



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**ESG Disclosure Score** NEW

**ESG RISK RATING** **16.20**  
Updated Oct 08, 2021

**Low Risk**

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

**Company details**

Market cap:	Rs. 27,360 cr
52-week high/low:	Rs. 378 / 166
NSE volume: (No of shares)	177.4 lakh
BSE code:	505537
NSE code:	ZEEL
Free float: (No of shares)	92.2 cr

**Shareholding (%)**

Promoters	4.0
FII	63.0
DII	23.4
Others	9.6

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	21	-12	-3	42
Relative to Sensex	11	-1	-1	19

Sharekhan Research, Bloomberg

**Zee Entertainment Enterprises Ltd**  
Stage set for big merger

<b>Consumer Discretionary</b>	<b>Sharekhan code: ZEEL</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 285</b>	<b>Price Target: Rs. 400</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- ◆ Invesco Oppenheimer, the largest shareholder of ZEEL, has offloaded up to 8% of its stake in ZEEL through a block deal. Invesco will continue to own nearly 11% stake in ZEEL.
- ◆ With the reduction of Invesco's stake in ZEEL, we don't expect any further legal hurdles or requisition from it for any fresh EGM. Invesco believes that the Zee-Sony merger has great potential to create value for Zee's shareholders.
- ◆ ZEEL's overall revenue to grow by 12.2% y-o-y in Q4FY2022 despite softness in ad environment, led by strong collections of ZEE studio's co-produced movies ('The Kashmir Files' and 'Valimai').
- ◆ We maintain a Buy on the stock with a PT of Rs. 400 given a healthy traction in ZEE5 and reasonable valuation. The combined entity is likely to emerge as a strong player in both linear TV and OTT business by leveraging their ability to create content across genres and regional markets.

**ZEE Entertainment Limited's (ZEEL's) largest shareholder, Invesco Oppenheimer decided to offload a partial stake of around 8% in ZEEL through a block deal. Post this transaction, Invesco will continue to own a ~11% stake in ZEEL. With the significant reduction of Invesco's stake in ZEEL, we don't expect any further issues in the merger from its largest shareholder. Further, Invesco also indicated that the Zee-Sony merger has great potential to create value for the former's shareholders. We forecast the company's overall revenue would grow by 12.2% y-o-y in Q4FY2022 despite some softness in the overall advertising environment, led by strong box office collections of its both co-production movies such as 'The Kashmir Files' and 'Valimai'.**

- ◆ **Invesco reduced its stake in ZEEL; unlikely to face any further legal challenge from Invesco:** Invesco Oppenheimer, ZEEL's largest shareholder, has offloaded up to 8% of its stake in ZEEL through the block deal on April 7, 2022. Since August 2019, Invesco had been holding ~18% stake in ZEEL. Post this transaction, Invesco will continue to own a nearly 11% stake in ZEEL. With the significant reduction of Invesco's stake in ZEEL, we don't expect any further issues in the merger from its largest shareholder. Further, Invesco also indicated that Zee-Sony merger has great potential to create value for ZEEL's shareholders. We expect ZEEL's valuation multiple would re-rate going ahead as investors become confident of the closure of the deal.
- ◆ **Merged entity to be well-placed to capture large opportunities:** We believe the combined entity will drive the scale in terms of revenue by leveraging ZEEL's strong presence in regional markets and Sony's strong market understanding and content creation ability. The merged entity would have 6-8% synergy led by revenue. Further, the scale of the merged entity would also be able to leverage the opportunity in the OTT space given the ability of both the entities to create content across genres and regional markets. The merged company can also become a big threat to global OTT players by playing on their strengths such as movies, sports and games and creating low-cost differentiated niche regional/tent-pole content.
- ◆ **Ad growth to remain muted in Q4, margins to decline:** Advertising spends by industry is likely to remain muted in the near-term due to inflationary pressures and rural demand slowdown. We expect advertising revenue to grow 4.4% y-o-y (translates 4% decline versus Q4FY2019 level) in Q4FY2022 because of weak viewership in Hindi, Marathi and Tamil GECs and muted advertising spends by certain industries. We forecast domestic subscription revenue to decline 0.7% y-o-y in Q4FY2022. Strong box office collections of 'The Kashmir Files' and 'Valimai' would drive revenue of other operating sales by 3.8x q-o-q/5.9x y-o-y. We forecast ZEEL's overall revenue would grow by 12.2% y-o-y in Q4FY2022. EBITDA margin is expected to decline by 550 bps q-o-q to 22.0% in Q4FY2022, owing higher operating expenses and slower ad revenue growth.

**Our Call**

**Valuation: Merger to improve long-term growth prospects:** With the recent reduction of Invesco's stake in ZEEL, we don't expect further legal hurdles or requisition from Invesco to hold any fresh EGM or demand for removal of MD & CEO. In our view, the merger would help the combined entity emerge as a strong player in the entertainment industry for capturing the significant opportunity in the linear business. Further, the merged entity's scale would be able to leverage the opportunity in the OTT space given the ability of both entities to create content across genres and regional markets and the strength to allocate growth capital towards premium content, including sports event rights. We expect the company to deliver a 19% CAGR in adjusted net profit over FY2022-FY2024E. The stock currently trades at a reasonable valuation at 18x/16x of FY2023E/FY2024E earnings. We maintain Buy rating on ZEEL with an unchanged PT of Rs. 400.

**Key Risks**

- 1) Slowdown in the economy leading to lower demand and subdued realisation for advertisement revenue stream and 2) Delay in monetisation benefit from digitisation and a higher content cost could affect earnings.

**Valuation (Consolidated)**

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	7,729.9	8,087.6	9,277.3	10,070.9
OPM (%)	23.2	22.0	24.7	24.9
Adjusted PAT	1,122.9	1,232.2	1,560.4	1,731.3
% YoY growth	123.8	9.7	26.6	11.0
Adjusted EPS (Rs.)	11.7	12.8	16.2	18.0
P/E (x)	24.4	22.2	17.5	15.8
P/B (x)	2.7	2.5	2.2	2.0
EV/EBITDA (x)	14.9	13.8	10.2	8.9
RoNW (%)	11.1	11.2	12.8	12.8
RoCE (%)	14.7	13.9	16.7	16.6

Source: Company; Sharekhan Research

## Event: Invesco reduces stake in ZEEL

Invesco Oppenheimer, the largest shareholder of ZEEL, has offloaded up-to 8% of its stake in ZEEL through the block deal on April 7, 2022. Invesco stated that the purpose of the sale is to only align its fund exposures to ZEEL with other funds managed by the investment team and to achieve an aggregate ownership position in the company that is more in line with the investment team's portfolio construction approach. Invesco was holding a ~18% stake in ZEEL. Post this transaction, Invesco will continue to own nearly 11% stake in ZEEL.

**ZEEL-Invesco saga:** In November 2018, ZEEL started looking for a strategic partner given promoter's pledging share issue and strong competition from global players in the digital entertainment space. However, the company could not succeed in finding a strategic investor despite its indication of advanced talks with a couple of strategic investors. In July 2019, the promoters of ZEEL entered into an agreement with Invesco Oppenheimer Developing Market Fund to sell upto 11% stake in ZEEL for Rs. 4,224 crore at a price of around Rs. 400/share. This transaction provided a financial fillip to initiate the repayment process of part of promoter level debt. As Invesco has been a financial investor in ZEEL since 2002 and was holding a 7.7% stake in the company, the purchase of additional 11% stake from ZEEL's promoter increased the fund's aggregate stake in ZEEL to around 18% in August 2019. However, the company's business performance remained patchy because of increasing receivables from related parties, investment write-offs and corporate governance issues. Meanwhile, Invesco tried to call an extraordinary general meeting (EGM) of shareholders for reconstitution of board of ZEEL/remove Mr. Punit Goenka from MD & CEO position of the company and challenged the company in the courts. During September 2021, ZEEL's board provided an approval for the merger of ZEEL with Sony Pictures Networks India (SPNI) and after three months of due diligence, ZEEL signed the binding agreement with SPNI to merge ZEEL with and into SPNI. On March 24, 2022, Invesco dropped its demand for an EGM and removal of Punit Goenka from ZEEL's board to expedite ZEEL-SPNI merger as it believes this merger has great potential to create value for ZEEL's shareholders. After around 30 months from its last investments in ZEEL, on April 7, 2022, Invesco decided to sell up to 7.8% of its stake in ZEEL in a block deal around Rs 280-290 per share.

**Reducing the risk of further legal hurdle from its largest shareholder:** With Invesco's stake in ZEEL significantly reducing, we don't expect any further scuttle on the merger from its largest shareholder. Further, Invesco also indicated that ZEEL-SPNI merger has great potential and this deal would create value for ZEEL's shareholders. The merger requires approval of three-fourths majority excluding promoter. The businesses of both entities remain as usual and will continue to function independently until the approval from the Competition Commission of India. We expect ZEEL's valuation multiple would re-rate going ahead as investors become convinced of the completion of merger.

## Ad revenue growth to remain muted in Q4; margin to decline

We expect a muted growth in TV industry advertising revenues in Q4FY2022 as advertising spends by the industry remain muted in the first half of Q4FY2022. Further, there has been cut in ad spends by consumer companies due to inflationary pressure and rural demand slowdown. Further, many consumer companies used ad spends as a lever to protect operating margin during the quarter. However, we believe that ad environment recovered in March 2022. Though a reduction in advertising spends by consumer companies would impact its ad revenue growth in the near-term, we believe the company's strong channel portfolio will help it to accelerate the growth in ad revenue in the medium term.

Advertising revenue is expected to grow 4.4% y-o-y (translates 4% decline versus Q4FY2019 level) in Q4FY2022 because of weak viewership in Hindi, Marathi and Tamil GECs and muted ad spends by certain industries. We forecast domestic subscription revenue to decline 0.7% y-o-y in Q4FY2022. The revenue of international subscription would recover on y-o-y basis, as it international subscription revenue was impacted in Q3FY2022 due to termination of one large distributor. We believe the strong box office collections of 'The Kashmir files' and 'Valimai' would drive revenue growth of other operating sales. We forecast the company's overall revenue would grow by 12.2% y-o-y in Q4FY2022. We expect EBITDA margin would decline by 550 bps q-o-q to 22.0% in Q4FY2022, owing to higher operating expenses and slower ad revenue growth. The key things investors should focus on is the investments to gain network viewership share, strategies to drive growth in OTT and progress in the merger process.

**ZEEL\*: Q4FY2022 earnings expectations**

Quarter ended	Mar-22E	Mar-21	Dec-21	YoY (%)	QoQ (%)	Comments
Revenue	2,204.7	1,965.8	2,112.6	12.2	4.4	<ul style="list-style-type: none"> <li>Domestic ad revenue is expected to grow at 4.4% y-o-y, lower to industry ad spends growth rate. This is due to weak viewership in Hindi, Marathi and Tamil GECs and softness in ad spending environment.</li> </ul>
EBITDA	485.0	540.8	479.3	-10.3	1.2	
Reported net profit	306.8	296.5	293.4	3.5	4.5	
Adjusted net profit	306.8	305.3	314.1	0.5	-2.3	<ul style="list-style-type: none"> <li>Domestic subscription revenue is expected to remain flat. Strong box office collections of 'The Kashmir files' and 'Valimai' would drive revenue growth of its other operating sales.</li> </ul>
Adjusted EPS (Rs)	3.2	2.9	3.1	11.3	2.7	
<b>Margin (%)</b>				<b>BPS</b>	<b>BPS</b>	<ul style="list-style-type: none"> <li>We expect EBITDA margin would decline by 550 bps q-o-q to 22.0% in Q4FY2022, owing higher operating expenses and slower ad revenue growth.</li> </ul>
EBITDA (%)	22.0	27.5	22.7	(551)	(69)	
NPM (%)	13.9	15.5	14.9	(161)	(95)	

Source: Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Advertising growth recovery likely to remain strong

As per a KPMG report, the Indian media and entertainment (M&E) industry growth was significantly impacted in FY2021 owing to nationwide lockdown restrictions owing to the pandemic, slowdown in advertising spends and breaking down of content supply chains. However, the M&E sector is expected to bounce back in FY2022 with a 33.1% y-o-y growth to reach Rs. 1.86 trillion. The television segment is expected to revert to 8.6% y-o-y in FY2022 on account of a strong 19% growth in ad revenue and 4% growth in subscription revenue. We expect television as a medium to continue to stay relevant and the most preferred choice for advertisers, given its reach to the mass audience.

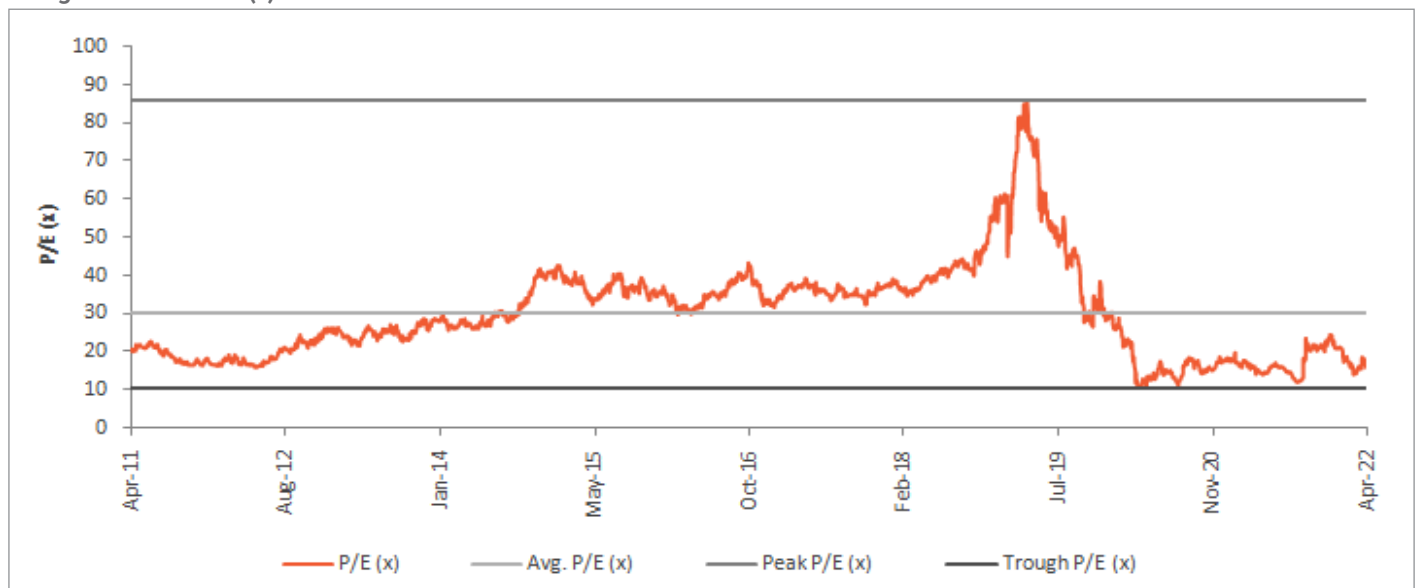
### ■ Company outlook - Potential merger would enhance reach potential

ZEEL is one of India's leading M&E companies, primarily engaged in broadcasting, movies and music production and digital business. The company has a strong presence in the GEC segment, given deep regional penetration, and has expanded its presence in the movie genre with the launch of new channels. The merger is expected to strengthen ZEEL's portfolio with Sony's sport, kids, and English movie content. The combined entity will be in a superior position on maximising its revenue across platforms, including OTT, given its wider content choices, investments on digital, aggressive bidding for sports rights, and focus on leveraging Sony Group's deep capability in gaming and presence in international markets.

### ■ Valuation - Merger to improve long-term prospects

With the recent reduction of Invesco's stake in ZEEL, we don't expect further legal hurdles or requisition from Invesco to hold any fresh EGM or demand for removal of MD & CEO. In our view, the merger would help the combined entity emerge as a strong player in the entertainment industry for capturing the significant opportunity in the linear business. Further, the merged entity's scale would be able to leverage the opportunity in the OTT space given the ability of both entities to create content across genres and regional markets and the strength to allocate growth capital towards premium content, including sports event rights. We expect the company to deliver a 19% CAGR in adjusted net profit over FY2022-FY2024E. The stock currently trades at a reasonable valuation at 18x/16x of FY2023E/FY2024E earnings. We maintain Buy rating on ZEEL with an unchanged PT of Rs. 400.

#### One-year forward P/E (x) band



Source: Sharekhan Research

## About company

ZEEL is one of India's largest vertically integrated M&E companies, primarily engaged in broadcasting and content development with the widest language footprint, movies and music production, live events, and digital business. The company is amongst the largest producers and aggregators of entertainment content in the world, with an extensive library housing over 2,50,000 hours of television content. ZEEL houses the world's largest Hindi film library with rights to more than 4,200 movie titles from foremost studios and of iconic film stars. Through its strong presence worldwide, ZEEL is present across 170+ countries and has a reach to over 1.3 billion viewers.

## Investment theme

The company has delivered a strong revenue CAGR of 8% over FY2015-FY2021 despite strict lockdown restrictions owing to outbreak of COVID-19 in FY2021. ZEEL's management remains confident of delivering advertising revenue growth, ahead of the industry's growth rate. Hence, the company is considered as one of the leading players under the structural India consumption theme. The proposed merger with SPNI will create the largest media company in India across languages and genres, with around 27% viewership share.

## Key Risks

Unfavourable regulatory guidelines impacting subscription revenue, slowdown in the economic environment leading to lower demand, and subdued realisation for advertisement revenue stream. Delay in monetisation benefit from digitisation and increased investments in ZEE5 could affect earnings.

## Additional Data

### Key management personnel

Punit Goenka	Managing Director and CEO
Amit Goenka	President - Digital Businesses & Platforms
Anurag Bedi	Chief Business Officer – Zee Music
Rohit Kumar Gupta	Chief Financial Officer
Nitin Mittal	President – Technology & Data

Source: Bloomberg

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Invesco Limited*	18.18
2	OFI GBL China FD LLC	10.14
3	The Vanguard Group Inc.	4.97
4	Life Insurance Corp of India	4.89
5	Amansa Capital Private Limited	4.38
6	Nippon Life India Asset Management	3.10
7	Blackrock Inc	2.98
8	HDFC Asset Management	2.86
9	Norges Bank	2.49
10	Government Pension	2.48

Source: Bloomberg \*as of April 6, 2022

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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