October 30, 2020

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 Sun TV Network Limited's (STNL) established presence; strong brand equity of the channel 'Sun TV'; and the company's strong financial profile. 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, Marathi, Malayalam and Bangla, across various genres such as general entertainment, movies, music, news and kids. Also, Sun TV – the flagship channel of the company – has consistently obtained the maximum number of impressions in regional general entertainment space and across genres, pan India.

The company derived 49.0% of its consolidated revenues from subscription revenues and 42.0% from advertisement segment in FY2020. The remaining was derived from movie distribution, IPL and content trading. STNL's revenues are expected to be impacted by the economic downturn caused by the pandemic, as advertisement revenues are correlated with the general health of the economy, despite anticipated increase in subscription revenues. STNL's margins in FY2020 remained strong aided by its scale of operations, strong vertical integration with presence across the value chain, high bargaining power and negligible finance costs. The company reported OPM of 66.2% and NPM of 39.5% in FY2020 (PY: 69.5% and 37.5% respectively) and for Q1 FY2021, OPM was at 66.9% and NPM at 42.1% respectively. Further, STNL has had zero debt as on balance sheet dates for the last several years, and superior liquidity with sizeable cash and liquid investment balance of Rs. 2648.8 crore as on March 31, 2020, despite its working capital-intensive nature of business and relatively high receivables. ICRA expects the company's financial profile to remain strong going forward as well.

Implementation of Telecom Regulatory Authority of India's (TRAI) New Tariff Order 2.0 (NTO 2.0), which aims to reduce the monthly subscription cost by reducing the maximum retail price of certain channels and providing additional free-to-air channels, could lead to moderation in subscription revenues for the industry. Further, implementation of the TRAI order (which was issued in May 2012 and is under litigation for over eight years now), capping television advertisements to 12 minutes for every hour of telecast, could impact industry advertisement revenues. However, both these orders are likely to have minimal impact on STNL's revenues upon implementation, given that STNL's channels garner strong viewership and STNL's advertisement slots are already closer to the proposed cap.

The company traditionally pays a large part of its profits as dividends. For FY2020, the dividend payout ratio was 85% and was higher than the average dividend payout ratio of 44% witnessed during FY2017–FY2019. The dividend payout (as a percentage of profits) is expected to be high going forward as well. Despite the significant dividend and outlined capex, STNL's liquidity position is expected to remain superior going forward and the company would be left with sizeable cash/liquid investment surplus. STNL is expected to maintain its net debt negative position over the medium term.

Key rating drivers and their description

Credit strengths

Established presence in television broadcasting space; diversification across genres with Sun TV being the flagship channel – The company has been present in the television broadcasting space for over two decades and has gradually expanded its channel base to 33 as on date. It broadcasts programmes in Tamil, Telugu, Kannada, Malayalam Marathi and Bangla across various genres, such as general entertainment, movies, music, news and kids. Also, Sun TV–the flagship channel of the company–was among the highest viewed channels in the general entertainment category in FY2020.

Consistently high television rating points (TRPs) maintained in last several years – Sun TV has consistently obtained the maximum number of impressions in regional general entertainment space and across genres, pan India. 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 its control over telecasted content.

Financial profile characterised by strong profit margins/accruals and zero debt – The company has reported strong profit margins/accruals in the last several years aided by its scale of operations, strong vertical integration with presence across the value chain, high bargaining power and negligible finance costs. Further, STNL has had zero debt in its balance sheet dates for the last several years, with sizeable cash and liquid investment balance. For FY2020, the company reported OPM of 66.2% and NPM of 39.5% in FY2020 (PY: 69.5% and 37.5% respectively) and had consolidated cash and liquid investment of Rs. 2,648.8 crore as on March 31, 2020. For Q1 FY2021 also, despite the pandemic, the OPM and NPM were strong at 66.9% and 42.1%, respectively. ICRA expects the company's financial profile to remain strong going forward as well.

Credit challenges

Vulnerability of advertising revenues to economic slowdown – STNL derived 42.0% of its revenues in FY2020 from advertisements. Its advertisement revenues are also dependent on the macroeconomic environment, akin to other industry players. In addition, rising competition with increase in the total number of channels in the mass content and niche segments could also put pressure on the company's advertisement revenues. Nevertheless, Sun TV's high viewership levels provide comfort to an extent. In FY2020, STNL's advertisement revenues declined by 8.3% because of the economic slowdown. It is expected to remain weak in FY2021 as well.

Working capital-intensive nature of business 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 relatively high working capital intensity of 33.1% in FY2020, the company's healthy accruals and moderate capex compared to accruals in the last few years, have led to healthy cash flows and superior liquidity.

Liquidity Position: Superior

STNL has **superior** liquidity with zero debt, sizeable consolidated cash balance of Rs. 2,648.8 crore as on March 31, 2020 (PY: Rs. 2,658.8 crore) and fund flow from operations of Rs. 1,862.4 crore in FY2020, aided by its strong accruals and moderate capex undertaken over the last several years. Going forward, STNL has capex plans of Rs. 1,290.0 crore over FY2021-FY2023, which is to be funded through internal accruals. ICRA expects STNL to be able to meet its commitments through internal sources of cash and yet be left with sizeable cash/liquid investment surplus. The company is expected to maintain its net debt negative position over the medium term.

Rating sensitivities

Positive triggers – Not applicable.

Negative triggers – Negative pressure on STNL's rating could arise from significant deterioration in revenues or margins or significant increase in net debt, on account of capex or acquisitions, if any.

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) is primarily engaged in television broadcasting. Apart from these, the company also has license to operate an IPL franchise under the name SunRisers Hyderabad and has produced/distributes movies under the name Sun Pictures. Broadcasting currently constitutes over 91.1% of the company's revenues. Under this segment, the company owns 33 channels across four South Indian languages, including the launch of Sun Bangla and Sun Marathi, catering to various genres. Sun TV—one the highest viewership channels in the general entertainment category for the last several years—is the company's flagship channel.

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 was started in 1993. The company has a subsidiary (Kal Radio Limited) and a 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 Suriyan FM. The subsidiaries accounted for ~3.1% of STNL's consolidated revenue in FY2020.

Other than STNL and its subsidiaries, the promoters have ownership interests in a newspaper/magazine company, a company which distributes Sun Network channels, a business solutions company and some non-operational entities.

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	3,782.5	3,519.9
PAT (Rs. crore)	1,418.1	1,389.9
OPBDIT/OI (%)	69.5%	66.2%
RoCE (%)	43.4%	32.9%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	1594.2	182.7
DSCR		

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; Debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					30-Oct-2020	1-Jul-2019	6-Apr-2018	-	16-Jan-2017
1	Non-Fund based facilities	Short Term	12.50	12.50	**[ICRA]A1+**	**[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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About ICRA Limited:

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