

MANAGEMENT DISCUSSION AND ANALYSIS REPORT
(Pursuant to Regulation 34 of SEBI (LODR) Regulations, 2015)

The figures have been stated in crores for better readability.

Investors are cautioned that this discussion contains forward looking statements that involve risks and uncertainties including, but not limited to, risks inherent in the Company's growth strategy, acquisition plans, dependence on certain businesses, dependence on availability of qualified and trained manpower and other factors. The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto.

INDUSTRY

Media and Entertainment (M&E) industry in India continues to grow at rates faster than broader economy, thanks to a host of factors led by technology, changing lifestyles, innovation and greater disposable incomes across house holds. The industry was estimated to be around Rs. 1.67 trillion in revenues for the calendar year 2018 with television accounting for almost 44% of the pie.

The TV broadcast sector is poised for good growth despite the lackluster numbers posted by various constituents of the economy lately. The TV universe has expanded by 7.5% in the last calendar year to reach 197 TV households. Cable dominates the Indian distribution ecosystem with a 52% share followed by DTH with a 28% share. Industry reports also state that TV penetration among all households had improved by 2 percentage points from 64% to 66% in calendar year 2018. About 88% of all homes are now fully digitized and the broadcasters can now look forward to getting their due share of the value generated

The financial year 2018-19 was a notable year for the Indian economy. Retail inflation was the lowest in almost four decades and the country has taken in its stride several path breaking reforms such as the introduction of a Goods and Services Tax and the implementation of the Insolvency and Bankruptcy Code. The financial year under review also witnessed several other regulatory reforms with the launch of a New Tariff Order (NTO) as mandated by TRAI and a rapid digitization of TV distribution in DAS III and DAS IV markets. In particular the long awaited digitization in the state of Tamil Nadu also gained traction, which is of special significance for your Company. The NTO has also resulted in leading broadcasters withdrawing from the state owned Free Dish platform creating some disruptions in the availability of free to air content.

The various segments of the M&E sector are also in the throes of rapid change, with innovations led by digitally enabled interfaces, both on the consumer side and through the content supply chain. The transition to digitally addressable systems was contentious but has finally been settled. Pay TV in India has been witnessing strong momentum and is expected to grow even more, since it is only at a 60% penetration of all households. The increasing presence of camera, internet and the availability of wireless broadband at affordable prices has democratized media consumption and production like never before. Digital has transformed the access to internet and the consumers have shown affinity towards consumption of content on newer screens like handheld devices. More and more broadcasters have made investments to be OTT ready.

Digital media was the fastest growing segment of the industry in the last year posting a 42% rise in revenues. While ad spends on digital media grew by 34% the subscription revenues catapulted by more than 250%. Your Company's own OTT platform Sun NXT saw handsome rises in both subscriber counts as well as revenues. The advances in digital infrastructure, increased smart phone penetration and falling costs of data plans have propelled the industry with new opportunities emerging in the niche that is occupied by youth that likes short format content that is best enjoyed while being mobile.

Data consumption in India grew from an average of 4 GB per month in 2017 to 8 GB per month in 2018. Recent news reports point out that major telcos are already seeing this number at 11 GB per month. Over 70 % of these data downloads are for entertainment and 325 mio customers watch online videos, which augurs well for the M&E industry.

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The M&E today generates millions of jobs directly and indirectly, contributes to economic growth by providing a platform for the growth of several other related industries.

Ad spends by companies did get impacted in the aftermath of the disruptions caused by the New Tariff Order and thereafter due to an unprecedented slowdown that has impacted almost every sector including the FMCG companies that are facing falling demand.

The radio segment is also growing equally with other mediums such as television and print due to combination of localized reach and affordable pricing which is likely to be further enhanced with the launch of 162 new FM radio stations in the frequencies allotted in the second batch of Phase III auctions including across the key markets of Mumbai and Delhi. Licenses were acquired in 17 cities that had no operating FM licenses. New stations in existing cities and proliferation of private radio to smaller cities are likely to increase the listener base. These launches created an increase in the volume of inventory available, which was one the main reasons for the growth of industry revenues. The real estate, education, healthcare, banking, financial services, insurance and retailing sectors continue to focus on radio advertising.

Sun TV, the flagship channel of your company, is the most watched channel in India today and it is the largest in South India by penetration, viewership & ad revenues. It airs an assortment of fiction and non-fiction content apart from movies across channels. Sun TV Network Limited (Sun Network) maintains its dominant position in the southern states of India as one of the largest television and radio entertainment Company in India with a portfolio of Satellite Television Channels spread across four languages and in genres of GEC, news, music, action, life, movies, kids and comedy. Sun Network also has a large network pan India in the FM Radio broadcasting segment along with its subsidiaries. Sun Network continues to consolidate its leadership position, built over the years, by fortifying its hold over key aspects of pricing and access to quality content. Sun Network is one of the first Regional GE channels in country to adopt HD and it also forged early partnerships with OEMs to pre-load Sun TV app on their devices.

OPPORTUNITIES AND THREATS

Opportunities:

The ongoing digitalization of content, shift to online and mobile distribution of content and the rapid pace of invocation create opportunities to serve new customers in new markets. The presence of large and wealthy Indian diaspora abroad is another powerful enabler for market expansion abroad.

The M&E industry influenced by digitalization, the convergence of TV, mobile telephony and the Internet poised for a growth trend. The fact that significant households of India are still without television connectivity highlights the scope of growth in the segment. The majority of the revenue generated in the television industry is through advertisements, followed by subscription. Strong growth projected in DTH, Digital Cable segment would result in substantial increase in subscription revenue over the years to come. Increasing interest in regional content among Indian population across the borders, results in increased overseas viewership thereby attracting foreign investment. Radio broadcasting in India, which is still in its infancy, is evolving to be a revenue spinner in the coming years.

Threats:

It is difficult to predict our revenues and expenses as they fluctuate significantly given the nature of the markets in which we operate. This increases the likelihood that our results could fall below the expectation of market analysts. Certain threats are summarized below:

The competition and increasing prices may adversely affect our ability to acquire desired programming and artistic talent.

Sun Network operates in an intensely competitive industry.

The broader streams of revenue like that from advertising and distribution could decline on account of varied factors.

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The commercial success of Sun Network depends on our ability to cater to viewer performance and maintain high audience shares which could be affected.

Sun Network is a regional broadcaster, which may limit our opportunities for growth as well as our attractiveness to advertising customers and others.

Technological failures could adversely affect our business.

Our inability to effectively deploy and manage funds could affect our profitability.

SEGMENT

Sun Network operations predominantly relate to a single segment "Broadcasting - Media and Entertainment".

OUTLOOK

Sun Network with its presence across genres like general entertainment, movies, music, news, kids, action, life and with a dominant market share in the five southern states of India (Tamil Nadu, Kerala, Karnataka, and Andhra Pradesh) ensures continued and sustained viewership and prominent role in the Media and Entertainment Industry. A steady flow of highly popular programs and a dominant share of audience viewership have given the network tremendous pricing power vis-a-vis competitors.

The drive initiated by Government towards digitalisation and addressability for cable television would help Sun TV Network, being the largest regional television network to be one of the major beneficiaries of the recent growth in the DTH space, it is expected that this new stream of revenue for the Company arising from the increased DTH subscriber base in South India would maintain a positive momentum in the coming years.

FINANCE AND HUMAN RESOURCE

Finance:

The Total Income for the year ended March 31, 2019 was Rs. 3,883.22 crore as against Rs. 3,002.10 crore during the previous year ended March 31, 2018. Profit Before Tax was Rs. 2,135.94 crore as against Rs. 1,658.40 crore in the previous year. Profit After Tax was Rs. 1,394.86 crore as against Rs. 1,093.04 crore in the previous year. During the financial year ended March 31, 2019, the Board of Directors have declared an interim dividend of Rs. 5.00 per share (100%) at their Board meeting held on August 10, 2018 and Rs. 2.50 per share (50%) each at their Board meetings held on November 2, 2018, February 8, 2019 and March 8, 2019 respectively resulting in a total dividend of 250%, i.e., Rs. 12.50 per equity share of face value of Rs. 5.00 each for the financial year ended March 31, 2019. (Prev. Year - 200%, i.e., Rs. 10.00 per equity share of face value of Rs. 5.00 each) and have not recommended any Final Dividend. The Reserve and Surplus of the Company as on March 31, 2019 stood at Rs. 5,243.48 crore as against Rs. 4,443.03 crore as on March 31, 2018.

Human Resources:

At Sun Network, with 1476 employees, human resource is a key asset capital and an important business driver for the Company's sustained growth and profitability. Hence, we at Sun Network believe that training, like all organizational development processes cannot be a function of time, but rather an ongoing process with the developmental needs and business planning processes being formalized constantly. A continuous review of the monitoring process is underway and procedures and systems are being institutionalized across the organization.

FINANCIAL REVIEW & RISK MANAGEMENT (INCLUDING INTERNAL CONTROL)

Separate report on this is annexed.

On behalf of the Board

Place : Chennai
Date : May 23, 2019

R. Mahesh Kumar
Managing Director