

# Sun TV Networks | BUY

## No surprises

Sun TV's 3QFY24 performance was marginally below estimates. Revenues grew by 3% YoY, 7% below JMFe. The miss was however driven by lower movie distribution revenues, in our view. Importantly, core (Ad + Subscription) revenues were likely in-line. That said, ad-revenue growth (-3% YoY; JMFe) remained muted as Cricket World Cup likely diverted FMCG ad-spend towards cricket. We now expect a more gradual recovery in ad-revenues as a still soft volume growth and soft weak rural demand will likely cap FMCG ad-spend. Subscription revenue however is likely to sustain its momentum. We estimate a mid-single digit growth in Sun TV's subscription revenue growth in 3Q driven by post NTO 3.0 price hike. EBITDA margin, net of movie amortization cost, was a tad below expectations, per our estimates (62% vs 63%). Overall, an in-line core performance meant the quarter had little bearing on our estimates. c.9% correction in the stock over past one month has made the valuation appealing again. Ex-IPL, the stock is trading at a core EV/PAT ratio of 6x. This appears cheap especially given a healthy 4% dividend and 6% FCF yield. We maintain BUY with an unchanged TP of INR 750.

- 3QFY24 – no surprises:** Sun TV reported revenues of INR 8.85bn (+3% YoY) vs our estimates of INR 9.5bn. The company did not provide revenue break-down. However, per our estimates, we believe ad/subscription revenues grew by -3%/+5% YoY. These appear in-line with estimates. The miss was therefore, in our view, driven by lower movie distribution revenues. Note, we had baked in INR 1,250mn spill over revenues from movie Jailer. However, we estimate that actual movie revenues in 3Q would have been much lower at INR 569mn. Reported EBITDA margins were down 200bps YoY to 64.8%, below JMFe: 68.8%, again driven by lower movie revenues. However, ex-movie amortization expenses, the miss was lower (c.100bps: JMFe). This was further offset by higher than expected other income resulting an in-line PAT (INR 4.1bn vs JMFe: INR 4.2bn). The company declared a dividend payout of INR 2.5/share, vs INR 3.75/share in 3QFY23.
- Outlook:** We expect meaningful ad-revenue pick up to get further pushed out. Accordingly, we have lowered our FY25E ad-revenue growth for Sun TV to 5% (from 7% earlier). We have however maintained subscription revenue growth at 7.5%. Near-term, Sun TV's revenues in 4Q will benefit from SAT20, South Africa's franchise cricket league, where Sun TV owns Sunrisers Eastern Cape team. Q1FY25 will see contribution from IPL as well as Rajnikanth's next movie "Vettaiyan". We therefore see a softer core business to be offset to a large extent over the next two quarters. However, a sustainable growth will require a more conducive ad-growth environment, in our view.
- Maintain BUY with an unchanged TP of INR 750:** Our FY24-26E EPS is down 0-2% as we moderate our ad-revenue assumptions. Sun TV is up 39% over past one year. In spite of the upmove, the valuations appear cheap. Core EV/PAT (ex-IPL EV and cash) is at 6x. Moreover, 9% correction over past one month offers a good entry point to play the value unlocking story. We continue to value the core business at 7x EV/EBITDA and IPL at an EV of INR 65bn. Our SOTP based TP is unchanged at INR 750. Maintain BUY.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	750
Upside/(Downside)	19.7%
Previous Price Target	750
Change	0.0%

### Key Data – SUNTV IN

Current Market Price	INR626
Market cap (bn)	INR246.8/US\$3.0
Free Float	21%
Shares in issue (mn)	394.1
Diluted share (mn)	394.1
3-mon avg daily val (mn)	INR549.2/US\$6.6
52-week range	735/394
Sensex/Nifty	71,823/21,840
INR/US\$	83.0

### Price Performance

%	1M	6M	12M
Absolute	-11.7	13.8	39.4
Relative*	-10.8	3.6	18.4

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,848	37,721	42,920	45,877	48,815
Sales Growth (%)	12.8	5.2	13.8	6.9	6.4
EBITDA	21,124	20,667	22,368	25,317	26,669
EBITDA Margin (%)	58.9	54.8	52.1	55.2	54.6
Adjusted Net Profit	16,420	17,074	19,381	21,705	22,883
Diluted EPS (INR)	41.7	43.3	49.2	55.1	58.1
Diluted EPS Growth (%)	7.6	4.0	13.5	12.0	5.4
ROIC (%)	50.0	43.1	45.1	43.8	40.2
ROE (%)	21.6	19.6	19.8	19.9	19.0
P/E (x)	15.0	14.4	12.7	11.4	10.8
P/B (x)	3.0	2.7	2.4	2.1	1.9
EV/EBITDA (x)	9.7	9.2	8.3	7.1	6.5
Dividend Yield (%)	2.2	2.8	3.6	4.1	4.6

Source: Company data, JM Financial. Note: Valuations as of 14/Feb/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:  
 Bloomberg - JMFR <GO>,  
 Thomson Publisher & Reuters,  
 S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## 3QFY24: Result review

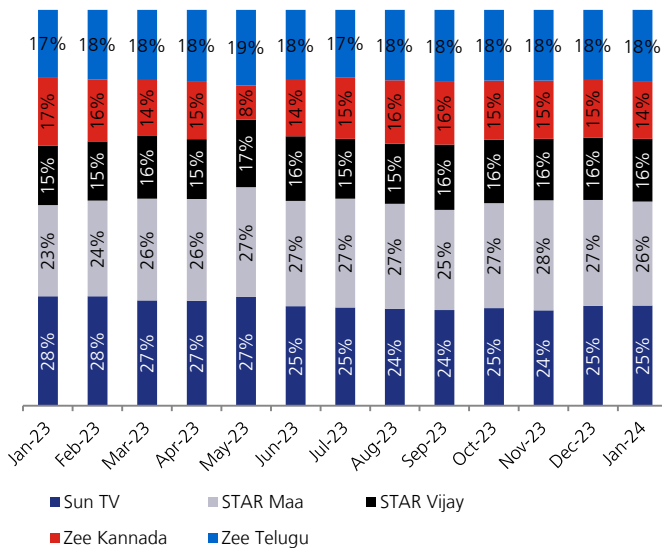
## Exhibit 1. Key Financials – 3QFY23 (JMFe Vs Actual)

	3Q24A	YoY	3Q23	QoQ	2Q24	3Q24E	Variance	Comments
<b>Total Revenue</b>	<b>8,855</b>	3%	<b>8,575</b>	-13%	<b>10,180</b>	<b>9,497</b>	-6.8%	Consol. Revenue grew 3% YoY to INR 8.8bn, 7% miss on JMFe of INR 9.4bn.
<b>Broadcasting</b>	<b>8,765*</b>	2%	<b>8,564</b>	-14%	<b>10,172</b>	<b>9,477</b>	-7.5%	Miss was on account of lower than expected revenue from movie distribution in our view
Advertisement	3,689*	-3%	3,803	12%	3,280	3,746	-1.5%	
Domestic subscription	4,227*	4%	4,052	1%	4,182	4,201	0.6%	
Broadcast fees	20*	0%	20	0%	20	20	0.0%	
International Pay TV	260*	9%	239	0%	260	260	0.0%	We believe ad/subscription revenues grew by -3%/+5% YoY, in-line with estimates.
Movie distribution	569*	26%	450	-77%	2,430	1,250	-54.5%	
Other operating income	0		0		0	0		
IPL Revenues	<b>90*</b>	349%	<b>20</b>	798%	<b>10</b>	<b>20</b>	349.0%	We had built in INR 1.2bn revenue spill from Jailer in 3Q. However, we believe actual revenue was much lower at ~ INR 0.5 bn.
Cost of Revenues (ex-IPL)	1,735	8%	1,604	2%	1,705	1,592	9.0%	
Employee costs	710	4%	682	-2%	727	758	-6.3%	
IPL costs	18	nm	0	nm	0	0	nm	
Other expenses	654	17%	559	12%	586	616	6.2%	Reported EBITDA margins declined 200bps YoY to 64.8% (vs JMFe 68.8%) due to lower movie revenues.
<b>Total operating costs</b>	<b>3,117</b>	10%	<b>2,844</b>	3%	<b>3,018</b>	<b>2,966</b>	5.1%	
<b>Reported EBITDA</b>	<b>5,738</b>	0%	<b>5,731</b>	-20%	<b>7,162</b>	<b>6,531</b>	-12.1%	
Depreciation and amortization	1,109		1,092		2,143	1,400	-20.8%	
<b>EBIT</b>	<b>4,629</b>		<b>4,639</b>		<b>5,019</b>	<b>5,131</b>	-9.8%	
<b>EBIT margin (%)</b>	<b>52.3%</b>		<b>54.1%</b>		<b>49.3%</b>	<b>54.0%</b>	-3.2%	

Note: \*: JM Financial estimates for 3QFY24. Source: Company, JM Financial

### Exhibit 2. Sun TV, the flagship channel of Sun TV networks ...

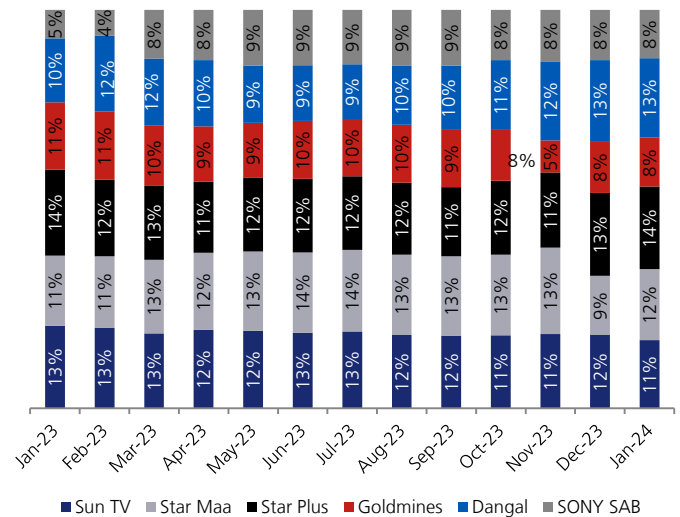
Sun TV viewership share, South India



Source: BARC, JM Financial

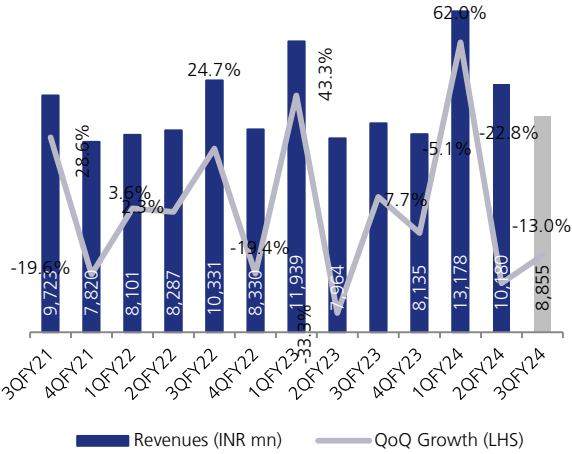
### Exhibit 3. ...has maintained its viewership share

Sun TV viewership share, Pan India



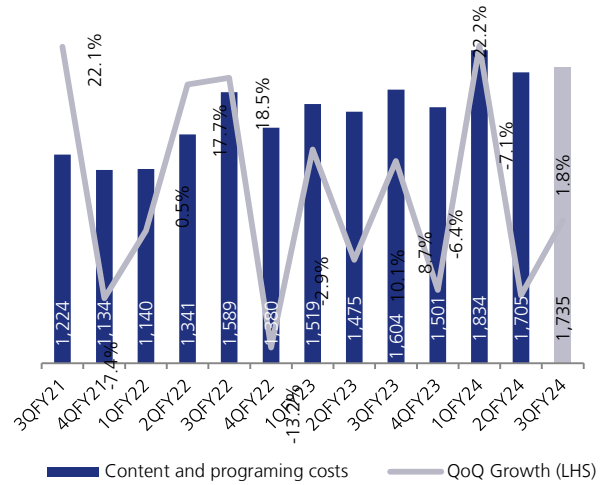
Source: BARC, JM Financial

Exhibit 4. Quarterly trend for revenue growth



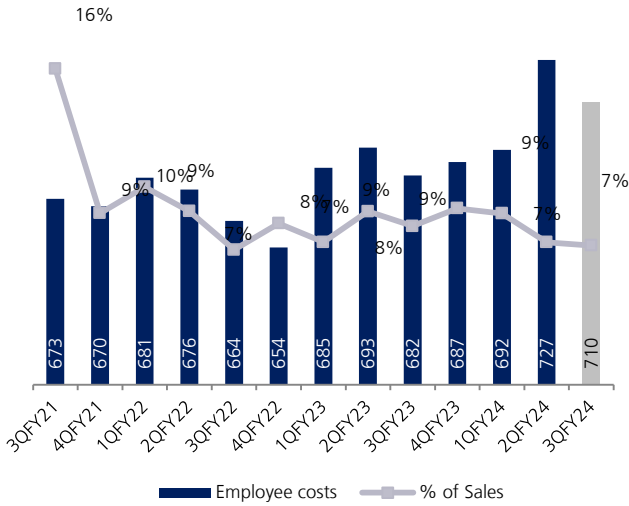
Source: Company, JM Financial

Exhibit 5. Quarterly trend for content cost



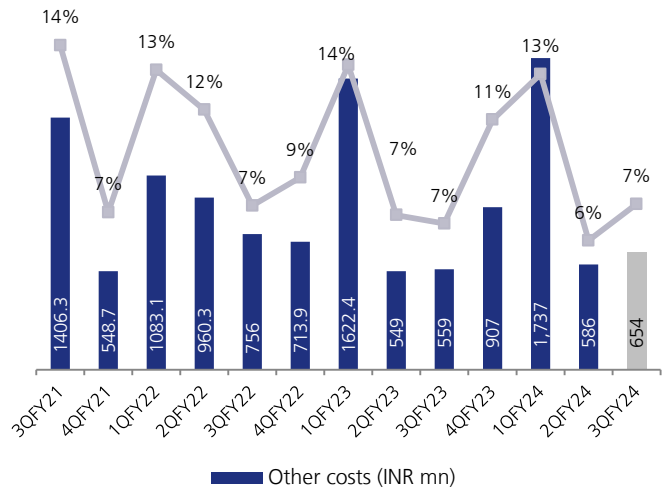
Source: Company, JM Financial

Exhibit 6. Quarterly trend for employee cost



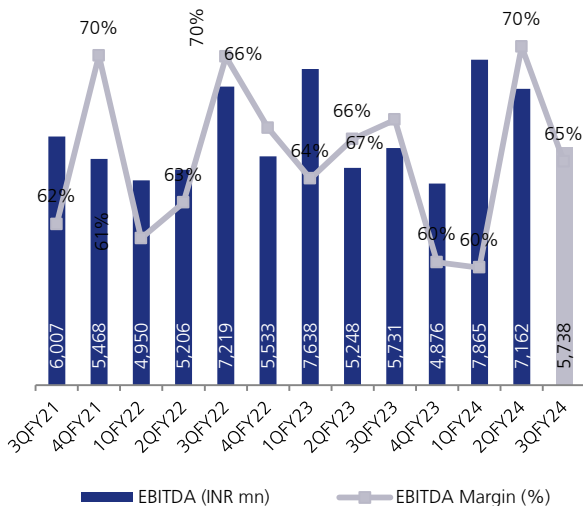
Source: Company, JM Financial

Exhibit 7. Quarterly trend for SG&A (Incl. Others)



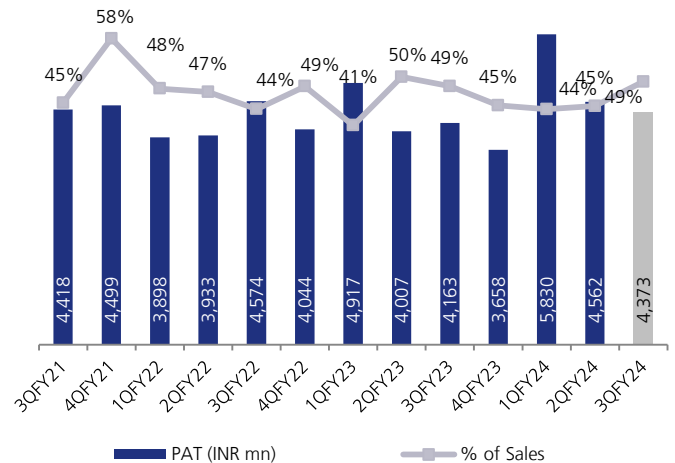
Source: Company, JM Financial

Exhibit 8. Quarterly trend for EBITDA Margin



Source: Company, JM Financial

Exhibit 9. Quarterly trend for PAT



Source: Company, JM Financial

## Maintain BUY; with an unchanged TP of 750

### Exhibit 10. What has changed to our assumptions

INR mn	OLD			NEW			Change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Consolidated revenue (INR mn)	42,920	46,436	49,717	42,920	45,877	48,815	0.0%	-1.2%	-1.8%
Revenue growth rate (YoY)	13.8%	8.2%	7.1%	13.8%	6.9%	6.4%	0bp	-13bp	-7bp
EBITDA (INR mn)	26,338	29,063	31,256	26,338	28,657	30,596	0.0%	-1.4%	-2.1%
EBITDA margin	61.4%	62.6%	62.9%	61.4%	62.5%	62.7%	0bp	-1bp	-2bp
EBIT (INR mn)	20,752	24,027	25,541	20,752	23,620	24,882	0.0%	-1.7%	-2.6%
EBIT margin	48.4%	51.7%	51.4%	48.4%	51.5%	51.0%	0bp	-3bp	-4bp
PAT (INR mn)	19,381	22,009	23,377	19,381	21,705	22,883	0.0%	-1.4%	-2.1%
EPS (INR)	49.18	55.85	59.32	49.18	55.08	58.07	0.0%	-1.4%	-2.1%

Source: Company, JM Financial

### Exhibit 11. Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues Growth, YoY (%)</b>								
Advertisement	7.7	(8.3)	(28.4)	31.2	9.5	(0.2)	5.3	7.1
Domestic Subscription	15.6	30.7	7.8	(5.6)	(2.0)	7.0	7.5	7.0
Income from Movie Distribution	7,44,433	(68.7)	(99.4)	38,495.6	45.4	47.3	(16.1)	5.0
IPL revenue	248.5	(53.3)	5.0	1.7	8.3	123.2	29.3	4.5
<b>Total Revenues</b>	<b>27.7</b>	<b>(6.9)</b>	<b>(9.7)</b>	<b>12.8</b>	<b>5.2</b>	<b>13.8</b>	<b>6.9</b>	<b>6.4</b>
<b>Cost to revenue (%)</b>								
Cost of Revenues	11.9	13.8	13.2	15.7	16.8	15.9	15.8	15.8
Employee costs	8.7	9.2	9.7	8.2	8.1	7.7	7.6	7.5
IPL costs	5.9	3.9	1.6	1.3	1.7	2.7	3.2	3.1
Other [SG&A]	4.6	8.4	10.3	10.9	10.0	12.3	11.0	11.0
<b>Total operating cost</b>	<b>31.1</b>	<b>35.3</b>	<b>34.8</b>	<b>36.2</b>	<b>36.6</b>	<b>38.6</b>	<b>37.5</b>	<b>37.3</b>
Effective tax rate	34.6	23.8	21.4	25.1	25.1	25.1	25.1	25.1
<b>Balance Sheet</b>								
Inventory days of programming cost (%)	99	105	194	371	211	133	113	61
Capex (INR mn)	266	304	2,340	11,300	5,699	1,291	1,311	1,331

Source: There was sharp jump in movie production business in FY19 and FY22 on a small base making the percentage figure look significantly high; Source: Company, JM Financial

### Exhibit 12. SOTP Valuation

	2023	2024E	2025E	2026E
<b>Core Broadcasting Business [Ex-IPL]</b>	<b>31-Mar-23</b>	<b>31-Mar-24</b>	<b>31-Mar-25</b>	<b>31-Mar-26</b>
<b>Period ending date</b>	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-25
Adjusted EBITDA	20,667	22,368	25,317	26,669
IPL EBITDA	631	2,819	3,224	3,188
Core EBITDA (ex-IPL)	20,037	19,549	22,093	23,481
3-year EBITDA CAGR			2.8	5.4
Target price set on:				14-Feb-24
Target price to be reached on:				13-Feb-25
<b>12-month forward EBITDA forecast on target date (Rs)</b>				<b>23,306</b>
Target 12-month forward Core EV/EBITDA				<b>7.0</b>
<b>1-year forward target Core-EV based on target EV/EBITDA</b>				<b>1,63,142</b>
<b>1-year forward target IPL-EV based on target EV/EBITDA</b>				<b>67,600</b>
<b>1-year forward Consolidated EV</b>				<b>2,30,742</b>
Net debt/(cash)	-56,809	-61,571	-67,093	-72,932
1-year forward Net debt/(cash)				-66,397
1-year forward Equity Value				2,97,139
Shares O/S				394
<b>1-year forward Consolidated EV</b>				<b>750</b>

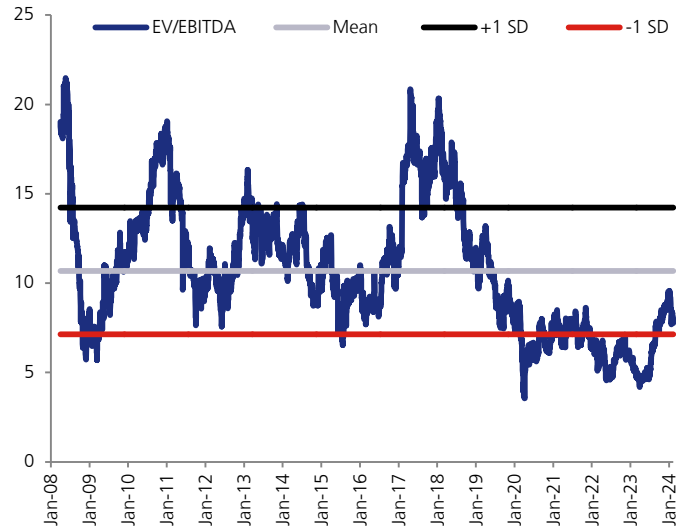
Source: Company, JM Financial estimates

Exhibit 13. Sun TV-1year forward PER



Source: Company, Bloomberg, JM Financial

Exhibit 14. Sun TV- 1year forward EV/EBITDA



Source: Company, Bloomberg, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,848	37,721	42,920	45,877	48,815
Sales Growth	12.8%	5.2%	13.8%	6.9%	6.4%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>35,848</b>	<b>37,721</b>	<b>42,920</b>	<b>45,877</b>	<b>48,815</b>
Cost of Goods Sold/Op. Exp	5,635	6,321	6,845	7,246	7,696
Personnel Cost	2,940	3,053	3,307	3,479	3,645
Other Expenses	6,149	7,680	10,400	9,835	10,804
<b>EBITDA</b>	<b>21,124</b>	<b>20,667</b>	<b>22,368</b>	<b>25,317</b>	<b>26,669</b>
EBITDA Margin	58.9%	54.8%	52.1%	55.2%	54.6%
EBITDA Growth	18.2%	-2.2%	8.2%	13.2%	5.3%
Depn. & Amort.	1,311	1,597	1,616	1,697	1,788
EBIT	19,814	19,070	20,752	23,620	24,882
Other Income	2,560	3,771	5,168	5,403	5,715
Finance Cost	333	94	94	94	94
PBT before Excep. & Forex	22,041	22,746	25,827	28,929	30,503
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	22,041	22,746	25,827	28,929	30,503
Taxes	5,535	5,713	6,486	7,265	7,660
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-88	30	30	30	30
Reported Net Profit	16,420	17,074	19,381	21,705	22,883
<b>Adjusted Net Profit</b>	<b>16,420</b>	<b>17,074</b>	<b>19,381</b>	<b>21,705</b>	<b>22,883</b>
Net Margin	45.8%	45.3%	45.2%	47.3%	46.9%
Diluted Share Cap. (mn)	394.1	394.1	394.1	394.1	394.1
<b>Diluted EPS (INR)</b>	<b>41.7</b>	<b>43.3</b>	<b>49.2</b>	<b>55.1</b>	<b>58.1</b>
Diluted EPS Growth	7.6%	4.0%	13.5%	12.0%	5.4%
Total Dividend + Tax	5,419	6,896	8,867	10,049	11,231
Dividend Per Share (INR)	13.8	17.5	22.5	25.5	28.5

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	21,954	22,782	25,862	28,965	30,538
Depn. & Amort.	3,061	4,860	5,586	5,036	5,715
Net Interest Exp. / Inc. (-)	-2,030	-1,693	-4,287	-4,483	-4,754
Inc (-) / Dec in WCap.	-548	2,550	-2,194	-1,456	-1,492
Others	847	-1,770	-35	-35	-35
Taxes Paid	-6,947	-5,809	-6,486	-7,265	-7,660
<b>Operating Cash Flow</b>	<b>16,337</b>	<b>20,920</b>	<b>18,445</b>	<b>20,761</b>	<b>22,311</b>
Capex	-14,634	-11,215	-9,104	-9,674	-9,994
Free Cash Flow	1,703	9,705	9,342	11,088	12,317
Inc (-) / Dec in Investments	2,495	-6,191	0	0	0
Others	2,264	1,868	4,382	4,577	4,848
<b>Investing Cash Flow</b>	<b>-9,875</b>	<b>-15,539</b>	<b>-4,722</b>	<b>-5,096</b>	<b>-5,146</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-5,419	-5,911	-8,867	-10,049	-11,231
Inc / Dec (-) in Loans	-364	-384	0	0	0
Others	-245	-11	-94	-94	-94
<b>Financing Cash Flow</b>	<b>-6,027</b>	<b>-6,306</b>	<b>-8,961</b>	<b>-10,143</b>	<b>-11,326</b>
<b>Inc / Dec (-) in Cash</b>	<b>435</b>	<b>-925</b>	<b>4,762</b>	<b>5,522</b>	<b>5,840</b>
Opening Cash Balance	10,941	6,899	5,986	10,748	16,270
Closing Cash Balance	11,375	5,974	10,748	16,270	22,109

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	81,552	92,716	1,03,230	1,14,885	1,26,537
Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	79,582	90,746	1,01,260	1,12,915	1,24,566
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	0	0	0	0	0
<b>Total - Equity &amp; Liab.</b>	<b>81,552</b>	<b>92,716</b>	<b>1,03,230</b>	<b>1,14,885</b>	<b>1,26,537</b>
Net Fixed Assets	20,307	18,557	22,075	26,712	30,991
Gross Fixed Assets	46,910	49,591	58,338	67,643	77,265
Intangible Assets	4,056	3,989	4,040	4,141	4,292
Less: Depn. & Amort.	33,100	36,336	41,616	46,384	51,879
Capital WIP	2,441	1,313	1,313	1,313	1,313
Investments	35,587	55,122	55,158	55,193	55,228
Current Assets	33,087	27,802	35,102	42,194	49,756
Inventories	0	0	0	0	0
Sundry Debtors	14,346	14,893	16,941	17,983	19,134
Cash & Bank Balances	11,375	5,986	10,748	16,270	22,109
Loans & Advances	0	65	65	65	65
Other Current Assets	7,366	6,858	7,347	7,876	8,448
Current Liab. & Prov.	7,429	8,765	9,104	9,213	9,439
Current Liabilities	2,923	2,982	3,296	3,355	3,529
Provisions & Others	4,506	5,783	5,808	5,859	5,910
Net Current Assets	25,658	19,037	25,998	32,981	40,317
<b>Total - Assets</b>	<b>81,552</b>	<b>92,716</b>	<b>1,03,230</b>	<b>1,14,885</b>	<b>1,26,537</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	45.8%	45.3%	45.2%	47.3%	46.9%
Asset Turnover (x)	0.5	0.4	0.4	0.4	0.4
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	21.6%	19.6%	19.8%	19.9%	19.0%

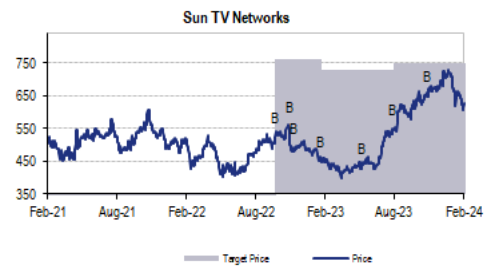
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	206.9	235.3	261.9	291.5	321.1
ROIC	50.0%	43.1%	45.1%	43.8%	40.2%
ROE	21.6%	19.6%	19.8%	19.9%	19.0%
Net Debt/Equity (x)	-0.5	-0.6	-0.6	-0.6	-0.6
P/E (x)	15.0	14.4	12.7	11.4	10.8
P/B (x)	3.0	2.7	2.4	2.1	1.9
EV/EBITDA (x)	9.7	9.2	8.3	7.1	6.5
EV/Sales (x)	5.7	5.0	4.3	3.9	3.6
Debtor days	146	144	144	143	143
Inventory days	0	0	0	0	0
Creditor days	54	54	50	51	50

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Oct-22	Buy	760	
12-Nov-22	Buy	760	0.0
25-Nov-22	Buy	760	0.0
4-Feb-23	Buy	730	-3.9
21-May-23	Buy	730	0.0
12-Aug-23	Buy	750	2.7
11-Nov-23	Buy	750	0.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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