | 5,199 | 41.2 | 13.2 | 29.0 | 26.1 | 30.5 | 14.2 |
| FY11E | 18057 | 24.3 | 13,848 | 76.7 | 6,925 | 33.2 | 17.6 | 32.8 | 30.5 | 22.9 | 10.9 |
| FY12E | 20507 | 13.6 | 15,718 | 76.6 | 7,972 | 15.1 | 20.2 | 30.4 | 28.7 | 19.9 | 9.2 |

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Financials (Consolidated)

Exhibit 1: Income Statement

| Y/E March (Rsmn) | FY08 | FY09 | FY10 | FY11E | FY12E |
|------------------------------------|--------------|--------------|---------------|---------------|---------------|
| Net Sales | 8,699 | 10,394 | 14,528 | 18,057 | 20,507 |
| Growth (%) | 28.3 | 19.5 | 39.8 | 24.3 | 13.6 |
| Cost of Revenues | 766 | 1,114 | 1,227 | 1,278 | 1,376 |
| % of Sales | 8.8 | 10.7 | 8.4 | 7.1 | 6.7 |
| Employee Cost | 958 | 1,155 | 1,340 | 1,672 | 1,984 |
| % of Sales | 11.0 | 11.1 | 9.2 | 9.3 | 9.7 |
| Admin & other expenses | 1,000 | 757 | 1,053 | 1,259 | 1,429 |
| % of sales | 11.5 | 7.3 | 7.2 | 7.0 | 7.0 |
| EBIDTA | 5,975 | 7,368 | 10,909 | 13,848 | 15,718 |
| EBIDTA Margins (%) | 68.7 | 70.9 | 75.1 | 76.7 | 76.6 |
| Depreciation | 1,239 | 2,205 | 3,209 | 3,659 | 4,110 |
| PBIT | 4,736 | 5,163 | 7,700 | 10,189 | 11,608 |
| Interest expenses | 159 | 138 | 49 | 87 | 41 |
| PBT for operations | 4,577 | 5,025 | 7,650 | 10,103 | 11,567 |
| Other income | 556 | 668 | 350 | 502 | 610 |
| PBT | 5,133 | 5,693 | 8,000 | 10,605 | 12,176 |
| Provision for tax | 2,015 | 2,293 | 2,991 | 3,774 | 4,270 |
| Effective tax rate (%) | 39.2 | 40.3 | 37.4 | 35.6 | 35.1 |
| PAT | 3,119 | 3,400 | 5,009 | 6,830 | 7,907 |
| Share of profit from associates | 11 | 2 | 8 | 14 | 15 |
| Minority interest | 137 | 281 | 182 | 81 | 50 |
| PAT after Minority Interest | 3,267 | 3,683 | 5,199 | 6,925 | 7,972 |
| Growth (%) | 32.8 | 12.8 | 41.2 | 33.2 | 15.1 |
| PAT Margins (%) | 37.6 | 35.4 | 35.8 | 38.4 | 38.9 |

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 197 | 1,970 | 1,970 | 1,970 | 1,970 |
| Reserves & Surplus | 12,515 | 15,046 | 16,885 | 21,407 | 27,074 |
| Preference shares in subsidiary | - | - | 878 | 878 | 878 |
| Minority Interest | 604 | 385 | 371 | 290 | 239 |
| Total Loan Funds | 695 | 716 | 1 | - | - |
| Deferred Tax Liab | 11 | 261 | 339 | 339 | 339 |
| Total Capital Employed | 14,023 | 18,378 | 20,445 | 24,884 | 30,501 |
| Gross Block | 10,186 | 14,914 | 18,870 | 24,659 | 28,170 |
| Accumulated Depreciation | 4,736 | 6,768 | 9,855 | 13,513 | 17,629 |
| Net Block | 5,450 | 8,146 | 9,015 | 11,146 | 10,541 |
| Capital WIP | 2,218 | 1,572 | 3,149 | 1,200 | 1,200 |
| Investments | 1,803 | 1,805 | 2,280 | 2,280 | 2,280 |
| Non Current Assets | 85 | 233 | 300 | 434 | 587 |
| Deferred Tax Assets | - | - | - | - | - |
| Inventory | 3 | 1 | 27 | 27 | 27 |
| Debtors | 2,532 | 2,449 | 3,292 | 4,215 | 4,579 |
| Loans & advances | 1,399 | 1,667 | 1,589 | 1,800 | 1,541 |
| Other Current Assets | 524 | 1,192 | 1,070 | 1,299 | 1,361 |
| Cash & bank balances | 4,297 | 3,654 | 4,330 | 7,435 | 13,653 |
| Current liabilities and provisions | 2,516 | 2,343 | 4,607 | 4,951 | 5,269 |
| Misc Expenditure | 1 | 1 | - | - | - |
| Total | 14,023 | 18,378 | 20,445 | 24,884 | 30,501 |

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

| Y/E March (Rsmn) | FY08 | FY09 | FY10E | FY11E | FY12E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash flows from operating | | | | | |
| Profit before tax | 5,133 | 5,693 | 8,000 | 10,605 | 12,176 |
| Depreciation & amortization | 1,239 | 2,205 | 3,209 | 3,659 | 4,110 |
| Others | 83 | (419) | 984 | (712) | (548) |
| Operating charges before WC | 6,455 | 7,479 | 12,193 | 13,552 | 15,739 |
| Working capital changes | (914) | 413 | 1,516 | (942) | (3) |
| Cash inflow from operations | 5,542 | 7,892 | 13,709 | 12,609 | 15,736 |
| Income tax paid | (2,127) | (2,017) | (2,991) | (3,774) | (4,270) |
| CF from operations | 3,415 | 5,875 | 10,718 | 8,835 | 11,466 |
| Cash flows from investing | | | | | |
| Capex | (3,856) | (7,085) | (5,532) | (3,840) | (3,511) |
| Investments | (1,590) | 3,370 | (125) | 502 | 610 |
| CF from investment | (5,446) | (3,715) | (5,657) | (3,338) | (2,902) |
| Cash flow from financing | | | | | |
| Share capital & premium | 762 | - | - | - | - |
| Borrowings/ repayments | (165) | 68 | - | - | - |
| Dividend paid | (461) | (1,844) | (3,458) | (2,305) | (2,305) |
| Interest paid | (302) | (312) | (49) | (87) | (41) |
| CF from financing | (166) | (2,088) | (3,507) | (2,392) | (2,346) |
| Net increase/decrease in cash | (2,196) | 72 | 1,554 | 3,105 | 6,218 |
| Cash at beginning of the year | 6,494 | 3,582 | 3,654 | 4,330 | 7,435 |
| Cash at the end of the year | 4,297 | 3,654 | 5,208 | 7,435 | 13,653 |

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

| Y/E March | FY08 | FY09 | FY10E | FY11E | FY12E |
|------------------------------|-------|------|-------|-------|-------|
| Margin ratios (%) | | | | | |
| EBIDTA Margins | 68.7 | 70.9 | 75.1 | 76.7 | 76.6 |
| PBIT Margins | 54.4 | 49.7 | 53.0 | 56.4 | 56.6 |
| PBT Margins | 59.0 | 54.8 | 55.1 | 58.7 | 59.4 |
| PAT Margins | 37.6 | 35.4 | 35.8 | 38.4 | 38.9 |
| Growth ratios (%) | | | | | |
| Revenues | 28.3 | 19.5 | 39.8 | 24.3 | 13.6 |
| EBIDTA | 26.0 | 23.3 | 48.1 | 26.9 | 13.5 |
| Net Profit | 32.8 | 12.8 | 41.2 | 33.2 | 15.1 |
| Return Ratios (%) | | | | | |
| ROCE | 22.9 | 20.7 | 26.1 | 30.5 | 28.7 |
| RoIC | 29.7 | 23.9 | 34.8 | 43.3 | 51.7 |
| ROE | 24.7 | 23.4 | 29.0 | 32.8 | 30.4 |
| Turnover Ratios | | | | | |
| Avg collection period (days) | 106.2 | 86.0 | 82.7 | 85.2 | 81.5 |
| Avg payment period (days) | 41.0 | 82.8 | 69.2 | 49.2 | 49.6 |
| WC Cycle (days) | 65.2 | 3.3 | 13.5 | 36.0 | 31.9 |
| Per Share (Rs) | | | | | |
| EPS | 8.3 | 9.3 | 13.2 | 17.6 | 20.2 |
| CEPS | 9.6 | 12.2 | 16.7 | 21.5 | 30.7 |
| Book Value | 36.8 | 43.2 | 47.8 | 59.3 | 73.7 |
| Dividend | 2.5 | 2.5 | 7.5 | 5.0 | 5.0 |
| Valuations (x) | | | | | |
| PER | 48.6 | 43.1 | 30.5 | 22.9 | 19.9 |
| P/BV | 11.0 | 9.3 | 8.4 | 6.8 | 5.5 |
| EV/EBIDTA | 26.0 | 21.2 | 14.2 | 10.9 | 9.2 |
| EV/Sales | 17.8 | 15.0 | 10.6 | 8.4 | 7.1 |
| M-cap/Sales | 1.8 | 1.5 | 1.1 | 0.9 | 0.8 |

Source: Company, Centrum Research Estimates

Appendix A

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