

April 15, 2024

Sun TV Network Limited: Rating reaffirmed and withdrawn

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Short-term – Non-fund based	12.50	12.50	[ICRA]A1+; Reaffirmed and withdrawn
Total	12.50	12.50	

*Instrument details are provided in Annexure-I

Rationale

ICRA has reaffirmed and withdrawn the rating assigned to the bank facilities of Sun TV Network Limited (STNL). The rating is withdrawn at the request of the company and based on the No Objection Certificate (NOC) received from its banker, in accordance with ICRA's policy on withdrawal of credit ratings.

The rating reaffirmation factors in STNL's established presence in television broadcasting segment, the strong brand equity, strong financial profile and superior liquidity position. In 9M FY2024, STNL's (consolidated) operating income was up by 13%, mainly supported by growth in Indian Premier League (IPL) revenue (118% YoY growth) and higher revenue from the movie segment. Further, subscription revenue witnessed recovery in 9M FY2024 with growth of 6% YoY. 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 four 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 years, driving advertising and subscription revenues. STNL's key channels are consistently among the top five in terms of viewership across all South Indian languages. The company has remained debt-free for over a decade and had sizeable cash and liquid investments of Rs. 4,836 crore as on September 30, 2023 (compared with Rs. 4,261 crore as on March 31, 2023), facilitated by its strong accruals.

STNL's advertising revenues are susceptible to the economic slowdown and cascading advertisement spend cuts by corporates as well as shift in genre preference of advertisers. In 9M FY2024, advertisement revenue declined YoY by 4% on account of increased competition from sports genre. For FY2024 and the upcoming fiscal FY2025, a moderate YoY growth is anticipated under the advertisement segment revenues. The subscription segment, which remains one of the major revenue contributors, moderated in FY2022 and FY2023 by 6% and 2%, respectively. However, in 9M FY2024, it witnessed a YoY recovery of 6% on account on increase in channel prices as well as some recovery in subscriber base. The working capital intensity, though improved marginally in FY2023, remained high due to the relatively high credit period extended to the cable operators. Further, notwithstanding its elongated receivables cycle, there has not been any major history of bad debts for the company.

STNL continues to pay a large part of its profits as dividends with Rs. 591 crore (~35% of PAT as dividend) in FY2023 and Rs. 660 crore in 9M FY2024. ICRA expects the dividend payouts to remain high going forward. Notwithstanding the significant dividend payouts and an anticipated capital expenditure of Rs. 500-550 crore in FY2024, STNL's liquidity position is likely to remain superior, driven by strong accruals,

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 35 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 CY2024. 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.

Strong market position, large content library, consistent investment in new programming provide revenue visibility – STNL has a strong viewership, with its flagship channel Sun TV commanding a leading position (1st in Tamil Nadu/ Pondicherry and 5th in India as per BARC data [Week 12, 2+]) in terms of viewership/impressions in general entertainment category. STNL's channels have consistently been 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 helped it to maintain high TRPs over the last several years, ensuring revenue visibility in advertising and subscription segments. Its revenues from the sport franchise improved to 16% in 9M FY2024 from 8% in FY2023 on account of an increase in IPL's global media rights for the upcoming five-year period (CY2023 – CY2027). The same was sold at ~Rs. 48,000 crore, which is 3 times as that for the prior five-year period. It also acquired new license to operate 'SunRisers Eastern Cape' (South African professional Twenty20 franchise cricket team), along with its existing license to operate 'SunRisers Hyderabad' in IPL.

Strong financial profile characterised by robust coverage metrics and superior liquidity – With the competition from sports genre impacting advertisement revenue as well as linear shift in subscribers from TV to OTT affecting the subscription revenue, the revenue growth from this key revenue segment is expected to remain modest in the near term. Notwithstanding the same, its financial profile remains strong, as characterised by robust profitability and coverage indicators. STNL's OPM stood at 65.5% and its NPM stood at 45.1% in FY2023 and continued to remain healthy with an OPM and NPM of 63.7% and 45.3%, respectively, in 9M FY2024, which led to robust coverage indicators. STNL is net debt-free with sizeable cash and liquid investment balance of Rs. 4,836.3 crore as on September 30, 2023, 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 39% and 32% of its standalone revenues in FY2023 and 9M FY2024, respectively, from advertisements. The revenues from advertisement segment remain exposed to inherent sectoral risk and are dependent on the macro-economic environment as well as advertisement spends by corporates, with the latter being vulnerable to economic cycles. In addition, rising competition, with increasing number of channels in the mass content and niche segments such as sports, continues to pressurise the advertisement revenues, as visible in the 4% YoY decline in advertisement revenue in 9M FY2024. ICRA expects the advertisement revenue to grow by single digit for the FY2025, supported by Sun TV's high viewership.

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 27.9% as on March 31, 2023, the company's healthy accruals and moderate capital expenditure led to superior cash flows and liquidity. Notwithstanding its elongated working capital cycle, STNL has not faced any major bad debt concerns in the past.

Environmental and Social considerations

Environmental considerations – STNL is involved in the business of broadcasting of general entertainment, news, television channels and FM radio channels. The company adheres to applicable regulation/guidelines issued by the Ministry of Information and Broadcasting, Telecom Regulatory Authority of India and Indian Broadcasting Federation in rendering its services. Besides, in view of protecting and safeguarding the environment, the company has implemented green initiatives like use of renewable energy and zero liquid discharge.

Social considerations – Exposure to social risks is moderate for the media and entertainment sector. The companies remain exposed to social risks, such as changes in consumer engagement practices and preference (like shift towards OTT platform) as well as privacy-related issue. This situation could result in higher operating cost as well as capital investment requirement, thereby adding pressure on its credit profile.

Liquidity position: Superior

STNL's liquidity continues to remain superior with sizeable cash and liquid investments of ~Rs. 4,836 crore as on September 30, 2023, of which ~Rs. 4,000 crore were in the form of liquid investments parked in mutual funds. In absence of investment opportunities, it has traditionally paid out high dividends. Notwithstanding the significant dividend payout and capital outflow expected (~Rs. 500-550 crore of capex in FY2024), the company's liquidity position is likely to remain superior.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Not applicable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology TV Broadcasting Policy on Withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of STNL. The list of entities considered for consolidation as on March 31, 2023, is provided in annexure II.

About 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. STNL is primarily involved in television broadcasting. The company has the licence to operate an IPL franchise under the name SunRisers Hyderabad. In FY2023, it has acquired license to operate SunRisers Eastern Cape (South African professional Twenty20 franchise cricket team). 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 FY2024.

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)	FY2022	FY2023	9M FY2024*
Operating income (OI)	3,587.7	3,773.2	3,320.8
PAT	1,650.6	1,703.4	1,505.5
OPBDIT/OI	64.6%	63.5%	63.7%
PAT/OI	46.0%	45.1%	45.3%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	69.7	254.2	-

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 15, 2024	-	March 27, 2023	December 31, 2021	October 30, 2020
1 Non-fund based facility – Bank guarantee	Short term	12.50	-	[ICRA]A1+; withdrawn	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based facility – Bank guarantee	NA	NA	NA	12.50	[ICRA]A1+; withdrawn

Source: Company

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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