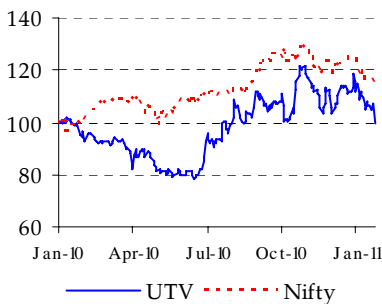


CMP: ₹ 502
Target ₹ 691
Upside 37%
Rating: BUY
January 28, 2011
Stock Info

Face Value (₹)	10
Shares O/S (mn)	41
Market Cap (₹ bn)	22
52-Week Range(H/L)	620/390.15
1-Year Avg Vol (mn)	0.1
Nifty	5512
Reuters Code	UTVS.BO
Bloomberg Code	UTV IN
Year End	Mar

Share Holding Pattern (Dec' 10)

Foreign	15.31
Institutions	4.92
Corporate Holding	3.77
Promoters	70.15
Public & Others	5.86

Relative Price Performance

Topline disappoints; margin robust

UTV Software's consolidated revenues for 3QFY11 stood at ₹ 2559 mn, up 15% from Rs. 2207 mn in Q3FY10 (9% below our estimates). This was mainly because of below expected performance of the movie business in the 3QFY11. However, with all three segments in black the company saw margins of 20.9% above our estimates of 19%. EBIT margin in the movie business squeezed by 1500 bps but was mitigated by margin expansion in the television and gaming segment. Its 3QFY11 PAT stood at Rs 399 mn up 70% from Rs 235 mn in the corresponding quarter previous year.

HIGHLIGHTS
Segment wise EBIT margin(%):

	Qtr ended		9 mnths		Yr ended
	Dec-10	Dec-09	Dec-10	Dec-09	Dec-10
EBIT Margin (%)					
Television	20.4	5.4	11.8	(10.1)	(0.1)
Movies	25.1	40.1	36.5	23.9	30.1
Games & Interactive	23.1	(13.4)	12.0	(8.0)	(13.8)

Quarterly Financials

Y/E March (₹ mn)	3QFY11	2QFY11	QoQ%	3QFY10	YoY%
Television	1,016	815	25	881	15
Movies	1,076	1,207	(11)	1,074	0
Games	459	357	29	212	117
Total Revenues	2,559	2,399	7	2,207	16
Expenses					
Operating & Prog. Cos	1,598	1,503	6	1,339	19
Staff cost	192	189	1	167	15
Other expenses	236	247	(5)	323	(27)
Total Expenditure	2,025	1,940	4	1,830	11
EBITDA	534	459	16	377	42
Depreciation	22	21	5	18	24
EBIT	513	438	17	360	43
Interest	98	43	129	104	(6)
Other income	0	16	(100)	7	(99)
PBT	415	412	1	263	58
Tax		0		(143)	(100)
PAT	415	412	1	406	2
Minority Interest	15			28	(46)
PAT after M.I.	400	412	(3)	378	6

Key Financials

Y/E Mar (₹ Mn)	Net Sales	Growth (%)	EBITDA	Margin (%)	PAT	Growth (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY09	6,769	52	(126)	(2)	356	(46)	10	51	(202)	3	(1)
FY10	6,812	1	645	10	534	50	13	41	48	7	4
FY11E	10,206	50	2,092	21	1,546	190	38	14	14	17	12
FY12E	13,839	36	3,321	24	2,277	47	56	10	9	20	17

Source: SBICAP Securities Research

Analyst: Rahul Kundnani
Tel: 30273327
E-mail: rahul.kundnani@sbicapsec.com

3QFY11 weak on the movie front:

The company had a weak quarter on the revenue side as well as margin front in the movie business. Its revenues were flat at Rs 1076mn in 3QFY11 versus Rs 1074 in the corresponding quarter previous year. Its EBIT margin showed a sharp contraction of 1500 bps and was at 25%.

However, with three UTV Spotboy movies releasing in the fourth quarter and satellite rights of Tees Maar Khan will also be accrued in the fourth quarter, there will be significant margin improvement. It has already released No One killed Jessica which has seen good success and will with release Saat Khoon Maaf on February 18. It is also beginning to look at opportunities in the South for further expansion. It is finalizing a slate of 10-12 movies in FY12 most of them within the budget of Rs 400mn each.

Strong margin expansion in TV business:

Revenue from its television segment jumped 15% to Rs 1.02 billion. The revenue from the TV business has shown decent growth but robust margin expansion. Its margin stood at 20% as compared to 5.4% in the corresponding quarter previous year, which has helped the company become a significant contributor to the revenues of the company.

Broadcasting includes TV channel operations of four channels i.e. UTV Bindass, UTV Action, UTV Movies and UTV World Movies. UTV Bindass, is the leader in the Youth channel segment. UTV Action signed which is a male specialist channel, signed a three-year exclusive output deal with Sony for Hindi language telecast rights of 70 action films per year including The Book of Eli, The Bounty Hunter, Legion, The Karate Kid, Salt and Resident Evil: Afterlife.

Gaming business also witnesses margin expansion:

It saw revenue from gaming and interactive segment more than double to ₹ 459.3 million. Truegames contributed about ₹60 mn; Ignition contributed ₹280 mn and Indiagames contributed ₹120 mn.

During the quarter its console business locked in a Minimum Guarantee deal worth USD 10 million for the merchandise and ancillary rights for its AAA rated game El Shaddai. USD 5mn were booked in the third quarter and the remaining will be booked in the fourth quarter. However, revenues from other geographies like US and Europe (MG of El Shaddai approximately USD12-15mn) may get delayed to the next fiscal from Q4FY11, due to strategic release of the game across geographies.

The company has a deal with Microsoft and Sony to publish El Shaddai in Japan which is expected to be significant market for this game, which will contribute nearly 30% of the total El Shaddai revenues. It has been priced at \$81 and is expected to sell at least 500k units in Japan. It is also planning for right release windows for its other two AAA titles Wardevil and Reich and they are slated for launch in fiscal 2011-12.

Apart from console (Ignition) significant contribution is expected from mobile gaming (Indiagames) and online gaming (Truegames). With respect to Online Games it will release 2 games in Q4 and is expected to show stable revenues in the coming quarters. The company has maintained a guidance of 30% of FY12.

Valuation

Sales are expected to grow at a CAGR of 32% and profit is expected to grow by 70% over FY10-FY13E on account of higher revenues from the gaming, television and movie business. We have valued the businesses of the company on sum-of-the-part methodology and initiated buy rating on the stock with target of ₹ 691. We have used EV/EBIDTA methodology and have assigned multiple of 12x to the motion pictures business, 10x to its television business and 8x to its new media & gaming business based on the average of its peer set in each segment.

SBICAP Securities Limited

Corporate Office: 191, Maker Tower 'F', Cuffe Parade, Mumbai 400005.
Tel.: 91-22-30273301 Fax: (022) 30273420 • Web: www.sbicapsec.com

Name	Designation	Phone	E-mail
Sanjay Vaid	Co-Head (Equities)	30273339	sanjay.vaid@sbicapsec.com
DERIVATIVES			
Hemant.Thukral	Deputy Head - Derivatives	22165246	hemant.thukral@sbicapsec.com
INSTITUTIONAL SALES			
Pankaj Karde	Sr. Manager	30273353	pankaj.karde@sbicapsec.com
Kishor Binwal	Sr. Manager	30273332	kishor.binwal@sbicapsec.com
Nishit Paleja	Manager	30273312	nishit.paleja@sbicapsec.com
Piyush Khandelwal	Manager – Business Development	30273304	piyush.khandelwal@sbicapsec.com
Kunal Sukhani	Manager	22165246	kunal.sukhani@sbicapsec.com
INSTITUTIONAL DEALING			
Arundhati Parab	Sr. Sales Trader	2216 3389	arundhati.parab@sbicapsec.com
Vikas Nathani	Sr. Sales Trader	2215 1896	vikas.nathani@sbicapsec.com

INSTITUTIONAL RESEARCH				sbicapresearch@sbicapsec.com
Rabindranath Nayak	Lead Analyst	Power & Capital Goods	30273363	rabindranath.nayak@sbicapsec.com
Alok Ramachandran	Associate	Power	30273328	alok.ramachandran@sbicapsec.com
Nirav Vasa	Associate	Capital Goods	30273328	nirav.vasa@sbicapsec.com
Ravikant Bhat	Analyst	Banking	30273332	ravikant.bhat@sbicapsec.com
Divyanshi Dayanand	Analyst	Banking	30273329	divyanshi.dayanand@sbicapsec.com
Aayush Dureha	Trainee	Banking	3027 3437	aayush.dureha@sbicapsec.com
Manish Kumar	Analyst	Infrastructure/Construction	30273350	manish.kumar@sbicapsec.com
Vishnu Das	Trainee	Infrastructure/Construction	30273362	vishnu.das@sbicapsec.com
Amit Agarwal	Analyst	Shipping / Logistics	30273325	amit.agarwal@sbicapsec.com
Vivek Kumar	Analyst	Pharma	30273417	vivek.kumar@sbicapsec.com
Akshit Shah	Analyst	Realty	30273336	akshit.shah@sbicapsec.com
Sagarika Mukherjee	Analyst	FMCG	30273349	sagarika.mukherjee@sbicapsec.com
Vaishali Parkar	Analyst	Auto	30273331	vaishali.parkar@sbicapsec.com
Rahul Kundnani	Analyst	Media	30273327	rahul.kundnani@sbicapsec.com
Dipesh Mehta	Analyst	IT	30273439	dipesh.mehta@sbicapsec.com
Ankit Pande	Associate	IT	30273311	ankit.pande@sbicapsec.com
Jatin Damania	Analyst	Metal, Mining & Pipes	30273363	jatin.damania@sbicapsec.com
Gunjan Poddar	Associate	Oil & Gas	30273312	gunjan.poddar@sbicapsec.com
Sanjay Bhansali	Production in Charge		30273363	Sanjay.bhansali@sbicapsec.com

Key to investment Ratings

Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2= ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)

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