Zee Entertainment Enterprises | BUY

JM FINANCIAL

Promoters' capital infusion: a win-win

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ZEEL hosted "Ask me anything" webinar for investors ahead of its July 10th shareholders' voting on promoters' fund infusion. It offered granular insights into its capital infusion rationale, strategic priorities and medium-term growth roadmap. Management addressed concerns around the structure of the proposed warrants, emphasizing its premium pricing, non-dilutive stance, and alignment with long-term shareholder value creation. The session also highlighted ZEEL's five-pronged business model - Linear, Digital, Music, Studios, and Syndication - with a unified IP-driven content strategy across platforms. Promoters' stake raise aligns their interest more closely with minority shareholders'. That increases their incentive to unlock value, as proposed, through music and syndication – a win-win for all.

- **Capital with conviction, not discount:** Zee has opted for a preferential warrant issuance over other forms of fund raising, prioritizing value preservation and execution velocity. Rights issues, while inclusive, would have necessitated a discount, potentially resetting the stock's benchmark at a trough. Instead, the proposed infusion - at a premium to CMP - not only shores up the balance sheet but brings in aligned long-term partners with skin in the game. With 25% upfront capital committed and the remainder to be brought in swiftly, this move is positioned as a bridge to Zee's growth. The Board remains clear that Zee cannot afford to wait 6-7 years for the capital they raised through FCCBs.

- **Five verticals, one unified strategy:** Zee's strategy spans five verticals—Linear, Digital, Music, Studios, and Syndication - underpinned by content IP ownership and an omni-channel GTM. In Linear, ZEEL has increased their viewership and aims to have a 17.5% viewership share, while Zee5 will see a 3x content expansion with seven language packs and introduction of ad-tiers. A dedicated subsidiary now houses the syndication business, aiming to monetize Zee's vast IP library through tech-led global redistribution.

- **Next phase of growth:** Having steadied the core, Zee is now building for the next leg - micro-drama, emerging sports, live events and edutainment. 'Bullet', the company's micro-drama platform, is slated for commercial launch post successful beta traction (top 15 app). In sports, Zee aims to re-enter the segment with profitability and portfolio discipline - focused on high engagement, moderate-risk categories, not cricket. The live business, dormant since COVID, is being revived to tap into the concert economy. Kids' edutainment, will now see IP consolidation and platform-agnostic distribution.

- **Language - Zee's enduring moat:** Language remains at the core of Zee's content distribution strategy. The company has a proven track record in regional broadcasting, which is now being mirrored on Zee5 with multi-language packs and original content in seven languages. Zee's 'My Language, My Stories' philosophy extends to its music and studio businesses. Management believes no OTT peer matches this depth.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	210
Upside/(Downside)	45.3%
Previous Price Target	210
Change	0.0%

Key Data – Z IN	
Current Market Price	INR144
Market cap (bn)	INR111.2/US$1.3
Free Float	91%
Shares in issue (mn)	960.6
Diluted share (mn)	1,002.6
3-mon avg daily val (mn)	INR1,499.3/US$17.6
52-week range	169/89
Sensex/Nifty	79,454/24,008
INR/US$	85.4

Price Performance

%	1M	6M	12M
Absolute	11.5	-4.1	-11.8
Relative*	5.5	-5.0	-19.3

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	86,372	82,941	90,232	99,115	1,08,653
Sales Growth (%)	6.6	-4.0	8.8	9.8	9.6
EBITDA	9,071	11,973	16,609	20,278	23,370
EBITDA Margin (%)	10.5	14.4	18.4	20.5	21.5
Adjusted Net Profit	4,738	7,700	11,372	14,463	17,065
Diluted EPS (INR)	4.9	8.0	11.3	13.9	16.3
Diluted EPS Growth (%)	13.6	62.5	41.6	22.1	18.0
ROIC (%)	4.2	7.2	11.3	14.3	16.7
ROE (%)	4.4	6.9	9.5	11.1	12.0
P/E (x)	23.5	14.5	10.2	8.4	7.1
P/B (x)	1.0	1.0	0.9	0.9	0.8
EV/EBITDA (x)	11.5	7.4	4.7	3.4	2.4
Dividend Yield (%)	0.9	2.1	2.6	3.1	3.4

Source: Company data, JM Financial. Note: Valuations as of 09/May/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

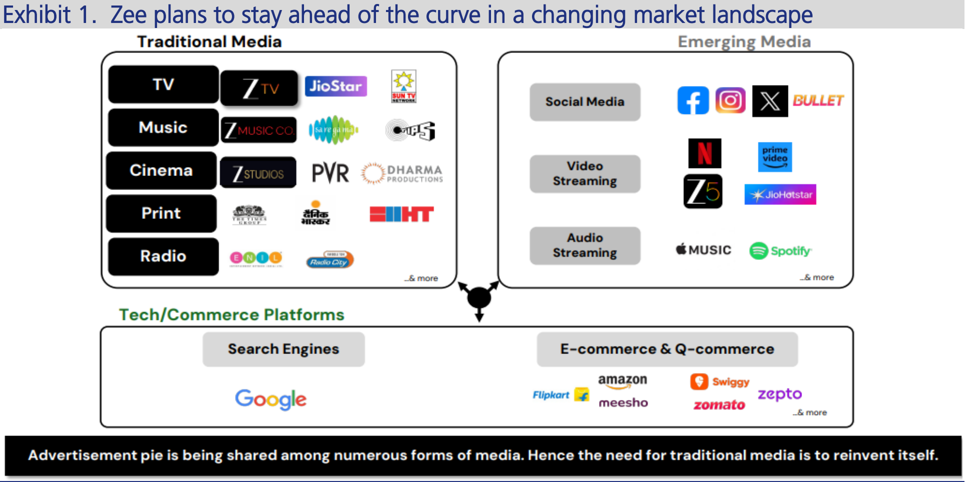
Details of promoters' stake raise

On 16th May 2025, Zee's board approved issue of 169.5mn fully convertible warrants at INR 132 per share on a preferential basis to Altilis Technologies Pvt. ltd and Sunbright Mauritius investments ltd., both of which are promoter group entities. The warrants are structured with a 25% upfront payment (INR 33 per share) and the warrant exercise price stands at INR 99 per share (75% of total). Maximum period for exercise is 18 months. The total fund infusion will be INR 22374mn, this will increase promoter's stake in the company from 3.99% to 18.39%. The price for issue of warrant as per SEBI guidelines comes to INR 128.58 per warrant, the promoters agreed to pay premium of INR 3.42 per warrant. The preferential issue is subject to shareholder's approval (EGM to be held on July10, 2025).

Chairman, Mr. R. Gopalan noted that after extensive discussions with J.P.Morgan the board concluded that increased promoter investment would align their commitment with the company's long term objectives. Mr. Shubham Shree, commenting on behalf of the promoter group highlighted that the promoters had submitted their intent to raise stake to the board on 1st May 2025 when the stock was at INR106 and added that the promoters are committed to the company and its business even at the current price of the warrant issue.

ZEEL's Strategy

Exhibit 1. Zee plans to stay ahead of the curve in a changing market landscape



Source: Company, JM Financial

Exhibit 2. Growth levers for ZEEL's linear business

Achieve increased viewership share on the back of exciting content

- Powering growth through a strong lineup of fresh content (fiction and non-fiction) being developed
- Expanding the slate: Diverse new releases across genres (comedy, horror, mythology etc.)

Reinforcing presence in FTA market of ~ INR 4,000 crs. to get the larger share of ad spends

- Relaunched Z's flagship FTA channel- Z Anmol
- Built a portfolio of 7 channels across genres in the network

Building specialised teams to cater to Retail/SME/MSME advertisers

Execute new forms of monetisation like structured deals for advertisers

Enhanced focus on in-Show Brand Integration

Source: Company, JM Financial

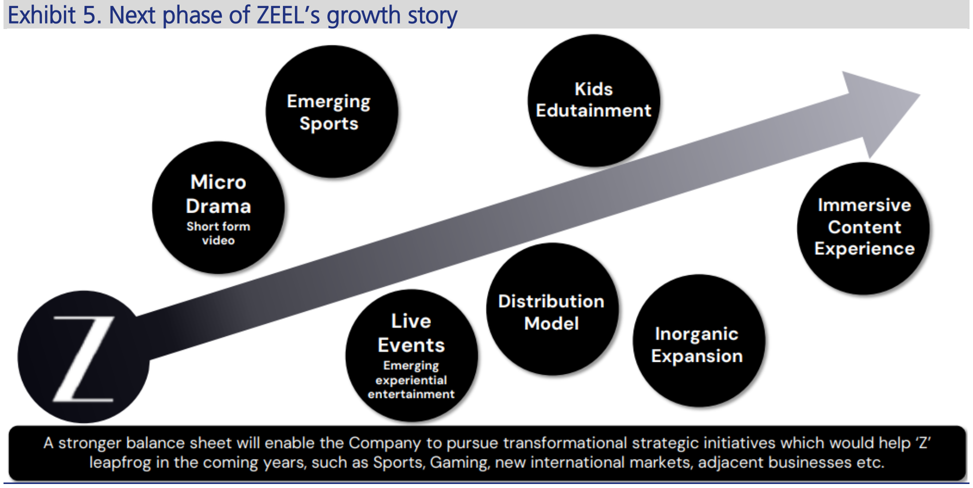
Exhibit 3. Digital segment on high growth trajectory, with content across 7 languages now

Source: Company, JM Financial

Exhibit 4. Growth initiatives across music, syndication, and studio business

Source: Company, JM Financial

Exhibit 5. Next phase of ZEEL's growth story



Source: Company, JM Financial

Key Q&As during the webinar

Strong balance sheet, profitability of Zee5, Jio and Hotstar have come together, why not invest in Zee5?

Increasing content in Zee5 by 3x compared to previous year, enhanced content offering remains a focus area. Sports will be discussed and evaluated on a case to case business, focus will be to add profits. Zee5 remains one of their growth drivers, launched multiple language packs. They are being very prudent and smart in their investments this time.

Warrants are not the best instruments? Why looking at fund raising now?

B/S is strong, but they need much stronger B/S looking at the competition. They will not wait for 18 months, will bring rest of the money as soon as possible. This money will come in even earlier than what they anticipate. They need to perform even better, and need the fuel.

New initiatives, how would you see the ad revenue grow, would it be disproportionate to other segments?

Ad revenue on TV has been stagnating, required to create new initiatives and opportunities. Moving forward as a solution provider to the advertiser, looking at complete customized solution to the customer (mini-series is complete integration of the product right at the script level). Create a 360 degree solution for advertisers – engagement with the consumers, and able to judge their ROIs also. Not only about selling TV inventory

Emerging sports categories - Profitability, how will we use cash balances for bidding? Only OTT or TV+OTT?

Some of the properties have not been as profitable as Cricket. They want to be in the zone of low risk and moderate-high impact. They are not cricket ambitious and are not comparing with IPL, but it will give them meaningful audience. Trying to cover the entire spectrum.

What are your key goals in the medium term?

Viewership target of 17.5%, EBITDA margin of 18-20%, Zee5 from Breakeven to Profits, Expand list of advertising clients.

Warrants issue – Why was this the preferred method?

Deliberated various options, right issues are typically done at discounts – they didn't want to reset the price at this price point. There has been some noise, not sure how the capital market reception will be like. Looked at the alternative to do a preference issue, significant premium. Capital is coming in from an entity that will look over the growth plan – skin in the game. FCCB program – Takes time to come – 6-7years (they need the money to move forward in this industry).

Cost-cutting in Zee5 to increase content?

Cost is increasing by a very moderate amount – Omni-channel content strategy and optimization of costs. Language strategy - India is a land of multiple languages. Focused on the language strategy – no other OTT player is doing this, Zee has been a pioneer in this.

Separate subsidiary for syndication business?

Not in any hurry, whole point of syndication is to unlock the value of their vast digital library. Immense potential to resell this library across the world. Kroll report suggests big value for their content.

Edutainment – EdTech and Gaming companies entering, how will you differentiate?

IPs will be broadcasted on all channels. Not preachy content. Don't want it to be suboptimal in terms of scaling – 2-3 years. In the past also they had a lot of Children's program IPs – going to bring them together.

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	86,372	82,941	90,232	99,115	1,08,653
Sales Growth	6.6%	-4.0%	8.8%	9.8%	9.6%
Other Operating Income	0	0	0	0	0
Total Revenue	**86,372**	**82,941**	**90,232**	**99,115**	**1,08,653**
Cost of Goods Sold/Op. Exp	50,393	45,172	46,677	50,053	53,783
Personnel Cost	10,188	9,266	9,700	10,357	11,300
Other Expenses	16,719	16,531	17,247	18,427	20,200
EBITDA	**9,071**	**11,973**	**16,609**	**20,278**	**23,370**
EBITDA Margin	10.5%	14.4%	18.4%	20.5%	21.5%
EBITDA Growth	-17.8%	32.0%	38.7%	22.1%	15.2%
Depn. & Amort.	3,091	2,785	2,767	2,746	2,723
EBIT	5,980	9,187	13,841	17,532	20,647
Other Income	1,293	1,234	1,745	2,170	2,517
Finance Cost	721	327	327	327	327
PBT before Excep. & Forex	6,553	10,094	15,260	19,375	22,837
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,553	10,094	15,260	19,375	22,837
Taxes	1,818	2,398	3,897	4,925	5,791
Extraordinary Inc./Loss(-)	-3,324	80	0	0	0
Assoc. Profit/Min. Int.(-)	4	4	9	14	19
Reported Net Profit	1,414	7,780	11,372	14,463	17,065
Adjusted Net Profit	**4,738**	**7,700**	**11,372**	**14,463**	**17,065**
Net Margin	5.5%	9.3%	12.6%	14.6%	15.7%
Diluted Share Cap. (mn)	961.0	961.0	1,002.6	1,044.1	1,044.1
Diluted EPS (INR)	**4.9**	**8.0**	**11.3**	**13.9**	**16.3**
Diluted EPS Growth	13.6%	62.5%	41.6%	22.1%	18.0%
Total Dividend + Tax	961	2,335	3,008	3,654	4,177
Dividend Per Share (INR)	1.0	2.4	3.1	3.6	4.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	1,08,729	1,15,334	1,24,371	1,35,826	1,49,237
Share Capital	961	961	961	961	961
Reserves & Surplus	1,07,768	1,14,373	1,23,410	1,34,865	1,48,276
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	5,119	1,601	1,601	1,601	1,601
Def. Tax Liab. / Assets (-)	-4,530	-3,987	-3,987	-3,987	-3,987
Total - Equity & Liab.	**1,09,318**	**1,12,948**	**1,21,985**	**1,33,440**	**1,46,851**
Net Fixed Assets	8,344	6,756	5,540	4,092	2,717
Gross Fixed Assets	16,871	17,844	17,004	16,957	16,948
Intangible Assets	8,491	8,822	8,375	8,618	8,871
Less: Depn. & Amort.	17,111	19,896	19,852	21,497	23,115
Capital WIP	93	14	14	14	14
Investments	1,681	11,947	11,956	11,970	11,989
Current Assets	1,19,930	1,14,537	1,25,807	1,40,280	1,56,889
Inventories	69,129	67,748	65,542	67,557	69,622
Sundry Debtors	17,016	15,325	16,178	17,227	18,290
Cash & Bank Balances	11,131	12,500	23,320	33,547	45,758
Loans & Advances	0	0	0	0	0
Other Current Assets	22,654	18,964	20,768	21,950	23,220
Current Liab. & Prov.	20,636	20,292	21,319	22,903	24,745
Current Liabilities	14,355	11,907	12,352	13,227	14,309
Provisions & Others	6,282	8,385	8,967	9,675	10,436
Net Current Assets	99,294	94,245	1,04,488	1,17,378	1,32,144
Total – Assets	**1,09,318**	**1,12,948**	**1,21,985**	**1,33,440**	**1,46,851**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	6,556	10,098	15,269	19,389	22,856
Depn. & Amort.	3,167	2,785	2,767	2,746	2,723
Net Interest Exp. / Inc. (-)	251	-381	-756	-1,156	-1,477
Inc (-) / Dec in WCap.	3,418	739	1,410	-2,663	-2,555
Others	-3,847	-647	0	0	0
Taxes Paid	-2,401	-734	-3,897	-4,925	-5,791
Operating Cash Flow	**7,143**	**11,860**	**14,793**	**13,390**	**15,755**
Capex	-1,014	-16,618	-1,552	-1,298	-1,348
Free Cash Flow	6,130	-4,758	13,242	12,093	14,407
Inc (-) / Dec in Investments	75	0	-842	-14	-19
Others	465	583	1,083	1,483	1,804
Investing Cash Flow	**-474**	**-16,035**	**-1,311**	**171**	**438**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	-961	-2,335	-3,008	-3,654
Inc / Dec (-) in Loans	-1,204	1,089	0	0	0
Others	-1,531	-120	-327	-327	-327
Financing Cash Flow	**-2,735**	**8**	**-2,662**	**-3,335**	**-3,981**
Inc / Dec (-) in Cash	**3,934**	**-4,167**	**10,820**	**10,226**	**12,211**
Opening Cash Balance	7,198	11,150	12,500	23,320	33,547
Closing Cash Balance	11,131	6,983	23,320	33,547	45,758

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	5.5%	9.3%	12.6%	14.6%	15.7%
Asset Turnover (x)	0.8	0.7	0.7	0.8	0.8
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	4.4%	6.9%	9.5%	11.1%	12.0%

Key Ratios

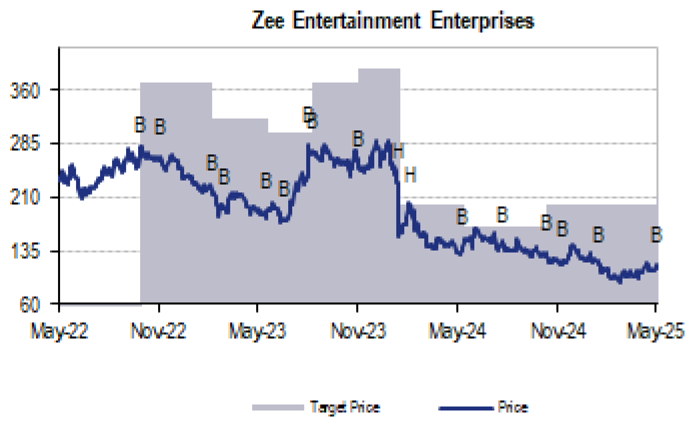
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	113.1	120.0	126.7	132.7	142.9
ROIC	4.2%	7.2%	11.3%	14.3%	16.7%
ROE	4.4%	6.9%	9.5%	11.1%	12.0%
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.3	-0.4
P/E (x)	23.5	14.5	10.2	8.4	7.1
P/B (x)	1.0	1.0	0.9	0.9	0.8
EV/EBITDA (x)	11.5	7.4	4.7	3.4	2.4
EV/Sales (x)	1.2	1.1	0.9	0.7	0.5
Debtor days	72	67	65	63	61
Inventory days	292	298	265	249	234
Creditor days	68	61	61	61	61

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
20-Oct-24	Buy	200	17.6
20-Nov-24	Buy	200	0.0
24-Jan-25	Buy	200	0.0
9-May-25	Buy	210	5.0

Recommendation History



APPENDIX I

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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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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