

Business becoming more Tamil-centric, stock remains undervalued; maintain Buy with TP of Rs450

We have reduced our medium-term forecasts, based on likely slower pick up in subscription revenue growth (slow progress in Phase-III digitisation). Further, we have lowered ad-growth outlook to 8% CAGR vs. 10% previously, on back of weaker non-Tamil channel ratings (per BARC data). Nonetheless, we expect double-digit EBITDA growth to continue (low teens in FY17E/18E, 15-20% thereafter), as also robust free cash generation (c.Rs10bn in FY17E).

Despite intermittent news-flow around 2G/CBI investigations, we do not see significant likelihood of business disruption. At 7.6x FY17E EV/EBITDA, Sun is undervalued, and trades at >60% discount to Zee. With 7.5% underlying FCFE yield in FY17E and strong cash position, Sun can easily boost dividend yield to well above our FY17 forecast of 4.3%. Our revised Mar-17 TP of Rs450 is at a 10% discount to underlying DCF [Rs500 vs. Rs480 previously], as we conservatively incorporate the risk of 12-minute ad-cap reinstatement. Removal of judicial stay on digitisation in AP/TN is a re-rating trigger. Downside risks are: slower pace of digitisation, key person dependency.

- **Further increase in Tamil-concentration due to slide in non-Tamil ratings:** Although standalone ad revenue growth recovered to 11% yoy in 9MFY16 from 2%/6% in FY14/15, near-to-medium term outlook has weakened in our view, led by decline in viewership share and rankings of all non-Tamil GECs. Based on BARC data for last 18 weeks, rankings of Telugu/Kannada/Malayalam GECs have fallen to #4/3/3 from 2/1/2 (based on TAM data previously); mgmt. has attributed this to higher weightage of rural audience in BARC (50% vs. 25% in TAM). Nonetheless, increased dominance of Tamil GEC (incl. rural) and GDP growth recovery may support ad growth; we now model 8% ad rev CAGR vs. 10% previously. Ad revenue concentration has increased, as Tamil channels now account for >60% of revenues versus 50% share two years ago.
- **Domestic subscription growth likely to pick up in FY17:** DSR growth was down to 10% yoy in 9MFY16 from 15% in FY15. Digitisation in TN has been a non-starter, while in AP/Telangana, courts have stayed P-III DAS. Nonetheless, the company has started signing fresh agreements in DAS-3 areas of Karnataka/Kerala pursuant to seeding of boxes, and therefore, we build-in a moderate pick-up in DSR growth to c.13% in FY17. We assume 90% of existing analog HHs would go digital by FY20, and forecast Sun would realize ARPU of Rs40 and Rs15 from DTH and Cable HHs respectively, over the long-term.

Exhibit 1: Sun TV Network—consolidated financials and valuations (₹ mn)

| | FY14 | FY15 | FY16E | FY17E | FY18E |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 22,236 | 23,954 | 26,016 | 28,419 | 31,539 |
| Revenue growth (%) | 15.6 | 7.7 | 8.6 | 9.2 | 11.0 |
| Adjusted EBITDA | 11,461 | 11,721 | 13,739 | 15,297 | 17,151 |
| EBITDA growth (%) | 5.2 | 2.3 | 17.2 | 11.3 | 12.1 |
| Adj. PAT | 7,480 | 7,820 | 8,997 | 10,119 | 11,425 |
| EPS (₹) | 19.0 | 19.8 | 22.8 | 25.7 | 29.0 |
| EPS growth (%) | 5.4 | 4.5 | 15.0 | 12.5 | 12.9 |
| P/E (x) | 17.3 | 16.5 | 14.4 | 12.8 | 11.3 |
| EV/EBITDA (x) | 10.6 | 10.2 | 8.4 | 7.6 | 6.4 |
| Dividend Yield (%) | 2.9 | 3.4 | 3.7 | 4.3 | 4.9 |
| FCFF yield (%) [a] | 6.5 | 6.2 | 6.1 | 4.7 | 8.9 |
| RoAIC (%) | 30.0 | 31.3 | 35.7 | 37.4 | 38.8 |

Source: Company, JM Financial. [a] Unlevered FCFF divided by EV. Share price as of close on 19-Feb-16.

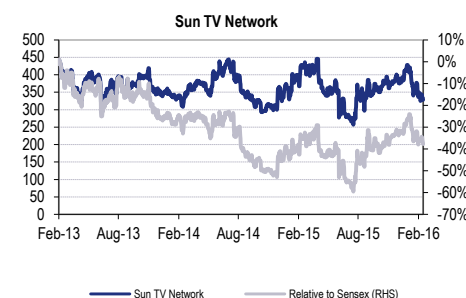
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Key Data

| | |
|------------------------|--------------------|
| Market cap (bn) | ₹ 129.3 / US\$ 1.9 |
| Shares in issue (mn) | 394.1 |
| Diluted shares (mn) | 394.1 |
| 3M avg. daily val (mn) | ₹ 404.7/US\$ 5.9 |
| 52-week range | ₹ 460.0/255.8 |
| Sensex/Nifty | 23,709/7,211 |
| ₹/US\$ | 68.5 |

Share price performance



| % | 1M | 3M | 12M |
|----------|-------|-------|-------|
| Absolute | -11.2 | -13.9 | -24.7 |
| Relative | -8.1 | -5.7 | -5.1 |

Shareholding pattern (%)

| | Dec-15 | Dec-14 |
|-----------------|--------|--------|
| Promoters | 75.0 | 75.0 |
| FII | 16.0 | 17.9 |
| DII | 3.4 | 1.6 |
| Public / Others | 5.6 | 5.5 |

Source: BSE

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

New March 2017 Target Price is Rs450

We believe DCF is the most appropriate valuation tool for Indian broadcasting stocks, as the evolution of digitisation-driven subscription upside will play out over next few years; increase in share of subscription in revenue-mix would also drive margin expansion. Further, specifically for Sun, impact of IPL EBITDA turnaround and payment of Radio entry fees (incl. renewals) can be properly captured only through a DCF analysis.

We explicitly forecast FCFF for Sun till FY25E, by which time we assume all analog cable HHs will have switched over to DAS (Cable or DTH). We use a 13.5% discount rate (same as CoE) and an exit EV/EBITDA multiple of 8.0x (35% discount to ZEEL); the latter roughly corresponds to perpetual FCFF growth of 6.0% (>FY25) and cash conversion ratio of 60% in the steady-state.

For relative valuation analysis, we prefer EV/EBITDA followed by P/E

A 13.5% WACC/CoE for Sun is based on 8.0% RFR, 5.5% ERP and roughly corresponds to stock's adjusted daily equity beta of 0.95-1.00 w.r.t. BSE Sensex over the trailing two years [Bloomberg]

Exhibit 2: Sun TV Network—consolidated DCF summary

| Fiscal-end March, ₹ mn | FY14 | FY15 | FY16E | FY17E | FY18E | FY19E | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E |
|-------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Key assumptions (%) | | | | | | | | | | | | |
| Revenue growth | 15.6 | 7.7 | 8.6 | 9.2 | 11.0 | 13.7 | 14.1 | 12.0 | 7.4 | 7.1 | 7.1 | 7.1 |
| Revenue growth ex-IPL | 10.2 | 8.4 | 9.1 | 9.3 | 10.9 | 13.8 | 14.2 | 12.0 | 7.2 | 6.9 | 6.9 | 6.9 |
| Adjusted EBITDA growth | 5.2 | 2.3 | 17.2 | 11.3 | 12.1 | 20.1 | 16.4 | 12.4 | 7.0 | 6.6 | 5.8 | 6.5 |
| Adjusted EBITDA growth ex-IPL | 8.6 | 4.1 | 16.1 | 10.6 | 11.9 | 15.5 | 16.0 | 12.8 | 6.6 | 6.1 | 6.1 | 6.0 |
| Adjusted EBITDA margin | 51.5 | 48.9 | 52.8 | 53.8 | 54.4 | 57.4 | 58.6 | 58.8 | 58.6 | 58.3 | 57.6 | 57.2 |
| FCFF growth | 250 | (10) | 19 | (25) | 74 | 19 | 17 | 15 | 9 | 7 | 6 | 7 |
| FCFF margin | 32 | 27 | 30 | 20 | 32 | 33 | 34 | 35 | 36 | 35 | 35 | 35 |
| FCFF as % of EBITDA | 62 | 55 | 56 | 38 | 59 | 58 | 59 | 60 | 61 | 61 | 61 | 61 |
| RoAIC | 30 | 31 | 36 | 37 | 39 | 46 | 52 | 56 | 58 | 59 | 61 | 62 |
| DCF | | | | | | | | | | | | |
| EBIT X (1-tax rate) | 6,902 | 7,162 | 8,368 | 9,362 | 10,570 | 12,853 | 15,042 | 16,977 | 18,203 | 19,430 | 20,594 | 21,967 |
| Depreciation & Amortization | 1,163 | 1,101 | 1,064 | 1,103 | 1,114 | 1,073 | 1,103 | 1,129 | 1,149 | 1,167 | 1,181 | 1,195 |
| Change in net working capital | (710) | (1,519) | (1,190) | (690) | (912) | (1,231) | (1,415) | (1,335) | (1,155) | (1,209) | (1,302) | (1,402) |
| Operating FCFF | 7,355 | 6,744 | 8,242 | 9,776 | 10,772 | 12,695 | 14,730 | 16,771 | 18,197 | 19,387 | 20,473 | 21,760 |
| Capex | (207) | (293) | (550) | (4,000) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) |
| Free cash flows [FCFF] | 7,148 | 6,451 | 7,692 | 5,776 | 10,072 | 11,995 | 14,030 | 16,071 | 17,497 | 18,687 | 19,773 | 21,060 |

DCF for Sun TV

Mar-17E

| | |
|--------------------------------------------|----------------|
| WACC (%) | 13.5 |
| Exit EV/EBITDA multiple in Mar-25E (x) | 8.0 |
| PV of cash flows (2017E-2025E) | 77,066 |
| FY26E EBITDA | 36,710 |
| Terminal Value | 293,679 |
| PV of Terminal Value | 106,637 |
| Enterprise Value (EV) | 183,703 |
| Terminal value as % of EV | 58 |
| Less: FY16E net debt/(cash) | (14,278) |
| Less: Preference capital [SAFM minority] | 934 |
| Equity value (₹ mn) | 197,046 |
| Equity value (US\$ mn) | 2,898 |
| Number of shares (mn) | 394 |
| Equity value (₹/share) | 500.0 |
| Mar-17E TP @10% discount (Rs/share) | 450.0 |

Sensitivity of Mar-17E Target Price to WACC and Exit multiple

| | WACC (%) | | | | |
|-------------------|----------|------|------|------|------|
| | 12.5 | 13.0 | 13.5 | 14.0 | 14.5 |
| Exit Multiple (x) | 6.0 | 409 | 399 | 389 | 380 |
| | 7.0 | 442 | 430 | 420 | 409 |
| | 8.0 | 474 | 462 | 450 | 438 |
| | 9.0 | 507 | 493 | 480 | 468 |
| | 10.0 | 540 | 525 | 511 | 497 |

Source: Company, JM Financial.

Why a 10% discount to DCF value?

We conservatively apply a 10% haircut to DCF value, to incorporate the risk from ad-cap being brought back. In the four main GECs, Sun is using 16-18 minutes of commercial advertising time (FCT) per hour during prime-time. Assuming prime-time on the four GECs accounts for 20-25% of standalone ad revenues, a return to the 10+2 minutes of ad-cap per needle hour, may result in 40% drop in PT revenues, or 8-10% drop in standalone ad revenues, if Sun is unable to implement any ad rate hike to offset the decline in FCT. This may result in one lost year in terms of ad revenue growth. The likelihood of a 12-minute ad-cap being brought back is low, as the matter is in High Court currently, and it will surely be escalated to the Supreme Court should there be any adverse judgment.

Sun stock is undervalued

Despite a significant pick up in yoy EBITDA growth in the current fiscal (standalone 9MFY16 EBITDA growth was 19.3%), and double-digit growth outlook, Sun stock has de-rated by 36% FYTD to 7.7x rolling 1-year forward EV/EBITDA from a 12x multiple.

The stock is currently trading 32% below its trailing 3-year average multiple (Exhibit 3). An 8x EV/EBITDA multiple is same as the exit multiple in our DCF analysis (Exhibit 2), and therefore consistent with a 6% terminal FCF growth or EBITDA growth rate. We believe this is a rather dire scenario, as Sun has not yet benefited meaningfully from analog cable digitisation in either Phase-I or in Phase-II. While the ongoing investigations and legal cases against Sun Chairman would like drag on in the foreseeable future, they are unlikely to affect the day-to-day operations of the company, in our view.

We believe there is scope for significant valuation re-rating (>20% over the next 1-year), which drives our expected 37% upside potential based on TP. Key triggers for stock re-rating are:

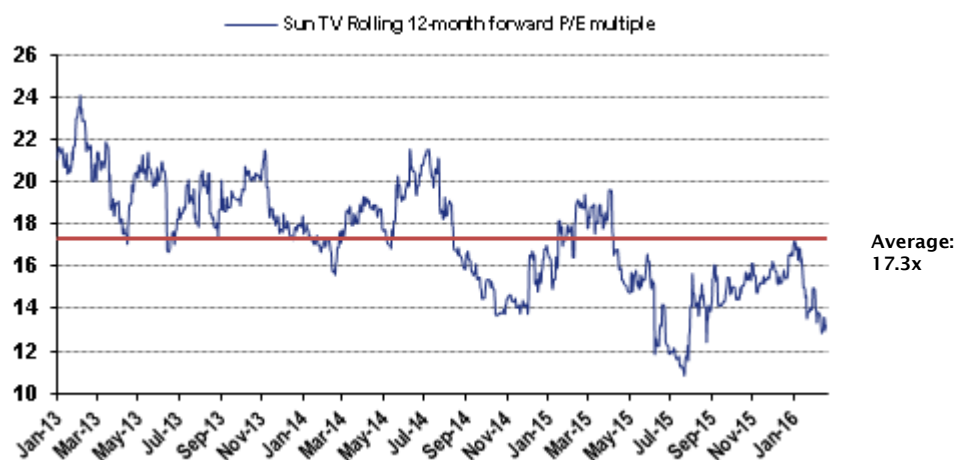
- Management guiding to 10% or higher ad revenue growth for FY17
- Courts vacating stay, and allowing Phase-III digitisation to proceed in the states of AP and Telangana
- Start of cable digitisation in Tamilnadu, based on Court orders and/or central government intervention

Even with no EV/EBITDA re-rating, Sun stock can deliver 16-17% upside in a year, based on our forecast of 11-12% EBITDA growth and c.5% FCFE yield in FY17.

Exhibit 3: Sun—stock trading well below trailing 3-year average multiple



Source: Company, JM Financial.

Exhibit 4: Sun TV Network—12M forward PER over the last 3-years

Source: Company, JM Financial.

Exhibit 5: Sun TV Network—drivers of expected share price return

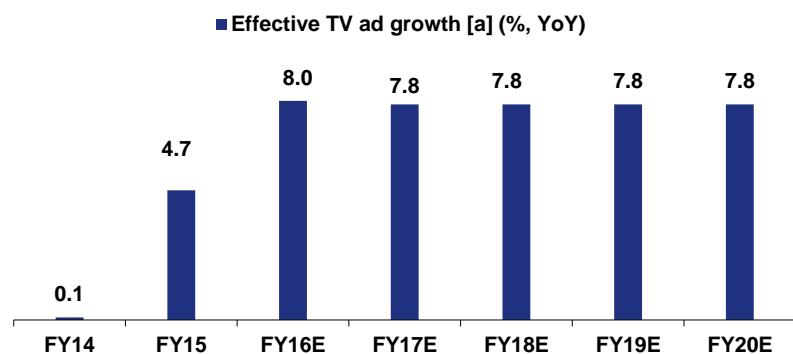
| | CMP Feb-16 | TP Mar-17 | Change (%) |
|-----------------------------------|---------------|--------------|------------|
| Share price (₹) | 328 | 450 | 37 |
| Shares outstanding (mn) | 394 | 394 | |
| Market cap (₹ bn) | 129 | 177 | 37 |
| Adjusted net debt/(cash) (₹ bn) | (13) | (20) | |
| EV (₹ bn) | 116 | 158 | 36 |
| 12M Forward consol. EBITDA (₹ bn) | 15.3 | 17.2 | 12.1 |
| Implied EV/EBITDA multiple (x) | 7.6 | 9.2 | 21.3 |

Source: Company, JM Financial.

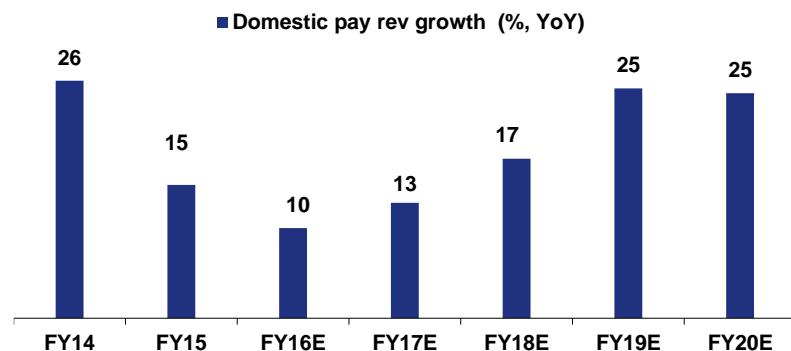
Exhibit 6: Sun TV Network—average viewership shares of GECs (%)

| | FY12 | FY13 | FY14 | FY15 | FY16 [a] | Rank [a] | Key points |
|------------------|------|------|------|------|----------|----------|-------------------------------------------------------------------------------------------------|
| Tamil: Sun TV | 65.7 | 62.5 | 60.3 | 55.5 | 74.3 | 1 | BARC data suggests Sun is more dominant than understood previously |
| Telugu: Gemini | 39.1 | 34.6 | 29.1 | 25.8 | 21.0 | 4 | Under BARC, ranking has fallen further to #4 from #2; ETV has become #1 |
| Kannada: Udaya | 40.4 | 36.1 | 31.9 | 33.6 | 20.0 | 3 | No longer #1 based on BARC data; Udaya is effectively #2 jointly with Star Suvarna and Zee |
| Malayalam: Surya | 30.0 | 25.9 | 23.5 | 17.7 | 13.1 | 3 | Under BARC, ranking has fallen further to #3 from #2; Asianet is even more dominant than before |

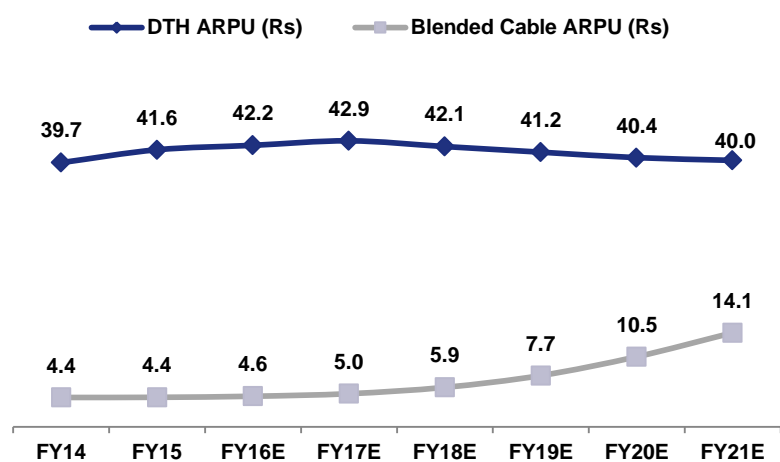
Source: Company, JM Financial. [a] Relative market shares based on BARC data—average for the period week41-58. Data for the period FY12-15 is from TAM.

Exhibit 7: Sun TV Network—ad revenue growth to underperform the growth in TV ad-spends

Source: Company, JM Financial. [a] Effective ad revenues include the Broadcast or Telecast Fee.

Exhibit 8: Sun—domestic subscription revenue growth to pick up from FY17

Source: Company, JM Financial.

Exhibit 9: Sun TV Network—DTH ARPU and Cable ARPU (Rs per month)

Source: Company, JM Financial.

Exhibit 10: Sun TV Network—consolidated profit & loss statement

| Fiscal-end March, (₹ mn) | FY14 | FY15 | FY16E | FY17E | FY18E | FY19E | FY20E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 22,236 | 23,954 | 26,016 | 28,419 | 31,539 | 35,860 | 40,920 |
| Total operating costs | (7,156) | (7,181) | (7,925) | (8,723) | (9,572) | (10,044) | (11,247) |
| Reported EBITDA | 15,080 | 16,772 | 18,091 | 19,696 | 21,967 | 25,816 | 29,673 |
| Film & Program Rights | (3,620) | (5,052) | (4,352) | (4,400) | (4,815) | (5,221) | (5,705) |
| Adjusted EBITDA | 11,461 | 11,721 | 13,739 | 15,297 | 17,151 | 20,595 | 23,968 |
| Reported EBITDA margin (%) | 67.8 | 70.0 | 69.5 | 69.3 | 69.6 | 72.0 | 72.5 |
| Adjusted EBITDA margin (%) | 51.5 | 48.9 | 52.8 | 53.8 | 54.4 | 57.4 | 58.6 |
| Depreciation | (931) | (892) | (842) | (819) | (765) | (720) | (747) |
| Amortization | (232) | (209) | (222) | (284) | (348) | (352) | (356) |
| EBIT | 10,298 | 10,619 | 12,675 | 14,193 | 16,038 | 19,523 | 22,865 |
| Other Income | 81 | 94 | 100 | 100 | 100 | 100 | 100 |
| Interest & Dividend income | 785 | 895 | 987 | 1,176 | 1,312 | 1,619 | 1,989 |
| Finance cost | (29) | (23) | (19) | (24) | (24) | (24) | (24) |
| PBT | 11,134 | 11,586 | 13,743 | 15,445 | 17,426 | 21,218 | 24,930 |
| Current Tax | (3,730) | (3,841) | (4,741) | (5,329) | (6,012) | (7,320) | (8,601) |
| Deferred Tax | 48 | 81 | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 7,480 | 7,820 | 8,997 | 10,119 | 11,425 | 13,918 | 16,351 |
| Adjusted net profit | 7,480 | 7,820 | 8,997 | 10,119 | 11,425 | 13,918 | 16,351 |
| Primary EPS | 19.0 | 19.8 | 22.8 | 25.7 | 29.0 | 35.3 | 41.5 |
| DPS (for a ₹1 share) | 9.5 | 11.3 | 12.0 | 14.0 | 16.0 | 19.0 | 22.0 |
| Shares outstanding (mn) | 394 | 394 | 394 | 394 | 394 | 394 | 394 |
| Growth rates (%) | | | | | | | |
| Revenue | 15.6 | 7.7 | 8.6 | 9.2 | 11.0 | 13.7 | 14.1 |
| Revenue ex-IPL | 10.2 | 8.4 | 9.1 | 9.3 | 10.9 | 13.8 | 14.2 |
| Reported EBITDA | 7.0 | 11.2 | 7.9 | 8.9 | 11.5 | 17.5 | 14.9 |
| Adjusted EBITDA | 5.2 | 2.3 | 17.2 | 11.3 | 12.1 | 20.1 | 16.4 |
| EBIT | 6.4 | 3.1 | 19.4 | 12.0 | 13.0 | 21.7 | 17.1 |
| Net profits | 5.4 | 4.5 | 15.0 | 12.5 | 12.9 | 21.8 | 17.5 |
| Opex-to-revenue ratio (%) | | | | | | | |
| Cost of Revenues [prog/telecast] | 9.7 | 8.5 | 8.5 | 8.6 | 8.5 | 8.1 | 7.8 |
| Employee costs | 9.8 | 9.8 | 10.4 | 10.7 | 10.7 | 11.0 | 11.0 |
| IPL costs | 6.4 | 6.6 | 5.9 | 5.5 | 5.4 | 3.2 | 2.9 |
| Other [SG&A] | 6.3 | 5.1 | 5.8 | 5.9 | 5.8 | 5.7 | 5.7 |
| Film & Program Rights | 16.3 | 21.1 | 16.7 | 15.5 | 15.3 | 14.6 | 13.9 |
| Margins (%) | | | | | | | |
| Reported EBITDA | 67.8 | 70.0 | 69.5 | 69.3 | 69.6 | 72.0 | 72.5 |
| Adjusted EBITDA | 51.5 | 48.9 | 52.8 | 53.8 | 54.4 | 57.4 | 58.6 |
| EBIT | 46.3 | 44.3 | 48.7 | 49.9 | 50.9 | 54.4 | 55.9 |
| Net profits | 33.6 | 32.6 | 34.6 | 35.6 | 36.2 | 38.8 | 40.0 |
| Effective tax rate (%) | 33.1 | 32.5 | 34.5 | 34.5 | 34.5 | 34.5 | 34.5 |

Source: Company, JM Financial.

Exhibit 11: Sun TV Network—consolidated balance sheet

| Fiscal-end March, (₹ mn) | FY14 | FY15 | FY16E | FY17E | FY18E | FY19E | FY20E |
|---------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity | | | | | | | |
| Share capital | 1,970 | 1,970 | 1,970 | 1,970 | 1,970 | 1,970 | 1,970 |
| Reserves/surplus | 28,984 | 31,511 | 34,816 | 38,295 | 42,131 | 47,038 | 52,953 |
| Total equity | 30,954 | 33,481 | 36,787 | 40,265 | 44,102 | 49,008 | 54,924 |
| Preference Share | 934 | 934 | 934 | 934 | 934 | 934 | 934 |
| Deferred tax liability | 260 | 226 | 226 | 226 | 226 | 226 | 226 |
| Minority interest | 406 | 547 | 702 | 864 | 1,035 | 1,214 | 1,403 |
| Total debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 43 | 43 | 43 | 43 | 43 | 43 | 43 |
| Total capital | 32,597 | 35,231 | 38,691 | 42,333 | 46,340 | 51,425 | 57,529 |
| Assets | | | | | | | |
| Cash & cash equivalents | 8,689 | 10,395 | 14,278 | 14,234 | 17,577 | 21,673 | 26,545 |
| Inventories | 6 | 5 | 5 | 5 | 5 | 5 | 5 |
| Trade Receivables | 6,304 | 7,575 | 8,553 | 9,187 | 10,023 | 11,200 | 12,556 |
| Other Current assets | 1,867 | 2,335 | 2,469 | 2,617 | 2,778 | 2,954 | 3,147 |
| Total Current assets (ex-cash) | 8,176 | 9,914 | 11,028 | 11,809 | 12,806 | 14,159 | 15,708 |
| Current liabilities and provisions | 3,039 | 2,219 | 4,040 | 4,448 | 4,849 | 5,446 | 6,054 |
| Net Current Assets (ex-Cash) | 5,137 | 7,695 | 6,988 | 7,361 | 7,957 | 8,714 | 9,654 |
| Net fixed & Other assets | 9,020 | 8,193 | 7,679 | 10,576 | 10,162 | 9,790 | 9,387 |
| Net Film rights assets | 4,731 | 3,617 | 4,265 | 4,516 | 4,815 | 5,221 | 5,705 |
| Long term investments | 2,121 | 2,256 | 2,406 | 2,571 | 2,753 | 2,953 | 3,163 |
| Other Non-Current assets | 2,900 | 3,075 | 3,075 | 3,075 | 3,075 | 3,075 | 3,075 |
| Total assets | 32,597 | 35,231 | 38,691 | 42,333 | 46,339 | 51,425 | 57,529 |
| Leverage and return ratios (%) | | | | | | | |
| Net worth | 30,954 | 33,481 | 36,787 | 40,265 | 44,102 | 49,008 | 54,924 |
| Invested Capital | 22,671 | 23,634 | 23,210 | 26,896 | 27,560 | 28,549 | 29,781 |
| Net debt/(cash) | (8,689) | (10,395) | (14,278) | (14,234) | (17,577) | (21,673) | (26,545) |
| Net debt/(cash) (US\$ mn) | (708) | (995) | (1,503) | (1,260) | (1,555) | (1,918) | (2,413) |
| Debt/Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net-debt/Equity | (28) | (31) | (39) | (35) | (40) | (44) | (48) |
| Net-debt/capital | (39) | (45) | (63) | (55) | (66) | (79) | (94) |
| Net-debt/EBITDA (x) | (0.8) | (0.9) | (1.0) | (0.9) | (1.0) | (1.1) | (1.1) |
| RoE | 24.2 | 23.4 | 24.5 | 25.1 | 25.9 | 28.4 | 29.8 |
| RoAE | 25.4 | 24.3 | 25.6 | 26.3 | 27.1 | 29.9 | 31.5 |
| RoACE | 22.4 | 21.3 | 22.6 | 23.1 | 23.8 | 26.3 | 27.6 |
| RoAIC | 30.0 | 31.3 | 35.7 | 37.4 | 38.8 | 45.8 | 51.6 |

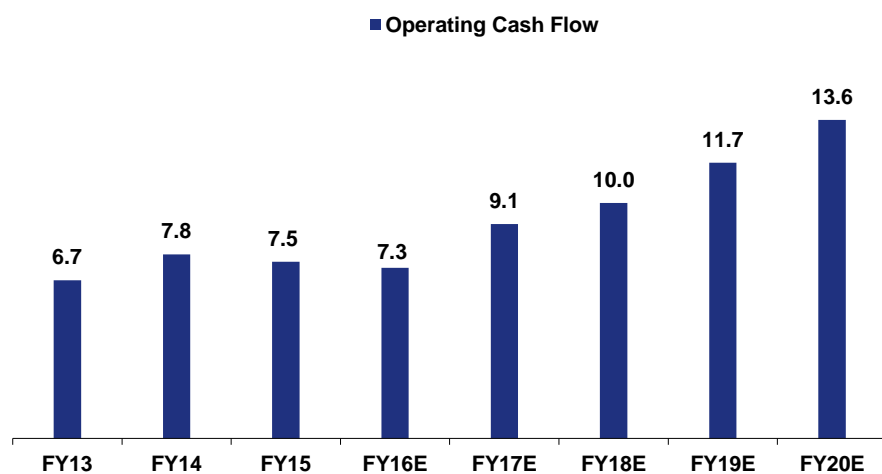
Radio entry fee for renewal and new stations to prevent growth in cash resources in FY17; sustained and rapid cash accumulation post pick-up in the pace of digitisation

Source: Company, JM Financial.

Exhibit 12: Sun TV Network—consolidated cash flow statement

| Fiscal-end March, (₹ mn) | FY14 | FY15 | FY16E | FY17E | FY18E | FY19E | FY20E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Profits before tax | 11,134 | 11,586 | 13,743 | 15,445 | 17,426 | 21,218 | 24,930 |
| Depr/amort/non-cash items | 5,082 | 6,261 | 5,416 | 5,503 | 5,929 | 6,293 | 6,808 |
| Taxes paid | (2,817) | (3,836) | (4,741) | (5,329) | (6,012) | (7,320) | (8,601) |
| Net interest income | (742) | (869) | (968) | (1,152) | (1,288) | (1,595) | (1,965) |
| Chg in working capital | (710) | (1,519) | (1,190) | (690) | (912) | (1,231) | (1,415) |
| CF from operations | 11,947 | 11,623 | 12,260 | 13,778 | 15,143 | 17,365 | 19,757 |
| Capex (incl. Radio licenses) | (207) | (293) | (550) | (4,000) | (700) | (700) | (700) |
| Film & Program Rights | (4,107) | (4,107) | (5,000) | (4,650) | (5,115) | (5,627) | (6,189) |
| (Purchase)/Sale of assets/investments | (4,319) | (1,606) | 0 | 0 | 0 | 0 | 0 |
| Interest/dividend received | 773 | 823 | 987 | 1,176 | 1,312 | 1,619 | 1,989 |
| CF from investments | (7,860) | (5,183) | (4,563) | (7,474) | (4,503) | (4,707) | (4,900) |
| Equity raised | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt raised / (repaid) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid incl. taxes | (4,265) | (6,331) | (3,794) | (6,324) | (7,273) | (8,538) | (9,961) |
| Interest paid | (43) | (18) | (19) | (24) | (24) | (24) | (24) |
| CF from financing | (4,308) | (6,348) | (3,813) | (6,348) | (7,297) | (8,562) | (9,985) |
| Change in cash for year | (220) | 91 | 3,883 | (44) | 3,343 | 4,096 | 4,872 |
| Beginning cash | 8,910 | 10,303 | 10,395 | 14,278 | 14,234 | 17,577 | 21,673 |
| Closing cash | 8,689 | 10,395 | 14,278 | 14,234 | 17,577 | 21,673 | 26,545 |
| FCFF | 7,600 | 7,217 | 6,691 | 5,104 | 9,304 | 11,015 | 12,844 |

Source: Company, JM Financial.

Exhibit 13: Sun TV Network—operating cash flow (Rs bn)Source: Company, JM Financial. Note: Operating cash flow is: cash flow from operations less cost of movie rights.

Sun TV Network Financial Tables (Consolidated)

| Profit & Loss | | | | | (₹ mn) |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY14 | FY15 | FY16E | FY17E | FY18E |
| Revenues | 22,236 | 23,954 | 26,016 | 28,419 | 31,539 |
| Adjusted EBITDA | 11,461 | 11,721 | 13,739 | 15,297 | 17,151 |
| EBITDA margin (%) | 51.5 | 48.9 | 52.8 | 53.8 | 54.4 |
| Depr. & amortization | (1,163) | (1,101) | (1,064) | (1,103) | (1,114) |
| EBIT | 10,298 | 10,619 | 12,675 | 14,193 | 16,038 |
| EBIT margin (%) | 46.3 | 44.3 | 48.7 | 49.9 | 50.9 |
| Net Interest cost | 756 | 872 | 968 | 1,152 | 1,288 |
| PBT | 11,134 | 11,586 | 13,743 | 15,445 | 17,426 |
| Tax | (3,682) | (3,760) | (4,741) | (5,329) | (6,012) |
| Reported net income | 7,480 | 7,820 | 8,997 | 10,119 | 11,425 |
| Net Income (adj) | 7,480 | 7,820 | 8,997 | 10,119 | 11,425 |
| EPS (₹) | 19.0 | 19.8 | 22.8 | 25.7 | 29.0 |
| DPS (₹) | 9.5 | 11.3 | 12.0 | 14.0 | 16.0 |
| Revenue growth (%) | 16 | 8 | 9 | 9 | 11 |
| EBITDA growth (%) | 5 | 2 | 17 | 11 | 12 |
| EPS growth (%) | 5 | 5 | 15 | 12 | 13 |
| Effective tax rate (%) | 33.1 | 32.5 | 34.5 | 34.5 | 34.5 |

Source: Company, JM Financial.

| Balance Sheet | | | | | (₹ mn) |
|------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March | FY14 | FY15 | FY16E | FY17E | FY18E |
| Share capital | 1,970 | 1,970 | 1,970 | 1,970 | 1,970 |
| Reserves & Surplus | 28,984 | 31,511 | 34,816 | 38,295 | 42,131 |
| Shareholders' funds | 30,954 | 33,481 | 36,787 | 40,265 | 44,102 |
| Preference Share | 934 | 934 | 934 | 934 | 934 |
| Debt | 0 | 0 | 0 | 0 | 0 |
| Deferred tax, Others | 709 | 816 | 971 | 1,133 | 1,304 |
| Capital employed | 32,597 | 35,231 | 38,691 | 42,333 | 46,340 |
| Net Current Assets (ex-Cash) | 5,137 | 7,695 | 6,988 | 7,361 | 7,957 |
| Net fixed & Other assets | 9,020 | 8,193 | 7,679 | 10,576 | 10,162 |
| Net Film rights assets | 4,731 | 3,617 | 4,265 | 4,516 | 4,815 |
| Other Non-Current assets | 5,020 | 5,331 | 5,481 | 5,646 | 5,828 |
| Cash & cash equivalents | 8,689 | 10,395 | 14,278 | 14,234 | 17,577 |
| Capital deployed | 32,597 | 35,231 | 38,691 | 42,333 | 46,339 |
| Net Debt | (8,689) | (10,395) | (14,278) | (14,234) | (17,577) |
| Net Debt/EBITDA (x) | (0.8) | (0.9) | (1.0) | (0.9) | (1.0) |

Source: Company, JM Financial.

| Cash flow statement | | | | | (₹ mn) |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E March | FY14 | FY15 | FY16E | FY17E | FY18E |
| Profits before tax | 11,134 | 11,586 | 13,743 | 15,445 | 17,426 |
| Depr/amort/non-cash items | 5,082 | 6,261 | 5,416 | 5,503 | 5,929 |
| Taxes paid | (2,817) | (3,836) | (4,741) | (5,329) | (6,012) |
| Net interest income | (742) | (869) | (968) | (1,152) | (1,288) |
| Chg in working capital | (710) | (1,519) | (1,190) | (690) | (912) |
| Operating CF | 11,947 | 11,623 | 12,260 | 13,778 | 15,143 |
| Capex (incl. Radio licenses) | (207) | (293) | (550) | (4,000) | (700) |
| Film & Program Rights | (4,107) | (4,107) | (5,000) | (4,650) | (5,115) |
| Proceeds from Sale | (4,319) | (1,606) | 0 | 0 | 0 |
| Interest/dividend received | 773 | 823 | 987 | 1,176 | 1,312 |
| Investing CF | (7,860) | (5,183) | (4,563) | (7,474) | (4,503) |
| Equity raised | 0 | 0 | 0 | 0 | 0 |
| Debt raised / (repaid) | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (4,265) | (6,331) | (3,794) | (6,324) | (7,273) |
| Interest paid | (43) | (18) | (19) | (24) | (24) |
| Financing CF | (4,308) | (6,348) | (3,813) | (6,348) | (7,297) |
| Change in cash for year | (220) | 91 | 3,883 | (44) | 3,343 |
| Beginning cash | 8,910 | 10,303 | 10,395 | 14,278 | 14,234 |
| Closing cash & equivalents | 8,689 | 10,395 | 14,278 | 14,234 | 17,577 |
| Free cash flow (FCFE) | 8,415 | 8,057 | 7,697 | 6,304 | 10,640 |

Source: Company, JM Financial.

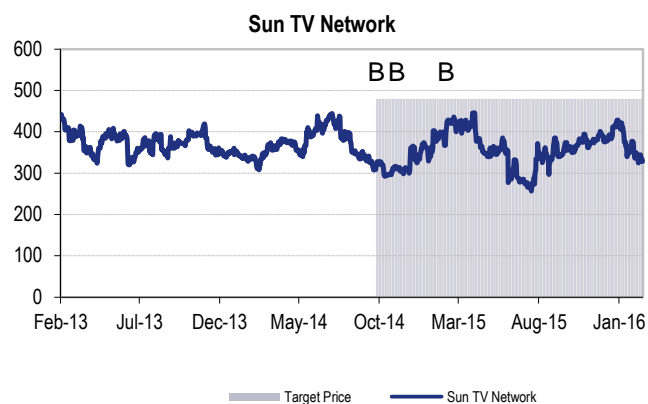
| Valuations and key ratios | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E March | FY14 | FY15 | FY16E | FY17E | FY18E |
| Valuations | | | | | |
| P/E (x) | 16.5 | 14.4 | 12.8 | 11.3 | 9.3 |
| P/E-to-Growth | 1.2 | 1.1 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | 10.2 | 8.4 | 7.6 | 6.4 | 4.8 |
| P/B (x) | 3.9 | 3.5 | 3.2 | 2.9 | 2.6 |
| U-FCFF yield (%) | 6.2 | 6.1 | 4.7 | 8.9 | 11.7 |
| Growth (%) | | | | | |
| EBITDA growth | 5.2 | 2.3 | 17.2 | 11.3 | 12.1 |
| EPS growth | 5.4 | 4.5 | 15.0 | 12.5 | 12.9 |
| 2-year EBITDA CAGR | 9.5 | 14.2 | 11.7 | 16.0 | 18.2 |
| 2-year EPS CAGR | 9.7 | 13.8 | 12.7 | 17.3 | 19.6 |
| Profitability (%) | | | | | |
| RoE | 23.2 | 24.3 | 25.0 | 25.8 | 28.3 |
| RoAE | 25.4 | 24.3 | 25.6 | 26.3 | 27.1 |
| RoACE | 22.4 | 21.3 | 22.6 | 23.1 | 23.8 |
| RoAIC | 30.0 | 31.3 | 35.7 | 37.4 | 38.8 |

Source: Company, JM Financial.

History of earnings estimates and target price

| Date | FY16E EPS (₹) | % Chg. | FY17E EPS (₹) | % Chg. | Target Price | % Chg. |
|-----------|------------------|--------|------------------|--------|-----------------|--------|
| 29-Sep-14 | 21.9 | | 25.8 | | 480 | |
| 7-Nov-14 | 21.9 | 0.0 | 25.8 | 0.0 | 480 | 0.0 |
| 9-Feb-15 | 21.9 | 0.0 | 25.8 | 0.0 | 480 | 0.0 |

Recommendation history



APPENDIX I

JM Financial Institutional Securities Limited

(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

| Definition of ratings | |
|-----------------------|--------------------------------------------------------------------------------------------------|
| Rating | Meaning |
| Buy | Total expected returns of more than 15%. Total expected return includes dividend yields. |
| Hold | Price expected to move in the range of 10% downside to 15% upside from the current market price. |
| Sell | Price expected to move downwards by more than 10% |

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