

## Zee Entertainment Enterprises Ltd.

21<sup>st</sup> October 2024

Improvement in profitability continues, growth awaited

In Q2 FY25, Zee Entertainment Enterprises Ltd. (ZEEL) witnessed an overall topline degrowth of ~18% driven by a degrowth of 8% and 77%, respectively, in the advertisement and other segment due to weak ad sentiments and a strong base due to the release of Gadar 2 in Q2 FY24. Topline from the subscription segment grew by 9% on a YoY basis due to the implementation of NTO 3.0. During the quarter, ad spending from customers was subdued, but some greenshoots were visible from September'24. Going forward, ZEEL remains optimistic about all three segments as H2 FY25 looks promising owing to the festive season, continued subscription growth and planned movie releases. Despite the overall topline softness, ZEEL's margin expansion efforts continued to pay off in Q2 FY25 as well which was visible in the 200 bps and 300 bps EBITDA margin expansion on a YoY and QoQ basis, respectively.

### Progress continues in line with expectations

Following the termination of the merger between ZEE and SONY, ZEEL has commenced a strategic initiative to restore growth and enhance margins. This initiative has been paying off well in terms of margin. The EBITDA margin of the Company expanded by 200 bps and 300 bps on a YoY and QoQ basis, respectively. However, challenges with revenue growth continue, which ZEEL is aiming to address in H2 FY25. The Company is committed to achieving at least an 8-10% overall topline growth in the medium to long term. Additionally, the balance sheet of ZEEL is also relatively sound, with a cash surplus of ~Rs. 17.8 Bn and permission to raise Rs. 18 Bn further via FCCBs.

### Further moderation of losses in ZEE5

Losses regarding ZEEL's OTT platform ZEE5 continued to drop in Q2 FY25. The Company witnessed a reduction in EBITDA loss in ZEE5 to Rs. 15.9 Bn vs Rs. 17.8 Bn in Q1 FY25 and Rs. 25.4 Bn in Q2 FY24. This reduction is largely sustainable as the Company took calibrated cost reduction measures. According to the management, the EBITDA loss trajectory for ZEE5 will continue to be downward sloping. However, ZEEL will not shy away from investing in content whenever necessary for business growth.

### Sequential margin improvement from here will be driven by business growth

In Q2 FY25, ZEEL clocked an EBITDA margin of 16% against its guided range of 18-20% by FY26. The Company highlighted that the easy part (cost cutting) of bringing back margins is now over, and the margin expansion going forward will be a function of revenue growth and operating leverage. In summary, the key to further margin expansion lies in the execution quality of ZEEL to garner business growth.

### View & Valuation

While concerns around weak financials, governance, and litigation outcomes continue to persist, material signs of improving business have become evident. The sustainability of such performance will be crucial. Owing to the continued encouraging progress on profitability and our revised estimates, we maintain our BUY rating on ZEEL with a target price of Rs. 168 (~18x FY26E earnings).

## BUY

CMP Rs. 126

TARGET Rs. 168 (+33.4%)

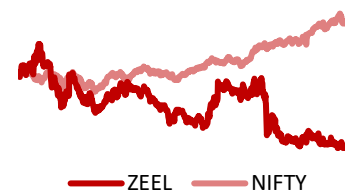
### Company Data

Bloomberg Code	Z IN
MCAP (Rs. Mn)	1,21,218
O/S Shares (Mn)	961
52w High/Low	300 / 125
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	2,416

### Shareholding Pattern %

	Jun '24	Mar '24	Dec '23
Promoters	3.99	3.99	3.99
FII's	18.90	19.18	28.19
DII's	22.42	35.45	43.57
Non-Institutional	54.68	41.38	24.25

### ZEEL vs Nifty



Oct, 21    Oct, 22    Oct, 23    Oct, 24

Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	86.4	88.9	96.4
EBITDA	9.1	13.1	16.6
Net Profit	1.5	7.4	9.0
Total Assets	134.5	145.9	154.6
ROCE (%)	5%	7%	8%
ROE (%)	1%	7%	8%

Source: Company, Keynote Capitals Ltd.

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Q2 FY25 Result Update

Result Highlights (Rs. Mn)

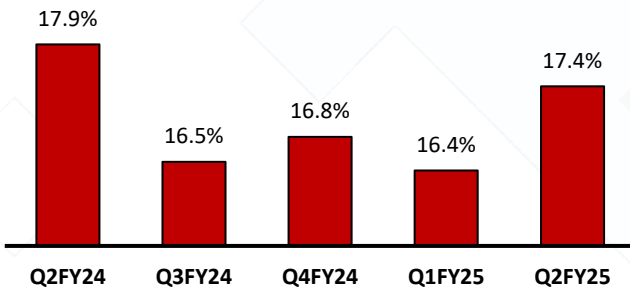
Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue	20,007	24,378	-18%	21,305	-6%	41,312	44,216	-7%	1,02,578
Advertisement	9,017	9,792	-8%	9,113	-1%	18,130	19,201	-6%	51,681
Subscription	9,699	8,878	9%	9,872	-2%	19,571	17,953	9%	42,849
Others	1,291	5,708	-77%	2,320	-44%	3,611	7,062	-49%	8,049
Operational Cost	10,615	14,254	-26%	11,770	-10%	22,385	25,687	-13%	57,516
Employee Cost	2,275	2,599	-12%	2,258	1%	4,533	5,195	-13%	10,789
A&SP	2,593	2,731	-5%	2,896	-10%	5,489	5,504	0%	13,196
Other Expense	1,292	1,467	-12%	1,676	-23%	2,968	2,915	2%	7,867
EBITDA	3,232	3,328	-3%	2,706	19%	5,937	4,915	21%	13,172
<b>EBITDA %</b>	<b>16%</b>	<b>14%</b>	<b>250 Bps</b>	<b>13%</b>	<b>346 Bps</b>	<b>14%</b>	<b>11%</b>	<b>325 Bps</b>	<b>13%</b>
Depreciation	732	772	-5%	756	-3%	1,488	1,558	-4%	3,900
EBIT	2,500	2,555	-2%	1,950	28%	4,449	3,358	32%	9,272
<b>EBIT %</b>	<b>12%</b>	<b>10%</b>	<b>201 Bps</b>	<b>9%</b>	<b>335 Bps</b>	<b>11%</b>	<b>8%</b>	<b>318 Bps</b>	<b>9%</b>
Finance Cost	83	234	-65%	55	50%	138	468	-71%	771
Other Income	337	718	-53%	190	77%	527	862	-39%	951
PBT	2,754	3,039	-9%	2,084	32%	4,838	3,752	29%	9,452
<b>PBT %</b>	<b>14%</b>	<b>12%</b>	<b>130 Bps</b>	<b>10%</b>	<b>398 Bps</b>	<b>12%</b>	<b>8%</b>	<b>323 Bps</b>	<b>9%</b>
Exceptional Items	109	-1,198	-	-286	-	-177	-1,904	-	-3,631
Share of Profit from Associates & JVs	1	1	-	1	-	2	2	-	0
Tax	769	544	-	542	-	1,311	512	-	3,185
<b>Profit from Continued Operations</b>	<b>2,095</b>	<b>1,299</b>	<b>61%</b>	<b>1,257</b>	<b>67%</b>	<b>3,352</b>	<b>1,338</b>	<b>151%</b>	<b>2,636</b>
<b>EPS (Continued Operations)</b>	<b>2.18</b>	<b>1.35</b>	<b>-</b>	<b>0.12</b>	<b>-</b>	<b>3.49</b>	<b>1.39</b>	<b>-</b>	<b>2.07</b>
Loss from Discontinued Operations	-1	-69	-	-76	-	-77	-642	-	-1,919
<b>Net Profit</b>	<b>2,094</b>	<b>1,230</b>	<b>70%</b>	<b>1,181</b>	<b>77%</b>	<b>3,275</b>	<b>695</b>	<b>371%</b>	<b>717</b>
<b>EPS (Total Operations)</b>	<b>2.18</b>	<b>1.28</b>	<b>-</b>	<b>1.23</b>	<b>-</b>	<b>3.41</b>	<b>0.72</b>	<b>-</b>	<b>1.47</b>

Source: Company, Keynote Capitals Ltd.

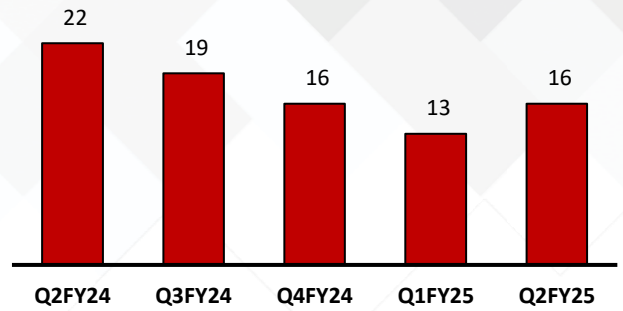
## ZEEL | Quarterly Update

### Quarterly Business Progression

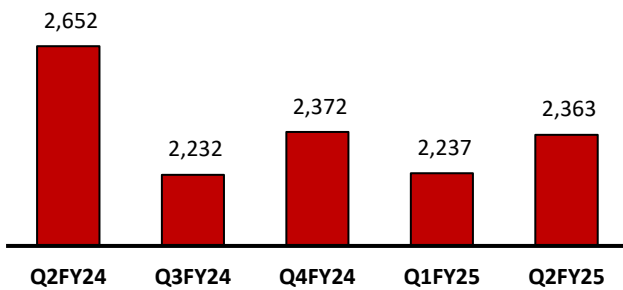
Zee Network Share (%)



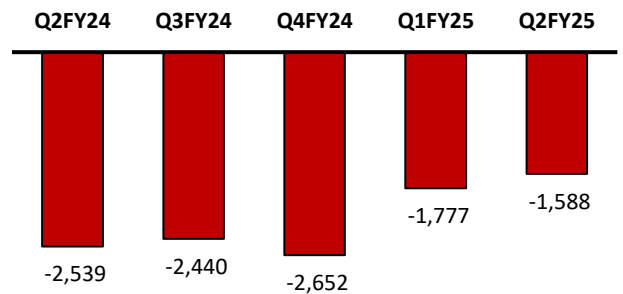
Titles Released on ZEE5



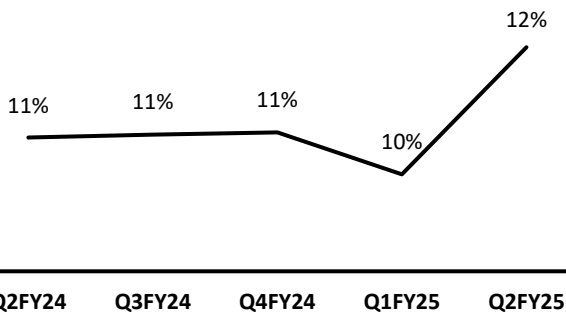
ZEE5 Revenue (Rs. Mn)



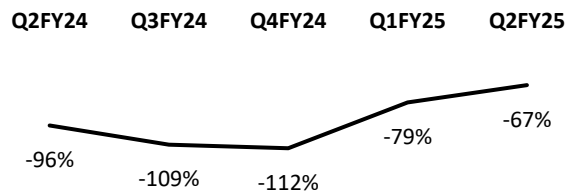
ZEE5 EBITDA (Rs. Mn)



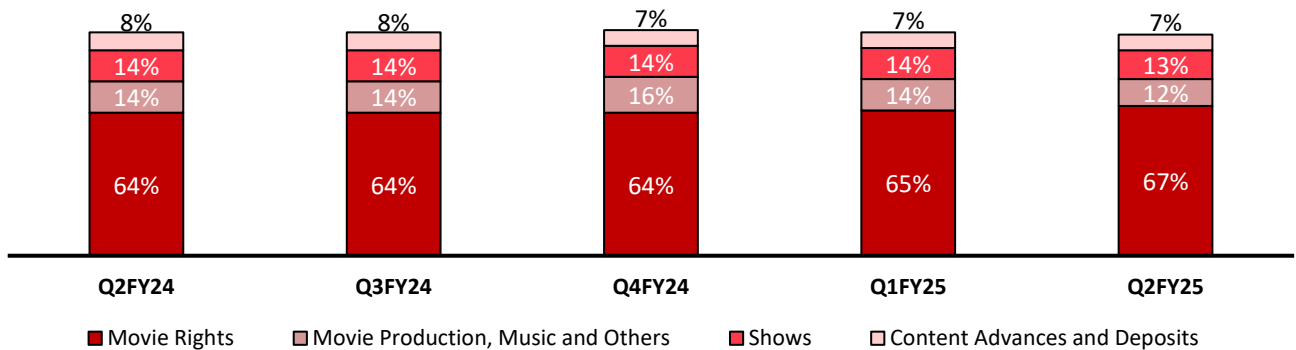
ZEE5 Revenue Contribution (%)



ZEE5 EBITDA Margin (%)



Inventory Break-up (%)



## ZEEL | Quarterly Update

### Q2 FY25 Conference Call Takeaways

#### Television

- Ad sentiments during the quarter were subdued, but minor pick-up was visible from September'24 onwards on account of the festival season. However, the most important thing to watch out for will be the sustainability of this pick-up.
- Outlook for the linear TV subscription business remains positive on account of the implementation of NTO 3.0. The Company anticipates subscription revenues to go up further in H2 FY25.
- As the business has started to do well, the Company has resumed to reinvest the earnings back into the business in the form of new shows, stepping up marketing spends and salary hikes.

#### Digital (ZEE5)

- Improvement is visible because of efforts to achieve a balanced cost structure. ZEEL aims to achieve a sustainable growth in ZEE5 from Q3 FY25 onwards.
- In Q2 FY25, subscription growth in ZEE5 was entirely owing to the addition of new paying subscribers (up both on a QoQ and YoY basis). Additionally, the average watch time has also gone up. ZEE5 continues to remain the most cost-effective OTT platform in India and therefore has a room to take a price hike as well.
- Over the long term, the trajectory of reducing losses will continue for ZEE5. There will be quarters where the Company may decide to reinvest back into the business but overall, losses will continue to go down.

#### Other Updates

- The movie pipeline in H1 FY25 was lean but there are planned releases that will take place in H2 FY25. Movie business continues to be important for ZEEL despite its risky nature. The Company slowed down its investments in movies in the last two years which are now expected to pickup.
- To mitigate risk, ZEEL will adopt a portfolio approach with a mix of both large ticket and small ticket movies. Also, as a remedial approach, all movies are backed with underwriting commitments from OTT platforms and other publishers. Therefore, box office is not the only point of making money from movies these days.
- Zee Music has been proven to be a key asset for the Company. ZEEL will continue to invest in this business and put efforts behind improving its scale and profitability.
- STAR has put up a case against ZEEL in London court asking for \$940 Bn (~Rs. 75 Bn) in damages. This is because ZEEL did not comply (because of its inability to pay money) with STAR under a deal to sub-license the ICC TV rights until 2027. Currently, ZEEL is yet to submit a reply to the court following which the legal proceedings will start in the London court.
- In this industry two big players (Reliance + Disney STAR) coming together doesn't have any significant advantage expect more marketing budget to spend. Additionally, ZEEL strategy isn't sports oriented unlike the former.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>80,879</b>	<b>86,372</b>	<b>88,960</b>	<b>96,386</b>	<b>1,04,907</b>
Growth %		7%	3%	8%	9%
Raw Material Expenses	44,686	50,393	46,704	49,928	54,342
Employee Expenses	8,238	10,188	10,493	10,602	10,491
Other Expenses	16,944	16,681	18,682	19,277	20,981
<b>EBITDA</b>	<b>11,011</b>	<b>9,110</b>	<b>13,081</b>	<b>16,578</b>	<b>19,093</b>
Growth %		-17%	44%	27%	15%
Margin%	14%	11%	15%	17%	18%
Depreciation	3,127	3,091	3,312	3,575	3,835
<b>EBIT</b>	<b>7,884</b>	<b>6,019</b>	<b>9,769</b>	<b>13,003</b>	<b>15,258</b>
Growth %		-24%	62%	33%	17%
Margin%	10%	7%	11%	13%	15%
Interest Paid	702	721	714	714	714
Other Income & exceptional	-2,500	-1,491	1,280	1,400	1,400
<b>PBT</b>	<b>4,682</b>	<b>3,807</b>	<b>10,335</b>	<b>13,690</b>	<b>15,944</b>
Tax	2,167	1,818	2,894	4,654	5,421
<b>PAT</b>	<b>2,515</b>	<b>1,989</b>	<b>7,441</b>	<b>9,035</b>	<b>10,523</b>
Others (Minorities, Associates)	-10	4	-10	-11	-11
Loss from Discontinued Operations	-2,036	-473	-80	0	0
<b>Net Profit</b>	<b>469</b>	<b>1,520</b>	<b>7,351</b>	<b>9,024</b>	<b>10,512</b>
Growth %		224%	384%	23%	16%
Shares (Mn)	960.5	960.5	960.5	960.5	960.5
<b>EPS</b>	<b>10.04</b>	<b>1.47</b>	<b>7.65</b>	<b>9.40</b>	<b>10.94</b>

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	8,040	11,932	17,610	19,768	22,243
Current Investments	0	0	0	0	0
Debtors	16,088	17,016	16,902	18,313	19,932
Inventory	73,079	69,129	75,616	81,928	89,171
Short Term Loans & Advances	13,334	0	0	0	0
Other Current Assets	1,733	13,356	13,356	13,356	13,356
<b>Total Current Assets</b>	<b>1,12,274</b>	<b>1,11,432</b>	<b>1,23,484</b>	<b>1,33,365</b>	<b>1,44,702</b>
Net Block & CWIP	13,788	13,000	12,357	11,191	9,979
Long Term Investments	349	368	357	347	336
Other Non-current Assets	6,642	9,697	9,697	9,697	9,697
<b>Total Assets</b>	<b>1,33,053</b>	<b>1,34,497</b>	<b>1,45,895</b>	<b>1,54,600</b>	<b>1,64,714</b>
Creditors	17,494	14,355	17,792	19,277	20,981
Provision	238	172	172	172	172
Short Term Borrowings	0	23	23	23	23
Other Current Liabilities	8,590	7,908	7,908	7,908	7,908
<b>Total Current Liabilities</b>	<b>26,322</b>	<b>22,457</b>	<b>25,895</b>	<b>27,380</b>	<b>29,084</b>
Long Term Debt	40	32	2,032	2,032	2,032
Deferred Tax Liabilities	-4,229	0	0	0	0
Other Long Term Liabilities	3,702	3,278	3,278	3,278	3,278
<b>Total Non Current Liabilities</b>	<b>-487</b>	<b>3,310</b>	<b>5,310</b>	<b>5,310</b>	<b>5,310</b>
Paid-up Capital	961	961	961	961	961
Reserves & Surplus	1,06,257	1,07,768	1,13,729	1,20,949	1,29,358
Shareholders' Equity	1,07,218	1,08,729	1,14,690	1,21,909	1,30,319
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,33,053</b>	<b>1,34,497</b>	<b>1,45,895</b>	<b>1,54,600</b>	<b>1,64,714</b>

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	4,682	3,807	10,335	13,690	15,944
Discontinued Operations	-2,069	-591	0	0	0
Adjustments	5,294	2,316	2,726	2,889	3,149
Change in Working Capital	-2,722	16,752	-2,936	-6,238	-7,158
Total Tax Paid	-3,893	-2,401	-2,894	-4,654	-5,421
<b>Cash flow from operating Activities</b>	<b>1,292</b>	<b>20,473</b>	<b>7,231</b>	<b>5,686</b>	<b>6,514</b>
Net Capital Expenditure	-2,559	-1,014	-2,669	-2,410	-2,623
Change in investments	-18	75	0	0	0
Other investing activities	562	465	1,300	1,400	1,400
<b>Cash flow from investing activities</b>	<b>-2,015</b>	<b>-474</b>	<b>-1,369</b>	<b>-1,010</b>	<b>-1,223</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	24	-4	2,000	0	0
Dividend (incl. tax)	-2,882	-304	-1,470	-1,805	-2,102
Other financing activities	-1,225	-2,731	-714	-714	-714
<b>Cash flow from financing activities</b>	<b>-4,083</b>	<b>-3,039</b>	<b>-184</b>	<b>-2,519</b>	<b>-2,816</b>
Net Change in cash	-4,806	16,960	5,678	2,158	2,475

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>					
EPS	10	1	8	9	11
Growth %		-85%	421%	23%	16%
Book Value Per Share	112	113	119	127	136
<b>Return Ratios</b>					
Return on Assets (%)	2%	1%	5%	6%	7%
Return on Equity (%)	2%	1%	7%	8%	8%
Return on Capital Employed (%)	1%	5%	7%	8%	9%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.7
Sales / Gross Block (x)	3.0	3.0	2.8	2.8	2.8
Working Capital / Sales (%)	108%	101%	105%	106%	106%
Receivable Days	76	70	70	67	67
Inventory Days	559	515	566	576	575
<b>Liquidity Ratios</b>					
Current Ratio (x)	4.3	5.0	4.8	4.9	5.0
Interest Coverage Ratio (x)	12.4	10.1	15.5	20.2	23.3
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.1	-0.1	-0.1	-0.2
<b>Valuation</b>					
PE (x)	28.7	162.1	31.1	25.4	21.8
Earnings Yield (%)	3%	1%	3%	4%	5%
Price to Sales (x)	2.5	2.7	2.6	2.4	2.2
Price to Book (x)	1.9	2.1	2.0	1.9	1.8
EV/EBITDA (x)	18.5	23.7	16.5	13.0	11.3
EV/Sales (x)	2.5	2.5	2.4	2.2	2.1

Source: Company, Keynote Capitals Ltd. estimates

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
3 <sup>rd</sup> February 2023	BUY	221	+14%
14 <sup>th</sup> February 2023	BUY	216	+17%
29 <sup>th</sup> May 2023	BUY	193	+25%
11 <sup>th</sup> August 2023	BUY	271	+17%
13 <sup>th</sup> November 2023	BUY	252	+15%
1 <sup>st</sup> February 2024	NEUTRAL	170	+2%
15 <sup>th</sup> February 2024	REDUCE	188	-6%
21 <sup>st</sup> May 2024	NEUTRAL	147	+4%
5 <sup>th</sup> August 2024	BUY	134	+17%
21 <sup>st</sup> October 2024	BUY	126	+33%

Source: Company, Keynote Capitals Ltd. estimates

**Rating Methodology**

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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