

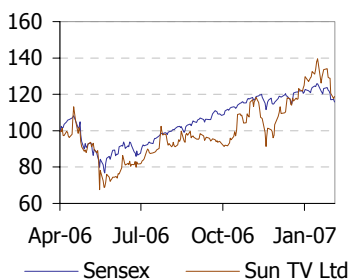
# Sun TV Ltd

 Relative to sector: **Outperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

 No. of shares : 98.5mn\*  
 Market cap : Rs 148bn  
 52 week high/low : Rs 1849/ Rs 840  
 Avg. daily vol. (6mth) : 136,900 shares  
 Bloomberg code : SUNTV IN  
 Reuters code : SUTV.BO

\* Shares o/s for the amalgamated entity

## Shareholding (%) Dec-06 QoQ chg

Category	Dec-06 (%)	QoQ chg
Promoters	90.0	0.0
FIIs	6.9	0.7
MFs / UTI	1.9	(0.5)
Banks / FIs	0.1	0.1
Others	1.1	(0.3)

## Southern Star!

- SUN TV Ltd (SUN) is **one of the largest television broadcasters** in India with a **dominant presence in the southern states** of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka.
- The network has **20 television channels across 4 languages** (Tamil, Malayalam, Kannada and Telugu), as well as **44 FM Radio licenses** (6 operational).
- The television market in India was ~Rs 170bn in 2006 and is expected to reach a size of ~Rs 427bn by 2010E, with advertising and subscription accounting for ~Rs 306bn and ~Rs 108bn respectively. **The regional TV ad market currently ~Rs 14.8bn, is estimated to reach ~Rs 25bn by 2010E.**
- SUN's competitive advantage stems from its **high popularity, exclusive access to high quality content** and a **large movie library**, giving it **significant pricing power** to capitalize on the fast growing ad and subscription market.
- **Increased addressability from digitization** and newer distribution platforms, **new channel launches** and **increased penetration in international markets** are the key growth drivers for SUN.
- **Key Concerns: Decline in popularity of its channels remains the key concern.** Further, **delay in rollouts and conversion to pay mode** as well as a **slower rollout of digitization** are also factors which need monitoring.
- **Valuations:** At CMP of Rs 1,503 the stock trades at 31.7x and 22.1x FY08E and FY09E EPS of Rs. 47.4 and Rs. 67.9 respectively. We believe the stock is undervalued and initiate coverage with an **Outperformer** rating and price target of Rs **1,750**.

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2006	3,220	1,313	-	19.1	69	-	35.6	40.7	-
2007E	7,176	3,146	29.0	31.9	68	47.1	51.4	65.7	29.3
2008E	9,959	4,673	42.4	47.4	49	31.7	41.5	62.9	19.5
2009E	13,396	6,689	57.3	67.9	43	22.1	39.5	59.8	13.4

Source: \*Consensus broker estimates, ENAM estimates; Note: Estimates are on a consolidated basis for the amalgamated entity

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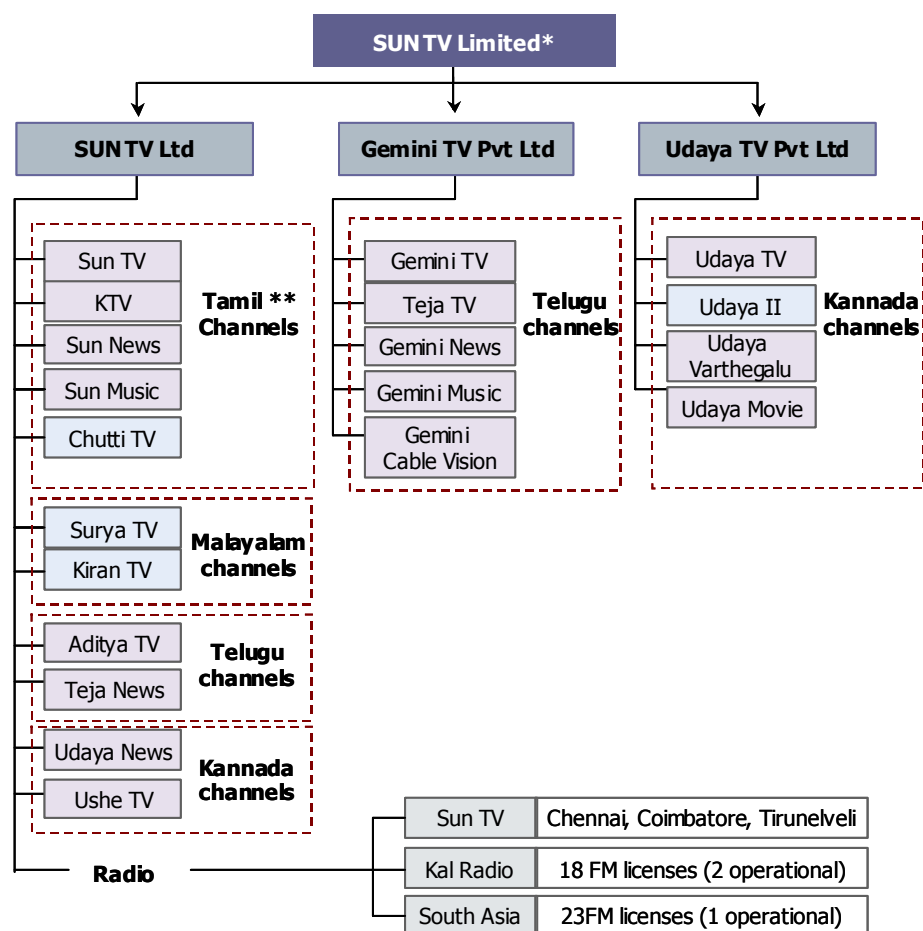
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# Executive Summary

## Company Background

SUN TV Ltd. (SUN) is **one of the largest television broadcasters in India** with a dominant position in the southern regions of Tamil Nadu, Kerala, Andhra Pradesh, Karnataka and Pondicherry. The network has **20 television channels** across **4 languages** (Tamil, Malayalam, Kannada and Telugu) as well as **44 FM Radio licenses** (6 operational).

## SUN's Broadcasting Empire



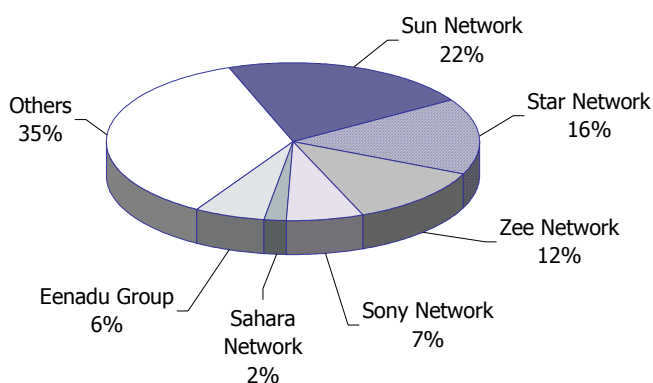
Source: Company; \* Note: To be known as SUN TV Network Ltd. after the proposed amalgamation; Note: \*\* FTA in Chennai only

With the ensuing amalgamation of Gemini TV Pvt Ltd and transfer and vesting of all the undertakings / divisions except FM radio division of Udaya TV Pvt Ltd with Sun TV Ltd, the name of Sun TV Ltd is proposed to be changed to Sun TV Network Ltd.

### Formidable player in the Southern Market

According to the TAM findings, SUN's channels collectively have had the **highest combined audience share** of any network in their respective markets for each of the past 3 years. The network's flagship Tamil channel, **Sun TV has had the 2<sup>nd</sup> largest audience share** of any television channel in all of India during this period. Further, its Telugu and Kannada flagship channels (Gemini TV and Udaya TV) have also had the highest audience share in India in their respective languages.

### SUN TV's Market Share



Source: TAM Research 2006

SUN's consistent dominance across the south is evident from the high popularity of its channels across languages and genres. While broadcasting remains the core business of the company, SUN is also poised to be one of the leading private FM radio broadcasters in India. With radio being a local advertising medium, SUN's 21 radio licenses in its home turf of south India provide an immensely profitable opportunity for the network.

### Large, Sustainable & Growing Market

Television has immensely benefited from India's economic growth, which has encouraged Indian companies to increase their ad spends. It continues to dominate the E&M industry with a share of ~42%, which is expected to further increase to reach ~51% (Rs 427bn) by 2010. **The regional TV advertisement market is currently estimated at ~Rs 14.8bn and is expected to increase to ~Rs 25.0bn by 2010E.** Subscription revenues are also expected to increase manifold, benefited by the increased addressability ushered in by digitization.

## Indian Television Market

	2006E	2007E	2008E	2009E	2010E
<b>GDP at current prices</b>	<b>34,005,960</b>	<b>37,746,616</b>	<b>41,898,743</b>	<b>46,507,605</b>	<b>51,623,442</b>
No. of HHs in India (mn)	210	215	221	226	232
<b>No. of TV HHs (mn)</b>	<b>108</b>	<b>112</b>	<b>125</b>	<b>134</b>	<b>143</b>
TV penetration in India	51%	54%	57%	59%	62%
<b>No. of C&amp;S HHs (mn)</b>	<b>62</b>	<b>68</b>	<b>77</b>	<b>87</b>	<b>99</b>
C&S penetration in TV HH	57%	59%	62%	65%	69%
<b>Television Subscription Market</b>	<b>100,000</b>	<b>123,000</b>	<b>158,000</b>	<b>221,000</b>	<b>306,000</b>
<i>Growth %</i>	16%	17%	19%	23%	23%
<b>Television Ad Market</b>	<b>61,000</b>	<b>70,000</b>	<b>81,000</b>	<b>93,000</b>	<b>106,000</b>
<i>Growth %</i>		15%	16%	15%	14%
<b>Regional TV Ad Market</b>	<b>14,820</b>	<b>16,895</b>	<b>19,260</b>	<b>21,956</b>	<b>25,030</b>
Tamil Language Market Share	3,420	3,899	4,445	5,067	5,776
Malayalam Language Mkt Share	1,482	1,689	1,926	2,196	2,503
Kannada Language Ad Mkt	1,710	1,949	2,222	2,533	2,888
Telugu Language Mkt Share	2,850	3,249	3,704	4,222	4,814

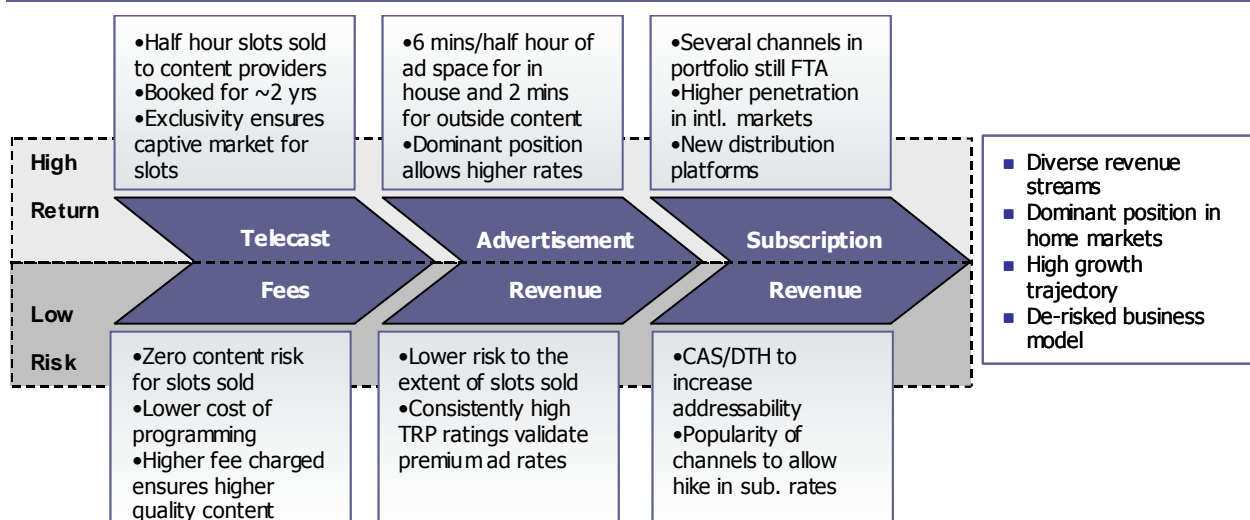
Source: FICCI-PwC The Indian Entertainment and Media Industry 2006, ENAM Research

## SUN: Business Overview

### Business Model: Covering All Bases

SUN TV Ltd has been able to capitalize on its leadership position built over the years, by fortifying its **hold over the key aspects of pricing and access to quality content**. It is able to practice its strategy of **passing on programming risk** to producers by selling them telecast slots under exclusive agreements, additionally ensuring a **continued supply of quality content**. A steady flow of highly popular programs and a dominant share of audience viewership have given the network **tremendous pricing power** vis-à-vis competition. South India produces the largest number of films per year and with a huge movie-following target audience, SUN ensures access to popular content, by purchasing **~90% of all south Indian movie releases** on a perpetual rights basis.

### De-risked Business Model



Source: ENAM Research

### **Competitive Advantage: Sustainable Dominance**

SUN's competitiveness stems from its **high popularity across the 4 markets** of Tamil Nadu, Kerala, Karnataka and Andhra Pradesh. With a 20 channel offerings, the network is the **1<sup>st</sup> choice for any content producer**, which gives it significant pricing power. The channels' popularity has also enabled the network to source **high quality content on an exclusive basis**. A **large library of movie titles** (over ~7,700 titles) gives it further advantage in terms of content syndication & content sharing among channels.

### **Business Drivers: All Cylinders Firing**

SUN has recently announced the **conversion of its flagship channel, Sun TV from a FTA channel to a pay channel** with effect from 2<sup>nd</sup> December 2006 in all of India except Chennai. To be offered as a bouquet, Sun TV's popularity and expected high subscriber declaration are poised to benefit the network's other channels. **Increased addressability from digitization and newer distribution platforms, new channel launches across languages and genres, and increased penetration in international markets is also expected to boost subscription revenues**. The company has also recently announced an **ad rate hike for Sun TV ranging from 5 to 27%**, depending on the time slot and channel, which is estimated to result in a ~10-12% increase in ad revenues.

### **Concerns**

The key concern for SUN is a **decline in the popularity of its channels**, which can adversely impact its advertisement and subscription revenues. Further, a **delay in launch** of its new channels and radio stations, or a **delay in converting its FTA channels** to pay mode can also impact SUN's future growth. Also, a **slower rollout of digitization** through a subdued acceptance of CAS and DTH remain a concern that needs to be monitored.

### **Valuation**

At CMP of Rs. 1,503 the stock trades at 31.7x and 22.1x FY08E EPS of Rs. 47.4 and FY09E EPS of Rs. 67.9 respectively. However, given **SUN's dominant position in South India as well as the huge addressable opportunity** available to the merged entity we believe the company deserves to trade at a premium to its peers.

In our opinion, further **value creation is likely to happen as SUN expands its portfolio via new channel launches and increases its footprint in international markets**.

Our price target is based on a **24x FY09E EPS**, (30x FY09E discounted back @ 20%) + ~Rs. 12bn of cash (~ Rs. 120 per share) on the company's books in FY09E. We believe the company is currently undervalued and initiate coverage with an **Outperformer** rating and a price target of Rs **1,750**.

# Industry Evaluation

## INDIAN MEDIA & ENTERTAINMENT INDUSTRY – HIGH GROWTH TRAJECTORY

Indian Entertainment & Media (E&M) is at an inflexion point today, as opportunities and growth embrace all its segments. The industry has outperformed the Indian economy and is one of the fastest growing sectors today.

### Media Penetration across segments

SEC	Print Media		TV		Satellite TV		Radio		Films	
	Reach (mn)	Reach (%)	Reach (mn)	Reach (%)	Reach (mn)	Reach (%)	Reach (Mn)	Reach (%)	Reach (mn)	Reach (%)
Urban India										
A1	7.57	95.2	7.64	96.1	6.68	84.0	2.90	36.5	2.43	30.6
A2	13.9	90.5	14.51	94.5	11.9	77.5	4.58	29.8	3.85	25.1
B1, B2	31.97	81.1	35.71	90.6	26.57	67.4	9.73	24.7	7.53	19.1
C	33.78	69.5	41.69	85.8	28.86	59.4	11.22	23.1	8.79	18.1
D	29.28	52.6	43.15	77.5	27.23	48.9	11.41	20.5	9.52	17.1
E1, E2	20.99	30.1	45.32	65.0	26.32	37.8	11.02	15.8	10.95	15.7

Source: IRS 2005, FICCI - PwC The Indian Entertainment and Media Industry 2006

The size of the E&M industry in India is currently estimated at Rs 402bn and is expected to grow at 19% CAGR over the next 5 years. The television industry continues to dominate the E&M industry by garnering a share of ~42%, which is expected to further increase to ~51% by 2010.

### The Indian Entertainment and Media Industry

(Rs. mn)	2006E	2007E	2008E	2009E	2010E	CAGR (%)
<b>Television</b>	<b>170,000</b>	<b>203,000</b>	<b>250,000</b>	<b>327,000</b>	<b>427,000</b>	-
<i>Growth (%)</i>	<i>15</i>	<i>19</i>	<i>23</i>	<i>31</i>	<i>31</i>	<i>26</i>
<b>Filmed Entertainment</b>	<b>79,000</b>	<b>97,000</b>	<b>113,000</b>	<b>132,000</b>	<b>153,000</b>	-
<i>Growth (%)</i>	<i>16</i>	<i>23</i>	<i>16</i>	<i>17</i>	<i>16</i>	<i>18</i>
<b>Radio</b>	<b>3,700</b>	<b>5,500</b>	<b>8,000</b>	<b>10,000</b>	<b>12,000</b>	-
<i>Growth (%)</i>	<i>23</i>	<i>49</i>	<i>45</i>	<i>25</i>	<i>20</i>	<i>34</i>
<b>Music</b>	<b>7,200</b>	<b>7,200</b>	<b>7,300</b>	<b>7,400</b>	<b>7,400</b>	-
<i>Growth (%)</i>	<i>3</i>	<i>0</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>1</i>
<b>Live Entertainment</b>	<b>9,400</b>	<b>11,000</b>	<b>13,000</b>	<b>16,000</b>	<b>18,000</b>	-
<i>Growth (%)</i>	<i>18</i>	<i>17</i>	<i>18</i>	<i>23</i>	<i>13</i>	<i>18</i>
<b>Print Media</b>	<b>121,000</b>	<b>135,000</b>	<b>153,000</b>	<b>173,000</b>	<b>195,000</b>	-
<i>Growth (%)</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>13</i>	<i>13</i>	<i>13</i>
<b>Out-Of-Home</b>	<b>10,500</b>	<b>12,000</b>	<b>13,500</b>	<b>15,500</b>	<b>17,500</b>	-
<i>Growth (%)</i>	<i>17</i>	<i>14</i>	<i>13</i>	<i>15</i>	<i>13</i>	<i>14</i>
<b>Internet Advertising</b>	<b>1,500</b>	<b>2,500</b>	<b>3,800</b>	<b>5,500</b>	<b>7,500</b>	-
<i>Growth (%)</i>	<i>50</i>	<i>67</i>	<i>52</i>	<i>45</i>	<i>36</i>	<i>50</i>

Source: FICCI-PwC The Indian Entertainment and Media Industry 2006

## INDIAN TELEVISION BROADCASTING INDUSTRY

### Large, Sustainable & Growing

The television market was estimated at Rs 170bn in 2006 and is expected to reach Rs 427bn by 2010. There are a total of 108mn television households (HH) estimated in India currently, which are expected to grow at ~7% to reach a total of ~159mn by 2012 translating into a TV penetration level of ~65%. Of this, Cable & Satellite (C&S) homes are likely to account for 113mn HHs in 2012 resulting in a 71% penetration of TV HHs. The Indian television market is on the threshold of a major technological change, with new distribution technologies such as digital cable, DTH and IPTV expected to revolutionize the broadcasting industry.

### Indian Television Broadcasting Industry

	2006E	2007E	2008E	2009E	2010E	2011E	2012E
<b>No. of HHs in India (mn)</b>	<b>210</b>	<b>215</b>	<b>221</b>	<b>226</b>	<b>232</b>	<b>238</b>	<b>244</b>
<i>Growth Rate (%)</i>	-	3	3	3	3	3	3
<b>No. of TV HHs (mn)</b>	<b>108</b>	<b>112</b>	<b>125</b>	<b>134</b>	<b>143</b>	<b>151</b>	<b>159</b>
<i>Growth Rate (%)</i>	-	8	8	7	7	6	5
TV penetration in India	51	54	57	59	62	64	65
<b>HHs with only Terrestrial TV (mn)</b>	<b>46</b>	<b>48</b>	<b>48</b>	<b>47</b>	<b>44</b>	<b>45</b>	<b>46</b>
<b>No. of C&amp;S HHs (mn)</b>	<b>62</b>	<b>68</b>	<b>77</b>	<b>87</b>	<b>99</b>	<b>107</b>	<b>113</b>
<i>Growth Rate (%)</i>	-	10	13	13	13	8	5
C&S penetration in TV HHs	57	59	62	65	69	71	71

Source: FICCI-PwC The Indian Entertainment and Media Industry 2006

### The Southern TV Broadcasting Industry

The total homes with access to C&S have increased by ~12% from 62mn to 68mn this year. Of the 68mn TV HHs estimated in India currently, the southern television market, comprising of the 4 states of Tamil Nadu (5.6mn), Kerala (2.6mn), Andhra Pradesh (6.3mn) and Karnataka (3.8mn) account for the largest share (27%), with 18.2mn TV HHs.

### Southern TV Market

(mn)	Tamil Nadu	Kerala	Andra Pradesh	Karnataka
Population	62.1	31.8	75.7	52.7
No. of HHs	14.2	6.6	20	10.2
No. of TV HHs	5.6	2.6	6.3	3.8
TV penetration (%)	39.5	38.8	31.5	37

Source: Marketing White Book 2006



## REVENUE STREAMS OF INDIAN BROADCASTERS

### Advertising: On A High Growth Trajectory

Television advertising accounts for the largest share of the advertising pie in India. It is further expected to grow at ~21% over the next 4 years to reach Rs 108bn from the current Rs 51bn levels. The regional TV ad market is currently estimated to be 24% of the total TV ad market at ~Rs 14.8bn (2005E) and is expected to increase to ~Rs 25bn by 2010E.

### Indian Ad Market: On a high growth trajectory

(Rs mn)	2006E	2007E	2008E	2009E	2010E
<b>GDP at current prices</b>	<b>34,005,960</b>	<b>37,746,616</b>	<b>41,898,743</b>	<b>46,507,605</b>	<b>51,623,442</b>
<i>Growth (%)</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>
<b>Total Adv Market</b>	<b>121,207</b>	<b>139,389</b>	<b>160,297</b>	<b>184,341</b>	<b>211,993</b>
<i>Growth (%)</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>
Ad market as % of GDP	0.36	0.37	0.38	0.40	0.41
<b>Television share (%)</b>	<b>42.26</b>	<b>42.90</b>	<b>44.52</b>	<b>47.64</b>	<b>50.99</b>
Increase (%)	0.25	0.50	0.50	1.25	0.50
<b>Television Mkt Share</b>	<b>51,218</b>	<b>59,796</b>	<b>71,357</b>	<b>87,820</b>	<b>108,097</b>
<i>Growth (%)</i>	<i>16.0</i>	<i>16.7</i>	<i>19.3</i>	<i>23.1</i>	<i>23.1</i>
<b>C&amp;S Market</b>	<b>45,105</b>	<b>53,190</b>	<b>63,428</b>	<b>78,868</b>	<b>97,802</b>
<i>Growth (%)</i>	<i>5.5</i>	<i>17.9</i>	<i>19.2</i>	<i>24.3</i>	<i>24.0</i>
% of TV Market	88	89	89	90	90
<b>Regional TV Ad Market</b>	<b>14,820</b>	<b>16,895</b>	<b>19,260</b>	<b>21,956</b>	<b>25,030</b>
Tamil	3,420	3,899	4,445	5,067	5,776
Malayalam	1,482	1,689	1,926	2,196	2,503
Kannada	1,710	1,949	2,222	2,533	2,888
Telugu	2,850	3,249	3,704	4,222	4,814

Source: FICCI – PwC The Indian Entertainment & Media 2006

Television has immensely benefited from India's economic growth, which has encouraged Indian companies to increase their ad spends. However, the Indian market continues to be characterized by lower ad-spend to GDP ratio (0.34%) compared to other emerging economies in Asia as well as the developed world.

### Subscription: Benefiting from increased addressability

The number of C&S TV HHs is currently at ~68mn and is estimated to reach ~113mn HHs by 2012. However, the Indian C&S television market has been characterized by low subscription rates (monthly fees paid by subscribers), compared to other countries. In addition, there has been alleged under-reporting of subscriber numbers by some operators. From an average collection of Rs 130 per month, subscription rates are estimated to go up to at least Rs 250 per month by 2010, translating into a CAGR of ~29% over the next 5 years. The subscription market is expected to increase from ~Rs 100bn (FY06E) to Rs 306bn by FY10E.

Addressability is natural fallout of the phasing out of analogue and the gradual switchover to digital. DTH subscribers are estimated to register a 10-fold jump from 1.5mn in 2006 to 17mn by 2011. Further, with CAS becoming mandatory in the markets of Delhi, Kolkata and Mumbai from 31<sup>st</sup> December 2006, it is expected that ~1.6mn subscribers shall be added to the digital net. It is estimated that ~30mn HHs shall come under the CAS regime by 2015, which translates into a penetration of 24% of C&S HHs. **Increased addressability** is expected to be a **key catalyst benefiting broadcasters**, in terms of **transparency and a higher declaration of subscriber base**.

### Digitizing India

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
<b>C&amp;S HHs (Mn)</b>	<b>62</b>	<b>68</b>	<b>77</b>	<b>87</b>	<b>99</b>	<b>107</b>	<b>113</b>	<b>117</b>	<b>123</b>	<b>126</b>
Growth rate %	-	10.2	12.9	13.3	13.3	8	5.5	3.9	4.6	2.8
C&S penetration in TV HH	57	59	62	65	69	71	71	71	72	73
<b>Analogue Cable HHs (mn)</b>	<b>61</b>	<b>64</b>	<b>67</b>	<b>70</b>	<b>71</b>	<b>71</b>	<b>70</b>	<b>68</b>	<b>66</b>	<b>64</b>
Growth Rate %	-	5	5	4	2	0	-2	-3	-2	-3
Penetration in C&S HH	98	94	87	80	72	67	62	58	54	51
<b>DTH HHs, excl. FTA (mn)</b>	<b>0.9</b>	<b>2.6</b>	<b>5.3</b>	<b>8.7</b>	<b>12.9</b>	<b>17.4</b>	<b>21.5</b>	<b>24.8</b>	<b>27.9</b>	<b>31.3</b>
Penetration as % TV HHs in India	0.9	2.2	4.2	6.5	9	11.5	13.5	15	16.4	18
Growth of DTH HHs	-	176.3	105.2	65.6	47.5	35.4	23.3	15.6	12.6	12
<b>No. of other Digital HHs (mn)</b>	<b>0.1</b>	<b>1.7</b>	<b>4.6</b>	<b>8.7</b>	<b>14.9</b>	<b>18.2</b>	<b>21.4</b>	<b>24.6</b>	<b>28.2</b>	<b>30.2</b>
Penetration as % C&S HHs(%)	0	2.5	6	10	15	17	19	21	23	24
<i>Growth Rate % (%)</i>		<i>3,316</i>	<i>171</i>	<i>89</i>	<i>70</i>	<i>22</i>	<i>18</i>	<i>15</i>	<i>15</i>	<i>7</i>
<b>Market Share in C&amp;S HHs</b>										
Analogue Cable HHs (%)	98.4	93.7	87.2	80	72	66.7	62	58	54.2	51.2
DTH HHs (%)	1.5	3.8	6.8	10	13	16.3	19	21.2	22.8	24.8
Other Digital HHs (%)	0.1	2.5	6	10	15	17	19	21	23	24
<b>Total (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Industry

### Broadcast Fees: Outsourcing the programming risk

A unique revenue model, adopted by select broadcasters such as SUN sells telecast slots (half hour durations) to content producers for a fee. The key advantage of this approach is that the entire risk of content is borne by the producer, who ensures the highest quality of programming to be able to charge high ad rates to make the venture profitable. Additionally, the broadcasters may retain a certain amount of ad space for themselves, thereby partaking in the upside gained from popular programs produced and telecast on their channels.

### Other revenue streams

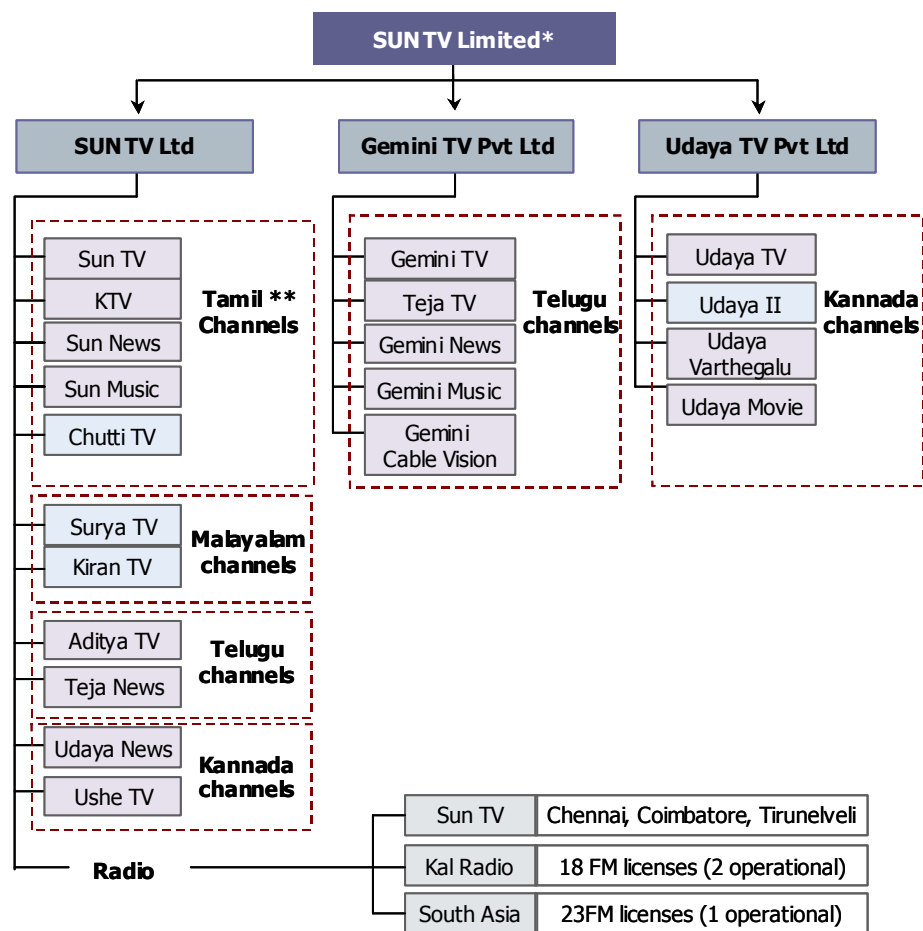
Revenues from overseas arrangements are also expected to increase as international markets are addressed through focused programming and greater penetration. Content syndication could also grow through international interest in India as well as the growth of the domestic broadcasting industry. The use of new media for broadcast of content through mediums such as mobile phones and broadband also has strong potential.

# Business Evaluation

## SUN TV LTD. - DOMINANT PLAYER

SUN TV Ltd. (SUN) is one of the largest television broadcasters in India with a dominant position in the southern regions of Tamil Nadu, Kerala, Andhra Pradesh, Karnataka and Pondicherry. The network has 20 television channels across 4 languages (Tamil, Malayalam, Kannada and Telugu) as well as 44 FM Radio licenses (6 operational).

### SUN's Broadcasting Empire



□ FTA – Free to Air    □ Paid Channel/Part of Paid Bouquet

Source: Company; \* Note: To be known as SUN TV Network Ltd. after the proposed amalgamation; Note: \*\* FTA in Chennai only

With the ensuing amalgamation of Gemini TV Pvt Ltd and transfer and vesting of all the undertakings / divisions except FM radio division of Udaya TV Pvt Ltd with Sun TV Ltd, the name of Sun TV Ltd is proposed to be changed to Sun TV Network Ltd.

## SUN's Unique Business Model

### Covering All Bases

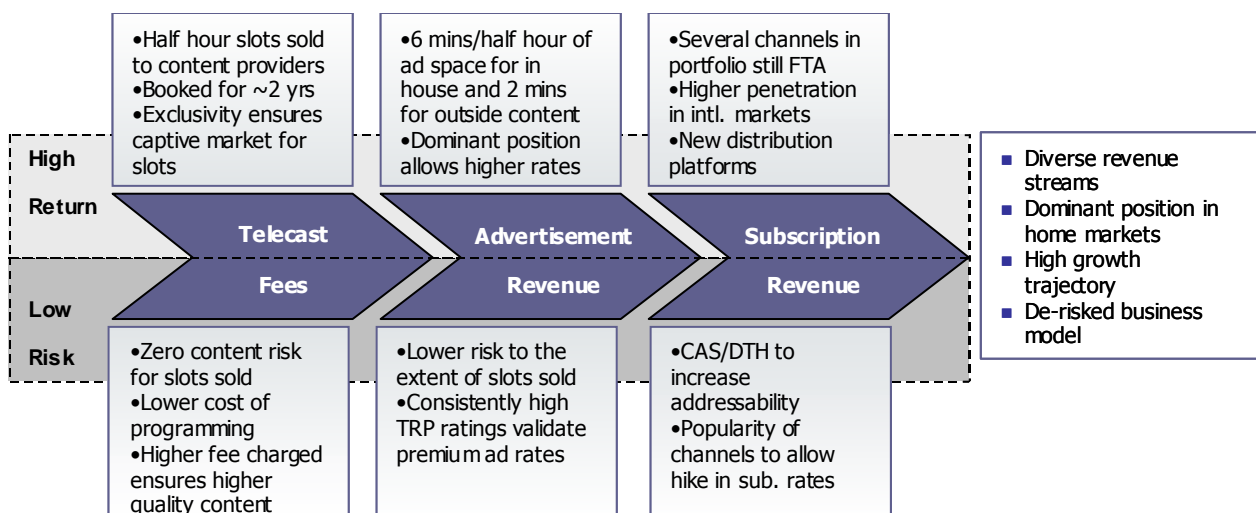
SUN's business model consists of capitalizing on its leadership position, built over the years, by fortifying its hold over the key aspects of pricing and access to quality content. SUN's dominance in terms of viewership share across all languages and genres that it is present in, has given it tremendous pricing power. This is evident from its "No Bundling" policy across channels as well as restraint from giving bulk discounts. In addition to a diverse offering of channels, SUN is able to exclusively access the best content through its tie-ups with leading producers. Going forward, this advantageous position is also expected to result in a smooth and highly profitable transition of its FTA channels to pay mode.

### Telecast Slot Sales: A Unique Approach

Apart from regular advertisement and subscription revenue streams, SUN also enjoys revenue from sale of half hour slots to content producers along with 4 minutes of ad space, in return for a telecast fee. This revenue source is adopted only in SUN's flagship channels of Sun TV, Surya TV, Gemini TV and Udaya TV, enabling SUN to pass on the programming risk to content producers, while keeping its cost of programming low.

Further, by keeping the telecast fees high, SUN ensures the quality of its content, allowing it to realize higher profitability from its share of ad space (2 minutes). Selling these slots on an exclusive basis also restricts content producers from working with any other channel, while broadcasting on the SUN network.

### De-risked Business Model



Source: ENAM Research

### Movie rights: Cornering the prime content source

SUN's strategy of purchasing ~90% of all movie releases in Tamil, Malayalam, Telugu and Kannada ensures that it has perpetual access to popular programming content. Currently SUN has a total of ~7,700 movie rights in its library across the 4 languages, with almost ~250 titles added each year.

**SUN's diverse offering**

Channel	Key Market	Launch Year	FTA / Pay	Genre	Audience Share* (TAM Research)(%)
<b>Tamil Language Tamil Nadu**</b>					
Sun TV		1993	Pay	GEC	47.19
KTV		2001	Pay	Movies	16.42
Sun News		2000	Pay	News	1.55
Sun Music		2004	Pay	Music	5.14
<b>Malayalam Language Kerala</b>					
Surya TV		1998	FTA	GEC	25.4
Kiran TV		2005	FTA	Movies & Music	4.59
<b>Telugu Language Andhra Pradesh</b>					
Gemini TV		1995	Pay	GEC	24.82
Teja TV		2000	Pay	Movies	14.24
Gemini News		2006	Pay	News	0.48
Gemini Music		2006	Pay	Music	2.52
Teja News		2004	Pay	News	
Aditya TV		2005	Pay	Music	
<b>Kannada Language Karnataka</b>					
Udaya TV		1994	Pay	GEC	19.53
Udaya 2		2006	FTA	Music	3.00
Udaya Varthegalu		2006	Pay	News	7.95
Udaya Movies		2006	Pay	Movies	0.67
Ushe TV		2000	Pay	Movies	
Udaya News		2001	Pay	News	

Source: Company, TAM Research; Note: In addition to the above, the company has the channels, Chutti TV and Gemini Cable Vision; \* Note: State wise share for the period April to December 2006; \*\* Note: FTA in Chennai; N.A. - Not Available

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# Competitive Advantage

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## **Sustainable Dominance**

SUN is one of the largest television broadcasters in India, in terms of audience share. SUN's competitiveness stems from its high popularity across the 4 markets of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka. With a 20 channel offering, it is the 1<sup>st</sup> choice for any content producer, which has given it significant pricing power. With exclusive access to high quality content SUN is expected to maintain its leadership position going forward.

## **Amalgamation to bring about synergies**

The ensuing amalgamation of Gemini TV Pvt Ltd and transfer and vesting of all the undertakings / divisions except FM radio division of Udaya TV Pvt Ltd with Sun TV Ltd is expected to further strengthen its position in the south. With all 3 being leaders in their home markets of Tamil Nadu, Kerala, Andhra Pradesh and Karnataka respectively, the new combined entity boasts of a total of 20 channels across all genres of general entertainment, movies, news and music. Strong advertising and telecast fee based earnings coupled with strong domestic & overseas subscription revenues for all 3 companies augurs well for the combined group.

## **Control over content**

SUN's exclusivity policy while entering into agreements with leading Tamil production houses gives it an edge over its peers, given the high popularity of its channels. Thus, content producers cannot simultaneously produce content for other broadcasters, while their programs are telecast on SUN's network. It is also noteworthy that Sun TV's telecast slots are booked for the next 2 years, and any content producer who gives up his slot would have to wait a minimum 2 years before he can get his program to air on Sun TV.

## **Extensive Library of Titles**

SUN TV boasts of having the largest library of movie titles in the country today with over 7,700 titles to its name across all three companies of Sun, Gemini and Udaya. SUN has been acquiring ~90% of all Tamil and Malayalam film releases (~185-190 per year) as well as films released in Telugu and Kannada (~80-85 per year), giving it tremendous advantages in terms of content syndication and content sharing among its channels.

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# Business Drivers

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SUN has recently announced the conversion of Sun TV from a FTA channel to a pay channel with effect from 2<sup>nd</sup> December 2006 in all of India except Chennai. With Sun TV's popularity and expected high subscriber declaration, this is expected to increase declaration for SUN's other channels as well. With increased addressability being ushered in by digitization, this shall translate into significant growth in revenue for the company.

SUN has also effected an ad rate hike from 1<sup>st</sup> January 2007, ranging from 5 to 27% for its flagship channel, Sun TV, depending on the time slot, which is estimated to result in a ~10-12% increase in ad revenues. New channel launches across languages and genres, and increased penetration in international markets via cable is expected to further increase SUN's revenues in the coming years.

## **Conversion to Pay TV**

With the popularity of SUN's channels in their home markets, converting the same to pay channels should be extremely profitable for the network. The company has announced the conversion of its flagship Tamil channel, Sun TV from a FTA channel to a pay channel with effect from 2<sup>nd</sup> December 2006 in all of India except Chennai, where it shall continue to air on a FTA basis. We expect a subscription base of ~4mn for its flagship channel, which is available at a subscription fee of Rs 12 per subscriber per month. This is expected to further increase the subscriber declaration for SUN's other pay channels as well. Going forward, the conversion of several other channels that are currently being aired on a FTA basis, is expected to increase SUN's subscription revenues significantly.

## **Ad Rate Increase**

While SUN does not increase its ad rates frequently, the quantum of its rate hikes compensate for its irregularity. SUN has recently announced a rate hike ranging from 5 to 27%, depending on the time slot and channel. This measure is expected to increase ad revenues by an average of 10-12% across channels. The rate hike effective from 1<sup>st</sup> January 2007, is a testimony to the tremendous increase in SUN's viewership and premium pricing power.

## **New distribution platforms**

With digital distribution channels such as DTH and CAS now a reality, SUN's subscriber base is expected to increase significantly from its current dismal levels of 15-30% in the southern markets.

### **New Channel launches**

SUN intends on several new channels within the next 12 months across various languages and genres to meet programming void in its current offerings. Revenue sources for these channels vary as per their genre; for example, a GEC channel enjoys a regular flow of ad and subscription revenue, a sports channel is mostly event driven, while the documentary based channel's main source of revenue is subscription revenue alone. A well-balanced portfolio of channels will ensure regular cash flows while providing a variety of programming to capture the eyeballs of the entire family.

### **On the Launch Pad**

Language	Genre	Launch Date	Pay Mode / FTA
Tamil	Sports	Before Dec 2007	FTA Initially
Tamil	Documentary	Before Dec 2007	FTA Initially

Source: Company

### **Overseas Market –Increased Subscription Potential**

Currently, SUN's channels are available in the overseas markets of US, Europe, Africa, New Zealand, Malaysia, Singapore, Middle East, Sri Lanka and Australia. Further, Gemini TV's channels are currently available only in the US and Dubai, while Udaya TV's channels are broadcast solely in the US market. This leaves an immense amount of potential for the network to improve its penetration level and increase its subscriber base. Among all its international markets, the US is the largest, due to the large south Indian population residing there. However, so far, SUN has been able to provide its services in the US only through the DTH platform, making it inaccessible to those residing in apartments, which forms a large section of its target audience. The network has only now received an approval to distribute its channels in the US via cable. This, we believe shall be a key driver, which shall help the network add a significant number of subscribers to its basket. Besides the US, there are several other markets, such as Europe, which the company feels it has not been able to tap sufficiently.



## RADIO – A SYNERGISTIC OPPORTUNITY

Radio broadcasting in India is a potentially large, sustainable and growing industry, which finds itself at an inflexion point today. Given India's low ad spend to GDP ratio of 0.34% as well as radio's share of the total ad market at a meager 3%, we believe the radio industry has the potential to register a 5 fold increase by 2010, translating into a ~Rs 14-18bn market for private FM broadcasters.

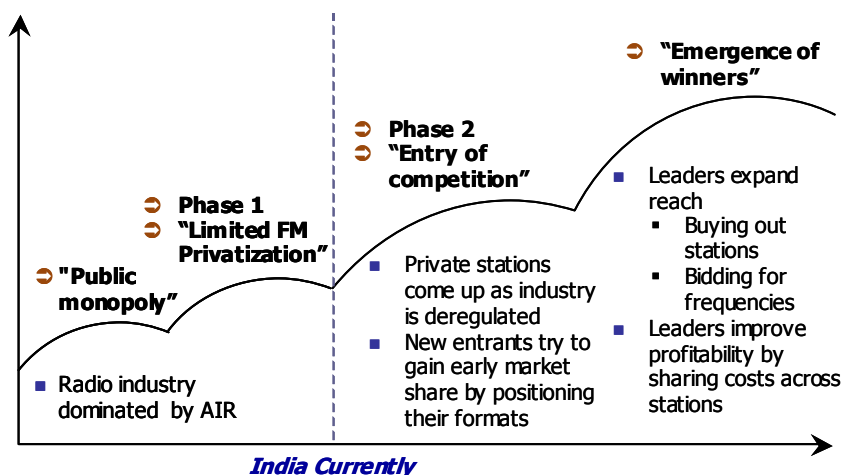
### Indian Radio Industry Size

(Rs. Bn)	2005	2006E	2007E	2008E	2009E	2010E
<b>Nominal GDP at current prices</b>	<b>30,636</b>	<b>34,005</b>	<b>39000</b>	<b>41,898</b>	<b>46,507</b>	<b>51,623</b>
<i>Growth (%)</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>	<i>11</i>
<b>Total Adv Market</b>	<b>105.4</b>	<b>121.2</b>	<b>139.4</b>	<b>160.3</b>	<b>184.3</b>	<b>212</b>
<i>Growth (%)</i>	<i>-</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>	<i>15</i>
<b>Ad market as % of GDP</b>	<b>0.34</b>	<b>0.36</b>	<b>0.37</b>	<b>0.38</b>	<b>0.4</b>	<b>0.41</b>
Radio share (%)	3	3.25	3.75	5	6	6.5
<i>Increase (%)</i>		<i>0.25</i>	<i>0.5</i>	<i>1.25</i>	<i>1</i>	<i>0.5</i>
<b>Radio Market Share</b>	<b>3.2</b>	<b>3.9</b>	<b>5.2</b>	<b>8</b>	<b>11</b>	<b>13.8</b>
<b>All India Radio Revenues</b>	<b>1.4</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>	<b>2</b>	<b>2.3</b>
<i>Growth (%)</i>	<i>-</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
<b>Private FM Channel Market</b>	<b>1.8</b>	<b>2,4</b>	<b>3,5</b>	<b>6.1</b>	<b>9</b>	<b>11.5</b>
<i>Growth (%)</i>	<i>-</i>	<i>36.5</i>	<i>47.6</i>	<i>74.6</i>	<i>46.6</i>	<i>28</i>

Source: FICCI-PwC The Indian Entertainment and Media Industry 2006

The industry's attractiveness has immensely increased by the recent implementation of Phase II policy, leading to a widespread expansion of the radio network across the country. Under the new policy, an additional 338 private FM radio channels will become operational across the country, spread over 91 cities/towns of A+, A, B, C, & D category. The rationalization of license fees, from a fixed amount to a revenue sharing model has further improved the sustainability of the radio business, which was previously burdened with huge license fee requirements, making the business unsustainable.

### Indian Radio Industry- At an inflexion point



Source: Industry, ENAM Research

## SUN's Radio Foray

SUN is one of the only 2 players to have won 44 radio licenses across the country, 3 under Sun TV Ltd. directly, 18 under its subsidiary, Kal Radio Ltd. and the balance 23 under its other subsidiary South Asia FM Ltd. Of the above, 6 are currently operational; 3 under Sun TV Ltd. (Chennai, Coimbatore, Tirunelveli), 2 under Kal Radio Ltd. (Bangalore, Hyderabad) and 1 under South Asia FM Ltd. (Jaipur).

### SUN's Radio Presence

		Southern Cities		Rest of India	
SUN TV : RADIO BUSINESS : 44 Stations	Kal Radio Pvt Ltd	1	Bangalore	1	Aizwal
		2	Cochin	2	Allahabad
		3	Gulbarga	3	Asansol
		4	Hyderabad	4	Aurangabad
		5	Kannur	5	Bhopal
		6	Kozhikode	6	Bhubneshwar
		7	Madurai	7	Gangtok
		8	Mangalore	8	Guwhati
		9	Mysore	9	Indore
		10	Pondicherry	10	Jabalpur
		11	Rajahmundry	11	Jaipur
		12	Thiruvananthapuram	12	Jamshedpur
		13	Thrissur	13	Kanpur
		14	Tiruchy	14	Lucknow
		15	Tirupathi	15	Ahmedabad
		16	Tuticorin	16	Nagpur
		17	Vijayawada	17	Nasik
		18	Warangal	18	Pune
SUN TV	South Asia FM Pvt Ltd			19	Rajkot
				20	Shillong
		1	Chennai	21	Siliguri
		2	Coimbatore	22	Vadodara
		3	Tirunelveli	23	Varanasi

Source: Company; ■ Within the top 13 cities with a population of 2mn+

Radio advertising is predominately seen as a local medium for retailers looking to target customers in their home markets. With 21 licenses in its home turf of south India, there is immense opportunity for SUN, as most of the population in these markets tunes in to regional music.

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# Concerns

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## **Decline in popularity of channels**

The key concern for SUN is a decline in the popularity of its channels, especially its flagship channels of Sun TV, Surya TV, Gemini TV and Udaya TV. Such a decline shall adversely impact its revenues, both from advertisements as well as subscription (in the light of new digital distribution channels). However, we believe SUN's high quality of content and large library of movie rights belittles any risk of popularity decline.

## **Delay in launch of new channels / conversion to pay**

A delay in the launch of its new channels, radio stations or a delay in converting its FTA channels to pay mode will adversely impact SUN's growth trajectory going forward. While SUN's flagship channel, Sun TV has turned pay in Tamil Nadu (sans Chennai), its Malayalam channels, Surya TV and Kiran TV still air on a FTA basis.

## **Regulatory changes**

The media industry in India has always been fraught with regulatory issues of licensing, investment caps and ownership limits. Regulations such as a ban on multi frequency ownership in the same city for radio, FDI cap of 26% in broadcasting, no dubbing of content (Kannada market) and a lock in of 3 years for telecast of movies acquired are some of the regulations holding this industry back. Although SUN has performed well in spite of these adversities, further regulatory changes remains a concern.

## **Delay in CAS/DTH to take off**

While CAS has been mandatory in certain markets of the 3 metro cities (currently accounting for 2mn subscribers) by 2007, rollout of the same in the rest of the country is still awaited. With favourable regulations, such as a cap on channel pricing at Rs.5/- per channel and a la carte options for consumers, the government has provided great impetus for CAS to take off. It remains to be seen whether the same can be spread to the rest of the country as well.

Direct-to-home (DTH) broadcasting is now offered by 3 players in India, Prasar Bharati (government), Tata Sky, (TATA and Star TV) and Dish TV (Zee group). With over ~2.0mn subscribers under DTH and another ~ 5000-8000 being added every week, the future of DTH seems bright. However, issues like content sharing between broadcasters and DTH platforms of rivals remain a hindrance in the rapid scale up of this technology.

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# Management Evaluation

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## **Capable management with proven execution capabilities**

SUN is a professionally managed company, with qualified and experienced professionals in the senior management. A rich experience and understanding of the broadcasting business, has enabled the company to take advantage of rapidly unfolding opportunities. High management bandwidth has allowed SUN to successfully build an impressive portfolio of channels, making it one of the bigger players in the broadcasting sector.

## **A focused and dynamic organization**

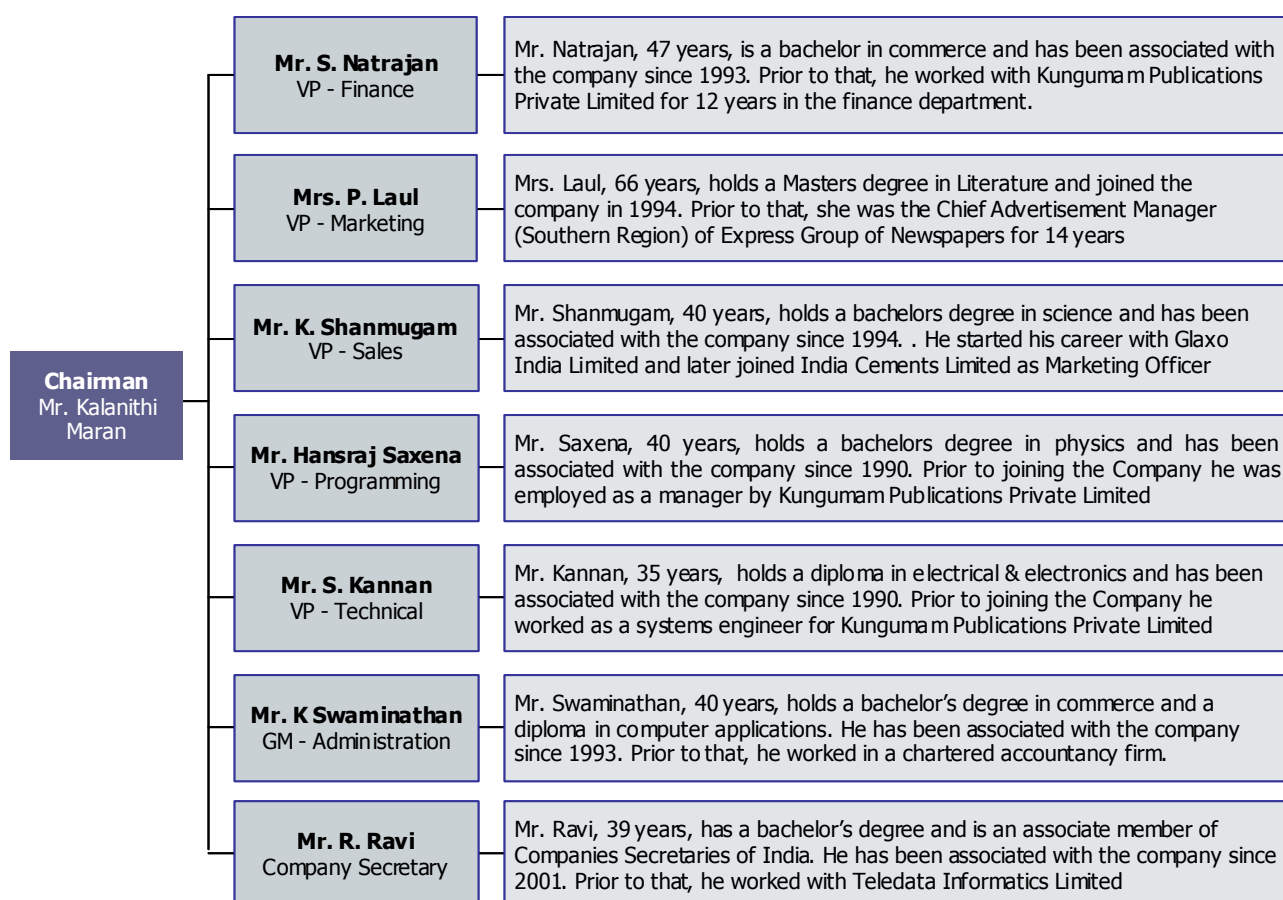
SUN's corporate philosophy has been to integrate the company, its people and technology into wholeness and to build a sustained competitive advantage. SUN recognizes human resources as its prime assets and firmly believes that its competitive edge lies in the team it has been able to build over the last few years.

## **Promoter background**

SUN is under the stewardship of Mr. Kalanithi Maran as the Chairman of the company (since 1990).

Mr. Kalanithi Maran – A MBA from the University of Scranton, Pennsylvania, Mr. Maran has over ~15 years of experience in the Indian media industry. He has been awarded the 'Rajiv Gandhi Best Entrepreneur Award' in 1995, the Worldcom 'Indian Young Business Achiever Award' in 1999 and the Ernst and Young 'Outstanding Businessman Award' for the entertainment and information sector in 2004.

## Key Management Team



Source: Company

# Financial Evaluation

## SUN TV LTD – POISED FOR GROWTH

SUN has embarked on a high growth path leading to significant growth in revenues on the back of increased ad rates, conversion to pay mode and increased addressability. Further, given the new channel launches and increased penetration in the overseas markets we expect revenue's to grow at a CAGR of 37% over the next 3 years.

### SUN's Revenue Growth

(Rs mn)	FY07E	FY08E	FY09E
Advertising	4,148	5,463	7,709
Subscription	1,608	2,852	3,779
Telecast Fee	1,130	1,298	1,489
Others	289	345	420
<b>Total</b>	<b>7,176</b>	<b>9,959</b>	<b>13,396</b>

Source: ENAM Research; Note: Figures are on a consolidated basis for the merged entity

### Well-deserved ad rate hike

SUN has recently announced an ad rate hike ranging from 5 to 27% across time bands for its flagship channel, Sun TV, with effect from 1<sup>st</sup> December 2006, which is expected to result in a ~20% increase in ad revenue for the company. Being the dominant player that it is, SUN's channels are unavoidable for anyone looking to reach out to a southern target market. We believe SUN's rate hikes to be well accepted among advertisers, considering the same has not been affected for last 2 years. Its sustainable dominance brought about by its exclusive access to high quality content and high viewership of its channels ensures its continuous pricing advantage going forward.

### Pay for the SUN: An Assured Subscriber base

SUN has converted its flagship channel Sun TV from being aired on a FTA basis to pay mode in the whole of India (except Chennai). Given the flagship channel's high popularity, its expected high subscriber declaration is poised to benefit the company's other channels as well, which currently have an under-declared subscriber base. With increased addressability being ushered in by CAS and DTH, we expect the subscriber base for popular channels to grow at a rapid pace over the next few years.

### New Channel Launches: More sunshine coming your way

SUN has also announced its plans to launch several new channels across languages and genres (documentary, religion, lifestyle, etc) within the next 12 months, allowing it to increase the ARPU for its bouquets.

### Amalgamation to be EPS accretive

Amalgamation of Gemini TV and Udaya TV (except Udaya's FM radio division) with Sun TV augurs well for the company. In addition to being EPS accretive, the amalgamation further solidifies SUN's dominance in the southern markets of Tamil Nadu, Kerala, Andra Pradesh and Karnataka.

### Amalgamation of Gemini and Udaya into SUN: EPS Accretive

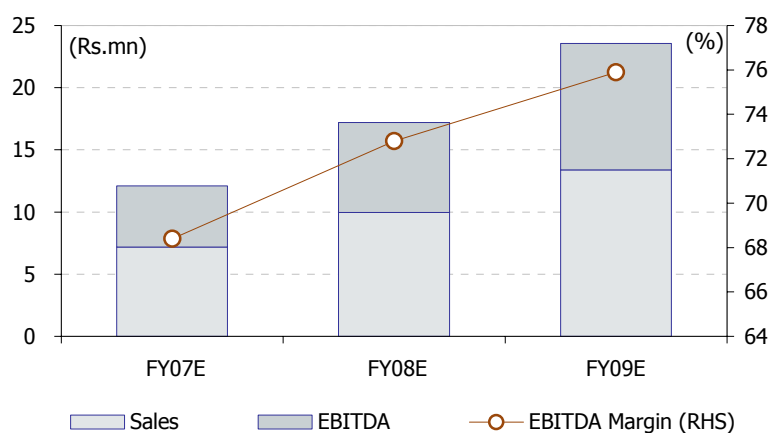
Company	No. of shrs (mn)	EPS (Rs.)	PAT (Rs mn)
Sun TV	68.89	18.8	1,300
Gemini TV	17.8	25.3	450
Udaya TV	11.83	21.1	250
<b>Total</b>	<b>98.52</b>	<b>20.3</b>	<b>2,000</b>

Source: ENAM Research

### Huge operating leverage to expand margins

With the advent of new channel launches, conversion to pay and ad rate hikes, SUN's revenues are expected to increase multi-fold in the years to come. Control on content via a telecast slot sales model, huge synergies across channels from SUN's large library of titles and economies of scale are expected to result in higher operating margins for SUN.

### Operating Margins



Source: ENAM Research

### Managing Profitable Growth

SUN reported a profit after tax of Rs. 2,000mn in FY06 on a consolidated basis. With the amalgamation of Gemini and Udaya in place we expect the company to register a consolidated Profit After Tax of Rs. 3,146mn in FY07, Rs. 4,673mn in FY08 and Rs. 6,689mn in FY09. As SUN launches new channels and with higher ratings for its channels coming from its high quality content, we expect the company to continue growing with healthy margins.

## Company Financials

### Income statement

(Rs. mn)

Y/E Mar	FY06	FY07E	FY08E	FY09E
<b>Total Income</b>	<b>3,220</b>	<b>7,176</b>	<b>9,959</b>	<b>13,396</b>
Advertising Revenue	2,017	4,148	5,463	7,709
Subscription Revenue	440	1,608	2,852	3,779
Telecast Fees	570	1,130	1,298	1,489
Others	194	289	345	420
<b>Total Expenditure</b>	<b>746</b>	<b>2,270</b>	<b>2,705</b>	<b>3,227</b>
Cost of goods sold	589	1,896	2,289	2,767
Advt/Sales/Distrn O/H	158	374	415	460
<b>Operating Profit</b>	<b>2,474</b>	<b>4,906</b>	<b>7,254</b>	<b>10,169</b>
Other income	172	392	452	577
<b>PBIDT</b>	<b>2,646</b>	<b>5,298</b>	<b>7,706</b>	<b>10,746</b>
Depreciation	585	512	616	616
Interest	65	41	41	41
<b>Pre-tax profit</b>	<b>1,995</b>	<b>4,745</b>	<b>7,049</b>	<b>10,089</b>
Tax provision	683	1,599	2,376	3,400
<b>Adjusted PAT</b>	<b>1,313</b>	<b>3,146</b>	<b>4,673</b>	<b>6,689</b>
E/o income / (Expense)	(10)	0	0	0
<b>Reported PAT</b>	<b>1,302</b>	<b>3,146</b>	<b>4,673</b>	<b>6,689</b>

### Key ratios

(%)

Y/E Mar	FY06	FY07E	FY08E	FY09E
<b>Sales growth</b>	-	-	<b>38.8</b>	<b>34.5</b>
<b>OPM</b>	<b>76.8</b>	<b>68.4</b>	<b>72.8</b>	<b>75.9</b>
Oper. profit growth	49.8	98.3	47.9	40.2
COGS / Net sales	18.3	26.4	23.0	20.7
Overheads/Net sales	4.9	5.2	4.2	3.4
Depreciation / G. block	15.1	7.9	7.5	6.8
Effective interest rate	4.7	3.5	-	-
Net wkg.cap / Net sales	0.3	0.1	0.1	0.1
Net sales / Gr block (x)	1.1	1.4	1.4	1.5
<b>RoCE</b>	<b>40.7</b>	<b>65.7</b>	<b>62.9</b>	<b>59.8</b>
Debt / equity (x)	0.7	0.0	0.0	0.0
Effective tax rate	34.2	33.7	33.7	33.7
<b>RoE</b>	<b>35.6</b>	<b>51.4</b>	<b>41.5</b>	<b>39.5</b>
<b>EPS (Rs.)</b>	<b>19.1</b>	<b>31.9</b>	<b>47.4</b>	<b>67.9</b>
EPS Growth	68.8	67.6	48.5	43.1
CEPS (Rs.)	27.6	37.1	53.7	74.2

### Balance sheet

(Rs. mn)

Y/E Mar	FY06	FY07E	FY08E	FY09E
<b>Total assets</b>	<b>5,674</b>	<b>8,978</b>	<b>13,651</b>	<b>20,341</b>
Gross block	3,862	6,504	8,242	9,107
Net fixed assets	2,899	3,682	4,804	5,053
CWIP	42	0	0	0
Investments	318	318	318	318
Wkg. cap. (excl cash)	1,453	577	1,277	2,445
Cash / Bank balance	722	4,232	7,008	12,150
Others/Def tax assets	241	168	244	375
<b>Capital employed</b>	<b>5,674</b>	<b>8,978</b>	<b>13,651</b>	<b>20,341</b>
Equity capital	620	985	985	985
Reserves	2,689	7,941	12,614	19,303
Borrowings	2,333	0	0	0
Others	32	52	52	52

### Cash-flow

(Rs. mn)

Y/E Mar	FY06	FY07E	FY08E	FY09E
<b>Sources</b>	<b>4,593</b>	<b>1,783</b>	<b>5,214</b>	<b>7,174</b>
Cash profit	1,882	3,679	5,289	7,306
(-) Dividends	0	0	0	0
Retained earnings	1,882	3,679	5,289	7,306
Issue of equity	600	365	0	0
Borrowings	1,911	(2,333)	0	0
Others	200	73	(76)	(131)
<b>Applications</b>	<b>4,593</b>	<b>1,783</b>	<b>5,214</b>	<b>7,174</b>
Capital expenditure	2,024	1,253	1,738	865
Investments	315	0	0	0
Net current assets	718	(876)	700	1,168
Change in cash	1,535	1,406	2,775	5,142

Source: ENAM Research; FY06 on standalone basis, Estimates are on a consolidated basis for the amalgamated entity



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# Valuations

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At CMP of Rs. 1,503 the stock trades at 31.7x and 22.1x FY08E EPS of Rs. 47.4 and FY09E EPS of Rs. 67.9 respectively. However, given **SUN's dominant position in South India as well as the huge addressable opportunity** available to the merged entity we believe the company deserves to trade at a premium to its peers.

In our opinion further **value creation is likely to happen as SUN expands its portfolio via new channel launches and increases its footprint in international markets.**

Our price target is based on a **24x FY09E EPS**, (30x FY09E discounted back @ 20%) + ~Rs 12bn of cash (~Rs. 120 per share) on the company's books in FY09E. We believe the company is currently undervalued and initiate coverage with an **Outperformer** rating and a price target of Rs **1,750**.

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**Disclosure of interest statement (As of February 23, 2007)**

1. Analyst ownership of the stock	No
2. Firm ownership of the stock	No
3. Directors ownership of the stock	No
4. Investment Banking mandate	Yes
5. Broking relationship	No

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