

SUN TV Network

Performance Highlights

Quarterly data (Standalone)

(₹ cr)	1QFY13	1QFY12	% yoy	4QFY12	%qoq
Revenue	426	454	(6.2)	427	(0.3)
EBITDA	323	366	(11.7)	328	(1.6)
OPM (%)	75.9	80.6	(474)bp	76.9	(100)bp
PAT	164	188	(12.4)	159	3.3

Source: Company, Angel Research

For 1QFY2013, Sun TV Network Ltd (STNL) reported a 12.4% yoy decline in net profit to ₹164cr. The company's OPM contracted by 474bp yoy to 75.9% mainly on account of 409bp yoy increase in cost of revenues (due to 3 non-fictional shows produced during the quarter).

Loss of cable revenues from TN dented top-line: For 1QFY2013, Sun TV posted a 6.2% yoy decline in its top-line to ₹426cr on account of loss of cable revenues from Tamil Nadu (TN). However, on a positive note the company has recorded a 5.2% yoy growth in advertising revenues in 1QFY2013 and has also tied up with Arasu Cable TV which should ensure increase in subscription revenue in subsequent quarters. The revenue from DTH and international revenue grew by 6.0% yoy and 30% yoy respectively to ₹89cr and ₹26cr respectively even though broadcasting revenue declined by 5.1% yoy to ₹37cr.

Outlook and valuation: At the current market price, STNL is trading at 13.9x FY2014E consolidated EPS of ₹21.3. We believe the stock will remain volatile due to the overhang of political concerns regarding the Aircel-Maxis deal probe. Hence, **we maintain our Neutral recommendation on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	2,013	1,847	1,981	2,239
% chg	38.6	(8.3)	7.2	13.0
Net profit (Adj.)	770	697	731	840
% chg	48.1	(9.4)	4.9	14.9
EBITDA margin (%)	78.4	76.6	77.0	76.7
EPS (₹)	19.5	17.7	18.6	21.3
P/E (x)	15.2	16.8	16.0	13.9
P/BV (x)	5.2	4.7	4.2	3.6
RoE (%)	36.7	28.8	27.1	27.5
RoCE (%)	49.0	37.1	37.1	38.3
EV/Sales (x)	5.5	6.2	5.6	4.9
EV/EBITDA (x)	7.0	8.1	7.3	6.5

Source: Company, Angel Research

NEUTRAL

CMP	₹297
Target Price	-
Investment Period	-

Stock Info

Sector	Media
Market Cap (₹ cr)	11,696
Net Debt (₹ cr)	(512)
Beta	0.7
52 Week High / Low	343/177
Avg. Daily Volume	161,687
Face Value (₹)	5
BSE Sensex	17,601
Nifty	5,338
Reuters Code	SUNTV.BO
Bloomberg Code	SUNTV.IN

Shareholding Pattern (%)

Promoters	77.0
MF / Banks / Indian Fls	2.9
FII / NRIs / OCBs	13.3
Indian Public / Others	6.7

Abs. (%)	3m	1yr	3yr
Sensex	6.4	3.6	16.1
SUNTV	0.7	(1.3)	11.5

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Exhibit 1: Quarterly performance (Standalone)

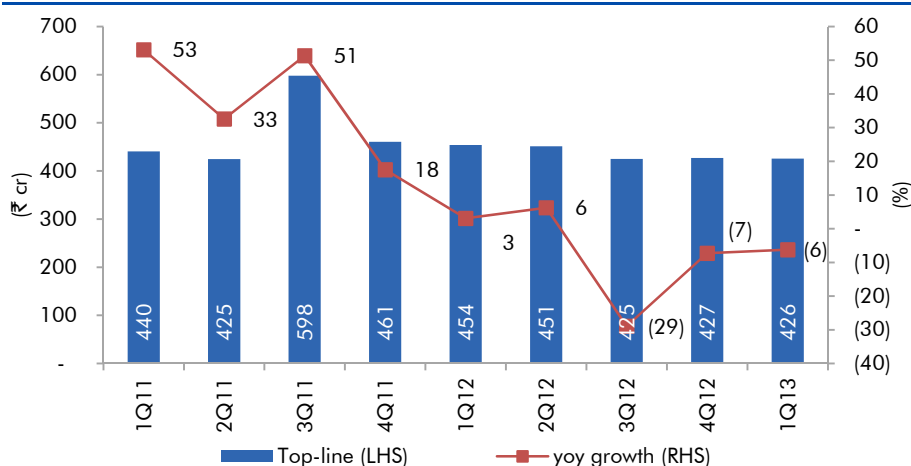
Y/E March (₹ cr)	1QFY13	1QFY12	% yoy	4QFY12	% qoq	FY2012	FY2011	% chg
Net Sales	426	454	(6.2)	427	(0.3)	1,757	1,924	(8.6)
Cost of Revenue	40	24	65.6	29	39.1	101	103	(2.0)
(% of sales)	9.4	5.3		6.8		23.6	24.1	
Staff cost	42	44	(4.2)	38	9.8	164	174	(5.7)
(% of sales)	9.9	9.7		9.0		38.4	40.8	
Other expenditure	21	20	3.3	32	(35.1)	92	89	3.2
(% of sales)	4.8	4.4		7.4		21.5	20.9	
Total Expenditure	103	88	16.7	99	4.0	357	366	(2.5)
Operating Profit	323	366	(11.7)	328	(1.6)	1,401	1,558	(10.1)
OPM (%)	75.9	80.6		76.9		79.7	81.0	
Depreciation & Amortization	93	106	(12.1)	107	(12.7)	443	447	(1.0)
EBIT	230	260	(11.6)	221	3.8	958	1,111	(13.8)
EBIT (%)	54.0	57.2		51.8		54.5	57.7	
Interest	0.2	0.2	(13.0)	1	(78.7)	5.6	2.0	180.3
Other Income	13	17	(23.5)	15	(12.3)	74	47	58.6
PBT (excl. Ext Items)	243	277	(12.3)	236	3.1	1,026	1,155	(11.2)
Ext Income/(Expense)	-	-		-		-	-	
PBT (Incl. Ext Items)	243	277	(12.3)	236	3.1	1,026	1,155	(11.2)
(% of Sales)	57.0	61.0		55.2		58.4	60.1	
Provision for Taxation	78	89	(12.1)	76	2.5	332	383	(13.4)
(% of PBT)	32.3	32.2		32.5		32.3	33.2	
Recurring PAT	164	188	(12.4)	159	3.3	695	772	(10.0)
PATM (%)	38.6	41.3		37.2		39.5	40.1	
Reported PAT	164	188	(12.4)	159	3.3	695	772	(10.0)
Equity shares (cr)	39	39		39		39	39	
EPS (₹)	4.2	4.8	(12.4)	4.0	3.3	17.6	19.6	(10.0)

Source: Company, Angel Research

Top-line de-grows although ad revenue grows 5.2% yoy

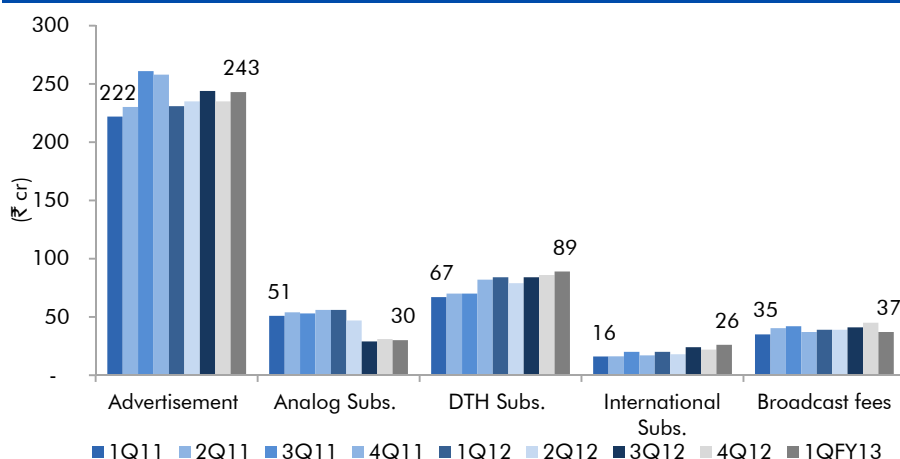
During 1QFY2013, STNL's top-line declined by 6.2% yoy to ₹426cr. The decline in top-line was mainly on account of a sharp decline of 46.4% yoy in analogue revenue to ₹30cr (due to omission of Sun TV channel bouquet from Arasu Cable TV). However, on a positive note the company has recorded ~5.2% yoy growth in advertising revenues in the quarter and has also tied up with Arasu Cable TV which should ensure an increase in analogue revenue in the subsequent quarters. In other segments, DTH grew by 6.0% yoy to ₹89cr while international revenue grew by 30% yoy to ₹26cr.

Exhibit 2: Top-line declines 6.2% yoy



Source: Company, Angel Research

Exhibit 3: Segmental Revenue



Source: Company, Angel Research

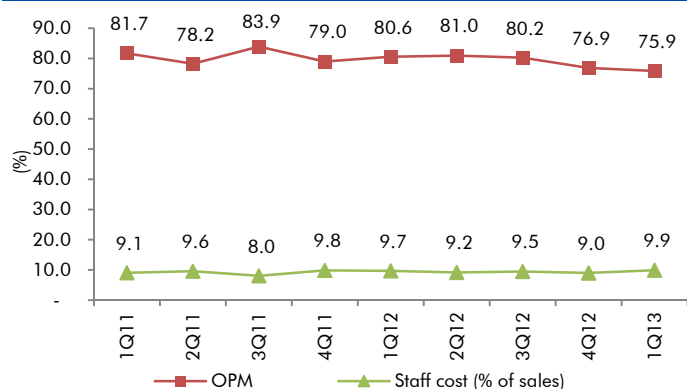
Exhibit 4: Revenue break-up

Y/E March (₹ cr)	1QFY13	1QFY12	% yoy	4QFY12	% qoq
Advt. Income	243	231	5.2	235	3.4
Broadcast Fee	37	39	(5.1)	45	(17.78)
Program License Inc (Int. Rev)	26	20	30.0	22	18.2
Subs Income – Analogue	30	56	(46.4)	31	(3.2)
Subs Income – DTH	89	84	6.0	86	3.5
Others (Incl. Movies)	2	24	(91.7)	8	(75.0)
Total Revenue	426	454	(5.9)	427	-
% of total revenue					
Advt. Income					
Broadcast Fee	56.9	50.9	-	55.0	-
Program License Inc (Int Rev)	8.7	8.6	-	10.5	-
Subs Income – Analogue	6.1	4.4	-	5.2	-
Subs Income – DTH	7.0	12.3	-	7.3	-
Others (Incl. Movies)	20.8	18.5	-	20.1	-

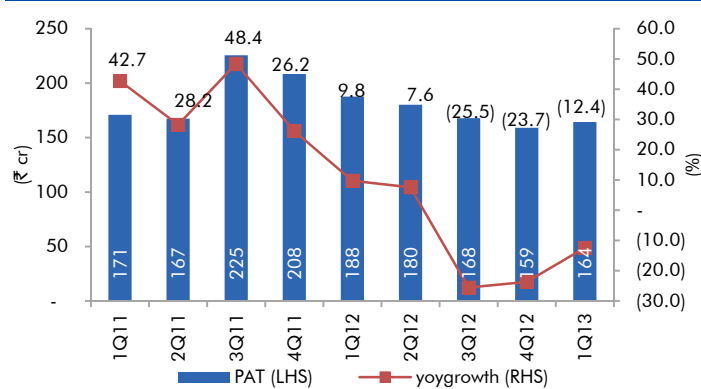
Source: Company, Angel Research

Net Profit declines 12.4% yoy led by 474bp yoy OPM contraction

The OPM for the quarter stood at 75.9%, a decline of 474bp yoy, largely on the back of a 409bp yoy increase in cost of revenues (due to 3 non-fictional shows produced during the quarter). Staff costs also inched up marginally by 21bp yoy to 9.9% and stood at ₹42cr. A decline in the top-line coupled with margin contraction led to a 12.4% yoy decline in net profit to ₹164cr in 1QFY2013.

Exhibit 5: OPM contracts 474bp yoy


Source: Company, Angel Research

Exhibit 6: PAT declines by 12.4% yoy


Source: Company, Angel Research

Investment arguments

- **DTH to be the growth driver:** The first phase of digitization in the four metros - Delhi, Mumbai, Chennai, and Kolkata has started. The company expects robust subscription revenue from Chennai post digitalization. The digitization drive across the nation and consumers shifting to superior-quality DTH from cable television would benefit STNL, as it is a known player in South India.
- **Arasu deal to boost analog revenues:** Sun TV has signed an agreement with Arasu Cable TV which will enable total availability of STNL's channels on all cable TV distribution systems run by Arasu Cable TV across the state of Tamil Nadu with immediate effect. This deal will strengthen the reach of Sun TV network across Tamil Nadu and ensure increase in cable revenues in subsequent quarters.

Outlook and valuation

At the current market price, STNL is trading at 13.9x FY2014E consolidated EPS of ₹21.3. We believe the stock will remain volatile due to the overhang of political concerns regarding the Aircel-Maxis deal probe. Hence, **we maintain our Neutral recommendation on the stock.**

Exhibit 7: Peer valuation

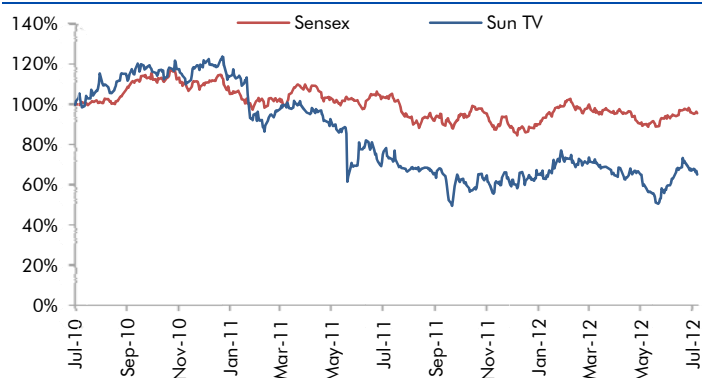
Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
SUN TV	Neutral	11,696	297	-	-	16.0	13.9	5.6	4.9	27.1	27.5	11.5	12.7
Zee Ent.*	Unrated	15,985	163	-	-	18.4	15.7	4.4	3.9	18.3	18.8	13.2	16.7

Source: Company, Angel Research, *Bloomberg estimates, #CAGR over FY2012–14E

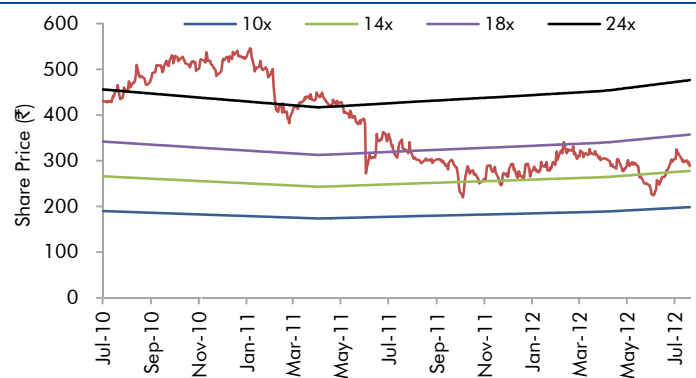
Exhibit 8: Angel vs. Consensus estimates

Top line (₹ cr)	FY2013E	FY2014E	EPS (₹)	FY2013E	FY2014E
Angel estimates	1,981	2,239	Angel estimates	18.6	21.3
Consensus	1,985	2,239	Consensus	18.6	21.2
Diff (%)	(0.2)	-	Diff (%)	-	0.5

Source: Company, Angel Research

Exhibit 9: Return of Sun TV vs Sensex


Source: Company, Angel Research

Exhibit 10: One-year forward P/E band


Source: Company, Angel Research

Company Background

STNL is a leading broadcaster in the South Indian states of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala. The company is promoted by Kalanithi Maran. The group is present across the media value chain, viz broadcasting, radio, films, cable distribution, DTH and print media. STNL has the largest broadcasting network in South India, with 20 channels in the GEC, kids, movies and news space. Besides TV broadcasting, STNL owns FM radio licenses for 45 cities. STNL has a strong movie library comprising more than 8,500 titles, with rights across all the four major south Indian languages. Apart from having an extensive movie library, STNL purchases around 90% of all movie releases in these languages.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	1,039	1,453	2,013	1,847	1,981	2,239
Less: Excise duty	-	-	-	-	-	-
Net Sales	1,039	1,453	2,013	1,847	1,981	2,239
Total operating income	1,039	1,453	2,013	1,847	1,981	2,239
% chg	19.5	39.8	38.6	(8.3)	7.2	13.0
Total Expenditure	303	362	436	433	455	523
(Inc.)/ Dec. in stock in trade	-	4	2	1	-	-
Cost of Production	111	119	135	133	143	162
Staff Costs	116	134	192	186	190	217
Power & Fuel	14	14	20	22	26	29
Other Expenses	62	91	86	91	96	114
EBITDA	737	1,091	1,578	1,414	1,526	1,716
% chg	23.3	-	-	-	-	-
(% of Net Sales)	70.9	75.1	78.4	76.6	77.0	76.7
Depreciation & Amortisation	220	321	480	467	476	499
EBIT	516	770	1,097	948	1,050	1,218
% chg	9.0	49.1	42.5	(13.6)	10.8	16.0
(% of Net Sales)	49.7	53.0	54.5	51.3	53.0	54.4
Interest & other Charges	14	5	2	6	5	4
Other Income	67	35	49	80	47	45
(% of PBT)	11.7	4.4	4.3	7.8	4.3	3.5
Share in profit of Associates	0.2	0.8	3.5	7.9	7.0	7.0
Recurring PBT	569	800	1,144	1,021	1,092	1,258
% chg	10.9	40.5	43.0	(10.7)	6.9	15.2
Prior Period & Extra Exp/(Inc.)	-	-	-	-	-	-
PBT (reported)	569	800	1,144	1,021	1,092	1,258
Tax	229	299	383	334	370	427
(% of PBT)	40.3	37.4	33.5	32.7	33.8	33.9
PAT (reported)	340	501	761	687	722	831
Add: Share of earn of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	(28)	(18)	(6)	(2)	(2)	(2)
PAT after MI (reported)	368	520	770	697	731	840
ADJ. PAT	368	520	770	697	731	840
% chg	12.7	41.2	48.1	(9.4)	4.9	14.9
(% of Net Sales)	35.4	35.8	38.2	37.8	36.9	37.5
Basic EPS (₹)	9.3	13.2	19.5	17.7	18.6	21.3
Fully Diluted EPS (₹)	9.3	13.2	19.5	17.7	18.6	21.3
% chg	12.7	41.2	48.1	(9.4)	4.9	14.9

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	197	197	197	197	197	197
Preference Capital	-	88	93	93	93	93
Reserves & Surplus	1,505	1,697	2,057	2,315	2,620	3,033
Shareholder's Funds	1,702	1,982	2,347	2,605	2,910	3,324
Minority Interest	38	37	32	29	29	29
Total Loans	72	0	13	11	-	-
Deferred Tax Liability	26	34	41	34	34	34
Total Liabilities	1,838	2,053	2,433	2,679	2,973	3,387
APPLICATION OF FUNDS						
Net Block (incl. CWIP)	972	1,213	1,315	1,258	1,088	951
Investments	181	228	265	215	515	815
Non Current Assets	23	30	-	-	-	-
Current Assets	881	1,043	1,286	1,433	1,755	1,997
Cash	365	437	603	308	537	620
Loans & Advances	274	266	208	576	614	694
Other	241	340	476	549	605	683
Current liabilities	219	461	433	227	385	376
Net Current Assets	662	582	853	1,206	1,370	1,621
Mis. Exp. not written off	0.1	0.0	0.0	0.0	0.0	0.0
Total Assets	1,838	2,053	2,433	2,679	2,973	3,387

Note: FY12 balance sheet numbers as per revised schedule VI

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Profit before tax	569	800	1,144	1,021	1,092	1,258
Depreciation	220	321	480	467	476	499
Change in Working Capital	56	(109)	(114)	(268)	75	(92)
Interest / Dividend (Net)	(26)	(29)	(38)	(41)	(41)	(41)
Direct taxes paid	202	281	383	(334)	(370)	(427)
Others	22	24	146	(409)	(22)	(64)
Cash Flow from Operations	641	726	1,235	436	1,211	1,132
(Inc.)/ Dec. in Fixed Assets	(494)	(554)	(583)	(410)	(306)	(361)
(Inc.)/ Dec. in Investments	(0)	(47)	(37)	50	(300)	(300)
Cash Flow from Investing	(494)	(602)	(620)	(360)	(606)	(661)
Issue of Equity	6	107	11	2	2	2
Inc./(Dec.) in loans	(4)	(73)	9	(5)	(11)	-
Dividend Paid (Incl. Tax)	(184)	(115)	(505)	(402)	(403)	(426)
Interest / Dividend (Net)	8	29	36	35	36	37
Cash Flow from Financing	(174)	(53)	(450)	(371)	(376)	(387)
Inc./(Dec.) in Cash	(28)	71	166	(294)	229	84
Opening Cash balances	394	366	437	603	308	537
Closing Cash balances	366	437	603	308	537	620

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	31.8	22.5	15.2	16.8	16.0	13.9
P/CEPS	28.7	19.9	13.9	14.9	14.1	12.3
P/BV	6.9	6.2	5.2	4.7	4.2	3.6
Dividend yield (%)	0.8	2.5	2.9	2.9	3.1	3.1
EV/Sales	10.7	7.7	5.5	6.2	5.6	4.9
EV/EBITDA	15.1	10.2	7.0	8.1	7.3	6.5
EV / Total Assets	6.1	5.5	4.6	4.2	3.8	3.3
Per Share Data (₹)						
EPS (Basic)	9.3	13.2	19.5	17.7	18.6	21.3
EPS (fully diluted)	9.3	13.2	19.5	17.7	18.6	21.3
Cash EPS	10.3	14.9	21.3	20.0	21.1	24.0
DPS	2.5	7.5	8.8	8.8	9.3	9.3
Book Value	43.2	48.1	57.2	63.7	71.5	82.0
Dupont Analysis						
EBIT margin	49.7	53.0	54.5	51.3	53.0	54.4
Tax retention ratio	0.6	0.6	0.7	0.7	0.7	0.7
Asset turnover (x)	0.8	0.9	1.0	0.8	0.7	0.7
RoIC (Post-tax)	24.6	28.5	34.9	25.9	24.8	25.5
Cost of Debt (Post Tax)	0.1	0.1	0.2	0.3	0.6	-
Leverage (x)	0.4	0.2	0.0	0.1	0.0	-
Operating RoE	33.3	33.7	36.0	27.5	25.5	-
Returns (%)						
RoCE (Pre-tax)	30.2	39.7	49.0	37.1	37.1	38.3
Angel RoIC (Pre-tax)	45.7	57.4	74.3	50.9	51.5	62.9
RoE	21.6	27.9	36.7	28.8	27.1	27.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.7	0.8	0.9	0.7	0.7	0.7
Inventory / Sales (days)	0	1	1	1	1	1
Receivables (days)	85	83	86	108	111	111
Payables (days)	16	10	22	(19)	8	8
WC (ex-cash) (days)	104	34	45	177	154	163
Solvency ratios (x)						
Net debt to equity	0.4	0.0	0.1	0.1	-	-
Net debt to EBITDA	0.1	0.0	0.0	0.0	-	-
Int. Coverage (EBIT / Interest)	37.4	155.9	487.8	162.8	212.5	304.4

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Disclosure of Interest Statement	SUN TV
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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