

Industry	Media
Bloomberg	Z IN
BSE CODE	505537

SFIO probe links & fears of promoter pledge invocation spooks ZEEL, strategic sale process on track

RATING	HOLD
CMP	373
Price Target	574
Potential Upside	54%

Rating Change	↓
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	619/320
Mkt Capital (Rs Cr)	35,825
Free float (%)	57%
Avg. Vol 1M (,000)	8,705
No. of Shares (Cr)	96.05
Promoters Pledged %	59%

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Key Highlights

- On January 25, 2019, a news article was published in "The Wire" with SFIO probing into a company called "Nityank Infrapower", which had carried out certain financial transactions with a few Essel Group entities in 2016-17. This spooked the ZEEL stock which fell by 27% on the same day.
- This led to market fears/risks of pledge on promoter pledge being invoked. ZEEL promoters/ Essel Group had a 41.6% stake as of December 31, 2018 with 59.4% of their holdings under pledge. On January 25, 2019, 0.6% of the promoter pledged shares were offloaded in the open market by lenders thus reducing the promoter stake to 41%.
- Management has strongly denied any links with the said entity "Nityank" & have initiated a defamation case against "The Wire".
- Also, over the weekend, Essel Group met with the lenders, who have agreed to a standstill agreement wherein - a) There will not be any event of default declared due to the steep fall in price. b) There will be a unified approach amongst lenders leading to co-operation. c) Lenders drew comfort from reiteration by the promoters for a speedy resolution through a strategic sale in a time bound manner.
- Essel Group is also in the final stages of striking a deal pertaining to sale of infra, solar & road businesses with binding term sheets signed for infra business & cash to be received in a few weeks time. Sale of other 2 businesses is likely to be concluded in 4-6 month's time. Enterprise value & equity value of assets is roughly upwards of INR 20,000cr & INR 9,000cr.
- ZEEL's strong brand name in the media world with an extensive library housing over 250,000 hours of television content & rights to more than 4,200 movie titles from foremost studios and of iconic film stars, augurs well for the incoming strategic partner.

View and Valuation

ZEEL continues to deliver robust operational performance with Revenue/EBITDA/PAT showing 19.2%/27.1%/9.8% YoY growth over 9MFY19 (9MFY18 includes INR 135cr gain from sale of sports broadcasting business). Despite the concerns over increasing investment on the digital side, ZEEL continued to witness EBITDA margin expansion of 210 bps YoY over 9MFY19 to 33.7%. We continue to expect Revenue/PAT to grow at 16.6%/15.4% CAGR respectively over FY18-20e as the underlying fundamentals of the business remain intact. After the sharp fall in the stock price, ZEEL trades at 18x FY20e EPS which is a 40% discount to its historical forward P/E of over 30x.

Despite recent news flows & sharp correction in the stock price, we believe that management has largely addressed minority shareholders concerns & asset continues to be attractive to a large number of potential suitors. We downgrade to HOLD from BUY.

Key Risks to our rating and target

- EBITDA margin pressure due to increasing hours of original content
- Invocation of Promoter Pledge & bargaining power of strategic partner post the stock price correction

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	4.1	3.5
P/E (x)	35.5	22.9	37.2	22.0	18.2

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Concall Highlights post February 25, 2019 fall in stock price:

- The company's growth guidance and fundamentals remain intact with no change in the guidance spelled out during ZEEL's Q3FY19 earnings concall.
- Promoters are on course for the completion of strategic stake sale within the stated timelines of March-April 2019.
- The recent correction won't be a deterrent to the stake sale as the strategic partner will look at the intrinsic value of the business, which remains strong and intact.
- Probability of a Hostile Takeover looks remote despite the recent correction in the stock price, seeing the current laws of land on takeovers.
- The news article published in "The Wire" with respect to links to a company called "Nityank Infrapower" has nothing to do with ZEEL as well as the Essel Group.
- Mr Jawahar Goel, CMD of Dish TV has already clarified about the transaction between Dish TV & Videocon D2H merger that happened earlier.
- Essel Group has already filed a legal case for defamation against "The Wire" & will aggressively go ahead with the suit. Essel Group will also file a criminal case against "The Wire".
- The lenders have been supportive due to the promoter efforts on deleveraging the Essel Group Balance sheet through infrastructure asset sale & strategic stake sale in ZEEL.
- Management can't confirm on sale of any promoter pledge stock as of now, nor have they been approached for additional pledge by the bankers currently. Promoters are due to meet the bankers over the weekend.
- Deals pertaining to the sale of infra, solar & road businesses are in advanced stages with binding term sheets signed for infra business & cash to be received in a few weeks time. Sale of other 2 businesses is likely to be concluded in 4-6 month's time. Enterprise value & equity value of assets is roughly upwards of INR 20000cr & INR 9000cr.

Concall Highlights post meeting with Lenders:

- Essel Group has arrived at a standstill agreement with the lenders (Mutual Funds, NBFCs & Banks) wherein they have agreed that -
 - There will not be any event of default declared due to the steep fall in price.
 - As a result of the above, there will be synergy and co-operation, amongst lenders leading to a unified approach.
 - Lenders drew comfort from reiteration by the promoters for a speedy resolution through a strategic sale in a time bound manner.
- 97% of lenders in value terms were present & agreed to the said terms.
- On February 25, 2019, 0.6% of the pledged promoter holding was sold in the open market, thus bringing the promoter stake down to 41%. However, the lenders have not asked for any additional promoter pledge.
- Essel Group has also entered into an undertaking wherein any realization from infra deal or strategic stake sale of ZEEL will have the first right of the lenders.
- As of now, there are multiple potential strategic partners which leads to no pressure on valuations front.

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	22	18
Price / Book Value	5.3	5.8	5.8	7.6	7.3	4.1	3.5
EV/EBITDA	21.5	25.7	24.1	25.3	25.5	12.7	10.5

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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