

SugarBox investment to pressurise FCF in near term

Zee Entertainment has announced that it will invest ₹ 522 crore in its subsidiary, Margo Networks (80% holding), which operates under brand name SugarBox over the next couple of years. SugarBox operates in the content delivery network and telecommunications industry. It provides content distribution services at places of interest (POIs) such as public transport, rural areas, public places, hospitality and residential areas by installing necessary infrastructure. The customers can use the services available through SugarBox platform even without access to the internet.

Call highlights

- The investment in SugarBox is in line with their digital strategy and offers a new distribution avenue for their content. This will extend Zee's presence beyond OTT and AdTech. The ability of SugarBox to operate at bad or no network will be a competitive advantage for Zee's services. Although other media companies' apps will be available on the platform, Zee5 will have an edge due to early investment
- Total investment in the project is expected at ₹ 1247 crore over 10 years. Required funding, in excess of Zee's investment, will be through vendor lease/long term finance & internal accruals. On expenditure front, ₹ 289 crore capex will be incurred in the next two years. Balance ₹ 233 crore make up for variable expenses and will be spent only after set rollout and monetisation targets are achieved. The management said the project will break-even in fourth year and from fifth year, it will contribute incrementally to Zee's margins
- Currently, its network consists of 250 POIs with 700k users a day. The company plans to expand the existing network by ~35x in a 4-phase process by June 2022. The scaled-up network will have 8300 POIs with an estimated reach to 2.5 crore daily users. The company has already completed installation in all rakes of Hyderabad and Chennai Metro with exclusivity contracts for six and 10 years, respectively. It has also been awarded tender by RailTel, Mumbai Suburban and Navi Mumbai municipal buses with a minimum of five years exclusivity. The completion of work in these areas will increase its reach significantly to ~2.7 crore users

Valuation & Outlook

Although the investment in SugarBox pushes Zee's digital reach, we believe it is ill-timed considering it is not in the company's core operations and given the already existing cash flow woes. Also, the break-even period is longer. Hence, we remain cautious on the SugarBox investment by Zee Entertainment. Zee's inventory and related party receivables remain high. We maintain **HOLD** with a target price of ₹ 150, valuing it at 8x FY22E P/E.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY20-FY22E
Net Sales (₹ crore)	6,685.7	7,933.9	7,950.9	7,710.6	8,997.2	6.4
EBITDA (₹ crore)	2,076.1	2,567.6	2,343.8	2,146.8	2,651.9	6.4
Adj. Net Profit (₹ crore)	1,393.3	1,573.4	1,650.3	1,446.4	1,817.1	4.9
Adj. EPS (₹)	14.5	16.4	17.2	15.1	18.9	
Adj. P/E (x)	9.4	8.3	7.9	9.0	7.2	
Price / Book (x)	1.4	1.3	1.2	1.1	0.9	
EV/EBITDA (x)	4.9	4.3	4.8	4.3	3.3	
RoE (%)	15.3	15.7	14.7	11.7	13.2	
RoCE (%)	25.6	25.7	21.4	17.1	18.8	

Source: Company, ICICI Direct Research



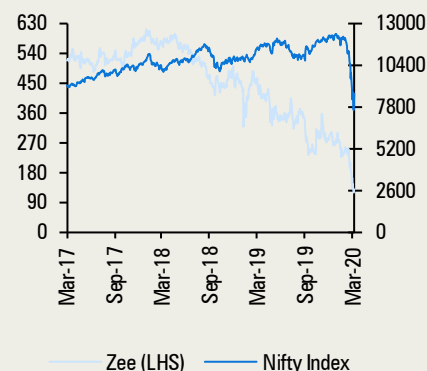
Particulars

Particulars	Amount
Market Capitalization (₹ crore)	13,062.3
Total Debt (FY19) (₹ crore)	2.0
Cash & Inv. (FY19) (₹ crore)	2,079.4
EV (₹ crore)	10,985.0
52 week H/L (₹)	440/ 114
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Key Highlights

- To invest ₹ 522 crore in its subsidiary, Margo Networks, which operates under brand name SugarBox
- Maintain HOLD with target price of ₹ 150/ share

Price Chart



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Other Highlights

- SugarBox generates income through platform fee, ad revenue and subscription platform fee. For users, it is a free of cost service currently but it could undergo a change in future. The company's deal with Indian Railways is of minimum guarantee with a revenue sharing nature. The management said they expect ₹ 10-12 per user per month. They also added that their FCF guidance may change under current circumstances and they will give updates about it in the next conference call
- On the competition front, the management was of the view that Railways and telcos developing their own network does not pose a threat to SugarBox. The main reason cited for this was the cost effectiveness. They added that trackside Wi-Fi data has cost issues, transport body has to bear the cost, while SugarBox uses local frequencies that keeps cost lower. The telcos' 5G services would require huge investment. Therefore, they will be unable to provide the content/data cheaply to consumers. Besides, 5G services will not address the coverage issue, which is one of the strengths of SugarBox. They also added that technology is IP protected
- The remaining 20% stake is with Rohit Paranjape and his team and their shareholding will get diluted after the investment. However, they will have a chance to regain their shareholding on delivery of certain KPI based achievement
- The company is open to strategic investors but indicated that at the current juncture they do not require any financial investors
- They also clarified that SugarBox adheres to net-neutrality norms

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating income	7,933.9	7,950.9	7,710.6	8,997.2
Growth (%)	18.7	0.2	-3.0	16.7
Operational Cost	3,072.2	3,303.6	3,273.8	3,733.8
Employee Expenses	724.9	815.0	786.5	854.7
Admin & Other Expenses	870.0	782.1	771.1	947.0
Marketing Expenses	699.3	706.4	732.5	809.7
Total Operating Expenditure	5,366.3	5,607.1	5,563.8	6,345.3
EBITDA	2,567.6	2,343.8	2,146.8	2,651.9
Growth (%)	23.7	-8.7	-8.4	23.5
Depreciation	234.7	246.5	258.3	296.9
Interest	130.4	168.5	150.0	140.0
Other Income	251.5	312.0	220.0	240.0
Exceptional Items	43.1	170.6	-	-
PBT	2,410.8	2,070.2	1,958.5	2,455.0
Minority Interest	0.2	(2.7)	6.0	5.0
PAT from Associates	2.4	1.9	2.0	4.0
Total Tax	867.3	549.8	508.0	637.0
PAT	1,545.8	1,525.0	1,446.4	1,817.1
Growth (%)	4.5	-1.3	-5.1	25.6
Adjusted PAT	1,573.4	1,650.3	1,446.4	1,817.1
Growth (%)	12.9	4.9	-12.4	25.6
Reported EPS (₹)	16.1	15.9	15.1	18.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	1,111.3	1,111.3	1,111.3	1,111.3
Reserve and Surplus	8,827.9	10,012.8	11,119.3	12,596.3
Total Shareholders funds	10,035.2	11,220.2	12,326.6	13,803.7
Total Debt	2.0	2.0	2.0	2.0
Others	14.3	11.6	13.1	14.6
Total Liabilities	10,051.6	11,233.9	12,341.8	13,820.4
Assets				
Gross Block	1,867.7	2,167.7	2,467.7	2,767.7
Less: Acc Depreciation	908.6	1,155.1	1,413.4	1,710.3
Net Block	959.2	1,012.7	1,054.4	1,057.5
Capital WIP	108.3	108.3	108.3	108.3
Total Fixed Assets	1,067.4	1,120.9	1,162.6	1,165.7
Investments	1,479.7	1,529.7	2,379.7	3,229.7
Inventory	3,850.5	4,465.6	3,802.5	4,437.0
Debtors	1,827.4	2,287.2	1,901.2	2,218.5
Loans and Advances	1,623.4	1,626.9	1,577.7	1,841.0
Other Current Assets	1,005.5	1,007.6	977.2	1,140.2
Cash	1,221.8	1,029.2	2,198.6	1,741.7
Total Current Assets	9,528.6	10,416.5	10,457.2	11,378.4
Creditors	1,489.7	1,415.9	1,373.1	1,602.2
Provisions	145.1	137.9	133.7	156.0
Other current liabilities	1,120.4	1,010.5	882.0	926.3
Total Current Liabilities	2,755.2	2,564.3	2,388.8	2,684.5
Net Current Assets	6,773.4	7,852.2	8,068.4	8,693.9
Other non current assets	731.1	731.1	731.1	731.1
Total Assets	10,051.6	11,233.9	12,341.8	13,820.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	1,545.8	1,525.0	1,446.4	1,817.1
Add: Depreciation	234.7	246.5	258.3	296.9
Add: Interest paid	130.4	168.5	150.0	140.0
(Inc)/dec in Current Assets	-2,622.3	-1,080.5	1,128.7	-1,378.0
Inc/(dec) in CL and Provisions	926.5	-190.8	-175.5	295.7
Others	0.0	0.0	0.0	0.0
CF from op. activities	215.2	668.6	2,807.9	1,171.6
(Inc)/dec in Investments	554.7	-50.0	-850.0	-850.0
(Inc)/dec in Fixed Assets	-301.1	-300.0	-300.0	-300.0
Others	-132.5	-2.7	1.5	1.5
CF from inv. activities	121.1	-352.7	-1,148.5	-1,148.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Issue of Preference Shares	-413.2	0.0	0.0	0.0
Inc/(Dec) in loan funds	1.1	-	-	-
Interest paid	130.4	168.5	150.0	140.0
Others	-444.5	-677.0	-640.0	-620.0
CF from fin. activities	-726.1	-508.5	-490.0	-480.0
Net Cash flow	-389.9	-192.6	1,169.4	-456.9
Opening Cash	1,611.7	1,221.8	1,029.2	2,198.6
Closing Cash	1,221.8	1,029.2	2,198.6	1,741.7

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	16.1	15.9	15.1	18.9
Adjusted EPS	16.4	17.2	15.1	18.9
BV	104.5	116.8	128.3	143.7
DPS	3.0	3.5	3.5	3.5
Cash Per Share	9.5	12.0	14.7	17.8
Operating Ratios (%)				
EBITDA Margin	32.4	29.5	27.8	29.5
EBIT Margin	29.4	26.4	24.5	26.2
PAT Margin	19.8	20.8	18.8	20.2
Inventory days	177.1	205.0	180.0	180.0
Debtor days	84.1	105.0	90.0	90.0
Creditor days	68.5	65.0	65.0	65.0
Return Ratios (%)				
RoE	15.7	14.7	11.7	13.2
RoCE	25.7	21.4	17.1	18.8
RoIC	30.2	23.3	23.6	25.6
Valuation Ratios (x)				
P/E	8.5	8.6	9.0	7.2
EV / EBITDA	4.3	4.8	4.3	3.3
EV / Net Sales	1.4	1.4	1.2	1.0
Market Cap / Sales	1.6	1.6	1.7	1.5
Price to Book Value	1.3	1.2	1.1	0.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.1	6.0	5.5	5.5
Quick Ratio	2.7	3.2	3.0	3.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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