

Rating: BUY | CMP: Rs218 | TP: Rs277

February 14, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	277		309	
Sales (Rs. m)	88,581	98,230	89,761	99,413
% Chng.	(1.3)	(1.2)		
EBITDA (Rs. m)	16,210	21,905	18,939	22,467
% Chng.	(14.4)	(2.5)		
EPS (Rs.)	10.1	15.0	12.5	15.6
% Chng.	(18.7)	(4.0)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	81,893	79,302	88,581	98,230
EBITDA (Rs. m)	17,221	11,737	16,210	21,905
Margin (%)	21.0	14.8	18.3	22.3
PAT (Rs. m)	10,928	6,334	9,735	14,421
EPS (Rs.)	11.4	6.6	10.1	15.0
Gr. (%)	(8.7)	(42.0)	53.7	48.1
DPS (Rs.)	3.0	1.0	2.5	3.8
Yield (%)	1.4	0.5	1.2	1.7
RoE (%)	10.4	5.7	8.4	11.5
RoCE (%)	13.8	7.6	11.0	14.7
EV/Sales (x)	2.4	2.5	2.3	2.0
EV/EBITDA (x)	11.5	17.1	12.4	9.0
PE (x)	19.2	33.1	21.5	14.5
P/BV (x)	1.9	1.9	1.7	1.6

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.309 / Rs.201
Sensex / Nifty	60,432 / 17,771
Market Cap	Rs.210bn / \$ 2,535m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.1298.75m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	37.33
Domestic Institution	37.48
Public & Others	21.19
Promoter Pledge (Rs bn)	0.45

Stock Performance (%)

	1M	6M	12M
Absolute	(5.2)	(9.7)	(16.6)
Relative	(5.4)	(11.1)	(19.8)

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PAT sulks due to one-offs

Quick Pointers:

- Exceptional charge of Rs1,690mn pertaining to merger expenses and outstanding exposure towards Zee Learn & Siti Networks derails profits.

We cut our FY24E/FY25E EPS estimates by 19%/4% as continued investment in content and sluggish recovery in ad-environment is likely to dent profitability. Zee Entertainment Enterprise's (Z IN) operational performance was broadly in-line with EBITDA margin of 16.0% (PLe of 15.1%) but PAT was derailed by an exceptional charge of Rs1,690mn. We expect near term profitability challenges as 1) network share is flattish at ~16% (full operating leverage benefit of ad-revenue recovery may not flow through) 2) losses in digital venture are widening (Rs7,941mn in 9MFY23 versus Rs5,581mn in 9MFY22) and 3) content & production cost continues to stay at elevated levels. In light of the ongoing challenges, we cut our target multiple to 21x (earlier 22x) but retain BUY with a revised TP of Rs277 (earlier Rs309) as impending merger with SPNI (NCLT hearing is due on 14th Feb 2023) can result in significant revenue/cost synergies in long term.

Topline declines marginally by 0.1% YoY: Revenues decreased 0.1% YoY to Rs21,112mn (PLe Rs21,481mn). Ad revenues declined 15.6% YoY to Rs10,638mn while subscription revenues increased 13.2% YoY to Rs8,944mn.

EBITDA margin at 16.0% but PAT impacted by one-offs: EBITDA declined 29.5% YoY to Rs3,380mn (PLe Rs3,244mn) with a margin 16.0% (PLe 15.1%). After adjusting for the one-off charge of Rs1,690mn, PAT declined 41.4% YoY to Rs1,875mn (PLe Rs1,921mn) with a margin of 8.9% (PLe 8.9%).

ZEE5's revenues grow 33.2% YoY: ZEE5's revenues increased by 33.2% YoY to Rs1,943mn with global MAUs/DAUs of 119.5mn/11.5mn respectively. 50 new shows/movies were launched in 3QFY23 which included 6 originals and the EBITDA loss stood at Rs2,820mn.

Con-call highlights: 1) In the past, Siti was on cash & carry model. However, in 3QFY23, an amount of ~Rs584mn has been accounted as catch up revenue and subsequently a provision has been created of the same amount as money is deposited with court/bank. 2) Provision of Rs255mn has been created on outstanding guaranteed exposure towards NCD's of Zee Learn given uncertainty in payment. 3) Merger expense for the quarter stood at ~Rs689mn. 4) Provision for DSRA was Rs162mn. 5) Outstanding recovery from Dish TV is ~Rs1bn. 6) Cash balance fell to Rs6.7bn due to dividend payment of Rs3bn and dip in ad-revenue which is impacting profits and consequently cash. 7) Watch time on ZEE5 has declined to 169 mins as new users have come in and their consumption is low initially. 8) Subscription business is likely to grow in mid-single digit post implementation of NTO 2.0. 9) RIO rate for some bouquets appears high as there has been a) no price hike for last 3 years b) Z IN has launched many channels over the same period which were not a part of the bouquet and c) improvement in viewership. 10) ILT20 has received good response and may achieve breakeven or turn profitable in 3rd or 4th year of operations.

Exhibit 1: 3QFY23 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
Net Sales	21,112	21,126	-0.1%	20,284	4.1%	59,853	58,664	2.0%
Operational cost	11,344	10,170	11.5%	10,173	11.5%	31,543	27,870	13.2%
<i>As a % of sales</i>	<i>53.7%</i>	<i>48.1%</i>		<i>50.2%</i>		<i>52.7%</i>	<i>47.5%</i>	
Employee expenses	2,165	2,134	1.4%	2,358	-8.2%	6,545	6,453	1.4%
<i>As a % of sales</i>	<i>10.3%</i>	<i>10.1%</i>		<i>11.6%</i>		<i>10.9%</i>	<i>11.0%</i>	
Other expenses	1,804	1,748	3.2%	1,612	11.9%	4,999	5,474	-8.7%
<i>As a % of sales</i>	<i>8.5%</i>	<i>8.3%</i>		<i>7.9%</i>		<i>8.4%</i>	<i>9.3%</i>	
A&P spends	2,420	2,282	6.1%	3,169	-23.6%	7,907	6,512	21.4%
<i>As a % of sales</i>	<i>11.5%</i>	<i>10.8%</i>		<i>15.6%</i>		<i>13.2%</i>	<i>11.1%</i>	
Total Expenditure	17,732	16,334	8.6%	17,311	2.4%	50,994	46,309	10.1%
EBITDA	3,380	4,793	-29.5%	2,973	13.7%	8,859	12,355	-28.3%
<i>EBITDA Margin</i>	<i>16.0%</i>	<i>22.7%</i>		<i>14.7%</i>		<i>14.8%</i>	<i>21.1%</i>	
Depreciation	913	594	53.6%	816	11.9%	2506	1782	40.6%
EBIT	2,467	4,199	-41.2%	2,157	14.4%	6,353	10,573	-39.9%
<i>EBIT Margin</i>	<i>11.7%</i>	<i>19.9%</i>		<i>10.6%</i>		<i>10.6%</i>	<i>18.0%</i>	
Interest	131	30	343.9%	97	35.9%	309	71	336.6%
Other income	161	178	-9.8%	176	-8.8%	674	831	-18.8%
Fair value (gain)/loss on financial instruments	(58)	53	NM	-	NM	(58)	239	NM
PBT before exceptional items	2,554	4,294	-40.5%	2,237	14.2%	6,776	11,093	-38.9%
Exceptional items	(1,690)	(154)	NM	(466)	NM	(2,455)	(331)	NM
Share of profit in associates and joint ventures	(2)	1	NM	(1)	NM	(2)	1	NM
PBT	862	4,141	-79.2%	1,770	-51.3%	4,319	10,764	-59.9%
Tax	619	1,151	-46.2%	641	-3.4%	1,881	3,025	-37.8%
<i>Tax Rate</i>	<i>71.8%</i>	<i>27.8%</i>		<i>36.2%</i>		<i>43.6%</i>	<i>28.1%</i>	
PAT	243	2,990	-91.9%	1,129	-78.5%	2,438	7,738	-68.5%
<i>PAT Margin</i>	<i>1.2%</i>	<i>14.2%</i>		<i>5.6%</i>		<i>4.1%</i>	<i>13.2%</i>	
Other comprehensive income	291	73	297.3%	345	-15.8%	1,052	178	489.7%
Adjusted PAT	1,875	3,197	-41.4%	1,595	17.5%	4,835	8,309	-41.8%
EPS (Rs)	0.3	3.1	-92.0%	1.2	-78.8%	2.5	8.2	-68.8%
Adjusted EPS	2.0	3.3	-41.4%	1.7	17.5%	5.0	8.6	-41.8%

Source: Company, PL

Exhibit 2: Domestic subscription revenue growth is aided by Siti (Rs mn)

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
Domestic ad-revenue	10,154	12,061	-15.8%	9,610	5.7%
<i>As a % of ad-revenue</i>	<i>95.5%</i>	<i>95.7%</i>		<i>94.9%</i>	
International ad-revenue	484	547	-11.5%	518	-6.6%
<i>As a % of ad-revenue</i>	<i>4.5%</i>	<i>4.3%</i>		<i>5.1%</i>	
Total ad-revenue	10,638	12,608	-15.6%	10,128	5.0%
Domestic subscription revenue	7,875	7,084	11.2%	7,159	10.0%
<i>As a % of subscription-revenue</i>	<i>88.0%</i>	<i>89.6%</i>		<i>87.1%</i>	
International subscription revenue	1,069	818	30.7%	1,060	0.8%
<i>As a % of subscription-revenue</i>	<i>12.0%</i>	<i>10.4%</i>		<i>12.9%</i>	
Total subscription revenue	8,944	7,902	13.2%	8,219	8.8%
Other sales & services	1,530	617	147.9%	1,937	-21.0%
Total Revenues	21,112	21,126	-0.1%	20,284	4.1%

Source: Company, PL

Exhibit 3: ZEE5's average watch time has declined in 3QFY23 due to new subscriber on-boarding

Particulars	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Global MAU	101.9mn (In Dec-21)	104.8mn (In Mar-22)	103.3mn (in Jun-22)	112.4mn (in Sep-22)	119.5mn (in Dec-22)
Global DAU	9.6mn (In Dec-21)	10.5mn (In Mar-22)	11.3mn (in Jun-22)	11.4mn (in Sep-22)	11.5mn (in Dec-22)
Average watch time (per viewer/per month)	201 minutes (in 3QFY22)	214 minutes (in 4QFY22)	196 minutes (in 1QFY23)	198 minutes (in 2QFY23)	169 minutes (in 3QFY23)
Revenue	Rs1,459mn	Rs1,614mn	Rs1,597mn	Rs1,671mn	Rs1,943mn
EBITDA	Rs(1,828mn)	Rs(1,952mn)	Rs(2,352mn)	Rs(2,769mn)	Rs(2,820mn)
Number of originals/movies released	51	64	38	66	50

Source: Company, PL

Exhibit 4: Movie rights constitute 65% of the content pie in 3QFY23

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Movie Rights	21.0	31.9	39.7	40.1	40.7	40.4	43.9	45.7	46.3	50.5	51.7
<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>	<i>64%</i>	<i>65%</i>
Shows	2.8	5.2	9.0	8.2	8.4	8.6	9.1	10.2	11.2	11.0	11.1
<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>	<i>14%</i>	<i>15%</i>	<i>14%</i>	<i>14%</i>
Movie production, Music & Others	2.5	1.2	4.5	5.6	5.8	7.3	8.4	8.0	10.4	9.5	10.3
<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>	<i>12%</i>	<i>13%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.7	9.9	8.4	8.7	6.7	7.1	6.4
<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>	<i>12%</i>	<i>9%</i>	<i>9%</i>	<i>8%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	64.6	66.2	69.7	72.5	74.6	78.9	79.5

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	81,893	79,302	88,581	98,230
YoY gr. (%)	5.9	(3.2)	11.7	10.9
Cost of Goods Sold	40,449	41,634	45,619	48,624
Gross Profit	41,444	37,669	42,962	49,606
Margin (%)	50.6	47.5	48.5	50.5
Employee Cost	8,641	8,882	9,567	9,823
Other Expenses	6,939	6,741	7,441	8,055
EBITDA	17,221	11,737	16,210	21,905
YoY gr. (%)	(3.8)	(31.8)	38.1	35.1
Margin (%)	21.0	14.8	18.3	22.3
Depreciation and Amortization	2,459	3,251	3,366	3,438
EBIT	14,762	8,485	12,844	18,467
Margin (%)	18.0	10.7	14.5	18.8
Net Interest	451	397	354	344
Other Income	1,176	930	1,417	1,768
Profit Before Tax	14,154	6,564	13,907	19,892
Margin (%)	17.3	8.3	15.7	20.3
Total Tax	4,597	2,625	4,172	5,470
Effective tax rate (%)	32.5	40.0	30.0	27.5
Profit after tax	9,557	3,939	9,735	14,421
Minority interest	(88)	-	-	-
Share Profit from Associate	1	(2)	-	-
Adjusted PAT	10,928	6,334	9,735	14,421
YoY gr. (%)	(8.7)	(42.0)	53.7	48.1
Margin (%)	13.3	8.0	11.0	14.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,646	3,937	9,735	14,421
YoY gr. (%)	20.6	(59.2)	147.3	48.1
Margin (%)	11.8	5.0	11.0	14.7
Other Comprehensive Income	437	1,052	-	-
Total Comprehensive Income	10,082	4,989	9,735	14,421
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	11.4	6.6	10.1	15.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	21,425	24,570	27,668	31,080
Tangibles	14,445	16,190	18,138	20,300
Intangibles	6,980	8,380	9,530	10,780
Acc: Dep / Amortization	13,707	16,958	20,324	23,763
Tangibles	8,620	10,733	12,921	15,156
Intangibles	5,087	6,225	7,403	8,606
Net fixed assets	8,801	8,694	8,427	8,400
Tangibles	6,908	6,539	6,300	6,227
Intangibles	1,893	2,155	2,127	2,174
Capital Work In Progress	871	871	871	871
Goodwill	3,450	3,450	3,450	3,450
Non-Current Investments	760	806	852	900
Net Deferred tax assets	3,080	1,509	3,060	4,376
Other Non-Current Assets	3,960	1,930	3,515	4,970
Current Assets				
Investments	242	242	242	242
Inventories	63,862	71,698	72,806	74,009
Trade receivables	17,375	18,468	20,628	22,876
Cash & Bank Balance	12,733	9,008	9,434	13,783
Other Current Assets	12,172	12,688	14,173	15,717
Total Assets	1,32,395	1,34,151	1,42,801	1,55,516
Equity				
Equity Share Capital	961	961	961	961
Other Equity	1,07,667	1,11,672	1,18,973	1,29,789
Total Networkth	1,08,628	1,12,632	1,19,934	1,30,750
Non-Current Liabilities				
Long Term borrowings	556	556	556	556
Provisions	1,040	1,190	1,329	1,572
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13,719	13,471	14,561	16,147
Other current liabilities	8,453	6,303	6,422	6,492
Total Equity & Liabilities	1,32,396	1,34,151	1,42,801	1,55,517

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	14,155	6,562	13,907	19,892
Add. Depreciation	2,459	3,251	3,366	3,438
Add. Interest	226	397	354	344
Less Financial Other Income	1,176	930	1,417	1,768
Add. Other	478	2,136	(4,362)	(4,003)
Op. profit before WC changes	17,318	12,346	13,266	19,671
Net Changes-WC	(9,638)	(9,177)	(2,178)	(1,864)
Direct tax	(4,965)	(2,625)	(4,172)	(5,470)
Net cash from Op. activities	2,714	544	6,915	12,337
Capital expenditures	(2,286)	(3,145)	(3,099)	(3,411)
Interest / Dividend Income	217	-	-	-
Others	7,925	257	(603)	(627)
Net Cash from Inv. activities	5,856	(2,887)	(3,702)	(4,038)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,025)	-	-	-
Dividend paid	(2,401)	(984)	(2,434)	(3,605)
Interest paid	(49)	(397)	(354)	(344)
Others	(678)	-	-	-
Net cash from Fin. activities	(7,153)	(1,381)	(2,788)	(3,949)
Net change in cash	1,417	(3,724)	425	4,349
Free Cash Flow	353	(2,601)	3,816	8,926

Source: Company Data, PL Research

Key Financial Metrics

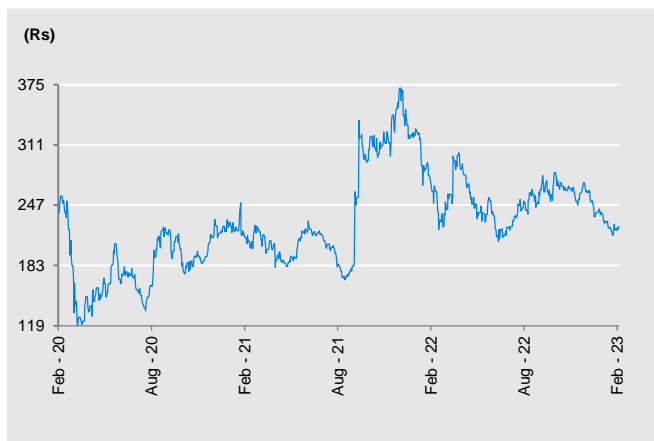
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	11.4	6.6	10.1	15.0
CEPS	13.9	10.0	13.6	18.6
BVPS	113.1	117.3	124.9	136.1
FCF	0.4	(2.7)	4.0	9.3
DPS	3.0	1.0	2.5	3.8
Return Ratio(%)				
RoCE	13.8	7.6	11.0	14.7
ROIC	10.6	5.0	8.4	12.0
RoE	10.4	5.7	8.4	11.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	301	353	325	300
Valuation(x)				
PER	19.2	33.1	21.5	14.5
P/B	1.9	1.9	1.7	1.6
P/CEPS	15.7	21.9	16.0	11.7
EV/EBITDA	11.5	17.1	12.4	9.0
EV/Sales	2.4	2.5	2.3	2.0
Dividend Yield (%)	1.4	0.5	1.2	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	23,229	18,457	20,284	21,112
YoY gr. (%)	18.2	4.0	2.5	(0.1)
Raw Material Expenses	12,579	10,026	10,173	11,344
Gross Profit	10,650	8,431	10,111	9,768
Margin (%)	45.8	45.7	49.8	46.3
EBITDA	4,866	2,507	2,973	3,380
YoY gr. (%)	(10.0)	(27.1)	(27.9)	(29.5)
Margin (%)	20.9	13.6	14.7	16.0
Depreciation / Depletion	677	778	816	913
EBIT	4,190	1,729	2,157	2,467
Margin (%)	18.0	9.4	10.6	11.7
Net Interest	381	81	97	131
Other Income	585	338	176	218
Profit before Tax	3,392	1,687	1,770	864
Margin (%)	14.6	9.1	8.7	4.1
Total Tax	1,572	621	641	619
Effective tax rate (%)	46.4	36.8	36.2	71.6
Profit after Tax	1,820	1,065	1,129	245
Minority interest	-	-	-	-
Share Profit from Associates	-	1	(1)	(2)
Adjusted PAT	2,619	1,365	1,595	1,875
YoY gr. (%)	(6.8)	(38.6)	(44.8)	(41.4)
Margin (%)	11.3	7.4	7.9	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,819	1,066	1,129	243
YoY gr. (%)	(34.0)	(50.1)	(58.2)	(91.9)
Margin (%)	7.8	5.8	5.6	1.2
Other Comprehensive Income	258	416	345	291
Total Comprehensive Income	2,077	1,482	1,474	534
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	1.9	1.1	1.2	0.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	309	238
2	12-Nov-22	BUY	308	266
3	06-Oct-22	BUY	302	280
4	13-Aug-22	BUY	308	242
5	07-Jul-22	BUY	358	223
6	27-May-22	BUY	358	230
7	08-Apr-22	BUY	413	286

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	694	644
4	Inox Leisure	BUY	587	502
5	Music Broadcast	Hold	23	27
6	Navneet Education	Accumulate	148	105
7	Nazara Technologies	BUY	898	592
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	220	173
10	Safari Industries (India)	BUY	2,553	1,889
11	V.I.P. Industries	BUY	1,014	700
12	Zee Entertainment Enterprises	BUY	309	238

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



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(Indian Clients)

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