

Rating: BUY | CMP: Rs242 | TP: Rs276

August 10, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	276		236	
Sales (Rs. m)	86,266	94,680	86,268	94,241
% Chng.	-	0.5		
EBITDA (Rs. m)	10,697	17,137	11,991	16,963
% Chng.	(10.8)	1.0		
EPS (Rs.)	5.7	11.2	7.0	11.3
% Chng.	(18.9)	(0.5)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	81,857	80,879	86,266	94,680
EBITDA (Rs. m)	17,803	11,011	10,697	17,137
Margin (%)	21.7	13.6	12.4	18.1
PAT (Rs. m)	11,908	5,811	5,435	10,786
EPS (Rs.)	12.4	6.0	5.7	11.2
Gr. (%)	(0.5)	(51.2)	(6.5)	98.5
DPS (Rs.)	3.0	-	1.4	2.8
Yield (%)	1.2	-	0.6	1.2
RoE (%)	11.4	5.4	5.0	9.4
RoCE (%)	14.6	7.2	6.7	11.8
EV/Sales (x)	2.7	2.8	2.6	2.4
EV/EBITDA (x)	12.4	20.6	21.2	13.2
PE (x)	19.5	40.0	42.8	21.6
P/BV (x)	2.1	2.2	2.1	1.9

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.287 / Rs.170
Sensex / Nifty	65,996 / 19,633
Market Cap	Rs.233bn/ \$ 2,809m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.2951.82m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	33.40
Domestic Institution	40.77
Public & Others	21.84
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	17.5	7.9	(3.6)
Relative	16.2	(0.6)	(14.0)

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Margin pressure sustains

Quick Pointers:

- NCLT order on merger to be pronounced on 10th Aug, 2023.
- EBITDA margin stood at 7.8% and was impacted by higher content, marketing and employee expenses.

Though we cut our FY24E EPS estimates by ~19% odd amid weak performance in 1QFY24 our FY25E EPS estimate is broadly intact as 1) gradual recovery in ad-spends 2) accrual of full benefits of NTO 3.0 and 3) loss moderation in ZEE5 (opex was flat on QoQ basis and widening of EBITDA loss is a function of revenue slippage) is likely to aid earnings. Zee Entertainment Enterprise's (Z IN) operational performance was marginally better than our expectation with EBITDA margin of 7.8% (PLe of 6.3%) but PAT was derailed by an exceptional charge of Rs706mn. We expect sales CAGR of 8% over next 2 years with EBITDA margin of 12.4%/18.1% in FY24E/FY25E and retain BUY with a revised TP of Rs276 as we increase our target multiple to 22x (earlier 19x). Unfavorable NCLT verdict (Z IN has right to appeal in NCLAT in that case) and slower recovery in ad-environment can act as a key overhang in near term.

Topline increases by 7.6% YoY: Revenues increased 7.6% YoY to Rs19,838mn (PLe Rs19,537mn). Ad revenues declined 3.6% YoY to Rs9,409mn while subscription revenues increased 17.6% YoY to Rs9,075mn.

EBITDA margin at 7.8%: EBITDA declined 42.3% YoY to Rs1,549mn (PLe Rs1,231mn) with a margin 7.8% (PLe 6.3%). After adjusting for the one-off charge of Rs706mn (closure costs, merger related costs and legal expenses), PAT declined 55.8% YoY to Rs707mn with a margin of 3.6%. Apart from this, loss from discontinued operations pertaining to SugarBox stood at Rs573mn.

ZEE5's revenues grow 21.4% YoY: ZEE5's revenues increased by 21.4% YoY to Rs1,939mn. 32 new shows/movies were launched in 1QFY24 which included 5 originals and the EBITDA loss stood at Rs3,421mn.

Con-call highlights: 1) ZEE5's revenue declined on sequential basis due to high base (ILT20 revenue and B2B catch-up revenue). 2) Receivable from Dish stands at Rs622mn. 3) Fresh TV content of 4 languages is now behind paywall on ZEE5 which is expected to improve SVOD revenues. 4) Investment in SugarBox was ~Rs4.2bn. Roughly, Rs3bn has been written off so far. 5) ZEEL will be participating in the BCCI media rights auction that is due in next few days. 6) Due to continued legal proceedings and non-receipt of balances, ZEEL switched off its signal to Siti Networks except for East. 7) Ad-revenue growth was impacted due to IPL (shift of ad-dollars to sports genre). 8) Subscription revenue was up 17.6% YoY due to implementation of NTO 3.0 and ZEE5. 9) Zee Studios released 3 Hindi and 4 regional movies during the quarter. 10) ZEEL's viewership share in 2+ years (U+R) and 15+ years (U) category stood at 16.2%/17.0% respectively.

Exhibit 1: 1QFY24 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Net Sales	19,838	18,432	7.6%	21,121	-6.1%
Operational cost	11,433	10,021	14.1%	13,222	-13.5%
<i>As a % of sales</i>	<i>57.6%</i>	<i>54.4%</i>		<i>62.6%</i>	
Employee expenses	2,596	1,884	37.8%	2,154	20.5%
<i>As a % of sales</i>	<i>13.1%</i>	<i>10.2%</i>		<i>10.2%</i>	
Other expenses	1,486	1,546	-3.8%	1,521	-2.3%
<i>As a % of sales</i>	<i>7.5%</i>	<i>8.4%</i>		<i>7.2%</i>	
A&P spends	2,773	2,297	20.7%	2,707	2.5%
<i>As a % of sales</i>	<i>14.0%</i>	<i>12.5%</i>		<i>12.8%</i>	
Total Expenditure	18,289	15,747	16.1%	19,604	-6.7%
EBITDA	1,549	2,684	-42.3%	1,517	2.1%
<i>EBITDA Margin</i>	<i>7.8%</i>	<i>14.6%</i>		<i>7.2%</i>	
Depreciation	785	714	10.0%	833	-5.8%
EBIT	764	1,970	-61.2%	684	11.7%
<i>EBIT Margin</i>	<i>3.9%</i>	<i>10.7%</i>		<i>3.2%</i>	
Interest	234	81	191.1%	396	-40.9%
Other income	145	337	-57.1%	142	1.5%
Fair value (gain)/loss on financial instruments	(38)	-	NM	-	NM
PBT before exceptional items	713	2,227	-68.0%	430	65.8%
Exceptional items	(706)	(299)	NM	(900)	NM
Share of profit in associates and joint ventures	1	1	25.0%	1	11.1%
PBT	7	1,929	-99.6%	(469)	NM
Tax	(31)	628	NM	260	NM
<i>Tax Rate</i>	<i>NM</i>	<i>32.5%</i>		<i>NM</i>	
PAT	39	1,301	-97.0%	(729)	NM
<i>PAT Margin</i>	<i>0.2%</i>	<i>7.1%</i>		<i>NM</i>	
Other comprehensive income	(139)	416	NM	(82)	NM
Adjusted PAT	707	1,600	-55.8%	171	313.8%
Loss from discontinued operations	(573)	(235)	NM	(1,231)	NM
PAT/Loss including discontinued operations	(534)	1,066	NM	(1,960)	NM
EPS (Rs)	(0.6)	1.1	NM	(2.0)	NM
Adjusted EPS	0.7	1.7	-55.8%	0.2	313.8%

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

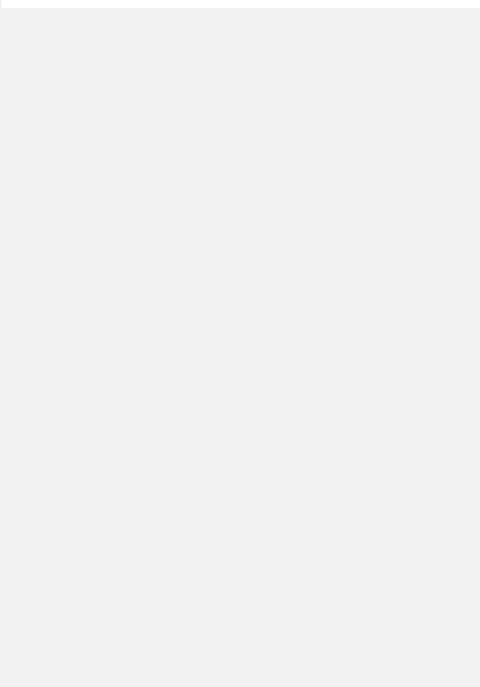


Exhibit 2: Domestic ad-revenue was under pressure in 1QFY24 (Rs mn)

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
Domestic ad-revenue	9,018	9,255	-2.6%	9,635	-6.4%
<i>As a % of ad-revenue</i>	<i>95.8%</i>	<i>94.8%</i>		<i>95.8%</i>	
International ad-revenue	391	506	-22.7%	423	-7.6%
<i>As a % of ad-revenue</i>	<i>4.2%</i>	<i>5.2%</i>		<i>4.2%</i>	
Total ad-revenue	9,409	9,761	-3.6%	10,058	-6.4%
Domestic subscription revenue	8,013	6,643	20.6%	7,428	7.9%
<i>As a % of subscription-revenue</i>	<i>88.3%</i>	<i>86.1%</i>		<i>87.7%</i>	
International subscription revenue	1,062	1,074	-1.1%	1,046	1.5%
<i>As a % of subscription-revenue</i>	<i>11.7%</i>	<i>13.9%</i>		<i>12.3%</i>	
Total subscription revenue	9,075	7,717	17.6%	8,474	7.1%
Other sales & services	1,354	953	42.1%	2,589	-47.7%
Total Revenues	19,838	18,431	7.6%	21,121	-6.1%

Source: Company, PL

Exhibit 3: ZEE5's EBITDA loss stood at Rs3,421mn in 1QFY24

Particulars	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Global MAU	103.3mn (in Jun-22)	112.4mn (in Sep-22)	119.5mn (in Dec-22)	113.8mn	NA
Global DAU	11.3mn (in Jun-22)	11.4mn (in Sep-22)	11.5mn (in Dec-22)	11.1mn	NA
Average watch time (per viewer/per month)	196 minutes (in 1QFY23)	198 minutes (in 2QFY23)	169 minutes (in 3QFY23)	229 minutes (in 4QFY23)	NA
Revenue	Rs1,597mn	Rs1,671mn	Rs1,943mn	Rs2,200mn	Rs1,939mn
EBITDA	Rs(2,352mn)	Rs(2,769mn)	Rs(2,820mn)	Rs(3,109mn)	Rs(3,421mn)
Number of originals/movies released	38	66	50	42	32

Source: Company, PL Note: MAU/DAU/viewership data was not disclosed in 1QFY24.

Exhibit 4: Movie rights constitute 64% of the content pie in 1QFY24

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
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	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>	<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	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>	<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	11.1
<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>	<i>14%</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	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>	<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	79.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	81,857	80,879	86,266	94,680
YoY gr. (%)	5.9	(1.2)	6.7	9.8
Cost of Goods Sold	40,418	44,686	48,740	49,707
Gross Profit	41,439	36,193	37,526	44,973
Margin (%)	50.6	44.7	43.5	47.5
Employee Cost	8,261	8,238	9,058	9,089
Other Expenses	6,790	6,390	6,815	7,385
EBITDA	17,803	11,011	10,697	17,137
YoY gr. (%)	(0.5)	(38.2)	(2.9)	60.2
Margin (%)	21.7	13.6	12.4	18.1
Depreciation and Amortization	2,213	3,128	3,192	3,314
EBIT	15,591	7,884	7,505	13,823
Margin (%)	19.0	9.7	8.7	14.6
Net Interest	438	702	776	379
Other Income	1,164	855	1,035	1,231
Profit Before Tax	14,984	4,682	7,764	14,675
Margin (%)	18.3	5.8	9.0	15.5
Total Tax	4,448	2,167	2,329	3,889
Effective tax rate (%)	29.7	46.3	30.0	26.5
Profit after tax	10,537	2,515	5,435	10,786
Minority interest	(88)	-	-	-
Share Profit from Associate	1	(1)	-	-
Adjusted PAT	11,908	5,811	5,435	10,786
YoY gr. (%)	(0.5)	(51.2)	(6.5)	98.5
Margin (%)	14.5	7.2	6.3	11.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,626	2,514	5,435	10,786
YoY gr. (%)	32.8	(76.3)	116.2	98.5
Margin (%)	13.0	3.1	6.3	11.4
Other Comprehensive Income	437	970	-	-
Total Comprehensive Income	11,062	3,484	5,435	10,786
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	12.4	6.0	5.7	11.2

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	29,333	32,287
Tangibles	14,445	17,768	19,321	21,025
Intangibles	6,980	8,862	10,012	11,262
Acc: Dep / Amortization	13,707	16,835	20,026	23,340
Tangibles	8,620	10,653	12,728	14,882
Intangibles	5,087	6,182	7,299	8,459
Net fixed assets	8,801	10,296	9,807	9,447
Tangibles	6,908	7,616	7,094	6,644
Intangibles	1,893	2,680	2,713	2,803
Capital Work In Progress	871	210	210	210
Goodwill	3,450	3,302	3,302	3,302
Non-Current Investments	760	919	847	803
Net Deferred tax assets	3,080	4,229	1,708	2,642
Other Non-Current Assets	3,960	4,410	2,735	3,565
Current Assets				
Investments	242	-	-	-
Inventories	63,862	73,079	74,448	76,522
Trade receivables	17,375	16,088	17,962	19,974
Cash & Bank Balance	12,733	8,040	8,116	9,384
Other Current Assets	12,172	11,433	12,940	14,202
Total Assets	1,32,395	1,37,284	1,37,602	1,45,956
Equity				
Equity Share Capital	961	961	961	961
Other Equity	1,07,667	1,06,258	1,10,334	1,18,424
Total Network	1,08,628	1,07,219	1,11,295	1,19,385
Non-Current Liabilities				
Long Term borrowings	556	2,167	2,167	2,167
Provisions	1,040	1,362	1,294	1,515
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13,719	17,494	15,835	16,083
Other current liabilities	8,453	9,042	7,011	6,806
Total Equity & Liabilities	1,32,396	1,37,284	1,37,602	1,45,956

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	14,155	4,681	7,764	14,675
Add. Depreciation	2,459	3,413	3,192	3,314
Add. Interest	226	707	776	379
Less Financial Other Income	1,164	855	1,035	1,231
Add. Other	478	(896)	590	(3,010)
Op. profit before WC changes	17,318	7,905	12,323	15,358
Net Changes-WC	(9,638)	(2,722)	(4,903)	(3,838)
Direct tax	(4,965)	(3,893)	(2,329)	(3,889)
Net cash from Op. activities	2,714	1,291	5,091	7,632
Capital expenditures	(2,286)	(2,560)	(2,703)	(2,954)
Interest / Dividend Income	217	403	-	-
Others	7,925	141	(177)	(334)
Net Cash from Inv. activities	5,856	(2,016)	(2,880)	(3,289)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,025)	24	-	-
Dividend paid	(2,401)	(2,882)	(1,359)	(2,697)
Interest paid	(49)	(80)	(776)	(379)
Others	(678)	(1,145)	-	-
Net cash from Fin. activities	(7,153)	(4,082)	(2,135)	(3,075)
Net change in cash	1,417	(4,807)	76	1,268
Free Cash Flow	353	(1,386)	2,388	4,678

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	12.4	6.0	5.7	11.2
CEPS	14.7	9.3	9.0	14.7
BVPS	113.1	111.6	115.9	124.3
FCF	0.4	(1.4)	2.5	4.9
DPS	3.0	-	1.4	2.8
Return Ratio(%)				
RoCE	14.6	7.2	6.7	11.8
ROIC	11.7	4.2	5.1	9.4
RoE	11.4	5.4	5.0	9.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	301	323	324	310
Valuation(x)				
PER	19.5	40.0	42.8	21.6
P/B	2.1	2.2	2.1	1.9
P/CEPS	16.5	26.0	27.0	16.5
EV/EBITDA	12.4	20.6	21.2	13.2
EV/Sales	2.7	2.8	2.6	2.4
Dividend Yield (%)	1.2	-	0.6	1.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

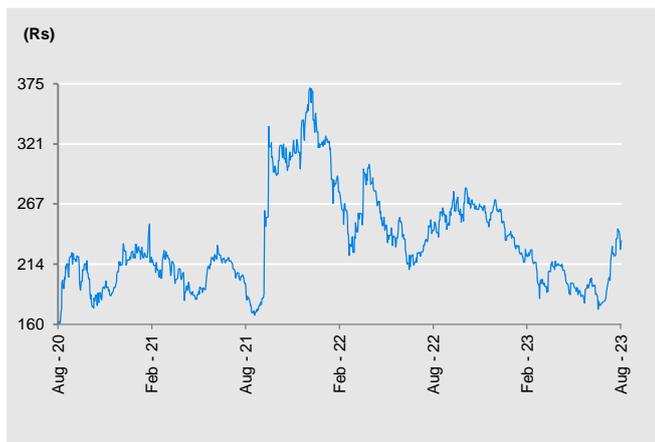
Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	20,284	21,088	21,121	19,838
YoY gr. (%)	2.5	(0.2)	(9.0)	7.6
Raw Material Expenses	10,173	11,277	13,222	11,433
Gross Profit	10,111	9,811	7,899	8,405
Margin (%)	49.8	46.5	37.4	42.4
EBITDA	2,973	3,660	1,517	1,549
YoY gr. (%)	(27.9)	(23.6)	(70.0)	(42.3)
Margin (%)	14.7	17.4	7.2	7.8
Depreciation / Depletion	816	837	833	785
EBIT	2,157	2,823	684	764
Margin (%)	10.6	13.4	3.2	3.9
Net Interest	97	130	396	234
Other Income	176	206	142	183
Profit before Tax	1,770	1,210	(470)	6
Margin (%)	8.7	5.7	(2.2)	-
Total Tax	641	637	260	(31)
Effective tax rate (%)	36.2	52.7	(55.3)	(480.0)
Profit after Tax	1,129	573	(730)	38
Minority interest	-	-	-	-
Share Profit from Associates	(1)	(2)	1	1
Adjusted PAT	1,595	2,202	171	707
YoY gr. (%)	(44.8)	(31.1)	(94.7)	(55.8)
Margin (%)	7.9	10.4	0.8	3.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,129	570	(729)	39
YoY gr. (%)	(58.2)	(80.9)	(129.8)	(97.0)
Margin (%)	5.6	2.7	(3.5)	0.2
Other Comprehensive Income	345	291	(82)	(139)
Total Comprehensive Income	1,474	861	(811)	(100)
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	1.2	0.3	(2.0)	(0.6)

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	236	183
2	26-May-23	BUY	240	179
3	11-Apr-23	BUY	277	211
4	14-Feb-23	BUY	277	218
5	06-Jan-23	BUY	309	238
6	12-Nov-22	BUY	308	266
7	06-Oct-22	BUY	302	280
8	13-Aug-22	BUY	308	242

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	562	489
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	679	632
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,855	2,565
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	192	144
8	Nazara Technologies	BUY	834	694
9	PVR Inox	BUY	1,797	1,565
10	S Chand and Company	BUY	257	191
11	Safari Industries (India)	BUY	3,202	2,937
12	V.I.P. Industries	Accumulate	707	598
13	Zee Entertainment Enterprises	BUY	236	183

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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