Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Zee Entertainment Enterprises Ltd

Weak Q4; Maintain Buy

Consumer Discretionary		Sharekhan code: ZEEL	
Reco/View: Buy	↔	CMP: Rs. 179	Price Target: Rs. 210 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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 16.22

Updated Mar 08, 2023

Low Risk

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

Source: Morningstar

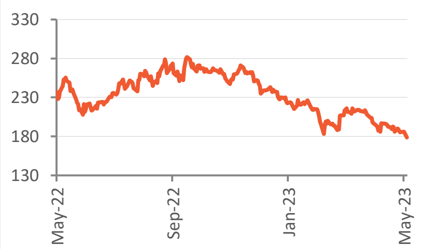
Company details

Market cap:	Rs. 17,169 cr
52-week high/low:	Rs. 287 / 177
NSE volume: (No of shares)	74.0 lakh
BSE code:	505537
NSE code:	ZEEL
Free float: (No of shares)	92.22 cr

Shareholding (%)

Promoters	4.0
FII	36.4
DII	38.0
Others	21.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	-8.6	-31.1	-21.6
Relative to Sensex	-7.4	-12.7	-30.4	-36.7

Sharekhan Research, Bloomberg

Summary

- ZEEL reported revenue at Rs 2,112.1 crore, flat q-o-q / down 9.1% y-o-y which beat our estimates of Rs 2,017 crore owing to a 5.5% y-o-y decline in advertisement revenue and a 25.6% y-o-y decline in Other Sales and services.
- EBITDA margins declined by 1377 bps y-o-y to 7.2%, below our expectation of 9.8%, owing to higher programming and operating costs. EBITDA margin was impacted by an increase in costs across Zee5, Movies and Sports. Zee5 continued to gain ground with revenue at Rs 220 crore, up 36% y-o-y.
- The management expressed expectations of a gradual recovery in ad spends and indicated cautious optimism regarding inflationary headwinds and the benefits of NTO 3.0.
- We maintain a Buy on ZEEL with revised PT of Rs. 210 given healthy traction in ZEE5, benefits of NTO 3.0 on subscription revenues and reasonable valuation. However, we have lowered the target price to factor the weak and volatile margin profile due to continued investment in content. At CMP, the stock trades at 18.1x /14.6x its FY24E/FY25E EPS.

ZEEL reported revenue at Rs 2,112 crore which beat our estimates of Rs 2,017 crore while EBITDA margin missed our estimates due to higher programming cost. Consolidated revenues declined by 9.1% y-o-y to Rs. 2,112 crore, owing to 5.5% y-o-y decline in advertisement revenue, 0.9% y-o-y decline in subscription revenue and Other sales and services revenue declined 25.6% y-o-y. EBITDA margins declined by 1377 bps y-o-y to 7.2% below our expectation of 9.8%, owing to higher programming and operating cost. EBITDA Margin was impacted by an increase in costs across Zee5, Movies and Sports. The Company reported a loss of 196 Cr after accounting for exceptional items of 899.7 crore and Profit from discontinued operations stood at Rs -1231.4 Cr. The adjusted PAT for Q4FY23 stood at Rs 17.1 crore. The company expects a gradual recovery in ad spending and believes that the growth trajectory for advertising is positive from a television perspective. The management believes that low double-digit growth could be attained over the next 3-5 years. The company does not expect significant growth in FY24 itself but cited that subscription revenue in the medium to long term will see at least inflationary growth. Zee5 continued to gain ground with revenue at Rs 220 crore, up 36% y-o-y. ZEE5 recorded 113.8 million and 11.1 million global Monthly Active Users and Daily Active Users, respectively, during the quarter. We maintain a Buy on ZEEL with revised PT of Rs. 210 given healthy traction in ZEE5, benefits of New Tariff Order (NTO) 3.0 on subscription revenues and reasonable valuation. However, we have lowered the target price to factor the weak and volatile margin profile due to continued investment in content. At CMP, the stock trades at 18.1x /14.6x its FY24E/FY25E EPS.

Key positives

- Zee5's revenue stood at Rs 220 crore, up 36% y-o-y.
- Linear Business gained a healthy 40 bps viewership share during Q4FY23 taking the viewership share to 16.6%.

Key negatives

- EBITDA margins declined to 7.2% in Q4FY23 versus 20.9% in Q4FY22 %, impacted by increase in costs across ZEE5, Movies and Sports
- Ad revenues at Rs 1005.8 crore were down 5.5% /10.2% on q-o-q and y-o-y basis respectively.

Management Commentary

- The management expressed expectations of a gradual recovery in ad spends but cautioned that it was too early to make accurate predictions. In Q4 FY23, ad spending by FMCG brands remained muted. The management expressed cautious optimism regarding inflationary headwinds and the benefits of NTO 3.0.
- The management indicated that the industry may not experience significant growth in subscription revenue in the medium to long term during FY24 and expects only inflationary growth in subscription revenues.

Revision in estimates – We have revised FY24-FY25 earnings estimates to factor Q4FY23 weak operating margin performance.

Our Call

Valuation – Weak Q4, Maintain Buy: Weak ad spending, delayed implementation of the New Tariff Order 3.0 (NTO), and underwhelming movie content affected Zee's performance in FY23. However, the recent resolutions of some of the impediments in Zee-Sony merger, gradual recovery in ad spends and benefits of NTO 3.0 are expected to drive growth. We expect a Sales and PAT CAGR of 8.6%/42.5% respectively over FY23-FY25E. Hence, we maintain a Buy on ZEEL with revised PT of Rs. 210 given healthy traction in ZEE5, benefits of New Tariff Order (NTO) 3.0 on subscription revenues and reasonable valuation. However, we have lowered the target price to factor the weak and volatile margin profile due to continued investment in content. At CMP, the stock trades at 18.1x /14.6x its FY24E/FY25E EPS.

Key Risks

- Slowdown in the economy that would lower demand and subdued realisation for advertisement revenue stream and
- Delay in monetisation benefits from digitisation, and a higher content cost could affect earnings.

Valuation (Consolidated) Rs cr

Particulars	FY2022	FY2023	FY2024E	FY2025E
Revenue	8,185.7	8,087.9	8,688.8	9,538.9
OPM (%)	21.7	13.6	17.5	19.3
Adjusted PAT	1,190.8	581.1	951.4	1,180.2
% y-o-y growth	6.0	-51.2	63.7	24.1
Adjusted EPS (Rs.)	12.4	6.0	9.9	12.3
PE (x)	14.4	29.6	18.1	14.6
P/B (x)	1.6	1.6	1.5	1.4
EV/EBITDA (x)	9.0	15.2	9.3	7.4
RoE (%)	11.0	5.4	8.3	9.6
RoCE (%)	14.4	7.1	11.1	12.9

Source: Company; Sharekhan estimates

Q4FY23 conference call highlights

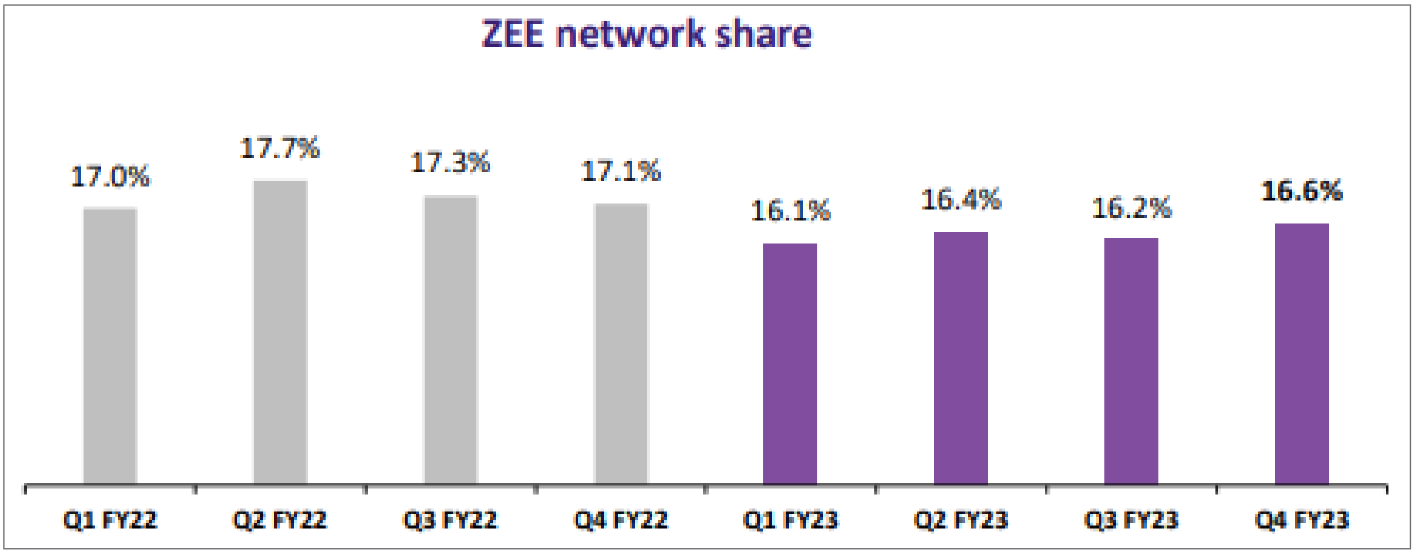
- **Advertising revenues:** Company reported Ad revenues at Rs 1005.8 crore, down 10.2% y-o-y with domestic ad revenues down 10.2% y-o-y. Ad revenue was impacted due to FTA withdrawal (Zee Anmol) and slowdown in Ad spending. The company expects a gradual recovery in ad spending and believes that the growth trajectory for advertising is positive from a television perspective. The management also believes that low double-digit growth could be attained over the next 3-5 years.
- **Subscription revenues:** The subscription revenue stood at Rs 847.4 crore, down 0.9% y-o-y with domestic subscription was up 0.4% y-o-y while international subscription was down 8.9% y-o-y. Subscription revenues largely remained flat as growth in ZEE5 was offset by decline in linear TV subscription. The deadlock between the broadcasters and MSOs over NTO 3.0 also impacted the subscription as well as Ad revenues. The company does not expect a large amount of growth in FY24 itself but cited that subscription revenue in the medium to long term will see at least inflationary growth.
- **Linear Business:** The company's linear business continues to be India's strong number two TV entertainment network and gained a healthy 40 bps viewership share during Q4FY23 taking the viewership share to 16.6%. The company gained viewership share in FY23 over FY22 in Zee TV, Zee Tamil, Zee Telugu, Zee Kannada, Zee Bangla, Zee Odia, Zee Punjabi and Zee Keralam. The company has undertaken significant efforts in terms of content strategy for the Marathi market and are expecting that to translate into positive results over the current financial year.
- **ZEE5's operating metrics:** Zee5's revenue stood at Rs. 220 crore, up 36% y-o-y. ZEE5 recorded 113.8 million and 11.1 million global Monthly Active Users and Daily Active Users, respectively, during the quarter. The company released in the quarter ~42+ shows & movies (including twelve originals). The average watch time/month in Q4FY23 was 229 mins. The company has recently announced an expansive content slate of 111 plus titles for Zee5, which includes compelling originals, direct-to-digital films and theatrical releases in collaboration with renowned concentrators and is confident that this will further enhance its unique value proposition to the consumers and attract newer audience segments to the platform.
- **Zee-Sony merger:** The company indicated some of the cases which were impediments to the Zee-Sony merger have been resolved either through the legal route or through settlement outside of the court. The company believes the NCLT order asking the exchanges to reevaluate the NOC given for Sony-Zee merger is incorrect and has challenged the NCLT order.
- **Zee Studio and Zee Music Company (ZMC):** During the quarter, 2 Hindi and 4 Regional Movies ere released during the quarter. Zee Music Company witnessed 79% YoY growth on video views & 17 Mn subscriber addition on the back of a new-age catalogue.
- **Exceptional items:** Net profit was impacted by exceptional items (loss) aggregating to Rs 899.7 crore and accounted for Rs -1231.4 crore towards Profit from discontinued operations. The company announced plans to discontinue its present business and operations, including Margo Networks, which offers internet connectivity under the brand name 'Sugarbox.' The decision is part of portfolio rationalization and aligns with the impending merger conditions.

Results (Consolidated) | **Rs cr**

Particulars	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Advertising Revenues	1,005.8	1,119.8	1,063.8	-10.2	-5.5
Subscription Revenues	847.4	854.9	894.4	-0.9	-5.3
Other sales and Services	258.9	348.2	153.0	-25.6	69.3
Total Revenues	**2,112.1**	**2,322.9**	**2,111.2**	**-9.1**	**0.0**
Programming and Operating Cost	1322.2	1257.9	1134.4	5.1	16.6
Staff Cost	215.4	218.9	216.5	-1.6	-0.5
Admin. & Selling Expenses	422.8	359.6	422.4	17.6	0.1
EBITDA	**151.7**	**486.6**	**338.0**	**-68.8**	**-55.1**
Depreciation	83.3	67.7	91.3	23.2	-8.7
Finance Cost	39.6	38.1	13.1	4.2	201.7
Other Income	14.2	38.3	16.1	-62.8	-11.3
Financial instruments fair value gain/ loss	0.0	20.2	5.8	-100.0	-100.0
PBT	**43.0**	**439.4**	**255.4**	**-90.2**	**-83.2**
Tax Provision	26.0	157.2	61.9	-83.5	-58.0
PAT	**17.0**	**282.2**	**193.5**	**-94.0**	**-91.2**
Minority Interest	0.0	0.0	0.0		
Shares of associates	0.1	0.0	-0.2		
Net Profit	17.1	282.1	193.3	-93.9	-91.2
Fair value through profit and loss	0.0	-20.2	-5.8	-100.0	-100.0
EO	-213.1	-100.2	-169.0		
Reported Net Income	**-196.0**	**181.9**	**24.3**	**-207.8**	**-906.0**
Adjusted Net profit after After EO	**17.1**	**261.9**	**187.5**	**-93.5**	**-90.9**
Adj. EPS (Rs.)	**0.2**	**2.7**	**2.0**	**-93.5**	**-90.9**
Margin (%)			**BPS**		**BPS**
GPM	37.4	45.8	46.3	-845	-887
EBITDA margins	7.2	20.9	16.0	-1376	-882
NPM	0.8	11.3	8.9	-1047	-807
Tax rate	60.5	35.8	24.2	2470	3624

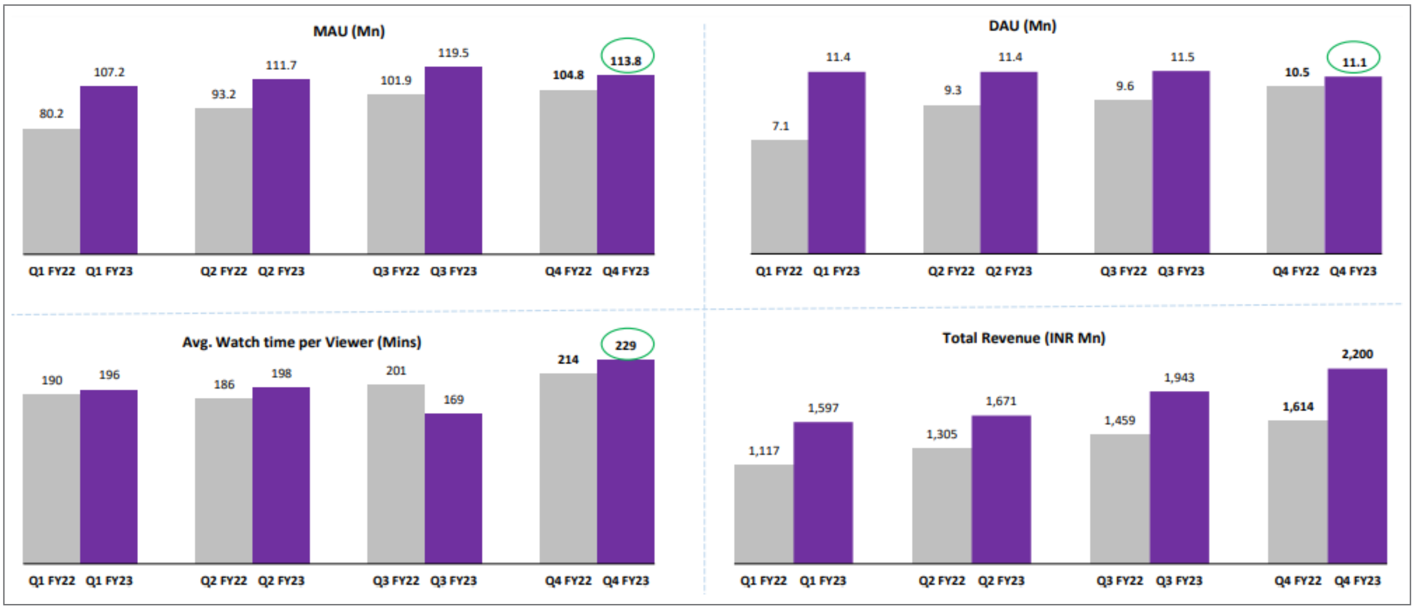
Source: Company; Sharekhan Research

ZEEL's network share trend



Source: Company

Digital business performance trend



Source: Company

Outlook and Valuation

■ Sector View – Expect gradual recovery in M&E industry

As per a KPMG report, the Indian media and entertainment (M&E) industry growth would be significantly impacted 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 2022 with a 33.1% y-o-y growth to reach Rs. 1.86 trillion. The television segment is expected to revert to an 8.6% y-o-y growth in 2022 on account of a gradual recovery in ad revenue and 4% growth in subscription revenues. 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.

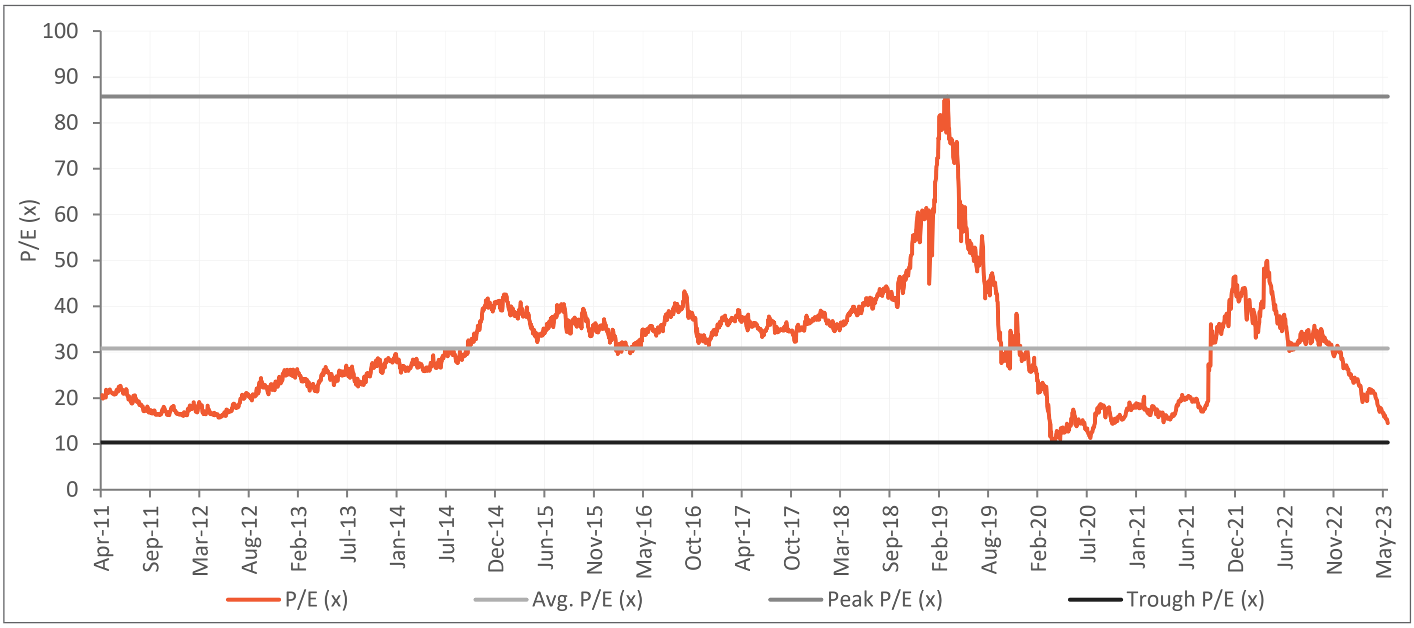
■ Company Outlook – Proposed merger would enhance reach potential

ZEEL is one of India's leading media & entertainment 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 movie genre with the launch of new channels. We believe that ZEE5's focus on aggressively building a content catalogue is a step in the right direction given the hyper-competitive nature of the market. The merger is expected to strengthen ZEEL's portfolio with Sony's sports, kids and English movie content. The management stated that priority of focus of the combined entity would be 1) advertisement, 2) subscription, and 3) international business. The combined entity will be in a superior position on maximizing its revenue given its reach potential and investments on digital and sports business.

■ Valuation – Weak Q4, Maintain Buy:

Weak ad spending, delayed implementation of the New Tariff Order 3.0 (NTO), and underwhelming movie content affected Zee's performance in FY23. However, the recent resolutions of some of the impediments in Zee-Sony merger, gradual recovery in ad spends and benefits of NTO 3.0 are expected to drive growth. We expect a Sales and PAT CAGR of 8.6%/42.5% respectively over FY23-FY25E. Hence, we maintain a Buy on ZEEL with revised PT of Rs. 210 given healthy traction in ZEE5, benefits of New Tariff Order (NTO) 3.0 on subscription revenues and reasonable valuation. However, we have lowered the target price to factor the weak and volatile margin profile due to continued investment in content. At CMP, the stock trades at 18.1x /14.6x its FY24E/FY25E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

ZEEL is one of India's largest vertically-integrated media and entertainment 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 250,000 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 industry 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 25% market share.

Key Risks

Unfavourable regulatory guidelines impacting subscription revenue, a 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
Ashish Agarwal	Chief Compliance Officer & Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	7.66
2	Sprucegrove Investment Management	7.31
3	Nippon Life India Asset Management	6.04
4	Invesco Ltd	5.17
5	Life Insurance Corp of India	5.12
6	Vanguard Group Inc	4.55
7	Amansa Capital Pvt Ltd	4.55
8	HDFC Asset Management Co Ltd	4.55
9	Amansa Holdings Pvt Ltd	4.39
10	Vanguard International Value Fund	3.06

Source: Bloomberg

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 detoriating 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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