

# Zee Entertainment

**BSE SENSEX**  
28, 423

**S&P CNX**  
8,775



## 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)

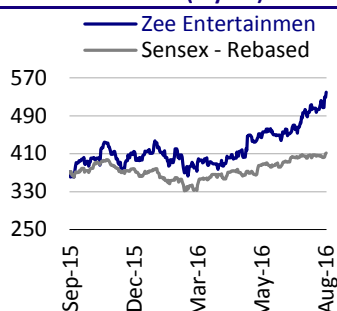
Y/E Mar	2016	2017E	2018E
Net Sales	58.3	68.1	76.9
EBITDA	15.0	20.3	26.7
PAT	10.2	14.6	19.7
EPS (INR)	10.6	15.2	20.5
Gr. (%)	3.9	43.3	35.2
BV/Sh (INR)	11.8	15.9	20.3
RoE (%)	27.3	31.5	33.6
RoCE (%)	17.8	22.2	25.8
P/E (x)	50.5	35.3	26.1
P/BV (x)	45.2	33.6	26.4

## 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.

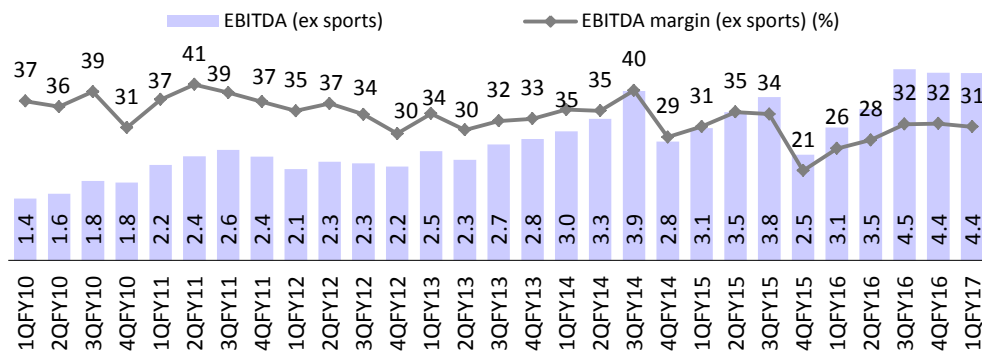
- **Only laggard in Zee portfolio finds a suitor in Sony Pictures:** ZEEL was never a serious sports broadcaster with limited investments in this genre. With rights for five not-so-strong cricket boards (South Africa, West Indies, Zimbabwe, Pakistan and Sri Lanka) and non-cricket properties such as WWE, 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.

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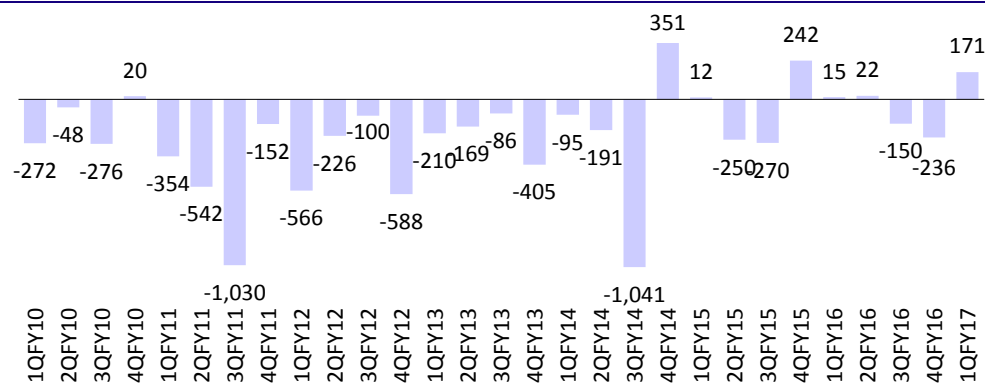
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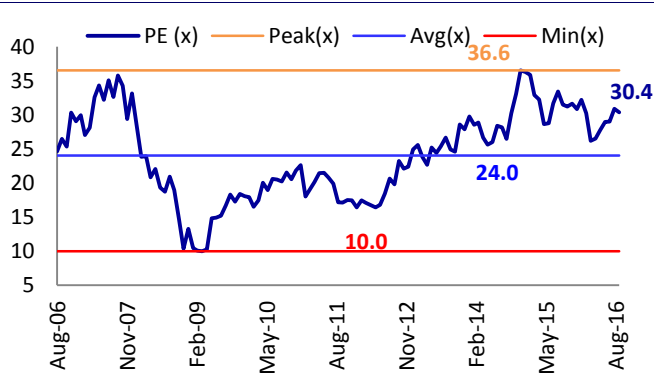
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**Exhibit 1: Trend in EBITDA and margins ex-sports (INR b)**

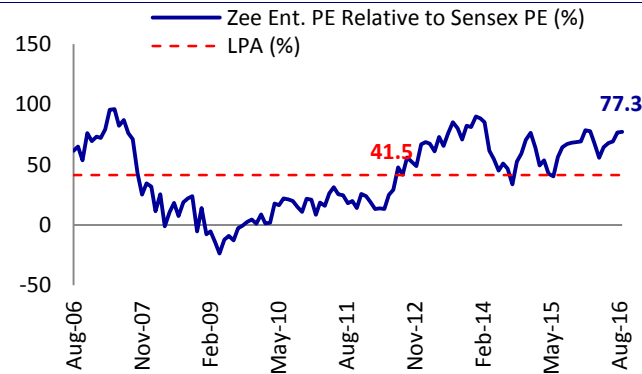
Source: Company, MOSL

**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)**

<b>INR b</b>	<b>FY17E</b>	<b>FY18E</b>
<b>Ad revenue</b>		
Old	41.1	48.8
Actual/New	40.3	45.2
Change (%)	-1.9	-7.3
<b>Subscription revenue</b>		
Old	24.4	30.7
New	23.6	27.1
Change (%)	-3.2	-11.5
<b>Total revenue</b>		
Old	69.7	84
New	68.1	76.9
Change (%)	-2.2	-8.4
<b>EBITDA</b>		
Old	19.4	26.1
New	20.3	26.7
Change (%)	4.6	2.4
<b>EBITDA margin (%)</b>		
Old	27.8	31
New	29.7	34.7
Change (bp)	195	368
<b>PAT</b>		
Old	12.85	18.37
New	13.43	19.69
Change (%)	4.6	7.2
<b>EPS (INR)</b>		
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 & Seviles	1,320	1,123	2,395	4,299	3,640	4,167	4,584
<b>Net Sales</b>	<b>30,406</b>	<b>36,997</b>	<b>44,217</b>	<b>48,846</b>	<b>58,255</b>	<b>68,142</b>	<b>76,934</b>
Change (%)	3.4	21.7	19.5	10.5	19.3	17.0	12.9
<b>Total Income</b>	<b>30,406</b>	<b>36,997</b>	<b>44,217</b>	<b>48,846</b>	<b>58,255</b>	<b>68,142</b>	<b>76,934</b>
<b>Total Expenses</b>	<b>23,010</b>	<b>27,452</b>	<b>32,175</b>	<b>36,299</b>	<b>43,261</b>	<b>47,882</b>	<b>50,214</b>
<b>EBITDA</b>	<b>7,396</b>	<b>9,545</b>	<b>12,042</b>	<b>12,547</b>	<b>14,994</b>	<b>20,260</b>	<b>26,719</b>
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
<b>EBIT</b>	<b>7,073</b>	<b>9,146</b>	<b>11,541</b>	<b>11,874</b>	<b>14,153</b>	<b>19,288</b>	<b>25,675</b>
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
Extraordina Expense	0	0	0	0	-331	0	0
<b>PBT</b>	<b>8,407</b>	<b>10,521</b>	<b>13,191</b>	<b>14,049</b>	<b>15,716</b>	<b>21,210</b>	<b>29,427</b>
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
<b>PAT</b>	<b>5,907</b>	<b>7,184</b>	<b>8,900</b>	<b>9,765</b>	<b>10,187</b>	<b>14,585</b>	<b>19,716</b>
Minority Interest	-15	14	21	20	-22	-22	-22
<b>Adj. PAT</b>	<b>5,892</b>	<b>7,198</b>	<b>8,921</b>	<b>9,785</b>	<b>10,166</b>	<b>14,563</b>	<b>19,695</b>
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
<b>Net Worth</b>	<b>34,308</b>	<b>39,115</b>	<b>27,207</b>	<b>35,410</b>	<b>41,509</b>	<b>50,874</b>	<b>66,211</b>
<b>Preference capital</b>	<b>0</b>	<b>0</b>	<b>20,170</b>	<b>20,170</b>	<b>20,170</b>	<b>20,170</b>	<b>16,136</b>
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
<b>Capital Employed</b>	<b>34,343</b>	<b>39,350</b>	<b>47,791</b>	<b>55,894</b>	<b>62,077</b>	<b>71,451</b>	<b>82,755</b>
<b>Net Fixed Assets</b>	<b>2,305</b>	<b>2,779</b>	<b>3,108</b>	<b>3,490</b>	<b>4,312</b>	<b>3,933</b>	<b>3,535</b>
<b>Goodwill</b>	<b>6,894</b>	<b>7,127</b>	<b>7,625</b>	<b>7,887</b>	<b>9,150</b>	<b>9,150</b>	<b>9,150</b>
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
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>32,428</b>	<b>39,500</b>	<b>44,987</b>	<b>55,431</b>	<b>59,783</b>	<b>92,527</b>	<b>104,668</b>
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
<b>Current Liab. &amp; Prov.</b>	<b>8,820</b>	<b>11,404</b>	<b>12,538</b>	<b>14,256</b>	<b>16,229</b>	<b>16,035</b>	<b>16,473</b>
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
<b>Net Current Assets</b>	<b>23,608</b>	<b>28,096</b>	<b>32,449</b>	<b>41,153</b>	<b>43,554</b>	<b>76,493</b>	<b>88,195</b>
<b>Appl.of Funds</b>	<b>34,343</b>	<b>39,350</b>	<b>47,791</b>	<b>55,894</b>	<b>62,077</b>	<b>71,451</b>	<b>82,755</b>

## Financials and Valuations

### Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E
<b>Basic (INR)</b>							
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
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### Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E
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							
<b>CF from Oper. Activity</b>	<b>1,463</b>	<b>3,794</b>	<b>8,929</b>	<b>5,072</b>	<b>3,703</b>	<b>10,808</b>	<b>15,442</b>
(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
<b>CF from Invest. Activity</b>	<b>-1,669</b>	<b>-950</b>	<b>-4,546</b>	<b>279</b>	<b>-4,509</b>	<b>-593</b>	<b>-646</b>
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
<b>CF from Finan. Activity</b>	<b>-1,193</b>	<b>-844</b>	<b>-2,183</b>	<b>-173</b>	<b>-2,566</b>	<b>-2,625</b>	<b>-6,959</b>
<b>Inc/(Dec) in Cash</b>	<b>-1,399</b>	<b>2,000</b>	<b>2,200</b>	<b>5,179</b>	<b>-3,373</b>	<b>7,591</b>	<b>7,837</b>
Add: Beginning Balance	12,500	11,100	13,100	15,300	20,480	17,123	46,769
<b>Closing Balance</b>	<b>11,100</b>	<b>13,100</b>	<b>15,300</b>	<b>20,480</b>	<b>17,123</b>	<b>46,769</b>	<b>54,607</b>

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