

## Retail Equity Research

# Zee Entertainment Enterprises Ltd

Media

BSE CODE: 505537

NSE CODE: ZEEL

Bloomberg CODE: ZEE:IN

SENSEX: 60,322

**BUY**

12 Months Investment period Rating as per Mid Cap

CMP Rs. 325 TARGET Rs. 389 RETURN 20% ↑  
(Closing: 16-11-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

## Strong quarter. Positive outlook.

Zee Entertainment Enterprises Ltd, a subsidiary of Essel Group, is an Indian mass media company with interests in television, print, films, mobile content and internet, and allied businesses.

- Q2FY22 revenue rose 14.9% YoY to Rs. 1,979cr. Zee Entertainment Enterprises Limited reported 48.6% YoY increase in PAT in Q2FY22 to reach Rs. 284cr.
- EBITDA margin expanded 150bps YoY to 19.7% on higher margin product mix and lower costs.
- Zee is expected to fare much better in Q3FY22 on the back of opening of theatres, strong performances of new launches and expected new launches and the proposed merger. We reiterate our rating on the stock as BUY with a revised target price of Rs. 389 based on 24.0x FY23E adj. EPS.

## Growing viewership driving revenues

Net Sales witnessed 14.9% YoY growth to Rs. 1,979cr in Q2FY22, due to steady upsurge in viewership by 70bps YoY to 17.7% through launch of +30 shows on PAN India basis. Zee Entertainment Enterprises Limited reported 24.1% YoY increase in EBITDA in Q2FY22 to reach Rs. 389cr, whereas EBITDA margin came in at 19.7% (+150bps YoY), helped by lower costs and improved product mix-led revenue growth. D&A costs reduced by 8.2% YoY to Rs. 60cr on account of reduction of plant and machinery. The cash and treasury investments of the company were Rs. 162cr, post-payment of equity dividend of Rs. 24cr, indicating a strong liquidity position.

## Key concall highlights

- Company proposed merger between Zee and Sony Pictures Networks, India subject to approval received from the board. The due diligence process has already been commenced and is in steady progress.
- The TRAI has allowed the broadcasters to revise and publish the RIOs, with implementation extended to April 1,2022.
- Global MAUs and DAUs as on September 30 stands at 93.2mn (+31% QoQ) and 9.3mn (16.2% QoQ) respectively with average watch time per viewer per month of 186 minutes.
- Market share now increased to 17.7% (up 70bps) due to launch of new shows and new channels that additionally contribute about 1.2% to the total network share.

## Businesses will soon bounce back to pre-COVID levels

The reopening of malls, theaters, and other economic, and leisure activities, coupled with the festival season gives hopes for gradual recovery in revenues from Zee studios segments. Revenues from advertisement business and other sales and services grew 20.7% YoY to Rs. 1,089cr and 414.8% YoY to Rs. 101cr but subscription segment revenues declined 1.5% YoY to Rs. 789cr due to opening of offices.

## Valuation

Zee is expected to fare much better in Q3FY22 with continued revenue growth momentum owing to opening of theatres, strong performances from new launches and expected new launches and the proposed merger. This will aid the company in achieving synergies via cost reduction and development of better-quality products. We expect earnings to grow at healthy ~30% CAGR over FY21-23E. Hence we reiterate our rating on the stock as BUY with a revised target price of Rs. 389 based on 24.0x FY23E adj. EPS.

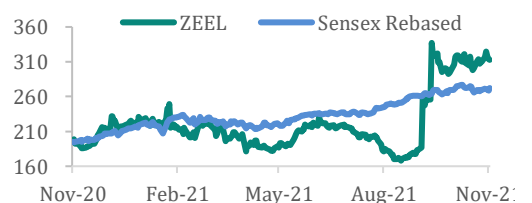
## Company Data

Market Cap (cr)	Rs. 31,186
Enterprise Value (cr)	Rs. 30,446
Outstanding Shares (cr)	96.1
Free Float	96.0%
Dividend Yield	0.8%
52 week high	Rs. 363
52 week low	Rs. 167
6m average volume (cr)	0.1
Beta	1.0
Face value	Rs. 1

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	4.0	4.0	4.0
FII's	64.2	57.5	57.2
MFs/Insti	12.6	18.6	16.1
Public	6.1	6.3	8.5
Others	13.2	13.6	14.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	69.1%	61.8%	57.6%
Absolute Sensex	10.7%	24.6%	40.0%
Relative Return*	58.4%	37.2%	17.6%

\*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	7,730	8,702	9,695
Growth (%)	(4.9)	12.6	11.4
EBITDA	1,790	1,967	2,191
EBITDA Margin (%)	23.2	22.6	22.6
Adj. PAT	927	1,303	1,559
Growth (%)	14.3	40.6	19.6
Adj. EPS	9.6	13.6	15.8
Growth (%)	14.3	40.6	16.2
P/E	21.1	23.9	20.0
P/B	1.9	2.8	2.6
EV/EBITDA	10.7	15.5	13.8
ROE (%)	7.9	11.9	13.0
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	1,979	1,723	14.9	1,775	11.5	3,754	3,035	23.7
<b>EBITDA</b>	<b>389</b>	<b>314</b>	<b>24.1</b>	<b>331</b>	<b>17.8</b>	<b>720</b>	<b>534</b>	<b>34.9</b>
EBITDA margins	19.7	18.2	150bps	18.6	110bps	19.2	17.6	160bps
Depreciation	60	65	(8.2)	59	1.5	119	137	(13.3)
<b>EBIT</b>	<b>330</b>	<b>249</b>	<b>32.6</b>	<b>272</b>	<b>21.3</b>	<b>601</b>	<b>397</b>	<b>51.6</b>
Interest	2	1	67.2	2	13.5	4	6	(29.3)
Other Income	46	17	165.9	37	22.5	83	(69)	220.6
Exceptional Items	(14)	(97)	85.6	(4)	(278.4)	(18)	(97)	81.8
<b>PBT</b>	<b>359</b>	<b>167</b>	<b>114.5</b>	<b>303</b>	<b>18.4</b>	<b>662</b>	<b>225</b>	<b>194.3</b>
Tax	93	74	25.7	94	(1.6)	187	102	83.1
Share of profit from Associate	0	0	(50.0)	0	300.0	0	0	(58.3)
Minority Interest	(4)	(1)	(518.2)	(5)	17.7	(9)	(2)	(416.6)
<b>Reported PAT</b>	<b>270</b>	<b>94</b>	<b>187.2</b>	<b>214</b>	<b>26.4</b>	<b>484</b>	<b>124</b>	<b>288.9</b>
Adjustments	14	97	(85.6)	4	278.4	18	97	(81.8)
<b>Adj. PAT</b>	<b>284</b>	<b>191</b>	<b>48.6</b>	<b>217</b>	<b>30.7</b>	<b>502</b>	<b>222</b>	<b>126.4</b>
No. of shares	96.1	96.1	-	96.0	0.0	96.1	96.1	-
<b>Adj. EPS (Rs.)</b>	<b>3.0</b>	<b>2.0</b>	<b>48.6</b>	<b>2.3</b>	<b>30.7</b>	<b>5.2</b>	<b>2.3</b>	<b>126.4</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	8,702	9,695	8,702	9,695	0	0
EBITDA	2,228	2,424	1,967	2,191	(11.7)	(9.6)
Margins (%)	25.6	25.0	22.6	22.6	(300bps)	(240bps)
Adj. PAT	1,497	1,722	1,303	1,559	(12.9)	(9.5)
Adj. EPS	15.6	17.9	13.6	16.2	(12.9)	(9.5)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>7,934</b>	<b>8,130</b>	<b>7,730</b>	<b>8,702</b>	<b>9,695</b>
% change	18.7	2.5	(4.9)	12.6	11.4
<b>EBITDA</b>	<b>2,564</b>	<b>1,635</b>	<b>1,790</b>	<b>1,967</b>	<b>2,191</b>
% change	27.6	(34.9)	12.0	9.5	10.6
Depreciation	235	271	265	250	194
<b>EBIT</b>	<b>2,329</b>	<b>1,364</b>	<b>1,525</b>	<b>1,716</b>	<b>1,997</b>
Interest	130	145	57	35	35
Other Income	236	(263)	(213)	75	138
<b>PBT</b>	<b>2,435</b>	<b>956</b>	<b>1,256</b>	<b>1,757</b>	<b>2,101</b>
% change	5.0	(60.7)	31.3	39.9	19.6
Tax	867	432	463	457	546
Tax Rate (%)	35.6	45.1	36.8	26.0	26.0
<b>Reported PAT</b>	<b>1,567</b>	<b>526</b>	<b>800</b>	<b>1,303</b>	<b>1,559</b>
Adj*	22	284	127	-	-
<b>Adj PAT</b>	<b>1,589</b>	<b>811</b>	<b>927</b>	<b>1,303</b>	<b>1,559</b>
% change	18.2	(49.0)	14.3	40.6	19.6
No. of shares (cr)	96.0	96.1	96.0	96.0	96.0
<b>Adj EPS (Rs.)</b>	<b>16.5</b>	<b>8.4</b>	<b>9.6</b>	<b>13.6</b>	<b>16.2</b>
% change	18.2	(49.0)	14.3	40.6	19.6
DPS (Rs.)	3.5	0.3	2.5	4.1	4.9
CEPS (Rs.)	19.0	11.3	12.4	16.2	18.2

## CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>1,802</b>	<b>797</b>	<b>1,065</b>	<b>1,553</b>	<b>1,752</b>
Non-cash adj.	49	1,129	402	126	125
Changes in W.C	(1,715)	(1,676)	81	(622)	(869)
<b>C.F. Operation</b>	<b>135</b>	<b>250</b>	<b>1,548</b>	<b>1,057</b>	<b>1,008</b>
Capital exp.	(281)	(145)	(174)	(81)	(100)
Change in inv.	1,017	389	(376)	(0)	(0)
Other invest.CF	130	144	44	0	0
<b>C.F - Investment</b>	<b>866</b>	<b>389</b>	<b>(506)</b>	<b>(81)</b>	<b>(100)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	2	(46)	(22)	-	-
Dividends paid	(473)	(523)	(112)	(474)	(550)
Other finance.CF	(495)	(493)	(407)	(35)	(35)
<b>C.F - Finance</b>	<b>(966)</b>	<b>(1,062)</b>	<b>(541)</b>	<b>(509)</b>	<b>(585)</b>
Chg. in cash	35	(423)	501	468	323
Closing cash	968	553	1,048	1,516	1,839

## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	968	553	1,048	1,516	1,839
Accounts Receivable	1,827	2,085	1,945	2,175	2,375
Inventories	3,851	5,347	5,403	6,249	7,009
Other Cur. Assets	3,688	2,207	2,328	2,303	2,280
Investments	274	127	84	84	85
Gross Fixed Assets	2,010	2,155	2,329	2,410	2,510
Net Fixed Assets	570	680	686	572	394
CWIP	108	33	27	21	17
Intangible Assets	711	605	621	615	617
Def. Tax (Net)	-	-	-	-	-
Other Assets	935	736	676	639	731
<b>Total Assets</b>	<b>12,933</b>	<b>12,374</b>	<b>12,819</b>	<b>14,174</b>	<b>15,348</b>
Current Liabilities	1,943	1,950	1,804	2,269	2,374
Provisions	135	141	155	158	161
Debt Funds	1,916	928	753	767	782
Other Liabilities	0	(0)	-	-	-
Equity Capital	96	96	96	96	96
Reserves & Surplus	8,828	9,248	9,998	10,874	11,929
Shareholder's Fund	8,924	9,344	10,095	10,970	12,025
Minority Interest	14	11	13	10	6
<b>Total Liabilities</b>	<b>12,933</b>	<b>12,374</b>	<b>12,819</b>	<b>14,174</b>	<b>15,348</b>
<b>BVPS (Rs.)</b>	<b>93</b>	<b>97</b>	<b>105</b>	<b>114</b>	<b>125</b>

## RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	32.3	20.1	23.2	22.6	22.6
EBIT margin (%)	29.4	16.8	19.7	19.7	20.6
Net profit mgn.(%)	19.8	6.5	10.4	15.0	16.1
ROE (%)	17.6	5.6	7.9	11.9	13.0
ROCE (%)	21.5	13.3	14.0	14.6	15.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	84.1	93.6	91.8	91.3	89.4
Inventory (days)	556.1	509.8	515.1	608.1	593.9
Payables (days)	215.1	160.2	133.3	180.3	164.7
Current ratio (x)	3.3	4.0	4.2	4.1	4.3
Quick ratio (x)	1.0	1.1	1.2	1.2	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.0	3.9	3.4	3.7	3.9
Total asset T.O (x)	0.7	0.6	0.6	0.6	0.7
Int. coverage ratio (x)	17.9	9.4	26.7	49.1	57.4
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	5.3	1.5	2.5	3.5	3.1
EV/EBITDA (x)	16.5	7.5	10.7	15.5	13.8
P/E (x)	26.1	14.7	21.1	23.9	20.0
P/BV (x)	4.6	1.3	1.9	2.8	2.6

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
25-Jul-19	BUY	444
31-Oct-19	HOLD	260
3-Aug-20	HOLD	151
24-Aug-20	BUY	245
23-Nov-20	BUY	245
25-May-21	BUY	233
17-Nov-21	BUY	389

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

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**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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