

Rating: BUY | CMP: Rs263 | TP: Rs314

November 10, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	314		314	
Sales (Rs.m)	87,781	96,200	86,266	94,680
% Chng.	1.8	1.6		
EBITDA (Rs.m)	10,622	17,508	10,697	17,137
% Chng.	(0.7)	2.2		
EPS (Rs.)	6.1	11.5	5.9	11.2
% Chng.	3.7	2.3		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	80,879	87,781	96,200	1,05,604
EBITDA (Rs. m)	11,011	10,622	17,508	21,015
Margin (%)	13.6	12.1	18.2	19.9
PAT (Rs. m)	5,811	5,845	11,030	13,847
EPS (Rs.)	6.0	6.1	11.5	14.4
Gr. (%)	(51.2)	0.6	88.7	25.5
DPS (Rs.)	-	1.0	2.9	3.6
Yield (%)	-	0.4	1.1	1.4
RoE (%)	5.4	5.4	9.6	11.2
RoCE (%)	7.2	6.7	12.1	13.9
EV/Sales (x)	3.0	2.8	2.6	2.3
EV/EBITDA (x)	22.4	23.4	14.2	11.6
PE (x)	43.5	43.2	22.9	18.2
P/BV (x)	2.4	2.3	2.1	2.0

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.291 / Rs.170
Sensex / Nifty	64,832 / 19,395
Market Cap	Rs.252bn/ \$ 3,031m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.3276.74m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	35.00
Domestic Institution	42.07
Public & Others	18.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.4	38.7	0.2
Relative	3.5	32.2	(5.7)

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Windfall from movies aids margins

Quick Pointers:

- After being in single digit for last 2 quarters, EBITDA margin improves to 13.6% aided by strong performance from movies and lower losses in ZEE5.

Zee Entertainment Enterprise's (Z IN) operational performance was better than our expectation with EBITDA margin of 13.6% (PLe of 11.6%) amid strong performance from movie business and lower EBITDA losses in ZEE5 (Rs2.5bn in 2QFY24 versus past 4-quarters' average loss of Rs3bn). Likely improvement in ad-environment and accrual of benefits from NTO 3.0 is likely to result in sales CAGR of 9% over next 2 years with EBITDA margin of 12.1%/18.2% in FY24E/FY25E. Given NCLT approval is already in place and SAT has overturned SEBI's decision that barred Mr Punit Goenka from holding managerial position in a listed entity we do not foresee any further delay in merger with SPNI. We broadly maintain our estimates and retain BUY with a revised TP of Rs314 valuing the merge-co at 25x FY25E EPS.

Topline increased by 20.5% YoY: Revenues increased 20.5% YoY to Rs24,378mn (PLe Rs21,422mn). Ad revenues declined 3.3% YoY to Rs9,792mn while subscription revenues increased 8.0% YoY to Rs8,878mn. Revenues from other sale & services was up 201.5% YoY due to strong performance from movies like Gadar-2, Bro and King of Kotha.

EBITDA margin at 13.6%: EBITDA increased 5.7% YoY to Rs3,328mn (PLe Rs2,378mn) with a margin 13.6% (PLe 11.1%) as against a margin of 15.6%/7.8% in 2QFY23/1QFY24 respectively. After adjusting for the one-off charge of Rs1,198mn (merger related costs), PAT increased 35.8% YoY to Rs2,497mn with a margin of 10.2%. Apart from this, loss from discontinued operations stood at Rs69mn.

ZEE5's revenue grew 58.7% YoY: ZEE5's revenues increased by 58.7% YoY to Rs2,652mn aided by a syndication deal. 22 new shows/movies were launched in 2QFY24 which included 4 originals and the EBITDA loss narrowed to Rs2,539mn.

Con-call highlights: 1) The other sales and services revenue increased by 201.5% YoY to Rs5,708mn in 2QFY24, largely due to BO success of movies like Gadar-2, Bro, and King of Kotha. **2)** ZEEL's network share was up by 90bps to 17.9% in 2QFY24. **3)** GEC viewership share is likely to be impacted in 3QFY24 due to World Cup. **4)** ZEE5's revenue increased by 58.7% YoY to Rs2,652mn driven by higher subscription revenue and syndication deal. **5)** Total exceptional cost relating to merger amounted to Rs1,198mn. **6)** Inventory has declined to Rs70,216mn amid slew of movie releases. **7)** Receivables increased to Rs22,562mn as collections pertaining to movies have been spilled over to 3QFY24. **8)** Outstanding receivable from Dish stands at Rs691mn **9)** Industry is likely to see a high single digit growth in advertising in near future. **10)** Zee Studios released 2 Hindi and 4 regional movies during the quarter. **11)** Zee Music Company (ZMC) recorded ~142mn subscribers on YouTube in 2QFY24. **12)** Finance cost includes BG commission and interest charges paid to Star/ICC for acquiring the ICC rights.

Exhibit 1: 2QFY24 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
Net Sales	24,378	20,239	20.5%	19,838	22.9%	44,216	38,670	14.3%
Operational cost	14,254	10,167	40.2%	11,433	24.7%	25,687	20,187	27.2%
<i>As a % of sales</i>	<i>58.5%</i>	<i>50.2%</i>		<i>57.6%</i>		<i>58.1%</i>	<i>52.2%</i>	
Employee expenses	2,599	2,205	17.8%	2,596	0.1%	5,195	4,089	27.0%
<i>As a % of sales</i>	<i>10.7%</i>	<i>10.9%</i>		<i>13.1%</i>		<i>11.7%</i>	<i>10.6%</i>	
Other expenses	1,467	1,567	-6.4%	1,486	-1.3%	2,954	3,113	-5.1%
<i>As a % of sales</i>	<i>6.0%</i>	<i>7.7%</i>		<i>7.5%</i>		<i>6.7%</i>	<i>8.0%</i>	
A&P spends	2,731	3,151	-13.3%	2,773	-1.5%	5,504	5,448	1.0%
<i>As a % of sales</i>	<i>11.2%</i>	<i>15.6%</i>		<i>14.0%</i>		<i>12.4%</i>	<i>14.1%</i>	
Total Expenditure	21,050	17,090	23.2%	18,289	15.1%	39,339	32,837	19.8%
EBITDA	3,328	3,150	5.7%	1,549	114.8%	4,877	5,834	-16.4%
<i>EBITDA Margin</i>	<i>13.6%</i>	<i>15.6%</i>		<i>7.8%</i>		<i>11.0%</i>	<i>15.1%</i>	
Depreciation	772	743	3.9%	785	-1.6%	1558	1457	6.9%
EBIT	2,555	2,406	6.2%	764	234.4%	3,319	4,376	-24.2%
<i>EBIT Margin</i>	<i>10.5%</i>	<i>11.9%</i>		<i>3.9%</i>		<i>7.5%</i>	<i>11.3%</i>	
Interest	234	96	144.5%	234	-0.1%	468	176	165.8%
Other income	718	170	322.7%	145	396.4%	862	507	70.2%
Fair value (gain)/loss on financial instruments	-	-	NM	(38)	NM	(38)	-	NM
PBT before exceptional items	3,039	2,480	22.5%	713	326.3%	3,752	4,707	-20.3%
Exceptional items	(1,198)	(466)	NM	(706)	NM	(1,904)	(765)	NM
Share of profit in associates and joint ventures	1	(1)	NM	1	-20.0%	2	0	500.0%
PBT	1,842	2,013	-8.5%	7	24464.0%	1,850	3,942	-53.1%
Tax	544	642	-15.3%	(31)	NM	512	1,270	-59.6%
<i>Tax Rate</i>	<i>29.5%</i>	<i>31.9%</i>		<i>NM</i>		<i>27.7%</i>	<i>32.2%</i>	
PAT	1,299	1,371	-5.3%	39	3256.1%	1,337	2,672	-49.9%
<i>PAT Margin</i>	<i>5.3%</i>	<i>6.8%</i>		<i>0.2%</i>		<i>3.0%</i>	<i>6.9%</i>	
Other comprehensive income	116	347	-66.5%	(139)	NM	(23)	763	NM
Adjusted PAT	2,497	1,838	35.8%	707	253.3%	3,203	3,438	-6.8%
Loss from discontinued operations	(69)	(243)	NM	(573)	NM	(642)	(478)	NM
PAT/Loss including discontinued operations	1,230	1,129	8.9%	(534)	NM	696	2,195	-68.3%
EPS (Rs)	(0.1)	-0.3	NM	(0.6)	NM	(0.6)	(0.5)	26.0%
Adjusted EPS	2.6	1.9	35.8%	0.7	253.3%	3.3	3.6	-6.8%

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

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

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.
Domestic ad-revenue	9,411	9,608	-2.1%	9,018	4.4%
<i>As a % of ad-revenue</i>	<i>96.1%</i>	<i>94.9%</i>		<i>95.8%</i>	
International ad-revenue	381	518	-26.4%	391	-2.6%
<i>As a % of ad-revenue</i>	<i>3.9%</i>	<i>5.1%</i>		<i>4.2%</i>	
Total ad-revenue	9,792	10,126	-3.3%	9,409	4.1%
Domestic subscription revenue	7,790	7,159	8.8%	8,013	-2.8%
<i>As a % of subscription-revenue</i>	<i>87.7%</i>	<i>87.1%</i>		<i>88.3%</i>	
International subscription revenue	1,088	1,060	2.6%	1,062	2.4%
<i>As a % of subscription-revenue</i>	<i>12.3%</i>	<i>12.9%</i>		<i>11.7%</i>	
Total subscription revenue	8,878	8,219	8.0%	9,075	-2.2%
Other sales & services	5,708	1,893	201.5%	1,354	321.6%
Total Revenues	24,378	20,238	20.5%	19,838	22.9%

Source: Company, PL

Exhibit 3: ZEE5's EBITDA loss stood at Rs2,539mn in 2QFY24

Particulars	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Global MAU	112.4mn (in Sep-22)	119.5mn (in Dec-22)	113.8mn	NA	NA
Global DAU	11.4mn (in Sep-22)	11.5mn (in Dec-22)	11.1mn	NA	NA
Average watch time (per viewer/per month)	198 minutes (in 2QFY23)	169 minutes (in 3QFY23)	229 minutes (in 4QFY23)	NA	NA
Revenue	Rs1,671mn	Rs1,943mn	Rs2,200mn	Rs1,939mn	Rs2,652mn
EBITDA	Rs(2,769mn)	Rs(2,820mn)	Rs(3,109mn)	Rs(3,421mn)	Rs(2,539mn)
Number of originals/movies released	66	50	42	32	22

Source: Company, PL Note: MAU/DAU/viewership data was not disclosed in 1QFY24 and 2QFY24.

Exhibit 4: Movie rights constitute 64% of the content pie in 2QFY24

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Movie Rights	21.0	31.9	39.7	40.1	40.4	43.9	45.7	46.3	50.5	51.7	50.9	50.9	49.1
<i>As % of total</i>	<i>59%</i>	<i>55%</i>	<i>62%</i>	<i>64%</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>	<i>64%</i>
Shows	2.8	5.2	9.0	8.2	8.6	9.1	10.2	11.2	11.0	11.1	11.1	11.1	10.7
<i>As % of total</i>	<i>8%</i>	<i>9%</i>	<i>14%</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>	<i>14%</i>
Movie production, Music & Others	2.5	1.2	4.5	5.6	7.3	8.4	8.0	10.4	9.5	10.3	10.3	11.1	10.7
<i>As % of total</i>	<i>7%</i>	<i>2%</i>	<i>7%</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>	<i>14%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.9	8.4	8.7	6.7	7.1	6.4	6.4	6.4	6.1
<i>As % of total</i>	<i>26%</i>	<i>34%</i>	<i>17%</i>	<i>14%</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>	<i>8%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	66.2	69.7	72.5	74.6	78.9	79.5	79.6	79.6	76.7

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	80,879	87,781	96,200	1,05,604
YoY gr. (%)	(1.2)	8.5	9.6	9.8
Cost of Goods Sold	44,686	49,772	50,505	55,442
Gross Profit	36,193	38,009	45,695	50,162
Margin (%)	44.7	43.3	47.5	47.5
Employee Cost	8,238	9,656	9,428	10,138
Other Expenses	6,390	6,584	7,215	7,920
EBITDA	11,011	10,622	17,508	21,015
YoY gr. (%)	(38.2)	(3.5)	64.8	20.0
Margin (%)	13.6	12.1	18.2	19.9
Depreciation and Amortization	3,128	3,248	3,367	3,485
EBIT	7,884	7,374	14,141	17,530
Margin (%)	9.7	8.4	14.7	16.6
Net Interest	702	922	385	317
Other Income	855	1,136	1,251	1,373
Profit Before Tax	4,682	5,684	15,007	18,586
Margin (%)	5.8	6.5	15.6	17.6
Total Tax	2,167	1,706	3,977	4,740
Effective tax rate (%)	46.3	30.0	26.5	25.5
Profit after tax	2,515	3,978	11,030	13,847
Minority interest	-	-	-	-
Share Profit from Associate	(1)	2	-	-
Adjusted PAT	5,811	5,845	11,030	13,847
YoY gr. (%)	(51.2)	0.6	88.7	25.5
Margin (%)	7.2	6.7	11.5	13.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,514	3,980	11,030	13,847
YoY gr. (%)	(76.3)	58.3	177.2	25.5
Margin (%)	3.1	4.5	11.5	13.1
Other Comprehensive Income	970	(23)	-	-
Total Comprehensive Income	3,484	3,957	11,030	13,847
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	6.0	6.1	11.5	14.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	26,630	29,360	32,342	35,693
Tangibles	17,768	19,348	21,080	22,981
Intangibles	8,862	10,012	11,262	12,712
Acc: Dep / Amortization	16,835	20,082	23,449	26,934
Tangibles	10,653	12,764	14,953	17,218
Intangibles	6,182	7,318	8,497	9,717
Net fixed assets	10,296	9,778	9,393	9,259
Tangibles	7,616	7,085	6,628	6,263
Intangibles	2,680	2,693	2,765	2,995
Capital Work In Progress	210	210	210	210
Goodwill	3,302	3,302	3,302	3,302
Non-Current Investments	919	857	811	752
Net Deferred tax assets	4,229	1,251	2,701	3,346
Other Non-Current Assets	4,410	2,052	3,644	4,300
Current Assets				
Investments	-	-	-	-
Inventories	73,079	75,756	77,750	79,565
Trade receivables	16,088	18,278	20,294	22,278
Cash & Bank Balance	8,040	6,619	6,905	10,776
Other Current Assets	11,433	13,167	14,430	15,841
Total Assets	1,37,284	1,36,864	1,45,415	1,56,025
Equity				
Equity Share Capital	961	961	961	961
Other Equity	1,06,258	1,09,220	1,17,493	1,27,878
Total Network	1,07,219	1,10,181	1,18,454	1,28,839
Non-Current Liabilities				
Long Term borrowings	2,167	2,167	2,167	2,167
Provisions	1,362	1,317	1,539	1,690
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	17,494	16,113	16,341	16,781
Other current liabilities	9,042	7,086	6,914	6,549
Total Equity & Liabilities	1,37,284	1,36,864	1,45,415	1,56,025

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,681	5,685	15,007	18,586
Add. Depreciation	3,413	3,248	3,367	3,485
Add. Interest	707	922	385	317
Less Financial Other Income	855	1,136	1,251	1,373
Add. Other	(896)	1,578	(4,255)	(2,926)
Op. profit before WC changes	7,905	11,434	14,504	19,462
Net Changes-WC	(2,722)	(6,248)	(3,783)	(3,358)
Direct tax	(3,893)	(1,706)	(3,977)	(4,740)
Net cash from Op. activities	1,291	3,480	6,744	11,365
Capital expenditures	(2,560)	(2,730)	(2,982)	(3,351)
Interest / Dividend Income	403	-	-	-
Others	141	(254)	(333)	(365)
Net Cash from Inv. activities	(2,016)	(2,985)	(3,315)	(3,715)
Issue of share cap. / premium	-	-	-	-
Debt changes	24	-	-	-
Dividend paid	(2,882)	(995)	(2,758)	(3,462)
Interest paid	(80)	(922)	(385)	(317)
Others	(1,145)	-	-	-
Net cash from Fin. activities	(4,082)	(1,917)	(3,142)	(3,779)
Net change in cash	(4,807)	(1,421)	287	3,871
Free Cash Flow	(1,386)	750	3,762	8,014

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.0	6.1	11.5	14.4
CEPS	9.3	9.5	15.0	18.0
BVPS	111.6	114.7	123.3	134.1
FCF	(1.4)	0.8	3.9	8.3
DPS	-	1.0	2.9	3.6
Return Ratio(%)				
RoCE	7.2	6.7	12.1	13.9
ROIC	4.2	5.0	9.5	11.4
RoE	5.4	5.4	9.6	11.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	(0.1)
Net Working Capital (Days)	323	324	310	294
Valuation(x)				
PER	43.5	43.2	22.9	18.2
P/B	2.4	2.3	2.1	2.0
P/CEPS	28.2	27.8	17.5	14.6
EV/EBITDA	22.4	23.4	14.2	11.6
EV/Sales	3.0	2.8	2.6	2.3
Dividend Yield (%)	-	0.4	1.1	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	21,088	21,121	19,838	24,378
YoY gr. (%)	(0.2)	(9.0)	7.6	20.5
Raw Material Expenses	11,277	13,222	11,433	14,254
Gross Profit	9,811	7,899	8,405	10,124
Margin (%)	46.5	37.4	42.4	41.5
EBITDA	3,660	1,517	1,549	3,328
YoY gr. (%)	(23.6)	(70.0)	(42.3)	5.7
Margin (%)	17.4	7.2	7.8	13.6
Depreciation / Depletion	837	833	785	772
EBIT	2,823	684	764	2,555
Margin (%)	13.4	3.2	3.9	10.5
Net Interest	130	396	234	234
Other Income	206	142	183	718
Profit before Tax	1,210	(470)	6	1,842
Margin (%)	5.7	(2.2)	-	7.6
Total Tax	637	260	(31)	544
Effective tax rate (%)	52.7	(55.3)	(480.0)	29.5
Profit after Tax	573	(730)	38	1,298
Minority interest	-	-	-	-
Share Profit from Associates	(2)	1	1	1
Adjusted PAT	2,202	171	707	2,497
YoY gr. (%)	(31.1)	(94.7)	(55.8)	35.8
Margin (%)	10.4	0.8	3.6	10.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	570	(729)	39	1,299
YoY gr. (%)	(80.9)	(129.8)	(97.0)	(5.3)
Margin (%)	2.7	(3.5)	0.2	5.3
Other Comprehensive Income	291	(82)	(139)	116
Total Comprehensive Income	861	(811)	(100)	1,415
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	0.3	(2.0)	(0.6)	(0.1)

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-23	BUY	314	262
2	10-Aug-23	BUY	276	242
3	06-Jul-23	BUY	236	183
4	26-May-23	BUY	240	179
5	11-Apr-23	BUY	277	211
6	14-Feb-23	BUY	277	218
7	06-Jan-23	BUY	309	238
8	12-Nov-22	BUY	308	266

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	650	560
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	709	677
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,816	2,509
6	Lemon Tree Hotels	BUY	140	119
7	Music Broadcast	Hold	18	11
8	Navneet Education	BUY	195	140
9	Nazara Technologies	Hold	836	834
10	PVR Inox	BUY	1,984	1,745
11	S Chand and Company	BUY	338	280
12	Safari Industries (India)	BUY	4,752	4,232
13	V.I.P. Industries	Hold	689	613
14	Zee Entertainment Enterprises	BUY	314	262

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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