

BUY Zee Entertainment

Ad revenue recovery in the slow lane; merger timelines key

Media & Entertainment ▶ Result Update ▶ November 10, 2023

TARGET PRICE (Rs): 315

Zee's advertising revenue declined for the fifth consecutive quarter (YoY), down 3.3% YoY in Q2FY24 and broadly in line with our estimate. Ad revenue recovery for Zee has been slow, despite FMCG companies hiking their ad spends. The festive season should grant some impetus to ad revenue growth, which continues to lag. Subscription revenue reported an uptick of 8% YoY, aided by NTO3.0 implementation. Other sales & services reported a strong performance owing to theatrical performance and syndication deals. EBITDA margin expanded by 580bps QoQ to 13.6%, braced by flow-through of higher revenue. The management expects to fulfill certain merger-closure conditions within the next few weeks, and timelines remain key. We cut EBITDA for FY24E by ~13% and for FY25-26E by 2-6%, to factor-in the Q2 results, slower ad revenue recovery, and elevated cost levels for Zee. We retain BUY and revise down our TP to Rs315/sh (9.5x Sep-25E *pro forma* broadcasting EV/EBITDA), with a comprehensive review under way owing to the merger.

Zee Entertainment: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,893	80,879	87,536	90,312	97,737
EBITDA	17,221	11,011	11,827	18,763	21,179
Adj. PAT	11,016	5,811	6,011	11,308	13,237
Adj. EPS (Rs)	10.0	0.5	5.0	11.8	13.8
EBITDA margin (%)	21.0	13.6	13.5	20.8	21.7
EBITDA growth (%)	(3.8)	(36.1)	7.4	58.6	12.9
Adj. EPS growth (%)	20.6	(95.0)	898.1	137.1	0.0
RoE (%)	10.6	5.5	5.6	9.9	10.8
RoIC (%)	12.0	6.1	6.1	10.3	11.4
P/E (x)	22.9	43.4	41.9	22.3	19.0
EV/EBITDA (x)	13.9	22.6	21.3	13.3	11.6
P/B (x)	2.3	2.4	2.3	2.1	2.0
FCFF yield (%)	(0.5)	(0.8)	(2.2)	2.7	2.6

Source: Company, Emkay Research

Results Summary

Zee's consolidated revenue grew 20% YoY to Rs24.4bn, higher than our estimate of Rs21.9bn. Ad revenue declined 3% YoY to Rs9.8bn, while subscription revenue growing 8% YoY, driven by the implementation of NTO3.0. Other sales & services more than tripled YoY on account of the stellar box-office performance of movies and the syndication deals. Operating costs increased 40% YoY to Rs14.2bn, due to higher content costs (including movies) and investment in Zee5. EBITDA margin improved by 580bps QoQ to 13.6%. Zee5's revenue grew 59% YoY/37% QoQ, with losses also declining by Rs882mn QoQ to Rs2.5bn. The company reported net profit of Rs1.2bn, including exceptional items amounting to Rs1.2bn (merger-related) and a loss of Rs69mn from discontinuing operations. The company's market share improved by 90bps QoQ to 17.9% (all 15+ U) **What we like:** Steady growth in subscription revenue, strong other sales & services, improvement in market share **What we do not like:** Slower ad revenue recovery.

Earnings Call KTAs

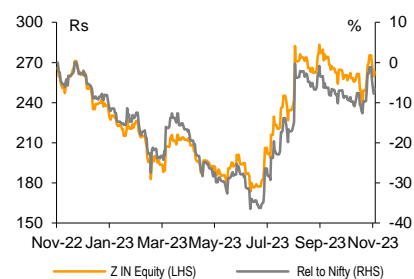
1) Proposed merger with Sony: Zee is committed to fulfilling all points addressed by the NCLT. It is likely to take a few more weeks for completion. 2) Ad revenue: There has been a gradual recovery led by FMCG companies. Startups are still not advertising. The Asia Cup took away some share in September, and the ongoing World Cup is also likely to have an impact. The festive season should aid in driving the ad revenue this quarter. 3) Subscription revenue: The decline of 2.2% QoQ in subscription revenue was due to lumpiness in Q1. The impact of NTO3.0 has now stabilized. 4) Zee5: All metrics remain healthy. Revenue growth of 59% YoY has also been aided by syndication deals. EBITDA losses moderated to Rs2.5bn, an improvement of Rs882mn QoQ, aided by operating leverage and prudent cost spending. Zee5 released 22 shows and movies in Q2, including 4 originals. The OTT market is settling now, and pricing wars should soon end. 5) Movies: Zee Studios released 6 movies this quarter — 2 in Hindi and 4 in Regional, with *Gadar 2* becoming the highest-ever grossing movie for Zee Studios. 6) Market Share: Market share improved by 90bps QoQ to 17.9% in Q2, fairly broad-based across key markets like Hindi GEC, Hindi movies, Marathi, Kannada and Telugu. 7) Exceptional Items: Zee recorded merger-related costs of Rs1.2bn, which include a one-time provision for stamp duty. 8) Others: Share of Pay TV has increased by ~300bps since the last one year.

Target Price – 12M	Sep-24
Change in TP (%)	(6.1)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.9
CMP (09-Nov-23) (Rs)	262.6

Stock Data	Ticker
52-week High (Rs)	291
52-week Low (Rs)	170
Shares outstanding (mn)	960.5
Market-cap (Rs bn)	252
Market-cap (USD mn)	3,028
Net-debt, FY24E (Rs mn)	-20
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	3,276.7
ADTV-3M (USD mn)	39.3
Free float (%)	96.0
Nifty-50	19,395
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	4.0
FPIs/MFs (%)	35.0/42.2

Price Performance

(%)	1M	3M	12M
Absolute	2.3	8.4	-
Rel. to Nifty	2.9	9.7	(6.3)

1-Year share price trend (Rs)**Pulkit Chawla**

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Exhibit 1: Actual vs Estimates (Q2FY24)

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	24,378	21,898	21,669	11%	13%	Aided by other sales and services
EBITDA	3,328	2,499	2,512	33%	32%	Higher revenue flow-through
EBITDA margin	13.6%	11.4%	11.6%	224 bps	206 bps	
PAT	1,230	1,202	1,137	2%	8%	Impacted by exceptional items

Source: Company, Emkay Research

Exhibit 2: Summary of quarterly financials

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
Ad revenue	10,128	10,638	10,058	9,409	9,792	(3.3)	4.1	19,891	19,201	(3.5)
Subscription Revenue	8,219	8,944	8,474	9,075	8,878	8.0	(2.2)	15,937	17,953	12.7
Others	1,937	1,530	2,589	1,354	5,708	194.7	321.6	2,914	7,062	142.3
Net Sales	20,284	21,112	21,121	19,838	24,378	20.2	22.9	38,741	44,216	14.1
Programming Cost	10,173	11,344	13,222	11,433	14,254	40.1	24.7	20,199	25,687	27.2
as % of sales	50.2	53.7	62.6	57.6	58.5			52.1	58.1	
Employee Expenses	2,358	2,165	2,154	2,596	2,599	10.2	0.1	4,530	5,195	14.7
as % of sales	11.6	10.3	10.2	13.1	10.7			11.7	11.7	
Admin and Other expenses	4,781	4,224	4,228	4,260	4,198	(12.2)	(1.5)	8,682	8,457	(2.6)
as % of sales	23.6	20.0	20.0	21.5	17.2			22.4	19.1	
Total operating expenditure	17,311	17,732	19,604	18,289	21,050	21.6	15.1	33,411	39,339	17.7
EBITDA	2,973	3,380	1,517	1,549	3,328	11.9	114.8	5,331	4,877	(8.5)
Depreciation	816	913	833	785	772	(5.3)	(1.6)	1,594	1,558	(2.3)
EBIT	2,157	2,467	684	764	2,555	18.4	234.4	3,737	3,319	(11.2)
Other Income	176	161	142	145	718	307.8	396.4	514	862	67.8
Interest	97	131	396	234	234	142.0	(0.1)	178	468	-
Exceptional Item	(466)	(1,632)	(2,131)	(1,241)	(1,267)			(616)	(2,508)	
PBT	1,770	864	(1,701)	(566)	1,772	0.1	(412.9)	3,457	1,206	(65.1)
Tax	641	619	260	(31)	544	(15.2)	(1,842)	1,262	512	(59.4)
PAT before MI	1,129	245	(1,961)	(535)	1,229	8.8	(329.6)	2,195	694	(68.4)
MI	1	2	(1)	(1)	(1)	(280.0)	(10.0)	(0)	(2)	533.3
PAT after MI	1,129	243	(1,960)	(534)	1,230	8.9	(330.2)	2,195	696	(68.3)
(%)						(bps)	(bps)			(bps)
EBITDAM	14.7	16.0	7.2	7.8	13.6	(101)	584	13.8	11.0	(273)
EBITM	10.6	11.7	3.2	3.9	10.5	(15)	663	9.6	7.5	(214)
EBTM	8.7	4.1	(8.1)	(2.9)	7.3	(146)	1,013	8.9	2.7	(620)
PATM	5.6	1.2	(9.3)	(2.7)	5.0	(53)	774	5.7	1.6	(410)
Effective Tax rate	36.2	71.6	(15.3)	5.5	30.7	(554)	2,516	36.5	42.5	597

Source: Company, Emkay Research

Exhibit 3: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	Change	Old	Revised	Change	Old	Revised	Change
Ad revenue	43,358	41,745	-3.7%	48,198	46,555	-3.4%	52,977	51,173	-3.4%
Subscription revenue	36,228	36,129	-0.3%	38,262	38,157	-0.3%	40,676	40,564	-0.3%
Revenue	85,541	87,536	2.3%	92,060	90,312	-1.9%	99,653	97,737	-1.9%
EBITDA	13,643	11,827	-13.3%	19,481	18,763	-3.7%	21,597	21,179	-1.9%
EBITDA Margin (%)	15.9	13.5	-244 bps	21.2	20.8	-38 bps	21.7	21.7	0 bps
PAT	6,479	4,770	-26.4%	11,935	11,308	-5.3%	13,477	13,237	-1.8%
EPS (Rs)	6.7	5.0	-26.3%	12.4	11.8	-5.2%	14.0	13.8	-1.8%

Source: Emkay Research

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Exhibit 4: Pro forma estimates of merged entity

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,32,567	1,50,111	1,48,950	1,62,673	1,76,583	1,91,981
Growth	-5%	13%	-1%	9%	9%	9%
Expenses						
Prog. & Operating Cost	71,270	79,995	85,529	89,368	88,653	95,432
Employee expenses	12,291	14,901	15,045	16,317	16,079	17,202
Other expenses	20,450	23,586	26,474	27,947	28,906	31,089
Total expenditure	1,04,011	1,18,482	1,27,048	1,33,633	1,33,638	1,43,723
EBITDA	28,556	31,629	21,903	29,040	42,945	48,258
EBITDA margin	22%	21%	15%	18%	24%	25%

Source: Company, Emkay Research

Exhibit 5: Breakdown of valuations

	Sep-25E (Rs mn)
Consol. EBITDA	45,602
OTT loss	(6,686)
Broadcasting EBITDA	52,288
EV/EBITDA (x)	9.5
EV	496,737
Net cash	139,300
Market cap	636,037
Target price (Rs/share)	315

Source: Emkay Research

Zee Entertainment: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,893	80,879	87,536	90,312	97,737
Revenue growth (%)	5.9	(1.2)	8.2	3.2	8.2
EBITDA	17,221	11,011	11,827	18,763	21,179
EBITDA growth (%)	(3.8)	(36.1)	7.4	58.6	12.9
Depreciation & Amortization	2,459	3,128	3,685	3,841	4,060
EBIT	14,762	7,884	8,142	14,922	17,119
EBIT growth (%)	(3.2)	(46.6)	3.3	83.3	14.7
Other operating income	0	0	0	0	0
Other income	1,213	797	600	840	960
Financial expense	451	702	828	640	680
PBT	15,524	7,979	7,914	15,122	17,399
Extraordinary items	(1,370)	(5,333)	(1,241)	0	0
Taxes	4,597	2,167	1,901	3,806	4,154
Minority interest	88	0	0	0	0
Income from JV/Associates	1	(1)	(2)	(8)	(8)
Reported PAT	9,646	478	4,770	11,308	13,237
PAT growth (%)	20.6	(95.0)	898.1	137.1	17.1
Adjusted PAT	11,016	5,811	6,011	11,308	13,237
Diluted EPS (Rs)	10.0	0.5	5.0	11.8	13.8
Diluted EPS growth (%)	20.6	(95.0)	898.1	137.1	0.0
DPS (Rs)	2.5	0.0	1.5	3.5	4.1
Dividend payout (%)	24.9	0.0	30.0	30.0	30.0
EBITDA margin (%)	21.0	13.6	13.5	20.8	21.7
EBIT margin (%)	18.0	9.7	9.3	16.5	17.5
Effective tax rate (%)	29.6	27.2	24.0	25.2	23.9
NOPLAT (pre-IndAS)	10,390	5,743	6,186	11,166	13,032
Shares outstanding (mn)	960.3	960.3	960.3	960.3	960.3

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	15,524	7,979	7,914	15,122	17,399
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,597)	(2,167)	(1,901)	(3,806)	(4,154)
Change in NWC	(9,849)	(3,436)	(11,120)	(6,003)	(8,433)
Operating cash flow	1,669	1,741	(2,666)	9,146	8,864
Capital expenditure	(2,915)	(3,793)	(2,800)	(2,500)	(2,500)
Acquisition of business	0	0	0	0	0
Interest & dividend income	270	270	270	270	270
Investing cash flow	5,630	(2,675)	(2,200)	(1,660)	(1,540)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(3,468)	2,057	55	0	0
Payment of lease liabilities	353	2,033	55	0	0
Interest paid	(451)	(702)	(828)	(640)	(680)
Dividend paid (incl tax)	(2,401)	0	(1,431)	(3,392)	(3,971)
Others	11,751	5,526	9,007	0	0
Financing cash flow	5,431	6,881	6,803	(4,032)	(4,651)
Net chg in Cash	12,731	5,948	1,937	3,454	2,673
OCF	1,669	1,741	(2,666)	9,146	8,864
Adj. OCF (w/o NWC chg.)	(8,180)	(1,695)	(13,786)	3,143	432
FCFF	(1,246)	(2,052)	(5,466)	6,646	6,364
FCFE	(1,427)	(2,484)	(6,024)	6,276	5,954
OCF/EBITDA (%)	9.7	15.8	(22.5)	48.7	41.9
FCFE/PAT (%)	(14.8)	(519.8)	(126.3)	55.5	45.0
FCFF/NOPLAT (%)	(12.0)	(35.7)	(88.3)	59.5	48.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	961	961	961	961	961
Reserves & Surplus	1,07,665	1,04,222	1,09,375	1,17,291	1,26,556
Net worth	1,08,626	1,05,183	1,10,336	1,18,251	1,27,517
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(3,080)	(4,229)	(4,229)	(4,229)	(4,229)
Total debt	763	2,820	2,875	2,875	2,875
Total liabilities & equity	1,06,309	1,03,773	1,08,982	1,16,897	1,26,163
Net tangible fixed assets	6,073	7,455	7,770	7,764	5,968
Net intangible assets	5,343	4,645	3,376	2,031	582
Net ROU assets	835	1,497	1,566	1,576	3,262
Capital WIP	872	191	191	191	191
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	13,382	6,278	2,895	6,149	8,542
Current assets (ex-cash)	1,02,781	1,09,230	1,21,132	1,26,521	1,40,113
Current Liab. & Prov.	23,005	27,167	27,949	27,335	32,495
NWC (ex-cash)	79,776	82,062	93,183	99,186	1,07,618
Total assets	1,06,309	1,03,773	1,08,982	1,16,897	1,26,163
Net debt	(12,619)	(3,457)	(20)	(3,274)	(5,667)
Capital employed	1,06,281	1,02,128	1,08,982	1,16,897	1,26,163
Invested capital	92,027	95,660	1,05,895	1,10,557	1,17,430
BVPS (Rs)	113.1	107.8	114.9	123.1	132.8
Net Debt/Equity (x)	(0.1)	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(0.7)	(0.3)	0.0	(0.2)	(0.3)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	15.4	8.3	8.3	14.0	14.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	22.9	43.4	41.9	22.3	19.0
P/CE(x)	18.7	28.2	26.0	16.6	14.6
P/B (x)	2.3	2.4	2.3	2.1	2.0
EV/Sales (x)	2.9	3.1	2.9	2.8	2.5
EV/EBITDA (x)	13.9	22.6	21.3	13.3	11.6
EV/EBIT(x)	16.2	31.5	31.0	16.7	14.4
EV/IC (x)	2.6	2.6	2.4	2.3	2.1
FCFF yield (%)	(0.5)	(0.8)	(2.2)	2.7	2.6
FCFE yield (%)	(0.6)	(1.0)	(2.4)	2.5	2.4
Dividend yield (%)	1.0	0.0	0.6	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	13.5	7.2	6.9	12.5	13.5
Total asset turnover (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	10.6	5.5	5.6	9.9	10.8
DuPont-RoIC					
NOPLAT margin (%)	12.7	7.1	7.1	12.4	13.3
IC turnover (x)	0.9	0.9	0.9	0.8	0.9
RoIC (%)	12.0	6.1	6.1	10.3	11.4
Operating metrics					
Core NWC days	355.6	370.3	388.5	400.9	401.9
Total NWC days	355.6	370.3	388.5	400.9	401.9
Fixed asset turnover	3.1	2.8	2.7	2.6	2.6
Opex-to-revenue (%)	29.6	31.1	32.3	31.2	30.8

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Nov-23	269	335	Buy	Pulkit Chawla
10-Aug-23	282	335	Buy	Pulkit Chawla
10-Aug-23	282	265	Buy	Pulkit Chawla
26-May-23	191	245	Buy	Pulkit Chawla
14-Feb-23	216	260	Buy	Pulkit Chawla

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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