

SUN TV Network

Performance Highlights

(₹ cr)	4QFY11	4QFY10	% yoy	3QFY11	% qoq
Revenue	460.5	391.9	17.5	598.0	(23.0)
EBITDA	363.9	330.9	10.0	501.8	(27.5)
OPM (%)	79.0	84.4	(541bp)	83.9	(490bp)
PAT	208.3	165.1	26.2	225.5	(7.6)

Source: Company, Angel Research

Post the concall, we have marginally revised our estimates downwards. We remain positive on Sun TV's (STNL) business. However, due to the recent political developments, we downgrade our P/E multiple to 19x (inline with its one-year historical P/E). **We maintain our Buy rating on the stock.**

Sun TV continued to post yet another quarter of strong results on the revenue as well as the earnings front. Top-line growth can largely be attributed to advertising (up 15.6% yoy to ~₹257cr, despite high base and cricket-heavy quarter) and subscription (up 50.2% yoy to ~₹70cr due to management's renewed focus) revenue. In terms of earnings, STNL registered an increase of 26.2% yoy to ₹208cr, despite margin contraction of 541bp yoy to 79%, aided by higher other income (up 103.2% yoy/89.5% qoq to ₹17.2cr).

Outlook and valuation: For STNL, we have modeled in a CAGR of 16.5%, 10.8% and 10.7% in advertisement revenue, core EBIT (post amortisation) and earnings, respectively, over FY2011–13E. Moreover, we expect STNL's cash balance to swell to whopping ₹18bn (~₹32/share) in FY2013, driven by strong rise in free cash flow on the back of strong earnings growth. Hence, we expect STNL's RoE to sustain at ~25% levels and RoIC to rise to 70% in FY2013 (50.5% in FY2011E). At the CMP, the stock is currently trading at 16.2x FY2013E EPS. We maintain Buy on the stock with a revised target price of ₹454, based on 19x revised consolidated EPS of ₹23.9. **We maintain our Buy recommendation on the stock with a target price of ₹454.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	1,453	2,013	2,132	2,384
% chg	39.8	38.6	5.9	11.8
Net profit	520	770	836	942
% chg	41.2	48.1	8.7	12.7
OPM (%)	75.1	78.4	78.4	78.8
EPS (₹)	13.2	19.5	21.2	23.9
P/E (x)	29.4	19.9	18.3	16.2
P/BV (x)	8.1	6.3	5.1	4.2
RoE (%)	27.9	35.4	30.7	28.2
RoCE (%)	39.7	47.5	41.9	39.0
EV/Sales (x)	10.3	7.4	7.0	6.3
EV/EBITDA (x)	13.7	9.5	8.9	8.0

Source: Company, Angel Research

ACCUMULATE

CMP	₹388
Target Price	₹454

Investment Period	12 Months
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Stock Info

Sector	Media
Market Cap (₹ cr)	15,298
Beta	0.6
52 Week High / Low	556/371
Avg. Daily Volume	2,45,040
Face Value (Rs)	5
BSE Sensex	18,266
Nifty	5,476
Reuters Code	SUNTV.BO
Bloomberg Code	SUNTV@IN

Shareholding Pattern (%)

Promoters	42.8
MF / Banks / Indian Fls	18.1
FII / NRIs / OCBs	36.2
Indian Public / Others	3.0

Abs. (%)	3m	1yr	3yr
Sensex	3.2	9.6	12.2
Sun TV	(3.0)	(3.6)	19.3

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Exhibit 1: Quarterly performance (Standalone)

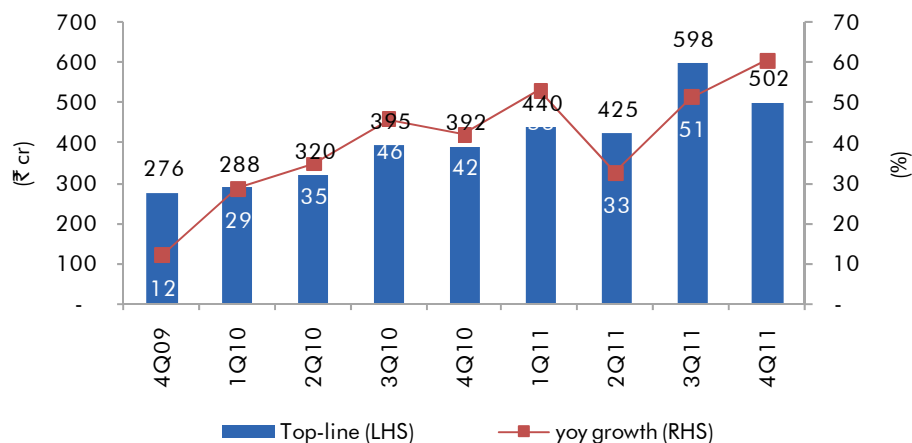
Y/E March (₹ cr)	4QFY11	4QFY10	% yoy	3QFY11	% qoq	FY2011	FY2010	% chg
Net Sales	460.5	391.9	17.5	598.0	(23.0)	1,923.7	1,395.0	37.9
Cost of Revenue	28.3	22.1	28.1	22.6	25.5	102.7	88.9	15.6
(% of sales)	6.2	5.6		3.8		17.2	14.9	
Staff cost	45.3	16.7	171.5	48.1	(5.8)	174.0	116.0	50.0
(% of sales)	9.8	4.3		8.0		29.1	19.4	
Other expenditure	23.0	22.2	3.4	25.5	(9.9)	89.1	79.6	12.0
(% of sales)	5.0	5.7		4.3		14.9	13.3	
Total Expenditure	96.6	61.0	58.3	96.2	0.5	365.8	284.5	28.6
Operating Profit	363.9	330.9	10.0	501.8	(27.5)	1,557.9	1,110.6	40.3
OPM (%)	79.0	84.4		83.9		81.0	79.6	
Depreciation & Ammortisation	67.8	84.8	(20.0)	174.0	(61.0)	447.4	285.4	56.7
EBIT	296.1	246.0	20.3	327.8	(9.7)	1,110.5	825.1	34.6
EBIT (%)	64.3	62.8		54.8		57.7	59.1	
Interest	1.4	0.2	513.0	0.1	984.6	2.0	1.2	65.0
Other Income	17.2	8.5	103.2	9.1	89.5	46.8	42.5	10.1
PBT (excl. Ext Items)	311.8	254.2	22.7	336.7	(7.4)	1,155.3	866.4	33.3
Ext Income/(Expense)	-	-		-		-	-	
PBT (Incl. Ext Items)	311.8	254.2	22.7	336.7	(7.4)	1,155.3	866.4	33.3
(% of Sales)	67.7	64.9		56.3		60.1	62.1	
Provision for Taxation	103.5	89.2	16.1	111.2	(7.0)	383.1	299.0	28.1
(% of PBT)	33.2	35.1		33.0		33.2	34.5	
Recurring PAT	208.3	165.1	26.2	225.5	(7.6)	772.2	567.4	36.1
PATM (%)	45.2	42.1		37.7		40.1	40.7	
Reported PAT	208.3	165.1	26.2	225.5	(7.6)	772.2	567.4	36.1
Equity shares (cr)	39.4	39.4		39.4		39.4	39.4	
EPS (₹)	5.3	4.2		5.7		19.6	14.4	

Source: Company, Angel Research

Strong subscription revenue aid top-line growth

STNL continued its growth momentum, reporting 17.5% yoy top-line growth, led by 1) 15.6% yoy growth in advertising revenue, 2) 1.4% yoy growth in broadcast fees, 3) 29.7% yoy growth in DTH revenue (6.95mn subscriber base, ~₹36 ARPU), 4) 15.1% yoy growth in international revenue and 5) 50.2% yoy growth in analogue revenue. On a sequential basis, revenue from all the segments declined, except subscription revenue from analogue as well as DTH. The sequential decline in ad revenue was on account of high base effect (all festivals were consolidated in 3QFY2011), while revenue from the movies segment recorded a decline because of the high base effect of 3QFY2011, when the company released the bumper hit movie *Endhiran*. Subscription revenue improved on a yoy and qoq basis, as there has been a higher contribution from pay channels' revenue and as DTH subscribers reached 6.95mn during the quarter.

The company took a price hike in ad rates effective from April 1, 2011, in all its channels (Tamil by 8–32%, Malayalam by 6–33%, Telugu by 6–43% and Kannada by 5–13%) and has indicated that it would also hike broadcasting fees.

Exhibit 2: Top-line growth trend


Source: Company, Angel Research

Exhibit 3: Segmental revenue break-up

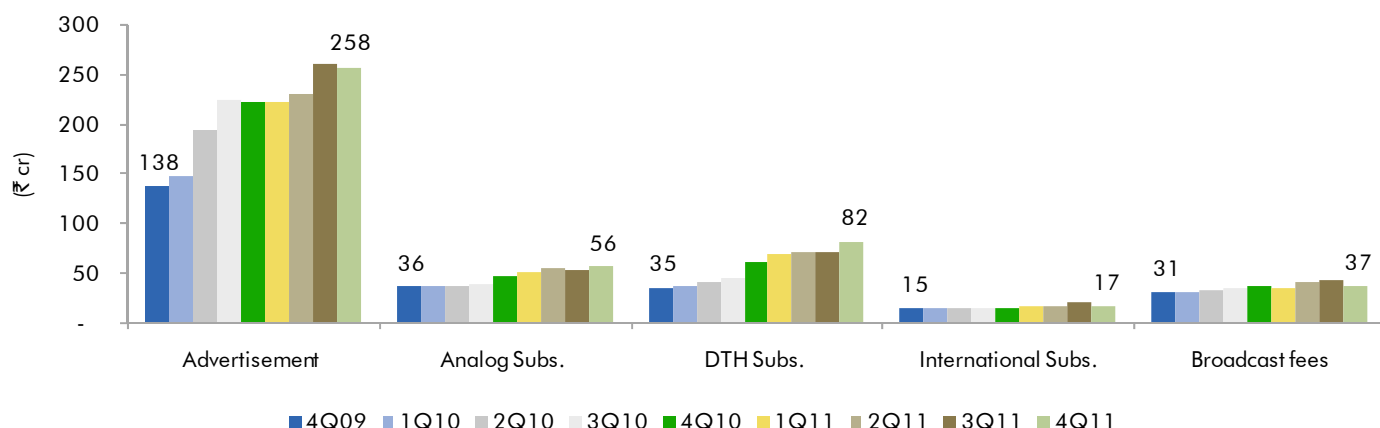
Y/E March (₹ cr)	4QFY11	4QFY10	% yoy	3QFY11	% qoq
Advt. Income	257	222	15.6	261	(1.6)
Broadcast Fee	37	36	1.4	42	(12.6)
Program License Inc (Int Rev)	17	15	15.1	20	(16.0)
Subs Income - Analogue	70	47	50.2	53	32.1
Subs Income - DTH	80	62	29.7	70	14.3
Others (Incl Movies)	1	10	(92.8)	152	(99.5)
Total revenue	461	391	17.9	598.0	(22.9)

% of total revenue

Advt. Income	55.7	56.8	43.6
Broadcast Fee	8.0	9.3	7.0
Program License Inc (Int Rev)	3.6	3.7	3.3
Subs Income - Analogue	15.2	11.9	8.9
Subs Income - DTH	17.4	15.8	11.7
Others (Incl Movies)	0.2	2.6	25.4

Source: Company, Angel Research

Exhibit 4: Segmental revenue growth trend



Source: Company, Angel Research

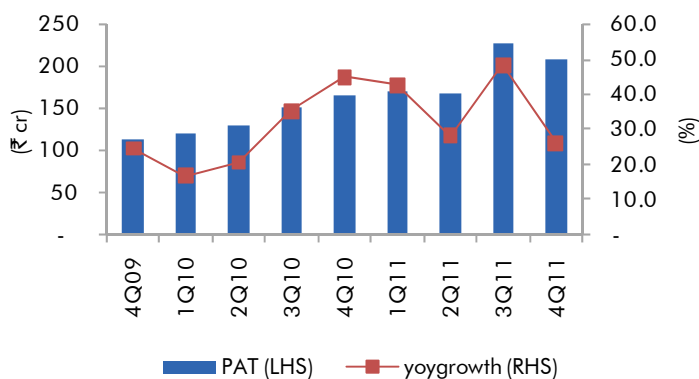
Recurring earnings growth robust at 26.2% yoy despite margin contraction, aided by a substantial increase in other income and lower amortisation

In terms of earnings, STNL posted growth of 26.2% yoy to ₹208cr (₹165cr) on a recurring basis, despite margin contraction, aided by higher other income (up 103.2% yoy/89.5% qoq to ₹17cr) and lower amortisation cost (down by 20% yoy/61% qoq to ₹68cr) as a result of *Endhiran* wanes and lower tax rate (down 188bp yoy).

Higher staff cost as a percentage of revenue result in margin contraction

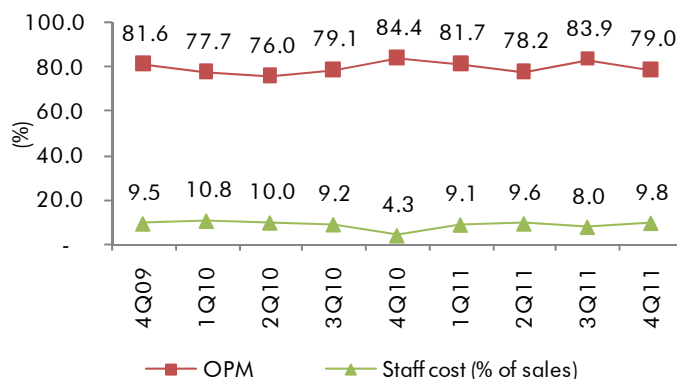
At the operating level, STNL posted a 541bp yoy contraction in its operating margin, resulting in muted 10% yoy growth in operating profit to ₹364cr (₹331cr), impacted by increased staff cost (on a low base). Staff cost came in substantially higher by 558bp yoy; however, this increase is inline to our expectations and has to be seen in light of the low base effect of 4QFY2010. (In FY2010, the company’s management had foregone its annual remuneration of ~10% of PBT and had restricted itself to the FY2009 payout, resulting in a low base). Cost of revenue increased by 51bp yoy/238bp qoq to ₹28cr, while other expenses decreased by 68bp yoy/increased by 73bp qoq.

Exhibit 5: Earnings growth rate moderates



Source: Company, Angel Research

Exhibit 6: Expect OPM at ~79% for FY2011



Source: Company, Angel Research

Investment arguments

- **STNL's ad revenue to outpace regional ad revenue growth, we peg a 16.5% CAGR:** During FY2011–13E, we peg STNL's standalone ad revenue to post a 16.5% CAGR, ahead of a 15% CAGR in regional advertising during the period, driven by 1) absorption of rate hikes (8–32% hike in ad rates across Tamil channels and 6–43% across Telugu channels effective January 2011 and another set of price hikes taken effective April 2011), 2) increasing DTH subscriber base and 3) dominant position in South India, where the competition is limited.
- **DTH to drive a 15.9% CAGR in pay revenue:** During FY2011–13E, we expect STNL to register a robust 15.9% CAGR in overall DTH revenue. The digitisation drive across the nation and consumers shifting to superior-quality DTH from cable television would benefit STNL also, as it is a known player in South India (STNL receives ~60% revenue from Sun Direct). We expect DTH subscriber base for STNL to reach to ~9mn by FY2013.
- **Increasing contribution of the radio business to the top line and bottom line:** On a consolidated basis (Kal and SAFM), we expect the radio subsidiaries to report a top-line CAGR of 16.1% during FY2011–13E to ₹112cr. For FY2011, Kal radio reported operating profit of ₹25.4cr and PAT of ₹8.9cr, while SAFM reduced its losses reporting EBITDA loss of ₹3.3cr (loss of ~₹21cr) and loss in earnings of ~₹18cr (loss of ~₹44cr). We expect SAFM to report operation profit in FY2012 and have penciled a breakeven for the consolidated radio subsidiaries in FY2013E. Government regulations on radio broadcasting, paving way to Phase-III of radio licensing auction, will act as a further upside to our estimates.

Outlook and valuation

Post the concall, we have tweaked our estimates downwards. We remain positive on STNL's business. However, due to the recent political developments, we downgrade our PE multiple to 19x from 23x previously.

Over FY2011–13E, we have modeled in a CAGR of 16.5%, 11.2% and 10.7% in top line, core EBIT (post amortisation) and earnings, respectively, for STNL. Moreover, we expect STNL's cash balance to swell to whopping ₹18bn (~₹32/share) in FY2013, driven by strong rise in free cash flow on the back of robust earnings growth. Hence, we expect STNL's RoE to sustain at ~25% levels and RoIC to rise to 70% in FY2013 (50.5% in FY2011).

We believe the uniqueness in the company's business model is intact and expect the business to perform well. However, due to the recent political developments in Tamil Nadu and the developments related to the 2G spectrum, we have downgraded our PE multiple to 19x from 24x previously. **We maintain our Buy recommendation on the stock with a target price of ₹454.**

Exhibit 7: Revision in estimates

(₹ cr)	Old estimates		New estimates		% chg	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Revenue	2,216	2,503	2,132	2,384	(3.8)	(4.8)
OPM (%)	76.9	77.3	78.4	78.8	157bp	148bp
EPS (₹)	21.1	24.2	21.2	23.9	0.6	(1.1)

Exhibit 8: Key assumptions

	FY10	FY11	FY12E	FY13E	Comments
Ad revenue growth (%)	39.5	24.6	18.1	15.0	Rate hike absorption (8–32% in STNL)
Pay revenue growth (%)	47.7	45.2	9.8	12.8	Conservative on account of political manifesto of rival party
Movie revenue growth (%)	139.1	227.5	(59.3)	(22.2)	7–8 movies in the pipeline and a possible <i>Endhiran</i> sequel
Staff cost as % of sales	9.2	9.5	9.8	9.7	Spike due higher pay to MD
Core EBIT margin (%)	59.1	58.5	60.3	60.7	Expansion due to lower losses in radio and high OPM

Source: Company, Angel Research

Exhibit 9: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	Sales	PAT
Sun TV	Accumulate	15,298	388	454	17.1	18.3	16.2	7.0	6.3	30.7	28.2	16.5	10.7
Zee Ent [^]	Unrated	13,475	138	-	-	26.5	17.9	-	-	13.3	15.3	13.3	22.0

Source: Company, Angel Research, Note: #Denotes CAGR for FY2011-13E, ^Zee Entertainment figures are consensus estimates from Bloomberg

Exhibit 10: Angel vs. Consensus estimates

Top-line (₹ cr)	FY2012E	FY2013E	EPS (₹)	FY2012E	FY2013E
Angel estimates	2,132	2,384	Angel estimates	21.2	23.9
Consensus	2,194	2,538	Consensus	21.9	25.9
Diff (%)	(3)	(6)	Diff (%)	(3)	(8)

Source: Company, Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (₹cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Gross sales	1,039	1,453	2,013	2,132	2,384
Less: Excise duty	-	-	-	-	-
Net Sales	1,039	1,453	2,013	2,132	2,384
Total operating income	1,039	1,453	2,013	2,132	2,384
% chg	19.5	39.8	38.6	5.9	11.8
Total Expenditure	303	362	436	460	506
(Inc)/Dec in stock in trade	-	4	2	-	-
Cost of Production	111	119	135	143	155
Staff Cost	116	134	192	208	231
Power & Fuel	14	14	20	21	24
Others	62	91	86	87	96
EBITDA	737	1,091	1,578	1,673	1,879
% chg	23.3	-	-	-	-
(% of Net Sales)	70.9	75.1	78.4	78.4	78.8
Depreciation & Amortisation	220	321	480	474	521
EBIT	516	770	1,097	1,199	1,358
% chg	9.0	49.1	42.5	9.2	13.3
(% of Net Sales)	49.7	53.0	54.5	56.2	56.9
Interest & other Charges	14	5	2	2	2
Other Income	67	35	49	47	47
(% of PBT)	11.7	4.4	4.3	3.8	3.4
Share in profit of Associates	0.2	0.8	3.5	1.2	1.2
Recurring PBT	569	800	1,144	1,243	1,403
% chg	10.9	40.5	43.0	8.7	12.8
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	569	800	1,144	1,243	1,403
Tax	229	299	383	413	465
(% of PBT)	40.3	37.4	33.5	33.2	33.1
PAT (reported)	340	501	761	830	938
Add: Share of associates	-	-	-	-	-
Less: Minority interest (MI)	(28)	(18)	(6)	(5)	(3)
PAT after MI (reported)	368	520	770	836	942
ADJ. PAT	368	520	770	836	942
% chg	12.7	41.2	48.1	8.7	12.7
(% of Net Sales)	35.4	35.8	38.2	39.2	39.5
Basic EPS (₹)	9.3	13.2	19.5	21.2	23.9
Fully Diluted EPS (₹)	9.3	13.2	19.5	21.2	23.9
% chg	12.7	41.2	48.1	8.7	12.7

Balance Sheet (Consolidated)

Y/E March (₹cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS					
Equity Share Capital	197	197	197	197	197
Preference Capital	-	88	88	88	88
Reserves & Surplus	1,505	1,689	2,219	2,790	3,467
Shareholders' Funds	1,702	1,973	2,504	3,075	3,752
Minority Interest	38	37	37	37	37
Total Loans	72	0	0	0	0
Deferred Tax Liability	26	34	34	34	34
Total Liabilities	1,838	2,044	2,575	3,146	3,823
APPLICATION OF FUNDS					
Gross Block	1,491	1,888	2,257	2,577	2,891
Less: Acc. Depreciation	677	990	1,471	1,945	2,466
Net Block	815	898	786	632	426
Capital Work-in-Progress	157	315	248	258	289
Goodwill	-	-	-	-	-
Investments	181	228	328	528	728
Non Current Assets	23	30	35	40	35
Current Assets	881	1,035	1,522	2,079	2,741
Cash	365	437	739	1,281	1,849
Loans & Advances	274	266	332	320	358
Other	241	332	451	478	534
Current liabilities	219	461	344	390	395
Net Current Assets	662	574	1,178	1,689	2,346
Misc Exp	-	-	-	-	-
Total Assets	1,838	2,045	2,575	3,146	3,823

Cash Flow Statement (Consolidated)

Y/E March (₹cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	569	800	1,144	1,243	1,403
Depreciation	220	321	480	474	521
Change in Working Capital	56	(109)	(169)	(22)	(59)
Interest / Dividend (Net)	(26)	(29)	(38)	(41)	(41)
Direct taxes paid	202	281	383	413	(465)
Others	(14)	24	(22)	19	(22)
Cash Flow from Operations	604	726	1,011	1,261	1,337
Inc./ (Dec.) in Fixed Assets	(494)	(554)	(302)	(329)	346
Inc./ (Dec.) in Investments	(0)	(47)	(0)	(47)	991
Cash Flow from Investing	(494)	(602)	(302)	(377)	(200)
Issue of Equity	6	107	6	5	3
Inc./ (Dec.) in loans	(4)	(73)	(4)	(3)	-
Dividend Paid (Incl. Tax)	(184)	(115)	(345)	(231)	(265)
Interest / Dividend (Net)	8	29	36	39	39
Cash Flow from Financing	(174)	(53)	(307)	(190)	(223)
Inc./ (Dec.) in Cash	(64)	71	402	695	568
Opening Cash balances	430	365	437	739	1,281
Closing Cash balances	365	437	839	1,434	1,849

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	41.5	29.4	19.9	18.3	16.2
P/CEPS	37.6	26.0	18.2	16.7	14.9
P/BV	9.0	8.1	6.3	5.1	4.2
Dividend yield (%)	0.6	1.9	1.3	1.5	1.5
EV/Sales	14.4	10.3	7.4	7.0	6.3
EV/EBITDA	20.3	13.7	9.5	8.9	8.0
EV / Total Assets	8.1	7.3	5.8	4.7	3.9
Per Share Data (₹)					
EPS (Basic)	9.3	13.2	19.5	21.2	23.9
EPS (fully diluted)	9.3	13.2	19.5	21.2	23.9
Cash EPS	10.3	14.9	21.3	23.3	26.1
DPS	2.5	7.5	5.0	5.8	5.8
Book Value	43.2	47.8	61.3	75.8	93.0
Dupont Analysis					
EBIT margin	49.7	53.0	54.5	56.2	56.9
Tax retention ratio	0.6	0.6	0.7	0.7	0.7
Asset turnover (x)	0.8	0.9	1.0	0.9	0.9
RoIC (Post-tax)	24.6	28.5	35.2	33.1	33.2
Cost of Debt (Post tax)	0.1	0.1	10.7	9.5	9.6
Leverage (x)	0.4	0.2	0.0	0.0	0.0
Operating RoE	33.3	33.7	35.2	33.1	33.2
Returns (%)					
RoCE (Pre-tax)	30.2	39.7	47.5	41.9	39.0
Angel RoIC (Pre-tax)	45.7	57.6	76.0	84.3	105.1
RoE	21.6	27.9	35.4	30.7	28.2
Turnover ratios (x)					
Asset Turnover	0.7	0.8	0.9	0.8	0.8
Inventory / Sales (days)	0	1	1	1	1
Receivables (days)	85	83	81	81	81
Payables (days)	16	10	8	8	8
Work. cap. ex-cash (days)	104	34	80	70	76
Solvency ratios (x)					
Net debt to equity	0.4	0.0	0.0	0.0	0.0
Net debt to EBITDA	0.1	0.0	0.0	0.0	0.0
Interest Coverage	37.4	155.9	487.7	599.4	678.9

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Disclosure of Interest Statement

SUN TV Network

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%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	