

Rating: BUY | CMP: Rs179 | TP: Rs240

May 26, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	240		277	
Sales (Rs. m)	87,234	95,323	88,581	98,230
% Chng.	(1.5)	(3.0)		
EBITDA (Rs. m)	13,434	17,635	16,210	21,905
% Chng.	(17.1)	(19.5)		
EPS (Rs.)	8.0	11.8	10.1	15.0
% Chng.	(21.0)	(21.5)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	81,857	80,879	87,234	95,323
EBITDA (Rs. m)	17,803	11,011	13,434	17,635
Margin (%)	21.7	13.6	15.4	18.5
PAT (Rs. m)	11,908	5,811	7,694	11,315
EPS (Rs.)	12.4	6.0	8.0	11.8
Gr. (%)	(0.5)	(51.2)	32.4	47.1
DPS (Rs.)	3.0	-	2.0	2.9
Yield (%)	1.7	-	1.1	1.6
RoE (%)	11.4	5.4	7.0	9.7
RoCE (%)	14.6	7.2	9.1	12.0
EV/Sales (x)	1.9	2.1	1.9	1.7
EV/EBITDA (x)	9.0	15.1	12.4	9.3
PE (x)	14.4	29.6	22.3	15.2
P/BV (x)	1.6	1.6	1.5	1.4

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.287 / Rs.177
Sensex / Nifty	61,873 / 18,321
Market Cap	Rs.172bn/ \$ 2,076m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.2078.27m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	36.39
Domestic Institution	38.03
Public & Others	21.43
Promoter Pledge (Rs bn)	0.15

Stock Performance (%)

	1M	6M	12M
Absolute	(4.5)	(31.1)	(21.9)
Relative	(7.2)	(30.6)	(32.2)

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Re-rating hinges on merger timeline

Quick Pointers:

- EBITDA margin succumbs to 7.2% amid higher sports opex, momentary black-out, weak ad-environment and widening losses in ZEE5.

We cut our EPS estimates by ~21% odd over FY24E/FY25E as 1) widening losses in ZEE5 (EBITDA loss has increased from Rs7,534mn in FY22 to Rs11,050mn in FY23) 2) entry into sports (impact visible this quarter given conclusion of ILT20) and 3) sluggish recovery in ad-environment is likely to dent profitability in near term. Zee Entertainment Enterprise's (Z IN) operational performance was broadly in-line with EBITDA margin of 7.2% (PLe of 7.9%) but PAT was derailed by an exceptional charge of Rs2,131mn. In light of the ongoing challenges, we cut our target multiple to 19x (earlier 21x) and roll-forward our valuation to FY25E as NCLT has directed exchanges to re-examine approvals granted earlier and issue an NOC which can cause some delay in merger time-lines. We expect sales CAGR of 9% over next 2 years with EBITDA margin of 15.4%/18.5% in FY24E/FY25E and retain BUY with a revised TP of Rs240 (earlier Rs277). Delay in merger and slower recovery in ad-environment can act as a key overhang in near term.

Topline declines by 9.1% YoY: Revenues decreased by 9.1% YoY to Rs21,121mn (PLe Rs19,449mn). Ad revenues declined 10.2% YoY to Rs10,058mn while subscription revenues decreased 0.9% YoY to Rs8,474mn.

EBITDA margin at 7.2% but PAT impacted by one-offs: EBITDA declined 70.0% YoY to Rs1,517mn (PLe Rs1,530mn) with a margin 7.2% (PLe 7.9%). After adjusting for the one-off charge of Rs900mn (employee & legal expenses on merger and dues to IPRS), PAT declined 94.7% YoY to Rs171mn (PLe Rs586mn) with a margin of 0.8% (PLe 3.0%). Apart from this, loss from discontinuation of Sugar-Box operations stood at Rs1,231mn.

ZEE5's revenues grow 36.3% YoY: ZEE5's revenues increased by 36.3% YoY to Rs2,200mn with global MAUs/DAUs of 113.8mn/11.1mn respectively. 42 new shows/movies were launched in 4QFY23 which included 12 originals and the EBITDA loss stood at Rs3,109mn.

Con-call highlights: 1) Ramp-up in ZEE5's content offering necessitated non-recurring investments in technology, which raised costs and caused greater losses but that will now moderate downwards. 2) NCLT has ordered NSE and BSE to re-evaluate merger approvals and the non-compete clause, before the next hearing on June 16th. 3) NTO tariff hike was implemented as planned and there was no roll-back. 4) Funding towards Margo Networks Private Limited (Sugar-Box) will discontinue (complete write-down pending) driven by capital allocation priorities. 5) Watch time on ZEE5 is the highest ever at 229 minutes in 4QFY23. 6) ZEE5 plans to launch 111 new titles in FY24E. 7) ZEE5's MAUs/DAUs were at 113.8mn/11.1mn respectively for the quarter. 8) ZEE5's revenues stood at Rs2,200mn 9) Zee Studio released 2 Hindi and 4 Regional movies in 4QFY23. 10) The network share was up 40bps QoQ to 16.6%.

Exhibit 1: 4QFY23 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.	FY23	FY22	YoY gr.
Net Sales	21,121	23,221	-9.0%	21,088	0.2%	80,879	81,857	-1.2%
Operational cost	13,222	12,551	5.3%	11,277	17.2%	44,686	40,418	10.6%
<i>As a % of sales</i>	<i>62.6%</i>	<i>54.0%</i>		<i>53.5%</i>		<i>55.3%</i>	<i>49.4%</i>	
Employee expenses	2,154	2,091	3.0%	1,994	8.0%	8,238	8,261	-0.3%
<i>As a % of sales</i>	<i>10.2%</i>	<i>9.0%</i>		<i>9.5%</i>		<i>10.2%</i>	<i>10.1%</i>	
Other expenses	1,521	1,423	6.9%	1,757	-13.4%	6,390	6,790	-5.9%
<i>As a % of sales</i>	<i>7.2%</i>	<i>6.1%</i>		<i>8.3%</i>		<i>7.9%</i>	<i>8.3%</i>	
A&P spends	2,707	2,104	28.7%	2,399	12.8%	10,554	8,585	22.9%
<i>As a % of sales</i>	<i>12.8%</i>	<i>9.1%</i>		<i>11.4%</i>		<i>13.0%</i>	<i>10.5%</i>	
Total Expenditure	19,604	18,168	7.9%	17,427	12.5%	69,868	64,054	9.1%
EBITDA	1,517	5,053	-70.0%	3,660	-58.5%	11,011	17,803	-38.2%
<i>EBITDA Margin</i>	<i>7.2%</i>	<i>21.8%</i>		<i>17.4%</i>		<i>13.6%</i>	<i>21.7%</i>	
Depreciation	833	604	38.1%	837	-0.4%	3,128	2,213	41.4%
EBIT	684	4,449	-84.6%	2,823	-75.8%	7,884	15,591	-49.4%
<i>EBIT Margin</i>	<i>3.2%</i>	<i>19.2%</i>		<i>13.4%</i>		<i>9.7%</i>	<i>19.0%</i>	
Interest	396	377	5.2%	130	205.4%	702	438	60.4%
Other income	142	377	-62.2%	148	-3.8%	797	1,202	-33.6%
Fair value (gain)/loss on financial instruments	-	(202)	NM	(58)	NM	(58)	37	NM
PBT before exceptional items	430	4,651	-90.8%	2,900	-85.2%	8,037	16,317	-50.7%
Exceptional items	(900)	(1,002)	NM	(1,690)	NM	(3,355)	(1,333)	NM
Share of profit in associates and joint ventures	1	(0)	NM	(2)	NM	(1)	1	NM
PBT	(469)	3,649	NM	1,208	NM	4,681	14,985	-68.8%
Tax	260	1,205	-78.4%	637	-59.2%	2,167	4,448	-51.3%
<i>Tax Rate</i>	<i>NM</i>	<i>33.0%</i>		<i>52.8%</i>		<i>46.3%</i>	<i>29.7%</i>	
PAT	(729)	2,444	NM	570	NM	2,514	10,538	-76.1%
<i>PAT Margin</i>	<i>NM</i>	<i>10.5%</i>		<i>2.7%</i>		<i>3.1%</i>	<i>12.9%</i>	
Other comprehensive income	(82)	258	NM	291	NM	970	437	122.2%
Adjusted PAT	171	3,244	-94.7%	2,202	-92.2%	5,811	11,908	-51.2%
Loss from discontinued operations	(1,231)	(624)	NM	(327)	NM	(2,036)	(980)	NM
PAT/Loss including discontinued operations	(1,960)	1,819	NM	243	NM	478	9,558	NM
EPS (Rs)	(2.0)	1.9	NM	0.3	NM	0.5	10.0	-95.0%
Adjusted EPS	0.2	3.4	-94.7%	2.3	-92.2%	6.0	12.4	-51.2%

Source: Company, PL Note: Adjusted PAT is prior to losses from discontinued operations

Exhibit 2: Domestic ad-revenue was under pressure in 4QFY23 (Rs mn)

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.
Domestic ad-revenue	9,635	10,732	-10.2%	10,150	-5.1%
<i>As a % of ad-revenue</i>	<i>95.8%</i>	<i>95.8%</i>		<i>95.4%</i>	
International ad-revenue	423	465	-9.0%	484	-12.6%
<i>As a % of ad-revenue</i>	<i>4.2%</i>	<i>4.2%</i>		<i>4.6%</i>	
Total ad-revenue	10,058	11,197	-10.2%	10,634	-5.4%
Domestic subscription revenue	7,428	7,401	0.4%	7,875	-5.7%
<i>As a % of subscription-revenue</i>	<i>87.7%</i>	<i>86.6%</i>		<i>88.0%</i>	
International subscription revenue	1,046	1,148	-8.9%	1,069	-2.2%
<i>As a % of subscription-revenue</i>	<i>12.3%</i>	<i>13.4%</i>		<i>12.0%</i>	
Total subscription revenue	8,474	8,549	-0.9%	8,944	-5.3%
Other sales & services	2,589	3,475	-25.5%	1,510	71.5%
Total Revenues	21,121	23,221	-9.0%	21,088	0.2%

Source: Company, PL

Exhibit 3: ZEE5's average watch time is highest ever in 4QFY23

Particulars	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Global MAU	104.8mn (In Mar-22)	103.3mn (in Jun-22)	112.4mn (in Sep-22)	119.5mn (in Dec-22)	113.8mn
Global DAU	10.5mn (In Mar-22)	11.3mn (in Jun-22)	11.4mn (in Sep-22)	11.5mn (in Dec-22)	11.1mn
Average watch time (per viewer/per month)	214 minutes (in 4QFY22)	196 minutes (in 1QFY23)	198 minutes (in 2QFY23)	169 minutes (in 3QFY23)	229 minutes (in 4QFY23)
Revenue	Rs1,614mn	Rs1,597mn	Rs1,671mn	Rs1,943mn	Rs2,200mn
EBITDA	Rs(1,952mn)	Rs(2,352mn)	Rs(2,769mn)	Rs(2,820mn)	Rs(3,109mn)
Number of originals/movies released	64	38	66	50	42

Source: Company, PL

Exhibit 4: Movie rights constitute 64% of the content pie in 4QFY23

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Movie Rights	21.0	31.9	39.7	40.1	40.7	40.4	43.9	45.7	46.3	50.5	51.7	50.9
<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>	<i>64%</i>
Shows	2.8	5.2	9.0	8.2	8.4	8.6	9.1	10.2	11.2	11.0	11.1	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>	<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	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>	<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	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>	<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	79.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	81,857	80,879	87,234	95,323
YoY gr. (%)	5.9	(1.2)	7.9	9.3
Cost of Goods Sold	40,418	44,686	47,106	50,045
Gross Profit	41,439	36,193	40,128	45,279
Margin (%)	50.6	44.7	46.0	47.5
Employee Cost	8,261	8,238	8,898	9,246
Other Expenses	6,790	6,390	6,891	7,435
EBITDA	17,803	11,011	13,434	17,635
YoY gr. (%)	(0.5)	(38.2)	22.0	31.3
Margin (%)	21.7	13.6	15.4	18.5
Depreciation and Amortization	2,213	3,128	3,228	3,336
EBIT	15,591	7,884	10,206	14,298
Margin (%)	19.0	9.7	11.7	15.0
Net Interest	438	702	436	334
Other Income	1,164	855	1,221	1,430
Profit Before Tax	14,984	4,682	10,991	15,395
Margin (%)	18.3	5.8	12.6	16.2
Total Tax	4,448	2,167	3,297	4,080
Effective tax rate (%)	29.7	46.3	30.0	26.5
Profit after tax	10,537	2,515	7,694	11,315
Minority interest	(88)	-	-	-
Share Profit from Associate	1	(1)	-	-
Adjusted PAT	11,908	5,811	7,694	11,315
YoY gr. (%)	(0.5)	(51.2)	32.4	47.1
Margin (%)	14.5	7.2	8.8	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,626	2,514	7,694	11,315
YoY gr. (%)	32.8	(76.3)	206.1	47.1
Margin (%)	13.0	3.1	8.8	11.9
Other Comprehensive Income	437	970	-	-
Total Comprehensive Income	11,062	3,484	7,694	11,315
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	12.4	6.0	8.0	11.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	21,425	26,630	29,350	32,316
Tangibles	14,445	17,768	19,338	21,054
Intangibles	6,980	8,862	10,012	11,262
Acc: Dep / Amortization	13,707	16,835	20,062	23,398
Tangibles	8,620	10,653	12,751	14,919
Intangibles	5,087	6,182	7,311	8,479
Net fixed assets	8,801	10,296	9,789	9,418
Tangibles	6,908	7,616	7,088	6,635
Intangibles	1,893	2,680	2,701	2,783
Capital Work In Progress	871	191	191	191
Goodwill	3,450	3,302	3,302	3,302
Non-Current Investments	760	919	853	807
Net Deferred tax assets	3,080	4,229	2,418	2,771
Other Non-Current Assets	3,960	4,410	3,802	3,731
Current Assets				
Investments	242	-	-	-
Inventories	63,862	73,079	75,284	77,042
Trade receivables	17,375	16,088	18,164	20,109
Cash & Bank Balance	12,733	8,040	7,151	10,598
Other Current Assets	12,172	11,433	13,085	14,298
Total Assets	1,32,395	1,37,265	1,39,609	1,48,202
Equity				
Equity Share Capital	961	961	961	961
Other Equity	1,07,667	1,06,258	1,12,029	1,20,515
Total Network	1,08,628	1,07,219	1,12,989	1,21,476
Non-Current Liabilities				
Long Term borrowings	556	2,167	2,167	2,167
Provisions	1,040	1,362	1,309	1,525
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13,719	17,494	16,013	16,192
Other current liabilities	8,453	8,829	6,937	6,648
Total Equity & Liabilities	1,32,396	1,37,070	1,39,415	1,48,008

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	14,155	4,681	10,991	15,395
Add. Depreciation	2,459	3,413	3,228	3,336
Add. Interest	226	707	436	334
Less Financial Other Income	1,164	855	1,221	1,430
Add. Other	478	(896)	(1,178)	(1,568)
Op. profit before WC changes	17,318	7,905	13,477	17,497
Net Changes-WC	(9,638)	(2,722)	(5,762)	(3,524)
Direct tax	(4,965)	(3,893)	(3,297)	(4,080)
Net cash from Op. activities	2,714	1,291	4,417	9,893
Capital expenditures	(2,286)	(2,560)	(2,720)	(2,966)
Interest / Dividend Income	217	403	-	-
Others	7,925	141	(227)	(317)
Net Cash from Inv. activities	5,856	(2,016)	(2,947)	(3,283)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,025)	24	-	-
Dividend paid	(2,401)	(2,882)	(1,924)	(2,829)
Interest paid	(49)	(80)	(436)	(334)
Others	(678)	(1,145)	-	-
Net cash from Fin. activities	(7,153)	(4,082)	(2,360)	(3,162)
Net change in cash	1,417	(4,807)	(889)	3,447
Free Cash Flow	353	(1,386)	1,697	6,927

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	12.4	6.0	8.0	11.8
CEPS	14.7	9.3	11.4	15.3
BVPS	113.1	111.6	117.6	126.5
FCF	0.4	(1.4)	1.8	7.2
DPS	3.0	-	2.0	2.9
Return Ratio(%)				
RoCE	14.6	7.2	9.1	12.0
ROIC	11.7	4.2	6.8	9.7
RoE	11.4	5.4	7.0	9.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	0.0	(0.1)
Net Working Capital (Days)	301	323	324	310
Valuation(x)				
PER	14.4	29.6	22.3	15.2
P/B	1.6	1.6	1.5	1.4
P/CEPS	12.2	19.2	15.7	11.7
EV/EBITDA	9.0	15.1	12.4	9.3
EV/Sales	1.9	2.1	1.9	1.7
Dividend Yield (%)	1.7	-	1.1	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

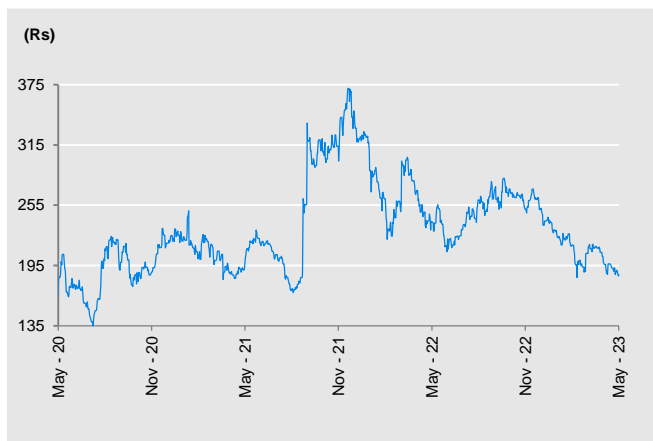
Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	18,457	20,284	21,088	21,121
YoY gr. (%)	4.0	2.5	(0.2)	(9.0)
Raw Material Expenses	10,026	10,173	11,277	13,222
Gross Profit	8,431	10,111	9,811	7,899
Margin (%)	45.7	49.8	46.5	37.4
EBITDA	2,507	2,973	3,660	1,517
YoY gr. (%)	(27.1)	(27.9)	(23.6)	(70.0)
Margin (%)	13.6	14.7	17.4	7.2
Depreciation / Depletion	778	816	837	833
EBIT	1,729	2,157	2,823	684
Margin (%)	9.4	10.6	13.4	3.2
Net Interest	81	97	130	396
Other Income	338	176	206	142
Profit before Tax	1,687	1,770	1,210	(470)
Margin (%)	9.1	8.7	5.7	(2.2)
Total Tax	621	641	637	260
Effective tax rate (%)	36.8	36.2	52.7	(55.3)
Profit after Tax	1,065	1,129	573	(730)
Minority interest	-	-	-	-
Share Profit from Associates	1	(1)	(2)	1
Adjusted PAT	1,365	1,595	2,202	171
YoY gr. (%)	(38.6)	(44.8)	(31.1)	(94.7)
Margin (%)	7.4	7.9	10.4	0.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,066	1,129	570	(729)
YoY gr. (%)	(50.1)	(58.2)	(80.9)	(129.8)
Margin (%)	5.8	5.6	2.7	(3.5)
Other Comprehensive Income	416	345	291	(82)
Total Comprehensive Income	1,482	1,474	861	(811)
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	1.1	1.2	0.3	(2.0)

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	277	211
2	14-Feb-23	BUY	277	218
3	06-Jan-23	BUY	309	238
4	12-Nov-22	BUY	308	266
5	06-Oct-22	BUY	302	280
6	13-Aug-22	BUY	308	242
7	07-Jul-22	BUY	358	223
8	27-May-22	BUY	358	230

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	504	401
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	672	582
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,565	2,257
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	152	113
8	Nazara Technologies	BUY	804	566
9	PVR Inox	BUY	1,879	1,435
10	S Chand and Company	BUY	228	219
11	Safari Industries (India)	BUY	2,790	2,415
12	V.I.P. Industries	BUY	900	623
13	Zee Entertainment Enterprises	BUY	277	211

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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