

Near term uncertainty clouds long term prospects

Zee Media Corporation, with flagship Hindi news channel Zee News, has witnessed mixed fortunes. On the one hand, they have reported strong a financial performance with industry leading ad growth in news segment. However, on the other hand, they faced the brunt of issues related to promoter's debt pile up in non-media business and their intended preference towards other group companies in terms of release of pledged shares. Furthermore, possible complete write-offs of advances given to Diligent Media is making it worse. We believe operationally the company is on the right path and expected to continue its strong momentum on advertisement revenue, profitability. The concerns overshadow the near to medium term outlook.

Marred by promoter related issues, advances write-offs...

Owing to debt levels at promoter level, Zee Media along with other group companies' shares were pledged. In January 2019, 72.92% of promoter's 67.02% stake of Zee Media Corp was also pledged, after which there was a sale of shares by some lender/promoter over the said concerns. Currently, promoter holding in Zee Media as of June 2019 is at 55.12%, out of which 93.55% is pledged. We also note the uncertainty faced by Zee Media (saw a sharp correction of 63% in stock price last year). Moreover, promoters also made clear what their priority would be given Zee Entertainment and Dish TV as far as releasing pledged shares is concerned, which was a dampener, in our opinion. Another issue the company is facing is possible complete write-off of advances given to Diligent Media, (a group company) in next two to three years due to its continued weak performance (reported net loss of ₹ 58 crore in FY19). As per its latest annual report, the company has already reported an impairment of ₹ 103.3 crore of total advances of ₹ 436.2 crore given to Diligent Media. There is the possibility of further write downs in the next couple of years. We also await announcement of new leadership post resignation of previous MD Ashok Venkatramani.

...despite healthy operating performance

Operationally the company has been reporting healthy numbers as advertisement revenue grew at 23.1% CAGR to ₹ 616.1 crore in FY16-19, aided by regional expansion of its news channels (they currently have 14 operational channels in their portfolio). EBITDA also grew at a healthy 30% CAGR in FY16-19. This was due to prudent focus on cost control as employee expenses grew at only 1.4% CAGR over the same period while other expenses declined at 3.4% CAGR in FY16-19 (these two form ~78% of total expenses). The company reported a loss of ₹ 7 crore at the PAT level in FY19 due to impairment on investments in Diligent Media. Adjusted profit for FY19 would have been ₹ 74.5 crore.

Valuation & Outlook

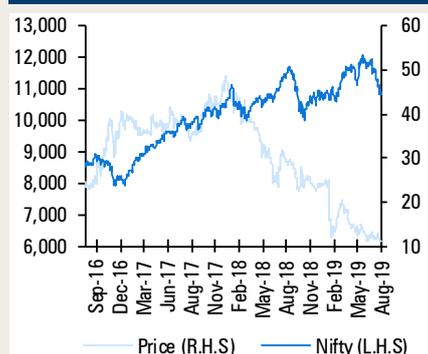
At the CMP, the stock is trading at an attractive valuation of ~6.5x FY20E EPS. While valuations appear to be cheap with operational performance being strong, it is largely on account of ongoing issues at promoter's level and risk of advances wipe-off. While we await closure of stake sale deal of Zee Entertainment, we believe that continued weak performance at diligent media will impact their reported PAT with possible write-down in investment. However, on account of continued superior operational performance, we continue to remain constructive on the long term prospects of the stock. We maintain **BUY** with a revised target price of ₹ 14/share (8x FY20E EPS) with a view of 24-36 months.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	517.9
Total Debt (FY19) (₹ Crore)	193.7
Cash (FY19) (₹ Crore)	24.4
EV (₹ Crore)	687.2
52 week H/L (₹)	32/ 10
Equity capital (₹ crore)	47.1
Face value (₹)	1

Price Performance



Research Analyst

Bhupendra Tiwary
bhupendra.tiwary@icicisecurities.com

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Exhibit 1: Financial performance

P&L	FY15	FY16	FY17*	FY18*	FY19*
Revenues (₹ crore)	544.3	543.0	449.8	573.5	686.9
EBITDA (₹ crore)	44.5	78.7	99.9	132.9	173.6
Net Profit (₹ crore)	-43.2	-4.5	-16.1	27.8	-7.1
Balance Sheet					
Equity (₹ crore)	36.2	44.0	47.1	47.1	47.1
Net worth (₹ crore)	360.9	544.4	515.7	672.1	637.6
Debt (₹ crore)	460.3	384.5	109.1	124.9	193.7
Ratios					
RONW (%)	-12.0	-0.8	-3.1	4.1	-1.1
ROCE (%)	0.4	5.3	8.6	11.5	15.0
Asset turnover (x)	0.7	0.7	1.5	1.4	1.5
Earnings per share (₹)	-1.2	-0.1	-0.3	0.6	-0.2
EV/EBITDA (x)	20.8	10.2	5.7	4.7	3.9
P/E (x)	NM	NM	NM	18.3	NM

Source: Company, ICICI Direct Research * numbers post FY17 are of demerged entity

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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