

Miserable results; Sheer hope and assurances (reliability!)

- Zee's Q4FY20 was weak with 15% YoY decline in ad revenues, multi-year low EBITDA margin of 16% (reported negative) in a quarter that wasn't impacted by Covid, Rs 11bn write-offs, Rs 10.5bn rise in inventory in H2FY20 (Rs 15bn in FY20) and auditors' qualification for liabilities not provided for worth Rs 4bn.
- MD & CEO 'open letter' as usual is upbeat (has to be) stating rebirth of company (Zee 4.0), 5Gs (governance, granularity, growth, goodwill, and gusto) etc is good to hear. But as is the saying 'actions speak louder than words'; we would prefer tangible results (FCF followed by dividends) than mere stories that are stated since six quarters. Management commentary on improvement in BS viz. stable/declining inventories and on improvement in FCF is weak.
- Maintain Reduce with a TP of Rs 153 @ 10x FY22E EPS (Rs 157 earlier @ 10x).** Our estimates were already suppressed factoring above. Improvement in FCF or change in management or buyout of Zee by strong strategic investors are potential triggers.

Q4FY20 – Write-offs finally for Promoters issues!

Zee's reported revenue/EBITDA/APAT are at Rs 19.5/-2.84/-7.7bn. **Zee's 4Q has multiple write-offs amounting to Rs 11bn viz.** Rs 6bn above EBITDA for provision for receivables of Rs 3.4bn (related party ~Rs 1.6bn) and accelerated inventory write off Rs 2.6bn. Rs 5bn write-off is below EBITDA viz. overseas investment write-off Rs 3.9bn and goodwill impairment of Rs 1.1bn. Adjusted for one-offs EBITDA/APAT were Rs 3.2/2.2bn viz. -3.4/-43.8/-25% YoY and margin at 16.4%, -1180/-1310bps YoY.

Earnings risk persists with slowdown in ad revenues, subscription due to high base and TRAI NTO 2.0 and lower margins. Risk of further write-offs in inventory, receivables and advances (either as one-off or through lower margins or combination of both as in Q4FY20) is high.

On lower PAT, **mgmt guidance (with lack of confidence) of FCF to be at least 50% of PAT in FY21/22 is not forthcoming.** Investments are thus likely to continue. Nomenclature for investments may alter from movie rights acquisition to digital/SugarBox/new channels etc. Granular details on inventories and investments (ZEE5 KPIs) in upcoming quarters would be helpful but informative.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	19,511	20,193	(3.4)	20,487	(4.8)
Total Expense	16,319	14,510	12.5	14,452	12.9
EBITDA	3,192	5,683	(43.8)	6,034	(47.1)
Depreciation	778	568	36.9	656	18.6
EBIT	2,414	5,115	(52.8)	5,379	(55.1)
Other Income	407	568	(28.4)	710	(42.7)
Interest	864	1,142	(24.3)	200	331.0
EBT	(7,998)	4,417	(281.1)	5,110	(256.5)
Tax	(372)	1,494	(124.9)	1,622	(122.9)
RPAT	(7,659)	2,925	(361.8)	3,490	(319.4)
APAT	2,296	3,050	(24.7)	4,267	(46.2)
			(bps)		(bps)
Gross Margin (%)	46.4	56.3	(981)	58.6	(1218)
EBITDA Margin (%)	16.4	28.1	(1178)	29.5	(1309)
NPM (%)	(39.3)	14.5	(5374)	17.0	(5629)
Tax Rate (%)	4.7	33.8	(2917)	31.7	(2709)
EBIT Margin (%)	12.4	25.3	(1296)	26.3	(1388)

CMP	Rs 152
Target / Upside	Rs 153 / 1%
BSE Sensex	38,154
NSE Nifty	11,216

Scrip Details

Equity / FV	Rs 961mn / Rs 1
Market Cap	Rs 146bn
	US\$ 2bn
52-week High/Low	Rs 405/Rs 114
Avg. Volume (no)	24,906,000
NSE Symbol	ZEEL
Bloomberg Code	Z IN

Shareholding Pattern Mar'20(%)

Promoters	4.9
MF/Banks/FIs	10.0
FIIIs	67.3
Public / Others	17.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	8.3	13.4	9.9
EV/EBITDA	6.1	7.7	5.6
ROE (%)	6.2	11.0	13.3
RoACE (%)	18.6	11.5	13.7

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	81,667	69,260	81,349
EBITDA	23,121	17,654	23,206
PAT	17,465	10,878	14,674
EPS (Rs.)	18.2	11.3	15.3

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Key concall and other highlights

Delay in erstwhile related-party receivables:

- Zee has de-classified Dish TV from related party. The outstanding from two key strategic customers (prima facie Dish and Siti) has increased to Rs 8.1bn as of Mar'20 from Rs 7.5bn as of Dec'19 and Rs 5bn as of Mar'19. Zee has already provided for Rs 2bn (Rs 0.4bn in Q3 and Rs 1.6bn in Q4) as expected credit losses. Zee made an overall provision of Rs 3.43bn towards receivables.
- We highlight management had in Q2 guided for recovery of 50% of the related-party receivables by Mar-20 which was altered to 12-24months in Q3. We remain dubious on the recoverability of this Rs 8.1bn.
- Management in earlier quarter had highlighted that out of Rs 7.5bn outstanding in Dec-19, ~Rs 3.8bn is overdue. Delay in receipt was primarily on account of Dish TV. Siti is paying off its current bills on regular basis and past outstanding as per the monthly plan. Dish TV is also making regular payments for its current bills, but the outstanding amount will start reducing from Q4FY20.
- Dish TV accounts for ~20% of subscription revenue and Siti Cable 7%. Management doesn't foresee a further rise in receivables. Albeit it was confident of recovering the current outstanding on regular basis alongwith recovery of old outstanding.

Weak advertising revenue and viewership-share loss:

- Zee's domestic ad revenues declined by 15% YoY on account of (1) weak viewership share in key genre of Hindi, Tamil and Telugu (2) High base as Q4FY19 growth stood at 16% YoY and (3) Weak macro coupled with covid led impact in last week of March. Zee's
- Zee's management expects the above factors to reverse viz. (1) Base to turn favorable (2) Impact of FTA channels converted to pay to be part of base from 1QFY21. Also moving those channel again on FTA to help boost ad growth and (3) Further, launch of four new regional channels and another in pipeline, Zee expect to gain on viewership and thus advertising revenue share.
- Mgmt estimate the FY21 advertising revenue de-growth for the industry to be ~28-30%. Zee has historically outperformed industry on ad growth. But, with swift transition of eyeballs to digital; pricing risk persist.

Subscription revenue: Mgmt confident of growth, we are doubtful!

- Zee has registered a healthy 33% YoY growth in domestic subscription revenue in FY20 (41% in Q4). Adjusted for carriage charges which until last year was reported as part of Marketing, distribution and promotion expenses but is netted off from subscription revenue in FY20; the domestic subscription revenue growth is even higher. This has largely been led by NTO 1.0 and better monetization in Southern markets especially Tamilnadu.
- Management remains confident of growth in subscription revenues as it believes NTO 2.0 is unlikely to be implemented. This is on account of the matter being subjudice and no date recommended for consumer implementation.

- TRAI has already mandated broadcasters to come up with new packages in-line with NTO 2.0 recommendation by 10th Aug, 2020. In our view if NTO 2.0 is mandated over next 3-6 months we foresee the risk of decline in subscription revenue. With tariffs being in TRAI's domain, broadcasters partly run the risk over here. If broadcasters try to protect the subscription revenues by moving out the anchor channels from bouquets, there is risk of significant deceleration in advertising revenue growth.

International Business

- Zee's international revenue declined 10% YoY partly aided by rupee depreciation. Management has stated earlier that looking as ZEE5's traction in international markets, it will be closing down linear television in FY21. Presence in international markets will be only through ZEE5. This is likely to further impact international subscription revenues in FY21. However, management is confident of a dip, followed by a J-curve type recovery from FY22 onwards through digital platform. This may be feasible but we will prefer to wait for the results.

Zee5

- Zee reported 63.1mn global MAUs and 6mn DAUs in Mar-20. Earlier Zee had reported peak DAU of 11.4mn in Dec-19 vs. 8.9mn in Sep-19. Management has indicated of making available Zee5 as a separate segment reporting with key operating and financial parameters. This will be a welcome disclosure.

Increase in inventory and movie advances

- Despite mgmt promise of reduction in inventory, it rose by Rs 15bn in FY20 (Rs 10.5bn in H2). Adjusted for advances converted into inventory (Rs 4.1bn) and accelerated inventory write off of Rs 2.6bn, inventory increased by Rs 13.5bn.
- Zee had given advance of Rs 9.3bn in FY19 towards movie rights of which Rs 4.2bn is converted into inventory, refund received of Rs 1bn and balance Rs 4.1 still outstanding.
- From the management commentary it seems the inventory levels are expected to remain elevated with investments in Zee5, new channels etc It continues to be an area of concerns. A quick resolution of BS concerns would be helpful.
- Management attributed the accelerated inventory write-off to closure of certain channels/offices in global markets, lower carrying value of certain movies than the expected receipts etc We are not convinced with the persistent steep rise in inventory/advances.

EBITDA Margin nosedives adjusted for one-offs to remain weak

- Adjusted for receivables and inventory write-off, Zee's EBITDA margin were at a multi-year low of 16.4%. This is in a quarter which had a nominal impact of Covid. **We couldn't find concrete comments from the management for the severe dip in margin.** We believe it to be on account of accelerated cost recognition (for the investments in inventories etc). Management has guided that even FY21 margin are to be lower with hope of FY22 reverting to 30%.

Exhibit 1: Q4FY20 Actual vs. Estimates

	Actual	Estimates	Variance	Remarks
Net Sales (Rs Mn)	19,511	19,845	(1.7)	Zee's revenue was in-line. Adjusted EBITDA and APAT were significantly lower due to accelerate costs accounting. This we believe is due to unwarranted overinvestments in movie rights etc in past. Unfortunately, this continues even till now.
EBITDA (Rs Mn)	3,192	5,531	(42.3)	
EBITDA Margin (%)	16.4	27.9	-1151 bps	
APAT (Rs Mn)	2,296	3,026	(24.1)	
EPS (Rs)	2.4	3.2	(24.1)	

Source: DART, Company

Exhibit 2: Change in Estimates

	Old		New		Change %		Remarks
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Net Sales (Rs Mn)	78,157	85,232	69,260	81,349	(11.4)	(4.6)	We trim our already suppressed estimates to account for weak revenue trends and likely accelerated costs recognition. Higher than expected write-offs will be negative.
EBITDA (Rs Mn)	21,727	23,277	17,654	23,206	(18.7)	(0.3)	
EBITDA Margin (%)	27.8	27.3	25.5	28.5	-231 bps	122 bps	
APAT (Rs Mn)	14,095	15,120	10,878	14,674	(22.8)	(3.0)	
EPS (Rs)	14.7	15.7	11.3	15.3	(22.8)	(3.0)	

Source: DART, Company

Exhibit 3: Consolidated Quarterly P&L

Rs mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Revenue	21,668	20,193	20,449	21,220	20,487	19,511	(3.4)	(4.8)
Operating costs	7,978	8,833	7,800	8,963	8,476	10,448	18.3	23.3
Employee expenses	1,834	2,015	2,003	2,123	2,075	1,604	(20.4)	(22.7)
A&P	2,011	1,930	1,955	1,253	1,908	1,842	(4.6)	(3.5)
Other expenses	2,302	1,732	1,726	1,953	1,993	2,425	40.0	21.7
Operating cost	14,125	14,510	13,484	14,291	14,452	16,319	12.5	12.9
EBITDA	7,543	5,683	6,966	6,929	6,034	3,192	(43.8)	(47.1)
Depreciation	615	568	690	583	656	778	36.9	18.6
EBIT	6,928	5,115	6,276	6,346	5,379	2,414	(52.8)	(55.1)
Interest expenses	55	1,142	205	180	200	864	(24.3)	331.0
Fair value (gain)/loss	(376)	(93)	(679)	88	401	(1,048)	1,025.7	(361.3)
Other income	860	568	1,039	681	710	407	(28.4)	(42.7)
PBT	8,109	4,634	7,789	6,760	5,487	3,005	(35.2)	(45.2)
Income taxes	2,484	1,494	2,146	921	1,622	(372)	(124.9)	(122.9)
EO (loss)/gain	-	(218)	-	(1,706)	(376)	(11,003)	4,947.2	2,823.2
Share in Associates/JV	(2)	(3)	(23)	12	(2)	33	(1,420.0)	(1,750.0)
Rep PAT	5,628	2,925	5,666	4,121	3,490	(7,659)	(361.8)	(319.4)
APAT	5,251	3,050	4,987	5,915	4,267	2,296	(24.7)	(46.2)

Source: DART, Company

Exhibit 4: Margin Analysis

As % of Net Sales	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (bps)	QoQ (bps)
Operating costs	36.8	43.7	38.1	42.2	41.4	53.6	981	1,218
Employee expenses	8.5	10.0	9.8	10.0	10.1	8.2	(176)	(191)
A&P	9.3	9.6	9.6	5.9	9.3	9.4	(12)	13
Other expenses	10.6	8.6	8.4	9.2	9.7	12.4	385	270
Operating cost	65.2	71.9	65.9	67.3	70.5	83.6	1,178	1,309
EBITDA	34.8	28.1	34.1	32.7	29.5	16.4	(1,178)	(1,309)
Depreciation	2.8	2.8	3.4	2.7	3.2	4.0	117	79
EBIT	32.0	25.3	30.7	29.9	26.3	12.4	(1,296)	(1,388)
APAT	24.2	15.1	24.4	27.9	20.8	11.8	(334)	(906)
Tax as % of PBT	30.6	32.2	27.6	13.6	29.6	(12.4)	(4,461)	(4,195)

Source: DART, Company

Exhibit 5: Segment-wise revenue

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Advertisement	14,626	12,175	12,235	12,247	12,308	10,389	(14.7)	(15.6)
Subscription	6,185	5,653	7,088	7,235	7,137	7,414	31.2	3.9
Other operating revenues	857	2,365	1,126	1,739	1,042	1,708	(27.8)	63.9
Total	21,668	20,193	20,449	21,220	20,487	19,511	(3.4)	(4.8)

Source: DART, Company

Exhibit 6: Revenue split: Domestic

Domestic	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Advertisement	13,719	11,575	11,690	11,690	11,570	9,829	(15.1)	(15.0)
Subscription	5,192	4,696	6,240	6,459	6,317	6,607	40.7	4.6
Other operating revenues	779	1,697	916	990	935	1,075	(36.7)	15.0
Total	19,690	17,968	18,846	19,138	18,822	17,511	(2.5)	(7.0)

Source: DART, Company

Exhibit 7: Revenue split: International

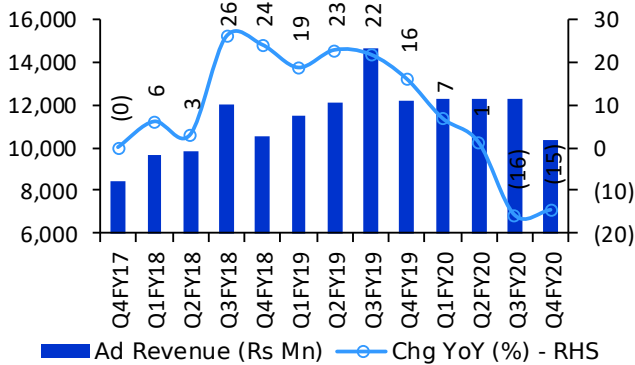
International	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)
Advertisement	907	600	545	557	738	560	(6.7)	(24.1)
Subscription	993	957	848	776	820	807	(15.7)	(1.6)
Other operating revenues	78	668	210	749	107	633	(5.2)	491.6
Total	1,978	2,225	1,603	2,082	1,665	2,000	(10.1)	20.1

Source: DART, Company

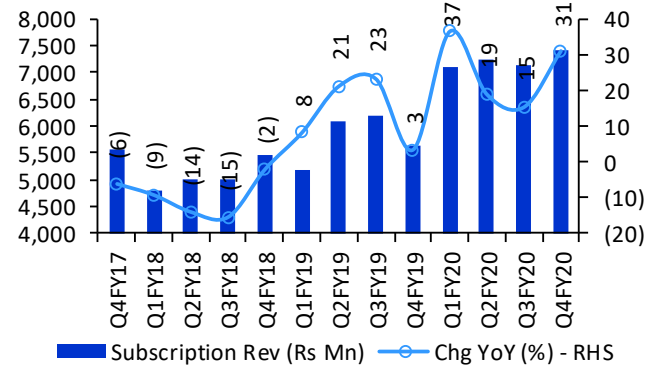
Exhibit 8: Key Assumptions

Rs Mn	FY17	FY18	FY19	FY20	FY21E	FY22E
Advertising	35,684	41,835	50,367	47,179	35,049	44,671
Subscription	18,563	20,283	23,106	28,873	29,547	31,561
Others	3,794	4,522	5,867	5,614	4,665	5,117
Total Revenue	58,041	66,640	79,339	81,667	69,260	81,349
Operating Costs	38,769	45,878	53,700	58,546	51,606	58,143
EBITDA	19,273	20,761	25,640	23,121	17,654	23,206
EBITDA Margin %	33.2	31.2	32.3	28.3	25.5	28.5
% change YoY						
Advertising		17.2	20.4	-6.3	-25.7	27.5
Subscription		9.3	13.9	25.0	2.3	6.8
Others		19.2	29.7	-4.3	-16.9	9.7
Total Revenue	12.0	14.8	19.1	2.9	-15.2	17.5
Operating Costs	6.7	18.3	17.0	9.0	-11.9	12.7
EBITDA	24.5	7.7	23.5	-9.8	-23.6	31.4
Revenue Mix %						
Advertising	61.5	62.8	63.5	57.8	50.6	54.9
Subscription	32.0	30.4	29.1	35.4	42.7	38.8
Others	6.5	6.8	7.4	6.9	6.7	6.3
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0

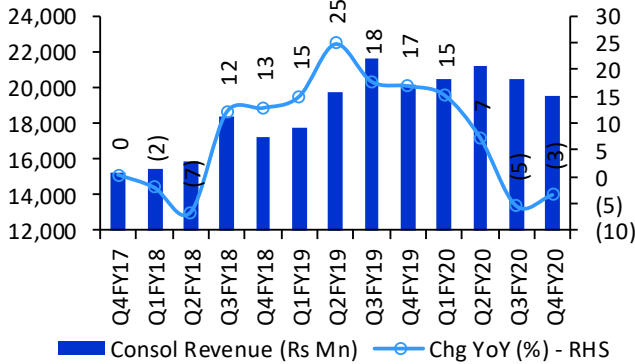
Source: DART, Company

Exhibit 9: Advertising revenue trend


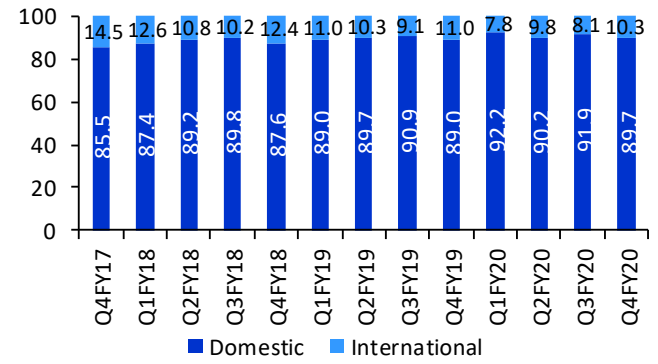
Source: Company, DART

Exhibit 10: Subscription revenue trend


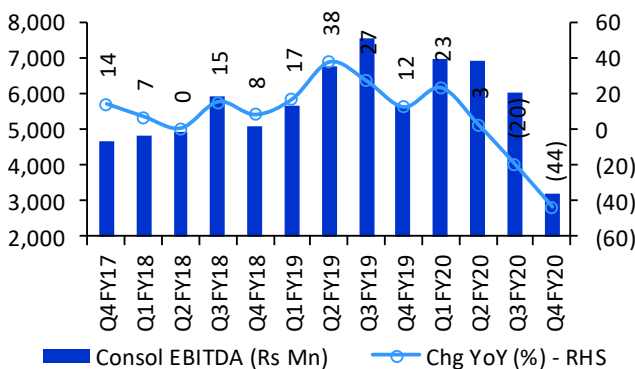
Source: Company, DART

Exhibit 11: Consolidated revenue trend


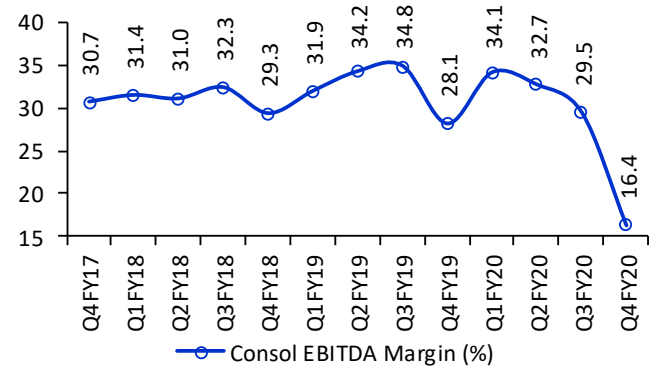
Source: Company, DART

Exhibit 12: Revenue mix


Source: Company, DART

Exhibit 13: EBITDA Trend


Source: Company, DART

Exhibit 14: EBITDA Margins


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	79,339	81,667	69,260	81,349
Total Expense	53,700	58,546	51,606	58,143
COGS	30,758	35,687	32,668	37,690
Employees Cost	7,249	7,805	6,728	7,266
Other expenses	15,692	15,054	12,211	13,187
EBIDTA	25,640	23,121	17,654	23,206
Depreciation	2,347	2,706	3,310	3,653
EBIT	23,293	20,415	14,344	19,552
Interest	1,304	1,449	1,204	949
Other Income	2,514	2,836	2,217	1,796
Exc. / E.O. items	(182)	(11,847)	0	0
EBT	24,321	9,955	15,358	20,399
Tax	8,673	4,317	4,454	5,691
RPAT	15,673	5,618	10,878	14,674
Minority Interest	0	0	0	0
Profit/Loss share of associates	24	(20)	(26)	(34)
APAT	15,854	17,465	10,878	14,674

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	961	961	961	961
Minority Interest	143	110	110	110
Reserves & Surplus	88,279	92,479	102,777	116,293
Net Worth	89,239	93,439	103,738	117,253
Total Debt	11,113	6,476	3,975	0
Net Deferred Tax Liability	1,370	1,405	1,616	1,858
Total Capital Employed	101,866	101,430	109,439	119,221

Applications of Funds

Net Block	7,820	8,778	9,781	11,281
CWIP	1,083	334	334	334
Investments	17,088	12,707	8,991	9,103
Current Assets, Loans & Advances	103,342	101,918	110,421	122,098
Inventories	38,505	53,475	56,689	63,254
Receivables	18,274	20,847	22,100	24,659
Cash and Bank Balances	20,798	10,115	14,102	14,623
Loans and Advances	2,135	0	0	0
Other Current Assets	23,631	17,481	17,531	19,561
Less: Current Liabilities & Provisions	27,468	22,307	20,088	23,594
Payables	14,897	16,803	11,910	13,989
Other Current Liabilities	12,571	5,503	8,178	9,605
<i>sub total</i>				
Net Current Assets	75,875	79,611	90,333	98,503
Total Assets	101,866	101,431	109,439	119,221

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	61.2	56.3	52.8	53.7
EBIDTA Margin	32.3	28.3	25.5	28.5
EBIT Margin	29.4	25.0	20.7	24.0
Tax rate	35.7	43.4	29.0	27.9
Net Profit Margin	19.8	6.9	15.7	18.0
(B) As Percentage of Net Sales (%)				
COGS	38.8	43.7	47.2	46.3
Employee	9.1	9.6	9.7	8.9
Other	19.8	18.4	17.6	16.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	17.9	14.1	11.9	20.6
Inventory days	177	239	299	284
Debtors days	84	93	116	111
Average Cost of Debt	9.9	16.5	23.0	47.8
Payable days	69	75	63	63
Working Capital days	349	356	476	442
FA T/O	10.1	9.3	7.1	7.2
(D) Measures of Investment				
AEPS (Rs)	16.5	18.2	11.3	15.3
CEPS (Rs)	18.9	21.0	14.8	19.1
DPS (Rs)	3.5	0.3	0.5	1.0
Dividend Payout (%)	21.2	1.6	4.4	6.5
BVPS (Rs)	92.9	97.3	108.0	122.1
RoANW (%)	19.0	6.2	11.0	13.3
RoACE (%)	17.7	18.6	11.5	13.7
RoAIC (%)	32.5	23.7	15.4	19.6
(E) Valuation Ratios				
CMP (Rs)	152	152	152	152
P/E	9.2	8.3	13.4	9.9
Mcap (Rs Mn)	145,708	145,708	145,708	145,708
MCap/ Sales	1.8	1.8	2.1	1.8
EV	136,023	142,069	135,581	131,084
EV/Sales	1.7	1.7	2.0	1.6
EV/EBITDA	5.3	6.1	7.7	5.6
P/BV	1.6	1.6	1.4	1.2
Dividend Yield (%)	2.3	0.2	0.3	0.7
(F) Growth Rate (%)				
Revenue	18.7	2.9	(15.2)	17.5
EBITDA	23.5	(9.8)	(23.6)	31.4
EBIT	23.0	(12.4)	(29.7)	36.3
PBT	4.9	(59.1)	54.3	32.8
APAT	33.2	10.2	(37.7)	34.9
EPS	33.2	10.2	(37.7)	34.9

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	944	(3,702)	7,711	11,628
CFI	(2,462)	1,500	(385)	(5,023)
CFF	(7,495)	(7,537)	(4,284)	(6,083)
FCFF	(1,647)	(6,618)	3,399	6,474
Opening Cash	29,813	20,798	10,115	14,102
Closing Cash	20,798	10,115	14,102	14,623

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-19	Accumulate	330	250
Nov-19	Buy	440	345
Jan-20	Buy	377	300
Apr-20	Buy	157	136

*Price as on recommendation date

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