

Strong ad growth...

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 the southern market (Tamil, Telugu, Kannada & Malayalam) and Bengali language along with an OTT app *SunNXT*.

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

Q1FY23 Results: Sun TV's performance was strong on earnings/margins front.

- Standalone revenue came in at ₹ 1194 crore, up 47.4% YoY. **Advertisement revenues came in at ₹ 343 crore (up 40.8% YoY)**. The company also reported IPL revenues of ₹ 243 crore. We believe subscription revenue was muted YoY while Sun TV would have also booked box office collection for *Beast* and OTT licensing fee for earlier during the quarter (₹ 170 crore)
- EBITDA came in at ₹ 764 crore, up 54.3% YoY while EBITDA margins came in at 64%, up 288 bps YoY, largely owing operating leverage
- PAT came in at ₹ 491.7 crore, up 26% YoY, aided by superior operating profit and higher other income of ₹ 100.9 crore, up 80% YoY

What should investors do? Sun TV's share price has underperformed with a decline of 36% 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 do not have management outlook/commentary on content strategy, margins, growth outlook and capital allocation ahead, which restricts us from turning constructive, despite lucrative valuations

Target Price and Valuation: We value Sun at ₹ 515 i.e. 10x FY24E 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 ₹ 720



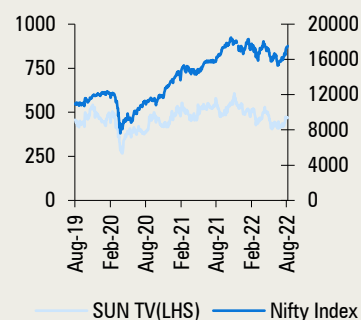
Particulars

Particular	Amount
Market Capitalisation	₹ 18805.5 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 4196.1 Crore
EV	₹ 16129.4 Crore
52 week H/L	612/ 403
Equity capital	197.0
Face value	5.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	75.0	75.0	75.0	75.0
DII	3.3	2.9	3.1	3.6
FII	8.1	9.0	9.2	9.3
Other	13.6	13.1	12.7	12.1

Price Chart



Key risks

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

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales (₹ crore)	3,519.9	3,176.9	3,584.8	6.3	4,018.6	4,508.5	12.1
EBITDA (₹ crore)	2,275.9	2,071.4	2,287.5	5.3	2,656.6	2,949.6	13.6
Net Profit (₹ crore)	1,385.2	1,525.0	1,641.8	9.8	1,835.2	2,021.3	11.0
EPS (₹)	35.1	38.7	41.7		46.6	51.3	
P/E (x)	13.6	12.3	11.5		10.2	9.3	
Price / Book (x)	3.3	2.7	2.3		2.1	1.8	
EV/EBITDA (x)	7.1	7.4	6.7		5.5	4.6	
RoCE (%)	31.2	27.8	27.2		26.8	26.1	
RoE (%)	24.2	21.6	20.1		20.0	19.5	

Key performance highlight and outlook

Ad revenues grow better than peers in Q4

We note that Sun TV's ad growth of ~41% YoY was higher than Zee's ~6% domestic ad revenues growth. In our view, this was owing to a) different mix of advertisers (Sun has lower proportion of FMCG, which struggled and more proportion of local retail, which saw better recovery with robust marriage season and b) Zee had lost viewership share with FTA withdrawal impacting ad. We highlight that in the absence of any guidance/commentary on growth ahead, we build in ~12.5% CAGR in TV ad revenues in FY22-24E to ₹ 1645 crore, similar to industry growth. However, recovery or loss in viewership share will determine whether it beats or lags industry growth.

Subscription muted on NTO 2 implementation delay

Subscription revenues remained muted YoY, as per our understanding, 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 in November, 2022. We expect subscription revenue growth of ~3% CAGR (FY22-24E) to ₹ 1752 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.

Higher IPL revenues from FY24 led by rights value appreciation

The much awaited IPL rights fetched ₹ 48.390 crore to the BCCI. The winning bid total amount, was 3x of last cycle cumulative winning bid of ₹ 16347.5 crore. This higher bid will likely result in incremental ₹ 250-300 crore of annual revenues for each team from FY24 onwards, including Sunrisers Hyderabad, owned by Sun TV. Thus, we expect Sun TV to report topline of ₹ 550 crore in IPL 2023 (in FY24) with EBITDA of ₹ 315 crore vs. last season's topline and EBITDA of ₹ 272 crore and 105 crore, respectively, reported cumulatively over Q4FY22 and Q1FY23. This is one of the key factors driving the earnings upgrade in FY24 earnings.

Other

- **IPL Performance:** The company reported IPL revenues and EBITDA of ₹ 243 crore and ₹ 151.4 crore, respectively, in Q1DY23. We note that the company had also reported IPL revenues and EBITDA of ₹ 28.9 crore and ₹ 13.5 crore, respectively, in Q4, as there were a couple of games in March, 2022
- **Dividends:** During the quarter, the company announced interim dividend of ₹ 5/share, implying payout of ~53% of PAT in line with earlier guidance

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 FY24E EPS to arrive at a revised target price of ₹ 515. We await further details from the management on content spending strategy, growth outlook, before changing our stance.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Revenue	1,193.9	1,046.5	810.1	833.0	47.4	43.3	Advertisement revenues came in at ₹ 343 crore (grew by 40.8% YoY), and subscription revenues remained muted YoY, amid NTO 2 implementation driven price hike restrictions. The company also reported IPL revenues of 243 crore. We believe company would have also booked box office collection for Beast and OTT licensing fee for earlier films, during the quarter (₹ 170 crore).
Other Income	100.9	55.0	56.1	53.8	80.1	87.7	
Operating Expenses	151.9	150.5	114.0	138.0	33.3	10.1	
Employee Expenses	68.5	66.9	68.1	65.4	0.6	4.7	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	162.2	166.1	108.3	71.4	49.8	127.3	
IPL Franchisee Fees to BCCI	47.5	50.0	24.8	4.9	91.6	860.9	
EBITDA	763.8	612.9	495.0	553.3	54.3	38.0	Operating leverage driving margins expansion
EBITDA Margin (%)	64.0	58.6	61.1	66.4	288 bps	-245 bps	
Depreciation	207.9	120.0	33.1	64.8	528.9	220.7	
Interest	1.4	3.5	1.0	3.4	40.6	-58.5	
Total Tax	163.7	138.3	127.2	134.5	28.7	21.8	
PAT	491.7	406.2	389.8	404.4	26.1	21.6	
Key Metrics							
Ad Revenue Growth	40.8	14.0	93.8	7.1			
Subscription Revenue Growth	-1.2	1.5	-6.2	-2.8			

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,935.3	4,018.6	2.1	4,267.4	4,508.5	5.6	Realigned estimates post Q1 Performance and also bake higher IPL revenues and profit from FY24
EBITDA	2,541.9	2,656.6	4.5	2,747.4	2,949.6	7.4	
EBITDA Margin (%)	64.6	66.1	152 bps	64.4	65.4	104 bps	
PAT	1,680.4	1,835.2	9.2	1,826.4	2,021.3	10.7	
EPS (₹)	42.6	46.6	9.2	46.3	51.3	10.7	

Source: Company, ICICI Direct Research

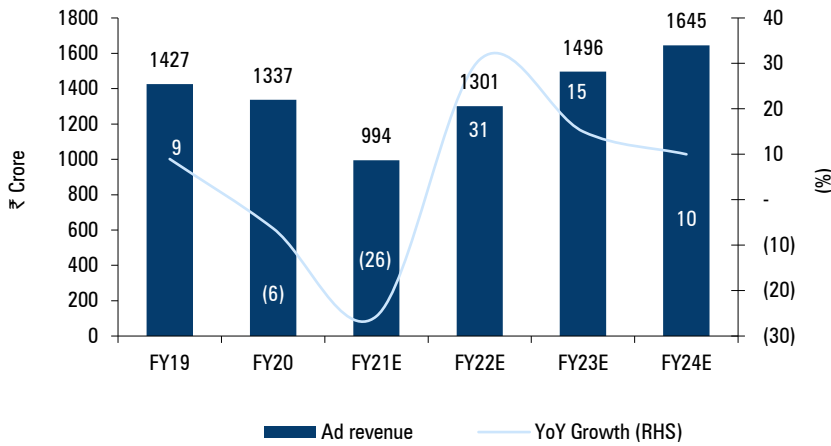
Exhibit 3: Assumptions

(%)	FY19	FY20	FY21E	FY22E	FY23E	FY24E	Comments
Ad Revenue Growth		9%	-6%	-26%	31%	15%	10%
Subscription Rev. Growth		16%	18%	10%	-4%	0%	6%

Source: Company, ICICI Direct Research

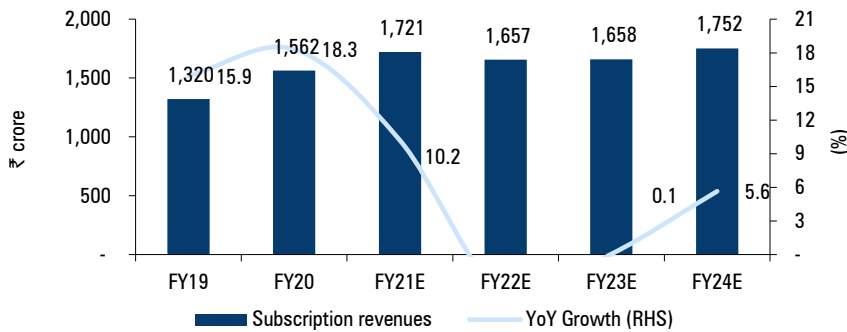
Story in Charts

Exhibit 4: Ad revenue growth trend



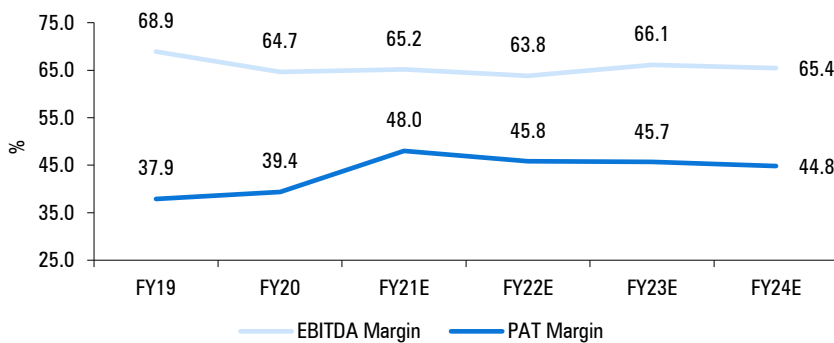
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Total operating Income	3,176.9	3,584.8	4,018.6	4,508.5
Growth (%)	-9.7	12.8	12.1	12.2
Operating Expenses	420.2	560.6	625.6	682.3
Employee Expenses	307.1	294.0	311.5	344.7
Other Expenses	378.2	442.8	424.9	531.9
Total Operating Expenditure	1,105.5	1,297.3	1,362.0	1,558.9
EBITDA	2,071.4	2,287.5	2,656.6	2,949.6
Growth (%)	-9.0	10.4	16.1	11.0
Depreciation	403.9	306.1	482.2	525.2
Interest	26.9	33.3	8.9	10.0
Other Income	306.8	256.0	300.0	300.0
Exceptional Items	-	-	-	-
PBT	1,947.4	2,204.1	2,465.5	2,714.4
MI/PAT from associates	(6.6)	(8.8)	(9.0)	(1.0)
Total Tax	415.8	553.5	621.3	684.0
PAT	1,525.0	1,641.8	1,835.2	2,029.3
Growth (%)	10.1	7.7	11.8	10.6
EPS (₹)	38.7	41.7	46.6	51.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1,525.0	1,641.8	1,835.2	2,021.3
Add: Depreciation	403.9	306.1	482.2	525.2
Add: Interest Paid	26.9	33.3	8.9	10.0
(Inc)/dec in Current Assets	(73.4)	40.9	(211.1)	(250.2)
Inc/(dec) in CL and Provisions	216.4	-163.3	50.3	56.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	2,098.8	1,858.8	2,165.6	2,363.2
(Inc)/dec in Investments	-860.3	-58.1	-150.0	-150.0
(Inc)/dec in Fixed Assets	-307.7	-1,236.7	-700.0	-500.0
Others	-339.8	75.2	101.0	101.0
CF from investing activities	-1,507.8	-1,219.6	-749.0	-549.0
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	-197.0	-541.9	-827.6	-827.6
Interest Paid	-26.9	-33.3	-8.9	-10.0
Others	1.6	1.5	0.0	0.0
CF from financing activities	-222.3	-573.6	-836.5	-837.6
Net Cash flow	368.7	65.7	580.1	976.6
Opening Cash	703.2	1,071.8	1,137.5	1,717.6
Closing Cash	1,071.8	1,137.5	1,717.6	2,694.2

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	197.0	197.0	197.0	197.0
Preference Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	6,856.7	7,958.2	8,965.8	10,159.6
Total Shareholders funds	7,053.7	8,155.2	9,162.8	10,356.6
Total Debt	0.0	0.0	0.0	0.0
Others	60.3	73.7	74.7	75.7
Total Liabilities	7,114.0	8,228.9	9,237.6	10,432.3
Assets				
Gross Block	3,823.0	4,961.9	5,661.9	6,161.9
Less: Acc Depreciation	2,952.3	3,258.5	3,740.7	4,265.9
Net Block	870.7	1,703.5	1,921.2	1,896.0
Capital WIP	146.3	244.1	244.1	244.1
Total Fixed Assets	1,017.0	1,947.5	2,165.3	2,140.0
Investments	712.7	771.7	821.7	871.7
Liquid Investments	2,411.6	2,410.7	2,510.7	2,610.7
Goodwill on Consolidation	4.8	4.8	4.8	4.8
Inventory	0.0	0.0	0.0	0.0
Debtors	1,433.9	1,434.6	1,596.4	1,791.0
Loans and Advances	242.4	256.8	287.8	322.9
Other Current Assets	206.1	150.1	168.3	188.8
Cash	1,071.8	1,137.5	1,717.6	2,694.2
Total Current Assets	2,954.3	2,979.0	3,770.2	4,997.0
Creditors	499.9	401.2	449.7	504.5
Provisions	241.5	14.3	16.0	18.0
Net Current Assets	2,212.8	2,563.6	3,304.4	4,474.4
Other Non Current Assets	340.9	274.7	174.7	74.7
Application of Funds	7,114.0	8,228.9	9,237.6	10,432.3

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	38.7	41.7	46.6	51.3
Cash EPS	48.9	49.4	58.8	64.6
BV	179.0	206.9	232.5	262.8
DPS	5.0	13.8	21.0	21.0
Cash Per Share	27.2	28.9	43.6	68.4
Operating Ratios (%)				
EBITDA Margin	65.2	63.8	66.1	65.4
PBT / Total Operating income	52.5	55.3	54.1	53.8
PAT Margin	48.0	45.8	45.7	44.8
Inventory days	0.0	0.0	0.0	0.0
Debtor days	164.7	146.1	145.0	145.0
Creditor days	57.4	40.8	40.8	40.8
Return Ratios (%)				
RoE	21.6	20.1	20.0	19.5
RoCE	27.8	27.2	26.8	26.1
RoIC	63.3	54.3	53.3	56.5
Valuation Ratios (x)				
P/E	12.3	11.5	10.2	9.3
EV / EBITDA	7.4	6.7	5.5	4.6
EV / Net Sales	4.8	4.3	3.6	3.0
Market Cap / Sales	5.9	5.2	4.7	4.2
Price to Book Value	2.7	2.3	2.1	1.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.8	2.9	3.0
Quick Ratio	2.3	2.8	2.9	3.0

Source: Company, ICICI Direct Research

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