

July 30, 2009

Rating	Reduce
Price	Rs427
Target Price	Rs289
Implied Upside	(-) 32.3%
Sensex	15,388

(Prices as on July 30, 2009)

Trading Data

Market Cap. (Rs bn)	14.6
Shares o/s (m)	34.2
Free Float	16.7%
3M Avg. Daily Vol ('000)	37.4
3M Avg. Daily Value (Rs m)	14.2

Major Shareholders

Promoters	83.3%
Foreign	5.7%
Domestic Inst.	3.4%
Public & Others	7.6%

Stock Performance

(%)	1M	6M	12M
Absolute	17.8	65.5	(44.6)
Relative	11.7	2.2	(52.3)

Price Performance (RIC: UTVS.BO, BB: UTV IN)



Source: Bloomberg

UTV Software Communications

Dismal performance as expected

- Results:** With no new movie releases, seasonally lean gaming business performance and broadcasting business reporting losses, UTV Software Communications (UTV) was expected to report a subdued performance in Q1FY10. Consolidated revenues for the quarter declined by 15.8% YoY to Rs1,154m. Consequently, the company reported an operating loss of Rs341m (as against an operating profit of Rs224 in Q1FY09). With no net interest income during the quarter (unlike in Q1FY09), the company reported a net loss of Rs341m (adjusting for Rs108m of deferred tax), against net profit of Rs187m in Q1FY09.
- Revised revenue sharing terms to improve theatrical right exploitation of movies:** We believe this is a long-term positive for producers like UTV. Based on the revised revenue sharing and movie distribution terms, UTV should see a 2-3% margin benefit on their theatrical right exploitation of movies. However, in the short-to-medium term, series of new movie releases (due to deferment of projects in Q1FY10) might lead to cannibalisation. Also, the movie satellite and home video rights have not shown any signs of revival as yet.
- Merger of UTV and UMP Plc - a positive development:** UTV has considered the merger and subsequent de-listing of its UK-based motion picture subsidiary from AIM's market of the London stock exchange. The purpose is to consolidate the motion picture operations back to India (with no intentions to venture in any new Hollywood projects) so as to bring greater operational efficiencies. The proposal also aims at an effective solution to the illiquidity for existing UMP shareholders. We believe that the movie business for the next two years will be the key earnings driver, as broadcasting, gaming and new media undergo their gestation period. Thus, despite a 16% dilution in the company's equity base, the reduction in minority interest will result in an EPS accretive for UTV shareholders.
- Outlook & Valuation:** We remain positive on UTV over the long term on account of its ability to scale across various platforms which makes it a key player to benefit from growing media convergence in India. However, at CMP, fundamentals find it hard to catch with the valuations. We, thus, maintain our 'Reduce' rating on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	4,342	6,768	8,710	12,775
Growth (%)	148.2	55.9	28.7	46.7
EBITDA (Rs m)	647	(126)	332	1,157
PAT (Rs m)	439	(175)	132	692
EPS (Rs)	17.7	(4.3)	2.9	15.3
Growth (%)	-	-	-	422.7
Net DPS (Rs)	1.0	-	-	1.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	14.9	(1.9)	3.8	13.3
RoE (%)	11.8	3.6	0.8	3.7
RoCE (%)	8.1	(3.7)	1.2	3.4
EV / sales (x)	3.8	2.7	1.8	1.3
EV / EBITDA (x)	25.7	(143.8)	47.3	13.8
PE (x)	24.2	(99.1)	145.7	27.9
P / BV (x)	1.9	1.0	0.9	0.9
Net dividend yield (%)	0.2	-	-	0.2

Source: Company Data; PL Research

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Q1FY10 Result Overview

(Rs m)

Particulars	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Net Sales	1,154	1,371	(15.8)	2,087	8,710	6,768	28.7
Direct Costs	950	973	(2.3)	1,722	6,304	5,219	20.8
Personnel costs	161	106	52.0	140	647	578	12.0
Other expenditure	383	114	236.5	151	1,427	1,098	30.0
Total Expenditure	1,494	1,193	25.3	2,013	8,378	6,895	21.5
Operating Profit	(341)	178	-	74	332	(126)	-
<i>% of Sales</i>	<i>(29.5)</i>	<i>13.0</i>		<i>3.5</i>	<i>3.8</i>	<i>(1.9)</i>	
Other Income	12	46	(73.9)	6	100	151	(33.7)
EBITDA	(329)	224	-	80	432	25	-
<i>% of Sales</i>	<i>(28.5)</i>	<i>16.3</i>		<i>3.8</i>	<i>5.0</i>	<i>0.4</i>	
Depreciation	18	11	59.5	24	90	70	29.9
PBIT	(347)	212	-	56	342	(45)	-
Interest	61	(35)		24	150	(77)	
PBT	(407)	248	-	33	192	32	503.5
Total tax	(90)	(3)	-	(100)	48	(433)	-
<i>Tax rate (%)</i>	<i>22.0</i>	<i>(1.2)</i>		<i>(306.6)</i>	<i>25.0</i>	<i>-</i>	
PAT before MI & Excp. items	(318)	251	-	132	144	465	(69.0)
Minority interest	(84)	52	-	20	12	109	(89.2)
Rep. PAT after MI bf. Excp. items	(233)	199	-	112	132	356	(62.9)
Exceptional items	108	12		152	-	531	
Adj. PAT after MI & Excp. items	(341)	187	-	(40)	132	(175)	-



Segmental Revenues

(Rs m)

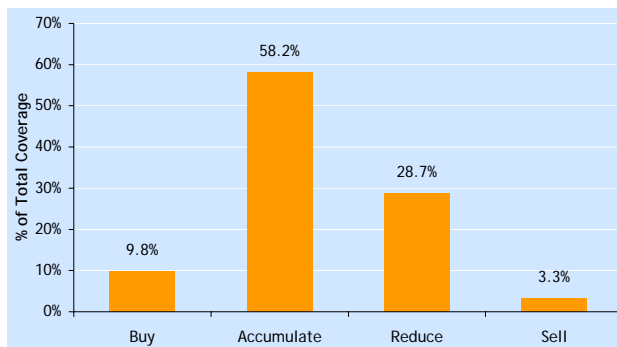
Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09
Television	282	256	9.9	304
Movies	265	932	(71.5)	874
Games Content (Interactive)	117	146	(19.5)	398
New media	28	26	6.9	37
Broadcasting	177	-	NA	345
Intersegmental	4	2	135.1	138
Total Revenues	865	1,358	(36.3)	1,821
Segmental EBITDA				
Television	11	14	(22.5)	10
Movies	(96)	248	(138.8)	243
Games Content (Interactive)	(96)	(33)	191.9	(83)
New media	(21)	(6)	230.4	(19)
Broadcasting	(104)	-	NA	(82)
Total EBIT	(307)	222	(238.1)	69
Segmental Margins (%)				
Television	3.8	5.5		3.2
Movies	(36.2)	26.6		27.8
Games Content (Interactive)	(82.3)	(22.7)		(20.9)
New media	(75.6)	(24.5)		(50.3)
Broadcasting	(58.9)	-		(23.9)
Total	(35.5)	16.4		3.8

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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