

## Ad spends continue to remain challenging...

**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), Marathi and Bengali language and also an over the top (OTT) app *SunNXT*.

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

### Q3FY23 Results: Sun TV's performance was muted on the ad front.

- Standalone revenue came in at ₹ 858 crore, down 17% YoY (base quarter was movie heavy). **Advertisement revenues was muted at ₹ 380 crore (up 0.5% YoY) amid weak FMCG ad spends and sports heavy quarter, partially offset by resilient regional retail ads.** Subscription revenues were also muted YoY (down ~3% YoY), amid New Tariff Order (NTO) 2 implementation driven price hike restrictions
- EBITDA was at ₹ 574 crore, down 20.6% YoY, while EBITDA margins were at 66.8%, down 300 bps YoY, owing to revenue mix and negative operating leverage
- PAT came in at ₹ 416.3 crore, down 9% YoY

**What should investors do?** Sun TV's share price has underperformed with a decline of ~54% over 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 film's 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 at revised TP of ₹ 460 i.e., 9x 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 ₹ 620

### 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	3,755.5	4,343.3	4,611.0	8.8
EBITDA (₹ crore)	2,071.4	2,287.5	5.3	2,410.9	2,810.4	2,964.2	9.0
Net Profit (₹ crore)	1,525.0	1,641.8	9.8	1,701.0	1,923.6	2,024.6	7.2
EPS (₹)	38.7	41.7		43.2	48.8	51.4	
P/E (x)	11.5	10.7		10.3	9.1	8.7	
Price / Book (x)	2.5	2.2		1.9	1.7	1.6	
EV/EBITDA (x)	6.8	6.1		5.6	4.4	3.8	
RoCE (%)	27.8	27.2		25.3	25.7	24.3	
RoE (%)	21.6	20.1		18.8	19.0	17.9	

Source: Company, ICICI Direct Research



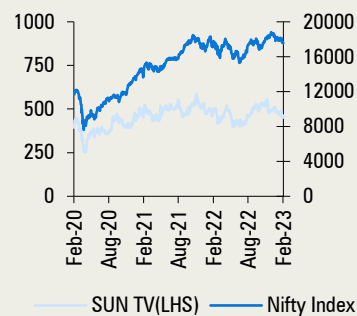
### Particulars

Particular	Amount
Market Capitalisation	₹ 17592 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 4196 Crore
EV	₹ 14916 Crore
52 week H/L	569/ 403
Equity capital	197.0
Face value	5.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	75.0	75.0	75.0	75.0
DII	3.1	3.6	3.9	3.8
FII	9.2	9.3	9.8	10.4
Other	12.7	12.1	11.3	10.8

### 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 was relatively resilient considering weak FMCG ad spends and sports heavy quarter. This, in our view, is driven by retail/jewellery ad spends offtake from regional markets. The viewership market share has been largely stable in Tamil, as per the management. However, other languages viewership has not seen a marked improvement QoQ. We highlight that FY24 will be sports heavy year. Thus, there remains a risk of relative ad pie loss to the GEC segment. We highlight in the absence of any guidance/commentary on growth ahead, we build in ~9% CAGR in TV ad revenues in FY22-25E to ₹ 1699 crore. However, recovery or loss in viewership share will be key determinant of whether it beats or lags industry growth along with recovery in ad spends by key advertisers.

### Subscription muted; OTT spends not yet planned

Subscription revenues remained muted at ₹ 406 crore, down 3% YoY, amid NTO 2 implementation driven price hike restrictions, in our view. **One needs to see how the new tariff order shapes up post implementation (from February, 2023 end).** We expect subscription revenue growth of ~3% CAGR (FY22-25E) to ₹ 1808 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 an **interim dividend of ₹ 3.75/share, in line with earlier guidance on payouts. It had also declared interim dividends of ₹ 8.75/share in H1FY23**
- **Film segment revenues were ₹ 45 crore, led by release of one movie during the quarter. Going ahead, the company expects two movie releases in FY24 (one Rajinikanth starrer and one Dhanush starrer)**
- The company, currently, has cash and equivalents of ~₹ 5000 crore. **Thus, lack of clarity on use of cash or its distribution thereof, is another overhang on the capital allocation issue**

Investment in SunNXT is yet to start at a meaningful level. It needs to pick up to remain competitive, in our view. Pushing back of OTT content spending remains a key risk while films content spending will create volatility in earnings. We maintain **HOLD** rating on the stock despite lucrative valuations. We value Sun TV at 9x FY25E EPS to arrive at a revised target price of ₹ 460. We await management outlook/commentary on content spending strategy, growth outlook and capital allocation before changing our stance.

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Revenue	857.5	823.3	1,033.1	796.4	-17.0	7.7	Advertisement revenues came in muted at ₹ 380 crore (up 0.5% YoY), and subscription revenues remained also muted YoY, amid NTO 2 implementation driven price hike restrictions.
Other Income	94.2	85.0	42.0	86.1	124.2	9.4	
Operating Expenses	160.4	148.2	158.9	147.5	0.9	8.7	
Employee Expenses	68.2	70.0	66.4	69.3	2.7	-1.6	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	55.9	57.6	75.6	54.9	-26.1	1.8	
IPL Franchisee Fees to BCCI	0.0	0.0	10.3	0.0	-100.0	NA	
EBITDA	573.1	547.5	721.9	524.8	-20.6	9.2	
EBITDA Margin (%)	66.8	66.5	69.9	65.9	-304 bps	94 bps	
Depreciation	109.2	102.3	153.3	75.5	-28.7	44.7	
Interest	1.1	2.0	0.8	1.3	42.5	-14.9	
Total Tax	140.6	133.1	152.4	133.4	-7.8	5.4	
PAT	416.3	395.1	457.4	400.7	-9.0	3.9	

Key Metrics

Ad Revenue Growth	0.5	-2.0	22.5	0.2
Subscription Revenue Growth	-3.0	1.0	-1.4	-2.7

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,425.5	4,343.3	-1.9	4,711.9	4,611.0	-2.1	Realigned estimates post Q3 Performance
EBITDA	2,893.9	2,810.4	-2.9	3,090.4	2,964.2	-4.1	
EBITDA Margin (%)	65.4	64.7	-68 bps	65.6	64.3	-130 bps	
PAT	2,035.1	1,923.6	-5.5	2,183.7	2,024.6	-7.3	
EPS (₹)	51.6	48.8	-5.5	55.4	51.4	-7.3	

Source: Company, ICICI Direct Research

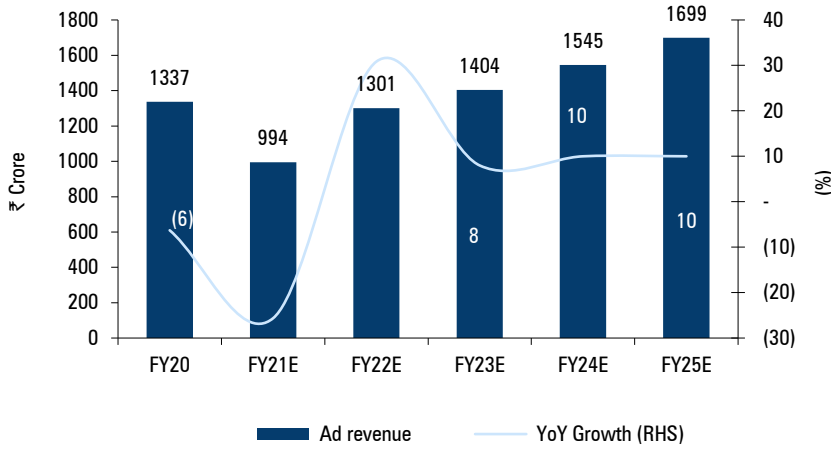
Exhibit 3: Assumptions

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

Source: Company, ICICI Direct Research

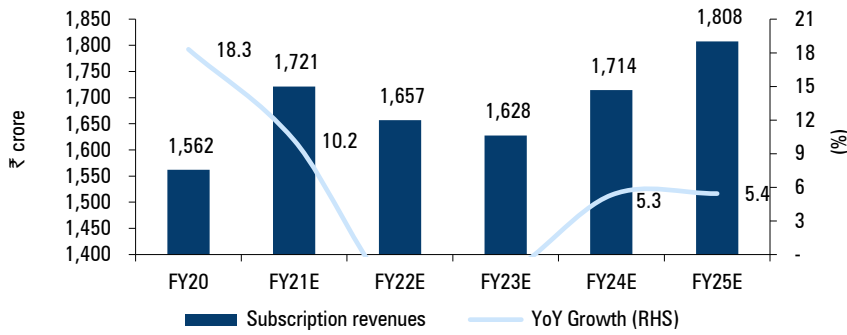
### Story in Charts

Exhibit 4: Ad revenue growth trend



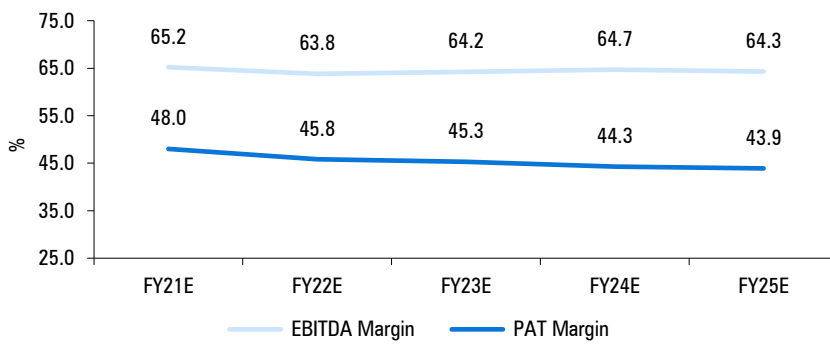
Source: Company, ICICI Direct Research

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>3,755.5</b>	<b>4,343.3</b>	<b>4,611.0</b>
Growth (%)	12.8	4.8	15.6	6.2
Operating Expenses	560.6	635.0	673.0	720.2
Employee Expenses	294.0	303.5	330.6	355.5
Other Expenses	442.8	406.2	529.3	571.1
Total Operating Expenditure	1,297.3	1,344.7	1,532.9	1,646.8
<b>EBITDA</b>	<b>2,287.5</b>	<b>2,410.9</b>	<b>2,810.4</b>	<b>2,964.2</b>
Growth (%)	10.4	5.4	16.6	5.5
Depreciation	306.1	488.2	564.6	599.4
Interest	33.3	13.9	15.0	15.0
Other Income	256.0	380.0	380.0	400.0
Exceptional Items	-	-	-	-
PBT	2,204.1	2,288.7	2,610.8	2,749.8
MI/PAT from associates	(8.8)	(11.0)	(11.0)	(13.0)
Total Tax	553.5	576.8	676.2	712.2
<b>PAT</b>	<b>1,641.8</b>	<b>1,701.0</b>	<b>1,923.6</b>	<b>2,024.6</b>
Growth (%)	7.7	3.6	13.1	5.3
<b>EPS (₹)</b>	<b>41.7</b>	<b>43.2</b>	<b>48.8</b>	<b>51.4</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	1,701.0	1,923.6	2,024.6
Add: Depreciation	306.1	488.2	564.6	599.4
Add: Interest Paid	33.3	13.9	15.0	15.0
(Inc)/dec in Current Assets	40.9	(76.7)	(300.2)	(136.7)
Inc/(dec) in CL and Provisions	-163.3	19.8	68.1	31.0
Others	0.0	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>1,858.8</b>	<b>2,146.2</b>	<b>2,271.1</b>	<b>2,533.3</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	-13.9	-15.0	-15.0
Others	1.5	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-573.6</b>	<b>-841.5</b>	<b>-842.6</b>	<b>-842.6</b>
Net Cash flow	65.7	555.7	879.6	1,140.7
Opening Cash	1,071.8	1,137.5	1,693.3	2,572.8
<b>Closing Cash</b>	<b>1,137.5</b>	<b>1,693.3</b>	<b>2,572.8</b>	<b>3,713.5</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	8,831.5	9,927.6	11,124.6
Total Shareholders funds	8,155.2	9,028.6	10,124.6	11,321.6
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>9,103.3</b>	<b>10,200.3</b>	<b>11,397.3</b>
<b>Assets</b>				
Gross Block	4,930.8	5,630.8	6,130.8	6,630.8
Less: Acc Depreciation	3,227.3	3,715.5	4,280.1	4,879.6
Net Block	1,703.5	1,915.3	1,850.6	1,751.2
Capital WIP	244.1	244.1	244.1	244.1
Total Fixed Assets	1,947.5	2,159.3	2,094.7	1,995.2
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	1,491.9	1,725.4	1,831.8
Loans and Advances	256.8	269.0	311.1	330.2
Other Current Assets	150.1	157.3	181.9	193.1
Cash	1,137.5	1,693.3	2,572.8	3,713.5
Total Current Assets	2,979.0	3,611.4	4,791.2	6,068.7
Creditors	401.2	420.3	486.0	516.0
Provisions	14.3	15.0	17.3	18.4
Net Current Assets	2,563.6	3,176.2	4,287.8	5,534.3
Other Non Current Assets	274.7	174.7	74.7	-25.4
<b>Application of Funds</b>	<b>8,228.9</b>	<b>9,103.3</b>	<b>10,200.3</b>	<b>11,397.3</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	43.2	48.8	51.4
Cash EPS	49.4	55.6	63.1	66.6
BV	206.9	229.1	256.9	287.3
DPS	13.8	21.0	21.0	21.0
Cash Per Share	28.9	43.0	65.3	94.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	63.8	64.2	64.7	64.3
PBT / Total Operating income	55.3	51.2	51.7	51.3
PAT Margin	45.8	45.3	44.3	43.9
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	18.8	19.0	17.9
RoCE	27.2	25.3	25.7	24.3
RoIC	54.3	48.5	53.7	55.8
<b>Valuation Ratios (x)</b>				
P/E	10.7	10.3	9.1	8.7
EV / EBITDA	6.1	5.6	4.4	3.8
EV / Net Sales	3.9	3.6	2.9	2.4
Market Cap / Sales	4.9	4.7	4.1	3.8
Price to Book Value	2.2	1.9	1.7	1.6
<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%;

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