

Zee Entertainment Enterprises | BUY



A balancing act

ZEEL's board took two important decisions over the past few days. First, it has set higher financial targets, including a definitive payout ratio, to evaluate Puneet Goenka's performance as CEO. Second, it has accepted Puneet Goenka's resignation as MD of the company while appointing him as CEO (he was earlier MD and CEO). Puneet intends to focus entirely on his operational responsibilities while relinquishing some of his board ones. Importantly, Puneet's board seat is now subject to shareholders' approval. This is a significant development, in our view. It not only makes Puneet more accountable, it also puts the ball in shareholders' court to determine extent of Puneet's involvement in the board affairs. We find this balance – an empowered board and a transparent and measurable CEO evaluation metric – apt for ZEEL's shareholders. Puneet's continuation as CEO of ZEEL is critical for the operational turnaround of the company. The signs, as we highlighted in ("[Turning the page](#)", 20 Oct 2024), are already evident. These aren't reflecting in valuations though. Our reverse-DCF and SOTP based valuation exercise highlight the extent of undervaluation. A more favourable board-CEO equation for shareholders, backed by consistent execution, can unlock value. We reiterate BUY with an unchanged TP of INR 200.

- What has changed:** ZEEL board has set higher targets to evaluate performance of Puneet Goenka. These targets will include a) quarterly consolidated revenue outlook for next four quarters (commencing Q3FY25); b) quarterly consolidated EBITDA outlook for next four quarters (commencing Q3FY25); and c) dividend payout of 25% of consolidated net PAT. While the company had given some guidance on the first two metric, a definitive target for dividend payout is positive and should provide confidence to shareholders on sustainability of cash generation. Separately, board accepted Puneet's request to relinquish MD position while re-appointing him as CEO. Puneet has agreed to stay on the board as Director, subject to shareholders' approval. The board also appointed Mukund Galgali, the CFO, as deputy CEO to strengthen the leadership. Puneet will now focus entirely on operational goals for the company/shareholders.
- Why is it important:** Separation of MD and CEO role should improve board's independence. Puneet has proactively put the ball in shareholders' court to determine his role/power in the board, suggesting alignment of interest. Importantly, Puneet's undivided attention towards operational performance will benefit ZEEL, in our view. ZEEL's recent performance – c.600bps margin expansion over past two quarters, better growth and improved cash flow – are early outcome of his operational rigour.
- Stock offers deep value; BUY:** ZEEL has corrected c.20% over past six months despite two successive strong quarters, pushing its value to unreasonably low levels, in our view. Our reverse DCF exercise – even on reasonable assumptions (6% average revenue CAGR over FY24-35E; gradual margin recovery; WACC at 14%) - implies close to zero terminal value at CMP. Even our SOTP methodology – valuing digital business at 3x LTM sales – implies mere 5.5x forward PER for the core broadcasting business. At c.10% FCF yield, and 25% payout target, we find risk-reward very attractive. We reiterate BUY.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	200
Upside/(Downside)	63.2%
Previous Price Target	200
Change	0.0%

Key Data – Z IN

Current Market Price	INR123
Market cap (bn)	INR117.7/US\$1.4
Free Float	91%
Shares in issue (mn)	960.6
Diluted share (mn)	1,002.6
3-mon avg daily val (mn)	INR2,337.7/US\$27.7
52-week range	300/114
Sensex/Nifty	77,578/23,519
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	-7.5	-13.0	-50.2
Relative*	-3.1	-17.1	-57.8

* To the BSE Sensex

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Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	81,035	86,372	88,319	95,948	1,04,490
Sales Growth (%)	-1.0	6.6	2.3	8.6	8.9
EBITDA	11,029	9,071	14,258	18,130	21,979
EBITDA Margin (%)	13.6	10.5	16.1	18.9	21.0
Adjusted Net Profit	4,074	4,738	9,026	11,958	15,038
Diluted EPS (INR)	4.2	4.9	9.0	11.5	13.9
Diluted EPS Growth (%)	-63.0	16.3	82.6	27.2	20.9
ROIC (%)	5.3	4.2	7.9	10.3	12.7
ROE (%)	3.8	4.4	8.0	9.8	11.2
P/E (x)	27.1	23.3	12.8	10.0	8.3
P/B (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	9.9	11.4	6.9	4.9	3.5
Dividend Yield (%)	2.6	0.9	1.3	1.8	2.2

Source: Company data, JM Financial. Note: Valuations as of 19/Nov/2024

Peeling off ZEEL's inherent value

At c.10x FY26E EPS, ZEEL's value is optically low. We revisited our alternate valuation methodologies – reverse DCF and SOTP – to highlight the extent of its undervaluation. DCF suggests near zero terminal value while SOTP implies 5x core broadcasting PAT. Clearly, there is deep value in the name. See details below:

Method I: Reverse DCF

For a mature, cash generating business such as broadcasting, DCF is a fairly accurate way of determining inherent value. We ran a reverse DCF exercise to figure out what the CMP is discounting. For this exercise, we project 6% revenue CAGR over FY24-35E, against management aspiration of 8-10% growth. We forecast EBITDA margin expansion to continue gradually and reach 26% by FY35E, achievable given the cost focus and operating leverage in the business. With these assumptions, reverse-DCF implies a near zero terminal value. Clearly, there is minimal downside from current levels. With the improvements now visible, investors have all the upside to play for.

Exhibit 1. Reverse DCF: We estimate FY24-35E revenue CAGR of 6% and EBITDA margins to gradually improve to 27% by FY35E

	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Key assumptions (%)												
Revenue growth	6.6	2.3	8.6	8.9	8.1	6.6	5.6	4.9	4.6	4.4	3.9	3.4
EBITDA growth	(18)	57	27	21	17	6.6	5.6	4.9	4.6	4.4	3.9	3.4
FCF growth	161	41	-13	20	33	22	4	8	7	8	7	16
EBITDA margin	10.5	16.1	18.9	21.0	22.8	24.4	24.7	24.8	24.9	25.1	25.3	26.8
FCFF margin	10	13	11	12	14	16	16	17	17	18	18	20
Net Debt / Capital	(7)	(12)	(21)	(31)	(44)	(62)	(80)	(101)	(125)	(152)	(183)	(226)
FCFF as % of EBITDA	92	83	56	56	63	67	66	68	69	70	72	76
EBIT * (1-tax rate)	4,923	8,699	11,383	14,061	16,718	19,213	20,564	21,696	22,786	24,003	25,151	27,663
Depreciation & Amortization	3,091	3,099	3,297	3,482	3,660	3,836	4,011	4,185	4,358	4,530	4,701	4,872
Change in net working capital	3,418	2,990	-1,507	-2,393	-1,187	-213	-875	-411	-60	420	954	2,823
Operating FCF	11,432	14,788	13,173	15,150	19,190	22,836	23,700	25,470	27,084	28,952	30,806	35,357
Capex	-3,066	-3,016	-2,966	-2,916	-2,966	-3,016	-3,066	-3,116	-3,166	-3,216	-3,266	-3,316
Free cash flows	8,366	11,772	10,207	12,234	16,224	19,820	20,634	22,354	23,918	25,736	27,540	32,041
FCF: 1-yr forward	0	12,577	9,557	10,040	11,669	12,489	11,395	10,819	10,146	9,565	8,970	9,147

Source: Company, JM Financial estimates

Exhibit 2. Key assumption: CMP implies zero terminal value at our estimates

INR mn (unless otherwise specified)	June-2025
Terminal growth >FY35 (%)	0.0
Implied Exit FCF multiple (X)	7.1
Implied Exit EBITDA multiple (X)	8.8
NPV of cash flows	1,16,374
PV of terminal value	0
Enterprise value	1,16,374
Terminal value as % of EV	0%
Less: Net debt/(cash) – FY25E	-12,520
Equity value	1,28,894
Equity value (USD mn)	1,553
Number of shares (mn) – includes partial dilution due to FCCBs	1,003
Equity value/share (INR)	130.0

Source: JM Financial estimates

Method II: SOTP

Zee5, ZEEL's OTT platform, has LTM revenues of INR 9.2bn. However, due to the losses at EBITDA level, this business gets a negative value in our PER-based valuation methodology. In other words, the core broadcasting business' value is understated. In our SOTP method, we strip out Zee5 value by ascribing 3x Price/Sales to its TTM revenue. The residual value left for core business implies FY26E PER of 5.5x (Exhibit 3 below).

ZEEL's current Enterprise Value is c.INR 100bn. It is currently generating an FCF of INR 10bn which is likely to grow given better growth prospects and sustained margin improvements

Such healthy FCF generation means discounted value (even at 14% WACC) of next 10 years' FCF itself equates to ZEEL's current EV. In other words, terminal value implied in CMP is near-zero

Exhibit 3. SOTP: TP implies core business PER of 5.5x

INR mn	FY25E	FY26E	FY27E
Core financials, derived			
EBITDA, Consolidated	14,258	18,130	21,979
EBITDA, Zee5*	-6,352	-6,352	-6,352
EBITDA, Core business	7,906	11,778	15,627
PAT, Consolidated	9,026	11,958	15,038
PAT, Core business (ex Zee5 losses post Tax)	13,624	16,557	19,637
Core Valuation, derived			
24-M forward Equity Value (INR mn)			1,00,995
24-M forward PAT (INR mn)			18,363
Implied 24-M Forward core PER			5.5x
Zee5 Revenue, FY24 (INR mn)			9,204
P/S - Zee5			3.0x
Equity Value, Zee5 (INR mn)			27,612
Total Equity Value (INR mn)			1,28,607
Shares O/S (mn)			1,003
24-M forward Target Price (INR)			130

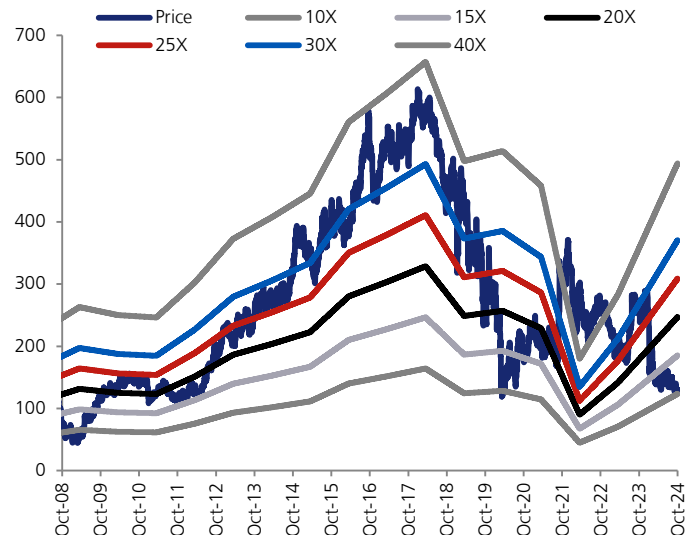
Note: * - Q2FY25 losses annualised; Source: Company, JM Financial estimates

In our second valuation methodology to verify our TP, we ascribe 3x Price/Sales to Zee5's TTM revenues

Core business (PAT after deducting Zee5's losses post taxes) comes to 5.5x FY26E PER.

Valuation chart: close to 2-SD below long-term mean**Exhibit 4. Zee: 1yr forward PER valuation**

Source: JM Financial, Bloomberg

Exhibit 5. 1yr forward EV/EBITDA valuation

Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	81,035	86,372	88,319	95,948	1,04,490	
Sales Growth	-1.0%	6.6%	2.3%	8.6%	8.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	81,035	86,372	88,319	95,948	1,04,490	
Cost of Goods Sold/Op. Exp	44,824	50,393	45,942	47,942	50,707	
Personnel Cost	8,238	10,188	9,995	10,571	11,199	
Other Expenses	16,944	16,719	18,123	19,305	20,606	
EBITDA	11,029	9,071	14,258	18,130	21,979	
EBITDA Margin	13.6%	10.5%	16.1%	18.9%	21.0%	
EBITDA Growth	-36.0%	-17.8%	57.2%	27.2%	21.2%	
Depn. & Amort.	3,413	3,091	3,099	3,297	3,482	
EBIT	7,616	5,980	11,159	14,833	18,497	
Other Income	797	1,293	1,552	1,919	2,500	
Finance Cost	702	721	192	192	192	
PBT before Excep. & Forex	7,711	6,553	12,519	16,560	20,804	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	7,711	6,553	12,519	16,560	20,804	
Taxes	2,167	1,818	3,502	4,615	5,785	
Extraordinary Inc./Loss(-)	-5,333	-3,324	0	0	0	
Assoc. Profit/Min. Int.(-)	-1	4	9	14	19	
Reported Net Profit	210	1,414	9,026	11,958	15,038	
Adjusted Net Profit	4,074	4,738	9,026	11,958	15,038	
Net Margin	5.0%	5.5%	10.2%	12.5%	14.4%	
Diluted Share Cap. (mn)	961.0	961.0	1,002.6	1,044.1	1,085.7	
Diluted EPS (INR)	4.2	4.9	9.0	11.5	13.9	
Diluted EPS Growth	-63.0%	16.3%	82.6%	27.2%	20.9%	
Total Dividend + Tax	2,883	961	1,504	2,088	2,714	
Dividend Per Share (INR)	3.0	1.0	1.5	2.0	2.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	7,710	6,556	12,528	16,573	20,823	
Depn. & Amort.	3,413	3,167	3,099	3,297	3,482	
Net Interest Exp. / Inc. (-)	288	251	-524	-866	-1,422	
Inc (-) / Dec in WCap.	-2,722	3,418	2,990	-1,507	-2,393	
Others	-3,506	-3,847	0	0	0	
Taxes Paid	-3,893	-2,401	-3,505	-4,615	-5,785	
Operating Cash Flow	1,291	7,143	14,588	12,881	14,705	
Capex	-2,332	-1,014	-7,601	-2,966	-2,916	
Free Cash Flow	-1,041	6,130	6,987	9,915	11,789	
Inc (-) / Dec in Investments	-87	75	-843	-14	-19	
Others	403	465	716	1,058	1,614	
Investing Cash Flow	-2,016	-474	-7,728	-1,921	-1,320	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,882	0	-961	-1,504	-2,088	
Inc / Dec (-) in Loans	-1,121	-1,204	0	0	0	
Others	-80	-1,531	-192	-192	-192	
Financing Cash Flow	-4,082	-2,735	-1,153	-1,696	-2,280	
Inc / Dec (-) in Cash	-4,807	3,934	5,707	9,264	11,105	
Opening Cash Balance	11,986	7,198	11,131	16,838	26,103	
Closing Cash Balance	7,179	11,131	16,838	26,103	37,207	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	1,07,219	1,08,729	1,16,794	1,27,248	1,40,198	
Share Capital	961	961	961	961	961	
Reserves & Surplus	1,06,258	1,07,768	1,15,833	1,26,287	1,39,237	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	7,067	5,119	5,119	5,119	5,119	
Def. Tax Liab. / Assets (-)	-5,940	-4,530	-4,533	-4,533	-4,533	
Total - Equity & Liab.	1,08,346	1,09,318	1,17,380	1,27,834	1,40,784	
Net Fixed Assets	9,986	8,530	12,846	12,515	11,949	
Gross Fixed Assets	16,565	17,765	19,340	20,480	21,507	
Intangible Assets	7,930	8,463	10,574	11,217	11,840	
Less: Depn. & Amort.	14,700	17,791	17,161	19,275	21,491	
Capital WIP	191	93	93	93	93	
Investments	1,710	1,681	1,689	1,703	1,721	
Current Assets	1,19,331	1,19,930	1,24,734	1,36,683	1,51,600	
Inventories	73,079	69,129	65,172	65,214	66,092	
Sundry Debtors	16,088	17,016	18,738	20,357	22,169	
Cash & Bank Balances	7,179	11,131	16,838	26,103	37,207	
Loans & Advances	6,451	6,451	6,774	7,112	7,468	
Other Current Assets	16,534	16,203	17,212	17,897	18,663	
Current Liab. & Prov.	22,681	20,636	21,889	23,066	24,486	
Current Liabilities	17,494	14,355	15,508	16,295	17,277	
Provisions & Others	5,187	6,282	6,381	6,772	7,209	
Net Current Assets	96,650	99,294	1,02,845	1,13,616	1,27,114	
Total - Assets	1,08,346	1,09,504	1,17,380	1,27,834	1,40,784	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	5.0%	5.5%	10.2%	12.5%	14.4%	
Asset Turnover (x)	0.7	0.8	0.7	0.8	0.8	
Leverage Factor (x)	1.1	1.1	1.0	1.0	1.0	
RoE	3.8%	4.4%	8.0%	9.8%	11.2%	

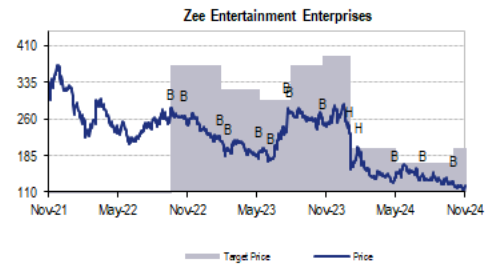
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	111.6	113.1	119.0	124.3	131.7	
ROIC	5.3%	4.2%	7.9%	10.3%	12.7%	
ROE	3.8%	4.4%	8.0%	9.8%	11.2%	
Net Debt/Equity (x)	0.0	-0.1	-0.1	-0.2	-0.2	
P/E (x)	27.1	23.3	12.8	10.0	8.3	
P/B (x)	1.0	1.0	1.0	0.9	0.9	
EV/EBITDA (x)	9.9	11.4	6.9	4.9	3.5	
EV/Sales (x)	1.4	1.2	1.1	0.9	0.7	
Debtor days	72	72	77	77	77	
Inventory days	329	292	269	248	231	
Creditor days	91	68	76	76	76	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Oct-22	Buy	370	
12-Nov-22	Buy	370	0.0
14-Feb-23	Buy	320	-13.5
8-Mar-23	Buy	320	0.0
26-May-23	Buy	300	-6.3
27-Jun-23	Buy	300	0.0
10-Aug-23	Buy	300	0.0
17-Aug-23	Buy	370	23.3
10-Nov-23	Buy	390	5.4
22-Jan-24	Hold	200	-48.7
14-Feb-24	Hold	200	0.0
18-May-24	Buy	170	-15.0
1-Aug-24	Buy	170	0.0
20-Oct-24	Buy	200	17.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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