

SUN TV Network

Performance Highlights

Quarterly data (Standalone)

(₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	%qoq
Revenue	433	451	(4.0)	426	1.8
EBITDA	329	365	(10.0)	323	1.9
OPM (%)	75.9	81.0	(506)bp	75.9	7bp
PAT	152	180	(15.8)	164	(7.7)

Source: Company, Angel Research

For 2QFY2013, Sun TV Network Ltd (STNL) reported a 15.8% yoy decline in net profit to ₹152cr. The company's OPM contracted by 506bp yoy to 75.9% largely on the back of 281bp yoy increase in cost of revenues as a percentage of sales (due to a non-fictional show produced during the quarter) and shift from Insat to Intelsat satellite.

Loss of cable revenues from TN dented top-line: For 2QFY2013, Sun TV posted a 4.0% yoy decline in its top-line to ₹433cr on account of loss of cable revenues from Tamil Nadu (TN) and subdued 4% yoy growth in advertising revenues. However, on a positive note, the management expects double digit advertising growth in Q3FY2013 aided by festive season and has also tied up with Arasu Cable TV which should ensure increase in subscription revenue in subsequent quarters. In other segments, DTH grew by 13.9% yoy to ₹90cr while international revenue grew by 50% yoy to ₹27cr.

Outlook and valuation: Sun TV is expected to benefit from mandatory digitization and signing of Arasu deal which would ensure steady cable revenues from Tamil Nadu. At the current market price, STNL is trading at 19.4x FY2014E consolidated EPS of ₹19.1. We believe the stock is fairly valued and would prefer to wait for a better entry opportunity. **Hence, we recommend Neutral on Sun TV.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	2,013	1,847	1,942	2,237
% chg	38.6	(8.3)	5.1	15.2
Net profit (Adj.)	770	693	692	751
% chg	48.2	(10.0)	(0.2)	8.5
EBITDA margin (%)	78.4	76.6	77.2	75.5
EPS (₹)	19.6	17.6	17.6	19.1
P/E (x)	18.9	21.0	21.0	19.4
P/BV (x)	6.5	5.8	5.2	4.7
RoE (%)	36.8	28.7	25.8	25.2
RoCE (%)	49.1	36.8	35.6	36.5
EV/Sales (x)	6.9	7.7	7.2	6.2
EV/EBITDA (x)	8.8	10.1	9.3	8.2

Source: Company, Angel Research

NEUTRAL

CMP	₹369
Target Price	-

Investment Period	-
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Stock Info	
Sector	Media
Market Cap (₹ cr)	14,554
Net Debt (₹ cr)	(490)
Beta	0.7
52 Week High / Low	374/177
Avg. Daily Volume	142,228
Face Value (₹)	5
BSE Sensex	18,471
Nifty	5,631
Reuters Code	SUNTV.BO
Bloomberg Code	SUNTV.IN

Shareholding Pattern (%)	
Promoters	77.0
MF / Banks / Indian Fls	2.2
FII / NRIs / OCBs	14.4
Indian Public / Others	6.5

Abs. (%)	3m	1yr	3yr
Sensex	4.2	9.4	9.6
SUNTV	19.6	35.3	18.6

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Exhibit 1: Quarterly performance (Standalone)

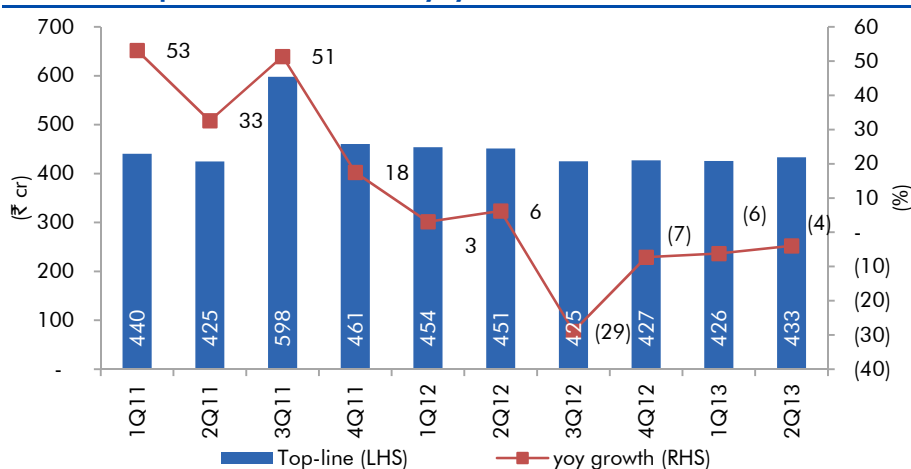
Y/E March (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	% qoq	1HFY2013	1HFY2012	% chg
Net Sales	433	451	(4.0)	426	1.8	859	905	(5.1)
Cost of Revenue	34	23	50.1	40	(15.8)	74	47	58.2
(% of sales)	7.8	5.0		9.4		17.4	11.0	
Staff cost	43	41	3.6	42	1.7	85	85	(0.4)
(% of sales)	9.9	9.2		9.9		20.0	20.1	
Other expenditure	28	22	26.2	21	34.9	48	42	15.3
(% of sales)	6.4	4.9		4.8		11.3	9.8	
Total Expenditure	104	86	21.6	103	1.5	207	174	19.1
Operating Profit	329	365	(10.0)	323	1.9	652	731	(10.9)
OPM (%)	75.9	81.0		75.9		75.9	80.8	
Depreciation & Amortization	114	118	(3.2)	93	22.1	207	224	(7.4)
EBIT	215	248	(13.2)	230	(6.3)	445	508	(12.4)
EBIT (%)	49.7	54.9		54.0		51.8	56.1	
Interest	0.5	0.8	(34.2)	0	150.0	1	1	(29.3)
Other Income	10	19	(48.4)	13	(27.4)	23	36	(36.4)
PBT (excl. Ext Items)	224	266	(15.6)	243	(7.6)	467	543	(13.9)
Ext Income/(Expense)	-	-		-		-	-	
PBT (Incl. Ext Items)	224	266	(15.6)	243	(7.6)	467	543	(13.9)
(% of Sales)	51.8	58.9		57.0		54.4	59.9	
Provision for Taxation	73	86	(15.1)	78	(7.4)	151	175	(13.6)
(% of PBT)	32.4	32.2		32.3		32.3	32.2	
Recurring PAT	152	180	(15.8)	164	(7.7)	316	368	(14.1)
PATM (%)	35.0	39.9		38.6		36.8	40.6	
Reported PAT	152	180	(15.8)	164	(7.7)	316	368	(14.1)
Equity shares (cr)	39	39		39		39	39	
EPS (₹)	3.8	4.6	(15.8)	4.2	(7.7)	8.0	9.3	(14.1)

Source: Company, Angel Research

Top-line de-grows due to decline in analogue revenues

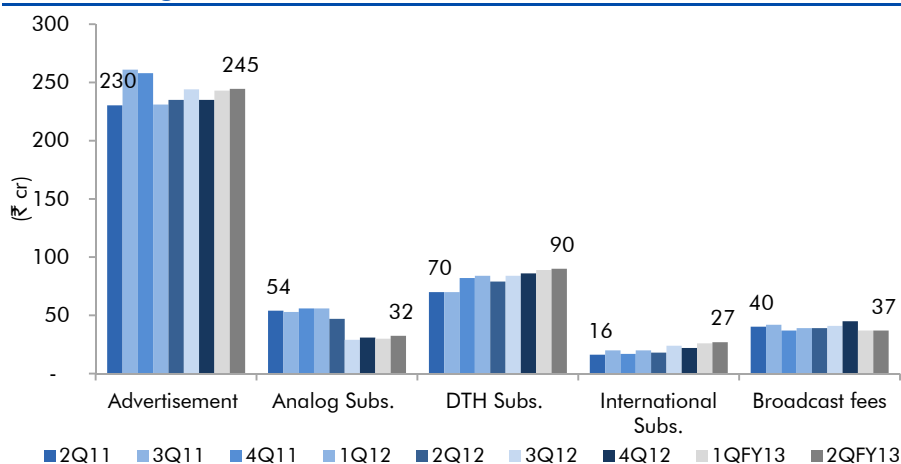
During 2QFY2013, STNL's top-line declined by 4.0% yoy to ₹433cr. The decline in top-line was mainly on account of a sharp decline of 31.1% yoy in analogue revenue to ₹32cr (due to omission of Sun TV channel bouquet from Arasu Cable TV) and subdued 4% yoy growth in advertising revenues. However, on a positive note, the management expects double digit advertising growth in Q3FY2013 aided by festive season and has also tied up with Arasu Cable TV which should ensure increase in subscription revenue in subsequent quarters. In other segments, DTH grew by 13.9% yoy to ₹90cr while international revenue grew by 50% yoy to ₹27cr.

Exhibit 2: Top-line declines 4.0% yoy



Source: Company, Angel Research

Exhibit 3: Segmental revenue



Source: Company, Angel Research

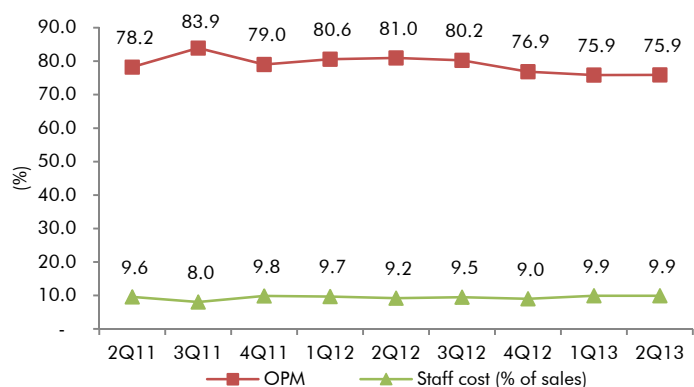
Exhibit 4: Revenue break-up

Y/E March (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	% qoq
Advt. Income	245	235	4.0	243	0.6
Broadcast Fee	37	39	(5.1)	37	-
Program License Inc (Int. Rev)	27	18	50.0	26	3.8
Subs Income – Analogue	32	47	(31.1)	30	8.0
Subs Income – DTH	90	79	13.9	89	1.1
Others (Incl. Movies)	3	33	(92.4)	2	25.0
Total Revenue	433	451	(3.9)	427.0	1.5
% of total revenue					
Advt. Income	56.4	52.1	-	56.9	-
Broadcast Fee	8.5	8.6	-	8.7	-
Program License Inc (Int Rev)	6.2	4.0	-	6.1	-
Subs Income – Analogue	7.5	10.4	-	7.0	-
Subs Income – DTH	20.8	17.5	-	20.8	-
Others (Incl. Movies)	0.6	7.3	-	0.5	-

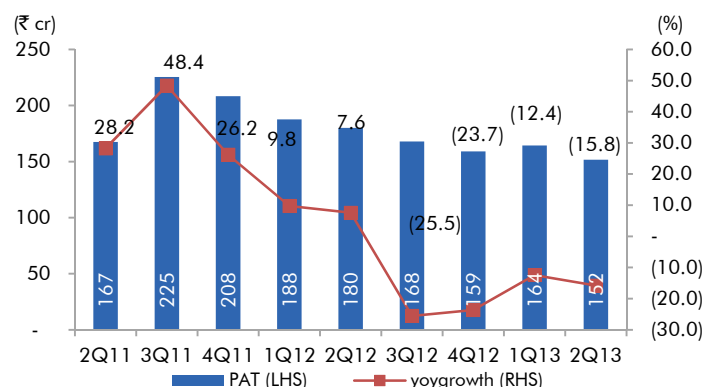
Source: Company, Angel Research

Net Profit declines 15.8% yoy led by 506bp yoy OPM contraction

The OPM for the quarter stood at 75.9%, a decline of 506bp yoy, largely on the back of 281bp yoy increase in cost of revenues as a percentage of sales (due to a non-fictional show produced during the quarter) and shift from Insat to Intelsat satellite. Staff costs as a percentage of sales also inched up by 72bp yoy to 9.9%. Staff costs stood at ₹43cr for the quarter. A decline in the top-line coupled with margin contraction led to a 15.8% yoy decline in net profit to ₹152cr in 2QFY2013.

Exhibit 5: OPM contracts 506bp yoy


Source: Company, Angel Research

Exhibit 6: PAT declines by 15.8% yoy


Source: Company, Angel Research

IPL team acquired

During 2QFY2013, Sun TV acquired the Hyderabad IPL team for ₹85.5cr/year. The management has guided a loss of ~₹30cr in FY2014. However, the management expects to achieve EBITDA breakeven by FY2016.

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 well 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. This deal has strengthened the reach of Sun TV network across Tamil Nadu and ensures increase in cable revenues in subsequent quarters.

Outlook and valuation

Sun TV is expected to benefit from mandatory digitization and signing of Arasu deal which would ensure steady cable revenues from Tamil Nadu. At the current market price, STNL is trading at 19.4x FY2014E consolidated EPS of ₹19.1. We believe the stock is fairly valued and would prefer to wait for a better entry opportunity. **Hence, we recommend Neutral on Sun TV.**

Exhibit 7: Peer valuation

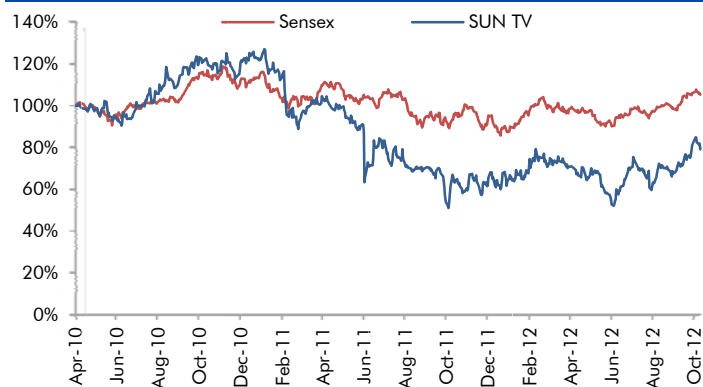
Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	PAT
SUN TV	Neutral	14,554	369	-	-	21.0	19.4	7.2	6.2	25.8	25.2	10.1	4.1
Zee Ent.*	Unrated	18,969	198	-	-	27.5	23.0	5.0	4.4	18.4	19.5	15.8	17.6

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

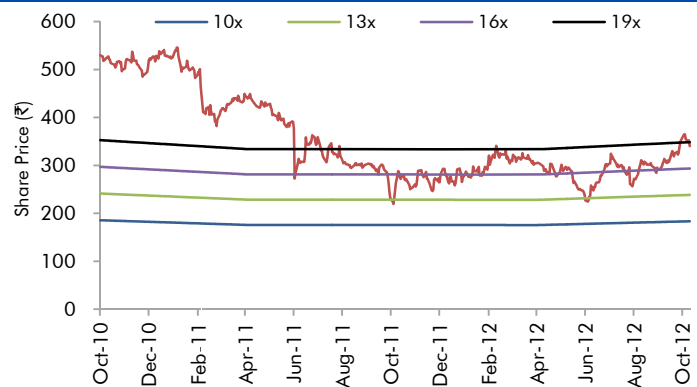
Exhibit 8: Angel vs Consensus estimates

Top line (₹ cr)	FY2013E	FY2014E	EPS (₹)	FY2013E	FY2014E
Angel estimates	1,942	2,237	Angel estimates	17.6	19.1
Consensus	1,957	2,242	Consensus	18.3	20.9
Diff (%)	(0.8)	(0.2)	Diff (%)	(4.1)	(8.8)

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	1,942	2,237
Less: Excise duty	-	-	-	-	-	-
Net Sales	1,039	1,453	2,013	1,847	1,942	2,237
Total operating income	1,039	1,453	2,013	1,847	1,942	2,237
% chg	19.5	39.8	38.6	(8.3)	5.1	15.2
Total Expenditure	303	362	435	433	442	548
(Inc.)/ Dec. in stock in trade	-	4	8	8	-	-
Cost of Production	111	119	135	133	145	221
Staff Costs	116	134	192	186	188	201
Power & Fuel	14	14	7	7	8	11
Other Expenses	62	91	94	99	100	114
EBITDA	737	1,091	1,578	1,415	1,500	1,690
% chg	23.3	-	-	-	-	-
(% of Net Sales)	70.9	75.1	78.4	76.6	77.2	75.5
Depreciation & Amortisation	220	321	480	474	499	561
EBIT	516	770	1,098	941	1,001	1,129
% chg	9.0	49.1	42.6	(14.3)	6.3	12.8
(% of Net Sales)	49.7	53.0	54.5	50.9	51.5	50.5
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	4.5	3.8
Share in profit of Associates	0.2	0.8	3.5	7.9	7.0	7.0
Recurring PBT	569	800	1,145	1,015	1,043	1,170
% chg	10.9	40.5	43.1	(11.3)	2.8	12.2
Prior Period & Extra Exp/(Inc.)	-	-	-	-	-	-
PBT (reported)	569	800	1,145	1,015	1,043	1,170
Tax	229	299	383	332	360	428
(% of PBT)	40.3	37.4	33.5	32.7	34.5	36.6
PAT (reported)	340	501	761	683	683	742
Add: Share of earn of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	(28)	(18)	(6)	(2)	(2)	(2)
PAT after MI (reported)	368	520	770	693	692	751
ADJ. PAT	368	520	770	693	692	751
% chg	12.7	41.2	48.2	(10.0)	(0.2)	8.5
(% of Net Sales)	35.4	35.8	38.3	37.5	35.6	33.6
Basic EPS (₹)	9.3	13.2	19.6	17.6	17.6	19.1
Fully Diluted EPS (₹)	9.3	13.2	19.6	17.6	17.6	19.1
% chg	12.7	41.2	48.2	(10.0)	(0.2)	8.5

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	1,689	2,057	2,315	2,581	2,905
Shareholder's Funds	1,702	1,973	2,347	2,605	2,871	3,196
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	2,045	2,432	2,679	2,934	3,259
APPLICATION OF FUNDS						
Net Block (incl. CWIP)	972	1,213	1,307	1,251	1,198	1,268
Investments	181	228	185	193	263	383
Non Current Assets	23	30	-	-	-	-
Current Assets	881	1,035	1,374	1,464	1,880	2,108
Cash	365	437	603	308	653	703
Loans & Advances	274	266	254	616	602	694
Other	241	332	517	541	625	712
Current liabilities	219	461	435	229	407	499
Net Current Assets	662	574	939	1,236	1,474	1,609
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,838	2,045	2,432	2,679	2,934	3,259

Note: FY12 balance sheet numbers as per revised schedule VI

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	569	800	1,145	1,015	1,043	1,170
Depreciation	220	321	480	474	499	561
Change in Working Capital	56	(109)	(173)	(140)	(57)	(89)
Interest / Dividend (Net)	(26)	(29)	(36)	(53)	(36)	(37)
Direct taxes paid	202	281	383	(332)	(360)	(428)
Others	30	24	86	(70)	10	11
Cash Flow from Operations	649	726	1,119	894	1,100	1,186
(Inc.)/ Dec. in Fixed Assets	(494)	(554)	(554)	(406)	(447)	(630)
(Inc.)/ Dec. in Investments	(9)	(47)	43	(263)	(70)	(120)
Cash Flow from Investing	(503)	(602)	(511)	(669)	(517)	(750)
Issue of Equity	6	107	11	2	2	2
Inc./(Dec.) in loans	(4)	(73)	17	(3)	(11)	-
Dividend Paid (Incl. Tax)	(184)	(115)	(505)	(572)	(265)	(426)
Interest / Dividend (Net)	8	29	36	53	36	37
Cash Flow from Financing	(174)	(53)	(442)	(520)	(237)	(387)
Inc./(Dec.) in Cash	(28)	71	166	(295)	346	49
Opening Cash balances	394	365	437	603	308	653
Closing Cash balances	365	437	603	308	653	703

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	39.5	28.0	18.9	21.0	21.0	19.4
P/CEPS	35.7	24.7	17.2	18.3	18.1	16.6
P/BV	8.6	7.7	6.5	5.8	5.2	4.7
Dividend yield (%)	0.7	2.0	2.4	2.6	2.5	2.5
EV/Sales	13.4	9.6	6.9	7.7	7.2	6.2
EV/EBITDA	18.9	12.7	8.8	10.1	9.3	8.2
EV / Total Assets	7.6	6.8	5.7	5.2	4.7	4.3
Per Share Data (₹)						
EPS (Basic)	9.3	13.2	19.6	17.6	17.6	19.1
EPS (fully diluted)	9.3	13.2	19.6	17.6	17.6	19.1
Cash EPS	10.3	14.9	21.5	20.2	20.4	22.3
DPS	2.5	7.5	8.8	9.5	9.3	9.3
Book Value	43.2	47.8	57.2	63.7	70.5	78.7
Dupont Analysis						
EBIT margin	49.7	53.0	54.5	50.9	51.5	50.5
Tax retention ratio	0.6	0.6	0.7	0.7	0.7	0.6
Asset turnover (x)	0.8	0.9	0.9	0.6	0.6	0.6
RoIC (Post-tax)	24.6	28.5	31.5	21.5	19.6	19.2
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	32.6	22.7	20.2	19.2
Returns (%)						
RoCE (Pre-tax)	30.2	39.7	49.1	36.8	35.6	36.5
Angel RoIC (Pre-tax)	45.7	57.6	72.6	49.2	47.7	53.9
RoE	21.6	27.9	36.8	28.7	25.8	25.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.7	0.8	0.7	0.6	0.6	0.6
Inventory / Sales (days)	0	1	0	0	0	0
Receivables (days)	85	83	86	108	111	111
Payables (days)	16	10	10	9	8	9
WC (ex-cash) (days)	104	34	61	183	154	148
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	488.0	161.7	202.5	282.3

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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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