

Zee Entertainment Enterprises Ltd.

Robust performance continues

Outlook

ZEEL's market share continues to remain robust led by strong showing of flagship channel Zee TV and stable performance in regional markets. We remain positive on its new ventures i.e. a) launch of HD channels, b) Zee Bangla Cinema (already leading cinema channel in Bengali market, complementing Zee Bangla), c) Zee Alwan, d) Ditto TV (~70,000 paying subscribers) and e) ZeeQ (currently available on Dish TV and Videocon d2h). Moreover, the Ministry of Information & Broadcasting (MIB) has demonstrated the seriousness of DAS implementation in phase 2 cities. This can be reiterated from the various key initiatives (such as increasing intervals of review meetings and conducting workshops) taken by MIB to achieve the superior results.

Expected surge in subscription revenues due to timely digitization implementation, better ad-revenue growth and enhanced reach from the MediaPro venture should help revenues to grow at a CAGR of ~17.6% to Rs 4,923.3 crore by FY15 from Rs 3,040.5 crore in FY12. At the CMP of Rs 230, ZEEL is trading at 22.6x and 17.0x its estimated earnings for FY14 and FY15 and we reiterate a BUY with the price target of Rs 267 representing a potential upside of ~17.6%.

Key Takeaways

- ZEEL reported a robust revenue growth of 26.3% YoY to Rs 938.8 crore in Q3FY13 as against Rs 743.6 crore in Q3FY12 with all round performance across major revenue streams i.e. advertising revenues and subscription revenues which grew by 28.8% YoY (Rs 509.4 crore v/s Rs 395.5 crore) and 25.6% YoY (Rs 409.8 crore v/s Rs 326.2 crore) respectively.
- During the quarter, advertising revenues outperformed the industry growth (~11-12%) and grew by 28.8% at Rs 509.4 crore largely driven by an increase in the market share in the GEC space, low base and increased programming hours (2.5 hours QoQ). Moreover, ZEEL has been able to take price hikes on a YoY basis, which has helped to a large extent in outperformance as compared to industry. We believe that the company's ad revenue growth is likely to remain healthy; however significant outperformance over the industry is unlikely in FY14.
- Subscription revenues recorded 25.6% YoY growth to Rs 409.8 crore in Q3FY13 as against Rs 326.2 crore

Recommendation (Rs)

CMP	230
Rating	BUY

Index Details

Sensex	20,103
Nifty	6,075
Industry	Media

Scrip Details

Mkt Cap (Rs Cr)	21,876
Eq Shares O/s (Cr)	95.4
Avg Vol (Lakhs)	4.6
52 Week H/L	247/119
Dividend Yield (%)	0.7
Face Value (Rs)	1.0

Latest shareholding pattern (%)

Promoters	43.4
Indian Institutions	11.4
FII's	37.5
Public	7.7
Total	100.0

Stock performance (%)

	1m	3m	6m
ZEEL	-0.6	20.5	42.6
Nifty	3.7	6.5	18.9

primarily driven by domestic subscription revenues (5.4% QoQ). Domestic revenue grew by 33.2% YoY to Rs 296.1 crore on the back of continued traction from MediaPro and International subscription revenue grew by 9.4% YoY to Rs 113.6 crore largely due to rupee depreciation.

- While operating cost grew by 22.3% YoY to Rs 418.5 crore (v/s Rs 342.2 crore), it has not increased substantially QoQ (+4.5%) largely led by continued investments in content and marketing of existing channels. The EBITDA margins, during the quarter, improved by 30 bps YoY and 500 bps QoQ to 27.8%. ZEEL reported Q3FY13 PAT growth of 40.4% YoY.
- The sports business recorded revenues of Rs 107.8 crore (v/s Rs 90.1 crore; 19.6% YoY) and losses of Rs 8.6 crore (v/s Rs 10 crore in Q3FY13) at EBITDA level. The decline in losses is attributable to the various sports properties telecast during the quarter (New Zealand-Sri Lanka series and New South Africa series). The forthcoming quarter would see the telecast of New Zealand-South Africa series, Pakistan-South Africa series, West Indies-Zimbabwe series and UEFA Champions League – Round of 16.
- During the quarter, the arbitration tribunal has ruled in favour of the company against the BCCI for termination of media rights contract for telecast of cricket matches featuring India in neutral territories outside India. As per the order, BCCI stands to pay Rs 140 crore to the company.

Quarterly Result Update



VENTURA

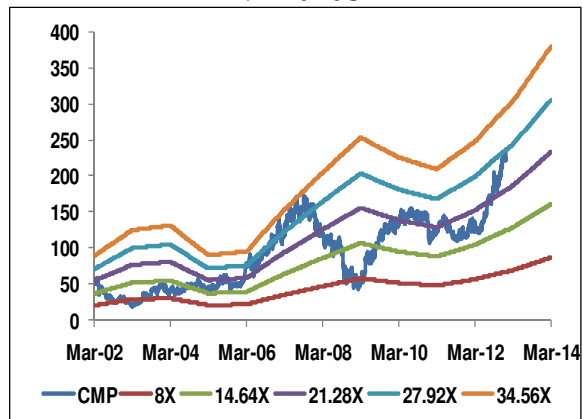
Kyon ki bhaiya, sabse bada rupaiya.

Description	Q3FY13	Q3FY12	% Chg.	Q3FY13	Q2FY13	% Chg.	FY201203	FY201103	% Chg.
Net Sales	938.8	754.8	24.4	938.8	953.5	-1.5	3040.6	3008.8	1.1
Other operational Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Oper. Income(TOI)	938.8	754.8	24.4	938.8	953.5	-1.5	3040.6	3008.8	1.1
Raw Materials Cons.-	-	-	-	-	-	-	-	-	-
<i>% to TOI</i>	-	-	-	-	-	-	-	-	-
Stock adj. (-)Inc / (+)Dec-	-	-	-	-	-	-	-	-	-
<i>% to TOI</i>	-	-	-	-	-	-	-	-	-
Net Raw Mat adj. for stock	-	-	-	-	-	-	-	-	-
<i>% to TOI</i>	-	-	-	-	-	-	-	-	-
Other expenses	588.2	465.8	26.3	588.2	648.6	-9.3	2008.5	1913.2	5.0
<i>% to TOI</i>	<i>62.6</i>	<i>61.7</i>	-	<i>62.6</i>	<i>68.0</i>	-	<i>66.1</i>	<i>63.6</i>	-
Contribution Net_Sales	350.7	289.1	21.3	350.7	304.9	15.0	1032.0	1095.7	-5.8
Personnel	89.5	73.1	22.4	89.5	87.3	2.5	292.5	273.8	6.8
<i>% to TOI</i>	<i>9.5</i>	<i>9.7</i>	-	<i>9.5</i>	<i>9.2</i>	-	<i>9.6</i>	<i>9.1</i>	-
Total expenditure	677.7	538.9	25.8	677.7	735.9	-7.9	2301.0	2187.0	5.2
Operating Profit	261.1	216.0	20.9	261.1	217.6	20.0	739.6	821.9	-10.0
<i>% to TOI</i>	<i>27.8</i>	<i>28.6</i>	-	<i>27.8</i>	<i>22.8</i>	-	<i>24.3</i>	<i>27.3</i>	-
Non-Operating Income	36.0	34.0	5.9	36.0	26.0	38.5	138.4	88.3	56.7
Interest	1.6	18.2	-91.5	1.6	2.3	-30.4	5.0	8.8	-43.9
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.7	-100.0
Gross Profit	295.6	231.7	27.6	295.6	241.4	22.5	873.0	881.7	-1.0
Depreciation	9.0	7.4	21.3	9.0	9.5	-5.3	32.3	28.9	11.8
PBT before Extra-ord	286.6	224.3	27.8	286.6	231.9	23.6	840.7	892.2	-5.8
<i>% to TOI</i>	<i>30.5</i>	<i>29.7</i>	-	<i>30.5</i>	<i>24.3</i>	-	<i>27.6</i>	<i>29.7</i>	-
Extraordinary Items	-	0.0	-	-	-	-	0.0	0.0	0.0
PBT	286.6	224.3	27.8	286.6	231.9	23.6	840.7	892.2	-5.8
Tax Rate	32.5	38.6	-15.8	32.5	19.1	70.2	29.7	29.9	-0.7
Prov. for Tax	93.3	86.7	7.6	93.3	44.4	110.1	250.0	267.1	-6.4
<i>% to TOI</i>	<i>9.9</i>	<i>11.5</i>	-	<i>9.9</i>	<i>4.7</i>	-	<i>8.2</i>	<i>8.9</i>	-
Profit after Tax	193.3	137.6	40.5	193.3	187.5	3.1	590.7	625.1	-5.5
<i>% to TOI</i>	<i>20.6</i>	<i>18.2</i>	-	<i>20.6</i>	<i>19.7</i>	-	<i>19.4</i>	<i>20.8</i>	-
Minority Interest	0.8	1.7	-53.5	0.8	0.2	300.0	-1.7	11.8	-
PAT (adj. For MI)	194.1	139.3	39.3	194.1	187.7	3.4	589.2	637.0	-7.5
Face Value	1.0	1.0	-	1.0	1.0	-	1.0	1.0	-
Equity Share capital	95.4	96.2	-	95.4	95.4	-	95.9	97.8	-
EPS (Rs.)	2.0	1.4	41.6	2.0	2.0	0.0	6.2	6.4	-3.6
CEPS (Rs.)	2.1	1.5	40.6	2.1	2.1	0.0	6.5	6.7	-2.8

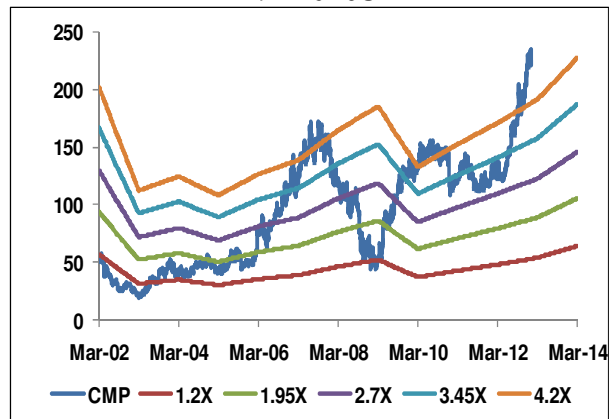
Monday, 28th January, 2013

Quarterly Result Update

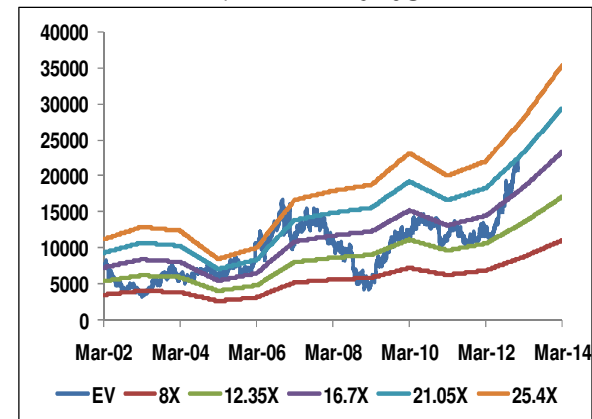
P/E Bands



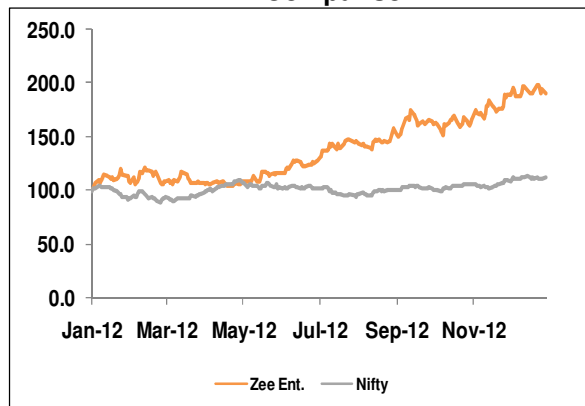
P/B Bands

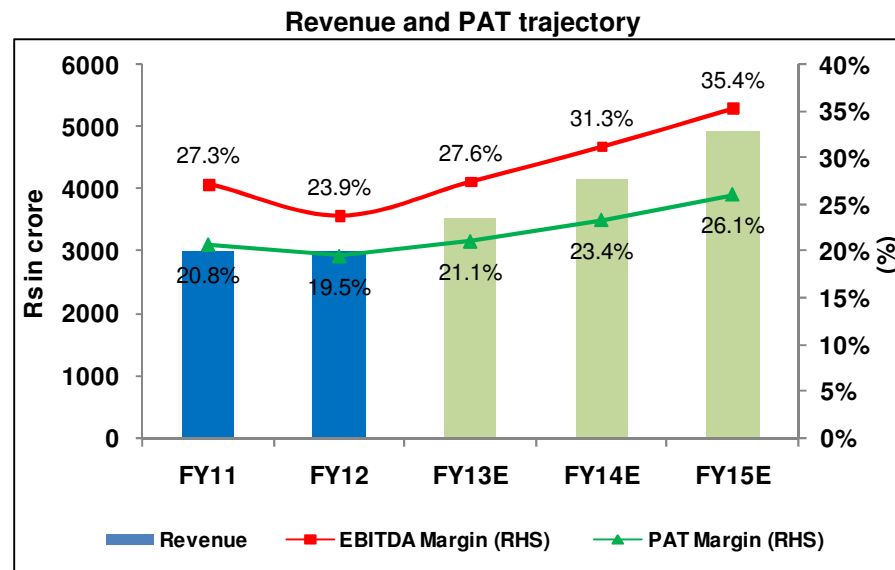


EV/EBITDA Bands



NIFTY Comparison





Financials and Projections

Y/E March, Fig in Rs. Cr	FY 2012	FY 2013e	FY 2014e	FY 2015e
Profit & Loss Statement				
Net Sales	3023.8	3540.0	4160.4	4944.2
% Chg.	0.5	17.1	17.5	18.8
Total Expenditure	2301.0	2564.3	2858.4	3194.4
% Chg.	5.2	11.4	11.5	11.8
EBDITA	722.8	975.7	1301.9	1749.8
EBDITA Margin %	23.9	27.6	31.3	35.4
Other Income	133.7	111.3	111.5	123.0
PBDIT	856.5	1086.9	1413.5	1872.7
Depreciation	32.3	37.0	40.7	44.7
Interest	-16.6	-17.4	-18.3	-18.3
Exceptional items	0.0	0.0	0.0	0.0
PBT	840.8	1067.4	1391.1	1846.3
Tax Provisions	250.0	320.2	417.3	553.9
Minority Interest	1.7	1.7	1.7	1.7
Reported PAT	589.1	745.5	972.1	1290.7
PAT Margin (%)	19.5	21.1	23.4	26.1
Program cost / Sales (%)	37.7	36.7	35.9	34.7
Manpower cost / Sales (%)	9.7	9.3	9.0	8.5
Balance Sheet				
Share Capital	95.9	95.4	95.4	95.4
Reserves & Surplus	3339.5	3826.3	4460.3	5301.5
Minority Interest	-3.2	-1.5	0.2	1.9
Total Loans	24.0	30.0	30.0	30.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liabilities	3456.2	3950.2	4585.9	5428.8
Gross Block	1120.5	1232.6	1355.8	1491.4
Less: Acc. Depreciation	200.6	237.6	278.3	323.0
Net Block	919.9	995.0	1077.6	1168.4
Capital Work in Progress	20.1	26.1	34.0	34.0
Investments	917.2	1011.4	1115.2	1229.7
Net Current Assets	1565.3	1873.9	2315.4	2952.9
Deferred Tax Assets	33.7	43.8	43.8	43.8
Misc Expenses	0.0	0.0	0.0	0.0
Total Assets	3456.2	3950.2	4585.9	5428.8
Per Share Data (Rs)				
EPS	6.2	7.8	10.2	13.5
Cash EPS	6.5	8.2	10.6	14.0
DPS	1.5	2.4	3.1	4.1
Book Value	36.0	41.1	47.7	56.6
Capital, Liquidity, Returns Ratio				
Debt / Equity (x)	0.0	0.0	0.0	0.0
Current Ratio (x)	2.8	2.9	3.0	3.2
ROE (%)	17.1	19.0	21.3	23.9
ROCE (%)	23.8	26.6	29.9	33.7
Dividend Yield (%)	0.7	1.0	1.3	1.8
Valuation Ratio (x)				
P/E	37.3	29.4	22.6	17.0
P/BV	6.4	5.6	4.8	4.1
EV/Sales	7.2	6.1	5.2	4.4
EV/EBIDTA	29.9	22.2	16.6	12.4
Efficiency Ratio (x)				
Inventory (days)	88.6	90.0	90.0	90.0
Debtors (days)	104.9	106.0	106.0	106.0
Creditors (days)	83.1	85.0	85.0	85.0
Cash Flow statement				
Profit After Tax	590.8	747.2	973.8	1292.4
Depreciation	32.3	37.0	40.7	44.7
Working Capital Changes	(118.8)	(246.4)	(289.9)	(366.2)
Others	(396.1)	(226.4)	(324.1)	(449.2)
Operating Cash Flow	409.9	631.6	817.8	1075.6
Capital Expenditure	(81.6)	(112.1)	(123.3)	(135.6)
Change in Investment	-98.3	-94.2	-103.8	-114.5
Cash Flow from Investing	-18.3	-317.5	-338.6	-373.0
Buyback of Equity Share Capital	-231.9	-60.4	0.0	0.0
Increase/(Decrease) in Loans	0.3	6.0	0.0	0.0
Dividend and DDT	-227.3	-224.7	-292.6	-388.2
Cash Flow from Financing	-448.9	-261.6	-274.3	-369.9
Net Change in Cash	-57.3	52.5	204.8	332.6
Opening Cash Balance	385.6	328.3	380.8	585.6
Closing Cash Balance	328.3	380.8	585.6	918.2

Ventura Securities Limited

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

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