

Retail Equity Research

Zee Entertainment Enterprises Ltd

Media

BSE CODE: 505537

NSE CODE: ZEEL

Bloomberg CODE: ZEE:IN

SENSEX: 58,645

BUY

12 Months Investment period Rating as per Mid Cap
CMP Rs. 278 TARGET Rs. 325 RETURN 17%
(Closing: 04-02-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Strong pipeline. Positive outlook.

Zee Entertainment Enterprises Ltd is an Indian mass media company with interests in television, print, films, mobile content and internet, and allied businesses.

- Zee Entertainment's consolidated revenue for the Q3FY22 declined 22.6% YoY to Rs. 2,113cr however on quarter-on-quarter basis it increased by 6.8%.
- EBITDA for the quarter declined by 33.0% YoY to Rs. 479cr contracting the margins by 353bps to 22.7%
- In the short term there is risk associated with corona virus cases, however given its large portfolio, strong pipeline, synergies from the merger, and significant growth in the digital platform business, we reiterate BUY rating on the stock with a revised target price of Rs. 325 based on 18.0x FY24E adj. EPS.

Strong pipeline of content to drive growth

Consolidated revenue declined by 22.6% YoY to Rs. 2,113cr, because of higher base effect due to one-off syndication deal revenue in other sales & services (adjusting for the one-off the revenue declined 3% YoY). Gross margin increased 368bps YoY (-247bps QoQ) to 51.9%. The ZEE5 earned revenue of Rs. 1,459cr (+24% YoY, +12% QoQ), launched 51 new shows on ZEE5 including 11 original shows, and has compelling content lined up in Q4FY22. Zee network launched 25+ shows across its channels, while viewership share decreased 90bps YoY. During the quarter, Zee studio released 5 movies, while a strong slate of movies across Hindi, Tamil, Telugu, Marathi and Punjabi languages is being planned for release in Q4FY22, depending upon covid related restrictions in coming quarters. ZEE music co. saw 42% growth in the YouTube views with 3mn subscribers added in Q3FY22.

Key concall highlights

- Zee-Sony merger process has been initiated in December, both the companies to function independently until they receive approval from CCI.
- For the first time ZEE5's global MAUs crossed 100mn mark and DAUs were 9.6mn with average watch time of 201 minutes per user.
- The third wave of corona virus and surge in the covid cases could potentially impact the fourth quarter results.
- ZEE network's viewership share for the December quarter decreased 40bps QoQ (-90bps YoY) to 17.3%.

Margins impacted

EBITDA declined 33.0% YoY, however increased sequentially by 23.1% to Rs. 479cr due to lower revenue and impacted margins as a result of higher operating costs compared to last year. EBITDA margins contracted 353bps YoY to 22.7% (+301bps QoQ) due to higher Advertising and publicity expense and Employee and benefits expense compared to last year. PAT declined 25.3% YoY to Rs. 314cr (+10.5% QoQ).

Valuation

In the short term there is risk associated with corona virus cases which may impact ZEE studio business. Lower advertisement spends by consumer companies could also impact the revenues, however given its diverse portfolio of content, strong pipeline, synergies from the merger, and significant growth in the digital platform business, we reiterate BUY rating on the stock with a revised target price of Rs. 325 based on 18.0x FY24E adj. EPS.

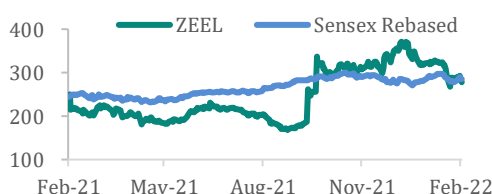
Company Data

Market Cap (cr)	Rs. 26,766
Enterprise Value (cr)	Rs. 25,309
Outstanding Shares (cr)	96.1
Free Float	96.0%
Dividend Yield	0.9%
52 week high	Rs. 379
52 week low	Rs. 167
6m average volume (cr)	0.1
Beta	1.0
Face value	Rs. 1

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	4.0	4.0	4.0
FII's	57.5	57.2	52.2
MFs/Insti	18.6	16.1	21.0
Public	6.3	8.5	8.4
Others	13.6	14.2	14.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-10.2%	37.9%	11.6%
Absolute Sensex	-2.4%	7.9%	15.9%
Relative Return*	-7.8%	30.0%	-4.3%

*over or under performance to benchmark index



Consolidated (cr)	FY22E	FY23E	FY24E
Sales	7,953	8,875	9,906
Growth (%)	2.9	11.6	11.6
EBITDA	1,809	2,197	2,452
EBITDA Margin (%)	22.8	24.8	24.8
Adj. PAT	1,215	1,535	1,736
Growth (%)	31.1	26.3	13.1
Adj. EPS	12.6	16.0	18.1
Growth (%)	31.1	26.3	13.1
P/E	22.0	17.4	15.4
P/B	2.5	2.2	2.0
EV/EBITDA	14.0	11.4	10.0
ROE (%)	11.1	12.8	13.2
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %	9MFY22	9MFY21	YoY Growth %
Revenue	2,113	2,729	(22.6)	1,979	6.8	5,866	5,764	1.8
EBITDA	479	716	(33.0)	389	23.1	1,199	1,249	(4.0)
EBITDA margins	22.7	26.2	(350bps)	19.7	300bps	20.4	21.7	(130bps)
Depreciation	59	65	(8.9)	60	(0.7)	178	202	(11.9)
EBIT	420	650	(35.5)	330	27.4	1,021	1,047	(2.5)
Interest	3	2	39.6	2	35.2	7	8	(10.9)
Other Income	13	(56)	122.2	46	(72.6)	95	(125)	n.m.
Exceptional Items	(15)	-	n.m.	(14)	n.m.	(33)	(97)	n.m.
PBT	414	592	(30.0)	359	15.3	1,076	817	31.8
Tax	115	194	(40.6)	93	23.8	303	296	2.2
Share of profit from Associate	0	(0)	n.m.	0	75.0	0	(0)	n.m.
Minority Interest	0	(2)	n.m.	(4)	n.m.	(9)	(4)	n.m.
Reported PAT	299	400	(25.3)	270	10.6	783	524	49.3
Adjustments	15	-	n.m.	14	10.0	33	97	(65.9)
Adj. PAT	314	400	(21.4)	284	10.5	816	621	31.3
No. of shares	96.1	96.1	0.0	96.1	0.0	96.1	96.1	0.0
Adj. EPS (Rs.)	3.3	4.2	(21.5)	3.0	10.5	8.5	6.5	31.3

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs. cr	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
Revenue	8,702	9,695	7,953	8,875	9,906	(8.6)	(8.5)
EBITDA	1,967	2,191	1,809	2,197	2,452	(8.0)	0.3
Margins (%)	22.6	22.6	22.8	24.8	24.8	20bps	220bps
Adj. PAT	1,303	1,559	1,215	1,535	1,736	(6.8)	(1.5)
Adj. EPS	13.6	16.2	12.6	16.0	18.1	(6.8)	(1.5)

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	8,130	7,730	7,953	8,875	9,906
% change	2.5	(4.9)	2.9	11.6	11.6
EBITDA	1,635	1,790	1,809	2,197	2,452
% change	(34.9)	12.0	0.7	20.4	9.9
Depreciation	271	265	250	217	209
EBIT	1,364	1,525	1,559	1,980	2,242
Interest	145	57	35	37	44
Other Income	(263)	(213)	114	127	141
PBT	956	1,256	1,638	2,069	2,340
% change	(60.7)	31.3	30.4	26.3	13.1
Tax	432	463	426	538	608
Tax Rate (%)	45.1	36.8	26.0	26.0	26.0
Reported PAT	526	800	1,215	1,535	1,736
Adj*	284	127	-	-	-
Adj PAT	811	927	1,215	1,535	1,736
% change	(49.0)	14.3	31.1	26.3	13.1
No. of shares (cr)	96.1	96.0	96.0	96.0	96.0
Adj EPS (Rs.)	8.4	9.6	12.6	16.0	18.1
% change	(49.0)	14.3	31.1	26.3	13.1
DPS (Rs.)	0.3	2.5	3.8	4.8	5.4
CEPS (Rs.)	11.3	12.4	15.3	18.2	20.3

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	553	1,048	2,231	2,574	3,163
Accounts Receivable	2,085	1,945	1,988	2,174	2,675
Inventories	5,347	5,403	5,422	6,093	6,379
Other Cur. Assets	2,207	2,328	2,303	2,280	2,260
Investments	127	84	84	85	85
Gross Fixed Assets	2,155	2,329	2,402	2,583	2,833
Net Fixed Assets	680	686	572	387	331
CWIP	33	27	21	17	14
Intangible Assets	605	621	615	617	620
Def. Tax (Net)	-	-	-	-	-
Other Assets	736	676	631	788	893
Total Assets	12,374	12,819	13,868	15,016	16,420
Current Liabilities	1,950	1,804	2,024	2,120	2,332
Provisions	141	155	158	161	164
Debt Funds	928	753	767	782	797
Other Liabilities	(0)	-	-	-	0
Equity Capital	96	96	96	96	96
Reserves & Surplus	9,248	9,998	10,813	11,851	13,029
Shareholder's Fund	9,344	10,095	10,909	11,947	13,125
Minority Interest	11	13	10	6	2
Total Liabilities	12,374	12,819	13,868	15,016	16,420
BVPS (Rs.)	97	105	114	124	137

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	797	1,065	1,465	1,752	1,945
Non-cash adj.	1,129	402	126	128	133
Changes in W.C	(1,676)	81	147	(775)	(590)
C.F. Operation	250	1,548	1,738	1,105	1,488
Capital exp.	(145)	(174)	(73)	(180)	(251)
Change in inv.	389	(376)	(0)	(0)	(0)
Other invest.CF	144	44	0	(0)	0
C.F - Investment	389	(506)	(73)	(181)	(251)
Issue of equity	-	-	-	-	-
Issue/repay debt	(46)	(22)	-	-	-
Dividends paid	(523)	(112)	(447)	(543)	(604)
Other finance.CF	(493)	(407)	(35)	(37)	(44)
C.F - Finance	(1,062)	(541)	(482)	(581)	(648)
Chg. in cash	(423)	501	1,182	343	589
Closing cash	553	1,048	2,231	2,574	3,163

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	20.1	23.2	22.8	24.8	24.8
EBIT margin (%)	16.8	19.7	19.6	22.3	22.6
Net profit mgn.(%)	6.5	10.4	15.3	17.3	17.5
ROE (%)	5.6	7.9	11.1	12.8	13.2
ROCE (%)	13.3	14.0	13.3	15.5	16.1
W.C & Liquidity					
Receivables (days)	93.6	91.8	91.3	89.4	98.6
Inventory (days)	509.8	515.1	527.7	595.0	558.1
Payables (days)	160.2	133.3	156.4	165.0	165.0
Current ratio (x)	4.0	4.2	4.3	4.6	4.7
Quick ratio (x)	1.1	1.2	1.5	1.7	1.9
Turnover & Leverage					
Gross asset T.O (x)	3.9	3.4	3.4	3.6	3.7
Total asset T.O (x)	0.6	0.6	0.6	0.6	0.6
Int. coverage ratio (x)	9.4	26.7	44.6	52.8	50.7
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	1.5	2.5	3.2	2.8	2.5
EV/EBITDA (x)	7.5	10.7	14.0	11.4	10.0
P/E (x)	14.7	21.1	22.0	17.4	15.4
P/BV (x)	1.3	1.9	2.5	2.2	2.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
25-Jul-19	BUY	444
31-Oct-19	HOLD	260
3-Aug-20	HOLD	151
24-Aug-20	BUY	245
23-Nov-20	BUY	245
25-May-21	BUY	233
17-Nov-21	BUY	389
7-Feb-22	BUY	325

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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