

Weak performance; merger key catalyst ahead...

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 16.2% in Q3FY23 (16.4% in Q2FY23)

Q3FY23 Results: Zee reported a weak Q3FY23 performance.

- Revenues were at ₹ 2111.2 crore, up 6.7% YoY. Ad revenues declined 15.6% YoY to ₹ 1064 crore, owing to weak ad spending by key segment (FMCG), sports heavy quarter and impact of exit from free to air. Overall subscription revenues grew 13.2% YoY to ₹ 894.4 crore led by 30.7% YoY growth in international subscription (Zee5 driven), and catchup revenues recognition from Siti (₹ 59 crore)
- EBITDA came in at ₹ 338 crore, down 18% YoY and up 35% QoQ, with margins at 16% (down 482 bps YoY, up 243 bps QoQ)
- PAT was at ₹ 24.3 crore as it provided for one-time exceptional items of ₹ 169 crore. Adjusted PAT, at ₹ 193 crore, was largely in line

What should investors do? Zee's share price has declined by ~62% over the past five years, owing to promoter debt issue and business challenges.

- We cut our earnings estimates but maintain **BUY**. **Gradual ad recovery and likely merger consummation, remain key triggers.**

Target Price and Valuation: We value Zee at ₹ 260, at 18x FY25 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 a 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 ₹ 620



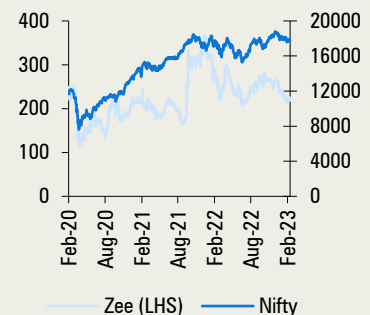
Particulars

Particulars	Amount
Market Cap (₹ crore)	20,813
Total Debt (₹ crore) FY22	3
Cash & Inv. (₹ crore) FY22	1,297
EV (₹ crore)	19,519
52 week H/L (₹)	308/ 200
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	4.0	4.0	4.0	4.0
DII	23.9	30.2	31.0	37.5
FII	47.9	39.2	38.7	37.3
Other	24.3	26.6	26.4	21.2

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)	FY21	FY22	5 year CAGR FY17-22	FY23E	FY24E	FY25E	3 year CAGR FY22-25E
Net Sales (₹ crore)	7,729.9	8,189.3	4.9	8,146.2	8,892.9	9,799.0	6.2
EBITDA (₹ crore)	1,790.1	1,722.1	(2.2)	1,264.1	1,645.2	2,155.8	7.8
Net Profit (₹ crore)	800.1	964.6		463.7	1,010.7	1,404.7	
Adjusted Nat Profit (₹ crore)	984.9	1,054.6	(3.9)	709.2	1,010.7	1,404.7	10.0
EPS (₹)	8.3	10.0		4.8	10.5	14.6	
P/E (x)	25.8	21.4		44.6	20.5	14.7	
Price / Book (x)	2.0	1.9		1.9	1.8	1.7	
EV/EBITDA (x)	10.5	11.3		14.9	11.5	8.6	
RoE (%)	9.4	9.7		6.5	8.9	11.4	
RoCE (%)	13.7	14.6		9.3	12.2	15.5	

Key performance highlight and outlook

Challenging ad environment/FTA pullout impact performance

The company indicated that ad growth weakness was owing to **exit from FTA and a challenging macro environment impacting ad spends, especially from key segments like FMCG**. We also highlight that Q3 was sports heavy and GEC losing ad share was also a likely possibility. Consequently, domestic ad declined 15.8% YoY. The company's TV network viewership share was at 16.2% (down 20 bps. QoQ). Zee continues to focus on fresh content strategy for viewership improvement in Hindi, Marathi and Tamil. We expect a growth recovery only in FY24. We bake in ~6.3% CAGR in ad revenues in FY22-25E, with major growth recovery from FY24 onwards. Overall subscription revenue growth of 13.2% YoY to ₹ 894.4 crore was owing to 30.7% YoY growth in international subscription (Zee5 led), and catchup revenues recognition from Siti (₹ 59 crore). We highlight that NTO 2 implementation has been mandated from February, 2023. The company expects subscription revenues to be in healthy single digit post NTO 2 implementation. We bake in subscription CAGR of ~5.5% in FY22-25E with tailwinds largely from Zee5.

Healthy growth for Zee5...

Zee5's revenues were at ₹ 194.3 crore during the quarter, growth of 33% YoY and ~16% QoQ, driven by strong content slate addition. Zee5 reported operating losses of ₹ 282.2 crore vs. losses of ₹ 276.9 crore in Q2. Zee5 recorded global DAU of 11.5 million and 119.5 million global MAU in December vs. Q2 numbers of 11.3 million and 112.4 million, respectively. Average daily watch time came down to 169 minutes vs. 198 minutes in Q2. The company indicated that the decline in watch time was due to a sharp increase in new users (MAUs), which should normalise gradually ahead. Zee5 saw the launch of 50+ new shows and movies in Q3FY23, including six 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 near-term revenue headwinds on the ad revenue front. It indicated that capital allocation towards regional movies would remain high. Its aim is to expand movie production with a strong slate of movies across regional languages of Tamil, Telugu, Marathi and Punjabi.

Other highlights

- **Progress on merger with SPNI:** The company awaits NCLT approval. A meeting has been convened on February 14, 2023 to hear the lenders' plea
- **One off items and dues from related parties:**
 - One off included ₹ 16.2 crore DSRA related additional liability pertaining to Siti Networks, impairment of Zee Learn NCD ₹ 25.5 crore, ₹ 68.9 crore of merger led expenses. The company also provided against Siti revenues of ₹ 59 crore (on a conservative basis), as the money is either parked in court/FDs in bank as per requirement
 - Receivables from Dish have come down from ₹ 240 crore as of FY22 to ₹ 106 crore in Q3.
- **Other:**
 - Cash and treasury investment was at ₹ 670 crore

The rebound in market share in Hindi GEC and Marathi/Tamil will be key to overall market share and ad recovery. We cut our earnings estimates but maintain BUY rating. Gradual ad recovery from FY24 and likely merger consummation, remain key triggers. We believe the combined entity will have a strong competitive positioning in both linear and digital segments. We value the stock at 18x FY25 P/E vs. 19x earlier with a target price of ₹ 260/share (₹ 310, earlier).

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Revenue	2,111.2	2,094.6	2,112.6	2,028.4	-0.1	4.1	
Other Income	21.8	27.5	12.5	17.6	74.7	24.1	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	216.5	230.4	213.4	235.8	1.4	-8.2	
Admin & Other Expenses	180.4	167.6	174.8	161.2	3.2	11.9	
Marketing Expenses	242.0	293.2	228.2	316.9	6.1	-23.6	
Operational Cost	1,134.4	1,068.2	1,017.0	1,017.3	11.5	11.5	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	338.0	335.1	479.3	297.3	-29.5	13.7	
EBITDA Margin (%)	16.0	16.0	22.7	14.7	-668 bps	135 bps	
Depreciation	91.3	76.0	59.4	81.6	53.6	11.9	
Interest	13.1	9.0	3.0	9.7	343.9		
Total Tax	61.9	71.9	115.1	64.1	-46.2	-3.4	
PAT	24.3	205.8	298.7	112.9	-91.9	-78.5	

Key Metrics

Ad Revenue Growth	-15.6%	-11.0%	-3.2%	-7.0%		
Domestic Subscription	11.2%	1.3%	-3.3%	2.2%		
International Subscription %	30.7%	0.0%	-25.0%	20.7%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	9,318.1	8,892.9	-4.6	10,051.4	9,799.0	-2.5
EBITDA	2,050.0	1,645.2	-19.7	2,311.8	2,155.8	-6.7
EBITDA Margin (%)	22.0	18.5	-350 bps	23.0	22.0	-100 bps
PAT	1,354.3	1,010.7	-25.4	1,544.7	1,404.7	-9.1
EPS (₹)	14.1	10.5	-25.4	16.1	14.6	-9.1

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
Ad Revenue Growth	20%	-7%	-20%	17%	-5%	12%	12%
Domestic Subscription	17%	33%	14%	-2%	2%	5%	8%
International Subscription %	-1%	-16%	1%	15%	14%	7%	7%

Source: Company, ICICI Direct Research

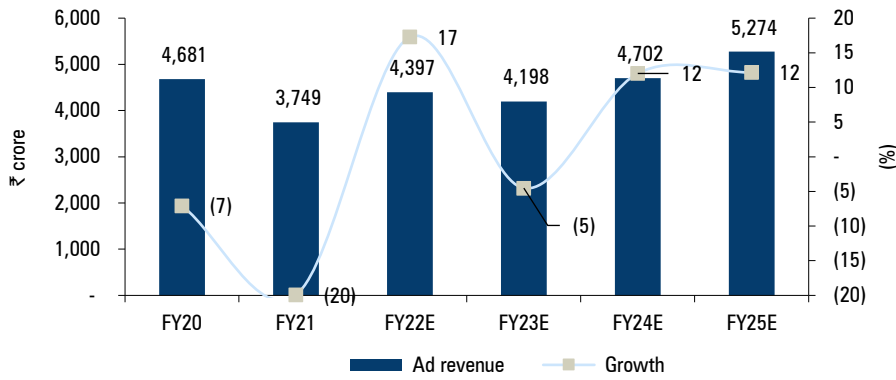
Exhibit 4: Zee5 KPI

Zee 5 Variable	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Monthly Active Users (mn) - MAU	52.9	54.7	65.9	72.6	80.2	93.2	101.9	104.8	103.3	112.4	119.5
Daily Active Users (mn) - DAU	4.0	5.2	5.4	6.1	7.1	9.3	9.6	10.5	11.3	11.4	11.5
Watch Time per month (min)	112	152	133	156	190	186	201	214	196	198	169
Revenues (₹ crore)	94.9	98.9	117.8	107.5	111.7	130.5	145.9	161.4	159.7	167.1	194.3
EBITDA (₹ crore)	-145.1	-189.4	-175.7	-162.5	-203.3	-172.0	-182.8	-195.2	-235.2	-276.9	282.0
Original Shows released					11	13	11	13	8	6	6

Source: Company, ICICI Direct Research

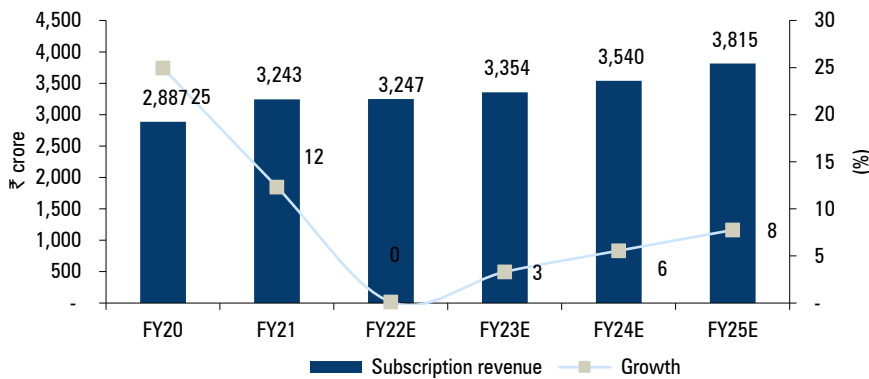
Story in charts

Exhibit 5: Ad revenue growth trend



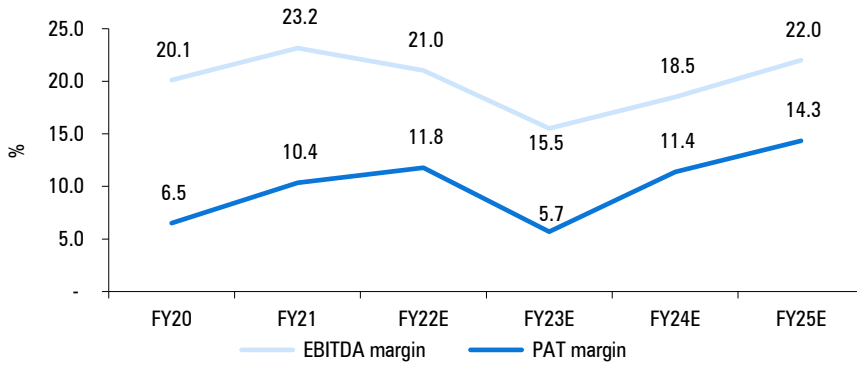
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Total operating Income	8,189	8,146	8,893	9,799
Growth (%)	5.9	-0.5	9.2	10.2
Operational Cost	4,045	4,278	4,535	4,704
Employee Expenses	864	871	916	1,029
Admin & Other Expenses	694	694	720	784
Marketing Expenses	864	1,039	1,076	1,127
Total Operating Expenditure	6,467	6,882	7,248	7,643
EBITDA	1,722	1,264	1,645	2,156
Growth (%)	-3.8	-26.6	30.1	31.0
Depreciation	246	342	356	372
Interest	45	43	36	36
Other Income	118	95	110	130
Exceptional Items	133	246	0	0
PBT	1,415	729	1,363	1,877
Minority Interest	-9	0	0	0
PAT from Associates	0	0	0	0
Total Tax	460	265	353	473
PAT	965	464	1,011	1,405
Growth (%)	20.6	-51.9	118.0	39.0
Adjusted PAT	1,055	709	1,011	1,405
Growth (%)	7.1	-32.7	42.5	39.0
Reported EPS (₹)	10.0	4.8	10.5	14.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	0.0	0.0	0.0	0.0
Reserve and Surplus	10,766.7	10,750.1	11,280.6	12,205.1
Total Shareholders funds	10,862.8	10,846.2	11,376.7	12,301.2
Total Debt	3.5	3.5	3.5	3.5
Others	72.8	72.8	72.8	72.8
Total Liabilities	10,939.1	10,922.5	11,453.0	12,377.5
Gross Block	2,259.9	2,509.9	2,759.9	3,009.9
Less: Acc Depreciation	1,379.8	1,721.9	2,077.7	2,450.0
Net Block	880.1	788.0	682.2	559.9
Capital WIP	87.1	87.1	87.1	87.1
Total Fixed Assets	967.2	875.1	769.4	647.0
Goodwill	345.0	345.0	345.0	345.0
Investments	65.1	465.1	865.1	1,265.1
Inventory	6,386.2	5,914.4	6,456.5	7,114.4
Debtors	1,737.5	1,728.3	1,886.7	2,079.0
Loans and Advances	1,252.3	1,245.7	1,359.9	1,498.4
Other Current Assets	506.1	503.5	549.6	605.6
Cash	1,273.3	1,399.3	981.9	835.5
Total Current Assets	11,155.4	10,791.2	11,234.6	12,132.9
Creditors	1,371.9	1,339.1	1,461.8	1,610.8
Provisions	115.9	113.1	123.4	136.0
Other current liabilities	812.7	808.5	882.6	972.5
Total Current Liabilities	2,300.5	2,260.6	2,467.9	2,719.3
Net Current Assets	8,854.9	8,530.5	8,766.7	9,413.6
Other non current assets	706.8	706.8	706.8	706.8
Total Assets	10,939.0	10,922.5	11,453.0	12,377.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	965	464	1,011	1,405
Add: Depreciation	246	342	356	372
Add: Interest paid	45	43	36	36
(Inc)/dec in Current Assets	-1,054	490	-861	-1,045
Inc/(dec) in CL and Provisions	12	-40	207	251
Others	0	0	0	0
CF from op. activities	214	1,299	749	1,020
(Inc)/dec in Investments	733	-400	-400	-400
(Inc)/dec in Fixed Assets	-327	-250	-250	-250
Others	186	0	0	0
CF from inv. activities	592	-650	-650	-650
Issue/(Buy back) of Equity	0	0	0	0
Issue of Preference Shares	-383	0	0	0
Inc/(Dec) in loan funds	1	0	0	0
Interest paid	45	43	36	36
Others	-287	-566	-552	-552
CF from fin. activities	-624	-523	-516	-516
Net Cash flow	183	126	-417	-146
Opening Cash	1,091	1,273	1,399	982
Closing Cash	1,273	1,399	982	835

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	10.0	4.8	10.5	14.6
Adjusted EPS	11.0	7.4	10.5	14.6
BV	113.1	112.9	118.4	128.1
DPS	3.0	5.0	5.0	5.0
Cash Per Share	14.4	17.9	21.6	25.5
Operating Ratios (%)				
EBITDA Margin	21.0	15.5	18.5	22.0
EBIT Margin	18.0	11.3	14.5	18.2
PAT Margin	12.9	8.7	11.4	14.3
Inventory days	284.6	265.0	265.0	265.0
Debtor days	77.4	77.4	77.4	77.4
Creditor days	61.1	60.0	60.0	60.0
Return Ratios (%)				
RoE	9.7	6.5	8.9	11.4
RoCE	14.6	9.3	12.2	15.5
RoIC	15.8	10.5	13.7	17.6
Valuation Ratios (x)				
P/E	21.4	44.6	20.5	14.7
EV / EBITDA	11.3	14.9	11.5	8.6
EV / Net Sales	2.4	2.3	2.1	1.9
Market Cap / Sales	2.5	2.5	2.3	2.1
Price to Book Value	1.9	1.9	1.8	1.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	6.6	6.5	6.5	6.5
Quick Ratio	2.3	2.4	2.4	2.4

Source: Company, ICICI Direct Research

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