

## Sun TV Network Limited

April 06, 2018

### Summary of rated instruments

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
<b>Total</b>	<b>12.50</b>	<b>12.50</b>	

### Rating action

ICRA has reaffirmed the short-term rating at [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs.12.50 crore<sup>1</sup> short term non-fund facilities of Sun TV Network Limited (STNL / the company)<sup>2</sup>.

### Rationale

The rating reaffirmation draws comfort from STNL's established presence; strong brand equity of 'Sun TV'; and the company's strong financial profile characterized by healthy revenue growth in FY2017 and 9M FY2018, strong margins, zero debt and robust cash flow position.

STNL has had presence in the television broadcasting for over two decades, and currently has 33 channels in the four southern languages across various genres. 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.

STNL's financial profile continues to remain strong. 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, 2017, STNL had cash balance to the tune of Rs.738.1 crore. ICRA expects STNL's financial profile to remain strong in the near to medium term.

Although STNL's business is working capital intensive and the company's dividend payouts have been high, at 70 -80% of profits in the last five years, the healthy liquidity position provides comfort to a large extent. Further, while STNL's advertisement revenues are vulnerable to economic downturns, the stability of the company's advertisement income in the past provides comfort to a large extent. However, ICRA notes that any restrictions on advertisement timings from current levels could impact advertisement income for the company.

### Outlook: Not Applicable

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Established presence of the group and the ‘Sun TV’ brand in the television broadcasting space; diversification across genres-** The company has presence in television broadcasting for over two decades, and has gradually expanded its channel base to 33 channels in Tamil, Telugu, Kannada and Malayalam across various genres such as general entertainment, movies, music, news and kids. Also, Sun TV – the flagship channel of the company – was among the channels with highest viewership in the general entertainment category in FY2016 and FY2017; and the company’s other channels also have reasonable market shares in their respective languages/genres.

**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 TRP’s 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 growths of 6.8% and 8.6% in FY2017 and 9M FY2018 respectively. The company also has healthy profit margins/accruals aided by its scale, high bargaining power and low interest costs. Further, STNL has had zero debt as on balance sheet dates and cash balance to the tune of Rs. 738.1 crore as on Mar 31, 2017. ICRA expects the company to maintain its strong financial profile going forward as well.

### Credit challenges

**Relatively high dividend payouts compared to profits in the last five years** - The company has been paying 70-80% of its net profits as dividends consistently in the last five years. However, despite the payouts, the company’s cash flows have remained healthy given the high accruals and modest capex spend for the scale of operations.

**Revenues concentrated in advertisement revenues which are susceptible to economic cyclicality** – STNL derives 45% of its standalone revenues during 9M FY2018 from advertisements. With advertisement spends by corporates vulnerable to economic cycles, STNL’s advertisement revenues are also dependent on the macro-economic environment – this is akin to other industry players. However, ICRA notes that the advertisement revenues have remained largely stable for the company in the last 4 years and are likely to remain so going forward as well.

**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. This arises from the company’s high receivables – following extended credit periods offered to advertisement agencies, DTH and cable operators, and further delays in actual payment receipts. Despite the high working capital intensity, the company’s healthy margins and absence of significant capex in the last few years, have led to adequate cash flows and liquidity.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. Also, ICRA has taken a consolidated view of STNL: which includes STNL Standalone; its subsidiary, Kal Radio Limited, joint venture South Asia FM Limited and associate companies.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating methodology for entities in Media Broadcasting Industry](#)

## About the company:

Sun TV Network Limited (STNL/the company) is primarily engaged in television broadcasting; 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; and under this, the company owns 33 channels across four south Indian languages, catering to various genres. Sun TV- - one the highest viewership channels in the general entertainment category in FY2016 and FY2017; 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 'Suriyan FM'. The subsidiary account for ~4% of STNL's consolidated revenues in FY2017.

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	FY 2016	FY 2017
Operating Income (Rs. crore)	2,473.6	2,645.7
PAT (Rs. crore)	922.3	1,030.7
OPBDIT/ OI (%)	70.5%	67.8%
RoCE (%)	41.3%	41.7%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDITA (times)	-	-
Interest coverage (times)	796.8	1,740.8
NWC/ OI (%)	42.3%	30.0%

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

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

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Non-Fund based facilities	Short Term	12.50	12.50	April 2018 [ICRA]A1+	January 2017 [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](http://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

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