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Zee Entertainment

3QFY18 Result Update

Sector: Media

CMP: ₹ 593

Domestic advertisement surprises, rich valuations

Recommendation: Hold

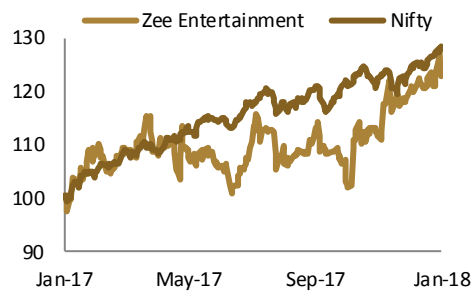
Market statistics

Current stock price (₹)	593
Shares O/S (cr.)	96.0
Mcap (₹ cr)	56,696
52W H/L (₹)	619/458
6m avg. volume	2,581,324
Bloomberg	Z.IN

Shareholding pattern

Promoters	43.07
Domestic Institution	8.24
Foreign Institution	42.25
Non-institution	6.44
of which more than 1%	
Oppenheimer Developing Markets Fund	6.80
Vanguard International Growth Fund	1.58

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	21.1	20.8	20.4
EPS (₹)	15.7	17.9	20.7
CEPS (₹)	17.4	19.8	22.9
P/E (x)	37.8	33.1	28.6
P/BV (x)	7.5	6.4	5.4
EV/EBITDA (x)	26.3	22.3	18.5
Income growth (%)	3.2	13.9	14.0
EBITDA growth (%)	9.8	17.0	15.5
PAT growth (%)	23.7	14.3	15.7

Zee Entertainment's quarterly numbers were better-than-expectations with 30.4% like-to-like advertising growth in domestic business and 7.5% like-to-like growth in domestic subscription revenue. EBITDA margin at 32.3%, 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 pricing pressure on the bouquet (ex-sports portfolio), coupled with intensified competition. We maintain our Hold rating on the stock.

Advertisement and subscription performance: Zee Entertainment's quarterly numbers were better-than-expectations with 30.4% like-to-like advertising growth in domestic business and 7.5% like-to-like growth in domestic subscription revenue. Advertising revenues have made a come-back post weakness due to GST implementation and management expects strong traction to continue into Q4FY18. EBITDA performance was better at Rs5.9bn, with EBITDA margins of 32.3%, 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 32.7% in FY19E (ex-sports). 3) **Programming content:** ZEEL plans a meaningful revamp in its digital offering with a new product launch likely in FY19. Management highlighted that improvement in viewership share was due to investment in content. The company guided for increase in content from current 30hrs/week on ZEE flagship channels to 32-35hrs/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 be consolidated into financials in Q4. 2 HD channels - Zee Telugu HD and Zee Cinemalu HD were launched taking the count of HD channels to 13. 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.

International Business: During the quarter, ZEEL's International business revenue (excl. sports business) was Rs.1,878mn. The adverse impact of currency appreciation and region-specific issues have contributed to the decline in revenues. Advertisement Revenue of Rs.647mn, Subscription Revenue of Rs.981 mn. On a comparable basis, the advertising and subscription revenues were lower by 0.8% and 3.4%, respectively.

Zee Studios: released three movies during the quarter - Secret Superstar (Hindi), Qarib Qarib Singlle (Hindi) and Faster Fene (Marathi). Secret Superstar performed well at the box office. Z5 would be launched in Feb'17. OZEE saw a sharp improvement in performance metrics with an average of 145 mn+ video views per month during the quarter. DittoTV continued to see improved traction with telecom operators.

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 pricing pressure on the bouquet (ex-sports portfolio), coupled with intensified competition. Hence, we maintain our recommendation on Zee Entertainment at Hold.

ANALYST

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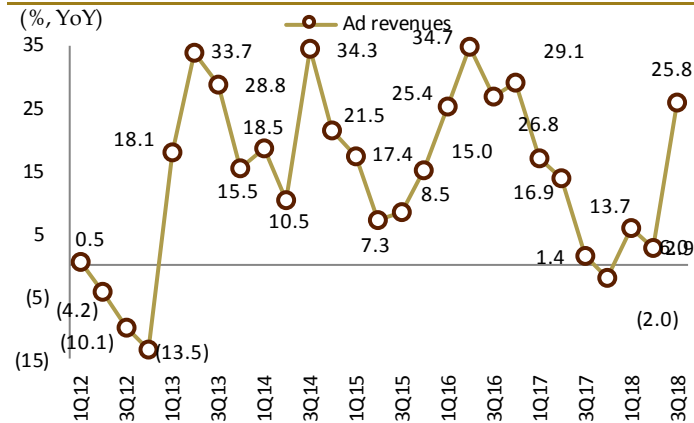


Exhibit 1: Quarterly details

₹ mn	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues	16,391	15,821	18,381	16.2	12.1	TV industry advertisement revenue is expected to grow at ~10% during CY17E/FY18E
- Operating costs	11,233	10,909	12,437	14.0	10.7	
EBITDA	5,158	4,912	5,944	21.0	15.2	
EBITDA margin (%)	31.5	31.0	32.3	129bps	87bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	90	3	24	742.9	(73.8)	
- Depreciation	249	411	505	22.7	102.6	
+ Other income, net (incl forex)	525	2,031	480	(76.4)	(8.4)	
PBT	5,343	6,529	5,897	(9.7)	10.4	
- Taxes	2,081	1,832	2,260	23.4	8.6	
Effective tax rate (%)	38.9	28.1	38.3	1,027bps	(62)bps	FY18 effective tax rate would be 34-35%
PAT	3,263	4,698	3,637	(22.6)	11.5	
Minority interests	41	(12)	1	NA	NA	
Consolidated profits	3,222	4,710	3,636	(22.8)	12.9	
Reported PAT	2,508	5,908	3,217	(45.5)	28.3	

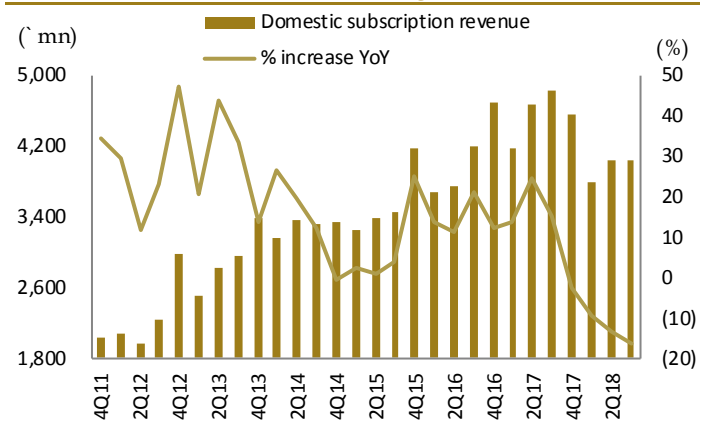
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 30.4% 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

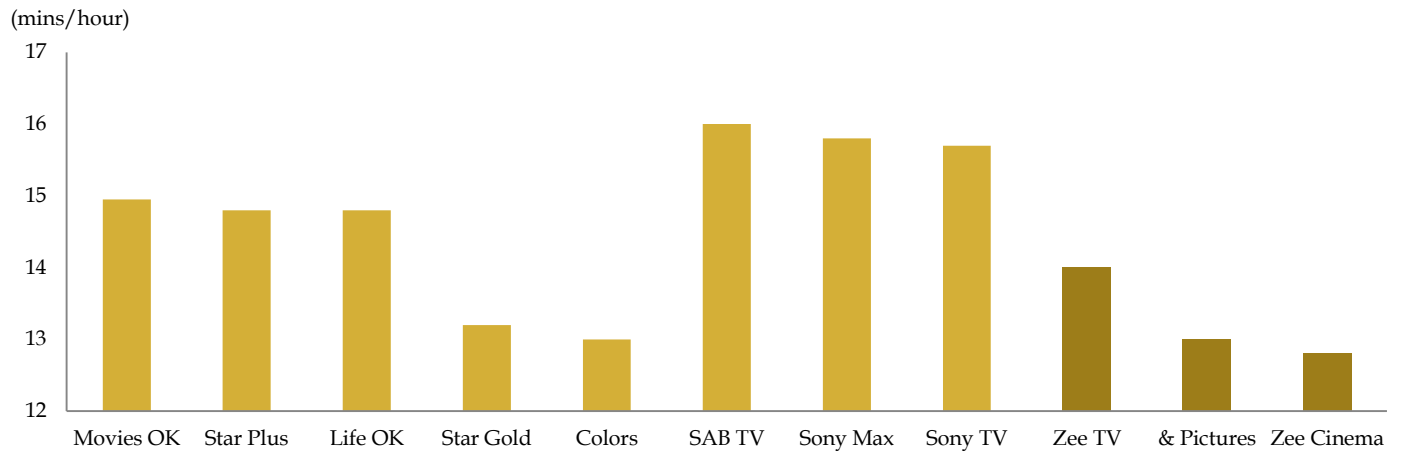
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

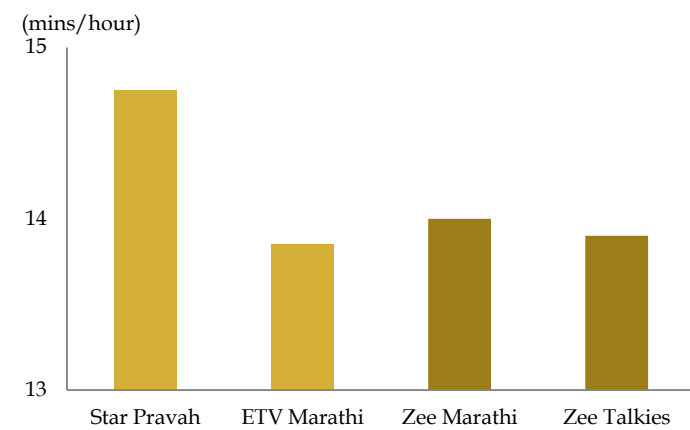
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



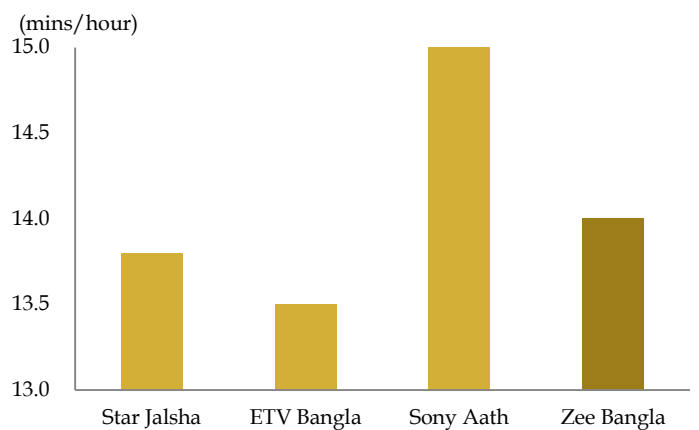
Source: Company, Trust

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	FY16	FY17	FY18E	FY19E	FY20E
Revenues	58,514	64,341	66,397	75,606	86,191
Op. Expenses	43,418	45,073	45,233	50,853	57,599
EBITDA	15,096	19,269	21,164	24,753	28,592
Other Income	2,016	2,240	4,172	3,250	3,750
Depreciation	840	1,152	1,657	1,824	2,088
EBIT	16,271	20,357	23,679	26,179	30,254
Interest	123	1,372	197	94	85
PBT	16,148	18,984	23,482	26,085	30,169
Tax	5,528	6,805	8,416	8,869	10,258
PAT	10,620	12,179	15,065	17,216	19,912
Minority	(22)	(5)	5	(2)	(2)
Ex. Ordinary items	331	(10,030)	(247)	-	-
Adj Pat	10,268	22,204	15,318	17,213	19,909

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Per share (`)					
EPS	11.0	12.7	15.7	17.9	20.7
CEPS	11.9	13.9	17.4	19.8	22.9
BVPS	64.9	69.3	79.1	93.3	109.6
DPS	2.3	2.5	3.3	3.3	3.8
Payout (%)	23.9	23.1	24.2	21.2	21.2
Valuation (x)					
P/E	34.9	42.2	37.8	33.1	28.6
P/BV	5.9	7.7	7.5	6.4	5.4
EV/EBITDA	23.9	26.1	26.3	22.3	18.5
Dividend Yield (%)	0.6	0.5	0.5	0.5	0.6
Return ratio (%)					
EBITDA Margin	25.8	29.9	31.9	32.7	33.2
PAT Margin	18.1	18.9	22.7	22.8	23.1
ROAE	18.0	18.9	21.1	20.8	20.4
ROACE	27.6	28.2	27.2	26.5	26.7
Leverage Ratios (x)					
Long Term D/E	0.0	22.9	19.5	16.6	14.2
Net Debt/Equity	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Debt/EBITDA	0.0	0.8	0.7	0.6	0.5
Interest Coverage	132.3	14.8	120.2	277.3	356.1
Current ratio	3.4	4.6	5.1	5.3	5.4
Growth Ratios (%)					
Income growth	19.1	10.7	3.2	13.9	14.0
EBITDA growth	20.4	27.3	9.8	17.0	15.5
PAT growth	8.9	32.1	23.7	14.3	15.7
Turnover Ratios					
F.A Turnover x	10.1	10.2	9.5	9.9	10.9
Inventory Days	82	96	96	96	96
Debtors Days	83	75	74	74	74
Payable days	44	42	40	40	40

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	960	960	960	960	960
Reserves & Surplus	61,354	65,608	77,274	90,835	106,530
Total Shareholders Fund	62,314	66,568	78,234	91,796	107,491
Minority Interest	85	10	10	10	10
Non-current liabilities	308	15,136	14,903	14,996	15,107
Long term Borrowings	9	15,272	15,272	15,272	15,272
Deferred tax liabilities	(556)	(903)	(1,112)	(1,112)	(1,112)
Other LT liabilities & prov	854	767	744	836	947
Current Liabilities	15,678	17,750	17,845	20,063	22,724
Short-term borrowings	-	-	-	-	-
Trade payables	5,194	4,891	4,957	5,573	6,312
Other cur liabilities & Prov	10,484	12,860	12,888	14,490	16,412
Total Liabilities	78,385	99,465	110,993	126,864	145,332
Assets					
Non-current Assets	24,515	18,524	18,787	19,144	19,438
Fixed assets	5,810	6,301	7,032	7,599	7,911
Non-current investments	12,197	7,352	7,352	7,352	7,352
Long-term loans & adv	5,913	4,618	4,730	5,386	6,140
Other non-current assets	594	253	182	207	236
Current assets	53,870	80,941	91,706	106,320	123,693
Current investments	7,391	11,868	11,868	11,868	11,868
Trade receivables	13,245	13,059	13,461	15,328	17,474
Inventories	13,160	16,844	17,463	19,886	22,670
Cash & bank balances	9,733	25,116	34,361	42,667	52,789
Short-term loans & adv	8,810	4,771	4,912	5,593	6,376
Other current assets	1,532	9,283	9,641	10,978	12,515
Total Assets	78,385	99,465	110,992	126,864	145,332

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	16,148	18,984	23,482	26,085	30,169
Depreciation	816	805	1,448	1,824	2,088
Interest Exp	123	1,372	197	94	85
Others	(272)	9,950	252	(2)	(2)
CF before W.cap	16,816	31,112	25,379	28,001	32,340
Inc/dec in W.cap	1,112	3,589	1,489	4,680	5,261
Op CF after W.cap	15,704	27,522	23,890	23,321	27,079
Less Taxes	5,528	6,805	8,416	8,869	10,258
Net CF From Operations	10,175	20,717	15,474	14,452	16,822
Inc/(dec) in F.A + CWIP	2,284	1,643	2,380	2,400	2,400
(Pur)/sale of Investments	1,946	(368)	-	-	-
Others	(123)	(1,372)	(197)	(94)	(85)
CF from Invst Activities	(4,353)	(2,647)	(2,577)	(2,494)	(2,485)
Loan Raised/(repaid)	(3)	15,263	-	-	-
Equity Raised	(923)	(15,141)	0	0	(0)
Dividend	2,528	2,809	3,652	3,652	4,214
CF from Fin Activities	(3,454)	(2,687)	(3,652)	(3,652)	(4,214)
Net inc / (dec) in cash	2,368	15,382	9,246	8,306	10,123
Op. bal of cash	7,364	9,732	25,115	34,361	42,667
Cl. balance of cash	9,732	25,116	34,361	42,667	52,789



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