March 27, 2023

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 I*

Rationale

The rating reaffirmation derives comfort from Sun TV Network Limited's (STNL) established presence, the strong brand equity of Sun TV and its strong financial profile and superior liquidity position. The company's profitability remains robust aided by its presence across the value chain (content creation, broadcasting, and distribution), which provides higher bargaining power in the industry. At present, it has 31 channels in four southern languages across various genres and two channels in the regional entertainment category in Bangla and Marathi. A large content library and regular investments in new content resulted in high television rating points (TRPs) over the last several years, driving advertising and subscription revenues. STNL's channels are consistently among the top five in terms of viewership across all South Indian languages. The company remained debt-free for over a decade and had sizeable cash and liquid investments of Rs. 4,116 crore as on September 30, 2022 (compared with Rs. 3,578 crore as on March 31, 2022), facilitated by its strong accruals.

STNL's advertising revenues remain vulnerable to the economic slowdown and cascading advertisement spend cuts by corporates, as witnessed in FY2021, when the advertisement revenues declined by 27% on a YoY basis owing to the disruption caused by the Covid-19 pandemic. Nonetheless, the advertisement revenues witnessed a rebound and registered a YoY growth of 31% (albeit on a low base) and 11% in FY2022 and 9M FY2023. For the entire fiscal of FY2023 and the upcoming fiscal FY2024, a middle single-digit YoY growth is anticipated under the advertisement segment revenues. The subscription revenues, which remains one of the major revenue contributors, moderated in FY2022 and 9M FY2023 and are likely to remain stagnant in the near term, as digitisation of cable television signals reached a mature stage. STNL had a relatively high working capital intensity, due to the relatively high credit period extended to the cable operators. Nevertheless, there has been no major history of bad debts for the company, notwithstanding its elongated receivables cycle.

STNL has traditionally been paying a large part of its profits as dividends with an average dividend payout ratio of ~45% in the period between FY2016 and FY2022. In absence of investment opportunities, the dividends are expected to be high as a percentage of the profits going forward. STNL's liquidity position is likely to remain superior, driven by strong accruals, notwithstanding the significant dividends, if any, and an anticipated capital expenditure of ~Rs. 350.0 crore in FY2024.

ICRA notes the recent implementation of the Telephone Regulatory Authority of India's (TRAI) New Tariff Order 2.0 (NTO 2.0) and the anticipated implementation of NTO 3.0 shortly, which aims at lessening the monthly burden of subscribers by reducing the maximum retail price (MRP) of channels, provide additional free-to-air channels and lower the prices of channels that are bundled. Nevertheless, STNL's channels are a part of the base pack in its viewership locations by virtue of user preference. As a result, the company's average revenue per user (ARPU) is likely to have limited impact post implementation of the order.

Key rating drivers and their description

Credit strengths

Vertical integration across value chain ensures healthy profit margins and better bargaining power in industry – The company is present in television broadcasting for over two decades and has expanded its base to 33 channels as on date 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 YTD CY2023. The Sun Group, through its entities such as Sun Direct TV Private Limited and Kal Media Services Private Limited, is involved in the distribution of broadcasted content through direct-to-home (DTH) and cable services. The Group's presence across the value chain has helped in maintaining healthy margins and higher bargaining power in the industry.

Consistently high TRPs, large content library, consistent investment in new programming provide revenue visibility – STNL has a strong viewership in the Tamil genre with its flagship channel Sun TV commanding a leading position in terms of viewership/impressions in general. STNL's channels are consistently among the top five in terms of viewership across all South Indian languages. A large content library built over the years and consistent investment in new programming has helped it to maintain high TRPs over the last several years, ensuring revenue visibility in advertising and subscription segments. The company generates 7-8% of its revenues from the Indian Premium League (IPL) segment, whereby, it has license to operate the team 'Sunrisers Hyderabad'. Its IPL segment turned profitable since FY2019. Further, the revenues under this segment are expected to witness steep growth from FY2024 onwards, as IPL's global media rights for the upcoming 5-year period (2023 – 2027) have been sold at ~Rs. 48,000 crore, which is 3 times as that for the prior 5-year period.

Strong financial profile characterised by robust coverage metrics and superior liquidity – While high TRPs helped the company grow its advertisement revenues, the increase in the subscriber base owing to digitisation supported the growth in STNL's subscription revenues till FY2021. However, with digitisation reaching matured stage in FY2022, the subscription revenues moderated in FY2022 and 9M FY2023 and is expected to remain stagnant in the near term. Notwithstanding the moderation in its key revenue segment, its financial profile remains strong, as characterised by robust profitability and coverage indicators. Its OPM stood at 64.6% and its NPM stood at 46% in FY2022 and continued to remain healthy with an OPM and NPM of 65% and 45%, respectively, in 9M FY2023, which led to robust coverage indicators. STNL has zero debt as on balance sheet dates and sizeable cash and liquid investment balance of of Rs. 4,116.2 crore as on September 30, 2022, facilitated by its strong accruals. 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 37% and 38% of its standalone revenues in FY2022 and 9M FY2023, respectively, from advertisements. While advertisement spends by corporates are vulnerable to the economic cycles, STNL's advertisement revenues are dependent on the macro-economic environment – this is similar to other industry players. In addition, rising competition with increase in the number of channels in the mass content and niche segments could pressurise the advertisement revenues. Nevertheless, Sun TV's high viewership and continuous strive to improve content by rejigging prime time offerings through new fiction and non-fiction shows provides comfort to an extent. Considering the temporary disruption caused by the Covid-19 pandemic and the subsequent advertisement spend cuts by the corporates, STNL's advertisement revenues declined by 27% in FY2021. Nonetheless, it has improved in FY2022, registering a YoY growth of 31%, backed by a rebound in advertisement spends across key sectors such as FMCG, automobiles, etc. The advertisement revenues grew by 11% on a YoY basis in 9M FY2023. However, its growth is likely to moderate to single digit for the entire fiscal of FY2023 and the upcoming fiscal FY2024, given the relook of the advertisement spends by the company's key customer segments, under the recent inflationary pressures.

Working capital-intensive nature of business due to high receivables – Like most players in the industry, STNL's operations are working capital intensive in nature. It offers extended credit periods to advertisement agencies, DTH and cable operators. It also faces delays in actual payment receipts, which stretch the working capital. Despite high working capital intensity of 30.9% as on March 31, 2022 (PY: 29.6% as on March 31, 2021), the company's healthy accruals and moderate capital expenditure led to superior cash flows and liquidity. Besides, notwithstanding its elongated working capital cycle, it has not faced any major bad debt concerns in the past.

Liquidity position: Superior

STNL's liquidity continues to remain superior with sizeable cash and liquid investments of ~Rs. 4,116 crore as on September 30, 2022, compared to Rs. 3,578 crore as on March 31, 2022). Of the same, ~Rs. 3,000 crore were in the form of liquid investments. Its liquid investments are primarily parked in mutual funds. It has traditionally paid out high dividends in absence of investment opportunities. Notwithstanding the significant dividend, if any, and capital outflow expected (~Rs. 350 crore of capex in FY2024), STNL's liquidity position is likely to remain superior.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on STNL's rating could arise from a significant deterioration in revenues or margins; or a significant increase in net debt on account of capital expenditure or investments or acquisitions, if any.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Media (Broadcasting)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of STNL, along with its subsidiary – Kal Radio Limited and its joint venture (JV) – South Asia FM Limited

About the company

Sun TV Network Limited (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. STNL is primarily involved in television broadcasting. The company has the licence to operate an Indian Premier League (IPL) franchise under the name SunRisers Hyderabad. Besides, it produces/distributes movies under the banner Sun Pictures.

Television broadcasting forms a major part of the company's revenues. It owns 31 channels across four South Indian languages - Tamil, Telugu, Malayalam, and Kannada - and two other channels - Sun Bangla and Sun Marathi, catering to various genres. Sun TV remains one of the highest viewership channels in the general entertainment category for the last several years.

The company has one subsidiary (Kal Radio Limited) and one JV (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 subsidiaries and JV accounted for ~3% of STNL's consolidated revenues in 9M FY2023.

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

Key financial indicators (Audited)

STNL (Consolidated)	FY2021	FY2022
Operating income (Rs. crore)	3,204.59	3,587.67
PAT (Rs. crore)	1,531.66	1,650.62
OPBDIT/OI (%)	65.63%	64.59%
PAT/OI (%)	47.80%	46.01%
Total outside liabilities/Tangible net worth (times)	0.08	0.06
Total debt/OPBDIT (times)	0.04	0.01
Interest coverage (times)	78.30	69.69

(Source: STNL; ICRA)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on (Rs. crore)	Date & Rating on	FY2022	FY2021	FY2020
					March 27, 2023	December 31, 2021	October 30, 2020	July 01, 2019
1	Non-fund based facility – Bank Guarantee	Short term	12.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-fund based facility – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-fund based facility – Bank Guarantee**	NA	NA	NA	12.50	[ICRA]A1+

Source: STNL and ICRA

Annexure II: List of entities considered for consolidated analysis

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

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