

Recovery to be gradual...

About the stock: Sun TV Network (Sun TV) is a leading regional broadcaster in India, which owns and operates a bouquet of 32 TV channels prominently across southern market (Tamil, Telugu, Kannada & Malayalam) and Bengali language and also an OTT app *SunNXT*.

- In its key market, Tamil viewership share has dipped from ~55%+ to ~40%+ in last few years, with peers, new entrants lapping up market share

Q1FY22 Results: Sun TV's performance was weaker than expected.

- Revenues (ex- IPL) at ₹ 686 crore were up ~13% YoY, down ~12% QoQ, with ad revenues up ~94% YoY to ₹ 244 crore, on a depressed base of Q1FY21 but down 23% QoQ (still ~34% below pre-Covid levels). Subscription revenues declined 6% YoY to ₹ 415 crore
- EBITDA was at ₹ 495 crore, up 19% YoY on a depressed base with margins at 61.1% (down 762 bps YoY, 882 bps QoQ), due to higher operating costs
- PAT came in at ₹ 389.8 crore, higher than estimate of ₹ 367 crore, owing to lower amortisation (change in useful life estimation) by ~₹ 70 crore

What should investors do? Sun TV's share price has underperformed with growth of mere ~9% over the past five years, owing to viewership market share loss.

- We maintain our HOLD rating

Target Price and Valuation: We value Sun at ₹ 545 i.e. 12x FY23E EV/EBITDA

Key triggers for future price performance:

- Overall viewership share improvement, which has dipped in recent times. Recovery in key markets like Tamil/Telugu/Kannada to be ad growth driver
- Post NTO 2 led clarity on subscription growth
- Marked ramp up in *SunNXT* content, where it is lagging vs. peer

Alternate Stock Idea: Besides Sun TV, we like PVR in the media space.

- A play on reopening and improving market share of multiplexes
- BUY with a target price of ₹ 1610



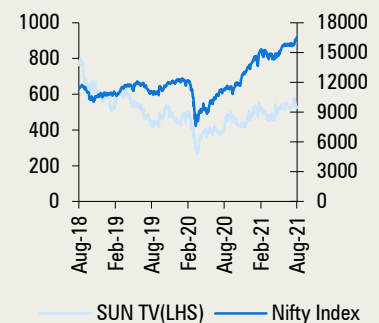
Particulars

Particular	Amount
Market Capitalisation	₹ 20673.4 Crore
Total Debt (FY21)	₹ 0 Crore
Cash & Inv. (FY21)	₹ 3483.4 Crore
EV	₹ 17997.3 Crore
52 week H/L	587/ 394
Equity capital	197.0
Face value	5.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	75.0	75.0	75.0	75.0
DII	5.2	5.0	4.1	3.6
FII	10.9	9.4	9.0	7.7
Other	8.9	10.5	12.0	13.7

Price Chart



Key risks

Key Risk: (i) Delay in market share recovery, (ii) Better than expected margins

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	CAGR (FY21-23E)
Net Sales (₹ crore)	3,782.5	3,519.9	3,176.9	5.1	3,628.1	4,115.2	13.8
EBITDA (₹ crore)	2,606.7	2,275.9	2,071.4	3.6	2,300.3	2,660.1	13.3
Net Profit (₹ crore)	1,433.3	1,385.2	1,525.0	10.6	1,635.8	1,793.6	8.4
EPS (₹)	36.4	35.1	38.7		41.5	45.5	
P/E (x)	14.4	14.9	13.6		12.6	11.5	
Price / Book (x)	3.7	3.6	2.9		2.6	2.3	
EV/EBITDA (x)	6.9	7.9	8.3		7.0	5.8	
RoCE (%)	38.5	31.2	27.8		27.5	26.5	
RoE (%)	25.9	24.2	21.6		20.4	19.7	

Key performance highlight and outlook

Ad recovery to be gradual

We expect the overall impact of the second wave and higher presence of local/retail ad to push back the 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. The company intends to launch well known international format shows (*MasterChef, KBC* etc.) across Telugu, Telugu and Malayalam. We build in 15% CAGR in TV ad revenues in FY21-23E to ₹ 1314 crore, with ~20% growth in ad revenues in FY22E on a depressed base followed by normalised 10% growth in FY23E.

NTO 2 led uncertainty on subscription growth

Cable subscription revenues declined 11% YoY to ₹ 201 crore while DTH revenues declined 1% YoY to ₹ 214 crore. The company indicated that there will be no major impact from NTO 2.0. However, it remained uncertain on subscription growth for FY22, with more clarity on NTO order needed. We expect subscription revenue growth of ~7.7% CAGR (FY21-23E) to ₹ 1997 crore.

Other highlights

- Amortisation of Satellite Rights:** The company has changed the method of movie useful life estimation of satellite rights of movies (both acquired and produced). It will now be amortised over four years (30% in each of first two and 20% each in two years, thereafter). It indicated that the change in method is in line with global standards. The same impacted the amortisation by ~ ₹ 70 crore in Q1FY22, Consequently, acquired movie amortisation guidance for FY22 is at ₹ 150 crore
- Investment in movies:** The company reiterated its stance to spend ₹ 1200 crore on movie production over the next 18-24 months. It expects to release five movies (with total budget of ₹ 600 crore) across Q3, Q4, provided the pandemic tail does not impact theatrical releases
- SunNXT:** It has 23.5 mn subscribers, majority of which are from tie-ups with telecom players. On a medium to long term, the company aims to get ~11 million paying direct paying sub base (~25% of Tamil households). It indicated that currently focus is on movie production. OTT originals will be ramped up only once some normalcy returns
- Revenue breakup:** Ad revenue- ₹ 244 crore, Digital Cable - ₹ 201 crore, DTH revenue- ₹ 214 crores, international - ₹25 crore, IPL ₹ 123.9 crore
- Dividend:** The company announced an interim dividend of ₹ 3.75/share

Ad recovery will be a function of consistency in market share gain in the markets in which it operates. Potential implementation of NTO 2.0 and impact on subscription revenues ahead also remains unknown. Investment in *SunNXT* is yet to start at a meaningful level and it needs to pick up to remain competitive, in our view. We would wait for meaningful traction in ad revenues and market share before turning constructive. 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 ₹ 545 (vs. earlier TP: ₹ 525).

Exhibit 1: Peer Comparison (Broadcasters)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Sun TV	525	545	Hold	20,673	38.7	41.5	45.5	13.6	12.6	11.5	8.3	7.0	5.8	27.8	27.5	26.5	21.6	20.4	19.7
TV Today	291	330	Hold	1,736	22.0	29.4	33.4	13.2	9.9	8.7	7.4	5.7	4.6	19.4	22.2	23.1	13.3	16.5	17.2
ZEE Ent.	183	195	Hold	17,590	8.3	13.3	16.4	22.0	13.7	11.2	8.8	8.1	6.6	13.7	16.1	17.6	9.4	11.7	13.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	Q4FY21	YoY (%)	QoQ (%)	Comments
Revenue	810.1	865.2	606.1	782.0	33.7	3.6	Ad revenues were up ~94% YoY to ₹ 244 crore, on a depressed base of Q1FY21 but down 23% QoQ (and still ~34% below pre-covid levels). Subscription revenues declined 6% YoY to ₹ 415 crore
Other Income	56.1	65.0	108.6	50.6	-48.4	10.8	
Operating Expenses	114.0	117.6	67.1	113.4	70.0	0.5	
Employee Expenses	68.1	66.2	73.1	67.0	-6.9	1.7	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	108.3	126.2	49.5	54.9	118.9	97.4	
IPL Franchisee Fees to BCCI	24.8	26.0	0.0	0.0	NA	NA	
EBITDA	495.0	529.3	416.5	546.8	18.8	-9.5	
EBITDA Margin (%)	61.1	61.2	68.7	69.9	-762 bps	-882 bps	
Depreciation	33.1	100.0	145.5	76.6	-77.3	-56.9	
Interest	1.0	2.0	1.8	17.2	-42.9	-94.1	
Total Tax	127.2	125.0	95.1	53.7	33.8	136.9	
PAT	389.8	367.2	282.8	449.9	37.8	-13.4	

Key Metrics

Ad Revenue Growth	93.8	105.3	-65.9	8.3	15970 bps	8555 bps
Subscription Revenue Growth	-6.2	0.2	17.6	7.4	-2380 bps	-1352 bps

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,709.2	3,628.1	-2.2	4,214.3	4,115.2	-2.4	Realigned estimates post Q1 Performance
EBITDA	2,371.1	2,300.3	-3.0	2,733.9	2,660.1	-2.7	
EBITDA Margin (%)	63.9	63.4	-52 bps	64.9	64.6	-23 bps	
PAT	1,569.1	1,635.8	4.2	1,728.9	1,793.6	3.7	
EPS (₹)	39.8	41.5	4.2	43.9	45.5	3.8	

Source: Company, ICICI Direct Research

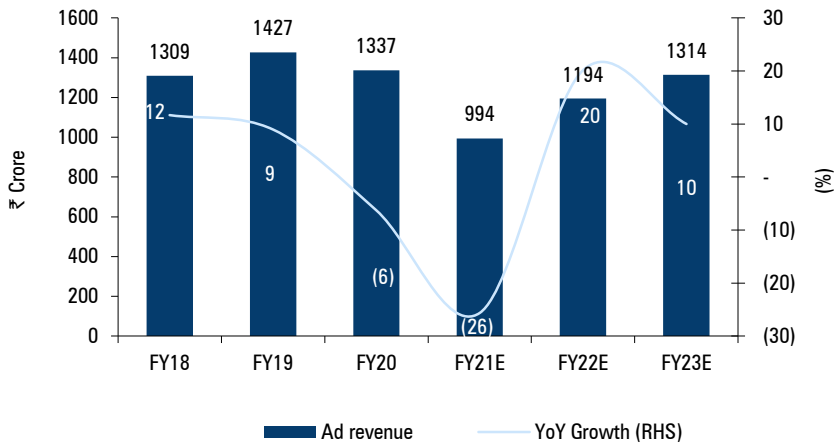
Exhibit 4: Assumptions

(%)	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Ad Revenue Growth	9%	-6%	-26%	20%	10%	20%	10%	
Subscription Rev. Growth	16%	18%	10%	4%	12%	9%	9%	

Source: Company, ICICI Direct Research

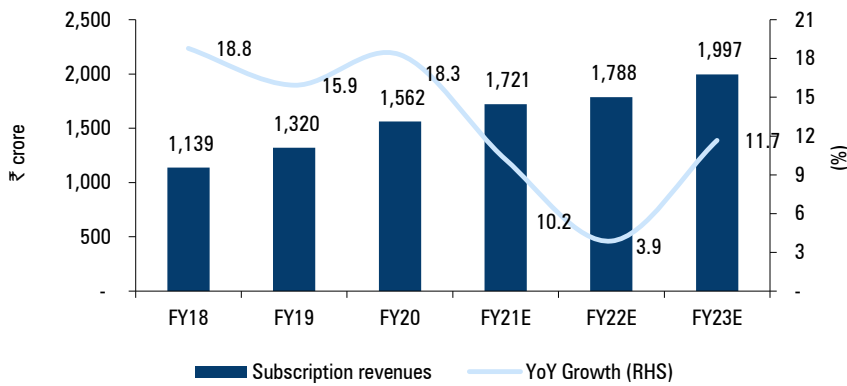
Story in Charts

Exhibit 5: Ad revenue growth trend



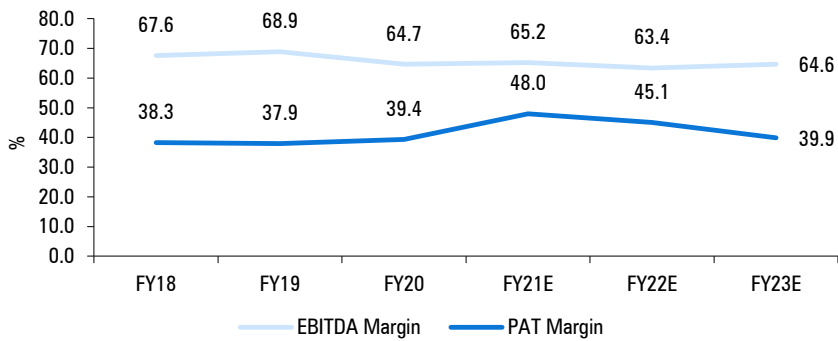
Source: Company, ICICI Direct Research

Exhibit 6: Subscription revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and PAT margin



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	3,628.1	4,115.2
Growth (%)	-6.9	-9.7	14.2	13.4
Operating Expenses	526.7	420.2	563.6	610.5
Employee Expenses	323.2	307.1	342.7	360.0
Other Expenses	394.0	378.2	421.5	484.5
Total Operating Expenditure	1,243.9	1,105.5	1,327.8	1,455.1
EBITDA	2,275.9	2,071.4	2,300.3	2,660.1
Growth (%)	-12.7	-9.0	11.0	15.6
Depreciation	700.2	403.9	326.5	493.8
Interest	12.8	26.9	10.0	10.0
Other Income	260.7	306.8	241.1	260.0
Exceptional Items	-	-	-	-
PBT	1,823.6	1,947.4	2,204.8	2,416.3
MI/PAT from associates	(4.5)	(6.6)	(9.0)	(9.0)
Total Tax	434.0	415.8	560.0	613.7
PAT	1,385.2	1,525.0	1,635.8	1,793.6
Growth (%)	-3.4	10.1	7.3	9.6
EPS (₹)	35.1	38.7	41.5	45.5

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	1,635.8	1,793.6
Add: Depreciation	700.2	403.9	326.5	493.8
Add: Interest Paid	12.8	26.9	10.0	10.0
(Inc)/dec in Current Assets	(242.9)	(81.7)	281.6	(216.1)
Inc/(dec) in CL and Provisions	61.6	216.4	105.3	113.7
Others	0.0	0.0	0.0	0.0
CF from operating activities	1,916.8	2,090.5	2,359.2	2,195.0
(Inc)/dec in Investments	111.4	-845.1	-150.0	-150.0
(Inc)/dec in Fixed Assets	-695.8	-308.2	-700.0	-700.0
Others	-22.0	-346.2	100.0	100.0
CF from investing activities	-606.4	-1,499.5	-750.0	-750.0
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	909.6	745.4
Opening Cash	593.0	703.2	1,071.8	1,981.4
Closing Cash	703.2	1,071.8	1,981.4	2,726.8

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	7,709.4	8,813.3
Total Shareholders funds	5,724.1	7,053.7	7,999.8	9,103.8
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	8,060.2	9,164.1
Assets				
Gross Block	7,049.1	7,277.3	7,977.3	8,677.3
Less: Acc Depreciation	6,010.5	6,414.4	6,741.0	7,234.8
Net Block	1,038.6	862.9	1,236.4	1,442.5
Capital WIP	66.3	146.3	146.3	146.3
Total Fixed Assets	1,104.9	1,009.2	1,382.7	1,588.8
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	1,087.4	1,233.4
Loans and Advances	187.1	252.7	288.5	327.3
Other Current Assets	254.6	204.1	233.1	264.4
Cash	703.2	1,071.8	1,981.4	2,726.8
Total Current Assets	2,512.2	2,962.6	3,590.5	4,552.0
Creditors	541.8	499.9	570.9	647.5
Provisions	22.2	241.5	275.8	312.9
Net Current Assets	1,948.2	2,221.2	2,743.8	3,591.6
Other Non Current Assets	78.1	340.9	240.9	140.9
Application of Funds	5,891.5	7,114.0	8,060.2	9,164.1

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	41.5	45.5
Cash EPS	52.9	48.9	49.8	58.0
BV	145.3	179.0	203.0	231.0
DPS	25.0	5.0	17.5	17.5
Cash Per Share	17.8	27.2	50.3	69.2
Operating Ratios (%)				
EBITDA Margin	64.7	65.2	63.4	64.6
PBT / Total Operating income	44.8	52.5	54.4	52.6
PAT Margin	39.4	48.0	45.1	43.6
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	20.4	19.7
RoCE	31.2	27.8	27.5	26.5
RoIC	53.0	54.3	63.6	62.5
Valuation Ratios (x)				
P/E	14.9	13.6	12.6	11.5
EV / EBITDA	7.9	8.3	7.0	5.8
EV / Net Sales	5.1	5.4	4.5	3.7
Market Cap / Sales	5.9	6.5	5.7	5.0
Price to Book Value	3.6	2.9	2.6	2.3
Solvency Ratios (x)				
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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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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