



Zee Entertainment

2QFY18 Result Update

Sector: Media

CMP: ` 526

Domestic advertisement surprises, rich valuations

Recommendation: Hold

Market statistics

Current stock price (`)	526
Shares O/S (cr.)	96.0
Mcap (` cr)	50,472
52W H/L (`)	561/429
6m avg. volume	2,262,347
Bloomberg	Z.IN

Zee Entertainment's quarterly numbers were better-than-expectations with 10.1% like-to-like advertising growth in domestic business and 7.2% like-to-like growth in domestic subscription revenue. EBITDA margin at 31%, largely due to better advertisement revenues. 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), coupled with intensified competition. We maintain our Hold rating on the stock.

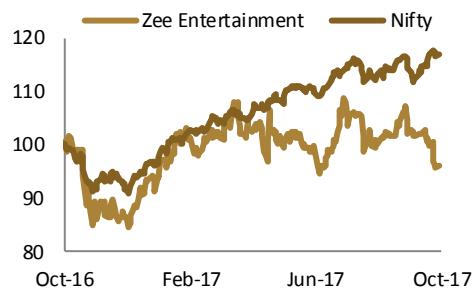
Shareholding pattern

Promoters	43.07
Domestic Institution	6.67
Foreign Institution	43.85
Non-institution	6.41
of which more than 1%	
Oppenheimer Developing Markets Fund	6.80
Vanguard International Growth Fund	1.56

Advertisement and subscription performance: Zee Entertainment's quarterly numbers were better-than-expectations with 10.1% like-to-like advertising growth in domestic business and 7.2% like-to-like growth in domestic subscription revenue. Advertising revenues have made a come-back post weakness due to GST implementation and management expects the impact to continue in 2HFY18. EBITDA performance was better at Rs4.9bn, with EBITDA margins of 31.0%, largely due to better advertisement revenues.

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 31.4% vs 31.9% (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 27.5hrs/week on ZEE flagship channels to 30hrs/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:** 9X Media and its subsidiaries will take another 45-60 days for consolidation into Zee Entertainment; Q4 would have consolidated financials. 2 HD channels - Zee Tamil HD and premium English movie channels &privé HD were launched taking the count of HD channels to 11. 5) The company expects FMCG ad spend to increase going further, and Zee Entertainment should get disproportionate share of it on account of its rating increase. E-Commerce space adv spend is also strong which is ensuring Zee Entertainment would grow its advertisement revenue by mid-teens in FY18E.

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	18.9	21.3	20.7
EPS (`)	12.7	15.9	18.0
CEPS (`)	13.9	17.5	19.9
P/E (x)	42.2	33.1	29.3
P/BV (x)	7.7	6.6	5.6
EV/EBITDA (x)	26.1	23.5	19.2
Income growth (%)	10.7	3.3	13.6
EBITDA growth (%)	27.3	8.4	18.1
PAT growth (%)	32.1	25.2	13.0

International Business: During the quarter, ZEEL's International business revenue (excl. sports business) was Rs.1,715mn. On a comparable basis, the advertising and subscription revenues were lower by 19.9% and 7.6%, respectively. The adverse impact of currency appreciation and region-specific issues have contributed to the decline in revenues. Advertisement Revenue of Rs.506mn, Subscription Revenue of Rs.970 mn, and Other Sales and Services of Rs.239mn

Acquisition: The Company entered into an agreement to acquire 6 music channels from 9X Media and its subsidiaries. The channels include 3 Hindi music channels (9XM, 9X Jalwa, 9X Bajao) and one each in Punjabi (9x Tashan), Marathi (9x Jhakas) and English (9XO). The acquisition will significantly strengthen ZEEL's television music portfolio in Hindi and regional languages.

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), coupled with intensified competition. Hence, we maintain our recommendation on Zee Entertainment at Hold.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

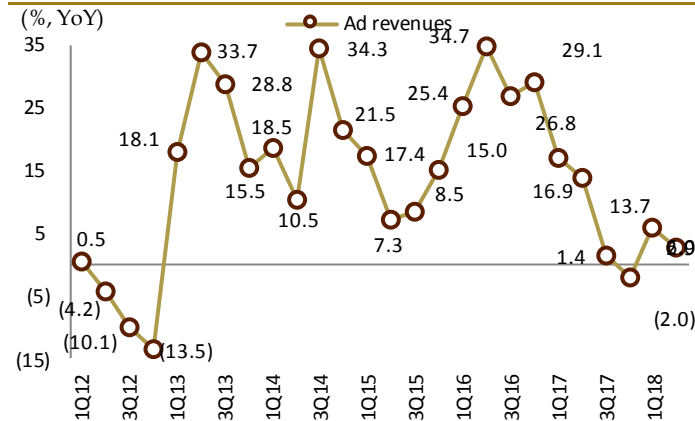


Exhibit 1: Quarterly details

mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
Revenues	16,954	15,403	15,821	2.7	(6.7)	TV industry advertisement revenue is expected to grow at ~10% during CY17E/FY18E
- Operating costs	12,062	10,559	10,909	3.3	(9.6)	
EBITDA	4,892	4,844	4,912	1.4	0.4	
EBITDA margin (%)	28.9	31.4	31.0	(40)bps	219bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	86	147	3	(98.1)	(96.7)	
- Depreciation	336	311	411	32.2	22.4	
+ Other income, net (incl forex)	432	1,011	2,031	101.0	369.8	
PBT	4,903	5,396	6,529	21.0	33.2	
- Taxes	1,634	2,344	1,832	(21.9)	12.1	
Effective tax rate (%)	33.3	43.4	28.1	(1,539)bps	(528)bps	FY18 effective tax rate would be 34-35%.
PAT	3,269	3,052	4,698	53.9	43.7	
Minority interests	56	6	(12)	NA	NA	
Consolidated profits	3,213	3,047	4,710	54.6	46.6	
Reported PAT	2,384	2,514	5,908	135.0	147.8	

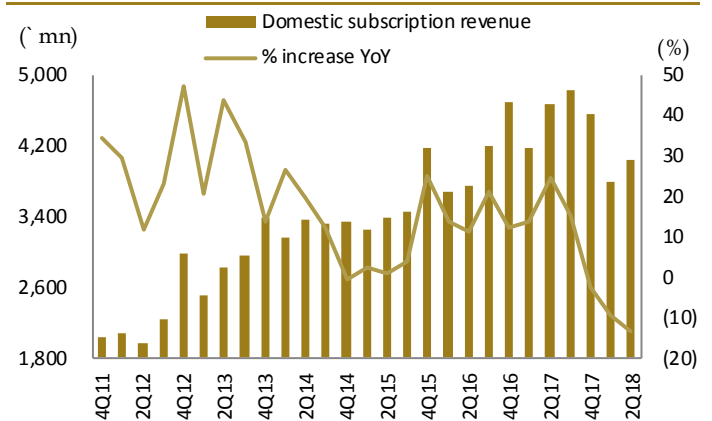
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 10.1% like-to-like basis



Source: Company, Trust

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



Source: Company, Trust



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

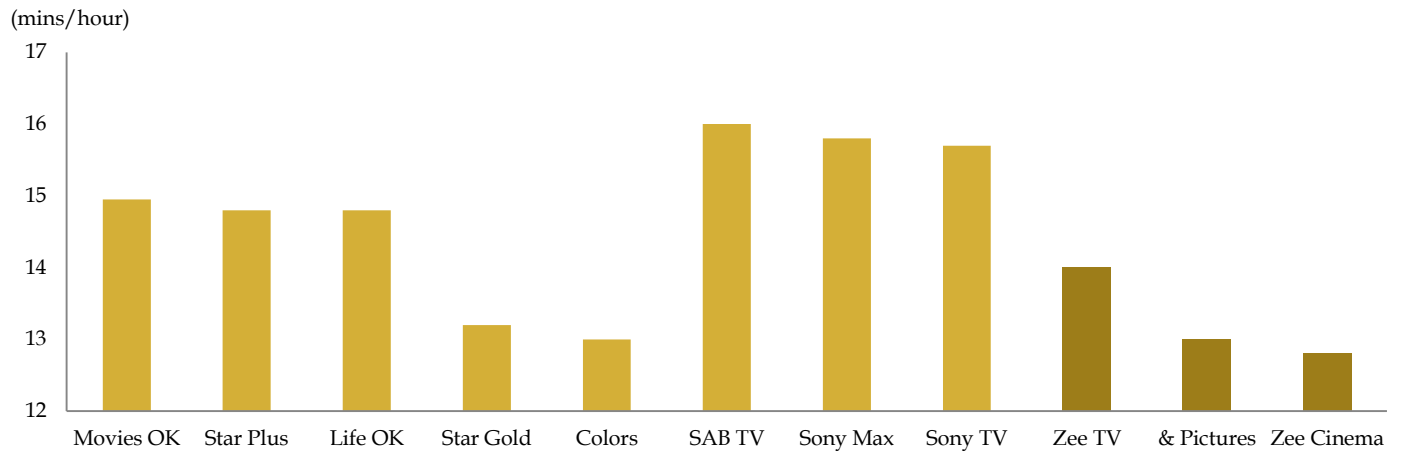
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

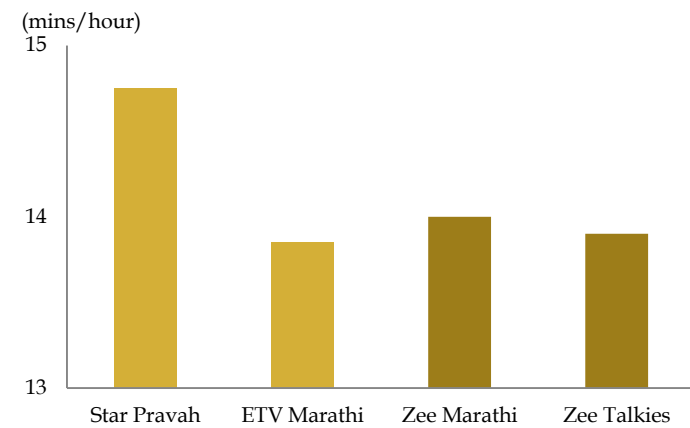
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

Exhibit 4: Hindi general entertainment channels (GECs) and movies : prime-time (7PM-10PM) advertising (mins/hour)



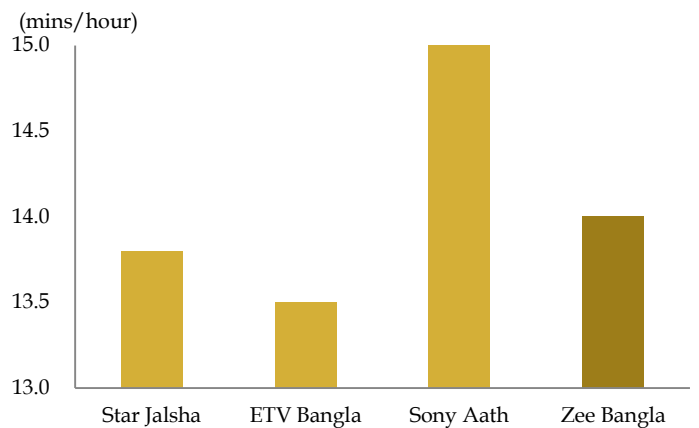
Source: Company, Trust

Exhibit 5: Marathi channels: Prime time advertising



Source: Company, Trust

Exhibit 6: 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	66,454	75,523
Op. Expenses	36,606	43,418	45,073	45,563	50,843
EBITDA	12,538	15,096	19,269	20,891	24,680
Other Income	2,278	2,016	2,240	4,292	3,250
Depreciation	673	840	1,152	1,574	1,824
EBIT	14,142	16,271	20,357	23,609	26,106
Interest	103	123	1,372	155	11
PBT	14,040	16,148	18,984	23,453	26,095
Tax	4,284	5,528	6,805	8,211	8,872
PAT	9,756	10,620	12,179	15,243	17,223
Minority	20	(22)	(5)	31	49
Ex. Ordinary items	-	331	(10,030)	(666)	-
Adj Pat	9,776	10,268	22,204	15,940	17,272

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	10.2	11.0	12.7	15.9	18.0
CEPS	10.9	11.9	13.9	17.5	19.9
BVPS	57.8	64.9	69.3	79.8	94.0
DPS	2.3	2.3	2.5	3.3	3.3
Payout (%)	25.9	23.9	23.1	23.9	21.1
Valuation (x)					
P/E	33.5	34.9	42.2	33.1	29.3
P/BV	5.9	5.9	7.7	6.6	5.6
EV/EBITDA	25.5	23.9	26.1	23.5	19.2
Dividend Yield (%)	0.7	0.6	0.5	0.6	0.6
Return ratio (%)					
EBITDA Margin	25.5	25.8	29.9	31.4	32.7
PAT Margin	19.9	18.1	18.9	22.9	22.8
ROAE	19.0	18.0	18.9	21.3	20.7
ROACE	27.5	27.6	28.2	27.1	26.3
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	22.9	19.4	16.5
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	151.9	NA
Current ratio	3.6	3.4	4.6	5.2	5.4
Growth Ratios (%)					
Income growth	11.1	19.1	10.7	3.3	13.6
EBITDA growth	4.1	20.4	27.3	8.4	18.1
PAT growth	9.6	8.9	32.1	25.2	13.0
Turnover Ratios					
F.A Turnover x	11.3	10.1	10.2	10.1	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	77,896	91,515
Total Shareholders Fund	55,498	62,314	66,568	78,856	92,476
Minority Interest	4	85	10	10	10
Non- current liabilities	249	308	15,136	14,909	14,996
Long term Borrowings	12	9	15,272	15,272	15,272
Deferred tax liabilities	(531)	(556)	(903)	(1,112)	(1,112)
Other LT liabilities & prov	768	854	767	749	836
Current Liabilities	13,776	15,678	17,750	17,976	20,059
Short-term borrowings	-	-	-	-	-
Trade payables	4,204	5,194	4,891	4,993	5,572
Other cur liabilities & Prov	9,572	10,484	12,860	12,982	14,487
Total Liabilities	69,527	78,385	99,465	111,751	127,540
Assets					
Non- current Assets	19,725	24,515	18,524	18,874	19,221
Fixed assets	4,367	5,810	6,301	6,607	6,283
Non-current investments	9,351	12,197	7,352	7,352	7,352
Long-term loans & adv	5,629	5,913	4,618	4,734	5,380
Other non-current assets	378	594	253	182	207
Current assets	49,802	53,870	80,941	92,876	108,318
Current investments	8,291	7,391	11,868	11,868	11,868
Trade receivables	10,692	13,245	13,059	13,473	15,312
Inventories	11,878	13,160	16,844	17,478	19,864
Cash & bank balances	7,365	9,733	25,116	35,491	44,722
Short-term loans & adv	10,248	8,810	4,771	4,916	5,587
Other current assets	1,328	1,532	9,283	9,649	10,966
Total Assets	69,527	78,385	99,465	111,751	127,540

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	14,040	16,148	18,984	23,453	26,095
Depreciation	439	816	805	1,365	1,824
Interest Exp	103	123	1,372	155	11
Others	(37)	(272)	9,950	697	49
CF before W.cap	14,545	16,816	31,112	25,671	27,979
Inc/dec in W.cap	4,117	1,112	3,589	1,397	4,713
Op CF after W.cap	10,428	15,704	27,522	24,274	23,266
Less Taxes	4,284	5,528	6,805	8,211	8,872
Net CF From Operations	6,144	10,175	20,717	16,063	14,394
Inc/(dec) in F.A + CWIP	935	2,284	1,643	1,880	1,500
(Pur)/sale of Investments	1,726	1,946	(368)	-	-
Others	(103)	(123)	(1,372)	(155)	(11)
CF from Invst Activities	(2,764)	(4,353)	(2,647)	(2,035)	(1,511)
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	10,377	9,231
Op. bal of cash	5,644	7,364	9,732	25,115	35,491
Cl. balance of cash	7,364	9,732	25,116	35,491	44,722



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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