



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Reco: Buy	↔
CMP: Rs. 256	
Price Target: Rs. 310	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

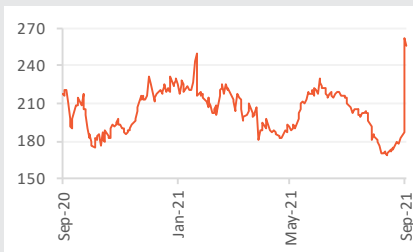
Company details

Market cap:	Rs. 24,584 cr
52-week high/low:	Rs. 271 / 166
NSE volume: (No of shares)	143.6 lakh
BSE code:	505537
NSE code:	ZEEL
Free float: (No of shares)	92.2 cr

Shareholding (%)

Promoters	4.0
FII	68.2
DII	20.4
Others	7.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	41	13	26	18
Relative to Sensex	36	1	8	(32)

Sharekhan Research, Bloomberg

Summary

- ♦ The largest shareholder of ZEE Entertainment Limited (ZEEL), Invesco demanded a reconstitution of the board, with the removal of three directors and appointment of six independent directors.
- ♦ We believe shareholder activism would be a key re-rating trigger as this could alter the board/management, increase in cash conversion and improve efficiency of capital allocation.
- ♦ FY2021 free cash flow of Rs. 1,342 crore stood at 75% of EBITDA, implying a strong improvement in cash conversion over previous years. We expect earnings to report an 18% CAGR over FY2021-FY2024E.
- ♦ We maintain a Buy on the stock with a revised PT of Rs. 310, given reasonable valuations and expectations of improvement of corporate governance standards.

Invesco, the largest shareholder of ZEEL, with a ~17.88% stake called an extraordinary general meeting (EGM) of shareholders for reconstitution of board. Invesco wants to pass an ordinary resolution on removal of three directors (including Mr. Punit Goenka, MD & CEO of the company) and appointment of six independent directors. Two independent directors (Manish Chokhani and Ashok Kurien) have resigned. We believe that recent shareholder activism would be a re-rating trigger as this could bring a change in the board and/or senior management and lead to an improvement in corporate governance and efficient capital allocation.

- ♦ **Awaiting greater clarity in EGM:** The key event that needs to be eyed is whether there will be any material developments particularly a change in management at the EGM. One must note that ZEEL's Board will call for an EGM within 21 days from the receipt of the requisition, otherwise investors themselves can call for an EGM within 45 days. We await greater clarity at the EGM and monitor closely whether Mr. Punit Goenka continues as MD & CEO of the company considering the promoter family's low holding (less than 4%) in ZEEL. We believe irrespective of any development relating to Mr. Punit Goenka would be considered positive among investors, though the continuance of Mr. Punit Goenka as MD & CEO would evade any short-term hiccups in business.
- ♦ **Expect shareholder activism likely to push for a change:** ZEEL has been going through tumultuous times even after the deal with Invesco in July 2019, where the promoter family of ZEEL sold around 11% stake in ZEEL to Invesco (holding increased to ~18%). Though Invesco allowed the retention of management control with promoters, Invesco now demands for a revamp of ZEEL's board owing to some serious corporate governance concerns. We believe this development has triggered for re-rating as the shareholder activism could force for an improvement in corporate governance, increase in cash conversion and an efficient capital allocation.
- ♦ **Strong FCF generation in FY2021:** ZEEL's annual report 2021 highlighted that the company has been focusing on strengthening itself. The company's FCF to EBITDA ratio stood at 75% in FY2021 as compared to lower single digits in FY2020. Cash & cash equivalents increased to Rs. 18.8 billion in FY2021 from Rs. 10.2 billion in FY2020.

Our Call

Valuation: Expect strong growth ahead: We believe that the recent shareholder activism would improve ZEEL's corporate governance standards in the medium to long term. The company has been progressing well on digital business with launching new shows in each quarter, entering into international markets and competitive pricing strategy and is well-poised to gain market share in broadcasting business. We introduced FY2024 numbers in this note. We expect the company to clock a 18% CAGR in adjusted net profit over FY2021-FY2024E. The stock is currently trading at a reasonable valuation at 15x/13x of FY2023E/FY2024E earnings estimates. Hence, we maintain our Buy rating on ZEEL with a revised PT of Rs. 310.

Key risk

A slowdown in the economy leading to lower demand and subdued realisation for advertisement revenue stream, 2) delay in monetisation benefit from digitisation could affect earnings, and 3) potential ownership change at ZEEL as promoters own less than 4%.

Valuation (Consolidated)

Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
Revenues	7,729.9	8,312.5	9,235.8	10,047.3
OPM (%)	23.2	23.5	25.5	26.1
Adjusted PAT	1,122.9	1,293.5	1,651.5	1,836.7
% YoY growth	123.8	15.2	27.7	11.2
Adjusted EPS (Rs.)	11.7	13.5	17.2	19.1
P/E (x)	21.9	19.0	14.9	13.4
P/B (x)	2.4	2.2	2.0	1.8
EV/EBITDA (x)	13.3	11.1	8.7	7.4
RoNW (%)	11.1	11.7	13.4	13.4
RoCE (%)	14.7	15.2	17.1	17.3

Source: Company; Sharekhan estimates

Event: Invesco seeks ZEEL's board reconstitution

Invesco Developing Markets Fund, the largest shareholder of ZEEL and OFI Global China Fund LLC, have called an extra-ordinary general meeting (EGM) of shareholders for a reconstitution of board. In a letter to ZEEL's board, Invesco wants to pass an ordinary resolution on the following – (1) removal of Mr. Punit Goenka (MD & CEO) and two independent directors (Mr. Manish Chokhani and Mr. Ashok Kurien); and (2) appointment of Mr. Surendra Singh Sirohi, Ms. Naina Krishna Murty, Mr. Rohan Dhamija, Ms. Aruna Sharma, Mr. Srinivasa Rao Addepalli and Mr. Gaurav Mehta as six new independent directors. Manish Chokhani, who was a member of the Nomination and Remuneration Committee and Risk Management Committee of the Board and Ashok Kurien, who a member of the Corporate Social Responsibility Committee and Stakeholders Relationship Committee of the Board have already tendered their resignations from the position of non-executivenon-independent directors of the company with effect from September 12, 2021. Note that a proxy advisory firm had raised corporate governance issues against these two directors. Invesco has been a financial investor in ZEEL since 2002 and owned a 7.7% stake of ZEEL before 2019. During July 2019, the promoters of ZEEL entered into an agreement with Invesco to sell upto 11% stake in ZEEL for Rs. 4,224 crore at Rs. 400 per share. The promoter group owns 3.99% stake of the company.

AGM concluded amid large shareholders' activism; expect more clarity in EGM

At ZEEL's AGM, Mr. Punit Goenka stated that the company focuses on a new path under ZEE 4.0, which aims to enhance profitability and continue to grow ahead of the industry. The management also discussed about investments in digital and movie business, recovering of the lost viewership market share Zee TV and Zee Anmol, strong prospects of digital business, strong focus on corporate governance in a granular manner, recovery of receivables from Siti Cables and among others.

However, the board skipped the discussion about the notice sent by its largest shareholder Invesco for a revamp of ZEEL's board. We believe the key event need to be watched out for the company whether there will be any material developments at the EGM. Note that the ZEEL's Board will call for an EGM within 21 days from the receipt of the requisition. Otherwise, investors themselves can call for an EGM within 45 days from the receipt of the requisition. A simple majority (at least 51% votes) in favour of the reconstitution of the Board will allow the resolution to be passed. We need to wait for more clarity at the EGM and monitor closely whether Mr. Punit Goenka continues as MD & CEO of the company considering the promoter family's low shareholding in ZEEL.

Expect current shareholder activism likely to push for a change

While the company was struggling with both internal and external factors, the company brought in Invesco as its financial investor in July 2019. Though the deal with Invesco and retention of management's control provided some credibility, the company went through tumultuous times post that due to corporate governance issues and the promoter share pledging crisis. Starting Q1FY2021, the management is focused on rebuilding investor confidence by providing improved disclosures for ZEE5, providing a quarterly balance sheet (including a content inventory breakdown) and introducing polices pertaining to treasury management. However, the stock price remained below its intrinsic value given potential ownership change and severe impact on the media industry due to the pandemic. With the proposal for the reconstitution of the Board by its largest financial investor (Invesco), we believe this would trigger for re-rating as the shareholder activism could force for a leadership change and/or an improvement in corporate governance. If the current CEO gets replaced with a change in the board, there are possibilities of a change in management control which could lead to shift in strategic priorities and better capital allocation. In case Mr. Punit Goenka continues as MD & CEO with change in board, the management would walk a tightrope because it would face additional scrutiny under the new board. In this scenario, the continuation of Mr. Punit Goenka as MD & CEO would also be positive as the

company would not face any short-term top leadership transition challenges. Further, there are possibilities of improvement in corporate governance standards, better cash conversion and efficient capital allocation.

Well-poised to take-off under ZEE 4.0

Annual report highlighted that the company has been on a transformative journey to create a platform for a strong growth going ahead. The company aims to transform into the largest and most profitable media & entertainment company in South Asia. The company sees exponential growth in the digital ecosystem, led by state-of-the-art technology, immersive viewing experiences and data-backed innovations. The pandemic affected the company's performance severely in FY2021, reflecting from sharp 19.9% y-o-y decline in its advertisement revenue. Subscription revenue saw a comparable growth of 5.2% during the year, primarily driven by ZEE5. ZEE5 also leveraged the opportunity aroused due to pandemic and reported strong growth across all operating matrices. MAU on the platform grew 15% y-o-y to 72.6 million. ZEEL's management plans to enhance its profitability and continue to grow ahead of the industry by capturing all new opportunities that emerge in an ever-evolving business landscape.

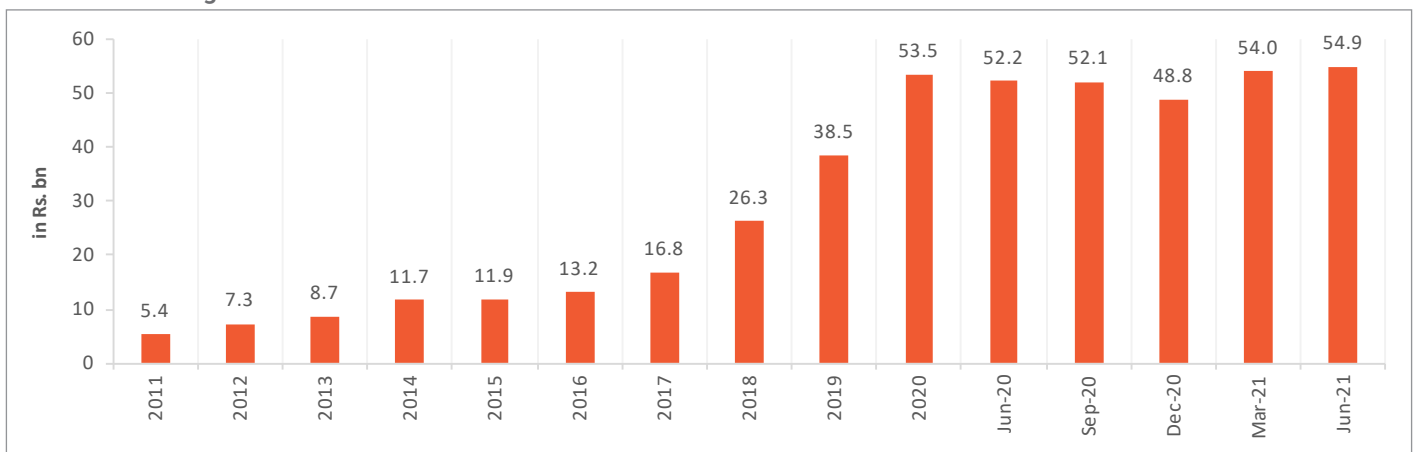
Focus to recover in viewership share

ZEEL was ranked #2 non-sports entertainment television network during the year with an all-India viewership share of 18.0%. The network share declined by 40 bps during the year due to non-availability of fresh content in the first quarter and weak performance of some of the channels especially in the Hindi, Tamil and Marathi segments. ZEEL's investments over a period of time have yielded with a strong gain in viewership share in the South Indian markets and movie genre. The network has grown organically to reach 20% viewership share despite being a late entrant to the South market, while ZEEL has become the leader in the movie genre with 25% viewership share. Note that the company's viewership share has shown steady rise from 11.6% in FY2011 to 18% in FY2021 under the leadership of Mr. Punit Goenka. During the recent AGM, the management indicated it is well placed to recover the lost viewership share in ZEE TV and Zee Anmol in coming quarters.

Strong FCF generation

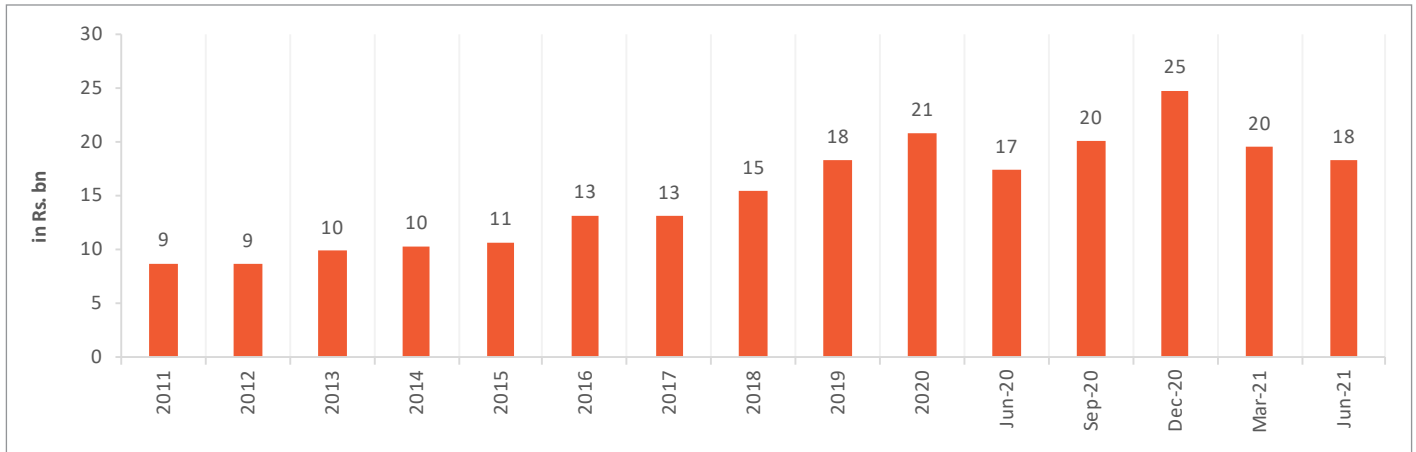
The company's balance sheet has improved over last year with improvement in net cash, reduction in receivables and marginal increase in inventory level. In FY2021, the company's EBITDA increased by 9.5% y-o-y compared to a 4.9% y-o-y decline in revenue. FY2021 FCF of ZEEL improved substantially to Rs. 1,342 crore from Rs. 68 crore in FY2020 on the back of absence of any working capital expansion. The company's FCF to EBITDA stood at 75% in FY2021 as compared to lower single digit in FY2020. Cash & cash equivalents increased to Rs. 18.8 billion in FY2021 from Rs. 10.2 billion in FY2020.

Trends in inventory



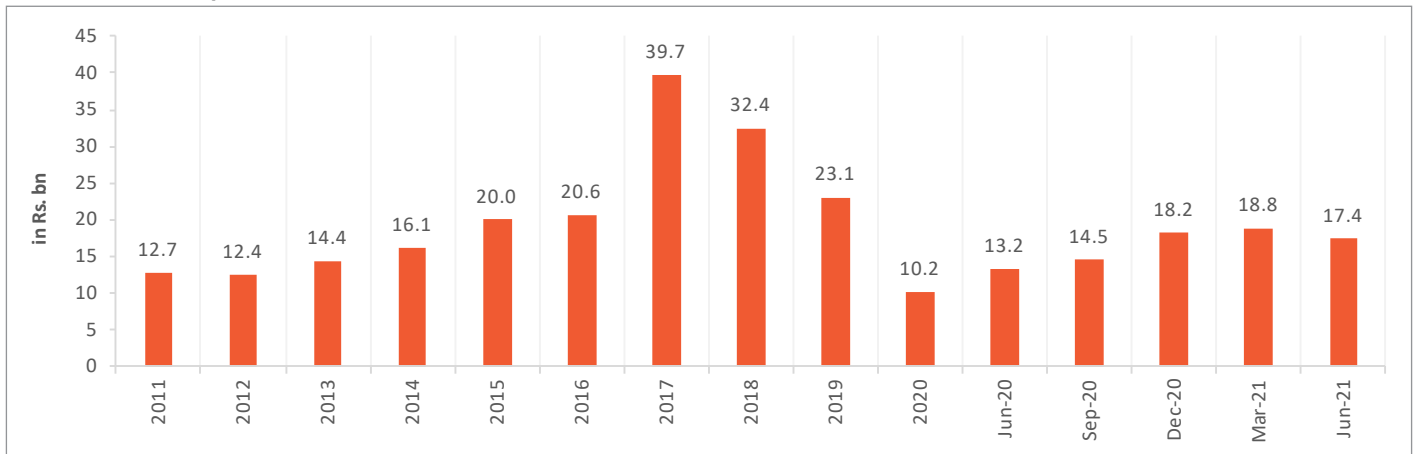
Source: Company, Sharekhan research

Receivables were down on q-o-q basis, led by recovery from Dish TV



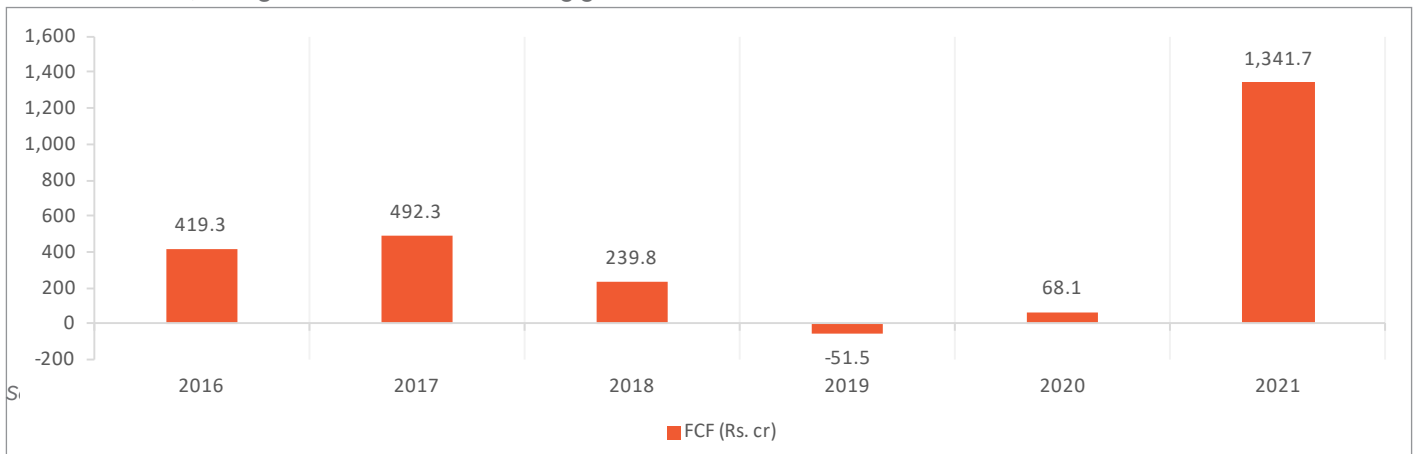
Source: Company, Sharekhan research

Net cash & cash equivalents



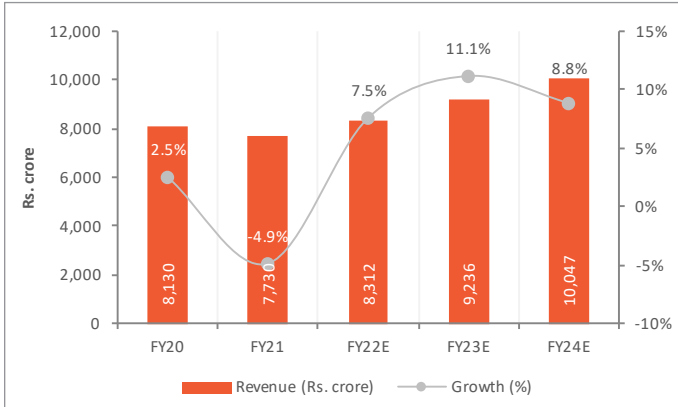
Source: Company, Sharekhan research

ZEEL's FCF trend, strong conversion rate after many years



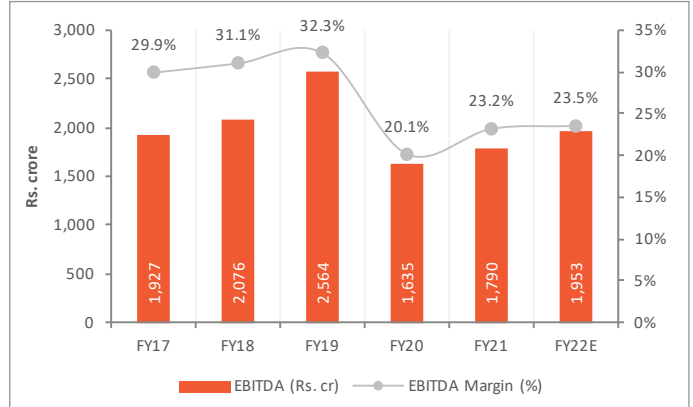
Financials in charts

Revenue (Rs. cr) and growth (%)



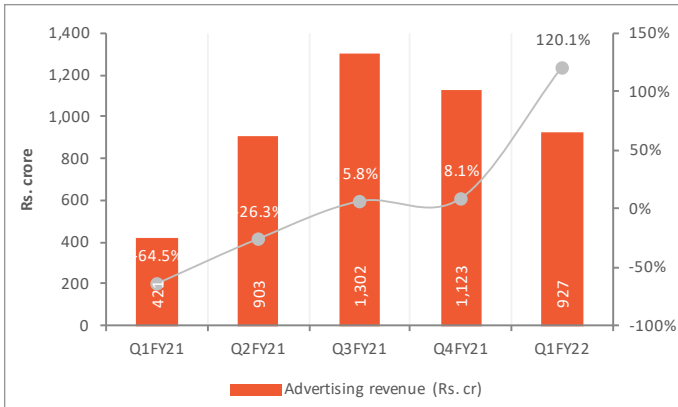
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and EBITDA margin (%)



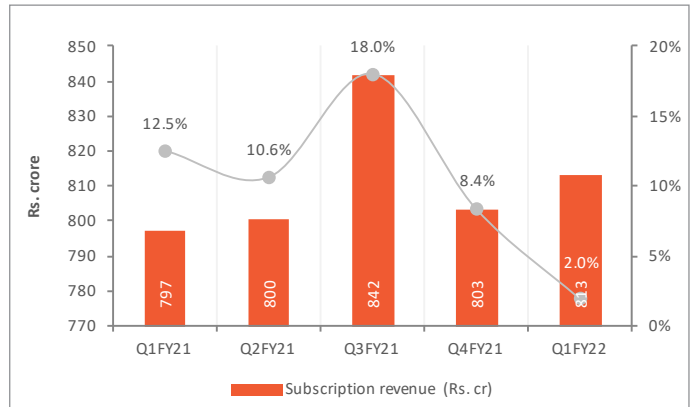
Source: Company, Sharekhan Research

Advertising revenue (Rs. cr) and growth (%)



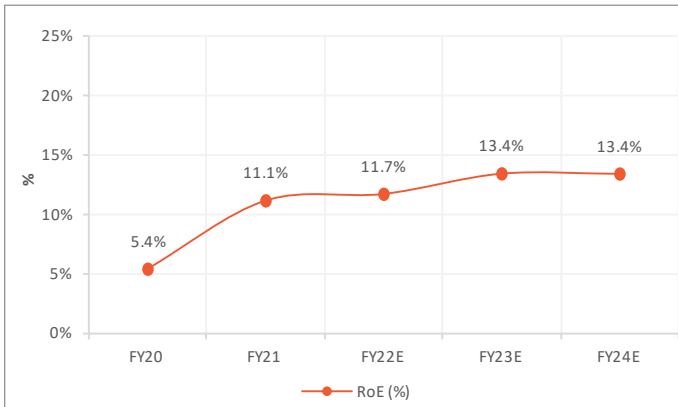
Source: Company, Sharekhan Research

Subscription revenue trend



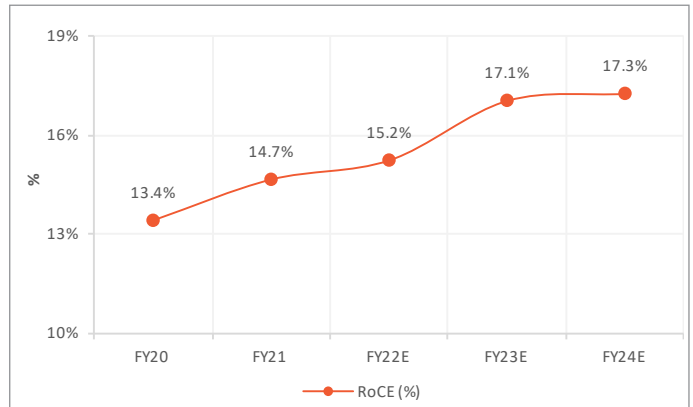
Source: Company, Sharekhan Research

RoE trend (%)



Source: Company, Sharekhan Research

RoCE trend (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Advertising growth recovery likely to remain strong

As per a KPMG report, Indian media and entertainment (M&E) industry growth would be significantly impacted in FY2021 owing to nationwide lockdown restrictions owing to the pandemic, slowdown in advertising spends and breaking down of content supply chains. However, the M&E sector is expected to bounce back in FY2022 with a 33.1% y-o-y growth to reach a size of Rs. 1.86 trillion. The television segment is expected to bounce back to 8.6% y-o-y in FY2022 on account of a strong 19% growth in ad revenue and 4% growth in subscription revenue. We expect TV as a medium to continue to stay relevant and the most preferred choice for advertisers, given its reach to the mass audience.

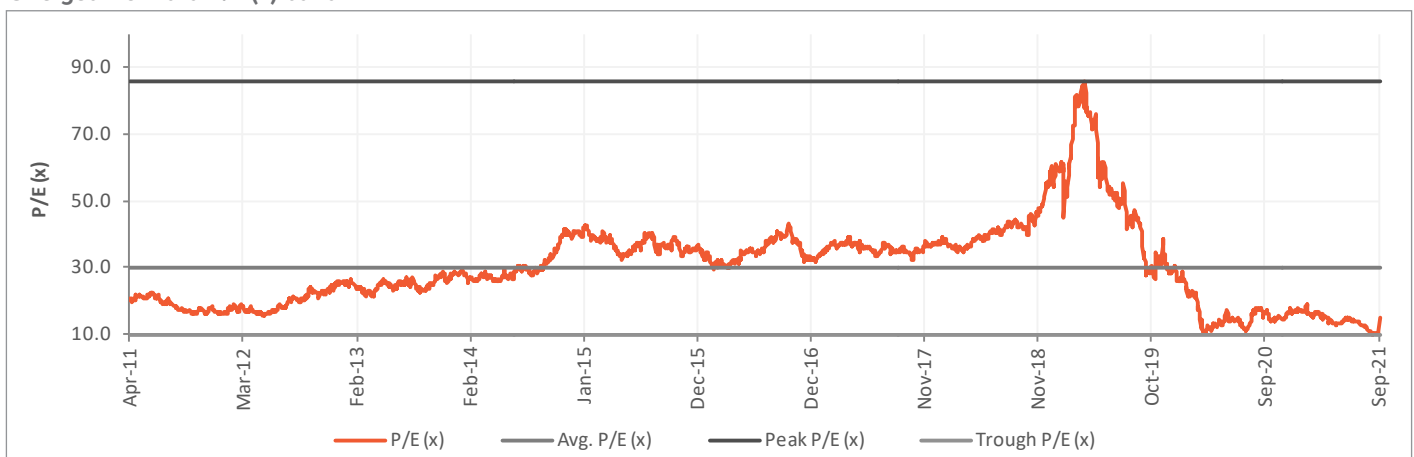
■ Company Outlook – Strongly placed among peers

ZEEL is one of India's leading media & entertainment companies, primarily engaged in broadcasting, movies and music production, and digital business. The company has a strong presence in the GEC segment, given deep regional penetration and has expanded its presence in movie genre with the launch of new channels. We believe ZEE5's focus on aggressively building a content catalogue is a step in the right direction given the hyper-competitive nature of the market. Since Q1FY2021, the management is focusing on rebuilding confidence with improved disclosures (quarterly balance sheet including break-up of a content inventory and content advances and financials/metrics for ZEE5), introducing policies (policies pertaining to treasury management, investments and related party dealings) and restructuring board compositions. Though a fall in receivables over the past three quarters shows a gradual reduction of balance sheet concerns, the company's decision to ramp up the movie production business (30-40 movies per years versus 10-12) would affect profitability and cash generation in FY2022E.

■ Valuation – Favourable risk-reward

We believe that the recent shareholder activism would improve ZEEL's corporate governance standards in the medium to long term. The company has been progressing well on digital business with launching new shows in each quarter, entering into international markets and competitive pricing strategy and is well-poised to gain market share in broadcasting business. We introduced FY2024 numbers in this note. We expect the company to clock a 18% CAGR in adjusted net profit over FY2021-FY2024E. The stock is currently trading at a reasonable valuation at 15x/13x of FY2023E/FY2024E earnings estimates. Hence, we maintain our Buy rating on ZEEL with a revised PT of Rs. 310.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

ZEEL is one of India's largest vertically integrated media and entertainment companies, primarily engaged in broadcasting and content development with the widest language footprint, movies and music production, live events, and digital business. The company is amongst the largest producers and aggregators of entertainment content in the world, with an extensive library housing over 250,000 hours of television content. ZEEL houses the world's largest Hindi film library with rights to more than 4,200 movie titles from foremost studios and of iconic film stars. Through its strong presence worldwide, ZEEL is present across 170+ countries and has a reach to over 1.3 billion viewers.

Investment theme

The company has delivered a strong revenue CAGR of 8% over FY2015-FY2021 despite strict lockdown restrictions owing to outbreak of COVID-19 in FY2021. ZEEL's management remains confident of delivering ad revenue growth, ahead of industry growth rate. Hence, the company is considered as one of the leading players under the structural India consumption theme. A large and exclusive content library would be ZEE5's USP and would help to target particularly semi-urban and rural subscribers. We believe ZEEL is well placed to derive benefits from anticipated GDP growth, improvement in viewership shares, new launches, higher penetration of DTH, and the digitisation process.

Key Risks

Unfavourable regulatory guidelines impacting subscription revenue, a slowdown in the economic environment leading to lower demand, and subdued realisation for advertisement revenue stream. Delay in monetisation benefit from digitisation and increased investments in ZEE5 could affect earnings.

Additional Data

Key management personnel

Punit Goenka	Managing Director and CEO
Amit Goenka	President - Digital Businesses & Platforms
Anurag Bedi	Chief Business Officer – Zee Music
Rohit Kumar Gupta	Chief Financial Officer
Ashish Agarwal	Chief Compliance Officer & Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Invesco Limited	17.88
2	OFI GBL China FD LLC	10.14
3	Invesco Oppenheimer	7.74
4	Vanguard Group Inc/The	5.94
5	Life Insurance Corp of India	4.89
6	HSBC Holding PLC	4.10
7	Vangyard International	3.48
8	Amansa Capital Private Limited	3.40
9	Vontobel Holding AG	3.01
10	Government pension fund global	2.47

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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