

Zee Entertainment

BSE SENSEX 35,520
 S&P CNX 11,008

CMP: INR517 TP: INR680 (+31%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	Z IN
Equity Shares (m)	961
M.Cap.(INRb)/(USD\$b)	496.8 / 7.3
52-Week Range (INR)	619 / 477
1, 6, 12 Rel. Per (%)	-9/-17/-15
12M Avg Val (INR M)	1247
Free float (%)	58.4

Financials & Valuations (INR b)

Y/E MARCH	2018	2019E	2020E
Sales	66.9	76.3	87.3
EBITDA	20.8	24.3	28.5
NP	14.0	15.5	18.8
EPS (Rs)	14.6	16.1	19.5
EPS Growth (%)	-7.0	10.6	21.3
BV/Share (Rs)	78.7	91.0	107.0
P/E (x)	35.5	32.1	26.5
P/BV (x)	6.6	5.7	4.8
EV/EBITDA (x)	23.2	19.6	16.3
EV/Sales (x)	8.3	7.1	6.1
RoE (%)	19.6	19.0	19.7
RoCE (%)	16.5	17.6	19.7

Estimate change 

TP change 

Rating change 

Strong domestic ad revenue drives performance, earnings outlook upbeat

Healthy ad growth drives earnings: Zee reported strong 1QFY19 results, with ex-sports consol. revenue growing 17% YoY to INR17.7b (in-line) and EBITDA increasing 17% YoY to INR5.7b. The robust performance can be attributed to strong domestic ad revenue growth of 22% YoY, given viewership share improvement and healthy industry adspend. Domestic subscription revenue grew 12% YoY to INR4.3b. EBITDA margin expanded 50bp YoY to 31.9%, as strong revenue growth was partly offset by a 14%/21% YoY rise in content/SGA expenses. Adjusted for fair value change, PAT is up 15% YoY, implying an 8% miss on account of low other income, high depreciation and tax expenses.

Concall highlights: (1) Industry ad growth to exceed estimate of +12%. Zee likely to outperform industry. Domestic subscription revenue to grow in low-teens. (2) Zee5 is among top-5 entertainment platforms; target is to scale it up to top position in 18-24 months. Will increase original content from 14 to 34 shows by 2QFY19. Expect breakeven in ~5 years. (3) Malayalam channel to be launched in Sep'18, subject to regulatory approval. (4) EBITDA margin guidance of 30%+ factors in all new content and marketing costs across platforms.

Expect 17% EBITDA CAGR over FY8-20: Our consol. revenue/EBITDA estimates are largely intact – 14%/17% CAGR over FY18-20 – led by (1) domestic ad revenue growth of 16% and (b) subscription revenue growth of 13%.

Investment in content would limit EBITDA margin expansion to 160bp (to 32.6%) over FY18-20. Adj. PAT is expected to grow at 16% CAGR over FY18-20.

Valuation view: We value ZEE at 35x P/E (three-year average) on FY20E EPS of INR19.5, arriving at a TP of INR680 (prior: INR690). We believe the premium valuation is justified by (1) steady 16% EPS CAGR over FY18-20E and RoIC improvement to 24%, (2) reinvestment of incremental margins, offering consistent growth potential and (3) largely overplayed concerns about digital impacting TV revenues. Maintain **Buy**.

Consolidated - Quarterly Earning Model

Y/E March	(INR m)											
	FY18				FY19				FY18	FY19E	1QFY19E	v/s est (%)
1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE					
Total Revenue from Operations	15,403	15,821	18,381	17,253	17,720	18,319	20,788	19,503	66,857	76,330	17,838	-0.7
YoY Change (%)	-2.0	-6.7	12.1	12.9	15.0	15.8	13.1	13.0	3.9	14.2	15.8	
Total Expenditure	10,559	10,909	12,437	12,191	12,064	12,191	14,024	13,712	46,095	51,991	12,166	-0.8
EBITDA	4,844	4,912	5,944	5,062	5,657	6,128	6,764	5,791	20,761	24,339	5,672	-0.3
Margins (%)	31.4	31.0	32.3	29.3	31.9	33.4	32.5	29.7	31.1	31.9	31.8	12
Depreciation	311	411	505	594	576	582	582	582	1,821	2,321	539	
Interest	147	3	24	1,274	53	0	0	451	1,448	504	0	
Other Income	1,011	2,031	480	881	498	569	569	569	4,404	2,206	585	
FV through P&L gain/(loss)	-532	-148	-419	1,032	-213	0	0	0	-68	-213	0	
PBT before EO expense	4,864	6,381	5,477	5,106	5,312	6,115	6,752	5,328	21,829	23,507	5,718	-7.1
Extra-Ord expense	0	-1,346	0	0	0	0	0	0	-1,346	0	0	
PBT	4,864	7,727	5,477	5,106	5,312	6,115	6,752	5,328	23,175	23,507	5,718	-7.1
Tax	2,376	1,832	1,739	2,805	2,071	2,079	2,296	1,811	8,409	8,257	1,944	
Rate (%)	48.8	23.7	31.7	54.9	39.0	34.0	34.0	34.0	36.3	35.1	34.0	
MI & P/L of Asso. Cos.	4	-16	-4	-9	-23	0	0	0	-25	-23	0	
Reported PAT	2,484	5,912	3,743	2,310	3,264	4,036	4,456	3,516	14,791	15,272	3,774	-13.5
Adj PAT	3,016	5,032	4,162	1,278	3,477	4,036	4,456	3,516	14,001	15,485	3,774	-7.9
Margins (%)	19.6	31.8	22.6	7.4	19.6	22.0	21.4	18.0	20.9	20.3	21.2	

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Valuation and view

- **Ad revenue growth:** Healthy viewership, coupled with strong momentum in adspend across categories, should bolster ad revenue growth. This, along with management's indication that industry ad growth would be higher than earlier estimate of 12% and that ZEE should outperform industry, augurs well for the company. We expect healthy ad revenue CAGR of 15% over FY18-20.
- **Subscription revenue growth:** We expect subscription revenue to grow at a steady 12% CAGR over FY18-20, led by increased transparency in pricing across DPOs (on account of TRAI's tariff order) and an increase in ARPU.
- **EBITDA margin:** We have built in steady EBITDA margin improvement of 160bp to 32.7% by FY20, considering that management plans to continue investing heavily in content so as to ramp-up ZEE5. Besides, the launch of new channels would also limit margin expansion. Despite this, we believe the company has the potential to drive secular 16% adj. PAT growth over FY18-20, led by robust revenue growth.

Exhibit 1: ZEE – Business Construct

Particulars	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Advertisement revenue (INR b)	19.6	23.8	26.6	33.7	36.7	42.0	48.6	56.1	64.8
Advertisement revenue growth (%)	24.0	21.2	11.8	26.5	9.2	14.5	15.5	15.5	15.6
Subscription revenue growth									
-Domestic revenue (INR b)	11.6	13.2	14.2	16.3	18.2	16.4	18.5	21.1	24.1
-Domestic revenue growth (%)	26.3	13.2	8.0	14.5	11.8	-10.1	13.0	14.0	14.0
-International revenue (INR b)	4.6	4.8	3.7	4.3	4.4	3.9	4.1	4.1	4.2
-International revenue growth (%)	14.0	5.5	-23.5	15.4	3.0	-11.5	4.0	2.0	2.0
Total Subscription revenue (INR b)	16.2	18.0	17.9	20.6	22.6	20.3	22.6	25.2	28.3
Total Subscription revenue growth (%)	22.6	11.0	-0.4	14.7	10.0	-10.4	11.3	11.8	12.0
Total Revenue (INR b)	37.0	44.2	48.8	58.1	64.3	66.9	76.3	87.3	100.0
Total Revenue growth (%)	21.7	19.5	10.4	19.0	10.7	3.9	14.2	14.4	14.5
EBITDA (INR b)	9.5	12.0	12.5	15.1	19.3	20.8	24.3	28.5	33.2
EBITDA margin (%)	25.8	27.2	25.7	26.0	29.9	31.1	31.9	32.6	33.2
EPS (INR)	7.5	9.2	8.9	9.5	15.7	14.6	16.1	19.5	23.4
EPS growth (%)	22.8	21.9	-3.1	6.3	65.4	-7.0	10.6	21.3	19.7

Source: MOSL, Company

What it means for the target price

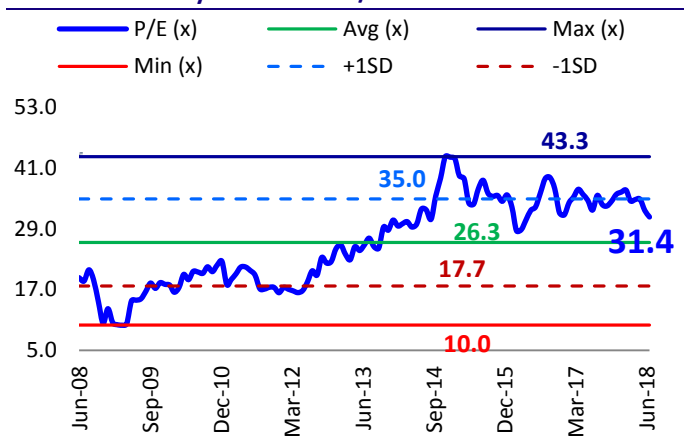
- **3-year view:** Given (a) steady 17% EPS CAGR over FY18-21 and improving RoIC of over 25% (b) strategy of reinvesting incremental margin to fuel growth, (c) overplayed concerns about digital impacting TV revenues and (d) strong FCF generation, we maintain 35x P/E (3-year average), valuing the company at INR819, offering 58% upside.
- **1-year view:** We value ZEE at 35x P/E (three-year average) on FY20E EPS of INR19.5, arriving at a TP of INR680 (v/s earlier INR690). Given steady 16% EPS growth estimate over FY18-20E, healthy RoIC of ~24% and strong FCF generation, we maintain 35x P/E (3-year average). This values the company at INR680, offering 32% upside.

Exhibit 2: Valuation based on FY20E P/E

Particulars	INR
FY20E EPS	19.5
PE multiple (x)	35
Target Price (INR)	680
CMP (INR)	517
Upside (%)	32%

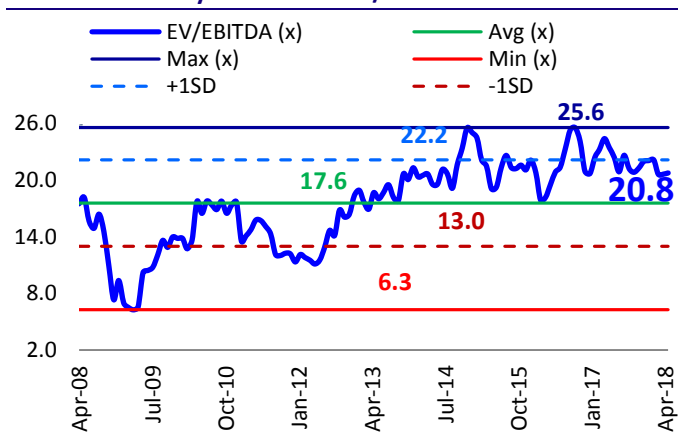
Source: MOSL, Company

Exhibit 3: ZEE: 1-year forward P/E band



Source: Bloomberg, MOSL

Exhibit 4: ZEE: 1-year forward EV/EBITDA band



Source: Bloomberg, MOSL

Key Triggers

- Sustainable ad revenue growth led by steady industry growth and healthy viewership market share.
- Digitization led healthy subscription revenue growth over next 2-3 years.

Key risk factors

- Intense competition across genres leading to lower viewership, and thus, impacting yields.
- Heavy investment in digital – OTT application, movie production and aggressive ramp-up in movie library.



1QFY19 Earnings call highlights

Key takeaways

- Industry ad growth could exceed previous expectation of +12% -- this is based on our discussion with ad agencies, which highlighted upbeat spending budgets by advertisers. Zee should grow above industry. Domestic subscription revenue should grow in low teens.
- ZEE5 is amongst the top 5 entertainment platforms in India; the target is to reach the top position in 18-24 months. Will increase original content from 14 to 34 shows by 2QFY19. Expect breakeven in ~5 years.
- Malayalam channel should be launched in Sept, subject to regulatory approval. It plans to launch Punjabi channel and movie channels in other regional market.
- EBITDA margin guidance of 30%+ factors in all new content and marketing costs on TV and digital, including the regional market.

1QFY19 performance

- Domestic ad revenue grew 22%, led by demand across categories and increase in network share.
- Dip in international ad revenue is due to geopolitical pressure in Middle East.
- International subscription revenue has been impacted by a change from Pay TV to FTA channel in the UK market.
- Other income is not comparable on YoY/QoQ basis due to: 1) absence of forex gains YoY basis and absence of income tax refund on QoQ basis and 2) change in accounting policy for MTM.
- Performance in Tamil and Bengali genre continues to improve.
- ZEE has gained market share in Tamil genre, despite increased competitive intensity.
- Rebranding of 'Zee Studio' as '&flix' is to leverage the '&' brand content. Management eyes growth in the viewership share from the same.
- 50m active industry English channel viewers.

Industry Outlook

- Cap of 15% discounting for Bouquet channel price-pack vis-a-vis ala-carte channel prices has been removed in the TRAI's order.
- Industry ad growth could be higher compared to the initial expectation, as per discussion with ad agencies.
- Broadcaster's share should continue to remain at 25-35% of the industry subscription revenue. Increase in ARPU would lead to an uptick in subscription revenue
- All technology – DTH, Cable and FTTH should co-exist in the longer term.
- As the content viewing is diverse, unlike telecom, single player cannot pull the market.
- Digital content library could be 800hrs annually compared to 400hrs weekly on TV network. So cost/hour might not be the proper metric to evaluate digital segment
- Globally, broadcasters get 30% of the subscription revenue with 2-3 TV distributors in each market, while in India despite having a fragmented distributor market, subscription share at low. So consolidation should benefit as

it would provide distributors wherewithal to improve ARPUs and subsequently improve subscription revenue.

- Jio may be aggressive on the FTTH side which could put pressure on cable however, it may not impact content player.

Business outlook

- ZEE's ad revenue should grow at a higher rate than the industry ad growth.
- In the new TRAI tariff order regime, subscription revenue should continue to grow at a steady pace. Management has maintained its guidance of low-teens growth.
- Margin guidance of 30%+ is after factoring in the investment in all regional markets and ZEE5.
- Tax rate should be 35% on annualized basis
- Depreciation of 1QFY19 should be the new run-rate for FY19
- Management is contemplating rebranding of Zee Café as '&' branded channel going forward.
- ZEE would continue to strengthen its viewership share in all existing regional markets. Besides, it is also evaluating foray into other regional markets.
- Management does not foresee any impact from RJio's FTTH launch.
- Malayalam GEC is expected to launch by Sept-19, subject to regulatory approval.
- Management is working on the launch of Punjabi regional channel.
- Movie library inventory has gone up due to expansion of library in existing regional and new markets where ZEE has aspiration to launch movie channel as well as for ZEE5. Thus, inventory days is expected to come down post 12 months.

ZEE5 updates

- Management plans to launch ZEE5 globally by the end of FY19, but in a phased manner.
- Spending for digital content on ZEE5 would continue to remain heavy and in 18-24month, management expects that ZEE5 should be the top digital entertainment platform in India.
- ZEE5 could take closer to 5 years to breakeven.
- ZEE5 is amongst the top 5 digital entertainment platforms in India as per monthly active users and management is committed to make ZEE5 the top destination for entertainment in India.
- ZEE has released 14 ZEE5 original series and will more than double by adding 20 more by 2QFY19. It has the largest regional content on OTT platforms.
- Reduction of subscription fee on ZEE5 is a marketing promotion which will be valid until Aug-15th.
- ZEE has not signed any telecom deals for ZEE5.
- ZEE5's operating metrics will be shared by end of 2QFY19. Management hinted that the time spent/user/month on is going up.
- Subscribers for ZEE5 should see a gradual uptick based on the pipeline of fresh content.
- ZEE5 cannibalizing the ZEE's international subscription revenue allows it to own customer directly.
- Marketing push for ZEE5 was awaiting for the Tentpole content launch of Karenjit Kaur. Next 75 days should see aggressive marketing.

Balance sheet and cash flows

- As on Jun-18, cash and treasury investments stood at INR30b.
- Management plans to bring back surplus cash funds outside India. It has already repatriated surplus cash pertaining to the sale of sports business and will be bring the balance back in due time.
- Inventory of movie library includes content for genre even where are no channels, e.g., Malayalam

Exhibit 5: Quarterly performance (INR m)

	1QFY18	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Advertising revenue	9,665	10,496	11,460	18.6	9.2	11,277	1.6
Subscription revenue	4,791	5,465	5,186	8.3	-5.1	5,472	-5.2
Other sales and services	947	1,292	1,074	13.4	-16.9	1,089	-1.4
Total revenue	15,403	17,253	17,720	15.0	2.7	17,838	-0.7
Total operating expenses	10,559	12,191	12,064	14.3	-1.0	12,166	-0.8
EBITDA	4,844	5,062	5,657	16.8	11.7	5,672	-0.3
EBITDA margin (%)	31.4	29.3	31.9	47bp	258bp	31.8	12bp
Depreciation	311	594	576	85.4	-3.0	539	7.0
Finance Cost	147	1,274	53	-64.0	-96	0	22173.7
Other income	1,011	881	498	-50.8	-43.5	585	-14.9
Fair Value through P&L	-532	1,032	-213	-60.0	-120.6	0	NM
PBT	4,864	5,106	5,312	9.2	4.0	5,718	-7.1
Exceptional item	0	0	0	NA	NA	0	NA
Reported PBT	4,864	5,106	5,312	9.2	4.0	5,718	-7.1
Tax	2,376	2,805	2,071	-12.9	-26.2	1,944	6.5
Effective Tax Rate (%)	48.8	54.9	39.0	-987	-1,596	34.0	498bps
PAT before MI and associates	2,488	2,301	3,241	30.3	40.9	3,774	-14.1
Associates/Minority Interest	4	-9	-23	-638.1	143.0	0	
Reported PAT	2,484	2,310	3,264	31.4	41.3	3,774	-13.5
Adjusted PAT	3,016	1,278	3,477	15.3	172.0	3,774	-7.9

Advertisement revenue (INR m)	1QFY18	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Domestic	8,889	9,834	10,870	22.3	10.5	10,252	6.0
International	776	662	590	-24.0	-10.9	1,025	-42.5
Total advertisement revenue	9,665	10,496	11,460	18.6	9.2	11,277	1.6

Subscription revenue (INR m)	1QFY18	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Domestic	3,788	4,521	4,252	12.2	-6.0	4,318	-1.5
International	1,003	944	934	-6.9	-1.1	1,153	-19.0
Total subscription revenue	4,791	5,465	5,186	8.2	-5.1	5,472	-5.2

Operating costs (INR m)	1QFY18	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Prog, Transmission & Direct Exp.	5,863	6,893	6,683	14.0	-3.0	6,772	-1.3
Staff Cost	1,669	1,638	1,714	2.7	4.6	1,919	-10.7
Selling and Other Exp.	3,027	3,660	3,667	21.2	0.2	3,474	5.5
Total operating costs	10,559	12,191	12,064	14.3	-1.0	12,166	-0.8

Ex-sports business (INR m)	1QFY18	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Revenue	15,202	17,253	17,720	16.6	2.7	17,838	-0.7
Operating cost	10,358	12,191	12,064	16.5	-1.0	12,166	0.0
EBITDA	4,844	5,062	5,657	16.8	11.7	5,672	-0.3
EBITDA margin (%)	31.9	29.3	31.9	6bp	258bp	31.8	12bp

Source: Company, MOSL

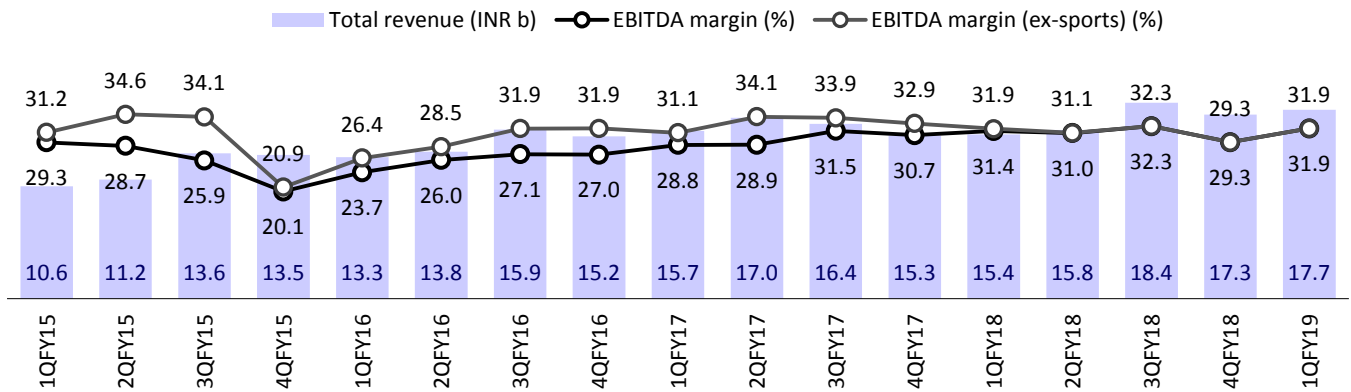
Exhibit 6: Summary of estimate change (INR b)

	FY19E	FY20E
Total revenue		
Old	76.6	87.8
New	76.3	87.3
Change (%)	-0.4	-0.6
EBITDA		
Old	24.4	28.7
New	24.3	28.5
Change (%)	-0.3	-0.8
EBITDA margin (%)		
Old	31.8	32.7
New	31.9	32.6
Change (bp)	3.8	-7.7
PAT		
Old	15.9	18.9
New	15.3	18.8
Change (%)	-3.9	-0.7
Adj. EPS (INR)		
Old	16.5	19.7
New	16.1	19.5
Change (%)	-2.6	-0.7

Source: Company, MOSL

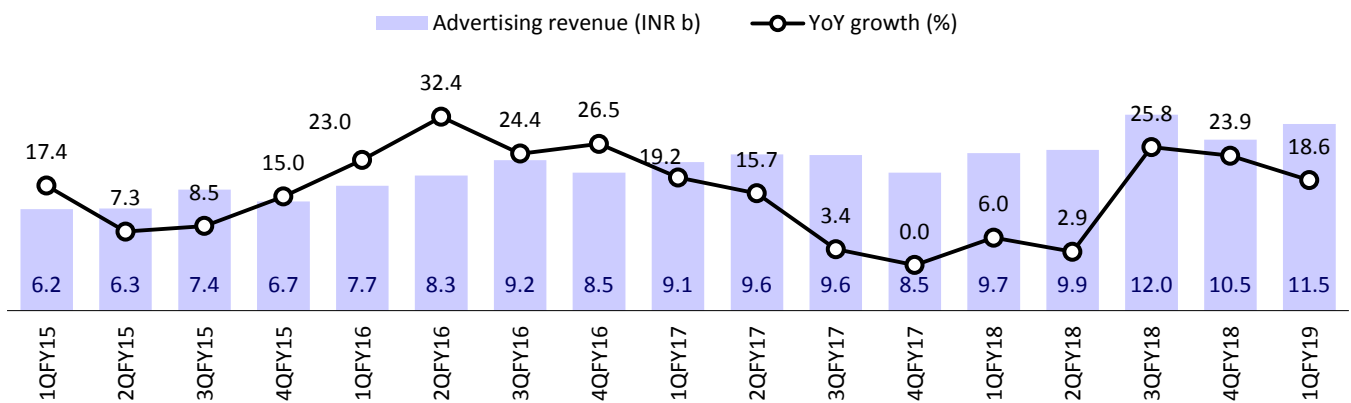
Story in charts

Exhibit 7: Consol. revenue and EBITDA margin (INR b, %)



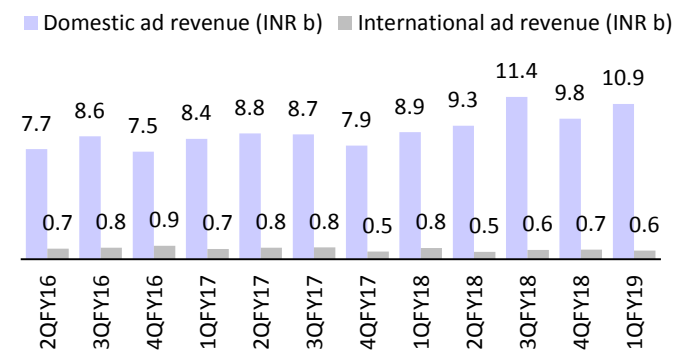
Source: Company, MOSL

Exhibit 8: Ad revenue and YoY growth (INR b, %)



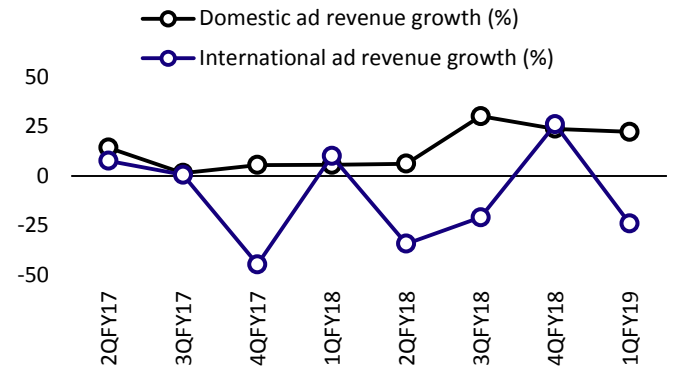
Source: Company, MOSL

Exhibit 9: Domestic and International ad revenue (INR b)



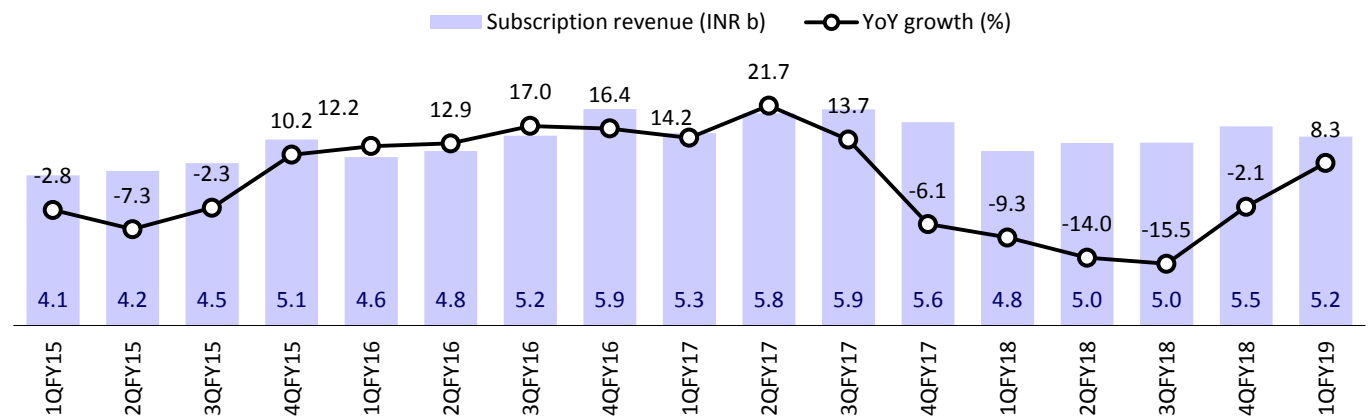
Source: MOSL, Company

Exhibit 10: Domestic and International ad revenue growth (%)



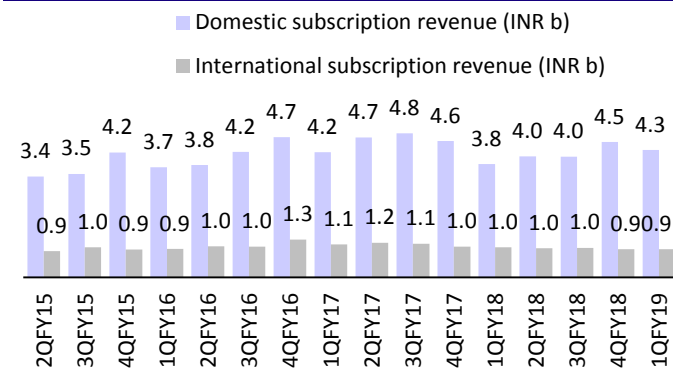
Source: MOSL, Company

Exhibit 11: Subscription revenue and YoY growth (INR b, %)



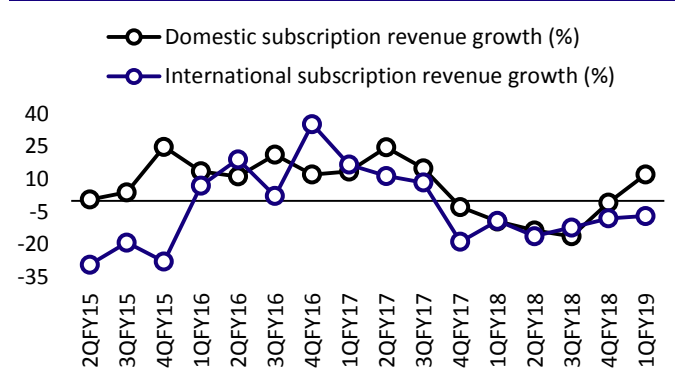
Source: Company, MOSL

Exhibit 12: Domestic and International subscription revenue (INR b)



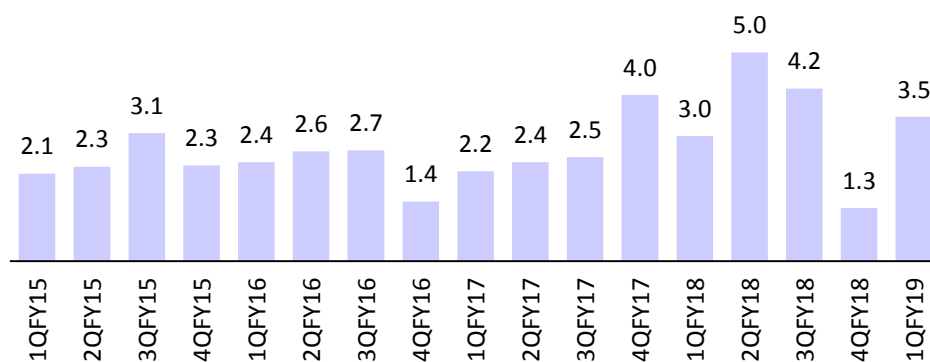
Source: MOSL, Company

Exhibit 13: Domestic and International subscription revenue growth (%)



Source: MOSL, Company

Exhibit 14: Trend in Adj. PAT (INR b)



Source: Company, MOSL

Exhibit 15: Zee Entertainment: A Snapshot (INR b)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Advertisement Revenue	19.6	23.8	26.6	33.7	36.7	42.0	48.6	56.1
YoY (%)	24	21	12	26	9	14	15	16
Subscription Revenue	16.2	18.0	17.9	20.6	22.6	20.3	22.6	25.2
YoY (%)	23	11	0	15	10	-10	11	12
- Domestic	11.6	13.2	14.2	16.3	18.2	16.4	18.5	21.1
YoY (%)	26	13	8	14	12	-10	13	14
- International	4.6	4.8	3.7	4.3	4.4	3.9	4.1	4.1
YoY (%)	14	6	-23	15	3	-11	4	2
Other Sales & Services	1.1	2.4	4.3	3.9	5.0	4.5	5.2	6.0
YoY (%)	-15	113	80	-9	28	-9	15	15
Total Revenue	37.0	44.2	48.8	58.1	64.3	66.9	76.3	87.3
YoY (%)	22	20	10	19	11	4	14	14
Operating expenses	27.5	32.2	36.3	43.0	45.1	46.1	52.0	58.8
YoY (%)	19	17	13	18	5	2	13	13
EBITDA	9.5	12.0	12.5	15.1	19.3	20.8	24.3	28.5
YoY (%)	29	26	4	21	27	8	17	17
EBITDA margin (%)	25.8	27.2	25.7	26.0	29.9	31.1	31.9	32.6
Revenue mix (%)								
Ad and broadcast revenue	53	54	54	58	57	63	64	64
Subscription revenue	44	41	37	35	35	30	30	29
- Domestic	31	30	29	28	28	25	24	24
- International	12	11	8	7	7	6	5	5
Other sales and services	3	5	9	7	8	7	7	7
Sports/Non-sports break-up								
Revenue	37.0	44.2	48.8	58.1	64.3	66.9	76.3	87.3
-Sports	5.0	6.6	6.3	6.3	6.3	0.2	0.0	0.0
-Non-sports	32.0	37.6	42.5	51.8	58.0	66.6	76.3	87.3
EBITDA	9.5	12.0	12.5	15.1	19.3	20.8	24.3	28.5
-Sports	-0.9	-1.0	-0.3	-0.3	0.1	0.0	0.0	0.0
-Non-sports	10.4	13.0	12.8	15.5	19.2	20.8	24.3	28.5
EBITDA margin (%)	25.8	27.2	25.7	26.0	29.9	31.1	31.9	32.6
-Sports	-17.5	-14.8	-4.2	-5.5	1.5	0.0	0.0	0.0
-Non-sports	32.5	34.6	30.1	29.8	33.0	31.1	31.9	32.6

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	36,997	44,217	48,837	58,125	64,341	66,857	76,330	87,316
Change (%)	21.7	19.5	10.4	19.0	10.7	3.9	14.2	14.4
Programming/Production expenses	13,962	17,056	20,135	25,984	27,757	25,275	28,720	32,595
Employees Cost	3,491	3,905	4,498	4,986	6,043	6,657	7,189	8,267
Other Expenses	9,999	11,214	11,666	12,019	11,273	14,164	16,082	17,951
Total Expenditure	27,452	32,175	36,299	42,989	45,073	46,095	51,991	58,813
% of Sales	74.2	72.8	74.3	74.0	70.1	68.9	68.1	67.4
EBITDA	9,545	12,042	12,538	15,136	19,269	20,761	24,339	28,503
Margin (%)	25.8	27.2	25.7	26.0	29.9	31.1	31.9	32.6
Depreciation	399	501	673	777	1,152	1,821	2,321	2,415
EBIT	9,146	11,541	11,865	14,359	18,116	18,941	22,018	26,088
Int. and Finance Charges	86	158	103	1,598	1,372	1,448	504	1
Other Income	1,461	1,807	2,278	1,951	2,241	4,404	2,206	2,329
Fair Value through P&L gain/(loss)	0	0	0	-673	-2,205	-68	-213	0
PBT bef. EO Exp.	10,521	13,191	14,040	14,039	16,780	21,829	23,506	28,416
EO Items	0	0	0	-331	12,234	1,346	0	0
PBT after EO Exp.	10,521	13,191	14,040	13,708	29,014	23,175	23,506	28,416
Total Tax	3,337	4,291	4,284	5,491	6,809	8,409	8,257	9,661
Tax Rate (%)	31.7	32.5	30.5	40.1	23.5	36.3	35.1	34.0
Minority Interest/Associate	-14	-21	-20	-14	-8	-25	-23	-23
Reported PAT	7,198	8,921	9,776	8,231	22,213	14,791	15,272	18,777
Adjusted PAT	7,198	8,921	9,776	9,102	15,054	14,001	15,485	18,777
Change (%)	22.2	23.9	9.6	-6.9	65.4	-7.0	10.6	21.3
Margin (%)	19.5	20.2	20.0	15.7	23.4	20.9	20.3	21.5

Consolidated - Balance Sheet								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	954	960	960	960	960	961	961	961
Total Reserves	38,161	26,247	34,346	47,079	65,945	74,657	86,471	1,01,790
Net Worth	39,115	27,207	35,306	48,039	66,905	75,617	87,431	1,02,750
Minority Interest	33	61	4	22	10	142	137	132
Total Loans	28	20,199	20,214	17,159	22,023	15,255	10	10
Deferred Tax Liabilities	-288	-298	-531	-648	-903	1,996	1,996	1,996
Capital Employed	38,888	47,169	54,993	64,573	88,035	93,010	89,574	1,04,888
Gross Block	5,179	5,921	6,415	9,221	10,944	15,580	17,580	19,580
Less: Accum. Deprn.	2,400	2,813	2,925	3,792	4,464	6,285	8,606	11,021
Net Fixed Assets	2,779	3,108	3,490	5,429	6,480	9,295	8,974	8,558
Goodwill on Consolidation	7,127	7,625	7,886	8,843	2,676	5,467	5,467	5,467
Capital WIP	69	997	878	1,104	1,558	920	920	920
Total Investments	8,435	12,597	14,579	10,501	13,432	15,288	15,288	15,288
Curr. Assets, Loans & Adv.	32,045	35,692	42,694	53,135	77,525	80,327	75,789	92,728
Inventory	8,745	11,736	11,878	13,180	16,962	26,278	31,474	33,934
Account Receivables	9,890	10,281	10,692	13,482	12,418	15,365	16,312	17,942
Cash and Bank Balance	5,316	5,644	7,365	9,631	26,133	16,117	5,210	15,973
Loans and Advances	8,094	8,031	12,759	16,842	22,012	22,567	22,794	24,879
Curr. Liability & Prov.	11,567	12,850	14,534	14,439	13,636	18,287	16,865	18,073
Account Payables	5,172	5,050	4,204	4,768	8,343	11,497	5,523	6,093
Other Current Liabilities	3,608	4,154	5,258	9,060	4,436	5,816	10,433	11,078
Provisions	2,787	3,646	5,072	611	858	975	908	902
Net Current Assets	20,478	22,842	28,160	38,696	63,889	62,040	58,924	74,654
Appl. of Funds	38,888	47,169	54,993	64,573	88,035	93,010	89,574	1,04,888

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
Adj. EPS	7.5	9.2	8.9	8.8	13.4	14.5	16.1	19.5
Adj. Cash EPS	7.9	9.7	9.6	8.1	13.3	15.1	18.0	22.1
BV/Share	40.7	49.3	57.8	50.0	69.7	78.7	91.0	107.0
DPS	2.0	2.0	2.3	2.3	2.5	2.9	3.0	3.0
Payout (%)	31.0	25.2	26.6	31.7	13.0	22.6	22.6	18.4
Valuation (x)								
Adj. P/E			66.3	67.4	44.2	40.8	32.1	26.5
Adj. Cash P/E			61.5	73.3	44.4	39.2	28.7	23.4
P/BV			16.1	11.8	8.5	7.5	5.7	4.8
EV/Sales			11.6	9.7	8.6	8.3	6.2	5.3
EV/EBITDA			45.2	37.3	28.6	26.6	19.6	16.3
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6
Return Ratios (%)								
RoE	19.6	20.6	19.0	20.2	22.4	19.6	19.0	19.7
RoCE	19.7	20.8	19.1	16.2	20.2	16.5	17.6	19.7
RoIC	26.5	47.1	75.0	22.8	30.7	22.4	22.2	24.4
Working Capital Ratios								
Asset Turnover (x)	1.0	0.9	0.9	0.9	0.7	0.7	0.9	0.8
Inventory (Days)	86	97	89	83	96	143	151	142
Debtor (Days)	98	85	80	85	70	84	78	75
Creditor (Days)	51	42	31	30	47	63	26	25
Leverage Ratio (x)								
Net Debt/Equity	-0.4	-0.4	-0.4	-0.1	-0.3	-0.2	-0.2	-0.3

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	10,519	13,191	14,040	14,040	16,780	23,175	23,506	28,416
Depreciation	399	501	673	777	1,152	1,821	2,321	2,415
Interest & Finance Charges	30	76	22	28	73	1,448	504	1
Direct Taxes Paid	-3,669	-4,242	-4,164	-5,827	-6,810	-8,409	-8,257	-9,661
(Inc)/Dec in WC	-2,348	-4,904	-2,236	-2,497	-5,670	-7,264	-7,791	-4,967
CF from Operations	4,931	4,622	8,335	6,521	5,525	10,770	10,284	16,203
Others	-1,068	-793	-1,526	781	1,165	-5,447	-2,188	-2,311
CF from Operating incl EO	3,863	3,829	6,809	7,302	6,690	5,323	8,096	13,892
(Inc)/Dec in FA	-709	-1,465	-1,091	-2,716	-2,704	-6,788	-2,001	-2,000
Free Cash Flow	3,154	2,364	5,718	4,586	3,986	-1,465	6,095	11,893
(Pur)/Sale of Investments	328	-19	-954	-611	-2,975	-1,856	0	0
Others	847	-563	396	4,531	19,629	4,404	2,206	2,329
CF from Investments	466	-2,047	-1,649	1,204	13,950	-4,241	205	329
Issue of Equity / Pref Shares	-601	778	0	59	0	0	0	0
Inc/(Dec) in Debt	7	1	-1,008	-4	0	-6,769	-15,245	0
Interest Paid	-30	-26	-71	-28	-73	-1,448	-504	-1
Dividend Paid	-1,663	-2,244	-2,348	-4,051	-4,065	-2,881	-3,458	-3,458
Others	0	47	0	-22	0	0	0	0
CF from Fin. Activity	-2,287	-1,444	-3,427	-4,046	-4,138	-11,098	-19,207	-3,459
Inc/Dec of Cash	2,042	338	1,733	4,460	16,502	-10,016	-10,907	10,763
Opening Balance	3,274	5,306	5,632	5,171	9,631	26,133	16,117	5,210
Closing Balance	5,316	5,644	7,365	9,631	26,133	16,117	5,210	15,973

Corporate profile

Company description

ZEEL is the leading player in television broadcasting and syndication of content overseas with a bouquet of 40 TV channels. Zee has well-established reach of over 730m+ viewers across 169 countries. ZEEL has channels encompassing all major genres like Hindi GEC, Hindi Movies, Regional GECs and Sports.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	41.6	41.6	43.1
DII	11.3	10.8	5.7
FII	40.8	41.4	44.7
Others	6.3	6.2	6.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Oppenheimer Developing Markets Fund	6.8
LIC of India	4.9
ICICI Prudential Equity & Debt Fund	1.9
Virtus Vontobel Emerging Markets Opportunities Fund	1.8
Vanguard International Growth Fund	1.8

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Subhash Chandra	Chairman
Punit Goenka	Managing Director & CEO
M Lakshminarayanan	Executive VP & CS

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ashok Kurien	Manish Chokhani
Neharika Vohra	Sunil Sharma
Subodh Kumar	Adesh Kumar Gupta

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
MGB & Co LLP	Statutory
Vaibhav P Joshi & Associates	Cost Auditor
Vinod Kothari & Co	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	16.1	16.9	-4.8
FY20	19.5	20.1	-2.9

Source: Bloomberg

NOTES

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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