

## Market share gain a key positive...

Sun TV's Q4FY20 numbers were better-than-expected on an operational basis while profitability was lower on account of higher amortisation charges. Advertisement revenues fell 14.5% YoY to ₹ 291 crore, primarily impacted by a weak economic environment and Covid-19 outbreak in March. Subscription revenues, however, saw robust growth of 24.7% YoY. EBITDA at ₹ 503.5 crore (margin of 68.5%) was higher-than-expected on account of lower operating (cost of content) expenses. The company reported amortisation charges at ₹ 210 crore owing to telecast of new movies. Consequently, PAT was at ₹ 250 crore (down 11.7% YoY), below our estimates.

## Ad revenue decline continues; recovery likely in FY22

The macroeconomic headwinds impacted ad revenues that fell sharply by 14.5% YoY. In the current quarter, ad revenue fell significantly in April during lockdown. While some rebound was witnessed in May & June, ad revenues are still at lower level. On the viewership front, all major channels extended their market share in the range of 7-10%. It benefitted from TV premiere of new movies. However, this did not result in better ad revenue generation. The management indicated a recovery in ad revenues is still one or two quarters away, which could lead to a decline in overall ad revenues for FY21E. We factor in the same in our revised estimates. We expect ad revenues to decline 15% in FY21E followed by 20% YoY growth in FY22E on a low base. Going ahead, cost of content is likely to remain lower due to lack of fresh content. We bake in modest 6.3% CAGR in content costs owing to lower spends in Q1FY21E and delayed investment cycle of SunNXT.

## Subscription growth to lift revenues

Subscription revenue growth of 24.7% in Q4FY20 and 18.3% in FY20 has provided a major boost to the financials of the company. Consequently, cable revenues were up significantly ~53% YoY to ₹ 193 crore while DTH revenues were at ₹ 205 crore. The company guided for healthy double digit growth in subscription in FY21E. We expect subscription revenue growth of 12% in FY21E and 8% in FY22E to ₹ 1891 crore.

## Valuation & Outlook

The stressed macroeconomic setup got further aggravated by Covid-19 spread, affecting ad outlook and creation of fresh content. Ad flow can go back to normal levels only by H2FY20. There is still uncertainty over scheduling of IPL. Among positives, all major channels have witnessed viewership share growth with better impressions. We expect Sun TV to capitalise on the challenging period to build on market share gain. The company has declared a dividend of ₹ 25/share in FY20. We maintain our **BUY** rating with a revised target price of ₹ 490/share (12x FY22E EPS).



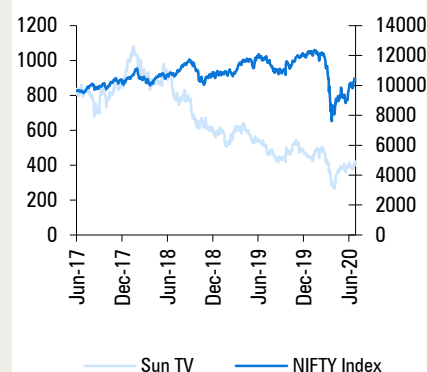
### Particulars

Particular	Amount
Market Capitalisation	₹16600.6 Crore
Total Debt (FY 20)	₹0 Crore
Cash (FY 20)	₹703.2 Crore
EV	₹13914.1 Crore
52 week H/L	551/ 260
Equity capital	197.0
Face value	5.0

### Key Highlights

- On positive front, subscription growth remained robust at 24.7% and all major channels gained market share
- We maintain BUY rating with TP of ₹ 490/share (12x FY22E EPS)

### Price Chart



### Research Analyst

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### Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹crore)	2,963.0	3,782.5	3,519.9	3,501.3	3,987.3	6.4
EBITDA (₹crore)	2,003.8	2,606.7	2,275.9	2,300.6	2,549.8	5.8
Net Profit (₹crore)	1,135.0	1,433.3	1,385.2	1,463.2	1,604.1	7.6
EPS (₹)	28.8	36.4	35.1	37.1	40.7	
P/E (x)	14.6	11.6	12.0	11.3	10.3	
Price / Book (x)	3.5	3.0	2.9	2.6	2.3	
EV/EBITDA (x)	7.3	5.3	6.1	5.6	4.8	
RoCE (%)	35.5	38.5	31.2	29.7	29.2	
RoE (%)	24.2	25.9	24.2	22.6	22.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Comments
Revenue	735.2	723.8	888.9	815.0	-17.3	-9.8	Strong subscription growth of ~25% while ad revenue fell ~15%
Other Income	57.0	50.0	67.3	63.6	-15.2	-10.3	
Operating Expenses	92.2	115.8	128.3	110.6	-28.1	-16.6	
Employee Expenses	73.1	72.4	70.3	71.0	4.1	3.0	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	66.3	54.3	70.1	53.1	-5.4	25.0	
IPL Franchisee Fees to BCCI	0.0	0.0	11.8	0.0	-100.0	NA	
EBITDA	503.5	481.3	608.4	580.4	-17.2	-13.2	Higher-than-expected on account of lower operating costs
EBITDA Margin (%)	68.5	66.5	68.4	71.2	4 bps	-272 bps	
Depreciation	232.8	113.1	241.9	143.6	-3.8	62.1	High amortisation expenses owing to TV premiere of new movies
Interest	1.9	2.0	0.1	1.9	1,590.9	0.0	
Total Tax	75.9	104.9	150.6	125.0	-49.6	-39.3	
PAT	250.0	311.4	283.1	373.5	-11.7	-33.1	

**Key Metrics**

Ad Revenue Growth	-14.5	-9.0	0.3	-10.7	1488 bps	-379 bps
Subscription Revenue Growth	24.7	15.0	3.5	17.8	2117 bps	690 bps

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,526.3	3,501.3	-0.7	4,058.1	3,987.3	-1.7	We have realigned estimates post management commentary
EBITDA	2,155.2	2,300.6	6.7	2,565.2	2,549.8	-0.6	
EBITDA Margin (%)	61.1	65.7	459 bps	63.2	63.9	73 bps	
PAT	1,365.7	1,463.2	7.1	1,621.5	1,604.1	-1.1	
EPS (₹)	34.7	37.1	7.1	41.1	40.7	-1.1	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

(%)	Current				Earlier				Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Ad Revenue Growth	-3%	12%	9%	-6%	-15%	20%	-4%	18%	
Subscription Rev. Growth	18%	18%	16%	18%	12%	8%	4%	10%	

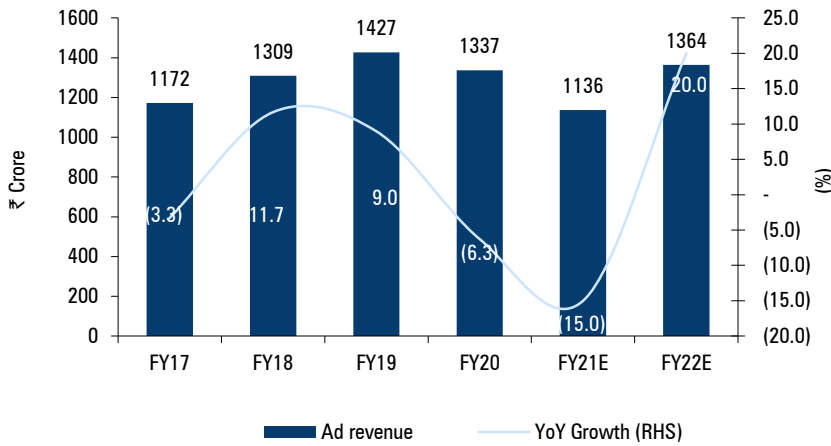
Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Robust subscription growth; fresh content to air soon:** The management said that the Tamil channel has clocked highest ever GRPs of 1800-1900 in April during the lockdown. Similarly, Kannada, Telugu and Malayalam channels have also extended their viewership share by 7-8%, 8% and 10% respectively. Going ahead, the management has guided for 10%+ growth in domestic subscription. Given Tamil Nadu is worst hit by Covid-19 among southern markets, the management said new Tamil content will be broadcast later (mid-July) as compared to other languages. In Kerala & Karnataka, fresh content is already being broadcast while in Andhra Pradesh, it will be aired in July first week
- **Ad outlook challenging in near term:** The management said that the ad scenario continues to remain weak as the company witnessed 14.5% de-growth YoY in ad revenues. Even though new movies premiered, they did not generate high ad revenue due to stressed ad volumes. In April, ad revenue was negligible but improved in May & June although it is still at lower level. Once original programming restarts, ad yield is likely to improve. The management indicated ad revenues will reach pre-Covid level in one or two quarters and overall FY21E could see decline in ad revenues YoY by ~15-20%
- **SunNXT exceeds expectations; radio better compared to peers:** The management said that SunNXT, OTT arm of the company, has exceeded their expectations during the lockdown period and subscriber count is 15.4 mn+. They said the investment cycle in the platform will be delayed. The management said that radio business continued to decline (although lower as compared to industry). The management reiterated their view that smaller radio companies will struggle to survive due to lesser government spend. They expect consolidation in the industry
- **Looking for M&A opportunity; uncertainty over IPL:** The management indicated they are looking for acquisitions in the media space but do not see any opportunity as of now. They also said there is no clarity over IPL schedule yet. Even if IPL takes place, ticket sales could see a drop in the wake of social distancing measures
- **Expenses to dip:** The management said as no TV shooting took place in Q1FY21E, cost of sales will be minimal. They said that telecast of several new movies in Q4FY20 led to higher amortisation charges. Going forward, amortisation expenses will be lower as no new releases are expected in the near term

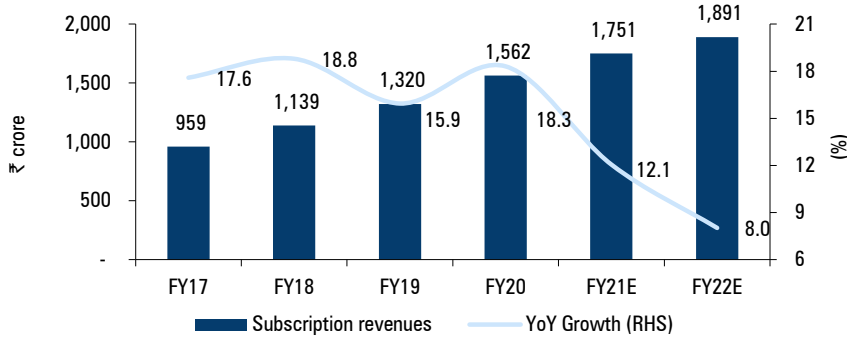
Story in Charts

Exhibit 4: Ad revenue growth trend



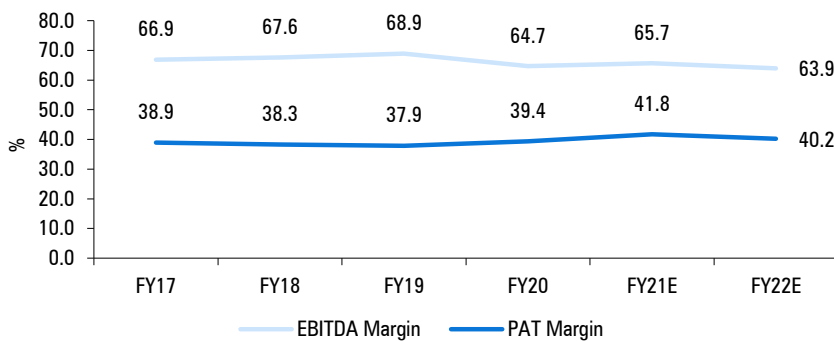
Source: Company, ICICI Direct Research

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)	FY19	FY20	FY21E	FY22E
<b>Total operating income</b>	<b>3,782.5</b>	<b>3,519.9</b>	<b>3,501.3</b>	<b>3,987.3</b>
Growth (%)	27.7	-6.9	-0.5	13.9
Operating Expenses	448.3	526.7	440.8	594.3
Employee Expenses	329.9	323.2	340.6	357.4
Other Expenses	397.7	394.0	419.3	485.9
Total Operating Expenditure	1,175.9	1,243.9	1,200.7	1,437.6
<b>EBITDA</b>	<b>2,606.7</b>	<b>2,275.9</b>	<b>2,300.6</b>	<b>2,549.8</b>
Growth (%)	30.1	-12.7	1.1	10.8
Depreciation	662.8	700.2	546.2	626.0
Interest	1.7	12.8	10.0	11.0
Other Income	227.1	260.7	220.0	240.0
Exceptional Items	-	-	-	-
PBT	2,169.3	1,823.6	1,964.4	2,152.8
M/PAT from associates	15.0	(4.5)	(6.2)	(6.2)
Total Tax	751.1	434.0	495.0	542.5
<b>PAT</b>	<b>1,433.3</b>	<b>1,385.2</b>	<b>1,463.2</b>	<b>1,604.1</b>
Growth (%)	26.3	-3.4	5.6	9.6
<b>EPS (₹)</b>	<b>36.4</b>	<b>35.1</b>	<b>37.1</b>	<b>40.7</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	1,433.3	1,385.2	1,463.2	1,604.1
Add: Depreciation	662.8	700.2	546.2	626.0
Add: Interest Paid	1.7	12.8	10.0	11.0
(Inc)/dec in Current Assets	(96.5)	(242.9)	320.1	(206.7)
Inc/(dec) in CL and Provisi	55.6	61.6	-3.0	77.9
Others	0.0	0.0	0.0	0.0
<b>CF from operating activ</b>	<b>2,056.9</b>	<b>1,916.8</b>	<b>2,336.5</b>	<b>2,112.3</b>
(Inc)/dec in Investments	-645.2	111.4	-150.0	-150.0
(Inc)/dec in Fixed Assets	-588.1	-695.8	-500.0	-500.0
Others	-6.4	-22.0	2.0	0.0
<b>CF from investing activi</b>	<b>-1,239.7</b>	<b>-606.4</b>	<b>-648.0</b>	<b>-650.0</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 ta	-591.1	-1,187.2	-712.3	-831.0
Interest Paid	-1.7	-12.8	-10.0	-11.0
Others	-4.0	-0.4	0.0	0.0
<b>CF from financing activi</b>	<b>-596.8</b>	<b>-1,200.3</b>	<b>-722.3</b>	<b>-842.0</b>
Net Cash flow	220.4	110.2	966.2	620.3
Opening Cash	372.6	593.0	703.2	1,669.4
<b>Closing Cash</b>	<b>593.1</b>	<b>703.2</b>	<b>1,669.4</b>	<b>2,289.7</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	197.0	197.0	197.0	197.0
Preference Capital	93.4	93.4	93.4	93.4
Reserve and Surplus	5,236.1	5,433.7	6,184.6	6,957.6
Total Shareholders fund	5,526.5	5,724.1	6,475.0	7,248.1
Total Debt	0.0	0.0	0.0	0.0
Others	116.8	167.4	169.4	169.4
<b>Total Liabilities</b>	<b>5,643.3</b>	<b>5,891.5</b>	<b>6,644.4</b>	<b>7,417.5</b>
<b>Assets</b>				
Gross Block	6,406.3	7,049.1	7,549.1	8,049.1
Less: Acc Depreciation	5,310.3	6,010.5	6,556.7	7,182.7
Net Block	1,096.0	1,038.6	992.4	866.4
Capital WIP	13.4	66.3	66.3	66.3
Total Fixed Assets	1,109.3	1,104.9	1,058.7	932.7
Investments	731.8	740.9	790.9	840.9
Liquid Investments	2,093.5	1,972.9	2,072.9	2,172.9
Goodwill on Consolidatic	4.8	4.8	4.8	4.8
Inventory	0.2	0.0	0.0	0.0
Debtors	1,134.0	1,367.2	1,049.4	1,195.1
Loans and Advances	170.0	187.1	186.1	212.0
Other Current Assets	261.9	254.6	253.3	288.5
Cash	593.0	703.2	1,669.4	2,289.7
Total Current Assets	2,159.1	2,512.2	3,158.3	3,985.2
Creditors	418.3	541.8	538.9	613.7
Provisions	18.4	22.2	22.1	25.2
Net Current Assets	1,722.4	1,948.2	2,597.2	3,346.3
Other Non Current Asse	99.2	78.1	78.1	78.1
<b>Application of Funds</b>	<b>5,643.3</b>	<b>5,891.5</b>	<b>6,644.4</b>	<b>7,417.5</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	36.4	35.1	37.1	40.7
Cash EPS	53.2	52.9	51.0	56.6
BV	140.2	145.3	164.3	183.9
DPS	12.5	25.0	15.0	17.5
Cash Per Share	15.0	17.8	42.4	58.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	68.9	64.7	65.7	63.9
PBT / Total Operating incor	51.4	44.8	50.1	48.2
PAT Margin	37.9	39.4	41.8	40.2
Inventory days	0.0	0.0	0.0	0.0
Debtor days	109.4	141.8	109.4	109.4
Creditor days	40.4	56.2	56.2	56.2
<b>Return Ratios (%)</b>				
RoE	25.9	24.2	22.6	22.1
RoCE	38.5	31.2	29.7	29.2
RoIC	68.5	53.0	66.0	70.9
<b>Valuation Ratios (x)</b>				
P/E	11.6	12.0	11.3	10.3
EV / EBITDA	5.3	6.1	5.6	4.8
EV / Net Sales	3.7	4.0	3.7	3.0
Market Cap / Sales	4.4	4.7	4.7	4.2
Price to Book Value	3.0	2.9	2.6	2.3
<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	2.9	2.4	2.5
Quick Ratio	2.8	2.9	2.4	2.5

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Inox Leisure	245	255	Hold	2,511	13.0	1.5	-17.8	18.8	167.6	NM	8.5	4.3	12.6	13.2	19.6	10.0	10.6	14.2	2.4
Music Broad	17	15	Hold	596	2.2	0.8	0.7	7.7	21.1	23.4	3.7	6.6	5.6	15.0	6.2	6.8	10.2	4.5	4.0
PVR	1,027	1,085	Hold	4,797	39.2	5.3	-61.9	26.2	193.1	NM	10.3	5.4	11.0	14.7	13.8	8.5	11.5	14.8	1.8
Sun TV	421	490	Buy	16,601	36.4	35.1	37.1	11.6	12.0	11.3	5.3	6.1	5.6	38.5	31.2	29.7	25.9	24.2	22.6
TV Today	191	240	Buy	1,140	22.0	23.4	22.6	8.7	8.2	8.5	4.3	4.6	4.5	30.4	22.7	24.7	19.3	14.6	16.0
ZEE Ent.	176	150	Hold	16,927	16.1	15.9	15.1	11.0	11.1	11.7	5.8	6.4	6.1	25.6	25.7	21.4	15.3	15.7	14.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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