Zee Entertainment

4QFY16 Result Update

Strong advertisement revenue, maintain Buy

Sector: Media

CMP: ₹ 417

Recommendation: Buy

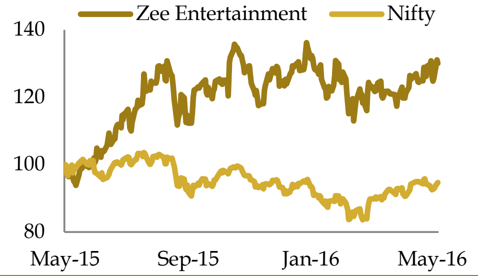
Market statistics

Current stock price (₹)	417
Shares O/S (cr.)	96.0
Mcap (₹ cr)	40,108
52W H/L (₹)	441/300
6m avg. volume	2,021,090
Bloomberg	Z.IN

Shareholding pattern

Promoters	43.07
Domestic Institution	4.11
Foreign Institution	47.13
Non-institution	5.69
of which more than 1%	
Oppenheimer Developing Markets Fund	*8.02*
Government of Singapore	*1.67*

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	18.0	18.9	19.5
EPS (₹)	11.0	13.2	15.8
CEPS (₹)	11.9	14.4	17.2
P/E (x)	34.9	31.7	26.5
P/BV (x)	5.9	5.6	4.8
EV/EBITDA (x)	23.9	21.1	17.6
Income growth (%)	19.1	15.3	16.0
EBITDA growth (%)	20.4	21.9	18.7
PAT growth (%)	8.9	19.9	19.7

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Zee Entertainment Enterprises' Q4FY16 revenue and recurring EBITDA exceeded our estimates by 4.7%/13.7% respectively. Key positives - robust advertisement growth of 29.1% YoY on a base of 15%, 12.1% YoY growth in domestic subscription. EBITDA margin at 27% improved by 690bps YoY, flat 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 29.1% 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 12.1% YoY, while international revenues grew 35.3% YoY. After this spurt in EBITDA margins, we expect EBITDA margin to be higher for FY17 (compared to FY16). EBITDA stood at 27% YoY, however PAT was higher by 12.9% YoY on account of better margins. The key properties on the Sports channels bouquet during the quarter included telecast of SA vs England cricket series, SA vs Australia cricket series, UEFA Champions League round of 16, WTA Finals and WWE Royal Rumble among others. 1Q would telecast of sporting events like Zimbabwe vs India cricket series, WI-Australia-SA cricket series, UEFA Champions League finals among others.

Conference call takeaways: 1) **Advertisement growth:** TV industry advertisement revenue is expected to grow 15-16% 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 30 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.

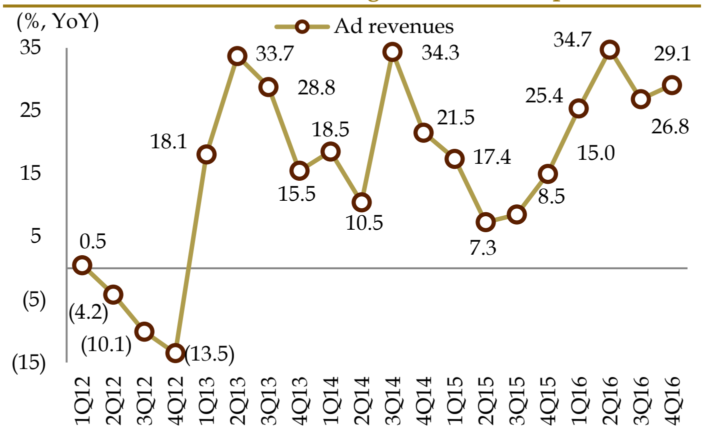
Valuations and risks. Zee is well positioned to gain from the ongoing digitalization of cable network. The growth in subscription revenue will ensure enough cash flows for Zee to invest in new channels, which will further fuel growth for the medium-to-long term. Zee although richly priced, has all the ingredients in place to provide a Revenue/EBITDA/PAT CAGR of 16%/20%/22% 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.

Exhibit 1: Quarterly details

₹ mn	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	Comments
Revenues	**13,471**	**15,951**	**15,316**	**(4.0)**	**13.7**	TV industry advertisement revenue is expected to grow at 15-16% during CY16E/FY17E
- Operating costs	10,763	11,649	11,180	(4.0)	3.9	
EBITDA	**2,708**	**4,302**	**4,136**	**(3.9)**	**52.7**	
EBITDA margin (%)	**20.1**	**27.0**	**27.0**	**3bps**	**690bps**	FY17E EBITDA margin is expected at 26-26.5%. Over long-term, EBITDA margins could be slightly above 28-29%
- Interest expense	30	45	42	(4.7)	41.3	
- Depreciation	174	201	273	35.8	57.1	
+ Other income, net (incl forex)	564	290	458	57.9	(18.9)	
PBT	**3,068**	**4,346**	**4,278**	**(1.6)**	**39.4**	
- Taxes	749	1,602	1,618	1.0	116.2	
Effective tax rate (%)	24.4	36.9	37.8	97bps	1,343bps	FY17 tax rate would be 33%.
PAT	**2,320**	**2,744**	**2,660**	**(3.1)**	**14.7**	
Minority interests	12	(6)	53	NA	NA	
Reported profits	**2,308**	**2,750**	**2,606**	**(5.2)**	**12.9**	PAT increase of 12.9% YoY was driven by Better margins.

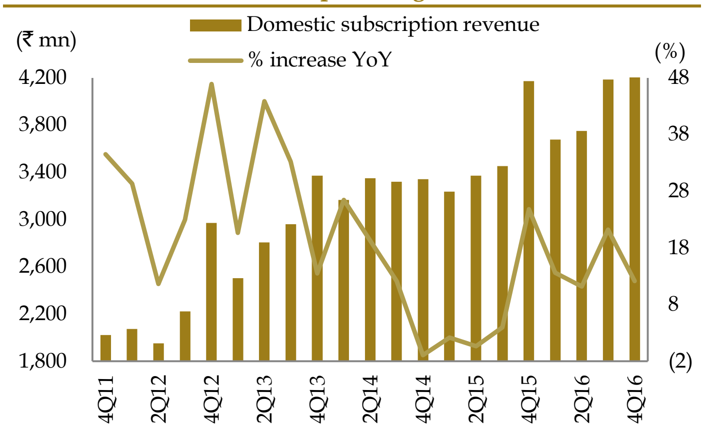
Source: Company

Exhibit 2: Ad revenues showed good traction on price hikes



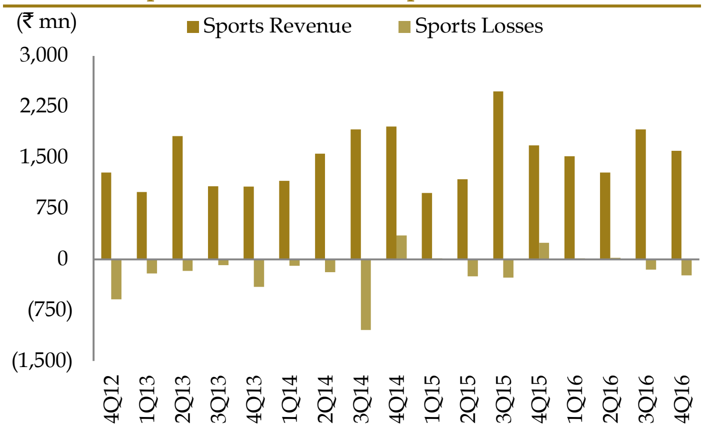
Source: Company, Trust

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



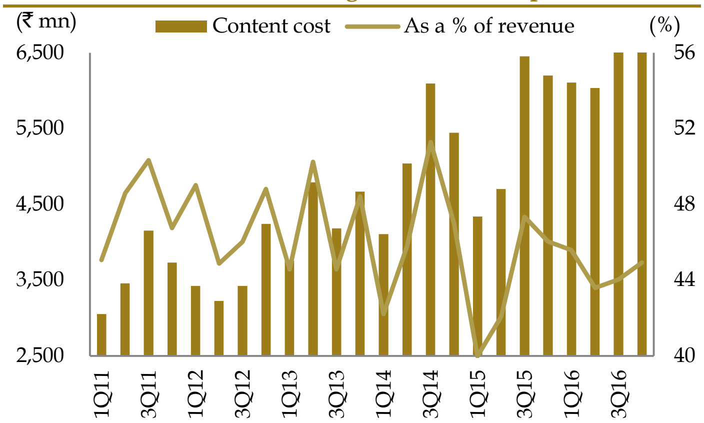
Source: Company, Trust

Exhibit 4: Sports loss better than expected



Source: Company, Trust

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



Source: Company, Trust

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

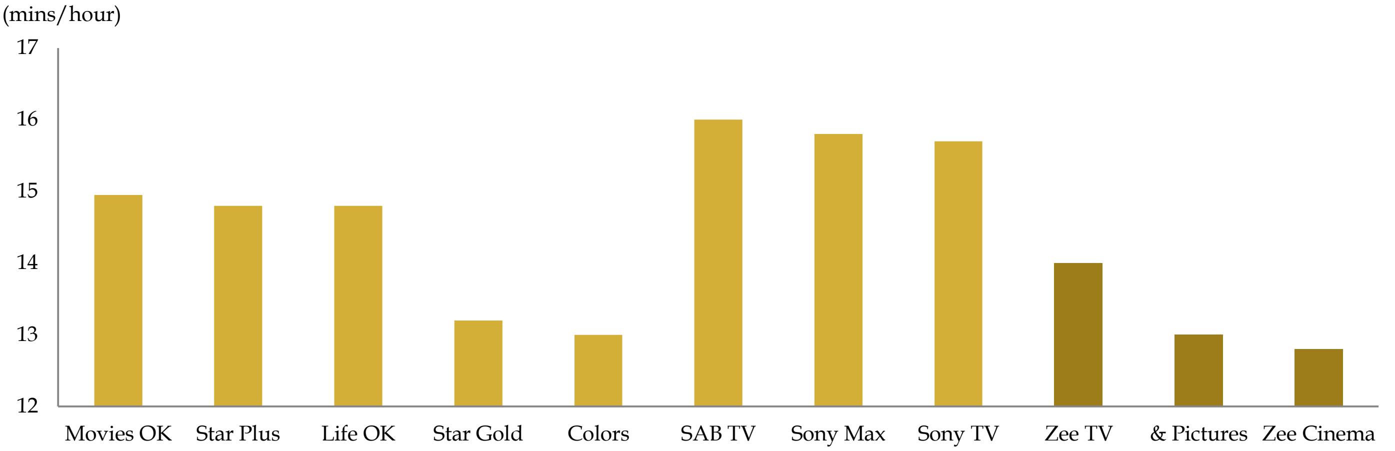
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

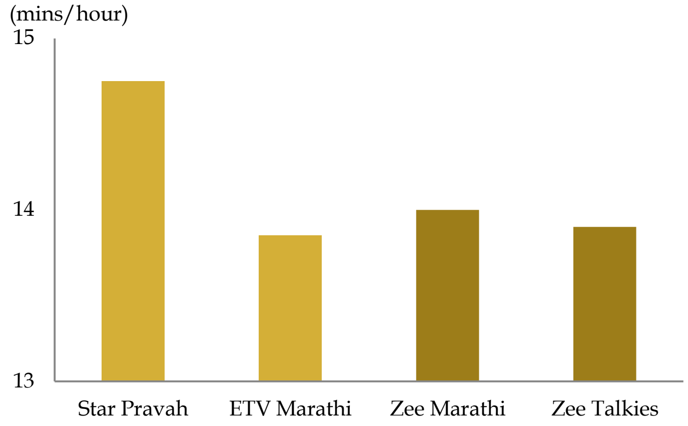
Alternatively, if TRAI doesn't impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



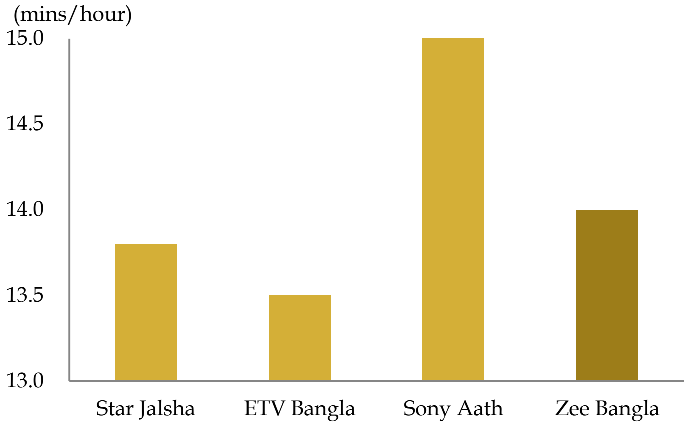
Source: Company, Trust

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**	**67,478**	**78,274**
Op. Expenses	32,174	36,606	43,418	49,073	56,436
EBITDA	**12,044**	**12,538**	**15,096**	**18,405**	**21,839**
Other Income	1,807	2,278	2,016	1,933	2,398
Depreciation	501	673	840	1,193	1,297
EBIT	**13,349**	**14,142**	**16,271**	**19,144**	**22,939**
Interest	158	103	123	140	168
PBT	**13,192**	**14,040**	**16,148**	**19,005**	**22,771**
Tax	4,291	4,284	5,528	6,272	7,515
PAT	**8,901**	**9,756**	**10,620**	**12,733**	**15,257**
Minority	21	20	(22)	(80)	(80)
Ex. Ordinary items	-	-	331	-	-
Adj Pat	**8,922**	**9,776**	**10,268**	**12,653**	**15,177**

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	9.3	10.2	11.0	13.2	15.8
CEPS	9.8	10.9	11.9	14.4	17.2
BVPS	49.3	57.8	64.9	74.8	86.8
DPS	2.0	2.3	2.3	2.8	3.3
Payout (%)	25.2	25.9	23.9	24.4	24.1
Valuation (x)					
P/E	39.6	33.5	34.9	31.7	26.5
P/BV	7.5	5.9	5.9	5.6	4.8
EV/EBITDA	28.9	25.5	23.9	21.1	17.6
Dividend Yield (%)	0.5	0.7	0.6	0.7	0.8
Return ratio (%)					
EBIDTA Margin	27.2	25.5	25.8	27.3	27.9
PAT Margin	20.1	19.9	18.1	18.9	19.5
ROAE	20.6	19.0	18.0	18.9	19.5
ROACE	30.8	27.5	27.6	28.5	29.5
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	137.1	136.8
Current ratio	3.5	3.6	3.4	3.6	3.8
Growth Ratios (%)					
Income growth	19.5	11.1	19.1	15.3	16.0
EBITDA growth	26.2	4.1	20.4	21.9	18.7
PAT growth	23.9	9.6	8.9	19.9	19.7
Turnover Ratios					
F.A Turnover x	10.8	11.3	10.1	11.2	12.6
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	70,917	82,430
Total Shareholders Fund	**47,377**	**55,498**	**62,314**	**71,877**	**83,390**
Minority Interest	61	4	85	85	85
Non- current liabilities	**379**	**249**	**308**	**395**	**536**
Long term Borrowings	17	12	9	9	9
Deferred tax liabilities	(298)	(531)	(556)	(556)	(556)
Other LT liabilities & prov	659	768	854	941	1,082
Current Liabilities	**12,203**	**13,776**	**15,678**	**17,747**	**20,410**
Short-term borrowings	-	-	-	-	-
Trade payables	5,050	4,204	5,194	5,916	6,803
Other cur liabilities & Prov	7,153	9,572	10,484	11,831	13,606
Total Liabilities	**60,020**	**69,527**	**78,385**	**90,104**	**104,421**
Assets					
Non- current Assets	17,903	19,725	24,515	25,794	27,194
Fixed assets	4,105	4,367	5,810	6,017	6,204
Non-current investments	10,566	9,351	12,197	12,197	12,197
Long-term loans & adv	2,871	5,629	5,913	6,840	7,935
Other non-current assets	361	378	594	739	858
Current assets	**42,117**	**49,802**	**53,870**	**64,309**	**77,227**
Current investments	5,350	8,291	7,391	7,391	7,391
Trade receivables	10,281	10,692	13,245	15,529	18,228
Inventories	11,736	11,878	13,160	15,159	17,799
Cash & bank balances	**5,644**	**7,365**	**9,733**	**14,213**	**19,869**
Short-term loans & adv	8,224	10,248	8,810	10,168	11,795
Other current assets	882	1,328	1,532	1,849	2,144
Total Assets	**60,020**	**69,527**	**78,385**	**90,103**	**104,420**

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	**13,192**	**14,040**	**16,148**	**19,005**	**22,755**
Depreciation	491	439	816	1,193	1,313
Interest Exp	158	103	123	140	168
Others	49	(37)	(272)	(80)	(80)
CF before W.cap	**13,889**	**14,545**	**16,816**	**20,258**	**24,156**
Inc/dec in W.cap	5,822	4,117	1,112	4,875	5,670
Op CF after W.cap	8,067	10,428	15,704	15,382	18,486
Less Taxes	4,291	4,284	5,528	6,272	7,509
Net CF From Operations	**3,777**	**6,144**	**10,175**	**9,111**	**10,976**
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)	(140)	(168)
CF from Invst Activities	**(2,789)**	**(2,764)**	**(4,353)**	**(1,540)**	**(1,668)**
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	4,481	5,656
Op. bal of cash	5,316	5,644	7,364	9,732	14,213
Cl. balance of cash	**5,644**	**7,364**	**9,732**	**14,213**	**19,869**

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