

Growth Scenario:

The management of ZEEL is of the view that:

- Ad revenue growth will stand healthy above industry growth of 14-16%, despite of lower share in its flagship channel. The regional channels will compensate and growth will continue the path.
- Domestic subscription revenue will grow at 14-16% for FY17, which is because of TRAI regulations and regulatory concerns & will be revived for FY18 onwards because of phase III digitization benefits on the round.

The management is focusing on enhancing content & international presence too, which will give increased benefits in medium term. While there is some clarity awaited on content parity by TRAI the short to mid term prospect seems well placed with increasing revenues and market share and hence we give a BUY on the stock with a target of INR 500.

Takeaway & Outlook:

Zee TV, the flagship channel has lost the market share over the last few months because of:

- 2 shows went off air resulting in declining programming hours;
- Dispute in distribution arrangement with two regional players, for which corrective measures have been taken to regain the lost market share.
- Content investment will continue across TV serials, movies, theater plays etc.
- Higher cricket inventory (2 India series) will result in higher sports EBITDA loss which is expected at INR 1bn in FY17.
- Loans & advances (ex-taxes) to grow 20% on higher advances for content production.
- Operational cash-flows declined to INR 7.3bn for the FY16 as against INR 6.8bn in FY15, the reason being higher tax outgo.
- Contingent liability rose 35% on higher guarantee for sports content i.e. renewal of Pakistan Cricket series.

Key Drivers:

Particulars	FY16	FY17E	FY18E
Ad rev - % YoY growth	29%	20%	18%
Dom Sub rev - % YoY	15%	17%	23%
Content cost/ Total rev	46%	47%	47%

12/07/2016

SECTOR: MEDIA

Stock Summary:

Particular	
CMP (INR)	454.55
Target Price (INR)	500
Potential Upside	10%
O/S No. of Shares (cr.)	96.04
Market Cap. (cr.)	43705.22
Equity Cap. (cr.)	2113
52 Week High	469.80
52 Week Low	346.70
Face Value	1
NSE Code	ZEEL
BSE Code	505537

Share Holding Pattern:

Particular	Mar-16
Promoters	43.07%
Public (FII+DII)	56.93%
Others	0.00%
TOTAL	100%

Stock Performance:



Financial Synopsis:

Particular	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	48,837	58,515	68,670	81,393
Adj PAT (Rs mn)	9,775	10,597	13,894	17,305
Con. EPS* (Rs.)	-	-	13.0	16.0
EPS (Rs.)^	10.2	11.1	13.1	16.7
Change YOY (%)	9.6	8.4	17.7	27.3
P/E (x)	45.1	41.6	35.3	27.7
RoE (%)	31.3	27.4	29.5	30.1
RoCE (%)	27.1	27.2	30.8	33.3
EV/E (x)	34.5	28.4	21.6	17.0
DPS (Rs.)	2.0	2.5	2.5	2.5

Annuals Analyzed:

Key Priorities:

- Attaining Leadership in key genres, by making regional's to be stronger.
- Scaling up content offering, focusing on innovative content offering across TV/ Digital platform, and expanding globally to leverage the same.
- Proactively addressing consumer demand with enhanced focus on digital.
- Attain sustainable profit growth.
- Zee Theatre has created 30 unique theater productions in FY16, of which 12 will be available for live performance.
- Company's commitment towards media content/ license fees for further broadcasting events stands at INR35.2bn in FY17 as against INR 34.5bn in FY16. Higher investment in content will be visible from 20/27% rise in short/long term advances in FY16.

Long Term Loans & Advances:

Particular (Rs mn)	FY13	FY14	FY15	FY16
Unsecured advances	386	588	556	455
Advance taxes	474	1,908	4,271	4,090
Deposit	301	278	343	508
Advance/ Deposit to related parties	-	-	421	421
Others	1,330	97	119	439
Aggregate	2,491	2,871	5,710	5,913

Short Term Loans & Advances:

Particular (Rs mn)	FY13	FY14	FY15	FY16
Unsecured advances	2,859	3,854	5,005	5,721
Loans to others	1,883	3,450	4,250	1,750
Advance taxes	396	633	588	652
Deposit	160	163	195	370
Advance/ Deposit to related parties	88	44	35	156
Others	72	80	95	160
Aggregate	5,458	8,224	10,168	8,809

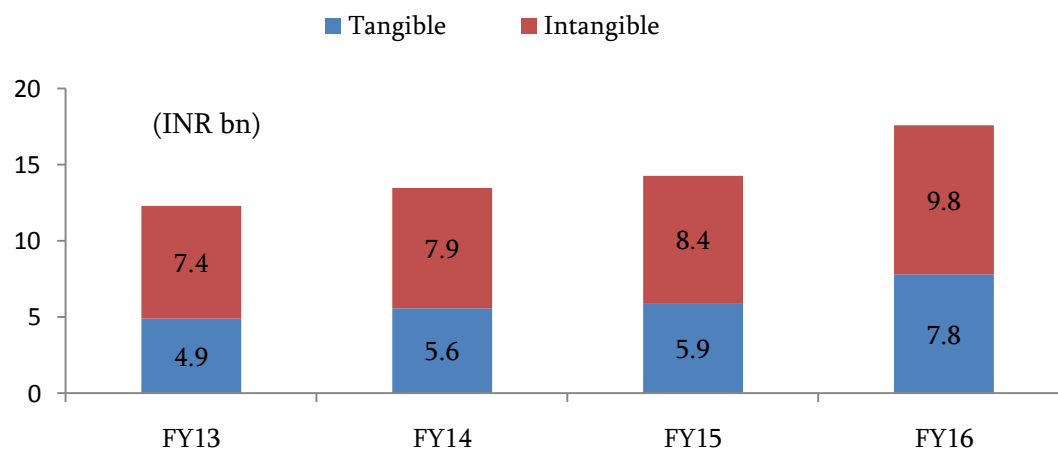
Net Working Capital:

(on average sales)	FY13	FY14	FY15	FY16
Receivable days	107	92	84	90
Inventory	94	105	93	89
Payable days	93	80	72	79
Net Working Capital (days)	108	118	105	101

Growth in Current Liabilities is in Line With Revenue:

Particular (Rs mn)	FY13	FY14	FY15	FY16	% YoY change
Trade payables	5,172	5,050	4,204	5,194	24%
Other current liabilities	3,445	3,842	4,980	6,355	28%
Aggregate	8,617	8,892	9,184	11,550	26%

Gross Block



- The company has incurred capex of INR 3.4bn in FY16, of which INR 1.2bn is for acquisition of Saarthak TV in Orissa and balance for production studio for in-house content production.
- The company also sold its aircraft worth INR 368mn in FY16, & in turn bought 100% stake in aircraft management company, Fly By Wire for INR 610mn, which currently owns/operates one Bombardier Challenger 605 aircraft, which will form a part of books in FY17.

Operational Cash-flows:

Particular (Rs mn)	FY13	FY14	FY15	FY16	% change
Operating profits before WC changes	9,884	12,976	13,209	15,713	19%
WC changes	(2,348)	(4,904)	(2,236)	(2,632)	18%
Tax paid	(3,669)	(4,242)	(4,164)	(5,827)	40%
Operating cash flows (OCF)	3,867	3,830	6,809	7,254	7%

Revenue Break up:

Particular (Rs bn)	FY13	FY14	FY15	FY16	% YoY change
Ad revenues	19.6	23.8	26.6	34.3	28.9%
Subscription rev*	16.2	18.0	17.9	20.6	14.7%
*Domestic	11.6	13.2	14.2	16.3	14.5%
*International	4.6	4.8	3.7	4.3	15.7%
Others (incl Syndication rev)	1.1	2.4	4.3	3.6	-15.3%
Aggregate	37.0	44.2	48.8	58.5	19.8%

Expenses Break up:

Particular (Rs bn)	FY13	FY14	FY15	FY16	% change
Direct operating costs	19.8	23.1	21.4	26.0	22%
Media content	14.0	17.1	20.1	24.7	23%
Subs management services	2.4	2.4	0.0	-	-
Telecast cost	3.4	3.6	1.3	1.3	6%
Other overheads	7.7	9.1	14.9	17.4	17%
Employee cost	3.5	3.9	4.5	5.2	16%
Advertisement / Publicity	1.9	2.5	3.7	4.7	26%
Marketing / Distribution	1.8	1.9	2.9	3.0	5%
Other admin expenses	0.4	0.9	3.8	4.5	17%
Aggregate expenses	27.5	32.2	36.3	43.4	20%
EBITDA	9.5	12.0	12.5	15.1	20%
EBITDA margin	25.8%	27.2%	25.7%	25.8%	

Contingent Liabilities: Contingent liabilities have risen to INR 30bn from around INR 20bn in FY15 as the guarantee for subsidiaries doubled (for sports content). Related party transactions have remained flat across loans and advances, receivables, corporate guarantees etc.

Contingent Liabilities:

Particular (Rs mn)	FY13	FY14	FY15	FY16
Corp guarantees	8,914	13,762	11,840	22,174
Disputed direct taxes	3,557	3,684	6,474	5,985
Disputed indirect taxes	658	492	539	497
Others	773	624	631	948
Aggregate	13,902	18,562	19,484	29,604

Related Party Transactions:

Particular (Rs mn)	FY14	FY15	FY16
Subscription revenues	601	1,703	2,515
Receivables	576	574	727
Unbilled revenues		175	436
Purchase of media content	2,150	2,279	3,062
Trade payables	522	455	265
Loans & advances	44	455	577
Corporate guarantee for related parties	1,396	791	800

Key Initiatives to Have International Reach:

Region	Key Initiative
APAC	Expanded reach, Zee Bioskop/Zee Nung caters to 2/2.5mn homes in Indonesia/Thailand
Middle east	Signed deals with Geo, Cartoon Network Arabic and new DTH platforms
USA	OTT service, Zee reached a milestone of 75K registered users in 8 months
USA	Started event business
USA	Launched 3 channels on Digicel, one of the biggest FTH platforms in Caribbean
USA	Consolidated being no.1 distributed channel in Canada through launch on Jadoo TV

Financial Statements:
Income Statement:

Particular (INR mn)	FY15	FY16	FY17E	FY18E
Net sales	48,837	58,515	68,670	81,393
Other operating income	-	-	-	-
Total operating income	48,837	58,515	68,670	81,393
Cost of goods sold	(21,393)	(26,049)	(31,515)	(37,574)
Gross profit	27,444	32,466	37,155	43,820
Gross margin (%)	56.2	55.5	54.1	53.8
Total operating expenses	(14,906)	(17,371)	(17,571)	(19,202)
EBITDA	12,538	15,095	19,583	24,618
EBITDA margin (%)	25.7	25.8	28.5	30.2
Depreciation	(673)	(840)	(766)	(829)
EBIT	11,865	14,254	18,817	23,789
Net interest	(103)	(123)	(111)	(100)
Other income	2,278	2,016	2,218	2,373
Profit before tax	14,040	16,147	20,924	26,062
Total taxation	(4,285)	(5,528)	(7,031)	(8,757)
Tax rate (%)	30.5	34.2	33.6	33.6
Profit after tax	9,755	10,619	13,894	17,305
Minorities	20	(22)	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	9,775	10,597	13,894	17,305
Adj. PAT margin (%)	20.0	18.1	20.2	21.3
Net non-recurring items	-	(330)	-	-
Reported net profit	9,775	10,267	13,894	17,305

Balance Sheet:

Particular (INR mn)	FY15	FY16	FY17E	FY18E
Paid-up capital	960	960	960	960
Reserves & surplus	34,346	41,184	51,054	62,050
Net worth	55,502	62,399	72,269	83,264
Borrowing	780	863	863	863
Other non-current liabilities	-	-	-	-
Total liabilities	70,059	78,941	92,958	106,725
Gross fixed assets	14,301	17,517	18,117	18,717
Less: Depreciation	(2,925)	(3,661)	(4,427)	(5,256)
Net fixed assets	11,376	13,856	13,690	13,461
Add: Capital WIP	878	1,104	1,104	1,104
Total fixed assets	12,254	14,960	14,794	14,565
Total Investment	9,755	10,439	10,439	10,439
Inventory	11,878	13,160	16,062	19,062
Debtors	10,692	13,245	15,615	18,955
Cash & bank	7,365	9,733	15,861	20,982
Loans & advances	10,168	8,809	10,987	13,023
Current liabilities	13,777	15,678	19,826	22,597
Net current assets	27,654	30,801	40,232	50,957
Other non-current assets	6,619	7,063	7,667	8,167
Total assets	70,059	78,941	92,958	106,725

Cash-flow Statement

Particular (INR mn)	FY15	FY16	FY17E	FY18E
Profit before tax	14,040	16,147	20,924	26,062
Depreciation & Amortisation	(673)	(840)	(766)	(829)
Chg in working capital	1,021	(1,934)	(1,125)	(3,568)
Cash flow from operations	9,237	7,629	11,428	12,292
Capital expenditure	(636)	(3,442)	(600)	(600)
Cash flow from investing	(4,607)	(953)	(1,060)	(763)
Equity raised/ (repaid)	22	(22)	-	-
Debt raised/ (repaid)	104	83	-	-
Dividend paid	(3,311)	(4,593)	(4,129)	(6,310)
Cash flow from financing	(2,910)	(4,308)	(4,239)	(6,409)
Net chg in cash	1,721	2,368	6,129	5,120

Ratios:

Particular	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	10.2	11.1	13.1	16.7
CEPS (Rs)	11.0	11.6	13.9	17.5
DPS (Rs)	2.0	2.5	2.5	2.5
Dividend payout ratio (%)	19.5	23.2	17.2	13.8
GROWTH				
Net sales (%)	10.4	19.8	17.4	18.5
EBITDA (%)	4.1	20.4	29.7	25.7
Adj net profit (%)	9.6	8.4	31.1	24.6
FDEPS (%)	9.6	8.4	17.7	27.3
PERFORMANCE				
RoE (%)	31.3	27.4	29.5	30.1
RoCE (%)	27.1	27.2	30.8	33.3
EFFICIENCY				
Asset turnover (x)	1.1	1.2	1.3	1.4
Sales/ total assets (x)	0.7	0.8	0.8	0.8
Working capital/ sales (x)	0.4	0.4	0.3	0.3
Receivable days	79.9	82.6	83.0	85.0
Inventory days	119.4	110.6	119.4	122.5
Payable days	42.3	43.7	52.0	55.0
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Current ratio (x)	3.0	3.0	3.0	3.3
Interest cover (x)	115.6	115.9	170.0	238.8
VALUATION				
PE (x)	45.1	41.6	35.3	27.7
EV/ EBITDA (x)	34.5	28.4	21.6	17.0
EV/ Net sales (x)	8.9	7.3	6.2	5.1
PB (x)	12.5	10.5	8.5	7.0
Dividend yield (%)	0.4	0.5	0.5	0.5
Free cash flow yield (%)	2.0	1.0	2.5	2.7

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