

Zee Entertainment Enterprises Ltd.

6th March 2023

Status-quo restored — crucial hearings to follow.

Brief Background

During the earlier years, Zee Entertainment Enterprises Ltd. (ZEEL) had committed to provide for shortfalls in Debt Service Reserve Account (DSRA) in relation to certain facilities availed by Siti Networks Ltd. (SNL, a promoter group company) from banks like IndusInd Bank (Rs. 1500 Mn), IDBI Bank, and a few others. The guarantee provided by ZEEL was to maintain one quarter's interest and principal in its bank account to service SNL's debt, but it failed to comply. The timeline of key events pertaining to this matter is presented below.

Date	Events	Date	Event
September '19	SNL failed to maintain the account. Dues outstanding since then is Rs. 890 Mn	By 10 th March '23	IndusInd Bank directed to submit an explanation before NCLAT
4 th Feb '22	IndusInd Bank claimed a default of Rs. 830 Mn from ZEEL	By 24 th March '23	ZEEL will submit a rejoinder before NCLAT
22 nd Feb '23	NCLT admits ZEEL to pay Rs. 830 Mn	29 th March '23	Final hearing by NCLAT. Appeal listed for final disposal
24 th Feb '23	ZEEL appealed NCLAT to challenge NCLT's order		

Source: Company, Keynote Capitals Ltd.

The matter is subjudice because of the unascertainable liability that ZEEL is accountable for. IndusInd bank believes ZEEL is liable for the full amount of Rs. 830 Mn, ZEEL believes that it was supposed to maintain only one quarter's principal and interest so it cannot be held accountable for the complete amount due, which is why it has challenged NCLT's admission further before NCLAT. Irrespective of the outcome, ZEEL has itself almost covered for all the creditors of SNL (amounting Rs. 2,009 Mn) under DSRA.

Particulars (Rs. Mn)	FY20	FY21	FY22	9M FY23
Outstanding SNL Loan Under DSRA	2,523	2,018	2,009	2,009
Guarantee by ZEEL	1,166	-	-	-
Cumulative Provisions	-	1,001	1,528	2,002
Uncovered Exposure	-	1,017	481	7

Source: Company, Keynote Capitals Ltd.

According to the Company, a total of Rs. 400-500 Mn, pertaining to interest component on the above borrowings, is yet to be provisioned. Therefore, DSRA backed exceptional items will continue to recur in forthcoming quarters. However, the Company stands strong with cash reserves of 6,726 Mn as of December 2022.

BUY

CMP Rs. 195

TARGET Rs. 253 (+30%)

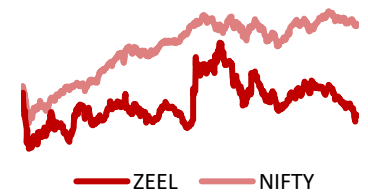
Company Data

MCAP (Rs. Mn)	1,87,637
O/S Shares (Mn)	961
52w High/Low	309/177
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,510

Shareholding Pattern %

	Dec-22	Sep-22	Jun-22
Promoters	3.9%	3.9%	3.9%
FII's	37.3%	38.6%	39.1%
DII's	37.4%	31.4%	30.6%
Non-Institutional	21.1%	25.9%	26.1%

ZEEL vs Nifty



Mar, 20 Mar, 21 Mar, 22 Mar, 23

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23E	FY24E
Revenue	82	84	92
EBITDA	16	14	19
Net Profit	10	5	10
Total Assets	129	136	145
ROCE (%)	9%	8%	10%
ROE (%)	9%	5%	8%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, Research Analyst
Chirag@keynotecapitals.net

ZEEL | Company Update

Other litigations

It is important to note that there are several other litigations also outstanding against ZEEL. The occurrence and the financial impact of the same cannot be ascertained currently. Some of which include IDBI Bank claiming ~Rs. 1,490 Mn under DSRA and the Indian Performing Right Society (IPRS) claiming Rs. 2,110 Mn.

According to ZEEL, some litigations are legitimate, whose amounts are disputable, while other are not.

Merger on track

According to an article published by Business Line, more than 90% of the members of the Committee of Creditors are in favor of the merger. The next National Company Law Tribunal (NCLT) hearing for the merger is scheduled on 9th March 2023. The Company is confident about the merger and estimates the same, only to be delayed by a few weeks. However, it is important to note that the Company will have to incur merger-related expenses until the merger is executed. This will keep the net margins from rebounding in short to mid-term. The merger has been approved by shareholders, stock exchanges, and the Competition Commission of India (CCI).

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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