



Sun TV Network

BSE SENSEX 18,328	S&P CNX 5,506	Rs491	Neutral									
Bloomberg Equity Shares (m)	SUNTV IN 394.1	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	557/352	END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	4/6/17	3/10A	13,950	5,674	14.4	36.3	34.1	9.6	28.2	52.8	13.6	17.0
M.Cap. (Rs b)	193.5	3/11E	19,355	7,632	19.4	34.5	25.4	7.5	29.7	59.5	9.5	11.7
M.Cap. (US\$ b)	4.2	3/12E	20,817	8,999	22.8	17.9	21.5	6.0	27.9	51.5	8.5	10.6
		3/13E	23,656	10,927	27.7	21.4	17.7	4.8	27.2	48.4	7.1	8.8

Sun TV's reported PAT of Rs2.26b (up 48.5% YoY and 34.7% QoQ) was significantly above our estimate of Rs1.79b, driven by lower costs and higher-than-expected contribution from its blockbuster movie 'Enthiran'.

Key highlights

- Revenue increased 51.4% YoY and 40.8% QoQ to Rs5.98b (5.5% above estimate).
- Sun TV recognized Rs1.51b revenue and Rs1.07b cost (included in amortization) during 3QFY11 for the movie.
- Excluding Rs1.51b revenue recognized for 'Enthiran', revenue grew ~13% YoY (in line with our estimate).
- EBITDA increased 60.6% YoY and 51% QoQ to Rs5.02b (11.4% above our estimate); EBITDA margin stood at 83.9%.
- EBITDA excluding 'Enthiran' grew 12% YoY to Rs3.51b (6.1% above our estimate) implying an adjusted EBITDA margin of 78.5%.
- PAT excluding 'Enthiran' grew 29% YoY to Rs1.96b (13.5% above our estimate).
- Advertising and broadcast revenue grew 16.5% YoY (12.2% QoQ).
- DTH revenue grew 59% YoY but remained flat QoQ at ~Rs700m. DTH subscriber base grew 2.6% QoQ to 6.72m.
- The management expects DTH revenue to regain momentum from 4QFY11 as the revenue has been impacted largely due to timing issues.
- The company has announced an interim dividend of Rs5/share (v/s total dividend of Rs6.5/share in FY10).

Valuation and view: We believe Sun TV will be able to sustain its market leadership despite rising competitive activity due to: (1) strong programming and film library, and (2) strong presence across regional genres. We continue to expect Sun TV to grow ahead of the total advertising industry growth of 13-15%. We are upgrading our earnings estimates by 6% for FY11 and 4% for FY12/13, driven by higher-than-expected contribution from 'Enthiran' and better cost control. We expect an EPS CAGR of 20% during FY11-13. The stock trades at 21.5x FY12E EPS and 17.7x FY13E EPS. **Neutral.**

QUARTERLY PERFORMANCE

Y/E MARCH	(Rs Million)								FY10	FY11E
	FY10				FY11					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue	2,877	3,204	3,951	3,919	4,404	4,248	5,980	4,723	13,950	19,355
Change (%)	28.7	34.7	45.9	42.0	53.1	32.6	51.4	20.5	38.4	38.7
EBITDA	2,236	2,436	3,125	3,308	3,599	3,323	5,018	3,834	11,105	15,774
Change (%)	32.9	38.1	55.3	46.6	60.9	36.4	60.6	15.9	43.9	42.0
As of % Sales	77.7	76.0	79.1	84.4	81.7	78.2	83.9	81.2	79.6	81.5
Depreciation and Amortisation	550	571	885	848	1,147	908	1,740	908	2,854	4,703
Interest	6	2	2	2	1	3	1	1	12	7.0
Other Income	142	115	84	85	113	93	91	95	425	391
PBT	1,822	1,978	2,322	2,542	2,563	2,505	3,367	3,020	8,664	11,455
Tax	624	672	803	892	854	830	1,112	1,027	2,990	3,823
Effective Tax Rate (%)	34.3	34.0	34.6	35.1	33.3	33.1	34.0	34.0	34.5	33.4
Reported PAT	1,198	1,306	1,519	1,651	1,710	1,674	2,255	1,993	5,674	7,632
Adj PAT	1,198	1,306	1,519	1,651	1,710	1,674	2,255	1,993	5,674	7,632
Change (%)	16.8	37.3	35.4	44.7	42.7	28.2	48.4	20.8	36.2	34.5

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Nirav Poddar (Nirav.Poddar@MotilalOswal.com); Tel: +91 22 3982 5444

Proforma PAT higher than estimated

- Sun TV's revenue increased 51.4% YoY and 40.8% QoQ to Rs5.98b (5.5% above our estimate).
- Excluding Rs1.51b recognized for 'Enthiran', revenue grew ~13% YoY (in line with our estimate).
- EBITDA increased 60.6% YoY and 51% QoQ to Rs5.02b (11.4% above our estimate); EBITDA margin stood at 83.9%.
- EBITDA excluding 'Enthiran' grew 12% YoY to Rs3.51b (6.1% above our estimate) implying an adjusted EBITDA margin of 78.5%.
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- The company has announced an interim dividend of Rs5/share (v/s total dividend of Rs6.5/share in FY10).

Financials ex-'Enthiran' (Rs m)

	3QFY11A	3QFY11E	vs est (%)
Revenue	4,470	4,470	0
Operating expenditure	962	1,165	-17
EBITDA	3,508	3,305	6
EBITDA margin (%)	78	74	454bps
Depreciation and amortization	670	780	-14
Interest	1	3	-57
Other income	91	97	-7
PBT	2,927	2,619	12
Tax	966	890	8
Effective tax rate (%)	33.0	34.0	-100bps
PAT	1,961	1,729	13

Source: Company/MOSL

Advertising and broadcast revenue up 16% YoY; domestic cable/DTH revenue flat QoQ

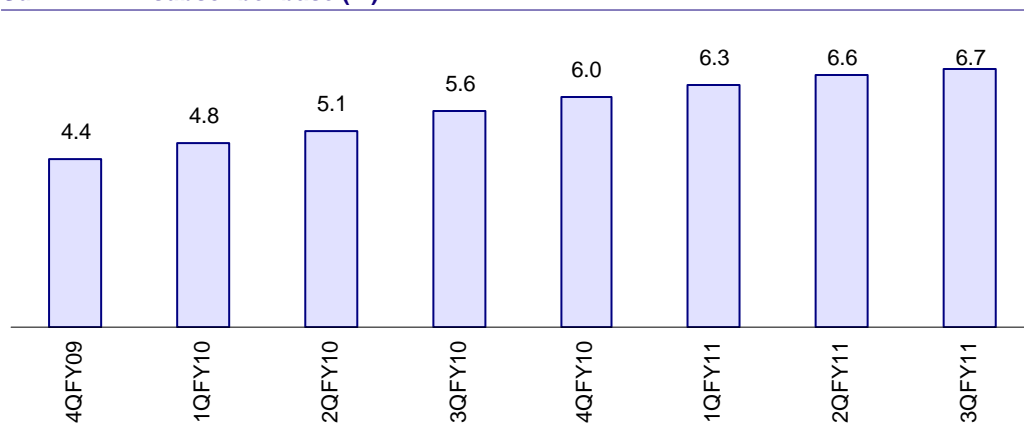
- Advertising and broadcast revenue grew 16.5% YoY (12.2% QoQ).
- DTH revenue grew 59% YoY but remained flat QoQ at ~Rs700m. DTH subscriber base grew 2.6% QoQ to 6.72m.
- The management expects DTH revenue to regain momentum from 4QFY11, as the revenue has been impacted largely due to timing issues.
- Domestic cable revenues increased 36% YoY but remained largely flat QoQ at ~Rs530m.
- We expect advertising and broadcast revenue to grow 22% in FY11 and at 14% CAGR over FY11-13.

QoQ growth driven by advertising/broadcasting and movies segment (Rs m)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY (%)	QoQ (%)
Ad & Broadcasting rev	1,783	2,260	2,601	2,580	2,570	2,700	3,030	16	12
International rev	144	130	140	160	150	160	200	43	25
DTH	360	400	440	630	680	700	700	59	0
Domestic Cable	360	360	390	470	520	540	530	36	-2
Films and others	230	54	380	79	484	148	1,510	297	920
Total	2,877	3,204	3,951	3,919	4,404	4,248	5,980	51	41

Source: Company/MOSL

Sun TV: DTH subscriber base (m)



Source: Company/MOSL

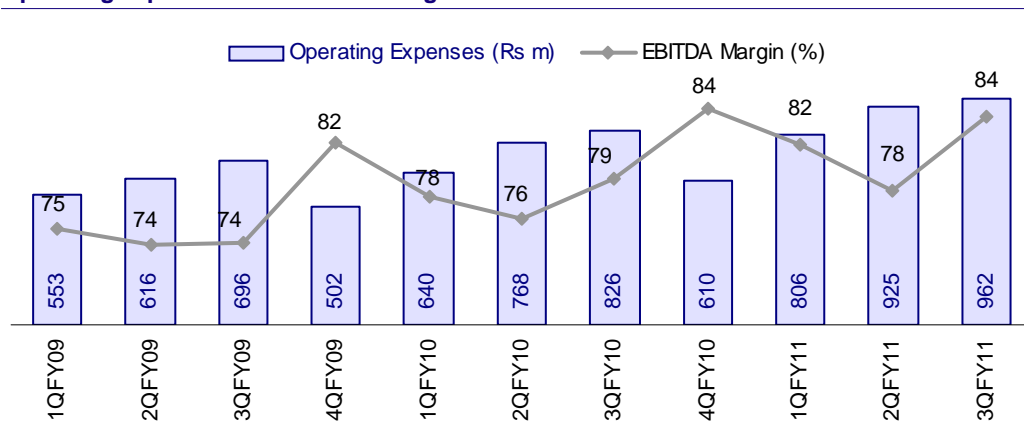
'Enthiran' drives robust 3Q performance

- Financials of blockbuster movie 'Enthiran'/'Robot' released in three languages (Tamil, Telugu and Hindi) were included in 3QFY11.
- Total revenue from the movie is Rs1.79b, of which Rs1.51b has been recognized in 3QFY11 while Rs130m was booked in 2QFY11.
- The company would be booking the balance Rs150m expected towards the satellite rights later.
- Total production cost of the movie is Rs1.32b, of which Rs1.07b was amortized during 3QFY11, Rs10m was booked in 2QFY11, and the balance Rs150m would be recognized later.

EBITDA margin improves on controlled cost increase

- Operating expenses grew 16.5% YoY and 4% QoQ to Rs962m.
- Employee expenses grew 32.3% YoY and 18.3% QoQ to Rs481m.
- Other expenses increased 20.8% YoY but declined 4.9% QoQ to Rs255m.

Operating expenses and EBITDA margin



Source: Company/MOSL

Upgrading earnings by 4-6%; Neutral

- We believe Sun TV will be able to sustain its market leadership despite rising competitive activity due to: (1) strong programming and film library, and (2) strong presence across regional genres.
- We continue to believe that regional players like Sun TV will grow ahead of the total advertising industry growth of 13-15%.
- We are upgrading our earnings estimates by 6% for FY11 and 4% for FY12/13, driven by higher-than-expected contribution from 'Enthiran' and better cost control.
- We expect an EPS CAGR of 20% during FY11-13.
- The stock trades at 21.5x FY12E EPS and 17.7x FY13E EPS. **Neutral.**

Sun TV Network: an investment profile

Company description

Sun TV Network is the leader in South India, with a strong network of channels having presence across all genres. The South India market constitutes 70% of the regional advertising market. Sun TV offers 20 channels to viewers in four states - Tamil Nadu, Andhra Pradesh, Karnataka and Kerala.

Key investment arguments

- Regional markets have been posting strong growth in advertising revenue and Sun TV with a leadership in South India will be a beneficiary.
- Digitization of the distribution network will result in strong growth in subscription revenue for Sun TV.
- Lean cost structure and an extensive movie library offers strong competitive advantage to Sun TV.

Key investment risks

- Proliferation of new channels in the GEC genre will lead to fragmentation of viewership, thereby impacting advertising revenue for broadcasters.
- Slower pace of digitization of television distribution network will impact subscription revenue traction.

Comparative valuations

		Sun TV	ZEEL
P/E (x)	FY11E	25.4	24.1
	FY12E	21.5	18.8
EV/EBITDA (x)	FY11E	11.7	15.7
	FY12E	10.6	12.3
EV/Sales (x)	FY11E	9.5	3.7
	FY12E	8.5	3.2
P/BV (x)	FY11E	7.5	2.8
	FY12E	6.0	2.6

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	77.0	77.0	77.0
Domestic Inst	3.7	3.8	3.9
Foreign	9.1	8.8	8.7
Others	10.2	10.4	10.4

Recent developments

- Sun TV has set up a subsidiary, Sun TV Network Europe, in the UK to broadcast and distribute its channels in Britain and Europe.

Valuation and view

- We believe Sun TV will be able to sustain its market leadership despite rising competitive activity due to: (1) strong programming and film library, and (2) strong presence across regional genres.
- We believe regional players like Sun TV will grow ahead of the advertising industry growth of 13-15%.
- We are upgrading earnings estimates by 6% for FY11 and 4% for FY12/13, driven by higher-than-expected contribution from 'Enthiran' and better cost control.
- We expect an EPS CAGR of 20% during FY11-13.
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Sector view

- We are positive on the longer-term potential of the Indian broadcasting sector, as digitization will result in strong growth in subscription revenue.
- Advertising is also expected to pick up with economic growth and emergence of new advertiser base.
- However, the sector is increasingly getting fragmented, which could pressurize profitability.

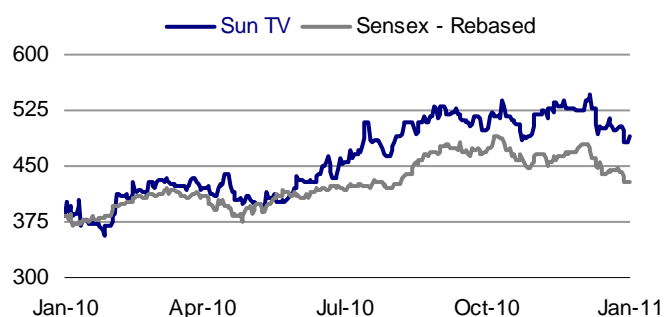
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	19.4	17.7	9.5
FY12	22.8	21.4	6.6

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
491	555	12.9	Neutral

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Advertising Revenue	7,860	9,868	11,637	13,233	
Broadcasting Revenue	1,340	1,387	1,414	1,444	
International Subscrip.	560	722	903	1,038	
Domestic Subscription	3,400	4,977	6,033	7,030	
Others	790	2,402	829	910	
Net Sales	13,950	19,355	20,817	23,656	
<i>Change (%)</i>	34.6	38.7	7.6	13.6	
EBITDA	11,105	15,774	16,661	18,989	
<i>% of Net Sales</i>	79.6	81.5	80.0	80.3	
Depreciation	714	678	738	799	
Film Amortization	2,140	4,025	3,184	3,107	
Interest	12	7	10	10	
Other Income	425	391	844	1,408	
PBT before EOI	8,664	11,455	13,573	16,480	
Extra-ordinary Exp	0	0	0	0	
PBT after EOI	8,664	11,455	13,573	16,480	
Tax	2,990	3,823	4,574	5,554	
<i>Rate (%)</i>	34.5	33.4	33.7	33.7	
Reported PAT	5,674	7,632	8,999	10,927	
Extra-ordinary Expenses	0	0	0	0	
Adjusted PAT	5,674	7,632	8,999	10,927	
<i>Change (%)</i>	36.3	34.5	17.9	21.4	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	1,970	1,970	1,970	1,970	
Reserves	18,180	23,764	30,259	38,227	
Net Worth	20,150	25,734	32,229	40,197	
Loans	0	0	0	0	
Deferred Tax Liability	339	300	300	300	
Capital Employed	20,489	26,034	32,529	40,497	
Gross Fixed Assets	15,200	19,927	21,664	23,998	
Less: Depreciation	8,650	13,783	17,773	21,747	
Net Fixed Assets	6,550	6,143	3,891	2,250	
Capital WIP	3,114	1,500	1,250	1,000	
Investments	5,066	5,685	7,444	7,997	
Film and Broadcasting	300	350	350	350	
Curr. Assets	9,776	16,301	24,265	34,272	
Inventory	3	2	2	2	
Debtors	3,002	4,242	4,563	5,185	
Cash & Bank Balance	4,242	9,275	16,640	25,719	
Loans & Advances	1,130	1,243	1,367	1,504	
Other Current Asset	1,399	1,539	1,693	1,862	
Current Liab. & Prov.	4,317	3,946	4,671	5,372	
Creditors	296	373	433	486	
Other Liabilities	1,253	1,525	1,735	1,928	
Provisions	2,767	2,048	2,503	2,959	
Net Current Assets	5,459	12,356	19,594	28,900	
Application of Funds	20,490	26,034	32,529	40,497	

E: MOSL Estimates

RATIOS		2010	2011E	2012E	2013E
Y/E MARCH					
Basic (Rs)					
Adjusted EPS		14.4	19.4	22.8	27.7
<i>Growth (%)</i>		36.3	34.5	17.9	21.4
Cash EPS		16.2	21.1	24.7	29.8
Book Value		51.1	65.3	81.8	102.0
DPS		7.5	4.5	5.5	6.5
Payout (incl. Div. Tax)		52.1	23.2	24.1	23.4
Valuation (x)					
P/E		34.1	25.4	21.5	17.7
Cash P/E		30.3	23.3	19.9	16.5
EV/EBITDA		17.0	11.7	10.6	8.8
EV/Sales		13.6	9.5	8.5	7.1
Price/Book Value		9.6	7.5	6.0	4.8
Dividend Yield (%)		1.5	0.9	1.1	1.3
Profitability Ratios (%)					
RoE		28.2	29.7	27.9	27.2
RoCE		52.8	59.5	51.5	48.4
Turnover Ratios					
Debtors (Days)		79	80	80	80
Creditors (Days)		38	38	38	38
Asset Turnover (x)		0.7	0.7	0.6	0.6
Leverage Ratio					
Debt/Equity (x)		0.0	0.0	0.0	0.0

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
PBT before Extraordinary Items	8,664	11,455	13,573	16,480	
Add: Depreciation	2,854	4,703	3,922	3,906	
Interest	12	7	10	10	
Less: Direct Taxes Paid	2,990	3,823	4,574	5,554	
(Inc)/Dec in WC	3,521	-1,863	127	-227	
CF from Operations	12,061	10,479	13,058	14,615	
(Inc)/Dec in FA	-5,595	-2,733	-1,420	-2,015	
(Pur)/Sale of Investments	-2,482	-619	-1,759	-553	
CF from Investments	3,984	7,128	9,879	12,047	
(Inc)/Dec in Net Worth	43	-39	0	0	
(Inc)/Dec in Debt	0	0	0	0	
Less: Interest Paid	12	7	10	10	
Dividend Paid	3,414	2,048	2,503	2,959	
CF from Fin. Activity	-3,383	-2,094	-2,513	-2,969	
Inc/Dec of Cash	602	5,034	7,365	9,079	
Add: Beginning Balance	3,640	4,242	9,275	16,640	
Closing Balance	4,241	9,275	16,640	25,719	

E: MOSL Estimates

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Sun TV Network

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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