

Rating: REDUCE | CMP: Rs189 | TP: Rs167

February 14, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	167		151	
Sales (Rs. m)	94,302	1,03,508	94,993	1,04,268
% Chng.	(0.7)	(0.7)		
EBITDA (Rs. m)	15,843	20,184	16,909	20,332
% Chng.	(6.3)	(0.7)		
EPS (Rs.)	10.4	13.9	11.1	14.0
% Chng.	(6.2)	(0.7)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	80,879	85,835	94,302	1,03,508
EBITDA (Rs. m)	11,011	9,699	15,843	20,184
Margin (%)	13.6	11.3	16.8	19.5
PAT (Rs. m)	5,811	5,670	10,016	13,341
EPS (Rs.)	6.0	5.9	10.4	13.9
Gr. (%)	(51.2)	(2.4)	76.7	33.2
DPS (Rs.)	-	0.8	2.6	3.5
Yield (%)	-	0.4	1.4	1.8
RoE (%)	5.4	5.2	8.8	10.9
RoCE (%)	7.2	6.0	10.9	13.5
EV/Sales (x)	2.2	2.0	1.9	1.7
EV/EBITDA (x)	15.9	18.0	11.1	8.5
PE (x)	31.2	32.0	18.1	13.6
P/BV (x)	1.7	1.7	1.5	1.4

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.300 / Rs.153
Sensex / Nifty	71,555 / 21,743
Market Cap	Rs.181bn / \$ 2,183m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.7706.73m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	28.19
Domestic Institution	43.42
Public & Others	24.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(24.5)	(30.4)	(13.6)
Relative	(23.5)	(36.4)	(27.0)

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Cost recalibration is on the cards

Quick Pointers:

- Steady state aspiration is to aim for 8-10% revenue growth (digital business will grow at a much higher rate).
- Target is to deliver 18-20% EBITDA margin in FY26E.

We cut our FY25E EPS estimates by 6% as operating margin may remain under pressure in near term as recalibration measures taken to reset the cost base by re-visiting content, technology, marketing and employee spends will take some time to unfold post-merger fall out. While Zee Entertainment Enterprise's (ZEEL) operational performance was in-line with our expectation with EBITDA margin of 10.2% (PLe of 10.1%) bottom-line was impacted by merger related cost of Rs603mn. Likely improvement in ad-environment and accrual of benefits from NTO 3.0 is likely to result in sales CAGR of 10% over next 2 years with EBITDA margin of 11.3%/16.8% in FY24E/FY25E. We retain REDUCE with a revised TP of Rs167 (earlier Rs151) as we roll forward to FY26E valuing the stock at 12x (no change in target multiple). Effectiveness of the strategy pertaining to cost re-alignment, quantum of digital losses and recovery in ad-environment are key factors to watch out for in near term.

Topline declined by 3.0% YoY: Revenues declined by 3.0% YoY to Rs20,457mn (PLe Rs20,697mn). Ad-revenues declined 3.4% YoY to Rs10,274mn while subscription revenues increased 3.0% YoY to Rs9,213mn. Revenue from other sale & services was down 35.8% YoY due to fewer movie releases during the quarter.

EBITDA margin at 10.2%: EBITDA decreased 42.9% YoY to Rs2,092mn (PLe Rs2,090mn) with a margin 10.2% (PLe 10.1%) as against a margin of 17.4%/13.6% in 3QFY23/2QFY24 respectively. After adjusting for the one-off charge of Rs603mn (merger related costs), PAT declined 48.4% YoY to Rs1,137mn with a margin of 5.6%. Apart from this, gain from discontinued operations stood at Rs52mn.

ZEE5's revenue grew 14.9% YoY: ZEE5's revenues increased by 14.9% YoY to Rs2,232mn. 19 new shows/movies were launched in 3QFY24 which included 5 originals and the EBITDA loss narrowed to Rs2,440mn on sequential basis due to effective cost management strategies.

Con-call highlights: **1)** Network share was down to 16.5% due to impact of cricket world cup. **2)** 19 shows and movies were released on ZEE5 and losses narrowed on sequential basis due to cost optimization. **3)** Zee studios released 6 movies during the quarter. **4)** Bouquet prices are revised by 6-8% and subscription revenue is likely to grow by mid to high single digit going forward. **5)** Operating performance should recover from 2HFY25 and EBTDA margin in FY25E is likely to better than FY24E. **6)** Cost recalibration exercise will take 3-6 months. **7)** Cash on books is Rs8,286mn. **8)** ICC TV rights deal with Disney-Star is repudiated and ZEEL has sought a refund of Rs685mn. **9)** Merger related cost for the quarter was Rs603mn.

Exhibit 1: 3QFY24 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q3FY24	Q3FY23	YoY gr.	Q2FY24	QoQ gr.	9MFY24	9MFY23	YoY gr.
Net Sales	20,457	21,088	-3.0%	24,378	-16.1%	64,673	59,758	8.2%
Operational cost	11,876	11,277	5.3%	14,254	-16.7%	37,563	31,464	19.4%
<i>As a % of sales</i>	<i>58.1%</i>	<i>53.5%</i>		<i>58.5%</i>		<i>58.1%</i>	<i>52.7%</i>	
Employee expenses	2,442	1,994	22.4%	2,599	-6.0%	7,637	6,084	25.5%
<i>As a % of sales</i>	<i>11.9%</i>	<i>9.5%</i>		<i>10.7%</i>		<i>11.8%</i>	<i>10.2%</i>	
Other expenses	1,516	1,757	-13.7%	1,467	3.3%	4,470	4,869	-8.2%
<i>As a % of sales</i>	<i>7.4%</i>	<i>8.3%</i>		<i>6.0%</i>		<i>6.9%</i>	<i>8.1%</i>	
A&P spends	2,531	2,399	5.5%	2,731	-7.3%	8,035	7,847	2.4%
<i>As a % of sales</i>	<i>12.4%</i>	<i>11.4%</i>		<i>11.2%</i>		<i>12.4%</i>	<i>13.1%</i>	
Total Expenditure	18,365	17,427	5.4%	21,050	-12.8%	57,704	50,264	14.8%
EBITDA	2,092	3,660	-42.9%	3,328	-37.1%	6,969	9,494	-26.6%
<i>EBITDA Margin</i>	<i>10.2%</i>	<i>17.4%</i>		<i>13.6%</i>		<i>10.8%</i>	<i>15.9%</i>	
Depreciation	761	837	-9.0%	772	-1.4%	2319	2294	1.1%
EBIT	1,330	2,823	-52.9%	2,555	-47.9%	4,650	7,200	-35.4%
<i>EBIT Margin</i>	<i>6.5%</i>	<i>13.4%</i>		<i>10.5%</i>		<i>7.2%</i>	<i>12.0%</i>	
Interest	183	130	41.3%	234	-21.6%	652	306	113.0%
Other income	277	148	87.0%	718	-61.4%	1139	655	74.0%
Fair value (gain)/loss on financial instruments	-	(58)	NM	-	NM	(38)	(58)	NM
PBT before exceptional items	1,424	2,900	-50.9%	3,039	-53.1%	5,176	7,607	-32.0%
Exceptional items	(603)	(1,690)	NM	(1,198)	NM	(2,507)	(2,455)	NM
Share of profit in associates and joint ventures	1	(2)	NM	1	25.0%	3	(2)	NM
PBT	821	1,208	-32.0%	1,842	-55.4%	2,672	5,150	-48.1%
Tax	288	637	-54.8%	544	NM	800	1,907	-58.0%
<i>Tax Rate</i>	<i>35.1%</i>	<i>52.8%</i>		<i>NM</i>		<i>30.0%</i>	<i>37.0%</i>	
PAT	533	570	-6.5%	1,299	-58.9%	1,871	3,243	-42.3%
<i>PAT Margin</i>	<i>2.6%</i>	<i>2.7%</i>		<i>5.3%</i>		<i>2.9%</i>	<i>5.4%</i>	
Other comprehensive income	94	290	-67.6%	116	NM	71	1,052	-93.2%
Adjusted PAT	1,137	2,202	-48.4%	2,497	-54.5%	4,340	5,640	-23.0%
Loss from discontinued operations	52	(327)	NM	(69)	NM	(590)	(805)	NM
PAT/Loss including discontinued operations	585	243	140.7%	1,230	-52.4%	1,281	2,438	-47.5%
EPS (Rs)	0.1	0.3	NM	(0.1)	NM	(0.6)	(0.8)	NM
Adjusted EPS	1.2	2.3	-48.4%	2.6	-54.5%	4.5	5.9	-23.0%

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

Exhibit 2: Domestic ad-revenue was under pressure in 3QFY24 (Rs mn)

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY gr.	Q2FY24	QoQ gr.
Domestic ad-revenue	9,874	10,150	-2.7%	9,411	4.9%
<i>As a % of ad-revenue</i>	96.1%	95.4%		96.1%	
International ad-revenue	400	484	-17.4%	381	5.0%
<i>As a % of ad-revenue</i>	3.9%	4.6%		3.9%	
Total ad-revenue	10,274	10,634	-3.4%	9,792	4.9%
Domestic subscription revenue	8,269	7,875	5.0%	7,790	6.1%
<i>As a % of subscription-revenue</i>	89.8%	88.0%		87.7%	
International subscription revenue	944	1,069	-11.7%	1,088	-13.2%
<i>As a % of subscription-revenue</i>	10.2%	12.0%		12.3%	
Total subscription revenue	9,213	8,944	3.0%	8,878	3.8%
Other sales & services	970	1,510	-35.8%	5,708	-83.0%
Total Revenues	20,457	21,088	-3.0%	24,378	-16.1%

Source: Company, PL

Exhibit 3: ZEE5's EBITDA loss stood at Rs2,440mn in 3QFY24

Particulars	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Global MAU	119.5mn (in Dec-22)	113.8mn	NA	NA	NA
Global DAU	11.5mn (in Dec-22)	11.1mn	NA	NA	NA
Average watch time (per viewer/per month)	169 minutes (in 3QFY23)	229 minutes (in 4QFY23)	NA	NA	NA
Revenue	Rs1,943mn	Rs2,200mn	Rs1,939mn	Rs2,652mn	Rs2,232mn
EBITDA	Rs(2,820mn)	Rs(3,109mn)	Rs(3,421mn)	Rs(2,539mn)	Rs(2,440mn)
Number of originals/movies released	50	42	32	22	19

Source: Company, PL Note: MAU/DAU/viewership data was not disclosed in 1Q, 2Q and 3Q of FY24.

Exhibit 4: Movie rights constitute 64% of the content pie in 3QFY24

Particulars (Rs bn)	FY18	FY19	FY20	FY21	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Movie Rights	21.0	31.9	39.7	40.1	43.9	45.7	46.3	50.5	51.7	50.9	50.9	49.1	48.1
<i>As % of total</i>	59%	55%	62%	64%	63%	63%	62%	64%	65%	64%	64%	64%	64%
Shows	2.8	5.2	9.0	8.2	9.1	10.2	11.2	11.0	11.1	11.1	11.1	10.7	10.5
<i>As % of total</i>	8%	9%	14%	13%	13%	14%	15%	14%	14%	14%	14%	14%	14%
Movie production, Music & Others	2.5	1.2	4.5	5.6	8.4	8.0	10.4	9.5	10.3	10.3	11.1	10.7	10.5
<i>As % of total</i>	7%	2%	7%	9%	12%	11%	14%	12%	13%	13%	14%	14%	14%
Content advances & deposits	9.3	19.7	10.9	8.8	8.4	8.7	6.7	7.1	6.4	6.4	6.4	6.1	6.0
<i>As % of total</i>	26%	34%	17%	14%	12%	12%	9%	9%	8%	8%	8%	8%	8%
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	69.7	72.5	74.6	78.9	79.5	79.6	79.6	76.7	75.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	80,879	85,835	94,302	1,03,508
YoY gr. (%)	(1.2)	6.1	9.9	9.8
Cost of Goods Sold	44,686	49,355	49,980	53,824
Gross Profit	36,193	36,480	44,322	49,684
Margin (%)	44.7	42.5	47.0	48.0
Employee Cost	8,238	10,129	10,845	11,386
Other Expenses	6,390	5,923	6,318	6,728
EBITDA	11,011	9,699	15,843	20,184
YoY gr. (%)	(38.2)	(11.9)	63.3	27.4
Margin (%)	13.6	11.3	16.8	19.5
Depreciation and Amortization	3,128	3,090	3,253	3,416
EBIT	7,884	6,609	12,589	16,768
Margin (%)	9.7	7.7	13.4	16.2
Net Interest	702	858	330	311
Other Income	855	1,326	1,367	1,449
Profit Before Tax	4,682	4,570	13,627	17,907
Margin (%)	5.8	5.3	14.5	17.3
Total Tax	2,167	1,372	3,611	4,566
Effective tax rate (%)	46.3	30.0	26.5	25.5
Profit after tax	2,515	3,198	10,016	13,341
Minority interest	-	-	-	-
Share Profit from Associate	(1)	3	-	-
Adjusted PAT	5,811	5,670	10,016	13,341
YoY gr. (%)	(51.2)	(2.4)	76.7	33.2
Margin (%)	7.2	6.6	10.6	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,514	3,201	10,016	13,341
YoY gr. (%)	(76.3)	27.3	212.9	33.2
Margin (%)	3.1	3.7	10.6	12.9
Other Comprehensive Income	970	71	-	-
Total Comprehensive Income	3,484	3,272	10,016	13,341
Equity Shares O/s (m)	961	961	961	961
EPS (Rs)	6.0	5.9	10.4	13.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	23,808	26,675	29,622	32,935
Tangibles	16,565	18,282	19,979	21,842
Intangibles	7,243	8,393	9,643	11,093
Acc: Dep / Amortization	14,013	17,103	20,356	23,772
Tangibles	9,450	11,459	13,573	15,794
Intangibles	4,563	5,645	6,783	7,979
Net fixed assets	10,295	10,072	9,766	9,663
Tangibles	7,615	7,324	6,906	6,549
Intangibles	2,680	2,748	2,860	3,114
Capital Work In Progress	210	210	210	210
Goodwill	3,302	3,302	3,302	3,302
Non-Current Investments	919	845	801	744
Net Deferred tax assets	4,229	1,006	2,453	3,223
Other Non-Current Assets	4,410	1,681	3,323	4,147
Current Assets				
Investments	-	-	-	-
Inventories	73,079	74,077	76,216	77,986
Trade receivables	16,088	17,873	19,894	21,836
Cash & Bank Balance	8,040	8,367	7,660	10,956
Other Current Assets	11,433	12,875	14,145	15,526
Total Assets	1,37,283	1,35,815	1,43,659	1,53,896
Equity				
Equity Share Capital	961	961	961	961
Other Equity	1,06,258	1,08,730	1,16,241	1,26,247
Total Networkth	1,07,219	1,09,690	1,17,202	1,27,208
Non-Current Liabilities				
Long Term borrowings	2,167	2,167	2,167	2,167
Provisions	1,362	1,288	1,509	1,656
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	17,494	15,756	16,018	16,448
Other current liabilities	9,042	6,914	6,763	6,418
Total Equity & Liabilities	1,37,284	1,35,815	1,43,660	1,53,896

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	4,681	4,572	13,627	17,907
Add. Depreciation	3,413	3,090	3,253	3,416
Add. Interest	707	858	330	311
Less Financial Other Income	855	1,326	1,367	1,449
Add. Other	(896)	2,379	(4,289)	(3,173)
Op. profit before WC changes	7,905	10,900	12,921	18,460
Net Changes-WC	(2,722)	(4,521)	(3,898)	(3,282)
Direct tax	(3,893)	(1,372)	(3,611)	(4,566)
Net cash from Op. activities	1,291	5,007	5,412	10,612
Capital expenditures	(2,560)	(2,867)	(2,947)	(3,313)
Interest / Dividend Income	403	-	-	-
Others	141	(155)	(337)	(357)
Net Cash from Inv. activities	(2,016)	(3,022)	(3,285)	(3,670)
Issue of share cap. / premium	-	-	-	-
Debt changes	24	-	-	-
Dividend paid	(2,882)	(800)	(2,504)	(3,335)
Interest paid	(80)	(858)	(330)	(311)
Others	(1,145)	-	-	-
Net cash from Fin. activities	(4,082)	(1,659)	(2,834)	(3,646)
Net change in cash	(4,807)	327	(707)	3,296
Free Cash Flow	(1,386)	2,141	2,465	7,299

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.0	5.9	10.4	13.9
CEPS	9.3	9.1	13.8	17.4
BVPS	111.6	114.2	122.0	132.4
FCF	(1.4)	2.2	2.6	7.6
DPS	-	0.8	2.6	3.5
Return Ratio(%)				
RoCE	7.2	6.0	10.9	13.5
ROIC	4.2	4.5	8.6	11.0
RoE	5.4	5.2	8.8	10.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	0.0	(0.1)
Net Working Capital (Days)	323	324	310	294
Valuation(x)				
PER	31.2	32.0	18.1	13.6
P/B	1.7	1.7	1.5	1.4
P/CEPS	20.3	20.7	13.7	10.8
EV/EBITDA	15.9	18.0	11.1	8.5
EV/Sales	2.2	2.0	1.9	1.7
Dividend Yield (%)	-	0.4	1.4	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

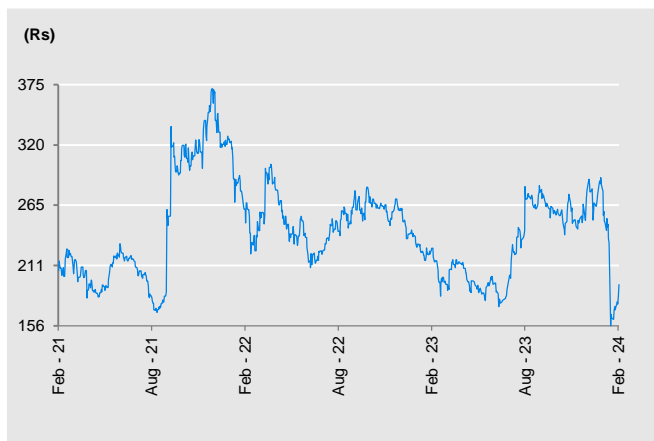
Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	21,121	19,838	24,378	20,457
YoY gr. (%)	(9.0)	7.6	20.5	(3.0)
Raw Material Expenses	13,222	11,433	14,254	11,876
Gross Profit	7,899	8,405	10,124	8,581
Margin (%)	37.4	42.4	41.5	41.9
EBITDA	1,517	1,549	3,328	2,092
YoY gr. (%)	(70.0)	(42.3)	5.7	(42.9)
Margin (%)	7.2	7.8	13.6	10.2
Depreciation / Depletion	833	785	772	761
EBIT	684	764	2,555	1,330
Margin (%)	3.2	3.9	10.5	6.5
Net Interest	396	234	234	183
Other Income	142	183	718	277
Profit before Tax	(470)	6	1,842	820
Margin (%)	(2.2)	-	7.6	4.0
Total Tax	260	(31)	544	288
Effective tax rate (%)	(55.3)	(480.0)	29.5	35.1
Profit after Tax	(730)	38	1,298	532
Minority interest	-	-	-	-
Share Profit from Associates	1	1	1	1
Adjusted PAT	171	707	2,497	1,137
YoY gr. (%)	(94.7)	(55.8)	35.8	(48.4)
Margin (%)	0.8	3.6	10.2	5.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(729)	39	1,299	533
YoY gr. (%)	(129.8)	(97.0)	(5.3)	(6.5)
Margin (%)	(3.5)	0.2	5.3	2.6
Other Comprehensive Income	(82)	(139)	116	94
Total Comprehensive Income	(811)	(100)	1,415	627
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	(2.0)	(0.6)	(0.1)	0.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Jan-24	Reduce	151	156
2	08-Jan-24	BUY	330	284
3	10-Nov-23	BUY	314	263
4	04-Oct-23	BUY	314	262
5	10-Aug-23	BUY	276	242
6	06-Jul-23	BUY	236	183
7	26-May-23	BUY	240	179
8	11-Apr-23	BUY	277	211

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	820	762
2	Indian Railway Catering and Tourism Corporation	Hold	749	902
3	Inox Leisure	BUY	587	502
4	InterGlobe Aviation	Accumulate	3,312	3,127
5	Lemon Tree Hotels	BUY	155	138
6	Navneet Education	BUY	182	153
7	Nazara Technologies	Hold	833	871
8	PVR Inox	Accumulate	1,719	1,455
9	S Chand and Company	BUY	357	262
10	Safari Industries (India)	BUY	2,271	2,045
11	V.I.P. Industries	Hold	589	539
12	Zee Entertainment Enterprises	Reduce	151	156

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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