

Zee Entertainment Enterprises (Z IN)

Rating: BUY | CMP: Rs249 | TP: Rs296

February 5, 2021

Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	296		290	
Sales (Rs. m)	85,941	94,157	83,748	91,813
% Chng.	2.6	2.6		
EBITDA (Rs. m)	22,689	25,422	22,110	24,790
% Chng.	2.6	2.6		
EPS (Rs.)	15.9	18.5	15.5	18.1
% Chng.	2.6	2.1		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	81,299	77,474	85,941	94,157
EBITDA (Rs. m)	16,346	17,292	22,689	25,422
Margin (%)	20.1	22.3	26.4	27.0
PAT (Rs. m)	17,093	11,804	15,238	17,747
EPS (Rs.)	17.8	12.3	15.9	18.5
Gr. (%)	7.8	(30.9)	29.1	16.5
DPS (Rs.)	0.3	0.8	3.5	4.6
Yield (%)	0.1	0.3	1.4	1.9
RoE (%)	18.7	12.2	14.3	14.9
RoCE (%)	13.6	14.3	18.0	18.3
EV/Sales (x)	2.9	3.0	2.5	2.2
EV/EBITDA (x)	14.4	13.2	9.5	8.1
PE (x)	14.0	20.3	15.7	13.5
P/BV (x)	2.6	2.4	2.1	1.9

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.268 / Rs.114
Sensex / Nifty	50,614 / 14,896
Market Cap	Rs.240bn / \$ 3,283m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.7856.92m

Shareholding Pattern (%)

Promoter's	4.02
Foreign	65.76
Domestic Institution	12.01
Public & Others	18.21
Promoter Pledge (Rs bn)	0.59

Stock Performance (%)

	1M	6M	12M
Absolute	13.9	74.0	2.0
Relative	8.4	29.5	(17.8)

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Growth back on track

Quick Pointers

- After 4 consecutive quarters of negative growth; domestic ad-revenues increase 7.5% YoY on a pre-COVID base despite IPL being around.
- Content syndication deal worth Rs5.5bn boosted top-line growth. Ex-of deal, revenues increased 6.3% YoY.
- Launched 2 new channels; Zee Zest and Zee Vajwa in 3QFY21.

ZEEL's revenue/EBITDA beat our estimates by 32%/38% respectively led by accrual of content syndication revenue of Rs5.5bn in 3QFY21. Even after adjusting for this one-time windfall, the beat was substantial given strong recovery in domestic ad-revenues (increased 7.5% YoY on a pre-COVID base despite IPL being around). Given the recovery in ad-market, we increase our FY21/FY22/FY23 adjusted EPS estimates by 7.7%/2.6%/2.1% respectively. As highlighted in our initiation report ([Link of the report](#)), we believe ZEEL is ripe for re-rating given concrete steps taken to strengthen governance & disclosure levels backed by sharp cyclical recovery. However, we remain skeptical of plans to expand the movie production business given it is highly volatile and margin dilutive in nature. Nonetheless, given the valuation comfort (stock trades 16x/14x our FY22/FY23 EPS estimates; LPA is ~27x) and likely emergence of ZEE5 as future growth engine in changing content consumption landscape we maintain our BUY rating on the stock with a revised TP of Rs296 (16x FY23 EPS of Rs18.5; no change in target multiple).

Content syndication deal of Rs5.5bn drives revenue beat: Revenues increased 33.2% YoY to Rs27,294mn (PLe Rs20,732mn; CE of Rs20,815mn). Ad revenues increased 5.8% YoY to Rs13,020mn (PLe Rs12,350mn) while subscription revenues increased 18.0% YoY to Rs8,419mn (PLe Rs7,393mn). Revenue beat was led by monetization of content syndication deal worth Rs5.5bn (accounted in other sales & services) in 3QFY21. The network's viewership share stood at 18.2% during the quarter.

EBITDA increased 26.5% YoY: EBITDA surged 26.5% YoY to Rs7,157mn (PLe Rs5,204mn). EBITDA margin stood at 26.2% (PLe 25.1%) versus 27.6% in 3QFY20. Excluding the content syndication revenue & cost, EBITDA margin stood at 29.3%.

Adjusted PAT up 13.0% YoY: Adjusted PAT increased 13.0% YoY to Rs4,819mn (PLe of Rs3,599mn) with a margin of 17.7% (PLe 17.4%).

ZEE5 launched 20 new originals/movies in 3QFY21: ZEE5 launched 20 new originals/movies in 3QFY21. Global MAU/DAU stood at 65.9mn/5.4mn while the platform reported revenues of Rs1,178mn and EBITDA loss of Rs1,757mn in 3QFY21.

Con-call highlights: 1) ZEEL has plans to expand the movie production business by increasing the number of releases in a year to 35-40 from 8-10 prevailing earlier. However, this move is expected to be margin dilutive in nature. 2) ZEEL's viewership improved in West Bengal & Kerala markets while it lost share in Marathi genre. 3) Cash on books is Rs17.9bn as of 3QFY21 4) Content syndication deal pertained largely to Germany/Spanish markets where ZEEL was planning an exit. Money from content sales has been received 5) Typically, 80-85% of ad-revenue growth comes from pricing as fill levels in prime time are high. On an average yields are more or less back to pre-COVID levels 6) The overseas MF money (Rs2.25bn odd) has been received 7) ~15-18% MAU to DAU conversion is being targeted 8) Capex is expected to be in the range of Rs2-2.5bn (excluding Sugar Box) in FY22 9) Siti Cable is operating on cash & carry model while Dish TV is making payment as per the plan that was submitted (outstanding on Dish TV has come down from Rs5bn to Rs4.6bn).

Exhibit 1: Q3FY21 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.	9MFY21	9MFY20	YoY gr.
Net Sales	27,294	20,487	33.2%	17,227	58.4%	57,641	61,788	-6.7%
Operational cost	14,142	8,476	66.8%	8,342	69.5%	29,062	25,239	15.1%
As a % of sales	51.8%	41.4%		48.4%		50.4%	40.8%	
Employee expenses	2,073	2,075	-0.1%	1,967	5.4%	6,041	6,201	-2.6%
As a % of sales	7.6%	10.1%		11.4%		10.5%	10.0%	
Other expenses	2,124	2,370	-10.4%	2,021	5.1%	5,376	6,049	-11.1%
As a % of sales	7.8%	11.6%		11.7%		9.3%	9.8%	
A&P spends	1,798	1,908	-5.8%	1,760	2.1%	4,669	5,115	-8.7%
As a % of sales	6.6%	9.3%		10.2%		8.1%	8.3%	
Total Expenditure	20,137	14,829	35.8%	14,090	42.9%	45,148	42,603	6.0%
EBITDA	7,157	5,658	26.5%	3,137	128.2%	12,493	19,185	-34.9%
EBITDA Margin	26.2%	27.6%		18.2%		21.7%	31.0%	
Depreciation	652	656	-0.5%	651	0.1%	2,022	1,929	4.8%
EBIT	6,505	5,002	30.0%	2,485	161.7%	10,471	17,256	-39.3%
EBIT Margin	23.8%	24.4%		14.4%		18.2%	27.9%	
Interest	21	200	-89.4%	13	61.8%	80	585	-86.4%
Other income	276	710	-61.1%	379	-27.3%	919	2,430	-62.2%
Fair value (gain)/loss on financial instruments	839	401	109.2%	207	304.7%	2,170	(190)	NM
PBT before exceptional items	5,920	5,110	15.8%	2,644	123.9%	9,140	19,291	-52.6%
Exceptional items	-	-	NM	(971)	NM	(971)	(1,706)	NM
Share of profit in associates and joint ventures	(3)	(2)	NM	1	NM	(2)	9	NM
PBT	5,918	5,108	15.8%	1,674	253.5%	8,168	17,594	-53.6%
Tax	1,937	1,622	19.4%	740	161.9%	2,961	4,689	-36.9%
Tax Rate	32.7%	31.8%		44.2%		36.2%	26.7%	
PAT	3,980	3,486	14.2%	934	326.1%	5,207	12,905	-59.6%
PAT Margin	14.6%	17.0%		5.4%		9.0%	20.9%	
Other comprehensive income	(63)	260	NM	(278)	NM	(234)	570	NM
Adjusted PAT	4,819	4,263	13.0%	2,924	64.8%	9,160	14,796	-38.1%
EPS (Rs)	4.1	3.6	14.2%	1.0	326.1%	5.5	13.5	-59.4%
Adjusted EPS	5.0	4.4	13.0%	3.0	64.8%	9.5	13.4	-29.0%

Source: Company, PL

Exhibit 2: Segmental revenue breakdown (Rs mn)

Particulars (Rs mn)	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.
Domestic ad-revenue	12,443	11,570	7.5%	8,666	43.6%
<i>As a % of ad-revenue</i>	<i>95.6%</i>	<i>94.0%</i>		<i>96.0%</i>	
International ad-revenue	577	738	-21.8%	362	59.4%
<i>As a % of ad-revenue</i>	<i>4.4%</i>	<i>6.0%</i>		<i>4.0%</i>	
Total ad-revenue	13,020	12,308	5.8%	9,028	44.2%
Domestic subscription revenue	7,328	6,317	16.0%	7,172	2.2%
<i>As a % of subscription-revenue</i>	<i>87.0%</i>	<i>88.5%</i>		<i>89.6%</i>	
International subscription revenue	1,091	820	33.0%	831	31.3%
<i>As a % of subscription-revenue</i>	<i>13.0%</i>	<i>11.5%</i>		<i>10.4%</i>	
Total subscription revenue	8,419	7,137	18.0%	8,003	5.2%
Other sales & services	5,854	1,042	462.0%	196	2883.8%
Total Revenues	27,294	20,487	33.2%	17,227	58.4%

Source: Company, PL

Exhibit 3: ZEE5's key operational & financial statistics

Particulars	4QFY20	1QFY21	2QFY21	3QFY21
Global MAU	63.1mn (in March-20)	39.7mn (in June-20)	54.7mn (in Sep-20)	65.9mn (in Dec-20)
Global DAU	6.0mn (in March-20)	4.0mn (in June-20)	5.2mn (in Sep-20)	5.4mn (in Dec-20)
Average watch time (per viewer/per month)	136 minutes (in March-20)	112 minutes (in June-20)	152 minutes (in Sep-20)	133 minutes (in Dec-20)
Revenue	NA*	Rs949mn	Rs989mn	Rs1,178mn
EBITDA	NA*	Rs(1,451mn)	Rs(1,894mn)	Rs(1,757mn)
Number of originals/movies released	13	18	25	20

Source: Company, PL

*ZEEL started disclosing revenue/EBITDA figures of ZEE5 from 1QFY21

Exhibit 4: Movie rights constitute 67% of the content pie in 3QFY21

Particulars (Rs bn)	FY18	FY19	FY20	1QFY21	2QFY21	3QFY21
Movie Rights	21.0	31.9	39.7	39.7	38.1	37.9
<i>As % of total</i>	<i>59%</i>	<i>55%</i>	<i>62%</i>	<i>63%</i>	<i>63%</i>	<i>67%</i>
Shows	2.8	5.2	9.0	8.2	10.3	6.8
<i>As % of total</i>	<i>8%</i>	<i>9%</i>	<i>14%</i>	<i>13%</i>	<i>17%</i>	<i>12%</i>
Movie production, Music & Others	2.5	1.2	4.5	4.4	3.6	4.0
<i>As % of total</i>	<i>7%</i>	<i>2%</i>	<i>7%</i>	<i>7%</i>	<i>6%</i>	<i>7%</i>
Content advances & deposits	9.3	19.7	10.9	10.7	8.5	7.9
<i>As % of total</i>	<i>26%</i>	<i>34%</i>	<i>17%</i>	<i>17%</i>	<i>14%</i>	<i>14%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	63.0	60.4	56.5

Source: Company,

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	81,299	77,474	85,941	94,157
YoY gr. (%)	2.5	(4.7)	10.9	9.6
Cost of Goods Sold	38,285	38,086	39,533	43,312
Gross Profit	43,014	39,388	46,408	50,845
Margin (%)	52.9	50.8	54.0	54.0
Employee Cost	7,805	8,124	8,594	9,227
Other Expenses	11,907	7,518	8,250	8,757
EBITDA	16,346	17,292	22,689	25,422
YoY gr. (%)	(36.2)	5.8	31.2	12.0
Margin (%)	20.1	22.3	26.4	27.0
Depreciation and Amortization	2,706	2,706	3,180	3,578
EBIT	13,639	14,586	19,509	21,844
Margin (%)	16.8	18.8	22.7	23.2
Net Interest	1,449	873	945	188
Other Income	240	(795)	1,891	2,166
Profit Before Tax	9,587	11,947	20,454	23,822
Margin (%)	11.8	15.4	23.8	25.3
Total Tax	4,317	4,094	5,216	6,075
Effective tax rate (%)	45.0	34.3	25.5	25.5
Profit after tax	5,270	7,853	15,238	17,747
Minority interest	(19)	(37)	-	-
Share Profit from Associate	(24)	(2)	-	-
Adjusted PAT	17,093	11,804	15,238	17,747
YoY gr. (%)	7.8	(30.9)	29.1	16.5
Margin (%)	21.0	15.2	17.7	18.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,265	7,888	15,238	17,747
YoY gr. (%)	(66.4)	49.8	93.2	16.5
Margin (%)	6.5	10.2	17.7	18.8
Other Comprehensive Income	1,336	(234)	-	-
Total Comprehensive Income	6,601	7,654	15,238	17,747
Equity Shares O/s (m)	960	960	960	960
EPS (Rs)	17.8	12.3	15.9	18.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	18,534	20,679	25,152	29,780
Tangibles	14,007	15,402	18,925	22,503
Intangibles	4,527	5,277	6,227	7,277
Acc: Dep / Amortization	10,253	12,959	16,139	19,717
Tangibles	7,210	8,969	11,036	13,362
Intangibles	3,043	3,990	5,103	6,355
Net fixed assets	9,078	8,227	9,521	10,571
Tangibles	7,594	6,940	8,397	9,649
Intangibles	1,484	1,287	1,124	922
Capital Work In Progress	831	639	639	639
Goodwill	4,070	4,069	4,069	4,069
Non-Current Investments	907	942	993	1,042
Net Deferred tax assets	2,742	2,628	2,250	2,144
Other Non-Current Assets	4,191	4,055	6,991	8,332
Current Assets				
Investments	2,770	2,770	2,770	2,770
Inventories	53,475	54,125	52,978	54,173
Trade receivables	20,847	20,164	20,014	21,927
Cash & Bank Balance	7,345	11,566	21,056	30,451
Other Current Assets	12,804	13,171	12,462	13,182
Total Assets	1,23,737	1,27,163	1,38,542	1,54,469
Equity				
Equity Share Capital	960	960	960	960
Other Equity	92,479	99,311	1,11,197	1,24,508
Total Network	93,439	1,00,271	1,12,157	1,25,468
Non-Current Liabilities				
Long Term borrowings	3,501	526	526	526
Provisions	1,405	1,317	1,289	1,412
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,975	2,975	-	-
Trade payables	16,803	15,919	17,424	18,831
Other current liabilities	5,504	5,974	6,965	8,051
Total Equity & Liabilities	1,23,737	1,27,164	1,38,542	1,54,470

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	9,563	11,946	20,454	23,822
Add. Depreciation	2,706	2,706	3,180	3,578
Add. Interest	135	873	945	188
Less Financial Other Income	240	(795)	1,891	2,166
Add. Other	9,967	31	(886)	(746)
Op. profit before WC changes	22,371	15,556	23,693	26,842
Net Changes-WC	(16,758)	(852)	2,803	(1,701)
Direct tax	(3,114)	(4,094)	(5,216)	(6,075)
Net cash from Op. activities	2,499	10,610	21,280	19,067
Capital expenditures	(1,451)	(1,663)	(4,474)	(4,628)
Interest / Dividend Income	1,367	-	-	-
Others	3,972	(164)	(44)	(419)
Net Cash from Inv. activities	3,888	(1,827)	(4,518)	(5,047)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,879)	(2,975)	(2,975)	-
Dividend paid	(4,081)	(785)	(3,352)	(4,437)
Interest paid	(67)	(873)	(945)	(188)
Others	(1,594)	72	-	-
Net cash from Fin. activities	(10,620)	(4,561)	(7,273)	(4,625)
Net change in cash	(4,233)	4,221	9,490	9,395
Free Cash Flow	681	8,948	16,807	14,439

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	12.3	15.9	18.5
CEPS	20.6	15.1	19.2	22.2
BVPS	97.3	104.4	116.8	130.7
FCF	0.7	9.3	17.5	15.0
DPS	0.3	0.8	3.5	4.6
Return Ratio(%)				
RoCE	13.6	14.3	18.0	18.3
ROIC	8.3	11.0	17.2	18.9
RoE	18.7	12.2	14.3	14.9
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	258	275	236	222
Valuation(x)				
PER	14.0	20.3	15.7	13.5
P/B	2.6	2.4	2.1	1.9
P/CEPS	12.1	16.5	13.0	11.2
EV/EBITDA	14.4	13.2	9.5	8.1
EV/Sales	2.9	3.0	2.5	2.2
Dividend Yield (%)	0.1	0.3	1.4	1.9

Source: Company Data, PL Research

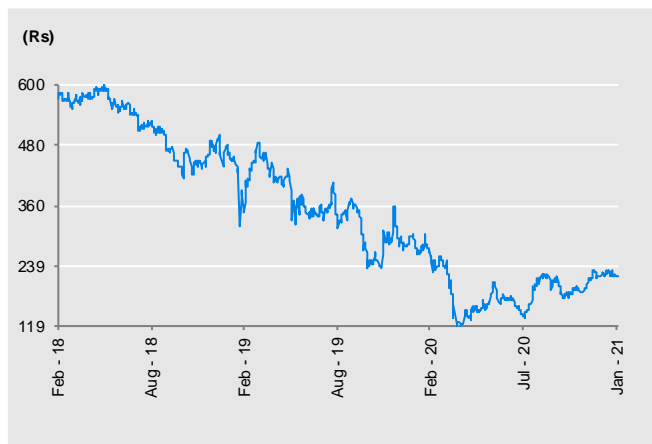
Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	19,511	13,120	17,227	27,294
YoY gr. (%)	(4.8)	(32.8)	31.3	58.4
Raw Material Expenses	13,046	6,578	8,342	14,142
Gross Profit	6,465	6,542	8,885	13,151
Margin (%)	33.1	49.9	51.6	48.2
EBITDA	(2,839)	2,199	3,137	7,157
YoY gr. (%)	NA	NA	(54.7)	26.5
Margin (%)	NA	16.8	18.2	26.2
Depreciation / Depletion	778	719	651	652
EBIT	(3,616)	1,481	2,485	6,505
Margin (%)	NA	11.3	14.4	23.8
Net Interest	864	45	13	21
Other Income	(2,380)	(860)	172	(563)
Profit before Tax	(7,997)	576	1,673	5,920
Margin (%)	NA	4.4	9.7	21.7
Total Tax	(372)	284	740	1,937
Effective tax rate (%)	4.7	49.2	44.2	32.7
Profit after Tax	(7,625)	292	933	3,983
Minority interest	(11)	(8)	9	(19)
Share Profit from Associates	(33)	-	1	(3)
Adjusted PAT	2,297	1,416	2,924	4,819
YoY gr. (%)	(24.7)	(69.3)	(50.6)	13.0
Margin (%)	11.8	10.8	17.0	17.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(7,647)	301	926	3,999
YoY gr. (%)	NA	NA	(77.5)	14.5
Margin (%)	NA	2.3	5.4	14.7
Other Comprehensive Income	766	107	-	-
Total Comprehensive Income	(6,881)	408	-	-
Avg. Shares O/s (m)	960	960	960	960
EPS (Rs)	(8.0)	0.3	1.0	4.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	BUY	290	231
2	05-Jan-21	BUY	290	219

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	210	171
3	Indian Railway Catering and Tourism Corporation	BUY	1,639	1,456
4	Inox Leisure	BUY	393	346
5	Music Broadcast	Hold	24	23
6	Navneet Education	Accumulate	93	76
7	PVR	BUY	1,673	1,475
8	S Chand and Company	BUY	86	70
9	V.I.P. Industries	Accumulate	384	378
10	Zee Entertainment Enterprises	BUY	290	231

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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