



Zee Entertainment

1QFY18 Result Update

Sector: Media

CMP: ` 550

Domestic advertisement growth moderates, rich valuations

Recommendation: Hold

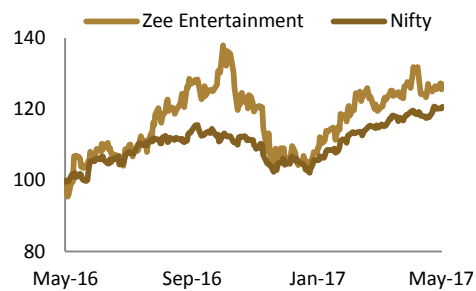
Market statistics

Current stock price (`)	550
Shares O/S (cr.)	96.0
Mcap (` cr)	52,857
52W H/L (`)	589/428
6m avg. volume	1,917,255
Bloomberg	Z.IN

Shareholding pattern

Promoters	43.07
Domestic Institution	5.71
Foreign Institution	44.67
Non-institution	6.55
of which more than 1%	
Oppenheimer Developing Markets Fund	6.80
Vanguard International Growth Fund	1.45

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	18.9	19.9	21.4
EPS (`)	12.7	14.9	18.6
CEPS (`)	13.9	16.2	20.2
P/E (x)	42.2	37.0	29.5
P/BV (x)	7.7	6.9	5.8
EV/EBITDA (x)	26.1	22.9	19.2
Income growth (%)	10.7	5.5	13.9
EBITDA growth (%)	27.3	12.5	17.7
PAT growth (%)	32.1	17.4	25.2

Zee Entertainment reported numbers as-per-expectations with 6.9% like-to-like advertising growth in domestic business and 14.5% like-to-like growth in domestic subscription revenue. EBITDA margin at 31.4%, largely due to delayed investment in content. Monetization of Phase 3 digitalisation being pushed back, the company still believes that it can grow its subscription revenues by low double-digit YoY. Zee is however richly priced and we believe there could be some headwinds like tapering advertisement growth on back of high base, pricing pressure on the bouquet (ex-sports portfolio), weakness in ratings at GEC coupled with intensified competition. We maintain our Hold rating on the stock.

Advertisement and subscription performance: Zee Entertainment reported numbers as-per-expectations with 6.9% like-to-like advertising growth in domestic business and 14.5% like-to-like growth in domestic subscription revenue. Advertising revenues have been weak due to GST implementation and management expects the impact to continue in Q2FY18. Subscription revenue performance stood at 14.5%. EBITDA performance was better at Rs4.8bn, with EBITDA margins of 31.4%, largely due to delayed investment in content.

Conference call takeaways: 1) **Subscription growth:** Expect domestic subscriptions market to grow at mid-teens for at least next three years. 2) **Margin Outlook:** We see pressure on EBITDA margins with investment in more programming hours and digital business and forecast EBITDA margins at 31.9% vs 32.6% (earlier) in FY18E (ex-sports). 3) **Programming content:** ZEEL plans a meaningful revamp in its digital offering with a new product launch likely in H2FY18. Management highlighted that improvement in viewership share was due to investment in content. The company guided for increase in content from current 23hrs/week on ZEE flagship channels to 28hrs/week on flagship GEC channels. Programming in &TV has been increased to 26.5hrs/week. For Tamil, the company has increased programming hours to 64hrs/week and plans to increase them further to 79hours/week., 4) **Network Performance:** Reliance Broadcast Network Ltd (RBNL) which includes two channels BIG Magic and BIG Ganga, has been consolidated for the quarter and contributed Rs200mn to the revenue.

BARC ratings: 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 is however richly priced. We are positive on the business model but believe there could be some headwinds like tapering advertisement growth on back of high base, pricing pressure on the bouquet (ex-sports portfolio), weakness in ratings at GEC coupled with intensified competition. Hence, we maintain our recommendation on Zee Entertainment at Hold.

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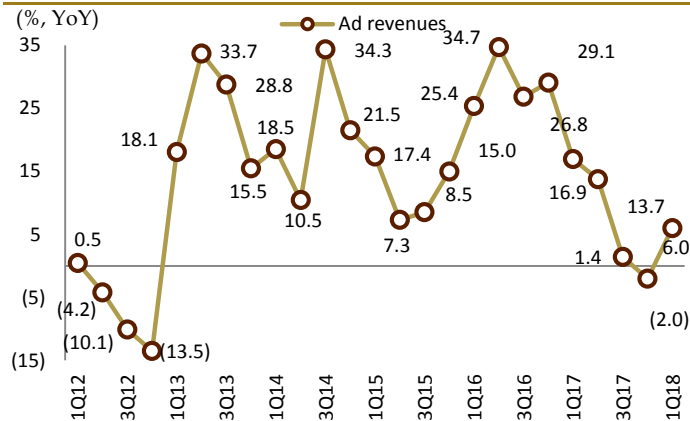


Exhibit 1: Quarterly details

mn	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues	15,716	15,280	15,403	0.8	(2.0)	TV industry advertisement revenue is expected to grow at ~10% during CY17E/FY18E
- Operating costs	11,185	10,593	10,559	(0.3)	(5.6)	
EBITDA	4,532	4,687	4,844	3.3	6.9	
EBITDA margin (%)	28.8	30.7	31.4	77bps	261bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	75	1,122	147	(86.9)	96.0	
- Depreciation	251	316	311	(1.7)	23.8	
+ Other income, net (incl forex)	734	549	1,011	83.9	37.7	
PBT	4,940	3,798	5,396	42.1	9.2	
- Taxes	1,626	1,464	2,344	60.1	44.2	
Effective tax rate (%)	32.9	38.5	43.4	490bps	1,053bps	FY18 effective tax rate would be 34-35%.
PAT	3,314	2,334	3,052	30.7	(7.9)	
Minority interests	12	(103)	6	NA	NA	
Consolidated profits	3,302	2,438	3,047	25.0	(7.7)	
Reported PAT	2,170	15,142	2,514	(83.4)	15.9	

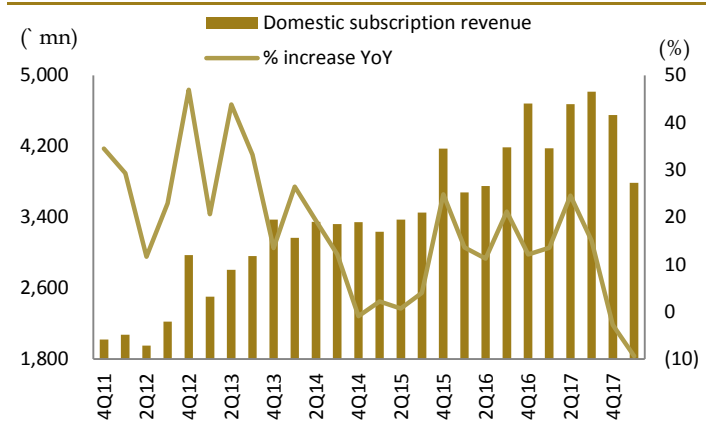
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were down due to demonetisation



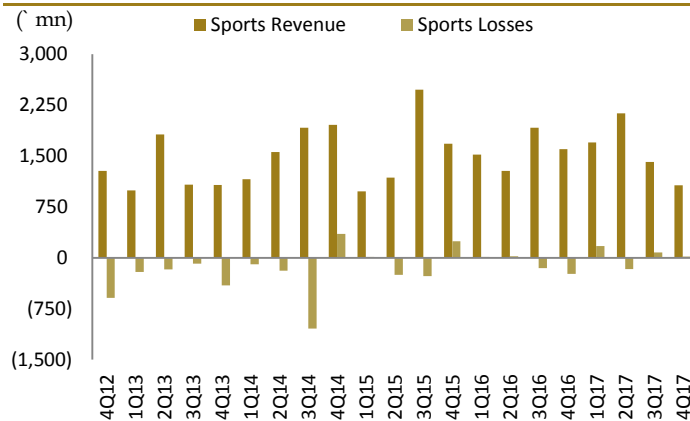
Source: Company, Trust

Exhibit 3: Domestic subscription to grow in 13-15% in FY18E



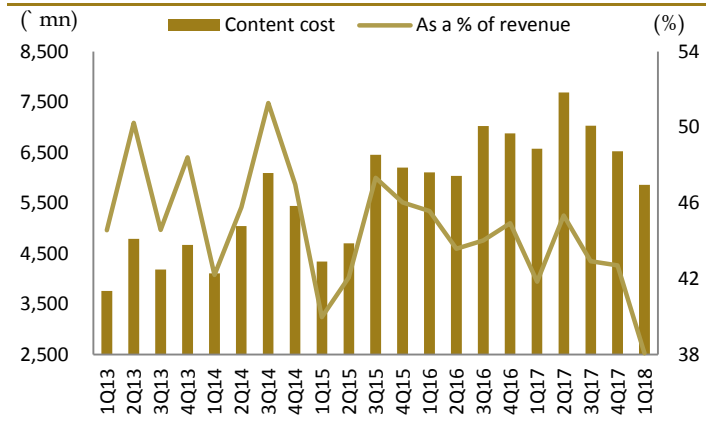
Source: Company, Trust

Exhibit 4: Sports business was sold in 1Q18



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

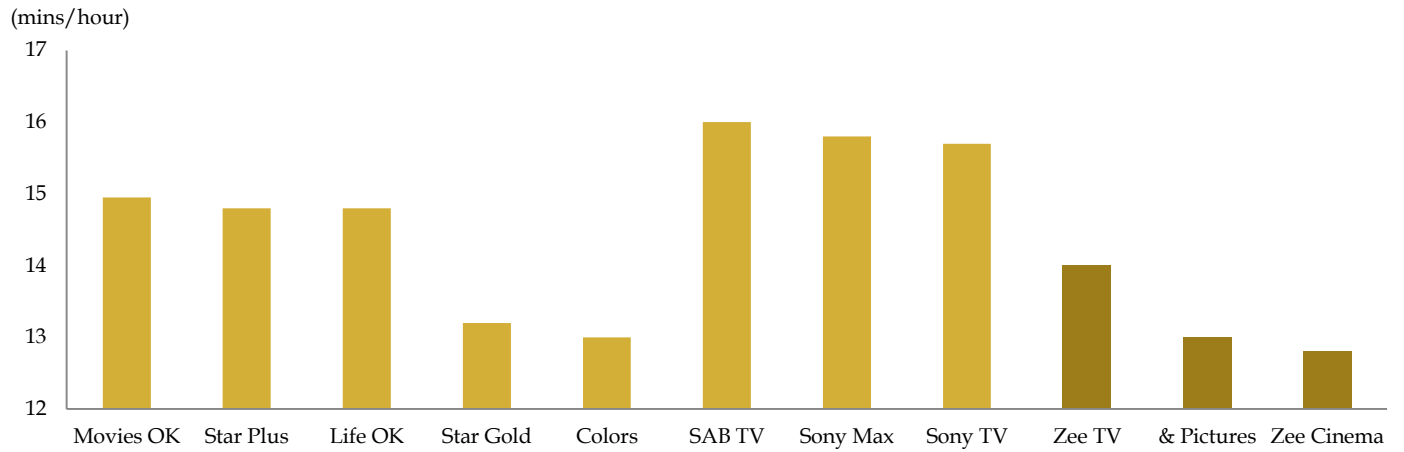
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

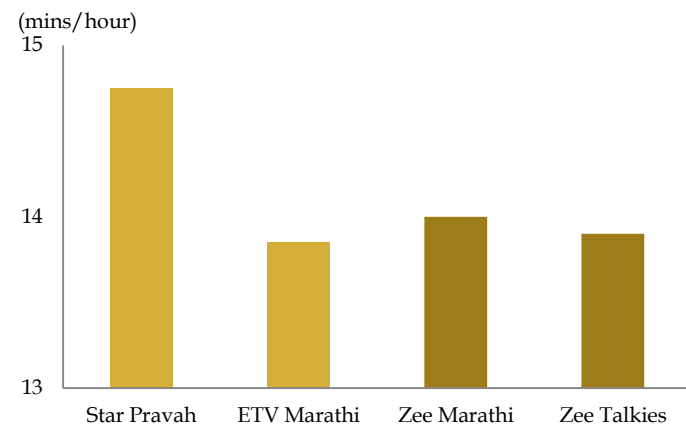
Alternatively, if TRAI doesn't impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



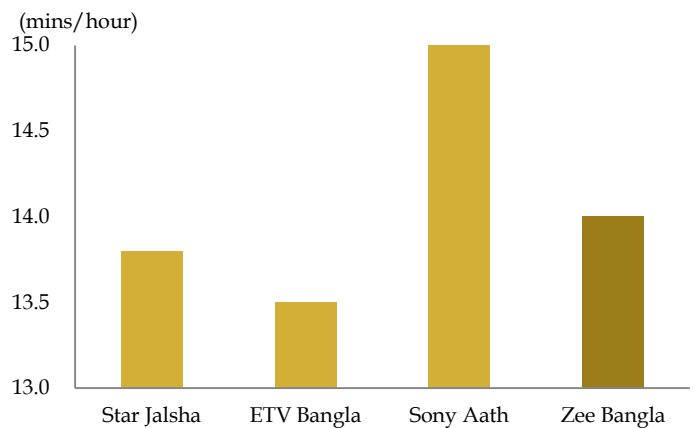
Source: Company, Trust

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	FY15	FY16	FY17	FY18E	FY19E
Revenues	49,144	58,514	64,341	67,893	77,357
Op. Expenses	36,606	43,418	45,073	46,212	51,839
EBITDA	12,538	15,096	19,269	21,681	25,518
Other Income	2,278	2,016	2,240	2,811	3,250
Depreciation	673	840	1,152	1,304	1,464
EBIT	14,142	16,271	20,357	23,188	27,305
Interest	103	123	1,372	481	165
PBT	14,040	16,148	18,984	22,707	27,140
Tax	4,284	5,528	6,805	8,403	9,228
PAT	9,756	10,620	12,179	14,304	17,912
Minority	20	(22)	(5)	(22)	(22)
Ex. Ordinary items	-	331	(10,030)	532	-
Adj Pat	9,776	10,268	22,204	13,749	17,890

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	10.2	11.0	12.7	14.9	18.6
CEPS	10.9	11.9	13.9	16.2	20.2
BVPS	57.8	64.9	69.3	79.8	94.6
DPS	2.3	2.3	2.5	3.3	3.3
Payout (%)	25.9	23.9	23.1	25.6	20.4
Valuation (x)					
P/E	33.5	34.9	42.2	37.0	29.5
P/BV	5.9	5.9	7.7	6.9	5.8
EV/EBITDA	25.5	23.9	26.1	22.9	19.2
Dividend Yield (%)	0.7	0.6	0.5	0.6	0.6
Return ratio (%)					
EBIDTA Margin	25.5	25.8	29.9	31.9	33.0
PAT Margin	19.9	18.1	18.9	21.1	23.2
ROAE	19.0	18.0	18.9	19.9	21.4
ROACE	27.5	27.6	28.2	26.7	27.6
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	22.9	19.9	16.8
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.0	0.8	0.7	0.6
Interest Coverage	137.8	132.3	14.8	48.2	165.5
Current ratio	3.6	3.4	4.6	5.0	5.2
Growth Ratios (%)					
Income growth	11.1	19.1	10.7	5.5	13.9
EBITDA growth	4.1	20.4	27.3	12.5	17.7
PAT growth	9.6	8.9	32.1	17.4	25.2
Turnover Ratios					
F.A Turnover x	11.3	10.1	10.2	10.6	12.0
Inventory Days	88	82	96	96	96
Debtors Days	79	83	75	74	74
Payable days	42	44	42	40	40

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	960	960	960	960	960
Reserves & Surplus	54,538	61,354	65,608	75,705	89,943
Total Shareholders Fund	55,498	62,314	66,568	76,666	90,903
Minority Interest	4	85	10	10	10
Non- current liabilities	249	308	15,136	15,129	15,221
Long term Borrowings	12	9	15,272	15,272	15,272
Deferred tax liabilities	(531)	(556)	(903)	(903)	(903)
Other LT liabilities & prov	768	854	767	760	852
Current Liabilities	13,776	15,678	17,750	18,232	20,451
Short-term borrowings	-	-	-	-	-
Trade payables	4,204	5,194	4,891	5,064	5,681
Other cur liabilities & Prov	9,572	10,484	12,860	13,167	14,770
Total Liabilities	69,527	78,385	99,465	110,036	126,586
Assets					
Non- current Assets	19,725	24,515	18,524	18,772	19,509
Fixed assets	4,367	5,810	6,301	6,398	6,434
Non-current investments	9,351	12,197	7,352	7,352	7,352
Long-term loans & adv	5,629	5,913	4,618	4,836	5,510
Other non-current assets	378	594	253	186	212
Current assets	49,802	53,870	80,941	91,264	107,077
Current investments	8,291	7,391	11,868	11,868	11,868
Trade receivables	10,692	13,245	13,059	13,765	15,683
Inventories	11,878	13,160	16,844	17,857	20,346
Cash & bank balances	7,365	9,733	25,116	32,893	42,225
Short-term loans & adv	10,248	8,810	4,771	5,022	5,722
Other current assets	1,328	1,532	9,283	9,858	11,233
Total Assets	69,527	78,385	99,465	110,036	126,586

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	14,040	16,148	18,984	22,707	27,140
Depreciation	439	816	805	1,304	1,464
Interest Exp	103	123	1,372	481	165
Others	(37)	(272)	9,950	(555)	(22)
CF before W.cap	14,545	16,816	31,112	23,937	28,746
Inc/dec in W.cap	4,117	1,112	3,589	2,222	4,870
Op CF after W.cap	10,428	15,704	27,522	21,715	23,876
Less Taxes	4,284	5,528	6,805	8,403	9,228
Net CF From Operations	6,144	10,175	20,717	13,312	14,648
Inc/(dec) in F.A + CWIP	935	2,284	1,643	1,401	1,500
(Pur)/sale of Investments	1,726	1,946	(368)	-	-
Others	(103)	(123)	(1,372)	(481)	(165)
CF from Invst Activities	(2,764)	(4,353)	(2,647)	(1,882)	(1,665)
Loan Raised/(repaid)	(5)	(3)	15,263	-	-
Equity Raised	874	(923)	(15,141)	0	0
Dividend	2,528	2,528	2,809	3,652	3,652
CF from Fin Activities	(1,660)	(3,454)	(2,687)	(3,652)	(3,652)
Net inc /(dec) in cash	1,720	2,368	15,382	7,779	9,331
Op. bal of cash	5,644	7,364	9,732	25,115	32,893
Cl. balance of cash	7,364	9,732	25,116	32,893	42,225



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