



Zee Entertainment

1QFY17 Result Update

Sector: Media

CMP: ₹ 474

Strong advertisement revenue, maintain Buy

Recommendation: Buy

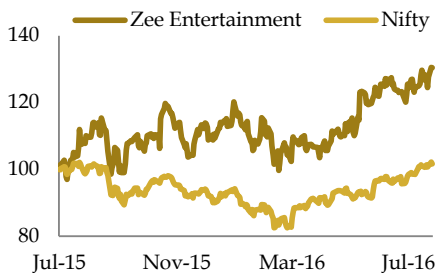
Market statistics

Current stock price (₹)	474
Shares O/S (cr.)	96.0
Mcap (₹ cr)	45,578
52W H/L (₹)	478/347
6m avg. volume	1,983,359
Bloomberg	Z.IN

Shareholding pattern

Promoters	43.07
Domestic Institution	3.78
Foreign Institution	48.12
Non-institution	5.03
of which more than 1%	
Oppenheimer Developing Markets Fund	7.36
Government of Singapore	1.60

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	18.0	19.7	20.0
EPS (₹)	11.0	13.7	16.1
CEPS (₹)	11.9	14.8	17.3
P/E (x)	34.9	34.6	29.5
P/BV (x)	5.9	6.4	5.5
EV/EBITDA (x)	23.9	23.5	20.0
Income growth (%)	19.1	15.9	16.0
EBITDA growth (%)	20.4	24.8	16.5
PAT growth (%)	8.9	24.4	17.2

Zee Entertainment Enterprises' Q4FY16 revenue and recurring EBITDA exceeded our estimates by 4.3%/18% respectively. Key positives - robust advertisement growth of 19.2% YoY on a base of 25.4%, 14.2% YoY growth in domestic subscription. EBITDA margin at 28.8% improved by 561bps YoY, up 183bps QoQ as the launch phase of &TV is now behind. Monetization of Phase 3 digitalisation being pushed back, the company still believes that it can grow its subscription revenues by low double-digit YoY. We maintain our Buy recommendation on the stock looking at the robust advertisement revenue and an option to capture the subscription revenues of digitalization.

Advertisement growth boosts revenues; margins improve QoQ. Advertisement revenues increased 19.2% YoY (55-60% of advertisement revenue comes from FMCG sector). This is remarkable given that HUL has lowered its TV advertisement spend to 70% (from 90%). Domestic subscription revenues increased 14.2% YoY, while international revenues grew 16.7% YoY. After this spurt in EBITDA margins, we expect EBITDA margin to be higher for FY17 (compared to FY16). EBITDA was up 46% YoY, however PAT (excluding Fair value of preference shares routed through P&L) was higher by 37% YoY on account of better margins. The key properties on the Sports channels bouquet during the quarter included telecast of Zimbabwe vs India cricket series, WI-Australia-SA cricket series, UEFA Champions League football final and WWE among others. 2Q would telecast of sporting events like West Indies vs India cricket series, Sri Lanka vs Australia cricket series, US Open and Tour de France.

Conference call takeaways: 1) **Advertisement growth:** TV industry advertisement revenue is expected to grow 14-15% during CY16E/FY17E (FMCG, consumer durable and E-commerce companies are main drivers), while Zee is expected to do better than industry. ZEE is expected to grow higher than the industry average in CY16 on account of better market share and ratings, 2) **Programming content:** Zee TV has 24 hours of original programming content per week. Going ahead, it will stay at these levels. Similarly, &TV's programming content will increase to 30 hours (currently 22 hours), 3) **Phase 3 subscription revenues:** Zee will take 18-24 months after digitisation of Phase 3 and 4 markets to achieve ARPU levels of Phase 1 and 2 markets. ZEEL is expecting domestic subscriptions to grow at mid-teens for FY17E, while international subscriptions would grow at single digits (in US\$)

BARC ratings: Advertisement growth was not only driven by the new channel &TV, but led by existing national and regional channels. With rural data coming, on account of BARC ratings, the company believes Zee TV will be back to No. 2 position with BARC ratings. On a like-to-like basis Zee Entertainment saw a higher-than-industry growth rate in Advertisement spends (which was primarily on account of rate hikes, since inventory is capped). BARC rating includes rural data from week 41 (i.e., 2015). With this, BARC India, which reported about 55mn households representing C&S universe of 0.1mn+, expanded its reach to 153.5mn TV households, representing all India and all modes of signal. Of this 77.5mn are urban TV households and 76mn are rural TV households. Zee is strong in the rural markets and slowly will see its market share move up post inclusion of rural data.

Valuations and risks. Zee is well positioned to gain from the ongoing digitalization of cable network. The growth in subscription revenue will ensure enough cash flows for Zee to invest in new channels, which will further fuel growth for the medium-to-long term. Zee although richly priced, has all the ingredients in place to provide a Revenue/EBITDA/PAT CAGR of 16%/21%/23% over FY16-18E. We believe the continued momentum in advertisement revenue growth and ongoing digitilisation which would ensure multi-year subscription revenue growth. Hence, we maintain our Buy recommendation on Zee Entertainment.

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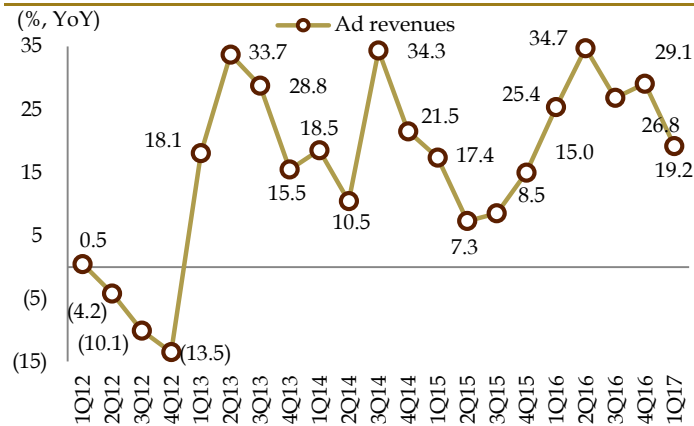


Exhibit 1: Quarterly details

₹ mn	1QFY16	4QFY16	1QFY17	QoQ (%)	YoY (%)	Comments
Revenues	13,267	15,316	15,716	2.6	18.5	TV industry advertisement revenue is expected to grow at 14-15% during CY16E/FY17E
- Operating costs	10,121	11,180	11,185	0.0	10.5	
EBITDA	3,146	4,136	4,532	9.6	44.0	
EBITDA margin (%)	23.7	27.0	28.8	183	512	FY17E EBITDA margin is expected at 27-28%. Over long-term, EBITDA margins could be slightly above 28-29%
- Interest expense	77	42	75	76.9	(2.6)	
- Depreciation	167	273	251	(8.1)	50.4	
+ Other income, net (incl forex)	687	458	734	60.5	6.9	
PBT	3,589	4,278	4,940	15.5	37.6	
- Taxes	1,189	1,618	1,626	0.5	36.7	
Effective tax rate (%)	33.1	37.8	32.9	(491)	(21)	FY17 tax rate would be 33%.
PAT	2,400	2,660	3,314	24.6	38.1	
Minority interests	16	53	12	NA	NA	
Consolidated profits	2,384	2,606	3,302	26.7	38.5	PAT increase of 36% YoY was driven by better margins.
Reported PAT	1,782	2,606	2,170	(16.7)	21.8	

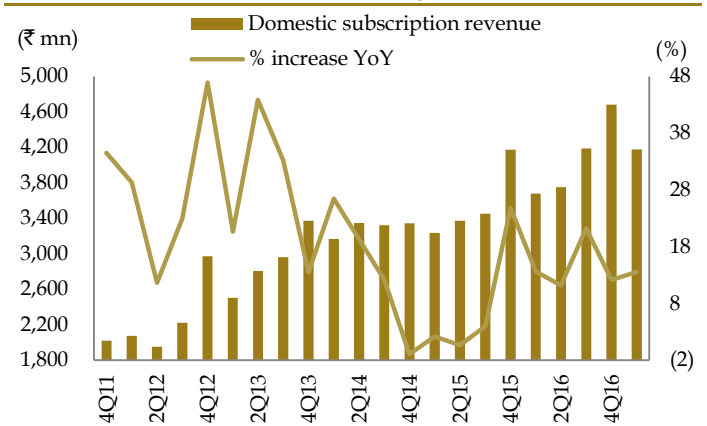
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Robust ad revenues due to Auto ads



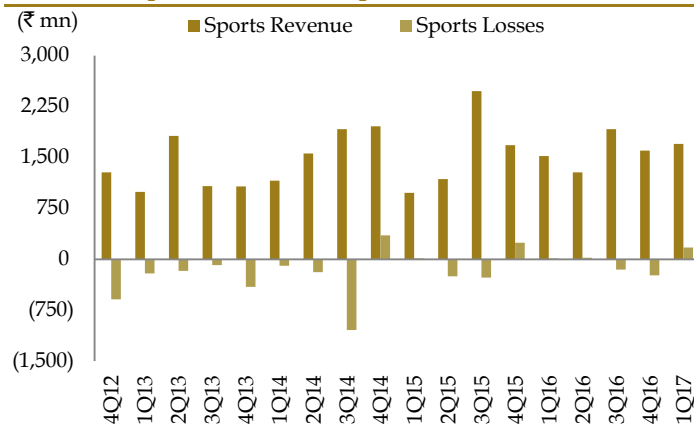
Source: Company, Trust

Exhibit 3: Domestic subscription to grow in 15% in FY17E



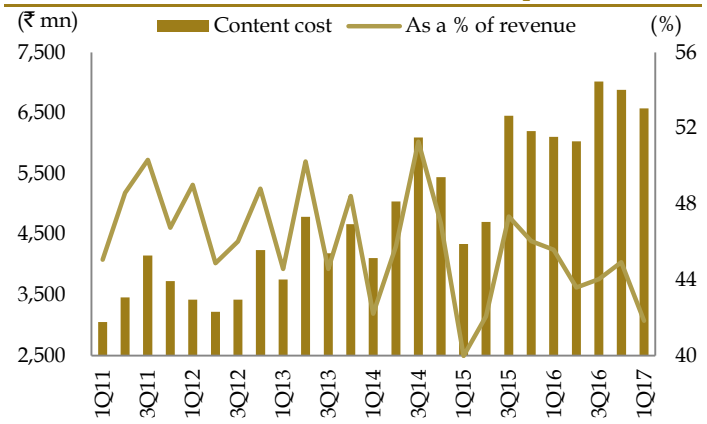
Source: Company, Trust

Exhibit 4: Sports EBITDA was positive



Source: Company, Trust

Exhibit 5: Content cost was lower-than-our-expectation



Source: Company, Trust



Zee to gain most incase of relaxation in ad-cap minutes

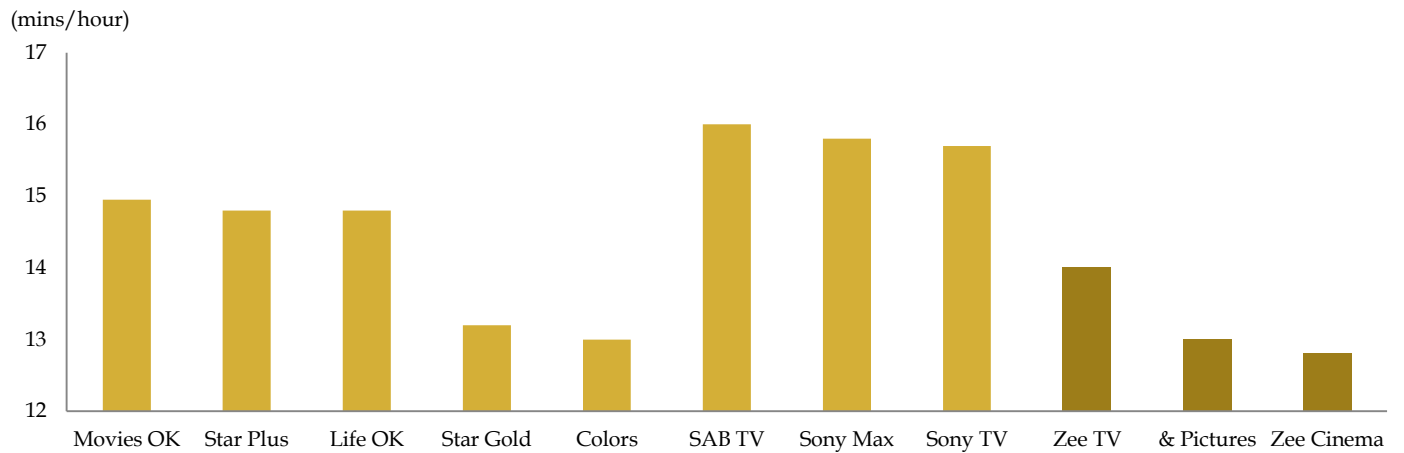
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

In the Hindi GEC/movie genres, among the large broadcasters, Star India and Multi Screen Media (which runs Sony TV), have prime-time ad times of ~15/16 mins/hour, while ZEEL’s advertising measures ~12-14 mins/hour.

In the regional space, viz. Marathi, Bengali, Kannada and Telugu, ZEEL’s advertising is under 14 mins/hour. This puts the company in good position, incase TRAI imposes advertising restrictions of 12 mins/hour (as discussed in our Sector Thematic, and is now sub-judice). In such a case where competitors are currently running greater advertising, the rate increases needed to offset the reduced inventory will be lower for ZEEL, thus allowing it to reap benefits of re-pricing of advertisements.

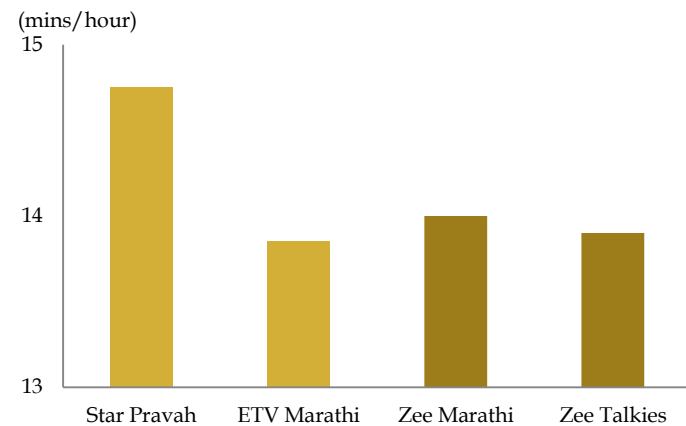
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

Exhibit 6: Hindi general entertainment channels (GECs) and movies : prime-time (7PM-10PM) advertising (mins/hour)



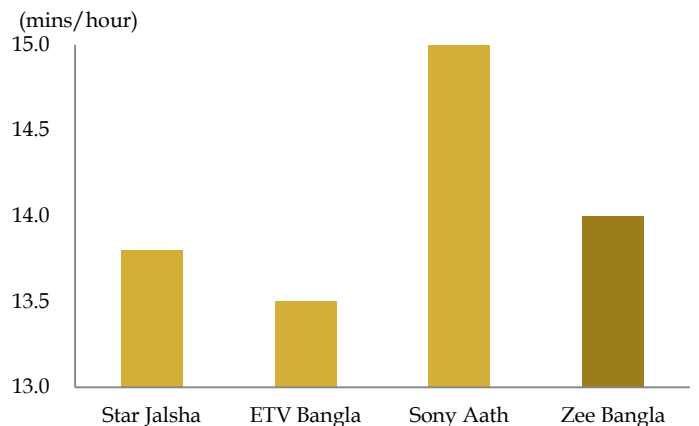
Source: Company, Trust

Exhibit 7: Marathi channels: Prime time advertising



Source: Company, Trust

Exhibit 8: Bengali channels: Prime time advertising



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	44,218	49,144	58,514	67,829	78,681
Op. Expenses	32,174	36,606	43,418	48,987	56,729
EBITDA	12,044	12,538	15,096	18,842	21,952
Other Income	1,807	2,278	2,016	2,209	2,674
Depreciation	501	673	840	1,064	1,184
EBIT	13,349	14,142	16,271	19,986	23,442
Interest	158	103	123	282	338
PBT	13,192	14,040	16,148	19,704	23,103
Tax	4,291	4,284	5,528	6,498	7,624
PAT	8,901	9,756	10,620	13,206	15,479
Minority	21	20	(22)	(47)	(47)
Ex. Ordinary items	-	-	331	1,132	-
Adj Pat	8,922	9,776	10,268	12,027	15,432

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	9.3	10.2	11.0	13.7	16.1
CEPS	9.8	10.9	11.9	14.8	17.3
BVPS	49.3	57.8	64.9	74.2	86.4
DPS	2.0	2.3	2.3	2.8	3.3
Payout (%)	25.2	25.9	23.9	23.5	23.7
Valuation (x)					
P/E	39.6	33.5	34.9	34.6	29.5
P/BV	7.5	5.9	5.9	6.4	5.5
EV/EBITDA	28.9	25.5	23.9	23.5	20.0
Dividend Yield (%)	0.5	0.7	0.6	0.6	0.7
Return ratio (%)					
EBITDA Margin	27.2	25.5	25.8	27.8	27.9
PAT Margin	20.1	19.9	18.1	19.5	19.7
ROAE	20.6	19.0	18.0	19.7	20.0
ROACE	30.8	27.5	27.6	29.9	30.3
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	84.6	137.8	132.3	70.9	69.3
Current ratio	3.5	3.6	3.4	3.6	3.7
Growth Ratios (%)					
Income growth	19.5	11.1	19.1	15.9	16.0
EBITDA growth	26.2	4.1	20.4	24.8	16.5
PAT growth	23.9	9.6	8.9	24.4	17.2
Turnover Ratios					
F.A Turnover x	10.8	11.3	10.1	11.0	12.2
Inventory Days	97	88	82	82	83
Debtors Days	85	79	83	84	85
Payable days	57	42	44	44	44

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	960	960	960	960	961
Reserves & Surplus	46,417	54,538	61,354	70,291	82,069
Total Shareholders Fund	47,377	55,498	62,314	71,251	83,030
Minority Interest	61	4	85	85	85
Non-current liabilities	379	249	308	393	542
Long term Borrowings	17	12	9	9	9
Deferred tax liabilities	(298)	(531)	(556)	(556)	(556)
Other LT liabilities & prov	659	768	854	939	1,088
Current Liabilities	12,203	13,776	15,678	17,716	20,516
Short-term borrowings	-	-	-	-	-
Trade payables	5,050	4,204	5,194	5,905	6,839
Other cur liabilities & Prov	7,153	9,572	10,484	11,811	13,677
Total Liabilities	60,020	69,527	78,385	89,445	104,172
Assets					
Non-current Assets	17,903	19,725	24,515	25,962	27,497
Fixed assets	4,105	4,367	5,810	6,146	6,462
Non-current investments	10,566	9,351	12,197	12,197	12,197
Long-term loans & adv	2,871	5,629	5,913	6,876	7,976
Other non-current assets	361	378	594	743	862
Current assets	42,117	49,802	53,870	63,482	76,675
Current investments	5,350	8,291	7,391	7,391	7,391
Trade receivables	10,281	10,692	13,245	15,610	18,323
Inventories	11,736	11,878	13,160	15,238	17,892
Cash & bank balances	5,644	7,365	9,733	13,164	19,057
Short-term loans & adv	8,224	10,248	8,810	10,221	11,856
Other current assets	882	1,328	1,532	1,858	2,156
Total Assets	60,020	69,527	78,385	89,444	104,172

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	13,192	14,040	16,148	19,704	23,103
Depreciation	491	439	816	1,064	1,184
Interest Exp	158	103	123	282	338
Others	49	(37)	(272)	(1,179)	(47)
CF before W.cap	13,889	14,545	16,816	19,872	24,579
Inc/dec in W.cap	5,822	4,117	1,112	5,169	5,570
Op CF after W.cap	8,067	10,428	15,704	14,702	19,009
Less Taxes	4,291	4,284	5,528	6,498	7,624
Net CF From Operations	3,777	6,144	10,175	8,204	11,385
Inc/(dec) in F.A + CWIP	1,758	935	2,284	1,400	1,500
(Pur)/sale of Investments	873	1,726	1,946	-	-
Others	(158)	(103)	(123)	(282)	(338)
CF from Invst Activities	(2,789)	(2,764)	(4,353)	(1,682)	(1,838)
Loan Raised/(repaid)	(0)	(5)	(3)	-	-
Equity Raised	1,588	874	(923)	(0)	0
Dividend	2,247	2,528	2,528	3,090	3,653
CF from Fin Activities	(660)	(1,660)	(3,454)	(3,090)	(3,653)
Net inc/(dec) in cash	328	1,720	2,368	3,432	5,893
Op. bal of cash	5,316	5,644	7,364	9,732	13,164
Cl. balance of cash	5,644	7,364	9,732	13,164	19,057



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