

September 2, 2008

Rating	Market Performer
Price	Rs237
Target Price	Rs276
Implied Upside	16.4%
Sensex	14,499

(Prices as on September 1, 2008)

Trading Data

Market Cap. (Rs bn)	93.4
Shares o/s (m)	394.1
Free Float	23.0%
3M Avg. Daily Vol ('000)	59.2
3M Avg. Daily Value (Rs m)	16.2

Major Shareholders

Promoters	77.0%
Foreign	7.2%
Domestic Inst.	1.5%
Public & Others	14.3%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.1)	(24.4)	(28.9)
Relative	0.0	(7.7)	(24.4)

Annual Report 2008



■ **Revenue mix... evenly spread out:** Out of the total consolidated revenues of Rs8.7bn, advertisements contributed 51% in the current year as compared to 54% in FY07. Subscription revenues (domestic + international) constituted 31% of the company's revenues for FY08; broadcast fees and radio operations contributed 14% and 4% to revenues, respectively.

■ **Radio business update:** Sun TV along with its subsidiaries (Kal radio & South Asia FM (SFM) holds 44 radio licenses. During the year, it also acquired a 48.9% stake in Red FM (Red), through a share-swap deal with SFM. During FY08, 20 stations came on-stream and another 20 have come up between April-June'08. For the year, its radio ventures reported revenues of Rs90m and an EBITDA loss of Rs250m.

■ **Outlook & Valuation:** With the current macro economic scenario, we expect the contribution of regional advertising on TV to increase from the present 41% (volume terms). In such a case, we see Sun as a major beneficiary since its channels continue to remain dominant players in their respective markets. However, we believe that increasing competition from formidable players such as Zee and Star will impact Sun's elasticity to hike its advertisement rates. Nevertheless, we view increasing DTH-backed subscription revenues as a silver lining for the broadcasting business. Radio ventures, given their rollout only in FY08, are expected to remain loss-making in FY09E. We have built-in for 18% revenue and earning CAGR FY08-10E; operating margins are likely to expand by 290bps by FY10E. We continue to maintain our Market performer rating on Sun, given its premium valuations. It currently trades at 24x & 21x FY09E and FY10E PER.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	6,780	8,699	10,657	12,071
Growth (%)	110.6	28.3	22.5	13.3
EBITDA (Rs m)	4,742	5,975	7,407	8,643
PAT (Rs m)	2,469	3,267	3,954	4,538
EPS (Rs)	6.3	8.3	10.0	11.5
Growth (%)	89.6	32.3	21.0	14.8
Net DPS (Rs)	1.5	2.5	2.5	3.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	69.9	68.7	69.5	71.6
RoE (%)	32.9	24.7	24.0	21.9
RoCE (%)	24.6	21.1	20.3	19.0
EV / sales (x)	6.1	10.3	8.1	6.8
EV / EBITDA (x)	8.7	15.0	11.7	9.5
PE (x)	37.9	28.6	23.6	20.6
P / BV (x)	3.9	6.4	5.1	4.1
Net dividend yield (%)	0.6	1.1	1.1	1.3

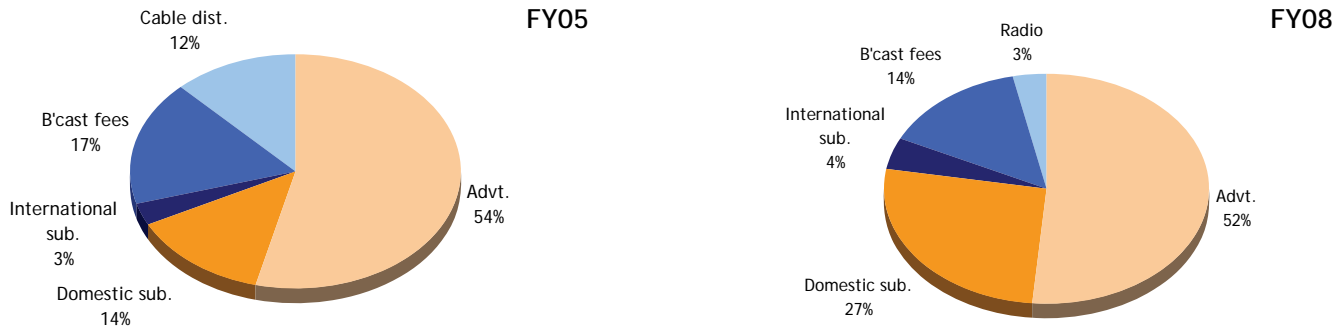
Source: Company Data; PL Research

Jonas Bhutta
JonasBhutta@PLIndia.com
+91-22-6632 2233

Revenue mix evenly spread out

Sun TV’s revenue streams remain evenly mixed with advertisement revenues contributing 51%, subscriptions 31%, broadcast fees 14% and the balance 4% by radio operations.

Revenue mix FY05-FY08



Source: Company Data, PL Research

Advertising revenues and broadcast fees

Sun TV operates 19 channels across four South Indian states. Its regional entertainment channels such as Sun TV (Tamil), Surya (Malayalam), Udaya (Kannada), and Gemini (Telugu) are dominant incumbents in their respective markets. The company’s Tamil channel continues to maintain its pole position despite the launch of three new channels in FY08 (Kalaigarnar TV, Mega TV and Vasanth TV). The company’s Kannada and Telugu channels too continue to maintain their *numero uno* positions. However, competing broadcasters (Zee News) seem to be catching up steam in both these markets. As regards the Malayalam GE space, it’s a closely fought battle between Asianet and Surya.

Channel offerings

	GEC	News	Others (Music, Documentary, Movies etc)
Tamil	Sun TV, Chutti TV	Sun News	Sun Music, K TV, Sun Documentary, Sun Sports
Malayalam	Surya TV		Kiran TV
Telugu	Gemini TV, Gemini Cable	Teja News, Gemini News	Aditya TV, Teja TV, Gemini Music
Kannada	Udaya TV	Udaya News, Udaya Varthegelu	Usha TV, Udaya II, Udaya Movies

Source: Company Data, PL Research

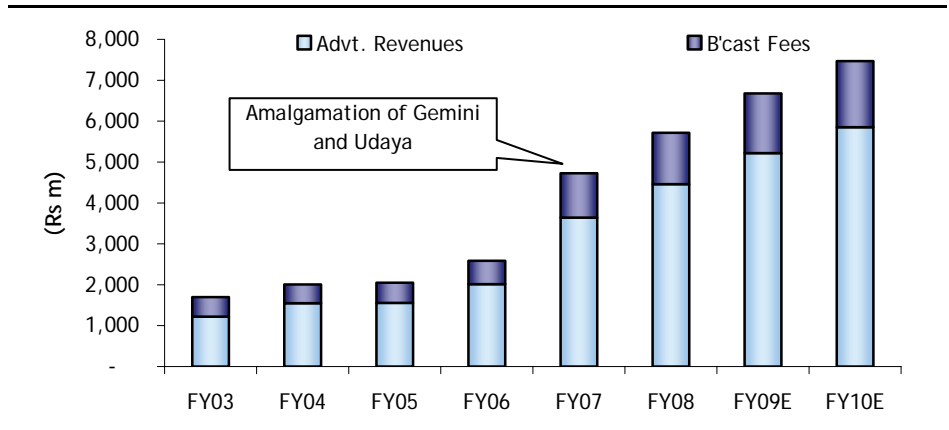
Major competitors

Sun TV's Channels	Major competitors
Sun TV	Raj TV, Kalaigamar TV, Jaya TV, Star Vijay, Zee Tamil (to be launched)
Surya TV	Asianet
Gemini	Eenadu TV, Maa Telegu, Zee Telegu
Udaya	Zee Kannada, ETV Kannada

Source: PL Research

In FY08, advertisement revenues have recorded a growth of 22% YoY and contributed 51% to the total revenues. Broadcast fees charged by the company on content outsourced, includes an element of advertisement revenues. It reported a growth of 16% YoY, and constituted 14% of the company's total revenues for FY08.

Advt. revenue & Broadcast fees trend



Source: Company Data, PL Research

For FY09E, the company has already introduced rate-hikes of 3% to 20% across its channels. However, going forward, we believe that with increasing competition Sun's elasticity to take higher advertisement rate hikes would be stunted and growth would be driven by subscription revenues.

Subscription revenues (Domestic + International)

Sun TV derived 31% of its revenues from subscriptions in FY08. They grew by 31% YoY from Rs2.01bn to Rs2.68bn. Out of the total subscription-based revenues, domestic forms 85% and the balance is international.

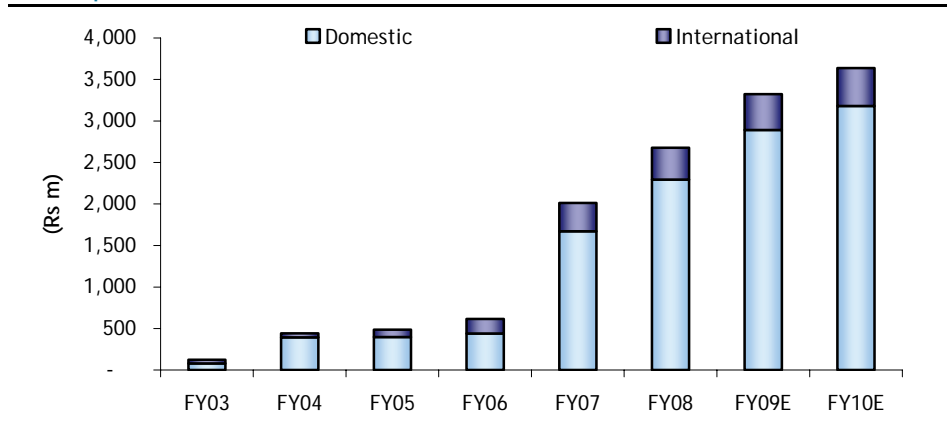
During H2FY08, the company began beaming its channels on DTH (digital platform), thus opening up new subscription revenues. By the end of FY08, Sun declared a subscriber base of 1.1m on this platform, which has increased to 1.9m (Aug'08). The company charges Rs25/sub./month for its bouquet of channels.

Subscription rates

	DTH rate	Analog Sub. Rate
Sun TV	Rs. 25	Rs. 12
KTV, Sun Music, Sun News & Chutti TV		Rs. 15
Gemini Bouquet (4 channels)		Rs. 22
Udaya Bouquet (4 channels)		Rs. 17

Source: Company Data, PL Research
 *Sub. Rate applies for per month per subscriber

Subscription revenues

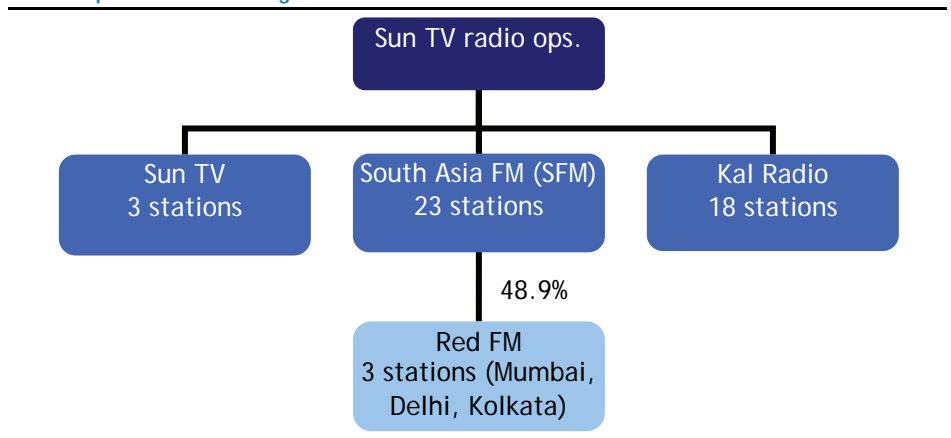


Source: Company Data, PL Research

Radio operations

Sun TV holds radio licenses for 44 stations, by itself and through its two subsidiary companies.

Radio operations holding structure



Source: Company Data, PL Research

During the course of the year, the company had launched 17 stations and later added another 20. The management hopes to launch the balance (four) by the end of FY09E.

Stations rollout update

Already launched	To be launched
Chennai, Coimbatore, Tirunelveli, Madurai, Tuticorin, Pondicherry, Tiruchy, Vishakapatnam, Bangalore, Hyderabad, Jaipur, Bhubaneshwar, Tirupati, Lucknow, Bhopal, Kozhikode, Indore, Vijayawada, Varanasi, Rajahmundry, Kanpur, Thiruvananthapuram, Thrissur, Mangalore, Kannur, Allahabad, Jabalpur, Mysore, Guwahati, Jamshedpur, Nasik, Vadodara, Rajkot, Aurangabad, Ahmedabad, Warangal, Nagpur, Cochin, Pune & Shillong	Gulbarga, Aizwal, Gangtok, & Siliguri

Source: Company Data, PL Research

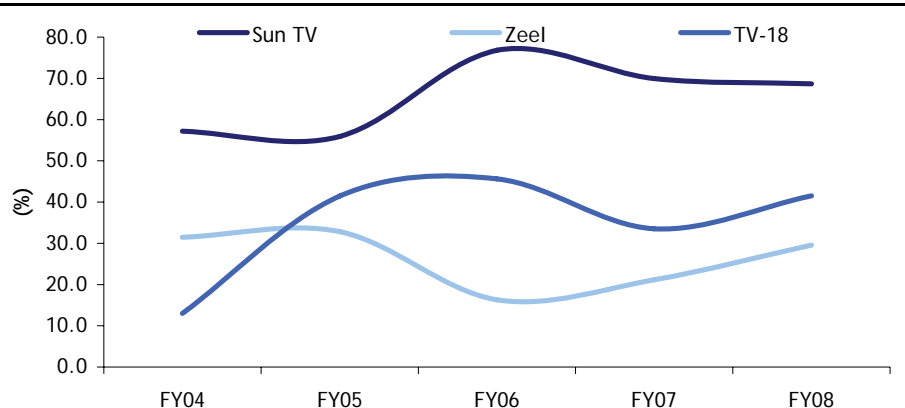
During FY08, SFM entered into a strategic alliance with Red to gain a foothold in the cities of Mumbai, Kolkata and Delhi. Both the company's entered into a share-swap deal, wherein SFM took a 48.9% stake in Red for -Rs1.8bn, and in lieu, the promoters of Red have subscribed to 35% of SFM's equity for the same amount.

The radio operations of the company have reported revenues of Rs300m for FY08 and an EBITDA loss of Rs250m.

Margins dip on account of radio losses

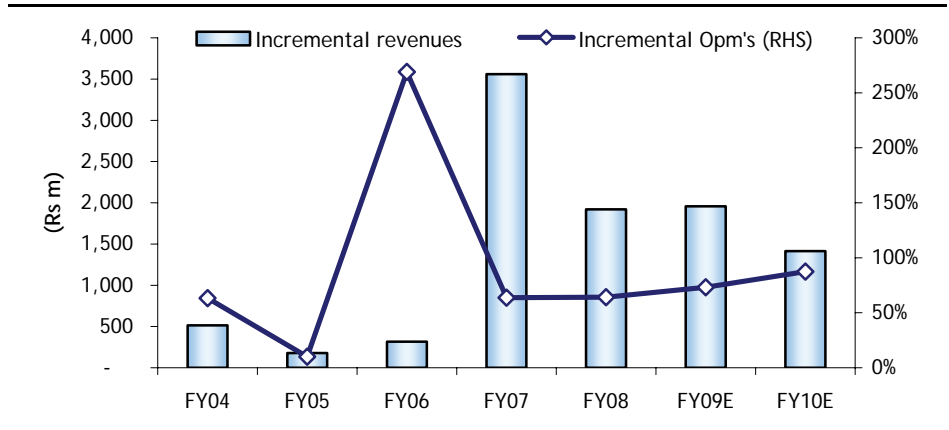
Sun TV commands the highest operating margins within the broadcasting space since most of its content is produced in-house and major costs such as that of movie acquisitions are amortised. In FY08, the company reported a consolidated margin of 68.7% as against 69.9% in FY07- a decline of 120bps, mainly attributed to the radio losses of Rs250m. Standalone operating margins, which capture the company's core operations of broadcasting expanded by 100bps YoY from 71.2% to 72.2% in FY08.

Sun's OPM v/s Zee & TV18



Source: Company Data, PL Research

Incremental OPM trend



Source: Company Data, PL Research

Balance sheet highlights investments in radio operations

Sun TV's FY08 consolidated balance sheet highlights the investments made by the parent in its radio operations. Debt worth Rs700m, capital WIP (CWIP) of Rs2.2bn and investments of Rs1.8bn reflect the company's investment in its radio business.

On a standalone basis, Sun continues to remain un-leveraged. However, the company on a consolidated basis has an outstanding loan of Rs700m on account of SFM and Kal radio.

A high WIP of Rs2.2bn indicates that rollout phase of the radio operations. During the year, the company launched 17 new stations and another 20 were launched between April-June'08.

Investments too have gone up to Rs1.8bn, and this reflects SFM's investment in Red FM.

RoE decomposition

In FY08, Sun TV's RoCE declined by 350bps YoY. This was despite having expanded its EBIT margin by 240bps. However, with the company currently undertaking its radio rollout, its asset turn has declined from 0.7x in FY07 to 0.6x in FY08. RoE's have also sharply declined YoY from 32.9% to 24.7%, mainly on account of decline in its equity multiplier from 1.2x to 1.08x. Going forward, we expect the company's return ratios to deteriorate further, on back of continued losses on the radio ventures and increasing pressure on the company's core operations.

**RoE decomposition (consolidated)**

Y/e March	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
EBIT margin	42.2%	39.7%	58.6%	52.0%	54.4%	51.1%	52.1%
Asset Turnover	92.3%	74.1%	64.5%	74.1%	60.8%	60.2%	55.1%
Tax impact	63.7%	63.7%	65.3%	63.8%	63.6%	66.0%	66.0%
RoCE	24.8%	18.7%	24.7%	24.6%	21.1%	20.3%	19.0%
Leverage impact	102.5%	107.0%	139.6%	121.8%	108.4%	107.5%	105.7%
Interest impact	105.6%	106.2%	105.7%	109.8%	108.4%	110.1%	109.3%
RoE	26.8%	21.3%	36.4%	32.9%	24.7%	24.0%	21.9%

Source: Company Data, PL Research

RoE decomposition (standalone)

Y/e March	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
EBIT margin	42.2%	39.7%	58.9%	53.6%	59.1%	59.0%	59.1%
Asset Turnover	92.3%	74.0%	64.4%	76.7%	64.0%	63.0%	58.2%
Tax impact	64.1%	62.7%	65.3%	65.7%	64.6%	66.0%	66.0%
RoCE	24.9%	18.4%	24.8%	27.0%	24.4%	24.6%	22.7%
Leverage impact	102.5%	107.0%	139.6%	115.5%	100.0%	100.1%	100.1%
Interest impact	105.6%	106.2%	105.2%	112.8%	111.7%	111.8%	111.1%
RoE	27.0%	20.9%	36.4%	35.2%	27.3%	27.5%	25.3%

Source: Company Data, PL Research

Outlook & Valuation

With the current macro economic scenario, we expect the contribution of regional advertising on TV to increase from the present 41% (volume terms). In such a case, we see Sun as a major beneficiary since its channels continue to remain dominant players in their respective markets. However, we believe that increasing competition from formidable players such as Zee and Star will impact Sun's elasticity to hike advertisement rates. Nevertheless, we view increasing DTH-backed subscription revenues, as a silver lining for the broadcasting business. Radio ventures, given their rollout only in FY08, are expected to remain loss-making in FY09E. We have built-in for 18% revenue and earning CAGR FY08-10E; operating margins are likely to expand by 290bps by FY10E. We continue to maintain our Market performer rating on Sun, given its premium valuations. It currently trades at 24x & 21x FY09E and FY10E PER.



Financials

Income Statement

(Rs m)

Y/e March	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Consolidated Revenues	2,725	2,903	3,219	6,780	8,699	10,657	12,071
<i>Advt. revenues</i>	<i>1,549</i>	<i>1,557</i>	<i>2,016</i>	<i>3,640</i>	<i>4,458</i>	<i>5,217</i>	<i>5,854</i>
<i>Sub. revenues</i>	<i>442</i>	<i>485</i>	<i>616</i>	<i>2,012</i>	<i>2,676</i>	<i>3,323</i>	<i>3,637</i>
<i>B'cast fees</i>	<i>458</i>	<i>495</i>	<i>570</i>	<i>1,086</i>	<i>1,256</i>	<i>1,462</i>	<i>1,613</i>
<i>Radio</i>	-	-	-	-	297	656	967
<i>Others</i>	<i>275</i>	<i>366</i>	<i>18</i>	<i>42</i>	<i>12</i>	-	-
Cost of revenues	822	718	288	782	766	959	1,074
<i>% of sales</i>	<i>30.2</i>	<i>24.7</i>	<i>8.9</i>	<i>11.5</i>	<i>8.8</i>	<i>9.0</i>	<i>8.9</i>
Employee expenses	113	419	300	698	958	1,119	1,147
<i>% of sales</i>	<i>4.2</i>	<i>14.4</i>	<i>9.3</i>	<i>10.3</i>	<i>11.0</i>	<i>10.5</i>	<i>9.5</i>
S,G&A expenses	185	143	158	557	1,000	1,172	1,207
<i>% of sales</i>	<i>6.8</i>	<i>4.9</i>	<i>4.9</i>	<i>8.2</i>	<i>11.5</i>	<i>11.0</i>	<i>10.0</i>
Total Op. expenditure	1,120	1,280	746	2,037	2,724	3,250	3,428
Operating Profit	1,605	1,623	2,473	4,742	5,975	7,407	8,643
<i>Margin (%)</i>	<i>58.9</i>	<i>55.9</i>	<i>76.8</i>	<i>69.9</i>	<i>68.7</i>	<i>69.5</i>	<i>71.6</i>
Other Income	67	107	172	411	556	612	642
Depreciation	114	130	147	294	377	606	794
Amortization	234	340	439	924	862	1,357	1,558
Interest	2	36	65	64	159	64	57
PBT	1,321	1,224	1,995	3,871	5,133	5,991	6,876
Tax	436	457	693	1,401	2,015	2,037	2,338
<i>ETR (%)</i>	<i>33.0</i>	<i>37.3</i>	<i>34.7</i>	<i>36.2</i>	<i>39.2</i>	<i>34.0</i>	<i>34.0</i>
Extra ordinary; MI	(4)	12	-	-	148	-	-
PAT	881	780	1,302	2,469	3,267	3,954	4,538



Balance Sheet

(Rs m)

Y/e March	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Source of Funds							
Equity Share Capital	20	20	620	985	1,970	1,970	1,970
Reserves	3,253	4,033	2,479	10,949	12,515	16,469	21,008
Shareholders Funds	3,273	4,053	3,099	11,934	14,486	18,440	22,978
Total Debt	-	422	2,333	867	695	533	604
Deffered Tax Liability	45	48	32	-	11	11	11
Minority Interest	-	-	-	41	604	604	604
Total	3,318	4,522	5,464	12,842	15,796	19,588	24,197
Application of Funds							
Gross Block	1,604	1,796	1,933	2,942	4,768	7,986	8,736
Depreciation	668	815	948	1,571	1,938	2,543	3,338
Net Fixed Assets	936	982	985	1,371	2,830	5,442	5,398
Capital WIP	8	520	42	2,172	2,218	-	-
Gross Intangible Assets	303	662	1,218	3,157	5,419	6,919	7,919
Amortization	234	574	1,013	1,937	2,799	4,156	5,714
Net Intangible Assets	69	88	206	1,220	2,620	2,763	2,205
Deferred Tax Asset	-	-	-	56	-	-	-
Investments	3	4	318	1	1,803	1,803	1,803
Non-Current Assets	456	353	175	102	85	85	85
Inventories	1	2	2	2	3	3	3
Sundry Debtors	518	651	963	2,092	2,532	2,920	3,307
Cash and Bank	1,141	1,853	722	6,494	4,297	7,214	12,057
Other Current Assets	292	342	1,042	469	524	524	524
Loans and Advances	202	107	1,741	556	1,399	1,399	1,399
Current Assets	2,153	2,955	4,470	9,613	8,755	12,060	17,290
Current Liabilities	308	379	732	1,693	2,516	2,566	2,585
Net Current Assets	1,845	2,577	3,738	7,919	6,239	9,494	14,705
Misc. Exp	-	-	-	2	1	1	1
Total	3,318	4,522	5,464	12,842	15,796	19,588	24,197



Key Ratios

Y/e March	FY04	FY05	FY06	FY07	FY08	FY09E	FY10E
Per Share (Rs)							
EPS	17.2	12.6	21.0	12.6	16.6	20.1	23.1
Fully Diluted	2.0	2.0	3.3	6.3	8.3	10.0	11.5
CEPS	2.2	2.3	3.7	7.0	9.2	11.6	13.5
Valuation (x)							
P/E	-	-	71.8	37.9	28.6	23.6	20.6
PEG	-	-	-	0.4	0.9	1.1	1.4
P/BV	0.3	0.2	9.5	3.9	6.4	5.1	4.1
EV/Sales	(0.1)	(0.2)	9.6	6.1	10.3	8.1	6.8
EV/EBITDA	(0.1)	(0.3)	12.5	8.7	15.0	11.7	9.5
EV/CE	(0.1)	(0.1)	6.2	4.5	6.3	4.9	3.7
Debt:Equity	-	0.1	0.8	0.1	0.0	0.0	0.0
P/sales	-	-	-	13.8	10.7	8.8	7.7
Growth Ratios (%)							
Revenue Growth	21.8	11.0	10.9	110.6	28.3	22.5	13.3
EBITDA Growth	25.0	10.7	52.9	94.8	26.7	22.8	15.8
Earnings Growth	32.3	0.8	67.0	89.6	32.3	21.0	14.8
Efficiency Ratios (%)							
Operating Profit Margin	57.2	55.9	76.8	69.9	68.7	69.5	71.6
Net Profit Margins	29.6	26.9	40.5	36.4	37.6	37.1	37.6
Fixed Assets Turnover	2.8	3.0	3.3	4.9	3.1	2.0	2.2
Profitability Ratios (%)							
RoCE	24.8	18.7	24.7	24.6	21.1	20.3	19.0
RoE	26.8	21.3	36.4	32.9	24.7	24.0	21.9



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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