

## Sun TV Network Ltd

### Basking in the glow of *Enthiran*

Sun TV's (SUNTV) Q3FY11 results were ahead of estimates, primarily spurred by the success of blockbuster movie *Enthiran*. While advertising revenue increased 16% YoY, subscription income grew 47%. Ad revenues may see some near-term pressure due to the upcoming cricket season which has prompted a deferral of ad rate hikes by the company from Q4 to Q1FY12. Nonetheless, we remain optimistic on SUNTV's medium-term growth outlook given (a) the hike in ad rates expected in Q1FY12, (b) better inventory utilisation through bundling of GEC and non-GEC channels, and (c) higher subscription revenues backed by a stronger subscriber base and renewals in DTH. We maintain BUY with a target price of Rs 625 based on 26x one-year forward earnings.

**Results ahead of expectations:** SUNTV recorded a 51% YoY rise in revenue to Rs 6bn (as against our estimate of Rs 5.3bn), primarily on the back of higher revenues from its movie *Enthiran* in Q3FY11. Net profit increased 48.4% YoY and 35% QoQ to Rs 2.3bn (against our estimate of Rs 1.8bn) in the quarter.

**Enthiran's success buoys quarter:** SUNTV aggregated Rs 1.8bn for its movie *Enthiran*, as against an aggregate cost of production of Rs 1.3bn for the same. While the company reported movie revenues of Rs 1.5bn in Q3FY11 (Rs 130mn already reported in Q2), it will record Rs 150mn as satellite revenues from this business in Q4FY11. Apart from another movie in Q4, the management does not have a significant line-up of releases ahead.

**Ad revenues up 16% YoY; rate hike postponed:** SUNTV recorded 16% YoY growth in advertising revenues to Rs 2.6bn in Q3FY11. But with the busy cricket season commencing in the coming months (due to the World Cup and IPL), the management has postponed its expected ad rate hike to Q1FY12 (exact quantum yet to be decided). While this could put pressure on advertising revenues in Q4, the medium-term growth outlook remains buoyant on the back of higher ad yields (although delayed) and better inventory utilisation through bundling of its GEC and non-GEC channels.

**Subscription revenues flattish QoQ; uptick expected in Q4:** While SUNTV witnessed a 43% YoY and 25% QoQ rise in its international subscription revenues, domestic analogue and DTH revenues remained flattish QoQ in the quarter (but were up 36% and 59% YoY respectively). While the company added 0.18mn subscribers to 6.73mn, ARPU dropped in Q3. However, backed by expected renewals, the management is confident of an uptick in DTH revenues in Q4. Broadcast fee revenues grew 20% YoY and 5% QoQ, mainly due to higher slot fee income in Kerala during the quarter.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	14,528	18,927	21,382	25,311
Growth (%)	39.8	30.3	13.0	18.4
Adj net income	5,199	7,341	8,547	10,348
Growth (%)	41.1	41.2	16.4	21.1
FDEPS (Rs)	13.2	18.6	21.7	26.3
Growth (%)	41.1	41.2	16.4	21.1

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	75.1	76.3	75.2	75.2
EBIT margin	53.0	58.1	59.5	60.4
Adj PAT margin	35.8	38.8	40.0	40.9
ROE	29.0	33.2	29.2	27.4
ROIC	32.8	40.4	41.8	44.8
ROCE	27.9	32.1	28.5	26.9

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 490	Rs 625	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532733	SUNTV	SUNTV IN

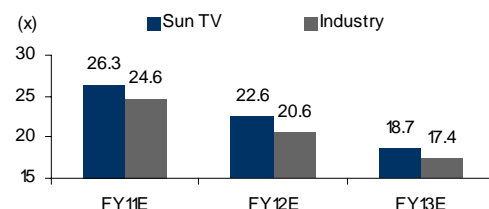
#### Company data

Market cap (Rs mn / US\$ mn)	193,100 / 4,198
Outstanding equity shares (mn)	394
Free float (%)	23.0
Dividend yield (%)	1.0
52-week high/low (Rs)	557 / 352
3-month average daily volume	193,449

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Sun TV	488	(7.2)	(2.2)	7.4
Sensex	18,328	(10.6)	(8.5)	2.6

#### P/E comparison



#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	37.1	26.3	22.6	18.7
P/E @ Target	47.4	33.6	28.8	23.8
EV/EBITDA @ CMP	17.4	13.2	11.8	10.0





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	5,980	5,269	13.5
EBITDA	5,018	4,241	18.3
EBITDA Margin (%)	83.9	80.5	340bps
Adj net income	2,255	1,827	23.4

Source: RCML Research

**Results beat estimates due to blockbuster movie revenues**

**Fig 2 - Quarterly performance**

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
<b>Revenue</b>	<b>5,980</b>	<b>3,951</b>	<b>51.4</b>	<b>4,248</b>	<b>40.8</b>
Cost of Revenues	226	251	(10.0)	250	(9.7)
Employee cost	481	364	32.3	407	18.3
Other overheads	255	211	20.8	268	(4.9)
<b>EBITDA</b>	<b>5,018</b>	<b>3,125</b>	<b>60.6</b>	<b>3,323</b>	<b>51.0</b>
Depreciation	1,740	885	96.6	908	91.7
Interest	1	2	(18.8)	3	(56.7)
Other income	91	84	8.6	93	(1.9)
PBT	3,367	2,322	45.0	2,505	34.4
Tax	1,112	803	38.6	830	34.0
<b>PAT</b>	<b>2,255</b>	<b>1,519</b>	<b>48.4</b>	<b>1,674</b>	<b>34.7</b>
FDEPS (Rs)	5.72	3.86	48.4	4.25	34.7
EBITDA margin (%)	83.9	79.1	481	78.2	569
Net Profit margin (%)	37.7	38.5		39.4	85.0

Source: Company, RCML Research

**Depreciation includes Rs 1.5bn for movie amortisation in Q3FY11**

**Margin expansion led by lower content cost and higher movie contribution**

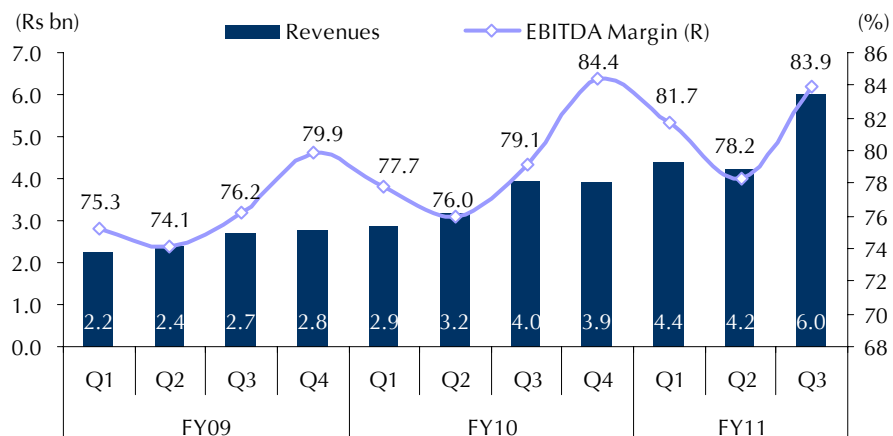
### Other key highlights

- ❖ The management has denied any expansion plans in the Hindi GEC space, but is still exploring expansion in other regional markets.
- ❖ Sun TV added 0.18mn subscribers to 6.73mn subscribers in Q3.
- ❖ The company's radio subsidiary, Kal Radio has breakeven at net profit front, while its' other subsidiary, South Asia FM has recorded a positive EBITDA in Q3FY11.
- ❖ The management expects its content cost to increase by 10-12% YoY in FY12.



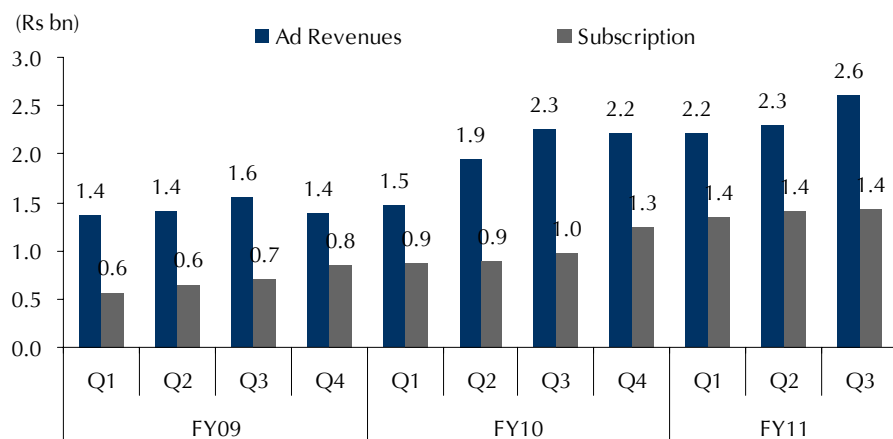
## Operational Snapshot

Fig 3 - EBITDA margin expansion continues



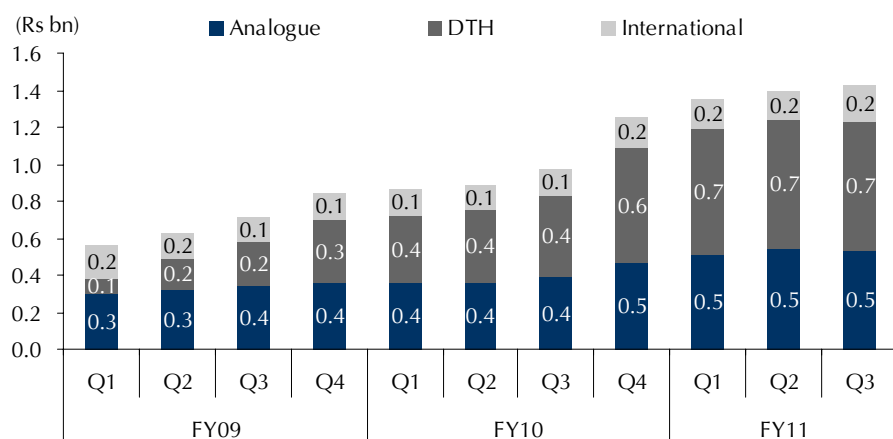
Source: RCML Research, Company

Fig 4 - Ad revenues buoyant; subscription revenues remain flattish sequentially



Source: RCML Research, Company

Fig 5 - DTH revenues growth continues; International revenues flattish



Source: RCML Research, Company



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>14,528</b>	<b>18,927</b>	<b>21,382</b>	<b>25,311</b>
<i>Growth (%)</i>	39.8	30.3	13.0	18.4
<b>EBITDA</b>	<b>10,909</b>	<b>14,445</b>	<b>16,088</b>	<b>19,024</b>
<i>Growth (%)</i>	48.0	32.4	11.4	18.2
Depreciation & amortisation	5,537	5,828	5,390	5,878
EBIT	7,700	10,992	12,723	15,283
<i>Growth (%)</i>	49.1	42.8	15.8	20.1
Interest	49	57	64	76
Other income	350	443	670	1,015
EBT	8,000	11,378	13,329	16,222
Income taxes	2,991	4,210	4,932	6,002
Effective tax rate (%)	37.4	37.0	37.0	37.0
Extraordinary items	-	-	-	-
Min into / inc from associates	(173)	(173)	(150)	(128)
Reported net income	5,199	7,341	8,547	10,348
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>5,199</b>	<b>7,341</b>	<b>8,547</b>	<b>10,348</b>
<i>Growth (%)</i>	41.1	41.2	16.4	21.1
Shares outstanding (mn)	394.1	394.1	394.1	394.1
<b>FDEPS (Rs) (adj)</b>	<b>13.2</b>	<b>18.6</b>	<b>21.7</b>	<b>26.3</b>
<i>Growth (%)</i>	41.1	41.2	16.4	21.1
DPS (Rs)	7.5	5.0	2.5	2.5

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	8,408	10,794	11,912	14,089
Non-cash adjustments	(970)	(184)	(150)	(128)
Changes in working capital	(378)	(1,520)	(749)	(1,297)
Cash flow from operations	7,060	9,090	11,014	12,664
Capital expenditure	(5,544)	(3,852)	(4,750)	(4,750)
Change in investments	(474)	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(6,018)	(3,852)	(4,750)	(4,750)
Issue of equity	-	-	-	-
Issue/repay debt	(715)	-	-	-
Dividends paid	(492)	(2,433)	(818)	(818)
Other financing cash flow	878	-	-	-
Change in cash & cash eq	713	2,806	5,446	7,096
Closing cash & cash eq	4,367	7,173	12,619	19,715

### Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	12.9	12.9	12.9	12.9
ROIC (%)	32.8	40.4	41.8	44.8
Invested capital (Rs mn)	16,227	18,094	20,286	22,679
EVA (Rs mn)	3,235	4,965	5,853	7,236
EVA spread (%)	19.9	27.4	28.9	31.9

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	4,367	7,173	12,619	19,715
Accounts receivable	3,292	4,353	5,132	6,328
Inventories	27	2	2	3
Other current assets	2,660	3,691	4,105	4,809
Investments	2,280	2,280	2,280	2,280
Gross fixed assets	9,016	11,516	14,016	16,516
Net fixed assets	5,710	7,132	8,292	9,189
CWIP	3,149	2,000	2,000	2,000
Intangible assets	3,268	3,393	3,618	3,730
Deferred tax assets, net	(339)	(339)	(339)	(339)
Other assets	301	301	301	301
<b>Total assets</b>	<b>24,713</b>	<b>29,985</b>	<b>38,009</b>	<b>48,015</b>
Accounts payable	384	546	686	810
Other current liabilities	1,455	1,893	2,138	2,531
Provisions	2,768	1,091	1,149	1,236
Debt funds	1	1	1	1
Other liabilities	371	197	48	-
Equity capital	2,848	2,848	2,848	2,848
Reserves & surplus	16,885	23,409	31,138	40,588
Shareholder's funds	19,734	26,257	33,986	43,436
<b>Total liabilities</b>	<b>24,713</b>	<b>29,985</b>	<b>38,009</b>	<b>48,015</b>
BVPS (Rs)	47.8	64.4	84.0	108.0

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	75.1	76.3	75.2	75.2
EBIT margin	53.0	58.1	59.5	60.4
Net profit margin	35.8	38.8	40.0	40.9
ROE	29.0	33.2	29.2	27.4
ROCE	27.9	32.1	28.5	26.9
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	72	74	81	83
Inventory (days)	4	4	0	0
Payables (days)	125	124	131	135
Current ratio (x)	5.6	6.2	7.7	9.2
Quick ratio (x)	4.2	4.7	6.3	7.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	1.8	1.8	1.7	1.7
Total asset turnover	0.6	0.7	0.6	0.6
Interest coverage ratio	155.9	193.6	198.3	201.3
Adjusted debt/equity	0.0	0.0	0.0	0.0
<b>Valuation ratios (x)</b>				
EV/Sales	13.1	10.0	8.9	7.5
EV/EBITDA	17.4	13.2	11.8	10.0
P/E	37.1	26.3	22.6	18.7
P/BV	10.2	7.6	5.8	4.5



### Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	3,951	3,919	4,404	4,248	5,980
YoY growth (%)	45.9	42.0	53.1	32.6	51.4
QoQ growth (%)	23.3	(0.8)	12.4	(3.6)	40.8
EBITDA (Rs mn)	2,240	2,460	2,452	2,415	3,278
EBITDA margin (%)	56.7	62.8	55.7	56.9	54.8
Adj net income (Rs mn)	1,519	1,651	1,710	1,674	2,255
YoY growth (%)	35.4	44.8	42.7	28.2	48.4
QoQ growth (%)	16.4	8.6	3.6	(2.1)	34.7

### DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	64.7	65.0	64.5	64.1	63.8
Interest burden (PBT/EBIT)	110.3	103.9	103.5	104.8	106.1
EBIT margin (EBIT/Revenues)	49.7	53.0	58.1	59.5	60.4
Asset turnover (Revenues/Avg TA)	53.8	64.5	69.2	62.9	58.8
Leverage (Avg TA/Avg equity)	122.7	122.5	118.9	112.9	111.1
<b>Return on equity</b>	<b>23.4</b>	<b>28.3</b>	<b>31.9</b>	<b>28.4</b>	<b>26.7</b>

### Company profile

Sun TV is a leading broadcaster in the Southern India with market leadership in Tamil Nadu, Andhra Pradesh, Karnataka and No 2 in Kerala and offers 20 channels currently across four languages. The company also undertakes movie production/distribution through its subsidiary, *Sun Pictures*. It also operates in the Radio business through its subsidiaries, *Kal Radio* (18 stations in South India) and *South-Asia FM* (24 stations in rest of India).

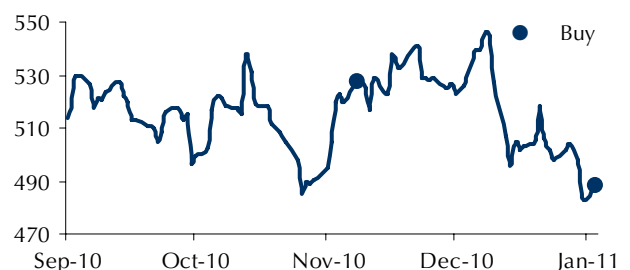
### Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	77.0	77.0	77.0
FIIs	8.4	8.8	9.1
Banks & FIs	4.3	3.8	3.7
Public	10.3	10.4	10.2

### Recommendation history

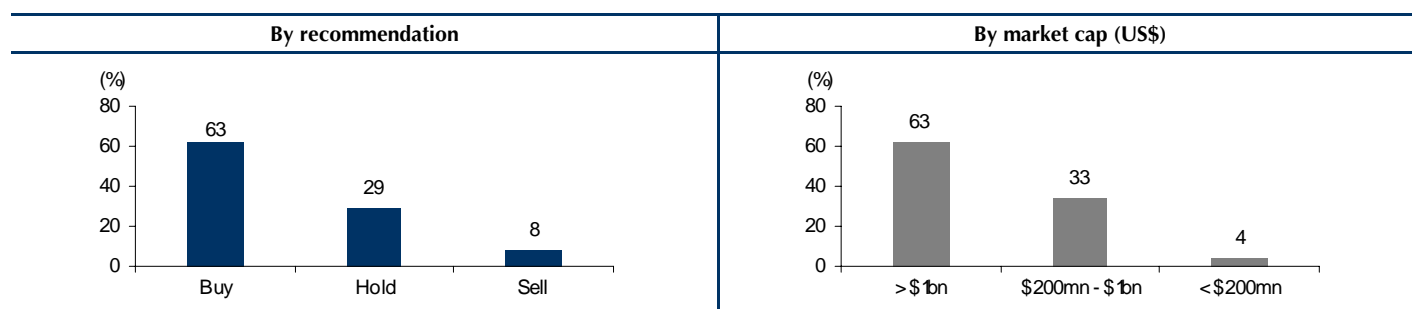
Date	Event	Reco price	Tgt price	Reco
7-Dec-10	Initiating Coverage	525	625	Buy
31-Jan-11	Results Review	490	625	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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