

Weak performance; gradual ad recovery likely in H2...

About the stock: Zee Entertainment (Zee) is one of the largest listed media companies in India, which owns and operates a bouquet of 49 TV channels across 11 languages and also an OTT app Zee5.

- The company's TV network viewership share was at 16.4% in Q2FY23 (16.1% in Q1FY23), with some recovery led by fresh content strategy.

Q2FY23 Results: Zee reported a weak Q2FY23 performance.

- Revenues at ₹ 2028.4 crore, were up 2.5% YoY, with domestic ad decline of 7.7% YoY. Overall subscription revenues grew 4.2% YoY to ₹ 821.9 crore, largely owing to 20% YoY growth in international subscription (Zee5 led), while pricing embargo continued to impact TV subscription growth
- EBITDA came in at ₹ 297 crore, decline of 27.9% YoY with margins at 14.7% (down 617 bps YoY, up 108 bps QoQ), due to higher marketing cost on a YoY basis on account of movies and continued investments in ZEE5
- The company reported PAT of ₹ 112.9 crore, down 58.2% YoY

What should investors do? Zee's share price has declined ~50% over the past five years, owing to promoter debt issue and business challenges.

- We cut our earnings estimates for FY23 and FY24 but maintain **BUY**. **Gradual ad recovery from H2 and likely merger consummation with no visible impediment, remain key triggers**

Target Price and Valuation: We value Zee at ₹ 310, at 19x FY25 P/E.

Key triggers for future price performance:

- Overall viewership share improvement, which remains sub optimal. Turnaround in some key regional markets like Tamil/Marathi as well as Hindi GEC, where it has lost viewership market share. This would also drive recovery in margin performance and cash flow generation
- Consummation of merger with Sony

Alternate Stock Idea: Besides Zee, we like Inox Leisure in the media space.

- A play on recovery and consolidation of multiplexes
- BUY with a target price of ₹ 675



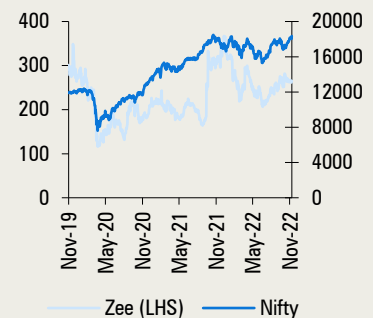
Particulars

Particulars	Amount
Market Cap (₹ crore)	25,534
Total Debt (₹ crore) FY22	3
Cash & Inv. (₹ crore) FY22	1,297
EV (₹ crore)	24,240
52 week H/L (₹)	379/ 200
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	4.0	4.0	4.0	4.0
DII	20.3	23.9	30.2	31.0
FII	52.2	47.9	39.2	38.7
Other	23.5	24.3	26.6	26.4

Price Chart



Key risks

Key Risk: (i) Delay in market share and ad recovery (ii) Sustained lower margins

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Key Financial Summary

(Year-end March)	FY21	FY22	5 year CAGR FY17-22	FY23E	FY24E	FY25E	3 year CAGR FY22-25E
Net Sales (₹ crore)	7,729.9	8,189.3	4.9	8,401.3	9,318.1	10,051.4	7.1
EBITDA (₹ crore)	1,790.1	1,722.1	(2.2)	1,448.3	2,050.0	2,311.8	10.3
Net Profit (₹ crore)	800.1	964.6		802.0	1,354.3	1,544.7	
Adjusted Nat Profit (₹ crore)	984.9	1,054.6	(3.9)	856.3	1,354.3	1,544.7	13.6
EPS (₹)	8.3	10.0		8.4	14.1	16.1	
P/E (x)	31.9	26.5		31.9	18.9	16.5	
Price / Book (x)	2.4	2.4		2.3	2.1	1.9	
EV/EBITDA (x)	13.2	14.1		16.3	11.5	9.9	
RoE (%)	9.4	9.7		7.7	11.2	11.8	
RoCE (%)	13.7	14.6		11.0	15.4	16.1	

Key performance highlight and outlook

Ad faced macro environment challenges /FTA pullout impact

The company indicated that the ad growth weakness was owing to **exit from FTA and challenging macro environment impacting ad spends. Consequently, domestic ad declined 7.7% YoY. The company's TV network viewership share at 16.4% saw some improvement from 16.1% in Q1 led by fresh content strategy driven viewership improvement in Hindi and Tamil. The company continues to refresh content strategy in Marathi to improve viewership there, as well.** Despite near term headwinds, it expects QoQ improvement from H2 with gradual ad recovery from Q3FY223 led by festive season. **We bake in ~9% CAGR in ad revenues in FY22-25E, with major growth recovery from FY24.** Overall subscription revenue growth of 4.2% YoY to ₹ 821.9 crore, was owing to 20% YoY growth in international subscription (Zee5 led), while NTO 2 pricing embargo continued to impact TV subscription growth. We highlight that Telecom Regulatory Authority of India (Trai) had extended NTO 2 implementation to February, 2023. While the company expects subscription growth to face near term disruption on NTO 2.0 implementation pushback, it expects industry to revert back once this uncertainty is over. **We bake in modest subscription CAGR of ~5% in FY22-25E with tailwinds largely from Zee5.**

Healthy growth for Zee5...

Zee5's revenues were at ₹ 167.1 crore during the quarter, growth of 28% YoY, driven by strong content slate addition. Zee5 reported operating losses of ₹ 276.9 crore vs. losses of 235.2 crore in Q1. It expects similar losses in Zee5 in H2. Zee5 recorded a global DAU of 11.3 million and 112.4 million global MAU in September vs. Q1 numbers of 10.5 million and 103.3 million, respectively. **ZEE5 saw the launch of 66 new shows and movies in Q2FY23, including six originals. The company indicated that investment in content (on both OTT and linear TV), marketing, technology and product will continue to capture viewership and engagement share despite the near-term revenue headwinds on the ad revenue front. It indicated that capital allocation towards regional movies would be increased. It aims to expand movie production with a strong slate of movies across regional languages of Tamil, Telugu, Marathi and Punjabi.** We note that the company has indicated that FY23 would be the peak year of investments for Zee5.

Other highlights

- **Progress on merger with SPNI:** The company has received conditional approval from CCI. It expects the merger to be consummated by Q4FY23. It would also entail five to six week's period of the stock being delisted.
- **One off items, dues from related parties:** One off included ₹ 16 crore DSRA related additional liability pertaining to Siti Networks and ₹ 30 crore of merger led expenses. Receivables from Dish have come down from ₹ 240 crore as of FY22 to ₹ 150 crore in Q2. On Siti, revenue recognition is on actual collection basis. Receivables of ₹ 52.2 crore from Siti are delayed, and, hence not reported in subscription revenues
- **Other:**
 - Increase in marketing cost on a YoY basis is on account of new movies launches and continued investments in ZEE5
 - The company has changed amortisation policy for music from three years earlier to 10 years. This has resulted in one-time gain of ₹ 32 crore in EBITDA
 - Merged entity will focus on expanding sports as key area of business
 - Cash and treasury investment was at ₹ 900 crore

The rebound in market share in Hindi GEC and Marathi/Tamil will be key to overall market share and ad recovery. We marginally cut our earnings estimates maintain **BUY** rating. Gradual ad recovery from H2 and likely merger consummation with no visible impediment, remain key triggers. We roll over to FY25 and value the stock at 19x FY25 P/E vs. 20x FY24E P/E, earlier with TP of ₹ 310/share.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	Q1FY23	YoY (%)	QoQ (%)	Comments
Revenue	2,028.4	1,930.7	1,978.8	1,845.7	2.5	9.9	
Other Income	17.6	31.2	22.8	33.8	-22.8	-47.9	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	235.8	227.8	203.8	202.3	15.7	16.5	
Admin & Other Expenses	161.2	164.1	214.2	158.3	-24.7	1.8	
Marketing Expenses	316.9	241.3	244.9	231.8	29.4	36.7	
Operational Cost	1,017.3	1,037.3	903.7	1,002.6	12.6	1.5	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	297.3	260.1	412.2	250.7	-27.9	18.6	
EBITDA Margin (%)	14.7	13.5	20.8	13.6	-617 bps	108 bps	
Depreciation	81.6	77.0	59.8	77.8	36.3	4.8	
Interest	9.7	3.0	2.2	8.1	341.6		
Total Tax	64.1	53.2	93.0	62.1	-31.1	3.2	
PAT	112.9	158.1	270.2	106.6	-58.2	5.9	

Key Metrics

Ad Revenue Growth	-7.0%	-5.0%	20.7%	5.4%
Domestic Subscription	2.2%	-2.1%	-2.3%	-7.4%
International Subscription %	20.7%	2.0%	5.7%	12.3%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	New
Revenue	8,581.0	8,401.3	-2.1	9,520.8	9,318.1	-2.1	10,051.4
EBITDA	1,665.9	1,448.3	-13.1	2,142.2	2,050.0	-4.3	2,311.8
EBITDA Margin (%)	19.4	17.2	-217 bps	22.5	22.0	-50 bps	23.0
PAT	1,083.9	802.0	-26.0	1,442.0	1,354.3	-6.1	1,544.7
EPS (₹)	11.3	8.4	-26.0	14.0	14.1	-6.1	16.1

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Ad Revenue Growth	20%	-7%	-20%	17%	3%	14%	10%
Domestic Subscription	17%	33%	14%	-2%	-1%	9%	7%
International Subscription %	-1%	-16%	1%	15%	13%	3%	0%

Source: Company, ICICI Direct Research

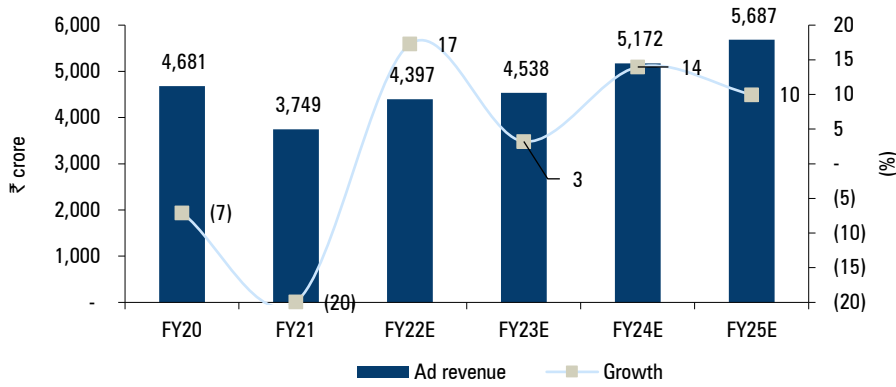
Exhibit 4: Zee5 KPI

Zee 5 Variable	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Monthly Active Users (mn) - MAU	52.9	54.7	65.9	72.6	80.2	93.2	101.9	104.8	103.3	112.4
Daily Active Users (mn) - DAU	4.0	5.2	5.4	6.1	7.1	9.3	9.6	10.5	11.3	11.4
Watch Time per month (min)	112	152	133	156	190	186	201	214	196	198
Revenues (₹ crore)	94.9	98.9	117.8	107.5	111.7	130.5	145.9	161.4	159.7	167.1
EBITDA (₹ crore)	-145.1	-189.4	-175.7	-162.5	-203.3	-172.0	-182.8	-195.2	-235.2	-276.9
Original Shows released					11	13	11	13	8	6
Watch Time per month (min)	112	152	133	156	190	186	201	214	214	196

Source: Company, ICICI Direct Research

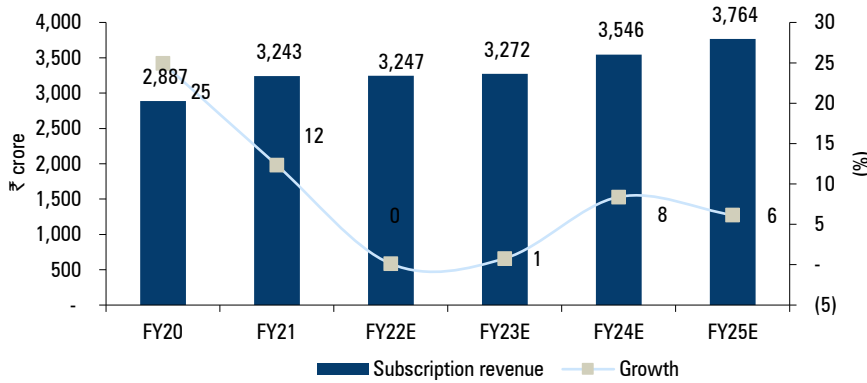
Story in charts

Exhibit 5: Ad revenue growth trend



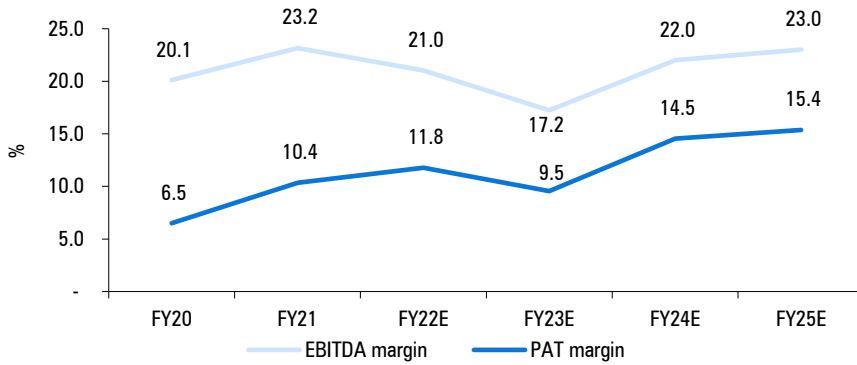
Source: Company, ICICI Direct Research

Exhibit 6: Subscription revenue growth trend



Source: Company, ICICI Direct Research; includes music from H2FY21

Exhibit 7: EBITDA and margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	8,189	8,401	9,318	10,051
Growth (%)	5.9	2.6	10.9	7.9
Operational Cost	4,045	4,306	4,426	4,774
Employee Expenses	864	925	978	1,055
Admin & Other Expenses	694	720	839	854
Marketing Expenses	864	1,002	1,025	1,055
Total Operating Expenditure	6,467	6,953	7,268	7,740
EBITDA	1,722	1,448	2,050	2,312
Growth (%)	-3.8	-15.9	41.5	12.8
Depreciation	246	311	317	342
Interest	45	36	36	36
Other Income	118	106	130	150
Exceptional Items	133	77	0	0
PBT	1,415	1,132	1,827	2,084
Minority Interest	-9	0	0	0
PAT from Associates	0	0	0	0
Total Tax	460	330	473	540
PAT	965	802	1,354	1,545
Growth (%)	20.6	-16.8	68.9	14.1
Adjusted PAT	1,055	856	1,354	1,545
Growth (%)	7.1	-18.8	58.2	14.1
Reported EPS (₹)	10.0	8.4	14.1	16.1

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	10,766.7	11,088.5	11,962.6	13,027.1
Total Shareholders funds	10,862.8	11,184.6	12,058.6	13,123.1
Total Debt	3.5	3.5	3.5	3.5
Others	72.8	72.8	72.8	72.8
Total Liabilities	10,939.1	11,260.9	12,135.0	13,199.4
Gross Block	2,259.9	2,509.9	2,759.9	3,009.9
Less: Acc Depreciation	1,379.8	1,690.6	2,007.5	2,349.2
Net Block	880.1	819.3	752.4	660.7
Capital WIP	87.1	87.1	87.1	87.1
Total Fixed Assets	967.2	906.4	839.6	747.8
Goodwill	345.0	345.0	345.0	345.0
Investments	65.1	465.1	865.1	1,265.1
Inventory	6,386.2	6,099.5	6,765.2	7,297.6
Debtors	1,737.5	1,782.4	1,977.0	2,132.5
Loans and Advances	1,252.3	1,284.7	1,424.9	1,537.0
Other Current Assets	506.1	519.2	575.9	621.2
Cash	1,273.3	1,483.1	1,221.4	1,335.7
Total Current Assets	11,155.4	11,169.0	11,964.3	12,924.0
Creditors	1,371.9	1,381.0	1,531.7	1,652.3
Provisions	115.9	116.6	129.3	139.5
Other current liabilities	812.7	833.8	924.8	997.5
Total Current Liabilities	2,300.5	2,331.4	2,585.9	2,789.3
Net Current Assets	8,854.9	8,837.6	9,378.5	10,134.7
Other non current assets	706.8	706.8	706.8	706.8
Total Assets	10,939.0	11,260.9	12,135.0	13,199.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	965	802	1,354	1,545
Add: Depreciation	246	311	317	342
Add: Interest paid	45	36	36	36
(Inc)/dec in Current Assets	-1,054	196	-1,057	-845
Inc/(dec) in CL and Provisions	12	31	254	203
Others	0	0	0	0
CF from op. activities	214	1,376	905	1,281
(Inc)/dec in Investments	733	-400	-400	-400
(Inc)/dec in Fixed Assets	-327	-250	-250	-250
Others	186	0	0	0
CF from inv. activities	592	-650	-650	-650
Issue/(Buy back) of Equity	0	0	0	0
Issue of Preference Shares	-383	0	0	0
Inc/(Dec) in loan funds	1	0	0	0
Interest paid	45	36	36	36
Others	-287	-552	-552	-552
CF from fin. activities	-624	-516	-516	-516
Net Cash flow	183	210	-262	114
Opening Cash	1,091	1,273	1,483	1,221
Closing Cash	1,273	1,483	1,221	1,336

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	10.0	8.4	14.1	16.1
Adjusted EPS	11.0	8.9	14.1	16.1
BV	113.1	116.4	125.5	136.6
DPS	3.0	5.0	5.0	5.0
Cash Per Share	14.4	17.6	20.9	24.5
Operating Ratios (%)				
EBITDA Margin	21.0	17.2	22.0	23.0
EBIT Margin	18.0	13.5	18.6	19.6
PAT Margin	12.9	10.2	14.5	15.4
Inventory days	284.6	265.0	265.0	265.0
Debtor days	77.4	77.4	77.4	77.4
Creditor days	61.1	60.0	60.0	60.0
Return Ratios (%)				
RoE	9.7	7.7	11.2	11.8
RoCE	14.6	11.0	15.4	16.1
RoIC	15.8	12.6	17.6	18.8
Valuation Ratios (x)				
P/E	26.5	31.8	18.9	16.5
EV / EBITDA	14.1	16.3	11.5	9.9
EV / Net Sales	3.0	2.8	2.5	2.3
Market Cap / Sales	3.1	3.0	2.7	2.5
Price to Book Value	2.4	2.3	2.1	1.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	6.6	6.5	6.5	6.5
Quick Ratio	2.3	2.4	2.4	2.4

Source: Company, ICICI Direct Research

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