

Content investment to limit EBITDA margins...

Zee Entertainment's Q4FY21 operating performance was largely in line, albeit PAT was lower due to higher-than-expected tax expenses. Domestic advertisement revenue grew 8.9% YoY to ₹ 1070.4 crore while overall ad revenues grew 8.1% YoY on a depressed base in Q4. Domestic subscription grew 13.2% YoY (like to like growth of 5.6% YoY). EBITDA came in at ₹ 540.8 crore with margins at 27.5%. PAT came in lower than expected at ₹ 275.7 crore, due to higher-than-expected tax expenses and one-off impairment of digital publishing segment of ₹ 26.5 crore.

Ad recovery to be function of pandemic tail

The management expects ad revenues to witness double digit growth (over FY20 levels) provided the Covid second wave tapers soon. The company also indicated there would be some weakness in ad revenues in Q1 due to second wave and original programming for broadcasting business is remaining only for a few days for both Hindi as well as regional channels. **We bake ~23% CAGR in ad revenues in FY21-23E on a depressed base of FY21 wherein ad revenues declined 20%.** The company expects subscription growth in low teens for the industry, provided there is quick resolution on NTO 2.0 implementation, which would enable pricing realignment. **We bake in modest subscription CAGR of 7% in FY21-23E, as there is no clarity over NTO 2.0 implementation.**

Zee5 revenues declines; margin guidance toned down...

Zee5 revenues were at ₹ 107.5 crore (down ~9% QoQ) due to pending telco deal, while EBITDA loss was at ₹ 162.5 crore (vs. ₹ 175.7 crore in Q3). Zee5 recorded a global DAU of 6.1 million and 72.6 million global MAU in December. The management indicated that as a part of long term growth strategy, the company will boost investment across segments from FY22E onwards. Planned content investment is also to enhance viewership across Hindi and regional markets. Furthermore, it aims to expand movie production (as stated in Q3FY21), albeit H1FY22 spending on the same will be limited owing to Covid. This will lead to higher cash outgo with FCF, PAT conversion at 50%. It guided for EBITDA margins at 25%+ (vs.. 30%+ guidance earlier) owing to content and movie investments

Valuation & Outlook

On a depressed base, FY22 will be a strong growth year for Zee on the ad growth front, albeit extended Covid second wave impact needs to be seen. **Scaling down of investment in Sugar Box (albeit we had not assumed it our estimates) and recovery of ₹ 200 crore from Dish TV (out of total dues of ₹ 450 crore) is a positive development.** However, it will be important to monitor if the 25% margin trajectory (vs. earlier trajectory of 30%) is only for next couple of years as Zee expands investments in movies or a new normal, given the continued need to ramp up investment in content for OTT. Potential implementation of NTO 2.0 and impact on subscription revenues ahead also remains unknown. We maintain **HOLD** rating with a target price of ₹ 215/share (earlier: ₹ 250), valuing the stock at 12x FY23E P/E.

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales (₹ crore)	7,933.9	8,129.9	7,729.9	8,860.3	9,854.8	8.4
EBITDA (₹ crore)	2,567.6	1,634.6	1,790.1	2,215.1	2,562.2	12.7
Net Profit (₹ crore)	1,545.8	526.5	800.1	1,446.5	1,725.2	
Adjusted Nat Profit (₹ crore)	1,573.4	1,661.5	984.9	1,446.5	1,725.2	20.5
EPS (₹)	16.1	5.5	8.3	15.1	18.0	
P/E (x)	11.9	35.0	23.0	12.7	10.7	
Price / Book (x)	1.8	1.9	1.8	1.7	1.5	
EV/EBITDA (x)	6.4	10.7	9.3	7.5	6.3	
RoE (%)	15.7	16.7	9.4	13.1	14.0	
RoCE (%)	25.7	13.9	13.7	17.9	19.0	

Source: Company, ICICI Direct Research *FY20/FY21 EBITDA & PAT have certain one-off write-offs impacts



Particulars

Particulars	Amount
Market Cap (₹ crore)	18,403
Total Debt (FY20) (₹ crore)	20
Cash & Inv. (FY20) (₹ crore)	1,857
EV (₹ crore)	16,565
52 week H/L (₹)	261/ 135
Equity capital (₹ crore)	96.1
Face value (₹)	1.0

Key Highlights

- Domestic ad revenue increased 8.9% YoY while like to like domestic subscription revenue grew 5.6% YoY
- Maintain HOLD with target price of ₹ 215/share, valuing it at 12x FY23E P/E

Key risks to our call

- Occurrence of third Covid wave delaying gradual recovery
- Quicker rebound in viewership and faster Zee5 ramp up, thereby higher subscription revenues will improve earnings

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	1,965.8	2,005.5	1,951.1	2,729.4	0.8	-28.0	Domestic ad increased 8.9% YoY to ₹ 1070.4 crore while domestic subscription revenues (like to like) grew by 5.6% YoY
Other Income	39.3	40.0	-238.0	-56.3	-116.5	-169.8	
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	214.2	200.5	160.4	207.3	33.5	3.3	
Admin & Other Expenses	216.8	206.6	585.8	212.4	-63.0	2.1	
Marketing Expenses	149.8	170.5	184.1	179.8	-18.7	-16.7	
Operational Cost	844.3	897.5	1,304.6	1,414.2	-35.3	-40.3	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	540.8	530.4	-283.9	715.7	-290.5	-24.4	EBITDA came in better than expected due to lower marketing spends
EBITDA Margin (%)	27.5	26.5	-14.5	26.2	4206 bps	129 bps	
Depreciation	62.7	77.5	77.8	65.2	-19.3	-3.8	
Interest	49.1	75.0	86.4	2.1	-43.1		
Total Tax	166.4	105.3	-37.2	193.7	-547.3	-14.1	
PAT	275.7	312.1	-766.7	399.9	-136.0	-31.1	

Key Metrics

Ad Revenue Growth	8.1%	7.5%	-14.7%	-26.3%
Domestic Subscription	13.2%	10.3%	40.7%	11.0%
International Subscription %	-31.5%	9.5%	-15.7%	7.1%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ (Crore)	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	8,957.6	8,860.3	-1.1	9,852.7	9,854.8	0.0	Realigned numbers after FY21 results. Lowered the other income estimates
EBITDA	2,239.4	2,215.1	-1.1	2,561.7	2,562.2	0.0	
EBITDA Margin (%)	25.0	25.0	0 bps	26.0	26.0	0 bps	
PAT	1,517.5	1,446.5	-4.7	1,813.9	1,725.2	-4.9	
EPS (₹)	15.8	15.1	-4.7	18.9	18.0	-4.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E
Ad Revenue Growth	20%	-7%	-20%	35%	11%	36%	11%
Domestic Subscription	17%	33%	14%	10%	9%	8%	9%
International Subscription %	-1%	-16%	1%	-31%	7%	18%	7%

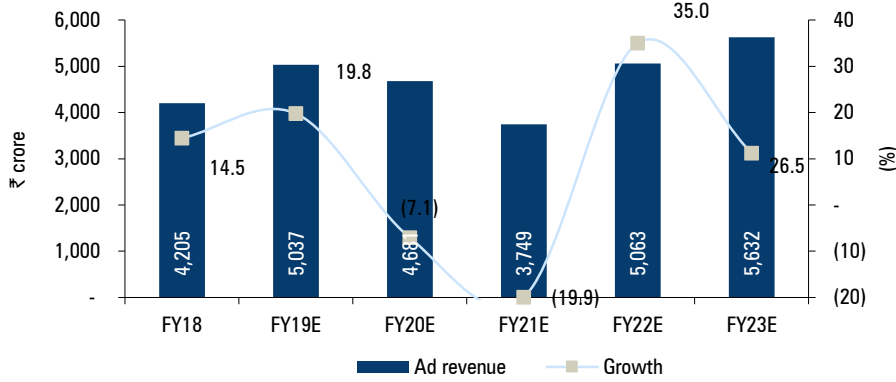
Source: Company, ICICI Direct Research

Conference Call Highlights

- **Guided for 25% EBITDA for next two years:** The management indicated that they are planning to increase content investments in both broadcasting and digital in FY22 as they aim for leadership position in both businesses. The management also indicated that due to NTO 2.0, they had lost opportunities to realign the pricing of their channels, which would result in subdued subscription revenues. On account of the same, the company guided for 25% EBITDA margin for the next two years vs. 30% guided earlier
- **Guided for double digit growth in domestic advertisement if second wave is not extended:** The management indicated that they are closing the gap with the market leader as far as overall viewership share is concerned. It improved 70 bps in the quarter to 18.9% aided by FTA market and couple of new movie channels in the southern market. The company indicated that due to moderation in Covid cases (which would help in resumption of the shooting since for the some of the key markets, original programming is available only till the end of May 2021) and acceleration in vaccination drive, the advertisement industry could see a gradual recovery in the second half of FY22, which should help in double digit domestic advertisement growth for FY22 (over FY20)
- **Subscription:** The management indicated that NTO 2.0 order is still not out of legal hurdles and broadcasters are in constant touch with the regulators to keep it moving. They guided for low teen growth in in a normalised scenario
- **Zee5 revenue dips on pending telco deal:** The management indicated that 8.7% QoQ drop in Zee5 revenues were due to non-renewal of couple of telco deals. They indicated that negotiations are on and expect the deal to conclude in Q1FY22. The company also indicated that MAUs and DAUs, which they report on quarterly basis, largely come from their own subscription plans and telco bundled deals do not contribute much. The company also indicated that losses at EBITDA level for Zee5 in FY22 would be in similar line that of FY21
- **Sugar Box investment scaled down significantly:** The management said they are reevaluating investment in Sugar Box and indicated there would be significant scale down in the investment vs. earlier planned. The scale down is on account substantial delay in commencing the project, which was supposed to start in February last year. Consequently, Zee is not looking to invest in sugar box in FY22
- **Other highlights:**
 - **Cash & investments break-up:** Cash & bank balance: ₹ 450 crore, FD: ₹ 650 crore, mutual fund: ₹ 730 crore, NCD: ₹ 51 crore
 - **Approximate inventory breakup:** Movie rights: ₹ 4012 crore, shows: ₹ 815 crore, movie production, music and others: ₹ 564 crore, content advances: ₹ 878 crore
 - **Receivables:** Out of ₹ 450 crore, ₹ 200 crore has been collected from Dish TV; remaining is expected to be collected in FY22
 - Dividend to be maintained at 30% of PAT

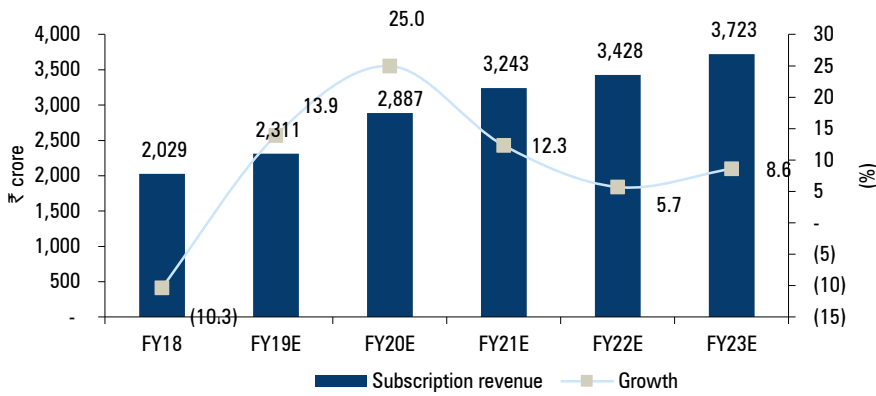
Story in Charts

Exhibit 4: Ad revenue growth trend



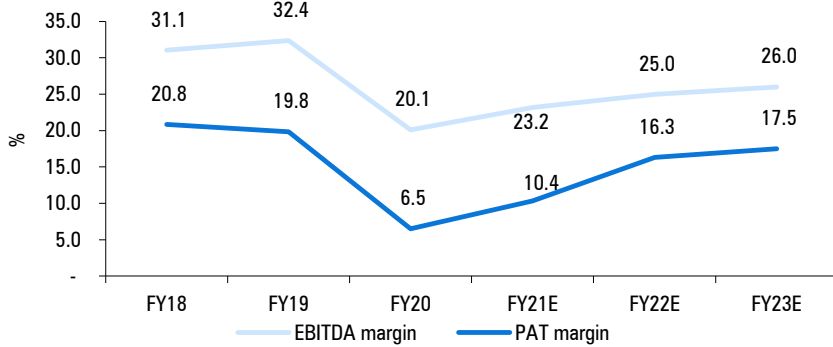
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



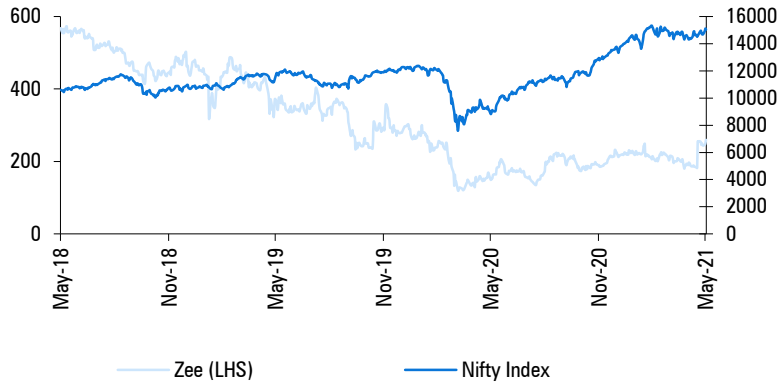
Source: Company, ICICI Direct Research; includes music from H2FY21

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total operating Income	8,129.9	7,729.9	8,860.3	9,854.8	
Growth (%)	18.7	-4.9	14.6	11.2	
Operational Cost	3,828.5	3,750.5	4,164.3	4,434.7	
Employee Expenses	780.5	818.3	886.0	985.5	
Admin & Other Expenses	1,190.7	754.4	841.7	985.5	
Marketing Expenses	695.6	616.7	753.1	886.9	
Total Operating Expenditure	6,495.3	5,939.8	6,645.2	7,292.5	
EBITDA	1,634.6	1,790.1	2,215.1	2,562.2	
Growth (%)	-36.3	9.5	23.7	15.7	
Depreciation	270.6	264.9	323.4	335.1	
Interest	144.9	57.1	53.0	36.0	
Other Income	24.0	-85.8	100.0	120.0	
Exceptional Items	284.3	126.6	0.0	0.0	
PBT	958.7	1,255.7	1,938.7	2,311.2	
Minority Interest	-1.9	-7.0	4.0	4.0	
PAT from Associates	-2.4	-0.1	0.4	0.4	
Total Tax	431.7	462.5	488.5	582.4	
PAT	526.5	800.1	1,446.5	1,725.2	
Growth (%)	-65.9	52.0	80.8	19.3	
Adjusted PAT	1,661.5	984.9	1,446.5	1,725.2	
Growth (%)	5.6	-40.7	46.9	19.3	
Reported EPS (₹)	5.5	8.3	15.1	18.0	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	526.5	800.1	1,446.5	1,725.2	
Add: Depreciation	270.6	264.9	323.4	335.1	
Add: Interest paid	144.9	57.1	53.0	36.0	
(Inc)/dec in Current Assets	-865.9	344.5	-923.8	-1,094.5	
Inc/(dec) in CL and Provisions	-340.1	-106.6	252.8	202.6	
Others	0.0	0.0	0.0	0.0	
CF from op. activities	-263.9	1,360.0	1,152.0	1,204.3	
(Inc)/dec in Investments	651.8	-473.6	-500.0	-400.0	
(Inc)/dec in Fixed Assets	-216.2	-160.3	-223.8	-203.0	
Others	58.1	-18.6	4.0	4.0	
CF from inv. activities	493.8	-652.4	-719.8	-599.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Issue of Preference Shares	-516.3	-211.8	-383.2	0.0	
Inc/(Dec) in loan funds	50.6	(33.1)	-	-	
Interest paid	144.9	57.1	53.0	36.0	
Others	-396.3	-163.6	-586.2	-552.2	
CF from fin. activities	-717.1	-351.4	-916.5	-516.2	
Net Cash flow	-487.4	356.1	-484.3	89.1	
Opening Cash	1,221.8	734.5	1,090.7	606.4	
Closing Cash	734.5	1,090.7	606.4	695.5	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Capital	96.1	96.1	96.1	96.1	
Preference Share Capital	595.0	383.2	0.0	0.0	
Reserve and Surplus	9,247.9	9,998.5	10,964.7	12,209.7	
Total Shareholders funds	9,938.9	10,477.7	11,060.8	12,305.7	
Total Debt	52.6	19.5	19.5	19.5	
Others	11.0	12.9	16.9	20.9	
Total Liabilities	10,002.5	10,510.2	11,097.3	12,346.2	
Assets					
Gross Block	2,136.7	2,317.5	2,541.3	2,744.3	
Less: Acc Depreciation	1,179.2	1,444.1	1,767.5	2,102.6	
Net Block	957.5	873.4	773.8	641.7	
Capital WIP	33.4	12.9	12.9	12.9	
Total Fixed Assets	990.9	886.3	786.7	654.6	
Investments	731.7	1,178.7	1,678.7	2,078.7	
Inventory	5,347.5	5,403.0	5,826.0	6,479.9	
Debtors	2,128.6	1,945.2	2,229.6	2,479.8	
Loans and Advances	1,323.4	1,138.2	1,304.6	1,451.0	
Other Current Assets	373.2	341.8	391.8	435.7	
Cash	734.5	1,090.7	606.4	695.5	
Total Current Assets	9,907.2	9,918.8	10,358.3	11,541.9	
Creditors	1,680.3	1,398.2	1,602.6	1,782.5	
Provisions	152.6	170.9	195.9	217.9	
Other current liabilities	582.2	739.5	762.9	763.6	
Total Current Liabilities	2,415.2	2,308.6	2,561.4	2,764.0	
Net Current Assets	7,492.0	7,610.2	7,796.9	8,777.9	
Other non current assets	787.9	834.9	834.9	834.9	
Total Assets	10,002.5	10,510.2	11,097.3	12,346.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		FY20	FY21	FY22E	FY23E
(Year-end March)					
Per share data (₹)					
EPS		5.5	8.3	15.1	18.0
Adjusted EPS		17.3	10.3	15.1	18.0
BV		103.5	109.1	115.2	128.1
DPS		0.4	2.5	5.0	5.0
Cash Per Share		12.3	15.0	18.4	21.9
Operating Ratios (%)					
EBITDA Margin		20.1	23.2	25.0	26.0
EBIT Margin		16.8	19.7	21.4	22.6
PAT Margin		20.4	12.7	16.3	17.5
Inventory days		240.1	255.1	240.0	240.0
Debtor days		95.6	91.8	91.8	91.8
Creditor days		75.4	66.0	66.0	66.0
Return Ratios (%)					
RoE		16.7	9.4	13.1	14.0
RoCE		13.9	13.7	17.9	19.0
RoIC		16.3	18.7	21.6	23.4
Valuation Ratios (x)					
P/E		35.0	23.0	12.7	10.7
EV / EBITDA		10.7	9.3	7.5	6.3
EV / Net Sales		2.1	2.1	1.9	1.6
Market Cap / Sales		2.3	2.4	2.1	1.9
Price to Book Value		1.9	1.8	1.7	1.5
Solvency Ratios					
Debt/EBITDA		0.0	0.0	0.0	0.0
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		5.0	5.6	5.4	5.4
Quick Ratio		2.1	2.2	2.2	2.2

Source: Company, ICICI Direct Research

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