

Ad recovery, content rejig key...

Sun TV's Q3FY21 numbers were mixed as ad recovery was slower and subscription growth was lower than expected but lower amortisation aided PAT. Revenue (standalone) was at ₹ 972.3 crore, up 19.3% YoY boosted by IPL revenue. Ex-IPL revenue was at ₹ 763.3 crore, down 6.3% YoY. Ad revenues at ₹ 309 crore were down 9.4% YoY as ad spend by retail is yet to pick up. Subscription revenues were up ~3% YoY to ₹ 424 crore. EBITDA was at ₹ 600.7 crore, up 3.5% YoY while EBITDA margin at 61.8% was down 944 bps YoY. Margins (Ex-IPL) were 67.2%, down 400 bps YoY. Amortisation expenses were lower due to fewer movie premieres on TV. Consequently, PAT was at ₹ 441.8 crore, up 18.3% YoY.

Delay in local retail revival leads to ad revenues decline

Ad revenues have improved sequentially in unlock phases aided by festive boost. However, the decline was due to weakness in local retail sectors like jewellery, garments and other key retail clients while FMCG remains the biggest contributor. Currently, retail advertisers contribute only 10-12% of ad mix vs. 30% earlier and rebound in ad spend across all segments will be important. No fresh movie premiers also partly contributed to lower ad revenue. Ad minutes/hour was 12 during Q3 vs. pre-Covid levels of 16 (has now reached 14 during Q4). The management expects FY22E ad revenue to reach FY20 levels. We build in 3% CAGR in TV ad revenues in FY20-23E to ₹ 1453 crore, with ~25% fall in ad revenues in FY21E followed by ~31% growth in FY22E on a depressed base.

Subscription growth continues; albeit at lower rate

Subscription revenue has been a key relief for Sun TV in a challenging year. Cable revenues were down ~2% YoY to ₹ 200 crore while DTH revenues were at ₹ 224 crore, up ~8% YoY. The company is planning to revamp content (to bring in more big ticket non-fiction shows) to regain lost share in Tamil market. We expect subscription revenue growth of ~9% CAGR (FY20-23E) to ₹ 2021 crore. The SunNXT subscriber base has remained largely the same QoQ at ~18 mn. SunNXT ramp-up, planned movie releases and subsequent revenue growth will be the key monitorable.

Valuation & Outlook

Sun TV's ad recovery has been lower compared to its peer. Faster rebound in ad outlook, therefore, will be important. Regaining viewership share for flagship channel and SunNXT growth will also be key for monetisation. IPL profitability, healthy cash balance and steady dividend payout are the positives. We would turn constructive when we witness SunNXT ramp-up, viewership share increase coupled with sustained ad recovery. We maintain **HOLD** rating on the stock. We value Sun TV at 13x FY23E EPS (same as Zee) to arrive at revised target price of ₹ 570 (vs. earlier TP: ₹ 480).

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	3,782.5	3,519.9	3,184.1	3,829.1	4,169.2	5.8
EBITDA (₹ crore)	2,606.7	2,275.9	2,033.8	2,462.9	2,714.6	6.1
Net Profit (₹ crore)	1,433.3	1,385.2	1,396.9	1,588.4	1,727.6	7.6
EPS (₹)	36.4	35.1	35.4	40.3	43.8	
P/E (x)	15.2	15.7	15.6	13.7	12.6	
Price / Book (x)	3.9	3.8	3.4	3.0	2.7	
EV/EBITDA (x)	7.3	8.4	8.9	7.1	6.1	
RoCE (%)	38.5	31.2	28.9	29.3	28.4	
RoE (%)	25.9	24.2	21.8	22.2	21.4	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation	₹ 21731.5 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Inv. (FY20)	₹ 2676.1 Crore
EV	₹ 19055.5 Crore
52 week H/L	571/ 260
Equity capital	197.0
Face value	5.0

Key Highlights

- Subscription growth was ~3% YoY while ad revenue de-grew ~9% YoY
- We maintain HOLD rating with TP of ₹ 570/share (13x FY23E EPS).

Key risks to our call

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

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	972.3	1,004.8	815.0	756.2	19.3	28.6	Subscription growth was 3% while ad revenue fell ~9% YoY
Other Income	62.1	55.0	63.6	51.6	-2.3	20.5	
Operating Expenses	122.4	118.7	110.6	100.2	10.7	22.1	
Employee Expenses	67.3	74.7	71.0	72.4	-5.2	-7.1	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	140.6	146.4	53.1	71.8	165.0	95.8	
IPL Franchisee Fees to BCCI	41.4	40.0	0.0	9.7	NA	327.6	
EBITDA	600.7	625.1	580.4	502.0	3.5	19.7	
EBITDA Margin (%)	61.8	62.2	71.2	66.4	-944 bps	-462 bps	
Depreciation	68.7	123.6	143.6	91.3	-52.2	-24.7	
Interest	1.5	2.0	1.9	1.6	-21.5	-6.4	
Total Tax	150.8	138.6	125.0	114.8	20.6	31.3	
PAT	441.8	415.8	373.5	345.9	18.3	27.7	

Key Metrics

Ad Revenue Growth	-9.4	-4.0	-10.7	-27.3	135 bps	1792 bps
Subscription Revenue Growth	3.0	7.7	17.8	13.7	-1484 bps	-1072 bps

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ (Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	3,227.7	3,184.1	-1.4	3,905.1	3,829.1	-1.9	4,169.2	Realigned estimates post Q3 Performance
EBITDA	2,059.9	2,033.8	-1.3	2,495.3	2,462.9	-1.3	2,714.6	
EBITDA Margin (%)	63.8	63.9	5 bps	63.9	64.3	42 bps	65.1	
PAT	1,410.4	1,396.9	-1.0	1,577.9	1,588.4	0.7	1,727.6	
EPS (₹)	35.8	35.4	-1.0	40.0	40.3	0.7	43.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Ad Revenue Growth	9%	-6%	-25%	31%	11%	-25%	25%	
Subscription Rev. Growth	16%	18%	10%	7%	10%	13%	11%	

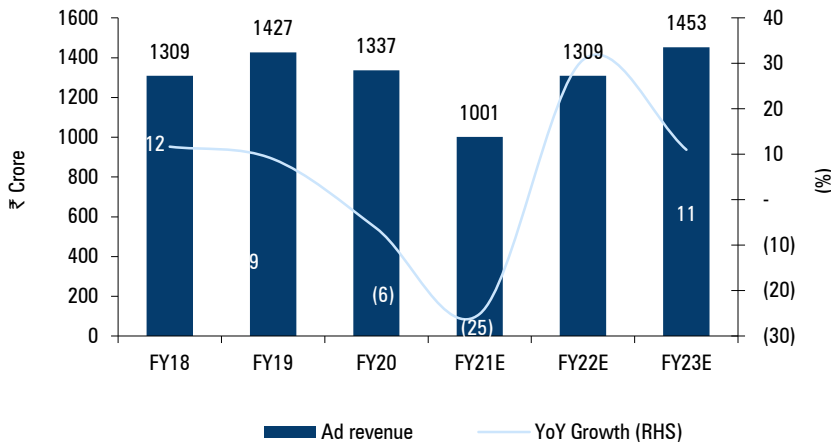
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Relative decline in market share; planning Marathi launch in FY22:** The management said that market share of Sun TV fell 200-300 bps during the quarter. Sun TV's viewership share was 39% in Q3, which has improved to 40% in January. The company is aiming for 50% share in the medium term. Whole primetime content will be rejigged and it may take couple of months to reflect in improved ratings. Bengali channel has seen growth in GRPs and it is among top three channels with 10% market share. The Marathi channel is likely to be launched in FY22 as per the management. They said that decline in international revenue was due to pending agreements in the overseas region
- **SunNXT investment plan; big budget movies in production:** The management said that active user base SunNXT, OTT arm of the company has largely remained the same at 18 million and bulk of users on platform are through partnership deals with telecom companies. The management said they will inform about planned SunNXT content line up in detail in Q4. Content on OTT will be across languages with priority to Tamil & Telugu. The company is contemplating on launching a premium service. Sun TV is also planning to launch big ticket shows in Q1 in the TV segment. The management said currently five big budget movies are in the pipeline and three to four are likely to release in FY22. Estimated cost for the film production is ₹ 300-250 crore. The company is also looking at producing some small scale movies with ₹ 5-10 core investment each
- **Other highlights:** i) Revenue breakup: Ad revenue- ₹ 309 crore, Digital Cable - ₹ 200 crore, DTH revenue- ₹ 224 crore, international - ₹ 29 crore, IPL revenue- ₹ 209 crore ii) Depreciation - ₹ 23 crore, amortisation - ₹ 46 crore

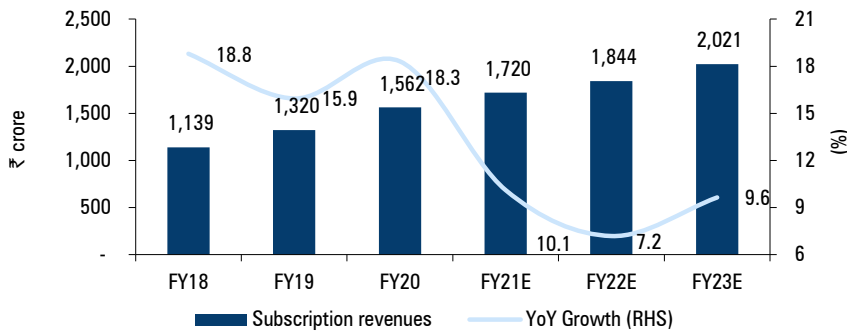
Story in Charts

Exhibit 4: Ad revenue growth trend



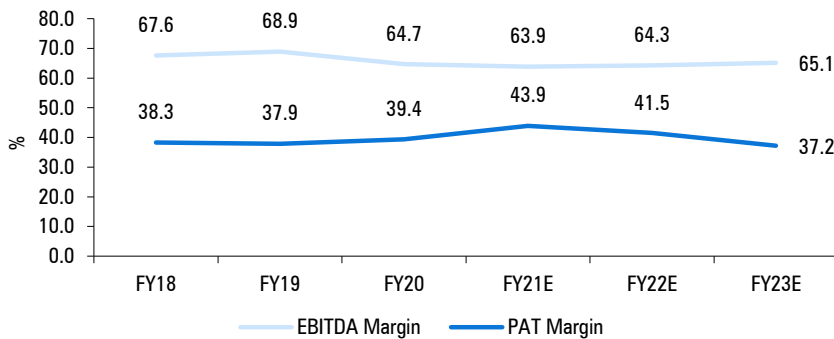
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



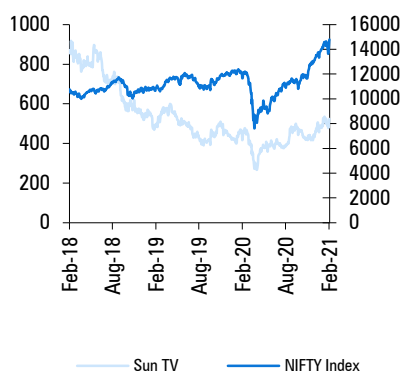
Source: Company, ICICI Direct Research

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	FY21E	FY22E	FY23E
Total operating Income	3,519.9	3,184.1	3,829.1	4,169.2
Growth (%)	-6.9	-9.5	20.3	8.9
Operating Expenses	526.7	422.5	546.4	605.0
Employee Expenses	323.2	321.2	349.8	365.3
Other Expenses	394.0	406.5	470.0	484.3
Total Operating Expenditure	1,243.9	1,150.2	1,366.2	1,454.6
EBITDA	2,275.9	2,033.8	2,462.9	2,714.6
Growth (%)	-12.7	-10.6	21.1	10.2
Depreciation	700.2	413.9	555.2	625.4
Interest	12.8	6.8	10.0	10.0
Other Income	260.7	282.3	245.0	250.0
Exceptional Items	-	-	-	-
PBT	1,823.6	1,895.4	2,142.7	2,329.2
MI/PAT from associates	(4.5)	(17.0)	(10.0)	(10.0)
Total Tax	434.0	481.4	544.2	591.6
PAT	1,385.2	1,396.9	1,588.4	1,727.6
Growth (%)	-3.4	0.9	13.7	8.8
EPS (₹)	35.1	35.4	40.3	43.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,385.2	1,396.9	1,588.4	1,727.6
Add: Depreciation	700.2	413.9	555.2	625.4
Add: Interest Paid	12.8	6.8	10.0	10.0
(Inc)/dec in Current Assets	(242.9)	455.0	(274.3)	(144.6)
Inc/(dec) in CL and Provisions	61.6	-53.8	103.4	54.5
Others	0.0	0.0	0.0	0.0
CF from operating activities	1,916.8	2,218.9	1,982.7	2,272.9
(Inc)/dec in Investments	111.4	-150.0	-150.0	-150.0
(Inc)/dec in Fixed Assets	-695.8	-450.0	-550.0	-500.0
Others	-22.0	2.0	0.0	0.0
CF from investing activities	-606.4	-598.0	-700.0	-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	-712.3	-831.0	-831.0
Interest Paid	-12.8	-6.8	-10.0	-10.0
Others	-0.4	0.0	0.0	0.0
CF from financing activities	-1,200.3	-719.1	-841.0	-841.0
Net Cash flow	110.2	901.8	441.7	781.8
Opening Cash	593.0	703.2	1,605.0	2,046.7
Closing Cash	703.2	1,605.0	2,046.7	2,828.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
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	6,118.3	6,875.7	7,772.3
Total Shareholders funds	5,724.1	6,408.8	7,166.2	8,062.8
Total Debt	0.0	0.0	0.0	0.0
Others	167.4	169.4	169.4	169.4
Total Liabilities	5,891.5	6,578.2	7,335.6	8,232.2
Assets				
Gross Block	7,049.1	7,499.1	8,049.1	8,549.1
Less: Acc Depreciation	6,010.5	6,424.4	6,979.7	7,605.0
Net Block	1,038.6	1,074.7	1,069.5	944.1
Capital WIP	66.3	66.3	66.3	66.3
Total Fixed Assets	1,104.9	1,141.0	1,135.8	1,010.4
Investments	740.9	790.9	840.9	890.9
Liquid Investments	1,972.9	2,072.9	2,172.9	2,272.9
Goodwill on Consolidation	4.8	4.8	4.8	4.8
Inventory	0.0	0.0	0.0	0.0
Debtors	1,367.2	954.3	1,147.7	1,249.6
Loans and Advances	187.1	169.3	203.6	221.7
Other Current Assets	254.6	230.3	277.0	301.6
Cash	703.2	1,605.0	2,046.7	2,828.5
Total Current Assets	2,512.2	2,958.9	3,674.9	4,601.4
Creditors	541.8	490.1	589.4	641.7
Provisions	22.2	20.1	24.2	26.3
Net Current Assets	1,948.2	2,448.7	3,061.4	3,933.4
Other Non Current Assets	78.1	78.1	78.1	78.1
Application of Funds	5,891.5	6,578.2	7,335.6	8,232.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	35.1	35.4	40.3	43.8
Cash EPS	52.9	46.0	54.4	59.7
BV	145.3	162.6	181.8	204.6
DPS	25.0	15.0	17.5	17.5
Cash Per Share	17.8	40.7	51.9	71.8
Operating Ratios (%)				
EBITDA Margin	64.7	63.9	64.3	65.1
PBT / Total Operating income	44.8	50.9	49.8	50.1
PAT Margin	39.4	43.9	41.5	41.4
Inventory days	0.0	0.0	0.0	0.0
Debtor days	141.8	109.4	109.4	109.4
Creditor days	56.2	56.2	56.2	56.2
Return Ratios (%)				
RoE	24.2	21.8	22.2	21.4
RoCE	31.2	28.9	29.3	28.4
RoIC	53.0	61.0	66.4	72.3
Valuation Ratios (x)				
P/E	15.7	15.6	13.7	12.6
EV / EBITDA	8.4	8.9	7.1	6.1
EV / Net Sales	5.4	5.7	4.6	4.0
Market Cap / Sales	6.2	6.8	5.7	5.2
Price to Book Value	3.8	3.4	3.0	2.7
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	2.4	2.4	2.5
Quick Ratio	2.9	2.4	2.4	2.5

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Inox Leisure	338	350	Hold	3,807	1.5	-34.2	1.8	231.7	NM	192.3	10.8	-32.4	11.1	10.0	-13.0	8.1	2.4	-62.8	3.0
PVR	1,520	1,440	Hold	8,385	5.3	-101.7	10.7	285.8	NM	141.7	12.2	-44.5	11.8	8.5	-4.9	8.6	1.8	-46.0	4.7
Sun TV	551	570	Hold	21,732	35.1	35.4	40.3	15.7	15.6	13.7	8.4	8.9	7.1	31.2	28.9	29.3	24.2	21.8	22.2
TV Today	244	240	Hold	1,455	23.4	21.6	30.0	10.4	11.3	8.1	6.1	6.2	4.7	24.7	22.2	24.7	16.0	14.4	18.4
ZEE Ent.	220	250	Hold	21,105	5.5	9.2	16.1	40.1	24.0	13.7	12.3	10.6	8.6	13.9	14.3	19.1	16.7	10.3	13.9

Source: Company, ICICI Direct Research

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