ZEE ENTERTAINMENT

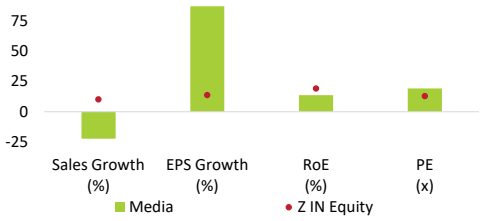
COMPANY UPDATE

Edelweiss
Ideas create, values protect

KEY DATA

Rating	BUY
Sector relative	Overweight
Price (INR)	222
12 month price target (INR)	357
Market cap (INR bn/USD bn)	213/2.9
Free float/Foreign ownership (%)	96.0/66.2
What's Changed	
Target Price	↓
Rating/Risk Rating	–

INVESTMENT METRICS

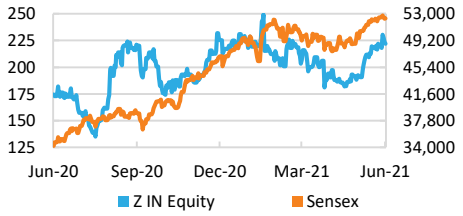


FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	81,299	77,299	88,918	95,803
EBITDA	16,346	17,901	24,976	26,829
Adjusted profit	(1,682)	4,641	17,164	19,191
Diluted EPS (INR)	3.2	7.7	17.6	20.0
EPS growth (%)	(79.0)	143.6	128.3	13.8
RoAE (%)	(1.8)	4.8	16.0	15.9
P/E (x)	69.9	28.7	12.6	11.0
EV/EBITDA (x)	12.9	11.2	7.7	6.9
Dividend yield (%)	0.1	0.3	1.6	2.3

PRICE PERFORMANCE



Explore:


Financial model


Podcast


Corporate access


Video

Earning its stripes

ZEE Entertainment (ZEE) has hit all the right notes recently as it is a net cash and dividend paying company, which has also made significant inroads in the OTT platform via ZEE5. We believe the company has huge headroom to increase market share in its traditional TV business (aims to close 500bps gap with market leader STAR; ZEE's share up 70bps QoQ in Q4FY21) led by its strong content focus. It has also addressed investor concerns regarding SugarBox by scaling back future investments. And, the reconstituted board instils confidence.

The stock, in spite of the recent run up, is still attractive at 11x FY23E P/E. In this report, we address the top-5 questions of investors regarding ZEE and the industry. Retain 'BUY' with TP of INR357.

Top 5 questions for ZEE

- **Is TV ads a dying segment like some of the other traditional media segments?** No doubt, the pandemic has given digital media significant boost and digital ads have posted strong growth. However, going ahead, we believe TV will remain the beloved of advertisers.
- **TV industry still looks decent, but how has ZEE fared?** ZEE has improved its market share consistently; though it faced rough weather in 2020, it is now recouping market share.
- **If TV channels are good enough, what is the need to invest in ZEE5 and why is ZEE clocking so much losses in it?** ZEE5 is a vital tool enabling ZEE take advantage of the rising trend of streaming content.
- **ZEE claims to have evolved into a 360 degree entertainment content company. Is it mere jargon or does ZEE have competitive advantage?** The company can take advantage of content across its various platforms giving it competitive edge.
- **ZEE's track record on paying shareholders?** Shareholder payout has been ~60% of PAT over FY15-21. According to management, going ahead, ZEE will pay 25-30% of consolidated profit or 33% of standalone profit, whichever is higher.

Outlook and valuations: Improving; maintain 'BUY'

We expect the strong ad revival to play out in favour of ZEE given its improving viewership across markets and new channels. Although the Street perceives higher investment in content as a negative, we view it as imperative to gain market share in TV as well as OTT. Investment in content will be critical to improve share in laggards such as its Hindi, Tamil and Marathi channels. ZEE has scaled back further investments in Sugarbox due to investor concerns and emerging dynamics given the pandemic. Hence, we retain the target of 20x FY22E EPS and TP of INR357. We maintain '**BUY/SN**'.

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Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	81,299	77,299	88,918	95,803
Gross profit	43,014	39,795	48,969	52,658
Employee costs	7,805	8,183	8,361	8,946
Other expenses	18,863	13,710	15,632	16,883
EBITDA	16,346	17,901	24,976	26,829
Depreciation	4,195	2,687	2,959	3,443
Less: Interest expense	1,449	571	515	320
Add: Other income	2,836	1,104	1,478	2,622
Profit before tax	8,099	12,519	22,979	25,688
Prov for tax	4,317	4,625	5,791	6,473
Less: Other adj	(24)	(24)	(24)	(24)
Reported profit	3,758	7,870	17,164	19,191
Less: Excp.item (net)	(5,440)	(3,229)	0	0
Adjusted profit	(1,682)	4,641	17,164	19,191
Diluted shares o/s	961	961	961	961
Adjusted diluted EPS	3.2	7.7	17.6	20.0
DPS (INR)	0.3	0.6	3.6	5.0
Tax rate (%)	53.3	36.9	25.2	25.2

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	961	961	961	961
Reserves	92,479	1,00,114	1,12,769	1,26,169
Shareholders funds	93,439	1,01,074	1,13,730	1,27,130
Minority interest	110	110	110	110
Borrowings	9,284	7,526	5,026	4,626
Trade payables	16,803	13,982	14,228	13,003
Other liabs & prov	(46)	908	1,258	1,108
Total liabilities	1,20,885	1,25,036	1,35,789	1,47,413
Net block	7,594	6,329	7,011	7,681
Intangible assets	5,553	6,208	6,290	7,178
Capital WIP	832	129	1,500	1,500
Total fixed assets	13,979	12,667	14,802	16,359
Non current inv	478	890	3,390	5,590
Cash/cash equivalent	10,115	18,152	23,267	30,726
Sundry debtors	20,847	19,452	21,925	22,310
Loans & advances	3,732	3,418	3,732	4,232
Other assets	67,224	66,118	63,941	63,464
Total assets	1,20,885	1,25,036	1,35,789	1,47,413

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Ad revenue growth (%)	(7.1)	(20.4)	32.3	12.0
Subscription growth (%)	25.5	11.1	4.9	2.9
Dom. sub growth (%)	29.0	11.3	7.6	3.0
EBITDA margin (%)	20.1	23.2	28.1	28.0
Net profit margin (%)	(2.1)	6.0	19.3	20.0
Revenue growth (% YoY)	2.6	(4.9)	15.0	7.7
EBITDA growth (% YoY)	(36.0)	9.5	39.5	7.4
Adj. profit growth (%)	nm	nm	269.8	11.8

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	3,758	7,870	17,164	19,191
Add: Depreciation	2,071	1,882	2,000	2,330
Interest (net of tax)	1,449	571	515	320
Others	(21,537)	11,858	3,345	(8,193)
Less: Changes in WC	16,758	(6,703)	(4,346)	1,284
Operating cash flow	2,499	15,477	18,678	14,931
Less: Capex	1,401	1,468	5,000	5,000
Free cash flow	1,098	14,009	13,678	9,931

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	6.0
Repo rate (%)	4.3	3.0	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Direct cost (% of sales)	47.1	48.6	44.9	45.0
Employee cost (%)	9.6	10.4	9.4	9.3
SG&A expense (%)	23.2	18.1	17.6	17.6
Debtors days	87.8	110.0	90.0	85.0
Inventory days	438.5	330.0	360.0	350.0
Payable days	151.1	140.0	130.0	110.0

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	(1.8)	4.8	16.0	15.9
RoCE (%)	14.2	15.4	20.6	20.7
Inventory days	438	523	490	444
Receivable days	88	95	85	84
Payable days	151	150	129	115
Working cap (% sales)	101.4	115.3	106.0	108.0
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	0	(0.1)	(0.2)	(0.2)
Interest coverage (x)	8.4	26.7	42.7	73.1

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	69.9	28.7	12.6	11.0
Price/BV (x)	2.3	2.1	1.9	1.7
EV/EBITDA (x)	12.9	11.2	7.7	6.9
Dividend yield (%)	0.1	0.3	1.6	2.3

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(79.0)	143.6	128.3	13.8
RoE (%)	(1.8)	4.8	16.0	15.9
EBITDA growth (%)	(36.0)	9.5	39.5	7.4
Payout ratio (%)	7.7	7.1	20.0	25.0

Source: Company and Edelweiss estimates

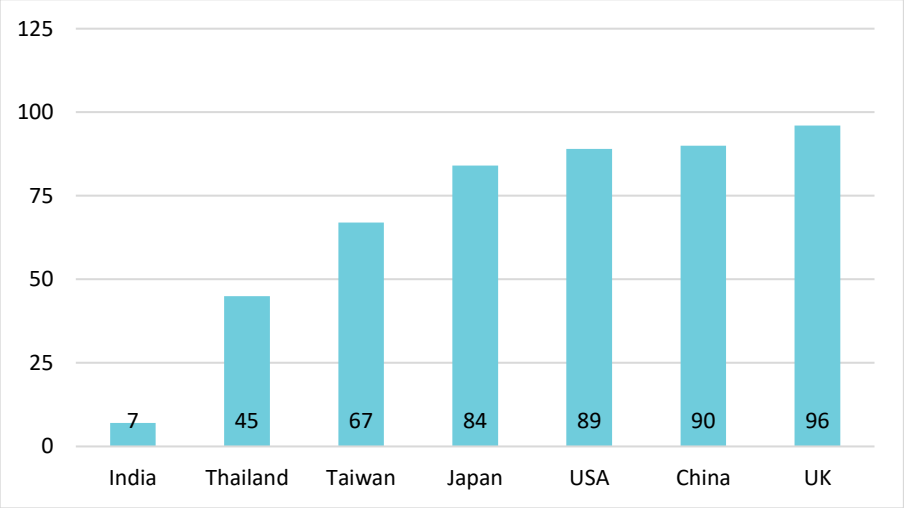
Big 5 questions and our perspective

Q1.TV ads dying like a few other traditional media segments?

No. We believe TV, unlike a few other traditional media (radio and print), is here to stay in India with decent revenue growth. Ads on TV will be a function of TV subscriber growth. 35% of Indian households still don't own a TV set, implying significant headroom for growth. India has one of the lowest TV Average Revenue Per Users (ARPUs) Low TV ARPUs as well as wired broadband penetration (India at 7% versus Thailand at 45%, China at 90%) render TV the preferred medium for content consumption.

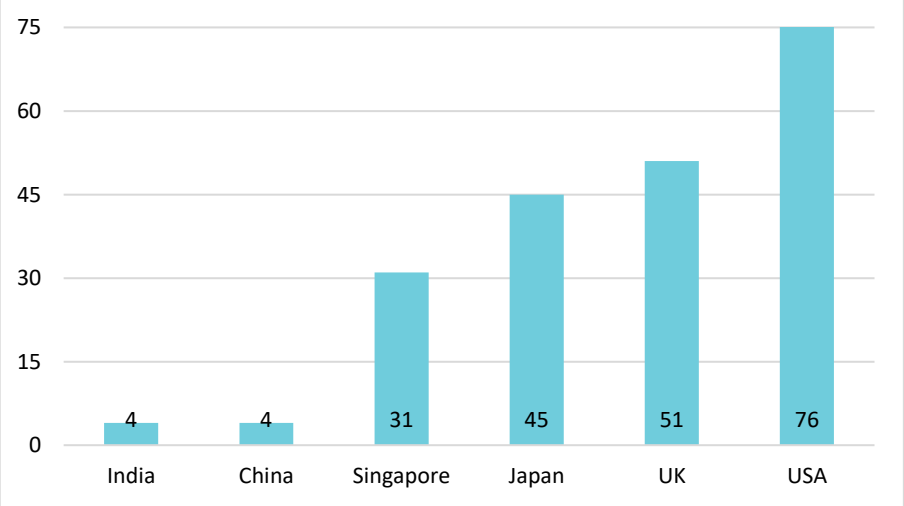
Moreover, it offers abundant choices at an affordable price with a reasonable monthly tariff of INR280 (USD4 versus USD30-75 in developed markets). TV provides consumers ~2,000 hours of new content every week and entertainment for the entire family as it has all genres of GEC, movies, mews, kids, sports, music and infotainment.

Exhibit 1: Wired broadband penetration (% of total HHs)



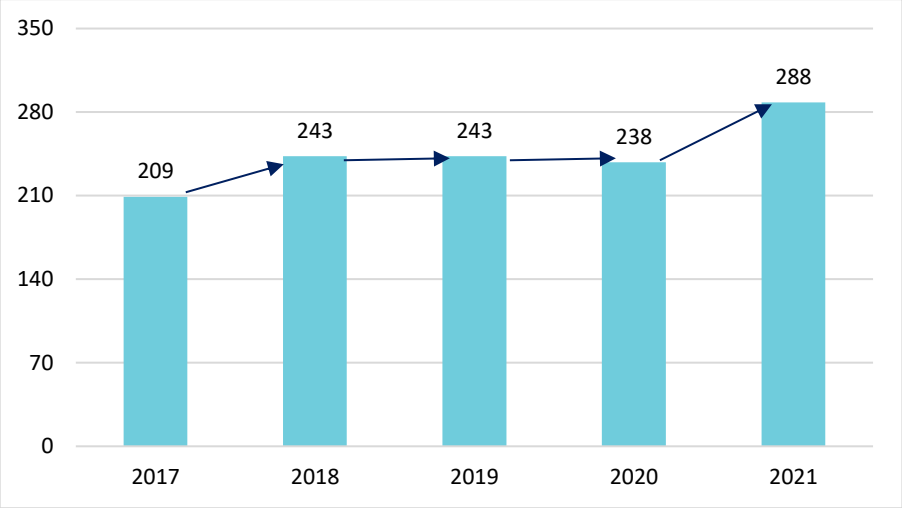
Source: ZEE presentation

Exhibit 2: Pay TV ARPU (USD per month)



Source: ZEE presentation

Exhibit 3: Ad volume over years (in mn secs)



Source: BARC data

Exhibit 4: Ad volume growth break-up (in mn secs)

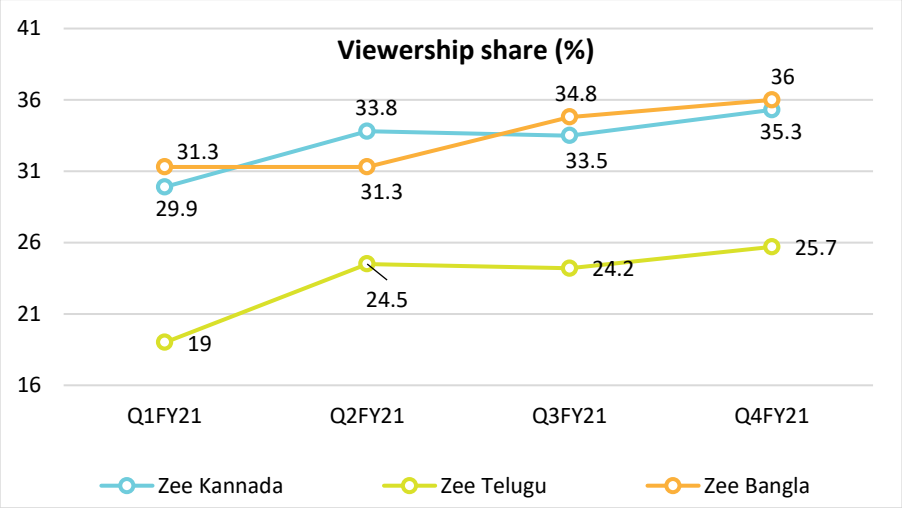
	2017	2018	2019	2020	2021
Top 10 Advertisers	67	75	82	96	130 (35%)
Share% Of Top 10 Advertisers	32%	31%	34%	40%	45%
Next 40	44	60	47	47	59 (25%)
Share% Of Next 40	21%	25%	19%	20%	20%
Remaining	98	108	114	95	100 (5%)
Share% Of Remaining	47%	44%	47%	40%	35%
Total	209	243	243	238	288 (21%)

Source: BARC data

TV ad volume and viewership trends in 2020

The pandemic gave a significant boost to TV viewership as people spent more time indoors. In CY20, overall time spent on TV increased 7% over CY19. So the pandemic, in a way, was an enabler as in CY19 viewership had been flattish YoY. While Hindi speaking markets (HSM) clocked a significant 80bn growth in impressions, South markets grew by 35bn impressions.

Exhibit 5: TV viewership up 7% in CY20



Source: EY-FICCI M&E sector report

2021 started with recovery in ad spends and volumes

2021 started with renewed optimism among advertisers. They went aggressive on ad volumes with expectation of sustained recovery post signs of recovery from first wave in the first two months of 2021, before the advent of the second wave. Volumes were also driven by the need to promote a number of new launches and general recovery in ad spends by FMCG companies, as they adapted swiftly to the pandemic with learnings from the previous year and came up with innovations to cater to the changed market demand.

Total ad volume increased 39% YoY from Jan to April 2021. Ad volumes in January to February 2021 clocked an all-time high since 2017, according to BARC data, with a growth of 21% YoY, which was not due to covid impacted base effect. Ad volumes in April 2021 increased 2x compared to April 2020.

By genre, ad volumes of movies and music surpassed overall ad volumes with 25% YoY growth for the same period. Big advertisers remained aggressive, with volumes from the top-10 advertisers during the same period jumping 35% and their share rising to 45% from 40% in the same period 2020. Volumes of the next 40 advertisers also jumped 25% YoY, as per BARC data.

Ad volumes of the Top-3 sectors clocked a sharp increase in April 2021 compared to 2019 and 2020. Ad volumes of FMCG players in April 2021 catapulted 166% and 42% compared to 2020 and 2019, respectively. However, it was not just consumer staples that increased ad volumes, those for consumer durables combined increased exponentially (4x) for March and April 2021 from 2020 and were 3% higher than 2019.

The pandemic has given a significant boost to e-commerce players due to increased habit of online ordering and, not surprisingly, the next set of players who increased ad spends were e-commerce players, who continued to maintain high ad spends in 2021.

Strong YoY spurt in May ad volumes: BARC

2021 began on a high note for TV ad volumes. Despite a marginal dip from April due to the ongoing pandemic, ad volumes in May 2021 clocked significant growth of 64% compared to May 2020 and have remained at par with previous years. Moreover,

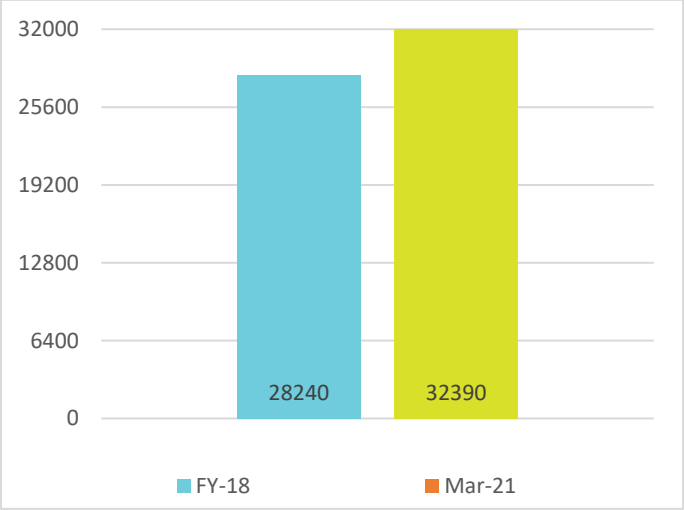
TV attracted over 60% new advertisers of the total advertisers in May, indicating that advertisers continue to bank on the medium.

With easing of lockdowns and upcoming big events, we envisage TV advertising to remain strong in FY22. Advertising on GEC and movie genre continued to grow as per BARC India's latest TV Ad Volumes Report. Ad volumes on both the genres outperformed the same period for the previous three years and registered a growth of 74% and 76%, respectively, compared to May 2020.

Owing to the rising consumption of regional content, advertising on South language GECs registered a staggering 103% jump, while rest of the regional GECs grew 53% in May 2021 versus May 2020. South and regional movie channels clocked 85% and 129% growth for the same period, respectively.

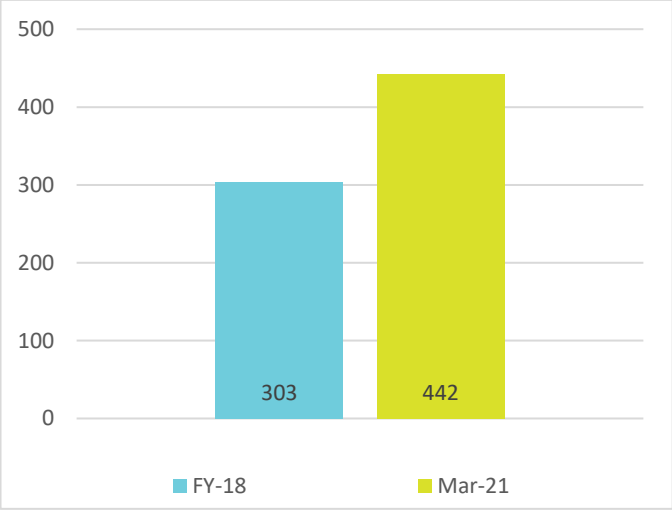
Of the total 2,142 advertisers in May 2021, 1,347 (63%) were new advertisers. FMCG category continued to dominate ad volumes with 72% share, followed by E-com with 10% share in May 2021. While over 70% of advertising was dominated by the Top 50 advertisers in May 2021, the Top 10 had the highest share since 2018 of 54%. Advertising by the Top 10 advertisers continues to see steady growth.

Exhibit 6: Monthly TV impressions (in mns)



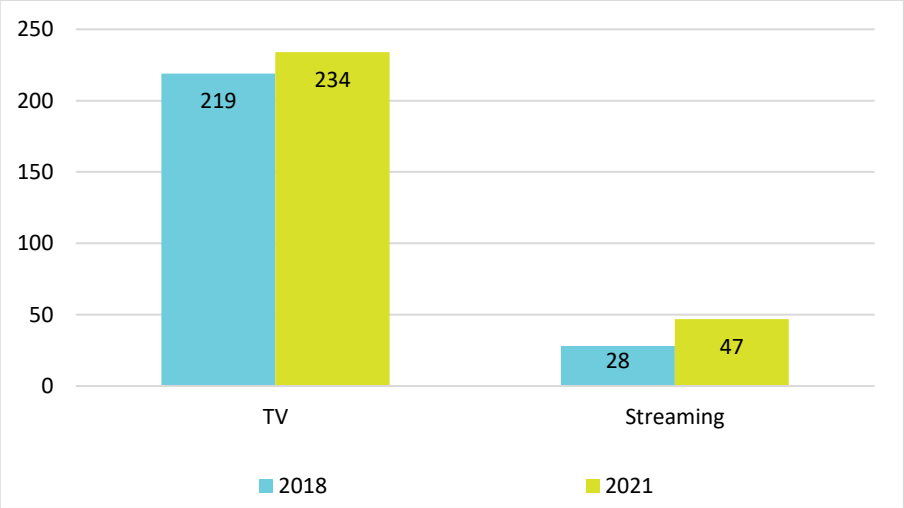
Source: BARC

Exhibit 7: Monthly TV impressions (in mns)



Source: BARC

Exhibit 8: Daily time spent per viewer (in minutes)



Source: BARC & EY-FICCI M&E sector report

Q2. TV industry still looks decent, but how has ZEE fared?

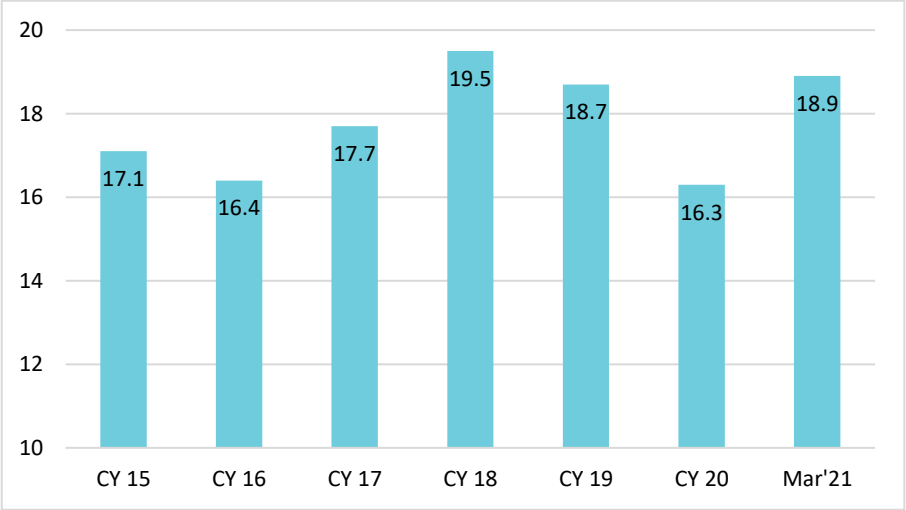
ZEE has, over the years, improved its market share consistently; though it faced rough weather in 2020, it is now recouping market share. Its network market share grew 70bps QoQ in Q4FY21 led by FTAs and two channels in South markets, bringing its overall share to 18.9%.

All of ZEE's new channels have quickly established themselves. The four new regional channels in Bhojpuri, Tamil, Kannada and Punjabi have acquired one of the top 3 positions in respective regions. The shares of Bengali, Telugu and Kannada channels improved during the year, but Hindi, Tamil and Marathi channels lagged expectations.

That said, the company is quickly going after content to gain market share and has earmarked significant investment for it. ZEE has also shifted shooting locations of all its Marathi and Hindi content to avoid pandemic-induced disruptions. We expect management's sustained market share focus to help ZEE close the gap with the No.1 player STAR, which has a market share of about 24%.

ZEE has 49 TV channels in 11 languages, 600mn+ weekly reach and 160bn+ weekly viewing minutes.

Exhibit 9: ZEE market share in CY20 an aberration (% Share)

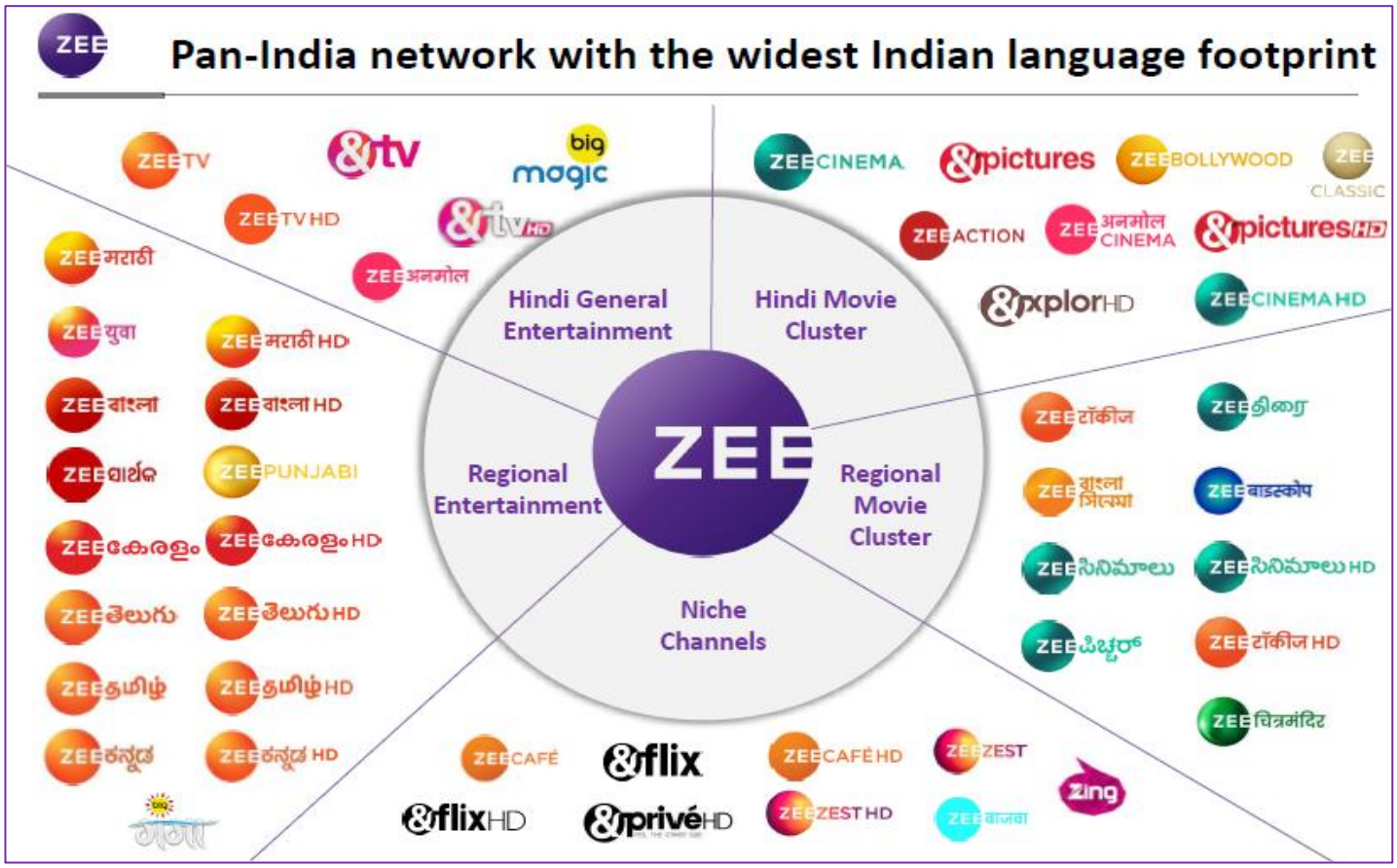


Source: Company

Exhibit 10: ZEE new channels see a good start

Source: Company

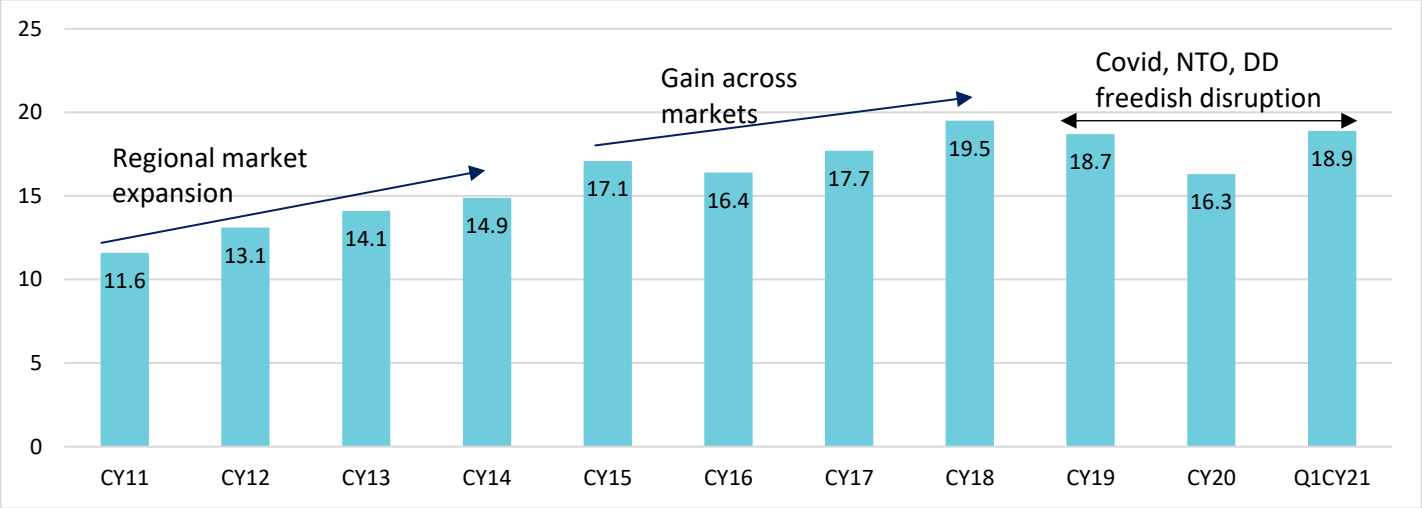
Exhibit 11: ZEE pan-India channels



Source: Company

Over the past decade, ZEE has consistently increased its viewership share. However, disruptions led by NTO, DD Free Dish portfolio shuffle and covid impacted growth over the past 24 months.

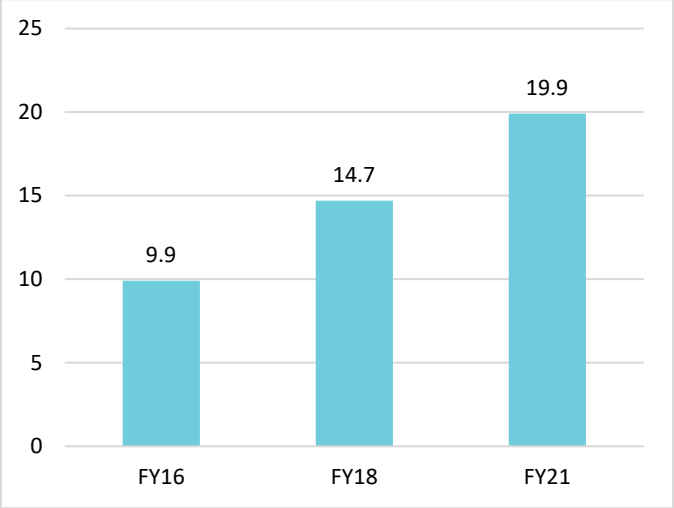
Exhibit 12: ZEE market share movement (% Share)



Source: Company

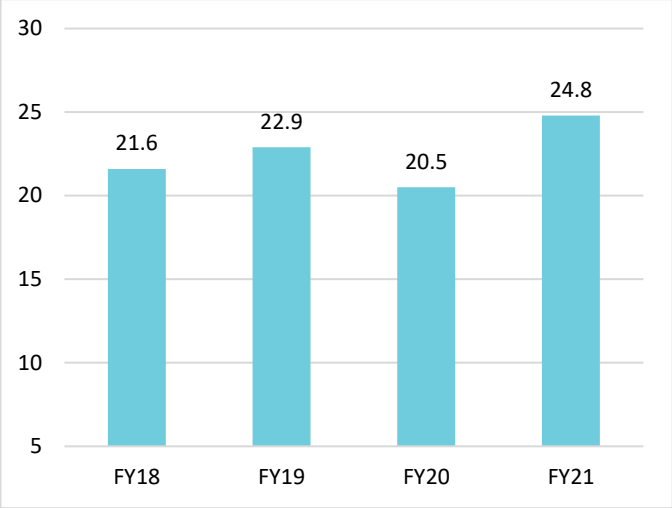
Its share in South markets has seen significant improvement driven by popular fiction and non-fiction shows. ZEE is the leader in the movie genre with an expansive movie library across languages.

Exhibit 13: Viewership share of south portfolio



Source: Company

Exhibit 14: All India Movie genre share



Source: Company

Q3. Rationale behind ZEE5 investment and why it's incurring losses?

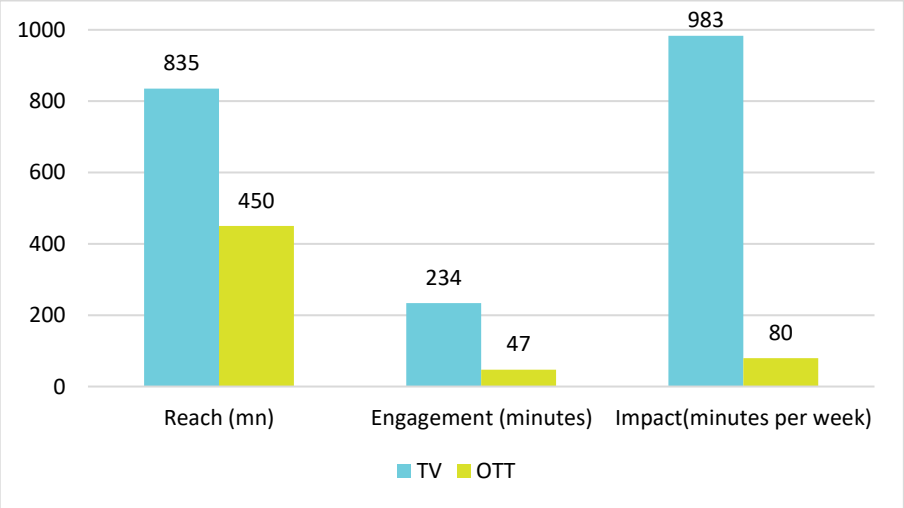
Digital is the way forward

We believe aggressive digital strategy is a must for all traditional broadcasters as it offers a massive growth opportunity in the medium/long term. Digital makes on-the-go consumption possible. Also, TV content has its limitations, so digital can showcase content for audiences who are not regularly available on TV. Wired broadband is a prerequisite for digital to become the mainstay for content consumption. Mobile broadband is driving digital content consumption growth in India.

Digital extremely critical for many advertisers

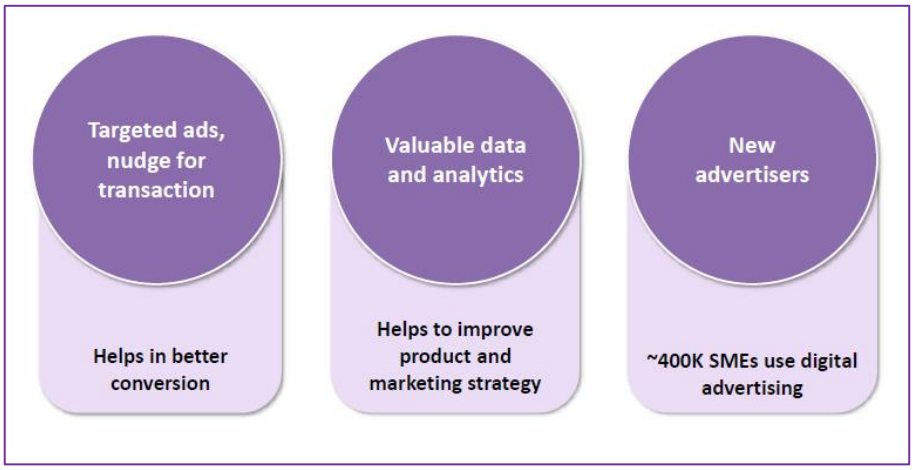
TV currently has a higher reach and engagement, but digital offers a differentiated value proposition to advertisers and is expanding the total market. Digital ad industry's growth is likely to be ~2x of TV ad industry. ~400K SMEs use digital advertising. Digital advertising helps improve product and marketing strategy and boosts conversion.

Exhibit 15: TV and OTT parameter comparison



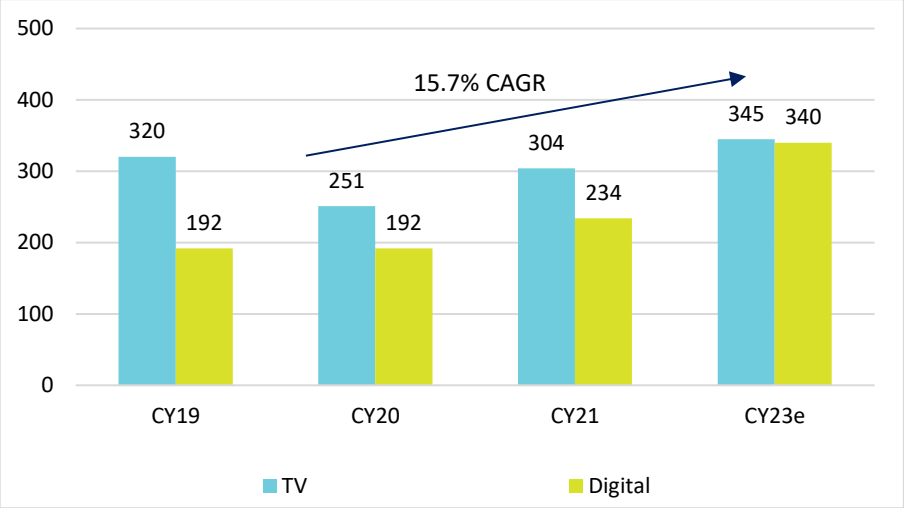
Source: *BARC* & EY-FICCI M&E sector report

Exhibit 16: Digital ad benefits



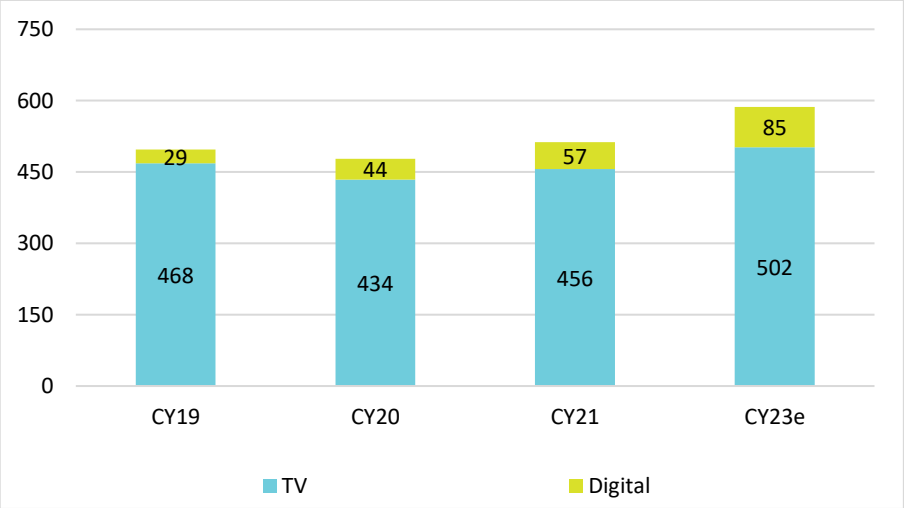
Source: Company

Exhibit 17: Ad spends growth (INR bn)



Source: EY-FICCI M&E sector report

Exhibit 18: Video subscription growth (INR bn)

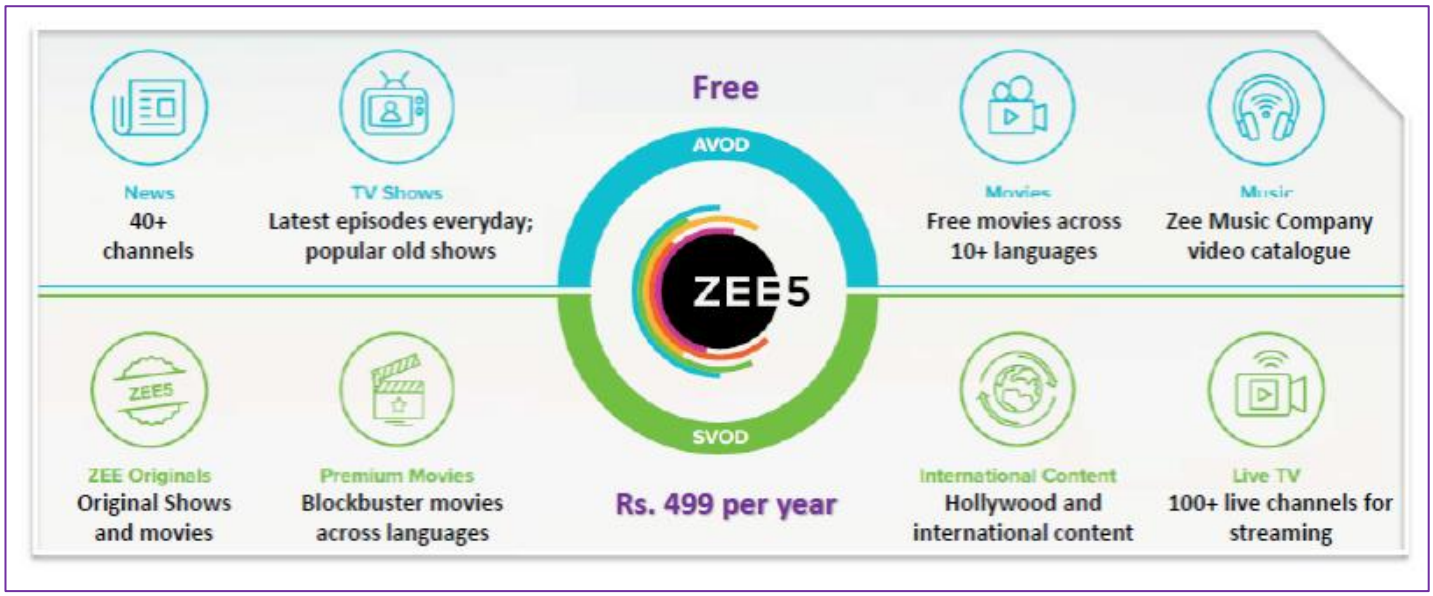


Source: EY-FICCI M&E sector report

Digital subscription to grow at a faster pace on a much smaller base

ZEE5's freemium model offers content for every Indian. Its rich mix of originals, blockbuster movies, TV shows, music and news caters to a diverse audience.

Exhibit 19: ZEE5 business model



Source: Company

ZEE5 in its free option has: (1) 40+ news channels; (2) latest episodes of TV shows every day and popular old shows; (3) free movies across 10+ languages; (4) ZEE Music; and (5) company video catalogue. The free option helps ZEE5 garner more traffic. It creates catch-up content for TV audience to bring them to the platform initially and connect with the audience not ready to pay for content yet. It then acts as a funnel for conversion to SVOD. ZEE5 is also building its own ad tech platform for better monetization.

ZEE5 in its paid option (affordable at INR499 annual pack) has: (1) original shows and movies; (2) blockbuster movies across languages; (3) Hollywood and international content; and (4) 100+ live channels for streaming. With 200+ original shows and movies, ZEE5 is already the biggest producer of digital exclusive content in India. Its original content is primarily targeted for the younger audience that is largely under-served on TV. ZEE5 has the biggest Indian original content catalogue for SVOD consumers. It is ramping up presence across global markets with recent US launch.

Exhibit 20: ZEE5 free content

Source: Company

Acquiring popular content and developing library aggressively

ZEE has been aggressive in creating a strong library of shows and movies most suitable for the Indian audience. We saw star-studded movies such as *''Radhe'' being launched on ZEE5, which helped it attract huge traffic on the platform. Within a short span, ZEE5 has come up with another blockbuster exclusive addition "FRIENDS: Reunion'', which recorded over 1mn views in less than seven hours of launch on the platform. This sustained aggression by ZEE is a strong positive sign, in our view.*

ZEE5 platform: Well nurtured in pandemic

During the pandemic, online audience number reached a staggering 468mn, with almost 90% using smartphones. The time spent online for entertainment catapulted 49%, according to an EY report. EY estimates that the digital segment will grow to INR424.5bn by 2023, clocking 22% CAGR. There was significant increase in time spent on video streaming apps (47.2bn hours in Q4CY20 from 35.5bn hours in Q4CY19).

OTT platforms stepped up to fill the void created by the absence of operational cinemas, growing the segment 86% YoY to INR35.4bn in CY20, making digital rights the largest portion of the filmed entertainment segment for the year. Monthly streams in Dec 2020, as per EY estimates, were INR12bn compared with INR10bn in Dec 2019.

ZEE has been quick to deploy its OTT platform and content with a large number of consumers today spending increasingly greater time on OTT. That the management has been agile in responding to changing trends is a positive sign.

A key trend in 2020 was the entry of language OTT products such as Aha (Telugu), Koode (Malayalam) and City Shor TV (Gujarati). Demand for regional language content including TV, series and films hit the roof during the pandemic.

ZEE5 stepped up to capture this demand by building a library catering primarily to Indian languages. According to the EY report, the share of regional language consumption on OTT will surpass 50% of time spent by CY25, easing past Hindi at 45%.

ZEE5 has the largest library of Indian content in India. The company consciously chose to improve native language content, including regional languages, instead of competing against the likes of Netflix for an English library. This has borne fruit. Today, ZEE5 has 72.6mn global MAUs and 6.1mn global DAUs. The average watch time per month stood at 156 minutes for Q4FY21, up from 133 minutes in Q3FY21.

ZEE management claims that ZEE5 today is the world's largest streaming platform for South Asian content with over 130,000 hours of exclusively curated Indian, Pakistani, and Bangladeshi content across 18 languages. *The content library includes over 20 years of TV shows, latest dramas, new original shows, Bollywood and Indian language films and more.*

In order to ramp up the traffic on its OTT, ZEE, to reiterate, has focused on creating original content such as shows and soaps and invested in acquiring strong crowd pullers such as *Radhe* and *FRIENDS Reunion*. Management has said it will continue to premiere big-budget movies. Besides, investments in movie production will augment the ZEE5 library further.

In addition to crowd-pulling content, the company has reset the annual subscription price to a meagre INR499. This is the most competitive price in the market and is aimed at attracting strong traffic to the platform. Moreover, the company has made investments to create a strong library as a complementary move.

That ZEE5 is spending aggressively on content at an early stage is convincing since digital platforms must attract traffic and active users quickly to become a viable business. Companies such as Zomato and Netflix burnt tremendous cash in early stages and focused on enticing consumers to use their app and habituate them. Once consumers get hooked onto an app, stickiness follows, thereby making it difficult for competitors to acquire customers.

In this context, competitive pricing for ZEE5 and heavy investments in content are timely and critical to business success, in our view.

In its final and largest leg of expansion*, ZEE5 is now all set to launch its services in the USA*. ZEE had to wait for the US launch as its existing distribution contract with US pay-TV operator Dish Network didn't allow the broadcaster to launch a digital offering till March 2021. ZEE5 has kept the price of the annual pack at a very competitive USD84, but as a launch offer, the one-year pack will be available for USD49.99 for a limited period. The US market already has a 5.4mn diaspora audience that has a deep cultural and language connect with ZEE5 content; this will be a major boost to traffic.

"The US represents our most significant market and the last bastion in our global journey as we launch an ad-free subscription service," said Mr. Amit Goenka, President, Digital Businesses & Platforms, ZEE.

Exhibit 21: ZEE5 original titles

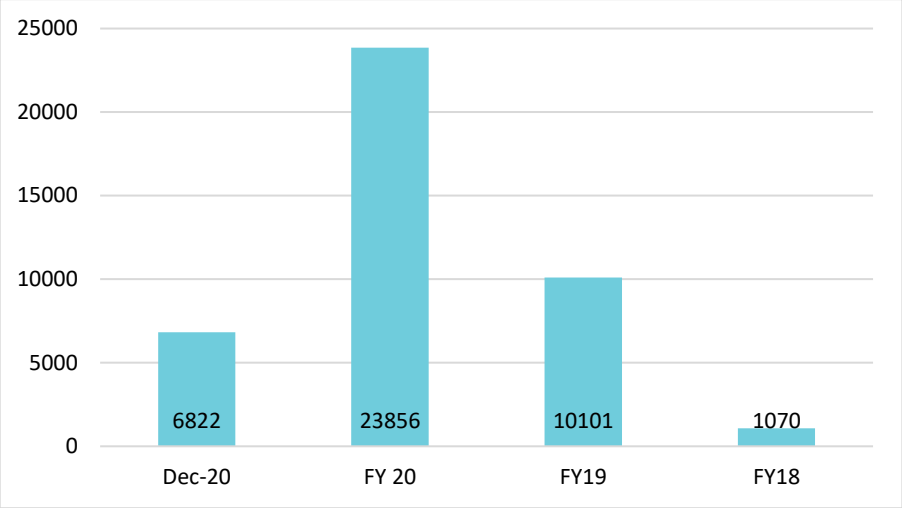
Source: Company

Exhibit 22: ZEE5 - How OTT metrics shape up

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
ZEE5 revenue (INR mn)		949	989	1178	1075
ZEE5 EBITDA (INR mn)		-1451	-1894	-1757	-1625
ZEE5 DAU (mn)	6	4	5	5	6
ZEE5 MAU (mn)	63	40	55	66	73

Source: Company

Exhibit 23: A quick insight: Zomato net losses over the years (INR mn)



Source: Company

New brand campaign for ZEE5 platform

ZEE5 announced its new brand campaign - 'Dekhtey Reh Jaogey' to offer its annual premium subscription @ INR499 (previously at INR 999/year). This is aggressive pricing given ZEE5 is India's biggest library of original content. It has 150+ originals and 2,800+ movies on the platform.

The platform has roped in popular Bollywood actor Sara Ali Khan and OTT's favourite boy Amol Parashar as brand ambassadors for the campaign. With this new subscription package, viewers will have an influx of unlimited entertainment that is both captivating and binge-worthy, including a rich library spanning 12+ Indian languages featuring web series, movies (original and theatricals), TVF shows, Live TV, Alt Balaji shows, Ad-free Catch-up TV, Zindagi TV shows, kids' content and much more. *The INR499 subscription will also include 50+ new theatricals and 40+ originals across diverse languages slated to be launched on ZEE5 through the course of the year.*

Does scaling up movie production make sense given pandemic?

ZEE is planning to ramp up its movie production slate to 30-40 movies a year. It will have a multi-pronged approach--movies across budgets and multiple languages to reduce risk. ZEE Studios' production/acquisition/distribution model has enabled it to become the No.3 studio in India with a strong presence in movie production and monetisation eco-system.

Management believes strong movie production will help monetize content across platforms such as TV channels, ZEE5 and ZEE Music, apart from box office collections. The strong production line up will also help the company avoid costs and pressures of bidding wars to secure content for its library, and this will reduce overall content cost over the long term.

Exhibit 24: ZEE movie titles

Source: Company

Outlook for Indian multiplex industry

ZEE has decided to ramp up its movie production. The company believes this will benefit by avoiding costly bidding wars and also help monetise content across its various platforms like TV, OTT and ZEE Music. We have presented below our outlook for the movie and multiplex industry.

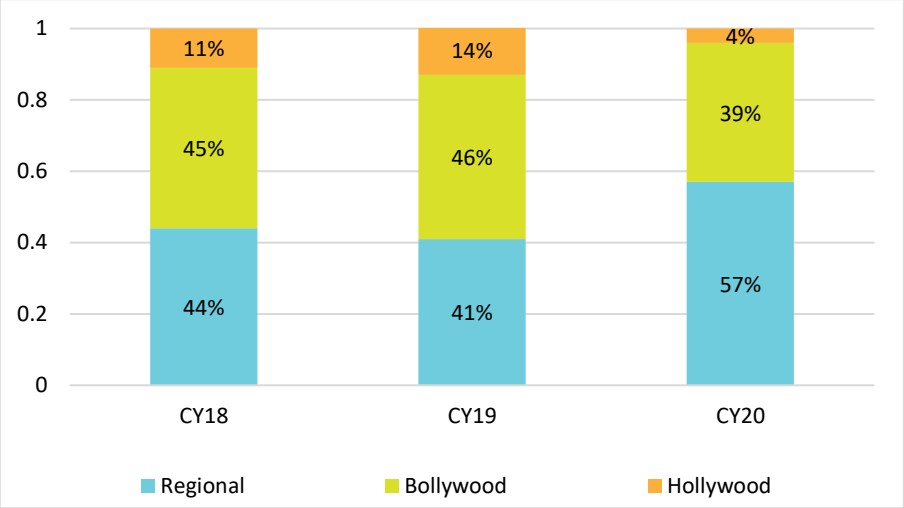
India's multiplex industry has been hard hit by the pandemic in the past one year. Very limited content was generated as producers decided to delay release and wait for normalcy to return. This kept footfalls tepid even after multiplexes were allowed to open with restrictions during October 2020.

- *Regional films to rescue:* South Indian cinema grossed more than Hindi cinema in 2020 as it managed to fit in three hit films which grossed over INR1bn in domestic theatrical revenues.

  During the start of the year 2021 (in Q4FY21), though there was limited major content from Bollywood and Hollywood, the industry saw some blockbuster releases in regional market like Master in Tamil kick starting the industry recovery and instilling confidence among producers. It was heartening to see almost immediate return of footfalls and strong support from South markets from December 2020 to March 2021. In fact, these movies garnered almost full occupancy (within cap) in certain locations and gave high overall occupancy to multiplexes. It instilled confidence that good content can still pull large crowds similar to a normal year.

  Following these positive sentiments, from Bollywood Roohi was a major film which was released during Q4FY21, before second wave news hit the market. Both Roohi and the major regional releases garnered strong support and multiplexes saw no discount in ticket prices. This strong recovery bodes well for the industry.

Exhibit 25: Regional films garner more share (% Share)



Source: EY M&E sector re-boost report

Exhibit 26: Major southern films in CY20 & Q4FY21

Film	Domestic gross box office (INR mn)	Language
Master	2500	Tamil
Ala Vaikuntapuram	2110	Telugu
Sarileru Neekaveru	1,740	Telugu
Darbar	1,380	Tamil
Pattas	390	Tamil
Bheeshma	350	Telugu
Ancham Pathira	335	Malayalam
Ayyappanum Koshiyum	240	Malayalam
Shylock	230	Malayalam
Naan Sirithaal	180	Tamil
Varane Avasyammunde	180	Malayalam

Source: Edelweiss Research

- *Theaters still remain favourite of producers:* PVR management, during its latest conference call, mentioned that this is an experiment and there is no major shift towards OTT releases among producers. This is evident from what we have seen in other markets, where once theatres opened up even with restrictions, producers preferred to go to them first. Particularly, we have seen that producers of big budget movies would prefer to wait and release in theatres than OTT.

  For example, after initial talks about release on Amazon, the producers of Bond movie *No Time to Die* have said they will wait for theatre release. Similarly, as per PVR management, many big budget Bollywood movies like *Sooryavanshi, '83, Atrangi Re, Prithviraj, Jersey, Bachchan Pandey,* etc., are waiting for better time for theatre release. Producers of major southern film RRR have also announced that OTT release on ZEE5 will be after theatre release.

  We believe OTT platforms have definitely received a push due to the pandemic. But, halls and OTT will co-exist. Producers will continue to release first in theatres as it gives them better upside and then on OTT immediately after a few weeks to earn from both media. Disney, for example, has decided to release its major film

Cruella first on screens for a few weeks despite owning its own OTT platform Disney+.

- *Phased reopening:* We expect with the strong vaccination drive, population in tier 1 and 2 cities will see a higher proportion of vaccinated individuals compared to the nation's average. This should prompt phased reopening in these cities, which also form major market for multiplexes. As per MINT and a few other film trade specialists, phased resumption of cinema is most likely. "We should be looking at a three-month period for all cinemas to open up nationally," Mr. Gautam Dutta, CEO, PVR, said.

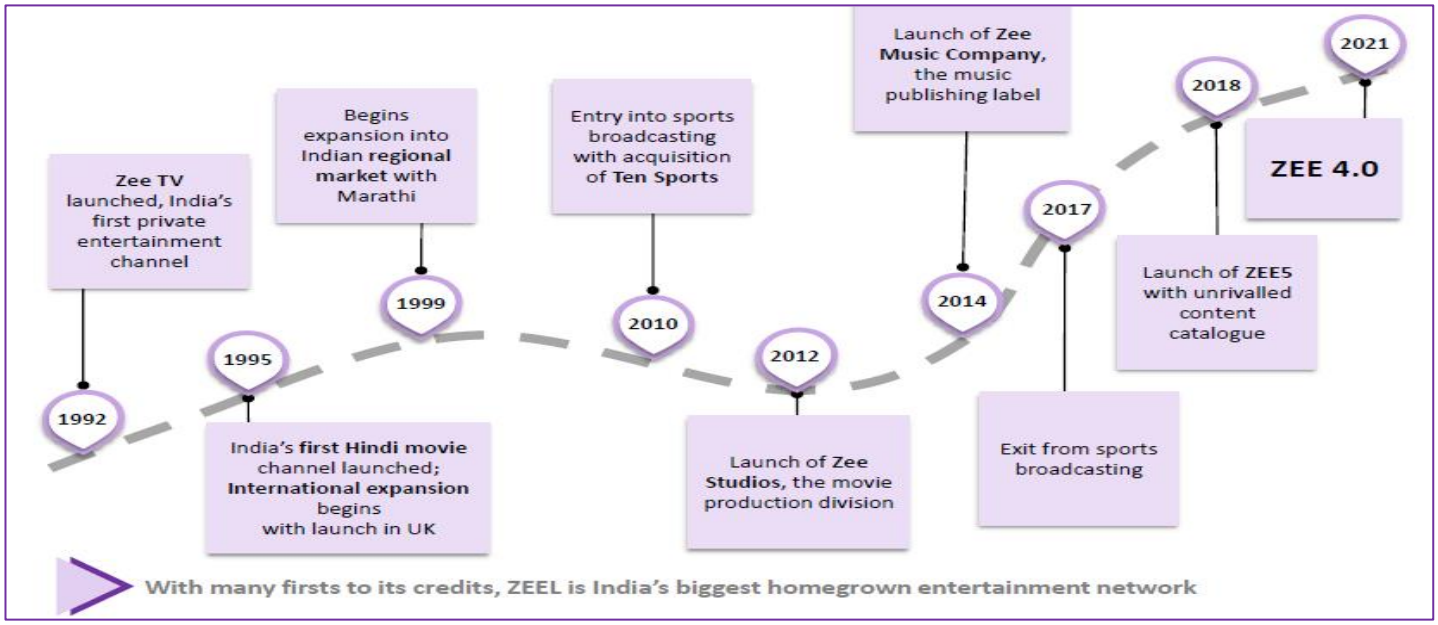
- *Present situation across states*: The Maharashtra government has allowed multiplexes to reopen in low risk areas. It has allowed normal reopening in "Level 1" areas and reopening with 50% cap in "Level 2"areas. Delhi and Chandigarh have also allowed reopening of malls, bars and gyms with restrictions, though currently theaters remain shut for this phase of reopening, it is still a positive sign. The industry is closely monitoring the pandemic situation and state regulations as the next good window for releases would be during the upcoming festivals in Q3FY22. Industry leaders have said that they will also talk to regulators regarding opening up initially with strict rules as we have seen in Maharashtra and other markets like UK.

- Our expectations going ahead: We believe the industry has strong pent-up demand and a lot of good content which producers are sitting on. Bollywood films are likely to release quicker as a number of international markets are opening up and Bollywood movies derive significant revenue from these markets. We remain confident regarding the industry's ability to bounce back quickly as and when regulations become lax. As seen in other markets, major films will still be able to pull in crowds as before and collections should recover fast.

Q4. ZEE's claim to have evolved into a 360 degree entertainment content company mere jargon or it has competitive advantage?

ZEE has strong partnerships across distribution value chains–cable, DTH, theatres, telcos and ISPs. It has 3,000+ brands reach their consumers through ZEE network. It has 30 years of content creation expertise and strong partnerships across the content ecosystem. Strong consumer connect through TV channels, OTT platform, movies, music and events. Zee Music Company (ZMC) is building a strong portfolio in Hindi and regional language markets. ZMC's Youtube channel is the third most subscribed Indian channel and second most subscribed music channel. ZEE's TV, digital and music businesses are buyers of movie rights, enabling Zee Studios to aggregate comprehensive rights at competitive price. Thus, it has strong synergies across businesses.

Exhibit 27: ZEE roadmap



Source: Company

Exhibit 28: ZEE portfolio highlights

Source: Company

Q5. ZEE is going into investment phase for ZEE5 and content scale up.

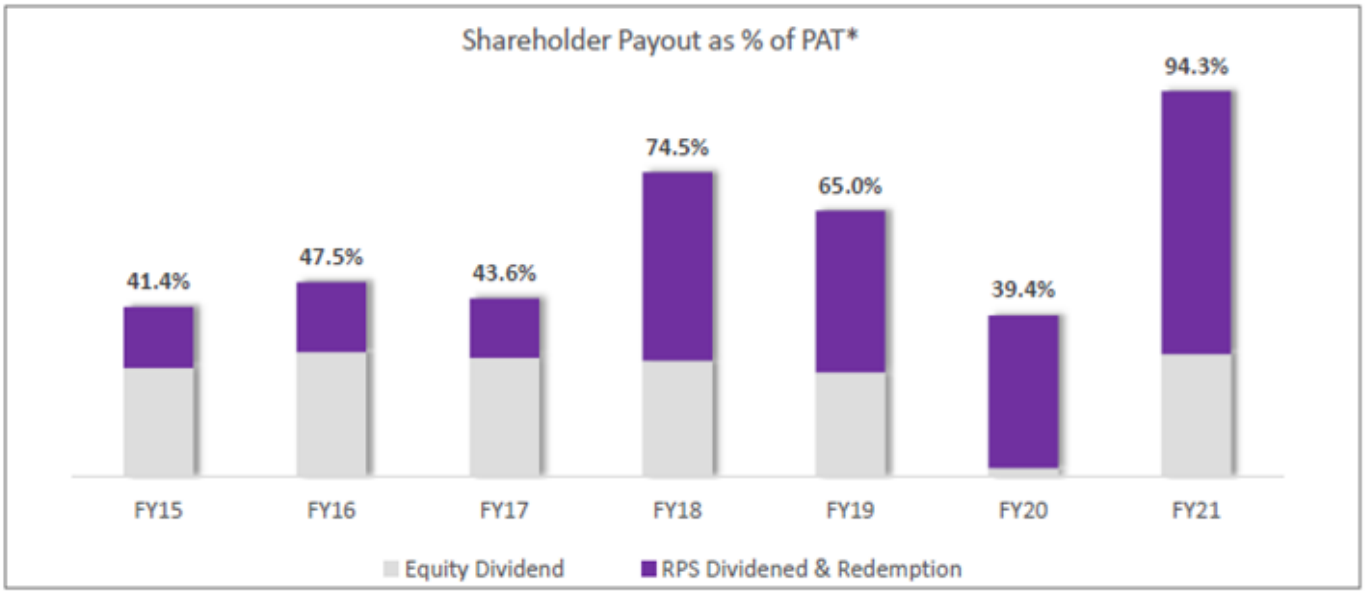
How has its track record been on paying shareholders?

ZEEL's cumulative shareholder payout has been ~60% of total PAT over FY15-21. As per dividend policy approved by the Board, ZEE will pay 25-30% of consolidated profits or 33% of standalone profits, whichever is higher. ZEE has used buyback and bonus preference shares to boost payout to shareholders.

Listening to investors; balance sheet continues to improve

ZEE's disclosure levels have improved with regular updates on related-party transactions, inventory and cash levels. It has scaled back further investments in Sugarbox amid investor concerns and emerging dynamics in the wake of the pandemic. Notably, despite the pandemic, ZEE's cash balance improved consistently in FY21 (INR18.6bn in Mar 2021 versus INR10.1bn in Mar 2020) and there was sequential reduction in receivables (including part of Dish TV's overdue). About INR2bn of arrears of Dish TV have been paid. Transactions with Siticable are on a cash-and-carry basis.

Exhibit 29: ZEE dividend payout over years (% of PAT)



*Payout calculated on PAT excluding exceptional items and non-recurring gains; Redeemable Preference Shares (RPS) worth INR 21 bn issued in 2014

Source: Company

Company Description

ZEE Entertainment Enterprises (ZEE) is one of the largest media companies in India. It owns and operates Zee TV and Zee Cinema, both leading channels in the Hindi GEC and movies segments, respectively. Besides these two, the company has an attractive bouquet of several other channels including &pictures, &TV, ZEE Anmol, Zindagi, Zing, Zee Classic, Zee Action, Zee Café and Zee Studios. With the likes of Zee Marathi, Zee Bangla, Zee Telugu, and Zee Kannada, the company has an impressive bouquet of regional channels.

Investment Theme

GDP recovery, improvement in its market share in regional and movies genres and new launches will aid ad revenue growth. Higher penetration of DTH and the digitisation process augur well for faster growth in subscription revenue over the long term. Cautious investment in the movie production is positive for the company. We believe ZEE is well poised to benefit from this favourable environment.

Key Risks

- Economic slowdown likely to reflect in advertisement revenues
- Absence of sporting events and fresh programming likely to temper the subscription growth momentum in near term
- Competition from digital video streaming platforms
- High competitive intensity in the OTT/streaming space

Additional Data

Management

MD & CEO	Punit Goenka
CFO	Rohit Gupta
CEO - International	Amit Goenka
CEO - ZEE5 (India)	Tarun Katial
Auditor	M/s Deloitte Haskins & Sells, LLP

Holdings – Top 10*

	% Holding		% Holding
Invesco	18.13	Amansa Capital	3.40
OFI Global Fund	10.14	Vontobel India	3.01
Invesco Oppenhe	7.74	HSBC Holdings	2.87
Life Insurance	4.89	BlackRock Inc	2.70
Vanguard Group	4.61	Norges Bank	2.47

**Latest public data*

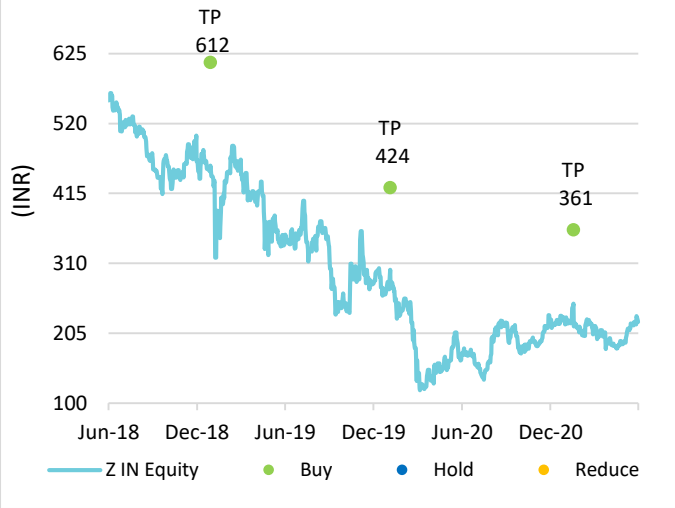
Recent Company Research

Date	Title	Price	Reco
14-Jun-21	Stronger signals on growth, compliance; *Company Update*	191.6	Buy
20-May-21	Concerns on Sugarbox fading ; *Result Update*	191.6	Buy
04-Feb-21	Riding recovery, improving governance; *Result Update*	244.05	Buy

Recent Sector Research

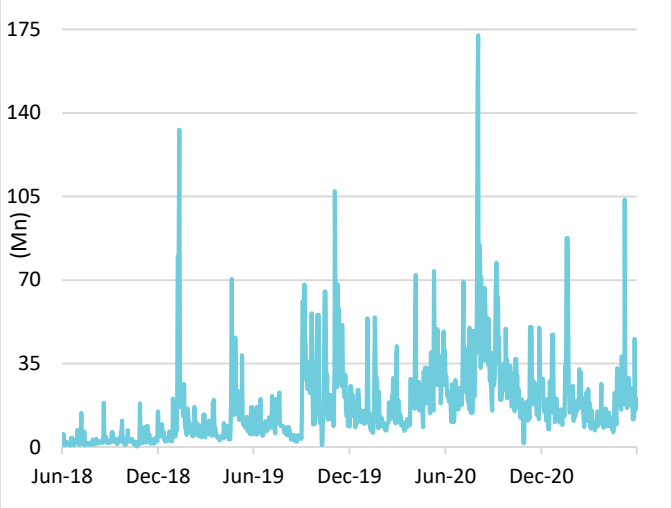
Date	Name of Co./Sector	Title
18-Jun-21	Media	After the break: Blockbuster show; *Sector Update*
11-Jun-21	Sun TV Network	Dividend cut mars good performance; *Result Update*
07-Jun-21	Media	Ad spends to revive; *Sector Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	160	62	20	243
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	208	45	3	256

**1 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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