

January 25, 2019

Q3FY19 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	38		38	
Sales (Rs. m)	7,530	8,999	7,408	8,852
% Chng.			1.7	1.7
EBITDA (Rs. m)	1,732	2,106	1,682	2,080
% Chng.			3.0	1.2
EPS (Rs.)	1.5	1.9	1.5	1.9
% Chng.			3.1	0.3

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	5,102	6,275	7,530	8,999
EBITDA (Rs. m)	1,025	1,387	1,732	2,106
Margin (%)	20.1	22.1	23.0	23.4
PAT (Rs. m)	406	540	721	903
EPS (Rs.)	0.9	1.1	1.5	1.9
Gr. (%)	(9.4)	33.1	33.3	25.3
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	6.1	7.7	9.4	10.6
RoCE (%)	6.4	8.6	10.0	11.4
EV/Sales (x)	2.3	1.8	1.5	1.2
EV/EBITDA (x)	11.3	8.4	6.5	5.1
PE (x)	25.6	19.3	14.4	11.5
P/BV (x)	1.5	1.4	1.3	1.2

Key Data

ZEEN.BO | ZEEN IN

52-W High / Low	Rs.46 / Rs.21
Sensex / Nifty	36,026 / 10,781
Market Cap	Rs.10bn / \$ 146m
Shares Outstanding	471m
3M Avg. Daily Value	Rs.11.98m

Shareholding Pattern (%)

Promoter's	67.02
Foreign	6.34
Domestic Institution	0.49
Public & Others	26.15
Promoter Pledge (Rs bn)	5.68

Stock Performance (%)

	1M	6M	12M
Absolute	(6.9)	(24.4)	(50.6)
Relative	(8.4)	(22.7)	(50.5)

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Regional channels driving growth

Key highlights

- Advertisement revenue guidance of Rs6,500mn and Rs8,250-8,500mn for FY19E and FY20E remains intact. Yield of Zee News is in the range of Rs3,600-3,650 with utilization of 80-85%.
- Regional channels reported an EBITDA margin of ~27% in 9MFY19 (above market benchmark and higher than ~25% margin reported by national channels over the same period).

ZMCL reported topline growth of 22.7% YoY to Rs1,942.2mn led by strong performance across national & regional channels aided by election tailwind and delayed festivities. In the national bouquet, Zee News witnessed a yield increase of ~3% QoQ while Zee Business' market share during stock market hours increased to 35.5% in 3QFY19. Within the regional bouquet, Zee MPCG and Zee Rajasthan witnessed strong traction due to state elections. EBITDA margins expanded 80 bps YoY to 29.9% in 3QFY19 led by improved performance from regional channels. Aided by increase in effective rate (ER) and inventory utilization (in regional channels where there is sufficient scope) we expect consolidated sales to grow at a CAGR of 20.3% over FY18-21E. EBITDA growth is expected to be much higher at 34.7% over the same period as 1) new launches are expected to benefit from integrated multimedia newsroom (IMN) initiative (cost gets shared across platforms) and 2) improvement in profitability mix of regional channels. The stock currently trades at 12x FY20E and 10x FY21E and appears to be attractively priced. We maintain BUY with a TP of Rs38 per share (18x core TV broadcasting business and 22x Zee Akaash News Pvt Ltd).

National channel portfolio seeing strong traction except WION: All the national channels except WION (global channel) namely Zee News, Zee Business, and Zee Hindustan are witnessing steady traction both in terms of yields and average time spent (ATS). As per BARC data, flagship channel, Zee News' (20% growth in 9MFY19), viewership market share has been steady in the range of 18-20% since week 43. Even Zee Hindustan (launched last year with a reach of 158.8mn) has seen rise in inventory utilization (current utilization is upwards of 70%). Post induction of Anil Singhvi, the market share of Zee Business during stock market hours has increased from 17.3% in 4QFY18 to 35.5% in 3QFY19. However, WION (~200mn annual revenue run rate) is struggling with YTD losses of ~Rs250mn in 9MFY19.

Regional channel portfolio to aid margins: Except for Zee Uttar Pradesh Uttarakhand (UP/UK), Zee 24 Kalak and Zee Salaam the entire regional channel portfolio is also seeing strong traction. For instance, Zee Madhya Pradesh Chhattisgarh's (MPCG) sales increased 150%, 24 Ghanta's sales increased 30% while Zee Orissa's sales increased 150% during 9MFY19. The 9MFY19 EBITDA of regional channels has exceeded the FY18 EBITDA despite 3 new launches. Overall, we believe that the regional channel portfolio is at a cusp of an earnings turn-around (from EBITDA losses in FY16, regional channels posted a margin of ~27% in 9MFY19).

Exhibit 1: Q3FY19 Result Overview - Standalone (Rs mn)

Y/e March	Q3FY19	Q3FY18	YoY gr.	Q2FY18	QoQ gr.
Net Sales	1,707	1,429	19.5%	1,487	14.8%
Operational cost	280	223	25.8%	232	20.9%
<i>As a % of sales</i>	<i>16.4%</i>	<i>15.6%</i>		<i>15.6%</i>	
Employee expenses	362	306	18.0%	348	3.9%
<i>As a % of sales</i>	<i>21.2%</i>	<i>21.4%</i>		<i>23.4%</i>	
Marketing & distribution expenses	214	160	33.5%	220	-2.7%
<i>As a % of sales</i>	<i>12.5%</i>	<i>11.2%</i>		<i>14.8%</i>	
Other expenses	426	353	20.6%	389	9.5%
<i>As a % of sales</i>	<i>25.0%</i>	<i>24.7%</i>		<i>26.2%</i>	
Expenditure	1,282	1,043	22.9%	1,189	7.8%
EBITDA	425	386	10.2%	298	42.8%
<i>EBITDA Margin</i>	<i>24.9%</i>	<i>27.0%</i>		<i>20.0%</i>	
Depreciation	116	113	1.9%	114	1.2%
EBIT	310	272	13.7%	184	68.7%
<i>EBIT Margin</i>	<i>18.1%</i>	<i>19.1%</i>		<i>12.3%</i>	
Interest	51	37	37.4%	43	17.6%
Other income	22	11	106.7%	19	16.7%
Exceptional items	-	-		-	
PBT	281	246	14.1%	159	76.4%
Tax	102	86	18.6%	56	82.7%
<i>Tax Rate</i>	<i>36.2%</i>	<i>34.8%</i>		<i>34.9%</i>	
Other comprehensive income	(3.8)	2.8	NM	1.7	NM
P/L from discontinued operations	-	-		-	
PAT	175	163	7.5%	105	66.6%
<i>PAT Margin</i>	<i>10.3%</i>	<i>11.4%</i>		<i>7.1%</i>	
EPS (Rs)	0.38	0.34	11.8%	0.22	70.1%

Source: Company, PL

Exhibit 2: Q3FY19 Result Overview – Consolidated (Rs mn)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	QoQ gr. (%)
Net Sales	1,942	1,583	22.7%	1,687	15.2%
Operational cost	295	234	26.3%	245	20.5%
<i>As a % of sales</i>	<i>15.2%</i>	<i>14.8%</i>		<i>14.5%</i>	
Employee expenses	389	329	18.1%	374	4.0%
<i>As a % of sales</i>	<i>20.0%</i>	<i>20.8%</i>		<i>22.2%</i>	
Marketing & distribution expenses	220	168	30.9%	230	-4.4%
<i>As a % of sales</i>	<i>11.3%</i>	<i>10.6%</i>		<i>13.7%</i>	
Other expenses	459	392	17.0%	429	6.9%
<i>As a % of sales</i>	<i>23.6%</i>	<i>24.8%</i>		<i>25.4%</i>	
Expenditure	1,362	1,123	21.3%	1,278	6.6%
EBITDA	580	460	26.0%	409	41.9%
<i>EBITDA Margin</i>	<i>29.9%</i>	<i>29.1%</i>		<i>24.2%</i>	
Depreciation	138	116	19.6%	126	9.5%
EBIT	442	345	28.1%	282	56.4%
<i>EBIT Margin</i>	<i>22.7%</i>	<i>21.8%</i>		<i>16.7%</i>	
Interest	51	37	38.3%	44	17.0%
Other income	22	12	87.4%	20	11.5%
Exceptional items	-	-		-	
PBT	413	320	29.2%	259	59.5%
Tax	139	111	25.2%	83	66.9%
<i>Tax Rate</i>	<i>33.7%</i>	<i>34.8%</i>		<i>32.2%</i>	
PAT#	268	106	153.6%	175	53.3%
<i>PAT Margin</i>	<i>13.8%</i>	<i>6.7%</i>		<i>10.3%</i>	
EPS (Rs)	0.58	0.22	163.6%	0.37	56.8%

Source: Company, PL

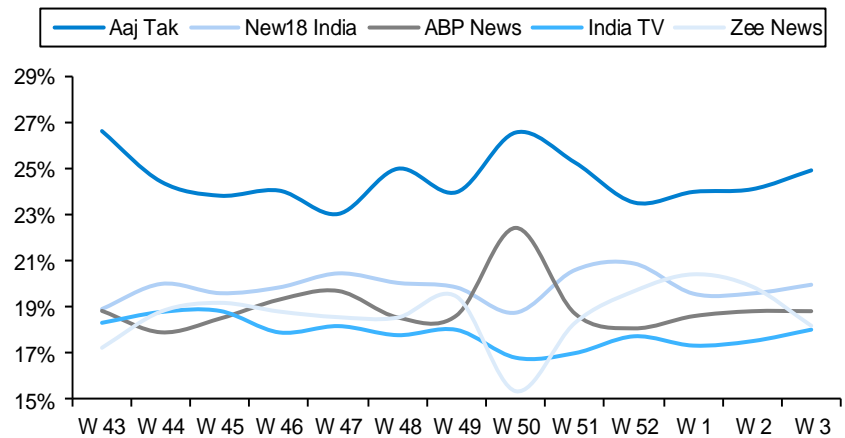
#PAT is after accounting for minority interest, share of profit from associates, OCI and losses from discontinued operations etc

Exhibit 3: Segmental breakdown

Consolidated (Rs mn)	Q3FY19	Q3FY18	YoY gr.	Q2FY19	QoQ gr.
Advertising revenue	1,755	1,440	21.9%	1,494	17.5%
<i>As a % of sales</i>	<i>90.4%</i>	<i>90.9%</i>		<i>88.6%</i>	
Subscription revenue	130	117	10.8%	131.2	-0.8%
<i>As a % of sales</i>	<i>6.7%</i>	<i>7.4%</i>		<i>7.8%</i>	
Other sales & services	57	26	118.4%	61.1	-6.7%
<i>As a % of sales</i>	<i>2.9%</i>	<i>1.6%</i>		<i>3.6%</i>	
Total sales	1,942	1,583	22.7%	1,687	15.2%

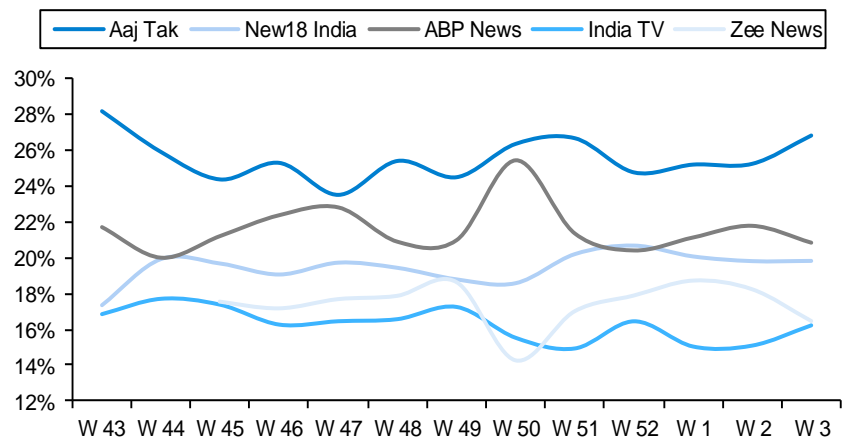
Source: Company, PL

Exhibit 4: Aaj Tak is clear leader in the Hindi news genre with viewership share closer to 25%



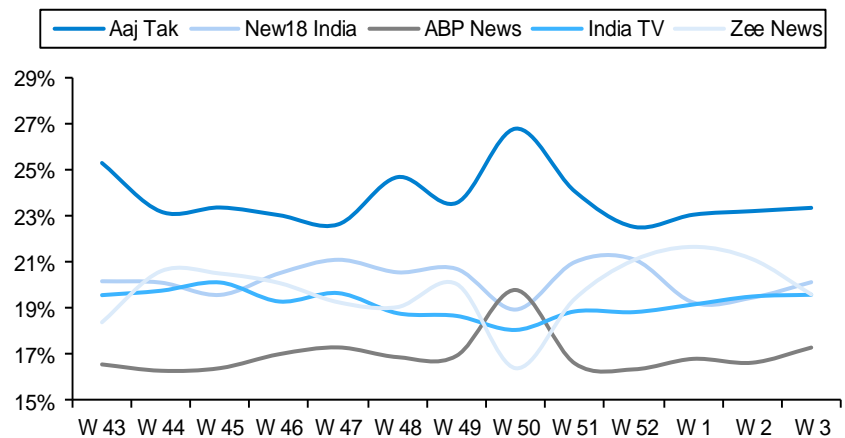
Source: BARC, PL

Exhibit 5: In the rural market, Zee News' viewership share clearly lags peers



Source: BARC, PL

Exhibit 6: : In the urban market, Zee News' viewership share is better than rural



Source: BARC, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	5,102	6,275	7,530	8,999
YoY gr. (%)	28.2	23.0	20.0	19.5
Cost of Goods Sold	-	-	-	-
Gross Profit	-	-	-	-
Margin (%)	-	-	-	-
Employee Cost	1,180	1,393	1,672	1,989
Other Expenses	1,305	1,613	1,890	2,241
EBITDA	1,025	1,387	1,732	2,106
YoY gr. (%)	19.6	35.2	24.9	21.6
Margin (%)	20.1	22.1	23.0	23.4
Depreciation and Amortization	401	471	550	630
EBIT	625	916	1,182	1,476
Margin (%)	12.2	14.6	15.7	16.4
Net Interest	174	176	211	252
Other Income	138	91	120	144
Profit Before Tax	588	831	1,092	1,368
Margin (%)	11.5	13.3	14.5	15.2
Total Tax	182	291	371	465
Effective tax rate (%)	31.0	35.0	34.0	34.0
Profit after tax	406	540	721	903
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	406	540	721	903
YoY gr. (%)	(3.1)	33.1	33.3	25.3
Margin (%)	8.0	8.6	9.6	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	406	540	721	903
YoY gr. (%)	(3.1)	33.1	33.3	25.3
Margin (%)	8.0	8.6	9.6	10.0
Other Comprehensive Income	(4)	(2)	-	-
Total Comprehensive Income	402	539	721	903
Equity Shares O/s (m)	471	471	471	471
EPS (Rs)	0.9	1.1	1.5	1.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	3,582	4,140	4,765	5,494
Tangibles	2,985	3,487	4,052	4,727
Intangibles	596	653	713	767
Acc: Dep / Amortization	1,519	1,989	2,539	3,169
Tangibles	1,298	1,675	2,115	2,618
Intangibles	221	315	425	551
Net fixed assets	2,063	2,151	2,226	2,325
Tangibles	1,687	1,813	1,938	2,109
Intangibles	376	338	288	216
Capital Work In Progress	60	6	6	6
Goodwill	-	-	-	-
Non-Current Investments	5,540	6,049	6,049	6,049
Net Deferred tax assets	161	183	197	246
Other Non-Current Assets	193	238	275	332
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,596	1,977	2,434	2,909
Cash & Bank Balance	43	293	583	1,247
Other Current Assets	337	408	474	567
Total Assets	10,023	11,336	12,276	13,713
Equity				
Equity Share Capital	471	471	471	471
Other Equity	6,309	6,848	7,568	8,471
Total Network	6,780	7,319	8,039	8,942
Non-Current Liabilities				
Long Term borrowings	628	628	628	628
Provisions	161	207	218	261
Other non current liabilities	15	50	60	72
Current Liabilities				
ST Debt / Current of LT Debt	606	856	856	856
Trade payables	426	509	556	661
Other current liabilities	1,306	1,635	1,768	2,113
Total Equity & Liabilities	10,023	11,336	12,276	13,713

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	588	831	1,092	1,368
Add. Depreciation	401	471	550	630
Add. Interest	130	176	211	252
Less Financial Other Income	138	91	120	144
Add. Other	(2)	24	(26)	(57)
Op. profit before WC changes	1,118	1,502	1,826	2,193
Net Changes-WC	(265)	(298)	(410)	(370)
Direct tax	(197)	(293)	(371)	(465)
Net cash from Op. activities	655	911	1,045	1,358
Capital expenditures	(818)	(504)	(625)	(729)
Interest / Dividend Income	52	-	-	-
Others	(225)	(509)	-	-
Net Cash from Invt. activities	(991)	(1,013)	(625)	(729)
Issue of share cap. / premium	-	-	-	-
Debt changes	(17)	250	-	-
Dividend paid	(129)	-	-	-
Interest paid	-	(176)	(211)	(252)
Others	-	278	82	286
Net cash from Fin. activities	(147)	352	(129)	34
Net change in cash	(482)	250	290	664
Free Cash Flow	(163)	407	420	629

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	0.9	1.1	1.5	1.9
CEPS	1.7	2.1	2.7	3.3
BVPS	14.4	15.5	17.1	19.0
FCF	(0.3)	0.9	0.9	1.3
DPS	-	-	-	-
Return Ratio(%)				
RoCE	6.4	8.6	10.0	11.4
ROIC	4.5	5.7	7.0	8.3
RoE	6.1	7.7	9.4	10.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.1	0.0
Net Working Capital (Days)	84	85	91	91
Valuation(x)				
PER	25.6	19.3	14.4	11.5
P/B	1.5	1.4	1.3	1.2
P/CEPS	12.9	10.3	8.2	6.8
EV/EBITDA	11.3	8.4	6.5	5.1
EV/Sales	2.3	1.8	1.5	1.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

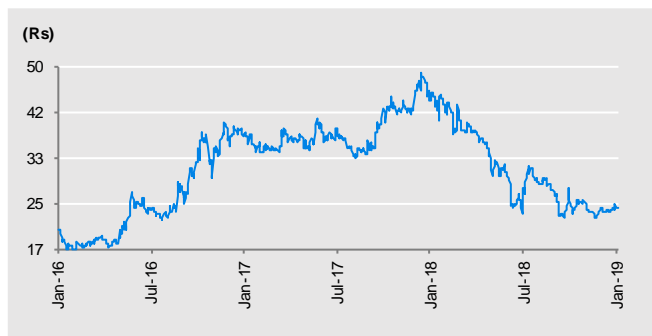
Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	1,590	1,372	1,487	1,707
YoY gr. (%)	33.7	38.1	36.5	19.5
Raw Material Expenses	-	-	-	-
Gross Profit	-	-	-	-
Margin (%)	-	-	-	-
EBITDA	279	272	298	425
YoY gr. (%)	(27.7)	(2.5)	-	-
Margin (%)	17.5	19.8	20.0	24.9
Depreciation / Depletion	119	115	114	116
EBIT	160	157	184	310
Margin (%)	10.0	11.4	12.3	18.1
Net Interest	52	35	43	51
Other Income	79	26	19	22
Profit before Tax	188	147	159	281
Margin (%)	11.8	10.7	10.7	16.4
Total Tax	44	51	56	102
Effective tax rate (%)	23.5	34.6	34.9	36.2
Profit after Tax	143	96	104	179
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	143	96	104	179
YoY gr. (%)	(14.8)	120.3	75.8	11.7
Margin (%)	9.0	7.0	7.0	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	143	96	104	179
YoY gr. (%)	(13.9)	120.3	75.8	11.7
Margin (%)	9.0	7.0	7.0	10.5
Other Comprehensive Income	(3)	1	2	(4)
Total Comprehensive Income	141	97	105	175
Avg. Shares O/s (m)	471	471	471	471
EPS (Rs)	0.3	0.2	0.2	0.4

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Feb-18	BUY	67	44
2	17-May-18	BUY	56	33
3	10-Jul-18	BUY	56	25
4	23-Jul-18	BUY	46	27
5	01-Oct-18	BUY	39	23
6	05-Oct-18	BUY	39	24
7	17-Oct-18	BUY	39	26
8	07-Jan-19	BUY	38	24

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	BUY	832	620
3	Music Broadcast	BUY	401	307
4	Navneet Education	BUY	150	109
5	S Chand and Company	BUY	400	214
6	Zee Media Corporation	BUY	38	24

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

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