

UTV Software (UTVSOF)

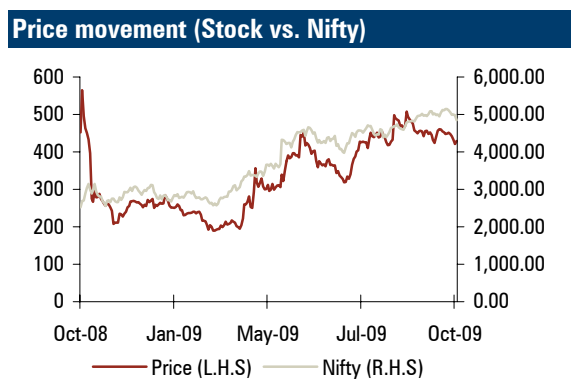
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Rating matrix	
Rating	: Performer
Target	: Rs 491
Target Period	: 12 months
Potential Upside	: 15 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	435.1	675.5	837.9	1263.7
EBITDA	65.6	26.6	47.9	216.5
Net Profit	57.7	86.0	10.9	132.3

Valuation summary				
	FY08	FY09	FY10E	FY11E
PE (x)	18.2	16.8	132.4	10.9
Target PE (x)	21.2	19.5	154.0	12.7
EV/EBITDA (x)	19.0	67.4	30.8	7.5
P/BV (x)	2.3	1.0	1.0	0.9
RoNW (%)	12.6	6.2	0.8	8.6
RoCE (%)	7.5	1.0	2.0	11.0

Stock data	
Market Capitalisation	Rs 1443 Crore
Debt-Cons. (FY09)	Rs 470 Crore
Cash & Invst.-Cons. (FY09)	Rs 121.4 Crore
EV	Rs 1791.5 Crore
52 week H/L	625 / 182
Equity capital	Rs 34.2 Crore
Face value	Rs 10
MF Holding (%)	3.6
FII Holding (%)	6.0



Analyst's name	
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WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 488 to Rs 491
EPS (FY10E)	Changed from Rs 10.7 to Rs 3.2
EPS (FY11E)	Changed from Rs 34.2 to Rs 38.7
RATING.....	Unchanged

Movies and gaming all the way...

On consolidated basis, UTV Software reported Q2FY10 results, which were way above our expectations. Total revenue stood at Rs 237.7 crore (I-direct estimates of Rs 145.3 crore) up 39.1% YoY and 106.0% QoQ. The company reported EBITDA of Rs 20.1 crore against EBITDA loss of Rs 34.05 crore and Rs 7.84 crore in Q1FY10 and Q2FY09, respectively. EBITDA margins stood at 8.4% for the quarter. PAT for the quarter stood at Rs 8.31 crore as compared to loss of Rs 23.3 crore in Q1FY10

■ Highlights of the quarter

The major variation in our estimates and numbers reported by the company was largely due to accrual of deferred revenue from Hollywood movie Happening, which realised Rs 42.7 crore during Q2FY10. Secondly, the company realised higher revenue in the gaming segment. During the quarter, the company released 6 new movies including Kaminey, What's your Rashee and others. Average air time sales during the quarter were down by 20 hours to 100 hours, dragging down television revenue.

■ Improving margins

EBITDA margin improved to 8.4% in Q2FY10 versus -29.5% in Q1FY10. This was primarily due to higher revenue in the movies segment which grew almost 400% on a QoQ basis. Although the margins have improved sequentially, they still remain to be at very low levels. We would witness improvement in this only after the new segments start generating sustainable revenue and reach breakeven.

Valuation

At CMP of Rs 422 the stock trades at 10.9x FY11E EPS of Rs 38.7. The company has various movies lined up for release in the coming quarters and the interactive segment is also expected to post exponential growth with handsome profitability once the owned IPs are launched. We use SOTP method to value the stock at Rs 491. Our Target price discounts FY11 EPS by 12.7x. We reiterate our rating as **PERFORMER** on the stock.

Exhibit 1: Performance Highlights

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	237.7	145.3	170.9	115.4	106.0	39.1
EBITDA	20.1	13.7	-7.8	-34.1	-158.9	-356.0
EBITDA Margin (%)	8.4	9.4	-4.6	-29.5	3796 bps	1303 bps
Depreciation	2.0	1.5	1.6	1.8	8.3	24.9
Interest	11.9	0.7	-1.3	6.1	96.1	-1035.6
Reported PAT	8.3	9.5	25.1	-23.3	-135.6	-67.0
EPS (Rs)	2.4	2.8	7.4	-6.8	-135.6	-67.0

Source: Company, ICICIdirect.com Research

Result Analysis

▪ Broadcasting

It reported revenue of Rs 26.5 crore up by 50.0% QoQ. EBIT loss of Rs 15.3 crore was up from Rs 10.4 crore in Q1FY10. The major reason for growth was lower inventory utilization in the last quarter due to IPL and ICCT20 world cup. The broadcasting segment of the company would still remain in the investment mode in near future. We expect this segment to EBITDA break-even by the end of FY11E.

▪ Movies

After the standoff with multiplex owners which led to a total washout in the last quarter, UTV software released nine new movies in this quarter which included three Disney production as a part of the exclusive distribution deal with Disney which included The Proposal, Race to Witch Mountain and Up.

However, Whats your Rashee was released at the end of September and the revenues for this movie would be realized in then next quarter. The Company also realized revenues from The Happening to the tune of Rs. 42.9 crore.

Movies segment contributed ~55.8% of the total revenues as compared to 30.6% during Q1FY10. This segment reported EBIT of Rs 29.9 crore as compared to EBIT loss of Rs 9.6 crore in Q1FY10. The rest of the fiscal will see a good mix of small budget and big budget movie including a Marathi movie.

Exhibit 2: Movie release during Q2FY10

Name	Date	Star Cast
Agyaat	Aug-09	Nitin Reddy, Priyanka Kothari
Kaminey	Aug-09	Shahid Kapoor, Priyanka Chopra
Aage se Right	Sep-09	Shreyas Talpade, KK Menon
Unnaipol Oruvan (Tamil re-make of A Wednesday)	Sep-09	Kamal Hassan and Mohanlal
Eenadu (Telugu re-make of A Wednesday)	Sep-09	Kamal Hassan and Venkatesh
Whats your Rashee	Sep-09	Priyanka Chopra, Harman Baweja

Source: Company, ICICIdirect.com Research

▪ Television

Three shows on the south Indian channels came to an end during the quarter. This led to decline in monthly average of air time sales. It stood at 100 hours as compared to 120 hours in Q1FY10. The company is trying to focus more on quality than quantity and has hence concluded the three shows. It has more reality shows lined up for launch on Southern channels.

In the TV content segment the company launched a new show Sonu Sweety on SAB TV. The show Cash Cab running on Bindass was concluded in this quarter.

The segment contributed Rs 24.4 crore in Q2FY10 as compared to Rs 28.2 crore in the last quarter.

■ Interactive

Revenue from this segment grew by almost 400% in this quarter to Rs 57.7 crore from Rs 11.7 crore in Q1FY10.

Ignition released two of its highly anticipated video games, The King of Fighters XII (KOF XII) and Muramasa: The Demon Blade for various platforms. During the quarter Ignition sold over 300,000 units which included these two games as well as some of their catalogue titles.

During the quarter, Indiagames launched more than 50 games in the Indian market which included games from its own portfolio as well content from its partner companies like Electronic Arts, Glu Mobile and Digital Chocolate.

UTV had earlier planned to release two games developed by ignition in FY10E, however, it has been postponed to FY11E. The company expects this segment to contribute ~40% of the total revenues by FY11E.

Exhibit 3: Segmental revenue

Particulars	FY07	FY08	FY09	FY10E	FY11E	CAGR(08-11) %
Television	76.7	100.6	131.7	115.2	157.3	16.0
Film	72.1	242.4	276.1	367.5	503.0	27.6
Interactive	27.4	95.6	110.5	224.9	460.1	68.9
New Media *	-	-	18.0	9.5	52.0	69.8
Broadcasting *	-	-	89.3	111.5	130.4	20.9
Total gross revenue	176.1	438.6	625.6	828.6	1,302.8	43.8
Inter-segmental elimination	-1.2	-4.4	-18.4	-22.7	-39.1	
Other Operating Income	-	0.9	68.4	32.0	-	
Net Revenue	174.9	435.0	675.5	837.9	1,263.7	

*CAGR (09-11)

Source: Company, ICICIdirect.com Research

Outlook & Valuation

Outlook

The company's performance has improved significantly after the dismal Q1FY10. However, the margins still remain under pressure as most of the new segments are still in investment mode. We do not expect major improvement in margins in the near future.

Broadcasting business is expected to breakeven by the end of FY11E and the gaming business is also expected to generate higher returns once the three AAA titles developed by Ignition for PS3 and XBOX 360 are released during FY11E. Till then the profitability is expected to remain subdued.

Owing to better realization in the Movie and gaming segment we have revised our revenue upwards by 19.6% and 5.7% for FY10E and FY11E. However, due to lower profitability in this quarter, higher interest cost (up 96% QoQ due to Rs 100 increase in debt in Q2FY10) and more clarity emerging for FY10E, we have negatively revised our EPS estimates for FY10E by 70%.

Exhibit 4: Revised estimate

Particulars	FY10E			FY11E		
	Old	New	% Change	Old	New	% Change
Revenue	700.5	837.9	19.6%	1,195.2	1263.7	5.7%
EBITDA	40.6	47.9	18.0%	199.1	216.5	8.8%
EBITDA Margin %	5.8	5.7	-8 bps	16.7	17.1	48 bps
PAT	41.2	10.9	-73.6%	132.2	132.3	0.1%
EPS	10.7	3.2	-70.1%	34.2	38.7	13.3%

Source: Company, ICICIdirect.com Research

Valuation

We have used SOTP method to value the company. We value the different segments as explained below:

Film: We value this business at an EV/EBITDA of 6.3x FY11E EBITDA. We value movies at ~10% premium to the global filmed entertainment universe which are trading at an average multiple of 5.8x. We feel this premium is justified given the growth and scarcity premium applied to UTV.

Interactive: Interactive business is valued at one year forward EV/EBITDA multiple of 9.4. This is in line with global peers. We believe this multiple is justified given the huge growth prospects for this segment.

New Media: We value this business at 1.5x FY11E EV/Sales.

Broadcasting: We have valued the broadcasting business at 4.8x FY11E sales. This multiple is at 20% discount to domestic peers. We believe this discount is justified given the smaller target audience for UTV's channels.

Television: We value this business at EV/Sales of 0.4x FY11E Sales. This is 20% discount to Balaji Telefilms.

At CMP of Rs 422 the stock trades at 10.9x FY11E EPS of Rs 38.7. The company has various movies lined up for release in the coming quarters

and the interactive segment is also expected to post exponential growth with handsome profitability once the owned IPs are launched.

We have revised our SOTP target price to Rs 491 from 488. Our Target price discounts FY11 EPS by 12.7x. We reiterate our rating as **PERFORMER** on the stock.

Exhibit 5: SOTP valuation

Segment	Multiple			Value	
	EV/EBITDA Multiple	FY11 EBITDA	EV	EV adjusted for MI	
Film	6.3	148.2	939.2	723.2	
Interactive	9.4	58.5	549.4	375.3	
	EV/Sales Multiple (x)	FY11 Sales	EV	EV adjusted for MI	
Television	0.4	157.3	55.8	53.3	
New Media	1.5	52.0	78.0	78.0	
Broadcasting	4.8	130.4	620.7	620.7	
Total EV for the Firm				1,850.4	
Less: Net Debt				171.0	
Equity Value				1,679.4	
Number of Equity Shares				3.4	
Fair Value per share				491.1	

Source: Company, ICICIdirect.com Research

Exhibit 6: Valuation table

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	675.5	55.3	25.1	8.3	16.8	67.4	6.2	1.0
FY10E	837.9	24.0	3.2	-87.3	132.4	30.8	0.8	2.0
FY11E	1263.7	50.8	38.7	1,113.6	10.9	7.5	8.6	11.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe

Sun TV					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SUNTV	CMP	322.0	FY09	1039.4	9.3	34.5	17.1	20.9	28.2
		Target	296.9	FY10E	1217.1	11.6	27.8	13.5	21.6	27.9
MCap (Rs Cr)	12,689.4	% Upside	-7.8%	FY11E	1423.6	13.5	23.9	11.1	21.0	27.4

UTV Software					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	UTVSOF	CMP	422.0	FY09	675.5	25.1	16.8	67.4	6.2	1.0
		Target	491.1	FY10E	837.9	3.2	132.4	30.8	0.8	2.0
MCap (Rs Cr)	1,443.0	% Upside	16.4%	FY11E	1263.7	38.7	10.9	7.5	8.6	11.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): + -10% return;

Underperformer (U): -10% or more;

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