REDUCE

Zee Entertainment

Making an arduous turnaround effort; upgrade to REDUCE

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Media & Entertainment ▸ Company Update ▸ **May 6, 2024**

TARGET PRICE (Rs): 150

In the aftermath of Zee's merger breakoff with Sony, the Management and Board of the company have embarked on a comprehensive plan to help regain its lost glory, and announced multiple initiatives. Though Zee saw superior performance over FY13-19, such execution would be difficult to replicate, given the altered industry dynamics/competitive scenario. Near-term performance is likely to worsen due to such interventions, before Company sees any improvement. Ongoing legal cases only add to its woes and, we believe, could derail current plans. While valuations are favorable, overall re-rating is likely to happen only if a new partner/buyer surfaces – Zee's decision to withdraw the merger implementation application filed before the NCLT could possibly be a precursor to this. We cut FY25-26E EBITDA by 10-12%, building in slower recovery. We upgrade Zee to REDUCE after a sharp ~24% correction since our last report and limited downside from current levels, but maintain a negative stance. We trim our TP to Rs150/sh (8x Mar-26E Broadcasting EBITDA).

Zee Entertainment: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	81,893	80,879	84,386	87,319	93,495
EBITDA	17,221	11,011	7,503	13,495	17,055
Adj. PAT	11,016	5,811	2,968	7,632	10,374
Adj. EPS (Rs)	10.0	0.5	1.8	7.9	10.8
EBITDA margin (%)	21.0	13.6	8.9	15.5	18.2
EBITDA growth (%)	(3.8)	(36.1)	(31.9)	79.8	26.4
Adj. EPS growth (%)	20.6	(95.0)	261.4	341.9	0.0
RoE (%)	10.6	5.5	2.8	6.9	8.9
RoIC (%)	12.0	6.1	3.1	7.0	9.2
P/E (x)	12.5	23.6	46.2	18.0	13.2
EV/EBITDA (x)	7.2	12.1	18.2	9.9	7.7
P/B (x)	1.3	1.3	1.3	1.2	1.1
FCFF yield (%)	(1.0)	(1.5)	(4.3)	3.8	3.9

Source: Company, Emkay Research

Targets 8-10% sustainable revenue growth and 18-20% margin by FY26

Zee's Board and Management have taken multiple proactive initiatives, aimed at turning around the company's medium-term performance. As part of the plan, Punit Goenka has assumed direct charge of key verticals, along with promoting certain team members to more responsible roles. Key initiatives include: i) Rationalization of the workforce by 15% across verticals. ii) Focus on the 4 key business verticals of: Broadcast, Digital, Movies and Music. iii) Sharper focus on frugality, optimization, and content. iv) Constitution of a monthly management mentorship (3M) program to guide and enable Management to achieve KPIs. iv) 20% cut in remuneration of the current MD & CEO of the company. Near-term focus will be on trimming costs across functions to help improve margins. The company has also seen exits of some senior personnel in the last couple of months, as it looks to deliver a better performance.

Outlook

Zee's near-term performance is likely to further deteriorate from current levels as it implements measures to achieve its FY26 targets. Zee5, which has been driving down margins of the entire company, can possibly be impacted and see some slowdown in revenue as the focus now shifts more toward reducing the losses. Meanwhile, the company's legal woes continue with regard to the merger-related case with Sony, its tussle for cricket rights with Disney Star, and Punit Goenka's ongoing SEBI case. Any unfavorable decisions against the company could cause further pain and derailment of current plans, in our view. We believe the company is up against a tough business environment currently, and particularly with it competing against the larger entity of Disney- Reliance combined. Also, the company has now withdrawn its merger implementation application filed before the NCLT, to pursue growth and strategic opportunities. In our view, emergence of a new partner/buyer would be a key trigger for a stock re-rating. The stock is currently trading at its lowest valuation since the last 10 years (on 1YF EV/ EBITDA basis), which is a clear sign of the tight spot it is in. The stock price has sharply corrected since the merger breakoff, and could continue to languish given lack of triggers in the near term, in our view.

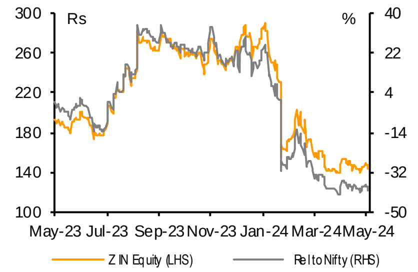
Target Price – 12M	Mar-25
Change in TP (%)	**(9.1)**
Current Reco.	REDUCE
Previous Reco.	SELL
Upside/(Downside) (%)	5.0
CMP (03-May-24) (Rs)	142.9

Stock Data	**Ticker**
52-week High (Rs)	300
52-week Low (Rs)	138
Shares outstanding (mn)	960.5
Market-cap (Rs bn)	137
Market-cap (USD mn)	1,645
Net-debt, FY24E (Rs mn)	-530
ADTV-3M (mn shares)	26
ADTV-3M (Rs mn)	4,262.5
ADTV-3M (USD mn)	51.1
Free float (%)	96.0
Nifty-50	22,476
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	4.0
FPIs/MFs (%)	19.2/35.6

Price Performance

(%)	1M	3M	12M
Absolute	(6.5)	(17.4)	(27.0)
Rel. to Nifty	(6.7)	(19.6)	(41.3)

1-Year share price trend (Rs)



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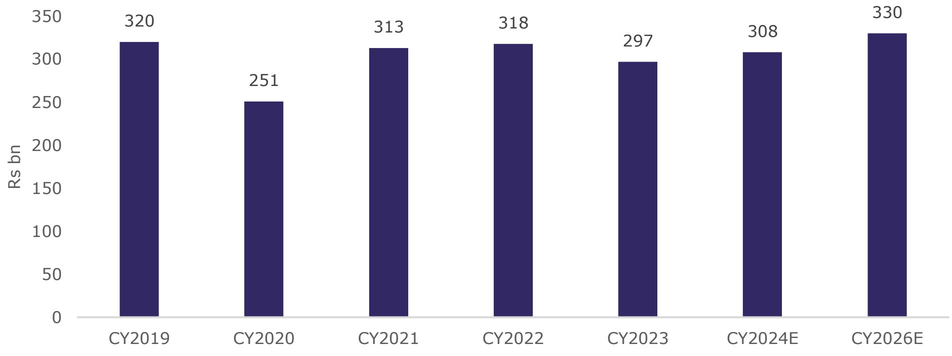
Zee's performance over the last decade has been nothing short of a rollercoaster ride with the golden FY13-19 period followed by a sharp deterioration thereafter. The underperformance can be attributed to both, external and internal factors – a weak advertising environment, delay in implementation of NTO3.0, emergence of corporate governance issues, and Management focus on the merger at the cost of business prospects. Following the fallout of the merger, Zee's Board and Management have announced several measures to remedy the situation.

Advertising trends

The Advertisement environment has remained weak over the last couple of years for the broadcasting industry. In fact, ad revenues in CY23 still lag that of pre-Covid levels. The slower growth is on account of lower ad rates, with national channels seeing pressure on both, the volume and pricing fronts.

Going ahead, ad revenue growth is expected to pick up for the industry, aided by stronger performance of regional channels, revival of spending by new-age companies, brand extensions of large Indian companies, and international brand launches. Despite the weakness, television remains the most effective mass medium from an ad rate perspective.

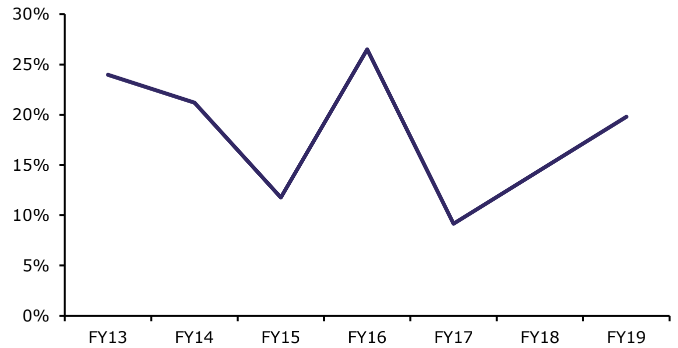
Exhibit 1: Overall television advertisement industry has remained muted post-Covid



Source: EY FICCI Reports, Emkay Research

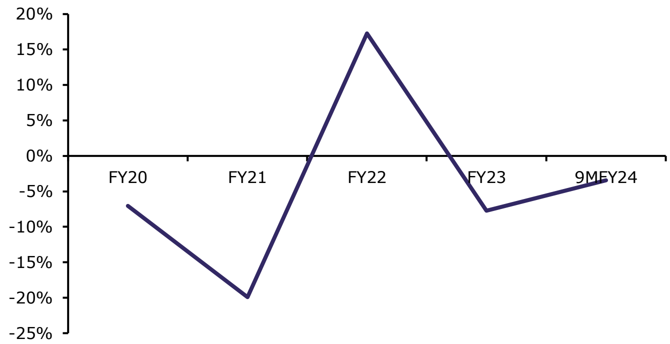
Zee had seen sharp growth in advertisements during the FY13-19 phase, before a prolonged phase of muted growth, as the external environment turned negative and corporate governance issues and focus on the merger diverted management bandwidth to other issues, thereby resulting in underperformance versus peers too. We expect some pickup in advertising growth over FY25 and FY26, from a low base in the last couple of years.

Exhibit 2: Zee's golden FY13-19 period of ad revenue growth…



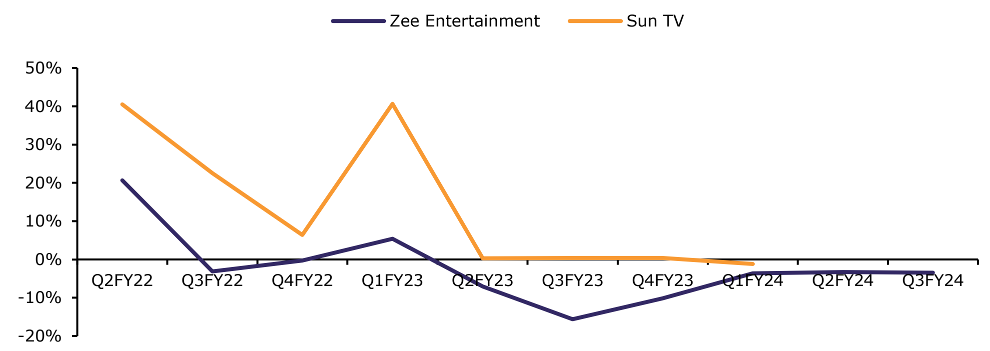
Source: Company, Emkay Research

Exhibit 3: …followed by a lull FY20 onwards



Source: Company, Emkay Research

Exhibit 4: Zee has consistently underperformed Sun TV on ad growth in the last few quarters

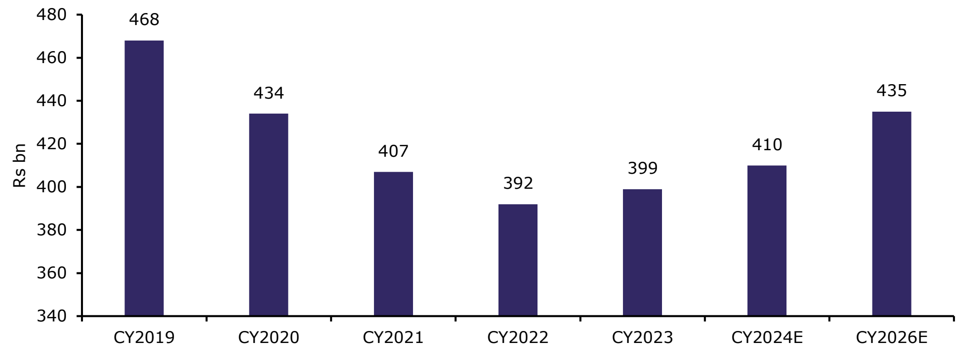


Source: Company, Emkay Research; Note: Sun TV did not report advertising growth separately in Q2FY24 or Q3FY24

Subscription growth

Subscription revenue for the overall industry was also subpar post-Covid, due to a decline in the paid TV base, along with no improvement in ARPUs till 1-Feb-2023 on account of embargo on NTO3.0. Industry-wide growth in 2023 was aided by the implementation of NTO3.0, following which major broadcasters increased prices of their bouquets by 9-11%. Going ahead, subscription revenue is likely to be aided by increasing demand for TV sets and relatively favourable pricing of television vis-à-vis digital.

Exhibit 5: Industry Subscription revenue



Source: EY FICCI Report, Emkay Research

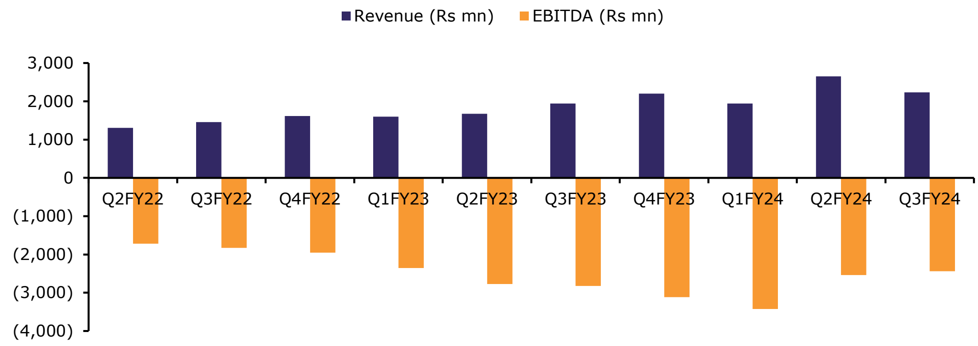
Zee's subscription revenue was also impacted by the embargo in FY22 and FY23, before growing 9.2% in 9MFY24. We expect 5%/ 6% growth in FY25E / FY26E, on account of sustained hikes of 8-10% in bouquet prices. Some amount of churn on the subscriber front could limit the complete upside in subscription revenue, in our view.

Zee5

While the television broadcasting industry has slackened, the digital industry continues to see strong-paced growth, despite some hiccups on the paid subscription revenue front, as key sporting properties moved, from a 'paid wall' to an 'ad-supported' model. Zee5 has also grown at a healthy clip, although some metrics have seen a little stagnation of late. Further, losses remained at elevated levels, as investments are now at their peak.

Going ahead, the company plans to undertake a comprehensive review of the digital segment, and should see faster reduction in losses. However, this could potentially result in slowing revenue growth in our view, as the number of shows is restricted.

Exhibit 6: Zee5 – Revenue and EBITDA



Source: Company, Emkay Research

Exhibit 7: Zee5 – Monthly active users (MAUs) and Daily active users (DAUs)

Zee5 (reported)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
MAUs (mn)	40	55	66	43	80	93	102	105	103	112	120	114
DAUs (mn)	4.0	5.2	5.4	6.1	7.1	9.3	9.6	10.5	11.3	11.4	11.5	11.1

Source: Company, Emkay Research

Corporate Governance issues

Even before the merger fallout, Zee and its promoters had been embroiled in multiple controversies, leading to negative impact on the stock performance. While some issues were resolved, others continue to haunt the company even to date, and could still restrict any meaningful upside.

Exhibit 8: Zee's past corporate governance issues

Issue	Latest Update
Promoter Subhash Chandra, through Essel Infraprojects, took loans for which Zee shares were pledged and which were then sold to institutional investors to clear promoters' debt.	Subhash Chandra resigned from the Board and was replaced by an independent director as the board chairman.
Invested in overseas mutual funds. Two of the high-yielding MFs turned out to be illiquid. The company booked a loss of Rs3.8bn in FY20.	The updated policy allowed the company to invest funds in bank FDs or in an MF scheme with a minimum Rs25bn AUM.
The company committed an investment worth Rs5.2bn in Sugarbox, to set up public WiFi solutions.	Investment timelines shifted due to the pandemic. Company has now written down investments worth Rs3bn as of end-Q1FY24.
ZEEL had issued an LoC to Yes Bank in connection with a borrowing by Living Entertainment (LEL), a related party. Subsequent to the default by LEL, Yes Bank called upon ZEEL to honor the obligation.	Status of the matter is sub judice in court. No liability has been accrued towards this matter.
Allegations of irregularities around related-party transactions and film advances for content acquisition.	The independent firm did not find any evidence of any irregularities. Additional processes were strengthened. Two independent directors had resigned from the Board, citing inaction over several issues, including the Rs22bn content advance.
Pending receivables from Dish TV and Siti.	Receivables from Dish TV and Siti had been irregular, given financial constraints in both companies. Siti defaulted on its loan of Rs4bn in Oct-2020, while Zee is collecting receivables from Dish which have been irregular.
ICDs receivable from related parties.	Rs1.7bn worth receivables written off in Sep-2019.

Source: Company, Media Reports, Emkay Research

Update on the merger fallout and legal issues

In Sep-21, when Zee had announced its merger with Sony, it had seemed to have addressed a slew of issues pertaining to corporate governance and investor activism. However, the fallout of the merger has once again raised issues on both these fronts. Sony's decision to call off the merger despite Punit Goenka's agreement to step down as the head of the merged entity raises more questions than Company can answer. Both Zee and Sony will now take this up in a court of law which can possibly be a long drawn out battle.

Zee's woes persist, as it continues to fight legal battles on multiple issues. An unfavorable verdict on any case can aggravate Zee's troubles financially as well as result in derailment of its current strategy.

Exhibit 9: Zee's ongoing legal cases

Issue	Update
Punit Goenka and Subhash Chandra have been accused of siphoning off funds for their own benefit. The duo has been alleged to have provided a letter of comfort without consulting or informing the Board. As per SEBI, Zee is also found to have falsely claimed in its FY20 annual report that it had received all funds from its associate entities.	SEBI had barred the duo from holding any directorial or managerial position which was later overturned by SAT. Investigation by the SEBI, however, is ongoing.
Zee and Sony are currently contesting claims in the Singapore International Arbitration Center (SIAC).	After withdrawing its merger implementation case from the NCLT, Zee continues to pursue its legal case against Sony in SIAC.
Disney Star has initiated proceedings against Zee Entertainment for non-compliance of terms of the alliance in Aug-2022.	Zee has contested Disney Star's claims and has filed an appropriate response.
IDBI Bank and Axis Bank had challenged the NCLT order of the merger in the NCLAT.	IDBI Bank and Axis Bank had urged the NCLAT to adjourn the case pending the NCLT's decision to enforce the merger with Sony, with Zee arguing otherwise. The next hearing is scheduled for 17-May-2024. However, with Zee now withdrawing its NCLT application against Sony, uncertainty persists around this case.

Source: Media reports, Emkay Research

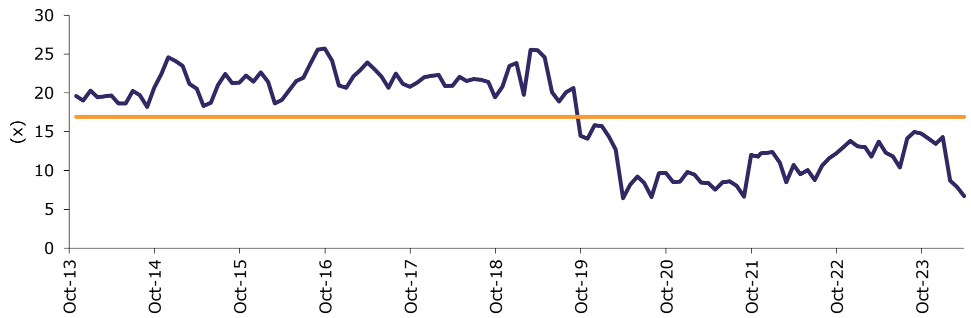
Preparing for a turnaround

Zee's Board and Management have announced multiple initiatives with an aim to turnaround the medium-term performance of the company. Such initiative are:

- To ensure a more cost-effective operational model, the overall workforce headcount will be reduced by 15%, with frugality, optimization and sharper focus on quality being the key tenets of this overall reorganization.
- Constitution of a monthly management mentorship (3M) program, to guide and enable Management to achieve KPIs. The 3M committee has advised Management to reduce the expenditure at its Technology and Innovation Center (TIC) by 50% (expenditure of Rs6bn in FY23).
- Setting up an independent investigation committee to review all allegations made by the regulators against the company and its promoters. The Committee will be chaired by Justice Satish Chandra. ZEE's Independent Directors Uttam Prakash Agarwal and PVR Murthy will be part of this committee.
- Current MD & CEO Punit Goenka has announced a 20% cut in his remuneration as part of the frugality measures. Punit Goenka had drawn a total remuneration of Rs350.7mn in FY23 (entailing Salary & Allowances: Rs210.2mn, Variable Pay: Rs90.5mn, One-time Payment: Rs50mn).
- In the new lateral structure, the MD & CEO has elevated select team members across businesses, to provide them a higher level of responsibility. Punit Goenka has also assumed direct charge of the critical business verticals, with the aim to deliver better cross-functional collaboration, quick decision making, and higher productivity levels.

The company has also seen exits by some senior personnel in the last couple of months: Rahul Johri, President – Business; Punit Misra, President - Content & International Markets; and Nitin Mittal, President - Technology and data.

Exhibit 10: Zee Entertainment – One-year forward EV/EBITDA



Source: Emkay Research

Exhibit 11: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	Old	Revised	Change	Old	Revised	Change
Ad revenue	42,999	42,036	-2.2%	47,264	45,399	-3.9%
Subscription revenue	38,444	38,083	-0.9%	40,882	40,496	-0.9%
Revenue	88,643	87,319	-1.5%	95,746	93,495	-2.4%
EBITDA	15,057	13,495	-10.4%	19,386	17,055	-12.0%
EBITDA margin (%)	17.0	15.5	-155 bps	20.2	18.2	-196 bps
PAT	8,801	7,632	-13.3%	12,128	10,374	-14.5%
EPS (Rs)	9.2	7.9	-13.6%	12.6	10.8	-14.3%

Source: Emkay Research

Zee Entertainment: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**81,893**	**80,879**	**84,386**	**87,319**	**93,495**
Revenue growth (%)	5.9	(1.2)	4.3	3.5	7.1
EBITDA	**17,221**	**11,011**	**7,503**	**13,495**	**17,055**
EBITDA growth (%)	(3.8)	(36.1)	(31.9)	79.8	26.4
Depreciation & Amortization	2,459	3,128	3,524	3,745	3,781
EBIT	**14,762**	**7,884**	**3,979**	**9,750**	**13,275**
EBIT growth (%)	(3.2)	(46.6)	(49.5)	145.0	36.2
Other operating income	0	0	0	0	0
Other income	1,213	797	700	1,100	1,200
Financial expense	451	702	852	640	640
PBT	**15,524**	**7,979**	**3,828**	**10,210**	**13,835**
Extraordinary items	(1,370)	(5,333)	(1,241)	0	0
Taxes	4,597	2,167	861	2,570	3,452
Minority interest	88	0	0	0	0
Income from JV/Associates	1	(1)	1	(8)	(8)
Reported PAT	**9,646**	**478**	**1,727**	**7,632**	**10,374**
PAT growth (%)	20.6	(95.0)	261.4	341.9	35.9
Adjusted PAT	**11,016**	**5,811**	**2,968**	**7,632**	**10,374**
Diluted EPS (Rs)	**10.0**	**0.5**	**1.8**	**7.9**	**10.8**
Diluted EPS growth (%)	20.6	(95.0)	261.4	341.9	0.0
DPS (Rs)	**2.5**	**0.0**	**0.5**	**2.4**	**3.2**
Dividend payout (%)	**24.9**	**0.0**	**30.0**	**30.0**	**30.0**
EBITDA margin (%)	21.0	13.6	8.9	15.5	18.2
EBIT margin (%)	18.0	9.7	4.7	11.2	14.2
Effective tax rate (%)	29.6	27.2	22.5	25.2	25.0
NOPLAT (pre-IndAS)	**10,390**	**5,743**	**3,085**	**7,296**	**9,962**
Shares outstanding (mn)	960.3	960.3	960.3	960.3	960.3

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	961	961	961	961	961
Reserves & Surplus	1,07,665	1,04,222	1,07,245	1,12,587	1,19,849
Net worth	**1,08,626**	**1,05,183**	**1,08,206**	**1,13,548**	**1,20,810**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(3,080)	(4,229)	(4,229)	(4,229)	(4,229)
Total debt	**763**	**2,820**	**2,875**	**2,875**	**2,875**
Total liabilities & equity	**1,06,309**	**1,03,773**	**1,06,852**	**1,12,194**	**1,19,456**
Net tangible fixed assets	6,073	7,455	7,842	6,938	4,439
Net intangible assets	5,343	4,645	3,376	1,778	139
Net ROU assets	835	1,497	1,655	1,413	2,771
Capital WIP	872	191	191	191	191
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**13,382**	**6,278**	**3,406**	**6,258**	**8,281**
Current assets (ex-cash)	1,02,781	1,09,230	1,16,347	1,23,103	1,33,381
Current Liab. & Prov.	23,005	27,167	25,966	27,487	29,746
NWC (ex-cash)	**79,776**	**82,062**	**90,381**	**95,616**	**1,03,635**
Total assets	**1,06,309**	**1,03,773**	**1,06,852**	**1,12,194**	**1,19,456**
Net debt	(12,619)	(3,457)	(530)	(3,383)	(5,406)
Capital employed	1,06,281	1,02,128	1,06,852	1,12,194	1,19,456
Invested capital	**92,027**	**95,660**	**1,03,255**	**1,05,745**	**1,10,984**
BVPS (Rs)	113.1	107.8	112.7	118.2	125.8
Net Debt/Equity (x)	(0.1)	0.0	0.0	0.0	0.0
Net Debt/EBITDA (x)	(0.7)	(0.3)	(0.1)	(0.3)	(0.3)
Interest coverage (x)	0.0	0.1	0.2	0.1	0.0
RoCE (%)	**15.4**	**8.3**	**4.5**	**9.9**	**12.5**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	15,524	7,979	3,828	10,210	13,835
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,597)	(2,167)	(861)	(2,570)	(3,452)
Change in NWC	(9,849)	(3,436)	(8,319)	(5,235)	(8,019)
Operating cash flow	**1,669**	**1,741**	**(3,068)**	**6,142**	**6,135**
Capital expenditure	(2,915)	(3,793)	(2,800)	(1,000)	(1,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	270	270	270	270	270
Investing cash flow	**5,630**	**(2,675)**	**(2,100)**	**100**	**200**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(3,468)	2,057	55	0	0
Payment of lease liabilities	353	2,033	55	0	0
Interest paid	(451)	(702)	(852)	(640)	(640)
Dividend paid (incl tax)	(2,401)	0	(518)	(2,290)	(3,112)
Others	11,751	5,526	9,007	0	0
Financing cash flow	**5,431**	**6,881**	**7,692**	**(2,930)**	**(3,752)**
Net chg in Cash	12,731	5,948	2,524	3,313	2,583
OCF	1,669	1,741	(3,068)	6,142	6,135
Adj. OCF (w/o NWC chg.)	(8,180)	(1,695)	(11,387)	908	(1,884)
FCFF	(1,246)	(2,052)	(5,868)	5,142	5,135
FCFE	(1,427)	(2,484)	(6,450)	4,772	4,765
OCF/EBITDA (%)	9.7	15.8	(40.9)	45.5	36.0
FCFE/PAT (%)	(14.8)	(519.8)	(373.5)	62.5	45.9
FCFF/NOPLAT (%)	**(12.0)**	**(35.7)**	**(190.2)**	**70.5**	**51.6**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	12.5	23.6	46.2	18.0	13.2
P/CE(x)	10.2	15.4	21.1	12.1	9.7
P/B (x)	1.3	1.3	1.3	1.2	1.1
EV/Sales (x)	1.5	1.7	1.6	1.5	1.4
EV/EBITDA (x)	7.2	12.1	18.2	9.9	7.7
EV/EBIT(x)	8.4	17.0	34.4	13.7	9.9
EV/IC (x)	1.4	1.4	1.3	1.3	1.2
FCFF yield (%)	(1.0)	(1.5)	(4.3)	3.8	3.9
FCFE yield (%)	(1.0)	(1.8)	(4.7)	3.5	3.5
Dividend yield (%)	1.7	0.0	0.4	1.7	2.3
DuPont-RoE split					
Net profit margin (%)	13.5	7.2	3.5	8.7	11.1
Total asset turnover (x)	0.8	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**10.6**	**5.5**	**2.8**	**6.9**	**8.9**
DuPont-RoIC					
NOPLAT margin (%)	12.7	7.1	3.7	8.4	10.7
IC turnover (x)	0.9	0.9	0.8	0.8	0.9
RoIC (%)	**12.0**	**6.1**	**3.1**	**7.0**	**9.2**
Operating metrics					
Core NWC days	355.6	370.3	390.9	399.7	404.6
Total NWC days	**355.6**	**370.3**	**390.9**	**399.7**	**404.6**
Fixed asset turnover	3.1	2.8	2.6	2.5	2.6
Opex-to-revenue (%)	29.6	31.1	32.8	30.5	30.3

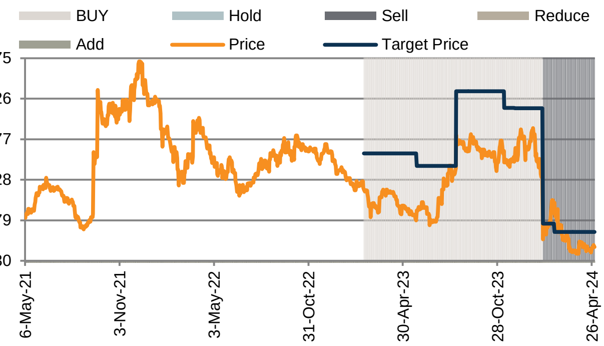
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
14-Feb-24	200	165	Sell	Pulkit Chawla
23-Jan-24	156	175	Sell	Pulkit Chawla
08-Jan-24	278	315	Buy	Pulkit Chawla
30-Nov-23	253	315	Buy	Pulkit Chawla
10-Nov-23	249	315	Buy	Pulkit Chawla
02-Nov-23	269	335	Buy	Pulkit Chawla
10-Aug-23	282	335	Buy	Pulkit Chawla
10-Aug-23	282	265	Buy	Pulkit Chawla
26-May-23	191	245	Buy	Pulkit Chawla
14-Feb-23	216	260	Buy	Pulkit Chawla

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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