

Zee reported a mixed operating performance in Q2FY25. Advertising revenue growth remained underwhelming, declining by another 7.9% YoY. Ad revenue has now declined (YoY) in last eight of the nine quarters. Subscription revenue saw an uptick of 9.2% YoY. Margins surprised positively as Zee contained expenses across the board. Management stated that advertising environment has picked up in September in the run-up to the festive season, although long-term spending trend remains uncertain as of now. Zee has made some progress on their financial aspirations which were announced after breakdown of the merger, though lack of ad revenue growth recovery remains the biggest concern. In our view, going ahead, the absence of revenue pickup will act as a hindrance for further margin expansion. We reiterate that a significant re-rating should be possible in case of a new partner/buyer. With persisting challenges on the advertising growth front, we cut our FY26-27 EBITDA by 8-10%. We maintain REDUCE with TP of Rs140 (8x Sep-26E Broadcasting EBITDA).

Zee Entertainment: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,879	86,372	86,490	91,044	96,872
EBITDA	11,011	9,071	13,161	15,555	17,751
Adj. PAT	5,811	4,738	7,382	9,637	11,881
Adj. EPS (Rs)	0.5	1.5	7.7	10.0	12.4
EBITDA margin (%)	13.6	10.5	15.2	17.1	18.3
EBITDA growth (%)	(36.1)	(17.6)	45.1	18.2	14.1
Adj. EPS growth (%)	(95.0)	196.0	421.9	30.5	23.3
RoE (%)	5.4	4.4	6.7	8.3	9.6
RoIC (%)	6.1	4.5	7.1	8.9	10.3
P/E (x)	21.9	26.8	17.2	13.2	10.7
EV/EBITDA (x)	11.1	13.0	9.2	7.7	6.7
P/B (x)	1.2	1.2	1.1	1.1	0.0
FCFF yield (%)	(1.7)	2.3	0.3	4.1	3.5

Source: Company, Emkay Research

Results Summary

Zee’s consolidated revenue declined 17.9% YoY/6.1% QoQ to Rs20bn, slightly below our estimate of Rs20.4bn. Advertising revenue reduced 7.9% YoY to Rs9bn with domestic advertising seeing an even sharper fall of 8.5% YoY. Subscription revenue grew 9.2% YoY to Rs9.7bn. Other Sales and Services saw a sharp decrease of 77.4% YoY due to a high base (Q2FY24 benefited from the release of Gadar 2). EBITDA margin of 16% was much higher than our estimate of 12.5%. Margin was aided by lower operational expenses as well as advertisement & publicity expenses. The company reported a profit of Rs2.1bn. Zee’s market share improved to 17.4% in Q2 from 16.4% in Q1 (which was impacted by cricket and election). Zee5’s revenue grew 5.6% QoQ/declined 10.9% YoY to Rs2.4bn, while EBITDA losses further improved to Rs1.6bn from Rs1.8bn in Q1FY25. The OTT platform released 16 shows and movies during the quarter. **What we liked:** Sustained growth in subscription revenues, margin recovery, reducing losses in Zee5. **What we did not like:** Continuous weakness in advertising revenue.

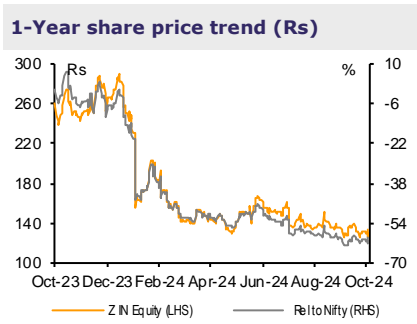
Earnings Call KTAs

1) Ad revenue: Sentiments were weak during Q2, particularly in July and August. There was some pickup in September leading up to the festive season. Ad spends have become more tactical in nature. 2) Subscription revenue: Growth has been aided by price hikes in linear TV and the growth in digital business. 3) Movie production: Zee Studios has a few planned releases in H2FY25 with some big-budget movies like Emergency and Game Changer. The company will remain at the forefront of movie production going ahead. 4) Zee5: Zee5’s performance has been improving over the last few quarters. Management is conscious of balancing margin profile with growth aspirations. Q2 saw an increase in paid subscribers and watch time on both YoY and QoQ basis. 5) Music: The company will continue to invest in the music segment with sharp focus on profitability. 6) Content and other expenses: The company has not seen any challenges in acquiring new content either on the linear TV or digital side. The aim is to bring down inventory and advances further. Wage hikes have been undertaken effective 1-Sep. 7) Industry: The management does not see any material change with the Reliance-Disney merger, though the combined entity may have some leverage on advertising dollars. On the digital side, the merged entity caters more on the sports side, whereas Zee’s strategy is entertainment focused. Linear television will remain relevant over the long term.

Target Price – 12M	Sep-25
Change in TP (%)	(6.7)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.7
CMP (18-Oct-24) (Rs)	132.5

Stock Data	Ticker
52-week High (Rs)	300
52-week Low (Rs)	125
Shares outstanding (mn)	960.5
Market-cap (Rs bn)	127
Market-cap (USD mn)	1,513
Net-debt, FY25E (Rs mn)	-5,894
ADTV-3M (mn shares)	19
ADTV-3M (Rs mn)	2,605.8
ADTV-3M (USD mn)	31.0
Free float (%)	96.0
Nifty-50	24,854
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	4.0
FPIs/MFs (%)	18.9/22.5

Price Performance			
(%)	1M	3M	12M
Absolute	1.0	(7.0)	(48.4)
Rel. to Nifty	3.1	(7.2)	(59.2)



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Exhibit 1: Actual vs Estimates (Q2FY25)

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	20,007	20,477	20,430	-2%	-2%	Broadly in line with estimates
EBITDA	3,210	2,560	2,570	25%	25%	Lower content cost, advertising, and other expenses
EBITDA, margin	16.0%	12.5%	12.6%	354 bps	346 bps	
PAT	2,094	1,483	968	41%	116%	Flow through of higher EBITDA

Source: Company, Emkay Research

Exhibit 2: Summary of quarterly financials

(Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Ad revenue	9,792	10,274	11,102	9,113	9,017	(7.9)	(1.1)
Subscription revenue	8,878	9,213	9,494	9,872	9,699	9.2	(1.8)
Others	5,708	970	1,103	2,320	1,291	(77.4)	(44.4)
Net sales	24,378	20,457	21,699	21,305	20,007	(17.9)	(6.1)
Programming cost	14,254	11,876	12,830	11,770	10,615	(25.5)	(9.8)
as % of sales	58.5	58.1	59.1	55.2	53.1		
Employee expenses	2,599	2,442	2,552	2,258	2,275	(12.5)	0.7
as % of sales	10.7	11.9	11.8	10.6	11.4		
Admin and other expense	4,198	4,047	4,215	4,561	3,907	(6.9)	(14.3)
as % of sales	17.2	19.8	19.4	21.4	19.5		
Total operating expenditure	21,050	18,365	19,597	18,589	16,797	(20.2)	(9.6)
EBITDA	3,328	2,092	2,103	2,717	3,210	(3.5)	18.2
Depreciation	772	761	772	756	732	(5.2)	(3.2)
EBIT	2,555	1,330	1,331	1,960	2,478	(3.0)	26.4
Other Income	718	277	154	190	337	(53.1)	77.5
Interest	234	183	69	55	83	(64.5)	49.8
Exceptional Item Fair value through P&L)	(1,267)	(551)	(265)	(373)	130		
PBT	1,772	872	1,151	1,722	2,862	61.5	66.2
Tax	544	288	1,018	542	769	41.5	41.8
PAT before MI	1,229	584	133	1,180	2,093	70.3	77.4
MI	(1)	(1)	(1)	(1)	(1)	11.1	11.1
PAT before comprehensive income	1,230	585	134	1,181	2,094	70.3	77.3
PAT after MI	1,230	585	134	1,181	2,094	70.3	77.3
Margins (%)						(bps)	(bps)
EBITDA	13.6	10.2	9.7	12.8	16.0	239	329
EBIT	10.5	6.5	6.1	9.2	12.4	190	318
EBT	7.3	4.3	5.3	8.1	14.3	703	622
PAT	5.0	2.9	0.6	5.5	10.5	542	492
Effective Tax rate	30.7	33.0	88.5	31.5	26.9	(380)	(462)

Source: Company, Emkay Research

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Old	Revised	Change	Old	Revised	Change	Old	Revised	Change
Ad revenue	42,255	39,977	-5.4%	45,386	41,811	-7.9%	48,664	44,245	-9.1%
Subscription revenue	39,037	39,301	0.7%	41,523	41,633	0.3%	44,181	44,227	0.1%
Revenue	89,012	86,490	-2.8%	94,509	91,044	-3.7%	101,245	96,872	-4.3%
EBITDA	13,238	13,161	-0.6%	17,250	15,555	-9.8%	19,477	17,751	-8.9%
EBITDA Margin (%)	15.5	15.2	-28 bps	18.3	17.1	-122 bps	19.2	18.3	-88 bps
PAT	7,506	7,382	-1.7%	10,827	9,637	-11.0%	13,223	11,881	-10.2%
EPS (Rs)	7.8	7.7	-1.5%	11.3	10.0	-11.2%	13.8	12.4	-10.4%

Source: Emkay Research

Zee Entertainment: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	80,879	86,372	86,490	91,044	96,872
Revenue growth (%)	(1.2)	6.8	0.1	5.3	6.4
EBITDA	11,011	9,071	13,161	15,555	17,751
EBITDA growth (%)	(36.1)	(17.6)	45.1	18.2	14.1
Depreciation & Amortization	3,128	3,091	3,616	3,372	2,923
EBIT	7,884	5,980	9,544	12,183	14,828
EBIT growth (%)	(46.6)	(24.1)	59.6	27.6	21.7
Other operating income	0	0	0	0	0
Other income	797	1,293	1,000	1,200	1,320
Financial expense	702	721	458	640	640
PBT	7,979	6,553	10,086	12,743	15,508
Extraordinary items	(5,333)	(3,324)	0	0	0
Taxes	2,167	1,818	2,702	3,098	3,620
Minority interest	0	0	0	0	0
Income from JV/Associates	(1)	4	(2)	(8)	(8)
Reported PAT	478	1,414	7,382	9,637	11,881
PAT growth (%)	(95.0)	196.0	421.9	30.5	23.3
Adjusted PAT	5,811	4,738	7,382	9,637	11,881
Diluted EPS (Rs)	0.5	1.5	7.7	10.0	12.4
Diluted EPS growth (%)	(95.0)	196.0	421.9	30.5	23.3
DPS (Rs)	0.0	0.4	2.3	3.0	3.7
Dividend payout (%)	0.0	30.0	30.0	30.0	30.0
EBITDA margin (%)	13.6	10.5	15.2	17.1	18.3
EBIT margin (%)	9.7	6.9	11.0	13.4	15.3
Effective tax rate (%)	27.2	27.7	26.8	24.3	23.3
NOPLAT (pre-IndAS)	5,743	4,321	6,988	9,221	11,367
Shares outstanding (mn)	960.3	960.3	960.3	960.3	960.3

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	7,979	6,553	10,086	12,743	15,508
Others (non-cash items)	0	0	0	0	0
Taxes paid	(2,167)	(1,818)	(2,702)	(3,098)	(3,620)
Change in NWC	(3,436)	(873)	(9,241)	(6,154)	(8,056)
Operating cash flow	1,741	4,160	2,666	6,854	6,747
Capital expenditure	(3,793)	(1,439)	(2,300)	(1,950)	(2,600)
Acquisition of business	0	0	0	0	0
Interest & dividend income	270	270	270	270	270
Investing cash flow	(2,675)	(184)	(1,300)	(750)	(1,280)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	2,057	(517)	1,800	0	0
Payment of lease liabilities	2,033	(513)	(200)	0	0
Interest paid	(702)	(721)	(458)	(640)	(640)
Dividend paid (incl tax)	0	(424)	(2,215)	(2,891)	(3,564)
Others	7,562	9,049	9,219	5,106	2,928
Financing cash flow	8,917	7,387	8,346	1,574	(1,276)
Net chg in Cash	7,984	11,363	9,711	7,679	4,190
OCF	1,741	4,160	2,666	6,854	6,747
Adj. OCF (w/o NWC chg.)	(1,695)	3,287	(6,575)	700	(1,310)
FCFF	(2,052)	2,721	366	4,904	4,147
FCFE	(2,484)	2,270	177	4,534	3,776
OCF/EBITDA (%)	15.8	45.9	20.3	44.1	38.0
FCFE/PAT (%)	(519.8)	160.5	2.4	47.0	31.8
FCFF/NOPLAT (%)	(35.7)	63.0	5.2	53.2	36.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	961	961	961	961	961
Reserves & Surplus	1,06,258	1,07,768	1,12,159	1,18,905	1,27,222
Net worth	1,07,219	1,08,729	1,13,120	1,19,866	1,28,182
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(4,229)	(4,542)	(5,451)	(5,451)	(5,451)
Total debt	2,820	2,303	4,103	4,103	4,103
Total liabilities & equity	1,05,810	1,06,490	1,11,773	1,18,519	1,26,835
Net tangible fixed assets	7,455	7,212	7,352	5,684	4,664
Net intangible assets	4,645	3,376	2,041	901	1,001
Net ROU assets	1,497	1,455	1,335	2,720	3,318
Capital WIP	191	93	93	93	93
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	8,314	11,731	9,997	12,010	12,593
Current assets (ex-cash)	1,09,230	1,05,784	1,14,537	1,21,663	1,31,829
Current Liab. & Prov.	27,167	23,161	23,582	24,553	26,663
NWC (ex-cash)	82,062	82,623	90,955	97,110	1,05,166
Total assets	1,05,810	1,06,490	1,11,773	1,18,519	1,26,835
Net debt	(5,493)	(9,427)	(5,894)	(7,907)	(8,490)
Capital employed	1,04,165	1,06,490	1,11,773	1,18,519	1,26,835
Invested capital	95,660	94,666	1,01,682	1,06,415	1,14,149
BVPS (Rs)	109.9	113.2	117.8	124.8	0.0
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	(0.5)	(1.0)	(0.4)	(0.5)	(0.5)
Interest coverage (x)	0.1	0.1	0.0	0.0	0.0
RoCE (%)	8.3	6.9	9.7	11.6	13.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	21.9	26.8	17.2	13.2	10.7
P/CE(x)	14.2	16.2	11.6	9.8	8.6
P/B (x)	1.2	1.2	1.1	1.1	0.0
EV/Sales (x)	1.5	1.4	1.4	1.3	1.2
EV/EBITDA (x)	11.1	13.0	9.2	7.7	6.7
EV/EBIT(x)	15.4	19.7	12.7	9.8	8.0
EV/IC (x)	1.3	1.2	1.2	1.1	1.0
FCFF yield (%)	(1.7)	2.3	0.3	4.1	3.5
FCFE yield (%)	(2.0)	1.8	0.1	3.6	3.0
Dividend yield (%)	0.0	0.3	1.7	2.3	2.8
DuPont-RoE split					
Net profit margin (%)	7.2	5.5	8.5	10.6	12.3
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 (%)	5.4	4.4	6.7	8.3	9.6
DuPont-RoIC					
NOPLAT margin (%)	7.1	5.0	8.1	10.1	11.7
IC turnover (x)	0.9	0.9	0.9	0.9	0.9
RoIC (%)	6.1	4.5	7.1	8.9	10.3
Operating metrics					
Core NWC days	370.3	349.2	383.8	389.3	396.3
Total NWC days	370.3	349.2	383.8	389.3	396.3
Fixed asset turnover	2.8	2.7	2.5	2.5	2.5
Opex-to-revenue (%)	31.1	31.2	31.0	30.4	30.4

Source: Company, Emkay Research

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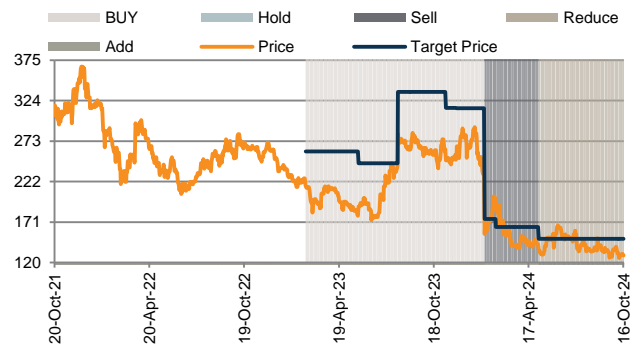
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	151	150	Reduce	Pulkit Chawla
31-Jul-24	149	150	Reduce	Pulkit Chawla
18-May-24	141	150	Reduce	Pulkit Chawla
06-May-24	136	150	Reduce	Pulkit Chawla
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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