Zee Entertainment Enterprises (Z IN)

Rating: BUY | CMP: Rs219 | TP: Rs290

A new AVATAR

Jinesh Joshi jineshjoshi@plindia.com | 91-22-66322238

Contents

	Page No.
Story in Charts – ZEEL's viewership trend & key financial metrics	4
Story in Charts – Pay TV & OTT evolution trends	5
ZEEL – Reinventing with changing times	6
Investment Argument	7
ZEEL 4.0: A new transformational journey	7
TV ad-ex traction to slow as digital medium evolves	9
ZEEL has strong presence in GEC & movie genres	11
NTO 1.0 was a key catalyst in aiding subscription revenue	18
ZEE5 is strongly placed in competitive OTT market	25
Financial Projections	33
Valuations	38
Story in Charts	41

Abbreviations

GEC: General Entertainment Channel

RGEC: Regional General Entertainment Channel

MAU: Monthly Active User

DAU: Daily Active User

OTT: Over The Top

NTO: New Tariff Order

ARPU: Average Revenue Per User

TRAI: Telecom Regulatory Authority of India

DTH: Direct to Home

HITS: Headend In The Sky

NCF: Network Capacity Fee

SD & HD: Standard Definition & High Definition

DPO: Distribution Platform Operator

MSO: Multi System Operator

LCO: Local Cable Operator

FTA: Free To Air

AVOD: Advertising Video on Demand

SVOD: Subscription Video on Demand

January 5, 2021

Company Initiation

Zee Entertainment Enterprises (Z IN)

Rating: BUY| CMP: Rs219 | TP: Rs290

A new AVATAR

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	81,299	71,315	83,748	91,813
EBITDA (Rs. m)	16,346	15,639	22,110	24,790
Margin (%)	*20.1*	*21.9*	*26.4*	*27.0*
Adj. PAT (Rs. m)	17,093	10,962	14,849	17,374
Adj. EPS (Rs.)	17.8	11.4	15.5	18.1
Gr. (%)	*7.8*	*(35.9)*	*35.5*	*17.0*
DPS (Rs.)	0.3	0.8	3.4	4.5
Yield (%)	*0.1*	*0.4*	*1.6*	*2.1*
RoE (%)	*18.7*	*11.3*	*14.0*	*14.7*
RoCE (%)	*13.6*	*12.6*	*17.5*	*17.9*
EV/Sales (x)	2.5	2.7	2.2	1.9
EV/EBITDA (x)	12.6	12.5	8.4	7.1
PE (x)	12.3	19.2	14.2	12.1
P/BV (x)	2.3	2.1	1.9	1.7

Key Data	ZEE.BO | Z IN
52-W High / Low	Rs. 304 / Rs. 114
Sensex / Nifty	48,177 / 14,133
Market Cap	Rs. 210 bn/ $ 2,883 m
Shares Outstanding	961m
3M Avg. Daily Value	Rs. 8639.17m

Shareholding Pattern (%)

Promoter's	4.02
Foreign	66.24
Domestic Institution	11.12
Public & Others	18.63
Promoter Pledge (Rs bn)	0.53

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	27.2	(19.9)
Relative	(0.9)	(4.9)	(31.1)

Jinesh Joshi
jineshjoshi@plindia.com | 91-22-66322238

We initiate coverage on Zee Entertainment Enterprises Ltd (ZEEL) with a BUY rating amid 1) concrete steps taken to strengthen governance and enhance disclosure levels 2) consistent improvement in viewership share (increased from 11.6% in CY11 to 18.4% in CY19) and 3) likely emergence of ZEE5 as future growth engine in the changing global content consumption paradigm. We expect revenue CAGR of 4.1% over FY20-23E backed by increasing viewership share, launch of 4 regional channels (Zee Punjabi, Zee Thirai, Zee Picchar and Zee Bispoke), increasing viewership of HD channels (16 channels, 35% HD penetration) and selective price hikes. Adjusted EBITDA/PAT CAGR is expected to be at 3.5%/0.5% over FY20-23E on higher content cost related to new channels and ZEE5. We believe ZEE5 is one of the strongest content platforms and can be a major growth and re-rating driver in coming years. Initiate BUY with a TP of Rs290 (16x FY23 EPS of Rs18). Non-core investments, related party transactions, contingent liabilities and accelerated inventory amortization are key risks to our call.

ZEEL 4.0; a new transformational journey: ZEEL has decided to strengthen its board composition (~63% of the directors were independent as of FY20 and 2 more independent directors have been added since then) and improve disclosure levels with plans to 1) publish BS on quarterly basis 2) disclose revenue & EBITDA of ZEE5 and 3) provide breakdown of content inventory and advances. We believe this transformational journey, labelled as ZEEL 4.0, is meant to start on a clean slate with clear focus on strengthening corporate governance & disclosure levels, so as to restore goodwill.

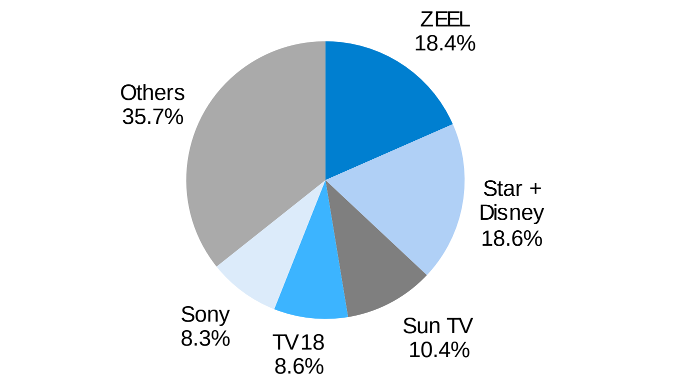
ZEE5 investment is a step in right direction: ZEE5 has built an unparalleled content library of 100+ original shows and movies across 6 languages. It also has a strong movie library with 3,000+ digital titles ahead of most players except EROS Now (12,000+ titles). We expect ZEE5 to release 80+ originals/movies in FY21E further strengthening its content pipeline, in a highly competitive Indian OTT market. ZEEL has been aggressively investing in ZEE5 and expects break-even by FY24E. We believe ZEEL's strategy to transit to digital medium is a step in the right direction given migration in viewing patterns from linear TV to OTT.

Strong channel portfolio to drive viewership share: ZEEL has a well-diversified portfolio with 6 Hindi GEC channels, 20 movie channels (9 in Hindi, 3 in English and 8 in regional languages), 4 niche (English/Music) channels and 16 RGEC channels. It has strong presence in GEC genre with leadership position in Kannada, Marathi and Bengali markets. Further, ZEEL has expanded presence in movie genre with the launch of 3 new channels viz; Zee Thirai, Zee Picchar and Zee Bispoke in 2020. As a result, we expect viewership share to increase from 18.4% in CY19, a key factor in driving ad-revenues.

ZEE5's success & improved disclosure key to re-rating: We value the stock at 16x (41% discount to 10-year average of 27x) FY23EPS of Rs18 and believe re-rating will be function of 1) ZEE5's success given impending digital evolution trends and 2) the ongoing transparency drive amid governance issues of the past.

Story in Charts – ZEEL's viewership trend & key financial metrics

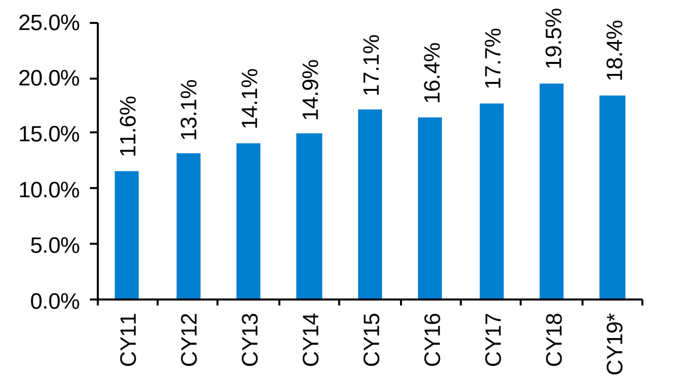
Exhibit 1: ZEEL's viewership lagged Star by 20bps in FY20



Source: Company, PL

** Network share of broadcasters does not include news & sports share*

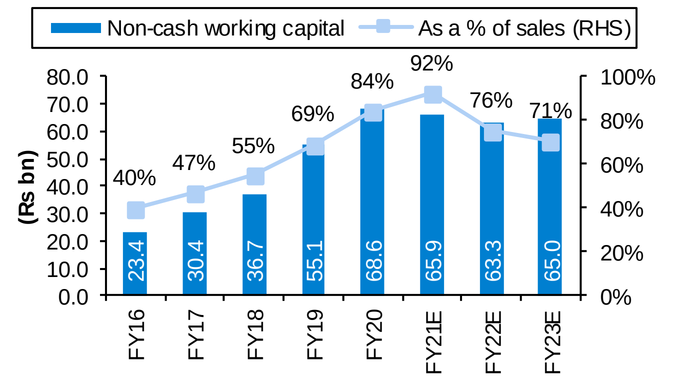
Exhibit 2: ZEEL's viewership stood at 18.4% in CY19



Source: Company, PL

**Average of April-Dec 2019 as NTO 1.0 was implemented in Jan-Mar 2019 impacting reach & viewership*

Exhibit 3: Non-cash WC to decline to 71% of sales in FY23E



Source: Company, PL

Exhibit 4: Inventory recovery post 12 months at 62% in FY20

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20
Media Content (Inventory)*	**12,992**	**16,308**	**24,228**	**37,531**	**51,177**
Of which:-					
1) Recoverable post 12 months	7,405	10,437	14,537	24,770	31,730
As % of inventory	*57%*	*64%*	*60%*	*66%*	*62%*
2) Recoverable in 12 months	3,922	2,885	6,084	8,005	11,635
As % of inventory	*30%*	*18%*	*25%*	*21%*	*23%*
3) Future commencement rights	1,665	2,986	3,607	4,756	7,812
As % of inventory	*13%*	*18%*	*15%*	*13%*	*15%*

Source: Company, PL

** Excluding under production media content and raw stock-tapes*

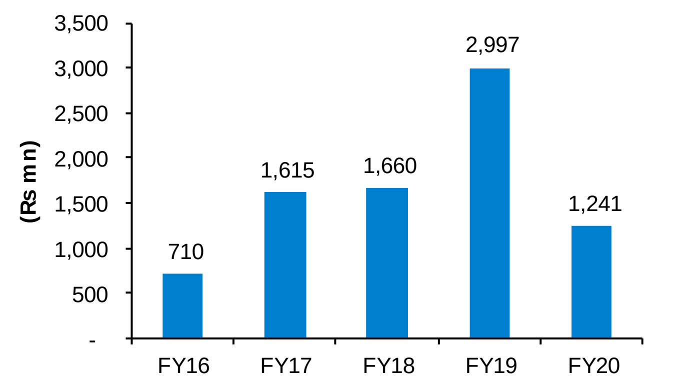
Exhibit 5: ZEE5's key operational & financial statistics

Particulars	4QFY20	1QFY21	2QFY21
Global MAU	63.1mn (in March-20)	39.7mn (in June-20)	54.7mn (in Sep-20)
Global DAU	6.0mn (in March-20)	4.0mn (in June-20)	5.2mn (in Sep-20)
Average watch time (per viewer/per month)	136 minutes (in March-20)	112 minutes (in June-20)	152 minutes (in Sep-20)
Revenue	NA*	Rs949mn	Rs989mn
EBITDA	NA*	Rs(1,451mn)	Rs(1,894mn)
Number of originals/movies released	13	18	25

Source: Company, PL

**ZEEL started disclosing revenue/EBITDA figures of ZEE5 from 1QFY21*

Exhibit 6: Zee Studios'* sales is volatile amid erratic content

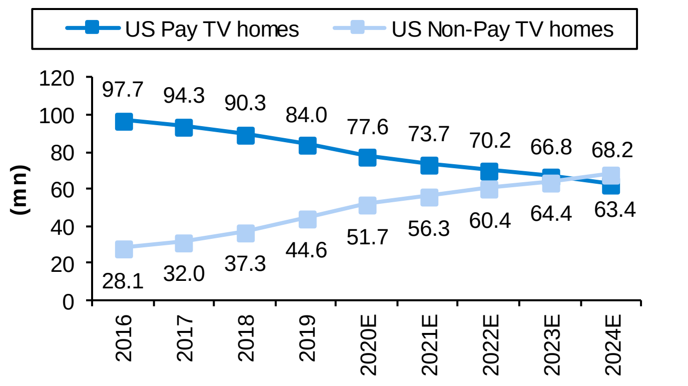


Source: Company, PL

**Movie production/distribution revenue*

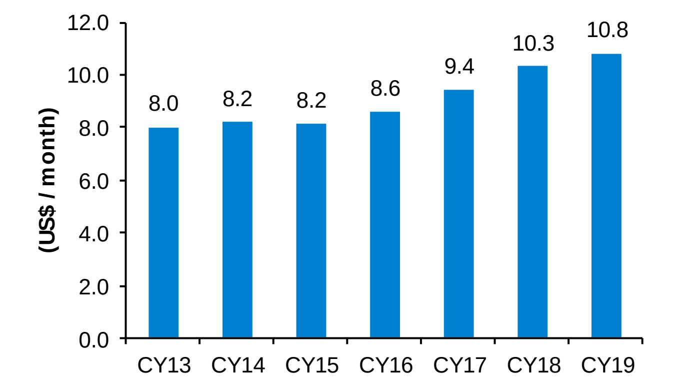
Story in Charts – Pay TV & OTT evolution trends

Exhibit 7: Cord cutting is evident in the US



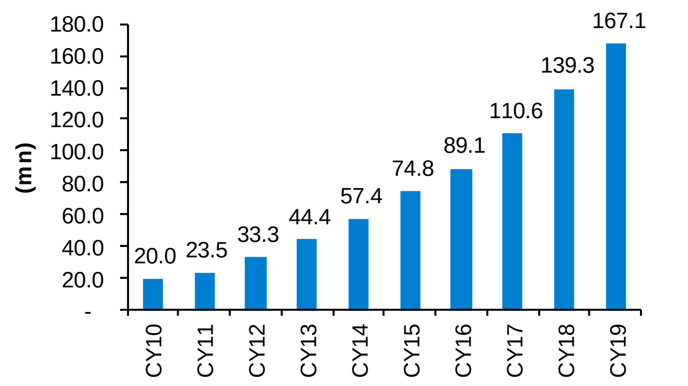
Source: Emarketer, PL

Exhibit 8: Netflix ARPU is on rising trend



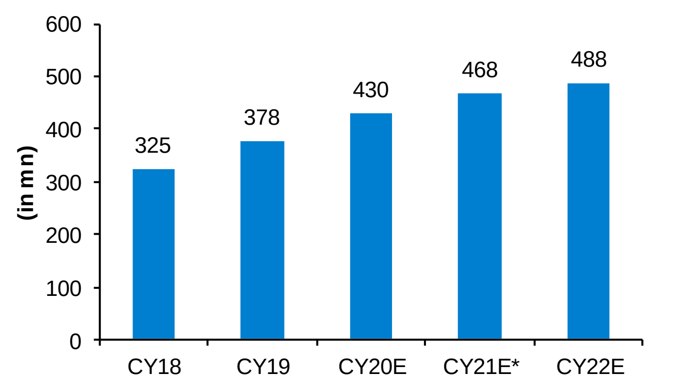
Source: Netflix, PL

Exhibit 9: Netflix subscribers at 167.1mn in CY19



Source: Netflix, PL

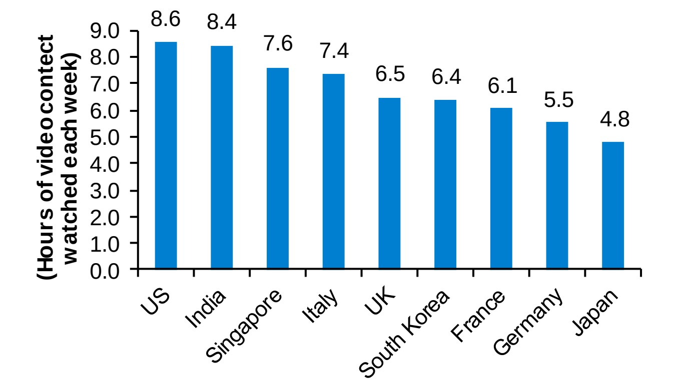
Exhibit 10: Indian online video viewers are rising sharply



Source: FICCI, E&Y

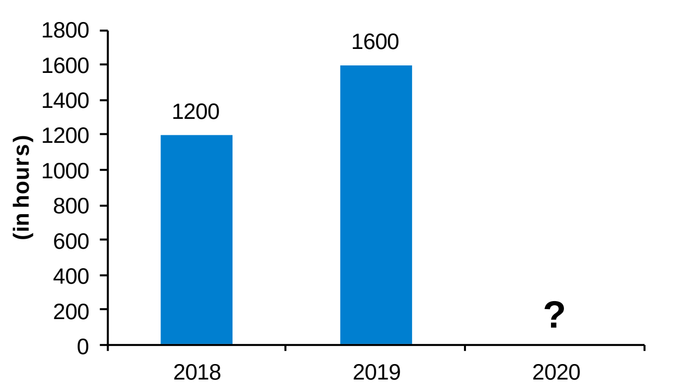
** Figure extrapolated based on CY19-22 CAGR of 8.9%*

Exhibit 11: India is next to US in online video consumption



Source: FICCI, E&Y

Exhibit 12: Original OTT content production rising in India



Source: FICCI, E&Y

ZEEL – Reinventing with changing times

ZEEL is one of the largest TV entertainment network in India with a basket of 46 channels (~500 hours of content produced every week) across 11 languages. It has a diversified portfolio with 6 Hindi GEC channels, 20 movie channels (9 in Hindi, 3 in English and 8 in regional languages), 4 niche (English/Music) channels and 16 RGEC channels. ZEEL also has an international portfolio of 35 channels in 170+ countries which primarily serves South Asian diaspora as well as local audience (9 dedicated non-Indian language channels) in select countries. While the international business primarily leverages library of parent network, it also produces content locally in some markets.

Apart from traditional content broadcasting, ZEEL is also into movie production/distribution and music publishing. Their movie business is housed under ZEE Studios (number 3 movie studio in the country in terms of box-office collections), the production/distribution arm of ZEEL. During FY20, Zee Studios released 14 movies across 5 languages in India and 22 movies internationally. However, in December 2020, ZEEL decided to buy-out the movie business from Zee Studios on a slump sale basis for a consideration of Rs2.75bn.

Zee Music Company (ZMC), the music publishing branch of ZEEL, is the number 2 music label in India. ZMC has a market share of over 50% in new Bollywood music rights and has a library of over 7,000 songs across 10+ languages. In 2017, ZEEL marked its entry into the live events space with ZEE LIVE which has offerings in music, comedy, culture, food, education and gaming genres.

ZEEL launched its OTT offering, ZEE5, in Feb 2018. Over the years, ZEE5 has built content catalogue of 100+ original shows/movies across 6 languages and movie library of 3,000+ titles across 12 languages. ZEE5's global MAUs/DAUs stood at 54.7mn/5.2mn in Sep-20 with an average watch time of 152 minutes (per viewer per month).

Exhibit 13: Key timeline of events

Year	Event
1992	Launched Zee TV, India's first private entertainment channel
1995	Launched Zee Cinema (India's first Hindi movie channel); international expansion begins with launch in UK
1999	Begins expansion into the regional market with Zee Marathi
2008	Widens regional reach with the launch of Zee Tamil
2010	Enters into sports broadcasting with acquisition of Ten Sports
2012	Enters into movie production with launch of Zee Studios
2014	Marks entry into music publishing with launch of Zee Music Company
2016	Inks an agreement with Reliance Broadcast Network Ltd (RBNL) to acquire Big Magic (Hindi GEC) and Big Ganga (Bhojpuri GEC). Launched 3 new channels viz; Zee Anmol Cinema, Zee Yuva and Zee Cinemalu.
2017	Entered live business and exited from sports broadcasting. Completed 25 years and revamped brand LOGO.
2018	Launched ZEE5 (OTT offering) and Zee Keralam (RGEC)
2019	Witnessed gradual reduction in promoter holding led by pledge invocation
2020	Further expands regional portfolio with launch of 4 channels viz; Zee Punjabi, Zee Thirai, Zee Picchar and Zee Bispoke. Zee 4.0 unveiled as a measure to improve corporate governance and disclosure levels. Launches ZeePLex, cinema to home service on TV and digital platforms.

Source: Company, PL

Investment Argument

ZEEL 4.0: A new transformational journey

Given the financial headwinds faced by promoter group, last 12-18 months were extremely challenging for ZEEL. However, since then the company has taken concrete steps to strengthen governance and enhance disclosure levels in order to restore goodwill. The transformation, labelled as ZEEL 4.0, is aimed at starting on a clean slate with clear focus on corporate governance. Some of the steps taken in this regard are as follows: -

Strengthening the board composition: Punit Goenka continues to run the business as MD & CEO, despite continuous reduction in promoter shareholding (current stake ~4%) amid pledge invocation. We believe continuing with Punit Goenka is beneficial for ZEEL given his vast experience & strong focus on cost control. In addition, various steps have been taken to strengthen board composition and reduce the influence of founder family: -

- Mr Subhash Chandra has resigned (will continue as Chairman Emeritus in honorary fashion), and Mr R Gopalan is elevated as Independent Chairman of the board.
- As of FY20, out of 8 members on board, 5 were independent including the Chairman. As committed by ZEEL in the past, 2 new independent members have been inducted recently.
- Currently, there are 10 members on board, of which 7 are independent.

With just 3 board seats and promoter holding of ~4%, concerns that financial interest of minority shareholders can be compromised appears unfounded (limited influence of founder family due to low stake & board independence)

Exhibit 14: Board has 70% independent directors including the Chairman

Name of the person	Designation
Subhash Chandra	Chairman Emeritus
R Gopalan	Chairman
Punit Goenka	MD & CEO
Ashok Kurien	Non-executive director
Alicia Yi	Independent director
Manish Chokhani	Independent director
Adesh Kumar Gupta	Independent director
Piyush Pandey	Independent director
Sasha Mirchandani	Independent director
Vivek Mehra	Independent director

Source: Company, PL

Improvement in disclosure levels: Henceforth, ZEEL has decided to: -

- Publish BS on quarterly basis (regulatory requirement of semi-annual publication)
- Disclose revenue & EBITDA of ZEE5 (since its launch in 2018, financial data on ZEE5 was not published & the practice began from 1QFY21) and
- Provide breakdown of content inventory and advances.

We believe enhanced disclosure on inventory breakdown is likely to provide more color on movie rights acquisition strategy of ZEEL. As per management, movie buying is likely to moderate from FY21E as peak investments have already been made over the last 2-3 years (share of movie rights within inventory has increased from Rs21bn in FY18 to Rs38bn in 2QFY21). Separate disclosure of movie rights will help gauge the overall trend of investments in this genre, as aggressive movie buying was a key reason for stretched working capital over last 2-3 years.

Exhibit 15: Movie rights constitute ~63% of the content pie in 2QFY21

Particulars (Rs bn)	FY18	FY19	FY20	1QFY21	2QFY21
Movie Rights	21.0	31.9	39.7	39.7	38.1
As % of total	*59%*	*55%*	*62%*	*63%*	*63%*
Shows	2.8	5.2	9.0	8.2	10.3
As % of total	*8%*	*9%*	*14%*	*13%*	*17%*
Movie production, Music & Others	2.5	1.2	4.5	4.4	3.6
As % of total	*7%*	*2%*	*7%*	*7%*	*6%*
Content advances & deposits	9.3	19.7	10.9	10.7	8.5
As % of total	*26%*	*34%*	*17%*	*17%*	*14%*
Grand Total (Inventory & advances/deposits)	**35.6**	**58.0**	**64.1**	**63.0**	**60.4**

Source: Company, PL

New treasury/investment policy: In the past, ZEEL invested a portion of its cash in overseas MFs. However, investment in two of its high yield overseas MFs turned out to be illiquid and the company tried to find an exit since long. ZEEL finally managed to liquidate these investments at US$30mn, but only after booking a loss of Rs3.8bn in FY20 (15% of the cash is already received).

Exhibit 16: Trend of illiquid investments in overseas MFs

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E*
Actinium Investment Funds	-	-	1,976	2,196	875	NA
Poseidon Opportunities Fund	4,192	4,250	3,418	3,794	1,370	NA
Total	**4,192**	**4,250**	**5,394**	**5,990**	**2,245**	**NA**

Source: Company, PL **ZEEL has exited these illiquid investments*

Subsequent to this event, ZEEL has rolled out a new treasury policy that allows investments of surplus funds only in FD of a bank or in a MF having a scheme AUM of minimum Rs25bn. Thus, the new policy is more articulate in terms of potential investment avenues and will avoid blocking of surplus funds in illiquid instruments (ZEEL's cash & cash equivalents stood at Rs14.1bn in 2QFY21).

Strengthening the board composition, improving disclosure levels, and laying out a clearly defined investment policy plan, all highlight management's intent to start on a clean slate (labelled as ZEEL 4.0) after being saddled with governance issues in the past.

In addition, management conducted an independent review on related party transactions & film advances given for content acquisition in the past. Key findings from the report are highlighted below: -

Key findings from independent audit committee report: The audit committee of ZEEL had appointed an independent firm to review the related party transactions and film advances given for content acquisition for FY19 & 1HFY20. The new firm did not find any irregularities that required additional disclosure. Some of the key findings from the committee and steps taken to strengthen existing processes are as follows:

- **Legal approval required for film acquisition**: It was observed that 100% of consideration for the purchase was paid as an advance. However, this was based on internal guidelines wherein approval was given by the MD&CEO and CFO. In order to strengthen the film acquisition process further, approval of legal head will also be required henceforth.

- **No relationship amongst related parties**: In case of film advances (including deposits) made between 1 April 2018 to 30 Sep 2019, it was observed that there were no common directors between content vendors and the company. This eliminates concerns of inflated billing.

- **Mile-stone linked payment plan**: While the number of transactions between content aggregators/producers and ZEEL increased by 2-3x it was mainly due to 1) digital expansion strategy of ZEEL 2) launch of new regional movie channels and 3) content cost inflation. In order to further strengthen the process of advances payable, amount has been capped to a defined percentage and balance payment is linked to achievement of certain pre-defined milestones.

TV ad-ex traction to slow as digital medium evolves

TV ad-spends to grow in single digits over next 3 years: TV ad-revenues have grown at a CAGR of 13.8% over the last 10 years to reach Rs320bn in CY19 aided by increase in the number of channels (918 channels as of 2019 versus 461 channels in 2009), genre diversity (reality shows like KBC, Big Boss, Khatron Ke Khiladi) and emergence of marquee sports events like IPL. As per FICCI-EY, TV ad-revenues are expected to grow at a CAGR of 6.6% over the next 3 years to reach Rs388bn in 2022E.

Amid proliferation of OTTs and shift in viewing habits (from linear TV to digital), TV ad-ex growth is expected to fall to single digit in the next 3 years. Nonetheless, we expect TV as a medium to continue to stay relevant & the most preferred choice for advertisers as: -

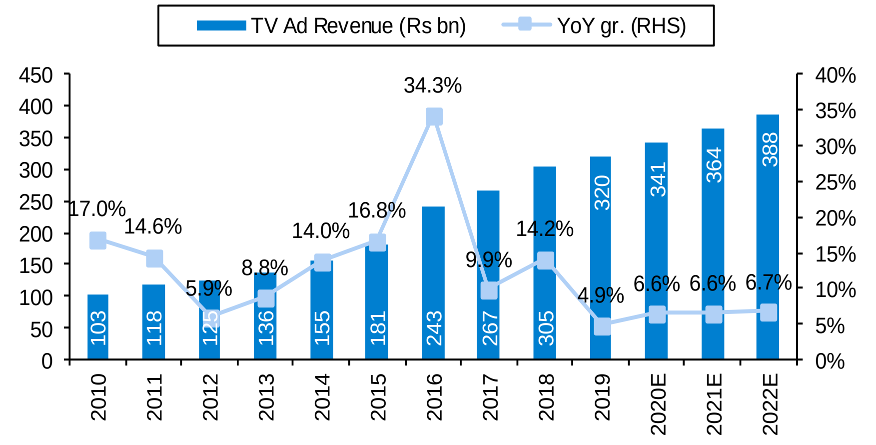
- It helps reach mass audience with a single ad-spot

- TV ads have high recall value (blend of audio & video has better recall) and

- Cord cutting (evident in the West) has low probability in India (at least initially) given low fixed broadband penetration (pre-requisite for OTT’s to be mainstay for content consumption) of ~6%.

Further, as broadcasters are investing aggressively in launching their own digital platforms, migration in viewing patterns can help offset revenue loss in linear TV with OTT’s, albeit partially given OTT market is already overcrowded and highly competitive.

Exhibit 17: TV ad revenues have grown at a CAGR of 13.4% over 2010-2019



Source: FICCI & EY

Note:

1) EY Forecast over CY20-22 was pre-COVID. Ad-ex in CY20 is likely to be much lower than Rs341bn.

2) Ad-ex for 2021 was NA and is extrapolated from the implied 3 year CAGR of 6.6% over 2019-2022E

3) From 2016 figures are gross of taxes

FMCG sector has highest share in TV & digital ad-spends: FMCG's share in TV ad-spends was highest at 49% in 2019, followed by telecom and auto with a share of 12% and 7% respectively. Since FMCG constitutes one of the largest pie, the sector's ad-ex growth is closely linked to overall TV ad-ex growth. Further, since government contribution is minimal, TV ad-spends are less volatile as compared to print or radio.

In comparison, FMCG's share in digital ad-spends was also highest at 27% in 2019 followed by E-com and consumer durables with a share of 19% and 11% respectively. Media and E-com were the only two categories which increased their share over 2018. Digital advertising is still evolving but given the proliferation of OTTs and increased usage of internet, we expect advertisers to increasingly use digital medium to engage with customers amid shift in consumer time spent.

Exhibit 18: FMCG's share in TV ad-spends was highest at 49% in 2019

Sector	Category Contribution	
	2018	2019
FMCG	50%	49%
Telecom	12%	12%
Auto	8%	7%
E-Commerce	5%	5%
Household durables	5%	5%
Real Estate	3%	3%
Clothing, Fashion & Jewellery	3%	3%
BFSI	2%	2%
Others	12%	12%

Source: Pitch Madison, FICCI, E&Y

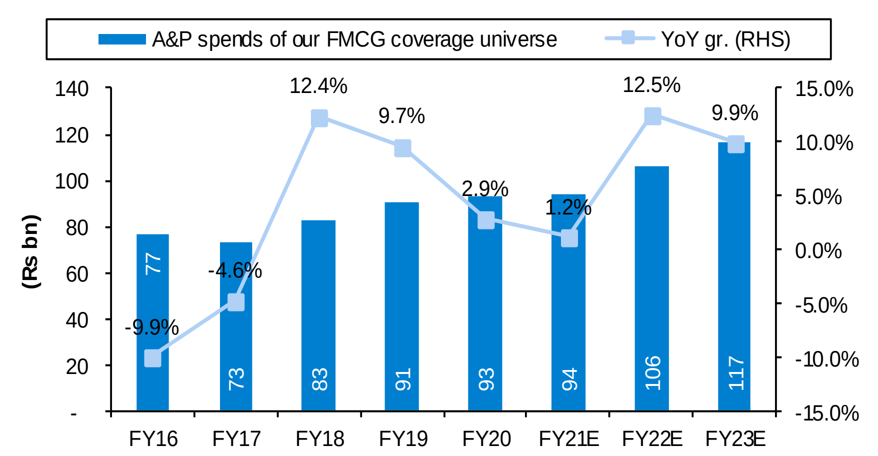
Exhibit 19: FMCG's share in digital ad-spends was highest at 27% in 2019

Sector	Category Contribution 2018	Category Contribution 2019
FMCG	28%	27%
E-Commerce	17%	19%
Consumer durables	12%	11%
BFSI	12%	10%
Telecom	10%	9%
Auto	8%	7%
Media & Entertainment	5%	6%
Retail	6%	5%
Others	2%	6%

Source: Dentsu, FICCI, E&Y

Outlook on FMCG ad-spends: A&P spends for our FMCG coverage universe increased by just 2.9% YoY in FY20 due to general economic slowdown and lockdown impact in the month of March. Our FMCG team believes that ad-spends will increase by 1.2% YoY in FY21E due to COVID-19 but register a sharp bounce back of 12.5% YoY in FY22E (on a low base), registering a CAGR of 7.8% over FY20-23E.

Exhibit 20: A&P spends of PL FMCG universe to grow at 7.8% over FY20-23E



Source: Company, PL

ZEEL has strong presence in GEC & movie genres

ZEEL does not have presence in sports (exited the sports business in 2017 via sale of Ten Sports to Sony) and kid's genre. Given GEC and movie genre together constituted 74% of viewership in 2019, absence in sports & kids (9% viewership) genre is not a big void, in our view. In fact, Hindi movies, as a category, attracted highest share in ad-volumes (10% in 2019) where ZEEL has strong presence with 9 channels.

We believe ZEEL's focus to expand on GEC and movie genres by launching new channels (2 GEC and 3 new movie channels launched in last 2-3 years) is a calibrated strategy to strengthen position in areas where viewership is high resulting in easy monetization.

Exhibit 21: GEC's had highest viewership share of 50% in 2019

Genre	Viewership share 2018	Viewership share 2019
GEC	52%	50%
Movies	25%	24%
News	7%	9%
Music & Youth	6%	6%
Kids	6%	6%
Sports	3%	3%
Others	1%	1%

Source: BARC (All India; 2+), FICCI, EY

Exhibit 22: Hindi movie genre attracts highest share in ad volumes

Channel genre	2018	2019
Hindi Movies	9%	10%
Hindi News	5%	6%
Hindi GEC	5%	5%
Music	4%	5%
Tamil GEC	4%	4%
Bengali GEC	2%	4%
Bengali News	4%	3%
Hindi Regional News	5%	3%
Malayalam GEC	2%	3%
Telugu GEC	3%	3%
Others	56%	54%

Source: TAM Ad-ex, FICCI, EY

While ZEEL has strong focus on GEC and movies, Star India has an equally strong portfolio with presence in sports and kid's genre as well. Sony with the acquisition of Ten Sports has marked its entry into sports genre while TV18 has wide portfolio across genres with strong presence in the news category.

Exhibit 23: ZEEL & TV18 have void in sports while Star & Sony in news genre

Genre	ZEEL	Sony	TV18	Star India
Hindi GEC	Yes	Yes	Yes	Yes
Hindi movies	Yes	Yes	Yes	Yes
RGEC	Yes	Yes	Yes	Yes
Music (Eng/Hindi)	Yes	Yes	Yes	**No**
Kids (Eng/Hindi)	**No**	Yes	Yes	Yes
Sports (Eng/Hindi)	**No**	Yes	**No**	Yes
News (Hindi/Eng/Regional)	Yes*	**No**	Yes	**No**
Infotainment/Niche/English	Yes	Yes	Yes	Yes

*Source: Company, PL * Presence is via group company Zee Media Corporation Ltd*

Well diversified channel portfolio: ZEEL has a well-diversified portfolio with 6 Hindi GEC channels, 20 movie channels (9 in Hindi, 3 in English and 8 in regional languages), 4 niche (English/Music) channels and 16 RGEC channels. ZEEL has strong presence in GEC genre given deep regional penetration and has also expanded its presence in movie genre with the launch of 3 new channels viz; Zee Thirai (Tamil movie channel), Zee Picchar (Kannada movie channel) and Zee Bispoke (Bhojpuri movie channel) in 2020.

Exhibit 24: ZEEL has a well-diversified channel portfolio across multiple languages

Genre	Channels	Ala carte MRP per channel per month excluding taxes	Launch Date	Channel description/Popular shows
Hindi GEC	Zee TV/Zee TV HD	Rs19/Rs19	1992	Kumkum Bhagya, Kundali Bhagya, Sa Re Ga Ma Little Champs
	& TV/& TV HD	Rs12/Rs19	2015	Bhabhiji Ghar Par Hai
	Zee Anmol	Rs0.1	2013	Majorly broadcasts re-runs of Zee TV
	Big Magic	Rs0.1	Acquired from RBNL in 2016	Hatim
Hindi Movies	Zee Cinema/Zee Cinema HD	Rs15/Rs19	1995	Showcases Hindi movies
	& Pictures/& Pictures HD	Rs6/Rs19	2013	
	Zee Bollywood	Rs2	2018	
	Zee Action	Rs1	Revamped in 2015	
	Zee Classic	Rs0.5	Relaunched in 2019	
	Zee Anmol Cinema	Rs0.1	2016	
	&Xplor HD	Rs4	2019	
Regional GEC/Movies	Zee Marathi/Zee Marathi HD	Rs19/Rs19	1999	Marathi GEC
	Zee Yuva	Rs2	2016	Youth GEC in Marathi entertainment space
	Zee Punjabi	Rs3	2020	Hybrid GEC
	Zee Thirai	Rs5	2020	Tamil movie channel
	Zee Picchar	Rs3	2020	Kannada movie channel
	Zee Bipsoke	Rs0.1	2020	Bhojpuri movie channel
	Zee Bangla/Zee Bangla HD	Rs19/Rs19	1999	Bangla GEC
	Zee Bangla Cinema	Rs4	2012	Bengali movie channel
	Sarthak TV	Rs19	Acquired in 2015 from Sarthak Entertainment	Oriya GEC
	Zee Tamil/Zee Tamil HD	Rs12/Rs19	2008	Tamil GEC
	Zee Kannada/Zee Kannada HD	Rs19/Rs19	2006	Kannada GEC
	Zee Telugu/Zee Telugu HD	Rs19/Rs19	2005	Telugu GEC
	Zee Keralam/Zee Kerelam HD	Rs0.1/Rs8	2018	Malayalam GEC
	Big Ganga	Rs0.5	Acquired from RBNL in 2016	Bhojpuri GEC
	Zee Talkies/Zee Talkies HD	Rs5/Rs19	2007	Marathi movie channel
	Zee Cinemalu/Zee Cinemalu HD	Rs10/Rs16	2016	Telugu movie channel
English and Music Channels	Zee Café/Zee Café HD	Rs15/Rs19	2000	American Idol, Master Chef Australia
	Zee ETC Bollywood	Rs0.1	1999	Talk show with film critic Komal Nahata
	ZING	Rs0.1	2009	Showcases youth fiction shows, music & Bollywood shows
	& Flix/& Flix HD	Rs15/Rs19	2018	Showcases English movies
	& Prive HD	Rs19	2017	Showcases English movies

Source: Company, PL

Strong GEC portfolio with deep regional presence: GEC genre had a viewership share of 50% in 2019 hence having a well-entrenched portfolio is key in attracting ad-volumes to monetize viewership. ZEEL has a strong portfolio of 6 Hindi GEC channels and 16 RGEC channels with presence across Hindi, Marathi, Punjabi, Bengali, Oriya, Tamil, Kannada, Telugu, Malayalam and Bhojpuri languages. ZEEL produces ~500 hours of content every week and owns their IP rights.

Hindi GEC: The Hindi GEC market is dominated by 4 players with ZEEL and Star India having 6 channels each followed by Sony and TV18 having 5 and 3 channels respectively. ZEE TV, the flagship channel of ZEEL, was ranked as number 2 channel in the pay Hindi GEC genre in FY20. The channel maintained its leadership in weekday prime time and is planning to consolidate its position in weekend prime time (typically non-fiction/reality shows are aired during this period).

For the other channel, &TV, ZEEL tweaked its strategy in FY20 (lost market share in FY19) and is now focusing on audience from Hindi heartland like Delhi, UP, MP, Bihar and Jharkhand to recalibrate its positioning.

Exhibit 25: Hindi GEC peer set comparison

Name of the company	No of channels^	Flagship channels
ZEEL	6	ZEE TV and &TV
Sony	5	Sony, Sony Pal, Sony Sab
TV18	3	Colors
Star India	6	Star Plus, Star Utsav, Star Bharat

Source: Company, PL *^ Count includes HD channels*

Majority of the GEC viewership happens during prime time (8PM to 10.30PM). Additionally, fresh content on GECs is typically aired from 7-11PM and the same content is played during non-prime time (morning and afternoon).

In the 8-8.30PM slot, Star had a hugely popular show Kasauti Zindagi Kay-2 which got replaced with Ghum Hai Kisikey Pyaar Mein recently. The 8.30-9PM slot is dominated by Tarak Mehta Ka Ooltah Chashma. The 9-10PM slot has best offerings from ZEEL viz; Kumkum Bhagya and Kundali Bhagya. The 10.30-11PM slot has popular show Bhabhiji Ghar Par Hai from &TV. Two hugely popular reality shows, KBC and Big Boss are currently being aired in weekday prime-time.

Exhibit 26: Hindi GEC weekday content pipeline of key broadcasters during prime time

Time	ZEE TV	& TV	Colors	Sony Entertainment	Star Plus	Sony Sab
8:00 PM	Guddan Tumse Na Ho Payega	Yeshu	Shakti: Astitva Ke Ehsaas Ki	Vighnaharta Ganesh*	Ghum Hai Kisikey Pyaar Mein	Hero - Gayab Mode On
8:30 PM	Tujhse Hi Rabbta	Ek Mahanayak Dr B R Ambedkar	Barrister Babu	Indiawaali Maa	Imlie	Taarak Mehta Ka Ooltah Chashmah
9:00 PM	Kumkum Bhagya	Santoshi Maa Sunaye Vrat Kathayein	Namak Ishq Ka		Saath Nibhaana Saathiya - 2	Tera Yaar Hoon Main
9:30 PM	Kundali Bhagya	Gudiya Hamari Sabhi Pe Bhari	Pinjara Khubsurti Ka	KBC^	Yeh Rishta Kya Kehlata Hai	Aladdin - Naam To Suna Hoga
10:00 PM	Kyun Rishton Mein Katti Batti	Happu Ki Ultan Paltan	Molkki		Anupama	Maddam Sir
10:30 PM	Qurbaan Hua	Bhabhiji Ghar Par Hai	Big Boss^	Story 9 Months Ki	Yeh Hai Chahatein	Taarak Mehta Ka Ooltah Chashmah

Source: Company, PL

** Starts at 7.45PM*

^ Since it's a reality show after season 12/14 ends for KBC/Big Boss respectively it will be replaced by some other content

In addition to fiction content, the Hindi GEC market has seen emergence of many reality shows. While all 4 players have marquee non-fiction content in their portfolio, Sony and Colors have diverse content across genres like music, dance, quiz, and comedy chat show. ZEEL has two iconic properties in this space viz; Sa Re Ga Ma Pa and Dance India Dance. Typically, reality shows are aired for a few weeks/months in a year and then the shows stage a come-back with new list of contestants next year.

As far as programming strategy is concerned, ZEEL typically focuses on fiction content which has lower cost. Even the non-fiction (reality) content is well managed with tight focus on budget.

Exhibit 27: ZEEL has much less dependence and focus on reality shows than peers in Hindi GEC genre

Sony	Star Plus	Colors	ZEEL
KBC	Nach Baliye	Big Boss	Sa Re Ga Ma Pa
Indian Idol	MasterChef India	Fear Factor: Khatron Ke Khiladi	Dance India Dance
India's Best Dancer	Dance Plus	India's Got Talent	
The Kapil Sharma Show			

Source: Company, PL

Marathi GEC: Zee Marathi was the undisputed leader (number 1 position since last 7 years) in the Marathi GEC genre during FY20. While the channel has lost share in some slots during 4QFY20, ZEEL plans to launch new shows (Dancing Queen, a reality show launched in Sep 2020) to reclaim the lost share.

One of the most popular shows on the channel includes Chala Hawa Yeu Dya (Season 8 in being aired currently with IMDb rating of 8.6/10). Key competing channels in the category include Colors Marathi and Star Pravah.

Tamil GEC: Zee Tamil was number 3 channel in the Tamil Nadu market behind Sun TV (market leader) and Star Vijay in FY20 despite not being included in packages of 4 leading distribution platforms. Further, TV18 launched Colors Tamil in 2018, intensifying competition in the market.

Zee Tamil has strong line-up of fiction shows and it benefited the most from NTO (registered strong subscription revenue growth in FY20). Some of the popular shows of Zee Tamil include Sembaruthi, Oru Oorla Oru Rajakumari and Yaaradi Nee Mohini.

Kannada GEC: Zee Kannada is number 1 channel (number 1/2 in FY19/FY18 respectively) with more than 33% viewership share in Karnataka market. During FY20, the channel witnessed 25% YoY growth in viewership driven by success in fiction & non-fiction programming.

Some of the popular shows of Zee Kannada include Gattimela, Jothe Jotheyali, Kamali and Paaru. Key competing channels include Udaya TV (Sun Group channel), Star Suvarna and Colors Kannada.

Telugu GEC: The Telugu market is highly competitive with 4 players Zee Telugu, Star MAA, Gemini TV (Sun Group) and ETV Telugu. Zee Telugu is number 2 channel (lost share in 1HFY20 but recovered gradually in 2HFY20 due to new launches) in urban markets of AP & Telangana. Some of the popular shows of Zee Telugu include Ninne Pelladatha and Prema Entha Maduram.

Bangla GEC: Zee Bangla was the number 1 channel (number 1/2 in FY19/FY18 respectively) in the West Bengal market in FY20. Star Jalsha, Colors Bangla and Sony Aath are the key competing channels. Zee Bangla has revamped programming with 6 new shows in 2020 (Jamuna Dhaki, Jibon Saathi, Khirer Putul, Phirki, Pandab Goenda, Goyenda Ginni) which will aid in further strengthening its leadership position.

Malayalam GEC: ZEEL entered Malayalam market with the launch of Zee Keralam in 2018. The Malayalam market is overcrowded with players like Star Asianet, Surya TV (Sun Group), Mazhavil Manorama, and Flowers TV. Apart from Star Asianet which is a clear market leader, competition is stiff amongst other players with viewership share in the range of ~10-15%. In a highly competitive market, Zee Keralam doubled its viewership share in FY20.

Exhibit 28: ZEEL has leadership in Marathi, Kannada and Bangla markets

GEC Genre	ZEEL's channel	Key competing channels	Channel position of ZEEL
Marathi	Zee Marathi	Colors Marathi, Star Pravah, Sony Marathi, and Fakt Marathi	Number 1 since last 7 years; Star Pravah is a close competitor
Tamil	Zee Tamil	Sun TV, Star Vijay, Colors Tamil, Kalaignar TV, and Jaya TV	Zee Tamil is number 3 channel, Sun TV is the clear leader
Kannada	Zee Kannada	Udaya TV, Star Suvarna and Colors Kannada	Zee Kannada is number 1 channel
Telugu	Zee Telugu	Star MAA, Gemini TV, ETV Telugu	Number 2 position in urban markets of AP & Telangana
Bangla	Zee Bangla	Star Jalsha, Colors Bangla and Sony Aath	Zee Bangla is number 1 channel
Malayalam	Zee Keralam	Star Asianet, Surya TV, Mazhavil Manorama, and Flowers TV	Zee Keralam was launched in 2018, Star Asianet is market leader

Source: Company, PL

Launch of 3 channels to fortify presence in movie genre: Movie genre has the second highest viewership share (24% in 2019) followed by GECs (50% in 2019). Hence, having an exhaustive movie library with wide channel portfolio is a key for monetizing viewership. ZEEL has movie library exceeding 4,000+ titles (digital rights of 3,000+) with a portfolio of 20 movie channels (9 in Hindi, 3 in English and 8 in regional languages).

Exhibit 29: Select list of movies where ZEEL has bought satellite rights

Dabangg 3	Dream Girl	Gully Boy
Good Newwz	Sooryavanshi*	Uri: The Surgical Strike
Kesari	Saaho	Simmba
Bharat	Badla	2.0

*Source: 1Films, Company, PL   * Yet to release   Note: List is not exhaustive*

The movie satellite/broadcast rights market has grown at a CAGR of 11.4% over CY16-CY19 and is expected to reach Rs25.5bn in CY22E. On the other hand, the movie digital rights market has grown at a CAGR of 46.8% over CY16-CY19 and is expected to reach Rs32.8bn by CY22E. The digital rights market has witnessed steep inflation as broadcasters are aggressively acquiring content/movies to drive viewership on their OTT platforms.

Exhibit 30: Movie satellite/digital rights market to grow at CAGR of 5%/20% over CY19-22E

Particulars (Rs bn)*	2016	2017	2018	2019	2022E	CY16-19 CAGR	CY19-22E CAGR
Movie Satellite/Broadcast Rights market size	16.0	19.0	21.2	22.1	25.5	11.4%	4.9%
Movie Digital Rights market size	6.0	8.5	13.5	19.0	32.8	46.8%	20.0%

*Source: FICCI, EY, PL   * Figures gross of taxes*

Hindi movies*:* Hindi movie genre is competitive and the market is dominated by 3 players viz; ZEEL, Sony and Star India. Sony is the market leader with an average viewership share of 23% (week 1 to week 49 of 2020) followed by Zee Cinema and Star Gold with a share of 21% and 20% respectively.

Exhibit 31: Hindi movies genre peer set comparison

Name of the company	No of channels^	Flagship channels	Viewership share*
ZEEL	9	Zee Cinema and &Pictures	Zee Cinema - 21%
Sony	4	Sony Max	Sony Max - 23%
TV18	2	Colors Cineplex	NM
Star India	8	Star Gold & UTV Movies	Star Gold - 20%

*Source: Company, PL ^ Count includes HD channels * Viewership share is based on BARC data from week 1 to week 49 of 2020 and is based on both platforms (FTA + Pay) covering urban & rural markets*

In the regional movie genre, ZEEL has presence across 6 languages viz: Marathi, Bengali, Telugu, Bhojpuri, Tamil and Kannada.

Marathi movies: In the Marathi genre, Zee Talkies was a clear leader in FY20 and has maintained number 1 position over the last 3 years.

Bengali movies: In the Bengali genre, Zee Bangla Cinema has maintained its number 2 position over the last 3 years. In fact, in FY20, the viewership share of Zee Bangla Cinema increased by 19% while the time spent was up by 32% due to airing of hit Bengali movies and originals.

Telugu movies: The Telugu genre market is highly competitive due to presence of Sun TV and Star India. Despite that Zee Cinemalu was a close number 2 movie channel in the urban Telugu speaking markets in less than 4 years of its launch.

Tamil movies: ZEEL launched Zee Thirai in Jan 2020 and entered the Tamil movie market which is dominated by KTV (Sun Group channel). While Zee Thirai has a library of 400 Tamil movies, it will be difficult to wrestle market share from KTV given its strong position in Tamil Nadu.

Kannada movies: The Kannada movie genre market is competitive with presence of 3 players viz; Star, Sun TV and TV18. ZEEL launched Zee Picchar in March 2020 to enter the Kannada market. It has a library of over 350 movie titles.

Bhojpuri movies: ZEEL entered the Bhojpuri market with launch of Zee Bispoke which is consistently ranked amongst the top 2 channels and has library of over 300+ movies.

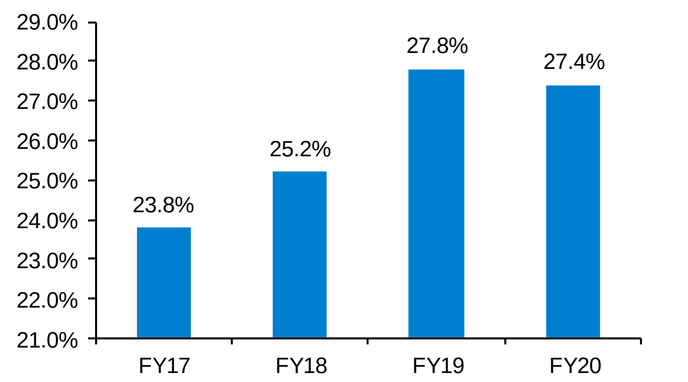
Exhibit 32: ZEEL expanded into regional movie genre with entry into Tamil, Bhojpuri & Kannada markets

Movie Genre	ZEEL's channel	Key competitive channels	Channel position of ZEEL
Marathi	Zee Talkies	Shemaroo Marathibana	Number 1 since last 3 years
Bengali	Zee Bangla Cinema	Star Jalsha Movies, Colors Bangla Cinema	Number 2 since last 3 years
Telugu	Zee Cinemalu	Gemini Movies (Sun Group), Star Maa movies, ETV Cinema	Number 2 in urban Telugu market
Bhojpuri	Zee Bispoke	Bhojpuri Cinema TV, Dabangg	Amongst top 2 channels
Tamil	Zee Thirai	KTV (Sun Group), Star Vijay Super	Launched in 2020, KTV is clear leader
Kannada	Zee Picchar	Udaya movies (Sun Group), Star Suvarna Plus, Colors Kannada Cinema	Launched in 2020, Udaya and Star Suvarna leaders

Source: Company, PL

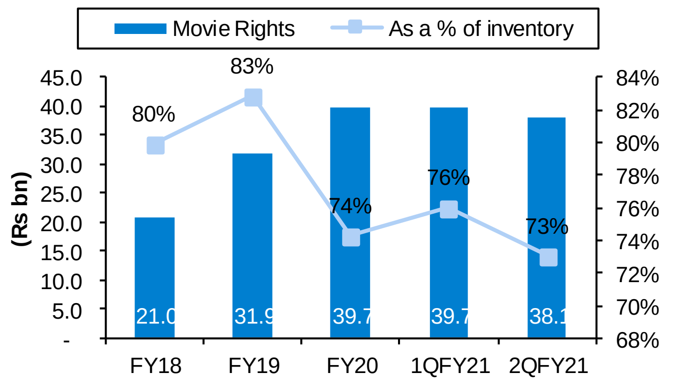
Given the stiff competition in movie genre, ZEEL adopted an aggressive movie acquisition strategy (share of movie rights in the inventory has increased from Rs21bn in FY18 to Rs38bn in 2QFY21) to expand the library & secure future rights. It also launched 3 new regional movie channels (Zee Thirai, Zee Picchar and Zee Bispoke) in 2020 to monetize the investment made in content acquisition. As a result, we expect ZEEL's share in pay movie channels across languages to rise from 27.4% in FY20.

Exhibit 33: Trend of ZEEL's share in pay movie channels



Source: BARC, Company, PL

Exhibit 34: Movie rights formed 73% of inventory in 2QFY21



Source: Company, PL

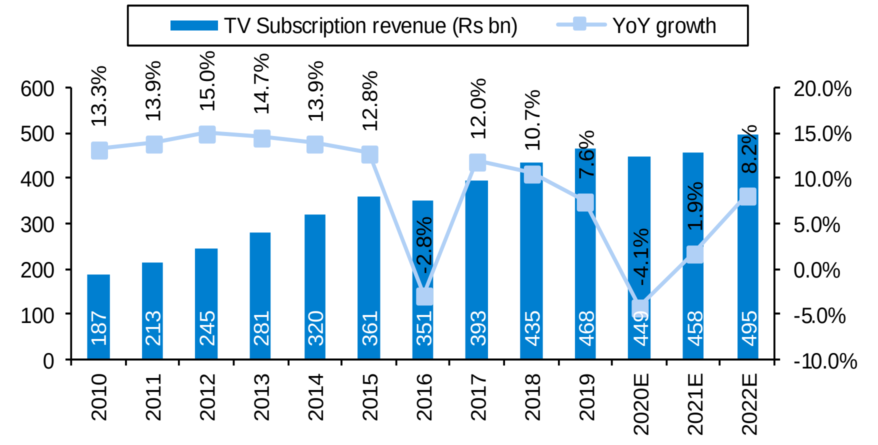
While an aggressive movie expansion strategy resulted in inventory pile up (inventory days increased from 96 in FY17 to 240 in FY20) we expect working capital concerns to ease as: -

- Peak investment cycle for movie acquisition has now come to an end
- Launch of 3 new movie channels would result in amortization of inventory as content would get aired/rights become active.

NTO 1.0 was a key catalyst in aiding subscription revenue

TV subscription revenues (CAGR of 10.7% over CY10-19) are a function of 1) Number of Pay TV households 2) Changes in regulatory tariff regime (NTO 1.0 increased customer ARPU and broadcaster share within that) 3) New channel launches 4) HD penetration and 5) Digitization.

Exhibit 35: TV subscription has grown at a CAGR of 10.7% over CY10-19



Source: FICCI, E&Y

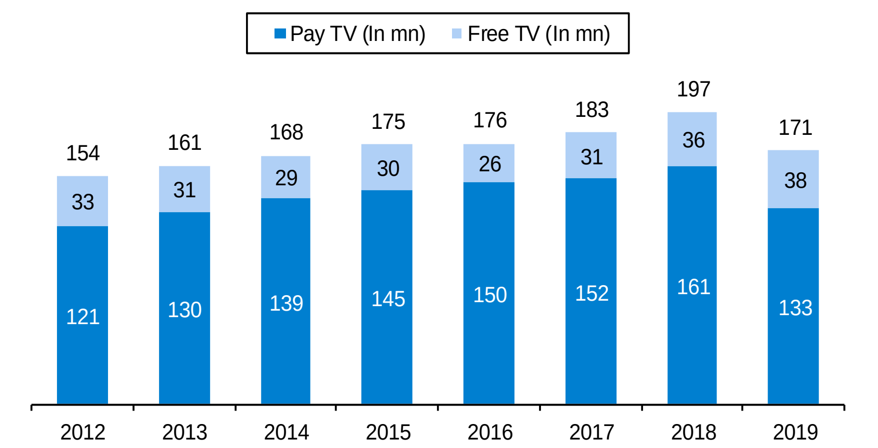
Notes: 1) Subscription revenue for 2021 was NA and is extrapolated from the implied 3 year CAGR of 1.9% over 2019-2022E

2) From 2016 figures are gross of taxes

Uptake in Free Dish & smart TV's to restrict growth in Pay TV households: The total number of pay TV households increased from 121mn in 2012 to 133mn in 2019, CAGR of 1.4% over 7 years. As TV penetration in India is still in the range of ~65-70%, unidirectional TV services (pay TV in the form of cable, DTH and HITS) will continue to rise. However, we expect growth to be in low single digits given uptick in DD Free Dish and higher growth in connected TVs (internet connected TV's streaming content) amid cheap data plans. As seen below, since 2012, every year there has been an increase in pay TV households except for 2019 as:

- Figures of 2019 do not account for undeclared TV households
- Households with multiple TV sets rationalized their subscriptions as NCF was charged at full rates post NTO
- English viewers shifted to OTT due to strong content pie and
- Increase in subscriber base of DD free dish.

Exhibit 36: Pay TV households stood at 133mn in 2019



Source: FICCI, E&Y

Exhibit 37: Smart connected TVs to cross 40mn by 2025

Particulars (In mn)	2019	2025E
Pay TV (cable, DTH & HITS)	133	140-145
Free TV	38	40-50
Traditional TV	171	180-195
Connected TV	5	40+
Total TV subscriptions	**176**	**220-235**

Source: FICCI, E&Y

NTO 1.0 brought transparency & boosted subscription revenues: The New Tariff Order (NTO) 1.0 introduced by TRAI (implemented from Feb 2019) brought transparency across the TV value chain by introducing clarity in pricing structure and revenue sharing amongst stakeholders. Some of the key highlights of NTO 1.0 and its impact are as follows: -

Exhibit 38: NTO 1.0: Key highlights and its impact on value chain

Key highlights	View/Impact
Broadcasters need to declare MRP for all their pay channels. Further, MRP has to be uniform across platforms (cable/DTH/HITS)	Brings clarity on pricing & results in same content cost for distributors, irrespective of the type of platform
Broadcasters to offer all their channels to distributors who in turn are required to offer these channels to all their subscribers	Eliminates exclusivity of contracts within the value chain & provides customers with wide viewing choice
FTA and pay channels cannot be a part of the same bouquet nor can HD/SD version of the same channel. Also, all channels priced above Rs19 cannot be clubbed into a bouquet.	Brings transparency in pricing as customers clearly know ownership cost for a high priced channel
Network Capacity Fee (NCF) to be capped at Rs130 per month for the initial 100 SD channels (excluding taxes). DPOs can charge incremental Rs20 per month for every additional 25 channels (above 100). Capacity for 1 HD channel will be equal to 2 SD channels	Creates fixed annuity stream for DPOs but with caps/restrictions
Carriage fee (charged by DPOs to broadcasters for carrying their channels) is capped at Rs0.2 and Rs0.4 per subscriber per month for SD and HD channel respectively. Fee declines with an increase in subscriber base based on certain formula	Reduces carriage burden on broadcasters with popular channels
DPOs can receive minimum of 20% of the MRP as distribution fee from broadcasters	Creates fixed annuity stream for DPOs
Settlement of service charge between MSO and LCO should be on mutually convenient basis. In case of dispute, NCF and distribution fee amount is to be shared in the ratio of 55:45 between MSO and LCO	Brings transparency in revenue sharing amongst the distribution value chain dominated by LCOs

Source: TRAI, FICCI, E&Y

NTO 1.0 gave broadcasters the ability to price their content which meant monetization was now directly linked with viewership. Post NTO 1.0 (implemented from Feb 2019), viewership got concentrated across fewer channels with appealing content, hence pricing power of broadcasters increased.

Due to significant repricing of channels, ZEEL's/Sun TV's domestic subscription revenues were up by 33.2% YoY to Rs25.6bn/15.1% YoY to Rs17.3bn respectively in FY20. Impact on ZEEL's subscription revenue was more prominent due to significant realignment in channel prices especially down South. Further, as per KPMG, post NTO 1.0, the broadcaster's share in customer ARPU was also expected to rise boosting their subscription revenue.

Exhibit 39: Broadcaster share in customer ARPU pre and post NTO

Particulars	Pre-NTO	Post- NTO
DTH	~30-35%	~40-45%
Cable	~20-25%	~30-35%

Source: KPMG, PL

NTO 2.0 to be an overhang on subscription revenues: Since NTO 1.0 effectively increased the cable bill of customers (unless number of channels are brought down considerably), TRAI came out with a new set of regulations labelled as NTO 2.0 which is currently under subjudice. Some of the key highlights of NTO 2.0 and its impact are as follows: -

Exhibit 40: NTO 2.0: Key highlights and its impact on value chain

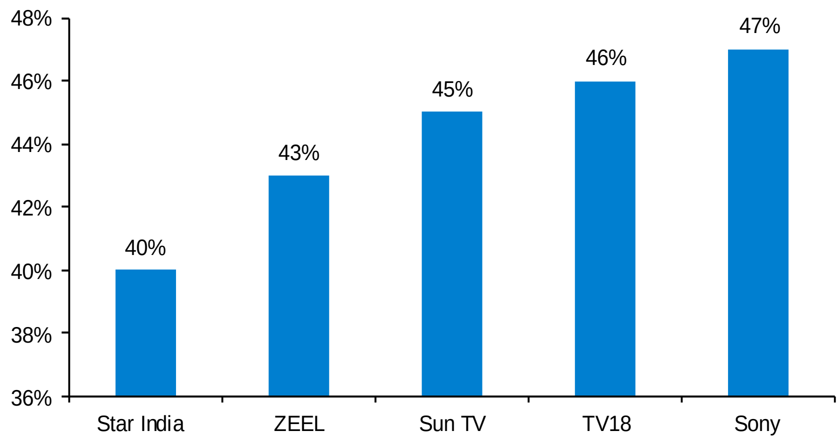
Key highlights of NTO 2.0	What was the proposal in NTO 1.0?	View/Impact
Sum of the ala carte rates of the pay channels forming a part of the bouquet shall not exceed 1.5x the rate of the bouquet. This implies that bouquet discount is capped at 33%	No restriction on bouquet discount (15% discount provision proposed earlier was scrapped later)	Capping of discount would result in closure of weaker channels as they can no longer be bundled in bouquets
Ala carte rates of each pay channel forming a part of the bouquet shall not exceed 3x the average rate of a pay channel of the bouquet	NA	Eliminates higher discounting from bouquets
A channel priced above Rs12 cannot be a part of bouquet	A channel priced above Rs19 cannot be a part of bouquet	Reducing prices of channels that can form part of the bouquet will bring down end customer bouquet prices & promote ala-carte adoption
NCF to be capped at Rs130 per month for the initial 200 SD channels (excluding taxes). NCF for more than 200 SD channels capped at Rs160 per month.	Earlier, NCF was capped at Rs130 per month for 100 SD channels. Also, there was an incremental charge of Rs20 per month for every 25 additional channels	Increasing the number of channels by 100 in the base fee of Rs130 and capping NCF will negatively impact revenues of DPOs by lowering customer outgo
DPOs can declare different NCF for different areas. However, they cannot charge more than 40% of the declared NCF per additional TV for multi TV homes	Full NCF could be charged on additional TVs by the DPOs	Reduction in NCF for multi TV homes will negatively impact DPO revenues.
Carriage fee is capped at Rs0.4mn per month	There was no absolute cap provision	Positive for broadcasters as it will reduce their outgo

Source: TRAI, FICCI, PL

NTO 2.0, if strictly implemented, will negatively impact the subscription revenue of broadcasters as bouquet discounts are capped at 33%. Presently, most broadcasters are offering discounts in the region of ~40-47% and are pushing their lower rung channels as part of bouquets knowing that ala-carte adoption of such channels would be low due to less popularity.

Capping of discount would result in closure of weaker/lower rung channels (bundling channels into bouquets and pushing them to customers would no longer be possible as it would breach the cap limit) and promote ala-carte adoption. Further, reducing the ceiling price of a channel from Rs19 to Rs12 will bring down the end customer bouquet prices and hurt subscription revenue of broadcasters.

Exhibit 41: Average discount on bouquets is ~40-47%



Source: TRAI, PL

Exhibit 42: Brief overview of discounts on select packs of large broadcasters

Sony		ZEEL		TV18		Star India	
Pack Name	**Discount over ala-carte MRP**	**Pack Name**	**Discount over ala-carte MRP**	**Pack Name**	**Discount over ala-carte MRP**	**Pack Name**	**Discount over ala-carte MRP**
Happy India HD (10 channels)	25%	Zee Family pack (26 channels)	30%	Colors Wala Hindi Family Plus HD (26 channels)	41%	Star Value Pack Kannada 35 (9 channels)	24%
Happy India Platinum HD (15 channels)	48%	Zee Prime pack Telugu (10 channels)	32%	Colors Wala Karnataka Budget Plus (13 channels)	43%	Star Premium Pack Tamil HD 125 (17 channels)	25%
Happy India (8 Channels)	51%	Zee Family Pack (Oriya-Telugu 22 channels)	45%	Colors Wala Hindi Family (30 channels)	46%	Star Premium Pack Hindi 89 (24 channels)	40%
Happy India Platinum (14 Channels)	55%	Zee Prime Pack (All South - 13 channels)	47%	Colors Wala Maharashtra Family Plus HD (29 channels)	48%	Star Premium Pack Marathi HD 135 (26 channels)	46%

Source: Company, PL

Industry/ZEEL has added 41/5 channels respectively in 2 years: The total number of channels increased from 877 in 2017 to 918 in 2019, an addition of 41 channels**.** Out of this 918 channels, 37% are pay channels as of 2019, up from 34% in 2017 and is one of the key factors in driving industry subscription revenue.

ZEEL has launched 5 channels in the last 2 years and as of Dec 2020 had Zee Anmol, Big Magic Ganga, Zee Anmol Cinema, Big Magic, Zing, Zee Bispoke and Zee Punjabi on DD Free Dish. Pricing of all these channels was at Rs0.1 except for Big Ganga (priced at Rs0.5) and Zee Punjabi (priced at Rs3.0) indicating that these channels had little contribution in driving ZEEL's subscription pie.

Exhibit 43: Count of TV channels reached 918 in 2019; 37% are pay

Particulars	2017	2018	2019
News channels	389	380	386
Non-news channels	488	505	532
Total channels	**877**	**885**	**918**
Of which:-			
Count of pay channels	*300*	*332*	*340*
As a % of total channels	*34%*	*38%*	*37%*

Source: FICCI, E&Y, Livemint

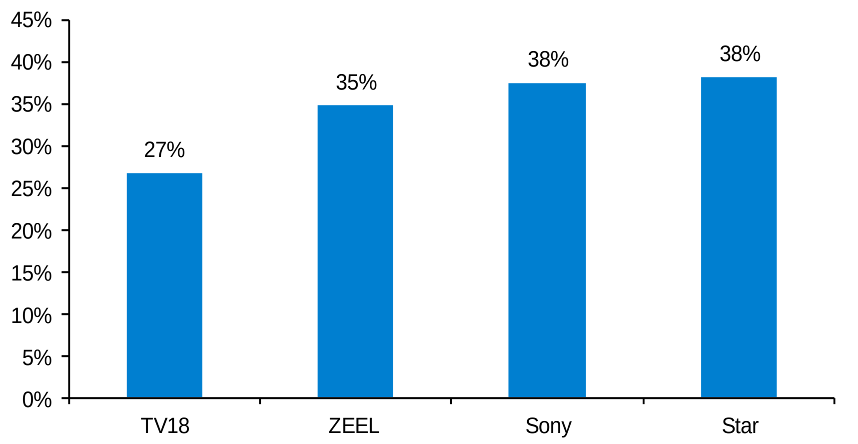
HD penetration of 29% in 2019 represents scope for expansion: HD penetration of pay channels has increased from 26% in 2017 to 29% in 2019 and has aided in driving subscription revenues for broadcasters as HD channels command premium pricing over regular SD channels (Ex: MRP of ala-carte SD/HD version &TV is Rs12/Rs19 respectively). Digitization and increased sale of smart TVs has led to rising HD viewership over the years. Amongst broadcasters, Star and Sony have HD penetration of ~38% each followed by ZEEL/TV18 with 35%/27% respectively indicating that there is scope for further expansion.

Exhibit 44: HD penetration has increased to 29% in 2019

Particulars	2017	2018	2019
Total number of HD channels	78	92	98
Count of Pay Channels	300	332	340
Implied HD penetration of Pay Channels	26%	28%	29%

Source: FICCI, E&Y, Livemint

Exhibit 45: Sony/Star have highest HD penetration at ~38%



Source: Company, PL

Digitization was a key enabler of subscription revenue growth: The digitization drive undertaken in 4 phases increased collections from end customers across markets. Metros were targeted in Phase I and the drive was completed in Dec 2012. Phase II and phase III drives were completed in March 2013 and Jan 2017 respectively. Phase IV came to end sometime in 4QFY18/1QFY19 (except for Tamil Nadu).

Digitization resulted in improved upstreaming of revenue from consumer to broadcaster as there was better clarity on number of active customers. In the analogue regime, MSOs/broadcasters suffered from revenue leakages as LCOs used to under report the actual number of subscribers and earned higher margins. However, digitization brought transparency in the entire TV value chain and eventually increased the share of MSOs and broadcasters (boosting subscription revenues).

Exhibit 46: Transparency across TV value chain led by digitization

Stakeholder	Before Digitization	After Digitization
Consumer ARPU	100%	100%
LCO share	65-80%	45-55%
MSO share	10-20%	15-25%
Broadcaster share	10-20%	20-30%

Source: FICCI, E&Y

Concerns due to rising popularity of DD free dish unfounded: DD free dish, the state run DTH provider, is the largest DTH distribution company in India with estimated subscriber base of ~35-38mn. The platform had 80 channels in 2018 which increased to 104 channels in 2019. The slots on Free Dish are auctioned by Prasar Bharati where private broadcasters typically play their extremely popular catch-up GEC and movies.

Pre-NTO, the ad revenue market potential of FTA channels on Free Dish was ~Rs20bn. While the ad-rates on Free Dish are lower than a pay channel GEC, it helps broadcasters to improve their reach in rural India.

Post NTO 1.0, majority of the large broadcasters pulled out their FTA channels from Free Dish as TRAI mandated that FTA and pay channels cannot be part of the same bouquet. Hence, broadcasters converted their FTA channels into pay (priced between Rs0.1 to Rs1) and included them in bouquets. However, this move resulted to significant fall in reach of these channels and their ad-revenues plummeted.

In contrast, channels which remained on the Free Dish platform like Big Magic and Dangal saw significant rise in viewership and ad-revenues. Thus, all major broadcasters like ZEEL, Sony, Star and TV18 have decided to make a comeback on Free Dish with their 2nd rung GEC's like Zee Anmol, Zee Anmol Cinema, Star Utsav, Colors Rishtey and Sony Pal.

Exhibit 47: List of some popular channels on DD Free Dish as of Dec 2020

ZEEL	TV18	Star	Sony
Zee Anmol	Colors Rishtey	Star Utsav	Sony Pal
Zee Anmol Cinema	Rishtey Cineplex	Star Utsav movies	Sony Wah
Big Magic Ganga			
Big Magic			
Zing			
Zee Punjabi			
Zee Biskope			

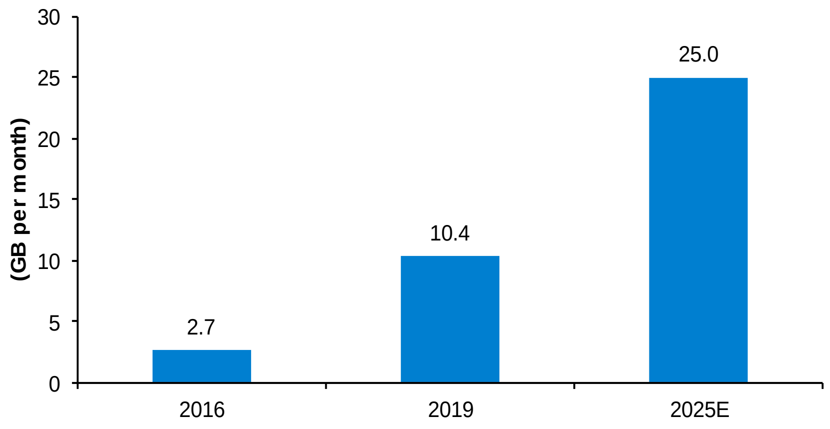
Source: DD Free Dish

If lot of exciting & fresh content is available on Free Dish, subscription revenues can get cannibalized. However, given most broadcasters play catch-up content which typically has gone off-air and even movies that are played on Free Dish have a windowing gap, concerns on subscription revenue cannibalization appear unfounded.

ZEE5 is strongly placed in competitive OTT market

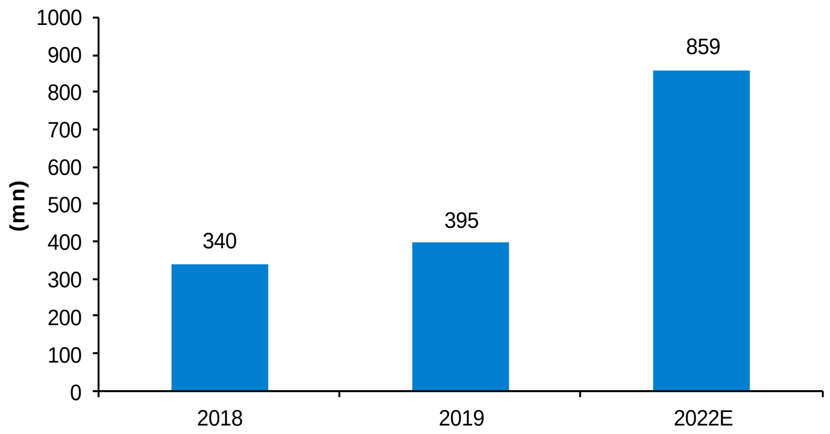
The Indian OTT market (overcrowded with 30+ players) is in an evolution stage and most broadcasters are investing aggressively in building their own platform amid gradual shift in content consumption habits. Key factors like 1) cheap data 2) increasing mobile subscriber-base (mobiles have turned out to be primary screens) and 3) rising rural internet penetration is expected to lead to migration in viewing habits from linear TV to digital in the long term. Hence, having an OTT platform with strong content is key to capitalize on this emerging trend.

Exhibit 48: Indians to consume 25GB data/month by 2025E



Source: ICEA, Nokia, Ericsson

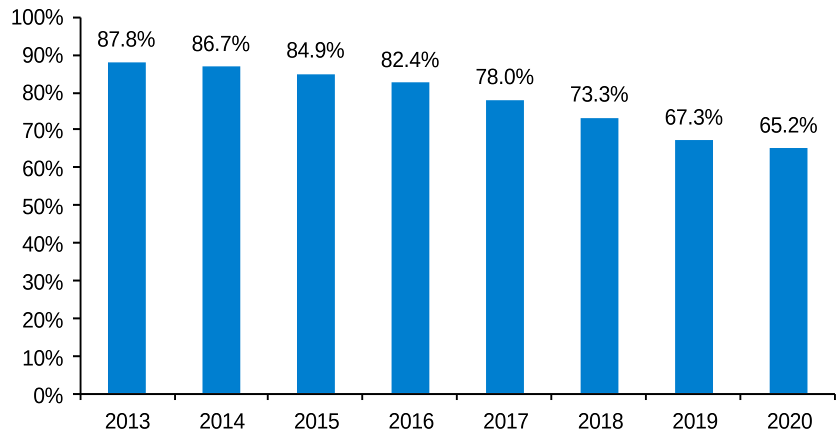
Exhibit 49: Smart phone users to rise to 859mn in 2022



Source: FICCI, Business Standard

Global trends indicate OTT to be mainstay for content consumption: Pay TV (Cable/DTH) penetration in the US has declined from 87.8% in 2013 to 65.2% in 2020. Cord cutting is evident in the US due to higher Pay TV ARPU and widespread broadband penetration (prerequisite for digital content consumption). While ARPU of Comcast/Charter Communications/Dish-Network was US$156/US$113/US$86 per month in 2019, Netflix's ARPU was paltry at US$11 per month. Apart from cheaper pricing, OTT offers multiple benefits like timing flexibility and better content resulting in migration from linear TV to digital in the US markets.

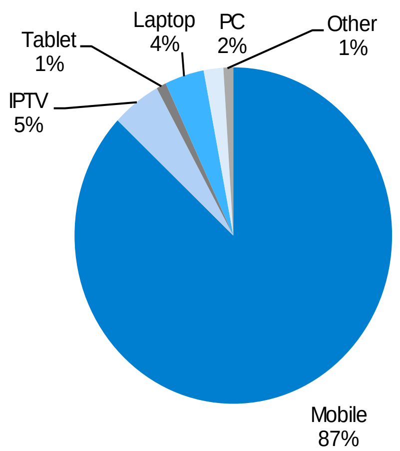
Exhibit 50: Pay TV penetration in the US stood at 65.2% in 2020



Source: NScreenMedia, PL

We believe the Indian market is different than US on two key parameters 1) Pay TV ARPU and 2) wired broadband penetration. Pay TV ARPU in India is ~US$3-4 as compared to US$80-100 in the US while fixed broadband penetration is just ~6% making TV the preferred medium for content consumption. However, given cheap data and proliferation of smart phones, mobile phones are evolving to be a new medium for content consumption.

Exhibit 51: % of daily online video watching time



Source: KPMG, PL

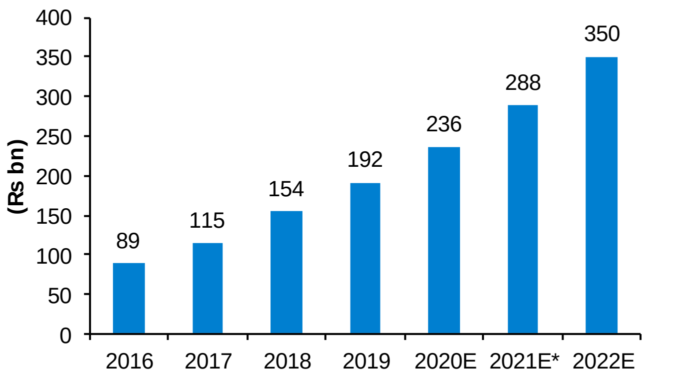
Thus, while cord cutting is a remote possibility in India (at least in the near future), OTTs are expected to be mainstay for content consumption as mobile phones are gradually evolving to be primary screens.

Digital ad/subscription market has huge growth potential: The digital ad/subscription market is expected to grow at a CAGR of 22.2%/30.2% over CY19-22E backed by:

- Rising internet subscribers (increased from 446mn in 2017 to 723mn in 2019) amid availability of cheap data
- Increasing base of smart phone users (increased from 340mn in 2018 to 395mn in 2019) and
- Increasing connections of smart/connected TVs (15-20mn in 2019) due to rising affordability (32" smart TV is available at ~Rs8,500).

As penetration of digital infrastructure (number of internet subscribers/smart phone users/smart TVs) rises, monetization opportunities via ad/subscription revenues will also arise thereby aiding growth.

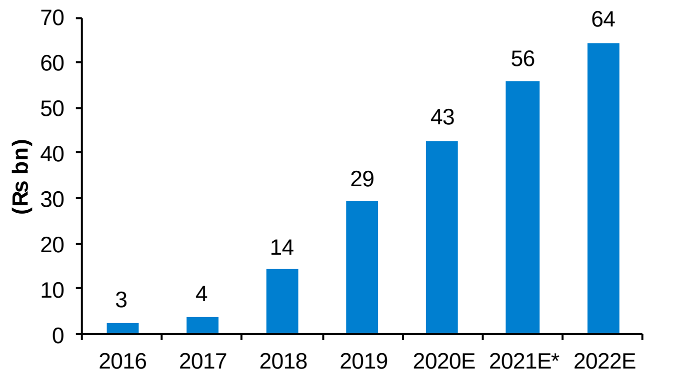
Exhibit 52: Digital ad-market size to be at Rs350bn in 2022E



Source: FICCI, E&Y 2020 actual data not published as yet

**Ad-ex for 2021 was NA and is extrapolated from the implied 3 year CAGR of 22.2% over 2019-2022E*

Exhibit 53: Digital subscription market size to rise steeply



Source: FICCI, E&Y 2020 actual data not published as yet

**Figure for 2021 was NA and is extrapolated from the implied 3 year CAGR of 30.2% over 2019-2022E*

Digital advertising primarily comprises of 1) Video (~32% revenue contribution) 2) Search (~33%) 3) Display (~30%) and 4) Classifieds (~5%). Within digital subscription, video subscription contributes ~97% while audio subscription contributes ~3% to industry revenues.

Thus, approximate market size of digital video advertising & subscription (relevant for video OTT players) is pegged at Rs90bn (32% of Rs192bn + 97% of Rs29bn) in 2019. If we assume the video contribution to remain stagnant at 32% for advertising and 97% for subscription respectively, the market size is expected to increase to Rs174bn in 2022E (32% of Rs350bn + 97% of Rs64bn).

Indian OTT market is highly competitive: The Indian OTT market is highly competitive in nature with more than 30 players (9 in 2012). Some of the key players operating in the Indian market include: -

- **Broadcasters owned**: ZEE5, Sony LIV, VOOT, Disney+ Hotstar, Sun NXT. Content pipe predominantly includes catch up & Live TV, originals and movies.
- **Independent platforms**: Netflix, Amazon Prime & YouTube.
- **Content owners/aggregators**: ALT Balaji, EROS Now, ShemarooMe (Natural forward integration move for these players as they already own/have licensed right of the content).
- **Telco owned**: Airtel TV, Vodafone Play, Jio TV, Jio Cinema. These players typically aggregate content from broadcasters and provide bundled services to their subscribers. The cost of content is packaged with the cost of data.
- **Distributor backed**: Tata Sky Binge, Den TV+. Similar to telco's (aggregates the content from different broadcasters and sells by bundling it into a package)

Monetization methods of OTT platforms

- **Advertising video on demand (AVOD):** In this model, access to content is free and the OTT player earns revenues via advertisement. Ex: YouTube, MX Player.
- **Subscription video on demand (SVOD):** In this model, users have to pay subscription charges to access the content. Example: Netflix, Amazon Prime.
- **Freemium/Hybrid model:** Freemium/hybrid model is a combination of AVOD and SVOD. Some of the content is available for free (typically catch up TV/old movies) under AVOD while premium content (originals/new movies) is behind a paywall. Example: ZEE5, Disney+ Hotstar, Sony Liv, Voot Select etc.

Exhibit 54: Competitive landscape of OTT players in India

Particulars	ZEE5	Netflix	Amazon Prime	Disney+ Hotstar	Sony LIV	ALT Balaji	VOOT	Eros Now
Monetization model	Hybrid	SVOD	SVOD	Hybrid	Hybrid	SVOD	Hybrid	SVOD*
Pricing - Per Month	Rs99	Mobile only - Rs199, Basic - Rs499, Standard - Rs649, Premium - Rs799.	Rs129	Rs299	Rs299	NA (3 month plan is available for Rs100)	Rs99	Rs49
Pricing – Annual	Rs999; Club plan with select content is offered at Rs365	NA	Rs999	Rs1499; VIP plan with select content is offered at Rs399	Rs999	Rs300	Rs499&	Rs399
Language diversity	Yes (12 languages)	No (Content is predominantly available in English & Hindi. However, content dubbing is also prevalent)	Yes (~10 languages)	Yes (~ 8 languages)	Yes	No (dominant language is Hindi)	Yes	Yes (~10 languages)
Live TV	Yes	No	No	Yes	Yes	No	Yes	No
Movie library	~3,000+	~3,300+	Not available	~2,100+	~700+	Limited catalogue	Strong regional library	~12,000+
Cumulative originals (shows + movies) till date	100+	~48+ (count relates to content produced by Netflix India only)	~20-40 (count relates to content produced by Amazon India only)	~21 for Hotstar (ex of documentaries & talk shows but including continuations & animations)	Not available	~65+	~19+	~10-20
Key strength	Language diversity & quantum of original content (movies/shows)	Strong content for English speaking up-market audience	Ancillary benefits like discount on shopping, access to prime music & reading, and early/free delivery options.	Sports genre & access of Disney's legacy content	Sports genre	Content creation capabilities & attractive price point	Large library of content from the group	Movie library
Monthly active users (MAUs)	54.7mn (Sep 2020)	NA (SVOD model)	NA (SVOD model)	300mn (March 2020)	~70-80mn	NA (SVOD model)	~100mn (March 2020)	NA (SVOD model)
Paid subscribers	Not available	~2mn+	~4-5mn	~8mn	~14-20mn	~1.5mn	NM as SVOD service was introduced in Feb 2020	~29mn
Key telco partnerships	Airtel	Airtel, Vodafone Idea	Airtel, Vodafone Idea	Airtel, JIO	Vodafone Idea	NA (Ended telco partnerships and is acquiring customers via direct route)	Airtel	Vodafone Idea, Airtel, Jio
Total Installs (From Google Play)	**100mn+**	**1bn+**	**100mn+**	**100mn+**	**100mn+**	**10mn+**	**100mn+**	**10mn+**

Source: Company, News Articles, PL ** Some content is available for free* *& Limited period offer of Rs299 is rolled out currently*

ZEE5 has most comprehensive offering among Indian OTT apps: Operating on a hybrid model, ZEE5 is competitively priced, and has unrivalled content catalogue with high linguistic depth as compared to peers.

- **ZEE5 follows hybrid monetization model** - ZEE5 is a hybrid/freemium model where linear TV shows (typically catch up; LIVE TV is behind paywall) and some old movies are available for free under AVOD, while premium content like originals and news movies are behind a pay wall under SVOD. Hotstar, Sony LIV and VOOT follow a similar model unlike Netflix and Amazon Prime which are ad-free (SVOD model).

- **ZEE5 is competitively priced:** ZEE5's annual pricing is highly competitive (given the quantum of content) and is in line with peers (cheaper than Hotstar and Netflix but in line with Amazon Prime and Sony LIV) except for ALT Balaji, VOOT and EROS Now which have cheaper plans. However, ALT Balaji has content vacuum on movie library front while VOOT and EROS Now do not have a strong catalogue of originals, when compared with ZEE5.

- **Strong content quality in originals:** One of the key reasons for subscribing to any OTT platform is content quality where popularity comes into play. ZEE5 has hugely popular originals under its belt like Rangbaaz, Abhay, Karenjit Kaur, The Final Call etc which acts as a key factor in driving SVOD revenues (originals are typically behind paywall).

Exhibit 55: List of popular shows of OTT players

Zee5	Netflix*	Amazon Prime*	Disney+ Hotstar	Sony LIV	ALT Balaji	VOOT	Eros Now
Karenjit Kaur - The Untold Story of Sunny Leone	Sacred Games	Inside Edge	Special Ops	Scam 1992	Karle Tu Bhi Mohabbat	Asur	Enaaya
Rangbaaz	Delhi Crime	Breathe	Hostages	JL50	Gandi Baat	Crackdown	Smoke
Abhay	Ghoul	Mirzapur	Criminal Justice	Avrodh	Dil Hi To Hai		
Kaafir	Jamtara	Bandish Bandits	Aarya	Gullak	Kehne Ko Humsafar Hai		
The Final Call		The Family Man					
Kaali		Made in Heaven					
State of Siege - 26/11							

Source: Company, IMDB, PL ** We have considered only India centric content while collating the list*

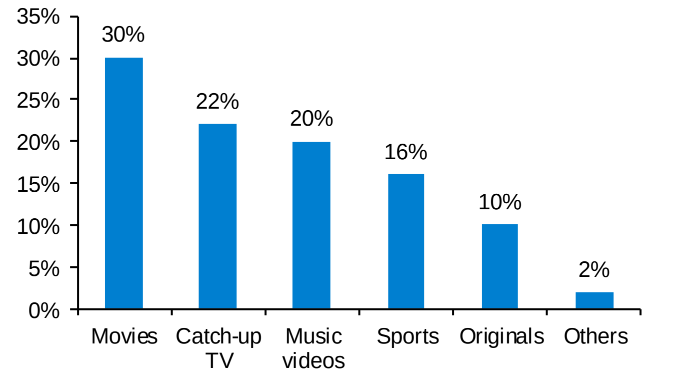
Unrivalled content catalogue with a strong pipeline: Launched in 2018, ZEE5 has content library of 100+ original shows/movies across 6 languages and a strong movie library of 3,000+ titles across 12 languages. The platform collectively hosts 125,000 hours of content bolstered by the parent's TV network. ZEE5 also offers live streaming of 100+ entertainment and news channels, dubbed international content and music videos making it a one stop shop entertainment platform for the Indian audience.

- ZEE5 had 54.7mn global MAUs and 5.2mn DAUs in Sep 2020 with an average watch time of 152 minutes per viewer during the month. ZEE5 was launched globally in more than 190 countries in Oct 2018 and is a leading entertainment app in key SAARC regions.

- The network has built an unparalleled content library of 100+ original shows and movies (one of the highest in the industry) across 6 languages. In comparison, ALT Balaji has a library of ~65+ originals/movies. While Netflix and Amazon Prime have a vast content of originals/movies, the India centric catalogue (Sacred Games is more relevant to the Indian audience than Breaking Bad) is limited to ~48+/~20-40 respectively.

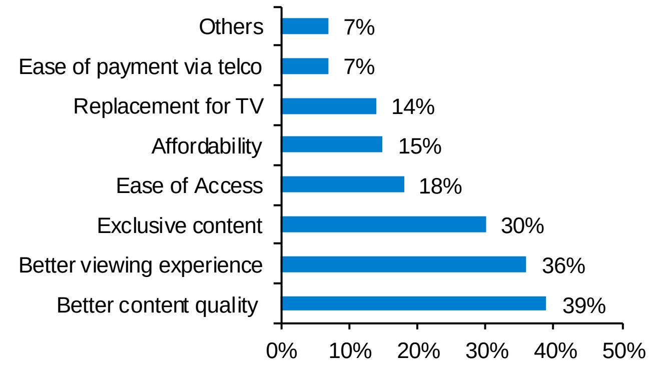
- ZEE5 also has a strong movie library with 3,000+ digital titles ahead of most players except EROS Now (12,000+ titles). It also has great depth of TV content coming in from the parent (~500 hours of content produced every week) which is played LIVE and as catch-up TV.

Exhibit 56: Movies are most preferred category on OTTs



Source: KPMG, PL

Exhibit 57: Content is key for subscribing to OTT platforms



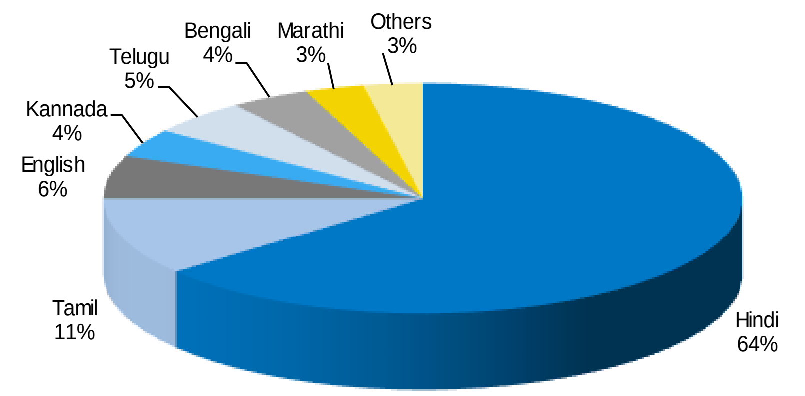
Source: KPMG, PL

We expect ZEE5 to release 80+ originals/movies in FY21E (released 80+ movies/originals in FY20 and 43 in 1HFY21 so far). The nearest competitor ALT Balaji has plans to add ~20-24 originals in FY21E while Amazon Prime Video intends to add 10-12 originals in CY20 (similar number of originals are planned in CY21 as well). We believe ZEE5's focus to aggressively build on content catalogue is a step in the right direction given hyper competitive nature of the market.

Language diversity to help penetrate into regional markets: ZEE5 produces original shows and movies in 6 languages. Further, it's digital content catalogue is available in 12 different languages as popular shows also get dubbed in regional languages to cater to a different audience. For instance, Abhay is a Hindi original but is dubbed in 6 regional languages. ZEE5's linguistic depth (original content in regional language) is best amongst peers (most of them dub original content in regional language).

Given that ~36% of online video consumption happens in vernacular language, it is critical to build a strong regional library to draw subscribers onto that platform. We believe ZEE5's linguistic diversity will help in penetrating deeper into the regional markets.

Exhibit 58: 36% of online video consumption happens in regional language



Source: KPMG, PL

Exhibit 59: ZEE5 has high regional linguistic depth versus peers

OTT Platform	Regional linguistic depth	Rationale
ZEE5	High	Produces original content in 6 languages
Netflix	Low	Focus is on Hindi. Further, not all popular content is dubbed (Ex-Sacred Games). However, it has plans to expand into the regional space and has strong English content.
Amazon Prime	Moderate	Developing Tamil & Telugu originals which should start airing from 2HFY21
Disney+ Hotstar	Low	Tamil original is in the pipeline
Sony LIV	High	Produces original content in Gujarati, Marathi, Tamil, Telugu
ALT Balaji	Low	Focus is largely on Hindi
VOOT	Low	NA
Eros Now	Low	Focus is largely on Hindi

Source: Company, News Articles, PL

ZEE5 expected to break even in FY24E: As of 1HFY21, ZEE5's revenue and EBITDA loss stood at Rs1.9bn/Rs3.3bn respectively. However, given aggressive content expansion plans, attractive price point (will drive SVOD revenues), and high linguistic depth we expect ZEE5 to report revenue CAGR of 35% over FY21-FY24E, with a break-even in FY24E. While ZEEL will have to seed losses on ZEE5 in the interim, given migration in viewing habits from linear TV to digital we believe strategy to invest aggressively in the platform is a step in the right direction.

Financial Projections

Exhibit 60: Brief financial snapshot

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Advertising revenues	33,652	36,735	42,048	50,367	46,811	36,441	47,724	53,168
Subscription revenues	20,578	22,629	20,287	23,105	28,873	30,608	31,439	33,784
Other sales & services	3,894	4,977	4,522	5,867	5,614	4,266	4,586	4,861
Total sales	**58,124**	**64,341**	**66,857**	**79,339**	**81,298**	**71,315**	**83,748**	**91,813**
YoY growth	*19.0%*	*10.7%*	*3.9%*	*18.7%*	*2.5%*	*-12.3%*	*17.4%*	*9.6%*
Operational cost	25,984	27,757	25,275	30,758	38,285	33,664	38,524	42,234
Employee expenses	4,986	6,043	6,657	7,249	7,805	7,818	8,375	8,998
Other expenses	7,427	6,732	8,390	8,700	11,907	7,573	8,040	8,539
A&P spends	4,592	4,473	5,773	6,993	6,956	6,620	6,700	7,253
EBITDA	**15,135**	**19,337**	**20,761**	**25,640**	**16,346**	**15,639**	**22,110**	**24,790**
EBITDA margin	*26.0%*	*30.1%*	*31.1%*	*32.3%*	*20.1%*	*21.9%*	*26.4%*	*27.0%*
Depreciation	777	1,152	1,821	2,347	2,706	2,773	3,182	3,489
EBIT	**14,358**	**18,185**	**18,940**	**23,293**	**13,639**	**12,866**	**18,927**	**21,301**
EBIT margin	*24.7%*	*28.3%*	*28.3%*	*29.4%*	*16.8%*	*18.0%*	*22.6%*	*23.2%*
Reported PAT*	**8,236**	**22,270**	**14,776**	**15,673**	**5,246**	**7,848**	**14,849**	**17,374**
PAT margin	*14.2%*	*34.6%*	*22.1%*	*19.8%*	*6.5%*	*11.0%*	*17.7%*	*18.9%*
Adjusted PAT	**9,240**	**12,241**	**13,498**	**15,855**	**17,093**	**10,962**	**14,849**	**17,374**
Adjusted PAT margin	*15.9%*	*19.0%*	*20.2%*	*20.0%*	*21.0%*	*15.4%*	*17.7%*	*18.9%*
Reported EPS	8.6	23.1	15.4	16.3	5.5	8.2	15.5	18.1
Adjusted EPS	**9.6**	**12.8**	**14.1**	**16.5**	**17.8**	**11.4**	**15.5**	**18.1**
DPS	2.3	2.5	2.9	3.5	0.3	0.8	3.4	4.5
RoE&	17.8%	21.3%	18.9%	19.2%	18.7%	11.3%	14.0%	14.7%
RoCE	23.8%	23.6%	21.1%	24.4%	13.6%	12.6%	17.5%	17.9%
Debt (includes RPS liability)	17,149	22,023	15,254	11,133	6,476	3,501	526	526
FCFF	4,226	4,638	2,354	-1,471	681	12,966	14,627	14,048
Working capital days	147	172	200	253	308	337	276	258

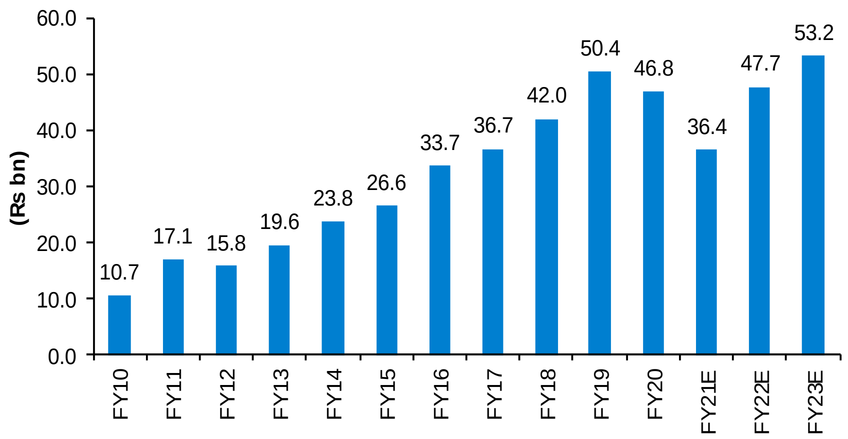
*Source: Company, PL * PAT is before minority interest, OCI and share from associates & Calculated on adjusted PAT*

Revenues to grow at a CAGR of 4.1% over FY20-23E: ZEEL's ad revenues have increased at a CAGR of 15.9% over the last 10 years to reach Rs46.8bn in FY20. We expect 22.2% YoY decline in ad revenues in FY21E due to COVID-19 (fall in original programming hours and decline in yields) but expect a sharp bounce back with 31.0% YoY growth (base effect) in FY22E. Overall, we expect ad-revenue CAGR of 4.3% over FY20-23E backed by: -

- Strong viewership share (exited FY20 with a share of 18.4%, marginally behind Star which had viewership share of 18.6%) excluding news and sports category and

- Launch of new channels (Zee Punjabi, Zee Thirai, Zee Picchar and Zee Bispoke) in regional markets.

Exhibit 61: Ad-revenues to grow at a CAGR of 4.3% over FY20-23E



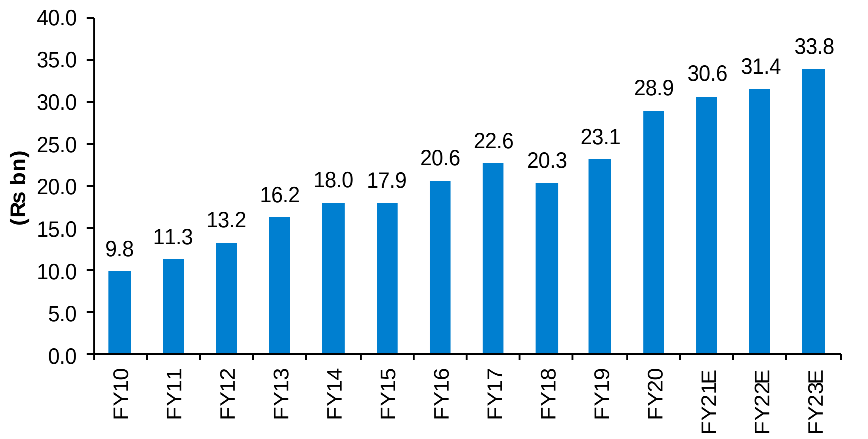
Source: Company, PL

ZEEL's domestic subscription revenues have increased at a CAGR of 16.3% over the last 10 years to reach Rs25.6bn in FY20 due to implementation of digitization in multiple phases, changes in regulatory regime (NTO 1.0 led to repricing of channels leading to a 33.2% YoY growth in domestic subscription revenue in FY20) and introduction of new channels. We expect domestic subscription revenues to grow at CAGR of 6.1% (implementation of NTO 2.0 is expected to hurt subscription revenue of broadcasters) over FY20-23E amid: -

- Increasing viewership of HD channels (ZEEL has 16 HD channels with 35% HD penetration indicating there is further scope for expansion) which are priced higher
- Introduction of new channels (4 regional channels have been launched in 2020) and
- Selective price hikes

ZEEL's overseas subscription revenues have declined at a CAGR of 2.5% over the last 10 years to reach Rs3.2bn in FY20. We expect international subscription revenues to decline by 1.4% YoY and 4.0% YoY in FY21E and FY22E (3 channels were shut in UK in FY20 while Zee One was shut in Germany in May 20) but expect a growth of 2.5% in FY23E as ZEE5 adoption is expected to proliferate over a period of time (ZEE5 was commercially launched in Middle East, UK, Europe and Canada in FY20).

Exhibit 62: Subscription revenues to grow at a CAGR of 5.4% over FY20-23E



Source: Company, PL

Adjusted EBITDA to grow at CAGR of 3.5% over FY20-23E: We expect adjusted EBITDA (adjusting for Rs2.6bn on accelerated inventory amortization and Rs3.4bn on one-time provision relating to ad/subscription & other assets in FY20) CAGR of 3.5% over FY20-23E due to modest top-line growth and higher content cost. We expect average content cost to be at 46.4% of sales over FY20-23E (versus average content cost of 42.3% over last 5 years) as inventory amortization will be higher due to: -

- Launch of 4 new channels
- Significant investments in ZEE5 and
- Aggressive movie acquisition strategy of the past (satellite rights will be charged to P&L)

Exhibit 63: Conservative amortization policy, except for movie rights

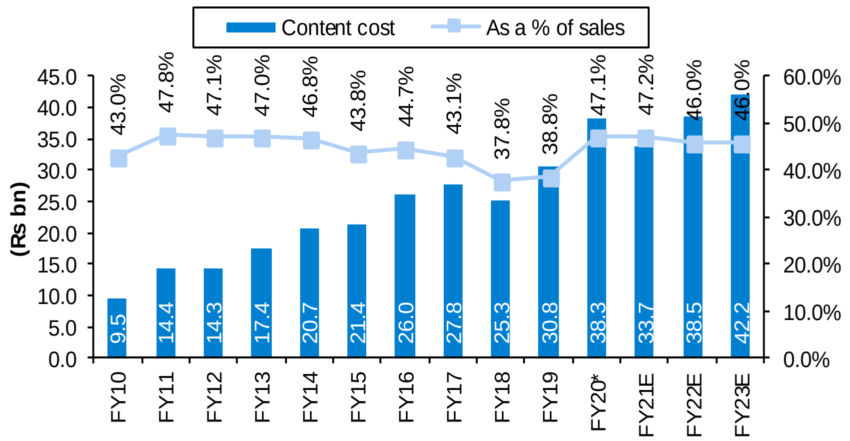
Content type	Amortization term	Amortization schedule
Programs (non-fiction like reality shows, chat shows, events, game shows)	Fully expensed when telecast	NA
Programs (other than the one above; typically fiction)	3 years	80% in year 1, 10% each in next 2 years
Movie Rights	5 years, or license period whichever is shorter	Straight line over 5 years
Music Rights	3 Years	50% in year 1, 25% each in next 2 years
Films produced or acquired for distribution/sale of rights	Expensed immediately on sale	~80-90% cost is amortized immediately on theatrical release

Source: Company, PL

However, we expect A&P expenses to decline from 8.6% of sales in FY20 to 7.9% of sales in FY23E as 1) spends towards marketing of ZEE5 will be lower than the past as it has been almost 3 years since the launch (A&P spends are generally higher in earlier years to create awareness) and 2) no new channel launches are planned in the near term.

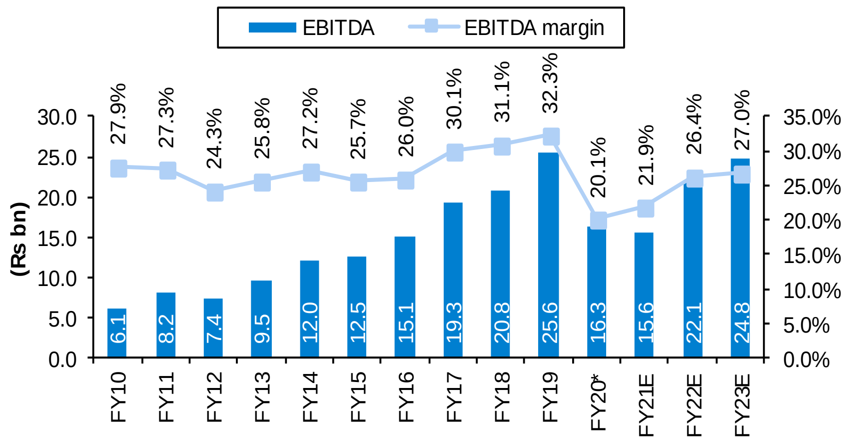
Further, employee expenses are expected to increase from 9.6% of sales in FY20 to 9.8% of sales in FY23E as we build-in marginal wage hike. Consequently, we expect adjusted EBITDA margin to decline by 50 bps over FY20-23E.

Exhibit 64: Average content cost to be at 46.4% of sales over FY20-23E



Source: Company, PL ** Includes accelerated amortization charge of Rs2.6bn*

Exhibit 65: Adjusted EBITDA margin to remain flat over FY20-FY23E



Source: Company, PL **Adjusted EBITDA was Rs22.3bn with margin of 27.5%*

Adjusted PAT to remain flat over FY20-23E: We expect adjusted PAT (reported PAT was Rs5.2bn in FY20 versus adjusted PAT of Rs17.1bn) CAGR of 0.5% over FY20-23E as: -

- Interest burden will lower from FY23E onwards as two more tranches of redeemable preference shares (RPS) are due for redemption in FY21E and FY22E (dividend paid to RPS holders in clubbed under interest expenses) and
- Tax rate is expected to decline from 45.1% in FY20 to 25.5% in FY23E.

FCFF to rise as working capital is expected to improve: ZEEL's FCFF has deteriorated in the last 3 years (FCFF has declined from Rs4.6bn in FY17 to Rs681mn in FY20) due to significant investments in working capital. (In FY19, FCFF turned negative at Rs1.4bn for the first time over the last 10 years). However, we expect FCFF to improve from Rs681mn in FY20 to Rs14.0bn in FY23E as: -

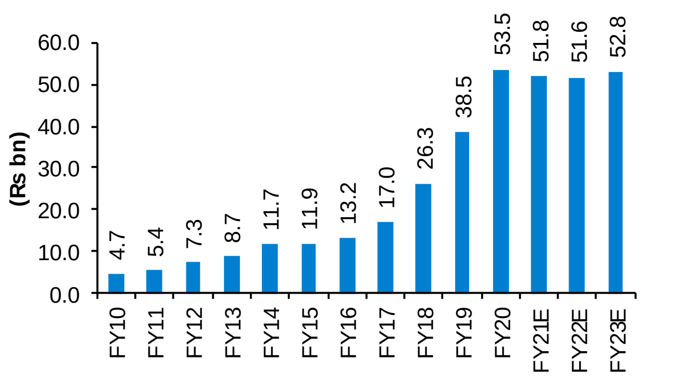
- Investments in inventories have stabilized post aggressive movie buying in the last 2-3 years and
- ZEEL has devised a plan to recover pending receivables over the next 12-24 months from two strategic customers (pending recoveries of Rs6.6bn as of FY20, net of allowance). After taking a provision of Rs812mn on Siti's receivables in 2QFY21, pending recoveries are in the region of ~Rs5.8 bn, as per our estimate.

Exhibit 66: FCFF to rise to Rs14.0bn in FY23E

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating profit before working capital changes	15,633	20,252	22,390	27,802	22,371	15,973	22,559	26,227
Adjustments for:-								
Changes in inventory	(1,275)	(3,676)	(9,359)	(11,542)	(14,830)	1,699	151	(1,199)
Changes in receivables	(3,545)	(2,425)	(2,509)	(14,255)	(289)	2,286	(942)	(1,878)
Changes in payables	2,323	65	3,318	8,646	(1,639)	(2,149)	2,325	1,384
Cash from operations	**13,136**	**14,216**	**13,840**	**10,651**	**5,613**	**17,807**	**24,093**	**24,534**
Taxes Paid	(5,827)	(6,810)	(8,295)	(9,299)	(3,114)	(3,290)	(5,083)	(5,947)
Operating Cash Flow	**7,309**	**7,406**	**5,545**	**1,352**	**2,499**	**14,518**	**19,011**	**18,587**
Capex (Tangible + Intangible)	3,083	2,768	3,191	2,823	1,818	1,551	4,384	4,539
Free Cash Flow	**4,226**	**4,638**	**2,354**	**(1,471)**	**681**	**12,966**	**14,627**	**14,048**

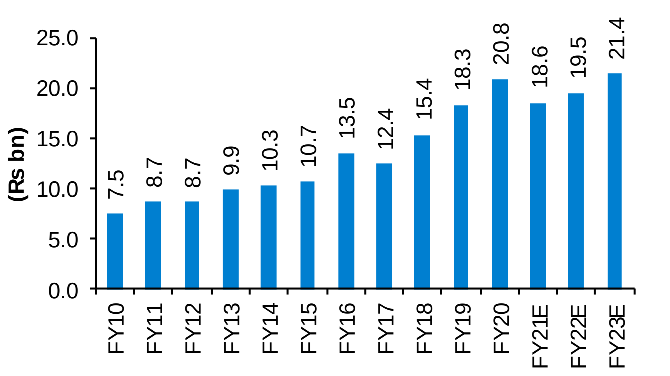
Source: Company, PL

Exhibit 67: Inventory increase is led by movie acquisition



Source: Company, PL

Exhibit 68: Receivables soar due to pile-up from Dish & Siti

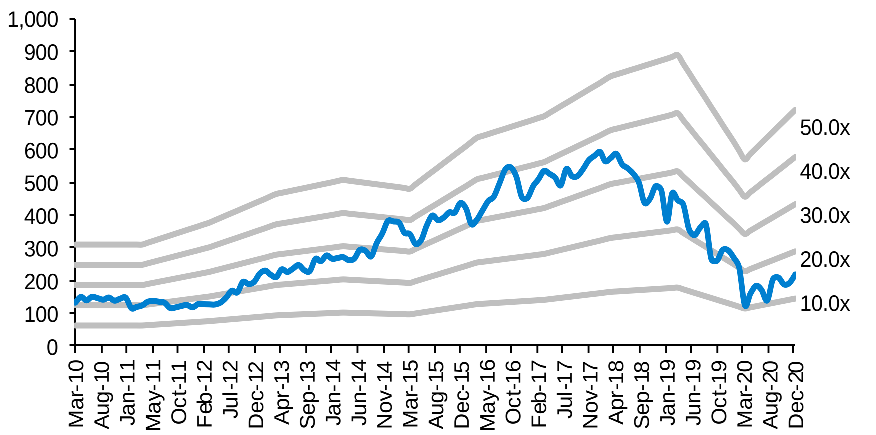


Source: Company, PL

Valuations

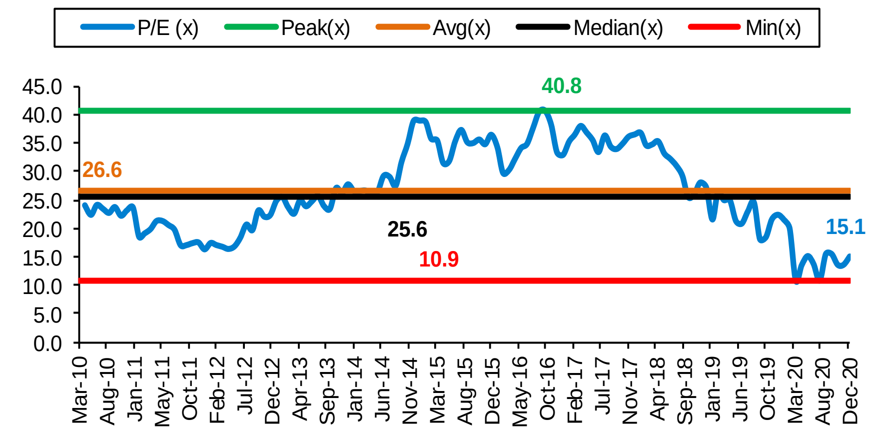
ZEE5's success & improved disclosure to drive re-rating: Over the last 10 years, ZEEL has traded at an average one year forward P/E multiple of 27x. Significant re-rating happened over FY17-19 buoyed by adjusted earnings CAGR of 13.8% over the same period. However, since FY19 the stock has de-rated (since Sep-19 the stock has been trading significantly below the 10-year average) amid emerging governance issues and elevated debt levels of promoter group (led to liquidation of pledged shares).

Exhibit 69: ZEEL one year forward P/E chart



Source: Company, PL

Exhibit 70: ZEEL one year forward P/E band chart



Source: Company, PL

We believe re-rating from here-on will be a function of two factors 1) ZEE5's success and 2) market's perception towards the ongoing transparency drive undertaken to restore goodwill.

Exhibit 71: Valuation overview of global broadcasters & Netflix

Particulars	P/E multiple		
	CY20	CY21	CY22
Netflix	81.6x	56.2x	42.6x
Viacom CBS	8.8x	8.8x	8.0x
Fox Corporation	10.6x	12.8x	12.0x
Comcast Corporation*	20.7x	18.0x	14.4x

Source: Bloomberg, PL

** Presence via NBC Universal, not an apt comparison as it is a cable & telecom conglomerate*

- As ZEE5 evolves over the next 2-3 years and turns profitable, PE re-rating looks a distinct possibility as platform players like Netflix trade at 4-5x valuations than global broadcasters.

Further in order to improve disclosure levels/transparency, ZEEL has taken numerous steps like: -

- Strengthening the board composition and

- Deciding to publish BS on quarterly basis (regulatory requirement of semi-annual publication) with granular breakdown of content inventory & advances along with revenue & EBITDA of ZEE5 (since its launch in 2018, financial data on ZEE5 was not published).

In addition to this, the audit committee of ZEEL had appointed an independent firm to review the related party transactions and film advances given for content acquisition for FY19 & 1HFY20. The new firm did not find any irregularities that required additional disclosure evading concerns on corporate governance. Thus, we believe ZEEL has taken solid measures to improve disclosure practices.

In light of these factors, we value the stock at 16x FY23E EPS and arrive at a TP of Rs290. We draw additional comfort from the following: -

- Strong viewership market share of 18.4% (2nd after Star which had a share of 18.6%) in FY20, excluding news & sports

- Reduced risk of liquidation from pledged shares (promoters now own only ~4%, of which ~6% is pledged)

- Anticipated improvement in working capital (non-cash WC to improve from 308 days in FY20 to 258 days in FY23E) and FCFF (to increase from Rs681mn in FY20 to Rs14.0bn in FY23E)

- Debt free (excluding the redeemable preference share liability of Rs7.2bn in 2QFY21) and cash rich BS (Rs14.1bn as of 2QFY21).

While re-rating is on the cards there is an impending risk of write-offs/provisions in the interim and concerns over diversification into non-core businesses (board has committed to invest Rs5.2bn over 2 years in Sugar Box to set up WiFi solutions in public places). Assuming a worst case scenario (complete write-off to the risky exposures), we estimate write-offs/provisioning to the extent of Rs12.2bn which can prove to be an overhang on the stock, in the near term.

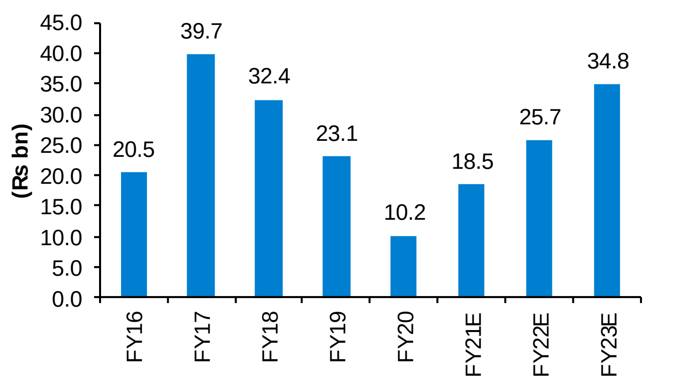
Exhibit 72: Worst case scenario write-offs to be at Rs12.2bn while non-core asset exposure at Rs5.2bn respectively

Particulars	Value at Risk	Comments
Pending receivables from Dish and Siti Networks	Rs6.6bn (net of allowance) as of FY20; Rs5.8bn as of 1HFY21 (as per our estimate)	Credit loss charge/provision of Rs376mn in 3QFY20, Rs1,179mn in 4QFY20 and Rs812mn in 2QFY21 is already taken due to delays in payments. While ZEEL has devised a recovery plan over next 12-24 months, given the precarious financial situation of Dish and Siti Networks total amount at risk is Rs5.8bn.
Litigation pertaining to letter of comfort (LoC) issued to Yes Bank Ltd	Rs3.9bn as of FY20	ZEEL had issued a LoC to Yes Bank in connection with a borrowing by Living Entertainment Ltd (LEL), a related party. Subsequent to a default by LEL, Yes bank called upon ZEEL to honor the obligation. However, ZEEL has not provided for this obligation as it is of the view that LOC is a not a guarantee/obligation to pay on behalf of LEL.
Investment in Sugar Box (non-core diversification)	Board committed to invest Rs5.2bn over 2 years	Announced plans to invest Rs5.2bn in Sugar Box to set up WiFi solutions in public transport such as railways, metros etc where internet connectivity is poor. Sugar box will invest in hardware/software to bridge connectivity problem. We believe this is a non-core investment and is fraught with evolution (5G deployment) and obsolescence (servers have limited life) risk.
Contingent liabilities	Rs3.5bn as of FY20; Rs971mn of provision taken in 2QFY21 resulting in total exposure of ~Rs2.5bn odd.	Out of Rs3.5bn of contingent liability as of FY20, Rs1.6bn pertains to corporate guarantees for related parties.

Source: Company, PL

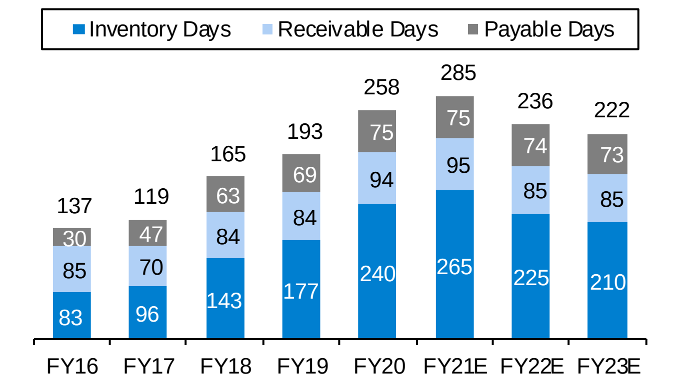
Story in Charts

Exhibit 73: Cash balance to be at Rs34.8bn in FY23E



Source: Company, PL

Exhibit 74: Cash conversion cycle to be 222 days in FY23E



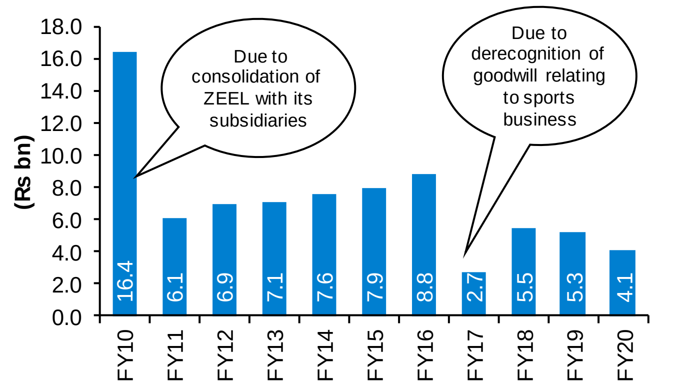
Source: Company, PL

Exhibit 75: Contingent liabilities have declined over 5 years

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20
Corporate Guarantees					
a) To related parties	21,374	4,018	-	1,137	1,637
b) To other parties	800	1,039	1,037	-	336
Disputed indirect taxes	497	495	536	585	585
Disputed direct taxes	5,985	5,431	4,746	3,352	676
Claims against the group not acknowledged as debts	948	611	650	440	317
Total	**29,604**	**11,594**	**6,969**	**5,514**	**3,551**
As a % of NW	*61.6%*	*17.3%*	*9.2%*	*6.2%*	*3.8%*

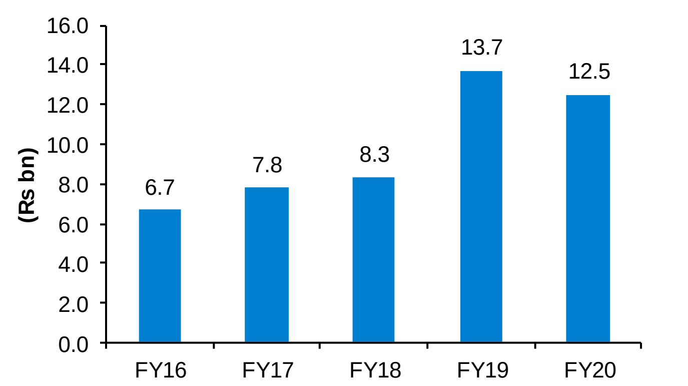
Source: Company, PL

Exhibit 76: Goodwill trend over last 10 years



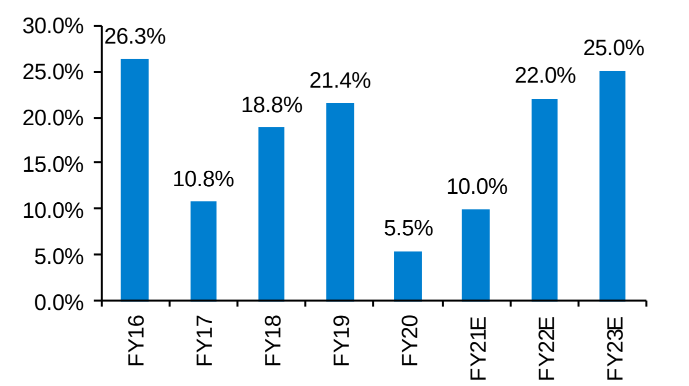
Source: Company, PL

Exhibit 77: Related party transactions at Rs12.5bn in FY20



Source: Company, PL

Exhibit 78: Dividend pay-out* to be at 25% in FY23E



Source: Company, PL

**Historical pay-out ratio is calculated on reported EPS*

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**81,299**	**71,315**	**83,748**	**91,813**
YoY gr. (%)	*2.5*	*(12.3)*	*17.4*	*9.6*
Cost of Goods Sold	38,285	33,664	38,524	42,234
Gross Profit	43,014	37,651	45,224	49,579
Margin (%)	*52.9*	*52.8*	*54.0*	*54.0*
Employee Cost	7,805	7,818	8,375	8,998
Other Expenses	11,907	7,573	8,040	8,539
EBITDA	**16,346**	**15,639**	**22,110**	**24,790**
YoY gr. (%)	*(36.2)*	*(4.3)*	*41.4*	*12.1*
Margin (%)	*20.1*	*21.9*	*26.4*	*27.0*
Depreciation and Amortization	2,706	2,773	3,182	3,489
EBIT	**13,639**	**12,866**	**18,927**	**21,301**
Margin (%)	*16.8*	*18.0*	*22.6*	*23.2*
Net Interest	1,449	1,034	921	184
Other Income	240	275	1,926	2,204
Profit Before Tax	**9,587**	**11,137**	**19,932**	**23,321**
Margin (%)	*11.8*	*15.6*	*23.8*	*25.4*
Total Tax	4,317	3,290	5,083	5,947
Effective tax rate (%)	*45.0*	*29.5*	*25.5*	*25.5*
Profit after tax	**5,270**	**7,847**	**14,849**	**17,374**
Minority interest	(19)	(18)	-	-
Share Profit from Associate	(24)	1	-	-
Adjusted PAT	**17,093**	**10,962**	**14,849**	**17,374**
YoY gr. (%)	*7.8*	*(35.9)*	*35.5*	*17.0*
Margin (%)	*21.0*	*15.4*	*17.7*	*18.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,265**	**7,866**	**14,849**	**17,374**
YoY gr. (%)	*(66.4)*	*49.4*	*88.8*	*17.0*
Margin (%)	*6.5*	*11.0*	*17.7*	*18.9*
Other Comprehensive Income	1,336	(171)	-	-
Total Comprehensive Income	6,601	7,695	14,849	17,374
Equity Shares O/s (m)	**960**	**960**	**960**	**960**
EPS (Rs)	**17.8**	**11.4**	**15.5**	**18.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**18,534**	**20,568**	**24,951**	**29,490**
Tangibles	14,007	15,291	18,724	22,213
Intangibles	4,527	5,277	6,227	7,277
Acc: Dep / Amortization	**10,253**	**13,026**	**16,208**	**19,697**
Tangibles	7,210	9,012	11,081	13,349
Intangibles	3,043	4,014	5,127	6,348
Net fixed assets	**9,078**	**8,050**	**9,251**	**10,301**
Tangibles	7,594	6,786	8,151	9,372
Intangibles	1,484	1,263	1,100	929
Capital Work In Progress	831	639	639	639
Goodwill	4,070	4,069	4,069	4,069
Non-Current Investments	907	905	980	1,028
Net Deferred tax assets	2,742	2,450	2,193	2,099
Other Non-Current Assets	4,191	3,778	6,813	8,155
Current Assets				
Investments	2,770	2,770	2,770	2,770
Inventories	53,475	51,776	51,626	52,824
Trade receivables	20,847	18,561	19,503	21,381
Cash & Bank Balance	7,345	15,769	22,956	32,065
Other Current Assets	12,804	12,124	12,143	12,854
Total Assets	**1,23,737**	**1,25,390**	**1,37,643**	**1,53,249**
Equity				
Equity Share Capital	960	960	960	960
Other Equity	92,479	99,371	1,10,954	1,23,984
Total Networth	**93,439**	**1,00,331**	**1,11,914**	**1,24,944**
Non-Current Liabilities				
Long Term borrowings	3,501	526	526	526
Provisions	1,405	1,212	1,256	1,377
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,975	2,975	-	-
Trade payables	16,803	14,654	16,979	18,363
Other current liabilities	5,504	5,511	6,787	7,858
Total Equity & Liabilities	**1,23,737**	**1,25,391**	**1,37,644**	**1,53,250**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	9,563	11,138	19,932	23,321
Add. Depreciation	2,706	2,773	3,182	3,489
Add. Interest	135	1,034	921	184
Less Financial Other Income	240	275	1,926	2,204
Add. Other	9,967	1,028	(1,477)	(766)
Op. profit before WC changes	22,371	15,973	22,559	26,227
Net Changes-WC	(16,758)	1,835	1,535	(1,693)
Direct tax	(3,114)	(3,290)	(5,083)	(5,947)
Net cash from Op. activities	**2,499**	**14,518**	**19,011**	**18,587**
Capital expenditures	(1,451)	(1,552)	(4,384)	(4,539)
Interest / Dividend Income	1,367	-	-	-
Others	3,972	181	(278)	(411)
Net Cash from Invt. activities	**3,888**	**(1,371)**	**(4,661)**	**(4,950)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,879)	(2,975)	(2,975)	-
Dividend paid	(4,081)	(785)	(3,267)	(4,343)
Interest paid	(67)	(1,034)	(921)	(184)
Others	(1,594)	71	-	-
Net cash from Fin. activities	**(10,620)**	**(4,722)**	**(7,163)**	**(4,527)**
Net change in cash	**(4,233)**	**8,424**	**7,186**	**9,110**
Free Cash Flow	681	12,966	14,627	14,048

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	11.4	15.5	18.1
CEPS	20.6	14.3	18.8	21.7
BVPS	97.3	104.5	116.6	130.2
FCF	0.7	13.5	15.2	14.6
DPS	0.3	0.8	3.4	4.5
Return Ratio(%)				
RoCE	13.6	12.6	17.5	17.9
ROIC	8.3	10.9	17.1	18.9
RoE	18.7	11.3	14.0	14.7
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	258	285	236	222
Valuation(x)				
PER	12.3	19.2	14.2	12.1
P/B	2.3	2.1	1.9	1.7
P/CEPS	10.6	15.3	11.7	10.1
EV/EBITDA	12.6	12.5	8.4	7.1
EV/Sales	2.5	2.7	2.2	1.9
Dividend Yield (%)	0.1	0.4	1.6	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	**20,487**	**19,511**	**13,120**	**17,227**
YoY gr. (%)	*(3.5)*	*(4.8)*	*(32.8)*	*31.3*
Raw Material Expenses	8,476	13,046	6,578	8,342
Gross Profit	12,010	6,465	6,542	8,885
Margin (%)	*58.6*	*33.1*	*49.9*	*51.6*
EBITDA	**5,658**	**(2,839)**	**2,199**	**3,137**
YoY gr. (%)	*11.0*	*59.4*	*24.0*	*21.5*
Margin (%)	*27.6*	*(14.5)*	*16.8*	*18.2*
Depreciation / Depletion	656	778	719	651
EBIT	**5,002**	**(3,616)**	**1,481**	**2,485**
Margin (%)	*24.4*	*(18.5)*	*11.3*	*14.4*
Net Interest	200	864	45	13
Other Income	309	(2,380)	(860)	172
Profit before Tax	**5,110**	**(7,997)**	**576**	**1,673**
Margin (%)	*24.9*	*(41.0)*	*4.4*	*9.7*
Total Tax	1,622	(372)	284	740
Effective tax rate (%)	*31.7*	*4.7*	*49.2*	*44.2*
Profit after Tax	**3,488**	**(7,625)**	**292**	**933**
Minority interest	(8)	(11)	(8)	9
Share Profit from Associates	(2)	(33)	-	1
Adjusted PAT	**4,263**	**2,297**	**1,416**	**2,924**
YoY gr. (%)	*(18.8)*	*(24.7)*	*(69.3)*	*(50.6)*
Margin (%)	*20.8*	*11.8*	*10.8*	*17.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,494**	**(7,647)**	**301**	**926**
YoY gr. (%)	*(38.0)*	*(361.7)*	*(94.3)*	*(77.5)*
Margin (%)	*17.1*	*(39.2)*	*2.3*	*5.4*
Other Comprehensive Income	**260**	**766**	**107**	**-**
Total Comprehensive Income	**3,755**	**(6,881)**	**408**	**-**
Avg. Shares O/s (m)	**960**	**960**	**960**	**960**
EPS (Rs)	**3.6**	**(8.0)**	**0.3**	**1.0**

Source: Company Data, PL Research

Notes:

Notes:

Notes:

Price Chart

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Accumulate	185	146
3	Indian Railway Catering and Tourism Corporation	BUY	1,629	1,380
4	Inox Leisure	BUY	322	267
5	Music Broadcast	Hold	20	21
6	Navneet Education	Accumulate	93	79
7	PVR	Accumulate	1,435	1,255
8	S Chand and Company	BUY	86	65
9	V.I.P. Industries	Accumulate	384	337

PL's Recommendation Nomenclature

Buy	:	>15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as “PL”) is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Jinesh Joshi- MS(Finance) and CFA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com