

December 22, 2021

## Analyst Meet Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	415		399	
Sales (Rs. m)	87,937	96,190	87,937	96,190
% Chng.	-	-	-	-
EBITDA (Rs. m)	22,776	26,741	22,776	26,741
% Chng.	-	-	-	-
EPS (Rs.)	16.4	19.4	16.4	19.4
% Chng.	-	-	-	-

### 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 (%)	0.7	0.9	1.2	1.4
RoE (%)	12.3	11.3	13.6	14.5
RoCE (%)	14.9	13.7	17.0	18.1
EV/Sales (x)	4.1	3.9	3.5	3.1
EV/EBITDA (x)	17.9	18.0	13.5	11.1
PE (x)	28.0	28.2	21.3	18.0
P/BV (x)	3.3	3.1	2.8	2.5

### Key Data

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52-W High / Low	Rs.379 / Rs.167
Sensex / Nifty	56,931 / 16,955
Market Cap	Rs.335bn/ \$ 4,434m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.9684.59m

### 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	16.7	59.9	62.5
Relative	19.8	47.7	31.4

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## ZEEL-SPNI merger to create a media behemoth

### Quick Pointers:

- ZEEL has signed a definitive agreement to merge with Sony Pictures Network India (SPNI). Post-merger, indicative shareholding of SPNI/ZEEL's Promoters/Public is expected to be 51%/4%/45% respectively.
- Mr Punit Goenka will continue as MD & CEO of the merged entity but majority of the newly constituted board will be nominated by SPNI.

**ZEEL has signed a definitive agreement with Sony Pictures Network India (SPNI) to merge their linear networks, digital assets and program libraries. The agreement follows conclusion of exclusive negotiation period where in due diligence was conducted. Post-merger, SPNI will be the largest shareholder owning 51% in the merged entity.**

**We believe this merger is a win-win situation, as it will result in material synergies (~6-8% largely on the revenue side) and drive growth as merged entity will have a cash ammunition of US\$1.7bn (inclusive of cash on ZEEL's books). Funds will be utilized to accelerate investment in digital business and bid for premium content like sports. Mr Punit Goenka is expected to continue as MD&CEO but the newly constituted board will have SPNI's dominance thereby plugging the gap on governance concerns. Signing of a definitive agreement (earlier arrangement was non-binding in nature) gives us confidence that the merger will culminate. Maintain BUY with a revised TP of Rs415 (Rs399 earlier) valuing the stock at 23x FY24 EPS (no change in target multiple) of Rs18.1 (inclusive of merger synergy benefits). Failure to get the majority shareholder approval of 75% remains a key risk to our call.**

**Deal contours:** As per the definitive agreement, SPNI will issue 264.9mn shares by the way of rights issue and infuse Rs79.4bn (US\$1.1bn). In addition, 36.7mn shares will be issued to promoters of ZEEL against infusion of Rs11.1bn towards non-compete fee. These funds will be infused into SPNI enabling ZEEL's promoters to maintain their stake at 4% post-merger.

The share swap ratio with ZEEL is 85:100. In case of Bangla Entertainment Pvt Ltd, (100% subsidiary of SPNI), part of this merger transaction, the share swap ratio is 133:10. The merger is expected to culminate within 8-10 months and is subject to approval of shareholders (75% majority required), CCI, NCLT, SEBI and MIB.

### Exhibit 1: Paid up share capital before merger

As on 31st March 2021	No of shares (mn)
ZEEL	961
BEPL	18
SPNI	12

Source: Company, PL

**Exhibit 2: Shareholding post merger**

Particulars	No of shares (mn)	% of total
<b>Promoters</b>		
Sony	883	50.9%
Essel	69	4.0%
<b>Public</b>	<b>784</b>	<b>45.2%</b>
<b>Total</b>	<b>1,736</b>	

Source: Company, PL

**Exhibit 3: Promoter stake of ZEEL to remain intact at 4% post merger**

Expected Shareholding	Sony group	ZEEL's promoters	ZEEL's public shareholders
Excluding non-compete fee	53.0%	1.9%	45.2%
Including non-compete fee	50.9%	4.0%	45.2%

Source: Company, PL

**Cash ammunition of US\$1.7bn to fuel growth:** The merged entity is expected to have a cash ammunition of US\$1.7bn (inclusive of cash on ZEEL's books). Roughly ~US\$1.1bn will be infused via rights issue while ~US\$147mn will be brought in by ZEEL's promoters to ensure their stake remains intact in the merged entity. The deficit will be plugged in by SPNI at a later date. Funds will be utilized to accelerate investment in digital business (makes business future proof) and bid for premium content like sports which can act as a key re-rating lever, in our view.

**Merger to result in synergy benefits:** Increased reach/scale will benefit merged entity and management expects synergies of ~6-8% from the proposed merger. Large part of benefits will accrue on revenue front and minimal on cost front.

**Newly formed board to have SPNI dominance:** The newly formed board will have SPN's dominance (5 members) while ZEEL's promoter family will get only one seat. New board will include current MD&CEO of SPNI, Mr NP Singh who will assume a broader executive position. SPNI's dominance is likely to absolve board room decision risks, in our view.

**Key highlights from the call:**

- Merger synergy is expected to be in the range of 6-8%. Large part of benefits will accrue on revenue front and minimal on cost front.
- Listing will be suspended for 3 weeks post-merger and the entire process is expected to be tax neutral for shareholders.
- While final decision will be taken by the board of merged entity, management hinted that both brands ZEE and SONY may continue to co-exist.
- Fund infusion from SPNI will be utilized in bidding for premium content like sports and accelerate investment in digital business.
- Endeavour is to remain debt free.
- A majority approval of 75% shareholders is required for the merger. So far, ZEEL has not reached out to any major shareholders seeking approval.



- Music and movie production business is not a part of SPNI and hence these businesses will not form a part of the merged entity.
- Existing contingent liabilities of ZEEL (Rs8.3bn as of FY21 end) will be subsumed by the merged entity.
- Content amortization policy of ZEEL and SPNI are different (major difference is on the movie side) and revised policy will be rolled out by the new board.
- There are no plans to invest in last mile connectivity (distribution network).

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>77,299</b>	<b>80,642</b>	<b>87,937</b>	<b>96,190</b>
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
<b>EBITDA</b>	<b>17,901</b>	<b>17,419</b>	<b>22,776</b>	<b>26,741</b>
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
<b>EBIT</b>	<b>15,252</b>	<b>14,677</b>	<b>19,698</b>	<b>23,278</b>
Margin (%)	19.7	18.2	22.4	24.2
Net Interest	571	282	149	144
Other Income	(858)	1,265	1,583	1,828
<b>Profit Before Tax</b>	<b>12,557</b>	<b>15,483</b>	<b>21,131</b>	<b>24,961</b>
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
<b>Profit after tax</b>	<b>7,931</b>	<b>11,535</b>	<b>15,743</b>	<b>18,596</b>
Minority interest	(70)	-	-	-
Share Profit from Associate	(1)	1	-	-
<b>Adjusted PAT</b>	<b>11,971</b>	<b>11,898</b>	<b>15,743</b>	<b>18,596</b>
YoY gr. (%)	(30.0)	(0.6)	32.3	18.1
Margin (%)	15.5	14.8	17.9	19.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>8,001</b>	<b>11,535</b>	<b>15,743</b>	<b>18,596</b>
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
<b>Equity Shares O/s (m)</b>	<b>961</b>	<b>961</b>	<b>961</b>	<b>961</b>
<b>EPS (Rs)</b>	<b>12.5</b>	<b>12.4</b>	<b>16.4</b>	<b>19.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>19,969</b>	<b>22,693</b>	<b>25,678</b>	<b>29,233</b>
Tangibles	14,157	15,931	17,866	20,271
Intangibles	5,812	6,762	7,812	8,962
<b>Acc: Dep / Amortization</b>	<b>12,381</b>	<b>15,123</b>	<b>18,201</b>	<b>21,664</b>
Tangibles	8,348	10,130	12,131	14,382
Intangibles	4,033	4,993	6,070	7,282
<b>Net fixed assets</b>	<b>8,108</b>	<b>8,090</b>	<b>7,997</b>	<b>8,089</b>
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
<b>Current Assets</b>				
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
<b>Total Assets</b>	<b>128,187</b>	<b>131,729</b>	<b>143,546</b>	<b>159,431</b>
<b>Equity</b>				
Equity Share Capital	961	961	961	961
Other Equity	99,985	108,741	120,548	134,496
<b>Total Networkth</b>	<b>100,945</b>	<b>109,702</b>	<b>121,509</b>	<b>135,456</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	195	195	195	195
Provisions	1,546	1,613	1,671	1,635
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
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
<b>Total Equity &amp; Liabilities</b>	<b>128,187</b>	<b>131,729</b>	<b>143,547</b>	<b>159,432</b>

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)
<b>Net cash from Op. activities</b>	<b>15,477</b>	<b>12,727</b>	<b>14,095</b>	<b>18,495</b>
Capital expenditures	(1,740)	(2,724)	(2,985)	(3,555)
Interest / Dividend Income	443	-	-	-
Others	(3,765)	(348)	(372)	(421)
<b>Net Cash from Inv. activities</b>	<b>(5,062)</b>	<b>(3,072)</b>	<b>(3,357)</b>	<b>(3,976)</b>
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)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,408)</b>	<b>(6,998)</b>	<b>(4,085)</b>	<b>(4,793)</b>
<b>Net change in cash</b>	<b>5,006</b>	<b>2,657</b>	<b>6,653</b>	<b>9,726</b>
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
<b>Per Share(Rs)</b>				
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
<b>Return Ratio(%)</b>				
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
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	281	262	242	227
<b>Valuation(x)</b>				
PER	28.0	28.2	21.3	18.0
P/B	3.3	3.1	2.8	2.5
P/CEPS	22.9	22.9	17.8	15.2
EV/EBITDA	17.9	18.0	13.5	11.1
EV/Sales	4.1	3.9	3.5	3.1
Dividend Yield (%)	0.7	0.9	1.2	1.4

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>27,294</b>	<b>19,658</b>	<b>17,750</b>	<b>19,788</b>
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
<b>EBITDA</b>	<b>7,157</b>	<b>5,408</b>	<b>3,440</b>	<b>4,122</b>
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
<b>EBIT</b>	<b>6,505</b>	<b>4,781</b>	<b>2,850</b>	<b>3,524</b>
Margin (%)	23.8	24.3	16.1	17.8
Net Interest	21	491	19	22
Other Income	(563)	393	238	228
<b>Profit before Tax</b>	<b>5,920</b>	<b>4,388</b>	<b>3,032</b>	<b>3,590</b>
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
<b>Profit after Tax</b>	<b>3,983</b>	<b>2,723</b>	<b>2,088</b>	<b>2,660</b>
Minority interest	(19)	(34)	(50)	(41)
Share Profit from Associates	(3)	1	-	-
<b>Adjusted PAT</b>	<b>4,819</b>	<b>2,812</b>	<b>2,222</b>	<b>2,890</b>
YoY gr. (%)	13.0	22.4	56.9	(1.2)
Margin (%)	17.7	14.3	12.5	14.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,999</b>	<b>2,757</b>	<b>2,137</b>	<b>2,702</b>
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)
<b>Total Comprehensive Income</b>	<b>3,936</b>	<b>2,782</b>	<b>2,294</b>	<b>2,651</b>
Avg. Shares O/s (m)	961	961	961	961
<b>EPS (Rs)</b>	<b>4.1</b>	<b>2.9</b>	<b>2.2</b>	<b>2.8</b>

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Nov-21	BUY	399	314
2	7-Oct-21	BUY	405	293
3	23-Sep-21	BUY	405	318
4	15-Sep-21	BUY	303	256
5	7-Aug-21	BUY	253	197
6	7-Jul-21	BUY	278	219
7	21-May-21	BUY	278	192
8	7-Apr-21	BUY	296	201
9	5-Feb-21	BUY	296	249
10	11-Jan-21	BUY	290	231

## 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	726	592
11	Zee Entertainment Enterprises	BUY	399	314

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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