

## Zee Entertainment Enterprises Ltd.

### Reset Initiated

In Q3 FY24, Zee Entertainment Enterprises Ltd.'s (ZEEL) advertising and other segment revenue declined by 3% and 36% on a YoY basis to Rs. 10.3 Bn and ~Rs. 1 Bn. respectively. However, the subscription revenue recorded a 3% growth on a YoY basis, amounting to Rs. 9.2 Bn. During the quarter, advertisement revenue was impacted by the Cricket World Cup, and its recovery remains subdued due to FMCG companies still being circumspect about their volume recovery. ZEEL initiated a reset and is taking measures around cost rationalization, operational efficiency and content quality to run the business as a standalone entity as the ZEE-SONY merger is now called off. Zee5 continues to perform well, with a revenue of Rs. 2.2 Bn, along with a sequentially lower EBITDA loss of Rs. 2.4 Bn due to cost optimization efforts of the Company. During the quarter, the Company recorded a much smaller exceptional expense of ~Rs. 6 Bn, which must sequentially diminish.

#### Initiated a reset as a standalone entity

As the merger between ZEE and SONY now stands terminated, the Company has initiated the process to bring back the growth along with industry-leading margins. Going forward, the business revival plan for ZEEL will circle around three key aspects, including i) cost rationalization, ii) operational efficiency and iii) producing quality content. Steps will be taken towards enhancing return on investments, including a sound recalibration of the OTT cost structure, implementing a resource optimization drive, measures to increase value delivery to advertisers, etc. ZEEL anticipates a gradual recovery in margins to start reflecting from H2 FY25 while aspiring to register an EBITDA margin of 18-20% for FY26, along with 8-10% revenue CAGR going forward.

#### Ad-spending is witnessing a slow recovery

In Q3 FY24, the strength of festive demand was partially offset by the Cricket World Cup. Though there is a gradual pick-up in ad-spending led by FMCG companies, the pace of ad-spending recovery is still muted. During the quarter, advertisement revenue for ZEEL witnessed a ~3% drop on a YoY basis. The Company now has the fastest-growing network in South India and is targeting channels like Zee TV and Zee Marathi, where the Company believes it can gain network share.

#### Losses in ZEE5 continue to narrow

In Q3 FY24 also, ZEE5 continued to make progress in line with ZEEL's expectations. The revenue of ZEE5 was up by 31% on a YoY basis, along with an EBITDA loss moderation by Rs. 99 Mn QoQ.

#### View & Valuation

Though ZEEL is actively implementing measures to revive the business and efficiently run business operations as a stand-alone entity, concerns around weak financial positioning, corporate governance, and litigation outcomes continue to remain. Owing to the above, we continue to apply a significant discount (25% now versus 30% earlier) to ZEEL's 5-year median PE. Therefore, based on our revised estimates, we downgrade our rating on ZEEL from NEUTRAL to REDUCE with a target price of Rs. 176 (~18x FY25E earnings).

15<sup>th</sup> February 2024

## REDUCE

CMP Rs. 188

TARGET Rs. 176 (-6.3%)

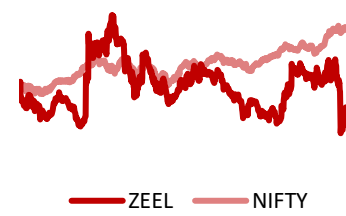
#### Company Data

Bloomberg Code	Z IN
MCAP (Rs. Mn)	1,80,434
O/S Shares (Mn)	961
52w High/Low	291 / 172
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	7,501

#### Shareholding Pattern %

	Dec-23	Sep-23	Jun-23
Promoters	3.99	3.99	3.99
FIIs	28.19	35.00	33.40
DII's	43.57	42.22	40.77
Non-Institutional	24.25	18.79	21.85

#### ZEEL vs Nifty



Feb, 21 Feb, 22 Feb, 23 Feb, 24

Source: Keynote Capitals Ltd.

#### Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	80.8	87.5	95.7
EBITDA	11.1	11.7	15.1
Net Profit	0.5	3.6	9.2
Total Assets	137.3	141.3	150.4
ROCE (%)	4%	8%	9%
ROE (%)	0%	3%	8%

Source: Company, Keynote Capitals Ltd.

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Q3 FY24 Result Update

Result Highlights (Rs. Mn)

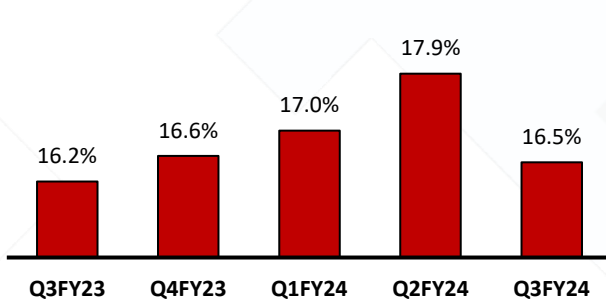
Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	20,457	21,088	-3%	24,378	-16%	64,673	59,758	8%	80,879
Advertisement	10,274	10,634	-3%	9,792	5%	29,475	30,521	-3%	40,579
Subscription	9,213	8,944	3%	8,878	4%	27,166	24,881	9%	33,355
Others	970	1,510	-36%	5,708	-83%	8,032	4,356	84%	6,945
Operational Cost	11,876	11,277	5%	14,254	-17%	37,563	31,464	19%	44,686
Employee Cost	2,442	1,994	22%	2,599	-6%	7,637	6,084	26%	8,238
A&SP	2,531	2,399	5%	2,731	-7%	8,035	7,847	2%	10,554
Other Expense	1,516	1,699	-11%	1,467	3%	4,431	4,811	-8%	6,332
EBITDA	2,092	3,719	-44%	3,328	-37%	7,007	9,552	-27%	11,069
<b>EBITDA %</b>	<b>10%</b>	<b>18%</b>	<b>-741</b>	<b>14%</b>	<b>-342</b>	<b>11%</b>	<b>16%</b>	<b>-515</b>	<b>13.7%</b>
Depreciation	761	837	-9%	772	-1%	2,319	2,294	1%	3,128
EBIT	1,331	2,882	-54%	2,555	-48%	4,688	7,258	-35%	7,942
<b>EBIT %</b>	<b>7%</b>	<b>14%</b>	<b>-716</b>	<b>10%</b>	<b>-398</b>	<b>7%</b>	<b>12%</b>	<b>-490</b>	<b>10%</b>
Finance Cost	183	130	41%	234	-22%	652	306	113%	702
Other Income	277	148	87%	718	-61%	1,139	655	74%	797
PBT	1,424	2,900	-51%	3,039	-53%	5,175	7,607	-32%	8,037
Exceptional Items	-603	-1,690	-	-1,198	-	-2,507	-2,455	-	-3,355
Share of Profit from Associates & JVs	1	-2	-	1	-	3	-2	-	-1
Tax	288	637	-55%	544	-47%	800	1,907	-58%	2,167
<b>Profit from Continued Operations</b>	<b>534</b>	<b>571</b>	<b>-6%</b>	<b>1,299</b>	<b>-59%</b>	<b>1,871</b>	<b>3,243</b>	<b>-42%</b>	<b>2,514</b>
<b>EPS (Continued Operations)</b>	<b>0.56</b>	<b>0.59</b>	<b>-</b>	<b>1.35</b>	<b>-</b>	<b>1.95</b>	<b>3.38</b>	<b>-</b>	<b>2.62</b>
Loss from Discontinued Operations	52	-327	-	-69	-	-590	-805	-	-2,036
<b>Net Profit</b>	<b>586</b>	<b>244</b>	<b>140%</b>	<b>1,230</b>	<b>-52%</b>	<b>1,281</b>	<b>2,438</b>	<b>-</b>	<b>478</b>
<b>EPS (Total Operations)</b>	<b>0.61</b>	<b>0.25</b>	<b>-</b>	<b>1.28</b>	<b>-</b>	<b>1.33</b>	<b>2.54</b>	<b>-</b>	<b>0.50</b>

Source: Company, Keynote Capitals Ltd.

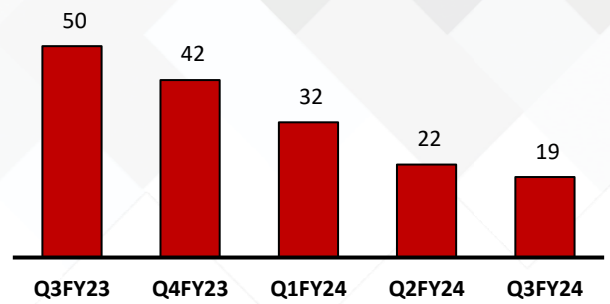
## ZEEL | Quarterly Update

### Quarterly Business Progression

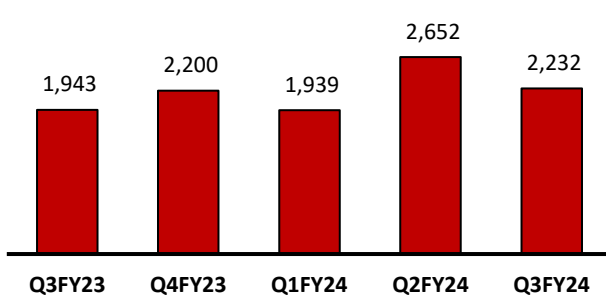
Zee Network Share (%)



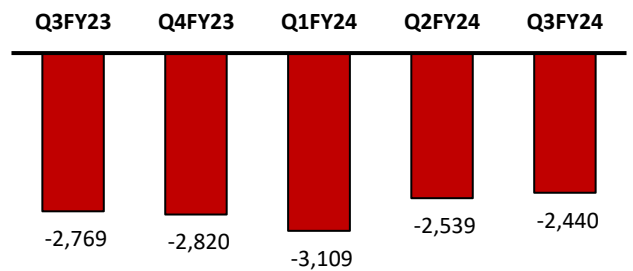
Titles Released on ZEE5



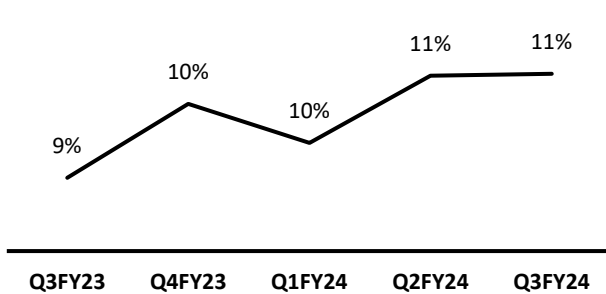
ZEE5 Revenue (Rs. Mn)



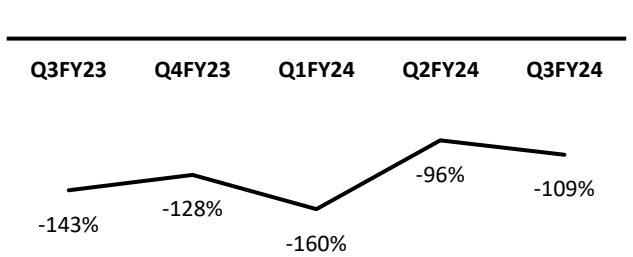
ZEE5 EBITDA (Rs. Mn)



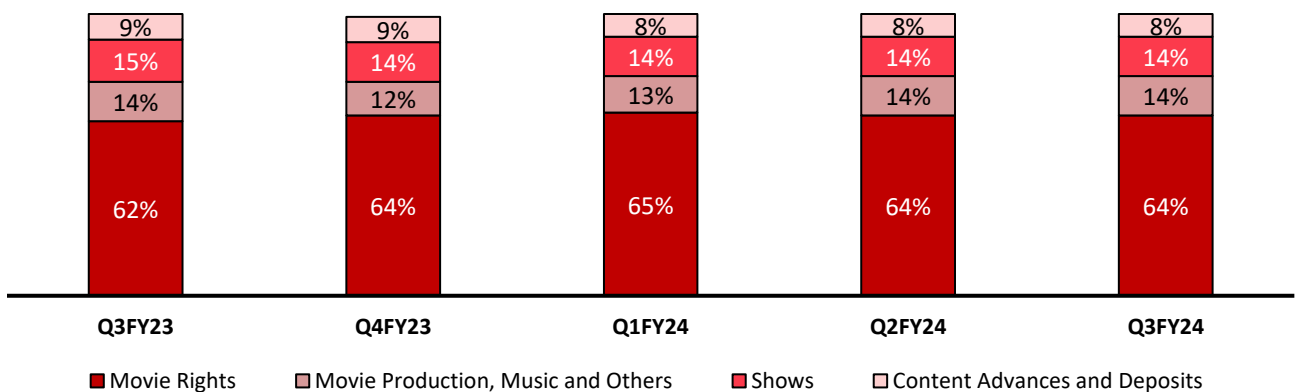
ZEE5 – Revenue Contribution



ZEE5 EBITDA Margin (%)



Inventory Break-up (%)



## ZEEL | Quarterly Update

### Q3 FY24 Conference Call Takeaways

#### Television

- The advertisement revenue was impacted on account of the overall macro environment remained weak due to weak consumption patterns in some markets.
- Gains during the quarter on account of the festive season were partially offset by the Cricket World Cup. Many large FMCG companies are still sceptical about the recovery of volumes and rural demand.
- ZEEL has widened its lead over its competitor in East India and has consolidated its lead in Hindi and Marathi movies.
- Currently, 78% of ZEEL's TV business is coming from linear vertical.
- Subscription revenue for the quarter has grown on account of both ZEE5 subscriptions going up and the implementation of NTO 3.0.

#### Digital (ZEE5)

- The OTT structure of the Company will be recalibrated as it plans to maintain a sharp focus on quality over quantity.
- In terms of incremental investments, the OTT business has peaked, which can be seen in sequential improvement in ZEE5's profitability.

#### Other Updates

- ZEEL is in the process of making some structural interventions, which will be implemented over the next few quarters and result in a significantly better margin in FY25 compared to FY24. There will be one-time costs and lead time associated with the implementation of these measures, which will keep margins under pressure for the next couple of quarters.
- The Company has not seen any attrition since the merger termination was announced, but ZEEL will conduct layoffs and reduce overlaps.
- Given a stable macro environment, the Company aspires to grow its revenue at an 8-10% CAGR along with getting back to 18-20% EBITDA margin.
- In Q3 FY24, the Company released 6 movies, 3 Hindi and 3 Regional names. Revenue in this segment declined steeply due to fewer movies produced and released during the quarter. This business will continue to have such cyclicity.

## Financial Statement Analysis

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>81,857</b>	<b>80,879</b>	<b>87,501</b>	<b>95,740</b>	<b>1,06,123</b>
Growth %		-1%	8%	9%	11%
Raw Material Expenses	40,418	44,686	49,876	50,742	54,123
Employee Expenses	8,261	8,238	8,913	9,752	10,612
Other Expenses	15,413	16,886	18,813	20,106	21,225
<b>EBITDA</b>	<b>17,766</b>	<b>11,069</b>	<b>9,900</b>	<b>15,141</b>	<b>20,163</b>
Growth %		-38%	-11%	53%	33%
Margin%	22%	14%	11%	16%	19%
Depreciation	2,213	3,128	3,195	3,470	3,746
<b>EBIT</b>	<b>15,554</b>	<b>7,941</b>	<b>6,705</b>	<b>11,671</b>	<b>16,417</b>
Growth %		-49%	-16%	74%	41%
Margin%	19%	10%	8%	12%	15%
Interest Paid	438	702	846	705	705
Other Income & exceptional	-132	-2,558	-1,650	1,300	1,400
<b>PBT</b>	<b>14,984</b>	<b>4,681</b>	<b>4,209</b>	<b>12,266</b>	<b>17,112</b>
Tax	4,448	2,167	842	3,066	5,818
<b>PAT</b>	<b>10,537</b>	<b>2,514</b>	<b>3,367</b>	<b>9,199</b>	<b>11,294</b>
Others (Minorities, Associates)	1	-1	-1	-1	-1
Loss from Discontinued Operations	-980	-2,036	-1,219	0	0
<b>Net Profit</b>	<b>9,558</b>	<b>477</b>	<b>2,148</b>	<b>9,198</b>	<b>11,293</b>
Growth %		-95%	350%	328%	23%
Shares (Mn)	960.5	960.5	960.5	960.5	960.5
<b>EPS</b>	<b>10.04</b>	<b>0.50</b>	<b>2.24</b>	<b>9.58</b>	<b>11.76</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	12,733	8,040	6,220	10,757	12,164
Current Investments	242	0	0	0	0
Debtors	17,375	16,088	17,500	18,191	20,163
Inventory	63,862	73,079	77,001	81,379	90,204
Short Term Loans & Advances	0	0	0	0	0
Other Current Assets	17,261	15,066	15,066	15,066	15,066
Total Current Assets	1,11,473	1,12,273	1,15,788	1,25,393	1,37,598
Net Block & CWIP	11,235	13,307	12,737	12,139	11,046
Long Term Investments	1,472	830	829	828	827
Other Non-current Assets	8,216	10,873	10,873	10,873	10,873
<b>Total Assets</b>	<b>1,32,396</b>	<b>1,37,284</b>	<b>1,40,227</b>	<b>1,49,234</b>	<b>1,60,344</b>
Creditors	13,719	17,494	17,500	19,148	21,225
Provision	119	135	135	135	135
Short Term Borrowings	14	19	19	19	19
Other Current Liabilities	8,321	8,888	8,888	8,888	8,888
Total Current Liabilities	22,172	26,536	26,542	28,190	30,266
Long Term Debt	21	40	40	40	40
Deferred Tax Liabilities	0	0	0	0	0
Other Long Term Liabilities	1,575	3,489	3,489	3,489	3,489
Total Non Current Liabilities	1,596	3,529	3,529	3,529	3,529
Paid-up Capital	961	961	961	961	961
Reserves & Surplus	1,07,667	1,06,258	1,09,195	1,16,554	1,25,588
Shareholders' Equity	1,08,628	1,07,219	1,10,156	1,17,515	1,26,549
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,32,396</b>	<b>1,37,284</b>	<b>1,40,227</b>	<b>1,49,234</b>	<b>1,60,344</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	14,984	4,681	5,959	12,266	17,112
Discontinued Operations	-830	-2,069	0	0	0
Adjustments	2,419	5,294	3,241	3,375	3,651
Change in Working Capital	-9,638	-2,722	-5,328	-3,421	-8,721
Total Tax Paid	-4,965	-3,893	-1,192	-3,066	-5,818
<b>Cash flow from operating Activities</b>	<b>2,800</b>	<b>1,291</b>	<b>2,680</b>	<b>9,154</b>	<b>6,224</b>
Net Capital Expenditure	-2,286	-2,412	-2,625	-2,872	-2,653
Change in investments	7,840	-7	0	0	0
Other investing activities	217	403	0	0	0
<b>Cash flow from investing activities</b>	<b>5,771</b>	<b>-2,016</b>	<b>-2,625</b>	<b>-2,872</b>	<b>-2,653</b>
Equity raised / (repaid)	-4,034	0	0	0	0
Debt raised / (repaid)	9	24	0	0	0
Dividend (incl. tax)	-2,850	-2,882	-710	-1,840	-2,259
Other financing activities	-279	-1,224	-846	-705	-705
<b>Cash flow from financing activities</b>	<b>-7,154</b>	<b>-4,082</b>	<b>-1,556</b>	<b>-2,545</b>	<b>-2,964</b>
<b>Net Change in cash</b>	<b>1,417</b>	<b>-4,807</b>	<b>-1,501</b>	<b>3,737</b>	<b>607</b>

### Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	10	0	4	10	12
Growth %		-95%	643%	159%	23%
Book Value Per Share	113	112	116	124	133
<b>Return Ratios</b>					
Return on Assets (%)	8%	0%	3%	6%	7%
Return on Equity (%)	9%	0%	3%	8%	9%
Return on Capital Employed (%)	9%	4%	8%	9%	10%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7
Sales / Gross Block (x)	3.2	2.9	2.7	2.8	2.8
Working Capital / Sales (x)	104%	108%	101%	99%	97%
Receivable Days	82	76	70	68	66
Inventory Days	532	559	569	570	579
<b>Liquidity Ratios</b>					
Current Ratio (x)	5.0	4.2	4.4	4.5	4.6
Interest Coverage Ratio (x)	36.4	12.4	11.6	18.4	25.3
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)	28.7	427.0	64.5	24.9	20.3
Earnings Yield (%)	3%	0%	2%	4%	5%
Price to Sales (x)	3.4	2.5	2.6	2.4	2.2
Price to Book (x)	2.5	1.9	2.1	1.9	1.8
EV/EBITDA (x)	14.9	18.4	18.6	14.3	10.7
EV/Sales (x)	3.2	2.5	2.5	2.3	2.0

## 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%
29 <sup>th</sup> May 2023	BUY	193	+25%
11 <sup>th</sup> August 2023	BUY	271	+17%
13 <sup>th</sup> November 2023	BUY	252	+15%
1 <sup>st</sup> February 2024	NEUTRAL	170	+2%
15 <sup>th</sup> February 2024	REDUCE	188	-6%

**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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