

Rating: BUY | CMP: Rs197 | TP: Rs253

August 7, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	253		278	
Sales (Rs. m)	81,908	90,365	85,854	94,070
% Chng.	(4.6)	(3.9)		
EBITDA (Rs. m)	18,511	23,405	22,494	25,211
% Chng.	(17.7)	(7.2)		
EPS (Rs.)	13.2	16.8	16.4	18.5
% Chng.	(19.9)	(9.1)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	81,299	77,299	81,908	90,365
EBITDA (Rs. m)	16,346	17,901	18,511	23,405
Margin (%)	20.1	23.2	22.6	25.9
PAT (Rs. m)	17,093	11,971	12,635	16,177
EPS (Rs.)	17.8	12.5	13.2	16.8
Gr. (%)	7.8	(30.0)	5.5	28.0
DPS (Rs.)	0.3	2.5	3.3	4.2
Yield (%)	0.2	1.3	1.7	2.1
RoE (%)	18.7	12.3	12.0	13.9
RoCE (%)	13.6	14.9	14.6	17.3
EV/Sales (x)	2.3	2.3	2.1	1.8
EV/EBITDA (x)	11.3	9.7	9.1	6.9
PE (x)	11.0	15.8	14.9	11.7
P/BV (x)	2.0	1.9	1.7	1.5

Key Data

ZEE.BO | Z IN

52-W High / Low	Rs.261 / Rs.145
Sensex / Nifty	54,278 / 16,238
Market Cap	Rs.189bn / \$ 2,546m
Shares Outstanding	961m
3M Avg. Daily Value	Rs.6290.65m

Shareholding Pattern (%)

Promoter's	3.99
Foreign	57.46
Domestic Institution	18.47
Public & Others	20.08
Promoter Pledge (Rs bn)	0.41

Stock Performance (%)

	1M	6M	12M
Absolute	(10.4)	(8.7)	32.1
Relative	(12.8)	(14.7)	(7.4)

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Delay in ad-recovery to overweigh margins

Quick Pointers:

- EBITDA margin guidance of 25%+ is at the risk of being missed given delay in ad-recovery.
- Network share drops to 17% due to disruption caused by lockdown and soft performance in markets like Hindi, Marathi and Tamil.

We cut our EPS estimates by 20%/9% for FY22/FY23 respectively as recovery in domestic ad-revenues has been delayed (ad-revenues in FY22 can more or less be a replica of FY20 versus earlier expectation of double digit growth). Delayed recovery is likely to drag margins given the ongoing investment drive in digital, movies and linear TV (Hindi, Marathi and Tamil content to be revamped in 2Q). While there are near term headwinds on margins we remain positive on ZEEL given 1) strong position in Bengali, Kannada and Telugu markets 2) likely emergence of ZEE5 as future growth engine in changing content consumption landscape (paid subscribers within digital domain to grow by ~4x in 5 years) and 3) undemanding valuations (stock trades at 12x FY23EPS). We retain BUY with a revised TP of Rs253 (earlier Rs278) valuing the stock at 15x (no change) FY23EPS of Rs16.8.

Domestic ad-revenue jumps on low base but 22.7% below pre-COVID levels:

Revenues increased 35.3% YoY (base effect) to Rs17,750mn (PLe Rs17,425mn). Domestic ad-revenues increased 127.9% YoY to Rs8,752mn but were lower by 22.7% when compared to pre-COVID base of 1QFY20. Domestic subscription revenues increased 8.3% YoY to Rs7,175mn. Other revenues were down by 75.9% YoY to Rs353mn on account of large movie syndication deal in 1QFY21.

EBITDA/PAT increased 56.4%/56.9% in 1QFY22: EBITDA surged 56.4% YoY to Rs3,440mn (PLe Rs3,677mn). EBITDA margin stood at 19.4% (16.8% in 1QFY21); lower than our estimate of 21.1% as operating expenses increased 31% YoY due to rise in programming and marketing costs. Adjusted PAT increased 56.9% YoY to Rs2,222mn (PLe Rs2,437mn) with a margin of 12.5% (PLe 14%).

Con-call highlights: 1) 30+ new shows to be launched in 2QFY22 with primary focus on Hindi, Tamil and Marathi markets 2) Domestic ad-revenue in FY22 can be similar to FY20 in the absence of 3rd wave 3) ZEE5 launched 11 new originals/movies in 1QFY22. Global MAUs/DAUs stood at 80.2mn/7.1mn respectively in June 2021 4) Cash balance stood at Rs17.2bn as of 30th June 5) ~40% of ZEE5 subscribers have opted for annual plans 6) As of 31st July, outstanding from Dish & Siti is ~Rs3.7bn 7) Paid subscribers within digital domain are expected to grow from ~40-50mn currently to ~180-220mn in 5 years. ZEEL targets ~20-25% market share in the expanding market 8) Digital business to contribute ~30-35% over the long term 9) Mumbai high court has delivered the judgment on NTO 2.0 and most recommendations are deemed valid. While the industry body has appealed in SC, it has simultaneously started working on revised pricing.

Exhibit 1: Q1FY22 Result Overview - Consolidated (Rs mn)

Consolidated (Rs mn)	Q1FY22	Q1FY21	YoY gr.	Q4FY21	QoQ gr.
Net Sales	17,750	13,120	35.3%	19,658	-9.7%
Operational cost	8,664	6,578	31.7%	8,443	2.6%
<i>As a % of sales</i>	<i>48.8%</i>	<i>50.1%</i>		<i>42.9%</i>	
Employee expenses	2,280	2,001	14.0%	2,142	6.5%
<i>As a % of sales</i>	<i>12.8%</i>	<i>15.3%</i>		<i>10.9%</i>	
Other expenses	1,585	1,231	28.7%	2,168	-26.9%
<i>As a % of sales</i>	<i>8.9%</i>	<i>9.4%</i>		<i>11.0%</i>	
A&P spends	1,781	1,111	60.4%	1,498	19.0%
<i>As a % of sales</i>	<i>10.0%</i>	<i>8.5%</i>		<i>7.6%</i>	
Total Expenditure	14,310	10,921	31.0%	14,250	0.4%
EBITDA	3,440	2,199	56.4%	5,408	-36.4%
<i>EBITDA Margin</i>	<i>19.4%</i>	<i>16.8%</i>		<i>27.5%</i>	
Depreciation	590	719	-17.9%	627	-6.0%
EBIT	2,850	1,481	92.5%	4,781	-40.4%
<i>EBIT Margin</i>	<i>16.1%</i>	<i>11.3%</i>		<i>24.3%</i>	
Interest	19	45	-57.3%	491	-96.1%
Other income	336	264	27.3%	186	80.8%
Fair value (gain)/loss on financial instruments	97	1123	-91.3%	(207)	NM
PBT before exceptional items	3,069	576	432.8%	4,683	-34.5%
Exceptional items	(37)	-	NM	(295)	NM
Share of profit in associates and joint ventures	0	0	-75.0%	1	-80.0%
PBT	3,033	576	426.0%	4,388	-30.9%
Tax	945	284	233.0%	1,664	-43.2%
<i>Tax Rate</i>	<i>31.2%</i>	<i>49.2%</i>		<i>37.9%</i>	
PAT	2,088	293	613.0%	2,724	-23.3%
<i>PAT Margin</i>	<i>11.8%</i>	<i>2.2%</i>		<i>13.9%</i>	
Other comprehensive income	156	107	45.8%	24	539.8%
Adjusted PAT	2,222	1,416	56.9%	2,812	-21.0%
EPS (Rs)	2.2	0.3	631.5%	2.9	-22.3%
Adjusted EPS	2.3	1.5	56.9%	2.9	-21.0%

Source: Company, PL

Exhibit 2: Segmental revenue breakdown (Rs mn)

Particulars (Rs mn)	Q1FY22	Q1FY21	YoY gr.	Q4FY21	QoQ gr.
Domestic ad-revenue	8,752	3,840	127.9%	10,704	-18.2%
<i>As a % of ad-revenue</i>	<i>94.5%</i>	<i>91.2%</i>		<i>95.3%</i>	
International ad-revenue	514	371	38.5%	526	-2.3%
<i>As a % of ad-revenue</i>	<i>5.5%</i>	<i>8.8%</i>		<i>4.7%</i>	
Total ad-revenue	9,266	4,211	120.1%	11,230	-17.5%
Domestic subscription revenue	7,175	6,625	8.3%	7,481	-4.1%
<i>As a % of subscription-revenue</i>	<i>88.2%</i>	<i>89.0%</i>		<i>93.1%</i>	
International subscription revenue	956	818	16.9%	553	72.9%
<i>As a % of subscription-revenue</i>	<i>11.8%</i>	<i>11.0%</i>		<i>6.9%</i>	
Total subscription revenue	8,131	7,443	9.2%	8,034	1.2%
Other sales & services	353	1,466	-75.9%	395	-10.6%
Total Revenues	17,750	13,120	35.3%	19,658	-9.7%

Source: Company, PL

Exhibit 3: ZEE5's key operational & financial statistics

Particulars	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Global MAU	39.7mn (in June-20)	54.7mn (in Sep-20)	65.9mn (in Dec-20)	72.6mn (in March-21)	80.2mn (in June-21)
Global DAU	4.0mn (in June-20)	5.2mn (in Sep-20)	5.4mn (in Dec-20)	6.1mn (in March-21)	7.1mn (in June-21)
Average watch time (per viewer/per month)	112 minutes (in June-20)	152 minutes (in Sep-20)	133 minutes (in Dec-20)	156 minutes (in 4QFY21)	190 minutes
Revenue	Rs949mn	Rs989mn	Rs1,178mn	Rs1,075mn	Rs1,117mn
EBITDA	Rs(1,451mn)	Rs(1,894mn)	Rs(1,757mn)	Rs (1,625)mn	Rs(2,033mn)
Number of originals/movies released	18	25	20	14	11

Source: Company, PL

Exhibit 4: Movie rights constitute 63% of the content pie in 1QFY22

Particulars (Rs bn)	FY18	FY19	FY20	FY21	Q1FY22
Movie Rights	21.0	31.9	39.7	40.1	40.7
<i>As % of total</i>	<i>59%</i>	<i>55%</i>	<i>62%</i>	<i>64%</i>	<i>63%</i>
Shows	2.8	5.2	9.0	8.2	8.4
<i>As % of total</i>	<i>8%</i>	<i>9%</i>	<i>14%</i>	<i>13%</i>	<i>13%</i>
Movie production, Music & Others	2.5	1.2	4.5	5.6	5.8
<i>As % of total</i>	<i>7%</i>	<i>2%</i>	<i>7%</i>	<i>9%</i>	<i>9%</i>
Content advances & deposits	9.3	19.7	10.9	8.8	9.7
<i>As % of total</i>	<i>26%</i>	<i>34%</i>	<i>17%</i>	<i>14%</i>	<i>15%</i>
Grand Total (Inventory & advances/deposits)	35.6	58.0	64.1	62.7	64.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	81,299	77,299	81,908	90,365
YoY gr. (%)	2.5	(4.9)	6.0	10.3
Cost of Goods Sold	38,285	37,505	39,725	42,020
Gross Profit	43,014	39,795	42,182	48,345
Margin (%)	52.9	51.5	51.5	53.5
Employee Cost	7,805	8,183	8,764	9,217
Other Expenses	11,907	7,544	8,191	8,585
EBITDA	16,346	17,901	18,511	23,405
YoY gr. (%)	(36.2)	9.5	3.4	26.4
Margin (%)	20.1	23.2	22.6	25.9
Depreciation and Amortization	2,706	2,649	2,785	3,163
EBIT	13,639	15,252	15,726	20,242
Margin (%)	16.8	19.7	19.2	22.4
Net Interest	1,449	571	287	154
Other Income	240	(858)	1,377	1,627
Profit Before Tax	9,587	12,557	16,780	21,715
Margin (%)	11.8	16.2	20.5	24.0
Total Tax	4,317	4,625	4,279	5,537
Effective tax rate (%)	45.0	36.8	25.5	25.5
Profit after tax	5,270	7,931	12,501	16,177
Minority interest	(19)	(70)	-	-
Share Profit from Associate	(24)	(1)	0	-
Adjusted PAT	17,093	11,971	12,635	16,177
YoY gr. (%)	7.8	(30.0)	5.5	28.0
Margin (%)	21.0	15.5	15.4	17.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,265	8,001	12,501	16,177
YoY gr. (%)	(66.4)	52.0	56.3	29.4
Margin (%)	6.5	10.4	15.3	17.9
Other Comprehensive Income	1,336	(210)	156	-
Total Comprehensive Income	6,601	7,791	12,657	16,177
Equity Shares O/s (m)	960	961	961	961
EPS (Rs)	17.8	12.5	13.2	16.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	18,534	19,563	22,315	25,353
Tangibles	14,007	14,741	16,543	18,531
Intangibles	4,527	4,822	5,772	6,822
Acc: Dep / Amortization	10,253	11,975	14,760	17,923
Tangibles	7,210	8,932	10,742	12,798
Intangibles	3,043	3,043	4,018	5,125
Net fixed assets	9,078	8,108	8,075	7,951
Tangibles	7,594	6,329	6,321	6,253
Intangibles	1,484	1,779	1,755	1,698
Capital Work In Progress	831	755	755	755
Goodwill	4,070	3,804	3,804	3,804
Non-Current Investments	907	663	807	858
Net Deferred tax assets	2,742	3,151	3,859	5,212
Other Non-Current Assets	4,191	4,457	5,194	6,315
Current Assets				
Investments	2,770	7,667	7,667	7,667
Inventories	53,475	54,030	53,857	53,229
Trade receivables	20,847	19,452	19,074	21,044
Cash & Bank Balance	7,345	10,907	12,282	19,147
Other Current Assets	12,804	11,035	12,696	14,458
Total Assets	1,23,737	1,28,187	1,32,498	1,45,247
Equity				
Equity Share Capital	960	961	961	961
Other Equity	92,479	99,985	1,09,516	1,21,649
Total Network	93,439	1,00,945	1,10,477	1,22,610
Non-Current Liabilities				
Long Term borrowings	3,501	195	195	195
Provisions	1,405	1,546	1,638	1,717
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,975	3,832	-	-
Trade payables	16,803	13,982	14,138	14,359
Other current liabilities	5,504	7,558	5,921	6,237
Total Equity & Liabilities	1,23,737	1,28,187	1,32,498	1,45,247

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	9,563	12,556	16,780	21,715
Add. Depreciation	2,706	2,649	2,785	3,163
Add. Interest	135	104	287	154
Less Financial Other Income	240	(858)	1,377	1,627
Add. Other	9,967	4,370	(4,495)	(3,842)
Op. profit before WC changes	22,371	19,679	15,356	21,189
Net Changes-WC	(16,758)	809	706	(1,119)
Direct tax	(3,114)	(5,011)	(4,279)	(5,537)
Net cash from Op. activities	2,499	15,477	11,784	14,533
Capital expenditures	(1,451)	(1,740)	(2,752)	(3,038)
Interest / Dividend Income	1,367	443	-	-
Others	3,972	(3,765)	(412)	(431)
Net Cash from Invst. activities	3,888	(5,062)	(3,164)	(3,469)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,879)	(4,023)	(3,832)	-
Dividend paid	(4,081)	(290)	(3,125)	(4,044)
Interest paid	(67)	(43)	(287)	(154)
Others	(1,594)	(1,052)	-	-
Net cash from Fin. activities	(10,620)	(5,408)	(7,244)	(4,198)
Net change in cash	(4,233)	5,006	1,375	6,865
Free Cash Flow	681	13,417	9,032	11,495

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	12.5	13.2	16.8
CEPS	20.6	15.2	16.1	20.1
BVPS	97.3	105.1	115.0	127.6
FCF	0.7	14.0	9.4	12.0
DPS	0.3	2.5	3.3	4.2
Return Ratio(%)				
RoCE	13.6	14.9	14.6	17.3
ROIC	8.3	11.5	13.3	16.8
RoE	18.7	12.3	12.0	13.9
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	258	281	262	242
Valuation(x)				
PER	11.0	15.8	14.9	11.7
P/B	2.0	1.9	1.7	1.5
P/CEPS	9.5	12.9	12.2	9.8
EV/EBITDA	11.3	9.7	9.1	6.9
EV/Sales	2.3	2.3	2.1	1.8
Dividend Yield (%)	0.2	1.3	1.7	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	17,227	27,294	19,658	17,750
YoY gr. (%)	(18.8)	33.2	0.8	35.3
Raw Material Expenses	8,342	14,142	8,443	8,664
Gross Profit	8,885	13,151	11,216	9,086
Margin (%)	51.6	48.2	57.1	51.2
EBITDA	3,137	7,157	5,408	3,440
YoY gr. (%)	(54.7)	26.5	(290.5)	56.4
Margin (%)	18.2	26.2	27.5	19.4
Depreciation / Depletion	651	652	627	590
EBIT	2,485	6,505	4,781	2,850
Margin (%)	14.4	23.8	24.3	16.1
Net Interest	13	21	491	19
Other Income	172	(563)	393	238
Profit before Tax	1,673	5,920	4,388	3,032
Margin (%)	9.7	21.7	22.3	17.1
Total Tax	740	1,937	1,664	945
Effective tax rate (%)	44.2	32.7	37.9	31.2
Profit after Tax	933	3,983	2,723	2,088
Minority interest	(7)	(19)	(34)	(50)
Share Profit from Associates	1	(3)	1	-
Adjusted PAT	2,924	4,819	2,812	2,222
YoY gr. (%)	(50.6)	13.0	22.4	56.9
Margin (%)	17.0	17.7	14.3	12.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	941	3,999	2,757	2,137
YoY gr. (%)	(77.2)	14.4	(136.0)	603.8
Margin (%)	5.5	14.7	14.0	12.0
Other Comprehensive Income	(278)	(63)	24	156
Total Comprehensive Income	662	3,936	2,782	2,294
Avg. Shares O/s (m)	961	961	961	961
EPS (Rs)	1.0	4.1	2.9	2.2

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	BUY	278	219
2	21-May-21	BUY	278	192
3	07-Apr-21	BUY	296	201
4	05-Feb-21	BUY	296	249
5	11-Jan-21	BUY	290	231
6	05-Jan-21	BUY	290	219

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	193	183
3	Indian Railway Catering and Tourism Corporation	BUY	2,329	2,169
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	92	98
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	146	113
9	V.I.P. Industries	UR	-	418
10	Zee Entertainment Enterprises	BUY	278	219

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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