

Zee Entertainment

1QFY20 Result Update

Decent quarter, stake sale key

Sector: Media

CMP: ` 361

Recommendation: Hold

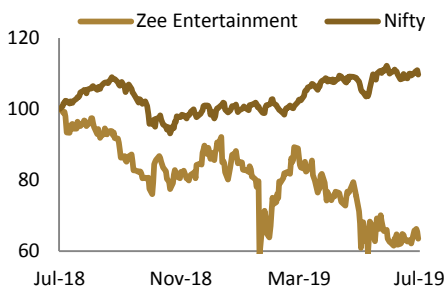
Market statistics

Current stock price (₹)	361
Shares O/S (cr.)	96.0
Mcap (₹ cr)	34,669
52W H/L (₹)	540/289
6m avg. volume	12,857,620
Bloomberg	Z.IN

Shareholding pattern

Promoters	35.79
Domestic Institution	11.24
Foreign Institution	47.07
Non-institution	5.90
of which more than 1%	

ZEEL vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	19.2	18.5	18.2
EPS (₹)	16.5	18.5	21.1
CEPS (₹)	19.0	21.5	24.2
P/E (x)	26.9	19.5	17.1
P/BV (x)	4.8	3.4	2.9
EV/EBITDA (x)	16.5	12.2	9.6
Income growth (%)	18.7	9.7	12.0
EBITDA growth (%)	23.5	7.3	17.3
PAT growth (%)	25.1	11.9	13.6

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

Zee Entertainment's quarterly numbers were higher-than-our-expectations with 46.7% LTL subscription growth in domestic business while domestic advertisement revenue increased sub 4% on a like-to-like basis. EBITDA margin at 32.9%, higher than our expectations due to strong revenue trajectory. 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 as the stake sale is yet to conclude and the overhang remains.

Advertisement and subscription performance: ZEEL delivered revenue ahead of expectation during Q1FY20 at Rs20bn up by 13.3% YoY led by strong growth in domestic subscription revenues (up by 46.7% YoY), while advertising revenue increased at a moderate rate of 3.6% YoY. The strong growth in subscription revenue was on the back of improvement in the monetization of the content (especially in the southern market) in the domestic market, which was partially offset by weak international subscription revenue (down 9.2% YoY) owing to the displacement of two channels from platform in the MENA region. Advertisement revenue growth during the quarter was impacted owing to conversion of two FTA channels to pay channels (impacted around 5-6% of ad revenue growth) and temporary shift of ad spends from entertainment to sports channel for higher reach.

Margin beat estimates: EBITDA margin expanded 93bps YoY to 32.9% in Q1FY20 despite higher investments in ZEE5, led by economics of scale (lower A&P spends as a percentage of total revenues). Improved profitability and higher-than-expected other income (one-time income tax refund of Rs600mn in Q1FY20) resulted in beat in the net profit, registering a growth of 62.6% YoY.

ZEE5 - aims to improve DAU/MAU to industry standard over next six quarters: With an exclusive content and partnerships, ZEE5 continues to strengthen its position in the domestic OTT space. Further, the OTT platform has witnessed an encouraging response among the customers in the international markets during the quarter. During June 2019, ZEE5 had 76.4mn monthly active users (MAU) globally, while global daily active user (DAU) base remained at 6.6mn. DAU as percentage of MAU stood at 8.6%, which is below the industry standard of around 25%. The management intends to be at the industry benchmark level of DAU/MAU over the next six quarters. ZEE5 launched 18 original shows and movies, of which seven were in regional languages during the quarter and is on the track to achieve 72 original shows in FY20E.

Promoters' strategic stake sale in the offing: The management briefed that of two non-binding offers it has secured one binding offer and expects to receive another in few days. The management also highlighted that it has two offers in hand - one is from a financial investor and the other from a strategic investor. The management mentioned that if the second binding offer is not received within the stipulated timeframe, the promoters will decide to accept the binding offer in hand. However, it is still keen on retaining the management control of the company.

Valuations and risks. Despite soft revenue growth in Q1FY20, the management remains confident of delivering ad revenue growth (low double-digit growth) in the excess of industry rate in FY20E. Ad revenue growth is expected remain soft in Q2FY20E owing to slow down in ad expenses in different industries and shifting of two FTA channels to pay channels. On the subscription revenue front, the management has guided 25% YoY growth for FY20E. 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. Given leading TV viewership share, ZEEL is best placed to leverage double-digit growth in TV ad spending, monetisation of phase 3 and 4 markets and TRAI's new subscription regime. Though ZEEL is trading at attractive valuation, we maintain our recommendation at Hold as the stake sale is yet to conclude and the overhang remains.

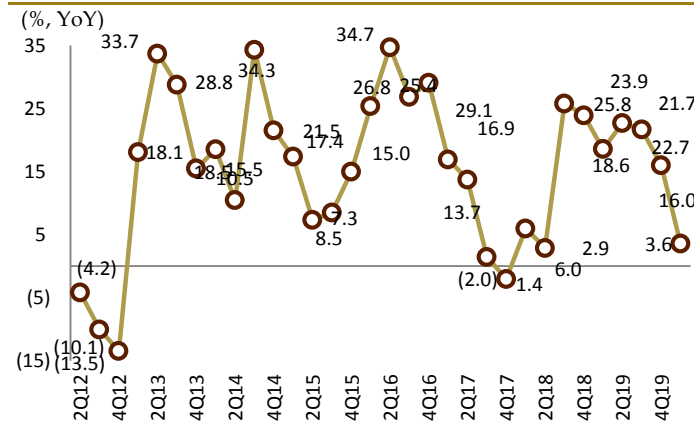


Exhibit 1: Quarterly details

₹ mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues	17,720	20,193	20,081	(0.6)	13.3	TV industry advertisement revenue is expected to grow at ~10-12% during CY19E/FY20E
- Operating costs	12,064	14,510	13,484	(7.1)	11.8	
EBITDA	5,657	5,684	6,598	16.1	16.6	
EBITDA margin (%)	31.9	28.1	32.9	471bps	93bps	Management intends to re-invest in fresh content and maintain ~30% margins over the long-term
- Interest expense	53	1,142	205	(82.0)	287.7	
- Depreciation	576	568	690	21.5	19.7	
+ Other income, net (incl forex)	498	568	1,039	83.0	108.9	
PBT	5,525	4,542	6,742	48.4	22.0	
- Taxes	2,071	1,494	2,146	43.6	3.6	
Effective tax rate (%)	37.5	32.9	31.8	(106)bps	(565)bps	FY20 effective tax rate would be 33-34%
PAT	3,454	3,048	4,596	50.8	33.1	
Minority interests	(18)	(3)	(23)	NA	NA	
Consolidated profits	3,472	3,051	4,619	51.4	33.0	
Reported PAT	3,259	2,926	5,298	81.1	62.6	

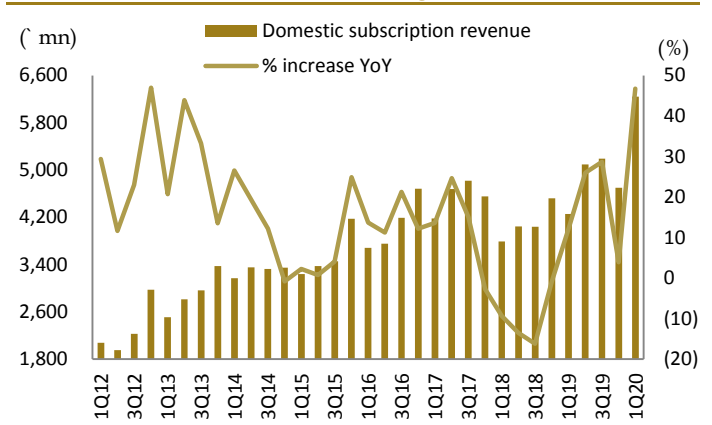
Source: Company, 1Q16, 1Q17 numbers are as per IND-AS

Exhibit 2: Ad revenues were up 4% like-to-like basis



Source: Company, Trust

Exhibit 3: Domestic subscription to grow in 17-18% in FY20E



Source: Company, Trust



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

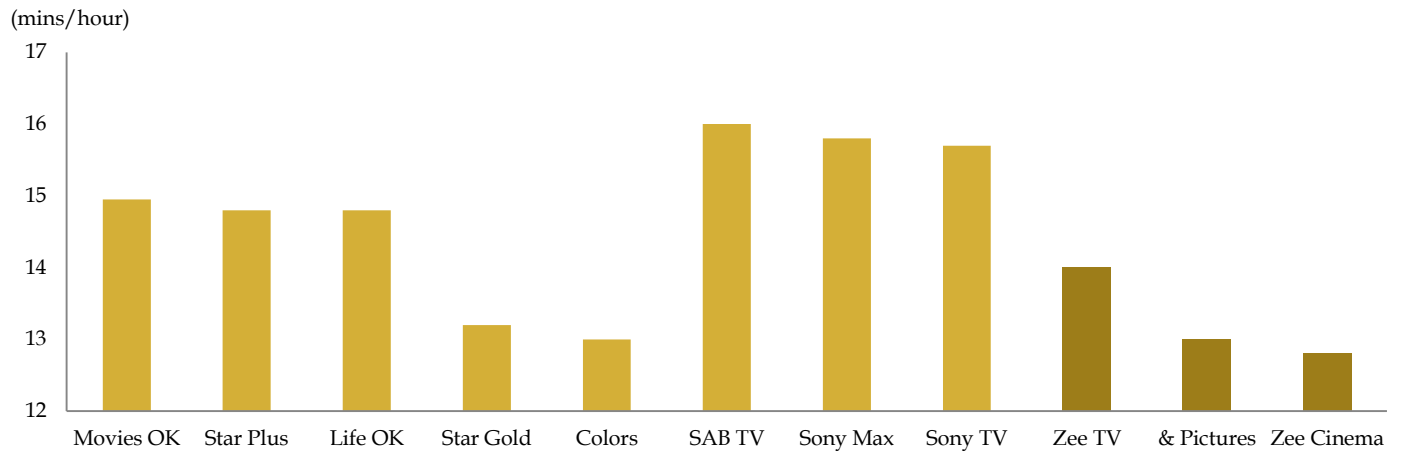
The Telecom Regulatory Authority of India (TRAI) released its first report on the average duration of advertising amongst pay channels. Data reveals that Zee is amongst the most disciplined broadcasters with prime-time advertising (alongwith self-promotional content) being under 14 mins/hour.

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.

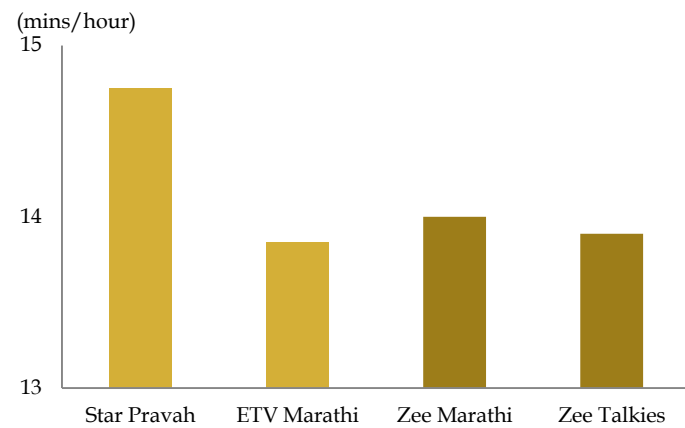
Alternatively, if TRAI doesn’t impose an advertisement time restriction, ZEEL, on account of its lower advertisement time/hour, is in a position to increase inventory and hence achieve faster advertisement revenue growth than peers.

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



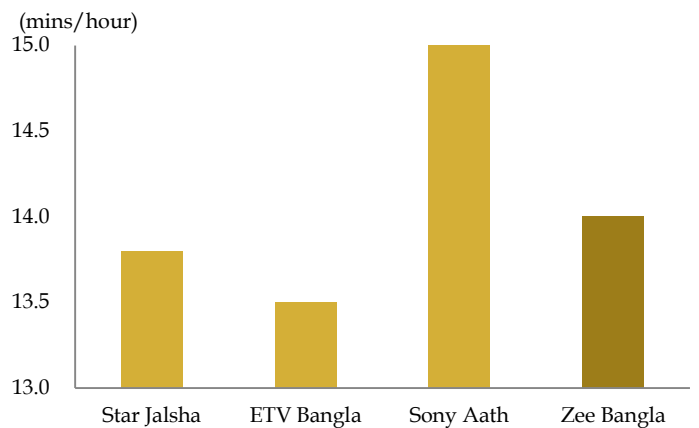
Source: Company, Trust

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	FY17	FY18	FY19	FY20E	FY21E
Revenues	64,341	66,857	79,340	87,027	97,471
Op. Expenses	45,073	46,095	53,700	59,513	65,199
EBITDA	19,269	20,761	25,641	27,514	32,271
Other Income	2,240	4,404	2,515	3,089	3,389
Depreciation	1,152	1,821	2,347	2,820	3,036
EBIT	20,357	23,344	25,808	27,784	32,625
Interest	1,372	1,448	1,304	1,305	1,175
PBT	18,984	21,896	24,504	26,479	31,450
Tax	6,805	9,241	8,673	8,758	11,322
PAT	12,179	12,656	15,831	17,721	20,128
Minority	(5)	12	24	92	92
Ex. Ordinary items	(10,030)	(1,279)	182	(679)	-
Adj Pat	22,204	13,946	15,674	18,492	20,220

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	12.7	13.2	16.5	18.5	21.1
CEPS	13.9	15.1	19.0	21.5	24.2
BVPS	69.3	78.7	92.9	107.6	123.5
DPS	2.5	2.9	3.5	3.9	4.4
Payout (%)	23.1	25.7	24.8	24.6	24.5
Valuation (x)					
P/E	42.2	43.7	26.9	19.5	17.1
P/BV	7.7	7.3	4.8	3.4	2.9
EV/EBITDA	26.1	26.2	16.5	12.2	9.6
Dividend Yield (%)	0.5	0.5	0.8	1.1	1.2
Return ratio (%)					
EBIDTA Margin	29.9	31.1	32.3	31.6	33.1
PAT Margin	18.9	18.9	20.0	20.4	20.7
ROAE	18.9	17.8	19.2	18.5	18.2
ROACE	28.2	27.6	28.1	26.8	27.5
Leverage Ratios (x)					
Long Term D/E	22.9	15.1	8.3	7.2	6.2
Net Debt/Equity	(0.3)	(0.2)	(0.1)	(0.2)	(0.2)
Debt/EBITDA	0.8	0.6	0.3	0.3	0.2
Interest Coverage	14.8	16.1	19.8	21.3	27.8
Current ratio	4.6	4.1	3.5	3.6	3.8
Growth Ratios (%)					
Income growth	10.7	3.9	18.7	9.7	12.0
EBITDA growth	27.3	7.7	23.5	7.3	17.3
PAT growth	32.1	3.9	25.1	11.9	13.6
Turnover Ratios					
F.A Turnover x	10.2	9.9	11.3	13.1	15.5
Inventory Days	96	143	177	177	177
Debtors Days	75	77	79	84	84
Payable days	95	97	101	101	101

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	960	961	961	961	961
Reserves & Surplus	65,608	74,657	88,279	102,388	117,664
Total Shareholders Fund	66,568	75,617	89,239	103,348	118,624
Minority Interest	10	142	143	143	143
Non- current liabilities	15,136	14,340	10,042	10,139	10,279
Long term Borrowings	15,272	11,453	7,409	7,409	7,409
Deferred tax liabilities	(903)	1,996	1,262	1,262	1,262
Other LT liabilities & prov	767	892	1,370	1,467	1,608
Current Liabilities	17,750	21,197	29,906	33,099	36,261
Short-term borrowings	-	-	-	-	-
Trade payables	4,891	11,497	14,897	16,468	18,041
Other cur liabilities & Prov	12,860	9,700	15,009	16,631	18,220
Total Liabilities	99,465	111,297	129,330	146,729	165,307
Assets					
Non- current Assets	18,524	25,397	25,991	26,536	27,345
Fixed assets	6,301	6,786	7,041	6,622	6,286
Non-current investments	7,352	11,246	10,377	10,377	10,377
Long-term loans & adv	4,618	7,026	7,982	8,822	9,881
Other non-current assets	253	340	591	715	801
Current assets	80,941	85,900	103,339	120,193	137,962
Current investments	11,868	13,695	8,576	8,576	8,576
Trade receivables	13,059	15,365	18,274	20,028	22,432
Inventories	16,844	26,278	38,505	42,202	47,267
Cash & bank balances	25,116	9,345	9,677	18,390	24,973
Short-term loans & adv	4,771	2,428	2,135	2,384	2,670
Other current assets	9,283	18,788	26,172	28,612	32,045
Total Assets	99,465	111,297	129,330	146,729	165,307

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	18,984	21,896	24,504	26,479	31,450
Depreciation	805	4,720	1,614	2,820	3,036
Interest Exp	1,372	1,448	1,304	1,305	1,175
Others	9,950	1,423	(157)	771	92
CF before W.cap	31,112	29,487	27,265	31,374	35,752
Inc/dec in W.cap	3,589	17,825	14,247	5,815	9,029
Op CF after W.cap	27,522	11,662	13,018	25,559	26,723
Less Taxes	6,805	9,241	8,673	8,758	11,322
Net CF From Operations	20,717	2,421	4,346	16,801	15,401
Inc/(dec) in F.A + CWIP	1,643	2,306	2,603	2,400	2,700
(Pur)/sale of Investments	(368)	5,722	(5,989)	-	-
Others	(1,372)	(1,448)	(1,304)	(1,305)	(1,175)
CF from Invst Activities	(2,647)	(9,475)	2,082	(3,705)	(3,875)
Loan Raised/(repaid)	15,263	(3,820)	(4,044)	-	-
Equity Raised	(15,141)	(1,638)	1,881	(0)	0
Dividend	2,809	3,259	3,933	4,383	4,944
CF from Fin Activities	(2,687)	(8,717)	(6,095)	(4,383)	(4,944)
Net inc /(dec) in cash	15,382	(15,770)	332	8,714	6,582
Op. bal of cash	9,732	25,115	9,344	9,677	18,390
Cl. balance of cash	25,116	9,345	9,677	18,390	24,973



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.