

## Zee Entertainment Enterprises Ltd.

14<sup>th</sup> Feb 2023

Going forward, negatives are expected to subside

In Q3FY23, Zee Entertainment Enterprises Ltd. (ZEEL) registered a 16.2% share in television broadcasting, down by 20 bps Q-o-Q. The Company launched over 50 titles (including six originals) on the ZEE5 platform. ZEEL also released 5 Hindi and 4 Regional movies in the movie business. The advertisement revenues were under pressure due to inflationary macroeconomic headwinds, leading to a sequential growth of only 5% in Q3FY23. During the quarter, ZEEL saw a steep fall in EBIT margins from ~20% in Q3 FY22 to ~12% in Q3 FY23 on increased operational expenses. Similarly, PAT margin dropped from ~14% to ~1% over the same period, owing to hefty exceptional losses/expenses in the quarter. Going forward, we expect the ad scenario to improve, subscription revenue to increase, and margins to revert. Therefore, we maintain a BUY rating with a target price of Rs. 253 at 25x FY24E EPS.

### Recovery in advertisement and subscription revenues expected from FY24

Advertisement revenue degrew by ~16% YoY and grew by ~5% QoQ. This impact has been caused by macroeconomic headwinds, which made advertisers restrain their spending. However, advertisement revenue is expected to increase with inflation cooling down. Furthermore, in ZEE5, the Company has guided to increase ad revenue share to 40% and stabilize subscriptions at 60%, which is currently more skewed towards subscriptions. Also, ZEEL's re-entry into sports events is expected to attract more ad revenues in the following years. Apart from advertisement revenue, subscription revenue is also expected to grow. For the past three years, the Company had not observed any price hikes in its pay-tv portfolio but launched most of the channels during this period. With the implementation of New Tariff Order 3.0, a price hike for all pay-TV channels will be undertaken. Overall, we expect a 10% increase in net revenue from Rs. ~84 Bn in FY23E to Rs. ~92 Bn in FY24E.

### Merger announcement awaited

Upon merger, ZEEL and Bangla Entertainment Private Ltd (an affiliate of Culver Max Entertainment) shall merge in CME. The Company has received approval from the stock exchanges and Competition Commission of India (CCI), whereas a hearing of the National Company Law Tribunal (NCLT) was scheduled on 14<sup>th</sup> February 2023, which has been adjourned to 9<sup>th</sup> March 2023. The primary reason for this delay is the petition filed by creditors against the proposed merger. The Company has guided a 3-4% revenue synergy as a result of this merger.

### Negative surprise on exceptional items

In Q3FY23, ZEEL reported exceptional losses/expenses, which included Rs. 689 Mn of merger costs, which is expected to continue in varying amounts until the merger; Rs. 255 Mn for impairment of Zee Learn Ltd.'s NCD, which is completed; Rs. 162 Mn of Debt Service Reserve Account (DSRA), which may recur as the debt service becomes due.

### View & Valuation

Owing to multiple positive future developments and the ZEE-Sony merger, we have revised our estimates and maintained a BUY rating on ZEEL with a target price of Rs. 253 (25x FY24E EPS.)

## BUY

CMP Rs. 216

TARGET Rs. 253 (+17%)

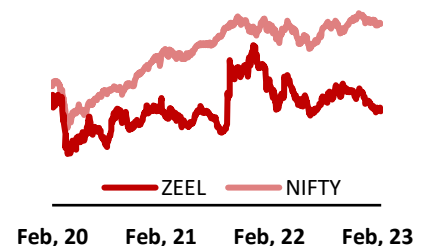
### Company Data

MCAP (Rs. Mn)	2,11,747
O/S Shares (Mn)	961
52w High/Low	309/201
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,218

### 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



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.

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Q3 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
Revenue from Operations	21,112	21,126	-0.1%	20,284	4.1%	59,853	58,664	2.0%	81,893
Advertisement	10,638	12,608	-15.6%	10,128	5.0%	30,529	32,767	-6.8%	43,965
Subscription	8,944	7,902	13.2%	8,219	8.8%	24,881	23,917	4.0%	32,466
Other Sales and Services	1,530	617	147.9%	1,937	-21.0%	4,444	1,980	124.4%	5,462
Operational Cost	11,344	10,170	11.5%	10,173	11.5%	31,543	27,870	13.2%	40,449
Employee Benefit Expense	2,165	2,134	1.4%	2,358	-8.2%	6,545	6,453	1.4%	8,641
Advertisement and Promotion	2,420	2,282	6.1%	3,169	-23.6%	7,907	6,512	21.4%	8,643
Other Expenses	1,746	1,801	-3.0%	1,612	8.3%	4,941	5,713	-13.5%	6,976
EBITDA	3,438	4,740	-27.5%	2,973	15.6%	8,917	12,116	-26.4%	17,184
<b>EBITDA Margin (%)</b>	<b>16.3%</b>	<b>22.4%</b>	<b>-877 Bps</b>	<b>14.7%</b>	<b>-100 Bps</b>	<b>14.9%</b>	<b>20.7%</b>	<b>-575 Bps</b>	<b>21.0%</b>
Depreciation and Amortization	913	594	53.6%	816	11.9%	2,506	1,782	40.6%	2,459
EBIT	2,525	4,146	-39.1%	2,157	17.0%	6,411	10,334	-38.0%	14,725
<b>EBIT Margin (%)</b>	<b>12.0%</b>	<b>19.6%</b>	<b>-766 Bps</b>	<b>10.6%</b>	<b>132 Bps</b>	<b>10.7%</b>	<b>17.6%</b>	<b>-690 Bps</b>	<b>18.0%</b>
Finance Cost	131	30	343.9%	97	35.9%	309	71	336.6%	451
Other Income	161	178	-9.8%	176	-8.8%	674	831	-18.8%	1,213
Exceptional Items	-1,690	-154	997.2%	-466	262.3%	-2,455	-331	641.7%	-1,333
EBT	864	4,140	-40.5%	1,770	14.2%	4,321	10,762	-38.9%	14,154
Share of Associates	-2	1	-414.3%	-1	340.0%	-1.9	1	-258.3%	1
Tax	619	1,151	-46.2%	641	-3.4%	1,881	3,025	-37.8%	4,597
PAT	243	2,990	-91.9%	1,129	-78.5%	2,438	7,738	-68.5%	9,558
<b>EPS</b>	<b>0.25</b>	<b>3.11</b>	<b>-92.0%</b>	<b>1.18</b>	<b>-78.8%</b>	<b>2.54</b>	<b>8.15</b>	<b>-68.8%</b>	<b>10.04</b>

Source: Company, Keynote Capitals Ltd.

## ZEEL | Quarterly Update

### Conference Call Highlights

#### Television

- The cyclical macroeconomic headwinds restrained advertisers from spending on commercials. The Company has high exposure to FMCG advertisers and tier 2-3 audiences, due to which ZEEL's ad revenue is more sensitive to rural demand and consumption.
- While the market share has reduced by 20 bps QoQ to 16.2%, the Company still holds the second-highest share in the industry.
- International League T20, which commenced in 2023, is anticipated to break-even or turn profitable by its 3<sup>rd</sup> or 4<sup>th</sup> edition (2025-2026).

#### Digital (ZEE5)

- The Daily Active Users (DAUs) remained flat at around 11.5 Mn, the Company added ~8 Mn Monthly Active Users (MAUs) to reach 119.5 Mn audiences. However, these new customers didn't add to the average watch time, which decreased from 198 minutes/month to 169 minutes/month. The average watch time is expected to revert to 180-200 minutes/month.
- The Company will continue to invest in ZEE5 for the next few years and expects it to become profitable when the conversion rate reaches 15%-18%, which is at 9%-10% currently.
- Revenue for ZEE5 primarily comes from subscriptions. However, in the long run, the Company anticipates maintaining a ratio of 60-40 between subscription and ad revenue.
- The annual subscription rate for ZEE5 rose from Rs. 499 to 699 per year in FY23, and is further expected to rise, especially after merger.

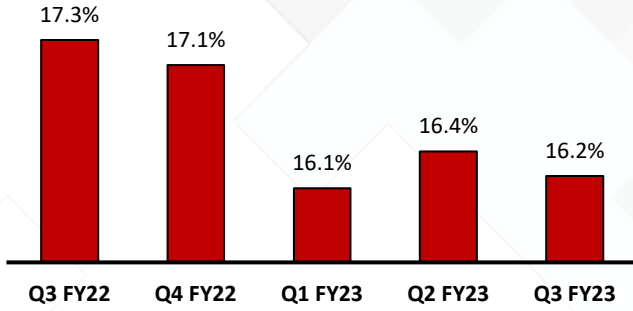
#### Movies

- The Company has decent slate of movies lined up for CY23, namely, Maidan starring Mr. Ajay Devgn, Thunivu starring Mr. Ajith Kumar, Gadar 2 starring Mr. Sunny Deol, etc.

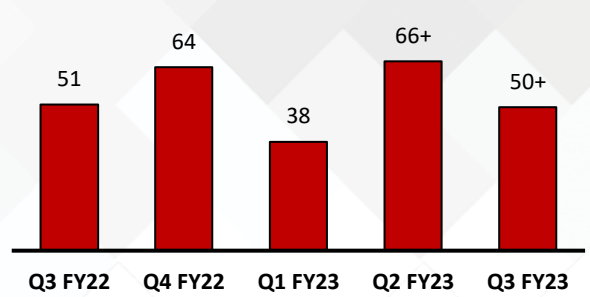
#### Other Updates

- In Q3 FY23, Advertisement revenue declined ~16% YoY and subscription revenue increased 13% YoY, aided by organic growth in ZEE5 and recognition of Rs. 590 Mn of gross revenue from Siti Networks Ltd. However, the Company has provided provision for the same amount as a conservative practice.
- After the implementation of New Tariff Order (NTO) 3.0, growth in television subscription revenue is anticipated after 3 years of no growth.
- The receivables from Dish TV have reduced from Rs. 5.80 Bn in March '20 to Rs. 1.06 Bn in December '22.

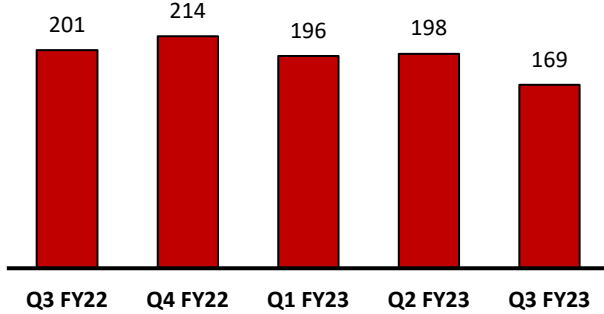
ZEEL's Television Network Share (%)



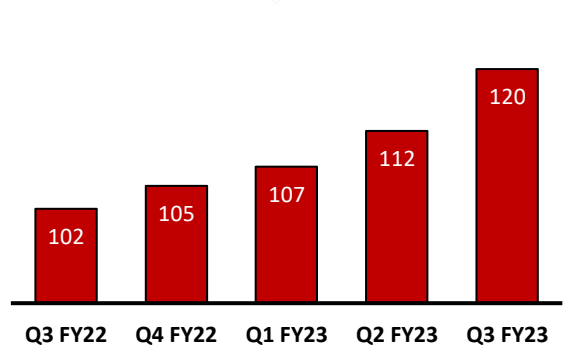
Titles Released on ZEE5



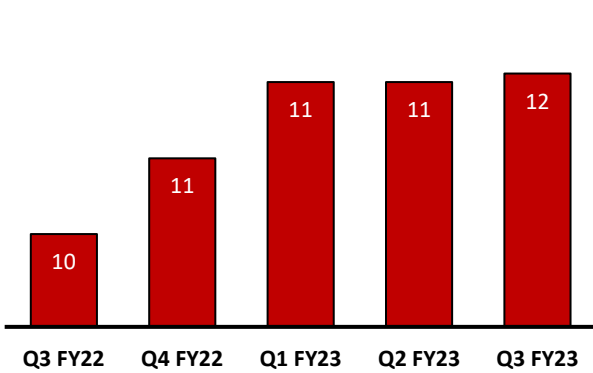
ZEE5 Average Watch Time Per Month (in Mins)



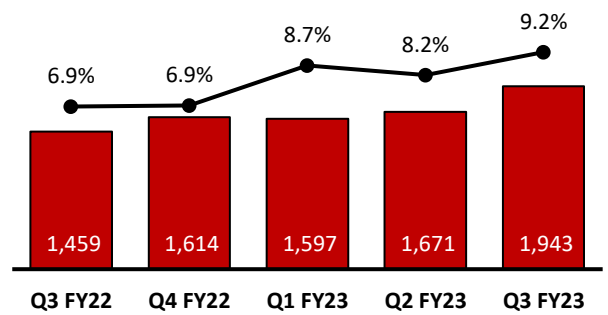
Global MAUs (in Mn)



Global DAUs (in Mn)

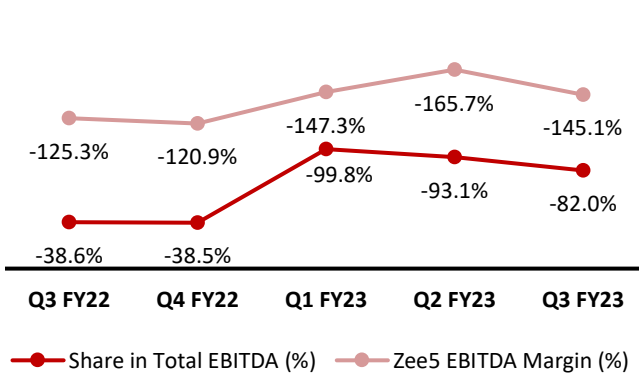


ZEE5 Revenue (Rs. in Mn)



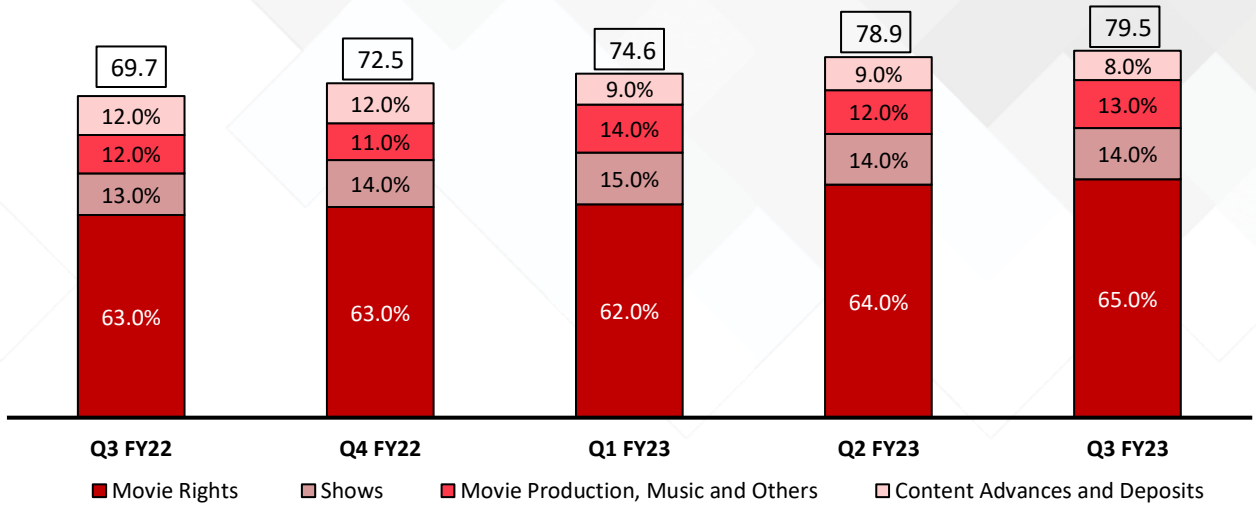
● Share in Total Revenue

ZEE5 EBITDA Margin (%)



● Share in Total EBITDA (%) ● Zee5 EBITDA Margin (%)

Inventory Break-up (Rs. Bn)



Source: Company, Keynote Capitals Ltd.

## Financial Statement Analysis ZEEL

### Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>77,299</b>	<b>81,893</b>	<b>84,120</b>	<b>92,316</b>	<b>1,02,115</b>
Growth %		6%	3%	10%	11%
Raw Material Expenses	37,505	40,449	42,649	44,773	49,015
Employee Expenses	8,183	8,641	8,833	9,693	10,212
Other Expenses	15,672	16,812	18,506	18,925	20,423
<b>EBITDA</b>	<b>15,939</b>	<b>15,991</b>	<b>14,132</b>	<b>18,925</b>	<b>22,465</b>
Growth %		0%	-12%	34%	19%
Margin%	21%	20%	17%	21%	22%
Depreciation	2,649	2,459	3,380	3,684	4,048
<b>EBIT</b>	<b>13,290</b>	<b>13,532</b>	<b>10,752</b>	<b>15,241</b>	<b>18,417</b>
Growth %		2%	-21%	42%	21%
Margin%	17%	17%	13%	17%	18%
Interest Paid	571	451	450	344	333
Other Income & exceptional	-162	1,073	-2,396	-207	-184
<b>PBT</b>	<b>12,557</b>	<b>14,154</b>	<b>7,906</b>	<b>14,690</b>	<b>17,900</b>
Tax	4,625	4,597	2,688	4,995	6,086
<b>PAT</b>	<b>7,932</b>	<b>9,557</b>	<b>5,218</b>	<b>9,695</b>	<b>11,814</b>
Others (Minorities, Associates)	-70	-88	0	0	0
<b>Net Profit</b>	<b>7,862</b>	<b>9,469</b>	<b>5,218</b>	<b>9,695</b>	<b>11,814</b>
Growth %		20%	-45%	86%	22%
Shares (Mn)	960.5	960.5	960.5	960.5	960.5
<b>EPS</b>	<b>8.33</b>	<b>10.04</b>	<b>5.43</b>	<b>10.09</b>	<b>12.30</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	10,907	12,733	6,307	9,501	14,383
Current Investments	7,667	242	242	242	242
Debtors	19,452	17,375	19,348	21,233	23,487
Inventory	54,030	63,862	75,708	81,238	86,798
Short Term Loans & Advances	13,963	15,126	15,126	15,126	15,126
Other Current Assets	490	2,107	2,107	2,107	2,107
<b>Total Current Assets</b>	<b>1,06,509</b>	<b>1,11,445</b>	<b>1,18,837</b>	<b>1,29,447</b>	<b>1,42,143</b>
Net Block & CWIP	12,041	12,298	11,442	10,527	9,543
Long Term Investments	316	409	409	409	409
Other Non-current Assets	6,170	5,164	4,864	4,564	4,264
<b>Total Assets</b>	<b>1,25,036</b>	<b>1,29,316</b>	<b>1,35,552</b>	<b>1,44,947</b>	<b>1,56,359</b>
Creditors	13,982	13,719	16,824	18,463	20,423
Provision	1,248	478	478	478	478
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	10,141	7,975	7,975	7,975	7,975
<b>Total Current Liabilities</b>	<b>25,371</b>	<b>22,172</b>	<b>25,277</b>	<b>26,916</b>	<b>28,876</b>
Long Term Debt	14	21	21	21	21
Deferred Tax Liabilities	-3,151	-3,080	-3,080	-3,080	-3,080
Other Long Term Liabilities	1,727	1,575	1,575	1,575	1,575
<b>Total Non Current Liabilities</b>	<b>-1,410</b>	<b>-1,484</b>	<b>-1,484</b>	<b>-1,484</b>	<b>-1,484</b>
Paid-up Capital	961	961	961	961	961
Reserves & Surplus	99,985	1,07,667	1,10,798	1,18,554	1,28,005
Shareholders' Equity	1,00,946	1,08,628	1,11,759	1,19,515	1,28,966
Non Controlling Interest	129	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,25,036</b>	<b>1,29,316</b>	<b>1,35,552</b>	<b>1,44,947</b>	<b>1,56,359</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	12,557	14,154	7,906	14,690	17,900
Adjustments	7,123	3,249	2,726	2,902	3,232
Change in Working Capital	809	-9,638	-10,713	-5,776	-5,854
Total Tax Paid	-5,011	-4,967	-2,688	-4,995	-6,086
<b>Cash flow from operating Activities</b>	<b>15,478</b>	<b>2,798</b>	<b>-2,769</b>	<b>6,821</b>	<b>9,193</b>
Net Capital Expenditure	-1,740	-2,286	-2,524	-2,769	-3,063
Change in investments	-3,765	7,840	0	0	0
Other investing activities	443	217	1,404	1,426	1,449
<b>Cash flow from investing activities</b>	<b>-5,062</b>	<b>5,771</b>	<b>-1,120</b>	<b>-1,343</b>	<b>-1,615</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	4	10	0	0	0
Dividend (incl. tax)	-290	-2,401	-2,087	-1,939	-2,363
Other financing activities	-268	-279	-450	-344	-333
<b>Cash flow from financing activities</b>	<b>-554</b>	<b>-2,670</b>	<b>-2,537</b>	<b>-2,283</b>	<b>-2,695</b>
Net Change in cash	9,862	5,899	-6,426	3,194	4,882

### Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>					
EPS	8	10	5	10	12
Growth %		21%	-46%	86%	22%
Book Value Per Share	105	113	116	124	134
<b>Return Ratios</b>					
Return on Assets (%)	6%	8%	4%	7%	8%
Return on Equity (%)	8%	9%	5%	8%	10%
Return on Capital Employed (%)	8%	9%	8%	10%	11%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7
Sales / Gross Block (x)	3.1	3.2	3.1	3.1	3.2
Working Capital / Sales (x)	101%	104%	109%	106%	106%
Receivable Days	96	82	80	80	80
Inventory Days	523	532	597	640	626
<b>Liquidity Ratios</b>					
Current Ratio (x)	4.2	5.0	4.7	4.8	4.9
Interest Coverage Ratio (x)	25.2	35.3	26.4	47.5	58.8
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Valuation</b>					
PE (x)	24.4	28.7	40.2	21.6	17.8
Earnings Yield (%)	4%	3%	2%	5%	6%
Price to Sales (x)	2.5	3.4	2.5	2.3	2.1
Price to Book (x)	1.9	2.5	1.9	1.8	1.6
EV/EBITDA (x)	11.8	16.5	13.9	10.4	8.8
EV/Sales (x)	2.4	3.2	2.3	2.1	1.9

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
3 <sup>rd</sup> February 2023	BUY	221	+14%
14 <sup>th</sup> February 2023	BUY	216	+17%

**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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