

Rating: BUY | CMP: Rs242 | TP: Rs308

August 13, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	308		358	
Sales (Rs. m)	81,009	89,139	88,895	97,522
% Chng.	(8.9)	(8.6)		
EBITDA (Rs. m)	14,987	18,808	20,268	23,015
% Chng.	(26.1)	(18.3)		
EPS (Rs.)	9.7	12.8	14.6	16.8
% Chng.	(33.8)	(23.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	77,299	81,893	81,009	89,139
EBITDA (Rs. m)	17,901	17,221	14,987	18,808
Margin (%)	23.2	21.0	18.5	21.1
PAT (Rs. m)	11,971	10,928	9,303	12,292
EPS (Rs.)	12.5	11.4	9.7	12.8
Gr. (%)	(30.0)	(8.7)	(14.9)	32.1
DPS (Rs.)	2.5	3.0	2.4	3.2
Yield (%)	1.0	1.2	1.0	1.3
RoE (%)	12.3	10.4	8.3	10.2
RoCE (%)	14.9	13.8	11.1	13.4
EV/Sales (x)	2.8	2.7	2.7	2.4
EV/EBITDA (x)	12.2	12.8	14.4	11.6
PE (x)	19.4	21.3	25.0	18.9
P/BV (x)	2.3	2.1	2.0	1.9

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.379 / Rs.167
Sensex / Nifty	59,463 / 17,698
Market Cap	Rs.232bn/ \$ 2,916m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.1855.03m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	39.18
Domestic Institution	30.66
Public & Others	26.17
Promoter Pledge (Rs bn)	0.21

Stock Performance (%)

	1M	6M	12M
Absolute	9.5	(7.7)	30.8
Relative	(0.8)	(9.7)	20.6

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Margins nosedive

Quick Pointers:

- Adjusting for FTA withdrawal of Zee Anmol, network share is higher than 16.1%
- Exchange approval has been received for consolidation with SPNI.

ZEEL reported weak operational performance with a multi-year low EBITDA margin of 12.8% (PLe of 14.5%) due to 1) FTA withdrawal of ZEE Anmol 2) weak ad-environment and 3) continued investments in content and marketing.

We cut our EPS estimates by 34%/24% for FY23E/FY24E as 1) domestic ad-environment is weak due to rising inflationary pressure faced by FMCG companies 2) persistent growth challenges in the subscription business due to pricing embargo coupled with non-fructification of B2B deals on OTT side 3) widening losses in ZEE5 (highest ever EBITDA loss of Rs2,352mn since separate disclosures began) and 4) continued investments in content and marketing which is turning out to be a drag on profitability. Nonetheless, we believe, current operational weakness is revenue led and once the overall ad-environment improves in 2HFY23, EBITDA margins would recover sharply as benefits of operating leverage will start kicking in. Consequently, we expect EBITDA margin of 18.5%/21.1% in FY23E/FY24E respectively. Though there are clear near term challenges, we maintain our BUY rating with a revised TP of Rs308 (22x FY24E post-merger EPS) given impending merger with SPNI which is a key re-rating lever, in our view

Topline growth remains subdued: Revenues increased 4% YoY to Rs18,457mn (PLe Rs18,770mn). Ad revenues increased 5.4% YoY to Rs9,763mn while subscription revenues declined 5.1% YoY to Rs7,717mn.

EBITDA margin at multiyear low: EBITDA declined 31.5% YoY to Rs2,358mn (PLe Rs2,722mn) with a margin 12.8% (PLe 14.5%). Adjusted PAT declined 45.3% YoY to Rs1,216mn (PLe Rs1,822mn) with a margin of 6.6% (PLe 9.7%).

ZEE5 revenues decline 1.1% QoQ: ZEE5 revenues declined by 1.1% QoQ to Rs1,597mn with global MAUs/DAUs of 103.3mn/11.3mn respectively. 38 new shows/movies were launched in 1QFY23 which included 8 originals and the EBITDA loss stood at Rs2,352mn.

Con-call highlights: 1) 26 new shows were launched on linear TV. 2) TRAI has revised the NTO 2.0 implementation timeline to November 2022. 3) As at June 2022, outstanding from Dish is Rs1.9bn. 4) Receivables of Rs352mn outstanding from Siti. 5) In a stable macro environment, loss of revenue on withdrawal of Zee Anmol from FTA could be recouped within 1 year through 40%/60% subscription/advertisement revenues. 6) ZEE5 has undertaken a price hike from Rs499 to Rs599 in March and then to Rs699 in July. 7) Of the Rs3,720mn sequential increase in inventory, ~Rs2,500mn pertains to movie production. 8) Sports contribution in ad-revenue pie is 20-25%.



Exhibit 1: 1QFY23 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
Net Sales	18,457	17,750	4.0%	23,229	-20.5%
Operational cost	10,026	8,664	15.7%	12,579	-20.3%
<i>As a % of sales</i>	<i>54.3%</i>	<i>48.8%</i>		<i>54.2%</i>	
Employee expenses	2,172	2,280	-4.7%	2,189	-0.8%
<i>As a % of sales</i>	<i>11.8%</i>	<i>12.8%</i>		<i>9.4%</i>	
Other expenses	1,583	1,585	-0.1%	1,465	8.1%
<i>As a % of sales</i>	<i>8.6%</i>	<i>8.9%</i>		<i>6.3%</i>	
A&P spends	2,318	1,781	30.1%	2,131	8.8%
<i>As a % of sales</i>	<i>12.6%</i>	<i>10.0%</i>		<i>9.2%</i>	
Total Expenditure	16,100	14,310	12.5%	18,363	-12.3%
EBITDA	2,358	3,440	-31.5%	4,866	-51.5%
<i>EBITDA Margin</i>	<i>12.8%</i>	<i>19.4%</i>		<i>20.9%</i>	
Depreciation	778	590	32.0%	677	15.0%
EBIT	1,580	2,850	-44.6%	4,190	-62.3%
<i>EBIT Margin</i>	<i>8.6%</i>	<i>16.1%</i>		<i>18.0%</i>	
Interest	81	19	319.7%	381	-78.7%
Other income	338	336	0.6%	383	-11.7%
Fair value (gain)/loss on financial instruments	-	97	NM	(202)	NM
PBT before exceptional items	1,837	3,069	-40.2%	4,394	-58.2%
Exceptional items	(150)	(37)	NM	(1,002)	NM
Share of profit in associates and joint ventures	1	0	700.0%	(0)	NM
PBT	1,687	3,033	-44.4%	3,392	-50.2%
Tax	621	945	-34.2%	1,572	-60.5%
<i>Tax Rate</i>	<i>36.8%</i>	<i>31.2%</i>		<i>46.4%</i>	
PAT	1,066	2,088	-48.9%	1,819	-41.4%
<i>PAT Margin</i>	<i>5.8%</i>	<i>11.8%</i>		<i>7.8%</i>	
Other comprehensive income	416	156	166.5%	258	61.2%
Adjusted PAT	1,216	2,222	-45.3%	2,619	-53.6%
EPS (Rs)	1.1	2.2	-50.2%	1.9	-41.3%
Adjusted EPS	1.3	2.3	-45.3%	2.7	-53.6%

Source: Company, PL

Exhibit 2: Segmental revenue breakdown (Rs mn)

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
Domestic ad-revenue	9,257	8,752	5.8%	10,733	-13.8%
<i>As a % of ad-revenue</i>	<i>94.8%</i>	<i>94.5%</i>		<i>95.8%</i>	
International ad-revenue	506	514	-1.6%	465	8.8%
<i>As a % of ad-revenue</i>	<i>5.2%</i>	<i>5.5%</i>		<i>4.2%</i>	
Total ad-revenue	9,763	9,266	5.4%	11,198	-12.8%
Domestic subscription revenue	6,643	7,175	-7.4%	7,401	-10.2%
<i>As a % of subscription-revenue</i>	<i>86.1%</i>	<i>88.2%</i>		<i>86.6%</i>	
International subscription revenue	1,074	956	12.3%	1,148	-6.4%
<i>As a % of subscription-revenue</i>	<i>13.9%</i>	<i>11.8%</i>		<i>13.4%</i>	
Total subscription revenue	7,717	8,131	-5.1%	8,549	-9.7%
Other sales & services	977	353	176.7%	3,482	-71.9%
Total Revenues	18,457	17,750	4.0%	23,229	-20.5%

Source: Company, PL

Exhibit 3: ZEE5's key operational & financial statistics

Particulars	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Global MAU	80.2mn (in June-21)	93.2mn (in Sep-21)	101.9mn (In Dec-21)	104.8mn (In Mar-22)	103.3mn (in Jun-22)
Global DAU	7.1mn (in June-21)	9.3mn (in Sep-21)	9.6mn (In Dec-21)	10.5mn (In Mar-22)	11.3mn (in Jun-22)
Average watch time (per viewer/per month)	190 minutes	186 minutes (in 2QFY22)	201 minutes (in 3QFY22)	214 minutes (in 4QFY22)	196 minutes (in 1QFY23)
Revenue	Rs1,117mn	Rs1,305mn	Rs1,459mn	Rs1,614mn	Rs1,597mn
EBITDA	Rs(2,033mn)	Rs(1,720mn)	Rs(1,828mn)	Rs(1,952mn)	Rs(2,352mn)
Number of originals/movies released	11	13	51	64	38

Source: Company, PL

Exhibit 4: Movie rights constitute 62% of the content pie in 1QFY23

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Movie Rights	21.0	31.9	39.7	40.1	40.7	40.4	43.9	45.7	46.3
<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>	<i>63%</i>	<i>62%</i>
Shows	2.8	5.2	9.0	8.2	8.4	8.6	9.1	10.2	11.2
<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>	<i>14%</i>	<i>15%</i>
Movie production, Music & Others	2.5	1.2	4.5	5.6	5.8	7.3	8.4	8.0	10.4
<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>	<i>11%</i>	<i>14%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.7	9.9	8.4	8.7	6.7
<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>	<i>12%</i>	<i>9%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	64.6	66.2	69.7	72.5	74.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	77,299	81,893	81,009	89,139
YoY gr. (%)	(4.9)	5.9	(1.1)	10.0
Cost of Goods Sold	37,505	40,449	41,314	44,124
Gross Profit	39,795	41,444	39,694	45,015
Margin (%)	51.5	50.6	49.0	50.5
Employee Cost	8,183	8,641	8,911	9,360
Other Expenses	7,544	6,939	7,048	7,666
EBITDA	17,901	17,221	14,987	18,808
YoY gr. (%)	9.5	(3.8)	(13.0)	25.5
Margin (%)	23.2	21.0	18.5	21.1
Depreciation and Amortization	2,649	2,459	2,511	2,585
EBIT	15,252	14,762	12,475	16,223
Margin (%)	19.7	18.0	15.4	18.2
Net Interest	571	451	243	178
Other Income	(858)	1,176	1,377	1,515
Profit Before Tax	12,557	14,154	13,459	17,560
Margin (%)	16.2	17.3	16.6	19.7
Total Tax	4,625	4,597	4,307	5,268
Effective tax rate (%)	36.8	32.5	32.0	30.0
Profit after tax	7,931	9,557	9,152	12,292
Minority interest	(70)	(88)	-	-
Share Profit from Associate	(1)	1	1	-
Adjusted PAT	11,971	10,928	9,303	12,292
YoY gr. (%)	(30.0)	(8.7)	(14.9)	32.1
Margin (%)	15.5	13.3	11.5	13.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,001	9,646	9,153	12,292
YoY gr. (%)	52.0	20.6	(5.1)	34.3
Margin (%)	10.4	11.8	11.3	13.8
Other Comprehensive Income	(210)	437	416	-
Total Comprehensive Income	7,791	10,082	9,569	12,292
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	12.5	11.4	9.7	12.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	19,969	22,558	24,823	27,756
Tangibles	14,157	15,771	16,986	18,769
Intangibles	5,812	6,786	7,836	8,986
Acc: Dep / Amortization	12,381	14,840	17,351	19,936
Tangibles	8,348	9,946	11,578	13,259
Intangibles	4,033	4,893	5,772	6,677
Net fixed assets	8,108	8,801	8,555	8,903
Tangibles	6,329	6,908	6,491	6,594
Intangibles	1,779	1,893	2,064	2,309
Capital Work In Progress	755	871	871	871
Goodwill	3,804	3,450	3,450	3,450
Non-Current Investments	663	760	814	855
Net Deferred tax assets	3,151	3,080	3,096	3,863
Other Non-Current Assets	4,457	3,960	3,796	4,393
Current Assets				
Investments	7,667	242	242	242
Inventories	54,030	63,862	63,253	69,601
Trade receivables	19,452	17,375	18,865	20,758
Cash & Bank Balance	10,907	12,733	16,400	15,197
Other Current Assets	11,035	12,172	12,961	14,262
Total Assets	1,28,187	1,32,396	1,37,193	1,47,772
Equity				
Equity Share Capital	961	961	961	961
Other Equity	99,985	1,07,667	1,14,948	1,24,167
Total Network	1,00,945	1,08,628	1,15,908	1,25,127
Non-Current Liabilities				
Long Term borrowings	195	556	556	556
Provisions	1,546	1,040	1,215	1,337
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,832	-	-	-
Trade payables	13,982	13,719	12,873	14,165
Other current liabilities	7,558	8,453	6,641	6,587
Total Equity & Liabilities	1,28,187	1,32,396	1,37,193	1,47,772

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	12,556	14,155	13,460	17,560
Add. Depreciation	2,649	2,459	2,511	2,585
Add. Interest	104	226	243	178
Less Financial Other Income	(858)	1,176	1,377	1,515
Add. Other	4,370	478	(1,862)	(2,597)
Op. profit before WC changes	19,679	17,318	14,353	17,726
Net Changes-WC	809	(9,638)	(1,728)	(6,949)
Direct tax	(5,011)	(4,965)	(4,307)	(5,268)
Net cash from Op. activities	15,477	2,714	8,318	5,509
Capital expenditures	(1,740)	(2,286)	(2,265)	(2,933)
Interest / Dividend Income	443	217	-	-
Others	(3,765)	7,925	146	(528)
Net Cash from Inv. activities	(5,062)	5,856	(2,119)	(3,461)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,023)	(4,025)	-	-
Dividend paid	(290)	(2,401)	(2,288)	(3,073)
Interest paid	(43)	(49)	(243)	(178)
Others	(1,052)	(678)	-	-
Net cash from Fin. activities	(5,408)	(7,153)	(2,531)	(3,251)
Net change in cash	5,006	1,417	3,668	(1,204)
Free Cash Flow	13,417	353	6,053	2,576

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	12.5	11.4	9.7	12.8
CEPS	15.2	13.9	12.3	15.5
BVPS	105.1	113.1	120.7	130.3
FCF	14.0	0.4	6.3	2.7
DPS	2.5	3.0	2.4	3.2
Return Ratio(%)				
RoCE	14.9	13.8	11.1	13.4
ROIC	11.5	10.6	8.8	10.8
RoE	12.3	10.4	8.3	10.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	281	301	312	312
Valuation(x)				
PER	19.4	21.3	25.0	18.9
P/B	2.3	2.1	2.0	1.9
P/CEPS	15.9	17.4	19.7	15.6
EV/EBITDA	12.2	12.8	14.4	11.6
EV/Sales	2.8	2.7	2.7	2.4
Dividend Yield (%)	1.0	1.2	1.0	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

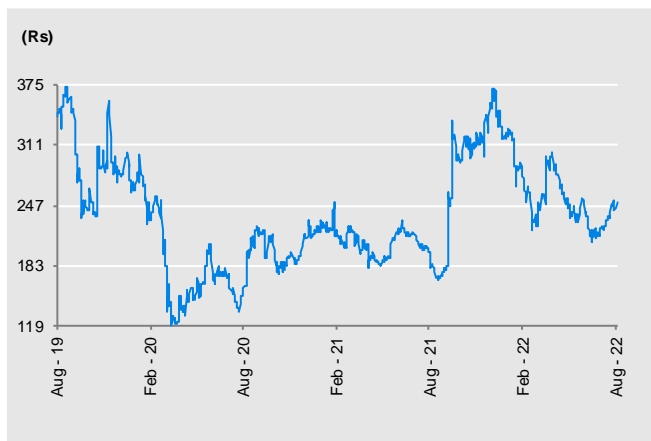
Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	19,788	21,126	23,229	18,457
YoY gr. (%)	14.9	(22.6)	18.2	4.0
Raw Material Expenses	9,037	10,170	12,579	10,026
Gross Profit	10,751	10,957	10,650	8,431
Margin (%)	54.3	51.9	45.8	45.7
EBITDA	4,122	4,793	4,866	2,358
YoY gr. (%)	31.4	(33.0)	(10.0)	(31.5)
Margin (%)	20.8	22.7	20.9	12.8
Depreciation / Depletion	598	594	677	778
EBIT	3,524	4,199	4,190	1,580
Margin (%)	17.8	19.9	18.0	8.6
Net Interest	22	30	381	81
Other Income	228	125	585	338
Profit before Tax	3,590	4,140	3,392	1,687
Margin (%)	18.1	19.6	14.6	9.1
Total Tax	930	1,151	1,572	621
Effective tax rate (%)	25.9	27.8	46.4	36.8
Profit after Tax	2,660	2,989	1,820	1,065
Minority interest	(41)	3	-	-
Share Profit from Associates	-	1	-	1
Adjusted PAT	2,890	3,197	2,619	1,216
YoY gr. (%)	(1.2)	(33.7)	(6.8)	(45.3)
Margin (%)	14.6	15.1	11.3	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,702	2,987	1,819	1,066
YoY gr. (%)	187.2	(25.3)	(34.0)	(50.1)
Margin (%)	13.7	14.1	7.8	5.8
Other Comprehensive Income	(51)	73	258	416
Total Comprehensive Income	2,651	3,061	2,077	1,482
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	2.8	3.1	1.9	1.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	358	223
2	27-May-22	BUY	358	230
3	08-Apr-22	BUY	413	286
4	03-Feb-22	BUY	413	293
5	10-Jan-22	BUY	416	321
6	22-Dec-21	BUY	415	349
7	12-Nov-21	BUY	399	314
8	07-Oct-21	BUY	405	293
9	23-Sep-21	BUY	405	318
10	15-Sep-21	BUY	303	256

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	635	670
3	Inox Leisure	BUY	699	603
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	163	117
6	Nazara Technologies	BUY	911	636
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	185	137
9	Safari Industries (India)	BUY	1,766	1,360
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	358	223

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)

We/I, Mr. Jinesh Joshi- MS(Finance) and CFA, Ms. Shweta Shekhawat- MBA Finance & MCom Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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