


Stock Info

Bloomberg	Z IN
Equity Shares (m)	960.4
M.Cap. (INR b)/(USD b)	371.7/5.8
52-Week Range (INR)	402 / 265
52-Week Range (INR)	545 / 350
1, 6, 12 Rel. Per (%)	5/20/33
12M Avg Val (INR M)	878
Free float (%)	56.9

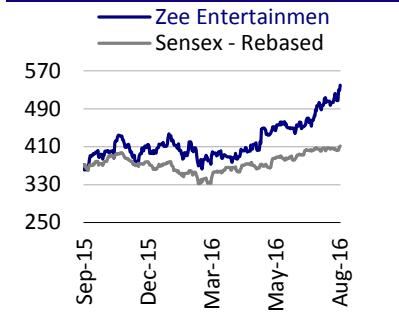
Financials Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	58.3	68.1	76.9
EBITDA	15.0	20.3	26.7
PAT	10.2	14.6	19.7
EPS (INR)	10.6	15.2	20.5
Gr. (%)	3.9	43.3	35.2
BV/Sh (INR)	11.8	15.9	20.3
RoE (%)	27.3	31.5	33.6
RoCE (%)	17.8	22.2	25.8
P/E (x)	50.5	35.3	26.1
P/BV (x)	45.2	33.6	26.4

Shareholding pattern (%)

As on	Dec-15	Sep-15	Dec-14
Promoter	43.1	43.1	43.1
DII	4.2	3.5	1.0
FII	47.6	48.4	51.9
Others	5.1	5.0	4.1

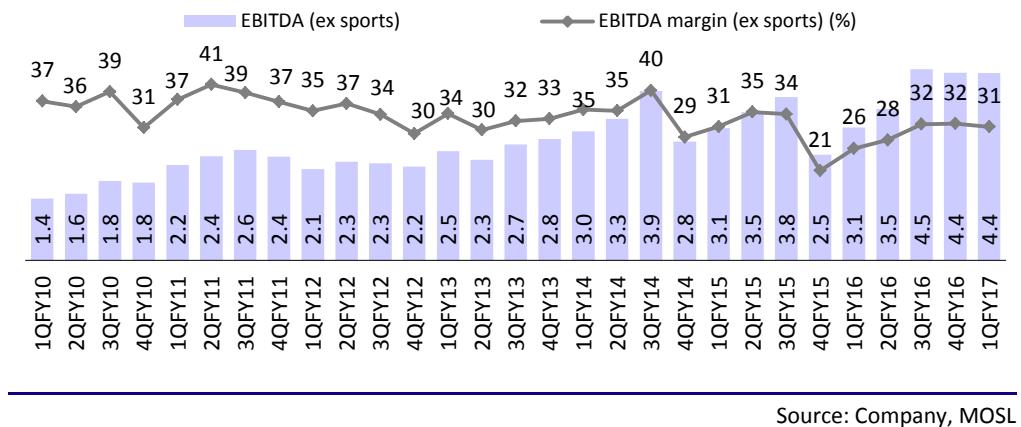
FII Includes depository receipts

Stock Performance (1-year)

CMP: INR535
TP: INR610 (+14%)
Buy
Attempts to fix hole in the ship via sports assets sale

Zee Entertainment's (ZEEL) board approved the sale of its sports biz (which includes the TEN brand) to Sony Pictures Networks for an all-cash consideration of USD385m (INR25.78b), implying valuation of over 4x FY16 sales. The deal comes with a four-year non-compete agreement and should get consummated over the next 4-5 months.

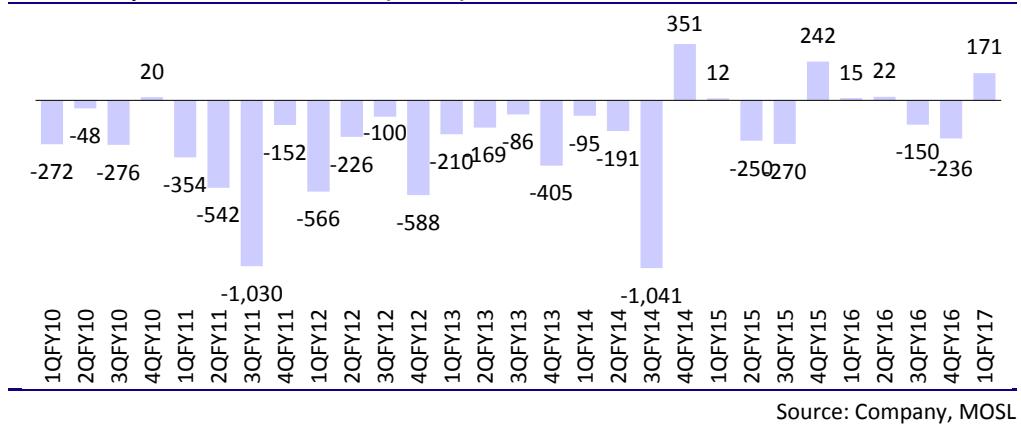
- **Only laggard in Zee portfolio finds a suitor in Sony Pictures:** ZEEL was never a serious sports broadcaster with limited investments in this genre. With rights for five not-so-strong cricket boards (South Africa, West Indies, Zimbabwe, Pakistan and Sri Lanka) and non-cricket properties such as WWE, UEFA Football and US Open tennis, ZEEL never managed to challenge Star's (all ICC cricket rights reside with Star) and Sony's (IPL broadcasting rights) sports supremacy. Thus, we believe in Sony it has found the perfect suitor.
- **Sports – an expensive proposition in India:** Sports remains a value-dilutive proposition in India as viewing largely remains restricted to cricket and value by-far resides with the BCCI (Indian cricket board), which sells satellite rights at prohibitively expensive prices. Due to this and amoebic ARPUs, the return on sports investments has remained elusive.
- **Bouquet heft to continue to remain strong, downside from non-participation overplayed:** We note that ZEEL only started selling sports via bundled offering through its distribution arm TAJ two years ago when Media Pro (erstwhile distribution JV between Star and Zee) was dismantled. The network's weak cricket properties and non-cricket offerings were hardly a bargaining chip for the network during negotiations with distribution platforms. We believe Its portfolio of strong entertainment, FTA and regional channels are expected to hold Zee's network pricing. We believe that the downside due to non-participation in sports should be limited as subscription ARPUs for sports are amoebic. The four-year non-compete clause is short enough to ensure participation in sports in case of an ARPU inflection.
- **Capital allocation to improve, surplus cash to be returned to shareholders:** ZEEL has been stepping up its focus on regional and international channels. It intends to improve presence in Tamil (currently a marginal player v/s SUN TV, Star, and Mazhavil, among others) and Malayalam (no presence) language channels. Use of proceeds from the sports biz sale toward these core biz segments should improve capital allocation, in our view. ZEEL maintained that proceeds from the sports biz sale would be used either for: 1) retirement of INR20b preference share liability, 2) investment in existing biz (maximum cash requirement ~INR10-12b), 3) international expansion, or 4) alternative means to return cash to shareholders.
- **Valuation and view:** We believe ZEEL should benefit from sports biz exit as the focus increasingly shifts to core assets. Besides, it has ensured an impressive return on its USD105-110m sports investment. We upgrade our FY17/FY18 EPS estimates by 4-7%, and revise our target price to INR610 per share (from INR530) based on 30x average FY18 EPS (earlier 28x), plus INR18/share toward &TV DCF value less INR18/share toward preference share liability.

Exhibit 1: Trend in EBITDA and margins ex-sports (INR b)



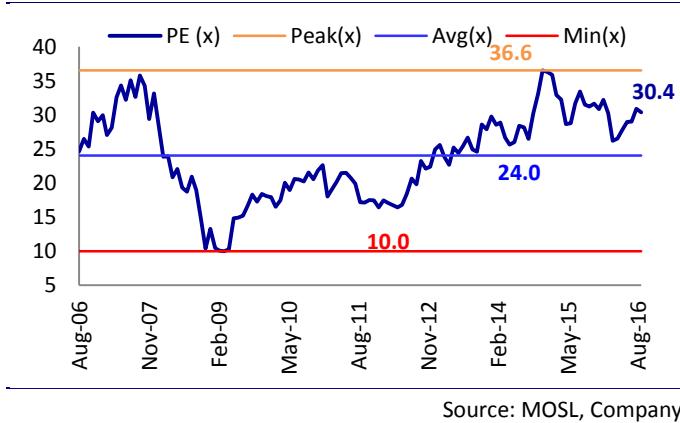
Source: Company, MOSL

Exhibit 2: Sports business EBITDA (INR m)



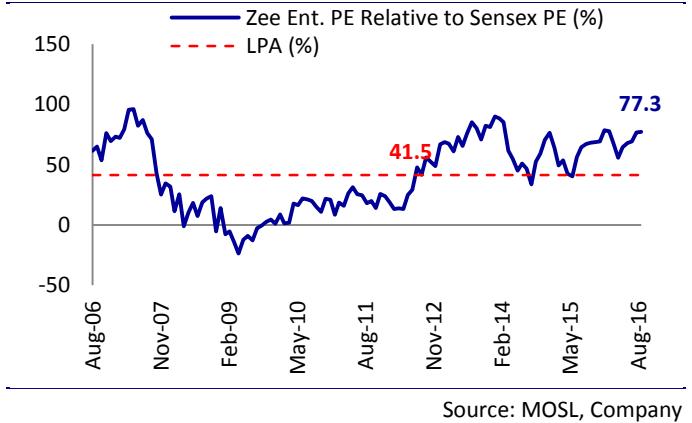
Source: Company, MOSL

Exhibit 3: ZEE: P/E band chart



Source: MOSL, Company

Exhibit 4: ZEE: ZEE: Relative P/E v/s Sensex



Source: MOSL, Company

Exhibit 5: Summary of estimate change (INR b)

INR b	FY17E	FY18E
Ad revenue		
Old	41.1	48.8
Actual/New	40.3	45.2
Change (%)	-1.9	-7.3
Subscription revenue		
Old	24.4	30.7
New	23.6	27.1
Change (%)	-3.2	-11.5
Total revenue		
Old	69.7	84
New	68.1	76.9
Change (%)	-2.2	-8.4
EBITDA		
Old	19.4	26.1
New	20.3	26.7
Change (%)	4.6	2.4
EBITDA margin (%)		
Old	27.8	31
New	29.7	34.7
Change (bp)	195	368
PAT		
Old	12.85	18.37
New	13.43	19.69
Change (%)	4.6	7.2
EPS (INR)		
Old	13.4	19.1
New	14	20.5
Change (%)	4.6	7.2

Source: Company, MOSL

Financials and Valuations

Income Statement		(INR Million)						
Y/E March		2012	2013	2014	2015	2016	2017E	2018E
Advertisement Revenues		15,841	19,639	23,800	26,603	34,037	40,347	45,221
Subscription Revenues		13,245	16,234	18,022	17,944	20,578	23,628	27,129
Other Sales & Services		1,320	1,123	2,395	4,299	3,640	4,167	4,584
Net Sales		30,406	36,997	44,217	48,846	58,255	68,142	76,934
Change (%)		3.4	21.7	19.5	10.5	19.3	17.0	12.9
Total Income		30,406	36,997	44,217	48,846	58,255	68,142	76,934
Total Expenses		23,010	27,452	32,175	36,299	43,261	47,882	50,214
EBITDA		7,396	9,545	12,042	12,547	14,994	20,260	26,719
Change (%)		-2.3	29.0	26.2	4.2	19.5	35.1	31.9
% of Net Sales		24.3	25.8	27.2	25.7	25.7	29.7	34.7
Depreciation		323	399	501	673	840	972	1,044
EBIT		7,073	9,146	11,541	11,874	14,153	19,288	25,675
Other Income		1,384	1,461	1,807	2,278	2,016	2,225	4,055
Interest & Finance Charges		50	86	158	103	123	303	303
Extraordinary Expense		0	0	0	0	-331	0	0
PBT		8,407	10,521	13,191	14,049	15,716	21,210	29,427
Tax		2,500	3,337	4,291	4,284	5,528	6,626	9,711
Effective Rate (%)		29.7	31.7	32.5	30.5	35.2	31.2	33.0
PAT		5,907	7,184	8,900	9,765	10,187	14,585	19,716
Minority Interest		-15	14	21	20	-22	-22	-22
Adj. PAT		5,892	7,198	8,921	9,785	10,166	14,563	19,695
Change (%)		-20.5	22.2	23.9	9.7	3.9	43.3	35.2

Balance Sheet		(INR Million)						
Y/E March		2012	2013	2014	2015	2016	2017E	2018E
Share Capital		959	954	960	960	960	960	960
Reserves		33,349	38,161	26,247	34,449	40,549	49,913	65,251
Net Worth		34,308	39,115	27,207	35,410	41,509	50,874	66,211
Preference capital		0	0	20,170	20,170	20,170	20,170	16,136
Minority Interest		14	33	61	4	85	85	85
Loans		21	28	29	22	9	19	19
Other non-current liabilities		0	174	324	288	304	304	304
Capital Employed		34,343	39,350	47,791	55,894	62,077	71,451	82,755
Net Fixed Assets		2,305	2,779	3,108	3,490	4,312	3,933	3,535
Goodwill		6,894	7,127	7,625	7,887	9,150	9,150	9,150
Capital WIP		201	69	997	878	878	878	878
Investments		675	651	2,941	1,464	3,048	3,048	3,048
Deferred tax assets (net)		337	288	298	531	555.8	555.8	555.8
Other non-current assets		314	329	361	378	594.4	594.4	594.4
Curr. Assets, Loans&Adv.		32,428	39,500	44,987	55,431	59,783	92,527	104,668
Program Films		7,339	8,745	11,736	11,878	13,160	14,078	14,293
Sundry Debtors		8,660	9,890	10,281	10,692	13,245	14,933	16,860
Cash & Bank Balances		11,100	13,100	15,300	20,480	17,123	46,769	54,607
Loans & Advances		4,975	7,430	6,788	11,053	14,722	15,075	17,020
Other Current assets		354	335	882	1,328	1,532	1,673	1,889
Current Liab. & Prov.		8,820	11,404	12,538	14,256	16,229	16,035	16,473
Sundry Creditors		3,872	5,172	5,050	4,204	5,194	5,147	5,346
Other Current Liabilities		3,015	3,445	3,842	4,980	6,355	6,208	6,448
Provisions		1,933	2,787	3,646	5,072	4,679	4,679	4,679
Net Current Assets		23,608	28,096	32,449	41,153	43,554	76,493	88,195
Appl.of Funds		34,343	39,350	47,791	55,894	62,077	71,451	82,755

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)							
EPS	6.1	7.5	9.3	10.2	10.6	15.2	20.5
Cash EPS	6.4	7.9	9.8	10.9	11.8	16.2	21.6
EPS (excl 'TV' loss)	6.1	7.5	9.3	10.8	11.8	15.9	20.3
Book Value per Share	35.4	40.9	28.5	36.9	43.3	53.1	69.0
DPS	1.5	2.0	2.0	2.3	2.3	2.3	2.5
Payout (Incl. Div. Tax) %	24.4	26.5	21.5	22.1	21.3	14.8	12.2
Valuation							
P/E				52.5	50.5	35.3	26.1
P/E (excl 'TV' loss)				49.5	45.2	33.6	26.4
EV/EBITDA				40.9	34.5	24.0	17.8
EV/Sales				10.5	8.9	7.2	6.2
Price/Book Value				14.5	12.4	10.1	7.8
Dividend Yield (%)				0.4	0.4	0.4	0.5
Profitability Ratios (%)							
RoE	18.0	19.6	26.9	31.2	27.3	31.5	33.6
RoCE	18.2	19.7	20.7	19.0	17.8	22.2	25.8
RoIC	24.7	26.1	28.8	26.8	24.8	42.9	76.5
Turnover Ratios							
Debtors (No. of Days)	104	98	85	80	83	80	80
Inventory (No. of Days)	162	169	181	201	176	181	181
Creditors (No. of Days)	78	69	66	53	45	45	45
Asset Turnover (x)	0.9	1.0	1.0	0.9	1.0	1.0	1.0
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	2012	2013	2014	2015	2016	2017E	2018E
(INR Million)							
EBITDA	7,396	9,545	12,042	12,547	14,994	20,260	26,719
Other Inc/excep. items	1,384	1,461	1,807	2,278	1,685	2,225	4,055
Interest paid	-50.0	-85.5	-157.8	-102.6	-123	-303	-303
Direct Taxes Paid	-2,645	-3,288	-4,301	-4,517	-5,553	-6,626	-9,711
(Inc)/Dec in Wkg. Capital	-4,622	-3,838	-462	-5,132	-7,300	-4,748	-5,318
Preference dividend paid							
CF from Oper. Activity	1,463	3,794	8,929	5,072	3,703	10,808	15,442
(Inc)/Dec in FA + CWIP	-1,617	-974	-2,256	-1,198	-2,925	-593	-646
(Pur)/Sale of Invest.	-52	24	-2,290	1,477	-1,584	0	0
CF from Invest. Activity	-1,669	-950	-4,546	279	-4,509	-593	-646
Issue of Shares	606	1,348	-20,159	2,472	0	0	0
Inc/(Dec) in Debt	4	7	20,171	-7	-13	10	-4,034
Dividends Paid	-1,683	-2,232	-2,244	-2,601	-2,613	-2,613	-2,903
Others	-120	33	49	-37	59	-22	-22
CF from Finan. Activity	-1,193	-844	-2,183	-173	-2,566	-2,625	-6,959
Inc/(Dec) in Cash	-1,399	2,000	2,200	5,179	-3,373	7,591	7,837
Add: Beginning Balance	12,500	11,100	13,100	15,300	20,480	17,123	46,769
Closing Balance	11,100	13,100	15,300	20,480	17,123	46,769	54,607

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