

Retail Equity Research

Zee Entertainment Enterprises Ltd.

Media

BSE CODE: 505537

NSE CODE: ZEEL

Bloomberg CODE: Z:IN

SENSEX: 38,799

BUY

12M Investment period

Rating as per Mid Cap

CMP Rs. 202

TARGET Rs. 245

RETURN 22% 

(Closing: 24-08-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Dismal performance, however, outlook positive

Zee Entertainment Enterprises Ltd, a subsidiary of Essel Group, is an Indian mass media company with interests in television, print, films, mobile content and internet, and allied businesses.

- Revenue down by 34.7% YoY, as Ad revenues took a hit due to decline in Ad volumes owing to the un-availability of fresh content.
- EBITDA slumped by 66.7% YoY, while EBITDA margin dropped 1,610bps on lower revenue growth and higher operating costs. PAT declined by 94.3% YoY.
- Improved market share, upward trend in viewership along with focus on governance and disclosure are the key positives. Upcoming festive season should drive topline growth.
- We upgrade our rating on the stock to BUY with a revised target price of Rs. 245 based on 15x FY22E Adj. EPS

Topline falters on lower Ad spends, PAT sees a massive fall

Q1FY21 revenues fell by 34.7% YoY to Rs. 1,312cr, impacted by significant decline in advertising revenues (-64.5% YoY to Rs. 421cr) as the business took a hit during the months of March and April owing to pandemic. On the contrary, subscription revenues grew by 5% YoY to Rs.744cr, aided by surge in online viewers. Revenues from other sales and services rose by 30.3% YoY to Rs. 147cr, backed by sale of movie rights to OTT platform. Geographically, domestic subscription revenue grew by 6.2% YoY to Rs. 663cr on the back of strong ZEE5 subscription revenue.

Margin impacted on higher operating cost

EBITDA came in at Rs. 220cr (-66.7% YoY), while EBITDA margin contracted by 1,610bps to 16.8%, owing to lower revenue growth and higher operating costs (50.2% of revenues as against 38.9% in prior year period) on purchase of licensed content, continued amortization of movies and digital shows, along with a significant jump in employee costs (15.3% of revenues, vs. 9.9% in Q1FY20). Subsequently, net profit dropped by 94.3% YoY to Rs. 30cr.

Key concall highlights

- Company invested Rs. 522cr for an 80% stake in a tech startup, SugarBox, with an aim to supplement its digital content services.
- Management expects positive growth in Ad revenues starting Q3FY21, factoring in expected increase in Ad spends in the coming months. Furthermore, it expects gradual recovery in subscription revenues on account of festivities in H2FY21.
- Viewership share including movies and news (last 4 weeks; 23% and 10% respectively) are coming back to pre-COVID level. Besides, viewership share went up by 19.2% during the last 4 weeks vs. 18.3% Q4FY20. Notably, global MAUs and DAUs stood at 39.7mn and 4.0mn, respectively in June-20
- With desired levels of investments achieved in ZEE5, there are no plans for increase in further investments at EBITDA level in the near-term.

Valuation

Gradual recovery in Ad and Subscription revenues on account of upcoming festivities should aid top-line growth in H2FY21. With rise in viewership and arrival of new content, we expect steady improvements in ZEEL's performance in the coming quarters. At current levels, the stock is available at a bargain. We thereby upgrade our rating to BUY with a revised target price of Rs. 245, based on 15x FY22 Adj. EPS.

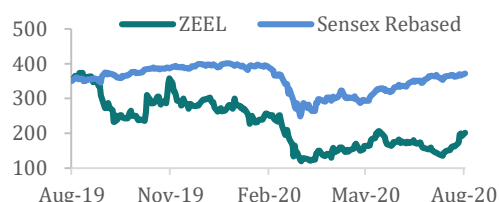
Company Data

Market Cap (cr)	Rs. 19,359
Enterprise Value (cr)	Rs. 18,086
Outstanding Shares (cr)	96.1
Free Float	95.0%
Dividend Yield	1.5%
52 week high	Rs. 376
52 week low	Rs. 114
6m average volume (lacs)	12.3
Beta	1.0
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	4.9	4.8	4.8
FII's	67.4	68.3	67.3
MFs/Insti	12.0	11.1	9.8
Public	3.3	3.0	4.7
Others	12.5	12.9	13.4
Total	100.0	100.0	100.0
Promoters' pledge	0.9	0.8	1.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	23.5%	-19.1%	-42.6%
Absolute Sensex	26.5%	-3.9%	5.7%
Relative Return*	-3.0%	-15.2%	-48.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	8,130	7,463	8,594
Growth (%)	2.5	(8.2)	15.2
EBITDA	1,635	1,824	2,402
EBITDA Margin (%)	20.1	24.4	27.9
Adj. PAT	811	1,137	1,567
Growth (%)	(49.0)	40.2	37.9
Adj. EPS	8.4	11.8	16.3
Growth (%)	(49.0)	40.2	37.9
P/E	14.7	17.0	12.4
P/B	1.3	1.9	1.7
EV/EBITDA	7.5	9.9	7.3
ROE (%)	5.6	11.2	13.9
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	1,312	2,008	(34.7)	1,951	(32.8)
EBITDA	220	660	(66.7)	(284)	<i>n.m.</i>
EBITDA margins	16.8	32.9	(1610bps)	(14.5)	<i>n.m.</i>
Depreciation	72	69	4.1	78	(7.6)
EBIT	148	591	(74.9)	(362)	<i>n.m.</i>
Interest	5	21	(78.0)	86	(94.8)
Other Income	(86)	174	(149.3)	(241)	64.4
Exceptional Items	-	-	-	(114)	<i>n.m.</i>
PBT	58	744	(92.3)	(803)	<i>n.m.</i>
Tax	28	215	(86.8)	(37)	<i>n.m.</i>
Share of profit from Associate	0	2	(98.3)	(3)	<i>n.m.</i>
Minority Interest	(1)	(0)	(251.6)	0	<i>n.m.</i>
Reported PAT	30	531	(94.3)	(766)	<i>n.m.</i>
Adjustments	-	-	-	114	<i>n.m.</i>
Adj. PAT	30	531	(94.3)	(653)	<i>n.m.</i>
No. of shares	96.1	96.1	(0.0)	96.1	-
Adj. EPS (Rs.)	0.3	5.5	(94.3)	(6.8)	<i>n.m.</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	7,099	7,985	7,463	8,594	5.1	7.6
EBITDA	1,771	2,231	1,824	2,402	3.0	7.6
Margins (%)	24.9	27.9	24.4	27.9	(50bps)	0bps
Adj. PAT	995	1,323	1,137	1,567	14.2	18.5
Adj. EPS	10.4	13.8	11.8	16.3	14.2	18.5



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	6,686	7,934	8,130	7,463	8,594
% change	3.9	18.7	2.5	(8.2)	15.2
EBITDA	2,076	2,564	1,635	1,824	2,402
% change	9.5	27.6	(34.9)	14.1	34.5
Depreciation	182	235	271	310	277
EBIT	1,894	2,329	1,364	1,514	2,124
Interest	145	130	145	239	266
Other Income	569	236	(263)	258	255
PBT	2,319	2,435	956	1,533	2,113
% change	(20.1)	5.0	(60.7)	60.3	37.9
Tax	841	867	432	399	550
Tax Rate (%)	36.3	35.6	45.1	26.0	26.0
Reported PAT	1,479	1,567	526	1,137	1,567
Adj*	(135)	22	284	-	-
Adj PAT	1,344	1,589	811	1,137	1,567
% change	34.7	18.2	(49.0)	40.2	37.9
No. of shares (cr)	96.0	96.0	96.1	96.1	96.1
Adj EPS (Rs.)	14.0	16.5	8.4	11.8	16.3
% change	34.7	18.2	(49.0)	40.2	37.9
DPS (Rs.)	2.9	3.5	3.0	3.0	4.2
CEPS (Rs.)	15.9	19.0	11.3	15.1	19.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,661	1,802	797	1,447	1,844
Non-cash adj.	(252)	49	1,129	490	380
Changes in W.C	(855)	(1,715)	(1,676)	496	(797)
C.F. Operation	554	135	250	2,433	1,428
Capital exp.	(255)	(281)	(145)	(189)	(217)
Change in inv.	(978)	1,017	389	(2)	(2)
Other invest.CF	183	130	144	(0)	0
C.F - Investment	(1,050)	866	389	(191)	(220)
Issue of equity	-	-	-	-	-
Issue/repay debt	(294)	2	(46)	-	-
Dividends paid	(383)	(473)	(523)	(400)	(510)
Other finance.CF	(413)	(495)	(493)	(337)	(286)
C.F - Finance	(1,090)	(966)	(1,062)	(737)	(796)
Chg. in cash	(1,586)	35	(423)	1,505	412
Closing cash	934	968	553	2,058	2,470

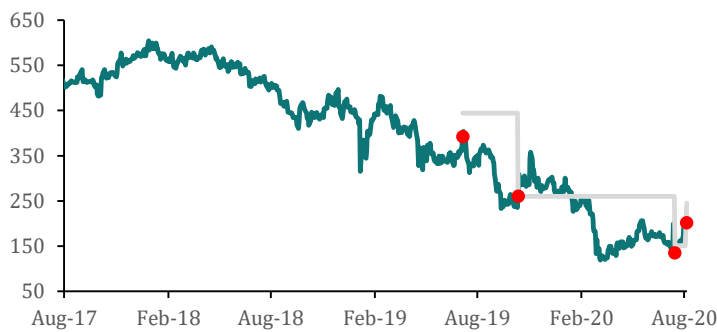
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	934	968	553	2,058	2,470
Accounts Receivable	1,537	1,827	2,085	2,015	2,320
Inventories	2,628	3,851	5,347	4,601	5,298
Other Cur. Assets	3,491	3,688	2,207	1,982	1,905
Investments	315	274	127	128	129
Gross Fixed Assets	1,938	2,010	2,155	2,344	2,562
Net Fixed Assets	552	570	680	680	582
CWIP	78	108	33	33	33
Intangible Assets	734	711	605	608	610
Def. Tax (Net)	-	-	-	-	-
Other Assets	861	935	736	658	746
Total Assets	11,130	12,933	12,374	12,763	14,095
Current Liabilities	1,681	1,943	1,950	1,666	1,915
Provisions	89	135	141	148	155
Debt Funds	1,783	1,916	928	775	712
Other Liabilities	-	0	(0)	(0)	(0)
Equity Capital	96	96	96	96	96
Reserves & Surplus	7,466	8,828	9,248	10,070	11,212
Shareholder's Fund	7,562	8,924	9,344	10,166	11,308
Minority Interest	14	14	11	9	6
Total Liabilities	11,130	12,933	12,374	12,763	14,095
BVPS (Rs.)	79	93	97	106	118

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	31.1	32.3	20.1	24.4	27.9
EBIT margin (%)	28.3	29.4	16.8	20.3	24.7
Net profit mgn.(%)	22.1	19.8	6.5	15.2	18.2
ROE (%)	19.6	17.6	5.6	11.2	13.9
ROCE (%)	20.2	21.5	13.3	13.8	17.7
W.C & Liquidity					
Receivables (days)	83.9	84.1	93.6	98.6	98.6
Inventory (days)	344.7	556.1	509.8	438.6	575.9
Payables (days)	150.8	215.1	160.2	129.7	170.2
Current ratio (x)	3.7	3.3	4.0	4.9	5.0
Quick ratio (x)	1.4	1.0	1.1	1.9	2.1
Turnover & Leverage					
Gross asset T.O (x)	4.2	4.0	3.9	3.3	3.5
Total asset T.O (x)	0.6	0.7	0.6	0.6	0.6
Int. coverage ratio (x)	13.1	17.9	9.4	6.3	8.0
Adj. debt/equity (x)	0.2	0.2	0.1	0.1	0.1
Valuation					
EV/Sales (x)	8.4	5.3	1.5	2.4	2.0
EV/EBITDA (x)	27.0	16.5	7.5	9.9	7.3
P/E (x)	41.1	26.1	14.7	17.0	12.4
P/BV (x)	7.3	4.6	1.3	1.9	1.7

Recommendation Summary



Dates	Rating	Target
25-Jul-19	BUY	444
31-Oct-19	HOLD	260
3-Aug-20	HOLD	151
25-Aug-20	BUY	245

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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