

### Ad growth bounces back, maintain faith

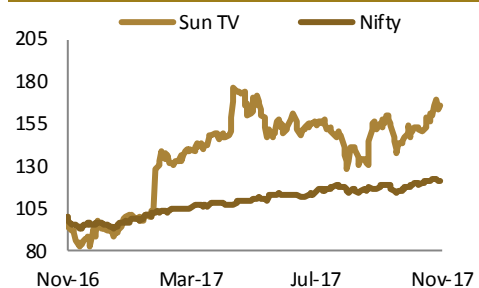
#### Market statistics

Current stock price (₹)	872
Shares O/S (cr.)	39.4
Mcap (₹ cr)	34,368
52W H/L (₹)	950/435
6m avg. volume	1,401,417
Bloomberg	SUNTV.IN

#### Shareholding pattern

Promoters	75.00
Domestic Institution	3.4
Foreign Institution	13.42
Non-institution	8.18
of which more than 1%	
Selvam Selvi	1.78
Shanmugasundaram Selvam	1.74

#### Sun TV Network vs Nifty



#### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	25.6	24.0	24.1
EPS (₹)	26.2	27.8	32.4
CEPS (₹)	36.3	38.6	43.9
P/E (x)	30.9	25.4	21.8
P/BV (x)	7.6	5.9	5.1
EV/EBITDA (x)	17.3	13.6	11.6
Income growth (%)	7.0	10.1	16.1
EBITDA growth (%)	2.1	9.6	15.5
PAT growth (%)	14.7	9.5	16.4

Standalone 2Q revenues (+8.1% YoY) were higher than our estimate, as Sun TV reported higher DTH/Domestic revenues compared to our expectations. Advertising and broadcast fee growth was up 4% YoY and 14% growth in subscription revenue. Adjusted EBITDA (net of Movie acquisition costs) stood at ₹4.11bn. The company said it may consider entering Marathi and Bangla markets. We see this as a concern as we believe its priority should be retaining its share in existing markets. We are not overly worried about temporary blip in market share as Sun TV continues to enjoy strong network share across markets on the back of its rich channel bouquet. Hence, we maintain our Buy rating and continue to believe it should be a stock to be held on for long-term to play out the digitalization theme.

**Flagship channel loses market share:** Tamil contributes ~60% to Sun TV's total advertisement revenue, with a majority coming from the flagship GEC channel Sun TV. While Sun TV lost market share in Tamil and Telugu in Q2FY18 as Star gained share with high budget reality show Big Boss. However, it partially gained back share in Tamil post conclusion of Big Boss season and continue to enjoy strong leadership. Management is confident of gaining back lost market share in these markets with rejig in programming slate. In Kannada and Malayalam markets, Udaya TV and Surya TV witnessed sharp upward movement in viewership share. Revenue from advertising and broadcast fee grew 3% YoY in Q2FY18 to Rs3.5bn as company witness recovery in ad spends with double digit growth in Aug and Sep, post GST led weakness in the month of Jul. Management highlighted that while ad volumes were impacted by GST, overall yields improved 15% QoQ.

**Competition from other channels:** 1) Star Vijay has launched 6 new shows over the last 8 months, out of which 2 are fiction and 4 are non-fiction. Its big ticket show "Big Boss" has resulted in a major dent in Sun TV's viewership, which has intensified the viewership loss for Sun TV. 2) Sun TV's market share in Tamil GEC declined from 59.5% in Q1FY18 to 51.0% in Q2FY18. It lost market share to Star Vijay as it featured Tamil version of Bigg Boss. However, after Big Boss got off air, Sun TV's share increased back to 54.9% in Q3FY18 QTD. 3) Gemini TV's market share in all-day Telugu GEC viewing declined from 28.2% in Q1FY18 to 24.8% in Q2FY18 and 22.6% in Q3FY18 QTD. 4) Udaya TV improved its all-day viewership share from 15.4% in Q1FY18 to 18.1% in Q2FY18 and increased it further to 21.1% in Q3FY18 QTD. 5) Surya TV (Malayalam GEC) market share also witnessed significant improvement from 13.6% in Q1FY18 to 17.3% in Q2FY18 and further swinging sharply to 23% in recent weeks.

**Depreciation and amortization:** Depreciation was Rs175mn vs amortization of Rs850mn. Focus continues to remain on lower spends on movies. In FY17 spends on movies rights was Rs3.4bn as compared to Rs4.1bn in previous years. Going forward, the company is expecting spends to remain under Rs3.25-3.5bn for FY18. Despite lower spends the company would continue to choose good titles.

**Our Buy rating is based on assumptions which we believe are conservative.** We assume: (1) 8% YoY growth in advertisement revenues in FY18; (2) Further market share loss in Tamil GEC, loss of No.1 position in Telugu GEC, and stable market shares in Kannada/Malayalam language GECs; (3) Sun's advertisement growth continues to underperform market growth over long-term; (4) Phase-I and II digitization gets captured fully by FY19, and; (5) No subscription revenue upside from potential distribution of Sun's channels on US cable networks.

**Valuations and risks.** Recent upmove is aided by 1) clarity on digitization and 2) aggressive IPL bidding for media rights. However, initial benefits from these events has been already factored in the price. Stock has seen stagnant over the last 2 months attributable to 1) ~10% viewership loss in flagship Tamil GEC, 2) ~5% viewership loss in Telugu GEC and 3) delayed benefits in ad revenue from market share gains in Telugu.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in

**Exhibit 1: Quarterly details**

` mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)
<b>Revenues</b>	<b>6,255</b>	<b>7,863</b>	<b>6,759</b>	<b>(14.0)</b>	<b>8.1</b>
- Operating costs	1,592	3,380	1,798	(46.8)	13.0
<b>EBITDA</b>	<b>4,663</b>	<b>4,484</b>	<b>4,961</b>	<b>10.6</b>	<b>6.4</b>
<b>EBITDA margin (%)</b>	<b>74.6</b>	<b>57.0</b>	<b>73.4</b>	<b>1,638bps</b>	<b>(116)bps</b>
- Interest expense	2	1	1	20.0	(72.7)
- Depreciation	1,030	1,035	1,027	(0.8)	(0.3)
+ Other income, net (incl forex)	488	371	372	0.5	(23.7)
<b>PBT</b>	<b>4,119</b>	<b>3,819</b>	<b>4,306</b>	<b>12.8</b>	<b>4.5</b>
- Taxes	1,415	1,302	1,459	12.0	3.1
Effective tax rate (%)	34.4	34.1	33.9	(22)bps	(48)bps
<b>PAT</b>	<b>2,704</b>	<b>2,516</b>	<b>2,847</b>	<b>13.1</b>	<b>5.3</b>
Net margin (%)	43.2	32.0	42.1	1,011bps	(110)bps

Source: Company

**Exhibit 2: Revenue break-up**

` mn	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total ad revenue	3,295	3,254	3,130	3,400	3,387	3,008	2,920	3,260	3,530
YoY Growth	13.1	1.5	(5.7)	(3.6)	2.8	(7.6)	(6.7)	(4.1)	4.0
<b>Subscription revenue</b>									
Analog	576	580	600	740	680	750	710	960	940
YoY Growth	17.5	-	5.3	37.0	18.1	29.2	18.3	29.7	38.2
DTH	1,399	1,503	1,560	1,580	1,610	1,670	1,710	1,740	1,840
YoY Growth	7.6	13.1	15.6	13.7	15.1	11.1	9.6	10.1	14.3
International	354	350	360	380	400	390	370	440	400
YoY Growth	4.1	(2.8)	5.9	2.7	13.0	11.2	2.8	15.8	-
<b>Total sub. Revenue</b>	<b>2,328</b>	<b>2,433</b>	<b>2,520</b>	<b>2,700</b>	<b>2,690</b>	<b>2,810</b>	<b>2,790</b>	<b>3,140</b>	<b>3,180</b>
<b>YoY Growth</b>	<b>9.3</b>	<b>7.2</b>	<b>11.5</b>	<b>17.4</b>	<b>15.5</b>	<b>15.5</b>	<b>10.7</b>	<b>16.3</b>	<b>18.2</b>

Source: Company

**Aggressive IPL bidding: Value accretive for SUN TV**

- Star India has won IPL rights (incl. India broadcast, India digital and RoW broadcast and digital) for Rs163bn with total 5-year tenure (2018-2022).
- IPL teams to get ~Rs1163mn incremental revenues with higher value of rights, coupling the impact of VIVO's sponsorship rights, the incremental annual EBITDA stands Rs966mn for the franchisee.
- SUN TV would see EPS accretion of Rs1.5 after assuming player cost cap increase of ~30%.
- From 2018, the total IPL rights kitty will be share with in proportion of 45% to franchisees, 50% BCCI share and 5% prize money pool. Based on total rights value of Rs163bn, share of franchisees would stand at Rs73.5bn as compared to Rs45bn in previous ten years, implying 1.6x increase



## Financials

### Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>23,954</b>	<b>24,736</b>	<b>26,457</b>	<b>29,121</b>	<b>33,810</b>
Op. Expenses	7,181	7,409	8,759	9,729	11,413
<b>EBITDA</b>	<b>16,772</b>	<b>17,327</b>	<b>17,698</b>	<b>19,392</b>	<b>22,397</b>
Other Income	989	1,163	1,538	1,543	1,725
Depreciation	6,153	4,967	4,005	4,245	4,543
<b>EBIT</b>	<b>11,608</b>	<b>13,524</b>	<b>15,232</b>	<b>16,690</b>	<b>19,579</b>
Interest	23	22	10	5	10
<b>PBT</b>	<b>11,586</b>	<b>13,502</b>	<b>15,222</b>	<b>16,685</b>	<b>19,569</b>
Tax	3,760	4,768	5,203	5,711	6,793
<b>PAT</b>	<b>7,826</b>	<b>8,734</b>	<b>10,019</b>	<b>10,974</b>	<b>12,777</b>
Minority	(6)	310	288	-	-
<b>Adj Pat</b>	<b>7,820</b>	<b>8,954</b>	<b>10,307</b>	<b>10,974</b>	<b>12,777</b>

### Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share (`)</b>					
EPS	19.8	22.7	26.2	27.8	32.4
CEPS	35.5	35.5	36.3	38.6	43.9
BVPS	87.3	91.9	106.6	120.4	138.8
DPS	11.3	15.5	10.0	12.0	14.0
Payout (%)	66.3	79.8	44.7	50.4	43.3
<b>Valuation (x)</b>					
P/E	19.1	16.6	30.9	25.4	21.8
P/BV	4.3	4.1	7.6	5.9	5.1
EV/EBITDA	8.3	7.7	17.3	13.6	11.6
Dividend Yield (%)	3.0	4.1	1.2	1.7	2.0
<b>Return ratio (%)</b>					
EBIDTA Margin	70.0	69.0	66.9	66.6	66.2
PAT Margin	32.7	35.1	37.9	37.7	37.8
ROAE	23.1	24.7	25.6	24.0	24.1
ROACE	34.3	36.4	37.8	36.5	36.9
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	9.7	9.7	8.1	8.5	8.8
<b>Growth Ratios (%)</b>					
Income growth	7.7	7.3	7.0	10.1	16.1
EBITDA growth	11.1	5.8	2.1	9.6	15.5
PAT growth	5.0	15.3	14.7	9.5	16.4
<b>Turnover Ratios</b>					
F.A Turnover x	2.2	3.0	2.2	2.1	2.2
Debtors Days	96	112	110	102	100
Payable days	18	35	32	31	29

### Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	32,445	34,227	38,314	43,756	50,999
<b>Total Shareholders Fund</b>	<b>34,415</b>	<b>36,197</b>	<b>40,285</b>	<b>45,726</b>	<b>52,970</b>
<b>Minority Interest</b>	<b>547</b>	<b>1,756</b>	<b>36</b>	<b>36</b>	<b>36</b>
<b>Non- current liabilities</b>	<b>269</b>	<b>238</b>	<b>655</b>	<b>681</b>	<b>709</b>
Deferred tax liabilities	226	176	521	521	521
Other LT liabilities & Prov	43	62	134	160	188
<b>Current Liabilities</b>	<b>2,219</b>	<b>2,704</b>	<b>2,807</b>	<b>3,092</b>	<b>3,627</b>
Trade payables	719	817	722	800	938
Other cur liabilities & Prov	1,500	1,886	2,085	2,292	2,689
<b>Total Liabilities</b>	<b>37,450</b>	<b>40,894</b>	<b>43,782</b>	<b>49,535</b>	<b>57,341</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>17,415</b>	<b>14,593</b>	<b>21,153</b>	<b>23,184</b>	<b>25,544</b>
Fixed assets	11,372	8,674	12,087	13,587	15,087
Non-current investments	2,694	3,783	4,252	4,252	4,252
Long-term loans & adv	3,075	1,820	2,586	2,872	3,335
Other non-current assets	273	317	2,229	2,473	2,872
<b>Current assets</b>	<b>20,035</b>	<b>26,301</b>	<b>22,629</b>	<b>26,351</b>	<b>31,797</b>
Current investments	2,802	2,557	5,455	5,455	5,455
Trade receivables	7,575	8,246	7,726	8,537	9,911
Inventories	5	11	9	10	11
<b>Cash &amp; bank balances</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,238</b>	<b>12,807</b>
Short-term loans & adv	1,095	1,120	971	1,117	1,297
Other current assets	966	3,437	1,850	1,995	2,316
<b>Total Assets</b>	<b>37,450</b>	<b>40,894</b>	<b>43,782</b>	<b>49,535</b>	<b>57,341</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>PBT</b>	<b>11,586</b>	<b>13,777</b>	<b>15,222</b>	<b>16,685</b>	<b>19,569</b>
Depreciation	6,119	4,999	4,350	4,245	4,543
Interest Exp	23	22	10	5	10
Others	135	1,141	(1,432)	-	-
<b>CF before W.cap</b>	<b>17,863</b>	<b>19,939</b>	<b>18,150</b>	<b>20,935</b>	<b>24,122</b>
Inc/dec in W.cap	2,734	1,458	246	1,322	2,174
Op CF after W.cap	15,129	18,482	17,904	19,613	21,948
Less Taxes	3,760	4,755	5,203	5,711	6,793
<b>Net CF From Operations</b>	<b>11,370</b>	<b>13,727</b>	<b>12,701</b>	<b>13,903</b>	<b>15,155</b>
Inc/(dec) in F.A + CWIP	4,213	2,351	7,418	5,745	6,043
(Pur)/sale of Investments	342	844	3,366	-	-
Others	(23)	(22)	(10)	(5)	(10)
<b>CF from Invst Activities</b>	<b>(4,578)</b>	<b>(3,217)</b>	<b>(10,794)</b>	<b>(5,750)</b>	<b>(6,053)</b>
Loan Raised/(repaid)	-	-	-	-	-
Equity Raised	(106)	(25)	(1,609)	(0)	(0)
Dividend	5,187	7,147	4,611	5,533	5,533
Others	-	-	-	-	-
<b>CF from Fin Activities</b>	<b>(5,293)</b>	<b>(7,172)</b>	<b>(6,219)</b>	<b>(5,533)</b>	<b>(5,533)</b>
Net inc /(dec) in cash	1,499	3,338	(4,312)	2,620	3,569
<b>Op. bal of cash</b>	<b>6,094</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,238</b>
<b>Cl. balance of cash</b>	<b>7,593</b>	<b>10,931</b>	<b>6,618</b>	<b>9,238</b>	<b>12,807</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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Hold                     15% to -15%

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