ICRA

July 01, 2019

Sun TV Network Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term - Non-fund based	12.50	12.50	[ICRA]A1+; reaffirmed
Total	**12.50**	**12.50**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation draws comfort from STNL's established presence; strong brand equity of 'Sun TV'; and the company's strong financial profile. The company witnessed strong revenue growth of 27.7% in FY2019 supported by healthy growth in subscription and advertisement revenues, and its margins remained strong at an OPM of 68.9% and NPM of 37.5%, aided by its scale, high bargaining power and nil debt position. The company has had zero debt every year, with sizeable cash and liquid investments of Rs. 2,686.5 crore as on March 31, 2019 (PY: Rs,1,896.9), facilitated by its strong accruals. By virtue of 'Sun TV' being one of the top viewership channels and having consistently high television rating points (TRP's), the company has significant bargaining power over its content providers. This, in turn, has aided in control over telecasted content and facilitated advertisement revenue growth.

As per the new TRAI order, every customer is entitled to a set free to air channels which may or may not include popular channels offered by major broadcasters. In addition, customers can choose channels/packs offered by the broadcasters based on their interest. However, Sun TV is part of the base pack in its viewership locations by virtue of user preference. As a result, the company's ARPU is likely to remain unimpacted by the order.

The company currently has 32 channels in the four southern languages across various genres and one channel in regional entertainment category in Bangla. Further, the company also plans to increase its presence in the regional general entertainment space with the launch 'Sun Marathi' in FY2020.

Akin to other players in the media and entertainment industry, STNL's revenues are also susceptible to slowdowns and cascading advertisement spend cuts by corporates. Further, the company has relatively high working capital intensity due to delays in actual payment receipts from advertisement agencies and DTH/cable operators, beyond the credit period offered. The company's dividends remain high at 40-50% of its profits in the last three years, although lower than the 70-80% of profits paid in the past. However, STNL's strong liquidity position provides comfort to a large extent. Going forward, while the revenue growth would depend on economic factors, its margins and liquidity position are expected to remain strong.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Established presence of the group and 'Sun TV' in the television broadcasting space; diversification across genres - The company has had presence in television broadcasting for over two decades, and has gradually expanded its channel base to 33 channels as on date in Tamil, Telugu, Kannada, Malayalam and Bangla across various genres such as general entertainment, movies, music, news and kids, including the recently launched Sun Bangla (in Q4 FY2019) and plans to launch 'Sun Marathi' in FY2020, to tap the regional GEC space further. Also, Sun TV – the flagship channel of the company – was among the highest viewed channels in the general entertainment category in FY2019.

Consistently high television rating points (TRPs) maintained in the last several years; relatively high bargaining power with content providers, and in the supply chain - Sun TV has consistently obtained the maximum number of impressions in regional general entertainment space and across genres, pan India; and this has aided the company in expanding its revenues consistently over the last few years. By virtue of the consistently high TRPs, popularity of content and its established presence, the company has significant bargaining power over its content providers. This, in turn, has aided in control over telecasted content.

Strong financial profile characterized by healthy revenue growth, high profit margins/accruals and conservative coverage metrics; strong liquidity - While the high TRPs have helped the company grow its advertisement revenues, increase in subscriber base, primarily attributed to digitization, has increased STNL's subscription revenues. This has resulted in healthy revenue growth of 27.7% in FY2019. The company has also reported healthy profit margins/accruals with an OPM of 68.9% and NPM of 37.5% in FY2019 (PY:68.3% and 37.5% respectively) aided by its scale, high bargaining power and negligible interest costs. Further, STNL has had zero debt as on balance sheet dates and sizeable cash and liquid investment balance of Rs. 2,686.5 crore as on March 31, 2019 (PY: Rs,1,896.9 crore). ICRA expects the company to maintain its strong financial profile going forward.

Credit challenges

Vulnerability of advertising revenues to economic slowdowns and competition – STNL derived 40.9% of its standalone revenues during FY2019 from advertisements. Akin to other industry players, STNL's advertisement revenues are also dependent on the macro-economic environment. In addition, rising competitive intensity with increase in the total number of channels in the mass content and niche segments could also pressurize the company's advertisement revenues. Nevertheless, Sun TV's high viewership levels and continuous strive to improve their content offering by rejigging primetime offering through new fiction and non-fiction shows provides comfort to an extent.

Working capital intensive nature of business arising from relatively high receivables, although akin to most players in the industry – Similar to most players in the industry, STNL's operations are working capital intensive in nature. The delays in actual payment receipts beyond the credit periods offered to advertisement agencies, DTH and cable operators stretches the working capital. Despite the high working capital intensity, the company's healthy accruals and moderate capex compared to accruals in the last few years, have led to strong cash flows and liquidity.

Liquidity Position:

STNL has strong liquidity with zero debt, sizeable cash balance of Rs. 2,686.5 crore as on March 31, 2019 (PY: Rs,1,896.9 crore) and fund flow from operations of Rs. 1,882.2 crore in FY2019 (based on abridged financials), aided by its strong accruals and moderate capex undertaken over the last several years. Going forward, STNL has capex plans of Rs.1,700.0 crore over FY2020-22, to be funded through internal accruals. The company's liquidity position is expected to remain strong over the medium term, despite potential revenue impact during periods of economic slowdown.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for entities in Media Broadcasting Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	Consolidation

About the company:

Sun TV Network Limited (STNL/the company) is primarily engaged in television broadcasting; apart from this, the company also has the license to operate an Indian Premier League (IPL) franchise under the name 'SunRisers Hyderabad'; and has produced/distributes movies under the name 'Sun Pictures'. Television broadcasting currently constitutes over 95% of the company's standalone revenues; and under this, the company owns 33 channels across four south Indian languages including recent launch of 'Sun Bangla', catering to various genres and is likely to launch 'Sun Marathi' in FY2020. Sun TV - one the highest viewership channels in the general entertainment category for the last several years and is the flagship channel of the company.

STNL was established in 1985 by Mr. Kalanithi Maran as Sumangali Publications Private Limited and was later renamed as Sun TV Network Limited. Sun TV, the flagship channel of the company, was started in 1993.

The company has one subsidiary - Kal Radio Limited and one joint venture - South Asia FM Limited - which together own 59 FM radio stations across the country and broadcast under the brand names 'Red FM' and 'Suryan FM'. The subsidiary accounted for ~3.2% of STNL's consolidated revenues in FY2019. Other than STNL and its subsidiaries, the promoters have ownership interests in a newspaper/magazine company, a company which distributes Sun Network channels and a business solutions company.

Key financial indicators (audited)

Consolidated	FY2018	FY2019*
Operating Income (Rs. crore)	2,963.0	3,782.5
PAT (Rs. crore)	1,112.5	1,418.3
OPBDIT/OI (%)	68.3%	68.9%
RoCE (%)	39.7%	42.8%
Total Debt/TNW (times)	-	-
Total Debt/OPBDIT (times)	-	-
Interest coverage (times)	1,874.6	1,579.8

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital

*based on abridged financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018	Date & Rating in FY2017 Jan 2017
1	Non-Fund based facilities	Short Term	12.50	12.50	**[ICRA]A1+**	**[ICRA]A1+**	**-**	**[ICRA]A1+**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Non fund based facilities	-	-	-	12.50	[ICRA]A1+

Source: Sun TV Network Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kal Radio Limited	98.19%	Full Consolidation
South Asia FM Limited	59.44%	Equity Method

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