



Zee Entertainment

1QFY19 Result Update

Sector: Media

CMP: ` 517

Domestic advertisement to surpass initial estimates

Recommendation: Hold

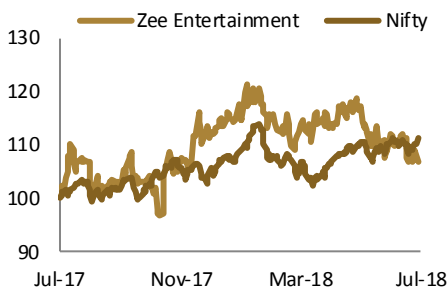
Market statistics

Current stock price (`)	517
Shares O/S (cr.)	96.0
Mcap (` cr)	49,685
52W H/L (`)	619/477
6m avg. volume	1,993,910
Bloomberg	Z.IN

Shareholding pattern

Promoters	41.62
Domestic Institution	11.13
Foreign Institution	40.77
Non-institution	6.48
of which more than 1%	

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	17.8	19.5	19.8
EPS (`)	13.2	16.6	19.6
CEPS (`)	15.1	19.0	22.3
P/E (x)	43.7	31.2	26.4
P/BV (x)	7.3	5.7	4.9
EV/EBITDA (x)	26.2	19.9	16.2
Income growth (%)	3.9	13.1	14.0
EBITDA growth (%)	7.7	16.9	15.9
PAT growth (%)	3.9	25.3	18.0

Zee Entertainment's quarterly numbers were as-per-our-expectations with 18.6% like-to-like advertising growth in domestic business while domestic subscription revenue increased 12.3% on a like-to-like basis. EBITDA margin at 31.9%, higher than our expectations due to lower content costs. 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 as-per-our-expectations with 18.6% like-to-like advertising growth in domestic business while domestic subscription revenue increased 12.3% on a like-to-like basis. Domestic ad revenue grew by 22.3% YoY, led by robust demand across categories and higher ad spends from consumer goods customers, whereas international ad revenue (adjusting ad revenue from sports business in Q1FY18) increased by 2.1% YoY. International subscription revenues declined 6.6% YoY in Q1FY2019 owing to change in business strategy in UK (moved to FTA from the Sky platform). Revenue from other sales and services increased by 13.4% YoY to Rs.1.07bn, driven by movies - Beyond the Clouds (Hindi), Parmanu (Hindi) and Nude (Marathi).

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 32.1% in FY19E. 3) **Advertisement growth outlook:** ZEEI's management believes that the overall advertisement revenue growth for FY19 would be higher than the initial industry forecast of ~12%, based on its discussions with the advertisers, the visibility on ad campaigns and recovery in rural demand. 4) **Subscription revenue visibility:** Though the management retains its outlook on subscription. revenue growth (low-teen growth) for FY19, we believe the new tariff order (TRAI notification on 3rd Jul'18) after the implementation would have certain hiccups in the subscription revenues for broadcasters owing to structural changes in the business model (bundle to a-la carte). Further, the reliance JIO's entry into FTTH (fibre-to-the-home) would exacerbate the impact on subscription revenues, 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 FY19E.

Increased Inventory: Increased inventory is 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

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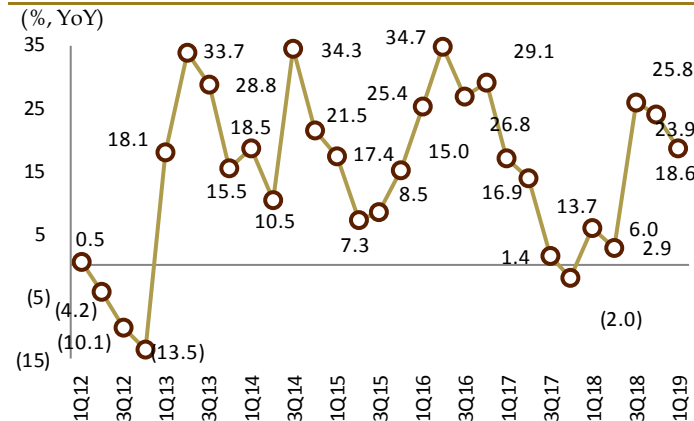


Exhibit 1: Quarterly details

₹ mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenues	15,403	17,253	17,720	2.7	15.0	TV industry advertisement revenue is expected to grow at ~10% during CY18E/FY19E
- Operating costs	10,559	12,191	12,064	(1.0)	14.3	
EBITDA	4,844	5,062	5,657	11.7	16.8	
EBITDA margin (%)	31.4	29.3	31.9	258bps	47bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	147	1,274	53	(95.8)	(64.0)	
- Depreciation	311	594	576	(3.0)	85.4	
+ Other income, net (incl forex)	1,011	881	498	(43.5)	(50.8)	
PBT	5,396	4,074	5,525	35.6	2.4	
- Taxes	2,344	2,805	2,071	(26.2)	(11.7)	
Effective tax rate (%)	43.4	68.9	37.5	(3,137)bps	(596)bps	FY19 effective tax rate would be 33-34%
PAT	3,052	1,269	3,454	172.2	13.2	
Minority interests	6	(6)	(18)	NA	NA	
Consolidated profits	3,047	1,275	3,472	172.3	14.0	
Reported PAT	2,514	2,306	3,259	41.3	29.6	

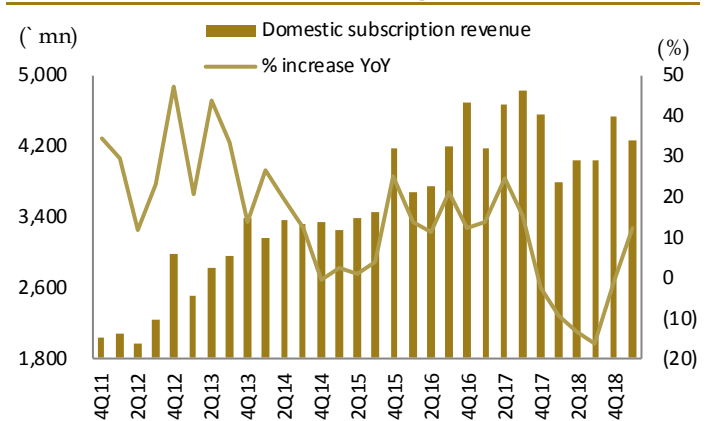
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 18.6% 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

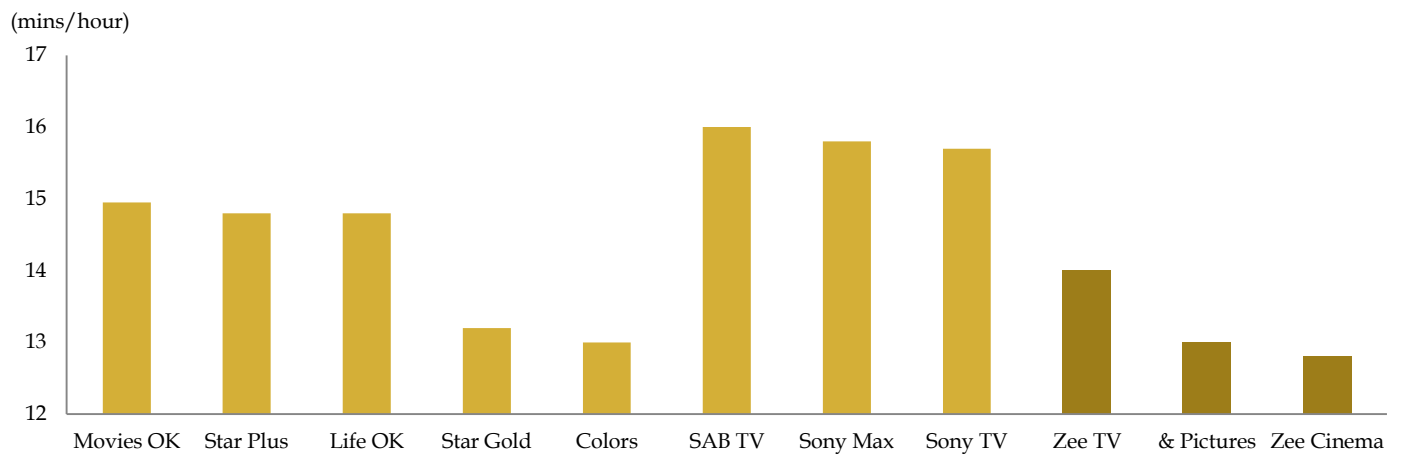
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

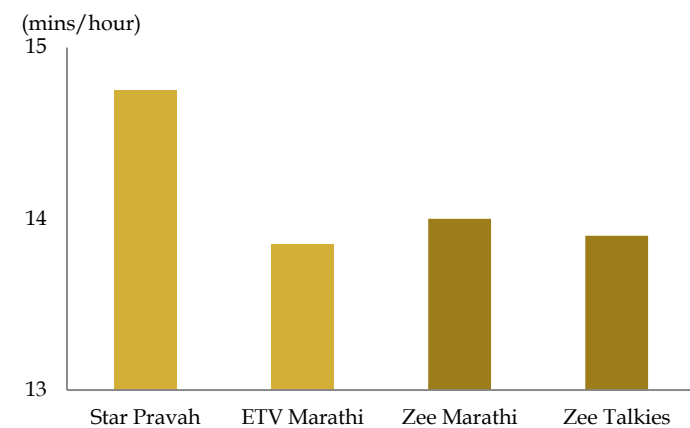
Alternatively, if TRAI doesn't impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



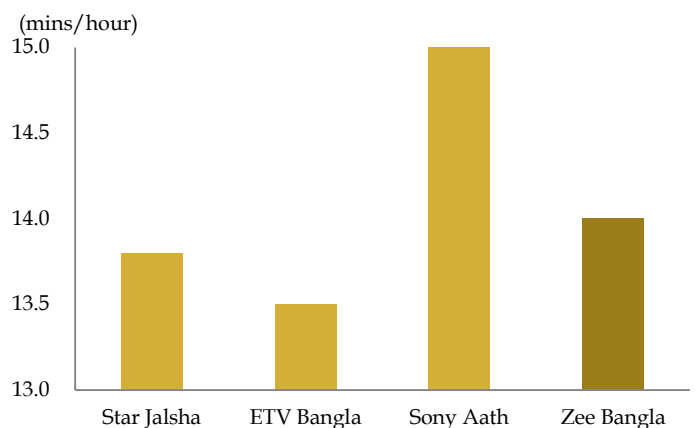
Source: Company, Trust

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	75,637	86,226
Op. Expenses	43,418	45,073	46,095	51,376	58,099
EBITDA	15,096	19,269	20,761	24,261	28,127
Other Income	2,016	2,240	4,404	2,940	3,440
Depreciation	840	1,152	1,821	2,366	2,630
EBIT	16,271	20,357	23,344	24,836	28,937
Interest	123	1,372	1,448	659	593
PBT	16,148	18,984	21,896	24,177	28,344
Tax	5,528	6,805	9,241	8,319	9,637
PAT	10,620	12,179	12,656	15,858	18,707
Minority	(22)	(5)	12	70	70
Ex. Ordinary items	331	(10,030)	(1,279)	213	-
Adj Pat	10,268	22,204	13,946	15,715	18,778

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	11.0	12.7	13.2	16.6	19.6
CEPS	11.9	13.9	15.1	19.0	22.3
BVPS	64.9	69.3	78.7	91.3	106.5
DPS	2.3	2.5	2.9	3.3	3.8
Payout (%)	23.9	23.1	25.7	22.6	22.4
Valuation (x)					
P/E	34.9	42.2	43.7	31.2	26.4
P/BV	5.9	7.7	7.3	5.7	4.9
EV/EBITDA	23.9	26.1	26.2	19.9	16.2
Dividend Yield (%)	0.6	0.5	0.5	0.6	0.7
Return ratio (%)					
EBITDA Margin	25.8	29.9	31.1	32.1	32.6
PAT Margin	18.1	18.9	18.9	21.0	21.7
ROAE	18.0	18.9	17.8	19.5	19.8
ROACE	27.6	28.2	27.6	26.6	27.2
Leverage Ratios (x)					
Long Term D/E	0.0	22.9	15.1	13.1	11.2
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	37.7	48.8
Current ratio	3.4	4.6	4.1	4.3	4.4
Growth Ratios (%)					
Income growth	19.1	10.7	3.9	13.1	14.0
EBITDA growth	20.4	27.3	7.7	16.9	15.9
PAT growth	8.9	32.1	3.9	25.3	18.0
Turnover Ratios					
F.A Turnover x	10.1	10.2	9.9	11.1	13.1
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	86,777	101,341
Total Shareholders Fund	62,314	66,568	75,617	87,737	102,301
Minority Interest	85	10	142	142	142
Non-current liabilities	308	15,136	14,340	14,434	14,563
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	985	1,114
Current Liabilities	15,678	17,750	21,197	23,225	26,264
Short-term borrowings	-	-	-	-	-
Trade payables	5,194	4,891	11,497	12,668	14,326
Other cur liabilities & Prov	10,484	12,860	9,700	10,557	11,938
Total Liabilities	78,385	99,465	111,297	125,538	143,270
Assets					
Non-current Assets	24,515	18,524	25,397	26,356	27,286
Fixed assets	5,810	6,301	6,786	6,820	6,591
Non-current investments	12,197	7,352	11,246	11,246	11,246
Long-term loans & adv	5,913	4,618	7,026	7,875	8,977
Other non-current assets	594	253	340	414	472
Current assets	53,870	80,941	85,900	99,182	115,983
Current investments	7,391	11,868	13,695	13,695	13,695
Trade receivables	13,245	13,059	15,365	17,407	19,844
Inventories	13,160	16,844	26,278	29,633	33,782
Cash & bank balances	9,733	25,116	9,345	14,616	21,732
Short-term loans & adv	8,810	4,771	2,428	2,694	3,071
Other current assets	1,532	9,283	18,788	21,137	23,860
Total Assets	78,385	99,465	111,297	125,538	143,270

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	16,148	18,984	21,896	24,177	28,344
Depreciation	816	805	4,720	2,366	2,630
Interest Exp	123	1,372	1,448	659	593
Others	(272)	9,950	1,423	(143)	70
CF before W.cap	16,816	31,112	29,487	27,059	31,637
Inc/dec in W.cap	1,112	3,589	17,825	6,814	7,678
Op CF after W.cap	15,704	27,522	11,662	20,245	23,959
Less Taxes	5,528	6,805	9,241	8,319	9,637
Net CF From Operations	10,175	20,717	2,421	11,925	14,322
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)	(659)	(593)
CF from Invst Activities	(4,353)	(2,647)	(9,475)	(3,059)	(2,993)
Loan Raised/(repaid)	(3)	15,263	(3,820)	-	-
Equity Raised	(923)	(15,141)	(1,638)	-	(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)	5,272	7,116
Op. bal of cash	7,364	9,732	25,115	9,344	14,616
Cl. balance of cash	9,732	25,116	9,344	14,616	21,732



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