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The final frontier: Advertising rate hikes in FM radio. Red FM and My FM, two of the leading radio networks in India, have announced advertising rate hikes reflecting the continued strength of recovery in advertising market in India. However, (1) ENIL, the leader in FM radio market in India is yet to raise rates (likely in 2QFY11E), (2) advertising yields started to increase a while back (4QFY10; IPL season in metros) and (3) rate hikes are only a confirmation of the trend. HTML (Fever FM), DBCL (My FM) and SUNTV (Red FM and S-FM) are stocks in our coverage with exposure to FM radio; we recommend DBCL given possible upside from FM radio relative to core operations.

Advertising rate hikes in FM radio reflective of continued strength in advertising market

Red FM, the leading pan-India FM radio network majority-owned by Sun TV (except for three metro stations with 49% ownership), has announced a 12-15% advertising rate hike across its network. My FM, another leading North-India FM radio network part of DB Corp, has followed suit with a 20-25% advertising rate hike across its network; we believe effective yield increase may be limited at 12-15% only. The hikes were on expected lines though the timing (we expected 2QFY11E) and the players (we expected ENIL) have surprised us. Nonetheless, the hikes indicate a broadening of the advertising revenue cycle (led by FMCG for C&S TV and education for print so far) to under-performing advertising categories (retail, real estate, finance) and relatively emerging advertising mediums (radio and outdoor versus C&S TV and print).

Ratings performance—Fever FM leads Red FM in the 4 metros (measured markets)

Exhibit 1 presents the performance of Fever FM and Red FM across the four major metro markets. Red FM is runner-up in Mumbai, the largest radio advertising market in India. Fever FM is the runner-up in Delhi, the second-largest market. Their performance is a mixed bag in Bangalore and Kolkata; ENIL (Radio Mirchi) is the only exceptional player leading in three of the four metro markets and runner-up in one. The lack of currency for FM radio beyond the four metros is the one of the key issues with FM radio in India; we discuss some others in brief below.

Long-term health of the FM radio business—seems fine provided reforms continue

(1) Inventory overhang with launch of over 250 stations after Phase-II licensing, (2) very limited term of the license (10 years), (3) adverse impact of semi-fixed royalty fees (content/music providers) on small town operations and (4) lack of content freedom (news and current affairs not allowed on radio) is only a brief list. The regulatory regime requires a major overhaul and most players will likely not recover their cost of capital in the Phase-II cycle (2007-2017/18). However, we would also highlight that FM radio is effectively only a 3-4 year old business for most players and the problems are not unusual for a new industry (comparison with 50-year old print and 20-year old C&S TV is incorrect, in our view). The inventory overhang is rolling over and most players right-sized their operations during the economic downturn.

FM radio very small for SUNTV; attractive for DBCL provided regulatory reforms happen

Exhibit 2 presents the share of FM radio in the revenues of SUNTV, HTML and DBCL. FM radio is a small part of SUNTV (REDUCE) at the EBITDA level. We are unable to comment further on HTML (NR) as a Kotak group company is a transaction advisor to HMVL IPO. DBCL (ADD) remains one of the best plays on local city-based advertising (print, radio, outdoor) trading at relatively fair 18X FY2011E valuations; we have discussed its radio operations in detail in a recent note ("*DBCL announces demerger of My FM radio business*" dated May 06, 2010).

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Share of FM radio in our coverage companies' financials, March fiscal year-ends, 2010-11E (Rs mn)

	2010			2011E		
	SUNTV	HTML	DBCL	SUNTV	HTML	DBCL
Total revenues	14,528	14,379	10,630	18,879	15,921	12,129
Radio revenues	578	431	350	763	550	470
Share (%)	4	3	3	4	3	4
Total EBIT	7,700	2,184	3,060	11,885	2,678	3,405
Radio EBIT	(552)	(59)	(119)	(220)	64	(32)
Share (%)	(7)	(3)	(4)	(2)	2	(1)

Notes:

(a) HTML's radio EBIT is relatively overstated (one-time write-off of one-time license fee previously).

Source: Company data, Kotak Institutional Equities estimates

Market share of Fever FM (HTML) and Red FM (SUNTV) across 4 metro markets (%)

	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10
Mumbai					
Radio Mirchi 98.3	14.7	15.6	18.2	18.0	17.1
Red FM 93.5	16.8	15.7	15.0	14.5	14.2
Radio City 91.1	14.0	11.1	11.9	12.8	13.3
AIR FM2-Gold 100.7	11.4	12.4	12.9	12.6	11.6
Fever FM 104	9.8	13.9	11.8	12.1	11.6
Delhi					
Radio Mirchi 98.3	26.8	24.9	24.3	24.6	24.5
Fever FM 104	12.8	16.1	19.9	18.5	18.7
AIR FM2-Gold 106.4	14.5	15.9	15.6	16.9	17.6
Red FM 93.5	9.1	8.7	8.7	9.5	9.3
Bangalore					
Big FM 92.7	23.8	19.6	18.8	19.5	19.5
Radio Mirchi 98.3	18.7	16.9	17.4	17.7	17.2
Fever FM 104	8.3	13.9	15.2	15.4	15.4
Radio City 91.1	8.8	10.6	12.0	12.0	12.5
AIR FM1-Rainbow 101.3	11.2	12.6	11.4	10.5	10.0
Radio One 94.3	9.5	10.1	8.4	8.9	8.8
Red FM 93.5	9.2	8.0	8.2	8.0	8.8
Kolkata					
Radio Mirchi 98.3	19.5	19.0	19.3	20.0	20.4
Big FM 92.7	17.2	15.7	16.6	16.9	16.7
Friends FM 91.9	13.0	13.1	13.8	14.1	13.2
Aamar FM 106.2	9.2	10.7	10.5	10.4	10.6
Red FM 93.5	8.2	8.6	7.9	7.5	8.5
Fever FM 104	8.2	7.0	6.7	7.4	7.8

Source: RAM Media Research, Kotak Institutional Equities

Financial summary of DB Corp Limited, March fiscal year-ends, 2006-2013E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model							
Net sales	6,664	8,506	9,490	10,630	12,129	14,066	16,373
EBITDA	901	1,709	1,353	3,429	3,878	4,594	5,495
Other income	166	237	228	112	212	325	424
Interest	(282)	(397)	(510)	(357)	(135)	(135)	(57)
Depreciation	(120)	(220)	(290)	(379)	(473)	(501)	(540)
Pretax profits	666	1,328	782	2,805	3,482	4,283	5,323
Extraordinary items	(4)	8	—	—	—	—	—
Current tax	(50)	(560)	(377)	(810)	(1,137)	(1,392)	(1,730)
Deferred taxation	(30)	(70)	(47)	(247)	(44)	(32)	(39)
Net income	582	706	358	1,747	2,300	2,860	3,553
Adjusted net income	590	763	476	1,826	2,333	2,852	3,520
Earnings per share (Rs)	3.5	4.5	2.8	10.6	12.9	15.7	19.4
Balance sheet							
Total equity	1,676	2,198	2,577	6,989	8,776	10,293	11,754
Deferred taxation liability	277	346	393	640	684	716	756
Total borrowings	3,777	3,436	5,631	2,276	1,036	1,036	1,036
Current liabilities	1,092	1,714	2,189	2,209	2,912	3,986	5,019
Total capital	6,825	7,936	10,914	12,159	13,420	16,052	18,618
Cash	199	808	452	1,383	2,157	4,222	5,899
Other current assets	3,851	3,404	3,536	3,829	4,349	4,933	5,600
Total fixed assets	2,764	3,623	6,471	6,492	6,459	6,442	6,665
Investments	—	68	238	238	238	238	238
Miscellaneous expenditure	11	33	217	217	217	217	217
Total assets	6,825	7,936	10,914	12,159	13,420	16,052	18,618
Free cash flow							
Operating cash flow, excl. working capital	646	1,172	621	2,262	2,606	3,068	3,708
Working capital changes	70	674	122	(273)	183	491	366
Capital expenditure	(841)	(1,081)	(2,966)	(400)	(440)	(484)	(762)
Income from investments	—	113	109	112	212	325	424
Free cash flow	(125)	877	(2,113)	1,700	2,560	3,400	3,736
Ratios (%)							
Debt/equity	193	135	190	30	11	9	8
Net debt/equity	183	103	174	12	(12)	(29)	(39)
ROAE (%)	35	34	17	34	27	28	30
ROACE (%)	15	15	8	21	23	26	28

Source: Company data, Kotak Institutional Equities estimates

Financial summary of HT Media, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Profit model						
Net sales	10,397	12,033	13,466	14,378	15,921	17,768
EBITDA	1,680	1,699	879	2,803	3,338	3,886
Other income	367	439	330	160	256	284
Interest	(143)	(178)	(323)	(295)	(221)	(196)
Depreciation	(436)	(570)	(688)	(707)	(660)	(712)
Pretax profits	1,468	1,390	198	1,962	2,714	3,263
Extraordinary items	2	—	(189)	(76)	(100)	—
Tax	(573)	(520)	(40)	(497)	(847)	(1,087)
Deferred taxation	27	143	(85)	(40)	(25)	(10)
Net income	924	1,013	(116)	1,348	1,741	2,165
Minority interest	(46)	—	(125)	(11)	—	—
Adjusted net income	969	1,013	79	1,414	1,809	2,165
Earnings per share (Rs)	4.1	4.3	0.3	6.0	7.7	9.2
Balance sheet						
Total equity	7,642	8,529	8,485	9,570	10,761	11,826
Minority interest	—	1	(69)	(80)	(80)	(80)
Deferred taxation liability	273	122	207	247	272	282
Total borrowings	1,658	2,231	3,706	2,206	2,206	1,706
Current liabilities	2,113	2,804	5,399	5,095	5,179	5,410
Total liabilities and equity	11,685	13,685	17,728	17,037	18,338	19,145
Cash	1,104	774	705	974	1,723	1,906
Other current assets	2,863	4,425	6,270	6,078	6,465	6,953
Total fixed assets	4,109	4,752	6,718	6,951	7,115	7,252
Intangible assets	1,098	1,078	998	998	998	998
Investments	2,510	2,656	3,035	2,035	2,035	2,035
Total assets	11,685	13,685	17,728	17,037	18,338	19,145
Free cash flow						
Operating cash flow, excl. working capital	1,194	1,064	287	2,011	2,270	2,603
Working capital changes	(226)	(131)	1,313	(111)	(304)	(257)
Capital expenditure	(867)	(1,196)	(2,597)	(940)	(824)	(848)
Investments	(319)	(325)	(1,126)	1,000	—	—
Other income	197	298	206	160	256	284
Free cash flow	(21)	(290)	(1,918)	2,120	1,399	1,783
Ratios (%)						
Debt/equity	20.9	25.8	42.6	22.5	20.0	14.1
Net debt/equity	7.0	16.8	34.5	12.6	4.4	(1.7)
ROAE (%)	12.8	12.2	0.9	15.3	17.4	18.7
ROACE (%)	10.6	9.6	3.6	13.8	16.0	17.0

Source: Company data, Kotak Institutional Equities estimates

Consolidated financial summary of Sun TV Network, March fiscal year-ends, 2006-13E (Rs mn)

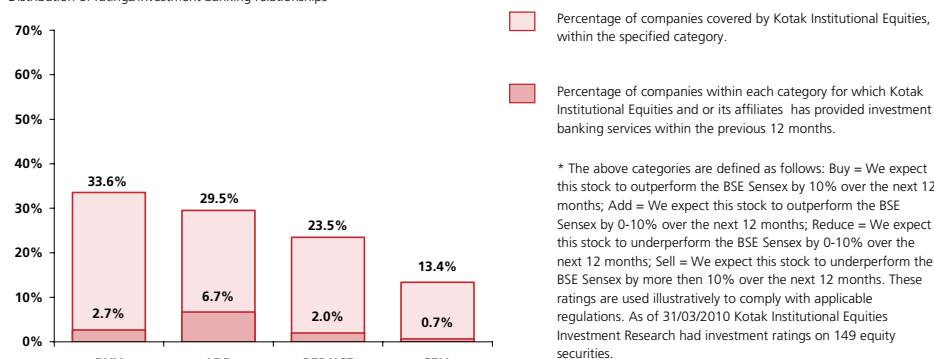
	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	6,780	8,699	10,394	14,528	18,879	22,904	26,776
EBITDA	3,874	5,261	6,102	8,771	11,885	14,478	16,967
Other income	411	556	505	297	162	370	684
Interest (expense)/income	(64)	(159)	(138)	(50)	(13)	0	—
Depreciation	(294)	(377)	(672)	(842)	(1,066)	(1,045)	(988)
Amortization	(56)	(148)	(264)	(234)	(234)	(194)	(194)
Pretax profits	3,871	5,133	5,534	7,943	10,735	13,609	16,469
Tax-cash	(1,509)	(1,947)	(2,045)	(2,769)	(3,705)	(4,606)	(5,589)
Tax-deferred	108	(67)	(250)	(182)	(68)	(30)	(19)
Minority interest	(9)	148	281	190	85	8	(56)
Net profits after minority interests	2,461	3,267	3,578	5,181	7,046	8,982	10,805
Earnings per share (Rs)	6.3	8.3	9.1	13.1	17.9	22.8	27.4
Balance sheet (Rs mn)							
Total equity	11,932	14,485	17,016	18,739	22,328	27,160	32,432
Deferred Tax	(56)	11	261	443	512	542	561
Total borrowings	867	695	716	—	—	—	—
Current liabilities	1,693	2,516	2,343	2,329	2,526	2,760	2,979
Total capital	14,478	18,311	20,720	21,707	25,475	30,563	36,130
Cash	6,494	4,297	3,654	1,276	2,782	6,472	10,632
Current assets	3,221	4,542	5,543	8,144	10,666	12,703	14,643
Total fixed assets	3,543	5,048	6,697	8,357	8,290	7,846	7,508
Intangible assets	1,220	2,620	3,021	2,125	1,931	1,737	1,542
Total assets	14,478	18,311	20,720	21,707	25,475	30,563	36,130
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	3,239	4,091	5,309	7,510	10,216	12,543	14,585
Working capital	(1,992)	(1,235)	413	(2,614)	(2,326)	(1,803)	(1,721)
Capital expenditure	(433)	(1,811)	(4,291)	(1,800)	(1,000)	(600)	(650)
Investments	(849)	(3,837)	(627)	(1,558)	(2,049)	(2,670)	(3,206)
Other income	402	523	484	297	162	370	684
Free cash flow	814	1,046	1,431	3,096	6,890	10,140	12,214
Ratios (%)							
Debt/equity	7.3	4.8	4.2	—	—	—	—
Net debt/equity	(47.2)	(24.9)	(17.3)	(6.8)	(12.5)	(23.8)	(32.8)
RoAE	32.9	24.8	22.5	28.4	33.5	35.5	35.6
RoACE	26.8	24.2	22.9	28.8	34.2	36.1	36.3

Source: Company data, Kotak Institutional Equities estimates

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As of March 31, 2010

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ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

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