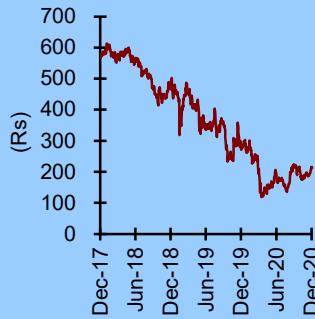


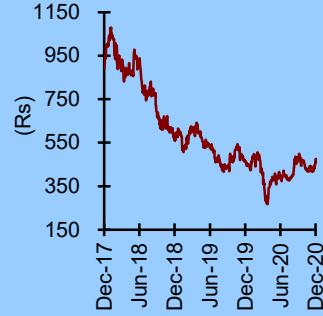
Media

Sector update

ZEE TV (BUY) – TP: Rs208



Sun TV (ADD) – TP: Rs462



Research Analysts:

Sanjesh Jain

sanjesh.jain@icicisecurities.com

+91 22 6637 7153

Sameer Pardikar

sameer.pardikar@icicisecurities.com

+91 22 2277 7637

Media

Outlook CY21: Low new normal in ad; embrace disruption

Ad revenues were weak in FY21 due to Covid and lack of fresh programming for more than a quarter though digital media gained traction during the same period. We expect TV ad revenues to rebound in FY22E, but it could still be lower than in FY20. Further, Zee Entertainment (ZEEL) and Sun TV have lost viewership share, which would put pressure on realisation. Subscription revenues would face risk from NTO 2.0 implementation. ZEEL is aggressively investing in OTT and may continue with it while Sun TV is yet to start investing. Relatively, we like ZEEL as it may see much higher rebound in ad revenues and gain from traction in OTT, but key to watch would be continued balance sheet discipline.

- **GEC viewership at pre-Covid levels, OTT gaining huge ground.** Hindi GEC primetime viewership dipped in FY20 and has been low in FY21-TD due to fewer fresh programmes due to lockdown. In Q3FY21-TD, viewership has reached pre-Covid levels. However, we don't see much rise in viewership (impressions) from current levels due to strong penetration of OTT and pay-TV reaching maturity, particularly in urban markets.

Though Zee TV has reached its pre-Covid (Q3FY20) viewership share, & TV saw erosion under this parameter, which was already low. Star has been aggressively investing in content and gained significant viewership share. Zee TV's new shows failed to lift its viewership share, and its top-2 shows are showing signs of weakness (*Kumkum Bhagya* and *Kundali Bhagya*). Until Zee TV refreshes some of its underperforming shows, we don't see it gaining viewership share in FY22.

ZEEL's performance in South GEC market has been good with gains in viewership share in Tamil and Telugu with stable share in Kannada. However, it has lost significant viewership share in non-South regions – Marathi and Bangla – to Star and would need to significantly refresh shows to rebound to dominant position.

Sun TV has lost considerable viewership share in Tamil GEC all-day segment. In FY21-TD its share was 47.7%, which has further declined to 40.6% in Q3FY21-TD. Sun TV's path to recovery could be difficult and may hurt margins.

BARC viewership is currency and lower viewership share spells lower realisation. BARC viewership share is a good proxy to the broadcaster's market share in TV ad revenues. Sun TV's share in the ad revenue pie may shrink in FY22 if it fails to recoup its lost viewership share soon.

- **Can TV ad revenues cross FY20 levels?** Per FICCI-KPMG report, total ad revenues in FY21 are likely to dip 19.6% to Rs575bn and the only medium to see increase is digital at 12%. TV ad revenues are expected to decline 17% to Rs217bn in FY21E, but rise 19% in FY22E to Rs258bn, which would still be lower than FY20 levels. We see risk to TV ad revenues if OTT adoption rises significantly. Disney+ Hotstar has shared guidance of 70-100mn users by FY24. ZEE5 has been aggressively pushing adoption and we expect it to evolve as competitive digital platform over the coming years.

We are factoring-in ZEEL ad revenues to dip by 20% in FY21E, but to rebound 31% in FY22E due to low base of past two years. We don't see it reaching FY19 levels of Rs50bn even in FY22E (Rs49bn). Sun TV may see a steeper ad revenue fall of 24% in FY21E due to: 1) higher dependence on local ads (40%), which would see gradual recovery; and 2) weak viewership share. We are factoring-in Sun TV's ad revenue bounce-back in FY22 but to be relatively lower at 28%.

- ▶ **Subscription revenues face risk of NTO 2.0 implementation.** NTO 1.0 boosted TV subscription revenues from higher consumer payouts and lower leakage. Further, rising adoption of OTT also has helped drive higher subscription revenues. FY21 was a difficult year and we understand broadcasters have not taken any price rise for channels or reduced discounts. NTO 2.0 implementation has been stalled due to ongoing case in Bombay High Court. The hearing is complete and the Court has reserved the verdict. If NTO 2.0 is implemented as proposed, we see headwinds to FY22 subscription revenues. We have factored-in ~7% subscription revenue growth for ZEEL / Sun TV in FY22E.
- ▶ **OTT: ZEEL aggressively investing, Sun TV promised investment in FY22.** FICCI-KPMG report estimates 22mn subscribers and subscriptions each in FY20, and we expect this to jump to 40mn subscribers and 41mn subscriptions in FY21, with the corresponding figures for FY22E being 57mn and 62mn respectively. We estimate subscription revenues to rise from Rs19bn in FY20 to Rs46bn in FY22E. These estimates look conservative as Disney+ Hotstar has shared guidance of 70-100mn paid users in FY24.

ZEEL has been aggressively pushing ZEE5 to grab the rising OTT opportunity with its 'freemium' model. It has also been aggressive investing in original shows and movies, and has released 43 properties in H1FY21. ZEE5 revenues were Rs1.9bn in H1FY21 and we expect this to rise much faster over next five years. ZEE5 costs stood at Rs5.2bn, which includes content, marketing and technology costs. Though the company does not share data on paid subscribers, its monthly active users were 55mn in Q2FY21.

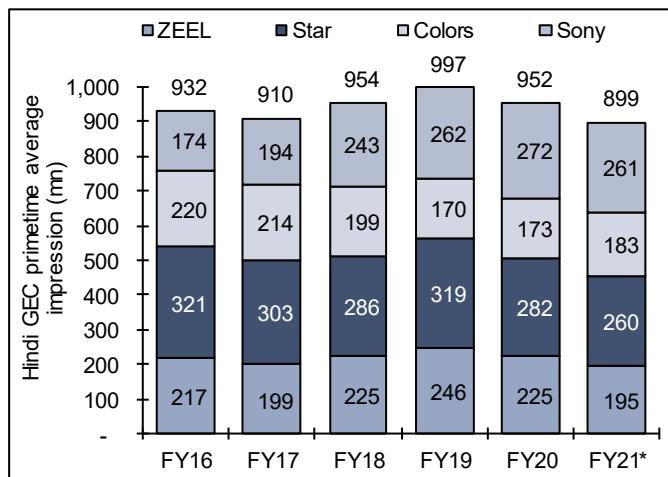
Sun TV has been monetising TV content and movies through its OTT platform SunNXT, but it has not invested in originals. It plans to invest in originals from Q4FY21 and has announced corresponding spend of Rs2bn. Sun TV has been lagging in investment in content, marketing and technology, which is disappointing considering its very strong balance sheet.

Sun TV is planning to release eight movies in next 12-18 months, which should help drive theatrical revenues, and their premiere on TV / OTT may help boost rating and subscriber base. It remains to be tested if only a strong movie library can drive loyal OTT subscriptions.

Viewership trends in key GEC all-day segment (except for Hindi, which is for primetime)

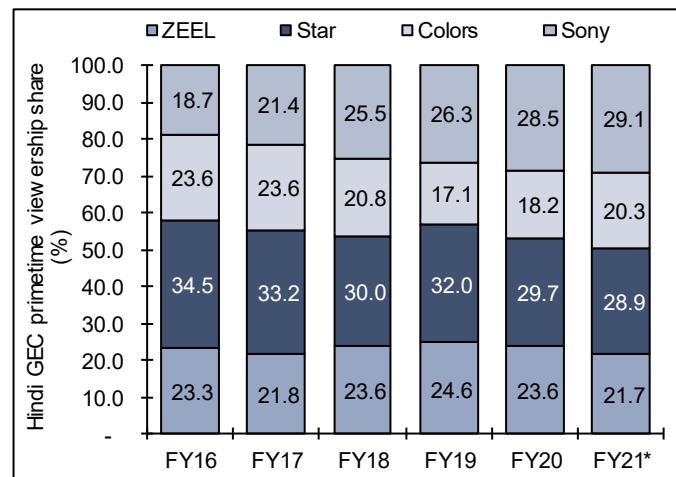
BARC viewership trend is based on urban viewership in respective regions (example Hindi is HSM, Kannada is Karnataka, etc.) and target is universe. Primetime is from 6pm to midnight. FY21E viewership impressions don't include data for Q1FY21 (Apr-Jun'20), which was impacted from no fresh content due to lockdown

Chart 1 : Hindi GEC primetime impressions have been stagnant



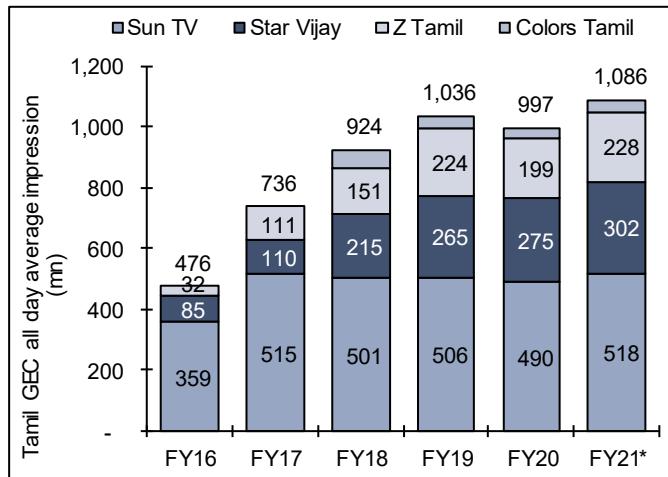
Source: BARC, I-Sec research

Chart 2 : ZEEL viewership share loss is due to weak rating for &TV. Its new shows have failed to lift market share.



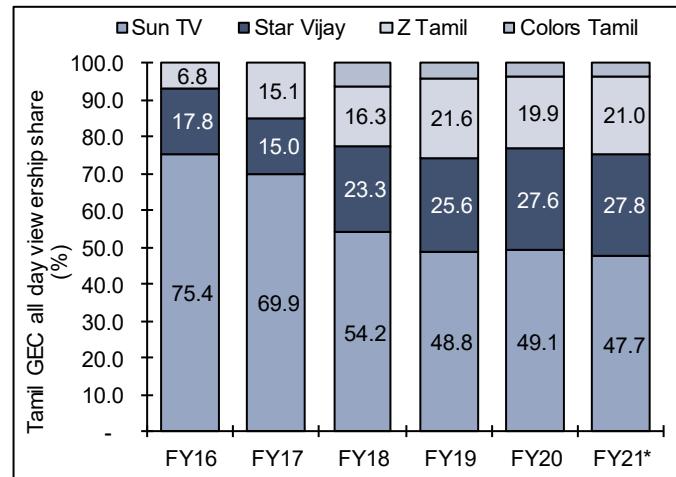
Source: BARC, I-Sec research

Chart 3 : Sun TV's impressions have been stagnant in past five years...



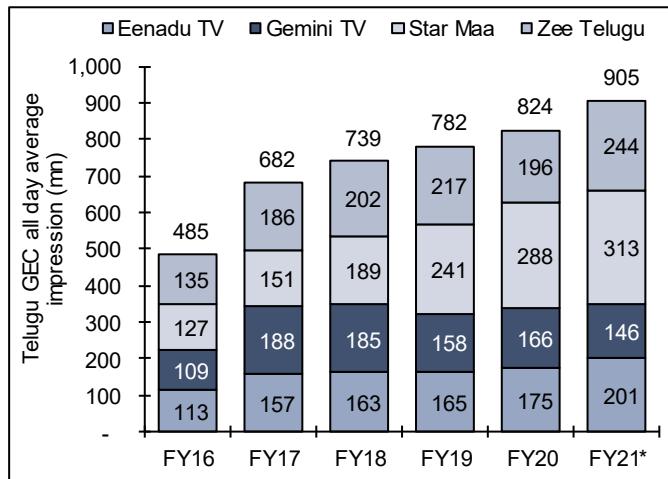
Source: BARC, I-Sec research

Chart 4 : ...and it has been losing viewership share. In Q3FY21-TD, it was lowest at 41%



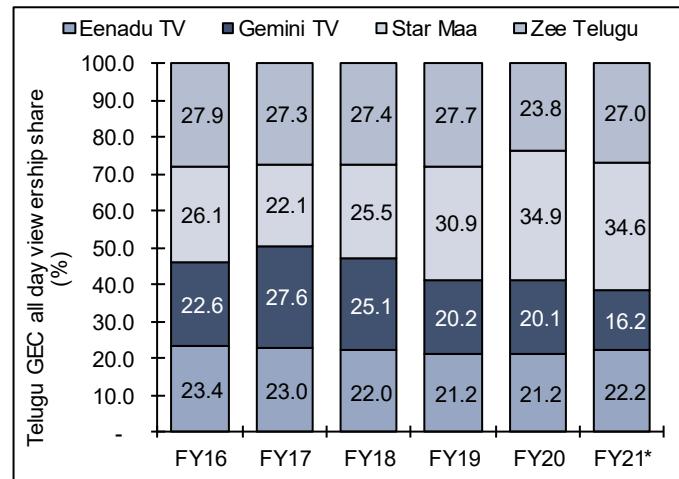
Source: BARC, I-Sec research

Chart 5 : Telugu has been a very competitive market where Sun TV (Gemini) has become a weak broadcaster...



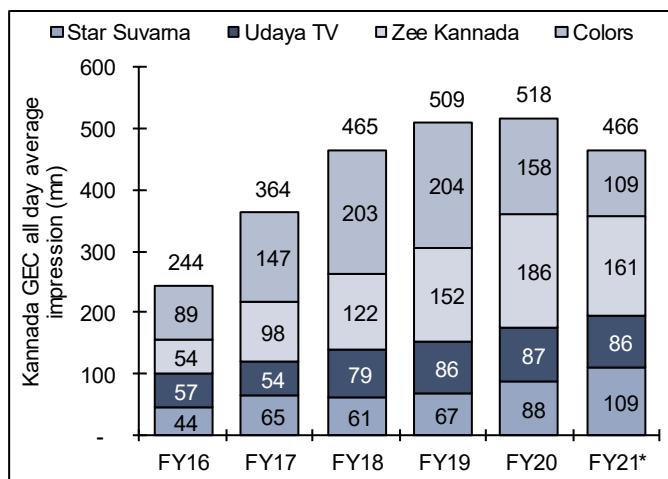
Source: BARC, I-Sec research

Chart 6 : ...while ZEEL has held to its market share. Star gained at the cost of Sun TV (Gemini)



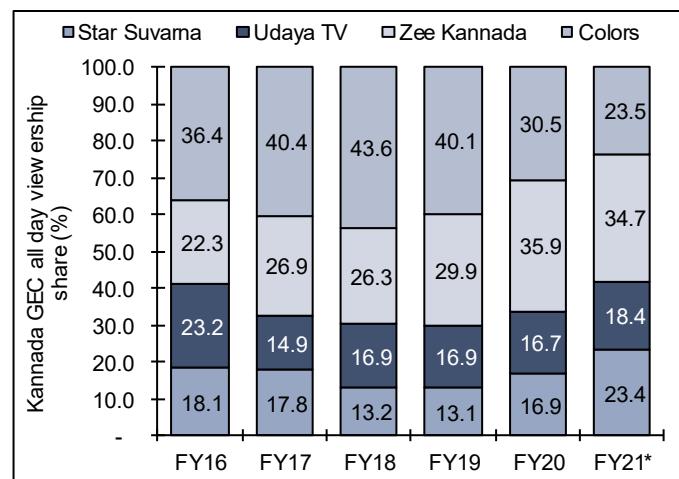
Source: BARC, I-Sec research

Chart 7 : Kannada GEC all-day has seen consistent rise...



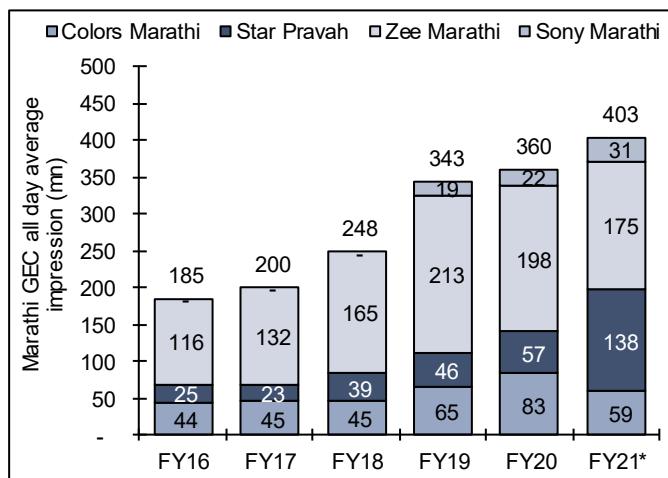
Source: BARC, I-Sec research

Chart 8 : ...Colors has lost dominant position, ZEEL has benefited with significant rise in viewership share



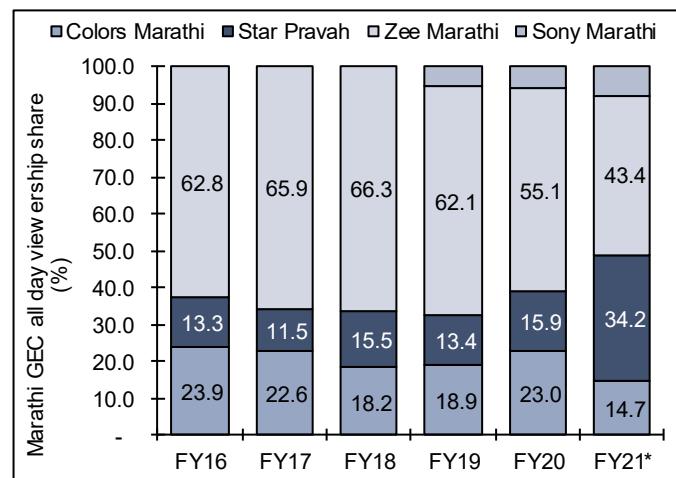
Source: BARC, I-Sec research

Chart 9 : Marathi GEC all-day is seeing rising viewership



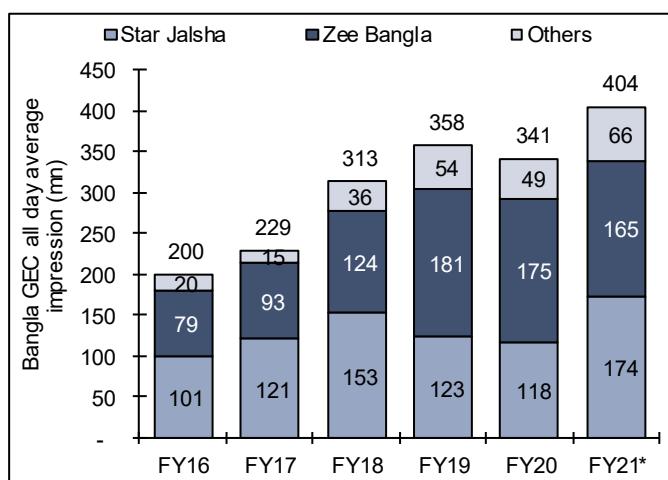
Source: BARC, I-Sec research

Chart 10 : ZEEL has significantly lost ground in Marathi GEC all-day in FY21-TD



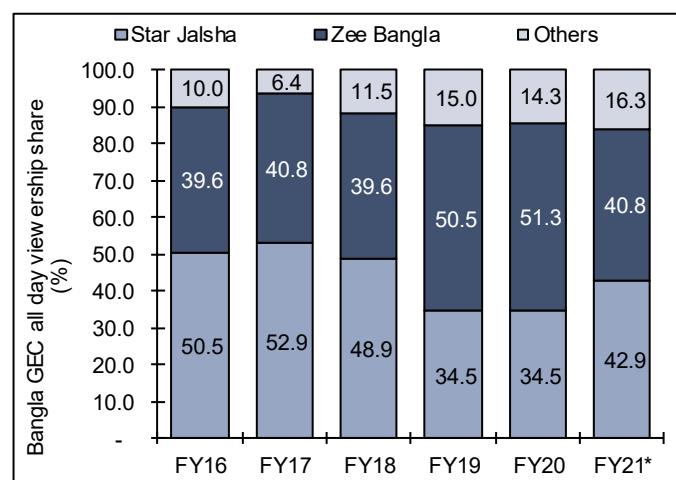
Source: BARC, I-Sec research

Chart 11 : Bangla GEC is a two-broadcaster market



Source: BARC, I-Sec research

Chart 12 : ZEEL has lost leadership position to Star in FY21-TD



Source: BARC, I-Sec research

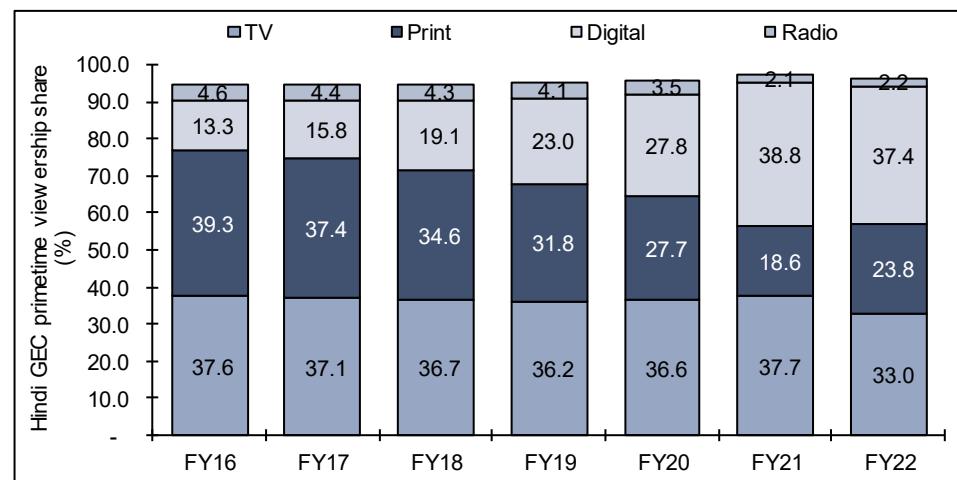
TV share in ad revenues to dip; will the new normal be lower than historical?

Table 1: TV ad revenues to dip 17% in FY21E and rebound 19% in FY22E. But it would be still lower than FY20 levels

Rs bn	FY16	FY17	FY18	FY19	FY20	FY21	FY22
TV	184	203	224	251	262	217	258
Growth (%)		10.3	10.3	12.3	4.4	(17.2)	18.9
Print	192	204	211	221	198	107	186
Growth (%)		6.3	3.0	4.9	(10.4)	(46.0)	73.8
Digital	65	86	116	160	199	223	292
Growth (%)		32.8	34.9	37.6	24.4	12.1	30.9
Radio	23	24	26	28	25	12	17
Growth (%)		5.7	7.9	9.3	(11.7)	(52.0)	41.7
Total	489	546	608	694	715	575	781
Growth (%)		11.6	11.5	14.1	3.0	(19.6)	35.8

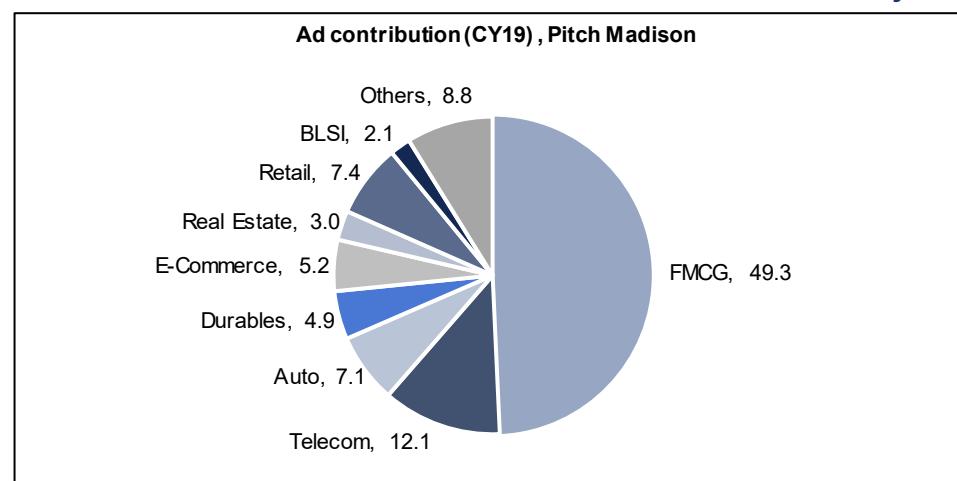
Source: KPMG, I-Sec research

Chart 13 : Digital media will overtake TV to grab largest share in ad revenues

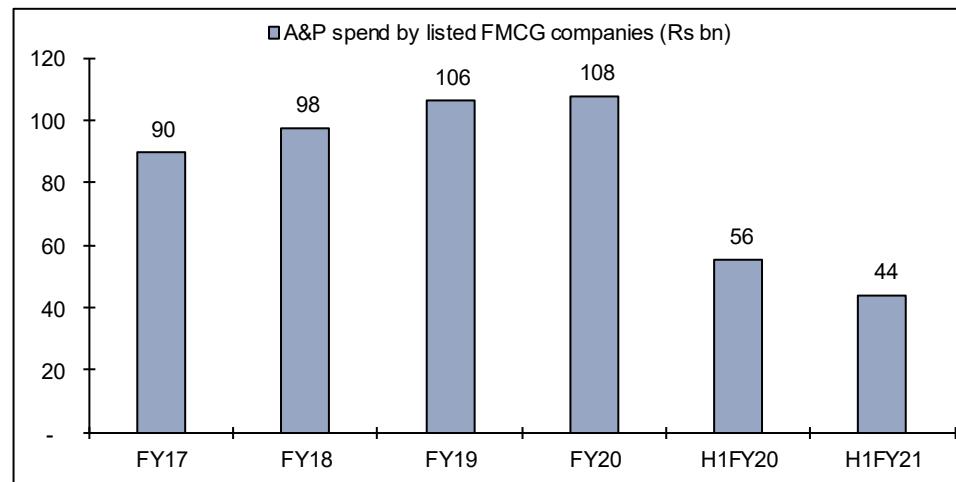


Source: KPMG, I-Sec research

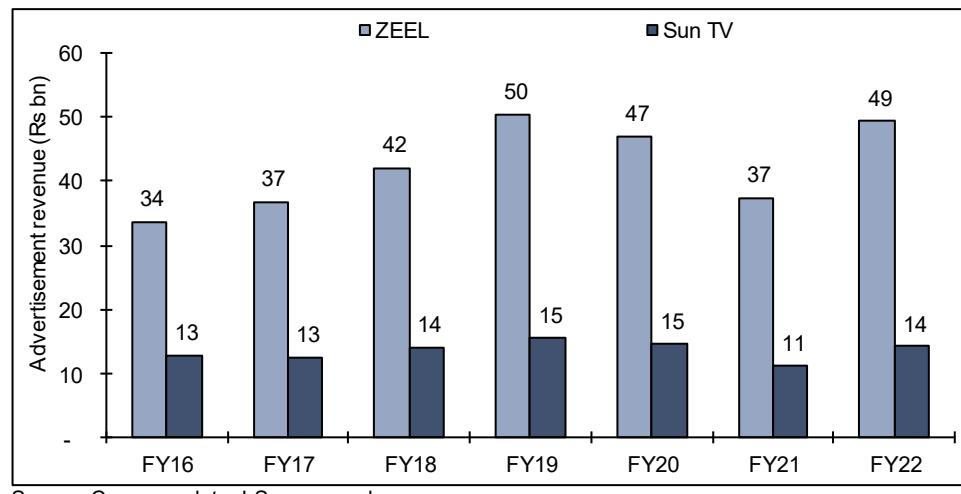
Chart 14: FMCG sector contributes 49% to TV ad revenues industrywide



Source: Pitch Madison, I-Sec research

Chart 15 : A&P spend of listed FMCG companies dipped 25% in H1FY21

Source: Company data, I-Sec research

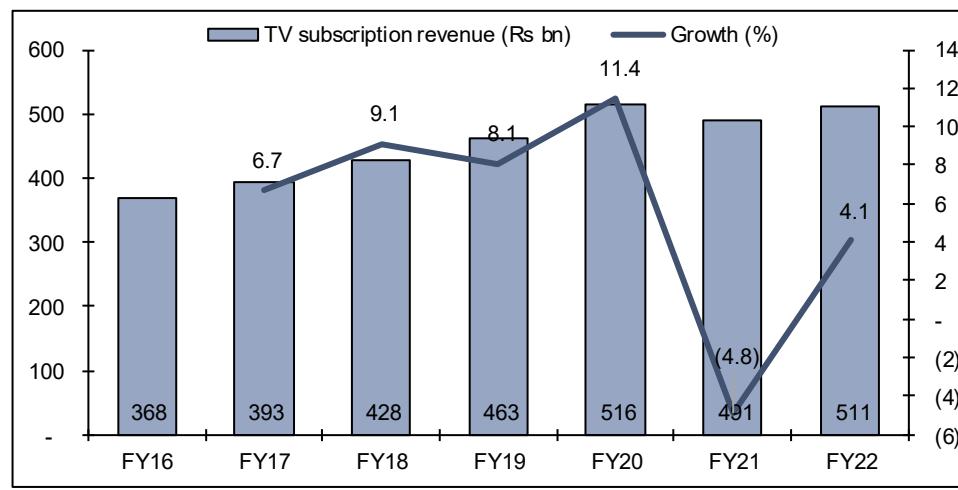
Chart 16 : Sun TV likely underperform ZEEL in ad revenues over FY20-FY22E

Source: Company data, I-Sec research

Subscription revenues can be hurt from NTO 2.0

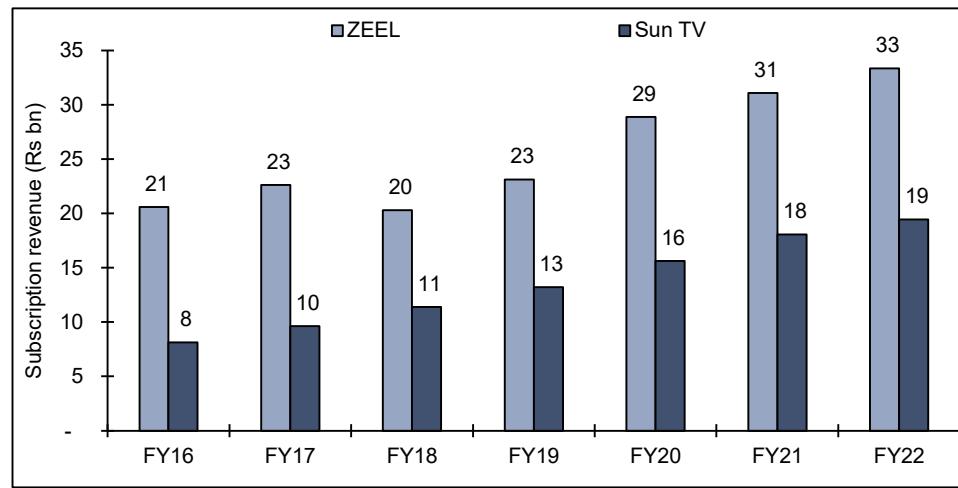
Industry subscription revenues have dipped due to slip in subscribers for a few months during lockdown (such as shops and office connections). In FY22E, the bounce-back stands to be impacted by likely implementation of NTO 2.0. Operators' subscription revenues look strong due to higher contribution from OTT, and Sun TV has included revenue from sharing of its movies library to other OTT platforms in its subscription revenues.

Chart 17 : TV industry subscription revenues likely to remain muted



Source: KPMG, I-Sec research

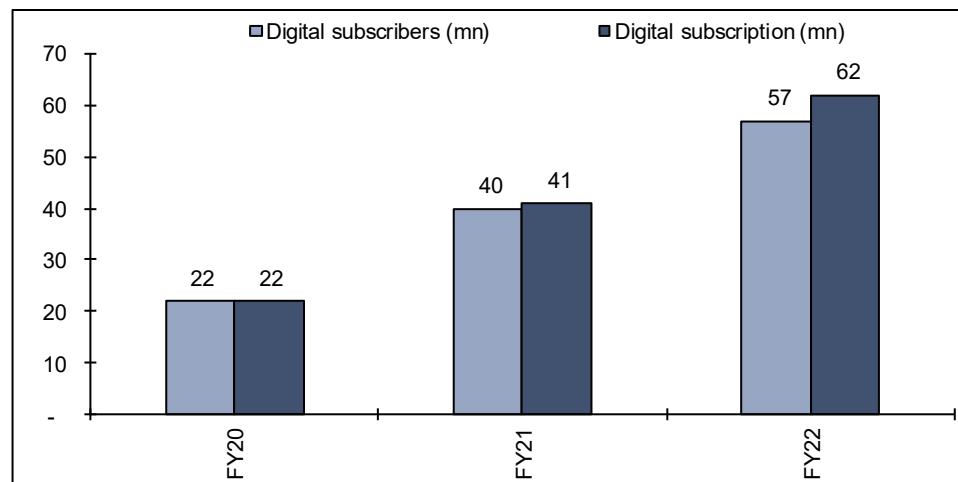
Chart 18 : ZEEL and Sun TV subscription revenues benefiting from rise in revenue from OTT segment



Source: Company data, I-Sec research

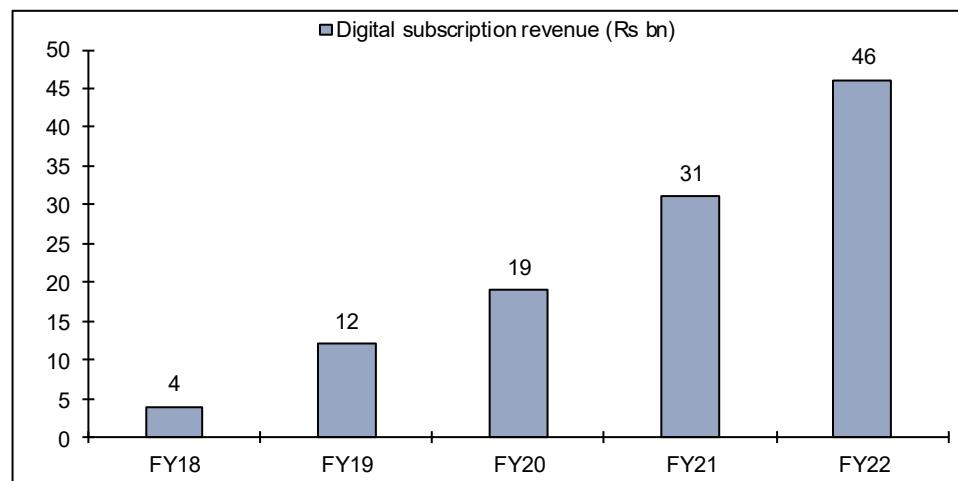
Investment in OTT is key for future growth

Chart 19 : Digital subscriber base to rise 3x over FY20-FY22E (it is mostly one subscription per subscriber)



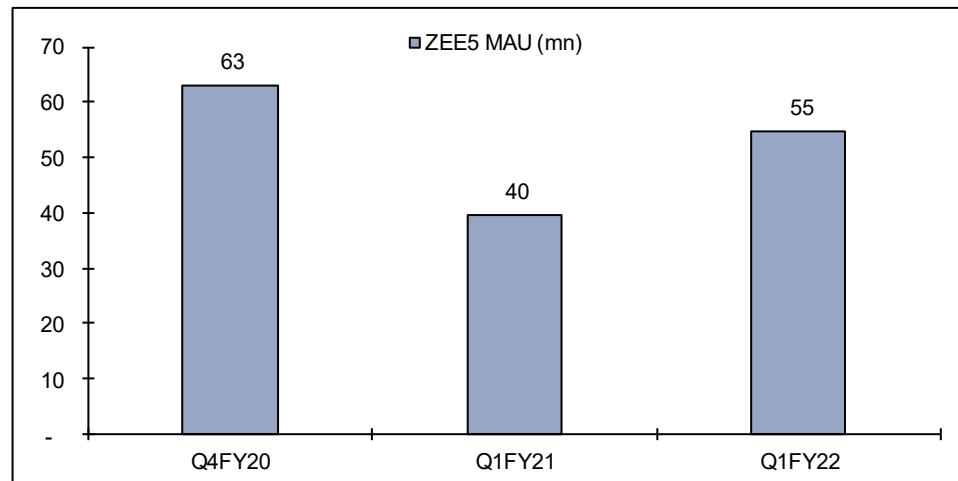
Source: KPMG, I-Sec research

Chart 20 : Digital sub revenues also growing fast. ARPU seen at Rs75-80

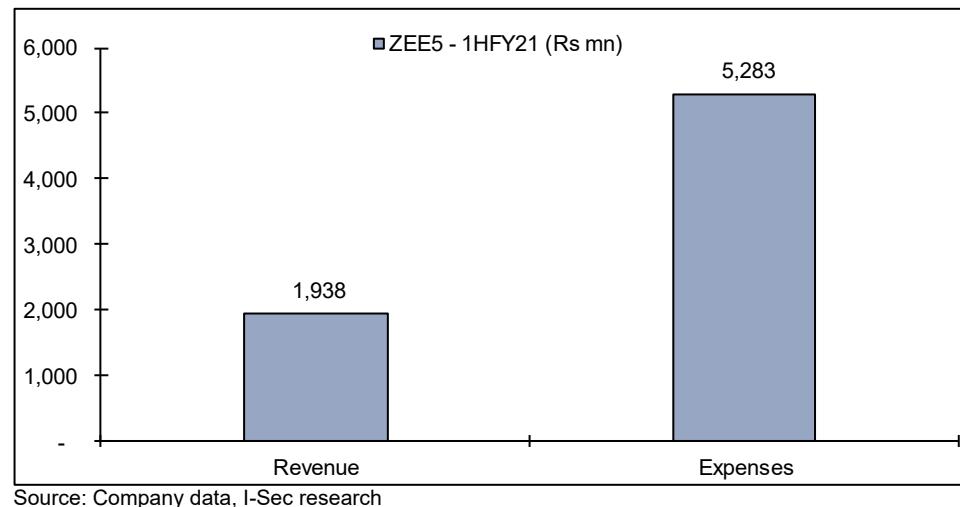


Source: KPMG, I-Sec research

Chart 21 : ZEE5 needs to increase its paid users



Source: Company data, I-Sec research

Chart 22 : ZEE5 revenue contribution still not material

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