

"One offs" or routine?

Zee Entertainment's (Zee) Q2FY21 operating performance was marred by one-offs (which have become more of a routine – third time in the last five quarters). Results, as expected, were weak with ad revenues down ~26% YoY given the fall in ad pricing that is yet to recover to pre-Covid levels. Like to like subscription growth of 2.8% YoY (like to like domestic subscription growth of 2.3% YoY), was primarily led by Zee5 growth. Higher-than-expected A&P costs and provision for Siti Networks receivables impacted EBITDA, which was at ₹ 313.7 crore, down 54.7% YoY with margins at 18.2%, down 1445 bps YoY. Reported PAT was at ₹ 94.1 crore, down 77.2% YoY, impacted by ₹ 97.1 crore DSRA liability write-off of Siti Networks.

Siti Network's woes add to Zee's pain

Related party woes came back to haunt Zee again as it provided ₹ 82.1 crore for overdue receivables from Siti Networks (SNL). Furthermore, SNL's outstanding loan was backed by DSRA guarantee of up to ₹ 205.9 crore by Zee. Owing to invocation of DSRA guarantee, Zee has provided ₹ 97.1 crore as DSRA liability, classifying as an exceptional item. It has now put SNL into cash & carry model. Additionally, the overdues from Dish TV (another troubled related party with outstanding receivables of ₹ 498 crore) is being recovered as per agreed payment plan. While write-offs aid in clean-up of book, frequency of such write offs make us wonder if more is in the offing.

Expect ad recovery in H2...

Zee5 revenues were at ₹ 98.9 crore (up 3.3% QoQ), while EBITDA loss was at ₹ 189.4 crore (vs. ₹ 145.4 crore in Q1). Zee5 recorded a global DAU of 5.2 million and 54.7 million global MAU in September. The management said that growth in user base/watch time was not reflected in revenues as deal with a telco, which ended in August, was not renewed as the company will focus on B2C model. On the broadcasting side, the company expects flattish ad revenues in Q3, followed by growth on a benign base from Q4. We bake in 1.2% CAGR in FY20-22E with 19% de-growth in FY21 followed by sharp rebound of 26% YoY in FY22. Zee has guided for "moderate" subscription growth (given lack of pricing uptick) with Zee5 contribution being a key driver. Given the realignment of subscription revenues (now music forms part of subscription), we build in overall subscription revenue CAGR of 11% (~8% on like to like basis) in FY20-22E to ₹ 3557 crore. NTO 2.0, if implemented, could dent subscription growth in the interim till broadcasters rework bouquet and pricing strategy.

Valuation & Outlook

One-off write-off along with losing market leadership in key markets of Marathi and Bangla languages is a concern. While ad volumes improved QoQ owing to fresh content, ad realisation remains low. Full recovery in ad pricing ahead of festive season will be the key. Potential implementation of NTO 2.0 and impact ahead also remains unknown. We will turn buyers once ad recovery, improved cash flows & related parties mess eases. We maintain **HOLD** rating with a target price of ₹ 195/share (11x FY22 P/E).

Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-FY22E
Net Sales (₹ crore)	6,685.7	7,933.9	8,129.9	7,249.3	8,550.2	2.6
EBITDA (₹ crore)	2,076.1	2,567.6	1,634.6	1,703.2	2,483.6	23.3
Adj. Net Profit (₹ crore)	1,393.3	1,573.4	1,661.5	1,027.9	1,703.9	1.3
EPS (₹)	15.4	16.1	5.5	9.0	17.7	
P/E (x)	11.9	11.4	33.5	20.5	10.3	
Price / Book (x)	1.9	1.8	1.8	1.7	1.6	
EV/EBITDA (x)	7.1	6.1	10.2	9.3	6.2	
RoE (%)	15.3	15.7	16.7	10.1	15.2	
RoCE (%)	25.6	25.7	13.9	13.8	20.8	

Source: Company, ICICI Direct Research *FY20/FY21 EBITDA have certain one-off write-offs



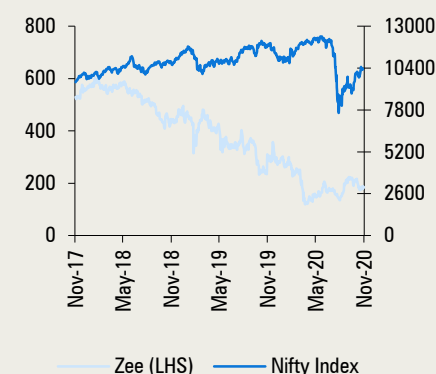
Particulars

Particulars	Amount
Market Cap (₹ crore)	17,619.8
Total Debt (FY20) (₹ crore)	52.6
Cash & Inv. (FY20) (₹ crore)	1,011.5
EV (₹ crore)	16,660.9
52 week H/L (₹)	362/ 114
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Key Highlights

- Domestic ad revenue fell ~26% YoY while like to like domestic subscription revenue grew 2.3% YoY
- Maintain HOLD with target price of ₹ 195/share, valuing it at 11x FY22 P/E

Price Chart



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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,722.7	1,752.9	2,122.0	1,312.0	-18.8	31.3	Domestic ad declined by 25.9% YoY to ₹ 866.6 crore owing to fall in ad pricing which is yet to recover to pre-Covid levels. The like to like subscription revenues grew by 2.8% YoY to ₹ 744 crore. On a comparable basis, domestic subscription grew 2.3% YoY, largely driven by Zee5 subscription.
Other Income	17.2	40.0	59.4	-86.0	-71.1	-120.0	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	196.7	210.3	212.3	200.1	-7.3	-1.7	
Admin & Other Expenses	202.1	166.5	195.3	123.1	3.5	64.2	
Marketing Expenses	176.0	131.5	125.3	111.1	40.5	58.5	
Operational Cost	834.2	841.4	896.3	657.8	-6.9	26.8	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	313.7	403.2	692.9	219.9	-54.7	42.6	EBITDA came in below our expectations largely due to provision for ₹ 82.1 crore for overdue receivable from Siti Cable.
EBITDA Margin (%)	18.2	23.0	32.7	16.8	-1445 bps	145 bps	
Depreciation	65.1	70.1	58.3	71.9	11.7	-9.3	
Interest	1.3	20.0	18.0	4.5	-92.7		
Total Tax	74.0	89.0	92.1	28.4	-19.7	160.7	
PAT	94.1	263.1	413.2	30.4	-77.2	209.7	The company reported an exceptional item of ₹ 97.1 crore. Zee had given DSRA guarantee in respect to loans availed by Siti Cable and now has provided ₹ 97.1 crore due to defaults made in repayments by Siti Cable.
Key Metrics							
Ad Revenue Growth	-26.3%	-26.0%	1.2%	-64.5%			
Domestic Subscription	11.0%	3.0%	26.8%	14.7%			Domestic Subscription increased 2.3% YoY on comparable basis; largely in line
International Subscription %	7.1%	0.0%	-21.5%	-3.5%			

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			
	Old	New	% Change	Old	New	% Change	
Revenue	7,395.4	7,249.3	-2.0	8,691.0	8,550.2	-1.6	Relained numbers after H1 results
EBITDA	1,836.6	1,703.2	-7.3	2,524.6	2,483.6	-1.6	
EBITDA Margin (%)	24.8	23.5	-134 bps	29.0	29.0	0 bps	
PAT	1,061.6	861.5	-18.9	1,682.2	1,703.9	1.3	
EPS (₹)	11.1	9.0	-18.9	17.5	17.7	1.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Ad Revenue Growth	14%	20%	-7%	-19%	26%	-17%	25%
Domestic Subscription	-10%	17%	33%	14%	9%	6%	10%
International Subscription %	-12%	-1%	-16%	2%	14%	1%	13%

Source: Company, ICICI Direct Research

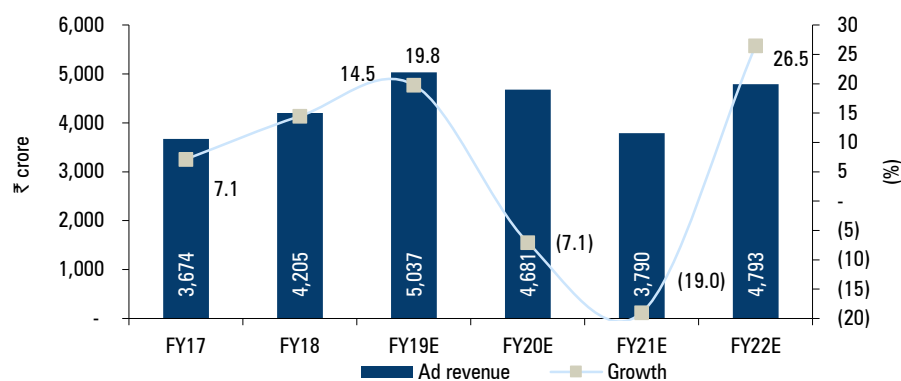
Conference Call Highlights

- One-offs, higher A&P expenses dent profits:** Zee has provided ₹ 82.1 crore for overdue receivables from a related party, Siti Networks (SNL). Also, Zee had committed for funding shortfalls in DSRA guarantee related to loans availed by SNL. SNL's outstanding loan was backed by DSRA guarantee of ₹ 205.9 crore. Owing to invocation of DSRA guarantee, Zee has provided ₹ 97.1 crore classifying as exceptional item. Rest of the amount is payable after few years. The management said advertisement & promotion (A&P) expenses were higher during the quarter due to spend on campaign announcing fresh content on TV and Zee5 as well as low base effect
- Low ad pricing holding growth back:** The management said that although overall viewership witnessed a 15% increase post Covid and GEC regained eyeballs, ad realisation was weak. They guided ad pricing is still low YoY and may witness moderate growth in Q3 with better growth from Q4 onwards. The management added that festive season has started on a good note. They also said the verdict on ad cap matter will not have an impact on revenues as they have already complied with necessary regulation
- Subscription growth outlook revised:** Domestic subscription revenue growth of 2.3% (on a comparable basis) was led by growth in Zee5 subscription revenue. The management said that like to like domestic subscription growth in FY21E will be lower than earlier envisaged. They added that revision of bouquet pricing is put on hold due to uncertainty over NTO 2.0. This will lead to low growth in FY21. The management said future subscription growth will be driven by both rise in ARPU and number of subscribers for both TV and digital. Zee had 19% viewership share in Q2FY21 and telecast of fresh content coupled with launch of two channels on free platform led to better market share QoQ. They addressed concern over recent loss in market share in Marathi and Bangla and said they are revamping content. As a result, Bangla market is already seeing recovery while Marathi market will take a couple of quarters to witness a viewership recovery
- Zee5 loss at EBITDA level continues:** The company said Zee5 EBITDA loss was at ₹ 189.4 crore during the quarter. Zee5 recorded a global DAU of 5.2 million and 54.7 million global MAU in September. The management said growth in user base/watch time was not reflected in revenues as deal with a telco, which ended in August, was not renewed. The company will focus on B2C model. The management said subscription constitutes larger part of revenue mix for Zee5. Zee5 is likely to breakeven by FY24E end as per management
- Operating costs remain relatively low; organisational rejig:** Operating costs remained relatively low as production started late in July. The management said they will guide for FY22 EBITDA margins in Q4FY21. The organisational restructuring is mainly being done in order to create common team for content creation for both digital, linear platforms and integration of revenue, monetisation team
- Increase in receivables QoQ while inventory reduces:** The management said Dish TV is making consistent payment. The management said receivables from Dish will reduce QoQ. Inventory breakup is as following: Movie rights: ~₹ 3800 crore, shows: ~₹ 1000 crore, movie production, music and others: ~₹ 400 crore, content advances and deposits: ~₹ 850 crore

- Other highlights:
 - **Cash & Investments breakup break-up:** Cash & bank balance: ₹ 380 crore, FD: ₹ 290 crore, Mutual fund: ₹ 780 crore, NCD: ₹ 51 crore
 - Overseas investments of US\$25.5 million is expected to be received soon
 - The company will increase spend on movie production once normalcy resumes

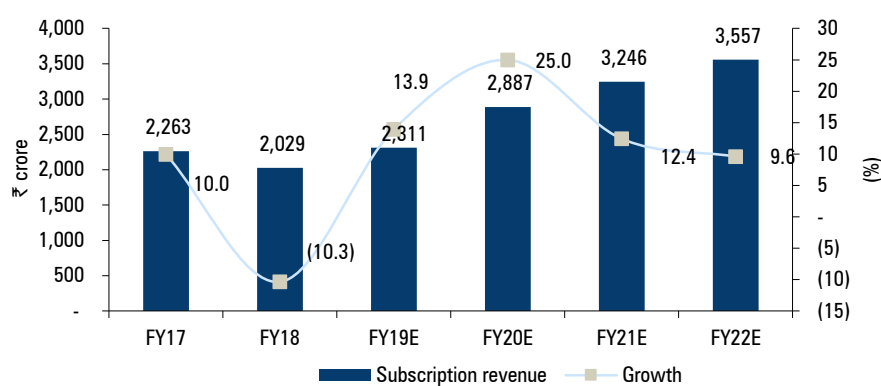
Story in Charts

Exhibit 4: Ad revenue growth trend



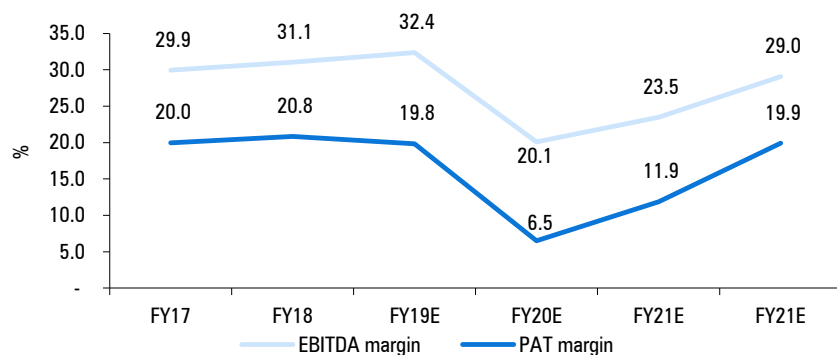
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	7,933.9	8,129.9	7,249.3	8,550.2
Growth (%)	18.7	2.5	-10.8	17.9
Operational Cost	3,072.2	3,828.5	3,247.2	3,505.6
Employee Expenses	724.9	780.5	801.2	872.1
Admin & Other Expenses	870.0	1,190.7	810.1	919.3
Marketing Expenses	699.3	695.6	687.5	769.5
Total Operating Expenditure	5,366.3	6,495.3	5,546.1	6,066.5
EBITDA	2,567.6	1,634.6	1,703.2	2,483.6
Growth (%)	23.7	-36.3	4.2	45.8
Depreciation	234.7	270.6	290.0	312.1
Interest	130.4	144.9	105.8	71.0
Other Income	251.5	24.0	1.2	180.0
Exceptional Items	43.1	284.3	97.1	-
PBT	2,410.8	958.7	1,211.6	2,280.6
Minority Interest	0.2	(1.9)	0.3	4.0
PAT from Associates	2.4	(2.4)	1.1	2.0
Total Tax	867.3	431.7	351.0	574.7
PAT	1,545.8	526.5	861.5	1,703.9
Growth (%)	4.5	-65.9	63.6	97.8
Adjusted PAT	1,573.4	1,661.5	1,027.9	1,703.9
Growth (%)	12.9	5.6	-38.1	65.8
Reported EPS (₹)	16.1	5.5	9.0	17.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	1,545.8	526.5	861.5	1,703.9
Add: Depreciation	234.7	270.6	290.0	312.1
Add: Interest paid	130.4	144.9	105.8	71.0
(Inc)/dec in Current Assets	-2,622.3	-822.0	791.8	-1,027.6
Inc/(dec) in CL and Provisions	926.5	-384.0	-304.8	319.9
Others	0.0	0.0	0.0	0.0
CF from op. activities	215.2	-263.9	1,744.2	1,379.2
(Inc)/dec in Investments	554.7	649.4	-500.0	-500.0
(Inc)/dec in Fixed Assets	-301.1	-213.8	-200.0	-200.0
Others	-132.5	58.1	-1.1	-0.7
CF from inv. activities	121.1	493.8	-701.1	-700.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Issue of Preference Shares	-413.2	-516.3	-297.5	-297.5
Inc/(Dec) in loan funds	1.1	50.6	-	-
Interest paid	130.4	144.9	105.8	71.0
Others	-444.5	-396.3	-551.7	-482.0
CF from fin. activities	-726.1	-717.2	-743.3	-708.5
Net Cash flow	-389.8	-487.4	299.8	-29.9
Opening Cash	1,611.7	1,221.8	734.5	1,034.3
Closing Cash	1,221.9	734.5	1,034.3	1,004.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	1,111.3	595.0	297.5	0.0
Reserve and Surplus	8,827.9	9,247.9	9,769.3	11,133.2
Total Shareholders funds	10,035.2	9,938.9	10,162.9	11,229.2
Total Debt	2.0	52.6	52.6	52.6
Others	14.3	11.0	9.9	9.3
Total Liabilities	10,051.6	10,002.5	10,225.4	11,291.1
Assets				
Gross Block	1,867.7	2,156.3	2,356.3	2,556.3
Less: Acc Depreciation	908.6	1,179.2	1,469.2	1,781.3
Net Block	959.2	977.1	887.1	775.0
Capital WIP	108.3	33.4	33.4	33.4
Total Fixed Assets	1,067.4	1,010.5	920.6	808.5
Investments	1,479.7	712.1	1,212.1	1,712.1
Inventory	3,850.5	5,347.5	4,965.3	5,387.8
Debtors	1,827.4	2,084.7	1,858.9	2,192.5
Loans and Advances	1,623.4	1,323.4	1,180.0	1,391.8
Other Current Assets	1,005.5	373.2	332.8	392.5
Cash	1,221.8	734.5	1,034.3	1,004.4
Total Current Assets	9,528.6	9,863.3	9,371.3	10,368.9
Creditors	1,489.7	1,680.3	1,498.3	1,767.2
Provisions	145.1	152.6	136.1	160.5
Other current liabilities	1,120.5	538.3	432.0	458.6
Total Current Liabilities	2,755.2	2,371.3	2,066.4	2,386.3
Net Current Assets	6,773.4	7,492.0	7,304.9	7,982.6
Other non current assets	731.1	787.9	787.9	787.9
Total Assets	10,051.6	10,002.5	10,225.4	11,291.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	16.1	5.5	9.0	17.7
Adjusted EPS	16.4	17.3	10.7	17.7
BV	104.5	103.5	105.8	116.9
DPS	3.0	0.4	3.5	3.5
Cash Per Share	9.5	12.3	15.3	18.5
Operating Ratios (%)				
EBITDA Margin	32.4	20.1	23.5	29.0
EBIT Margin	29.4	16.8	19.5	25.4
PAT Margin	19.8	20.4	14.2	19.9
Inventory days	177.1	240.1	250.0	230.0
Debtor days	84.1	93.6	93.6	93.6
Creditor days	68.5	75.4	75.4	75.4
Return Ratios (%)				
RoE	15.7	16.7	10.1	15.2
RoCE	25.7	13.9	13.8	20.8
RoIC	30.2	16.4	18.6	26.4
Valuation Ratios (x)				
P/E	11.4	33.5	20.5	10.3
EV / EBITDA	6.1	10.2	9.3	6.2
EV / Net Sales	2.0	2.0	2.2	1.8
Market Cap / Sales	2.2	2.2	2.4	2.1
Price to Book Value	1.8	1.8	1.7	1.6
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	5.0	5.1	4.9
Quick Ratio	2.7	2.1	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Media)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Inox Leisure	258	250	Hold	2,644	1.5	-23.2	6.7	176.5	NM	38.6	9.1	93.4	8.3	10.0	-6.1	10.4	2.4	-43.9	11.7
PVR	1,105	1,260	Hold	6,099	5.3	-103.0	19.7	207.9	NM	56.2	10.1	86.6	9.0	8.5	-4.7	9.5	1.8	-46.9	8.3
Sun TV	423	490	Buy	16,681	35.1	38.9	40.8	12.0	10.9	10.4	6.2	5.8	4.8	31.2	31.0	29.0	24.2	23.4	22.0
TV Today	199	240	Buy	1,190	23.4	20.6	29.8	8.5	9.7	6.7	4.9	5.1	3.8	24.7	21.2	24.7	16.0	13.8	18.5
ZEE Ent.	183	195	Hold	17,619	5.5	9.0	17.7	33.5	20.5	10.3	10.2	9.3	6.2	13.9	13.8	20.8	16.7	10.1	15.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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