

Zee Entertainment Enterprises | BUY

Margin recovery likely to be gradual

Zee Entertainment's 3QFY26 operational performance fell short of our expectation owing to a contraction in gross margin caused by higher programming and operational costs. This in turn stemmed from incremental expenses from ILT20 during the quarter and content acquisition cost for *Kantara Chapter 1* and *Akhand 2*. Furthermore, the company incurred elevated opex through FY26 along with higher content costs. In our view, this is likely to persist going forward, as sustained content investments will be required to drive top line. Besides, with positive EBITDA contribution from Zee5 (which broke even in 3QFY26), margin recovery is likely to be gradual over FY27E–28E. Factoring in this, we have reduced FY26E–28E EBITDA by 21–34% and EPS by 24–37%. This along with a valuation rollover to Mar'28E earnings yields a revised Mar'27E TP of INR 110/share (based on 15x Mar'28E EPS); maintain BUY.

- EBITDA miss on account of lower-than-expected gross margin:** Zee Entertainment (ZEEL) posted 3QFY26 consolidated gross profit 8% below our expectations, coming in at INR 9.7bn (up 9%QoQ while down 1% YoY) as gross margin was lower-than-anticipated at 42.7% (vs. JMFe of 47% and 45.3% in 2QFY26) and sales was marginally higher at ~INR 22.8bn (1%/2% above JMFe/consensus, up 16% QoQ/15% YoY). During the quarter, other expenses were lower at INR 5.2bn (vs. JMFe of INR 5.2bn and INR 5.3bn in 2QFY26). As a result, EBITDA fell 18% short of JMFe and 13% short of consensus, and stood at INR 2.4bn (up 64% QoQ/down 24% YoY). Furthermore, PAT came in 16%/21% below JMFe/consensus and stood at INR 1.6bn (up 103% QoQ/down 5% YoY).
- Sales marginally higher than expected:** 3QFY26 subscription revenues were marginally lower than expected at INR 10.5bn (versus JMFe of INR 10.6bn and INR 10.2bn in 2QFY26). Advertisement revenues also came in slightly lower than expected at INR 8.5bn (versus JMFe of INR 8.6bn and INR 8.1bn in 2QFY26) on account of a weak contribution from FMCG sector advertising. Other Sales & Services revenues at INR 3.8bn beat JMFe of INR 3.3bn (and INR 1.4bn in 2QFY26). Furthermore, the company achieved EBITDA breakeven in Zee5 in 3QFY26, and indicated that it is on track to achieve positive EBITDA contribution for the full-year FY26.
- Rising opex and content costs to weigh on margins; reiterate BUY:** Factoring in the weak 3QFY26 performance and management commentary, we have lowered FY26E–28E EBITDA by 21–34% and EPS by 24–37%, reflecting higher-than-expected programming costs and sustained high operational expenses. We now expect an EBITDA/EPS CAGR of ~12%/18% over FY26E–28E. Going ahead, there is likely to be a gradual pickup in overall top line along with elevated levels of content investments and higher operating expenses. Hence, in our view, this is likely to continue constraining margin expansion for the company, despite Zee5's steady growth and positive EBITDA contribution (EBITDA breakeven achieved in 3QFY26). We are rolling forward the valuation to Mar'28E earnings; maintain BUY with a revised Mar'27E TP of INR 110/share (based on 15x Mar'28E EPS) (earlier Dec'26 TP of INR 170).



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Coverage of Zee Entertainment Enterprises has been transferred to Krishan Parwani

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	110
Upside/(Downside)	35.4%
Previous Price Target	170
Change	-35.0%

Key Data – Z IN

Current Market Price	INR82
Market cap (bn)	INR78.3/US\$0.9
Free Float	90%
Shares in issue (mn)	960.6
Diluted share (mn)	973.5
3-mon avg daily val (mn)	INR660.5/US\$7.2
52-week range	152/81
Sensex/Nifty	81,910/25,158
INR/US\$	91.7

Price Performance

%	1M	6M	12M
Absolute	-9.9	-42.5	-32.4
Relative*	-6.6	-42.3	-37.4

* To the BSE Sensex

Financial Summary					
Y/E March	FY24A	FY25A	FY26E	FY27E	(INR mn)
Net Sales	86,372	82,941	82,792	86,932	91,983
Sales Growth (%)	6.6	-4.0	-0.2	5.0	5.8
EBITDA	9,071	11,973	8,795	9,997	11,084
EBITDA Margin (%)	10.5	14.4	10.6	11.5	12.1
Adjusted Net Profit	4,738	7,700	5,512	6,597	7,615
Diluted EPS (INR)	4.9	8.0	5.7	6.8	7.8
Diluted EPS Growth (%)	13.6	62.5	-29.3	19.7	15.4
ROIC (%)	4.2	7.2	4.9	6.2	7.2
ROE (%)	4.4	6.9	4.7	5.5	6.1
P/E (x)	16.5	10.2	14.4	12.0	10.4
P/B (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	7.9	4.7	5.5	4.3	3.4
Dividend Yield (%)	1.2	3.0	3.7	4.3	4.9

Source: Company data, JM Financial. Note: Valuations as of 21/Jan/2026

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

3QFY26 result review

- **Zee5 ARR crosses INR 10bn; remains fastest-growing vertical:** Management indicated that Zee5's ARR (Annual Recurring Revenue) has exceeded ~INR 10bn and is expected to remain the company's fastest-growing vertical. The vertical reported its highest-ever quarterly revenue in 3QFY26, driven by higher syndication income, repricing under a telecom partnership, and improved ad revenues. Growth was further supported by initiatives such as language packs and KidZ offerings.
- **Zee5 on track for EBITDA breakeven in FY26; Kantara, Akhanda boost Other Sales & Services:** Zee5 is on track to achieve EBITDA breakeven in FY26, with the platform reporting positive EBITDA for the first time in 3QFY26. Additionally, acquisition of satellite and theatrical rights for Kantara Chapter One and Akhanda Two drove strong growth in the Other Sales & Services segment.
- **Advertisement revenue expecting slow but steady recovery:** Company's advertisement revenues declined on a YoY basis on account of slow FMCG spending, which is the major revenue driver for the vertical. Management believes full benefits of GST rate cut have not yet materialized, and expects a slow but steady recovery in FMCG spending, going ahead.
- **Content inventory optimisation drives decrease in D&A expense; employee expenses decrease as well:** Company's depreciation and amortization expenses has declined as on account of slower addition of content, and cessation of amortization from earlier investments in a tech centre. Company also saw decline in content inventory in CY25 due to disciplined acquisitions, while employee expenses declined on account of headcount rationalization following overlap of roles.
- **Increase in operational costs due to ahead-of-schedule ILT20 and Kantara rights purchase:** Operational costs for the quarter increased with ILT20 matches advanced to 3QFY26 and acquisition of rights of Kantara Chapter One, excluding which operational costs were expected to decline by mid-single digits on a QoQ basis.
- **Zee-Star arbitration case postponed to Jul'26:** Management shared the hearing of the Zee-Star arbitration case has been postponed from Jan'26 earlier to Jul'26, post which a tribunal is expected to deliver the verdict.
- **FCCB drawdowns deferred pending deployment visibility:** The company has deferred further FCCB drawdowns until there is clearer visibility on fund deployment. Currently, only ~10% of the FCCB proceeds have been drawn.

Exhibit 1. Quarterly financial snapshot

Consolidated (INR mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	3QFY26E	% QoQ	% YoY	% difference
Net Sales	20,457	21,699	21,305	20,007	19,788	21,841	18,248	19,692	22,801	22,576	16%	15%	1%
COGS	11,876	12,830	11,770	10,615	9,968	12,819	9,710	10,780	13,056	11,965	21%	31%	
Gross Profit	8,581	8,869	9,536	9,392	9,820	9,022	8,538	8,912	9,745	10,611	9%	-1%	-8%
Gross margin	41.9%	40.9%	44.8%	46.9%	49.6%	41.3%	46.8%	45.3%	42.7%	47.0%	-252 bps	-689 bps	
Employee cost	2,442	2,552	2,258	2,275	2,433	2,300	2,201	2,142	2,161	2,483	1%	-11%	
Employee cost as % of sales	12%	12%	11%	11%	12%	11%	12%	11%	9%	11%	-140 bps	-282 bps	
Other expenditure	4,047	4,215	4,551	3,907	4,203	3,870	4,057	5,306	5,179	5,193	-2%	23%	
Other exp. as % of sales	20%	19%	21%	20%	21%	18%	22%	27%	23%	23%	-423 bps	147 bps	
EBIDTA	2,092	2,103	2,727	3,210	3,184	2,852	2,280	1,464	2,405	2,935	64%	-24%	-18%
EBIDTA margin	10%	9.7%	12.8%	16.0%	16.1%	13.1%	12.5%	7.4%	10.5%	13.0%	311 bps	-554 bps	
Depreciation	761	772	756	732	658	639	591	571	537	571	-6%	-18%	
EBIT	1,330	1,331	1,970	2,478	2,526	2,213	1,689	893	1,868	2,364	109%	-26%	
Interest expense	183.4	69.0	55.4	83.0	108.0	81.0	77.0	130.0	92.0	100.0	-29%	-15%	
Other income	277	154	190	337	345	362	250	264	184	264	-30%	-47%	
PBT before exceptional items, JV, and disc. Ops.	1,424	1,415	2,105	2,732	2,763	2,494	1,862	1,027	1,960	2,528	91%	-29%	
Share of profits from JV/associates	1	0	1	1	0	1	0	1	0	1			
Profit/loss from discontinued operations	52	12	-76	-1	0	-2	0	0	0	0			
Exc. items, fair value changes	-603	-276	-297	131	-786	125	109	126	57	0	-55%	-107%	
PBT	873	1,151	1,733	2,863	1,977	2,618	1,971	1,154	2,017	2,529	75%	2%	
Tax	288	1,018	542	769	342	734	535	389	469	683	21%	37%	
PAT before MI	585	133	1,191	2,094	1,635	1,884	1,436	765	1,548	1,847	102%	-5%	
Minority interest	0	0	0	0	0	0	0	0	-5	0			
PAT after MI	585	133	1,191	2,094	1,635	1,884	1,436	765	1,553	1,847	103%	-5%	-16%
PAT margin	3%	0.6%	5.6%	10.5%	8.3%	8.6%	7.9%	3.9%	6.8%	8.2%	293 bps	-145 bps	
Basic EPS (INR)	0.61	0.14	1.24	2.18	1.70	1.96	1.49	0.80	1.62	1.92	103%	-5%	
Tax rate	33.0%	88.5%	31.3%	26.9%	17.3%	28.0%	27.1%	33.7%	23.3%	27.0%	-1046 bps	595 bps	

Source: Company, JM Financial

Exhibit 2. Quarterly segmental snapshot

Consolidated (INR mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	3QFY26E	% QoQ	% YoY	% difference
Advertisement revenue	10,274	11,102	9,113	9,017	9,406	8,375	7,585	8,063	8,515	8,639	6%	-9%	-1%
Subscription revenue	9,213	9,494	9,872	9,699	9,825	9,865	9,817	10,230	10,502	10,596	3%	7%	-1%
Other sales and services	970	1,103	2,320	1,291	557	3,601	846	1,399	3,784	3,342	170%	579%	13%
Total	20,457	21,699	21,305	20,007	19,788	21,841	18,248	19,692	22,801	22,576	16%	15%	1%

Source: Company, JM Financial

Assumptions and estimates

Exhibit 3. Changes in estimates

	New	Old	Change
EBITDA (INR Mn)			
FY26	8,795	11,140	-21%
FY27	9,997	14,150	-29%
FY28	11,084	16,740	-34%
PAT (INR Mn)			
FY26	5,512	7,270	-24%
FY27	6,597	9,903	-33%
FY28	7,615	12,007	-37%
EPS (INR)			
FY26	5.7	7.5	-24%
FY27	6.8	10.2	-33%
FY28	7.8	12.3	-37%

Source: JM Financial

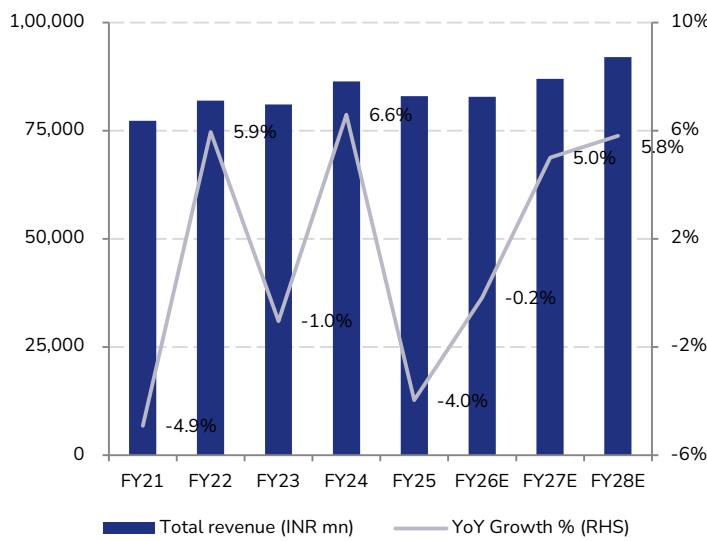
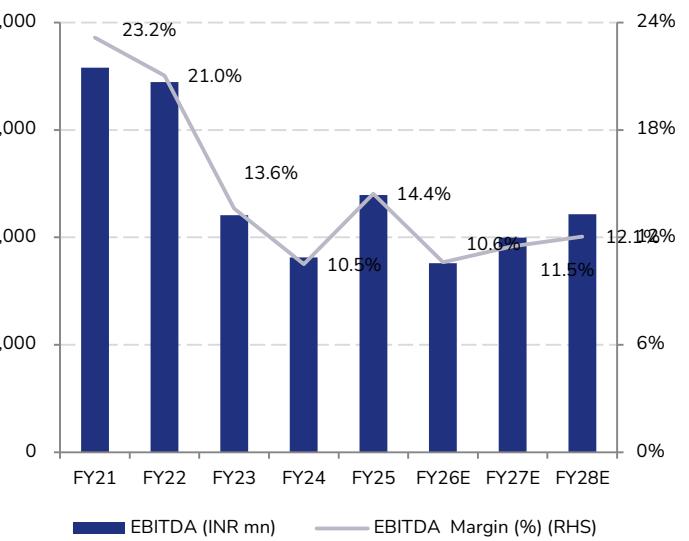
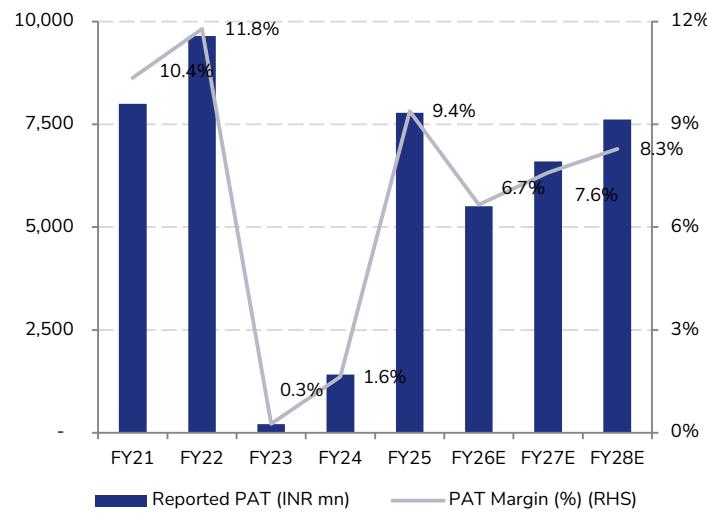
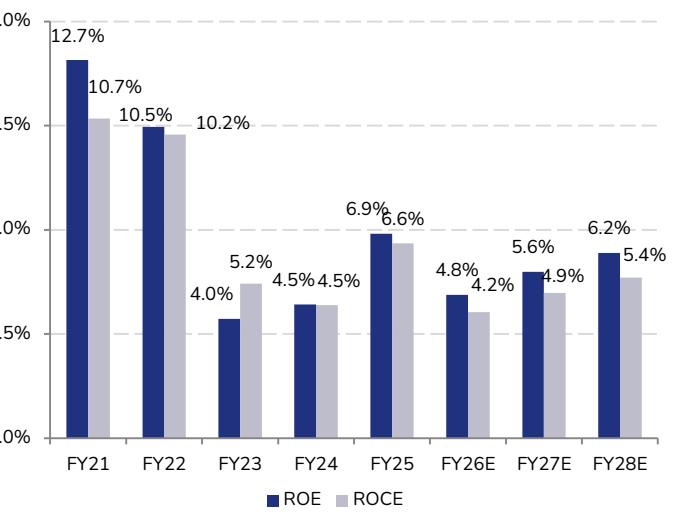
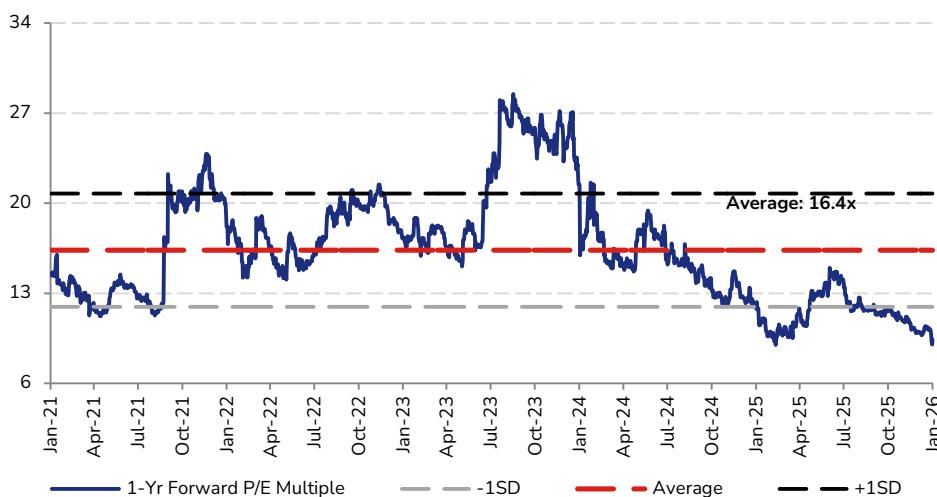
Exhibit 4. Sales to register ~5% CAGR over FY26E–28E**Exhibit 5. EBITDA to post ~12% CAGR over FY26E–28E****Exhibit 6. PAT to clock ~18% CAGR over FY26E–28E****Exhibit 7. RoE/RoCE to touch ~6%/5% by FY28E**

Exhibit 8. Trading at ~9.4x 1Y forward consensus P/E



Source: Bloomberg, JM Financial

Exhibit 9. Media & Entertainment companies' peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
PVR INOX	BUY	956	1,245	NM	62.3	23.9	14.7	1.3	1.3	1.2	1.1	6.7	5.1	4.6	3.8	-3.9	2.1	5.3	8.1
Zee Entertainment	BUY	82	110	10.6	15.0	12.6	10.9	0.7	0.7	0.7	0.7	5.0	5.9	4.6	3.7	6.9	4.7	5.5	6.1
SUN TV	BUY	552	491	12.8	21.7	18.9	18.4	1.9	1.7	1.6	1.4	8.8	8.6	7.0	6.2	15.4	8.2	8.6	8.1

Source: Companies, JM Financial

Financial Tables (Consolidated)

Income Statement					Balance Sheet						
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	86,372	82,941	82,792	86,932	91,983	Shareholders' Fund	1,08,729	1,15,334	1,18,523	1,22,200	1,26,408
Sales Growth	6.6%	-4.0%	-0.2%	5.0%	5.8%	Share Capital	961	961	973	973	973
Other Operating Income	0	0	0	0	0	Reserves & Surplus	1,07,768	1,14,373	1,17,550	1,21,226	1,25,435
Total Revenue	86,372	82,941	82,792	86,932	91,983	Preference Share Capital	0	0	0	0	0
Cost of Goods Sold/Op. Exp	50,393	45,172	46,005	47,813	50,591	Minority Interest	0	0	0	0	0
Personnel Cost	10,188	9,266	8,819	9,563	10,072	Total Loans	5,119	1,601	1,601	1,601	1,601
Other Expenses	16,719	16,531	19,173	19,560	20,236	Def. Tax Liab. / Assets (-)	-4,530	-3,987	-3,987	-3,987	-3,987
EBITDA	9,071	11,973	8,795	9,997	11,084	Total - Equity & Liab.	1,09,318	1,12,948	1,16,137	1,19,814	1,24,022
<i>EBITDA Margin</i>	10.5%	14.4%	10.6%	11.5%	12.1%	Net Fixed Assets	8,344	6,756	5,540	4,092	2,717
<i>EBITDA Growth</i>	-17.8%	32.0%	-26.5%	13.7%	10.9%	Gross Fixed Assets	16,871	17,844	17,004	16,957	16,948
Depn. & Amort.	3,091	2,785	2,767	2,746	2,723	Intangible Assets	8,491	8,822	8,375	8,618	8,871
EBIT	5,980	9,187	6,028	7,251	8,361	Less: Depn. & Amort.	17,111	19,896	19,852	21,497	23,115
Other Income	1,293	1,234	1,745	1,962	2,203	Capital WIP	93	14	14	14	14
Finance Cost	721	327	327	327	327	Investments	1,681	11,947	11,956	11,970	11,989
PBT before Excep. & Forex	6,553	10,094	7,446	8,887	10,237	Current Assets	1,19,930	1,14,537	1,19,429	1,25,363	1,31,995
Excep. & Forex Inc/Loss(-)	0	0	0	0	0	Inventories	69,129	67,748	64,494	64,217	65,082
PBT	6,553	10,094	7,446	8,887	10,237	Sundry Debtors	17,016	15,325	14,844	15,110	15,484
Taxes	1,818	2,398	1,943	2,303	2,641	Cash & Bank Balances	11,131	12,500	20,314	25,708	30,428
Extraordinary Inc./Loss(-)	-3,324	80	0	0	0	Loans & Advances	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	4	4	9	14	19	Other Current Assets	22,654	18,964	19,777	20,328	21,001
Reported Net Profit	1,414	7,780	5,512	6,597	7,615	Current Liab. & Prov.	20,636	20,292	20,788	21,611	22,680
Adjusted Net Profit	4,738	7,700	5,512	6,597	7,615	Current Liabilities	14,355	11,907	12,415	12,908	13,573
<i>Net Margin</i>	5.5%	9.3%	6.7%	7.6%	8.3%	Provisions & Others	6,282	8,385	8,373	8,703	9,106
Diluted Share Cap. (mn)	961.0	961.0	973.5	973.5	973.5	Net Current Assets	99,294	94,245	98,640	1,03,751	1,09,315
Diluted EPS (INR)	4.9	8.0	5.7	6.8	7.8	Total - Assets	1,09,318	1,12,948	1,16,137	1,19,814	1,24,022
Diluted EPS Growth	13.6%	62.5%	-29.3%	19.7%	15.4%						
Total Dividend + Tax	961	2,335	2,920	3,407	3,894						
Dividend Per Share (INR)	1.0	2.4	3.0	3.5	4.0						

Source: Company, JM Financial

Cash Flow Statement					Dupont Analysis						
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	6,556	10,098	7,455	8,901	10,256	Net Margin	5.5%	9.3%	6.7%	7.6%	8.3%
Depn. & Amort.	3,167	2,785	2,767	2,746	2,723	Asset Turnover (x)	0.8	0.7	0.7	0.7	0.7
Net Interest Exp. / Inc. (-)	251	-381	-756	-948	-1,164	Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
Inc (-) / Dec in WCap.	3,418	739	4,251	283	-844	RoE	4.4%	6.9%	4.7%	5.5%	6.1%
Others	-3,847	-647	0	0	0						
Taxes Paid	-2,401	-734	-1,943	-2,303	-2,641						
Operating Cash Flow	7,143	11,860	11,775	8,678	8,331						
Capex	-1,014	-16,618	-1,552	-1,298	-1,348						
Free Cash Flow	6,130	-4,758	10,223	7,380	6,983						
Inc (-) / Dec in Investments	75	0	-842	-14	-19						
Others	465	583	1,083	1,275	1,491						
Investing Cash Flow	-474	-16,035	-1,311	-37	124						
Inc / Dec (-) in Capital	0	0	12	0	0						
Dividend + Tax thereon	0	-961	-2,335	-2,920	-3,407						
Inc / Dec (-) in Loans	-1,204	1,089	0	0	0						
Others	-1,531	100	-327	-327	-327						
Financing Cash Flow	-2,735	228	-2,650	-3,247	-3,734						
Inc / Dec (-) in Cash	3,934	-3,947	7,814	5,394	4,720						
Opening Cash Balance	7,198	11,131	12,500	20,314	25,708						
Closing Cash Balance	11,131	12,500	20,314	25,708	30,428						

Source: Company, JM Financial



APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq 15\%$ over the next twelve months.
ADD	Expected return $\geq 5\%$ and $< 15\%$ over the next twelve months.
REDUCE	Expected return $\geq -10\%$ and $< 5\%$ over the next twelve months.
SELL	Expected return $< -10\%$ over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

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