

BSE SENSEX
29,337

S&P CNX
9,104

CMP: INR895 TP: INR860 (-4%)

Neutral



Stock Info

Bloomberg	SUNTV IN
Equity Shares (m)	394
52-Week Range (INR)	899/334
1, 6, 12 Rel. Per (%)	18/64/137
M.Cap. (INR b)	352.7
M.Cap. (USD b)	5.3
Avg. Val, INR m	1042
Free float (%)	25.0

Financials Snapshot (INR b)

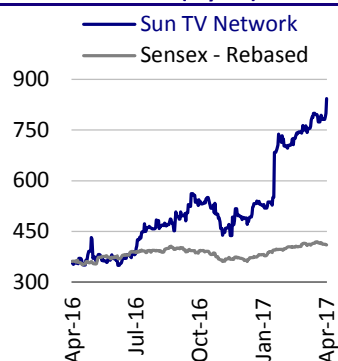
Y/E Mar	2017E	2018E	2019E
Net Sales	25.9	30.0	35.6
EBITDA	18.0	21.1	26.0
Adj. Net Profit	9.9	11.7	14.9
EPS (INR)	25.1	29.7	37.9
EPS Gr. (%)	19.6	18.5	27.3
BV/Sh (INR)	99.9	108.8	120.1
RoE (%)	25.1	27.3	31.5
RoCE (%)	26.0	28.4	32.9
P/E (x)	35.7	30.1	23.6
P/BV (x)	9.0	8.2	7.5

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	75.0	75.0	75.0
DII	1.7	3.6	3.3
FII	16.8	15.3	16.1
Others	6.6	6.1	5.6

FII Includes depository receipts

Stock Performance (1-year)



Digital MSO license to Arasu could mean facelift for SUNTV's subscription

TP revised to INR860/share

- Media reports ([Report 1](#), [Report 2](#)) suggest that state-owned Arasu Cable has been granted a provisional digital MSO license by the Ministry of Information (MIB) after a five-year-old logjam. This would be a first instance in the pay TV distribution space, where a state-run organization will largely cater to the cable needs of subscribers.
- The decision to grant a permanent license to Arasu hinges on the outcome of the Inter-Ministerial Committee's (IMC) meeting on the TRAI's recommendation of not allowing government entities to enter the broadcasting and pay TV distribution business.
- The MIB has also set a three-month deadline to switch-off analog signals.
- TN's digitization status, and theoretical upside for SUNTV from Arasu going digital:** Tamil Nadu has ~17m subscribers (C&S households), of which ~2.5m reside in Chennai (largely digitized). Of the 17m subscribers, ~8m reside with Arasu (which pays a minimum guarantee of ~INR25m/month to SUNTV – i.e. ~INR3/sub/month), while the remaining 9m reside with other MSOs and DTH operators. SUN TV is estimated to garner ~INR25 and INR40 per sub per month from MSOs (ex-Arasu) and DTH operators, respectively. The incremental opportunity for SUNTV from Arasu going digital is INR2.1b. However, Arasu being the most dominant player is expected to extract a lion's share of ARPU even in a digitized Tamil Nadu. We believe the needle could move meaningfully if the new tariff regulation is implemented as that would reduce Arasu's bargaining power.
- Arasu could remain non-committal on STB investment till grant of final license:** While Arasu has already invested in digital head-ends and other DAS infrastructure across the four southern states, we note that set-top box (STB) procurement for an estimated ~8m subscribers is yet to be made. This translates into ~INR10-11b capital outlay (INR1,300/STB) over next three months, and deployment of STBs could take ~6-9 months. Arasu could remain non-committal on capital outlay before it is granted a permanent license by MIB. It is also likely to seek timeline extension to roll-out STBs on the ground.
- Valuation and view:** While we revise our earnings estimates for FY19 by 10% to factor in a probability adjusted INR2b increase in subscription income, The bigger concern on ad growth still persists. The jury is still out on whether the newly commissioned programming strategy will help it get back in the reckoning in terms of viewership in ex-Tamil markets. This restricts us from narrowing the valuation gap between SUN TV and Zee. We are revising our target price to INR860/share, based on 23x FY19E EPS. The stock trades at a P/E of 29.8x FY18E and 25.6x FY19E EPS. Maintain **Neutral**.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Potential Upside to revenue/EBIT/PAT from Arasu going Digital:

Incremental Opportunity from ARASU (FY19E)	Case 1	Case 2	Case 3
	ARASU gets DAS Licence	ARASU gets DAS Licence	Status Quo
ARASU subscribers (m)	8	8	8
SUN TV's current share from Arasu (INRm)	300	300	300
Sun TV's potential share in ARPU from ARASU	@INR25/sub/month	@INR12.5/sub/month	@INR3/sub/month
Potential Upside from Arasu going digital	2400	1200	300
Upside from Other platforms' digitization	1800	1500	0
Incremental subscription revenue (INR m)	3900	2400	0
Current FY19E SUNTV revenue (INRm)	33623	33623	33623
Post-event, FY19E SUNTV revenue estimates (INRm)	37523	36023	33623
Change (%)	11.6%	7.1%	0.0%
Current FY19E SUNTV EBIT (INRm)	20796	20796	20796
Post-event, FY19E SUNTV EBIT estimates (INRm)	24696	23196	20796
Change (%)	18.8%	11.5%	0.0%
Current FY19E SUNTV PAT (INRm)	13608	13608	13608
Post-event, FY19E SUNTV PAT estimates (INRm)	16162	15180	13608
Change (%)	18.8%	11.6%	0.0%
Assigning probability	20%	50%	30%
FY19E SUNTV PAT estimates (INRm) (adj. for probability)	14905		
Change (%)	9.5%		

Source: Company, MOSL

Viewership improving in Telugu market; flagship holding up

While the network through fresh in-house and commissioned content (v/s private producer-made content earlier) is seeing encouraging results in the AP market, Karnataka and Kerala offerings are yet to see a sustained increase in viewership. Despite remaining a dominant player by a stretch, even the flagship Sun TV has consistently lost share to national broadcasters since January 2016.

Exhibit 2:

Tamil market	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change (YoY)
Sun TV	62.3	62.7	59.3	58.0	57.4	57.1	56.1	58.0	58.4	57.0	58.0	57.0	55.8	-651bps
KTV	17.2	16.9	18.8	18.7	16.4	15.0	15.2	13.3	14.4	14.4	13.3	14.3	15.1	-209bps
Zee Tamil	6.0	7.2	7.0	8.3	10.5	11.5	12.2	13.0	13.0	13.2	12.6	12.4	12.2	618bps
STAR Vijay	11.8	10.4	11.0	11.8	12.8	11.8	11.5	9.5	9.8	10.3	10.9	11.3	12.5	72bps
Jaya TV	2.8	2.8	3.9	3.2	3.0	4.6	3.3	3.7	2.1	1.8	3.1	0.0	0.0	-275bps
Polimer	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0	1.2	1.6	2.1	5.0	3.5	351bps
J Movie	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0bps
Thanti TV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0	0bps
Sun Music	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	0.0	0.0	0.0	0.0	0.0	0bps
Adithya TV	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	94bps

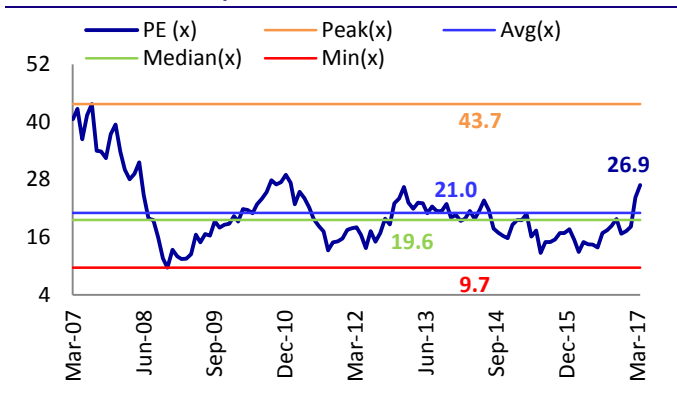
Telugu Market	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change (YoY)
Gemini TV	17.7	19.5	18.4	19.9	23.7	25.6	26.7	26.5	28.2	27.8	25.9	26.4	27.7	1005bps
ETV Telugu	24.9	23.1	23.4	23.4	22.8	22.6	22.5	22.1	24.0	21.6	22.7	21.1	21.3	-355bps
Zee Telugu	24.3	25.0	26.0	24.8	22.8	21.6	21.9	21.3	20.4	20.7	22.4	21.7	21.6	-270bps
STAR Maa	22.5	22.0	21.7	21.6	20.0	19.8	19.8	19.5	20.6	21.3	20.5	22.2	20.6	-187bps
Gemini Movies	10.7	10.3	10.6	10.3	10.7	10.4	9.1	8.5	6.9	8.5	8.5	8.6	8.7	-193bps
TV 5 News	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0bps
TV9 Telugu	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0bps

Kannada Market	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change (YoY)
Colors Kannada	29.3	29.2	27.1	30.5	30.2	30.9	32.3	30.8	31.8	30.7	33.0	30.6	29.4	10bps
Zee Kannada	18.0	18.2	20.6	18.3	19.1	19.8	19.0	20.7	21.3	22.6	22.3	22.7	22.1	412bps
Udaya TV	15.2	16.0	15.8	17.1	16.7	15.9	16.0	12.0	11.7	10.3	10.7	12.5	11.6	-354bps
Star Suvarna	21.3	18.8	17.2	15.1	16.2	18.0	17.2	20.5	20.0	20.5	19.3	18.8	19.9	-147bps
Udaya Movies	16.2	17.9	19.2	19.0	17.8	15.4	15.5	16.0	15.2	15.9	14.6	15.4	17.0	80bps

Malayalam Market	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change (YoY)
Asianet	53.8	53.0	51.3	52.5	50.3	49.1	45.8	45.1	50.6	49.7	55.5	50.7	48.1	-571bps
Surya TV	11.0	11.1	11.5	11.2	15.0	16.0	16.4	15.1	13.0	12.6	13.5	13.2	12.7	169bps
Mazhavil Manorama	15.4	18.0	17.5	17.0	15.9	14.5	15.4	15.3	13.3	12.3	13.5	14.1	14.9	-54bps
Flowers TV	12.4	10.8	12.0	10.5	10.3	11.6	12.8	12.5	9.6	11.4	12.0	11.4	7.0	-539bps
Kiran TV	7.4	7.2	7.6	8.7	8.5	8.8	5.4	3.1	0.0	0.0	0.0	2.8	4.6	-273bps
Asianet Movies	0.0	0.0	0.0	0.0	0.0	0.0	4.3	8.9	13.5	14.0	5.5	7.8	10.0	999bps
Surya Movies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7	269bps

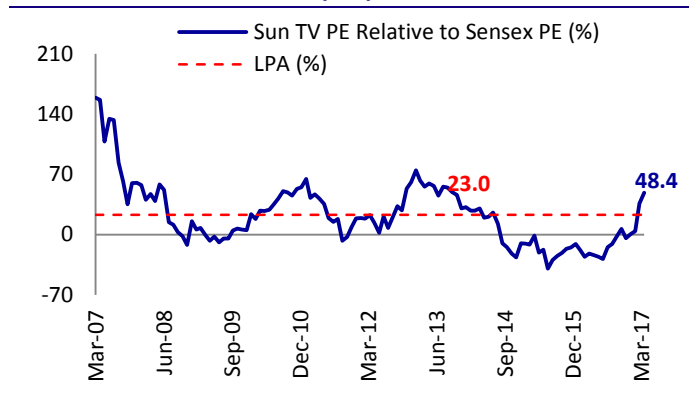
Source: Company, MOSL

Exhibit 3: SUNTV: P/E band chart



Source: Company, MOSL

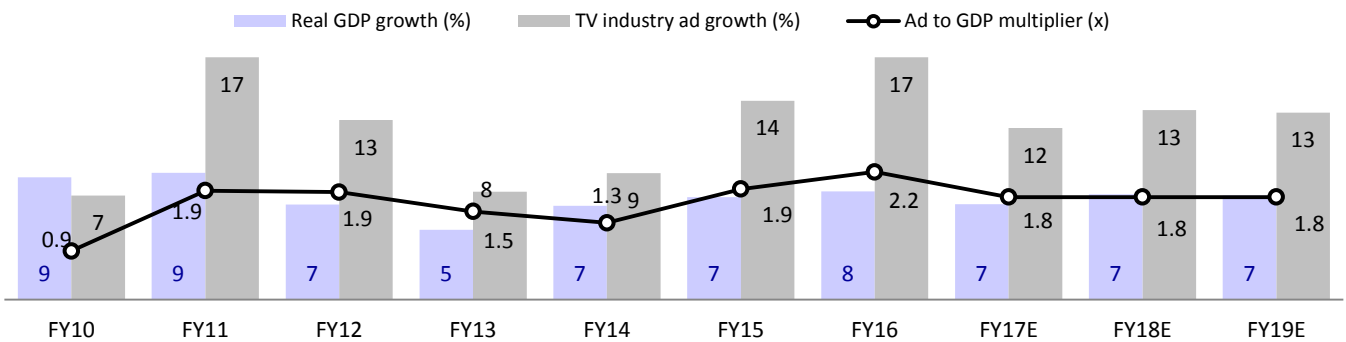
Exhibit 4: SUNTV: Relative P/E v/s Sensex



Source: Company, MOSL

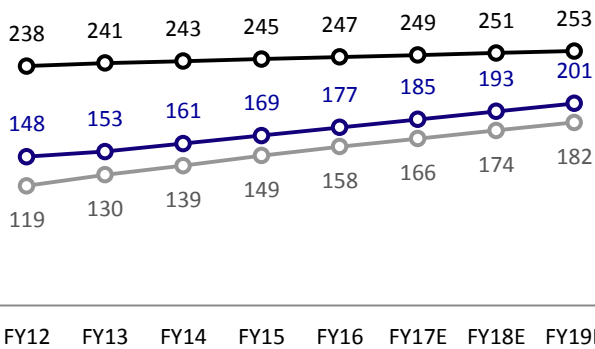
Story in charts

Exhibit 5: India's ad growth to real GDP multiplier has averaged ~1.8x



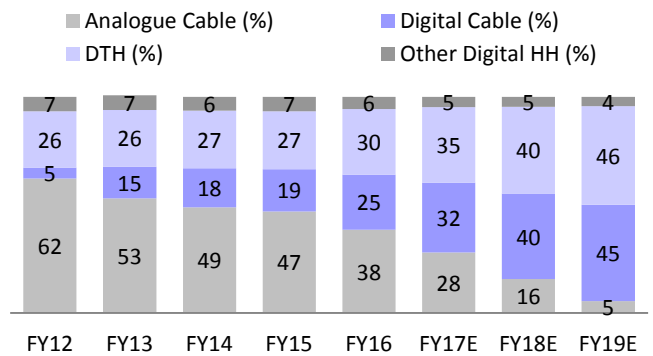
Source: Company, MOSL

Exhibit 6: India - TV and C&S households (m)



Source: MOSL

Exhibit 7: C&S connections mix: Analog v/s Digital (%)



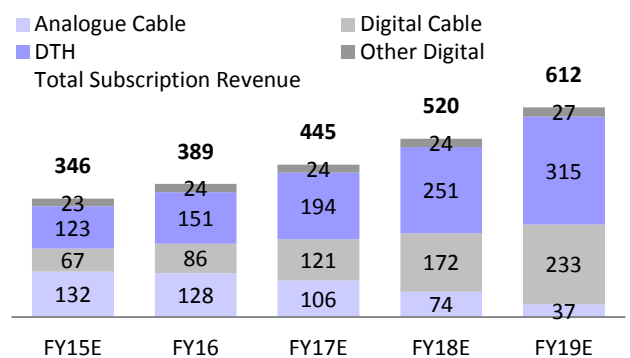
Source: MOSL

Exhibit 8: Analysis of broadcasters' share of Pay TV subscription revenue

	FY16E	FY19E
Pay TV subscription rev (INR b)		
-Analog	132	37
-Digital	213	575
Total	346	612
Broadcaster's share (INR b)		
-Analog	13	4
-Digital	65	171
Total	79	175
Broadcaster's share (%)		
-Analog	10	10
-Digital	31	30
Total	22.8	28.6

Source: MOSL

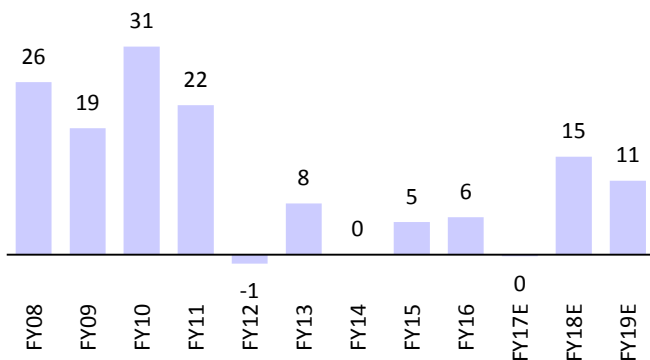
Exhibit 9: India Pay TV subscription revenue split (INR b)



Source: MOSL

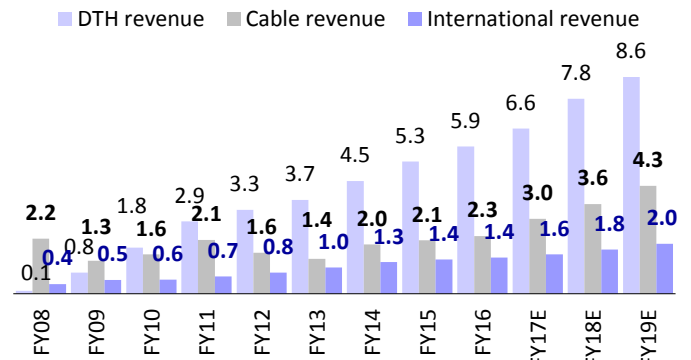
Story in charts

Exhibit 10: SUNTV - Advertising and broadcast revenue growth (%)



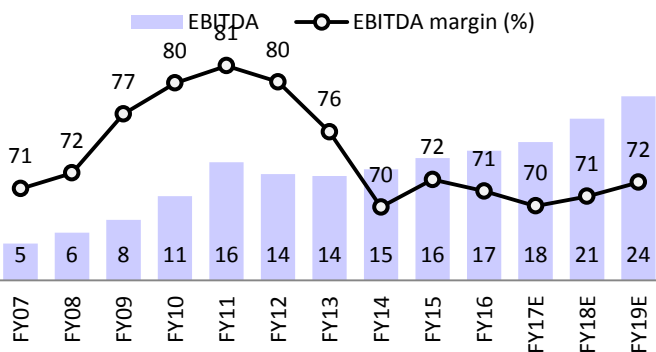
Source: Company, MOSL

Exhibit 11: SUNTV - Subscription revenue (INR b)



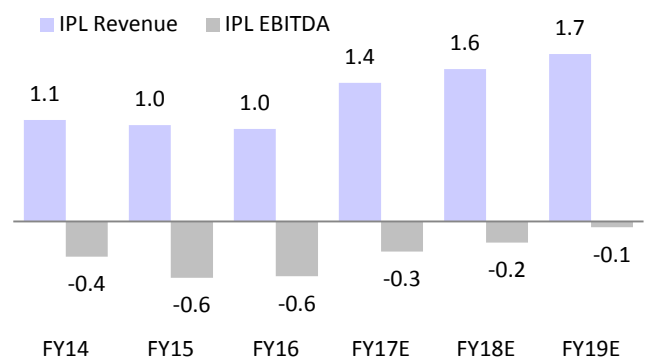
Source: Company, MOSL

Exhibit 12: SUNTV - EBITDA and EBITDA margin (INR b)



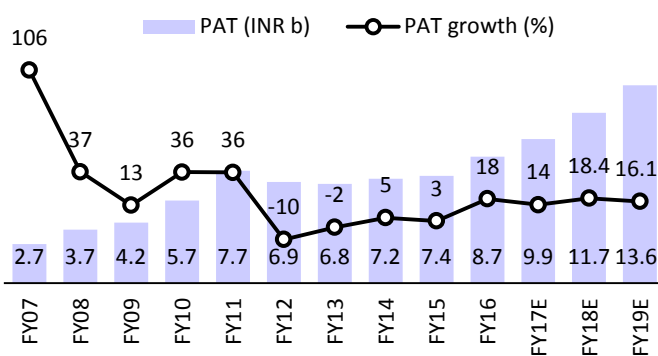
Source: Company, MOSL

Exhibit 13: SUNTV - IPL revenue and EBITDA (INR b)



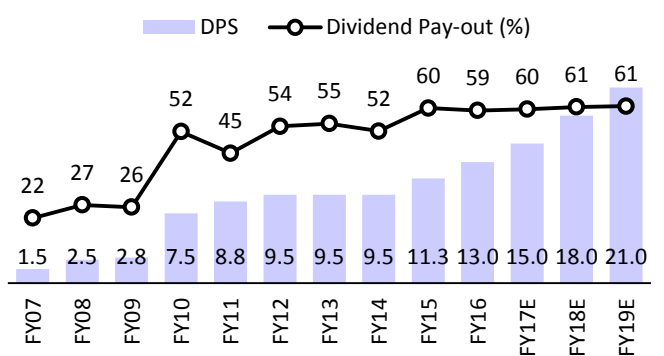
Source: Company, MOSL

Exhibit 14: SUNTV - PAT and YoY growth



Source: Company, MOSL

Exhibit 15: SUNTV - Dividend per share and payout



Source: Company, MOSL

Financials and Valuations

Income Statement		(INR Million)						
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Advertising Revenue	9,450	10,200	10,206	10,775	12,103	11,939	13,795	15,386
Broadcasting Revenue	1,640	1,730	1,726	1,735	1,104	1,017	1,075	1,136
International Subscrip.	840	1,040	1,253	1,366	1,434	1,566	1,762	1,982
Domestic Subscription	4,961	5,125	6,446	7,380	8,153	9,546	11,326	12,910
Others	682	82	1,336	1,176	1,246	1,814	2,001	2,210
Net Sales	17,574	18,176	20,968	22,431	24,040	25,882	29,958	35,623
Change (%)	-8.6	3.4	15.4	7.0	7.2	7.7	15.7	18.9
EBITDA	14,007	13,769	14,634	16,143	17,031	17,982	21,056	26,016
% of Net Sales	79.7	75.8	69.8	72.0	70.8	69.5	70.3	73.0
Depreciation and amortization	4,430	4,132	4,533	5,878	4,835	4,175	4,554	4,629
Film Amortization	3,430	3,048	3,385	4,600	4,112	3,504	3,749	3,824
Interest	56	48	45	30	21	21	21	21
Other Income	742	550	792	879	911	1,315	1,409	1,409
PBT before EOI	10,263	10,139	10,847	11,114	13,086	15,102	17,890	22,775
Tax	3,317	3,306	3,678	3,746	4,633	5,210	6,172	7,857
Rate (%)	32.3	32.6	33.9	33.7	35.4	34.5	34.5	34.5
Reported PAT	6,946	6,833	7,170	7,369	8,453	9,892	11,718	14,918
Extra-ordinary income	0	-2	132	0	180	0	0	0
Adjusted PAT	6,946	6,835	7,038	7,369	8,274	9,892	11,718	14,918
Change (%)	-10.0	-1.6	3.0	4.7	12.3	19.6	18.5	27.3

Balance Sheet		(INR Million)						
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	1,970	1,970	1,970	1,970	1,970	1,970	1,970	1,970
Reserves	24,482	26,958	29,748	31,827	34,315	37,379	40,904	45,353
Net Worth	26,452	28,929	31,718	33,797	36,285	39,350	42,875	47,324
Deffered Tax Liability	382	284	284	221	221	221	221	221
Capital Employed	26,834	29,213	32,002	34,018	36,506	39,570	43,095	47,544
Gross Fixed Assets	22,664	28,445	33,240	38,306	38,871	44,306	48,306	52,306
Less: Depreciation	18,053	22,252	26,854	33,596	37,703	41,945	46,568	51,265
Net Fixed Assets	4,612	6,193	6,386	4,710	1,168	2,360	1,738	1,041
Capital WIP	6,030	6,036	6,036	6,036	6,036	6,036	6,036	6,036
Investments	4,775	4,678	4,624	4,624	4,624	4,624	4,624	4,624
Curr. Assets	13,514	15,111	17,740	20,448	23,958	27,767	33,794	34,984
Inventory	4	5	6	5	5	5	5	5
Debtors	4,649	5,353	5,745	6,835	6,603	6,994	8,123	9,130
Cash & Bank Balance	2,899	3,886	7,764	9,217	12,871	16,195	20,987	21,054
Loans & Advances	5,282	5,098	3,435	3,522	3,522	3,522	3,522	3,522
Other Current Asset	680	768	791	870	957	1,052	1,158	1,273
Current Liab. & Prov.	2,097	2,806	2,783	1,800	2,046	2,271	2,522	2,773
Creditors	296	296	425	375	470	530	598	645
Other Liabilities	1,437	1,556	1,214	1,358	1,494	1,643	1,807	1,988
Provisions	364	954	1,144	68	81	97	117	140
Net Current Assets	11,417	12,305	14,957	18,648	21,912	25,496	31,272	32,210
Miscellaneous Exp	0	0	0	0	-38	1,054	-574	3,633
Application of Funds	26,834	29,213	32,002	34,018	36,506	39,570	43,095	47,544

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
Adjusted EPS	17.6	17.3	17.9	18.7	21.0	25.1	29.7	37.9
Growth (%)	-10.0	-1.6	3.0	4.7	12.3	19.6	18.5	27.3
Cash EPS	28.9	27.8	29.4	33.6	33.3	35.7	41.3	49.6
Book Value	67.1	73.4	80.5	85.8	92.1	99.9	108.8	120.1
DPS	9.5	9.5	9.5	11.3	13.0	15.0	18.0	23.0
Payout (incl. Div. Tax)	53.9	54.8	52.2	60.2	59.3	59.8	60.5	60.8
Valuation (x)								
P/E		51.6	50.1	47.9	42.6	35.7	30.1	23.6
Cash P/E		32.2	30.5	26.6	26.9	25.1	21.7	18.0
EV/EBITDA		25.3	23.6	21.3	20.0	18.7	15.8	12.7
EV/Sales		19.2	16.5	15.3	14.1	13.0	11.1	9.3
Price/Book Value		12.2	11.1	10.4	9.7	9.0	8.2	7.5
Dividend Yield (%)		1.1	1.1	1.3	1.5	1.7	2.0	2.6
Profitability Ratios (%)								
RoE	26.3	23.6	22.6	21.8	23.3	25.1	27.3	31.5
RoCE	27.3	24.5	23.5	22.4	24.0	26.0	28.4	32.9
RoIC	57.5	46.8	47.4	49.1	58.1	70.4	89.5	102.7
Turnover Ratios								
Debtors (Days)	97	107	100	111	100	99	99	94
Creditors (Days)	30	25	25	22	25	25	25	25
Asset Turnover (x)	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
PBT before Extraordinary Items	10,263	10,139	10,847	11,114	13,086	15,102	17,890	22,775
Add : Depreciation	4,430	4,132	4,533	5,878	4,835	4,175	4,554	4,629
Interest	56	48	45	30	21	21	21	21
Less : Direct Taxes Paid	3,317	3,306	3,678	3,746	4,633	5,210	6,172	7,857
(Inc)/Dec in WC	-5,630	98	1,226	-2,238	390	-261	-983	-871
CF from Operations	5,801	11,112	12,974	11,039	13,700	13,827	15,310	18,697
(Inc)/Dec in FA	-4,948	-5,718	-4,727	-4,202	-1,293	-5,367	-3,932	-3,932
(Pur)/Sale of Investments	636	97	55	0	0	0	0	0
CF from Investments	1,489	5,490	8,302	6,837	12,407	8,460	11,378	14,765
Free cash flow	853	5,393	8,248	6,837	12,407	8,460	11,378	14,765
(Inc)/Dec in Net Worth	-55	-130	-56	-233	183	0	0	0
(Inc)/Dec in Debt	0	0	0	0	0	0	0	0
Less : Interest Paid	56	48	45	30	21	21	21	21
Dividend Paid	4,324	4,324	4,324	5,121	6,148	6,828	8,193	10,469
CF from Fin. Activity	-4,435	-4,502	-4,426	-5,383	-5,979	-6,856	-8,214	-10,490
Inc/Dec of Cash	-2,945	988	3,877	1,453	6,427	1,604	3,164	4,275
Add: Beginning Balance	5,844	2,899	3,886	7,764	9,217	12,871	16,195	20,987
Closing Balance	2,899	3,887	7,763	9,217	12,833	15,365	19,403	25,307

E: MOSL Estimates

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