SCS **Span Capital Services**

Entertainment & Media **Sector Outlook**

May-2002

Key Data:

Company	Price CMP Rs	Price Target Rs	Price Return %	EPS Rs FY01	EPS Rs FY02E	EPS Rs FY03F	PE @FY03F Earnings CMP	PE @FY03F Earnings Target
Movie Content Producers								
Mukta*	92	115	25%	2.7	6.1	11.3	8.1	10.2
PNC	31	85	174%	4.4	5.0	6.6	4.7	12.9
Music Companies								
Saregama	132	115	-13%	5.4	NA	NA	NA	NA
Tips	92	105	14%	6.0	NA	NA	NA	NA
Broadcasters								
ETC	39	60	54%	1.8	1.8	3.1	12.6	19.4
SABTNL#	109	325	198%	9.7	7.7	16.7	6.5	19.5
TV18##	80	70	-13%	2.9	NA	2.4	33.3	29.2
Television Content Producers								
Balaji	500	700	40%	4.2	31.3	47.0	10.6	14.9
Cinevistaas	43	55	28%	NA	NA	3.7	11.6	14.9
Creative	25	65	160%	2.0	2.1	6.6	3.8	9.8
Post-Production / Movie Exhibition								
Adlabs	61	85	39%	5.7	4.8	6.5	9.4	13.1
Galaxy@	5	12	140%	NA	NA	NA	NA	NA

* Dec Yr End, Figs for CY00, CY01, CY02E

\# FY03 Consolidated with Channel

\## FY01 6 Months Operation, FY02-FY03 Consolidated with Subsidiaries

@ FY01 6 Months Operation

CMP As on May 21, 2002

Movie Content Producers

Outlook:

Mukta Arts Ltd. 52Week High/Low- 170/48 Mkt.Cap: USD42m

CMP- Rs92 *Target Price- Rs115* *Expected Return- 25%*

View: Mukta sold satellite rights of its 11 movies for a consideration of Rs161m and pre-sold satellite rights of its forthcoming movie 'Badhai Ho Badhai' for a consideration of Rs13m to Sony. In CY02, Mukta will be releasing three movies, success of these movies at box-office would be crucial for the valuation. We expect 95% topline growth in CY03F, as four movies including one from Subhash Ghai lined up. Comfortable cash position, Rs910m (Rs40/share) is a positive.

Mkt Cap. USDm	42
No of Shares, mn	23
RoE %	18%
Movies- CY02E	3
Cash, Rsm- CY01	910

Dec Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
CY00	101	60	66%	2.7	34.6	20.6	64
CY01	383	139	26%	6.1	15.0	5.4	15
CY02E	403	255	10%	11.3	8.1	5.2	27

Pritish Nandy Communications 52Week High/Low- 55/14 Mkt.Cap: USD7m

CMP- Rs31 *Target Price- Rs85* *Expected Return- 174%*

View: PNC is valued at 4.7x, FY03F earnings- an attractive investment proposition. The company has climbed the value chain by migrating to movie production from small screen. In the offing is '**Kaante'**- a star-studded movie expected to release in FY03. We believe horizontal integrated business model would help company to outperform peers in the long run.

Mkt Cap. USDm	7
No of Shares, mn	10
RoE %	11%
Movies- FY03E	3
Cash, Rsm- FY02	120

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	134	46	26%	4.4	7.1	2.4	176
FY02E	136	53	27%	5.0	6.2	2.4	174
FY03F	470	70	12%	6.6	4.7	0.7	162

Our Bet...

Pritish Nandy Communications: **BUY**

Price Rs CMP	Price Rs Target	EPS Rs FY01	EPS Rs FY02E	EPS Rs FY03F	PE @FY03F Earnings CMP	PE @FY03F Earnings Target	Return %
31	85	4.4	5.0	6.6	4.7	12.9	174%

Music Companies

Outlook:

Saregama India 52Week High/Low- 262/82 Mkt.Cap: USD25m

CMP- Rs132 *Target Price- Rs115* *Expected Return- -13%*

View: Saregama is reeling under poor music offtake, dropped per cassette/CD realization and is expected to post a loss in FY02E and FY03F. High content acquisition cost is a concern. Saregama's efforts in rationalizing its distribution network, improvement in inventory management and an expected entry into movie production business though are the positives.

Mkt Cap. USDm	25
No of Shares, mn	9
RoE %	NA
Movies- FY03E	~20+
Cash, Rsm- FY02	112

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	1652	50	8%	5.4	24.4	0.7	73
FY02E	1049	-172	-12%	NA	NA	1.2	94
FY03F	1398	-95	-3%	NA	NA	0.9	90

Tips Industries 52Week High/Low- 183/35 Mkt.Cap: USD23m

CMP- Rs92 *Target Price- Rs105* *Expected Return- 14%*

View: Non-performance of film music like 'Yaadein' and 'Pyar Ishq Aur Mohabbat' had been a disaster for Tips as company posted a loss Rs198m in FY02. Dropped per cassette realization and dismal state of major market like 'Gujarat', will make turnaround difficult in FY03F. Tips' efforts to cut down content cost by 35-40% going forward and better exploitation of catalogue, regional, International & album categories are the positives. We expect going forward lower dependence on NHF segment (35% of sales in FY03F compared to 40% in FY02) should improve margins.

Mkt Cap. USDm	23
No of Shares, mn	12
RoE %	NA
Movies- FY03E	15
Cash, Rsm- FY02	134

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	1041	72	28%	6.0	15.4	1.1	93
FY02E	826	-198	27%	NA	NA	1.3	120
FY03F	980	-16	30%	NA	NA	1.1	120

Our Bet...

Tips Industries Ltd.: **HOLD**

Price Rs CMP	Target	EPS Rs FY01	FY02E	FY03F	PE @FY03F Earnings CMP	Target	Return %
92	105	6.0	NA	NA	NA	NA	14%

Broadcasters

Outlook

ETC Networks 52Week High/Low- 61/9 Mkt.Cap- USD11m

CMP- Rs39 *Target Price- Rs60* *Expected Return- 54%*

View: Zee Telefilms, which has acquired majority stake in the company, is expected to increase its stake to 73%, post-open offer and preferential allotment. The association with Zee is expected to improve Ad revenue along with reduction in marketing & distribution cost. Zee's ability to integrate 'ETC' and 'ETC-Punjabi' with its own bouquet is critical for future profitability. High receivable and low ROE at 9% are the concerns.

Mkt Cap. USDm	11
No of Shares, mn	14
RoE %	9%
Free/Pay	Free
Cash, Rsm- FY02	24

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	476	24	10%	1.8	22.3	1.1	123
FY02E	337	25	20%	1.8	22.0	1.6	150
FY03F	426	43	29%	3.1	12.8	1.3	150

Sri Adhikari Brothers 52Week High/Low- 195/40 Mkt.Cap- USD24m

CMP- Rs109 *Target Price- Rs325* *Expected Return- 198%*

View: The flagship program 'Surag', is one of the highest TRP grosser at present. We believe, cost cutting measures initiated in FY02, new programs on Southern Channels and DD-Metro & DD-National (20/hrs/week in total), expected up-linking from India shall help company to turnaround in FY03F. Possibility of becoming Pay channel from free-to-air would improve profitability further. The stock is available at 6.5x, FY03F earnings, at a discount to peers.

Mkt Cap. USDm	24
No of Shares, mn	11
RoE %	11%
Free/Pay	Free
Cash, Rsm- FY02	83

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	928	104	4%	9.7	11.2	1.3	173
FY02E	711	82	9%	7.7	14.2	1.6	180
FY03F	1585	179	9%	16.7	6.5	0.7	180

TV 18 52Week High/Low- 129/37 Mkt.Cap- USD18m

CMP- Rs80 *Target Price- Rs70* *Expected Return- -13%*

View: The stock is available at 409% premium to SABTNL (6.5x-FY03F) and 96% to Zee (17x-FY03F). Termination of a marketing agreement with Sony would increase marketing expenses. Also the niche positioning of the channel would restrict major advertisers.

Mkt Cap. USDm	18
No of Shares, mn	11
RoE %	3%
Cash, Rsm- FY02	119

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	197	32	21%	2.9	27.5	4.5	160
FY02E	287	-17	12%	NA	NA	3.1	180
FY03F	324	26	19%	2.4	33.2	2.7	180

Our Bet...

Sri Adhikari Brothers: **BUY**

Price Rs CMP	Price Rs Target	EPS Rs FY01	EPS Rs FY02E	EPS Rs FY03F	PE @FY03F Earnings CMP	PE @FY03F Earnings Target	Return %
109	325	9.7	7.7	16.7	6.5	19.5	198%

Television Content Producers

Outlook

Balaji Telefilms | 52Week High/Low- 665/126 | Mkt.Cap- USD105m

CMP- Rs500 | *Target Price- Rs700* | *Expected Return- 40%*

View: Balaji has a number of successfully running shows, with 23 out of top 25 shows on all satellite channels. High TRPs and hence better negotiation ability has helped the company in improving its realization per show. Balaji is having highest realization in the industry with Rs1m/episode for 'Kyunki Saans Bhi' & 'Kahani Ghar Ghar Ki' on Star Plus. Despite peak realization, Balaji will be able to grow with the foray into Afternoon/Weekend Programming & mid-budget movies.

Mkt Cap. USDm	105
No of Shares, mn	10
RoE %	59%
No of Channels	6
Cash, Rsm- FY02	160

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	489	44	16%	4.2	118.1	10.5	103
FY02E	1105	323	45%	31.3	16.0	4.7	90
FY03F	1699	548	47%	53.2	9.4	3.0	86

Cinevistaas Ltd. | 52Week High/Low- 67/22 | Mkt.Cap- USD9m

CMP- Rs43 | *Target Price- Rs55* | *Expected Return- 28%*

View: The company is expected to turnaround in FY03F, as a result of complete migration of business model from DD to Satellite channels. Management has its finger on audiences' pulse as three out of four serials on air (All Star Plus) are currently in top50 TRP shows. We expect company would able to improve realization/episode going forward as a result of sustained content quality.

Mkt Cap. USDm	9
No of Shares, mn	10
RoE %	5%
No of Channels	3
Cash, Rsm- FY02	102

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	397	-120	-34%	NA	NA	1.1	143
FY02E	228	-20	-19%	NA	NA	1.9	147
FY03F	290	38	5%	3.7	11.5	1.5	120

Creative Eye | 52Week High/Low- 42/13 | Mkt.Cap- USD10m

CMP- Rs25 | *Target Price- Rs65* | *Expected Return- 160%*

View: Creative Eye, the leader in Mythological content is de-risking business model by entering into social genre programming and movie production. The shift in business model from DD to Satellite channels is expected to improve margins going forward. The possibility of re-telecast of library content would improve bottomline substantially going forward. The stock is available at 3.8x, FY03F earnings, at a discount to peers.

Mkt Cap. USDm	10
No of Shares, mn	20
RoE %	22%
No of Channels	7
Cash, Rsm- FY02	179

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	574	40	8%	2.0	12.4	0.9	78
FY02E	202	43	24%	2.1	11.7	2.5	90
FY03F	490	133	41%	6.6	3.8	1.0	146

Our Bet…

Creative Eye Ltd.- **BUY**

Price Rs		EPS Rs			PE @FY03F Earnings		Return
CMP	Target	FY01	FY02E	FY03F	CMP	Target	%
25	65	2.0	2.1	6.6	3.8	9.8	160%

Balaji Telefilms Ltd.- **BUY**

Price Rs		EPS Rs			PE @FY03F Earnings		Return
CMP	Target	FY01	FY02E	FY03F	CMP	Target	%
500	700	4.2	31.3	47.0	10.6	14.9	40%

Post-Production / Movie Exhibition

Outlook:

Adlabs Films 52Week High/Low- 86/34 Mkt.Cap- USD27m

CMP- Rs61 *Target Price- Rs85* *Expected Return- 39%*

View: Adlabs has invested Rs590m in setting up IMAX & Multiplex. Inspite of first-mover advantage and entertainment tax exemption, we believe higher pricing coupled with locational disadvantage will stretch break-even period to 6Yrs. Going forward, company's strength in film printing & processing business is expected to weaken due to stiff competition & low capacity utilization.

Mkt Cap. USDm	27
No of Shares, mn	22
RoE %	15%
Gross Block, Rsm	589
Cash, Rsm- FY02	174

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	464	123	35%	5.7	10.6	2.8	109
FY02E	567	103	29%	4.8	12.8	2.3	100
FY03F	779	140	27%	6.5	9.3	1.7	97

Galaxy Multimedia 52Week High/Low- 9/1 Mkt.Cap- USD1m

CMP- Rs5 *Target Price- Rs12* *Expected Return- 140%*

View: Standalone Post-production companies are reeling under poor market conditions. Demand from film industry, broadcasters and big-production houses has dropped considerably for more than one reason. Galaxy is no exception. We believe vertical business integration is crucial for company's future profitability. The possibility of merger with content producer would improve Galaxy's valuation manifold. The stock is available at 0.5x, gross block.

Mkt Cap. USDm	1
No of Shares, mn	10
RoE %	NA
Gross Block, Rsm	110
Cash, Rsm- FY02	5

Mar Yr End Rsm	Op Rev	PAT	OPM %	EPS	PE	Mcap/Sales	Recv Days
FY01	22	-5	12%	NA	NA	2.2	135
FY02E	26	-12	20%	NA	NA	1.9	140
FY03F	31	-8	30%	NA	NA	1.6	140

Our Bet...

Galaxy Multimedia- **BUY** (Dark Horse)

Price Rs CMP	Price Rs Target	EPS Rs FY01	EPS Rs FY02E	EPS Rs FY03F	PE @FY03F Earnings CMP	PE @FY03F Earnings Target	Return %
5	12	NA	NA	NA	NA	NA	140%