December 31, 2021

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 derives comfort from Sun TV Network Limited's (STNL) established presence, the strong brand equity of Sun TV and the company's strong financial profile and superior liquidity position. The company's profitability remains strong with an operating profit margin (OPM) of 65.6% and a net profit margin (NPM) of 47.8% in FY2021 (59.3% OPM and 48.2% NPM in H1 FY2022), aided by its presence across the value chain (content creation, broadcasting, and distribution) which provides it a higher bargaining power in the industry. At present, the company 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 built over the years and regular investments in new content has helped it maintain 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 has remained debt-free for over a decade and had sizeable cash and liquid investments of Rs. 3,785.2 crore as on September 30, 2021 (compared with Rs. 3,433.2 crore as on March 31, 2021), facilitated by its strong accruals.

However, STNL's advertising revenues remain vulnerable to the economic slowdown and cascading advertisement spend cuts by corporates, as witnessed in FY2021, when the company's advertisement revenues declined by 27% on a YoY basis owing to the disruption caused by the Covid-19 pandemic. Nonetheless, the advertisement revenues rebounded in H1 FY2022 and registered a YoY growth of 59% (albeit on a low base) and is expected to register a double-digit YoY growth for the entire fiscal FY2022. The company's subscription revenues, which remains one of the major revenue contributor for the company, moderated in H1 FY2022 and are likely to remain stagnant in FY2022, as the digitisation of cable television signals has reached a mature stage. The company had a relatively high working capital intensity, characterised by a net working capital/operating income (NWC/OI) of 29.6% as on March 31, 2021, (PY: 31.6% as on March 31, 2020) due to the relatively high credit period extended to tide over the impact of Covid-19.

ICRA has noted that the implementation of the Telephone Regulatory Authority of India's (TRAI) New Tariff Order 2.0 (NTO 2.0) (anticipated from April 01, 2022), 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. However, 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 a limited impact post the implementation of the order.

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 FY2017 and H1 FY2022. In the absence of investment opportunities, the dividends are expected to be high as a percentage of the profits going forward as well. Notwithstanding the significant dividends, if any, and an anticipated capital expenditure ~Rs. 800.0 crore in FY2022, STNL's liquidity position is expected to remain superior given its 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 channel 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 CY2021. In addition to its established position in the broadcasting industry, the Sun Group though its entities such as Sun Direct TV Private Limited and Kal Media Services Private Limited are 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 it maintain healthy margins and higher bargaining power in the industry.

Consistently high television rating points (TRPs) for several years, 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 television rating points (TRPs) in the last several years, ensuring revenue visibility in advertising and subscription segments.

Strong financial profile characterised by robust coverage metrics and superior liquidity – While the high TRPs have helped the company grow its advertisement revenues, the increase in the subscriber base owing to digitisation has supported the growth in STNL's subscription revenues till FY2021. The subscription revenues registered a double digit growth of 15-17% per year for the FY2017 to FY2021 period. Digitisation has almost reached its mature stage and the subscription revenues moderated to Rs. 873.3 crore in H1 FY2022 and are expected to remain stagnant for the current fiscal. The revenue growth for FY2022 is likely to be supported by a double digit growth in the advertisement segment. In terms of the movie segment, the company has released in one movie in Q3 FY2022 and one more is expected to be released in Q4 FY2022.The company registered a revenue of Rs. 175.5 crore under its IPL segment (for the partial season of IPL 2021) in H1 FY2022 compared with Rs. 45.4 crore in H1 FY2021. The company's profitability continues to remain robust with an OPM of 65.6% and NPM of 47.8% in FY2021 (PY FY2020: 64.7% and 39.5%, respectively) and OPM and NPM of 59.3% and 48.2%, respectively, in H1 FY2022, aided by its scale, high bargaining power and low interest costs. Further, STNL has had zero debt as on balance sheet dates and sizeable cash and liquid investment balance of of Rs. 3,785.2 crore as on September 30, 2021 (compared with Rs. 3,433.2 crore as on March 31, 2021), 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 32% and 36% of its standalone revenues in FY2021 and H1 FY2022, respectively, from advertisements. While advertisement spends by corporates are vulnerable to the economic cycles, STNL's advertisement revenues are also dependent on the macro-economic environment – this is similar to other industry players. In addition, rising competitive intensity with the increase in the number of channels in the mass content and niche segments could also pressurise the company's advertisement revenues. Nevertheless, Sun TV's high viewership and continuous strive to improve content by rejigging primetime offerings through new fiction and non-fiction shows provides comfort to an extent. Given 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 H1 FY2022, registering a YoY growth of 59%, backed by a rebound in advertisement spends across key sectors such as FMCG, automobiles etc.

Working capital intensive nature of business due to high receivables, although akin to most players in the industry – Like most players in the industry, STNL's operations are working capital intensive in nature. The company offers extended credit periods to advertisement agencies, DTH and cable operators and delays in actual payment receipts stretch the working capital. Despite the high working capital intensity of 29.6% as on March 31, 2021 (PY: 31.6% as on March 31, 2020), the company's healthy accruals and moderate capital expenditure compared with its accruals in the last few years has led to superior cash flows and liquidity.

Liquidity position: Superior

STNL's liquidity position continues to be superior with cash and bank balances of ~Rs. 1,600.0 crore as on September 30, 2021, (compared with Rs. 1,071.0 crore as on March 31, 2021) and liquid investments of Rs. 2,151.0 crore as on the corresponding date. The company's liquid investments are majorly parked in mutual funds and as a policy the company has no investments in equity. The company has traditionally paid out high dividends in the absence of investment opportunities. However, the dividends reduced considerably in FY2021 as the company decided to conserve cash to tide over the Covid-related uncertainties. Despite the significant dividend, if any, and capital outflow expected (~Rs. 800 crore of capex in FY2022), STNL's liquidity position is expected 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 for Television Broadcasting Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of STNL along with its subsidiary – Kal Radio Limited and its joint venture – South Asia FM Limited

About the company

Sun TV Network Limited (STNL/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. STNL is primarily engaged in television broadcasting. The company also 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, as highlighted in the exhibit below. Under this, the company 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, one of the highest viewership channels in the general entertainment category for the last several years, is the flagship channel of the company.

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 subsidiaries accounted for ~2.5% of STNL's consolidated revenues in H1 FY2022.

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)

STNL (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	3,521.71	3,204.59
PAT (Rs. crore)	1,389.66	1,531.66
OPBDIT/OI (%)	64.68%	65.63%
PAT/OI (%)	39.46%	47.80%
Total Outside Liabilities/Tangible Net Worth (times)	0.14	0.08
Total Debt/OPBDIT (times)	0.04	0.04
Interest Coverage (times)	178.66	78.30

Source: STNL; ICRA Research

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating on	FY2021	FY2020	FY2019
					December 31, 2021	October 30, 2020	July 01, 2019	April 06, 2018
2	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No./Lender Name	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; ICRA*

Annexure-2: 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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About ICRA Limited:

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