

Rating: BUY | CMP: Rs293 | TP: Rs413

February 3, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	413		416	
Sales (Rs. m)	85,987	94,030	88,003	96,257
% Chng.	(2.3)	(2.3)		
EBITDA (Rs. m)	22,529	26,140	22,793	26,759
% Chng.	(1.2)	(2.3)		
EPS (Rs.)	16.4	19.1	16.4	19.4
% Chng.	(0.3)	(1.2)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	77,299	79,611	85,987	94,030
EBITDA (Rs. m)	17,901	17,037	22,529	26,140
Margin (%)	23.2	21.4	26.2	27.8
PAT (Rs. m)	11,971	11,517	15,714	18,389
EPS (Rs.)	12.5	12.0	16.4	19.1
Gr. (%)	(30.0)	(3.8)	36.4	17.0
DPS (Rs.)	2.5	2.8	4.1	4.8
Yield (%)	0.9	1.0	1.4	1.6
RoE (%)	12.3	11.0	13.6	14.4
RoCE (%)	14.9	13.7	17.1	17.9
EV/Sales (x)	3.4	3.3	3.0	2.6
EV/EBITDA (x)	14.9	15.4	11.4	9.5
PE (x)	23.5	24.4	17.9	15.3
P/BV (x)	2.8	2.6	2.3	2.1

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.379 / Rs.167
Sensex / Nifty	59,558 / 17,780
Market Cap	Rs.281bn/ \$ 3,755m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.6031.71m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	52.21
Domestic Institution	20.87
Public & Others	22.93
Promoter Pledge (Rs bn)	0.60

Stock Performance (%)

	1M	6M	12M
Absolute	(8.8)	44.5	20.4
Relative	(10.8)	28.5	0.7

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Soft ad-revenue performance

Quick Pointers:

- Network share declines by 40bps QoQ to 17.3% despite launch of 25+ new shows.

While optically ZEEL's performance witnessed a decline due to accrual of syndication income to the tune of Rs5,512mn in base quarter, fall in domestic ad-revenues by 3.1% YoY was discouraging. High base, cut-back in FMCG ad-spends and decline in network share led to a fall in ad-revenues. However, given continued investment in content we expect gradual improvement in viewership share. On the other hand, digital business showed signs of improvement with global MAUs crossing 100mn mark for the first time coupled with 11.8% QoQ jump in revenues on the back of 51 new launches.

Our FY23/FY24 EPS estimates are broadly intact and we maintain BUY on ZEEL with a TP of Rs413 (23x FY24 EPS of Rs18 including the merger synergy benefits accruing from SPNI consolidation). Near term pressure on margins and subscription revenues due to implementation of NTO 2.0 are key risks to our call.

Optical fall in top-line due to high base: Revenues declined 22.6% YoY to Rs21,126mn (PLe Rs22,459mn) due to base effect (there was one-time syndication revenue of Rs5,512mn in 3QFY21). Excluding syndication income, revenues declined 3.0% YoY. Domestic ad-revenues declined 3.1% YoY to Rs12,061mn while domestic subscription revenues were down by 3.3% YoY to Rs7,084mn.

EBITDA/PAT margin at 22.7%/15.1%: EBITDA declined 33.0% YoY to Rs4,793mn (PLe Rs4,896mn) with a margin 22.7% (PLe 21.8%). A&P spends continue to remain high at 10.8% of sales amid new launches. Adjusted PAT declined 33.7% YoY to Rs3,197mn (PLe Rs3,380mn) with a margin of 15.1% (PLe 15.0%).

ZEE5 revenues up 11.8% QoQ: ZEE5 revenues were up 11.8% QoQ to Rs1,459mn with global MAUs/DAUs of 101.9mn/9.6mn respectively. 51 new shows/movies were launched in 3QFY22 and the EBITDA loss stood at Rs1,828mn.

Con-call highlights: 1) Domestic ad-revenues were down 3.1% YoY due to high base (3QFY21 had pent-up demand from 1HFY21) coupled with cut back in ad-spends by FMCG companies 2) Entry of Viacom18 into sports genre will intensify competition 3) Current outstanding from Dish & Siti is Rs2.7bn 4) FMCG sector constitutes ~50-60% of TV ad-revenue while other sectors contribute ~6-8% 5) ~4.6mn pay TV households have moved to FTA 6) Inventory levels (Rs61,407mn) to come off as Zee Studios starts releasing new movies in near future. 7) Cash balance stands at Rs15,494mn 8) ZEE TV saw an improvement in market share while Marathi and Tamil genre continue to struggle 9) Zee Studios released 5 movies in 3QFY22.

Exhibit 1: Q3FY22 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q3FY22	Q3FY21	YoY gr.	Q2FY22	QoQ gr.	9MFY22	9MFY21	YoY gr.
Net Sales	21,126	27,294	-22.6%	19,788	6.8%	58,664	57,641	1.8%
Operational cost	10,170	14,142	-28.1%	9,037	12.5%	27,870	29,062	-4.1%
<i>As a % of sales</i>	<i>48.1%</i>	<i>51.8%</i>		<i>45.7%</i>		<i>47.5%</i>	<i>50.4%</i>	
Employee expenses	2,134	2,073	2.9%	2,038	4.7%	6,453	6,041	6.8%
<i>As a % of sales</i>	<i>10.1%</i>	<i>7.6%</i>		<i>10.3%</i>		<i>11.0%</i>	<i>10.5%</i>	
Other expenses	1,748	2,124	-17.7%	2,142	-18.4%	5,474	5,376	1.8%
<i>As a % of sales</i>	<i>8.3%</i>	<i>7.8%</i>		<i>10.8%</i>		<i>9.3%</i>	<i>9.3%</i>	
A&P spends	2,282	1,798	26.9%	2,449	-6.8%	6,512	4,669	39.5%
<i>As a % of sales</i>	<i>10.8%</i>	<i>6.6%</i>		<i>12.4%</i>		<i>11.1%</i>	<i>8.1%</i>	
Total Expenditure	16,334	20,137	-18.9%	15,666	4.3%	46,309	45,148	2.6%
EBITDA	4,793	7,157	-33.0%	4,122	16.3%	12,355	12,493	-1.1%
<i>EBITDA Margin</i>	<i>22.7%</i>	<i>26.2%</i>		<i>20.8%</i>		<i>21.1%</i>	<i>21.7%</i>	
Depreciation	594	652	-8.9%	598	-0.7%	1,782	2,022	-11.9%
EBIT	4,199	6,505	-35.5%	3,524	19.1%	10,573	10,471	1.0%
<i>EBIT Margin</i>	<i>19.9%</i>	<i>23.8%</i>		<i>17.8%</i>		<i>18.0%</i>	<i>18.2%</i>	
Interest	30	21	39.6%	22	35.2%	71	80	-10.9%
Other income	178	276	-35.4%	317	-43.8%	831	919	-9.6%
Fair value (gain)/loss on financial instruments	53	839	-93.7%	89	-40.2%	239	2,170	-89.0%
PBT before exceptional items	4,294	5,920	-27.5%	3,730	15.1%	11,093	9,140	21.4%
Exceptional items	(154)	-	NM	(140)	NM	(331)	(971)	NM
Share of profit in associates and joint ventures	1	(3)	NM	0	75.0%	1	(2)	NM
PBT	4,141	5,918	-30.0%	3,590	15.3%	10,764	8,168	31.8%
Tax	1,151	1,937	-40.6%	930	23.8%	3,025	2,961	2.2%
<i>Tax Rate</i>	<i>27.8%</i>	<i>32.7%</i>		<i>25.9%</i>		<i>28.1%</i>	<i>36.2%</i>	
PAT	2,990	3,980	-24.9%	2,661	12.4%	7,738	5,207	48.6%
<i>PAT Margin</i>	<i>14.2%</i>	<i>14.6%</i>		<i>13.4%</i>		<i>13.2%</i>	<i>9.0%</i>	
Other comprehensive income	73	(63)	NM	(51)	NM	178	(234)	NM
Adjusted PAT	3,197	4,819	-33.7%	2,890	10.6%	8,309	9,160	-9.3%
EPS (Rs)	3.1	4.2	-25.2%	2.8	10.7%	8.2	5.5	49.3%
Adjusted EPS	3.3	5.0	-33.7%	3.0	10.6%	8.6	9.5	-9.3%

Source: Company, PL

Exhibit 2: Segmental revenue breakdown (Rs mn)

Particulars (Rs mn)	Q3FY22	Q3FY21	YoY gr.	Q2FY22	QoQ gr.
Domestic ad-revenue	12,061	12,443	-3.1%	10,406	15.9%
<i>As a % of ad-revenue</i>	<i>95.7%</i>	<i>95.6%</i>		<i>95.5%</i>	
International ad-revenue	547	577	-5.2%	487	12.3%
<i>As a % of ad-revenue</i>	<i>4.3%</i>	<i>4.4%</i>		<i>4.5%</i>	
Total ad-revenue	12,608	13,020	-3.2%	10,893	15.7%
Domestic subscription revenue	7,084	7,328	-3.3%	7,007	1.1%
<i>As a % of subscription-revenue</i>	<i>89.6%</i>	<i>87.0%</i>		<i>88.9%</i>	
International subscription revenue	818	1,091	-25.0%	878	-6.8%
<i>As a % of subscription-revenue</i>	<i>10.4%</i>	<i>13.0%</i>		<i>11.1%</i>	
Total subscription revenue	7,902	8,419	-6.1%	7,885	0.2%
Other sales & services	617	5,854	-89.5%	1,010	-38.9%
Total Revenues	21,126	27,294	-22.6%	19,788	6.8%

Source: Company, PL

Exhibit 3: ZEE5's key operational & financial statistics

Particulars	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Global MAU	65.9mn (in Dec-20)	72.6mn (in March-21)	80.2mn (in June-21)	93.2mn (in Sep-21)	101.9mn (In Dec-21)
Global DAU	5.4mn (in Dec-20)	6.1mn (in March-21)	7.1mn (in June-21)	9.3mn (in Sep-21)	9.6mn (In Dec-21)
Average watch time (per viewer/per month)	133 minutes (in Dec-20)	156 minutes (in 4QFY21)	190 minutes	186 minutes (in 2QFY22)	201 minutes (in 3QFY22)
Revenue	Rs1,178mn	Rs1,075mn	Rs1,117mn	Rs1,305mn	Rs1,459mn
EBITDA	Rs(1,757mn)	Rs (1,625)mn	Rs(2,033mn)	Rs(1,720mn)	Rs(1,828mn)
Number of originals/movies released	20	14	11	13	51

Source: Company, PL

Exhibit 4: Movie rights constitute 63% of the content pie in 3QFY22

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22
Movie Rights	21.0	31.9	39.7	40.1	40.7	40.4	43.9
<i>As % of total</i>	<i>59%</i>	<i>55%</i>	<i>62%</i>	<i>64%</i>	<i>63%</i>	<i>61%</i>	<i>63%</i>
Shows	2.8	5.2	9.0	8.2	8.4	8.6	9.1
<i>As % of total</i>	<i>8%</i>	<i>9%</i>	<i>14%</i>	<i>13%</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	8.4
<i>As % of total</i>	<i>7%</i>	<i>2%</i>	<i>7%</i>	<i>9%</i>	<i>9%</i>	<i>11%</i>	<i>12%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.7	9.9	8.4
<i>As % of total</i>	<i>26%</i>	<i>34%</i>	<i>17%</i>	<i>14%</i>	<i>15%</i>	<i>15%</i>	<i>12%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	64.6	66.2	69.7

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	77,299	79,611	85,987	94,030
YoY gr. (%)	(4.9)	3.0	8.0	9.4
Cost of Goods Sold	37,505	38,213	39,984	42,783
Gross Profit	39,795	41,398	46,003	51,246
Margin (%)	51.5	52.0	53.5	54.5
Employee Cost	8,183	8,518	8,771	9,121
Other Expenses	7,544	7,404	7,911	8,651
EBITDA	17,901	17,037	22,529	26,140
YoY gr. (%)	9.5	(4.8)	32.2	16.0
Margin (%)	23.2	21.4	26.2	27.8
Depreciation and Amortization	2,649	2,388	2,752	3,197
EBIT	15,252	14,648	19,777	22,943
Margin (%)	19.7	18.4	23.0	24.4
Net Interest	571	279	146	141
Other Income	(858)	955	1,462	1,881
Profit Before Tax	12,557	14,994	21,093	24,683
Margin (%)	16.2	18.8	24.5	26.3
Total Tax	4,625	4,049	5,379	6,294
Effective tax rate (%)	36.8	27.0	25.5	25.5
Profit after tax	7,931	10,945	15,714	18,389
Minority interest	(70)	-	-	-
Share Profit from Associate	(1)	1	-	-
Adjusted PAT	11,971	11,517	15,714	18,389
YoY gr. (%)	(30.0)	(3.8)	36.4	17.0
Margin (%)	15.5	14.5	18.3	19.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,001	10,946	15,714	18,389
YoY gr. (%)	52.0	36.8	43.6	17.0
Margin (%)	10.4	13.7	18.3	19.6
Other Comprehensive Income	(210)	178	-	-
Total Comprehensive Income	7,791	11,125	15,714	18,389
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	12.5	12.0	16.4	19.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	19,969	22,670	25,612	29,113
Tangibles	14,157	15,908	17,800	20,151
Intangibles	5,812	6,762	7,812	8,962
Acc: Dep / Amortization	12,381	14,769	17,521	20,718
Tangibles	8,348	9,900	11,689	13,767
Intangibles	4,033	4,869	5,832	6,951
Net fixed assets	8,108	8,421	8,611	8,915
Tangibles	6,329	6,528	6,631	6,904
Intangibles	1,779	1,893	1,980	2,011
Capital Work In Progress	755	755	755	755
Goodwill	3,804	3,804	3,804	3,804
Non-Current Investments	663	793	832	880
Net Deferred tax assets	3,151	3,449	5,062	5,924
Other Non-Current Assets	4,457	4,667	6,125	6,641
Current Assets				
Investments	7,667	7,667	7,667	7,667
Inventories	54,030	54,528	55,362	55,387
Trade receivables	19,452	18,540	20,024	21,897
Cash & Bank Balance	10,907	11,777	16,429	26,481
Other Current Assets	11,035	12,340	13,758	15,045
Total Assets	128,187	131,065	143,040	158,368
Equity				
Equity Share Capital	961	961	961	961
Other Equity	99,985	108,373	120,158	133,950
Total Network	100,945	109,333	121,119	134,910
Non-Current Liabilities				
Long Term borrowings	195	195	195	195
Provisions	1,546	1,592	1,634	1,599
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,832	-	-	-
Trade payables	13,982	13,741	13,664	14,942
Other current liabilities	7,558	6,074	6,300	6,594
Total Equity & Liabilities	128,187	131,066	143,041	158,369

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	12,556	14,995	21,093	24,683
Add. Depreciation	2,649	2,388	2,752	3,197
Add. Interest	104	279	146	141
Less Financial Other Income	(858)	955	1,462	1,881
Add. Other	4,370	(3,072)	(4,223)	(2,406)
Op. profit before WC changes	19,679	14,590	19,768	25,615
Net Changes-WC	809	173	(2,396)	(621)
Direct tax	(5,011)	(4,049)	(5,379)	(6,294)
Net cash from Op. activities	15,477	10,715	11,994	18,701
Capital expenditures	(1,740)	(2,701)	(2,942)	(3,501)
Interest / Dividend Income	443	-	-	-
Others	(3,765)	(295)	(325)	(410)
Net Cash from Inv. activities	(5,062)	(2,997)	(3,267)	(3,911)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,023)	(3,832)	-	-
Dividend paid	(290)	(2,737)	(3,929)	(4,597)
Interest paid	(43)	(279)	(146)	(141)
Others	(1,052)	-	-	-
Net cash from Fin. activities	(5,408)	(6,847)	(4,075)	(4,738)
Net change in cash	5,006	871	4,652	10,051
Free Cash Flow	13,417	8,013	9,052	15,200

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	12.5	12.0	16.4	19.1
CEPS	15.2	14.5	19.2	22.5
BVPS	105.1	113.8	126.1	140.4
FCF	14.0	8.3	9.4	15.8
DPS	2.5	2.8	4.1	4.8
Return Ratio(%)				
RoCE	14.9	13.7	17.1	17.9
ROIC	11.5	12.2	16.1	18.2
RoE	12.3	11.0	13.6	14.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	281	272	262	242
Valuation(x)				
PER	23.5	24.4	17.9	15.3
P/B	2.8	2.6	2.3	2.1
P/CEPS	19.2	20.2	15.2	13.0
EV/EBITDA	14.9	15.4	11.4	9.5
EV/Sales	3.4	3.3	3.0	2.6
Dividend Yield (%)	0.9	1.0	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	19,658	17,750	19,788	21,126
YoY gr. (%)	0.8	35.3	14.9	(22.6)
Raw Material Expenses	8,443	8,664	9,037	10,170
Gross Profit	11,216	9,086	10,751	10,957
Margin (%)	57.1	51.2	54.3	51.9
EBITDA	5,408	3,440	4,122	4,793
YoY gr. (%)	(290.5)	56.4	31.4	(33.0)
Margin (%)	27.5	19.4	20.8	22.7
Depreciation / Depletion	627	590	598	594
EBIT	4,781	2,850	3,524	4,199
Margin (%)	24.3	16.1	17.8	19.9
Net Interest	491	19	22	30
Other Income	393	238	228	125
Profit before Tax	4,388	3,032	3,590	4,140
Margin (%)	22.3	17.1	18.1	19.6
Total Tax	1,664	945	930	1,151
Effective tax rate (%)	37.9	31.2	25.9	27.8
Profit after Tax	2,723	2,088	2,660	2,989
Minority interest	(34)	(50)	(41)	3
Share Profit from Associates	1	-	-	1
Adjusted PAT	2,812	2,222	2,890	3,197
YoY gr. (%)	22.4	56.9	(1.2)	(33.7)
Margin (%)	14.3	12.5	14.6	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,757	2,137	2,702	2,987
YoY gr. (%)	(136.0)	603.8	187.2	(25.3)
Margin (%)	14.0	12.0	13.7	14.1
Other Comprehensive Income	24	156	(51)	73
Total Comprehensive Income	2,782	2,294	2,651	3,061
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	2.9	2.2	2.8	3.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-22	BUY	416	321
2	22-Dec-21	BUY	415	349
3	12-Nov-21	BUY	399	314
4	7-Oct-21	BUY	405	293
5	23-Sep-21	BUY	405	318
6	15-Sep-21	BUY	303	256
7	7-Aug-21	BUY	253	197
8	7-Jul-21	BUY	278	219
9	21-May-21	BUY	278	192
10	7-Apr-21	BUY	296	201

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	172
3	Indian Railway Catering and Tourism Corporation	Hold	779	861
4	Inox Leisure	BUY	486	380
5	Music Broadcast	Hold	24	25
6	Navneet Education	BUY	124	86
7	Nazara Technologies	BUY	3,125	2,413
8	PVR	BUY	1,891	1,537
9	S Chand and Company	BUY	147	108
10	V.I.P. Industries	BUY	726	542
11	Zee Entertainment Enterprises	BUY	416	321

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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