

## Focus on governance/disclosures - a positive change

Zee Entertainment's (Zee) Q1FY21 was all about management's effort to address investors' concerns on strategy, related party transaction, balance sheet. Results, as expected, were weak with ad revenues fall of ~65% YoY (domestic ad decline of 66.1%) given the lack of fresh content. Subscription growth of 5% YoY, primarily led by Zee5 growth, remained a solace. Higher-than-expected operational costs (purchase of licensed content, continued amortisation cost of movies, digital shows) and employee costs led to EBITDA at ₹ 219.9 crore, down 66.7% YoY. EBITDA margin was at 16.8%, down 1609 bps YoY. Reported PAT was at ₹ 30.4 crore, down 94.3% YoY.

## Better policies, disclosures, hope for improved cash flows

Zee has redrafted its key policies (Investments, Treasury, related party) to ensure better governance. Key changes were treasury policy to allow surplus funds to be invested in only FD/CD/ debt mutual funds with other restrictions such as with cap on investment in a single fund, minimum AUM of fund, etc. Similarly, framework for investment/divestment in a business and related transactions policy transparency has been aimed at. It has provided balance sheet for Q1FY21 along with inventory breakup, Zee5 financial metrics, etc. Zee5 revenues during the quarter were at ₹ 94.9 crore while EBITDA loss was at ₹ 145.1 crore. Zee5 recorded a global DAU of 4 million and 39.7 million global MAU in June while userbase/watch time declined due to lack of fresh catch up TV content during lockdown. The management guided for a reduction in inventory, content advances. Also, reduced receivables is also positive, going forward. Guidance of PAT to cash flow conversion of 50%+ from FY22, onwards was maintained.

## Expect ad recovery in H2, moderate subscription growth

Going ahead, the company is targeting growth from Q3FY21E onwards factoring in festive season boost, Broadcast of fresh content across all GECs and IPL. The latter, we believe, can be tricky as sharp IPL viewership like 2019 World Cup, could even be detrimental for GEC ad growth. We bake in 3% CAGR in FY20-22E with 15% de-growth in FY21 followed by sharp rebound of 25% YoY in FY22. On the subscription front, subscription growth of 5% YoY was largely led by Zee5 subscription revenue. The company has guided for "moderate" subscription growth with Zee5 contribution being a key driver. We build in overall subscription revenue CAGR of 8.7% in FY20-22E to ₹ 3413 crore on a higher base and potential NTO 2.0 implementation. NTO 2.0, if implemented, could dent subscription growth.

## Valuation & Outlook

Guidance for working capital improvement, improved governance, better disclosures is a positive change. Nonetheless, near term concerns such as ad outlook as well as potential implementation of *NTO 2* remain. We will turn buyers once ad recovery, improved cash flows & overdue recovery from related parties ("walking the talk") is seen. We do, however, increase our target multiple from 9x FY22 P/E to 11x FY22 P/E with a revised target price of ₹ 195/share (₹ 150/share, earlier). Maintain **HOLD** rating on the stock.

### Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-FY22E
Net Sales (₹crore)	6,685.7	7,933.9	8,129.9	7,483.4	8,818.3	4.1
EBITDA (₹crore)	2,076.1	2,567.6	1,634.6	1,841.7	2,561.5	25.2
Adj. Net Profit (₹crore)	1,393.3	1,573.4	1,661.5	1,175.1	1,691.4	0.9
EPS (₹)	15.4	16.1	5.5	11.1	17.6	
P/E (x)	11.3	10.8	31.7	15.7	9.9	
Price / Book (x)	1.8	1.7	1.7	1.6	1.5	
EV/EBITDA (x)	6.6	5.7	9.6	8.1	5.7	
RoE (%)	15.3	15.7	16.7	11.3	14.8	
RoCE (%)	25.6	25.7	13.9	15.1	21.0	

Source: Company, ICICI Direct Research \*FY20 EBITDA had certain one-off write-offs



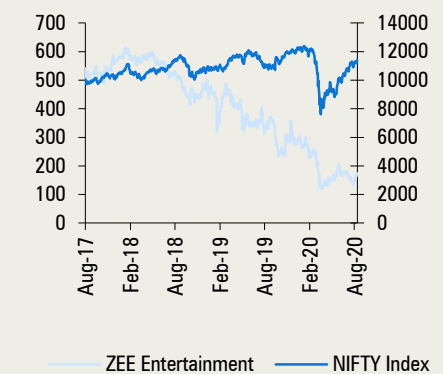
### Particulars

Particulars	Amount
Market Cap (₹crore)	16,707.3
Total Debt (FY 20) (₹crore)	52.6
Cash & Inv. (FY 20) (₹crore)	1,011.5
EV (₹crore)	15,748.4
52 week H/L (₹)	376/ 114
Equity capital (₹crore)	96.1
Face value (₹)	1.0

### Key Highlights

- Domestic ad revenue fell 66.1% YoY while domestic subscription revenue grew 6.2% YoY
- Maintain HOLD with revised target price of ₹ 195/share, valuing it at 11x FY22 P/E

### Price Chart



### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Comments
Revenue	1,312.0	1,252.2	2,008.1	1,951.1	-34.7	-32.8	Revenues were impacted by advertisement revenues which declined by 64.5% YoY. Domestic ad declined by 66.1% YoY at ₹384 crore. The weak ad revenues were owing to Covid-19 led lockdown which led to no fresh content resulting in ad volumes declines. The overall subscription revenues grew by 5% YoY to ₹744.3 crore, led by -6.2% YoY growth in domestic subscription to ₹662.5 crore which was driven largely by Zee5 subscription growth
Other Income	-86.0	50.0	171.8	-238.0	-150.0	-63.9	Affected by ₹112.3 crore MTM change in fair value of preference shares
Raw Material Expenses	0.0	0.0	0.0	0.0	NA	NA	
Employee Expenses	200.1	179.7	200.3	160.4	-0.1	24.8	
Admin & Other Expenses	123.1	135.2	172.6	585.8	-28.7	-79.0	
Marketing Expenses	111.1	119.0	195.5	184.1	-43.2	-39.7	
Operational Cost	657.8	468.3	780.0	1,304.6	-15.7	-49.6	
Other Expenses	0.0	0.0	0.0	0.0	NA	NA	
EBITDA	219.9	350.0	659.8	-283.9	-66.7	-177.5	
EBITDA Margin (%)	16.8	28.0	32.9	-14.5	-1609 bps	3131 bps	
Depreciation	71.9	60.0	69.0	77.8	4.1	-7.6	
Interest	4.5	20.0	20.5	86.4	-78.0		
Total Tax	28.4	83.0	214.6	-37.2	-86.8	-176.2	
PAT	30.4	236.0	530.6	-766.7	-94.3	-104.0	

Key Metrics

Ad Revenue Growth	-64.5%	-59.7%	3.6%	-14.7%
Domestic Subscription	6.2%	8.2%	46.7%	40.7%
International Subscription	-3.5%	-14.0%	-9.2%	-15.7%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue	7,147.6	7,483.4	4.7	8,512.6	8,818.3	3.6
EBITDA	1,824.7	1,841.7	0.9	2,466.3	2,561.5	3.9
EBITDA Margin (%)	25.5	24.6	-92 bps	29.0	29.0	7 bps
PAT	1,132.0	1,062.8	-6.1	1,612.0	1,691.4	4.9
EPS (₹)	11.8	11.1	-6.1	16.8	17.6	4.9

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20E	FY21E	FY22E	FY21E	FY22E
Ad Revenue Growth	14%	20%	-7%	-15%	25%	-25%	25%
Domestic Subscription	-10%	17%	33%	8%	10%	10%	8%
International Subscription	-12%	-1%	-16%	1%	13%	-14%	23%

Source: Company, ICICI Direct Research

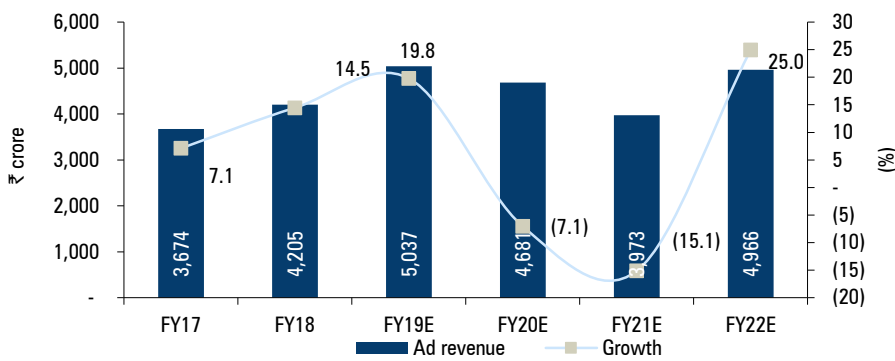
## Conference Call Highlights

- **Changes to policies and disclosures:** Zee has redrafted key financial policies in order to ensure better governance. Treasury policy will allow surplus funds to be invested in only FD/CD or debt mutual funds with other restrictions such as a cap on investment in a single fund, minimum AUM of fund, etc. Also, investment policy will provide a framework for investment/divestment in a business. Related transactions policy will monitor transparency in transactions and if the transaction is carried at an 'arms length'. The company also said that the Independent auditor's report for content advances and related party transactions did not find any exceptions. Zee has also provided additional disclosures during the quarter. The company has provided balance sheet for Q1FY21 along with inventory breakup, Zee5 financial metrics, etc.
- **Sharp ad revenue decline:** The management informed that although viewership witnessed an increase, monetisation was weak leading to sharp decline in ad revenues. Also, they refrained from giving ad revenue guidance and said they will guide for ad revenue in the coming quarter. However, the company is targeting ad growth in H2FY21E factoring in potential boost provided by IPL and festivities. Ad volume is improving on an MoM basis and greens shoots are visible. FMCG ad spend witnessed an uptick from April lows and ad volume for other discretionary items also improved. With the upcoming festive season, ad spends from telecom, auto, e-commerce and consumer durables are likely to increase.
- **GEC viewership rebounds:** Domestic subscription revenue growth of 6.2% was led by growth in Zee5 subscription revenue. In earlier period of lockdown, TV viewership was up 40%. It has declined from April level but still remains higher than pre-Covid levels. While no fresh content was telecast during lockdown, currently fresh content is being telecast across all GECs. Subsequently, GEC viewership witnessed a rebound in July and August with Hindi market performance below expectations. In week 28-31, 2020, Zee's viewership increased to 19.2% owing to fresh content and launch of two channels on FTA platform. The management said that domestic subscription growth will be moderate in FY21E and lower than earlier envisaged. Also, the management said if NTO 2.0 implemented, its impact will be felt only in the short-term.
- **Zee5 loss at EBITDA level:** The company shared Zee5 financials and said that EBITDA loss was at ₹ 145.1 crore during the quarter. Zee5 recorded a global DAU of 4 million and 39.7 million global MAU in June. Zee5's userbase/watch time declined due to lack of fresh content during lockdown. Fall on a QoQ basis was mainly due to lower AVOD revenues while SVOD witnessed an uptick. Total subscription growth will be aided by Zee5 subscription growth. Zee5 subscription revenue will be the composite of B2B revenue from telcos/other partners and B2C revenues from consumers
- **Operating costs remain relatively high:** While operating costs witnessed a decline, they remained relatively high due to content shot at homes and purchase of licensed content for linear and digital businesses. In the current quarter, with resumption of original content broadcast, content cost for all channels reached pre-Covid levels except Tamil. Content cost to revenue ratio will be higher for FY21E than previous years. The management said that EBITDA margins will improve from Q1 levels on sequential basis

- Inventory & advances to reduce:** The management said both the investment in movie business and movie inventory will witness a decline in FY21E. They informed that investment mix is divided in 70:30 ratio in favour of old movies for building library. Inventory breakup is as following: Movie rights: ~₹ 4000 crore, shows: ~₹ 800 crore, movie production, music and others: ~₹ 400 crore, content advances and deposits: ~₹ 1100 crore
- Other highlights:**
  - The management maintained guidance for cash generation of 50%+ of PAT from FY22E
  - Cash & investments at ₹1320.3 crore
  - Cash investment in Sugarbox is delayed till Q4FY21E
  - Related party dues were received as per agreed payment plan

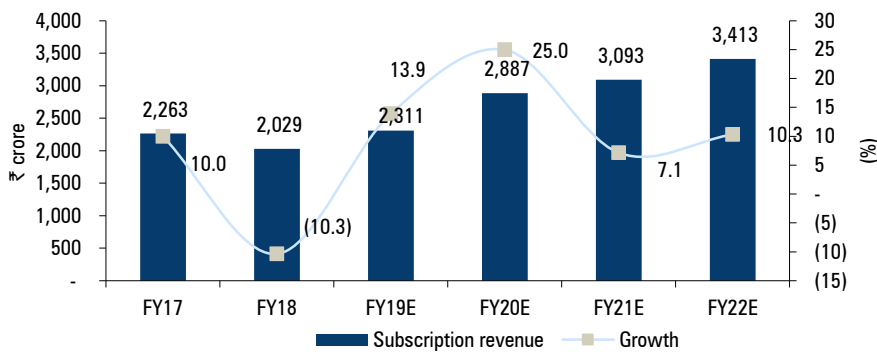
### Story in Charts

Exhibit 4: Ad revenue growth trend



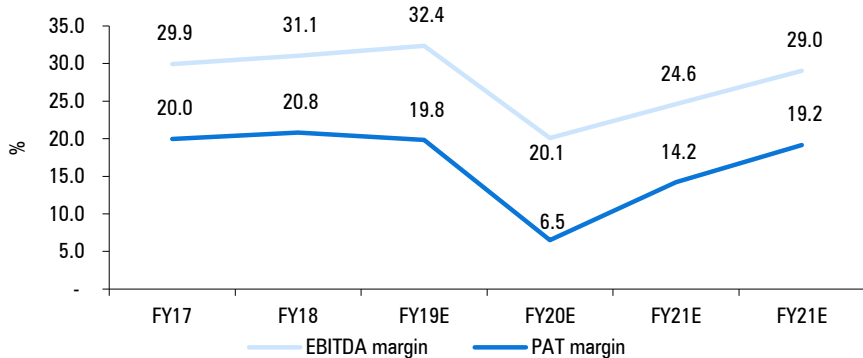
Source: Company, ICICI Direct Research

Exhibit 5: Subscription revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and PAT margin trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>	<b>7,933.9</b>	<b>8,129.9</b>	<b>7,483.4</b>	<b>8,818.3</b>
Growth (%)	18.7	2.5	-8.0	17.8
Operational Cost	3,072.2	3,828.5	3,314.5	3,615.5
Employee Expenses	724.9	780.5	853.2	899.5
Admin & Other Expenses	870.0	1,190.7	794.9	948.2
Marketing Expenses	699.3	695.6	679.2	793.7
Total Operating Expenditure	5,366.3	6,495.3	5,641.8	6,256.9
<b>EBITDA</b>	<b>2,567.6</b>	<b>1,634.6</b>	<b>1,841.7</b>	<b>2,561.5</b>
Growth (%)	23.7	-36.3	12.7	39.1
Depreciation	234.7	270.6	299.3	312.2
Interest	130.4	144.9	134.5	140.0
Other Income	251.5	24.0	34.1	160.0
Exceptional Items	43.1	284.3	-	-
PBT	2,410.8	958.7	1,441.8	2,269.3
Minority Interest	0.2	(1.9)	3.4	8.0
PAT from Associates	2.4	(2.4)	1.5	2.0
Total Tax	867.3	431.7	377.2	571.9
<b>PAT</b>	<b>1,545.8</b>	<b>526.5</b>	<b>1,062.8</b>	<b>1,691.4</b>
Growth (%)	4.5	-65.9	101.8	59.2
<b>Adjusted PAT</b>	<b>1,573.4</b>	<b>1,661.5</b>	<b>1,175.1</b>	<b>1,691.4</b>
Growth (%)	12.9	5.6	-29.3	43.9
<b>Reported EPS (₹)</b>	<b>16.1</b>	<b>5.5</b>	<b>11.1</b>	<b>17.6</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Profit after Tax</b>	<b>1,545.8</b>	<b>526.5</b>	<b>1,062.8</b>	<b>1,691.4</b>
Add: Depreciation	234.7	270.6	299.3	312.2
Add: Interest paid	130.4	144.9	134.5	140.0
(Inc)/dec in Current Assets	-2,622.3	-822.0	522.5	-1,052.0
Inc/(dec) in CL and Provisions	926.5	-384.0	-238.1	328.0
Others	0.0	0.0	0.0	0.0
<b>CF from op. activities</b>	<b>215.2</b>	<b>-263.9</b>	<b>1,781.0</b>	<b>1,419.6</b>
(Inc)/dec in Investments	554.7	649.4	-500.0	-500.0
(Inc)/dec in Fixed Assets	-301.1	-213.8	-200.0	-200.0
Others	-132.5	58.1	-1.1	1.5
<b>CF from inv. activities</b>	<b>121.1</b>	<b>493.8</b>	<b>-701.1</b>	<b>-698.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Issue of Preference Shares	-413.2	-516.3	-297.5	-297.5
Inc/(Dec) in loan funds	1.1	50.6	-	-
Interest paid	130.4	144.9	134.5	140.0
Others	-444.5	-396.3	-609.0	-620.0
<b>CF from fin. activities</b>	<b>-726.1</b>	<b>-717.2</b>	<b>-772.0</b>	<b>-777.5</b>
Net Cash flow	-389.8	-487.4	307.9	-56.4
Opening Cash	1,611.7	1,221.8	734.5	1,042.4
<b>Closing Cash</b>	<b>1,221.9</b>	<b>734.5</b>	<b>1,042.4</b>	<b>986.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	96.1	96.1	96.1	96.1
Preference Share Capital	1,111.3	595.0	297.5	0.0
Reserve and Surplus	8,827.9	9,247.9	9,970.6	11,322.1
Total Shareholders funds	10,035.2	9,938.9	10,364.2	11,418.1
Total Debt	2.0	52.6	52.6	52.6
Others	14.3	11.0	9.9	11.4
<b>Total Liabilities</b>	<b>10,051.6</b>	<b>10,002.5</b>	<b>10,426.7</b>	<b>11,482.1</b>
<b>Assets</b>				
Gross Block	1,867.7	2,156.3	2,356.3	2,556.3
Less: Acc Depreciation	908.6	1,179.2	1,478.6	1,790.7
Net Block	959.2	977.1	877.8	765.6
Capital WIP	108.3	33.4	33.4	33.4
Total Fixed Assets	1,067.4	1,010.5	911.2	799.0
Investments	1,479.7	712.1	1,212.1	1,712.1
Inventory	3,850.5	5,347.5	5,125.6	5,556.8
Debtors	1,827.4	2,084.7	1,918.9	2,261.2
Loans and Advances	1,623.4	1,323.4	1,218.1	1,435.4
Other Current Assets	1,005.5	373.2	343.6	404.8
Cash	1,221.8	734.5	1,042.4	986.0
Total Current Assets	9,528.6	9,863.3	9,648.7	10,644.3
Creditors	1,489.7	1,680.3	1,546.7	1,822.6
Provisions	145.1	152.6	140.5	165.6
Other current liabilities	1,120.5	538.3	445.9	472.9
Total Current Liabilities	2,755.2	2,371.3	2,133.2	2,461.1
Net Current Assets	6,773.4	7,492.0	7,515.5	8,183.1
Other non current assets	731.1	787.9	787.9	787.9
<b>Total Assets</b>	<b>10,051.6</b>	<b>10,002.5</b>	<b>10,426.7</b>	<b>11,482.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	16.1	5.5	11.1	17.6
Adjusted EPS	16.4	17.3	12.2	17.6
BV	104.5	103.5	107.9	118.9
DPS	3.0	0.4	3.5	3.5
Cash Per Share	9.5	12.3	15.4	18.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	32.4	20.1	24.6	29.0
EBIT Margin	29.4	16.8	20.6	25.5
PAT Margin	19.8	20.4	15.7	19.2
Inventory days	177.1	240.1	250.0	230.0
Debtor days	84.1	93.6	93.6	93.6
Creditor days	68.5	75.4	75.4	75.4
<b>Return Ratios (%)</b>				
RoE	15.7	16.7	11.3	14.8
RoCE	25.7	13.9	15.1	21.0
RoIC	30.2	16.4	19.7	26.6
<b>Valuation Ratios (x)</b>				
P/E	10.8	31.7	15.7	9.9
EV / EBITDA	5.7	9.6	8.1	5.7
EV / Net Sales	1.8	1.9	2.0	1.6
Market Cap / Sales	2.1	2.1	2.2	1.9
Price to Book Value	1.7	1.7	1.6	1.5
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.1	5.0	5.1	4.9
Quick Ratio	2.7	2.1	2.1	2.1

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct Coverage Universe (Media)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Inox Leisure	262	250	Hold	2,691	1.5	-23.5	6.9	179.7	NM	38.0	9.2	98.1	8.3	10.0	-6.4	10.5	2.4	-44.9	12.1
PVR	1,260	1,085	Hold	6,951	5.3	-61.9	20.7	237.0	NM	60.9	10.9	22.1	9.9	8.5	1.1	9.9	1.8	-27.6	8.5
Sun TV	434	490	Buy	17,113	35.1	38.7	40.8	12.4	11.2	10.6	6.3	6.0	4.9	31.2	30.9	29.1	24.2	23.3	22.0
TV Today	227	240	Buy	1,354	23.4	22.6	29.9	9.7	10.0	7.6	5.6	5.6	4.4	24.7	22.1	24.5	16.0	15.0	18.3
ZEE Ent.	174	195	Hold	16,706	5.5	11.1	17.6	31.7	15.7	9.9	9.6	8.1	5.7	13.9	15.1	21.0	16.7	11.3	14.8

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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