

Overall recovery to be gradual...

Sun TV's Q4FY21 numbers were a tad better than our expectations in terms of advertisement and subscription revenues while profit for the quarter was ahead of our expectations on one off time tax benefit. Revenue (standalone) was at ₹ 782 crore, up 6.4% YoY. Ad revenues at ₹ 314.9 crore were up 8.3% YoY but still muted considering depressed base as ad spend by retail is yet to pick up. Subscription revenues were up 7.4% YoY to ₹ 428 crore. EBITDA was at ₹ 546.8 crore, up 8.6% YoY while EBITDA margin at 69.9% was better than our expectations, given lower other costs. PAT came in higher than expectations at ₹ 449.9 crore, aided by onetime tax credit of ~₹ 52.7 crore due to earlier year taxes paid and deferred tax asset creation.

Second wave push ad recovery to H2FY22

Sun TV, in its key market of Tamil, has improved its prime time fiction market share from 37% to 42% in the last three quarters, albeit it remains well below that earlier levels. The company envisages to take it to 50% in the medium term. Sun TV also intends to launch five to six shows including two big ticket shows (with total spend of ₹ 50 crore for both shows) in Telugu and Malayalam in Q1FY22, which were delayed due to second wave that halted shootings. We expect the overall impact of the second wave and higher presence of local ad to push back ad revenue recovery. Furthermore, continued market share improvement in Tamil and planned big ticket launches in Telugu and Malayalam will be key for advertisement recovery traction ahead. We build in 15% CAGR in TV ad revenues in FY21-23E to ₹ 1314 crore, with ~20% growth in ad revenues in FY22E on depressed base followed by normalised 10% growth in FY23E.

Guides for double digit subscription growth in FY22

Cable subscription revenues grew 2.4% YoY to ₹ 210 crore while DTH revenues grew 5.3% YoY to ₹ 218 crore. The company guided for double digit growth in FY22 to be aided by i) continued digitisation in key market of Tamil Nadu, ii) continued growth in DTH subscribers. We expect subscription revenue growth of ~9.3% CAGR (FY21-23E) to ₹ 2056 crore.

Valuation & Outlook

Ad recovery will be a function of consistency in market share gain in the markets in which it operates. Investment in SUNNEXT is yet to start at a meaningful level and needs to pick up to remain competitive, in our view. We also believe that curtailed dividend payout (13% vs. 35-40% earlier) for FY21 despite healthy cash and investment of ~₹ 3800 crore, will be a sentiment spoiler in the near term. We maintain **HOLD** rating on the stock. We value Sun TV at 12x FY23E EPS (same as Zee) to arrive at a revised target price of ₹ 525 (earlier ₹ 570).



Particulars

Particular	Amount
Market Capitalisation	₹ 20925.6 Crore
Total Debt (FY21)	₹ 0 Crore
Cash & Inv. (FY21)	₹ 3483.4 Crore
EV	₹ 18249.6 Crore
52 week H/L	571/ 368
Equity capital	197.0
Face value	5.0

Key Highlights

- Subscription growth was ~7.4% YoY while ad revenue grew 8.3% YoY
- We maintain HOLD rating with revised target price of ₹ 525/share (12x FY23E EPS)

Key risks to our call

- Faster than expected ad growth to result in higher earnings
- Slower than anticipated subscription growth will impact profitability

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales (₹ crore)	3,782.5	3,519.9	3,176.9	3,709.2	4,214.3	15.2
EBITDA (₹ crore)	2,606.7	2,275.9	2,071.4	2,371.1	2,733.9	14.9
Net Profit (₹ crore)	1,433.3	1,385.2	1,525.0	1,569.1	1,728.9	6.5
EPS (₹)	36.4	35.1	38.7	39.8	43.9	
P/E (x)	14.6	15.1	13.7	13.3	12.1	
Price / Book (x)	3.8	3.7	3.0	2.6	2.3	
EV/EBITDA (x)	7.0	8.0	8.4	6.8	5.6	
RoCE (%)	38.5	31.2	27.8	26.6	25.9	
RoE (%)	25.9	24.2	21.6	19.8	19.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	782.0	767.1	735.2	972.3	6.4	-19.6	Subscription growth was 7.4% while ad revenue was up 8.3% YoY
Other Income	50.6	62.1	57.0	62.1	-11.3	-18.5	
Operating Expenses	113.4	99.7	92.2	122.4	23.0	-7.4	
Employee Expenses	67.0	69.8	73.1	67.3	-8.4	-0.4	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	54.9	72.1	66.3	140.6	-17.3	-61.0	
IPL Franchisee Fees to BCCI	0.0	0.0	0.0	41.4	NA	-100.0	
EBITDA	546.8	525.5	503.5	600.7	8.6	-9.0	
EBITDA Margin (%)	69.9	68.5	68.5	61.8	143 bps	815 bps	
Depreciation	76.6	94.3	232.8	68.7	-67.1	11.5	
Interest	17.2	2.0	1.9	1.5	823.7	1,076.7	
Total Tax	53.7	124.8	75.9	150.8	-29.2	-64.4	
PAT	449.9	366.5	250.0	441.8	80.0	1.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,829.1	3,709.2	-3.1	4,169.2	4,214.3	1.1	Realigned estimates post Q4 Performance
EBITDA	2,462.9	2,371.1	-3.7	2,714.6	2,733.9	0.7	
EBITDA Margin (%)	64.3	63.9	-39 bps	65.1	64.9	-24 bps	
PAT	1,588.4	1,569.1	-1.2	1,727.6	1,728.9	0.1	
EPS (₹)	40.3	39.8	-1.2	43.8	43.9	0.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Ad Revenue Growth	9%	-6%	-26%	20%	10%	31%	11%	
Subscription Rev. Growth	16%	18%	10%	9%	9%	7%	10%	

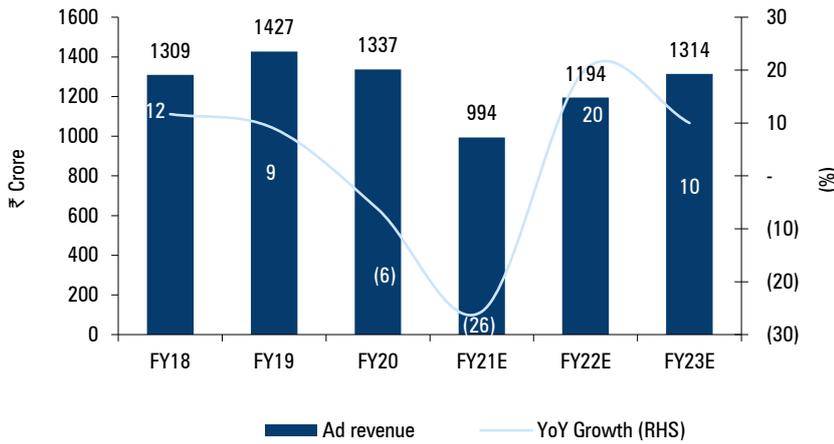
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Significant investment in movie production:** The management indicated that eight movies have been planned over the next two years, out of which shooting for one of the films is almost complete and is ready for release. Shooting for a couple other movies is 30-40% complete while production for a fourth movie is yet to commence. The management also indicated that they are still facing headwinds related to film shooting, especially outdoors, as some states are still under lockdown. The company also indicated that two films out of this slate are big ticket movies with south Indian megastars in the lead role. The total budget for movies could be in the range of ~₹ 1200 crore, likely to be spent over the next couple of years
- **Content investment in SunNXT yet to pick up meaningfully:** The company earlier had guided for ₹ 150 crore investment for its OTT arm, which is yet to achieve a meaningful scale. The management indicated that they would begin content spending post completion of two movies that are under production. The company refrained from sharing any financial numbers for SUN NXT (like peers i.e. ZEE5) since it is still riding on the content produced for TV and meaningful investment is yet to start in terms of production of any big ticket OTT shows/web series. The management indicated that they will start sharing financials of SUNNXT once it reaches certain scale and content investment kicks in.
- **Other highlights:**
 - a. Revenue breakup: Ad revenue- ₹ 314.9 crore, digital cable - ₹ 210 crore, DTH revenue- ₹ 218 crores, international - ₹ 28 crore
 - b. Depreciation - ₹ 28 crore, amortisation - ₹49 crore
 - c. Under the *vivad se vishwas* scheme, the company has availed and paid ~₹ 250 crore against the disputed tax claims of ~₹ 951 crore, which has arisen due to difference in treatment of movie amortisation as per the company and tax authorities. The company has also created deferred tax asset of ~₹ 400 crore, as a result

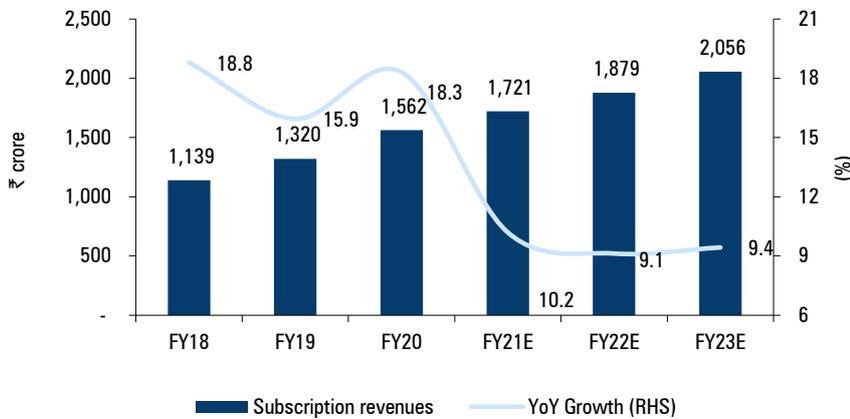
Story in charts

Exhibit 4: Ad revenue growth trend



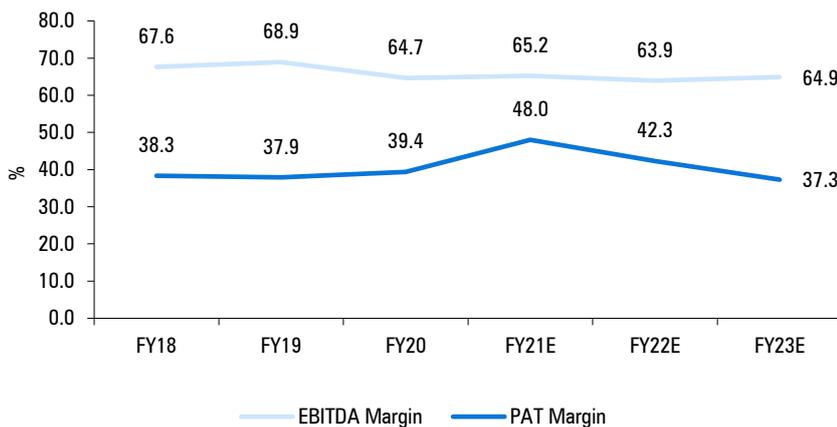
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



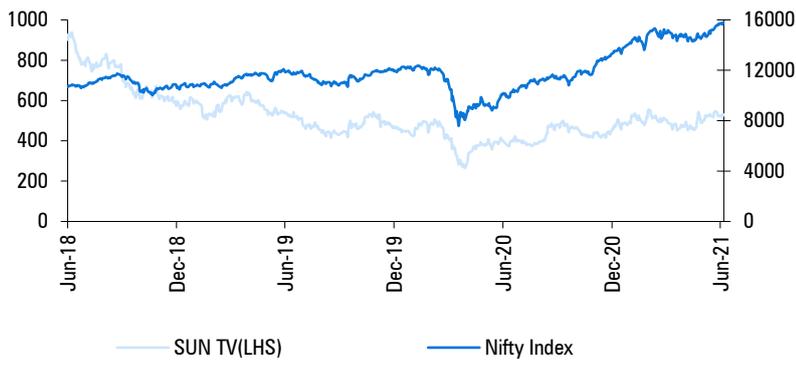
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	3,519.9	3,176.9	3,709.2	4,214.3
Growth (%)	-6.9	-9.7	16.8	13.6
Operating Expenses	526.7	420.2	568.0	621.2
Employee Expenses	323.2	307.1	342.6	368.0
Other Expenses	394.0	378.2	427.4	491.2
Total Operating Expenditure	1,243.9	1,105.5	1,338.0	1,480.4
EBITDA	2,275.9	2,071.4	2,371.1	2,733.9
Growth (%)	-12.7	-9.0	14.5	15.3
Depreciation	700.2	403.9	500.7	674.3
Interest	12.8	26.9	10.0	10.0
Other Income	260.7	306.8	255.0	280.0
Exceptional Items	-	-	-	-
PBT	1,823.6	1,947.4	2,115.4	2,329.6
MI/PAT from associates	(4.5)	(6.6)	(9.0)	(9.0)
Total Tax	434.0	415.8	537.3	591.7
PAT	1,385.2	1,525.0	1,569.1	1,728.9
Growth (%)	-3.4	10.1	2.9	10.2
EPS (₹)	35.1	38.7	39.8	43.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1,385.2	1,525.0	1,569.1	1,728.9
Add: Depreciation	700.2	403.9	500.7	674.3
Add: Interest Paid	12.8	26.9	10.0	10.0
(Inc)/dec in Current Assets	(242.9)	(81.7)	245.7	(224.0)
Inc/(dec) in CL and Provisions	61.6	216.4	124.2	117.9
Others	0.0	0.0	0.0	0.0
CF from operating activities	1,916.8	2,090.5	2,449.7	2,307.0
(Inc)/dec in Investments	111.4	-845.1	-150.0	-150.0
(Inc)/dec in Fixed Assets	-695.8	-308.2	-600.0	-600.0
Others	-22.0	-346.2	100.0	100.0
CF from investing activities	-606.4	-1,499.5	-650.0	-650.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-1,187.2	-197.0	-689.6	-689.6
Interest Paid	-12.8	-26.9	-10.0	-10.0
Others	-0.4	1.6	0.0	0.0
CF from financing activities	-1,200.3	-222.3	-699.6	-699.6
Net Cash flow	110.2	368.7	1,100.1	957.4
Opening Cash	593.0	703.2	1,071.8	2,171.9
Closing Cash	703.2	1,071.8	2,171.9	3,129.3

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	197.0	197.0	197.0	197.0
Preference Capital	93.4	93.4	93.4	93.4
Reserve and Surplus	5,433.7	6,763.3	7,642.7	8,682.0
Total Shareholders funds	5,724.1	7,053.7	7,933.2	8,972.4
Total Debt	0.0	0.0	0.0	0.0
Others	167.4	60.3	60.3	60.3
Total Liabilities	5,891.5	7,114.0	7,993.5	9,032.7
Assets				
Gross Block	7,049.1	7,277.3	7,877.3	8,477.3
Less: Acc Depreciation	6,010.5	6,414.4	6,915.2	7,589.5
Net Block	1,038.6	862.9	962.1	887.9
Capital WIP	66.3	146.3	146.3	146.3
Total Fixed Assets	1,104.9	1,009.2	1,108.5	1,034.2
Investments	740.9	1,147.4	1,197.4	1,247.4
Liquid Investments	1,972.9	2,411.6	2,511.6	2,611.6
Goodwill on Consolidation	4.8	4.8	4.8	4.8
Inventory	0.0	0.0	0.0	0.0
Debtors	1,367.2	1,433.9	1,111.7	1,263.1
Loans and Advances	187.1	252.7	295.0	335.2
Other Current Assets	254.6	204.1	238.3	270.8
Cash	703.2	1,071.8	2,171.9	3,129.3
Total Current Assets	2,512.2	2,962.6	3,817.0	4,998.4
Creditors	541.8	499.9	583.6	663.1
Provisions	22.2	241.5	282.0	320.4
Net Current Assets	1,948.2	2,221.2	2,951.3	4,014.9
Other Non Current Assets	78.1	340.9	240.9	140.9
Application of Funds	5,891.5	7,114.0	7,993.5	9,032.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	35.1	38.7	39.8	43.9
Cash EPS	52.9	48.9	52.5	61.0
BV	145.3	179.0	201.3	227.7
DPS	25.0	5.0	17.5	17.5
Cash Per Share	17.8	27.2	55.1	79.4
Operating Ratios (%)				
EBITDA Margin	64.7	65.2	63.9	64.9
PBT / Total Operating income	44.8	52.5	50.4	48.9
PAT Margin	39.4	48.0	42.3	41.0
Inventory days	0.0	0.0	0.0	0.0
Debtor days	141.8	164.7	109.4	109.4
Creditor days	56.2	57.4	57.4	57.4
Return Ratios (%)				
RoE	24.2	21.6	19.8	19.3
RoCE	31.2	27.8	26.6	25.9
RoIC	53.0	54.3	65.7	70.3
Valuation Ratios (x)				
P/E	15.1	13.7	13.3	12.1
EV / EBITDA	8.0	8.4	6.8	5.6
EV / Net Sales	5.2	5.5	4.4	3.6
Market Cap / Sales	5.9	6.6	5.6	5.0
Price to Book Value	3.7	3.0	2.6	2.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.9	2.3	1.7	1.7
Quick Ratio	2.9	2.3	1.7	1.7

Source: Company, ICICI Direct Research

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