

Weak performance; ad recovery likely in H2...

About the stock: Zee Entertainment (Zee) is one of the largest listed media companies in India, which owns and operates a bouquet of 49 TV channels across 11 languages and also an OTT app *Zee5*.

- The company's TV network viewership share was at 16.1% in Q1FY23 (17.1% in Q4FY22), due to pull-out of Zee Anmol from free to air (FTA)

Q1FY23 Results: Zee reported a weak Q1FY23 performance.

- Revenues at ₹ 1,845.7 crore, up 5% YoY, with domestic ad growth of ~6% YoY. Overall subscription revenues declined 5% YoY to ₹ 772 crore, largely owing to ~7% decline in domestic subscription owing to pricing embargo impacting TV subscription growth along with some impact by timing of some B2B deals and renewals
- EBITDA came in at ₹ 236 crore, down 31.5% YoY with margins at 12.8% (down 661 bps QoQ), due to lower revenues and higher marketing cost on a YoY basis, on account of new launches in linear business and continued investments in ZEE5
- The company reported PAT of ₹ 106.6 crore, down 50% YoY

What should investors do? Zee's share price has declined ~53% over the past five years, owing to promoter debt issue and business challenges.

- We marginally cut our earnings estimates and target price but maintain **BUY**. **Strong ad recovery from H2 and likely merger consummation with no visible impediment, remain key triggers**

Target Price and Valuation: We value Zee at ₹ 300, at 20x FY24 P/E.

Key triggers for future price performance:

- Overall viewership share improvement, which remains sub-optimal. Turnaround in some key regional markets like Tamil/Marathi as well as Hindi GEC, where it has lost viewership market share. This would also drive recovery in margin performance and cash flow generation
- Consummation of merger with Sony

Alternate Stock Idea: Besides Zee, we like Inox Leisure in the media space.

- A play on recovery and consolidation of multiplexes
- BUY with a target price of ₹ 720



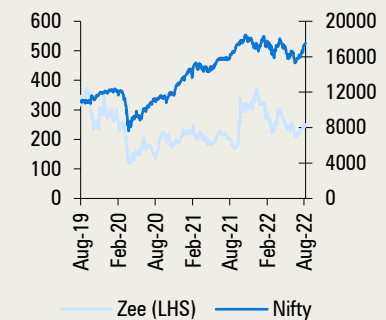
Particulars

Particulars	Amount
Market Cap (₹ crore)	23,224
Total Debt (₹ crore)	3
Cash & Inv. (₹ crore)	1,297
EV (₹ crore)	21,930
52 week H/L (₹)	379/ 167
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	4.0	4.0	4.0	4.0
DII	15.6	20.3	23.9	30.2
FII	57.2	52.2	47.9	39.2
Other	23.3	23.5	24.3	26.6

Price Chart



Key risks

Key Risk: (i) Delay in market share and ad recovery (ii) Sustained lower margins

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 year CAGR FY17-22	FY23E	FY24E	2 year CAGR FY22-24E
Net Sales (₹ crore)	8,129.9	7,729.9	8,189.3	4.9	8,745.8	9,700.1	8.8
EBITDA (₹ crore)	1,634.6	1,790.1	1,722.1	(2.2)	1,790.7	2,231.0	13.8
Net Profit (₹ crore)	526.5	800.1	964.6		1,192.6	1,510.8	
Adjusted Nat Profit (₹ crore)	1,661.5	984.9	1,054.6	(3.9)	1,192.6	1,510.8	19.7
EPS (₹)	5.5	8.3	10.0		12.4	15.7	
P/E (x)	43.3	28.5	23.6		19.1	15.1	
Price / Book (x)	2.3	2.2	2.1		2.0	1.8	
EV/EBITDA (x)	13.4	11.7	12.5		11.6	9.2	
RoE (%)	16.7	9.4	9.7		10.3	12.0	
RoCE (%)	13.9	13.7	14.6		13.9	16.2	

Key performance highlight and outlook

Ad growth faces lower FMCG spends challenges

The company indicated that the quarter's dual pressure of viewership softness (due to exit from FTA and lower time spent per viewers) and input price pressure restricting the FMCG ad spend. Consequently, domestic ad growth was muted, up 5.9% YoY. The company's TV network viewership share at 16.1% was lower than 17.1% in Q4FY22 due to exit of Zee Anmol from FTA. The company indicated that adjusted for FTA exit impact, viewership share was better QoQ. Despite near term headwinds, it expects QoQ improvement from Q2FY23 with major ad recovery from Q3FY23 led by festive season. It expects to be in line or slightly better than the overall market. **We bake in ~10.9% CAGR in ad revenues in FY22-24E, with growth being back ended.** The company indicated that 7% YoY decline in domestic subscription was owing to viewership softness, pricing embargo impacting TV subscription growth along with some impact by timing of some B2B deals and renewals. We highlight that Telecom Regulatory Authority of India (Trai) had extended NTO 2 implementation to November, 2022. While the company expects subscription growth to face near term disruption on NTO 2.0 implementation pushback, it expects the industry to revert back once this uncertainty is over. **We bake in modest subscription CAGR of ~5% in FY22-24E with tailwinds largely from Zee5.**

Healthy QoQ growth for Zee5; content spending to remain high

Zee5's revenues were at ₹ 159.7 crore during the quarter, growth of 43% YoY, driven by strong content slate addition. Zee5 reported operating losses of ₹ 235.2 crore vs. losses of ₹ 203.3 crore in Q4. Zee5 recorded a global DAU of 11.3 million and 103.3 million global MAU in June vs. Q4 numbers of 10.5 million and 104.8 million, respectively. **ZEE5 saw the launch of 38 new shows and movies in Q1FY23, including eight originals.** The company indicated that investment in content (on both OTT and linear TV), marketing, technology and product will continue to capture viewership and engagement share despite the near-term revenue headwinds on the ad revenue front. Furthermore, it reiterated its aim to expand movie production with a strong slate of movies across Hindi, Tamil, Telugu, Marathi and Punjabi languages. **We note that the company has indicated that FY23 would be the peak year of investments for Zee5.** The company has also raised the annual subscription pricing by ~40% for Zee5 since March, 2022, which should drive subscription revenue growth ahead.

Other highlights

- **Progress on merger with SPNI:** The company has received approval from stock exchanges. Zee filed the scheme of arrangement for the merger with CCI in April. Post that, it will seek NCLT approval once the CCI approvals are in place. However, we believe a couple of months of delay could be seen given the already slow process, so far
- **One off items, dues from related parties:** One off included ₹ 15 crore DSRA related additional liability pertaining to Siti Networks. Receivables from Dish have come down from ₹ 580 crore as of FY20 and ₹ 240 crore as of FY22 to ₹ 190 crore in Q1FY23. On Siti, revenues recognition is on actual collection basis. Receivables of ₹ 35.2 crore from Siti are delayed, of which ₹ 15.5 crore has been deposited against court order
- **Other:**
 - Increase in marketing cost on a YoY basis is on account of new launches in linear business and continued investments in ZEE5
 - Cash and treasury investment was at ₹ 1130 crore

The rebound in market share in Hindi GEC and Marathi/Tamil will be key to overall market share and ad recovery. We marginally cut our earnings estimates and target price but maintain **BUY** rating. **Strong ad recovery from H2 and likely merger consummation with no visible impediment, remain key triggers.** We value the stock at 20x FY24E P/E with a target price of ₹ 300/share.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Revenue	1,845.7	1,910.0	1,775.0	2,322.9	4.0	-20.5	
Other Income	33.8	27.5	23.8	58.5	41.7	-42.2	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	217.2	219.6	228.0	218.9	-4.7	-0.8	
Admin & Other Expenses	158.3	145.2	158.5	146.5	-0.1	8.1	
Marketing Expenses	231.8	181.4	178.1	213.1	30.1	8.8	
Operational Cost	1,002.6	1,060.0	866.4	1,257.9	15.7	-20.3	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	235.8	303.7	344.0	486.6	-31.5	-51.5	
EBITDA Margin (%)	12.8	15.9	19.4	20.9	-661 bps	-817 bps	
Depreciation	77.8	61.1	59.0	67.7	32.0	15.0	
Interest	8.1	3.0	1.9	38.1	319.7		
Total Tax	62.1	69.2	94.5	157.2	-34.2	-60.5	
PAT	106.6	198.0	213.7	181.9	-50.1	-41.4	

Key Metrics

Ad Revenue Growth	5.4%	9.0%	120.1%	-0.3%
Domestic Subscription	-7.4%	1.6%	0.3%	-1.1%
International Subscription %	12.3%	-12.0%	16.9%	107.6%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	8,705.3	8,581.0	-1.4	9,704.4	9,520.8	-1.9
EBITDA	1,743.0	1,665.9	-4.4	2,232.0	2,142.2	-4.0
EBITDA Margin (%)	20.0	19.4	-61 bps	23.0	22.5	-50 bps
PAT	1,158.1	1,083.9	-6.4	1,511.4	1,442.0	-4.6
EPS (₹)	12.1	11.3	-6.4	15.7	15.0	-4.6

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Ad Revenue Growth	20%	-7%	-20%	17%	9%	13%
Domestic Subscription	17%	33%	14%	-2%	0%	8%
International Subscription %	-1%	-16%	1%	15%	15%	5%

Source: Company, ICICI Direct Research

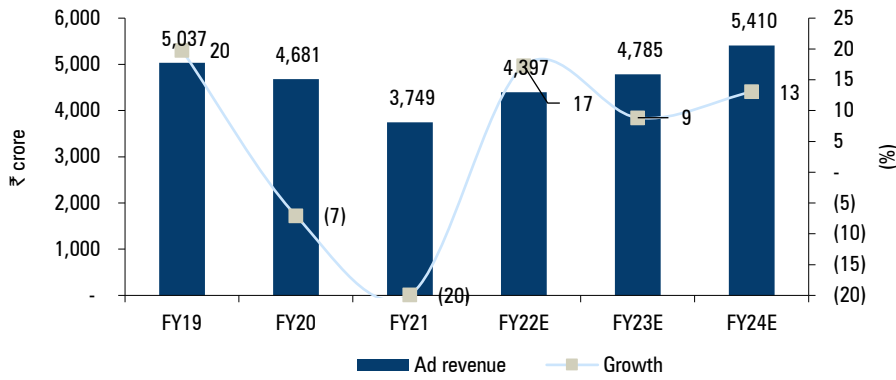
Exhibit 4: Zee5 KPI

Zee 5 Variable	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Monthly Active Users (mn) - MAU	52.9	54.7	65.9	72.6	80.2	93.2	101.9	104.8	103.3
Daily Active Users (mn) - DAU	4.0	5.2	5.4	6.1	7.1	9.3	9.6	10.5	11.3
Watch Time per month (min)	112	152	133	156	190	186	201	214	196
Revenues (₹ crore)	94.9	98.9	117.8	107.5	111.7	130.5	145.9	161.4	159.7
EBITDA (₹ crore)	-145.1	-189.4	-175.7	-162.5	-203.3	-172.0	-182.8	-195.2	-235.2
Original Shows released					11	13	11	13	8
Watch Time per month (min)	112	152	133	156	190	186	201	214	214

Source: Company, ICICI Direct Research

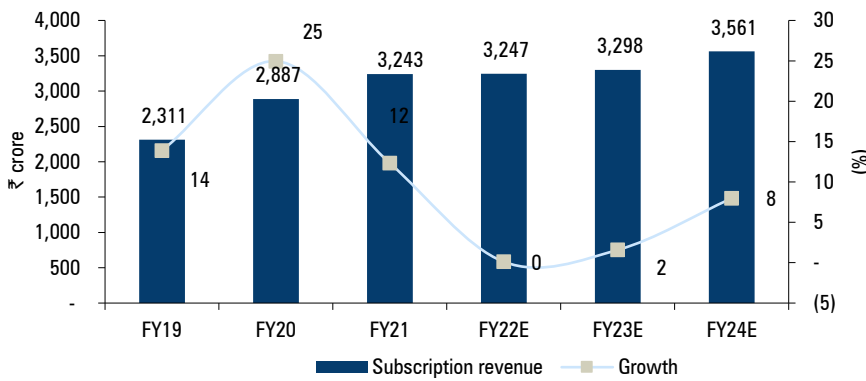
Story in charts

Exhibit 5: Ad revenue growth trend



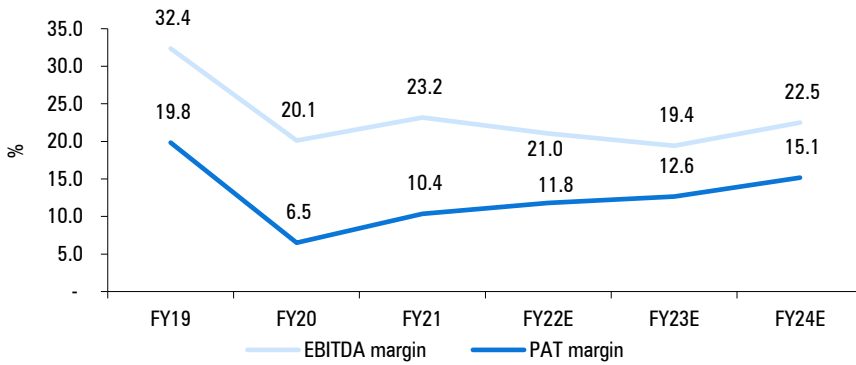
Source: Company, ICICI Direct Research

Exhibit 6: Subscription revenue growth trend



Source: Company, ICICI Direct Research; includes music from H2FY21

Exhibit 7: EBITDA and margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	7,730	8,189	8,581	9,521
Growth (%)	-4.9	5.9	4.8	11.0
Operational Cost	3,750	4,045	4,326	4,522
Employee Expenses	818	864	901	1,000
Admin & Other Expenses	754	694	774	857
Marketing Expenses	617	864	914	1,000
Total Operating Expenditure	5,940	6,467	6,915	7,379
EBITDA	1,790	1,722	1,666	2,142
Growth (%)	9.5	-3.8	-3.3	28.6
Depreciation	265	246	283	305
Interest	57	45	17	12
Other Income	-86	118	116	120
Exceptional Items	127	133	0	0
PBT	1,256	1,415	1,482	1,946
Minority Interest	-7	-9	0	0
PAT from Associates	0	0	0	0
Total Tax	463	460	398	504
PAT	800	965	1,084	1,442
Growth (%)	52.0	20.6	12.4	33.0
Adjusted PAT	985	1,055	1,084	1,442
Growth (%)	-40.7	7.1	2.8	33.0
Reported EPS (₹)	8.3	10.0	11.3	15.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	383.2	0.0	0.0	0.0
Reserve and Surplus	9,998.5	10,766.7	11,370.4	12,332.2
Total Shareholders funds	10,477.7	10,862.8	11,466.4	12,428.2
Total Debt	2.4	3.5	3.5	3.5
Others	50.4	72.8	72.8	72.8
Total Liabilities	10,530.6	10,939.1	11,542.7	12,504.5
Gross Block	2,057.0	2,372.2	2,622.2	2,872.2
Less: Acc Depreciation	1,246.2	1,492.1	1,775.2	2,079.9
Net Block	810.8	880.1	847.0	792.3
Capital WIP	75.5	87.1	87.1	87.1
Total Fixed Assets	886.3	967.3	934.1	879.4
Goodwill	380.4	345.0	345.0	345.0
Investments	798.3	65.1	465.1	865.1
Inventory	5,403.0	6,386.2	6,230.1	6,912.4
Debtors	1,945.2	1,737.5	1,820.6	2,020.0
Loans and Advances	1,138.2	1,252.3	1,312.2	1,455.9
Other Current Assets	341.8	506.1	530.3	588.4
Cash	1,090.7	1,273.3	1,579.9	1,373.7
Total Current Assets	9,918.8	11,155.4	11,473.0	12,350.3
Creditors	1,398.2	1,371.9	1,410.6	1,565.1
Provisions	170.9	115.9	119.1	132.2
Other current liabilities	719.1	812.7	851.6	944.9
Total Current Liabilities	2,288.2	2,300.5	2,381.3	2,642.1
Net Current Assets	7,630.7	8,854.9	9,091.7	9,708.2
Other non current assets	834.9	706.8	706.8	706.8
Total Assets	10,530.6	10,939.1	11,542.7	12,504.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	800	965	1,084	1,442
Add: Depreciation	265	246	283	305
Add: Interest paid	57	45	17	12
(Inc)/dec in Current Assets	345	-1,054	-11	-1,084
Inc/(dec) in CL and Provisions	-127	12	81	261
Others	0	0	0	0
CF from op. activities	1,340	214	1,454	936
(Inc)/dec in Investments	-474	733	-400	-400
(Inc)/dec in Fixed Assets	-160	-327	-250	-250
Others	19	186	0	0
CF from inv. activities	-615	592	-650	-650
Issue/(Buy back) of Equity	0	0	0	0
Issue of Preference Shares	-212	-383	0	0
Inc/(Dec) in loan funds	-50	1	0	0
Interest paid	57	45	17	12
Others	-164	-287	-514	-504
CF from fin. activities	-369	-624	-497	-492
Net Cash flow	356	183	307	-206
Opening Cash	735	1,091	1,273	1,580
Closing Cash	1,091	1,273	1,580	1,374

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	8.3	10.0	11.3	15.0
Adjusted EPS	10.3	11.0	11.3	15.0
BV	109.1	113.1	119.4	129.4
DPS	2.5	3.0	5.0	5.0
Cash Per Share	13.0	15.5	18.5	21.7
Operating Ratios (%)				
EBITDA Margin	23.2	21.0	19.4	22.5
EBIT Margin	19.7	18.0	16.1	19.3
PAT Margin	12.7	12.9	12.6	15.1
Inventory days	255.1	284.6	265.0	265.0
Debtor days	91.8	77.4	77.4	77.4
Creditor days	66.0	61.1	60.0	60.0
Return Ratios (%)				
RoE	9.4	9.7	9.5	11.6
RoCE	13.7	14.6	13.0	15.7
RoIC	18.8	15.8	14.9	18.2
Valuation Ratios (x)				
P/E	29.0	24.1	21.4	16.1
EV / EBITDA	11.9	12.7	12.7	9.8
EV / Net Sales	2.8	2.7	2.5	2.2
Market Cap / Sales	3.0	2.8	2.7	2.4
Price to Book Value	2.2	2.1	2.0	1.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.6	6.6	6.5	6.5
Quick Ratio	2.2	2.3	2.4	2.4

Source: Company, ICICI Direct Research

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Sell: <-15%



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