July 13, 2020

Staring at weakest ever quarter!

All segments across the media sector were significantly impacted by the Covid-19 led lockdown. Multiplexes were the most impacted segment as theatres were shut across the nation resulting in zero revenues and likely losses across EBITDA and PAT levels. Broadcasters were relatively better as subscription revenues were largely protected, although ad revenues are likely to decline sharply with a sharp decline in volumes as well as pricing.

Multiplexes to report huge losses despite cost cuts

Following the Covid-19 initiated lockdown, cinema halls remained shut throughout the quarter with no screenings. This meant nil footfalls and revenues for both PVR & Inox Leisure. Subsequently, no exhibition and footfalls linked expenses were recorded. Multiplexes did not incur rental & CAM expense during the quarter as they invoked Force Majeure. We expect fixed costs to reduce significantly owing to cost saving initiatives like salary cuts, minimum power and admin costs, etc. undertaken by companies. We estimate EBITDA (ex-Ind-AS) loss of ₹ 115 crore for PVR with EBITDA (ex-Ind-AS) loss of ₹ 49.7 crore for Inox. This will translate to net losses for both companies with Inox being relatively better due to lower debt.

Sharp ad decline to impact broadcasters

Due to restrictions imposed on non-essential activities, shooting of TV content came to a standstill from March end itself. Therefore, flagship GECs of both Zee, Sun TV depended upon repeat telecast of episodes throughout Q1FY21E, which does not command premium ad rates. Volumes also dried up given overall the macroeconomic activity halt. Ad revenues improved in the later part of the quarter compared to April but on overall quarter basis, ad revenue will see one of the sharpest ever declines. The key relief, however, will be continued growth in subscription revenue. Implementation of NTO 2.0 is still *sub judice* and clarity on the same is awaited to gauge its impact on subscription growth, going forward. Receivables/collections from LCOs during lockdown could be under pressure.

Zee is expected to report 8.2% YoY domestic subscription growth while overall subscription is expected to grow 5% YoY. Domestic advertisement revenue is expected to decline 60% YoY. Notwithstanding, 40% decline in content costs, we expect Zee to witness EBITDA margins at 28%, 490 bps down YoY owing to sharper decline in operational revenues. Sun TV is anticipated to report ad revenues decline of 55% YoY, while subscription revenues are expected to grow 9.2% YoY. We expect EBITDA margin (ex-IPL) at 72%, up 350 bps YoY mainly due to lower content costs and investment in digital segment getting delayed. We expect relatively lower revenue decline in news segment. TV Today is likely to report 25% YoY revenue de-growth in TV broadcasting following ad slowdown and absence of premium rates based events. Digital revenues are expected remain flat YoY. TV Today is expected to report 36.4% YoY decline in EBITDA to ₹ 47.3 crore while EBITDA margin is expected to be at 25.2% (down 500 bps YoY).

Exhibit 1: Estimates for Q1FY21E: (Media) (₹ crore)

Company	Revenue Q1FY21E	Change (%) YoY	Change (%) QoQ	EBITDA Q1FY21E	Change (%) YoY	Change (%) QoQ	PAT Q1FY21E	Change (%) YoY	Change (%) QoQ
Inox Leisure	0.0	NM	NM	-52.0	PL	PL	-112.3	NA	NA
PVR	0.0	NM	NM	-115.0	PL	PL	-233.4	NA	NA
Sun TV	606.1	-43.9	-17.6	436.1	-36.1	-13.4	320.2	-16.2	28.1
TV Today	187.4	-23.8	-10.0	47.3	-36.5	1.1	30.0	-41.2	7.9
Zee Ent.	1,252.2	-37.6	-29.3	350.0	-46.9	-17.7	236.0	-55.5	1.8
Total	**2,045.7**	**-56.5**	**-45.2**	**666.4**	**-63.9**	**-57.2**	**240.5**	**-76.1**	**-31.8**

*Source: Company, ICICI Direct Research * Zee Entertainment Q4 numbers are yet to be announced*

Topline & Profitability (Coverage Universe)

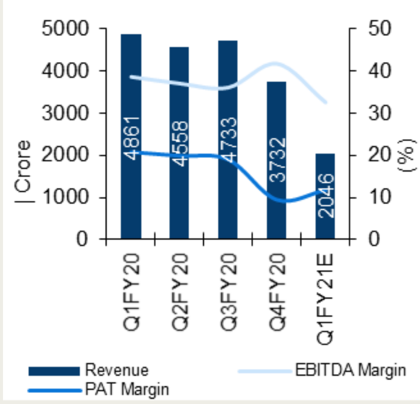

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Exhibit 2: Company Specific view - Telecom

Company	Remarks
Inox Leisure	The quarter witnessed a complete shutdown of theatres leading to nil footfalls. Consequently, no box office and F&B revenue is likely to be reported. Exhibition cost and footfalls linked expenses like F&B cost are also expected to be zero. No ad revenues are anticipated. The company has invoked Force Majeure, is not expected to incur rental & CAM expenses during the quarter and also cut its fixed costs sharply. EBITDA loss (ex-Ind AS) is expected at ₹ 49.7 crore against EBITDA of ₹ 89.1 crore in Q1FY20. **Key Monitorable**: Expected reopening of theatres, fixed cost reduction and liquidity position
PVR	PVR registered no footfalls owing to closure of cinema halls in Q1FY21E, which implies nil box office and F&B revenues. Similarly, no ad revenues are estimated. While no F&B and exhibition expenses are incurred, the company has not paid any rentals too during the lockdown period as it invoked Force Majeure. Incorporating lower fixed costs (by ~70%), EBITDA (ex-Ind AS) loss is estimated at ₹ 115 crore against EBITDA of ₹ 158.7 crore in Q1FY20. **Key Monitorable**: Expected timeline for reopening of cinemas, commentary on fund raising and cost rationalisation
Sun TV	We expect ad revenues to decline ~55% YoY given ad volumes as well as prices were hit during the lockdown with no new content being telecast. However, subscription revenues are expected to maintain growth momentum and grow 9.2% YoY. Total revenues are expected to fall 44% YoY owing to IPL revenues in base quarter. We build in 60% lower cost of sales as no fresh content was made for GEC. Subsequently, we expect EBITDA margins (ex-IPL) margins to expand 350 bps YoY to 72%. **Key Monitorable**: Commentary on ad recovery, SunNXT traction
TV Today Network	The news segment witnessed strong gains in viewership due to news-heavy events such as spread of Covid-19 followed by extended lockdown, border clash with China, etc. However, the company is expected to report TV broadcasting revenue decline of 25% YoY to ₹ 156.4 crore due to low ad rates and high base effect (general elections in Q1FY20). Radio business is estimated to decline 70% YoY while digital revenues are expected to remain flat YoY. We expect company to report 36.4% YoY EBITDA de-growth to ₹ 47.3 crore impacted by negative operating leverage while we estimate EBITDA margin of 25.2% for the quarter. **Key Monitorable**: TV broadcasting revenue outlook, digital revenue growth
Zee Ent.	Zee's ad revenue is expected to decline sharply by ~60% YoY amid Covid-19 initiated lockdown. We expect ZEE Ent to report domestic subscription growth at 8.2% YoY to ₹ 675.4 crore on a higher base while international subscription revenue growth may decline sharply by 14% YoY. The overall subscription growth, consequently, is expected at 5% YoY. We bake in 40% decline in operational costs mainly driven by lack of fresh GEC content, albeit movies amortisation and OTT based content cost could be higher. Nevertheless, we expect EBITDA margins to fall 490 bps YoY to 28% owing to negative operating leverage. **Key Monitorable**: Commentary on ad recovery, traction in digital segment, viewership trend

Source: Company, ICICI Direct Research

Exhibit 3: Media Coverage Universe

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E
Inox Leisure	233	255	Hold	2,393	13.0	1.5	-17.8	17.9	159.7	NM	8.1	4.1	12.0	13.2	19.6	10.0	10.6	14.2	2.4
PVR	1,047	1,085	Hold	4,892	39.2	5.3	-61.9	26.7	197.0	NM	10.5	5.4	11.1	14.7	13.8	8.5	11.5	14.8	1.8
Sun TV	389	490	Buy	15,340	36.4	35.1	37.1	10.7	11.1	10.5	5.3	6.1	5.6	38.5	31.2	29.7	25.9	24.2	22.6
TV Today	202	240	Buy	1,202	22.0	23.4	22.6	9.2	8.6	8.9	4.6	4.9	4.8	30.4	22.7	24.7	19.3	14.6	16.0
ZEE Ent.	170	150	Hold	16,336	16.1	15.9	15.1	10.6	10.7	11.3	5.6	6.2	5.8	25.6	25.7	21.4	15.3	15.7	14.7

Source: Company, ICICI Direct Research, Reuters

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