

Zee Entertainment

Refer to important disclosures at the end of this report

Weakness persists

Macroeconomic headwinds continued to mar Zee's advertising growth, down 7% YoY, broadly in line with our estimates. Delayed implementation of NTO2.0 also kept linear TV subscription revenues under pressure, while Zee5 and music continued on their strong growth-path. Zee's market share inched up by 30bps QoQ to 16.4%, aided by better performance in the Hindi & Tamil markets, while the Marathi market has yet to see a turnaround. Management expects the merger to be consummated by FY23-end, with CCI and shareholder-approval already in the bag. Subscription-revenue recovery would be delayed by a few more quarters, coupled with slower recovery path for ad revenue growth. Margins are likely to remain significantly lower than normalized levels in H2FY23. Owing to slower recovery and margin pressure, we cut our FY23-24E EBITDA by 13-19% and 4% for FY25E. We roll forward the valuation to Sep-24, arriving at an unchanged TP of Rs315 (10x Sep-24 pro-forma broadcasting EBITDA).

Results Summary: Zee's revenue grew 2.5% YoY to Rs20.3bn. Advertising revenue declined 7% YoY to Rs10.1bn, broadly in line with our estimates. Subscription revenue grew 4.2% YoY, led by Zee 5 and music, while linear domestic subscription revenues continued to be impacted by the delay in implementation of NTO 2.0. EBITDA declined 27.9% YoY to Rs3bn, due to higher programming costs and employee expenses. The company has revised its useful life for music content, from 3 to 10 years, leading to a one-time gain of Rs320mn in EBITDA. Adjusted for this gain, margin stood at 13.1%, broadly in line with our estimate. Zee5 continued to demonstrate strong growth, with revenue up 28% YoY, while its EBITDA losses further widened to Rs2,769mn. RPAT declined 58% YoY to Rs1.1bn. The company produced four Hindi movies and six regional movies in the quarter.

Earnings-Call KTAs: i) **Proposed merger with Sony India:** Expects the merger to be completed within this financial year. Expects 5-6 weeks of delisting of shares post the merger. Viewership share of 1% for the 3 channels that the company will let go as part of the merger. ii) **Ad revenues:** Moderate growth in ad revenues on sequential basis on the back of gain in market share. October started on a good note, but some headwinds seen in November. iii) **Subscription:** Near-term outlook for subscription revenue remains uncertain and muted, due to further delay in implementation of NTO2.0. Most of the YoY growth is from Digital, with little contribution from Linear TV. iv) Gained 30bps market share in Linear TV (the highest gain across all TV networks). Is seeing consistent performance in Zee TV (both, fiction and non-fiction). Zee Tamil is on the verge of turning a corner (led by fiction). Zee Marathi is still in the process of rebuilding. v) Has revised the useful life of music content to 10 years from 3 earlier; revision based on benchmarking with all other players. vi) **EBITDAM:** Does not expect normalization, at least this year. vii) Impact of price hike of Zee5 subscription on growth was minimal in the quarter.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Media & Entertainment \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	77,299	81,893	82,871	89,156	95,913
EBITDA	17,902	17,221	13,497	17,742	22,210
EBITDA Margin (%)	23.2	21.0	16.3	19.9	23.2
APAT	11,230	11,016	8,222	11,611	14,912
EPS (Rs)	11.7	11.5	8.6	12.1	15.5
EPS (% chg)	14.0	(1.9)	(25.4)	41.2	28.4
ROE (%)	11.7	10.6	7.5	10.0	11.9
P/E (x)	22.7	23.2	31.1	22.0	17.1
EV/EBITDA (x)	13.4	14.1	18.2	13.8	10.9
P/BV (x)	2.5	2.4	2.3	2.1	2.0

Source: Company, Emkay Research

CMP	Target Price
Rs 266	Rs 315 (▼)
as of (November 11, 2022)	12 months
Rating	Upside
BUY (■)	18.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(32)/(16)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	8.6	12.1
Consensus	11.3	15.0
Mean Consensus TP (12M)	Rs 309	

Stock Details

Bloomberg Code	Z IN
Face Value (Rs)	1
Shares outstanding (mn)	961
52 Week H/L	379 / 201
M Cap (Rs bn/USD bn)	255 / 3.16
Daily Avg Volume (nos.)	13,672,380
Daily Avg Turnover (USD mn)	44.6

Shareholding Pattern Sep '22

Promoters	4.0%
FIIIs	38.7%
DIIIs	31.5%
Public and Others	25.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	7	11	(15)
Rel. to Nifty (10)		3	(2)	(18)

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs Estimates (Q2FY23)

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	20,284	19,045	19,732	7%	3%	Higher revenue from other sales and services
EBITDA	2,973	2,540	2,854	17%	4%	Lower than estimated programming costs (one-offs in reported numbers)
EBITDA margin	14.7%	13.3%	14.5%	132 bps	19 bps	
PAT	1,129	1,594	1,643	-29%	-31%	Higher depreciation and Interest; lower other income

Source: Company, Emkay Research

Exhibit 2: Summary of quarterly financials

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	H1FY22	H1FY23	YoY (%)
Ad revenue	10,893	12,608	11,198	9,763	10,128	(7.0)	3.7	20,159	19,891	(1.3)
Subscription Revenue	7,885	7,902	8,549	7,717	8,219	4.2	6.5	16,016	15,937	(0.5)
Others	1,010	617	3,482	977	1,937	91.8	98.2	1,363	2,914	113.8
Net Sales	19,788	21,126	23,229	18,457	20,284	2.5	9.9	37,538	38,741	3.2
Programming Cost	9,037	10,170	12,579	10,026	10,173	12.6	1.5	17,700	20,199	14.1
as % of sales	45.7	48.1	54.2	54.3	50.2			47.2	52.1	
Employee Expenses	2,038	2,134	2,189	2,172	2,358	15.7	8.5	4,319	4,530	4.9
as % of sales	10.3	10.1	9.4	11.8	11.6			11.5	11.7	
Admin and Other expense	4,591	4,030	3,596	3,901	4,781	4.1	22.5	7,957	8,682	9.1
as % of sales	23.2	19.1	15.5	21.1	23.6			21.2	22.4	
Total operating expenditure	15,666	16,334	18,363	16,100	17,311	10.5	7.5	29,976	33,411	11.5
EBITDA	4,122	4,793	4,866	2,358	2,973	(27.9)	26.1	7,562	5,331	(29.5)
Depreciation	598	594	677	778	816	36.3	4.8	1,188	1,594	34.2
EBIT	3,524	4,199	4,190	1,580	2,157	(38.8)	36.6	6,374	3,737	(41.4)
Other Income	317	178	383	338	176	(44.4)	(47.9)	653	514	(21.3)
Interest	22	30	381	81	97	341.6	19.4	41	178	-
Exceptional Item Fair value through P&L	(229)	(207)	(800)	(150)	(466)			(363)	(616)	
PBT	3,590	4,140	3,392	1,687	1,770	(50.7)	5.0	6,622	3,457	(47.8)
Tax	930	1,151	1,572	621	641	(31.1)	3.2	1,874	1,262	(32.7)
PAT before MI	2,660	2,989	1,819	1,065	1,129	(57.5)	6.0	4,748	2,195	(53.8)
MI	(41)	2	0	(1)	1	(101.2)	(162.5)	(91)	(0)	(99.7)
PAT after MI	2,702	2,987	1,819	1,066	1,129	(58.2)	5.9	4,839	2,195	(54.6)

Margins (%)						(bps)	(bps)			(bps)
EBITDA	20.8	22.7	20.9	12.8	14.7	(617)	188	20.1	13.8	(639)
EBIT	17.8	19.9	18.0	8.6	10.6	(717)	208	17.0	9.6	(733)
EBT	18.1	19.6	14.6	9.1	8.7	(941)	(41)	17.6	8.9	(872)
PAT	13.4	14.1	7.8	5.8	5.6	(788)	(20)	12.6	5.7	(698)
Effective Tax rate	25.9	27.8	46.4	36.8	36.2	1,031	(64)	28.3	36.5	821

Source: Company, Emkay Research

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY23E			FY24E			FY25E		
	Old	Revised	Change	Old	Revised	Change	Old	Revised	Change
Ad revenue	47,411	44,733	-5.6%	53,018	50,018	-5.7%	58,276	54,976	-5.7%
Subscription revenue	32,194	32,824	2.0%	34,173	34,337	0.5%	35,989	36,138	0.4%
Revenue	84,482	82,871	-1.9%	91,991	89,156	-3.1%	99,064	95,913	-3.2%
EBITDA	16,742	13,497	-19.4%	20,322	17,742	-12.7%	23,027	22,210	-3.5%
EBITDA Margin %	19.8	16.3	-353 bps	22.1	19.9	-219 bps	23.2	23.2	-9 bps
PAT	11,094	7,605	-31.4%	13,836	11,611	-16.1%	15,802	14,912	-5.6%
EPS	11.6	7.9	-31.7%	14.4	12.1	-16.1%	16.5	15.5	-5.9%

Source: Company, Emkay Research

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Exhibit 4: Pro-forma financials of merged entity

Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	132,567	150,111	156,448	177,797	192,544
<i>Growth</i>	-5%	13%	4%	14%	8%
Expenses					
Prog. & Operating Cost	71,270	79,995	83,623	88,494	93,973
Employee expenses	12,291	14,901	15,914	15,247	16,814
Other expenses	20,450	23,586	26,988	28,478	30,050
Total expenditure	104,011	118,482	126,526	132,219	140,837
EBITDA	28,556	31,629	29,922	45,578	51,707
EBITDA margin	22%	21%	19%	26%	27%

Source: Company, Emkay Research

Exhibit 5: Breakdown of valuations

	Sep'24E
Pro-forma EBITDA	48,642
OTT loss	
Zee5	(6,849)
Sony LIV	(3,425)
Broadcasting EBITDA	58,916
EV/EBITDA (x)	10.0
EV	589,159
Net cash	128,800
Market cap	717,959
No. of shares (mn)	2,041
Target price (Rs/share)	350
Merger uncertainty discount	10
TP	315

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	77,299	81,893	82,871	89,156	95,913
Expenditure	59,397	64,672	69,374	71,414	73,703
EBITDA	17,902	17,221	13,497	17,742	22,210
Depreciation	2,649	2,459	3,158	3,394	3,552
EBIT	15,253	14,762	10,338	14,348	18,658
Other Income	1,104	1,213	1,200	1,300	1,400
Interest expenses	571	451	238	120	120
PBT	15,786	15,524	11,301	15,528	19,938
Tax	4,625	4,597	3,081	3,908	5,018
Extraordinary Items	(3,229)	(1,370)	(150)	0	0
Minority Int./Income from Assoc.	(71)	(87)	2	(8)	(8)
Reported Net Income	8,001	9,646	8,072	11,611	14,912
Adjusted PAT	11,230	11,016	8,222	11,611	14,912

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	961	961	961	961	961
Reserves & surplus	99,985	107,665	110,882	119,010	129,448
Net worth	100,945	108,626	111,842	119,970	130,409
Minority Interest	129	0	0	0	0
Loan Funds	4,231	763	763	763	763
Net deferred tax liability	(3,151)	(3,080)	(3,080)	(3,080)	(3,080)
Total Liabilities	102,154	106,309	109,525	117,653	128,092
Net block	11,912	12,251	11,093	9,699	8,147
Investment	7,983	651	651	651	651
Current Assets	103,645	115,512	120,364	132,514	146,723
Cash & bank balance	10,907	12,731	9,271	10,375	13,095
Other Current Assets	3,765	5,412	5,477	5,892	6,339
Current liabilities & Provision	22,883	23,005	23,361	25,989	28,208
Net current assets	80,763	92,507	97,003	106,525	118,515
Misc. exp	742	28	28	28	28
Total Assets	102,154	106,309	109,525	117,653	128,092

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	14,682	14,311	10,101	14,228	18,538
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,853	(9,849)	(7,956)	(8,418)	(9,271)
Operating Cashflow	13,059	1,669	2,808	6,587	9,193
Capital expenditure	(1,338)	(2,915)	(1,879)	(2,000)	(2,000)
Free Cash Flow	11,722	(1,246)	929	4,587	7,193
Investments	(4,735)	7,332	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(4,969)	5,630	(679)	(700)	(600)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(2,596)	(3,468)	0	0	0
Dividend paid (incl tax)	(288)	(2,401)	(2,282)	(3,483)	(4,474)
Other Financing Cash Flow	6,271	11,751	9,661	8,091	9,094
Financing Cashflow	2,816	5,431	7,142	4,487	4,501
Net chg in cash	10,907	12,731	9,271	10,375	13,095
Opening cash position	7,346	10,907	12,731	9,271	10,375
Closing cash position	10,907	12,731	9,271	10,375	13,095

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	23.2	21.0	16.3	19.9	23.2
EBIT Margin	19.7	18.0	12.5	16.1	19.5
Effective Tax Rate	29.3	29.6	27.3	25.2	25.2
Net Margin	14.4	13.3	9.9	13.0	15.6
ROCE	16.5	15.4	10.7	13.8	16.3
ROE	11.7	10.6	7.5	10.0	11.9
RoIC	12.9	12.0	7.9	10.5	12.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	11.7	11.5	8.6	12.1	15.5
CEPS	14.5	14.0	11.9	15.6	19.2
BVPS	104.3	113.1	116.4	124.9	135.8
DPS	0.3	2.5	2.4	3.6	4.7

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	22.7	23.2	31.1	22.0	17.1
P/CEPS	18.4	18.9	22.4	17.0	13.8
P/BV	2.5	2.4	2.3	2.1	2.0
EV / Sales	3.1	3.0	3.0	2.7	2.5
EV / EBITDA	13.4	14.1	18.2	13.8	10.9
Dividend Yield (%)	0.1	0.9	0.9	1.4	1.8

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBIDTA	(0.8)	(0.7)	(0.7)	(0.6)	(0.6)
Working Cap Cycle (days)	329.9	355.6	386.4	393.6	401.2

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(4.9)	5.9	1.2	7.6	7.6
EBITDA	9.5	(3.8)	(21.6)	31.5	25.2
EBIT	11.8	(3.2)	(30.0)	38.8	30.0
PAT	81.5	20.6	(16.3)	43.9	28.4

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	19,788	21,126	23,229	18,457	20,284
EBITDA	4,122	4,793	4,866	2,358	2,973
EBITDA Margin (%)	20.8	22.7	20.9	12.8	14.7
PAT	2,702	2,987	1,819	1,066	1,129
EPS (Rs)	2.8	3.1	1.9	1.1	1.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	4.0	4.0	4.0	4.0	4.0
FIIIs	57.2	52.2	47.9	39.2	38.7
DIIIs	16.0	20.9	24.2	30.5	31.5
Public and Others	22.9	22.9	24.0	26.3	25.9

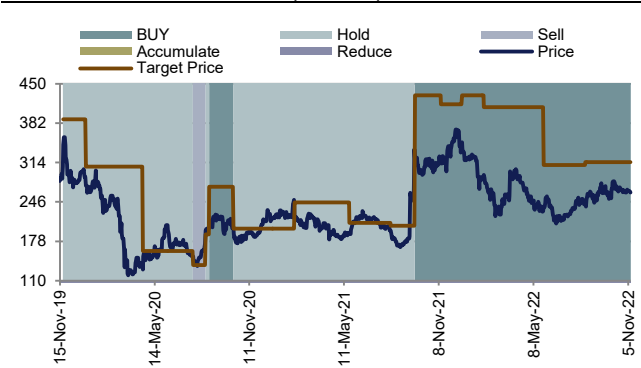
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Aug-22	242	315	12m	Buy	Naval Seth
6-Jul-22	224	310	12m	Buy	Naval Seth
15-Jun-22	221	310	12m	Buy	Naval Seth
27-May-22	237	310	12m	Buy	Naval Seth
2-Feb-22	293	410	12m	Buy	Naval Seth
22-Dec-21	349	430	12m	Buy	Naval Seth
12-Nov-21	313	415	12m	Buy	Naval Seth
23-Sep-21	318	430	12m	Buy	Naval Seth
8-Aug-21	197	205	12m	Hold	Naval Seth
21-May-21	191	210	12m	Hold	Naval Seth
5-Feb-21	215	245	12m	Hold	Naval Seth
3-Nov-20	182	200	12m	Hold	Naval Seth
11-Oct-20	201	200	12m	Hold	Naval Seth
26-Aug-20	212	272	12m	Buy	Naval Seth
19-Aug-20	197	190	12m	Hold	Naval Seth
26-Jul-20	152	137	12m	Sell	Naval Seth
21-Apr-20	129	161	12m	Hold	Naval Seth
22-Jan-20	300	307	12m	Hold	Naval Seth
3-Jan-20	274	307	12m	Hold	Naval Seth
1-Jan-20	289	389	12m	Hold	Naval Seth
21-Nov-19	345	389	12m	Hold	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Media & Entertainment



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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 14 years of experience in equity research. His team currently covers 19 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Media & Entertainment	0.28	0.28	0%	0	100.00	
Inox Leisure	0.00	0.00	NA	0	0.00	0
PVR	0.00	0.00	NA	0	0.00	0
Sun TV Network	0.04	0.04	0%	0	15.50	0
Zee Entertainment	0.23	0.23	0%	0	84.50	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	11-Nov-21	12-May-22	11-Aug-22	10-Oct-22	10-Nov-22
EAP - Media & Entertainment	100.0	83.2	62.3	66.3	74.5	71.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	75.1	56.2	59.8	67.2	64.1

*Performance measurement base date 1st April 2019

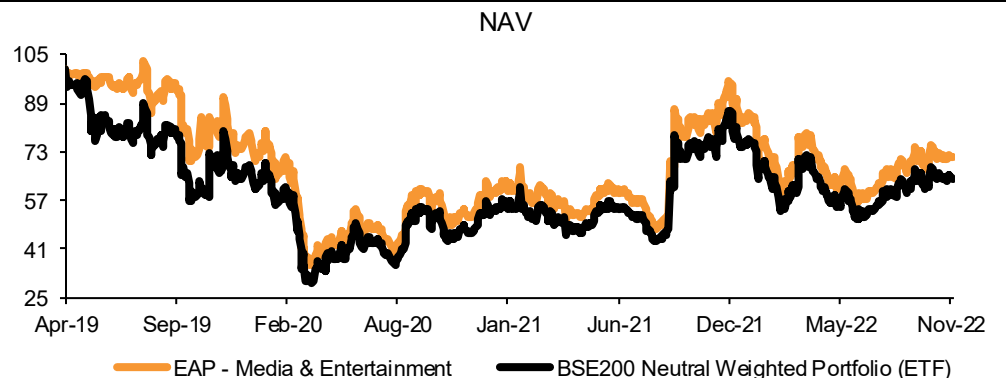
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Media & Entertainment	-4.6%	7.3%	14.1%	-14.6%
BSE200 Neutral Weighted Portfolio (ETF)	-4.5%	7.3%	14.1%	-14.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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