

Muted show again...

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

- Its 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

Q4FY23 Results: Sun TV's performance was muted on the ad front.

- Standalone revenue came in at ₹ 858 crore, down 2.3% YoY. Advertisement revenues was muted at ₹ 338.4 crore (up 0.4% YoY). Subscription revenues were also muted YoY (down ~2.4% YoY) at ₹ 406.1 crore amid New Tariff Order (NTO) 2 implementation driven price hike restrictions. The company also reported IPL and South Africa T20 League revenues of ₹ 37 crore
- EBITDA at ₹ 488 crore, was down 20.6% YoY with margins at 59.9%, down 650 bps YoY, due to negative operating leverage and loss in SA T20 league
- PAT came in at ₹ 365.8 crore, down 9.5% YoY owing to lower margins

What should investors do? Sun TV's share price has underperformed with a decline of ~54% 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 FY24 would witness higher profitability of IPL, TV growth outlook and capital allocation remains a concern, which restricts us from turning constructive despite lucrative valuations

Target Price and Valuation: We value at 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. We bake in ~10% ad revenues CAGR over FY23-25
- Marked ramp up in SunNXT content, where content spending is lagging

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

- A play on recovery and consolidation of multiplexes
- BUY with a target price of ₹ 1340



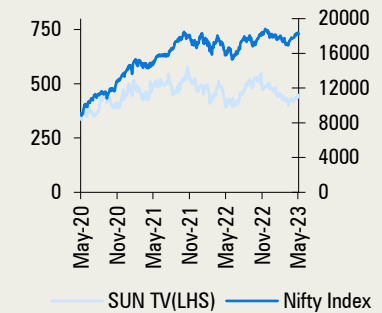
Particulars

Particular	Amount
Market Capitalisation	₹ 17330 Crore
Total Debt (FY23)	₹ 0 Crore
Cash & Inv. (FY23)	₹ 5681 Crore
EV	₹ 13105 Crore
52 week H/L	569/ 393
Equity capital	197.0
Face value	5.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	75.0	75.0	75.0	75.0
DII	3.6	3.9	3.8	3.6
FII	9.3	9.8	10.4	10.6
Other	12.1	11.3	10.8	10.8

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	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	CAGR (FY23-25E)
Net Sales (₹ crore)	3,519.9	3,176.9	3,584.8	3,772.1	4.9	4,375.6	4,675.9	11.3
EBITDA (₹ crore)	2,275.9	2,071.4	2,287.5	2,393.0	3.6	2,791.1	2,951.2	11.1
Net Profit (₹ crore)	1,385.2	1,525.0	1,641.8	1,706.4	8.5	1,929.9	2,028.1	9.0
EPS (₹)	35.1	38.7	41.7	43.3		49.0	51.5	
P/E (x)	12.5	11.3	10.5	10.1		8.9	8.5	
Price / Book (x)	3.0	2.4	2.1	1.9		1.7	1.5	
EV/EBITDA (x)	6.4	6.7	6.0	5.4		4.3	3.6	
RoCE (%)	31.2	27.8	27.2	24.5		25.0	23.5	
RoE (%)	24.2	21.6	20.1	18.4		18.5	17.4	

Key performance highlight and outlook

Ad revenues muted...

We note that **Sun TV's muted ad growth was owing to weak ad spends**. The viewership market share has been largely stable in Tamil, as per the management. **However, other languages viewership (Telugu and Kannada) continues to struggle**. We highlight in the absence of any guidance/commentary on growth ahead, we build in ~10% CAGR in TV ad revenues in FY23-25E to ₹ 1699 crore. We highlight that FY24 will be sports heavy year and thus, there remains a risk of relatively ad pie loss to GEC segment. However, recovery or loss in viewership share will be key determinant of whether 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 2.4% YoY, amid NTO 2 implementation driven price hike restrictions, in our view. **The company expects mid-high single digit in FY24 as new pricing has been implemented from February, 2023**. We expect subscription revenue growth of ~6.5% CAGR (FY23-25E) to ₹ 1837 crore. Most importantly, there has been no announcement of any original OTT exclusive content on SunNXT. **We highlight that lagging spends on OTT remain a key risk as most domestic broadcasters and other global OTT players are ramping up their OTT presence (including regional content), while Sun TV has not yet taken major strides in this segment.**

Other

- **Dividends:** During the quarter, the company announced an **interim dividend of ₹ 2.5/share**. It had also declared interim dividends of ₹ 8.75/share in H1FY23. For FY23, the company has paid interim dividend of ₹ 15/ share (~35% payout)
- **Movies:** Going ahead, the company **expects two movie release in FY24 (one Rajinikanth starrer *Jailer* in August, 2023 and one Dhanush starrer in H2FY24)**
- **Cash:** The company, currently, has cash and equivalents of ~₹ 5681 crore. **Thus, lack of clarity of usage of cash or its distribution thereof, is another overhang on the capital allocation issue**
- **Sports business:** The company also reported IPL and South Africa T20 League revenues of ₹ 37 crore. Out of the same, IPL revenues were ₹ 28.9 crore, with PBT of ₹ 13.5 crore. South Africa league revenues were ~₹ 8 crore and loss of ₹ 29.5 crore

Investment in SunNXT is yet to start at a meaningful level and needs to pick up to remain competitive, in our view. Pushing back of OTT content spending remains a key risk. We maintain **HOLD** rating on the stock despite lucrative valuations. We value Sun TV at 9x FY25E EPS to arrive at a 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

	Q4FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
Revenue	813.5	786.8	833.0	857.5	-2.3	-5.1	Advertisement revenues were muted at ₹ 338.4 crore (up 0.4% YoY). Subscription revenues were also muted YoY (down ~2.4% YoY) at ₹ 406.1 crore
Other Income	80.8	90.0	53.8	94.2	50.3	-14.2	
Operating Expenses	150.1	149.5	138.0	160.4	8.8	-6.4	
Employee Expenses	68.7	66.9	65.4	68.2	5.1	0.8	
Marketing Expenses	0.0	0.0	0.0	0.0	NA	NA	
Administrative Expenses	90.7	55.1	71.4	55.9	27.0	62.2	
IPL Franchisee Fees to BCCI	16.5	0.0	4.9	0.0	233.6	NA	
EBITDA	487.6	515.4	553.3	573.1	-11.9	-14.9	Lower margins due to negative operating leverage and SA league loss
EBITDA Margin (%)	59.9	65.5	66.4	66.8	-649 bps	-689 bps	
Depreciation	75.2	94.4	64.8	109.2	16.0	-31.1	
Interest	1.5	2.0	3.4	1.1	-57.0	28.9	
Total Tax	125.9	128.2	134.5	140.6	-6.4	-10.4	
PAT	365.8	380.7	404.4	416.3	-9.5	-12.1	

Key Metrics

Ad Revenue Growth	0.4	-2.0	7.1	0.5
Subscription Revenue Growth	-2.4	1.0	-2.8	-3.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,343.3	4,375.6	0.7	4,611.0	4,675.9	1.4	Realigned estimates post Q4 Performance
EBITDA	2,810.4	2,791.1	-0.7	2,964.2	2,951.2	-0.4	
EBITDA Margin (%)	64.7	63.8	-92 bps	64.3	63.1	-117 bps	
PAT	1,923.6	1,929.9	0.3	2,024.6	2,028.1	0.2	
EPS (₹)	48.8	49.0	0.3	51.4	51.5	0.2	

Source: Company, ICICI Direct Research

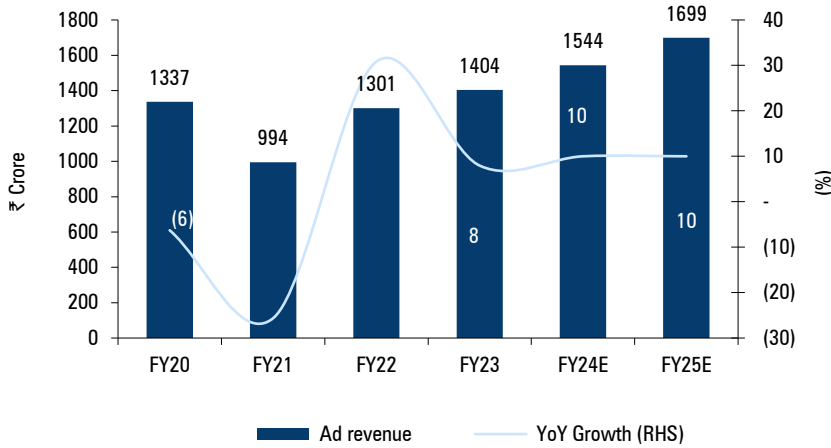
Exhibit 3: Assumptions

(%)	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	Comments
Ad Revenue Growth	-6%	-26%	31%	8%	10%	10%	
Subscription Rev. Growth	18%	10%	-4%	-2%	6%	7%	

Source: Company, ICICI Direct Research

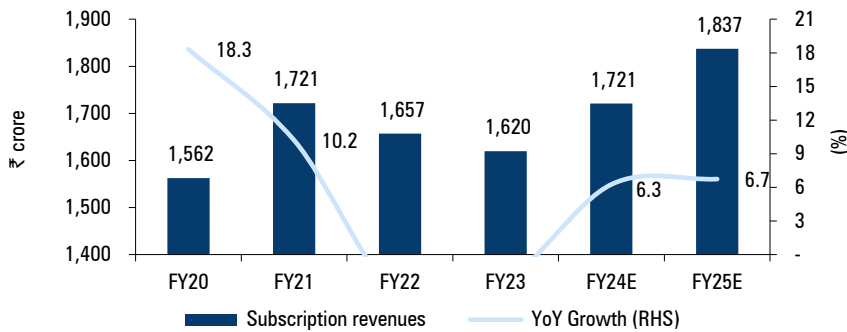
Story in Charts

Exhibit 4: Ad revenue growth trend



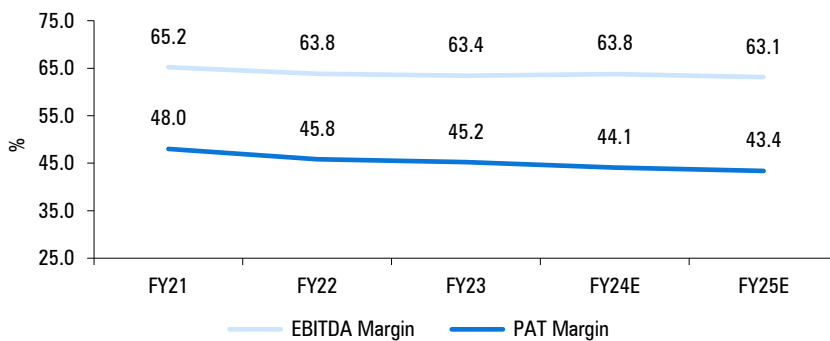
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	3,584.8	3,772.1	4,375.6	4,675.9
Growth (%)	12.8	5.2	16.0	6.9
Operating Expenses	560.6	632.1	681.2	723.8
Employee Expenses	294.0	305.3	334.1	370.6
Other Expenses	442.8	441.7	569.1	630.3
Total Operating Expenditure	1,297.3	1,379.1	1,584.4	1,724.7
EBITDA	2,287.5	2,393.0	2,791.1	2,951.2
Growth (%)	10.4	4.6	16.6	5.7
Depreciation	306.1	486.0	555.7	603.2
Interest	33.3	9.4	15.0	15.0
Other Income	256.0	377.1	380.0	400.0
Exceptional Items	-	-	-	-
PBT	2,204.1	2,274.6	2,600.4	2,733.0
MI/PAT from associates	(8.8)	3.0	3.0	3.0
Total Tax	553.5	571.3	673.5	707.8
PAT	1,641.8	1,706.4	1,929.9	2,028.1
Growth (%)	7.7	3.9	13.1	5.1
EPS (₹)	41.7	43.3	49.0	51.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	1,641.8	1,706.4	1,929.9	2,028.1
Add: Depreciation	306.1	486.0	555.7	603.2
Add: Interest Paid	33.3	9.4	15.0	15.0
(Inc)/dec in Current Assets	20.9	(44.9)	(315.6)	(152.5)
Inc/(dec) in CL and Provisions	-163.3	157.8	72.0	35.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	1,838.9	2,314.8	2,257.0	2,529.6
(Inc)/dec in Investments	-38.2	-1,919.9	-150.0	-150.0
(Inc)/dec in Fixed Assets	-1,236.7	-343.0	-500.0	-500.0
Others	75.2	8.7	101.0	100.0
CF from investing activities	-1,199.6	-2,254.3	-549.0	-550.0
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	-541.9	-591.1	-788.2	-788.2
Interest Paid	-33.3	-9.4	-15.0	-15.0
Others	1.5	1.1	0.0	0.0
CF from financing activities	-573.6	-599.4	-803.2	-803.2
Net Cash flow	65.7	-539.0	904.8	1,176.5
Opening Cash	1,071.8	1,137.5	598.6	1,503.4
Closing Cash	1,137.5	598.6	1,503.4	2,679.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
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	9,074.6	10,216.3	11,456.3
Total Shareholders funds	8,155.2	9,271.6	10,413.3	11,653.3
Total Debt	0.0	0.0	0.0	0.0
Others	73.7	49.5	50.5	50.5
Total Liabilities	8,228.9	9,321.1	10,463.9	11,703.8
Assets				
Gross Block	4,930.8	5,386.6	5,886.6	6,386.6
Less: Acc Depreciation	3,227.3	3,713.3	4,269.0	4,872.2
Net Block	1,703.5	1,673.3	1,617.6	1,514.4
Capital WIP	244.1	131.3	131.3	131.3
Total Fixed Assets	1,947.5	1,804.6	1,748.9	1,645.7
Investments	721.4	1,456.2	1,506.2	1,556.2
Liquid Investments	2,441.0	3,626.2	3,726.2	3,826.2
Goodwill on Consolidation	4.8	4.8	4.8	4.8
Inventory	0.0	0.0	0.0	0.0
Debtors	1,504.4	1,489.3	1,738.2	1,857.5
Loans and Advances	240.3	251.8	292.1	312.2
Other Current Assets	116.7	165.2	191.6	204.8
Cash	1,137.5	598.6	1,503.4	2,679.9
Total Current Assets	2,999.0	2,504.9	3,725.4	5,054.4
Creditors	398.3	449.3	521.2	556.9
Provisions	14.3	0.9	1.0	1.1
Net Current Assets	2,586.5	2,054.8	3,203.2	4,496.4
Other Non Current Assets	274.7	270.5	170.5	70.5
Application of Funds	8,228.9	9,321.1	10,463.9	11,703.8

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	41.7	43.3	49.0	51.5
Cash EPS	49.4	55.6	63.1	66.8
BV	206.9	235.3	264.2	295.7
DPS	13.8	15.0	20.0	20.0
Cash Per Share	28.9	15.2	38.1	68.0
Operating Ratios (%)				
EBITDA Margin	63.8	63.4	63.8	63.1
PBT / Total Operating income	55.3	50.6	51.1	50.2
PAT Margin	45.8	45.2	44.1	43.4
Inventory days	0.0	0.0	0.0	0.0
Debtor days	153.2	144.1	145.0	145.0
Creditor days	40.5	43.5	43.5	43.5
Return Ratios (%)				
RoE	20.1	18.4	18.5	17.4
RoCE	27.2	24.5	25.0	23.5
RoIC	54.8	45.3	50.3	52.1
Valuation Ratios (x)				
P/E	10.5	10.1	8.9	8.5
EV / EBITDA	6.0	5.4	4.3	3.6
EV / Net Sales	3.8	3.5	2.7	2.3
Market Cap / Sales	4.8	4.6	3.9	3.7
Price to Book Value	2.1	1.9	1.7	1.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.3	2.5	2.5
Quick Ratio	2.8	2.3	2.5	2.5

Source: Company, ICICI Direct Research

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