

January 16, 2017

## Sun TV Network Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Short-term non-fund based facilities	12.50	[ICRA]A1+ Assigned

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs.12.50 crore short-term non-fund based facilities of Sun TV Network Limited ("STNL"/ the company).

### Rationale

The assigned rating draws comfort from STNL's established presence; the strong brand equity of Sun TV; and the company's strong margins, zero debt and healthy cash flow position. The company derives majority of its revenues from Sun TV, which has a loyal audience base, translating into high Television Rating Points (TRPs). While the strong market position enjoyed by Sun TV and STNL's diversification across genres/languages have aided in scale improvement and helped the company demonstrate consistently steady revenue growth, the significant bargaining power with content providers and control over telecasted content facilitates strong margins. The healthy accruals have resulted in strong net worth, zero debt and consequently healthy capital structure and coverage metrics; cascading into comfortable cash flows. As on March 31, 2016, STNL had cash and cash equivalents<sup>1</sup> to the tune of Rs.1124.7 crore.

The rating also takes into account the ongoing legal proceedings against the company's promoters and subsidiary, initiated by various authorities in the recent past. STNL's business is working capital intensive and the company's dividend payouts have been between 70-80% of profits in the last five years. Further, while the implementation of phase III and phase IV digitization is expected to improve subscription revenues lending stability to its revenue profile, the cyclical nature of advertisement spends and increasing competitive intensity could result in volatility in revenues going forward; although the company has mitigated significant volatility during downturns in the past.

### Key rating drivers

#### Credit Strengths

- Established presence of the group and the 'Sun TV' brand in the television broadcasting space; diversification across genres
- Consistently high television rating points (TRPs) maintained in the last several years, leading to healthy growth in advertisement revenues; wide and improving subscriber base contributing to healthy growth in subscription revenues
- Relatively high bargaining power with content providers, and in the supply chain
- Strong financial profile characterized by healthy profits margins, leading to high cash balances and cash flows; and absence of debt as on quarter ends

#### Credit Concerns

- Pending litigations against promoters/group companies
- Relatively high dividend payouts compared to profits in the last five years
- Working capital intensive nature of business arising from relatively high receivables, although akin to most players in the industry
- Revenues concentrated in advertisement revenues which are susceptible to economic cyclicity

<sup>1</sup> Cash and cash equivalents include cash of Rs.155.0 crore, and fixed deposits of Rs.969.7 crore

**Key Rating Sensitivities**

- Adverse verdicts in litigations against the promoter could affect the operations of STNL
- Implementation of TRAI regulation, capping advertisements to 12 minutes in an hour of programming could have impact on revenues and margins
- Implementation of phase III and phase IV digitization could result in improvement in subscription revenues

**Description of key rating drivers highlighted above:**

The company has presence in television broadcasting for over two decades, and has gradually expanded its channel/language base to 33 channels across south India. Sun TV is the flagship channel and constitutes majority of revenues for the company. On account of its loyal audience base, 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. STNL has exhibited robust CAGR growth of 8.1% during FY2012-16, aided by healthy growth in advertisement and subscription revenues.

By virtue of its popularity, Sun TV attracts a fair share of television advertisement spends. Further, the company has significant bargaining power over its content providers, aiding in control over telecasted content; and maintaining healthy margins. The company's operating margins have remained strong at around 70-80% during FY2012-16, while its net margins were at 34-36% for the same period, despite marginal losses in the IPL segment.

The company has zero debt as on balance sheet dates; although marginal loans (backed by fixed deposits) are availed during the year. The company only avails a non-fund based facility of Rs. 90.00 crore for bank guarantees given for IPL and other business activities. By virtue of the strong accruals and zero debt, the debt metrics as of the balance sheet dates have remained strong. Although the company has been paying 70-80% of its profits as dividends and its operations have high receivables of over 100 days, the cash flows continue to remain healthy, given the relatively low capex undertaken in the last few years, compared to the scale of operations.

Traction in implementation of phase III and phase IV digitization in the southern markets are likely to improve subscription revenues. However, the implementation of the TRAI regulation limiting advertisements to 12 minutes in an hour of fiction programming, could limit revenues/margins. Also, adverse movements in the advertisement revenues arising from economic downturns could result in some volatility in revenues; however, healthy growth in the past despite such downturns mitigates the latter risk to a large extent. The pending litigations against the promoters/group entities are a concern, since the promoters/group entities are closely involved in the operations of the company; however, responsibilities vested upon different personnel in a corporatized/professional set up, limits the risk. Overall, the revenues and margins are expected to remain healthy over the medium term, although the possibility of volatility on account of the aforementioned factors could prevail.

The company is expected to declare significant dividends going forward, similar to the past. However, absence of inorganic expansions or major investment plans and maintenance of zero debt are likely to maintain the company's strong credit profile in the near to medium term.

**Analytical approach:****Links to applicable Criteria**

Corporate Credit Rating - A Note on Methodology  
Rating Methodology for Media Industry (Broadcasting Companies)

**About the company:**

Sun TV Network Limited is primarily engaged in television broadcasting and owns 33 channels across four south Indian languages, catering to various genres including general entertainment, news, kids, movies, comedy and action. Sun TV, which is one the highest viewership channels in the general entertainment category, is the flagship channel of the company. Apart from these, the company also has 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. The company 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 two subsidiaries - Kal Radio Limited and South Asia FM Limited - which together own 47 FM radio stations across the country and broadcast under the brand names Red FM and Suriyan FM. The subsidiaries accounted for ~6.5% of STNL's consolidated revenues in FY2016.

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.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S. No.	Name of Instrument	Current Rating			Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
		Type	Rated amount (Rs. Crore)	Month - year & rating			
1	Bank Guarantee	Short term non-fund based	12.50	Jan 2017			
				[ICRA]A1+	NIL	NIL	NIL

**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](http://www.icra.in)

**Annexure-1**
**Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Bank Guarantee	-	-	-	12.50	[ICRA]A1+

Source: STNL

**Name and Contact Details of the Rating Analyst(s):**
**Analyst Contacts**

**Subrata Ray**  
+91 22 2433 1086  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Vinutaa S**  
+91 44 4596 4305  
[vinutaa.s@icraindia.com](mailto:vinutaa.s@icraindia.com)

**Gayathri R**  
+91 44 4596 4311  
[gayathri.ramesh@icraindia.com](mailto:gayathri.ramesh@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500