

19 August 2020

## Zee Entertainment

*Taking steps in the right direction; maintaining a Buy*

Rating: **Buy**

Target Price: ₹220

Share Price: ₹174

Pulled down by a 65% y/y fall in ad revenue to ₹4.21bn largely due to the pandemic and market-share loss (Q1 FY21 market share: 15.8%, 18.3% the quarter prior) in certain markets, Zee Entertainment's revenue plunged 34.7% y/y to ₹13.12bn. Its subscription revenue grew 5% y/y to ₹7.44bn. EBITDA declined 67% y/y to ₹2.2bn. The reported margin was 16.8%, vs. 32.9% a year back. No fresh episodes of existing shows were produced in the first two months, leading to a drop in programming cost. This was partially offset by content shot at homes and purchase of licensed content for the linear and digital businesses. Besides, amortisation cost of movies and digital shows continues. At the ruling market price, the risk-reward is favourable. We maintain our Buy rating, with an unchanged target price of ₹220.

**Zee 5, operating and financial highlights.** Zee 5 reported ₹949m revenue and ₹1.45bn EBITDA loss. A press release says its global MAUs were ₹39.7m, global DAUs ₹4m and average watch-time per viewer, per month was 112 minutes. Our channel checks show that Hotstar monthly visitors were ~₹80.37m, Netflix ~₹46m, MX player ~₹26m and Voot ₹22.9m.

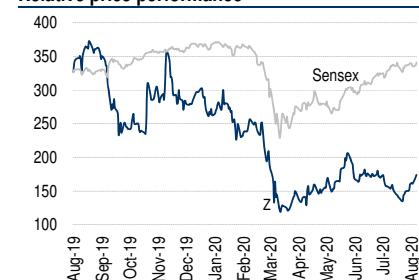
**Re-building investor confidence.** 1) Board members with expertise in law, media or finance to be inducted during FY21; 2) Key financial policies have been re-drafted according to shareholder feedback; 3) Quarterly balance sheet disclosures; (4) Broad break-up of inventory + content advances and (5) Key financials and select operating parameters of Zee 5. Another material development is the resignation of Subhash Chandra and the appointment of R Gopalan, an independent director as Chairman of board.

**Retaining a Buy.** We value Zee at 10x FY22e EV/EBITDA and retain our Buy rating, with a TP of ₹220. **Risk:** Any slippage in content ratings.

Key data	Z IN / ZEE.BO
52-week high / low	₹376 / 114
Sensex / Nifty	38528 / 11385
3-m average volume	\$64.3m
Market cap	₹167bn / \$2234.8m
Shares outstanding	961m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	4.8	4.8	4.9
- of which, Pledged	20.9	20.9	18.5
Free float	95.2	95.2	95.1
- Foreign institutions	67.3	67.3	67.4
- Domestic institutions	3.8	3.8	5.0
- Public	24.1	24.1	22.7

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	66,857	79,339	81,299	65,135	75,479
Net profit (₹ m)	14,778	15,672	5,247	9,130	12,407
EPS (₹)	14.0	16.3	5.5	9.5	12.9
PE (x)	11.3	10.7	31.8	18.3	13.5
EV / EBITDA (x)	7.3	5.9	9.3	10.1	7.6
PBV (x)	2.2	1.9	1.8	1.7	1.6
RoE (%)	20.7	19.0	5.7	9.5	12.0
RoCE (%)	13.5	15.5	7.4	8.6	11.2
Dividend yield (%)	1.9	2.3	0.2	1.2	1.6
Net debt / equity (x)	-0.2	-0.1	-0.0	-0.1	-0.1

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	66,856.8	79,339.3	81,299.2	65,134.6	75,479.0
Growth (%)	4	19	2	-20	16
Ad revenue contri %	62.9	63.5	57.6	49.0	51.9
Direct costs	31,932.0	38,007.4	46,090.1	35,172.7	40,003.9
Gross profit	34,924.8	41,331.9	35,209.1	29,961.9	35,475.1
Gross margins %	52.2	52.1	43.3	46.0	47.0
SG&A	14,164	15,693	18,863	14,981	15,473
<b>EBITDA</b>	<b>20,761</b>	<b>25,639</b>	<b>16,347</b>	<b>14,981</b>	<b>20,002</b>
EBITDA margins (%)	31.1	32.3	20.1	23.0	26.5
- Depreciation	1,821	2,347	2,706	3,110	3,600
Other income	4,335	2,551	240	1,350	1,200
Interest expenses	1,448	1,304	1,449	1,015	1,015
PBT	23,175	24,320	9,588	12,206	16,587
Effective tax rates (%)	36.3	35.7	45.0	25.2	25.2
+ Associates / (Minorities)	12	24	-24	-	-
Net income	14,778	15,672	5,247	9,130	12,407
WANS	960	960	960	960	960
FDEPS (₹ / sh)	14.0	16.3	5.5	9.5	12.9

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	23,175	24,320	9,588	12,206	16,587
+ Non-cash items	-785	3,481	12,783	1,760	2,400
Oper. prof. before WC	22,390	27,802	22,371	13,966	18,987
- Incr. / (decr.) in WC	-8,551	-17,151	-16,758	-3,021	-1,096
Others incl. taxes	-8,295	-9,299	-3,114	-3,076	-4,180
Operating cash-flow	5,544	1,352	2,499	7,870	13,711
- Capex (tang. + intang.)	3,191	2,823	1,818	3,257	3,774
Free cash-flow	2,353	-1,471	681	4,613	9,937
Acquisitions	-2,015	-	-	-	-
- Div. (incl. buyback & taxes)	3,834	4,734	5,227	3,406	4,154
+ Equity raised	-	-	-	-	-
+ Debt raised	-6,967	-4,876	-5,326	-1,000	-1,000
- Fin investments	2,051	-19,793	-13,734	220	220
- Misc. (CFI + CFF)	-2,498	12,610	8,735	21,728	-2,209
Net cash-flow	-10,016	-3,898	-4,873	2,237	6,772

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

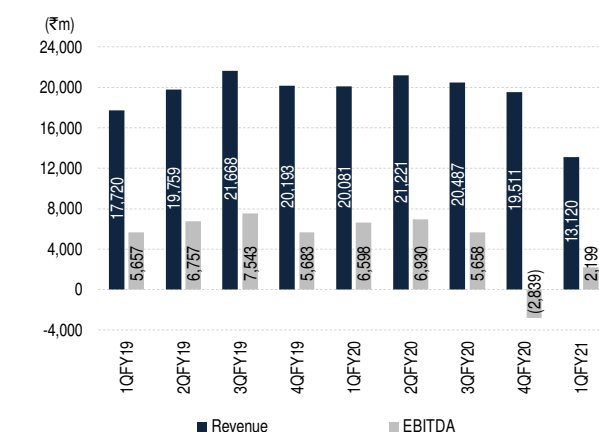
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	961	961	961	961	961
Net worth	75,617	89,239	93,439	99,163	1,07,416
Debt	15,245	11,114	5,950	4,950	3,950
Minority interest	142	143	110	110	110
DTL / (Assets)	-	-	-2,742	-2,742	-2,742
<b>Capital employed</b>	<b>91,004</b>	<b>1,00,496</b>	<b>96,757</b>	<b>1,01,481</b>	<b>1,08,734</b>
Net tangible assets	6,005	5,959	5,898	5,349	4,716
Net intangible assets	1,734	1,383	1,372	1,387	1,404
Goodwill	5,467	5,252	4,070	4,070	4,070
CWIP (tang. & intang.)	920	1,561	832	832	832
Investments (strategic)	3,148	2,740	1,274	1,274	1,274
Investments (financial)	13,695	8,576	2,770	2,770	2,770
Current assets (ex cash)	64,210	91,641	97,435	94,701	97,709
Cash	16,117	12,218	7,345	9,582	16,355
Current liabilities	20,293	28,835	24,238	18,484	20,396
Working capital	43,918	62,806	73,197	76,217	77,313
<b>Capital deployed</b>	<b>91,004</b>	<b>1,00,497</b>	<b>96,758</b>	<b>1,01,481</b>	<b>1,08,735</b>
Contingent liabilities	-	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	11.3	10.7	31.8	18.3	13.5
EV / EBITDA (x)	7.3	5.9	9.3	10.1	7.6
EV / Sales (x)	2.0	1.7	1.7	2.1	1.7
P/B (x)	2.2	1.9	1.8	1.7	1.6
RoE (%)	20.7	19.0	5.7	9.5	12.0
RoCE (%) - after tax	13.5	15.5	7.4	8.6	11.2
RoIC (%) - after tax	21.8	20.9	8.7	9.6	13.1
DPS (₹ / sh)	2.9	3.5	0.3	1.8	2.5
Dividend yield (%)	1.9	2.3	0.2	1.2	1.6
Dividend payout (%) - incl. DDT	20.7	20.7	19.0	19.0	19.0
Net debt / equity (x)	-0.2	-0.1	-0.0	-0.1	-0.1
Receivables (days)	84	84	94	130	100
Inventory (days)	131	175	267	290	267
Payables (days)	91	101	94	75	75
CFO : PAT%	37.5	8.6	47.4	86.2	110.5

Source: Company, Anand Rathi Research

**Fig 6 – Quarterly financial performance**



Source: Company

## Result Highlights

### Q1 FY21 Results at a Glance

**Fig 7 – Category-wise results**

(₹ m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q/Q %	Y/Y %
Revenues	20,081	21,221	20,487	19,511	13,120	-32.8	-34.7
Growth Y/Y %	13.3	7.4	-5.5	-3.4	-34.7	-3129 bps	-4799 bps
Advertisements	11,867	12,247	12,308	10,389	4,211	-59.5	-64.5
Domestic	11,322	11,690	11,570	9,829	3,840	-60.9	-66.1
International	545	557	738	560	371	-33.8	-31.9
Subscriptions	7,088	7,235	7,137	7,414	7,443	0.4	5.0
Domestic	6,240	6,459	6,317	6,607	6,625	0.3	6.2
International	848	776	820	807	818	1.4	-3.5
Others	1,126	1,739	1,042	1,708	1,466	-14.1	30.2
Programming & Operating cost	(7,800)	(8,963)	(8,476)	(13,046)	(6,578)	-49.6	-15.7
As % of revenues	-39	-42	-41	-67	-50	1673 bps	-1129 bps
Staff cost	(2,003)	(2,123)	(2,075)	(1,604)	(2,001)	24.8	-0.1
As % of revenues	-17	-17	-17	-15	-48	-3209 bps	-3065 bps
Selling & Other costs	(3,680)	(3,206)	(4,277)	(7,699)	(2,342)	-69.6	-36.4
As % of revenues	-18	-15	-21	-39	-18	2161 bps	48 bps
EBITDA	6,598	6,930	5,658	(2,839)	2,199	-177.5	-66.7
EBITDA margins %	33	33	28	-15	17	3131 bps	-1609 bps
Depreciation	(690)	(583)	(656)	(778)	(719)	-7.6	4.1
EBIT	5,908	6,346	5,002	(3,616)	1,481	-140.9	-74.9
EBIT margins %	29	30	24	-19	11	2982 bps	-1813 bps
Other income	1,718	594	309	(2,380)	(860)	-63.9	-150.0
Interest expense	(205)	(180)	(200)	(864)	(45)	-94.8	-78.0
PBT	7,420	6,760	5,111	-6,860	576	-108.4	-92.2
PBT margins %	37	32	25	-35	4	3955 bps	-3256 bps
Taxes	(2,146)	(921)	(1,622)	372	(284)	-176.2	-86.8
ETR %	-29	-14	-32	-5	-49	-4382 bps	-2033 bps
PAT	5,275	5,840	3,488	(6,488)	292	-104.5	-94.5
PAT margins %	26.3	27.5	17.0	-33.3	2.2	3548 bps	-2404 bps

Source: Company, Anand Rath Research

**Fig 8 – Quarterly result**

Year-end: Mar (₹m)	Q1 FY21	% Q/Q	% Y/Y	FY20	FY19	% Y/Y
Sales	13,120	(32.8)	(34.7)	81,299	79,339	2.5
EBITDA	2,199	(177.5)	(66.7)	16,347	25,640	(36.2)
EBITDA margins (%)	17	3131 bps	-1609 bps	20	32	-1221 bps
EBIT	1,481	(140.9)	(74.9)	13,640	23,293	(41.4)
EBIT margins (%)	11	2982 bps	-1813 bps	17	29	-1258 bps
PBT	576	(107.2)	(92.2)	9,588	24,321	(60.6)
Tax	(284)	(176.2)	(86.8)	(4,317)	(8,673)	(50.2)
Tax rate (%)	(49)	-4459 bps	-2033 bps	(45)	(36)	-937 bps
Net income	293	(103.8)	(94.5)	5,247	15,673	(66.5)

Source: Company, Anand Rath Research

## Factsheet

**Fig 9 – Factsheet**

Year-end: Mar	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
<b>Revenue split (%)</b>					
Advertisements	59	58	60	53	32
Subscriptions	35	34	35	38	57
Others	6	8	5	9	11
<b>Revenue split (₹ m)</b>					
Advertisements	11,867	12,247	12,308	10,389	4,211
Subscriptions	7,088	7,235	7,137	7,414	7,443
Others	1,126	1,739	1,042	1,708	1,466
<b>Y/Y growth (%)</b>					
Advertisements	4	1	-16	-15	-65
Subscriptions	37	19	15	31	5
Others	5	11	22	-28	30
<b>Advertising revenue split (%)</b>					
Domestic revenues	95	95	94	95	91
International revenues	5	5	6	5	9
<b>Subscription revenue split (%)</b>					
Domestic revenues	88	89	89	89	89
International revenues	12	11	11	11	11

Source: Company

## Valuations

Zee is uniquely positioned in the media sector due to its leading position in Hindi GEC and the various sub-segments – specifically, regional content. It is also afforded a scarcity premium as the other two competitors are unavailable for investors in the secondary market.

We value Zee at 10x FY22e EV/EBITDA and retain our Buy rating, with a TP of ₹220.

### **Risk**

- Any loss in content rating in the flagship/leadership genres.

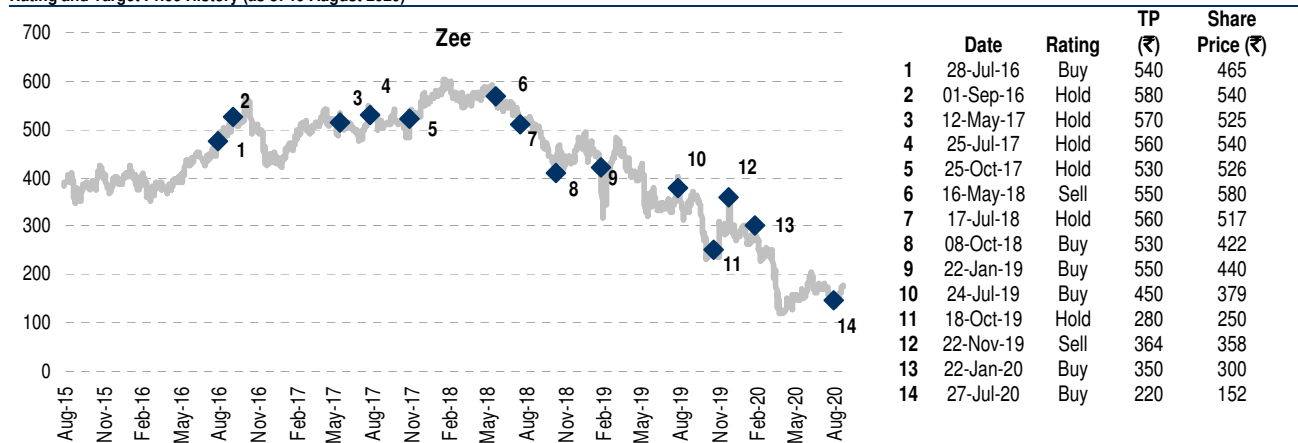
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