

INDUSTRY	MEDIA
CMP (as on 21 Jan 2015)	Rs 382
Target Price	Rs 437
Nifty	8,730
Sensex	28,889

KEY STOCK DATA

Bloomberg/Reuters	Z IN/ZEE.BO
No. of Shares (mn)	960
MCap (Rs bn) / (\$ mn)	366/5,949
6m avg traded value (Rs mn)	916

STOCK PERFORMANCE (%)

52 Week high / low	Rs 402 / 254		
	3M	6M	12M
Absolute (%)	13.6	27.3	35.5
Relative (%)	4.9	15.0	(0.4)

SHAREHOLDING PATTERN (%)

Promoters	43.07
FIs & Local MFs	0.97
FIIIs	51.91
Public & Others	4.05

Source : BSE

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Firing on all cylinders

Zee's 3QFY15 numbers were ahead of ours and consensus estimates. The company's ad revenue growth continues to surprise positively, growing at 9% YoY with annual ex-sports ad revenue growth in the range of 12-16%. This was the key reason for EBITDA beat, which grew 22% YoY notwithstanding a sharper than expected sports loss of Rs 270mn. Consolidated net sales grew by 15% YoY, EBITDA by 22% and APAT by 28%.

We resume coverage with a BUY rating and TP of Rs 437 (32x FY17E EPS and a discount of Rs 16 on account of preference share payout). We believe that ZEEL is uniquely positioned to capitalize on (1) higher ad spends on account of improving GDP growth, incremental spends by FMCG and the emergence of new categories (2) digitization – ARPU upside from phase I and II areas as well as digitization of phase III/IV.

Key risks to our call include (a) weak GDP growth resulting in lower than expected ad growth (est. 17%

in FY16/17) (b) further delays in digitization, which could negatively impact subscription revenue growth (c) failure of ZEEL's new channel.

- Upbeat advertising outlook:** ZEEL continued its momentum with ahead of industry ad revenue growth as the company gained market share in the regional space. Management commentary on industry ad spend is buoyant, led by an improving economic scenario, expectation of higher ad spends by FMCGs, emergence of new advertisers such as e-commerce.

We share management's optimism on ad growth and estimate non-sports ad revenue CAGR of 17% over FY15-17.

- Premium valuations to sustain:** ZEEL trades at 34x FY16E EPS and 28x FY17E EPS. We believe that the company's premium valuations can sustain due to high growth visibility on both advertising and subscription. We arrive at a target price of Rs 437, valuing the company at 32x FY17E EPS and adjusting Rs 16/share for payout to redeemable preference shareholders.

FINANCIAL SUMMARY (Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)	FY14	FY15E	FY16E	FY17E
Net Sales	13,637	11,178	22.0	11,884	14.8	44,217	47,527	55,173	65,113
EBITDA	3,533	3,205	10.3	2,907	21.5	12,043	13,004	15,671	19,848
PAT	3,086	2,276	35.6	2,136	44.5	8,938	9,662	11,014	13,582
EPS (Rs)	2.83	2.23	26.9	2.00	41.5	9.3	10.1	11.5	14.1
P/E (x)						41.0	38.0	33.3	27.0
EV / EBITDA (x)						29.8	27.8	23.2	18.5
RoE (%)						20.7	19.4	20.0	22.9

Source : Company, HDFC sec Inst Research

CONSOLIDATED QUARTERLY FINANCIALS SNAPSHOT

Rs mn	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)	9MFY15	9MFY14	YoY (%)
Net Sales	13,637	11,884	14.8	11,178	22.0	35,673	32,629	9.3
Programme & operating cost	6,456	6,095	5.9	4,703	37.3	15,499	15,244	1.7
Staff cost	1,093	959	14.0	1,080	1.2	3,289	2,907	13.2
Selling, administrative & other exp	2,556	1,923	32.9	2,191	16.6	7,055	5,552	27.1
EBITDA	3,533	2,907	21.5	3,205	10.3	9,830	8,927	10.1
Interest Cost	28	32	(11.6)	23	23.7	73	88	(17.1)
Depreciation	170	135	26.0	134	26.8	499	312	59.9
Other Income	802	380	110.8	522	53.6	1,713	1,651	3.8
PBT	4,137	3,121	32.6	3,570	15.9	7,545	6,876	9.7
Minority Interest	(21)	0	NM	(6)	NM	(32)	(7)	346.5
Tax	1,072	985	8.8	1,300	(17.5)	3,536	3,441	2.8
RPAT	3,086	2,136	44.5	2,276	35.6	7,468	6,745	10.7
APAT	2,862	2,242	27.7	2,203	29.9	7,157	6,606	8.3

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

As a % of net sales	3QFY15	3QFY14	YoY (bps)	2QFY15	QoQ (bps)	9MFY15	9MFY14	YoY (bps)
Programme & operating cost	47.3	51.3	-395bps	42.1	527bps	43.4	46.7	-327bps
Staff cost	8.0	8.1	-5bps	9.7	-165bps	9.2	8.9	31bps
Selling, administrative & other exp	18.7	16.2	256bps	19.6	-86bps	19.8	17.0	276bps
EBITDA Margin (%)	25.9	24.5	144bps	28.7	-276bps	27.6	27.4	20bps
Tax Rate (%)	25.9	31.6	-565bps	36.4	-1050bps	46.9	50.0	-318bps
APAT Margin (%)	21.0	18.9	212bps	19.7	128bps	20.1	20.2	-18bps

Source: Company, HDFC sec Inst Research

Current quarter's revenue includes over Rs 1bn of syndication income, which is event based and non-recurring in nature. This income is EBITDA neutral

Operating cost was impacted by (1) inventory impairment (2) provisions connected to subscription receivables (3) corporate makeover costs (4) placement for newly launched 'Zindagi'

DETAILED FINANCIALS

Y/E March (Rs mn)	Q3FY15	Q2FY15	QoQ (%)	Q3FY14	YoY (%)	Q3FY15E	Variance (%)
Advertising revenue	7,426	6,259	18.6	6,843	8.5	7,391	0.5
Subscription income	4,461	4,245	5.1	4,565	-2.3	4,429	0.7
Sales and services	1,750	674	159.5	476	267.9	300	483.3
Total revenue	13,637	11,178	22.0	11,884	14.8	12,119	12.5
Programme & operating cost	6,456	4,703	37.3	6,095	5.9	5,303	21.7
Staff cost	1,093	1,080	1.2	959	14.0	1,101	-0.8
SGA, employee cost and other exp	2,556	2,191	16.6	1,923	32.9	2,301	11.1
EBITDA	3,533	3,205	10.3	2,907	21.5	3,414	3.5
<i>EBITDA margin (%)</i>	<i>25.9</i>	<i>28.7</i>	<i>-276 bp</i>	<i>24.5</i>	<i>144 bp</i>	<i>28.2</i>	<i>-226 bp</i>
Depreciation and amortisation	170	134		135		136	
Interest	28	23		32		23	
EBT	3,335	3,048	9.4	2,741	21.7	3,255	2.5
Other income	802	522		380		422	
PBT	4,137	3,570	15.9	3,121	32.6	3,677	12.5
Provision for tax	1,072	1,300	-17.5	985		1,287	(16.7)
Minority interest	(21)	(6)		0		(6)	
PAT (reported)	3,086	2,276	35.6	2,136	44.5	2,396	28.8
NPM (%)	22.6	20.4	227 bp	18.0	466 bp	19.8	286 bp

Source: Company, HDFC sec Inst Research

Ex-sports ad revenue saw mid-teens growth (YoY)

The sports business saw sizeable syndication income during the quarter. This income is EBITDA neutral

SEGMENTAL QUARTERLY PERFORMANCE

KPI's and revenue split	Q3FY15	Q2FY15	QoQ (%)	Q3FY14	YoY (%)
Subscription income (Rs mn)	4,461	4,245	5.1	4,565	-2.3
Domestic Revenue	3,455	3,373	2.4	3,322	4.0
International Revenue	1,007	872	15.5	1,243	-19.0
Sports business (Rs mn)					
Revenue	2,476	1,181	109.7	1,915	29.3
<i>% of sales</i>	18.2	10.6		16.1	
Operating expenses	2,746	1,431	91.9	2,956	-7.1
<i>% of operating exp.</i>	27.2	17.9		32.9	
EBITDA	(270)	(250)		(1,041)	
Non-sporting business (Rs mn)					
Revenue	11,161	9,997	11.6	9,969	12.0
<i>% of sales</i>	81.8	89.4		83.9	
Operating expenses	7,358	6,543	12.5	6,020	22.2
<i>% of operating exp.</i>	72.8	82.1		67.1	
EBITDA	3,803	3,455	10.1	3,948	-3.7
<i>EBITDA margin (%)</i>	34.1	34.6	-48 bp	39.6	-553 bp
Viewership metrics					
Zee TV					
Average channel share	18%	17%	120 bps	19%	-60 bps
Shows in top 100	10	11	-9	15	-33
Zee Cinema - Avg. share	31%	31%	0	36%	
Zee Marathi - Avg. share	52%	49%	280 bps	47%	480 bps
Zee Bangla - Avg. share	36%	34%	180 bps	38%	-230 bps
Zee Telugu	24%	23%	140 bps	20%	410 bps
Zee Kannada	15%	13%	140 bps	15%	-20 bps

Source: Company, HDFC sec Inst Research

KEY ASSUMPTIONS

(Rs mn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Ad revenue	15,841	19,639	23,801	26,286	30,693	35,841
Subscription revenue	13,245	16,234	18,022	17,649	20,170	24,359
- domestic	9,223	11,648	13,184	13,710	16,074	20,181
- international	4,022	4,586	4,839	3,939	4,097	4,178
Other operating income	1,319	1,123	2,394	3,592	4,310	4,913
Total Revenue	30,405	36,996	44,218	47,527	55,173	65,113
EBITDA	7,395	9,543	12,043	13,004	15,671	19,848
<i>Margin %</i>	24.3	25.8	27.2	27.4	28.4	30.5

% change YoY

Ad revenue	24.0	21.2	10.4	16.8	16.8
Subscription revenue	22.6	11.0	(2.1)	14.3	20.8
- domestic	26.3	13.2	4.0	17.2	25.6
- international	14.0	5.5	(18.6)	4.0	2.0
Other operating income	(14.9)	113.2	50.0	20.0	14.0
Total	21.7	19.5	7.5	16.1	18.0
EBITDA	29.0	26.2	8.0	20.5	26.7

GEC (ex-sports) SEGMENT

Total Revenue	26,471	32,036	37,627	41,344	47,754	56,211
EBITDA	8,875	10,413	13,019	13,783	15,910	19,369
<i>Margin %</i>	33.5	32.5	34.6	33.3	33.3	34.5

SPORTS SEGMENT

Total Revenue	3,934	4,960	6,591	6,183	7,420	8,903
EBITDA	-1,480	-870	-976	-779	-238	479
<i>Margin %</i>	(37.6)	(17.5)	(14.8)	(12.6)	(3.2)	5.4

Source: Company, HDFC sec Inst Research

* Split of segmental revenue is based on estimates

We expect robust ad revenue growth on the back of improving GDP growth, increased spends by FMCG cos and emergence of new categories such as e-commerce

Despite healthy revenue growth, we expect stable margins ex-sports on account of the company's new channel launch

CONSOLIDATED INCOME STATEMENT

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	36,996	44,217	47,527	55,173	65,113
Growth (%)	21.7	19.5	7.5	16.1	18.0
Program/Film rights	13,963	17,055	17,155	20,243	24,291
Employee Expenses	3,491	3,905	4,393	4,832	5,316
SG&A Expenses	4,047	4,589	5,538	6,503	7,217
Other Operating Expenses	5,952	6,625	7,437	7,923	8,441
EBITDA	9,543	12,043	13,004	15,671	19,848
EBITDA (%)	25.8	27.2	27.4	28.4	30.5
EBITDA Growth (%)	29.0	26.2	8.0	20.5	26.7
Other Income	1,419	1,711	2,179	2,003	2,003
Depreciation	399	388	648	861	1,071
EBIT	10,563	13,366	14,535	16,814	20,780
Interest	86	158	100	50	50
PBT	10,477	13,208	14,435	16,764	20,730
Tax	3,337	4,291	4,764	5,700	7,048
PAT	7,140	8,917	9,672	11,064	13,682
Minority Interest	-24	-19	10	50	100
EO items (net of tax)	0	0	0	0	0
APAT	7,164	8,936	9,662	11,014	13,582
APAT Growth (%)	22.2	24.2	8.1	14.0	23.3
EPS	7.5	9.3	10.1	11.5	14.1
EPS Growth (%)	22.2	24.2	8.1	14.0	23.3

Source: Company, HDFC sec Inst Research

CONSOLIDATED BALANCE SHEET

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
SOURCES OF FUNDS					
Share Capital - Equity	954	960	960	960	960
Share Capital - Preference	-	20,170	20,170	20,170	16,170
Reserves	38,161	26,246	31,101	36,835	43,440
Total Shareholders Funds	39,115	47,376	52,231	57,965	60,570
Minority Interest	33	61	71	121	221
Total Debt	17	17	17	17	17
Deferred Taxes	(288)	(298)	(298)	(298)	(298)
TOTAL SOURCES OF FUNDS	38,877	47,157	52,022	57,805	60,511
APPLICATION OF FUNDS					
Net Block	9,906	10,733	12,652	13,938	15,395
CWIP	69	997	331	391	467
Investments, LT Loans & Advs	651	1,034	1,034	1,034	1,034
Inventories	8,745	11,736	17,834	23,635	29,294
Debtors	9,890	10,281	11,090	12,261	13,565
Cash & Equivalents	5,316	7,551	5,691	3,863	34
ST Loans & Advances, Others	13,110	14,454	15,018	16,342	17,882
Total Current Assets	37,061	44,023	49,633	56,101	60,775
Creditors	8,617	8,892	10,043	11,556	13,317
Other Current Liabilities & Provs	2,776	3,970	4,817	5,335	7,077
Total Current Liabilities	11,393	12,862	14,860	16,891	20,393
Net Current Assets	25,668	31,161	34,773	39,210	40,382
Misc Expenses & Others	2,583	3,232	3,232	3,232	3,232
TOTAL APPLICATION OF FUNDS	38,877	47,157	52,022	57,805	60,511

Source: Company, HDFC Sec Inst Research

CONSOLIDATED CASH FLOW

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Reported PAT	7,164	8,936	9,662	11,014	13,582
Non-operating & EO items	(1,064)	(794)	(709)	(770)	563
PAT from Operations	6,100	8,142	8,952	10,245	14,145
Interest expenses	30	76	100	50	50
Depreciation	399	501	648	861	1,071
Working Capital Change	(2,348)	(4,904)	(6,320)	(6,783)	(6,743)
OPERATING CASH FLOW (a)	4,181	3,815	3,381	4,372	8,522
Capex	(751)	(1,482)	(1,901)	(2,207)	(2,605)
Free cash flow (FCF)	3,430	2,333	1,480	2,165	5,918
Investments	1,203	(577)	3,463	1,287	1,180
INVESTING CASH FLOW (b)	452	(2,059)	1,562	(920)	(1,425)
Debt Issuance	(15)	(14)	-	-	-
Interest expenses	(30)	(26)	(100)	(50)	(50)
FCFE	4,588	1,716	4,843	3,402	7,047
Share capital Issuance	(593)	-	-	-	-
Dividend	(1,663)	(2,244)	(4,806)	(5,281)	(10,976)
FINANCING CASH FLOW (c)	(2,256)	(2,244)	(4,806)	(5,281)	(10,976)
NET CASH FLOW (a+b+c)	2,377	(488)	137	(1,829)	(3,879)
Non-operating and EO items	345	(813)	90	0	(50)
Closing Cash & Equivalents	5,316	5,644	5,691	3,863	34

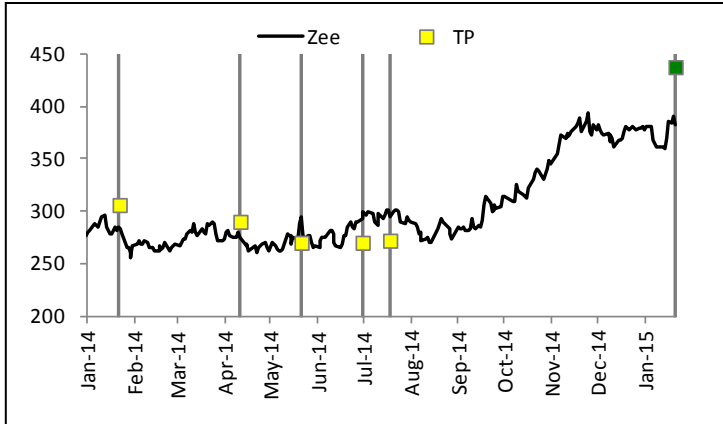
Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY13	FY14	FY15E	FY16E	FY17E
PROFITABILITY (%)					
GPM	37.7	38.6	36.1	36.7	37.3
EBITDA Margin	25.8	27.2	27.4	28.4	30.5
APAT Margin	19.4	20.2	20.3	20.0	20.9
RoE	19.5	20.7	19.4	20.0	22.9
RoIC or Core RoCE	20.1	21.6	19.2	19.3	21.6
RoCE	19.8	21.0	19.6	20.1	23.0
EFFICIENCY					
Tax Rate (%)	31.9	32.5	33.0	34.0	34.0
Asset Turnover (x)	1.0	0.9	0.9	1.0	1.1
Inventory (days)	86	97	137	156	164
Debtors (days)	98	85	85	81	76
Payables (days)	85	73	77	76	75
Cash Conversion Cycle (days)	99	108	145	161	166
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E	(0.6)	(0.6)	(0.4)	(0.2)	(0.0)
Interest Coverage	122.8	84.6	145.4	336.3	415.6
PER SHARE DATA					
EPS (Rs/sh)	7.5	9.3	10.1	11.5	14.1
CEPS (Rs/sh)	8.0	9.7	10.7	12.4	15.3
DPS (Rs/sh)	2.0	2.0	3.0	3.4	5.0
BV (Rs/sh)	41.0	49.4	54.4	60.4	63.1
VALUATION					
P/E	50.6	41.0	38.0	33.3	27.0
P/BV	9.3	7.7	7.0	6.3	6.1
EV/EBITDA	37.6	29.8	27.8	23.2	18.5
OCF/EV (%)	1.2	1.1	0.9	1.2	2.3
FCF/EV (%)	1.0	0.6	0.4	0.6	1.6
FCFE/mkt cap (%)	1.3	0.5	1.3	0.9	1.9
Dividend Yield (%)	0.5	0.5	0.8	0.9	1.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
23-Jan-14	284	NEU	306
11-Apr-14	279	NEU	290
22-May-14	294	NEU	270
30-Jun-14	293	NEU	270
19-Jul-14	294	NEU	272
22-Jan-15	382	BUY	437

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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