

Rating: HOLD | CMP: Rs155 | TP: Rs167

March 5, 2024

Event Update

■ Change in Estimates | ■ Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		REDUCE	
Target Price	167		167	
Sales (Rs. m)	94,302	1,03,508	94,302	1,03,508
% Chng.	-	-	-	-
EBITDA (Rs. m)	15,843	20,184	15,843	20,184
% Chng.	-	-	-	-
EPS (Rs.)	10.4	13.9	10.4	13.9
% Chng.	-	-	-	-

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 (%)	-	0.5	1.7	2.2
RoE (%)	5.4	5.2	8.8	10.9
RoCE (%)	7.2	6.0	10.9	13.5
EV/Sales (x)	1.8	1.7	1.5	1.4
EV/EBITDA (x)	13.0	14.7	9.0	6.9
PE (x)	25.6	26.2	14.9	11.2
P/BV (x)	1.4	1.4	1.3	1.2

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.300 / Rs.153
Sensex / Nifty	73,872 / 22,406
Market Cap	Rs.149bn/ \$ 1,795m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.8467m

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	(10.4)	(41.7)	(22.6)
Relative	(12.6)	(48.2)	(37.3)

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Solo journey may not be easy

Quick Pointers:

- Legal cost under radar amid ongoing arbitration with Sony.

In an address to investors, Mr R Gopalan, Chairman of the Board, highlighted 1) revival plan is in place post-merger fall out and monthly reviews will be undertaken to track progress 2) an independent advisory committee has been formed to counter circulation of mis-information and 3) steps to enforce merger with Sony are still ongoing (ZEEL has approached NCLT to implement the merger scheme). We believe recalibration measures taken to reset the cost structure by re-visiting content, technology, marketing and people spends will take some time to unfold and the competitive landscape is likely to evolve after merger of Disney-Viacom18. We maintain our estimates and expect sales CAGR of 10% over next 2 years with EBITDA margin of 11.3%/16.8% in FY24E/FY25E but upgrade our rating to HOLD (earlier REDUCE) with a TP of Rs167 (12x FY26E EPS; no change in target multiple) amid ~18% correction in stock price since our last note.

Performance impacted by external factors: Over the last few years, ZEEL's performance was impacted by COVID, weak ad-environment and merger related sunk cost. However, amid gradual improvement in ad-environment we expect sales CAGR of 10% over next 2 years.

Revival plan in place: Operating performance is likely to improve in 2HFY25E. Although specific details of the revival plan were not disclosed, in 3QFY24 earnings call management had indicated plans to achieve 8-10% revenue growth on a steady state basis with 18-20% EBITDA margin in FY26E.

Formation of Independent Investigation Committee: ZEEL has established an "Independent Investigation Committee" in order to curb widespread misinformation surrounding the company. Chaired by Dr Satish Chandra, a retired judge of the Allahabad High Court, the committee also includes Independent Directors Mr Uttam Agarwal and Dr P V Ramana Murthy with an aim to restore investor confidence.

Monthly reviews planned: ZEEL's newly appointed independent directors will engage in monthly sessions with management to discuss expected performance, delivery targets, and strategies for navigating challenges in the future.

Efforts to enforce merger still ongoing: ZEEL has approached NCLT to implement the merger scheme. In addition, arbitration with Sony is also ongoing. This is likely to elevate legal cost in the interim, in our view.

3rd party content acquisition to slow down: In an effort to lower cost, 3rd party content acquisition is likely to slow down. Emphasizing on content quality, ZEEL aims to solidify its presence in the industry.

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

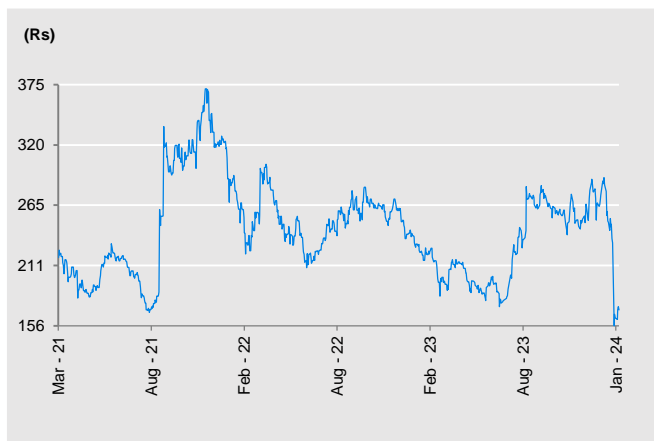
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	6.0	5.9	10.4	13.9
CEPS	9.3	9.1	13.8	17.4
BVPS	111.6	114.2	122.0	132.4
FCF	(1.4)	2.2	2.6	7.6
DPS	-	0.8	2.6	3.5
Return Ratio(%)				
RoCE	7.2	6.0	10.9	13.5
ROIC	4.2	4.5	8.6	11.0
RoE	5.4	5.2	8.8	10.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	0.0	(0.1)
Net Working Capital (Days)	323	324	310	294
Valuation(x)				
PER	25.6	26.2	14.9	11.2
P/B	1.4	1.4	1.3	1.2
P/CEPS	16.6	17.0	11.2	8.9
EV/EBITDA	13.0	14.7	9.0	6.9
EV/Sales	1.8	1.7	1.5	1.4
Dividend Yield (%)	-	0.5	1.7	2.2

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	14-Feb-24	Reduce	167	189
2	23-Jan-24	Reduce	151	156
3	08-Jan-24	BUY	330	284
4	10-Nov-23	BUY	314	263
5	04-Oct-23	BUY	314	262
6	10-Aug-23	BUY	276	242
7	06-Jul-23	BUY	236	183
8	26-May-23	BUY	240	179
9	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	825	929
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	167	189

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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