



Zee Entertainment

4QFY18 Result Update

Sector: Media

CMP: ₹ 589

Domestic advertisement surprises, rich valuations

Recommendation: Hold

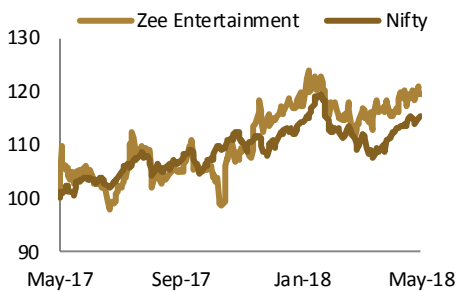
Market statistics

Current stock price (₹)	589
Shares O/S (cr.)	96.0
Mcap (₹ cr)	56,671
52W H/L (₹)	619/477
6m avg. volume	2,082,306
Bloomberg	Z.IN

Shareholding pattern

Promoters	41.62
Domestic Institution	10.61
Foreign Institution	41.38
Non-institution	6.39
of which more than 1%	

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.8	20.1	20.0
EPS (₹)	13.2	17.2	19.9
CEPS (₹)	15.1	19.8	22.8
P/E (x)	43.7	34.3	29.6
P/BV (x)	7.3	6.4	5.5
EV/EBITDA (x)	26.2	23.3	19.0
Income growth (%)	3.9	13.0	14.0
EBITDA growth (%)	7.7	13.7	16.7
PAT growth (%)	3.9	30.2	16.0

Zee Entertainment's quarterly numbers were better-than-expectations with 23.9% like-to-like advertising growth in domestic business while domestic subscription revenue declined 2% on a like-to-like basis. EBITDA margin at 29.3%, largely due to better advertisement revenues and investment into digital platform was better-than our-expectation. 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 23.9% like-to-like advertising growth in domestic business while domestic subscription revenue declined 2% on a like-to-like basis. Domestic subscription revenue (excluding sports) grew by 18.1% YoY to Rs.4.5bn, led by closure of deals in the quarter and catchup revenue associated with it. Revenue from other sales and services increased by 5% YoY to Rs.1.3bn, driven by good performance of two Marathi movies at the box office.

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 31.2% 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) 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 FY19E. 5) The ongoing litigation on TRAI's tariff order along with consolidation in the DTH industry is impacting contract renewal with distributors, though management expects low teen subscription revenue growth in the domestic market and muted subscription revenue growth in the international market in FY19.

Increased Inventory in FY18: Increased inventory in FY18 was due to investments in acquisition of future rights and advance purchase of rights of underproduction movies, which would inch up the amortisation cost going ahead. Management continues to reiterate its comfort, with OPM of over 30% annually, factoring in investments in digital content.

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

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

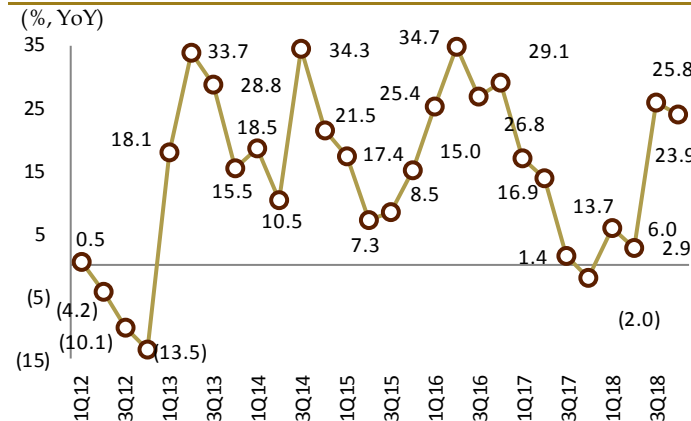


Exhibit 1: Quarterly details

mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues	15,280	18,381	17,253	(6.1)	12.9	TV industry advertisement revenue is expected to grow at ~10% during CY18E/FY19E
- Operating costs	10,593	12,437	12,191	(2.0)	15.1	
EBITDA	4,687	5,944	5,062	(14.8)	8.0	
EBITDA margin (%)	30.7	32.3	29.3	(300)bps	(134)bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	1,122	24	1,274	5,300.0	13.6	
- Depreciation	316	505	594	17.8	87.9	
+ Other income, net (incl forex)	549	480	881	83.4	60.4	
PBT	3,798	5,897	4,074	(30.9)	7.3	
- Taxes	1,464	2,260	2,805	24.2	91.6	
Effective tax rate (%)	38.5	38.3	68.9	3,053bps	3,031bps	FY19 effective tax rate would be 33-34%
PAT	2,334	3,637	1,269	(65.1)	(45.6)	
Minority interests	(103)	1	(6)	NA	NA	
Consolidated profits	2,438	3,636	1,275	(64.9)	(47.7)	
Reported PAT	15,142	3,217	2,306	(28.3)	(84.8)	

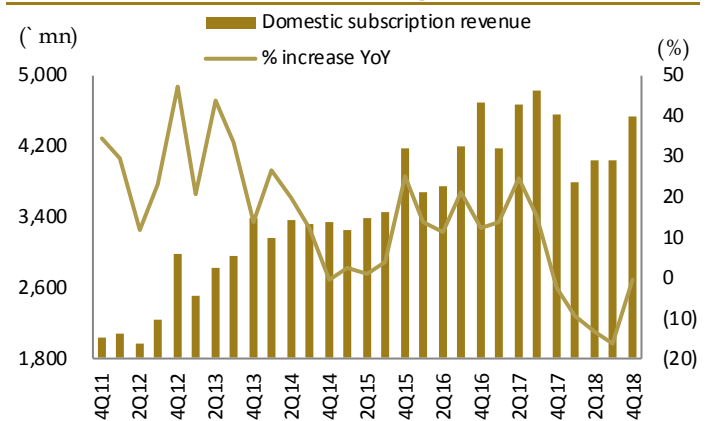
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 23.9% like-to-like basis



Source: Company, Trust

Exhibit 3: Domestic subscription to grow in 13-15% in FY19E



Source: Company, Trust



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

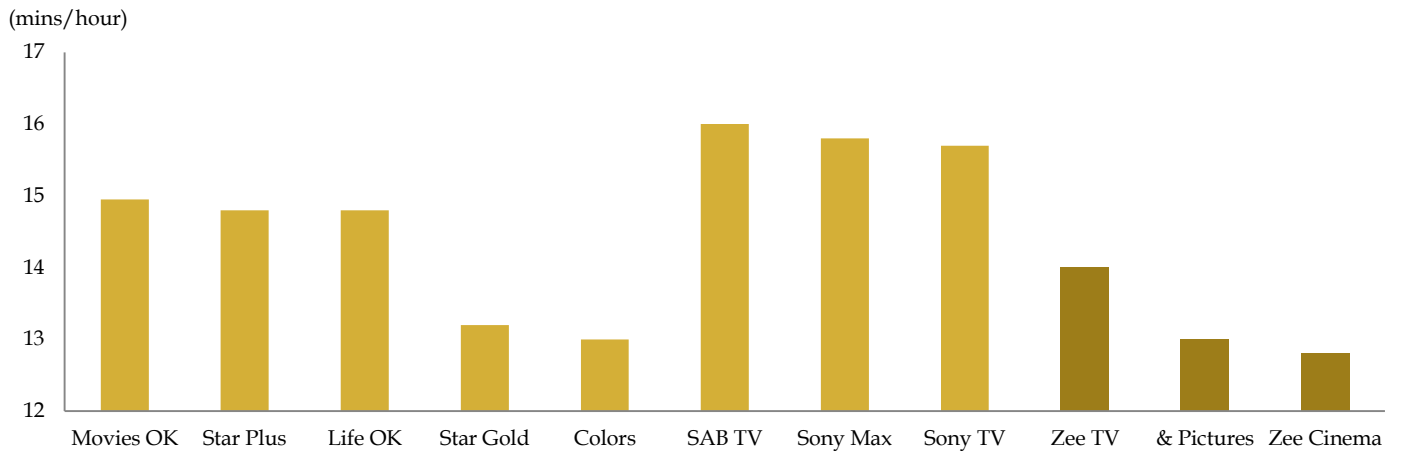
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

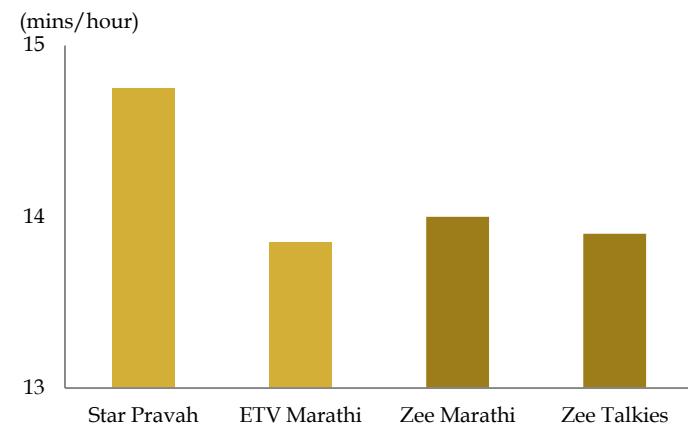
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



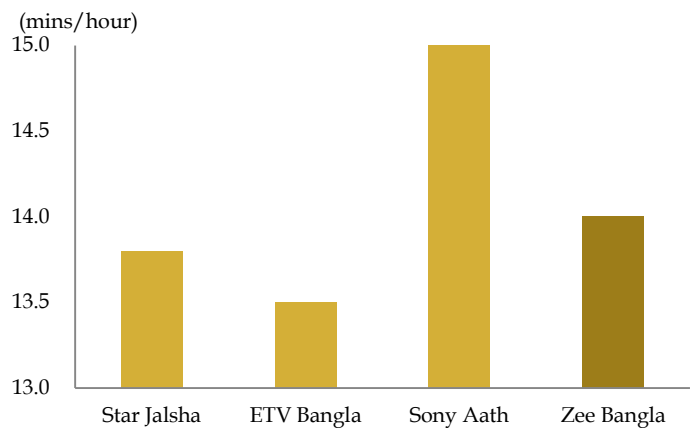
Source: Company, Trust

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	FY18	FY19E	FY20E
Revenues	58,514	64,341	66,857	75,559	86,137
Op. Expenses	43,418	45,073	46,095	51,957	58,599
EBITDA	15,096	19,269	20,761	23,602	27,538
Other Income	2,016	2,240	4,404	3,850	4,350
Depreciation	840	1,152	1,821	2,478	2,742
EBIT	16,271	20,357	23,344	24,974	29,146
Interest	123	1,372	1,448	200	180
PBT	16,148	18,984	21,896	24,774	28,966
Tax	5,528	6,805	9,241	8,299	9,849
PAT	10,620	12,179	12,656	16,475	19,118
Minority	(22)	(5)	12	23	23
Ex. Ordinary items	331	(10,030)	(1,279)	-	-
Adj Pat	10,268	22,204	13,946	16,498	19,141

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	11.0	12.7	13.2	17.2	19.9
CEPS	11.9	13.9	15.1	19.8	22.8
BVPS	64.9	69.3	78.7	92.1	107.6
DPS	2.3	2.5	2.9	3.3	3.8
Payout (%)	23.9	23.1	25.7	21.8	22.0
Valuation (x)					
P/E	34.9	42.2	43.7	34.3	29.6
P/BV	5.9	7.7	7.3	6.4	5.5
EV/EBITDA	23.9	26.1	26.2	23.3	19.0
Dividend Yield (%)	0.6	0.5	0.5	0.6	0.6
Return ratio (%)					
EBITDA Margin	25.8	29.9	31.1	31.2	32.0
PAT Margin	18.1	18.9	18.9	21.8	22.2
ROAE	18.0	18.9	17.8	20.1	20.0
ROACE	27.6	28.2	27.6	26.7	27.1
Leverage Ratios (x)					
Long Term D/E	0.0	22.9	15.1	12.9	11.1
Net Debt/Equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Debt/EBITDA	0.0	0.8	0.6	0.5	0.4
Interest Coverage	132.3	14.8	16.1	124.9	161.9
Current ratio	3.4	4.6	4.1	4.3	4.4
Growth Ratios (%)					
Income growth	19.1	10.7	3.9	13.0	14.0
EBITDA growth	20.4	27.3	7.7	13.7	16.7
PAT growth	8.9	32.1	3.9	30.2	16.0
Turnover Ratios					
F.A Turnover x	10.1	10.2	9.9	11.3	13.5
Inventory Days	82	96	143	143	143
Debtors Days	83	75	77	79	80
Payable days	44	42	43	45	47

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	960	960	961	961	961
Reserves & Surplus	61,354	65,608	74,657	87,559	102,486
Total Shareholders Fund	62,314	66,568	75,617	88,520	103,447
Minority Interest	85	10	142	142	142
Non- current liabilities	308	15,136	14,340	14,445	14,572
Long term Borrowings	9	15,272	11,453	11,453	11,453
Deferred tax liabilities	(556)	(903)	1,996	1,996	1,996
Other LT liabilities & prov	854	767	892	996	1,124
Current Liabilities	15,678	17,750	21,197	23,488	26,490
Short-term borrowings	-	-	-	-	-
Trade payables	5,194	4,891	11,497	12,811	14,449
Other cur liabilities & Prov	10,484	12,860	9,700	10,676	12,041
Total Liabilities	78,385	99,465	111,297	126,595	144,652
Assets					
Non- current Assets	24,515	18,524	25,397	26,235	27,053
Fixed assets	5,810	6,301	6,786	6,708	6,367
Non-current investments	12,197	7,352	11,246	11,246	11,246
Long-term loans & adv	5,913	4,618	7,026	7,866	8,968
Other non-current assets	594	253	340	414	472
Current assets	53,870	80,941	85,900	100,359	117,599
Current investments	7,391	11,868	13,695	13,695	13,695
Trade receivables	13,245	13,059	15,365	17,389	19,823
Inventories	13,160	16,844	26,278	29,602	33,747
Cash & bank balances	9,733	25,116	9,345	15,866	23,430
Short-term loans & adv	8,810	4,771	2,428	2,691	3,068
Other current assets	1,532	9,283	18,788	21,115	23,835
Total Assets	78,385	99,465	111,297	126,594	144,651

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	16,148	18,984	21,896	24,774	28,966
Depreciation	816	805	4,720	2,478	2,742
Interest Exp	123	1,372	1,448	200	180
Others	(272)	9,950	1,423	23	23
CF before W.cap	16,816	31,112	29,487	27,475	31,911
Inc/dec in W.cap	1,112	3,589	17,825	6,458	7,705
Op CF after W.cap	15,704	27,522	11,662	21,016	24,206
Less Taxes	5,528	6,805	9,241	8,299	9,849
Net CF From Operations	10,175	20,717	2,421	12,717	14,358
Inc/(dec) in F.A + CWIP	2,284	1,643	2,306	2,400	2,400
(Pur)/sale of Investments	1,946	(368)	5,722	-	-
Others	(123)	(1,372)	(1,448)	(200)	(180)
CF from Invst Activities	(4,353)	(2,647)	(9,475)	(2,600)	(2,580)
Loan Raised/(repaid)	(3)	15,263	(3,820)	-	-
Equity Raised	(923)	(15,141)	(1,638)	0	(0)
Dividend	2,528	2,809	3,259	3,595	4,214
CF from Fin Activities	(3,454)	(2,687)	(8,717)	(3,595)	(4,214)
Net inc / (dec) in cash	2,368	15,382	(15,770)	6,522	7,564
Op. bal of cash	7,364	9,732	25,115	9,344	15,866
Cl. balance of cash	9,732	25,116	9,344	15,866	23,430



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				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
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

DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.