Zee Entertainment | BUY

Turning the page

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ZEEL's turnaround is demonstrably underway. When it changed course post the merger fall-off (Pivot to profitability, 13 Feb 2024), we opined that investor conviction will follow execution. 2Q performance has ample evidence of that (execution). EBITDA margin expanded 320bps QoQ (630 bps in past two quarters). Zee5 losses reduced further (down 40% since 4QFY24). Correction in content inventory sustained (despite delay in "Emergency" movie release). Cash flow conversion improved considerably (FCF/PAT now at 120%). Encouragingly, these improvements have come despite a status-quo demand environment. That said, even on the revenue front, ZEEL's efforts are now visible. Its viewership share is up 60bps over the past six months. Subscription revenue growth (+11% YoY FYTD despite price hike in the base) is better than peers'. Zee5 growth has resumed with improvements in both engagement and usage metrics. A more conducive demand environment will only support the company's internal efforts. Such tangible progress on stated goals merits investor attention. On the contrary, ZEEL's valuation reflects investors' apathy. A simple maths demonstrates this – a company with c.INR 10bn FCF today (INR 10bn PAT with 100% FCF/PAT) is available at an enterprise value of c.INR 100bn. Essentially, CMP is implying zero terminal value. Either the investors believe FCF is not sustainable or don't trust ZEEL's capital allocation. A formal dividend policy could help. Nevertheless, such incertitude offers a great buying opportunity, in our view. We raise our FY26/27E EPS by 9-11%, and still see further upside. We reiterate BUY with a revised TP of INR 200 (from INR 170).

- **2QFY25 – Strong operational performance:** ZEEL reported revenues of INR 20bn (-18% YoY), meeting expectations. Ad-revenues (-8% YoY) were expectedly soft. Subscription revenues (+9% YoY) did better, helped by both linear TV and digital. Unfavourable base (Gadar-2 in 2Q24) and limited movie releases ("Emergency" pushed out) impacted other sales and services (-77% YoY; 10% below JMFe). ZEEL's TV viewership share improved 100bps QoQ to 17.4%. Bigger surprise was on the margin front. EBITDA margin improved 320bps QoQ to 16%, significantly ahead of JMFe: 12.6%. Margin improvement was led by cost optimization and reduction in Zee5 losses which narrowed further from INR 1.8bn in 1QFY25 to INR 1.6bn in 2QFY25. PAT at INR 2bn was 48% above JMFe (INR 1.4bn). Cash flow conversion improved further with FCF/PAT at 1.2x.
- **Peeling off ZEEL's inherent value:** ZEEL is undervalued today. We have tried to assess the extent of it through three methods. First, reverse DCF methodology – 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. Two, our SOTP methodology – valuing digital business at 3x LTM sales – implies mere 5.5x forward PER for the core broadcasting business. Three, on a comparable valuation method, ZEEL's music business itself – second largest in the country - could command significant value, leaving little for other businesses. Investor concerns on corporate governance, capital allocation are understandable. But cash accrual/inventory correction are hard facts that can't be ignored either. Moreover, all such concerns are surely in the price today. BUY.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	200
Upside/(Downside)	51.0%
Previous Price Target	170
Change	17.6%

Key Data – Z IN	
Current Market Price	INR132
Market cap (bn)	INR127.2/US$1.5
Free Float	91%
Shares in issue (mn)	960.6
Diluted share (mn)	1,002.6
3-mon avg daily val (mn)	INR2,650.7/US$31.5
52-week range	300/125
Sensex/Nifty	81,225/24,854
INR/US$	84.1

Price Performance			
%	1M	6M	12M
Absolute	5.0	-7.3	-49.0
Relative*	9.3	-16.6	-58.9

* To the BSE Sensex

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)	31.1	26.8	14.7	11.5	9.5
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	11.4	13.2	8.0	5.8	4.3
Dividend Yield (%)	2.3	0.8	1.2	1.5	1.9

Source: Company data, JM Financial. Note: Valuations as of 18/Oct/2024

eJM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Peeling off ZEEL's inherent value

At 11x FY26E EPS, ZEEL's value is optically low. We deployed three alternate valuation techniques to see if we get any counter-view. The three methodologies illustrated below showcase that no matter which method we choose to value ZEEL, one theme is consistent – ZEEL is significantly undervalued.

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

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

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 in 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).

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.

Method III: Comparable valuation

ZEEL's music business is second largest, next only to Saregama (SARE IN; BUY). Interestingly, market cap of Saregama as well as the third largest player TIPS (TIPS IN; NOT RATED) are close to INR 100bn. Unavailability of ZEEL's music business financials prevent us to value that business separately. However, even if we value ZEEL's music business at significant discount to listed peers, the residual value for broadcasting business would be further suppressed.

Exhibit 4. Indian Music business trading at significant premium compared to their global peers.

Company	Country	MCap (USD bn)	EV (USD bn)	EV / Revenue (x)			Rev CAGR	EV / EBITDA (x)			EBITDA CAGR	P / E (x)			EPS CAGR	PEG
				FY25E	FY26E	FY27E	25-27E	FY25E	FY26E	FY27E	25-27E	FY25E	FY26E	FY27E	25-27E	
Saregama	**India**	**1.2**	**1.2**	**13.2x**	**10.8x**	**9.1x**	**20%**	**37.8x**	**29.6x**	**24.4x**	**24%**	**50.4x**	**40.6x**	**33.9x**	**22%**	**1.8x**
Tips Music	**India**	**1.2**	**1.2**	**31.6x**	**24.4x**	**18.7x**	**30%**	**na**	**na**	**na**	**na**	**61.7x**	**47.8x**	**36.9x**	**29%**	**1.6x**
Universal Music Group	USA	47.8	51.3	4.1x	3.8x	3.6x	7%	18.7x	16.7x	15.2x	11%	26.2x	23.5x	20.9x	12%	**1.9x**
Warner Music Group	EUR	16.8	20.6	3.2x	3.1x	2.9x	6%	14.2x	13.5x	12.2x	8%	28.0x	22.2x	19.3x	21%	**1.1x**
HYBE Co	South Korea	5.7	5.9	3.7x	3.0x	2.5x	20%	22.2x	16.5x	14.2x	25%	42.3x	26.1x	20.5x	44%	**0.6x**
SM Entertainment Co	South Korea	1.2	1.1	1.4x	0.9x	1.2x	11%	9.4x	7.8x	7.0x	16%	20.5x	13.8x	11.9x	31%	**0.4x**
Reservoir Media	USA	0.6	0.9	5.9x	5.5x	nm	NA	15.0x	13.6x	nm	NA	88.5x	53.6x	nm	NA	NA
Believe	EUR	1.6	1.5	1.4x	1.2x	1.0x	19%	21.4x	15.4x	11.7x	35%	227.3x	66.1x	37.5x	NA	NA
Mean (excluding Believe)				**8.1x**	**7.3x**	**6.3x**	**16%**	**19.5x**	**16.3x**	**14.6x**	**17%**	**45.4x**	**32.5x**	**23.9x**	**27%**	
Mean (including Believe)				**8.1x**	**6.6x**	**5.6x**	**16%**	**19.8x**	**16.2x**	**14.1x**	**20%**	**68.1x**	**36.7x**	**25.8x**	**27%**	

Note: Y/E March for Saregama and Tips; December for Universal Music, Reservoir Media, Hybe Co and SM Entertainment; Source: Bloomberg, JM Financial

Key conference call takeaways

- **Demand:** Subscription revenue was strong with 9% YoY on the back of price hike in linear business and subscriber growth in Zee5. Management also mentioned stabilization of NTO and reported that they are balancing pricing and churn. Ad revenues (-8% YoY) were subdued in the quarter for the industry at large with some pickup was seen in September. Viewership share across markets were reported to have increased, driven by compelling and engaging content across languages, it improved by 100 bps sequentially. Muted movie releases in the quarter against the massive hit, Gadar-2 in 2QFY24, contributed to a 18% YoY decline in overall revenues.
- **Outlook:** Management expects further uptick in subscription revenues in 2HFY25 on the back of healthy trends in linear and digital. The company is optimistic about recovery and uptick in Ad revenues with the onset of the festive season. However, they noted that a strong and sustained pickup in rural consumption is crucial for the industry as a whole. Additionally, they are closely monitoring how ad revenue demand shapes up beyond the festive season. Management emphasized that linear TV remains a key medium for marketers for brand building with unmatched reach. They are also looking forward to the planned movie releases in H2 across Hindi and regional languages. Longer term revenue CAGR aspiration for the management remains at 8-10%, with the current portfolio of businesses.
- **Zee5:** Zee5 revenues grew 6% sequentially, and EBITDA loss further declined from INR 1,777mn to 1,588 mn sequentially. Management expects this trend of EBITDA loss reduction to continue. They reaffirmed their commitment towards balancing margin and growth. They reported an improvement in both, number of paying subscribers and average watch time during the quarter. The company continues to invest in the digital business to support future growth. They expect stability in growth from next quarter and they highlighted that Zee5 offers compelling content at a competitive price point. Additionally, a technology and innovation centre has been established in Bengaluru following a comprehensive restructuring exercise, aimed at supporting both the linear and digital businesses. Management expects sustained growth in Zee5 subscription revenues going forward.
- **Margins:** Management highlighted that frugality, prudent cost discipline, optimization and focus on quality content along with strategic focus on performance and profitability helped improve margins in the quarter despite a challenging macro environment. Targeted, bottom-up interventions across every cost element of the business segments gives management confidence in the sustainability of margins. The company is confident in further strengthening the margin profile going forward and reiterated their margin aspirations of 18-20%. However, further margin expansion is dependent on growth and operating leverage. Wage hikes were rolled out effective 1st September and Q3 would have full impact of wage hikes. Additionally, they noted that there is no more room to cut content related spending and they expect these expenditures to rise.
- **Music:** Management reported that Zee music is an asset in terms of scale and margin, noting that it is the second largest music label in the country. They are focused on enhancing the catalogue with an emphasis on profitability. Management reiterated their commitment to invest in the music business and expanding the catalogue. They also mentioned that they plan to disclose the financials of the music business once market conditions stabilize.
- **Capital Allocation:** The FCCB raise and internal accruals have significantly improved the company's cash position. They noted that effective working capital management and inventory reduction helped cash accruals. The healthy cash position provides management confidence in navigating the evolving market landscape and take advantage of opportunities with a focus on returns. However, the company does not have any meaningful plans in the near future. They also mentioned that they have no plans to raising another tranche of funding.
- **Competition:** Management reported gains in market share and viewership, positioning them well in the competitive landscape. They also mentioned that increased competition

augurs well for the industry. The growth in viewership share was broad based across languages. Consolidation in the industry is expected to give more leverage to competitors in commanding ad revenues. However, subscription sees fewer risks due to regulation. Management highlighted that Competitor's strategy in the digital business is largely sports-focused, whereas their approach is entertainment focused. They also noted that the sports business is seasonal and during sports events, the company refrains from releasing new content of their own.

- Movie Production: The Company reaffirmed its commitment to investing in the movie business, explaining that it is a strategic yet inherently a risky business segment. They emphasized that the movie business feeds into the linear, digital and music business. Additionally, they explained that movie production is underwritten by digital and linear commitments in addition to theatrical release. Big ticket releases in H2 include, Emergency which got rescheduled and Game changer, starring Ram Charan. A slew of mid-small releases are also planned.

2QFY25: Result Summary

Exhibit 5. ZEEL 2QFY25: Actual vs Estimate

	2Q25A	2Q24A	Change (YoY)	1Q24A	Change (QoQ)	Estimate (JMFe)	Variance (vs. JMFe)
Key Financials							
Revenue (INR mn)	**20,007**	**24,378**	-17.9%	**21,305**	-6.1%	19,882	0.6%
Advertising revenues	9,017	9,792	-7.9%	9,113	-1.1%	9,156	-1.5%
Subscription revenues	9,699	8,878	9.2%	9,872	-1.8%	9,299	4.3%
Domestic subscription	8,655	7,790	11.1%	8,848	-2.2%	8,189	5.7%
International subscription	1,044	1,088	-4.0%	1,024	2.0%	1,110	-5.9%
Other sales & services	1,291	5,708	-77.4%	2,320	-44.4%	1,427	-9.5%
EBITDA (INR mn)	3,210	3,328	-3.5%	2,727	17.7%	2,507	28.0%
EBITDA margin	16.0%	13.6%	239bp	12.8%	325bp	12.6%	344bp
EBIT (INR mn)	2,478	2,555	-3.0%	1,970	25.8%	1,751	41.5%
PAT (INR mn)	2,094	2,496	-16.1%	1,191	75.8%	1,413	48.2%

Source: Company, JM Financial

Exhibit 6. Key financials -1QFY25

INR mn	1QFY24	2QFY24	3QFY24	4QFY24	FY24	1QFY25	2QFY25	Comments
Revenues	19,838	24,378	20,457	21,699	86,372	21,305	20,007	
YoY growth (%)	7.5	20.2	(3.0)	2.7	6.8	7.4	(17.9)	
Programming & operating costs	11,433	14,254	11,876	12,830	50,393	11,770	10,615	
A&P Spends	2,773	2,731	2,531	2,642	10,677	2,896	2,896	•Consol. Revenue grew 18% YoY; in-line with JMFe..
Other expenses	1,486	1,467	1,516	4,215	16,719	4,551	3,907	
Employee costs	2,596	2,599	2,442	2,552	10,188	2,258	2,275	
Total operating expense	**18,289**	**21,050**	**18,365**	**19,597**	**77,301**	**18,579**	**16,797**	
EBITDA	**1,549**	**3,328**	**2,092**	**2,103**	**9,071**	**2,727**	**3,210**	• Advertising declined 8% YoY while Subscription grew 9% YoY.
Operating margin (%)	7.8	13.6	10.2	9.7	10.5	12.8	16.0	
								• Zee5 revenues grew 6% QoQ while its losses decline to INR 1.6bn.
Depreciation and amortization	785	772	761	772	3,091	756	732	
								• EBITDA margin of 16% was ahead of our expectation of 12.8%.
EBIT	**764**	**2,555**	**1,330**	**1,331**	**5,980**	**1,970**	**2,478**	
EBIT margin (%)	3.9	10.5	6.5	6.1	6.9	9.2	12.4	
								• Adjusted PAT of INR 2 bn was above JMFe of INR 1.4bn.
Interest & other income	-90	484	94	85	572	135	254	
PBT	674	3,039	1,424	1,415	6,553	2,105	2,732	
Income tax expense	-1,210	-1,810	-839	-1,283	-5,142	-915	-639	
Share of minority interest	1.0	0.8	1.0	0.0	3.5	0.9	1.0	
PAT	**-534**	**1,230**	**585**	**133**	**1,414**	**1,191**	**2,094**	

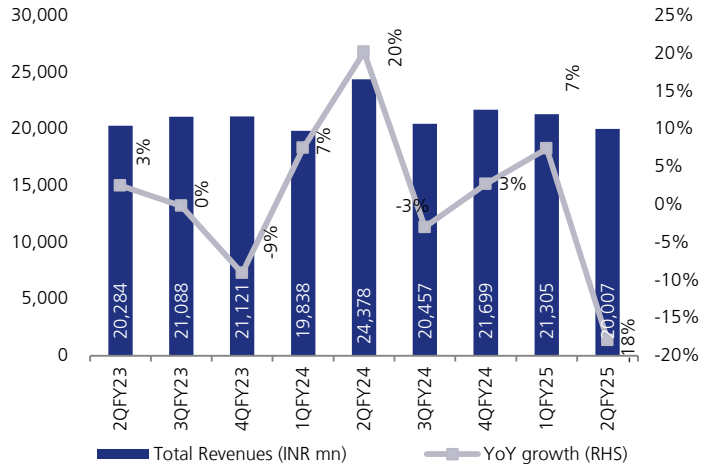
Source: Company, JM Financial

Exhibit 7. Key Segmental Metrics – 1QFY25

INR mn	1QFY24	2QFY24	3QFY24	4QFY24	FY24	1QFY25	2QFY25	Comments
OTT	1,939.0	2,652.0	2,232.0	2,372.0	9,195.0	2,237.0	2,363.0	
YoY growth	21.4	58.7	14.9	7.8	24.1	15.4	(10.9)	• OTT (Zee5) revenues grew by 6% QoQ
								• OTT losses narrowed to INR 1.6bn (vs. 2.6 bn losses in 4QFY24)
Core business revenue	17,899.0	21,725.9	18,224.7	19,327.2	77,176.8	19,068.3	17,644.0	
YoY growth	4.2	16.7	(4.8)	2.1	5.0	6.5	(18.8)	

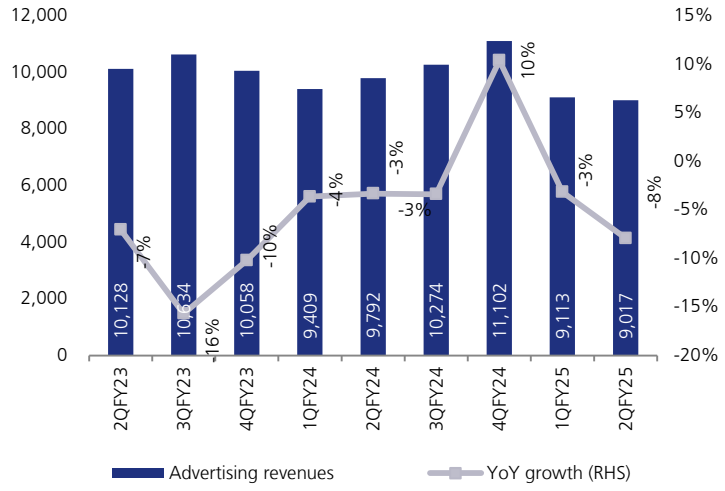
Source: Company, JM Financial

Exhibit 8. Consolidated revenues



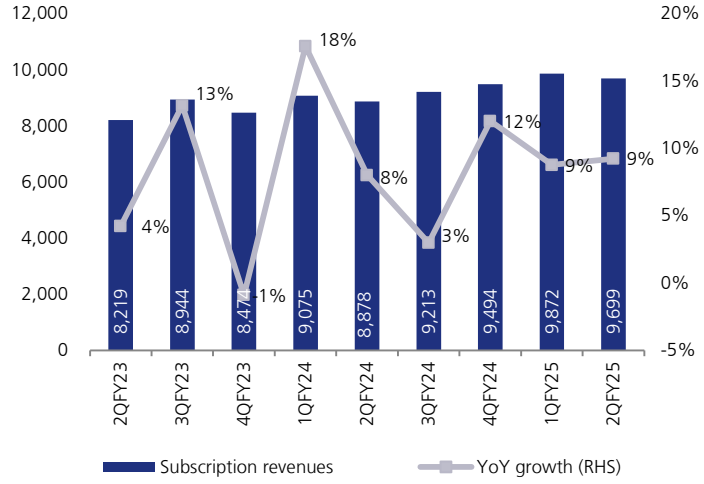
Source: Company, JM Financial

Exhibit 9. Advertising revenues



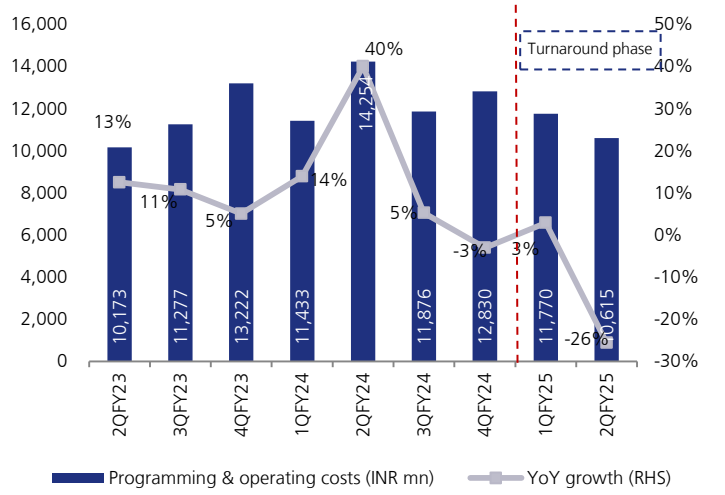
Source: Company, JM Financial

Exhibit 10. Subscription revenues



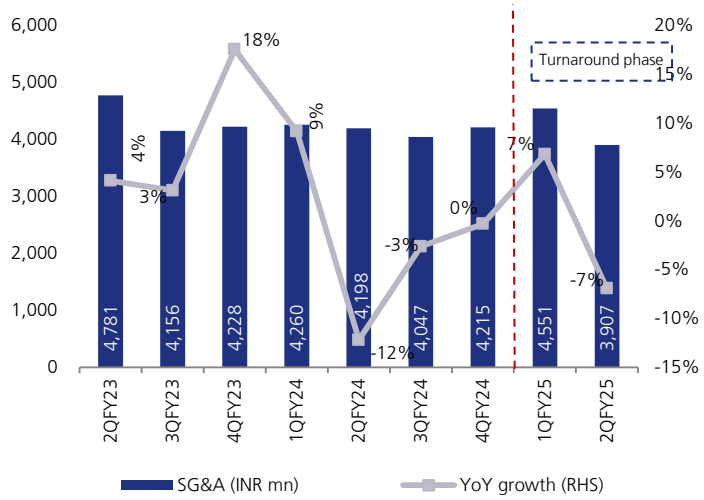
Source: JM Financial, Company

Exhibit 11. Programming costs, moderated on lower releases



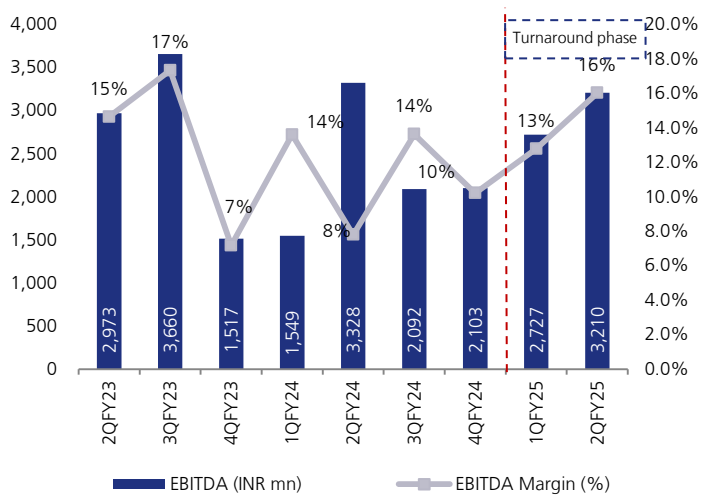
Source: JM Financial, Company

Exhibit 12. SG&A trend



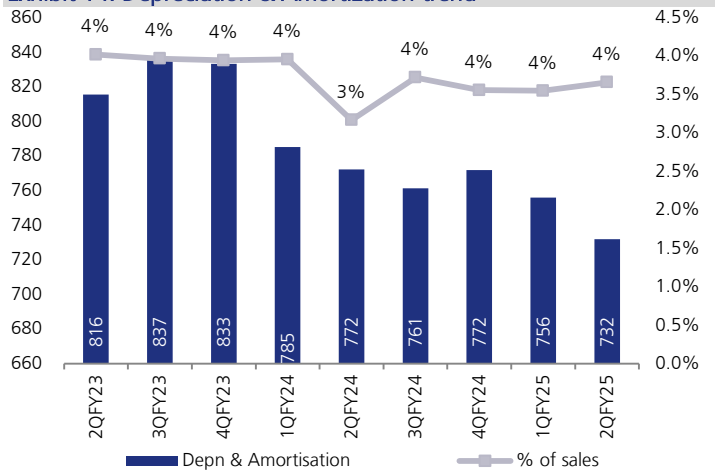
Source: JM Financial, Company

Exhibit 13. EBITDA margin trend



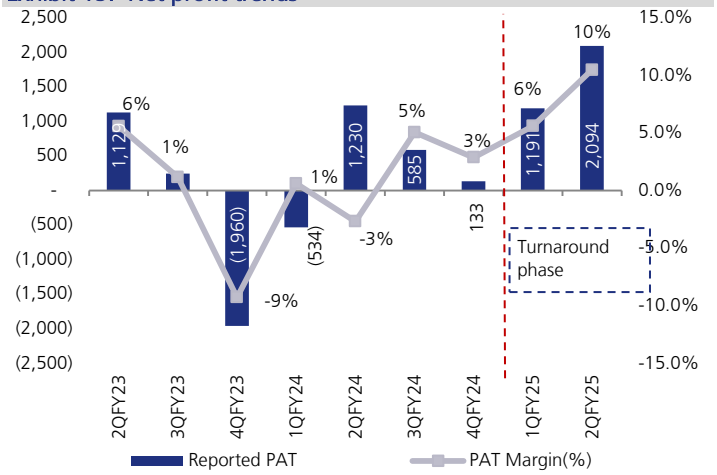
Source: JM Financial, Company

Exhibit 14. Depreciation & Amortization trend



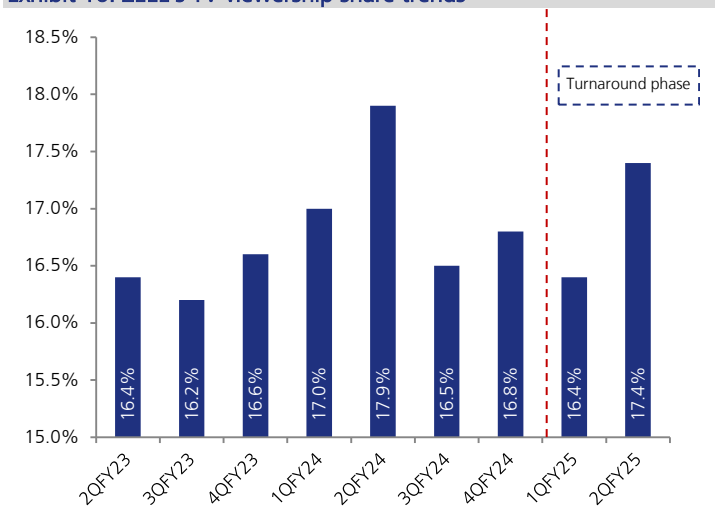
Source: Company, JM Financial

Exhibit 15. Net profit trends



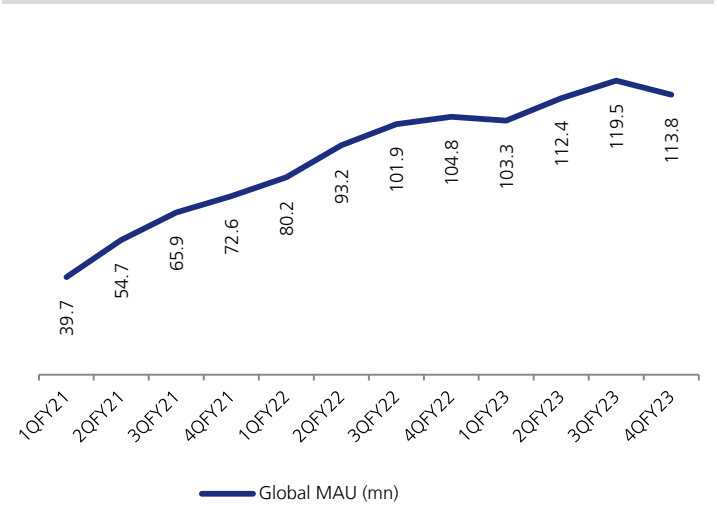
Source: Company, JM Financial

Exhibit 16. ZEEL's TV viewership share trends



Source: Company, JM Financial

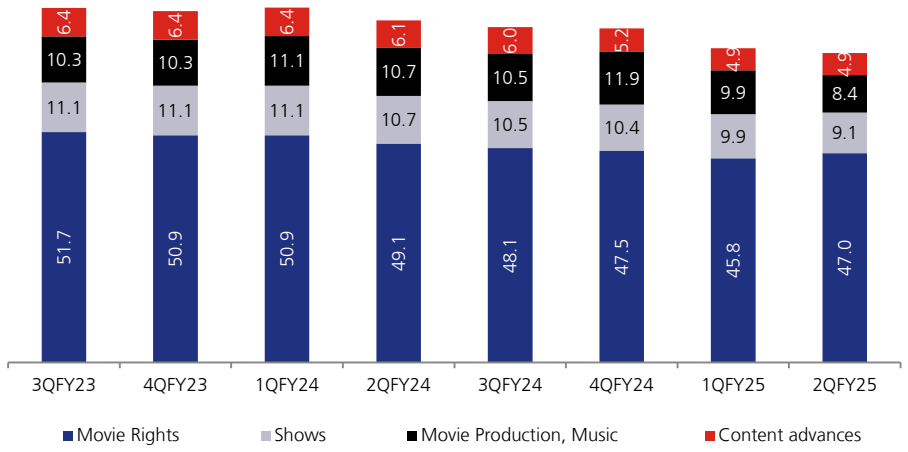
Exhibit 17. Zee5 Global MAU's



Note: Data has been discontinued from Q1FY24; Source: Company, JM Financial

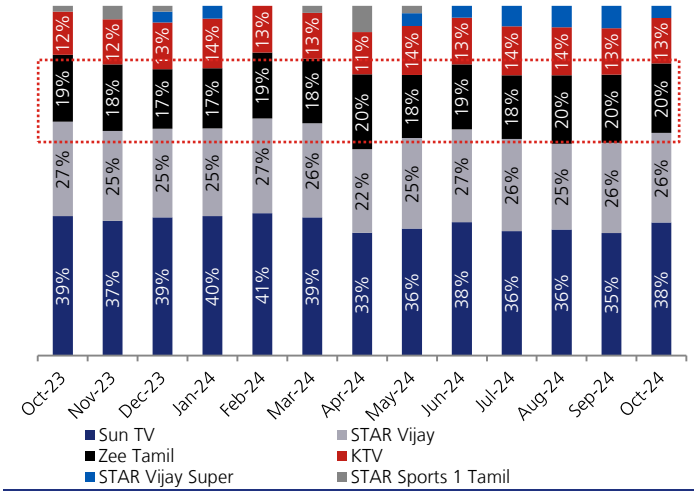
Exhibit 18. Content inventory appears to have peaked and should reflect in better cash flows

Movement in Inventory



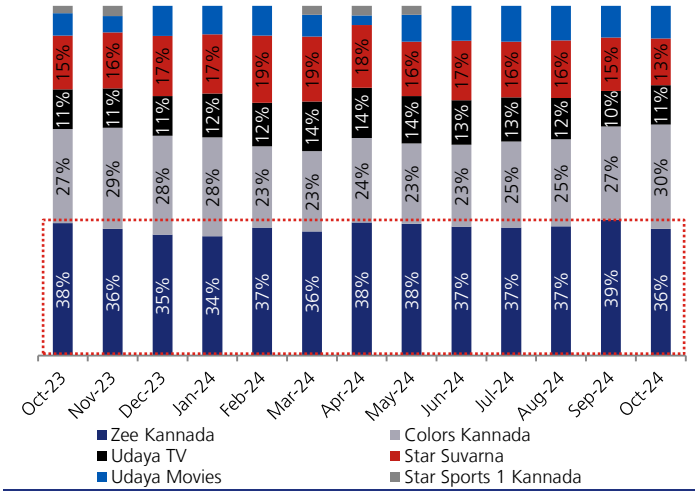
Source: Company, JM Financial

Exhibit 19. Viewership share in TN/Pondicherry (Tamil)



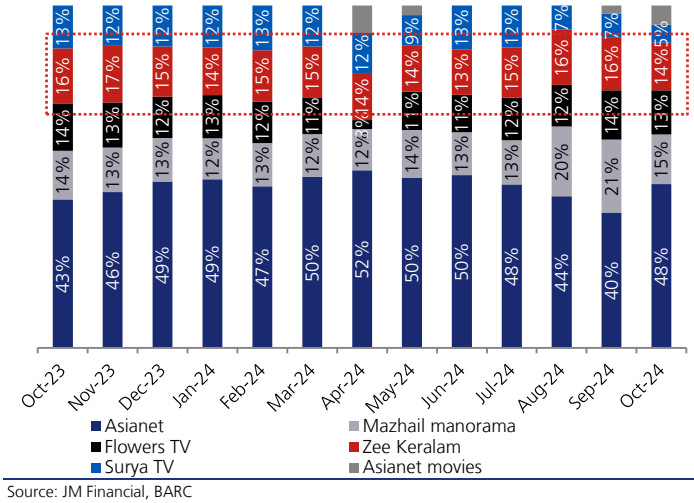
Source: JM Financial, BARC

Exhibit 20. Viewership share in Karnataka (Kannada)



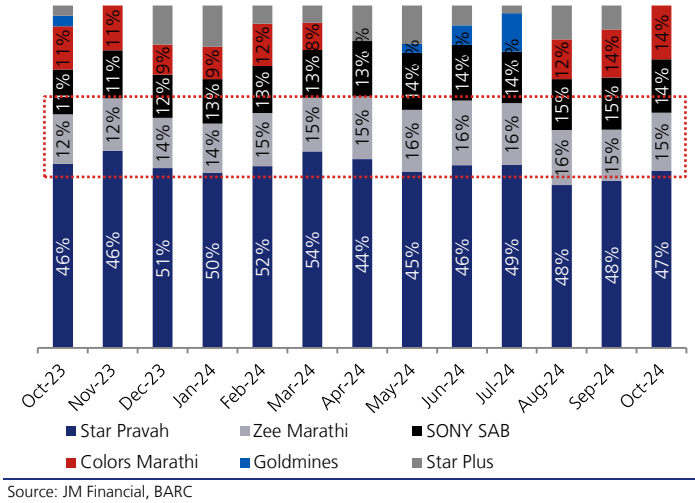
Source: JM Financial, BARC

Exhibit 21. Viewership share in Kerala (Keralam)



Source: JM Financial, BARC

Exhibit 22. Viewership share in Maharashtra/Goa (Marathi)



Source: JM Financial, BARC

Retain BUY; TP revised up to INR 200

Our revenue estimates for ZEEL are little changed given a still status quo demand environment. We have however increased our EBITDA margin estimate by ~100bps each for FY26 and FY27. Note, our FY26 EBITDA margin of 19% is at the mid-point of 18-20% guidance band, and hence still has some upside. This, along with better cash accrual (hence higher other income) results in EPS increase of 9%and 11% for FY26 and FY27 respectively. We continue to value ZEEL at 15x 12-month forward PER. Rolling forward the target price to October 2025 gives a target price of INR 200. Improved demand environment should drive better multiples for ZEEL. That said, even at 15x PER, we see c.50% upside. Maintain BUY.

Exhibit 23. What has changed to our estimates – Zee (Consol.)

INR mn	OLD			NEW			Change		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Consolidated revenue (INR mn)	88,911	95,453	1,03,636	88,319	95,948	1,04,490	-0.7%	0.5%	0.8%
Revenue growth rate (YoY)	2.9%	7.4%	8.6%	2.3%	8.6%	8.9%	-7bp	13bp	3bp
EBITDA (INR mn)	14,402	17,203	20,952	14,258	18,130	21,979	-1.0%	5.4%	4.9%
EBITDA margin	16.2%	18.0%	20.2%	16.1%	18.9%	21.0%	-5bp	87bp	82bp
EBIT (INR mn)	11,303	13,906	17,470	11,159	14,833	18,497	-1.3%	6.7%	5.9%
EBIT margin	12.7%	14.6%	16.9%	12.6%	15.5%	17.7%	-8bp	89bp	84bp
PAT (INR mn)	9,029	10,938	13,544	9,026	11,958	15,038	0.0%	9.3%	11.0%
Adj. EPS (INR mn)	9,029	10,938	13,544	9,026	11,958	15,038	0.0%	9.3%	11.0%

Source: Company, JM Financial estimates

Exhibit 24. Key assumptions

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues Growth, YoY (%)								
Advertising revenues	14.5	19.8	(7.1)	(7.7)	(0.0)	(1.1)	8.0	8.8
Subscription revenues	(10.3)	13.9	25.0	2.7	9.9	7.2	10.2	9.8
Other sales & services	(9.2)	29.7	(4.3)	29.9	28.8	(3.0)	5.0	5.0
Total Revenues	**3.9**	**18.7**	**2.5**	**(1.0)**	**6.6**	**2.3**	**8.6**	**8.9**
Cost – as % of revenues (%)								
Programming/Content	35.3	36.1	44.4	49.9	53.2	46.8	45.1	44.0
SG&A	21.2	19.8	23.2	20.9	19.4	20.5	20.1	19.7
Employee costs	10.0	9.1	9.6	10.2	11.8	11.3	11.0	10.7
Total operating cost	**68.9**	**67.7**	**79.9**	**86.4**	**89.5**	**83.9**	**81.1**	**79.0**
Effective tax rate	38.8	38.1	26.0	27.6	27.6	27.6	27.6	27.6
Balance Sheet								
Inventory days of programming cost (%)	335	413	465	650	600	575	550	525
Capex (INR mn)	1,904	2,601	2,230	3,016	3,066	3,016	2,966	2,916

Source: Company, JM Financial estimates

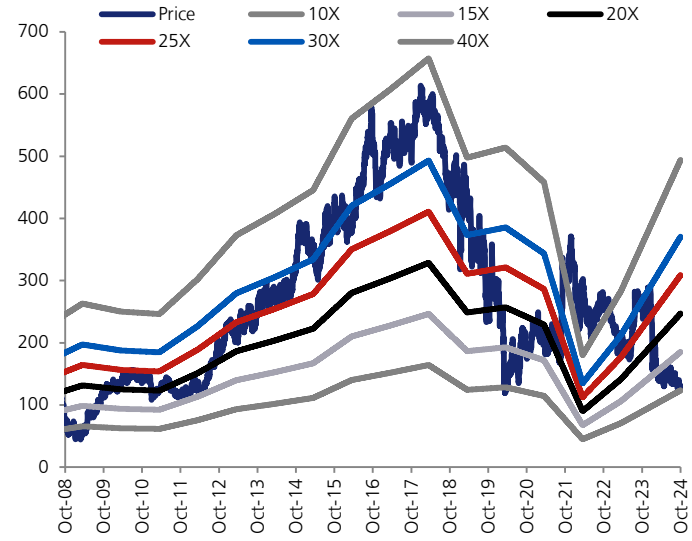
Valuation

Exhibit 25. Zee: 1yr forward PER valuation



Source: JM Financial, Bloomberg

Exhibit 26. 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

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

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

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%

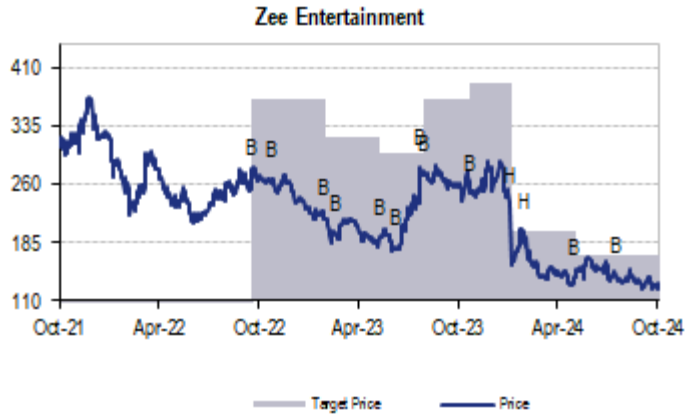
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	111.6	113.1	119.0	124.3	131.7
ROIC	5.3%	4.2%	7.9%	10.3%	12.7%
ROE	3.8%	4.4%	8.0%	9.8%	11.2%
Net Debt/Equity (x)	0.0	-0.1	-0.1	-0.2	-0.2
P/E (x)	31.1	26.8	14.7	11.5	9.5
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	11.4	13.2	8.0	5.8	4.3
EV/Sales (x)	1.6	1.4	1.3	1.1	0.9
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

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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* REITs refers to Real Estate Investment Trusts.

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