

Zee Entertainment

Refer to important disclosures at the end of this report

Riding on improving governance; upgrade to Buy

CMP: Rs 212
as of (August 26, 2020)

TP: Rs 272 (▲)
12 months

Rating: BUY (▲)

Upside: 28.6 %

- Under Strategy 4.0, management has increased disclosures from Q1FY21 as promised earlier, which is expected to further improve in the ensuing quarters. Cash flow improvement through a reduction in working capital requirement is key for re-rating.
- In our view, resolution of balance sheet issues would have driven management to increase the disclosures. Strong execution (channel launches and market share gains) in the last few years and hope of not repeating balance sheet mistakes will regain investor interest.
- After two years of balance sheet deterioration on account of aggressive content investments and various write-offs, the management is confident on delivering FCF/PAT of 50% from FY22E.
- We maintain our cautious stance on timely receipt of subscription receivables from Dish and Siti, as well as investments in SugarBox. The higher target multiple (15x PE on Sep'22 EPS) and the rating upgrade to Buy are predicated on changes brought in by management.

Right steps: Improved disclosures and strengthening corporate policies are the first step in gaining back the lost investor interest, while consistent delivery on the cash flow commitments and higher disclosures on ZEE5 in the ensuing quarters should keep investor interest intact. Although Covid-19 has affected the guidance of FCF/PAT of 50%, management remains confident of delivering it in FY22E even after factoring in investments in SugarBox. Quarterly balance sheet would certainly be the key deliverable to gauge management's delivery.

Shocks of the past: To keep our memories alive and track performance in the ensuing quarters, we want to highlight that the company has written off Rs13.1bn in FY20 toward various issues. In addition, it had stated earlier that the intensity of inventory increase would moderate, which has not yet materialized.

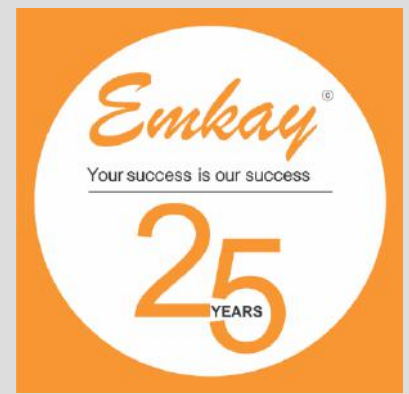
Outlook: Consistent improvement in cash generation over the next 2-3 quarters will provide assurance on the delivery on guidance in FY22. Underperformance in the past and balance sheet deterioration should fade away over time with consistent delivery. The company is banking on ZEE5 to drive subscription growth, going forward. Telco partnerships should aid digital subscription revenues as India will continue to see growth in data subscribers. Given the hyper-competitive nature of the OTT space, we believe that it would continue to see investments for sustaining growth, especially with the presence of numerous global players. We continue to highlight structural challenges faced by traditional broadcasters with the possibility of increased FTTH penetration and changing content consumption habits of urban consumers. Key risks: 1) weaker-than-expected cash generation and balance sheet improvement; 2) delayed ad revenue recovery; 3) significant impact on subscription revenue due to NTO 2.0 implementation; and 4) higher losses from ZEE5.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Media & Entertainment \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	79,339	81,299	75,036	87,807	96,142
EBITDA	25,675	16,346	17,024	23,732	26,270
EBITDA Margin (%)	32.4	20.1	22.7	27.0	27.3
APAT	15,889	10,705	11,480	16,452	18,378
EPS (Rs)	16.5	10.2	11.3	16.8	19.1
EPS (% chg)	17.6	(38.2)	10.9	48.4	13.8
ROE (%)	19.3	10.7	11.2	15.2	15.3
P/E (x)	12.8	20.7	18.7	12.6	11.1
EV/EBITDA (x)	7.5	12.3	11.5	8.0	7.0
P/BV (x)	2.3	2.2	2.0	1.8	1.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	43.2
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	11.3	16.8
Consensus	11.5	16.4
Mean Consensus TP (12M)	Rs 207	

Stock Details

Bloomberg Code	Z IN
Face Value (Rs)	1
Shares outstanding (mn)	961
52 Week H/L	376 / 114
M Cap (Rs bn/USD bn)	203 / 2.73
Daily Avg Volume (nos.)	3,46,78,960
Daily Avg Turnover (US\$ mn)	81.6

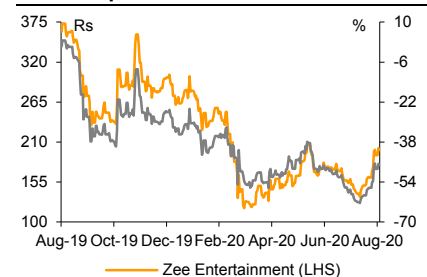
Shareholding Pattern Jun '20

Promoters	4.8%
FIIs	67.3%
DIIIs	9.7%
Public and Others	18.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	39	28	(16)	(42)
Rel. to Nifty	35	-	(15)	(45)

Relative price chart



Source: Bloomberg

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Naval Seth

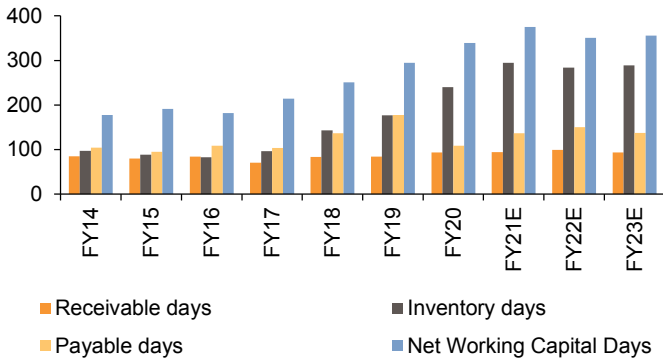
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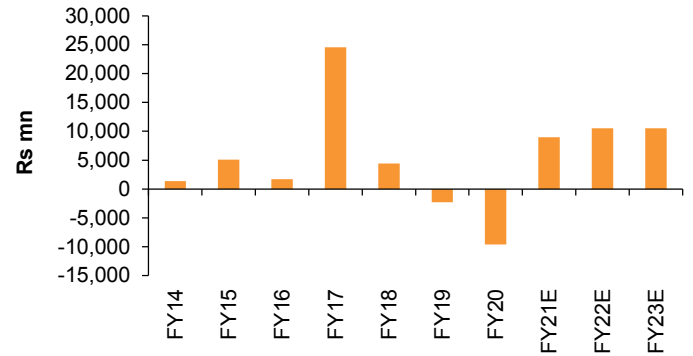
Story in Charts

Exhibit 1: Working capital requirements should moderate gradually



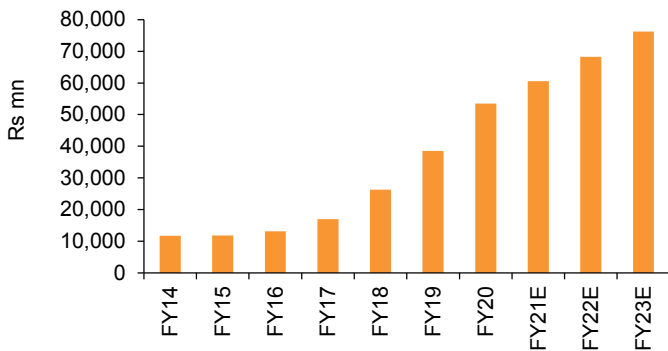
Source: Company, Emkay Research

Exhibit 2: FCF improvement will be delivered with moderation in WC



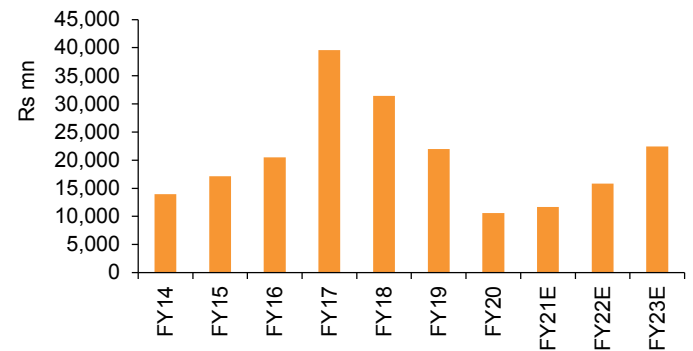
Source: Company, Emkay Research

Exhibit 3: Inventories will continue to rise but at a slower pace



Source: Company, Emkay Research

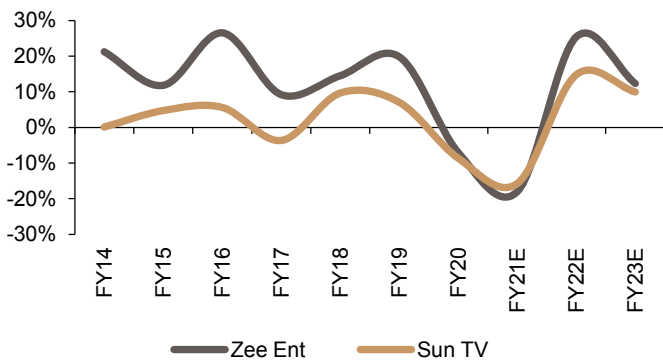
Exhibit 4: Cash improvement would start from FY21E



Source: Company, Emkay Research

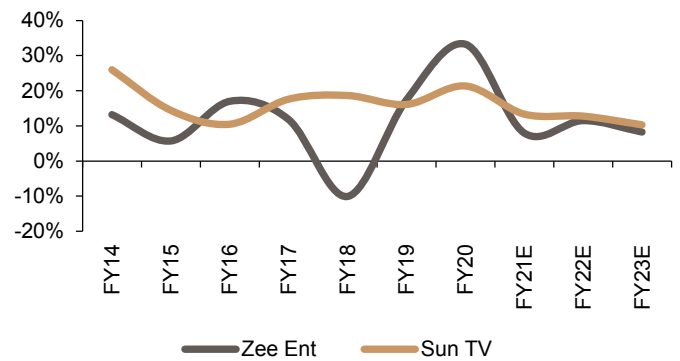
Zee has been outperforming Sun TV on both advertising and subscription revenues, driven by market share gains and new channel launches. On the domestic subscription revenue front, Sun TV has outperformed Zee due to a low base and under-reporting of revenues in Tamil. However, in the case of Zee, lower growth can partially be attributed to the sale of the sports business.

Exhibit 5: Zee has consistently outperformed Sun TV on ad revenue growth with new channel launched and market share gains



Source: Company, Emkay Research

Exhibit 6: Domestic subscription growth rate is similar for both the companies as Zee sold sports business in FY17

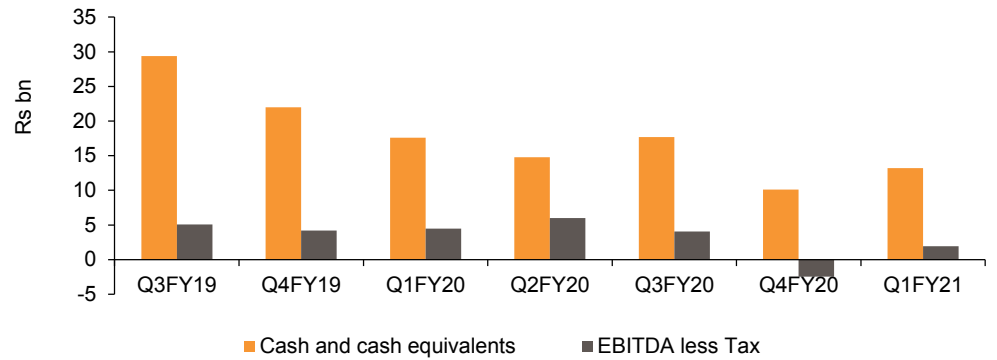


Source: Company, Emkay Research

Balance Sheet saw marginal improvement in Q1

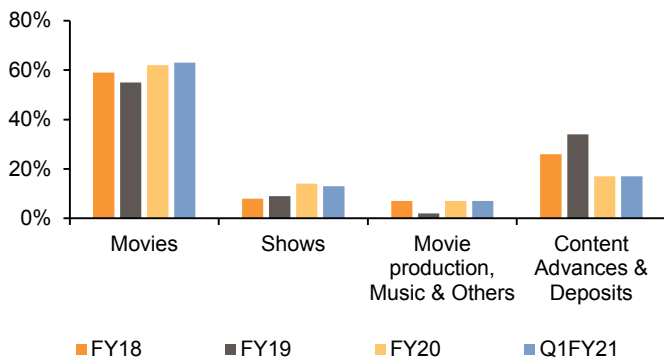
- Cash and cash equivalents rose to Rs13.2bn in Q1FY21 from Rs10.1bn in FY20.
- Trade receivables declined 16.8% to Rs17.4bn in Q1 from Rs20.8bn in FY20.
- In Q1, inventories declined slightly to Rs52.2bn from Rs53.5bn in the previous year, which can be attributable to amortization and absence of fresh content purchases in the lockdown period.

Exhibit 7: Net cash position improved in Q1, aided by reduction in trade receivables



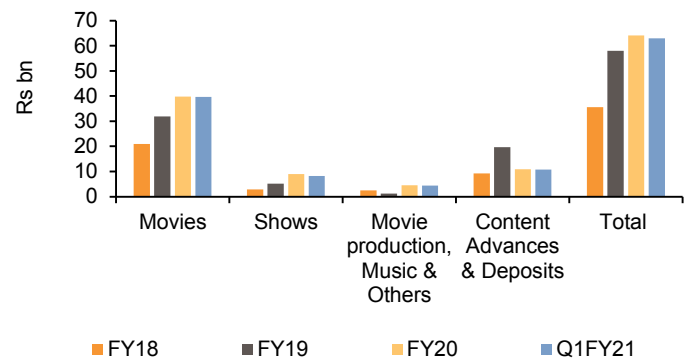
Source: Company, Emkay Research

Exhibit 8: Breakdown of content, inventory advances and deposits



Source: Company, Emkay Research

Exhibit 9: Breakdown of content, inventory advances and deposits



Source: Company, Emkay Research

Exhibit 10: Trend of provisions and exceptional items in the past few quarters

Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20
Accelerated inventory amortization			2,598
One-time provisioning (accounted in opex)		376	3,433
from related party (subscription)		376	1,179
Other Ad and subscription customers			413
Others			1,841
Exceptional Items			
Impairment charge for digital publishing business			1,137
Delay in receiving payment from related parties for ICD	1,706		
Loss on investment in high yielding overseas Mutual funds			3,835
Total	1,706	376	11,003

Source: Company, Emkay Research

Exhibit 11: Key revenue assumptions

Rs mn	FY19	FY20	FY21E	FY22E	FY23E
Advertisement revenue	50,367	46,811	38,363	48,094	54,003
<i>yoy Growth</i>	20%	-7%	-18%	25%	12%
Subscription revenue	23,105	28,873	30,707	33,713	36,139
<i>yoy Growth</i>	14%	25%	6%	10%	7%
Domestic subscription	19,233	25,623	27,663	30,840	33,381
<i>yoy Growth</i>	17%	33%	8%	11%	8%
International subscription	3,873	3,251	3,044	2,873	2,758
<i>yoy Growth</i>	-1%	-16%	-6%	-6%	-4%
Others	5,867	5,614	5,966	6,000	6,000
<i>yoy Growth</i>	30%	-4%	6%	1%	0%
Total revenue	79,339	81,299	75,036	87,807	96,142
<i>yoy Growth</i>	19%	2%	-8%	17%	9%

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	79,339	81,299	75,036	87,807	96,142
Expenditure	53,664	64,953	58,012	64,075	69,871
EBITDA	25,675	16,346	17,024	23,732	26,270
Depreciation	2,347	2,706	2,802	2,843	2,973
EBIT	23,328	13,640	14,222	20,889	23,297
Other Income	2,515	2,836	1,040	1,200	1,360
Interest expenses	1,304	1,449	135	120	120
PBT	24,539	15,027	15,127	21,969	24,537
Tax	8,673	4,317	3,663	5,530	6,176
Extraordinary Items	(218)	(5,440)	(1,123)	0	0
Minority Int./Income from Assoc.	26	(43)	(46)	(53)	(57)
Reported Net Income	15,671	4,377	9,764	16,156	18,378
Adjusted PAT	15,889	10,705	11,480	16,452	18,378

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	960	961	960	960	960
Reserves & surplus	88,279	92,479	99,195	1,11,981	1,26,426
Net worth	89,239	93,439	1,00,156	1,12,941	1,27,387
Minority Interest	143	110	110	110	110
Loan Funds	11,145	9,284	5,084	2,339	2,339
Net deferred tax liability	1,262	(2,742)	(2,742)	(2,742)	(2,742)
Total Liabilities	1,01,789	1,00,091	1,02,607	1,12,648	1,27,093
Net block	14,146	13,147	12,262	10,919	9,446
Investment	9,765	3,247	8,247	8,247	13,247
Current Assets	1,03,858	1,03,769	1,03,454	1,19,728	1,30,572
Cash & bank balance	12,217	7,345	3,455	7,576	9,192
Other Current Assets	10,578	13,839	12,773	12,312	13,481
Current liabilities & Provision	27,541	20,904	22,918	27,807	27,733
Net current assets	76,317	82,865	80,537	91,920	1,02,839
Misc. exp	0	0	0	0	0
Total Assets	1,01,789	1,00,091	1,02,607	1,12,648	1,27,093

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	22,024	12,191	14,087	20,769	23,177
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(18,902)	(15,424)	(1,562)	(7,262)	(9,302)
Operating Cashflow	73	(8,623)	11,597	12,033	12,049
Capital expenditure	(2,374)	(978)	(2,647)	(1,500)	(1,500)
Free Cash Flow	(2,302)	(9,601)	8,950	10,533	10,549
Investments	5,524	6,518	(5,000)	0	(5,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	5,665	8,376	(6,607)	(300)	(5,140)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(4,117)	(1,861)	(4,200)	(2,745)	0
Dividend paid (incl tax)	(3,358)	(1,225)	(2,839)	(3,667)	(3,932)
Other Financing Cash Flow	15,259	12,127	5,640	2,375	6,336
Financing Cashflow	6,480	7,592	(1,535)	(4,157)	2,284
Net chg in cash	12,217	7,345	3,455	7,576	9,192
Opening cash position	16,117	12,217	7,345	3,455	7,576
Closing cash position	12,217	7,345	3,455	7,576	9,192

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	32.4	20.1	22.7	27.0	27.3
EBIT Margin	29.4	16.8	19.0	23.8	24.2
Effective Tax Rate	35.3	28.7	24.2	25.2	25.2
Net Margin	20.0	13.2	15.3	18.7	19.1
ROCE	26.5	16.3	15.1	20.5	20.6
ROE	19.3	10.7	11.2	15.2	15.3
RoIC	33.6	16.3	16.0	22.6	23.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	16.5	10.2	11.3	16.8	19.1
CEPS	19.0	13.0	14.3	19.8	22.2
BVPS	92.9	97.3	104.3	117.6	132.7
DPS	3.5	1.2	2.6	3.3	3.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	12.8	20.7	18.7	12.6	11.1
P/CEPS	11.1	16.2	14.8	10.7	9.5
P/BV	2.3	2.2	2.0	1.8	1.6
EV / Sales	2.4	2.5	2.6	2.2	1.9
EV / EBITDA	7.5	12.3	11.5	8.0	7.0
Dividend Yield (%)	1.7	0.6	1.2	1.6	1.7

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.1)	0.0	(0.1)	(0.1)	(0.2)
Net Debt/EBIDTA	(0.4)	(0.1)	(0.4)	(0.6)	(0.8)
Working Cap Cycle (days)	294.9	339.1	375.0	350.6	355.5

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	18.7	2.5	(7.7)	17.0	9.5
EBITDA	23.7	(36.3)	4.2	39.4	10.7
EBIT	23.2	(41.5)	4.3	46.9	11.5
PAT	6.0	(72.1)	123.1	65.5	13.8

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	20,081	21,220	20,487	19,511	13,120
EBITDA	6,598	6,929	5,658	(2,839)	2,199
EBITDA Margin (%)	32.9	32.7	27.6	(14.5)	16.8
PAT	5,306	4,132	3,494	(7,667)	304
EPS (Rs)	5.5	4.3	3.6	(8.0)	0.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	35.8	22.4	4.9	4.8	4.8
FIIIs	47.1	48.7	67.4	68.3	67.3
DIIs	11.2	13.1	11.8	10.9	9.7
Public and Others	5.9	15.9	15.9	16.1	18.2

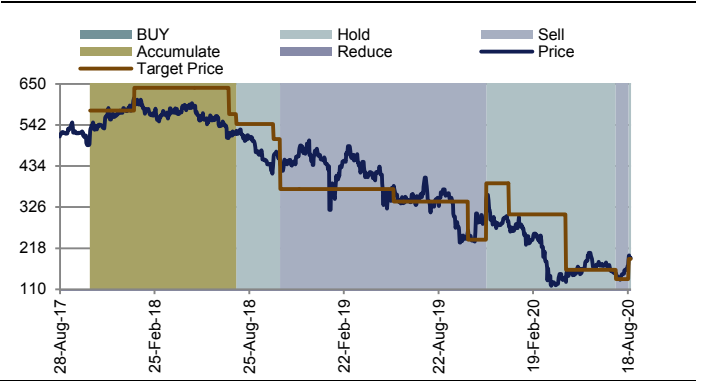
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-Aug-20	197	190	12m	Hold	Naval Seth
26-Jul-20	152	137	12m	Sell	Naval Seth
21-Apr-20	129	161	12m	Hold	Naval Seth
22-Jan-20	300	307	12m	Hold	Naval Seth
03-Jan-20	274	307	12m	Hold	Naval Seth
01-Jan-20	289	389	12m	Hold	Naval Seth
21-Nov-19	345	389	12m	Hold	Naval Seth
17-Oct-19	264	240	12m	Sell	Naval Seth
23-Sep-19	272	341	12m	Sell	Naval Seth
31-Jul-19	362	341	12m	Sell	Naval Seth
23-Jul-19	361	341	12m	Sell	Naval Seth
28-May-19	382	341	12m	Sell	Naval Seth
04-Apr-19	417	374	12m	Sell	Naval Seth
15-Jan-19	457	374	12m	Sell	Naval Seth
14-Nov-18	435	374	12m	Sell	Naval Seth
23-Oct-18	438	374	12m	Sell	Naval Seth
10-Oct-18	460	505	12m	Hold	Naval Seth
31-Jul-18	527	545	12m	Hold	Naval Seth
17-Jul-18	517	571	12m	Accumulate	Naval Seth
27-Jun-18	544	640	12m	Accumulate	Naval Seth
10-May-18	588	640	12m	Accumulate	Naval Seth
17-Jan-18	593	640	12m	Accumulate	Naval Seth
24-Oct-17	526	580	12m	Accumulate	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Media & Entertainment



Analyst: Naval Seth

Contact Details

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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 12 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Media & Entertainment	0.26	0.26	0%	0	100.00
DB Corp*	0.00	0.00	NA	0	0.00
Dish TV*	0.00	0.00	NA	0	0.00
Entertainment Network*	0.00	0.00	NA	0	0.00
Inox Leisure	0.00	0.00	NA	0	0.00
Jagran Prakashan*	0.00	0.00	NA	0	0.00
PVR	0.00	0.00	NA	0	0.00
Sun TV Network	0.06	0.05	-14%	-1	21.00
Zee Entertainment	0.20	0.20	5%	1	79.00
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

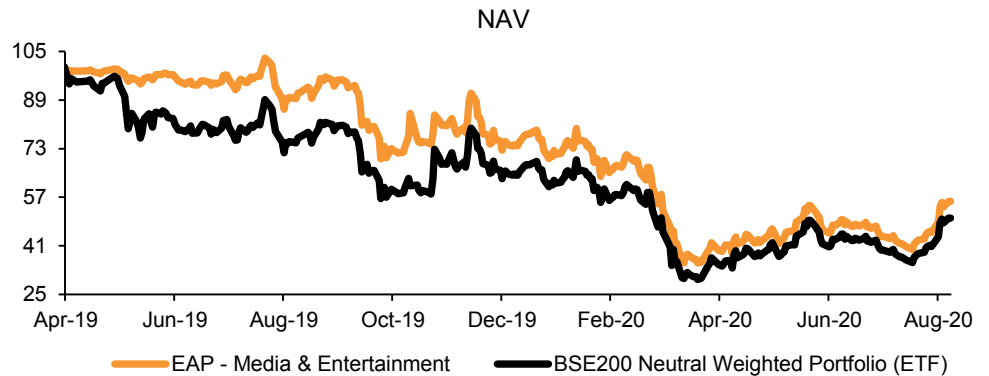
Sector portfolio NAV

	Base					Latest
	01-Apr-19	22-Nov-19	25-Feb-20	27-May-20	24-Jul-20	25-Aug-20
EAP - Media & Entertainment	100.0	91.3	69.4	45.8	42.8	55.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	79.8	59.7	41.2	38.3	50.1

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Aug 2020 23:32:09 (SGT)

Dissemination Date: 26 Aug 2020 23:33:09 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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