

## Muted performance...

**About the stock:** Sun TV Network (Sun TV) is 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*.

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

**Q2FY23 Results:** Sun TV performance was muted on ad front.

- Standalone revenue came in at ₹ 796.4 crore, down 3.9% YoY. **Advertisement revenues came in muted at ₹ 342.5 crore (up 0.2% YoY) as key advertisers continued to restrict volumes amid raw material pressure.** Subscription revenues were also muted YoY (down ~2.7% YoY) amid NTO 2 implementation driven price hike restrictions
- EBITDA came in at ₹ 525 crore, up 0.8% YoY while EBITDA margins came in at 65.9%, up 308 bps YoY largely owing to revenue mix (there was lower margin IPL revenues in the base)
- PAT came in at ₹ 400.7 crore, up 1.9% YoY, given muted operating performance

**What should investors do?** Sun TV's share price has underperformed with a decline of 35% over the past five years, owing to viewership market share loss.

- We maintain our **HOLD** rating. Pushing back of OTT content spending remains a key concern while films content spending will create volatility in earnings. We also await management outlook/commentary on content strategy, growth outlook and capital allocation ahead, which restricts us from turning constructive despite lucrative valuations

**Target Price and Valuation:** We value Sun at ₹ 555 i.e. 10x FY25E P/E.

### 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
- Marked ramp up in SunNXT content, where content spending is lagging

**Alternate Stock Idea:** Besides Sun TV, we like Inox Leisure in the media space.

- A play on recovery and consolidation of multiplexes
- BUY with a target price of ₹ 675

### Key Financial Summary

(Year-end March)	FY22	FY23E	5 yr CAGR (FY17-22)	FY24E	FY24E	FY25E	CAGR (FY22-25E)
Net Sales (₹ crore)	3,176.9	3,584.8	6.3	3,849.3	4,425.5	4,711.9	9.5
EBITDA (₹ crore)	2,071.4	2,287.5	5.3	2,511.5	2,893.9	3,090.4	10.5
Net Profit (₹ crore)	1,525.0	1,641.8	9.8	1,760.8	2,035.1	2,183.7	10.0
EPS (₹)	38.7	41.7		44.7	51.6	55.4	
P/E (x)	14.2	13.2		12.3	10.7	9.9	
Price / Book (x)	3.1	2.7		2.4	2.1	1.9	
EV/EBITDA (x)	8.8	7.9		7.0	5.7	4.9	
RoCE (%)	27.8	27.2		25.9	26.4	25.1	
RoE (%)	21.6	20.1		19.4	19.8	18.7	

Source: Company, ICICI Direct Research



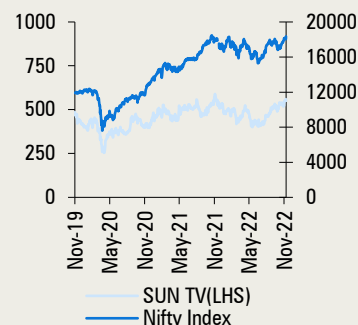
### Particulars

Particular	Amount
Market Capitalisation	₹ 21717.7 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 4196.1 Crore
EV	₹ 19041.7 Crore
52 week H/L	569/ 403
Equity capital	197.0
Face value	5.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	75.0	75.0	75.0	75.0
DII	2.9	3.1	3.6	3.9
FII	9.0	9.2	9.3	9.8
Other	13.1	12.7	12.1	11.3

### Price Chart



### Key risks

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

### Research Analyst

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## Key performance highlight and outlook

### Ad revenues muted...

We note that Sun TV's muted ad growth (largely owing to restricted ad spends by key advertisers) was better than 7.7% decline in Zee's domestic ad revenues. In our view, this was owing to a) different mix of advertisers (and b) Zee had lost viewership share with FTA withdrawal impacting ad. The viewership market share has seen some improvement in Tamil. However, other languages viewership has not seen a marked improvement QoQ. The company expects muted ad growth in H2FY23. We highlight that in the absence of any guidance/commentary on growth ahead, we are building in ~10.3% CAGR in TV ad revenues in FY22-25E to ₹ 1746 crore, similar to industry growth and likely recovery from FY24. However, recovery or loss in viewership share will determine whether it beats or lags industry growth along with recovery in ad spends by key advertisers.

### Subscription muted on NTO 2 implementation delay

Subscription revenues remained muted at ₹ 397 crore, down 2.7% YoY amid NTO 2 implementation driven price hike restrictions, in our view. We highlight the company had earlier indicated that there will be no major impact from NTO 2.0 but one needs to see how new tariff order shapes up post implementation (now pushed to February, 2023 end). We expect subscription revenue growth of ~3% CAGR (FY22-25E) to ₹ 1820 crore. Most importantly, there was no announcement of any originals OTT exclusive content on SunNXT. We highlight that lagging spends on OTT would be a key risk as most broadcasters and other global OTT players are ramping up their OTT presence while Sun TV has not yet taken major strides in this segment.

### Other

- **Dividends:** During the quarter, the company announced interim dividend of ₹ 3.75/share, in line with earlier guidance on payouts. It had also declared ₹ 5/share in Q1
- **Films segment revenues was ₹ 31 crore, led by release of one movie during the quarter. Going ahead, the company expects one movie release in Q4FY23**

Pushing back of OTT content spending remains a key risk while films content spending will create volatility in earnings. Investment in SunNXT is yet to start at a meaningful level. It needs to pick up to remain competitive, in our view. We maintain **HOLD** rating on the stock despite lucrative valuations. We value Sun TV at 10x FY25E EPS to arrive at a revised target price of ₹ 555. We await management outlook/commentary on content spending strategy, growth outlook and capital allocation before changing our stance.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Comments
Revenue	796.4	855.1	828.7	1,193.9	-3.9	-33.3	Advertisement revenues came in muted at ₹ 342.5 crore (up 0.2% YoY), and subscription revenues remained also muted YoY, amid NTO 2 implementation driven price hike restrictions.
Other Income	86.1	70.0	66.0	100.9	30.5	-14.7	
Operating Expenses	147.5	153.9	134.1	151.9	10.0	-2.9	
Employee Expenses	69.3	71.0	67.6	68.5	2.4	1.2	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	54.9	65.8	96.0	162.2	-42.9	-66.2	
IPL Franchisee Fees to BCCI	0.0	0.0	10.3	47.5	-100.0	-100.0	
EBITDA	524.8	564.4	520.6	763.8	0.8	-31.3	
EBITDA Margin (%)	65.9	66.0	62.8	64.0	307 bps	191 bps	
Depreciation	75.5	135.0	35.5	207.9	112.7	-63.7	
Interest	1.3	2.0	23.5	1.4	-94.3	-5.6	
Total Tax	133.4	125.3	134.3	163.7	-0.7	-18.5	
PAT	400.7	372.1	393.3	491.7	1.9	-18.5	

Key Metrics

Ad Revenue Growth	0.2	-2.0	39.6	40.8
Subscription Revenue Growth	-2.7	1.0	-4.5	-1.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Revenue	4,018.6	3,849.3	-4.2	4,508.5	4,425.5	-1.8	4,711.9	Realigned estimates post Q2 Performance
EBITDA	2,656.6	2,511.5	-5.5	2,949.6	2,893.9	-1.9	3,090.4	
EBITDA Margin (%)	66.1	65.2	-86 bps	65.4	65.4	-3 bps	65.6	
PAT	1,835.2	1,760.8	-4.1	2,021.3	2,035.1	0.7	2,183.7	
EPS (₹)	46.6	44.7	-4.1	51.3	51.6	0.7	55.4	

Source: Company, ICICI Direct Research

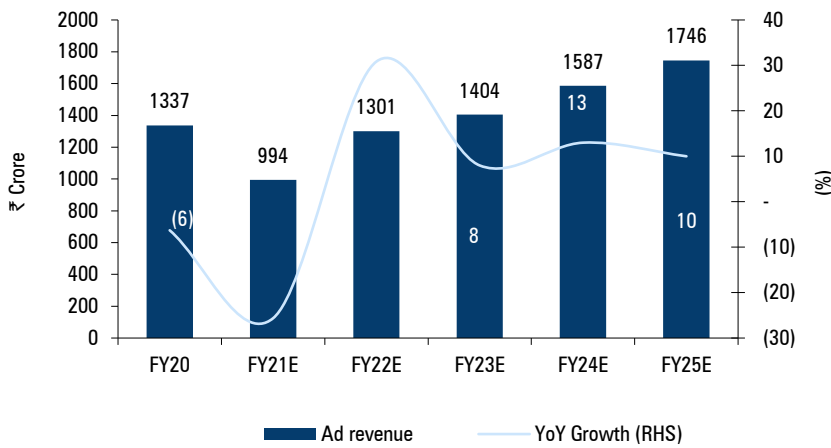
Exhibit 3: Assumptions

(%)	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	Comments
Ad Revenue Growth		-6%	-26%	31%	8%	13%	10%
Subscription Rev. Growth		18%	10%	-4%	-2%	6%	5%

Source: Company, ICICI Direct Research

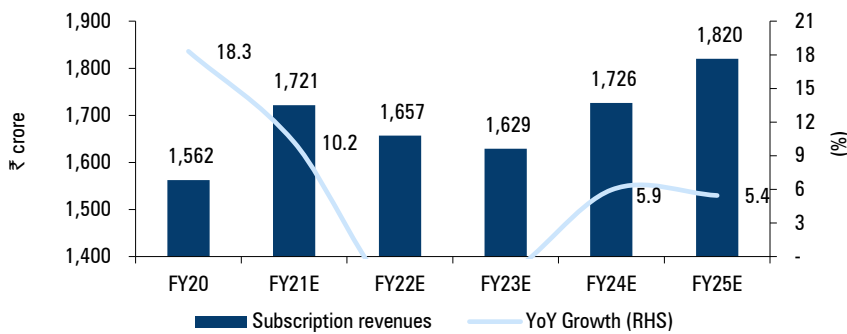
## Story in Charts

Exhibit 4: Ad revenue growth trend



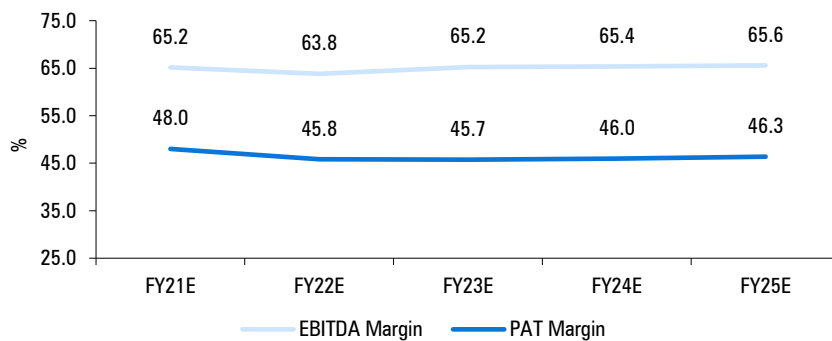
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>3,584.8</b>	<b>3,849.3</b>	<b>4,425.5</b>	<b>4,711.9</b>
Growth (%)	12.8	7.4	15.0	6.5
Operating Expenses	560.6	617.8	667.8	713.1
Employee Expenses	294.0	308.2	338.0	359.4
Other Expenses	442.8	411.8	525.9	549.1
Total Operating Expenditure	1,297.3	1,337.7	1,531.6	1,621.6
<b>EBITDA</b>	<b>2,287.5</b>	<b>2,511.5</b>	<b>2,893.9</b>	<b>3,090.4</b>
Growth (%)	10.4	9.8	15.2	6.8
Depreciation	306.1	496.6	531.1	548.9
Interest	33.3	8.9	10.0	10.0
Other Income	256.0	360.0	380.0	400.0
Exceptional Items	-	-	-	-
PBT	2,204.1	2,366.0	2,732.8	2,931.4
MI/PAT from associates	(8.8)	(9.0)	(9.0)	(9.0)
Total Tax	553.5	596.2	688.7	738.7
<b>PAT</b>	<b>1,641.8</b>	<b>1,760.8</b>	<b>2,035.1</b>	<b>2,183.7</b>
Growth (%)	7.7	7.2	15.6	7.3
<b>EPS (₹)</b>	<b>41.7</b>	<b>44.7</b>	<b>51.6</b>	<b>55.4</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	1,641.8	1,760.8	2,035.1	2,183.7
Add: Depreciation	306.1	496.6	531.1	548.9
Add: Interest Paid	33.3	8.9	10.0	10.0
(Inc)/dec in Current Assets	40.9	(124.6)	(294.3)	(146.3)
Inc/(dec) in CL and Provisions	-163.3	30.6	66.8	33.2
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>1,858.8</b>	<b>2,172.4</b>	<b>2,348.7</b>	<b>2,629.5</b>
(Inc)/dec in Investments	-58.1	-150.0	-150.0	-150.0
(Inc)/dec in Fixed Assets	-1,236.7	-700.0	-500.0	-500.0
Others	75.2	101.0	101.0	100.0
<b>CF from investing activities</b>	<b>-1,219.6</b>	<b>-749.0</b>	<b>-549.0</b>	<b>-550.0</b>
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	-541.9	-827.6	-827.6	-827.6
Interest Paid	-33.3	-8.9	-10.0	-10.0
Others	1.5	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-573.6</b>	<b>-836.5</b>	<b>-837.6</b>	<b>-837.6</b>
Net Cash flow	65.7	586.9	962.1	1,242.0
Opening Cash	1,071.8	1,137.5	1,724.4	2,686.5
<b>Closing Cash</b>	<b>1,137.5</b>	<b>1,724.4</b>	<b>2,686.5</b>	<b>3,928.5</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	197.0	197.0	197.0	197.0
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	7,958.2	8,891.4	10,099.0	11,455.1
Total Shareholders funds	8,155.2	9,088.4	10,296.0	11,652.1
Total Debt	0.0	0.0	0.0	0.0
Others	73.7	74.7	75.7	75.7
<b>Total Liabilities</b>	<b>8,228.9</b>	<b>9,163.2</b>	<b>10,371.8</b>	<b>11,727.9</b>
<b>Assets</b>				
Gross Block	4,930.8	5,630.8	6,130.8	6,630.8
Less: Acc Depreciation	3,227.3	3,723.8	4,254.9	4,803.8
Net Block	1,703.5	1,906.9	1,875.9	1,826.9
Capital WIP	244.1	244.1	244.1	244.1
Total Fixed Assets	1,947.5	2,151.0	2,119.9	2,071.0
Investments	771.7	821.7	871.7	921.7
Liquid Investments	2,410.7	2,510.7	2,610.7	2,710.7
Goodwill on Consolidation	4.8	4.8	4.8	4.8
Inventory	0.0	0.0	0.0	0.0
Debtors	1,434.6	1,529.2	1,758.1	1,871.9
Loans and Advances	256.8	275.7	317.0	337.5
Other Current Assets	150.1	161.2	185.3	197.3
Cash	1,137.5	1,724.4	2,686.5	3,928.5
Total Current Assets	2,979.0	3,690.5	4,946.9	6,335.2
Creditors	401.2	430.8	495.2	527.3
Provisions	14.3	15.4	17.7	18.8
Net Current Assets	2,563.6	3,244.4	4,434.0	5,789.1
Other Non Current Assets	274.7	174.7	74.7	-25.4
<b>Application of Funds</b>	<b>8,228.9</b>	<b>9,163.2</b>	<b>10,371.8</b>	<b>11,727.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	41.7	44.7	51.6	55.4
Cash EPS	49.4	57.3	65.1	69.3
BV	206.9	230.6	261.3	295.7
DPS	13.8	21.0	21.0	21.0
Cash Per Share	28.9	43.8	68.2	99.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	63.8	65.2	65.4	65.6
PBT / Total Operating income	55.3	52.3	53.4	53.9
PAT Margin	45.8	45.7	46.0	46.3
Inventory days	0.0	0.0	0.0	0.0
Debtor days	146.1	145.0	145.0	145.0
Creditor days	40.8	40.8	40.8	40.8
<b>Return Ratios (%)</b>				
RoE	20.1	19.4	19.8	18.7
RoCE	27.2	25.9	26.4	25.1
RoIC	54.3	50.4	55.7	58.3
<b>Valuation Ratios (x)</b>				
P/E	13.2	12.3	10.7	9.9
EV / EBITDA	7.9	7.0	5.7	4.9
EV / Net Sales	5.1	4.5	3.7	3.2
Market Cap / Sales	6.1	5.6	4.9	4.6
Price to Book Value	2.7	2.4	2.1	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.8	2.9	3.0
Quick Ratio	2.8	2.8	2.9	3.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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