



ZEE ENTERTAINMENT

Industry	Media
Bloomberg	Z IN
BSE CODE	505537

Strong Topline Growth with Margins Expansion

RATING	BUY
CMP	457
Price Target	574
Potential Upside	26%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	619/411
Mkt Capital (Rs Cr)	43,865
Free float (%)	57%
Avg. Vol 1M (,000)	4,499
No. of Shares	96.05
Promoters Pledged %	59%

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Key Highlights -

- ❑ Zee Entertainment Enterprises Limited (ZEEL) is amongst the largest producers and aggregators of entertainment content in the world, with an extensive library housing over 250,000 hours of television content. Also, with rights to more than 4,200 movie titles from foremost studios and of iconic film stars, ZEEL houses the world's largest Hindi film library.
- ❑ ZEEL's new OTT platform ZEE5 now has 56.3 million Monthly Active Users (MAU) in Dec'18, delivering 36% growth as compared to Sept'18.
- ❑ The management believes that ZEE5 can contribute to 30% of ZEEL's total revenue over the next 5 years.

3Q FY19 Results-

The company reported above expectation revenue growth of around 18%YoY in 3QFY19. This was mainly driven by strong growth in Advertisement & Subscription revenue, as these segments grew by 21.7% YoY and 23.3% YoY respectively. The company posted 27% YoY growth in EBITDA to INR 754cr. The company's reported EBITDA margin expanded by 250bps to 34.8% led by operating leverage benefit. PAT for the quarter stood at INR 562 cr with 74.5% YoY growth on the back of lower tax rate (30.6% as against 41.3% in Q3FY18), higher other income (Sale of Licenses & MAT refund).

View and Valuation

ZEEL is amongst the largest producers and aggregators of entertainment content in the world, with an extensive library housing over 250,000 hours of television content. Going forward, the management is confident of outpacing the industry advertisement growth of 12% for next couple of years considering the strong growth prospects across segments and monetization of newly introduced OTT platform ZEE5. Though increasing number of hours of original content may pose a risk to margins but increasing viewership share and early monetization of ZEE5 will support the margins at 30%+ level. The management expects ZEE5 to contribute 30% of ZEEL's total revenue over the next 5 years. Based on the outperformance in Q3FY19 numbers, we increase our FY20 estimates of revenue & EBITDA by 1.2% & 3.6% respectively. Also, we have increased our FY20 PAT estimates by 10.5% on the back of lower tax rate and higher other income. We expect revenue, EBITDA and PAT to grow at 16.6%, 22.7% and 15.4% CAGR respectively over FY18-20e & value ZEEL at 28x FY20e EPS to arrive at a target price of INR 574, Upgrade to BUY.

Key Risks to our rating and target

- ❑ EBITDA margin pressure due to increasing hours of original content.
- ❑ Delay in the monetization of ZEE5 due to stiff competition, thus delaying the expected breakeven of ZEE5 in 5 years.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	5852	6434	6686	7889	9090
EBITDA	1510	1927	2076	2653	3124
EBIT	1426	1812	1894	2414	2871
PAT	1027	2221	1479	1626	1968
EPS (Rs)	11	23	15	17	20
EPS growth (%)	5%	116%	-33%	10%	21%
ROE (%)	16%	33%	20%	18%	19%
ROCE (%)	23%	21%	22%	25%	26%
BV	65	70	79	92	108
P/B (X)	5.8	7.6	7.3	5.0	4.2
P/E (x)	35.5	22.9	37.2	27.0	22.3

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3Q FY19 Results

Above Estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,838	1,725	1,772	1,976	2,167	17.9%	9.7%	6,434	6,686	3.9%
Other Income	6	191	28	37	124	1920%	234.9%	4	434	12286%
Operating Cost	673	689	668	726	798	18.5%	9.8%	2,776	2,528	-8.9%
Employee Cost	154	164	171	169	183	19.4%	8.7%	604	666	10.2%
Other Expenses	417	366	367	405	431	3.4%	6.5%	1,127	1,416	25.6%
EBITDA	594	506	566	676	754	26.9%	11.6%	1,927	2,076	7.7%
EBITDA Margin	32.3%	29.3%	31.9%	34.2%	34.8%	2.5%	0.6%	29.9%	31.1%	1.1%
Depreciation	50	59	58	59	61	21.8%	4.5%	115	182	58.1%
Interest	2	127	5	5	6	133.9%	1.3%	137	145	5.5%
Tax	226	281	207	262	248	10%	-5.3%	681	841	23.5%
Extraordinary	-	-	-	-	-			1,223	135	-89.0%
MI/ Associates &	(0)	(1)	(2)	(1)	0	-133%	-119%	(1)	(3)	-271%
Net Profit	322	231	326	387	562	74.5%	45.4%	2,221	1,479	-33%

Segment Revenue

Revenue Streams	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Advertising	955	847	966	987	1,202	1,050	1,146	1,211	1,463
Subscription	593	558	479	501	502	547	519	608	618
Other Sales & Services	90	123	95	94	134	129	107	157	86

Robust Revenue Growth in Advertisement & Subscription

ZEEL has come up with another strong quarterly performance in 3QFY19. The company has posted revenue of INR 2167cr with a growth of 17.9% YoY. This robust growth was supported by strong revenue growth in advertisement & subscription revenue. The advertisement revenue which comprises of 68% of total revenue in 3QFY19, accounted for 21.7%YoY growth. Subscription revenue grew by 23.3% to INR 619cr driven by monetization of phase-III subscribers. . The other sales & services which includes movie production & distribution, music, etc. posted sales of INR 86cr leading to a degrowth of 36.2%YoY.

EBITDA margins expansion led by operational efficiencies

Overall EBITDA margin expanded by 250bps YoY to 34.8% primarily led by operating leverage benefit. Lower other expenses YoY and only a 18.5% YoY increase in operational cost despite the increasing hours of original content, contributed to the EBITDA margin expansion.

PAT growth of 75% YoY due to higher other income & lower tax rate

PAT for the quarter stood at INR 562cr with 74.5% YoY growth. This is primarily due to lower tax rate (30.6% in Q3FY19 as against 41.3% in Q3FY18), higher other income (Sale of Licenses & MAT refund). We have factored in a tax rate of 36.2% in FY19 & 34.7% in FY20 as against 38.5% in FY18.

Concall Highlights

- ❑ Viewership share increased to 20.2% from 19.9% in Q2FY19
- ❑ Cash & Investments stood at INR 2940 cr
- ❑ Malayalam GEC, Zee Keralam was launched in December 2018
- ❑ **Updates on ZEE5 :**
 - ZEE5 recorded 56.3 million Monthly Active Users (MAU) in Dec'18, 36% growth compared to Sept'18.
 - ZEE5 originals will have 6 releases per month in FY20
 - ZEE5 can contribute to 30% of the total revenue in 5 years.
 - ZEE5 users currently spend an average of 31 minutes per day on the platform.
 - ZEE5 app crossed 50 mn gross downloads on Android Play store.

Exhibit: Net sales (Rs. Crore) and Sales Growth trend

Growth was mainly due to strong YoY revenue growth in advertising (21.7%) & subscription (23.3%)

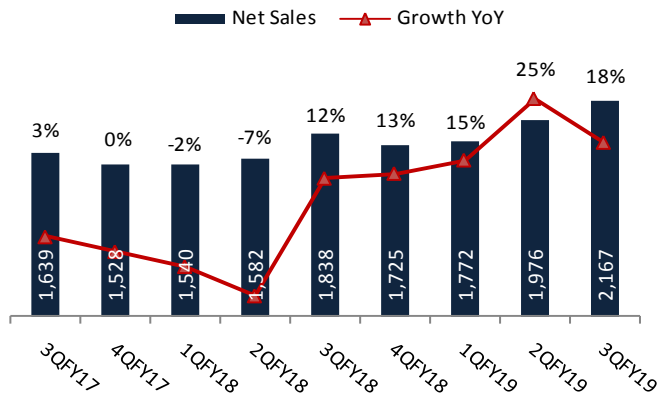


Exhibit: Trend in All India Viewership Share%

Viewership Share continues to increase with a 30bps improvement QoQ

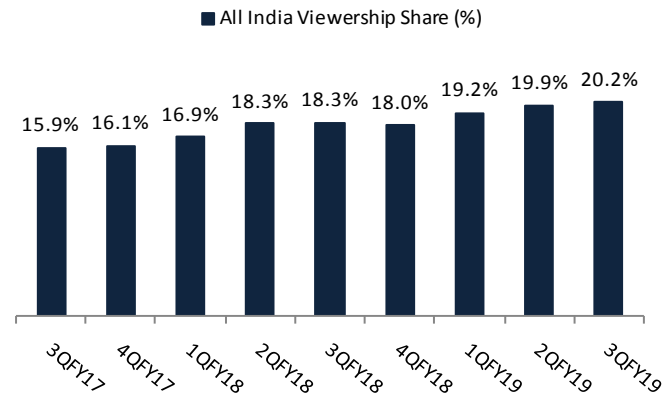


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Operating leverage benefit helped to improve margins to 34.8%

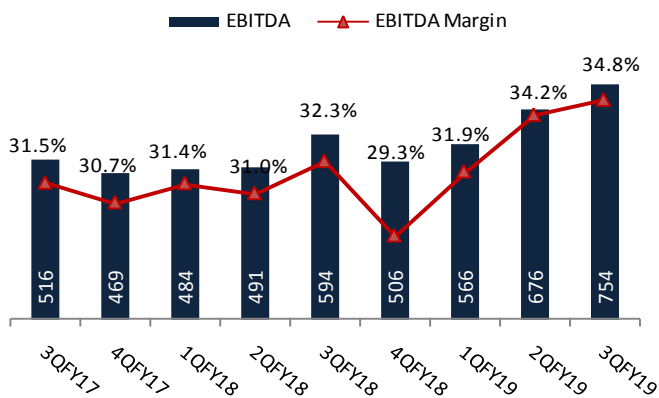


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin improved YoY on account of higher other income & lower tax rate

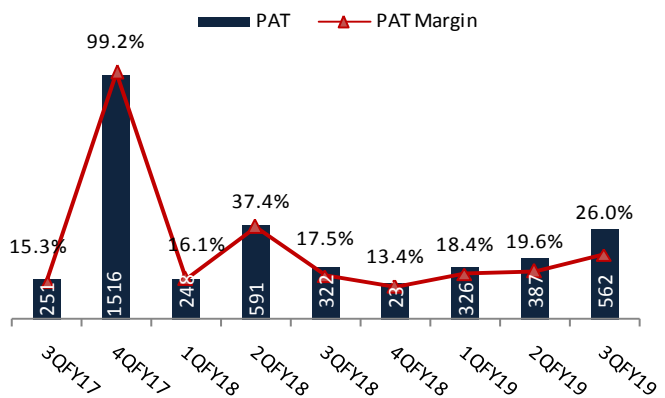


Exhibit: Debt Equity Ratio

With the increase in profitability & 20% redemption of preference shares annually, D/E ratio will improve

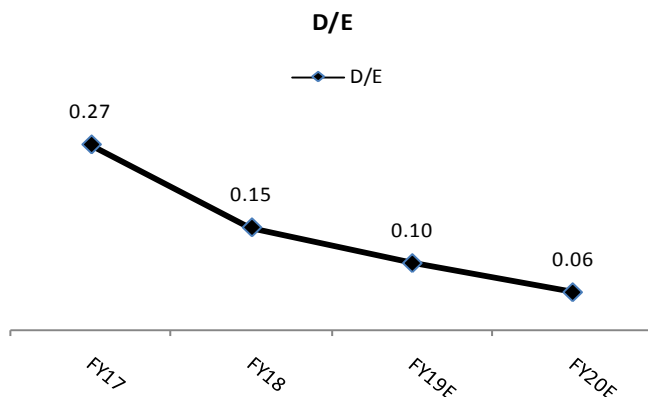
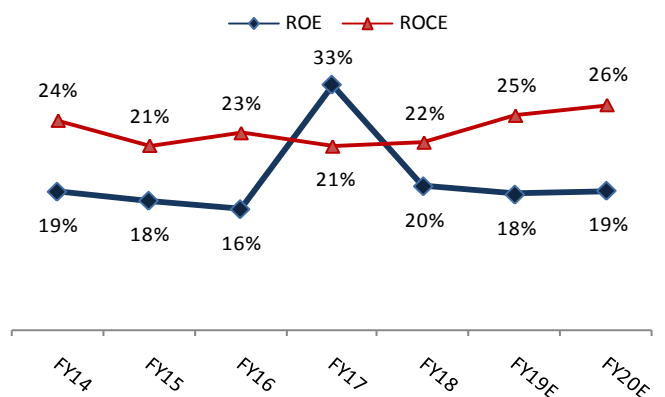


Exhibit: Return Ratios

Return ratios to improve going ahead as the profitability improves



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital ²	96	96	96	96	96	96	96
Preference Share Capital ²	2,017	2,019	2,017	-	-	-	-
Reserves	2,625	3,435	4,119	6,594	7,466	8,549	9,962
Networth	4,738	5,550	6,232	6,690	7,562	8,645	10,058
Debt							
Preference Share Capital	-	-	-	1,526	1,144	858	572
Others	2	1	1	295	1	1	1
Other Non Current Liab	72	77	94	78	103	101	101
Total Capital Employed	4,811	5,628	6,326	8,589	8,810	9,605	10,732
Net Fixed Assets (incl CWIP)	411	437	581	804	1,021	1,143	1,198
Non Current Investments	294	146	305	156	159	159	159
Other Non Current Assets	1,116	1,443	1,621	1,170	1,359	1,359	1,359
Non Current Assets	1,820	2,026	2,507	2,130	2,540	2,661	2,716
Inventory	1,174	1,188	1,316	1,696	2,628	3,026	3,362
Debtors	1,028	1,069	1,325	1,242	1,537	1,630	1,878
Cash & Bank	564	737	973	2,613	1,612	1,612	2,255
Other Current Assets	1,446	1,987	1,773	2,576	2,814	3,004	3,253
Current Assets	4,212	4,980	5,387	8,127	8,590	9,272	10,748
Creditors	505	420	519	834	1,150	845	974
Provisions	331	459	413	130	119	119	119
Other Current Liabilities	384	498	636	704	1,051	1,188	1,311
Curr Liabilities	1,220	1,378	1,568	1,669	2,319	2,152	2,404
Net Current Assets	2,991	3,603	3,819	6,459	6,271	7,121	8,344
Total Assets	6,032	7,006	7,894	10,258	11,130	11,933	13,464

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	4,422	4,884	5,852	6,434	6,686	7,889	9,090
<i>Change (%)</i>		10.4%	19.8%	10.0%	3.9%	18.0%	15.2%
Other Income	181	228	202	4	434	233	216
EBITDA	1,204	1,254	1,510	1,927	2,076	2,653	3,124
<i>Change (%)</i>		4.1%	20.4%	27.7%	7.7%	27.8%	17.7%
<i>Margin (%)</i>	27.2%	25.7%	25.8%	29.9%	31.1%	33.6%	34.4%
Depr & Amor.	50	67	84	115	182	239	253
EBIT	1,154	1,187	1,426	1,812	1,894	2,414	2,871
Int. & other fin. Cost	16	10	12	137	145	101	72
EBT	1,319	1,404	1,615	1,678	2,183	2,545	3,015
Exp Item- Gain/(Loss)	-	-	(33)	1,223	135	-	-
Tax	429	429	553	681	841	922	1,046
Minority Int & P/L share of Ass.	(2)	(2)	2	(1)	(3)	(3)	1
Reported PAT	892	977	1,027	2,221	1,479	1,626	1,968
<i>Change (%)</i>		9.6%	5.0%	116.4%	-33.4%	9.9%	21.0%
<i>Margin(%)</i>	20.2%	20.0%	17.5%	34.5%	22.1%	20.6%	21.7%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	18.8%	17.6%	16.5%	33.2%	19.6%	18.4%	19.0%
ROCE	24.4%	21.4%	22.9%	21.3%	21.8%	24.9%	26.2%
Asset Turnover	0.7	0.7	0.7	0.6	0.6	0.7	0.7
Debtor Days	85	78	75	73	76	75	75
Inv Days	97	88	78	85	118	140	135
Payable Days	42	35	29	38	54	39	39
Int Coverage	73	115	116	13	13	24	40
P/E	28	33	35	23	37	27	22
Price / Book Value	5.3	5.8	5.8	7.6	7.3	5.0	4.2
EV/EBITDA	21.5	25.7	24.1	25.3	25.5	15.7	13.0

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1,319	1,404	1,615	2,901	2,319	2,545	3,015
(inc)/Dec in Working Capital	(490)	(224)	(263)	(604)	(855)	(850)	(581)
Non Cash Op Exp	92	71	62	332	84	239	253
Int Paid (+)	8	2	-	7	10	101	72
Tax Paid	(424)	(416)	(583)	(681)	(830)	(922)	(1,046)
others	(121)	(157)	(105)	(1,215)	(174)	(233)	(216)
CF from Op. Activities	383	681	725	741	554	881	1,497
(inc)/Dec in FA & CWIP	(147)	(109)	(272)	(270)	(315)	(358)	(308)
Free Cashflow	236	572	454	470	240	524	1,189
(Pur)/Sale of Inv	(3)	(297)	(61)	1,535	(784)	-	-
others	(56.6)	39.7	347.2	132.4	48.6	232.7	215.5
CF from Inv. Activities	(206)	(366)	14	1,397	(1,050)	(125)	(92)
inc/(dec) in NW	78	-	-	-	-	-	-
inc/(dec) in Debt	0	(101)	(3)	-	(697)	(286)	(286)
Int. Paid	(3)	(7)	(3)	(7)	(10)	-	-
Div Paid (inc tax)	(224)	(235)	(405)	(261)	(240)	(369)	(403)
others	5	-	6	(146)	(144)	(101)	(72)
CF from Fin. Activities	(144)	(343)	(405)	(414)	(1,090)	(756)	(762)
Inc(Dec) in Cash	33	(28)	335	1,724	(1,586)	0	643
Add: Opening Balance	531	563	535	860	2,512	935	935
Add: Forex and Other Adjustments	-	-	(0.7)	(71.7)	8.4	-	-
Closing Balance	563	535	870	2,512	935	935	1,578

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