

Sun TV Network

BSE SENSEX	S&P CNX	CMP: INR271	TP: INR320	Buy						
17,198	5,216									
Bloomberg	SUNTV IN									
Equity Shares (m)	394.1									
52-Week Range (INR)	343/177									
1,6,12 Rel. Perf. (%)	-12/-10/-7									
M.Cap. (INR b)	106.8									
M.Cap. (USD b)	1.9									
Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
3/11A	19,237	7,722	19.6	36.1	-	-	32.4	63.1	-	-
3/12A	17,574	6,946	17.6	-10.0	15.4	4.0	26.3	51.2	5.9	7.4
3/13E	18,390	7,178	18.2	3.3	14.9	3.7	24.7	47.0	5.4	6.9
3/14E	20,616	7,914	20.1	10.3	13.5	3.4	25.1	49.5	4.6	5.9

- Sun TV's 1QFY13 PAT declined 12% YoY to INR1.64b, below our estimate of INR1.78b.
- Revenue/EBITDA declined 6/12% YoY, 6-10% below estimates. Advertising and broadcast revenue grew 4% YoY (v/s 18% revenue growth for Zee).
- YoY growth inflection is largely due to low base; ad and broadcast revenue has continued to range between INR2.7-3b for last eight quarters. However management commentary indicated improvement in ad outlook. We factor in advertising and broadcast revenue growth of 8% in FY13 and 13% in FY14 v/s a 1% decline in FY12.
- Sun recently secured a contract with Tamil Nadu state-owned Arasu Cable which is expected to enhance ratings performance being impacted from non-availability of Sun Channels on Arasu. The deal will also result in restoration of the analog cable revenue stream from Tamil Nadu although the recovery would only be partial given lower rates being offered by Arasu initially.
- Overall subscription revenue for 1QFY13 declined 9% YoY but grew 4% QoQ to INR1.45b. Analog revenue from Arasu (nil in 1QFY13) would accrue from August 1st 2012.

Earnings cut by 7-12%; maintain Buy with target price of INR320

- We are downgrading our earnings estimates by 7-12% to reflect lower ad growth, domestic subscription and film revenue.
- We now expect EPS CAGR of 7% during FY12-14. The stock trades at 14.9x FY13E EPS of INR18.2 and 13.5x FY14E EPS of INR20.1.
- We maintain **Buy** with a target price of INR320 (unchanged) based on 16x FY14E EPS. We have increased target multiple from 14x to 16x to reflect removal of regulatory overhang post the Arasu deal. Dividend yield remains attractive at 3.5%+ (INR 2.5/sh interim dividend announced).

Y/E March	FY12				FY13				(INR Million)	
	1Q	2Q	3Q*	4Q	1Q	2QE	3QE	4QE	FY12	FY13E
Revenue	4,540	4,513	4,251	4,270	4,258	4,491	4,839	4,804	17,574	18,390
YoY (%)	3.1	6.2	-4.9	-7.3	-6.2	-0.5	13.8	12.5	-8.6	4.6
EBITDA	3,659	3,654	3,411	3,282	3,230	3,518	3,814	3,752	14,007	14,314
YoY (%)	1.7	10.0	-2.8	-9.8	-11.7	-3.7	11.8	14.3	-10.1	2.2
As of % Sales	80.6	81.0	80.2	76.9	75.9	78.3	78.8	78.1	79.7	77.8
Depreciation and Amortization	1,061	1,176	1,125	1,068	933	1,026	1,180	1,180	4,430	4,318
Interest	2	8	36	9	2	5	5	5	56	17
Other Income	173	186	232	151	132	152	172	167	742	623
PBT	2,769	2,657	2,483	2,355	2,427	2,640	2,801	2,734	10,263	10,602
Tax	892	856	804	765	784	853	905	883	3,317	3,425
Effective Tax Rate (%)	32.2	32.2	32.4	32.5	32.3	32.3	32.3	32.3	32.3	32.3
Reported PAT	1,876	1,801	1,679	1,590	1,643	1,787	1,896	1,851	6,946	7,178
Adj PAT	1,876	1,801	1,679	1,590	1,643	1,787	1,896	1,851	6,946	7,178
YoY (%)	9.8	7.6	-14.4	-23.7	-12.4	-0.8	13.0	16.4	-10.0	3.3

E: MOSL Estimates * YoY growth for 3QFY12 adjusted for one-time revenue/cost related to 'Enthiran' in 3QFY11

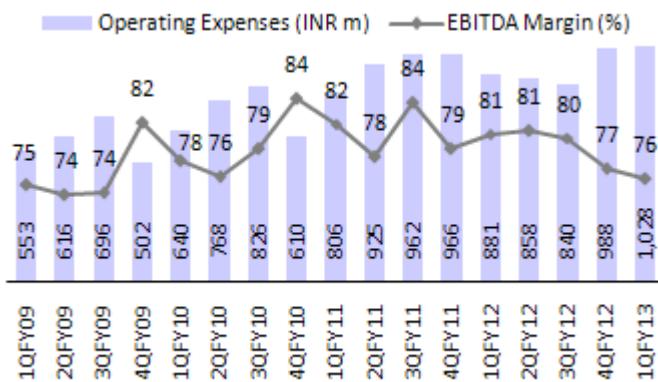
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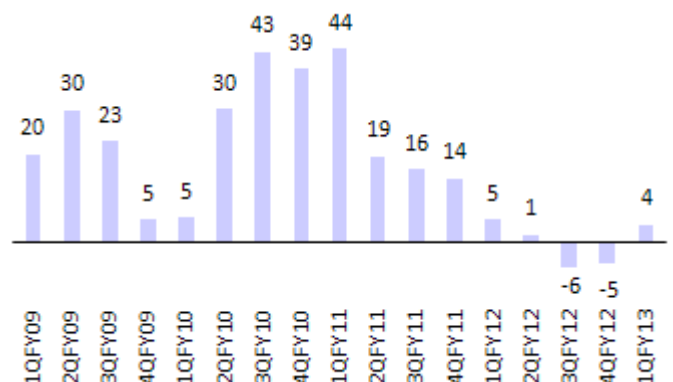
1QFY13 PAT declined 12% YoY; below estimate

- Sun TV's revenue declined 6% YoY but remained flat QoQ at INR4.26b (6% below our estimate of INR4.52b).
- EBITDA declined 12% YoY and 2% QoQ to INR3.23b (10% below est).
- EBITDA margin declined 480bp YoY to 75.9% (v/s our estimate of 79.3%).
- Operating costs remained largely flat QoQ as lower provision cost for bad debts was offset by higher expenses towards in-house productions due to bunching of three properties in the same quarter.

EBITDA margin at 76%



Ad and broadcasting rev: back two growth after two quarters of decline (%)



Source: Company, MOSL

Ad and broadcasting up 4% YoY largely due to low base effect

- Advertising and broadcast revenue grew 4% YoY but remained flat QoQ at INR2.8b.
- We have downgraded our FY13/FY14 advertising and broadcasting revenue estimates by ~2% implying an 11% CAGR over FY12-14E.

Sun TV: Revenue break-up (INR m)

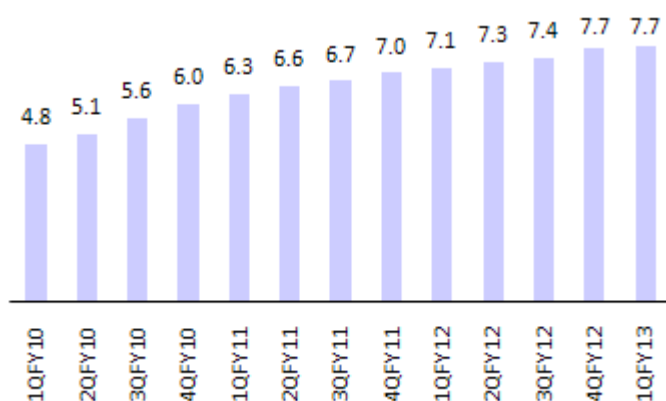
	1Q FY10	2Q FY10	3Q FY10	4Q FY10	1Q FY11	2Q FY11	3Q FY11	4Q FY11	1Q FY12	2Q FY12	3Q FY12	4Q FY12	1Q FY13	YoY (%)	QoQ (%)
Ad & Broadcasting rev	1,783	2,260	2,601	2,580	2,570	2,700	3,030	2,950	2,700	2,740	2,850	2,800	2,800	4	0
International rev	144	130	140	160	150	160	200	170	200	180	240	220	260	30	18
DTH	360	400	440	630	680	700	700	820	840	790	840	860	890	6	3
Domestic Cable	360	360	390	470	520	540	530	560	560	470	290	310	300	-46	-3
Films and others	230	54	380	79	484	148	1,510	105	240	333	31	80	8	-97	-91
Total	2,877	3,204	3,951	3,919	4,404	4,248	5,980	4,605	4,540	4,513	4,251	4,270	4,258	-6	0

Source: Company, MOSL

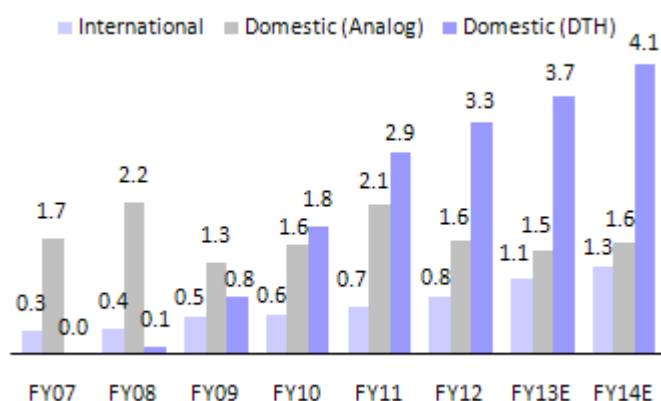
Domestic subscription revenue declined on account of lower cable revenue

- DTH revenue grew 6% YoY and 3% QoQ to INR890m.
- DTH subscriber base remained largely flat QoQ at 7.7m.
- Domestic cable revenues declined 46% YoY to INR300m as Sun has not been receiving analog revenue from Tamil Nadu market.
- We model subscription revenue CAGR of 10% over FY12-14E.

Sun TV: DTH subscriber base (m)



Sun TV: Subscription revenue break-up (INR b)



Source: Company/MOSL

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Summary of estimate change

	FY13E	FY14E
Revenue (INRb)		
Old	19.4	21.8
Actual/New	18.4	20.6
Change (%)	-5.0	-5.6
EBITDA (INRb)		
Old	15.4	17.3
Actual/New	14.3	16.0
Change (%)	-6.8	-7.4
EBITDA margin (%)		
Old	79.3	79.3
Actual/New	77.8	77.8
Change (bp)	-144bp	-154bp
PAT (INRb)		
Old	7.7	9.0
Actual/New	7.2	7.9
Change (%)	-7.0	-11.9
EPS (INR)		
Old	19.6	22.8
Actual/New	18.2	20.1
Change (%)	-7.0	-11.9

Source: Company/MOSL

Quarterly performance vs estimates (INR m)

	1QFY12	4QFY12	1QFY13	YoY%	QoQ%	1QFY13E	v/s est (%)
Revenue	4,540	4,270	4,258	-6.2	-0.3	4,523	-5.9
Operating expenditure	881	988	1,028	16.7	4.0	935	9.9
EBITDA	3,659	3,282	3,230	-11.7	-1.6	3,588	-10.0
EBITDA margin (%)	80.6	76.9	75.9	-474bp	-100bp	79.3	-347bp
Dep. & amortization	1,061	1,068	933	-12.1	-12.7	1,122	-16.8
Interest	2	9	2	-13.0	-78.7	12	-83.3
Other income	173	151	132	-23.5	-12.3	171	-22.5
PBT	2,769	2,355	2,427	-12.3	3.1	2,625	-7.5
Tax	892	765	784	-12.1	2.5	848	-7.6
Effective tax rate (%)	32.2	32.5	32.3	8bp	-17bp	32.3	-1bp
PAT	1,876	1,590	1,643	-12.4	3.3	1,777	-7.5
Operating Cost							
Cost of revenues	242	288	401	65.6	39.1	265	51.4
Employee cost	440	384	422	-4.2	9.8	440	-4.2
Other exp	199	316	205	3.3	-35.1	230	-10.9
Total Operating expenses	881	988	1,028	16.7	4.0	935	9.9
Operating Cost (% of revenue)							
Cost of revenues	5.3	6.8	9.4	409bp	267bp	5.9	356bp
Employee cost	9.7	9.0	9.9	21bp	91bp	9.7	18bp
Other exp	4.4	7.4	4.8	44bp	-259bp	5.1	-27bp

Source: Company/MOSL

Sun TV: A snapshot (INR b)

	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
Ad and broadcast revenue	5.9	7.0	9.2	11.2	11.1	12.0	13.5
YoY (%)	26	19	31	22	-1	8	13
DTH revenue	0.1	0.8	1.8	2.9	3.3	3.7	4.1
YoY (%)	NA	659	118	57	16	11	12
Analog revenue	2.2	1.3	1.6	2.1	1.6	1.5	1.6
YoY (%)	31	-40	20	36	-24	-9	7
International revenue	0.4	0.5	0.6	0.7	0.8	1.1	1.3
YoY (%)	12	41	4	23	22	30	15
Films and other revenue	0.1	0.6	0.8	2.3	0.7	0.1	0.1
YoY (%)	66	559	23	189	-70	-86	12
Total Revenue	8.7	10.4	14.0	19.2	17.6	18.4	20.6
YoY (%)	28	19	35	38	-9	5	12
Operating expenses	2.4	2.4	2.8	3.7	3.6	4.1	4.6
YoY (%)	23	-1	20	29	-3	14	12
EBITDA	6.3	8.0	11.1	15.6	14.0	14.3	16.0
YoY (%)	30	27	39	40	-10	2	12
EBITDA margin (%)	72.5	77.2	79.6	81.0	79.7	77.8	77.8
Revenue mix (%)							
Ad and broadcast revenue	68	68	66	58	63	65	66
Subscription revenue	31	26	28	30	33	34	34
- DTH	1	8	13	15	19	20	20
- Analog	25	13	11	11	9	8	8
- International	4	5	4	4	5	6	6
Films and other revenue	1	6	6	12	4	1	1
DTH subscriber base (m)	0.7	4.6	6.0	6.9	7.6	9.0	10.2
YoY (%)		519	32	16	9	18	13
DTH ARPU (INR)		26.4	28.9	37.1	38.2	37.2	36.0

Source: Company/MOSL

Sun TV Network: an investment profile

Company description

Sun TV Network is the leader in South market with a strong network of channels having presence across all genres. South market constitutes 70% of the regional advertising market. Sun TV offers 33 channels to viewers in four states - Tamil Nadu, Andhra Pradesh, Karnataka and Kerala.

Key investment argument

- With an estimated 2m cable homes in Chennai likely to be digitized by June 2012, there is a significant upside to subscription income.
- Lean cost structure and an extensive movie library offers strong competitive advantage to Sun TV.
- Sun TV continues to remain the market leader in the Tamil, Telugu and Kannada GECs.

Key investment risks

- Continued inflation in cost of movie acquisition. Ad growth outlook remains sluggish as there is no improvement in the operating environment.

Recent developments

- Sun TV has announced a final dividend of INR2.5 per share.
Sun TV has secured subscription agreement with the Tamil Nadu state-owned Arasu cable.

Valuation and view

- We are downgrading our earnings estimates by 7-12% to reflect lower ad growth, domestic subscription and film revenue.
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- We maintain **Buy** with a target price of INR320 (unchanged) based on 16x FY14 EPS. We have increased target multiple from 14x to 16x to reflect removal of regulatory overhang post the Arasu deal. Dividend yield remains attractive at 3.5%+ (INR 2.5/sh interim dividend announced).

Comparative valuations

		Sun TV	ZEEL	Dish TV
P/E (x)	FY13E	14.9	22.0	NA
	FY14E	13.5	19.1	238.5
EV/EBITDA (x)	FY13E	6.9	15.2	12.9
	FY14E	5.9	13.1	9.9
EV/Sales (x)	FY13E	5.4	4.0	3.6
	FY14E	4.6	3.5	2.9
P/BV (x)	FY13E	3.7	4.1	NA
	FY14E	3.4	3.5	NA

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	18.2	18.7	-2.8
FY14	20.1	22.3	-9.8

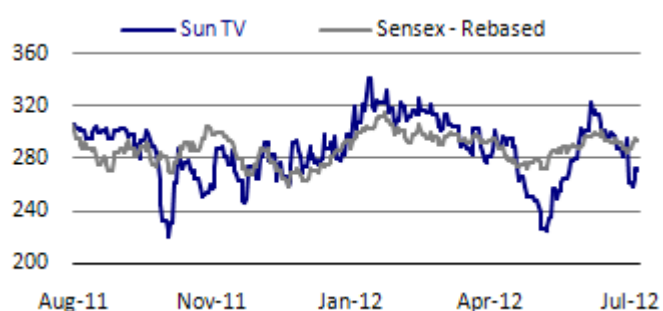
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
271	320	18.1	Buy

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	77.0	77.0	77.0
Domestic Inst	2.9	2.8	2.0
Foreign	13.3	14.4	13.6
Others	6.7	5.8	7.4

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Advertising Revenue	9,700	9,450	10,269	11,634	
Broadcasting Revenue	1,540	1,640	1,741	1,877	
International Subscrip.	690	840	1,092	1,256	
Domestic Subscription	5,022	4,961	5,196	5,745	
Others	2,285	682	93	104	
Net Sales	19,237	17,574	18,390	20,616	
Change (%)	37.9	-8.6	4.6	12.1	
EBITDA	15,579	14,007	14,314	16,033	
% of Net Sales	81.0	79.7	77.8	77.8	
Depreciation	724	1,000	1,084	1,168	
Film Amortization	3,750	3,430	3,235	4,098	
Interest	20	56	17	25	
Other Income	468	742	623	948	
PBT before EOI	11,553	10,263	10,602	11,690	
PBT after EOI	11,553	10,263	10,602	11,690	
Tax	3,831	3,317	3,425	3,776	
Rate (%)	33.2	32.3	32.3	32.3	
Reported PAT	7,722	6,946	7,178	7,914	
Extra-ordinary Expenses	0	0	0	0	
Adjusted PAT	7,722	6,946	7,178	7,914	
Change (%)	36.1	-10.0	3.3	10.3	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	1,970	1,970	1,970	1,970	
Reserves	21,887	24,482	27,108	29,560	
Net Worth	23,857	26,452	29,078	31,530	
Loans	0	0	0	0	
Deferred Tax Liability	410	382	382	382	
Capital Employed	24,267	26,834	29,460	31,912	
Gross Fixed Assets	19,927	22,664	24,998	27,895	
Less: Depreciation	13,554	18,053	22,439	27,773	
Net Fixed Assets	6,373	4,612	2,559	123	
Capital WIP	3,614	6,030	6,030	6,030	
Investments	5,412	4,775	4,775	4,775	
Film and Broadcasting	137	0	0	0	
Curr. Assets	12,937	13,514	18,575	23,783	
Inventory	8	4	4	4	
Debtors	3,881	4,649	4,787	5,366	
Cash & Bank Balance	5,844	2,899	7,755	12,309	
Loans & Advances	1,558	5,282	5,282	5,282	
Other Current Asset	1,647	680	748	823	
Current Liab. & Prov.	4,205	2,097	2,479	2,799	
Creditors	921	296	424	477	
Other Liabilities	1,550	1,437	1,618	1,797	
Provisions	1,735	364	437	524	
Net Current Assets	8,731	11,417	16,096	20,984	
Application of Funds	24,267	26,834	29,460	31,912	

E: MOSL Estimates

Ratios		2011	2012	2013E	2014E
Basic (INR)					
Adjusted EPS		19.6	17.6	18.2	20.1
Growth (%)		36.1	-10.0	3.3	10.3
Cash EPS		21.4	20.2	21.0	23.0
Book Value		60.5	67.1	73.8	80.0
DPS		8.8	9.5	10.0	12.0
Payout (incl. Div. Tax)		44.7	53.9	54.9	59.8
Valuation (x)					
P/E			15.4	14.9	13.5
Cash P/E			13.4	12.9	11.8
EV/EBITDA			7.4	6.9	5.9
EV/Sales			5.9	5.4	4.6
Price/Book Value			4.0	3.7	3.4
Dividend Yield (%)			3.5	3.7	4.4
Profitability Ratios (%)					
RoE		32.4	26.3	24.7	25.1
RoCE		63.1	51.2	47.0	49.5
Turnover Ratios					
Debtors (Days)		74	97	95	95
Creditors (Days)		92	30	38	38
Asset Turnover (x)		0.8	0.7	0.6	0.6
Leverage Ratio					
Debt/Equity (x)		0.0	0.0	0.0	0.0

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
PBT before Extraordinary It	11,553	10,263	10,602	11,690	
Add : Depreciation	4,474	4,430	4,318	5,266	
Interest	20	56	17	25	
Less : Direct Taxes Paid	3,831	3,317	3,425	3,776	
(Inc)/Dec in WC	-1,670	-5,630	177	-335	
CF from Operations	10,546	5,801	11,690	12,870	
(Inc)/Dec in FA	-4,634	-4,948	-2,265	-2,830	
(Pur)/Sale of Investments	-345	636	0	0	
CF from Investments	5,567	1,489	9,425	10,040	
(Inc)/Dec in Net Worth	38	-55	0	0	
(Inc)/Dec in Debt	0	0	0	0	
Less : Interest Paid	20	56	17	25	
Dividend Paid	3,983	4,324	4,552	5,462	
CF from Fin. Activity	-3,964	-4,435	-4,569	-5,487	
Inc/Dec of Cash	1,603	-2,945	4,856	4,553	
Add: Beginning Balance	4,242	5,844	2,899	7,755	
Closing Balance	5,845	2,899	7,755	12,309	

E: MOSL Estimates

N O T E S

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Sun TV Network

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