October 4, 2020

In recovery mode; reopening of cinemas awaited!

With the resumption of TV content shoot and broadcast of fresh content, broadcasters were on the recovery path in Q2 with ad volumes being better than the lockdown period. However, on a YoY basis, ad revenue decline (albeit lower) is expected to continue. Subscription is a saving grace as it is expected to sustain. Multiplexes remained shut resulting in zero revenues leading to losses across EBITDA and PAT levels. However, theatre reopening in "Unlock 5" is positive.

Multiplexes to report losses again; fund raising to aid liquidity

Cinema halls remained shut throughout the quarter as industry did not receive government approval to reopen. This resulted in nil footfalls and revenues for both PVR & Inox Leisure. Consequently, no exhibition and footfalls linked expenses were incurred. Multiplexes did not incur rental & CAM expense during the quarter as they invoked *Force Majeure*. We expect fixed costs to reduce further owing to cost saving initiatives. We estimate EBITDA loss (ex-Ind-AS) of ₹ 91.9 crore for PVR with EBITDA loss (ex-Ind AS) of ₹ 33.9 crore for Inox. On a positive note, cinemas will be allowed to open from October 15 outside containment zones under "Unlock 5". Cinemas in West Bengal, Uttar Pradesh and a few other states are likely to open earlier with regional or re-release of hit movies. In other states, theatres will open once respective state government permit the same. Our interaction with the management suggests smaller Hindi films will release first in November while big budget movies are expected to hit the theatres from December onwards.

Ad recovery to be key parameter for broadcasters

After a pause of three months, telecast of fresh TV content resumed from July onwards and GEC viewership soared to pre-Covid levels. However, ad pricing continues to remain under pressure and will affect overall ad revenue. Ad revenue improved from lockdown lows but YoY, it will witness a decline. The key relief, however, will be sustenance/continued growth in subscription revenue. Implementation of NTO 2.0 is further delayed as the matter is still *sub judice* and clarity on the same is awaited. Zee is expected to report 3% YoY domestic subscription growth on a high base owing to no price hike while overall subscription is expected to grow 3.3% YoY. Domestic advertisement revenue is expected to decline ~26% YoY due to low ad rates (ad volume back to pre-Covid level). Notwithstanding, 6% decline in operating costs, we expect Zee to witness EBITDA margins at 23%, 965 bps down YoY owing to negative operating leverage.

Sun TV is anticipated to report ad revenue decline of ~26% YoY while subscription revenues are expected to grow sharply 17.2% YoY. We expect EBITDA margin (ex-IPL) at 68%, up 740 bps YoY mainly due to lower content costs. We expect news segment to outperform its peers. TV Today is likely to report 6.5% YoY revenue de-growth (on a benign base) in TV broadcasting owing to absence of premium rates based events. Digital revenues are expected grow 5% YoY after witnessing a decline in Q1FY21. TV Today is expected to report 13.7% YoY decline in EBITDA to ₹ 29.3 crore while EBITDA margin is expected at 17.9% (down 94 bps YoY).

Topline & Profitability (Coverage Universe)

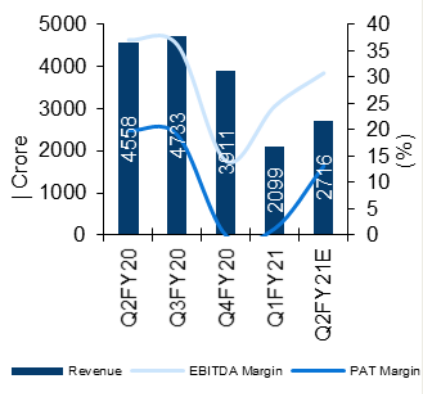

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Exhibit 1: Estimates for Q2FY21E: (Media) (₹ Crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Inox Leisure	0.2	NM	-20.0	-33.9	PL	NA	-71.9	PL	NA
PVR	6.0	NM	-52.6	-91.9	PL	NA	-225.9	PL	NA
Sun TV	793.6	2.5	30.9	528.9	12.8	27.0	372.4	1.6	31.7
TV Today	163.7	-9.2	-2.4	29.3	-13.7	-2.4	18.3	-20.3	43.7
Zee Ent.	1,752.9	-17.4	33.6	403.2	-41.8	83.4	263.1	-36.3	765.5
Total	**2,716.4**	**-40.6**	**29.4**	**835.5**	**-50.3**	**62.4**	**356.1**	**-59.8**	**1,234**

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific view - Media

Company	Remarks
Inox Leisure	Multiplexes remained shut for a second consecutive quarter 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 resulting in no rental & CAM expenses during the quarter and also cut its fixed costs sharply. EBITDA loss (ex-Ind-AS) is expected at ₹ 33.9 crore. **Key monitorable**: Fixed cost reduction and liquidity position
PVR	PVR registered no footfalls owing to closure of cinema halls in the quarter, which implies nil box office and F&B revenues. Similarly, no ad revenues are expected. We estimate marginal other revenues of ₹ 6 crore. While no F&B and exhibition expenses are incurred, the company has not paid any rentals too during the closure as it invoked Force Majeure. Incorporating lower fixed costs (by 75-80%), EBITDA loss (ex-Ind-AS) is estimated at ₹ 91.9 crore. **Key monitorable**: Cost rationalisation; post reopening scenario
Sun TV	While telecast of fresh content restarted in June/July, ad volume for the whole quarter continued to remain low YoY. We expect ad revenues to decline ~26% YoY. However, subscription revenues are expected to maintain growth momentum and grow 17.2% YoY. Total revenues are expected to grow 2.5% YoY owing to IPL revenues (ex-IPL revenues expected to fall 5%). We build in 34% lower cost of sales due to certain one-offs and incremental spend in base quarter. Subsequently, we expect EBITDA margins (ex-IPL) to expand 740 bps YoY to 68%. **Key monitorable**: Commentary on ad recovery, SunNXT traction
TV Today Network	The news segment continued to witness healthy viewership (albeit lower than Q1) as people resorted to updates regarding localised lockdowns, film industry related events, etc. However, the company is expected to report TV broadcasting revenue de-growth of 6.5% YoY to ₹ 133.1 crore due to low ad pricing. Radio business is estimated to decline 40% YoY while digital revenues are expected to grow 5% YoY. We expect the company to report 13.7% YoY EBITDA de-growth to ₹ 29.3 crore, impacted by negative operating leverage while we estimate EBITDA margin of 17.9% for the quarter. **Key monitorable**: TV broadcasting revenue outlook, digital revenue growth
Zee Entertainment	Zee's ad revenue is expected to decline sharply by 26% YoY mainly due to fall in ad realisations. We expect Zee Entertainment to report domestic subscription growth at 3% YoY to ₹ 665.4 crore on a higher base while international subscription revenue growth at ~5% YoY. Overall subscription growth, consequently, is expected at 3.3% YoY. We bake in 6% decline in operational costs. Nevertheless, we expect EBITDA margins to fall 965 bps YoY to 23% owing to negative operating leverage. **Key monitorable**: Commentary on ad outlook, 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 (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Inox Leisure	287	250	Hold	2,943	1.5	-23.2	6.7	196.4	NM	43.0	9.6	98.7	8.7	10.0	-6.1	10.4	2.4	-43.9	11.7
PVR	1,300	1,260	Hold	7,172	5.3	-103.0	19.7	244.5	NM	66.1	11.1	95.1	9.9	8.5	-4.7	9.5	1.8	-46.9	8.3
Sun TV	466	490	Buy	18,374	35.1	38.9	40.8	13.3	12.0	11.4	6.9	6.5	5.5	31.2	31.0	29.0	24.2	23.4	22.0
TV Today	197	240	Buy	1,177	23.4	20.6	29.8	8.4	9.6	6.6	4.8	5.1	3.7	24.7	21.2	24.7	16.0	13.8	18.5
ZEE Ent.	214	195	Hold	20,553	5.5	11.1	17.5	39.0	19.4	12.2	12.0	10.2	7.2	13.9	15.1	20.9	16.7	11.3	14.7

Source: Company, ICICI Direct Research, Reuters

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