

November 12, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	399		405	
Sales (Rs. m)	87,937	96,190	90,365	98,806
% Chng.	(2.7)	(2.6)		
EBITDA (Rs. m)	22,776	26,741	23,405	27,468
% Chng.	(2.7)	(2.6)		
EPS (Rs.)	16.4	19.4	16.8	19.9
% Chng.	(2.7)	(2.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	77,299	80,642	87,937	96,190
EBITDA (Rs. m)	17,901	17,419	22,776	26,741
Margin (%)	23.2	21.6	25.9	27.8
PAT (Rs. m)	11,971	11,898	15,743	18,596
EPS (Rs.)	12.5	12.4	16.4	19.4
Gr. (%)	(30.0)	(0.6)	32.3	18.1
DPS (Rs.)	2.5	3.0	4.1	4.8
Yield (%)	0.8	1.0	1.3	1.5
RoE (%)	12.3	11.3	13.6	14.5
RoCE (%)	14.9	13.7	17.0	18.1
EV/Sales (x)	3.7	3.5	3.1	2.7
EV/EBITDA (x)	16.0	16.1	12.0	9.9
PE (x)	25.2	25.4	19.2	16.2
P/BV (x)	3.0	2.7	2.5	2.2

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.363 / Rs.167
Sensex / Nifty	59,920 / 17,874
Market Cap	Rs.302bn / \$ 4,048m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.17596.4m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	57.18
Domestic Institution	15.98
Public & Others	22.85
Promoter Pledge (Rs bn)	0.65

Stock Performance (%)

	1M	6M	12M
Absolute	2.5	68.1	60.8
Relative	2.9	37.9	17.0

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Focus is to drive network share gains

Quick Pointers:

- Network share increased by 70bps QoQ to 17.7% amid 30+ new launches & strong performance in Bengali, Telugu and Kannada markets.

We cut our EPS estimates by ~3-6% over FY22-24E as operating leverage benefits arising from planned content revamp will take some time to accrue with higher A&P spends in the interim. ZEEL's network share was up 70bps QoQ to 17.7% in 2QFY22 on the back of 30+ new launches across markets. New channels contributed 1.2% of viewership share and management highlighted plans to launch ~28-30 new shows going ahead. Even on the digital side, new launches in 2H are expected to be higher than 1H (24 new shows were launched). We maintain our positive stance on ZEEL as 1) gradual re-opening of economy should result in strong domestic ad-revenue recovery in 2H 2) digital business has started gaining momentum (revenue up 17% QoQ) on the back of engaging content catalogue and 3) uncertainty surrounding boardroom decision risks is expected to reduce given the impending merger with SPNI (due diligence has started and is expected to be complete within stipulated timeline).

Maintain BUY with a revised TP of Rs399 (Rs405 earlier) valuing the stock at 23x FY24 EPS of Rs17.3 (inclusive of merger synergy benefits). Near term pressure on margins and subscription revenues due to implementation of NTO 2.0 are key risks to our call.

Ad-revenue recovery drives growth: Revenues increased 14.9% YoY to Rs19,788mn (PLe Rs18,582mn). Domestic ad-revenues increased 20.1% YoY to Rs10,406mn but were lower by 11% when compared to pre-COVID base of 2QFY20. Domestic subscription revenues declined 2.3% YoY to Rs7,007mn while global subscription revenue increased 5.7% YoY to Rs878mn. Other revenues were up 414.7% YoY to Rs1,010mn on account of movie syndication deal.

EBITDA margin impacted due to higher A&P spends: EBITDA increased 31.4% YoY to Rs4,122mn (PLe Rs4,032mn). EBITDA margin stood at 20.8%, lower than our estimate of 21.7% as advertisement and publicity expenses increased 39.1% YoY on account of new launches. Adjusted PAT declined 1.2% YoY to Rs2,890mn (PLe Rs2,795mn) with a margin of 14.6% (PLe 15.0%).

Con-call highlights: 1) Due diligence is underway for SPNI merger and is expected to be complete within the stipulated timeline 2) TRAI has extended NTO 2.0 implementation deadline to 1st April 2022 3) ZEEL plans to launch ~28-30 new shows in 3QFY22. 4) New launches on ZEE5 during 2H will be higher than 1H. ~17-18 new shows are expected to be launched in 3QFY22 5) ZEE5's global MAUs/DAUs stood at 93mn/9mn respectively in Sep-21 6) A&P spends to be higher in 2H due to increase in the number of new launches but is expected to stabilize in FY23. 8) Management hinted that revised tariff announced in order to comply with NTO 2.0 is sufficient to recoup the loss of revenue that can come from weaker demand of bouquets post ala-carte adoption.



Exhibit 1: Q2FY22 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q2FY22	Q2FY21	YoY gr.	Q1FY21	QoQ gr.	H1FY22	H1FY21	YoY gr.
Net Sales	19,788	17,227	14.9%	17,750	11.5%	37,538	30,347	23.7%
Operational cost	9,037	8,342	8.3%	8,664	4.3%	17700	14920	18.6%
<i>As a % of sales</i>	<i>45.7%</i>	<i>48.4%</i>		<i>48.8%</i>		<i>47.2%</i>	<i>49.2%</i>	
Employee expenses	2,038	1,967	3.6%	2,280	-10.6%	4,319	3,968	8.8%
<i>As a % of sales</i>	<i>10.3%</i>	<i>11.4%</i>		<i>12.8%</i>		<i>11.5%</i>	<i>13.1%</i>	
Other expenses	2,142	2,021	6.0%	1,585	35.2%	3,726	3,252	14.6%
<i>As a % of sales</i>	<i>10.8%</i>	<i>11.7%</i>		<i>8.9%</i>		<i>9.9%</i>	<i>10.7%</i>	
A&P spends	2,449	1,760	39.1%	1,781	37.5%	4,231	2,871	47.3%
<i>As a % of sales</i>	<i>12.4%</i>	<i>10.2%</i>		<i>10.0%</i>		<i>11.3%</i>	<i>9.5%</i>	
Total Expenditure	15,666	14,090	11.2%	14,310	9.5%	29,976	25,011	19.8%
EBITDA	4,122	3,137	31.4%	3,440	19.8%	7,562	5,336	41.7%
<i>EBITDA Margin</i>	<i>20.8%</i>	<i>18.2%</i>		<i>19.4%</i>		<i>20.1%</i>	<i>17.6%</i>	
Depreciation	598	651	-8.2%	590	1.5%	1,188	1,370	-13.3%
EBIT	3,524	2,485	41.8%	2,850	23.6%	6,374	3,966	60.7%
<i>EBIT Margin</i>	<i>17.8%</i>	<i>14.4%</i>		<i>16.1%</i>		<i>17.0%</i>	<i>13.1%</i>	
Interest	22	13	67.2%	19	13.5%	41	58	-29.3%
Other income	317	379	-16.4%	336	-5.7%	653	643	1.5%
Fair value (gain)/loss on financial instruments	89	207	-57.2%	97	-8.9%	186	1,331	-86.0%
PBT before exceptional items	3,730	2,644	41.1%	3,069	21.5%	6,799	3,220	111.2%
Exceptional items	(140)	(971)	NM	(37)	NM	(177)	(971)	NM
Share of profit in associates and joint ventures	0	1	-50.0%	0	300.0%	1	1	-58.3%
PBT	3,590	1,674	114.5%	3,033	18.4%	6,623	2,250	194.3%
Tax	930	740	25.7%	945	-1.6%	1,874	1,023	83.1%
<i>Tax Rate</i>	<i>25.9%</i>	<i>44.2%</i>		<i>31.2%</i>		<i>28.3%</i>	<i>45.5%</i>	
PAT	2,661	934	184.9%	2,088	27.4%	4,749	1,227	287.0%
<i>PAT Margin</i>	<i>13.4%</i>	<i>5.4%</i>		<i>11.8%</i>		<i>12.7%</i>	<i>4.0%</i>	
Other comprehensive income	(51)	(278)	NM	156	NM	105	(171)	NM
Adjusted PAT	2,890	2,924	-1.2%	2,222	30.0%	5,112	4,341	17.8%
EPS (Rs)	2.8	1.0	186.7%	2.2	26.0%	5.0	1.3	287.7%
Adjusted EPS	3.0	3.0	-1.2%	2.3	30.0%	5.3	4.5	17.8%

Source: Company, PL

Exhibit 2: Segmental revenue breakdown (Rs mn)

Particulars (Rs mn)	Q2FY22	Q2FY21	YoY gr.	Q1FY22	QoQ gr.
Domestic ad-revenue	10,406	8,666	20.1%	8,752	18.9%
<i>As a % of ad-revenue</i>	<i>95.5%</i>	<i>96.0%</i>		<i>94.5%</i>	
International ad-revenue	487	362	34.5%	514	-5.3%
<i>As a % of ad-revenue</i>	<i>4.5%</i>	<i>4.0%</i>		<i>5.5%</i>	
Total ad-revenue	10,893	9,028	20.7%	9,266	17.6%
Domestic subscription revenue	7,007	7,172	-2.3%	7,175	-2.3%
<i>As a % of subscription-revenue</i>	<i>88.9%</i>	<i>89.6%</i>		<i>88.2%</i>	
International subscription revenue	878	831	5.7%	956	-8.2%
<i>As a % of subscription-revenue</i>	<i>11.1%</i>	<i>10.4%</i>		<i>11.8%</i>	
Total subscription revenue	7,885	8,003	-1.5%	8,131	-3.0%
Other sales & services	1,010	196	414.7%	353	185.9%
Total Revenues	19,788	17,227	14.9%	17,750	11.5%

Source: Company, PL

Exhibit 3: ZEE5's key operational & financial statistics

Particulars	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Global MAU	54.7mn (in Sep-20)	65.9mn (in Dec-20)	72.6mn (in March-21)	80.2mn (in June-21)	93.2mn (in Sep-21)
Global DAU	5.2mn (in Sep-20)	5.4mn (in Dec-20)	6.1mn (in March-21)	7.1mn (in June-21)	9.3mn (in Sep-21)
Average watch time (per viewer/per month)	152 minutes (in Sep-20)	133 minutes (in Dec-20)	156 minutes (in 4QFY21)	190 minutes	186 minutes (in 2QFY22)
Revenue	Rs989mn	Rs1,178mn	Rs1,075mn	Rs1,117mn	Rs1,305mn
EBITDA	Rs(1,894mn)	Rs(1,757mn)	Rs (1,625)mn	Rs(2,033mn)	Rs(1,720mn)
Number of originals/movies released	25	20	14	11	13

Source: Company, PL

Exhibit 4: Movie rights constitute 61% of the content pie in 2QFY22

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22
Movie Rights	21.0	31.9	39.7	40.1	40.7	40.4
<i>As % of total</i>	<i>59%</i>	<i>55%</i>	<i>62%</i>	<i>64%</i>	<i>63%</i>	<i>61%</i>
Shows	2.8	5.2	9.0	8.2	8.4	8.6
<i>As % of total</i>	<i>8%</i>	<i>9%</i>	<i>14%</i>	<i>13%</i>	<i>13%</i>	<i>13%</i>
Movie production, Music & Others	2.5	1.2	4.5	5.6	5.8	7.3
<i>As % of total</i>	<i>7%</i>	<i>2%</i>	<i>7%</i>	<i>9%</i>	<i>9%</i>	<i>11%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.7	9.9
<i>As % of total</i>	<i>26%</i>	<i>34%</i>	<i>17%</i>	<i>14%</i>	<i>15%</i>	<i>15%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	64.6	66.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	77,299	80,642	87,937	96,190
YoY gr. (%)	(4.9)	4.3	9.0	9.4
Cost of Goods Sold	37,505	39,112	40,891	43,767
Gross Profit	39,795	41,531	47,047	52,424
Margin (%)	51.5	51.5	53.5	54.5
Employee Cost	8,183	8,629	8,970	9,330
Other Expenses	7,544	7,822	8,354	8,850
EBITDA	17,901	17,419	22,776	26,741
YoY gr. (%)	9.5	(2.7)	30.8	17.4
Margin (%)	23.2	21.6	25.9	27.8
Depreciation and Amortization	2,649	2,742	3,078	3,463
EBIT	15,252	14,677	19,698	23,278
Margin (%)	19.7	18.2	22.4	24.2
Net Interest	571	282	149	144
Other Income	(858)	1,265	1,583	1,828
Profit Before Tax	12,557	15,483	21,131	24,961
Margin (%)	16.2	19.2	24.0	26.0
Total Tax	4,625	3,948	5,389	6,365
Effective tax rate (%)	36.8	25.5	25.5	25.5
Profit after tax	7,931	11,535	15,743	18,596
Minority interest	(70)	-	-	-
Share Profit from Associate	(1)	1	-	-
Adjusted PAT	11,971	11,898	15,743	18,596
YoY gr. (%)	(30.0)	(0.6)	32.3	18.1
Margin (%)	15.5	14.8	17.9	19.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,001	11,535	15,743	18,596
YoY gr. (%)	52.0	44.2	36.5	18.1
Margin (%)	10.4	14.3	17.9	19.3
Other Comprehensive Income	(210)	105	-	-
Total Comprehensive Income	7,791	11,640	15,743	18,596
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	12.5	12.4	16.4	19.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	19,969	22,693	25,678	29,233
Tangibles	14,157	15,931	17,866	20,271
Intangibles	5,812	6,762	7,812	8,962
Acc: Dep / Amortization	12,381	15,123	18,201	21,664
Tangibles	8,348	10,130	12,131	14,382
Intangibles	4,033	4,993	6,070	7,282
Net fixed assets	8,108	8,090	7,997	8,089
Tangibles	6,329	6,321	6,255	6,409
Intangibles	1,779	1,769	1,742	1,680
Capital Work In Progress	755	755	755	755
Goodwill	3,804	3,804	3,804	3,804
Non-Current Investments	663	800	843	893
Net Deferred tax assets	3,151	3,561	5,072	5,991
Other Non-Current Assets	4,457	4,813	6,145	6,721
Current Assets				
Investments	7,667	7,667	7,667	7,667
Inventories	54,030	53,025	51,799	52,707
Trade receivables	19,452	18,780	20,479	22,400
Cash & Bank Balance	10,907	13,564	20,217	29,944
Other Current Assets	11,035	12,500	14,070	15,390
Total Assets	1,28,187	1,31,729	1,43,546	1,59,431
Equity				
Equity Share Capital	961	961	961	961
Other Equity	99,985	1,08,741	1,20,548	1,34,496
Total Networkth	1,00,945	1,09,702	1,21,509	1,35,456
Non-Current Liabilities				
Long Term borrowings	195	195	195	195
Provisions	1,546	1,613	1,671	1,635
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,832	-	-	-
Trade payables	13,982	13,919	13,974	15,285
Other current liabilities	7,558	6,171	6,069	6,731
Total Equity & Liabilities	1,28,187	1,31,729	1,43,547	1,59,432

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	12,556	15,484	21,131	24,961
Add. Depreciation	2,649	2,742	3,078	3,463
Add. Interest	104	282	149	144
Less Financial Other Income	(858)	1,265	1,583	1,828
Add. Other	4,370	(3,446)	(4,457)	(2,189)
Op. profit before WC changes	19,679	15,061	19,902	26,379
Net Changes-WC	809	1,614	(418)	(1,519)
Direct tax	(5,011)	(3,948)	(5,389)	(6,365)
Net cash from Op. activities	15,477	12,727	14,095	18,495
Capital expenditures	(1,740)	(2,724)	(2,985)	(3,555)
Interest / Dividend Income	443	-	-	-
Others	(3,765)	(348)	(372)	(421)
Net Cash from Inv. activities	(5,062)	(3,072)	(3,357)	(3,976)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,023)	(3,832)	-	-
Dividend paid	(290)	(2,884)	(3,936)	(4,649)
Interest paid	(43)	(282)	(149)	(144)
Others	(1,052)	-	-	-
Net cash from Fin. activities	(5,408)	(6,998)	(4,085)	(4,793)
Net change in cash	5,006	2,657	6,653	9,726
Free Cash Flow	13,417	10,003	11,111	14,940

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	12.5	12.4	16.4	19.4
CEPS	15.2	15.2	19.6	23.0
BVPS	105.1	114.2	126.5	141.0
FCF	14.0	10.4	11.6	15.6
DPS	2.5	3.0	4.1	4.8
Return Ratio(%)				
RoCE	14.9	13.7	17.0	18.1
ROIC	11.5	12.7	16.7	19.0
RoE	12.3	11.3	13.6	14.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	281	262	242	227
Valuation(x)				
PER	25.2	25.4	19.2	16.2
P/B	3.0	2.7	2.5	2.2
P/CEPS	20.6	20.6	16.0	13.7
EV/EBITDA	16.0	16.1	12.0	9.9
EV/Sales	3.7	3.5	3.1	2.7
Dividend Yield (%)	0.8	1.0	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	27,294	19,658	17,750	19,788
YoY gr. (%)	33.2	0.8	35.3	14.9
Raw Material Expenses	14,142	8,443	8,664	9,037
Gross Profit	13,151	11,216	9,086	10,751
Margin (%)	48.2	57.1	51.2	54.3
EBITDA	7,157	5,408	3,440	4,122
YoY gr. (%)	26.5	(290.5)	56.4	31.4
Margin (%)	26.2	27.5	19.4	20.8
Depreciation / Depletion	652	627	590	598
EBIT	6,505	4,781	2,850	3,524
Margin (%)	23.8	24.3	16.1	17.8
Net Interest	21	491	19	22
Other Income	(563)	393	238	228
Profit before Tax	5,920	4,388	3,032	3,590
Margin (%)	21.7	22.3	17.1	18.1
Total Tax	1,937	1,664	945	930
Effective tax rate (%)	32.7	37.9	31.2	25.9
Profit after Tax	3,983	2,723	2,088	2,660
Minority interest	(19)	(34)	(50)	(41)
Share Profit from Associates	(3)	1	-	-
Adjusted PAT	4,819	2,812	2,222	2,890
YoY gr. (%)	13.0	22.4	56.9	(1.2)
Margin (%)	17.7	14.3	12.5	14.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,999	2,757	2,137	2,702
YoY gr. (%)	14.4	(136.0)	603.8	187.2
Margin (%)	14.7	14.0	12.0	13.7
Other Comprehensive Income	(63)	24	156	(51)
Total Comprehensive Income	3,936	2,782	2,294	2,651
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	4.1	2.9	2.2	2.8

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-21	BUY	405	293
2	23-Sep-21	BUY	405	318
3	15-Sep-21	BUY	303	256
4	07-Aug-21	BUY	253	197
5	07-Jul-21	BUY	278	219
6	21-May-21	BUY	278	192
7	07-Apr-21	BUY	296	201
8	05-Feb-21	BUY	296	249
9	11-Jan-21	BUY	290	231
10	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)	Hold	197	189
3	Indian Railway Catering and Tourism Corporation	Hold	779	855
4	Inox Leisure	BUY	490	418
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	123	107
7	Nazara Technologies	BUY	3,125	2,520
8	PVR	BUY	1,896	1,627
9	S Chand and Company	BUY	147	122
10	V.I.P. Industries	BUY	621	543
11	Zee Entertainment Enterprises	BUY	405	293

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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