

Investments to impact EBITDA, cash flows...

Zee Entertainment reported a good set of Q3FY21 numbers with growth in ad and subscription revenue. Revenues grew sharply by 33.2% YoY to ₹ 2729.4 crore owing to content syndication deal of ₹ 551.2 crore. Domestic ad increased 7.5% YoY to ₹ 1244.3 crore during the festive quarter while on comparable basis, domestic subscription grew 9.3% YoY driven by both TV business and Zee5. Reported EBITDA came in at ₹ 715.7 crore, up 26.5% YoY with margins at 26.2% YoY. Consequently, reported PAT jumped 14.4% YoY ₹ 399.9 crore.

Festive season leads to revenue growth

Zee's ad revenue increased 5.8% YoY during the quarter. While ad pricing was within range of last year levels, ad volume was boosted during festive quarter. Rise in ad spend from categories like auto, FMCG, e-commerce etc. led the growth. We expect ad growth momentum to continue. We bake ~36% ad growth in FY22E on a low base of FY21. Subscription growth of 9.3% also lifted revenues. However, clarity on implementation of NTO 2.0 is key for subscription outlook. We bake in subscription growth of 7.5% in FY20-23E on a like to like basis (~10.7% CAGR on reported basis given the post realignment of music revenues). Sustained growth in viewership and Zee5 ramp up will be key monitorable for the same. Zee5 revenues were at ₹ 117.8 crore (up 19% QoQ), while EBITDA loss was at ₹ 175.7 crore (vs. ₹ 189.4 crore in Q2). Zee5 recorded a global DAU of 5.4 million and 65.9 million global MAU in December.

Planned investment likely to impact margins

Zee's cash and investments were at ₹ 1793 crore in Q3. The management indicated as a part of long term growth strategy, the company will boost investment across segments from FY22E onwards. Planned content investment is also to enhance viewership across Hindi and regional markets. This will lead to higher cash outgo and margins may be under pressure. As the management has not guided quantum of investment, we conservatively bake margins of 25% in FY22, vs earlier guidance of 30%.

Valuation & Outlook

While Zee has gained viewership in Hindi, Kerala and Bangla, it has lost leadership position in Marathi market. Pick up in Marathi market and overall viewership is important considering the recent expansion in channel portfolio. Potential implementation of NTO 2.0 and impact on subscription revenues ahead also remains unknown. Zee's proposed heavy investment in movie business (traditionally volatile profitability compared to broadcasting) may impact operating margins. We would await finer details (likely by Q4 end) before turning constructive. We roll over valuations to FY23E and maintain **HOLD** rating with a target price of ₹ 250/share (vs. earlier TP: ₹ 195). We value the stock at 13x FY23E P/E (vs. 11x FY22E P/E earlier) with increase in target multiple due to faster ad recovery and earnings growth prospects on benign base, going ahead.



Particulars

Particulars	Amount
Market Cap (₹ crore)	23,954.0
Total Debt (FY20) (₹ crore)	52.6
Cash & Inv. (FY20) (₹ crore)	1,011.5
EV (₹ crore)	22,995.1
52 week H/L (₹)	261/ 114
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Key Highlights

- Domestic ad revenue increased 7.5% YoY while like to like domestic subscription revenue grew 9.3% YoY
- Maintain HOLD with target price of ₹ 250/share, valuing it at 13x FY23E P/E

Key risks to our call

- Slower than expected ad pickup will lead to lower profitability
- Quicker rebound in viewership and faster Zee5 ramp up, thereby higher subscription revenues will improve earnings

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Amogh Deshpande
amogh.deshpande@icicisecurities.com

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales (₹ crore)	7,933.9	8,129.9	7,908.7	9,114.8	10,019.0	7.2
EBITDA (₹ crore)	2,567.6	1,634.6	1,871.2	2,278.7	2,604.9	16.8
Net Profit (₹ crore)	1,545.8	526.5	881.2	1,542.6	1,830.8	51.5
EPS (₹)	16.1	5.5	9.2	16.1	19.1	
P/E (x)	15.5	45.5	27.2	15.5	13.1	
Price / Book (x)	2.4	2.4	2.4	2.2	1.9	
EV/EBITDA (x)	8.5	14.1	12.1	9.9	8.3	
RoE (%)	15.7	16.7	10.3	13.9	14.6	
RoCE (%)	25.7	13.9	14.3	19.1	19.7	

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

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	2,729.4	2,091.2	2,048.7	1,722.7	33.2	58.4	Domestic ad increased 7.5% YoY to ₹ 1244.3 crore while subscription revenues (like to like) grew by 9.3% YoY to ₹ 771.8 crore. Revenue of ₹ 551.2 crore from content syndication deal led the sharp topline growth
Other Income	-56.3	35.0	30.9	17.2	-282.6	-427.8	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	207.3	209.1	207.5	196.7	-0.1	5.4	
Admin & Other Expenses	212.4	230.0	237.0	202.1	-10.4	5.1	
Marketing Expenses	179.8	198.7	190.8	176.0	-5.8	2.1	
Operational Cost	1,414.2	899.2	847.6	834.2	66.8	69.5	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	715.7	554.2	565.8	313.7	26.5	128.2	EBITDA came in better than expected due to higher topline
EBITDA Margin (%)	26.2	26.5	27.6	18.2	-140 bps	801 bps	In line with expectations
Depreciation	65.2	75.0	65.6	65.1	-0.5	0.1	
Interest	2.1	5.0	20.0	1.3	-89.4		
Total Tax	193.7	128.3	162.2	74.0	19.4	161.9	
PAT	399.9	380.4	349.4	94.1	14.4	325.1	

Key Metrics

Ad Revenue Growth	5.8%	2.1%	-15.8%	-26.3%		
Domestic Subscription	16.0%	13.4%	21.7%	11.0%		Domestic Subscription increased 9.3% YoY on comparable basis
International Subscription %	33.0%	0.0%	-17.4%	7.1%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Introduced
	Old	New	% Change	Old	New	% Change		
Revenue	7,205.6	7,908.7	9.8	8,474.6	9,114.8	7.6	10,019.0	Relaigned numbers after 9MFY21 results
EBITDA	1,659.7	1,871.2	12.7	2,461.7	2,278.7	-7.4	2,604.9	
EBITDA Margin (%)	23.0	23.7	63 bps	29.0	25.0	-405 bps	26.0	
PAT	833.9	881.2	5.7	1,689.5	1,542.6	-8.7	1,830.8	
EPS (₹)	8.7	9.2	5.7	17.6	16.1	-8.7	19.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Ad Revenue Growth	20%	-7%	-17%	36%	11%	-19%	26%
Domestic Subscription	17%	33%	13%	8%	9%	13%	9%
International Subscription %	-1%	-16%	21%	25%	7%	2%	14%

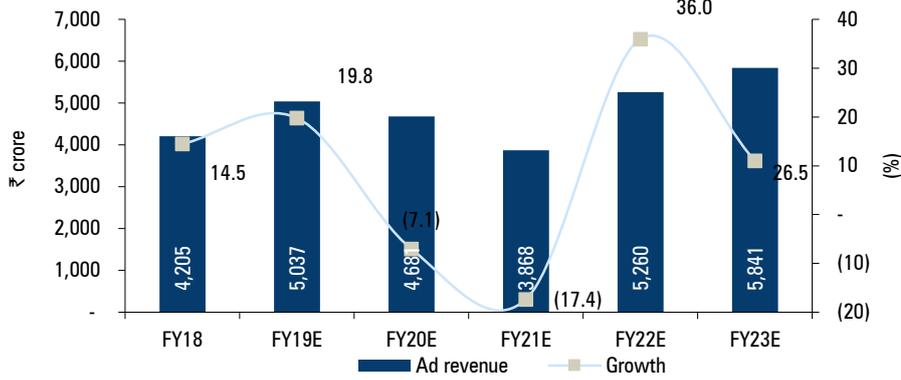
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Envisaging leadership in entertainment; Investments to go up:** The management said Zee has set a target for five years ahead across digital and movie entertainment business. Accordingly, the company will raise investments across segments and languages, with an aim to become leading OTT player to cater to south Asian diaspora. Number of movie releases across six languages is expected to be 30-40 annually vs. eight to 10 earlier
- **Ad pricing near normal:** Ad pricing reached near normal while ad volume grew during the festive quarter. The management guided for growth in Q4. Growth in ad revenue was led by auto, FMCG and e-commerce, etc. Excluding the IPL impact, ad revenue for industry (entertainment segment) declined 2% YoY
- **Clarity over NTO 2.0 important:** The management declined to guide subscription revenue growth due to uncertainty over NTO 2.0. In a normalised scenario, however, subscription growth can be expected in low teen to mid teen digits. While Zee's viewership increased in Hindi, Kerala and Bangla market, leadership position was lost in Marathi. Overall viewership share of company was 18.2%, second highest in industry. GEC channels benefitted due to lack of new content on movie channels. Zee added two channels in portfolio in Q3FY21 totalling to 47 channels.
- **Zee5 loss at EBITDA level continues:** The company said Zee5 EBITDA loss was at ₹ 175.7 crore during the quarter. Zee5 recorded a global DAU of 5.4 million and 65.9 million global MAU in December. The company will target 15-18% conversion of MAU to DAU, going ahead
- **Content syndication deal lifts revenues:** The company struck content syndication deal with content aggregator for ₹ 551.2 crore. Syndicated content's inventory value was ₹ 473 crore and content was catering to international markets (German and Spanish), which the company is planning to exit. This led to the decision
- **Other highlights:**
 - **Cash & Investments breakup break-up:** Cash & bank balance: ₹ 390 crore, FD: ₹ 650 crore, Mutual fund: ₹ 730 crore, NCD: ₹ 51 crore
 - **Approx. inventory breakup:** Movie rights: ₹ 3800 crore, shows: ₹ 680 crore, movie production, music and others: ₹ 400 crore, content advances: ₹ 800 crore

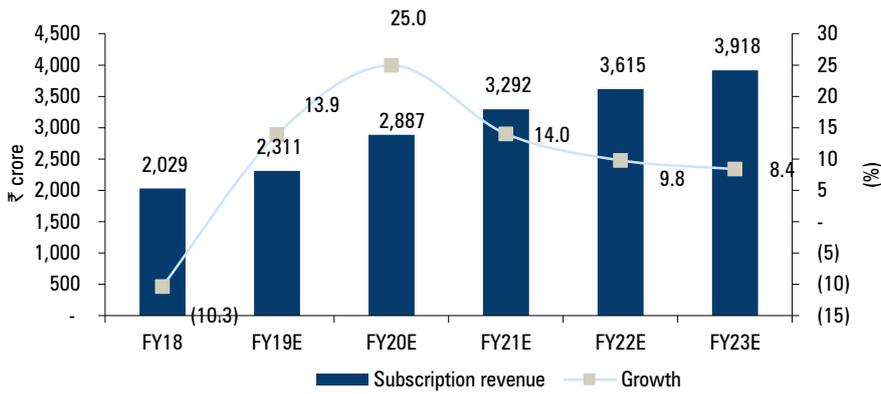
Story in Charts

Exhibit 4: Ad revenue growth trend



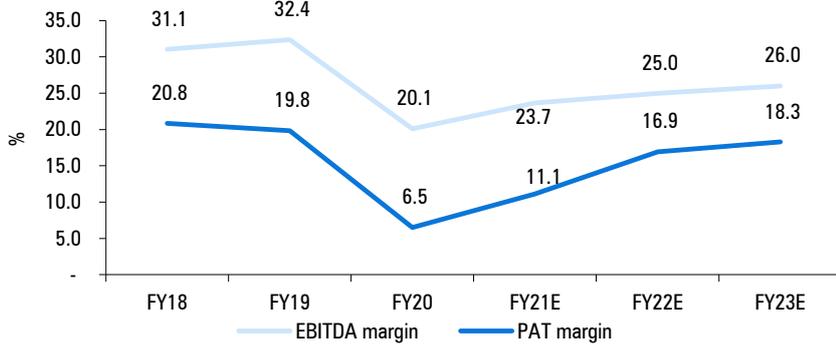
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



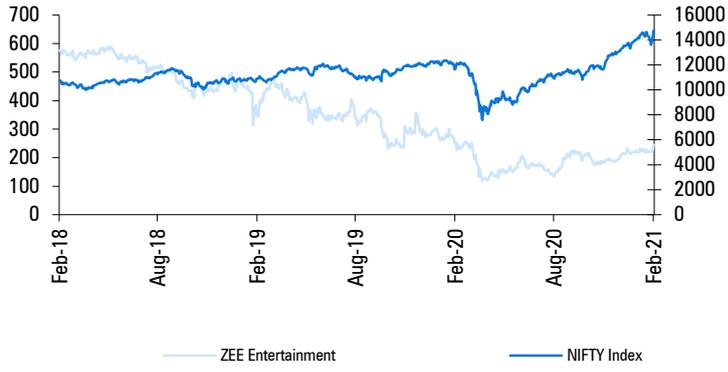
Source: Company, ICICI Direct Research; includes music from H2FY21

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	8,129.9	7,908.7	9,114.8	10,019.0
Growth (%)	18.7	-2.7	15.2	9.9
Operational Cost	3,828.5	3,807.0	4,284.0	4,508.6
Employee Expenses	780.5	818.6	911.5	1,001.9
Admin & Other Expenses	1,190.7	741.4	865.9	1,001.9
Marketing Expenses	695.6	670.6	774.8	901.7
Total Operating Expenditure	6,495.3	6,037.5	6,836.1	7,414.1
EBITDA	1,634.6	1,871.2	2,278.7	2,604.9
Growth (%)	-36.3	14.5	21.8	14.3
Depreciation	270.6	316.3	332.7	350.7
Interest	144.9	78.0	61.0	44.0
Other Income	24.0	-85.1	180.0	240.0
Exceptional Items	284.3	97.1	0.0	0.0
PBT	958.7	1,294.7	2,065.0	2,450.3
Minority Interest	-1.9	-2.7	4.0	4.0
PAT from Associates	-2.4	0.4	2.0	2.0
Total Tax	431.7	416.5	520.4	617.5
PAT	526.5	881.2	1,542.6	1,830.8
Growth (%)	-65.9	67.4	75.1	18.7
Adjusted PAT	1,661.5	1,047.7	1,542.6	1,830.8
Growth (%)	5.6	-36.9	47.2	18.7
Reported EPS (₹)	5.5	9.2	16.1	19.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	526.5	881.2	1,542.6	1,830.8
Add: Depreciation	270.6	316.3	332.7	350.7
Add: Interest paid	144.9	78.0	61.0	44.0
(Inc)/dec in Current Assets	-822.0	33.4	-1,137.3	-1,015.1
Inc/(dec) in CL and Provisions	-384.0	-116.9	289.5	198.6
Others	0.0	0.0	0.0	0.0
CF from op. activities	-263.9	1,192.1	1,088.5	1,409.0
(Inc)/dec in Investments	649.4	-500.0	-500.0	-400.0
(Inc)/dec in Fixed Assets	-213.8	-200.0	-200.0	-200.0
Others	58.1	-1.1	-0.7	-1.9
CF from inv. activities	493.8	-701.1	-700.7	-601.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Issue of Preference Shares	-516.3	-297.5	-297.5	0.0
Inc/(Dec) in loan funds	50.6	-	-	-
Interest paid	144.9	78.0	61.0	44.0
Others	-396.3	-495.9	-462.0	-428.0
CF from fin. activities	-717.2	-715.5	-698.5	-384.0
Net Cash flow	-487.4	-224.5	-310.7	423.1
Opening Cash	1,221.8	734.5	510.0	199.4
Closing Cash	734.5	510.0	199.4	622.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	595.0	297.5	0.0	0.0
Reserve and Surplus	9,247.9	9,789.1	10,991.7	12,482.5
Total Shareholders funds	9,938.9	10,182.7	11,087.8	12,578.6
Total Debt	52.6	52.6	52.6	52.6
Others	11.0	9.9	9.3	7.4
Total Liabilities	10,002.5	10,245.2	11,149.6	12,638.5
Assets				
Gross Block	2,156.3	2,356.3	2,556.3	2,756.3
Less: Acc Depreciation	1,179.2	1,495.6	1,828.3	2,178.9
Net Block	977.1	860.8	728.1	577.4
Capital WIP	33.4	33.4	33.4	33.4
Total Fixed Assets	1,010.5	894.2	761.5	610.8
Investments	712.1	1,212.1	1,712.1	2,112.1
Inventory	5,347.5	5,416.9	5,993.3	6,587.9
Debtors	2,084.7	2,028.0	2,337.3	2,569.1
Loans and Advances	1,323.4	1,287.4	1,483.7	1,630.9
Other Current Assets	373.2	363.1	418.5	460.0
Cash	734.5	510.0	199.4	622.4
Total Current Assets	9,863.3	9,605.4	10,432.0	11,870.2
Creditors	1,680.3	1,634.6	1,883.9	2,070.8
Provisions	152.6	148.5	171.1	188.1
Other current liabilities	538.3	471.3	488.8	483.6
Total Current Liabilities	2,371.3	2,254.4	2,543.9	2,742.5
Net Current Assets	7,492.0	7,351.0	7,888.2	9,127.7
Other non current assets	787.9	787.9	787.9	787.9
Total Assets	10,002.5	10,245.2	11,149.6	12,638.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	5.5	9.2	16.1	19.1
Adjusted EPS	17.3	10.9	16.1	19.1
BV	103.5	106.0	115.4	131.0
DPS	0.4	3.5	3.5	3.5
Cash Per Share	12.3	15.6	19.0	22.7
Operating Ratios (%)				
EBITDA Margin	20.1	23.7	25.0	26.0
EBIT Margin	16.8	19.7	21.4	22.5
PAT Margin	20.4	13.2	16.9	18.3
Inventory days	240.1	250.0	240.0	240.0
Debtor days	93.6	93.6	93.6	93.6
Creditor days	75.4	75.4	75.4	75.4
Return Ratios (%)				
RoE	16.7	10.3	13.9	14.6
RoCE	13.9	14.3	19.1	19.7
RoIC	16.4	19.0	21.8	23.5
Valuation Ratios (x)				
P/E	45.5	27.2	15.5	13.1
EV / EBITDA	14.1	12.1	9.9	8.3
EV / Net Sales	2.8	2.9	2.5	2.2
Market Cap / Sales	2.9	3.0	2.6	2.4
Price to Book Value	2.4	2.4	2.2	1.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.0	5.1	5.0	5.0
Quick Ratio	2.1	2.1	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 12: 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	330	350	Hold	3,712	1.5	-34.2	1.8	226.0	NM	187.5	10.8	-32.4	11.1	10.0	-13.0	8.1	2.4	-62.8	3.0
PVR	1,495	1,440	Hold	8,247	5.3	-101.7	10.7	281.1	NM	139.3	12.1	-44.0	11.7	8.5	-4.9	8.6	1.8	-46.0	4.7
Sun TV	549	480	Hold	21,617	35.1	36.2	39.9	15.6	15.2	13.7	8.3	8.6	6.9	31.2	29.2	28.9	24.2	22.1	21.9
TV Today	251	240	Hold	1,498	23.4	21.6	30.0	10.7	11.6	8.4	6.3	6.4	4.9	24.7	22.2	24.7	16.0	14.4	18.4
ZEE Ent.	249	250	Hold	23,957	5.5	9.2	16.1	45.5	27.2	15.5	14.1	12.1	9.9	13.9	14.3	19.1	16.7	10.3	13.9

Source: Company, ICICI Direct Research

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Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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