IDFC INSTITUTIONAL SECURITIES
India Research

# UTV

**Rs534**
**NEUTRAL**

RESULT NOTE

**Mkt Cap: Rs21.7bn; US$482m**

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**Result:** **Q3FY11**

**Comment:** **Monetization in gaming – key monitorable!**

Key Financials

| Year end Mar 31 (Rs m) | Net Sales | yoy chg (%) | Net profit | EPS (Rs) | yoy chg (%) | EV/E (x) | PER (x) |
|---|---|---|---|---|---|---|---|
| FY09 | 6,065.5 | 40 | 356.3 | 10.4 | (55) | (28.3) | 51.3 |
| FY10 | 6,640.4 | 9 | 533.2 | 13.1 | 26 | 65.4 | 40.7 |
| FY11E | 9,109.3 | 37 | 1,514.6 | 37.3 | 184 | 14.4 | 14.3 |
| FY12E | 11,471.4 | 26 | 1,875.1 | 46.1 | 24 | 10.2 | 11.6 |

*Source: IDFC Securities Research*

## HIGHLIGHTS OF Q3FY11 RESULTS AND OUR INTERACTION WITH THE MANAGEMENT

- In Q3FY11, UTV has reported a revenue growth of 18% at Rs2.55bn (estimates of Rs2.52bn), EBITDA growth of 59% at Rs527m (estimates of Rs458m) and PBT growth of 58% at Rs415m (estimates of Rs400m). Net profit post minority interest stood at Rs400m, which is a decline of 6% on a yoy basis on account of deferred tax write back of Rs143m in Q3FY10.

- Of the overall revenues, the movies segment contributed 42%, the television segment contributed 40% and gaming and interactive the remaining 18%.

- The movie business garnered revenues of Rs1.07bn during the quarter (estimates of Rs1bn). During the quarter, UTV has released two movies - *Guzarish* and *Tees Maar Khan*. In addition to income from movie releases, UTV has realized revenues from sale of satellite and audio rights for *Guzarish* (estimated at Rs250m) and *We Are Family* (estimated at Rs150m). With *Tees Maar Khan* being released in the last week of the quarter, no material theatrical revenues have been booked in the current quarter. Further, UTV has sold the audio and satellite rights of *Tees Maar Khan* for Rs300m, which will be booked in Q4FY11. With *Guzarish* estimated to make losses to the tune of Rs100m, EBIT margin of the segment have come down to 25% or Rs270m.

- For Q4FY11, UTV has lined 3 movie releases, of which *No One Killed Jessica* and *Dhobi Ghat* have already been released in January 2011, and *Saat Khoon Maaf* is scheduled for release in February 2011. UTV has a strong movie line up for FY12 with plans to release 11-12 movies including four big budget movies. In order to de-risk the movie business, UTV is increasing pre-selling its inventory in the form of satellite/audio rights, etc.

- The television business continues to sustain the momentum and garnered a revenue growth of 14% at Rs1.02bn (estimates of Rs850m). Importantly, profitability of the business has seen a significant leg up with EBIT of the segment at Rs207m (Rs48m in Q3FY10).

- The broadcasting business of UTV is gaining traction with subscription income from DTH now starting to kick-in. Further, advertising potential of the broadcast bouquet looks strong with rack rates of its key property – *UTV Bindaas* -

at a near 40% discount to competitors such as MTV. UTV has also indicated plans to expand in the regional broadcast space.

- With regards the television content business, UTV provided content for 14 shows and has incrementally signed up 5 new shows including *Dor* on Star Plus and *Maa Exchange* on Sony (already on air). Further during the quarter, UTV has done ~115 hours of airtime sales.
- With regards the gaming and interactive business, revenues stood at Rs459m and the segment reported an EBIT of Rs106m. The current calendar year is critical for UTV's gaming business with planned release of one AAA IPs (Ignition) and launch of three new MMOG Games (True Games). We attended the Tokyo Game Show in May 2010, where UTV unveiled its AAA IP – *El Shaddai*. While the initial response looks optimistic with *El Shaddai* bagging the best game award, commercial success of the game remains to be the key monitorable.
- UTV has recently announced distribution and merchandizing agreements for its first AAA IP – *El Shaddai* – for the Japanese market. UTV has locked in a minimum guarantee of USD10m with two Japanese companies as a part of the merchandizing agreement. Further, UTV has entered into a partnership with Sony and Microsoft for distribution and marketing of the game in Japan. UTV will be releasing the game on 28 April 2011 in the Japanese market.
- Of the MG of USD10m, UTV has booked revenues to the tune of USD5m in Q3FY11 and operational costs to the tune of USD2.5-3m for the game. The remaining USD5m will be booked in Q4FY11.
- UTV is in advanced discussions with developers/ publishers for sale of rights for *El Shaddai* for the US and European geographies. For these regions, the management is adopting a de-risking approach and looking to lock in an MG and a revenue sharing agreement (50:50). Japan is estimated to form 1/3rd of global sales for the console gaming industry and with the management targeting to sell 0.5m units in Japan, it intuitively implies the market for US and Europe has a potential to sell 1m units of the game.
- UTV's total capital employed in the business has decreased by Rs1.25bn QoQ and now stands at Rs17.9bn. The decrease is primarily attributable to a decrease of Rs2.2bn in the movies segment (to Rs3.5bn), albeit an increase of Rs445m in the gaming business (to Rs7bn).
- As on 31st December 2010, net debt stood at Rs8.4bn (down from Rs9.97bn as of end of Q2FY11).

**We have always liked UTV's business model for its unique and diversified presence across filmed entertainment, television content, broadcasting, new media and gaming. However, continued need of investments across business verticals which were in different stages of incubation, made us apprehensive on the future direction of the overall business. We are now beginning to see signs of fruition with key businesses moving into self-funding mode. We see merit in UTV's ability to scale up its motion pictures division (10 movie releases in FY11) and believe UTV would restrict its investments in the movie business to levels <Rs5bn (recent listing of Eros International has garnered valuations of >2x capital employed). While UTV has been able to create a strong franchise for its studio banner, its next BIG bet – the gaming vertical (Rs7bn of capital deployed) – is at an inflexion point with UTV poised to release its first AAA IP (*El Shaddai*) in 2011. With respect to the broadcasting segment, while we continue to have reservations on the scalability (given niche positioning) of the business, sustainability of quarterly revenues (in excess of Rs500m) imparts comfort. However, we believe the critical turning point for UTV is its gaming business. Our sense is that earnings visibility in the gaming business will help ascertain scalability and value creation potential. We see success in the gaming business (especially response to *El Shaddai* when launched) making a strong case for a re-rating. Maintain Neutral.**

Quarterly segmental performance

| | Revenues | | | EBIT | |
|---|---|---|---|---|---|
| Rs m | Q3FY11 | Q3FY10 | % growth | Q3FY11 | Q3FY10 |
| Television | 1,016.0 | 892.9 | 13.8 | 207.0 | 47.9 |
| Films | 1,075.8 | 1,073.9 | 0.2 | 270.0 | 430.7 |
| Gaming & Interactive | 459.3 | 211.8 | 116.9 | 106.3 | (28.4) |
| Less - Inter Segment revenues | - | 16.9 | - | - | - |
| **Total** | **2,551.1** | **2,161.7** | **18.0** | **582.3** | **449.2** |

*Source: Company*

## Segmental capital employed

| Capital Employed (Rs in m) | Q3FY11 | Q2FY11 | Q3FY10 |
|---|---|---|---|
| Television | 5,362 | 4,938 | 5,644 |
| Films | 3,515 | 5,685 | 5,383 |
| Gaming & Interactive | 7,004 | 6,559 | 5,002 |
| Others (Unallocable) | 2,044 | 1,995 | 2,073 |
| **Total** | **17,925** | **19,177** | **18,102** |

*Source: Company*

## Quarterly results

| (Rs Mn) | Q3FY10 | Q4FY10 | FY10 | Q1FY11 | Q2FY11 | Q3FY11 | FY11E | FY12E |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **2,162** | **1,268** | **6,640** | **1,993** | **2,399** | **2,551** | **9,109** | **11,471** |
| *% yoy* | *26.5* | *(6.0)* | *9.5* | *9.5* | *(60.5)* | *194.9* | *37.2* | *25.9* |
| **EBITDA** | **332** | **369** | **473** | **396** | **459** | **527** | **1,972** | **2,775** |
| EBITDA | 15.4 | 29.1 | 7.1 | 19.9 | 19.1 | 20.6 | 21.6 | 24.2 |
| Net interest | 103.7 | 101.5 | 384.4 | 63.3 | 42.8 | 97.7 | 365.1 | 535.6 |
| Depreciation | 17.5 | 6.4 | 61.6 | 18.6 | 20.7 | 21.8 | 102.5 | 168.8 |
| Other Income | 52.7 | 37.8 | 204.2 | 89.9 | 15.9 | 8.1 | 122.5 | 122.5 |
| Profit before Tax | 263.3 | 299.3 | 231.4 | 403.8 | 411.5 | 415.1 | 1,626.8 | 2,193.0 |
| Tax | (142.6) | (10.6) | (270.2) | 1.2 | 0.1 | - | 81.3 | 219.3 |
| **Profit After Tax** | **406.0** | **309.9** | **501.6** | **402.5** | **411.5** | **415.1** | **1,545.5** | **1,973.7** |
| Minority Interest | 27.5 | 4.5 | (31.6) | (9.5) | 9.7 | 15.0 | 30.9 | 98.7 |
| PAT post Minority | 378.5 | 305.4 | 533.2 | 412.0 | 401.8 | 400.1 | 1,514.6 | 1,875.1 |

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