

Viewership share recovery key for growth...

About the stock: Zee Entertainment (Zee) is one of the largest listed media companies in India, which owns and operates a bouquet of 49 TV channels across 11 languages and also an OTT app Zee5.

- The company's TV network viewership share improved 70 bps QoQ to 17.7%, albeit lower than Q2FY21 market share of 19% due to relatively soft performance in segments such as Marathi, Tamil and Hindi GEC

Q2FY22 Results: Zee reported weaker than expected Q2FY22 results.

- Revenues at ₹ 1,979 crore were up 14.9% YoY with ad revenues up 20.7% YoY to ₹ 1089 crore, on a favourable base of Q2FY21 (~26% decline) with recovery largely seen in the second half of Q2. Subscription revenues declined 1.5% YoY to ₹ 789 crore, due to NTO 2's pending implementation
- EBITDA at ₹ 412 crore was up 31.1% YoY, with margins at 20.8% (up 262 bps YoY), lower than expectations of 22%, due to higher marketing costs
- PAT at ₹ 270 crore was lower than estimates of ₹ 282 crore, impacted by one-off provision of ₹ 14 crore against receivables from Siti Networks

What should investors do? Zee's share price has declined by ~30% over the past five years, owing to promoter debt issue and business challenges.

- We maintain our HOLD rating

Target Price and Valuation: We value Zee at ₹ 330 i.e. 20x FY23E EV/EBITDA

Key triggers for future price performance:

- Overall viewership share improvement, which remain sub optimal. Turnaround in some of the regional markets like Tamil/Marathi as well as Hindi GEC, where they have lost viewership market share recently
- Recovery in margin performance and cash flow generation
- Consummation of merger with Sony

Alternate Stock Idea: Besides Zee, we like Inox Leisure in the media space.

- A play on reopening and improving market share of multiplexes
- BUY with a target price of ₹ 495



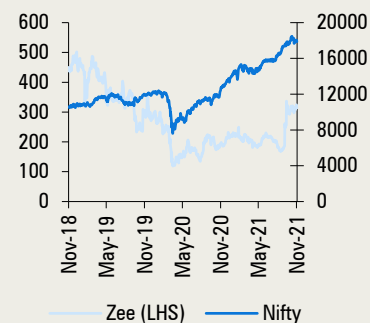
Particulars

Particulars	Amount
Market Cap (₹ crore)	30,163
Total Debt (FY21) (₹ crore)	20
Cash & Inv. (FY21) (₹ crore)	1,857
EV (₹ crore)	28,326
52 week H/L (₹)	363/ 167
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	4.0	4.0	4.0	4.0
DII	11.9	12.3	18.1	15.6
FII	65.8	64.2	57.5	57.2
Other	18.3	19.6	20.5	23.3

Price Chart



Key risks

Key Risk: (i) Delay in market share recovery or Sony deal, (ii) Faster Zee5 ramp up

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 year CAGR FY16-21	FY22E	FY23E	2 year CAGR FY21-23E
Net Sales (₹ crore)	7,933.9	8,129.9	7,729.9	5.7	8,423.3	9,371.5	10.1
EBITDA (₹ crore)	2,567.6	1,634.6	1,790.1	3.5	1,855.7	2,342.9	14.4
Net Profit (₹ crore)	1,545.8	526.5	800.1		1,235.4	1,587.3	
Adjusted Nat Profit (₹ crore)	1,573.4	1,661.5	984.9	(1.2)	1,248.5	1,587.3	26.9
EPS (₹)	16.1	5.5	8.3		12.9	16.5	
P/E (x)	19.5	57.3	37.7		24.4	19.0	
Price / Book (x)	3.0	3.0	2.9		2.8	2.5	
EV/EBITDA (x)	10.9	17.9	15.8		15.4	12.1	
RoE (%)	15.7	16.7	9.4		11.4	13.2	
RoCE (%)	25.7	13.9	13.7		15.5	17.8	

Key performance highlight and outlook

Ad growth rebound to be function of market share recovery

The company indicated that the quarter saw sharp recovery in the second half of the quarter with gradual reopening of economy. Zee launched 30+ shows across channels, which led to a gradual recovery in viewership. The company's TV network viewership share, thus, improved 70 bps QoQ to 17.7%, albeit lower than Q2FY21 market share of 19%, due to relatively soft performance in segments such as Marathi, Tamil and Hindi GEC. **The company expects to report healthy growth in ad revenues in H2FY22 surpassing both pre-Covid levels and H2FY21. We bake in ~20% CAGR in ad revenues in FY21-23E, on a depressed base of FY21 wherein ad revenues had declined 20% YoY.** Telecom Regulatory Authority of India (Trai) has extended the deadline for enforcing New Tariff Order (NTO 2). Broadcasters will have to revise and publish new Reference Interconnect Offers (RIOs) to Trai by 31st December 2021 and implementation deadline has now been extended to April 1, 2022. The company expects subscription growth to face near term disruption on NTO 2.0 implementation, post which it expects industry to revert back to high single digit growth. **We bake in modest subscription CAGR of 5.5% in FY21-23E, with interim hiccups amid NTO 2.0 implementation over the next couple of quarters.**

Healthy QoQ growth for Zee5; content spending to be high

Zee5's revenues were at ₹ 130.5 crore, witnessing healthy growth of 16.8% QoQ, driven by strong content slate addition. Total 13 original shows and movies released during the quarter across languages on Zee5. The EBITDA loss was at ₹ 172 crore (vs. ₹ 203.3 crore in Q4). Zee5 recorded a global DAU of 9.3 million and 93.2 million global MAU in December vs. Q1 numbers of 7.1 million and 80.2 million, respectively. **The management indicated that as a part of long term growth strategy, the company will boost investment across segments. For Q3, it expects 28-30 new shows on linear channels, and for OTT it will be higher than H1.** Planned content investment is also to enhance viewership and recover market share lost across Hindi and regional markets. Furthermore, it aims to expand movie production, with strong slate of movies across Hindi, Tamil, Telugu, Marathi and Punjabi languages being planned for release in H2FY22.

Other highlights

- **Cash & investments break-up:** Cash & bank balance: ₹ 780 crore, FD: ₹ 340 crore, mutual fund: ₹ 450 crore, NCD: ₹ 43.8 crore
- **Progress on merger with SPNI:** Further to in-principle approval received from the board, the due diligence process has commenced and is in steady progress. The company is confident that this process will be completed within stipulated timeline
- **Higher marketing costs:** The company indicated that increase in marketing cost on a YoY basis is on account of new launches and continued investments in ZEE5. It indicated that the same would remain elevated for the next couple of quarters
- New channels contribute 1.2% of viewership share

Impact of implementation of NTO 2.0 on subscription revenues ahead will be an important event to watch. The rebound in market share in Hindi GEC and Marathi/Tamil will also key to overall market share and ad recovery. Furthermore, major shareholder - Invesco Oppenheimer's legal battle with current promoters will also be a key monitorable. We maintain HOLD rating with a target price of ₹ 330/share, valuing the stock at 20x FY23E P/E.

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	Q1FY22	YoY (%)	QoQ (%)	Comments
Revenue	1,978.8	1,978.7	1,722.7	1,775.0	14.9	11.5	Ad revenues were up 20.7% YoY to ₹ 1089 crore, on favourable base of Q2FY21 (~26% decline) with recovery largely seen in the second half of Q2. Subscription revenues declined 1.5% YoY to ₹ 789 crore, due to NTO 2's pending implementation
Other Income	22.8	25.0	17.2	23.8	32.8	-4.3	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	203.8	227.6	196.7	228.0	3.6	-10.6	
Admin & Other Expenses	214.2	197.9	202.1	158.5	6.0	35.2	
Marketing Expenses	244.9	197.9	176.0	178.1	39.1	37.5	
Operational Cost	903.7	920.1	834.2	866.4	8.3	4.3	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	412.2	435.3	313.7	344.0	31.4	19.8	
EBITDA Margin (%)	20.8	22.0	18.2	19.4	262 bps	145 bps	
Depreciation	59.8	60.0	65.1	59.0	-8.2	1.5	
Interest	2.2	2.0	1.3	1.9	67.2		
Total Tax	93.0	119.5	74.0	94.5	25.7	-1.6	
PAT	270.2	281.8	94.1	213.7	187.2	26.4	

Key Metrics

Ad Revenue Growth	20.7%	21.1%	-26.3%	120.1%
Domestic Subscription	-2.3%	1.7%	11.0%	0.3%
International Subscription %	5.7%	1.0%	7.1%	16.9%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	8,322.6	8,423.3	1.2	9,360.9	9,371.5	0.1	Realign numbers after Q2
EBITDA	1,955.3	1,855.7	-5.1	2,340.1	2,342.9	0.1	
EBITDA Margin (%)	23.5	22.0	-146 bps	25.0	25.0	0 bps	
PAT	1,280.9	1,235.4	-3.5	1,577.5	1,587.3	0.6	
EPS (₹)	13.3	12.9	-3.5	16.4	16.5	0.6	

Source: Company, ICICI Direct Research

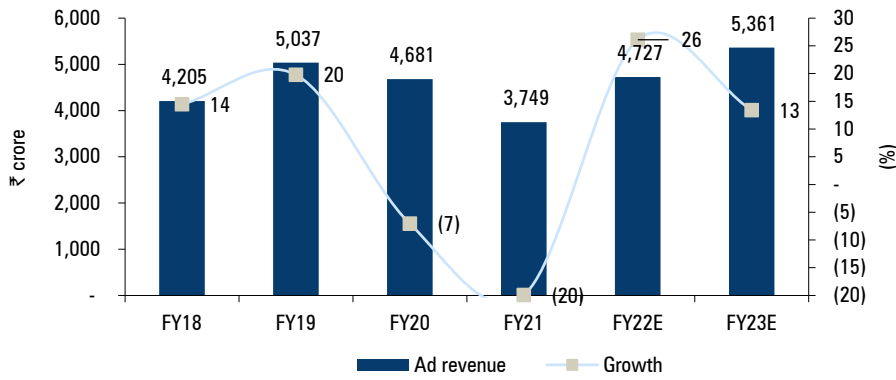
Exhibit 3: Assumptions

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E
Ad Revenue Growth	20%	-7%	-20%	26%	13%	26%	13%
Domestic Subscription	17%	33%	14%	0%	11%	3%	11%
International Subscription %	-1%	-16%	1%	10%	2%	18%	4%

Source: Company, ICICI Direct Research

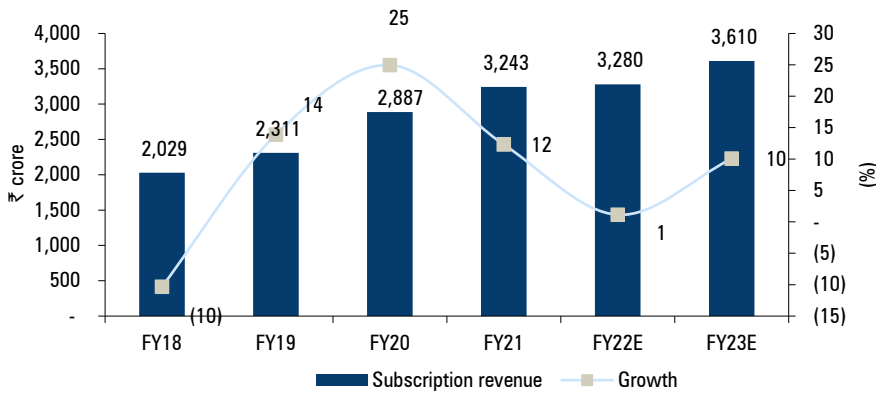
Story in charts

Exhibit 4: Ad revenue growth trend



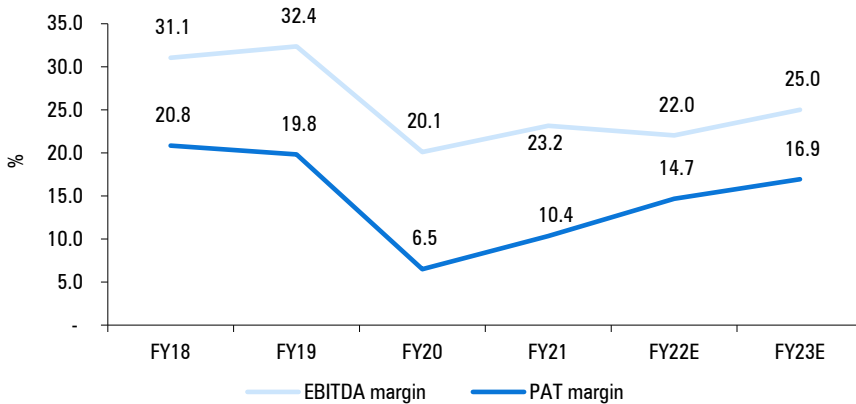
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



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

Exhibit 6: EBITDA and margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	8,129.9	7,729.9	8,423.3	9,371.5
Growth (%)	18.7	-4.9	9.0	11.3
Operational Cost	3,828.5	3,750.5	3,955.1	4,217.2
Employee Expenses	780.5	818.3	863.4	1,030.9
Admin & Other Expenses	1,190.7	754.4	835.1	937.1
Marketing Expenses	695.6	616.7	914.1	843.4
Total Operating Expenditure	6,495.3	5,939.8	6,567.7	7,028.6
EBITDA	1,634.6	1,790.1	1,855.7	2,342.9
Growth (%)	-36.3	9.5	3.7	26.3
Depreciation	270.6	264.9	252.7	304.6
Interest	144.9	57.1	26.1	30.0
Other Income	24.0	-85.8	96.7	110.0
Exceptional Items	284.3	126.6	17.7	0.0
PBT	958.7	1,255.7	1,655.8	2,118.3
Minority Interest	-1.9	-7.0	-17.2	-17.2
PAT from Associates	-2.4	-0.1	0.3	0.4
Total Tax	431.7	462.5	437.8	548.6
PAT	526.5	800.1	1,235.4	1,587.3
Growth (%)	-65.9	52.0	54.4	28.5
Adjusted PAT	1,661.5	984.9	1,248.5	1,587.3
Growth (%)	5.6	-40.7	26.8	27.1
Reported EPS (₹)	5.5	8.3	12.9	16.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	595.0	383.2	0.0	0.0
Reserve and Surplus	9,247.9	9,998.5	10,849.7	11,956.7
Total Shareholders funds	9,938.9	10,477.7	10,945.8	12,052.8
Total Debt	52.6	19.5	19.5	19.5
Others	11.0	12.9	-4.3	-21.5
Total Liabilities	10,002.5	10,510.2	10,961.0	12,050.8
Assets				
Gross Block	2,136.7	2,317.5	2,567.5	2,817.5
Less: Acc Depreciation	1,179.2	1,444.1	1,696.8	2,001.4
Net Block	957.5	873.4	870.7	816.1
Capital WIP	33.4	12.9	12.9	12.9
Total Fixed Assets	990.9	886.3	883.6	829.0
Investments	731.7	1,178.7	1,178.7	1,578.7
Inventory	5,347.5	5,403.0	5,769.4	6,418.8
Debtors	2,128.6	1,945.2	2,119.6	2,358.2
Loans and Advances	1,323.4	1,138.2	1,364.3	1,517.8
Other Current Assets	373.2	341.8	372.4	414.4
Cash	734.5	1,090.7	846.6	698.0
Total Current Assets	9,907.2	9,918.8	10,472.4	11,407.2
Creditors	1,680.3	1,398.2	1,500.0	1,668.9
Provisions	152.6	170.9	183.3	204.0
Other current liabilities	582.2	739.5	725.2	726.2
Total Current Liabilities	2,415.2	2,308.6	2,408.6	2,599.0
Net Current Assets	7,492.0	7,610.2	8,063.8	8,808.2
Other non current assets	787.9	834.9	834.9	834.9
Total Assets	10,002.5	10,510.2	10,961.0	12,050.8

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	526.5	800.1	1,235.4	1,587.3
Add: Depreciation	270.6	264.9	252.7	304.6
Add: Interest paid	144.9	57.1	26.1	30.0
(Inc)/dec in Current Assets	-865.9	344.5	-797.6	-1,083.5
Inc/(dec) in CL and Provisions	-340.1	-106.6	100.1	190.4
Others	0.0	0.0	0.0	0.0
CF from op. activities	-263.9	1,360.0	816.7	1,028.8
(Inc)/dec in Investments	651.8	-473.6	0.0	-400.0
(Inc)/dec in Fixed Assets	-216.2	-160.3	-250.0	-250.0
Others	58.1	-18.6	-17.2	-17.2
CF from inv. activities	493.8	-652.4	-267.2	-667.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Issue of Preference Shares	-516.3	-211.8	-383.2	0.0
Inc/(Dec) in loan funds	50.6	(33.1)	-	-
Interest paid	144.9	57.1	26.1	30.0
Others	-396.3	-163.6	-436.4	-540.2
CF from fin. activities	-717.1	-351.4	-793.5	-510.2
Net Cash flow	-487.4	356.1	-244.0	-148.7
Opening Cash	1,221.8	734.5	1,090.7	846.6
Closing Cash	734.5	1,090.7	846.6	698.0

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	5.5	8.3	12.9	16.5
Adjusted EPS	17.3	10.3	13.0	16.5
BV	103.5	109.1	114.0	125.5
DPS	0.4	2.5	4.0	5.0
Cash Per Share	12.3	15.0	17.7	20.8
Operating Ratios (%)				
EBITDA Margin	20.1	23.2	22.0	25.0
EBIT Margin	16.8	19.7	19.0	21.8
PAT Margin	20.4	12.7	14.8	16.9
Inventory days	240.1	255.1	250.0	250.0
Debtor days	95.6	91.8	91.8	91.8
Creditor days	75.4	66.0	65.0	65.0
Return Ratios (%)				
RoE	16.7	9.4	11.4	13.2
RoCE	13.9	13.7	15.5	17.8
RoIC	16.3	18.7	18.1	21.0
Valuation Ratios (x)				
P/E	57.3	37.7	24.4	19.0
EV / EBITDA	17.9	15.8	15.4	12.1
EV / Net Sales	3.6	3.7	3.4	3.0
Market Cap / Sales	3.7	3.9	3.6	3.2
Price to Book Value	3.0	2.9	2.8	2.5
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	5.6	5.7	5.7
Quick Ratio	2.1	2.2	2.3	2.3

Source: Company, ICICI Direct Research

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