

Set To Monetize Leadership

Firing On Both Cylinders; Buy

We remain buyers of ZEEL despite a slightly weak FY07 results as we think Zee is at a threshold to capitalize on its new found market leadership in many prime-time slots and ensuing digitization of distribution. Its FY07 profits were 4.4% below MLe on slippage due to World Cup and QoQ dip in domestic subscription revenues in 4QFY07 (-12.8%QoQ). We are upgrading our FY09E EPS by 4.8% on the back of increased penetration of digital platforms and monetization of the rating at Zee TV. We maintain our PO at Rs328 (ex-Dish TV). Maintain Buy.

FY07 weak on World Cup & CAS; Balance Sheet gets better

ZEEL's FY07 net profit at Rs2.2bn was 4.4% below MLe of Rs2.3bn mainly on a one-time dip in the domestic pay revenues in 4QFY07 at Rs854mn (-12.8%QoQ). The dip was even sharper at 18.7%QoQ after adjusting for DTH revenues. On a like to like basis, ZEEL had FY07 sales of Rs14.4bn +31%YoY and EBITDA at Rs3.2bn (+29%YoY). Debtor days declined 32% to 115 days.

Earnings set for 52% CAGR (FY07-09E); FY09E raised 4.8%

We have raised our FY09E EPS by 4.8% on the back of a) lower losses at Zee Sports, b) monetization of the rating increases on the front-line channel, Zee TV & c) increased penetration of DTH & digital cable. We are 8.4% above consensus.

Re-iterate Buy; Maintain PO of Rs328 (ex-Dish TV)

We remain Buyer of ZEEL as it remains our preferred media play, set to capitalize on the emerging opportunity across content-to-conduit (DTH). We maintain PO of Rs328 ex-Dish TV to factor-in a) higher earnings & b) roll-over of target earnings. Our PO is based on 28x 1-yr forward PE - a 10% discount to its current (FY08E) multiples, to factor-in slower earnings beyond FY09E. At our PO, Zee would trade at PEG of 0.7x vs market PEG of 1.2x, which is below its historical averages.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	2,025	2,195	3,778	5,100	6,336
EPS	4.91	5.06	8.71	11.76	14.61
EPS Change (YoY)	-38.0%	3.1%	72.1%	35.0%	24.2%
Dividend / Share	1.05	1.50	2.00	3.00	5.00
Free Cash Flow / Share	4.63	3.44	6.02	8.04	10.67

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	55.60x	53.90x	31.32x	23.20x	18.68x
Dividend Yield	0.386%	0.550%	0.733%	1.10%	1.83%
EV / EBITDA*	48.11x	37.34x	20.54x	15.40x	12.66x
Free Cash Flow Yield*	1.61%	1.26%	2.20%	2.95%	3.91%

* For full definitions of *iQmethod*SM measures, see page 7.

Equity | India | Broadcasting
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Merrill Lynch

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Stock Data

Price	Rs272.95
Price Objective	Rs328.00
Date Established	24-Jan-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs121.88-Rs311.55
Mrkt Val / Shares Out (mn)	US\$2,834 / 433.6
Average Daily Volume	429,028
ML Symbol / Exchange	XZETF / BSE
Bloomberg / Reuters	Z IN / ZEE.BO
ROE (2008E)	12.5%
Net Dbt to Eqty (Mar-2007A)	8.5%
Est. 5-Yr EPS / DPS Growth	20.0% / 25.0%
Free Float	56.8%



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Refer to important disclosures on page 8 to 9. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

*iQprofile*SM Zee Entertainment Enterprises

Key Income Statement Data (Mar)

(Rs Millions)	2006A	2007A	2008E	2009E	2010E
Sales	11,042	14,412	18,041	21,125	24,062
Gross Profit	2,314	2,961	5,545	7,454	9,102
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	2,314	2,961	5,545	7,454	9,102
Net Interest & Other Income	431	410	337	499	714
Associates	NA	NA	NA	NA	NA
Pretax Income	2,745	3,371	5,882	7,953	9,817
Tax (expense) / Benefit	(603)	(964)	(1,823)	(2,545)	(3,141)
Net Income (Adjusted)	2,025	2,195	3,778	5,100	6,336
Average Fully Diluted Shares Outstanding	435	435	435	435	435

Key Cash Flow Statement Data

Net Income (Reported)	2,025	2,195	3,778	5,100	6,336
Depreciation & Amortization	160	228	250	275	303
Change in Working Capital	169	(514)	(863)	(1,110)	(1,053)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(445)	(418)	(257)	(278)	(463)
Cash Flow from Operations	1,909	1,491	2,909	3,987	5,124
Capital Expenditure	0	0	(300)	(500)	(500)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	3,167	(2,630)	37	86	301
Cash Flow from Investing	3,167	(2,630)	(263)	(414)	(199)
Shares Issue / (Repurchase)	0	21	0	0	0
Cost of Dividends Paid	(498)	(761)	(1,015)	(1,522)	(2,536)
Cash Flow from Financing	(5,422)	2,141	(2,795)	(3,330)	(2,875)
Free Cash Flow	1,909	1,491	2,609	3,487	4,624
Net Debt	3,616	1,370	(260)	(2,313)	(4,702)
Change in Net Debt	(103)	(2,034)	(1,351)	(1,744)	(2,050)

Key Balance Sheet Data

Property, Plant & Equipment	2,218	2,490	2,540	2,765	2,962
Other Non-Current Assets	3,172	5,932	6,432	6,932	7,432
Trade Receivables	4,855	4,817	5,931	6,945	7,911
Cash & Equivalents	1,286	2,500	2,630	3,183	5,572
Other Current Assets	8,719	9,705	9,933	10,554	11,220
Total Assets	20,250	25,444	27,466	30,378	35,096
Long-Term Debt	4,901	3,870	2,370	870	870
Other Non-Current Liabilities	458	670	950	1,258	1,597
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	4,346	4,780	5,258	5,784	6,363
Total Liabilities	9,705	9,320	8,578	7,912	8,829
Total Equity	10,544	16,124	18,888	22,466	26,267
Total Equity & Liabilities	20,250	25,444	27,466	30,378	35,096

*iQmethod*SM - Bus Performance*

Return On Capital Employed	3.2%	3.5%	4.9%	5.8%	6.3%
Return On Equity	27.3%	15.2%	12.5%	18.3%	20.9%
Operating Margin	21.0%	20.5%	30.7%	35.3%	37.8%
EBITDA Margin	22.4%	22.1%	32.1%	36.6%	39.1%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	0.9x	0.7x	0.8x	0.8x	0.8x
Asset Replacement Ratio	0x	0x	1.2x	1.8x	1.7x
Tax Rate (Reported)	22.0%	28.6%	31.0%	32.0%	32.0%
Net Debt-to-Equity Ratio	34.3%	8.5%	-1.4%	-10.3%	-17.9%
Interest Cover	17.7x	13.5x	27.7x	85.7x	104.6x

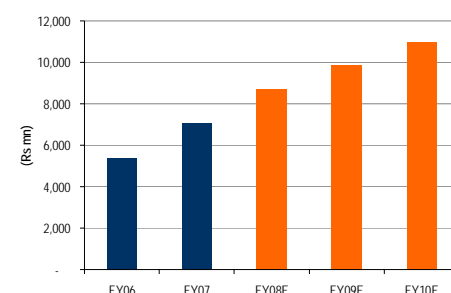
Key Metrics

* For full definitions of *iQmethod*SM measures, see page 7.

Company Description

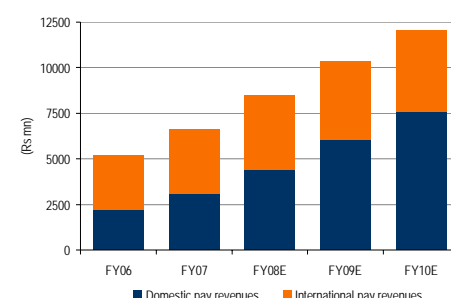
ZEEL's activities include content aggregation, TV broadcasting and domestic & international pay-TV platform. The company is a diversified play on the broadcasting business in India through its bouquet of about 12 channels, which hedges it against change in viewing habits.

Chart 1: ZEEL - Advertising Revenues (Rs mn)



Source: Company, Merrill Lynch Research

Chart 2: ZEEL - Subscription Revenues (Rs mn)



Source: Company, Merrill Lynch Research

Note: The historical balance sheet data pertains to the erstwhile Zee Telefilms Ltd. However, the Profit & Loss numbers for the same period pertain to ZEEL.

Stock Data

Price to Book Value 6.3x

Table 1: ZEEL - 4QFY07 Results Review

(Rs mn)	4QFY07	4QFY06	% YoY
Ad Revenue	1,849	1711	8.1%
Subscription Rev & Other Pay Income	1,849	1570	17.7%
Others	146	195	-25.0%
Total Income	3,844	3476	10.6%
Transmission & Content	1,632	1640	-0.5%
<i>% of sales</i>	<i>42.4%</i>	<i>47.2%</i>	
Staff	292	226	29.2%
<i>% of sales</i>	<i>7.6%</i>	<i>6.5%</i>	
Others	969	1161	-16.5%
<i>% of sales</i>	<i>25.2%</i>	<i>33.4%</i>	
Total	2893	3027	-4.4%
EBITDA	951	449	112.1%
Margin	24.8%	12.9%	
Interest	8	-68	N.A.
Depreciation	56	34	64.1%
Other Income	177	195	-9.4%
PBT	1,064	678	57.0%
Tax	365	150	142.7%
PAT (ex minorities)	699	527	32.6%
+/- Minority Interest	(95)	8	N.A.
PAT	604	535	12.8%

Source: Company

Table 2: ZEEL - Estimates change Summary

(Rs mn)	Old	New	% change
Sales			
FY08E	18,893	18,041	-4.5%
FY09E	21,776	21,125	-3.0%
FY10E	N.A.	24,062	N.A.
EBITDA			
FY08E	5,618	5,795	3.2%
FY09E	7,367	7,729	4.9%
FY10E	N.A.	9,405	N.A.
PAT			
FY08E	3,778	3,778	0.0%
FY09E	4,864	5,100	4.9%
FY10E	N.A.	6,336	N.A.
EPS			
FY08E	8.7	8.7	0.0%
FY09E	11.2	11.8	4.8%
FY10E	N.A.	14.6	N.A.

Source: Merrill Lynch Research

Table 3: ZEEL - Profit & Loss Statement

(Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Advertising (Net)	5351	7064	8707	9857	10983
Ad growth y-o-y	-6.1%	32.0%	23.3%	13.2%	11.4%
Subscription	5201	6606	8480	10328	12046
Others	490	742	854	939	1033
Net Sales	11,042	14,412	18,041	21,125	24,062
Programming Exp.	2487	3186	3345	3680	4048
Transmission & SMS Exp.	1550	2306	2537	2587	2691
Education center exp.	39				
Other Direct costs/Purchases	1050	1861	1917	2147	2361
Staff cost	772	1008	1159	1333	1532
Admin costs	1150	1208	1232	1331	1437
Prov. For Doubtful debts	350	432	541	613	722
Deferred Revenue expenditure	50	50	50	50	0
Selling & Distribution	920	950	1189	1344	1518
Commission on sales	200	224	275	312	348
Total Expenses	8568	11224	12245	13395	14657
EBITDA	2,474	3,188	5,795	7,729	9,405
EBITDA margin (%)	22.4%	22.1%	32.1%	36.6%	39.1%
Interest / Financial Exp.	(131)	(220)	(200)	(87)	(87)
Depreciation	(160)	(228)	(250)	(275)	(303)
Other Income	562	630	537	586	801
PBT	2745	3371	5882	7953	9817
Taxation	(603)	(964)	(1823)	(2545)	(3141)
Overall tax rate %	22%	29%	31%	32%	32%
(-) Minority Interest	(117)	(212)	(280)	(308)	(339)
PAT	2,025	2,195	3,778	5,100	6,336
PAT margin (%)	18%	15%	21%	24%	26%

Source: Company, Merrill Lynch Research

Table 4: ZEEL - Balance Sheet Statement *

(Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Equity	413	434	434	434	434
Reserves	20862	26421	29185	32763	36563
Share swap reserves	-10730	-10730	-10730	-10730	-10730
Networth	10544	16124	18888	22466	26267
Debt	4901	3870	2370	870	870
Deferred Tax Balances	-148	-148	-148	-148	-148
Others	458	670	950	1258	1597
Total Liabilities	15756	20516	22060	24446	28585
GFA	2549	3213	3613	4112	4612
Depreciation	795	1022	1273	1548	1851
N FA	1754	2190	2340	2564	2761
CWIP	464	300	200	201	201
Goodwill (Stock)	0	1760	1760	1760	1760
Investments	3024	4024	4524	5024	5524
Current Assets	14860	17022	18494	20682	24702
- Cash	1286	2500	2630	3183	5572
- Sundry Debtors	4855	4817	5931	6945	7911
- Inventories	2526	2274	2501	2751	3026
- Loans & Advances/Others	6193	7431	7431	7803	8193
Less : Current Liabilities	3108	3419	3761	4137	4550
Provisions	1238	1361	1498	1647	1812
Net Current Assets	10514	12242	13236	14898	18340
Total Assets	15756	20516	22060	24446	28585

* Note: The historical balance sheet data pertains to the erstwhile Zee Telefilms Ltd.

Source: Company, Merrill Lynch Research

Table 5: ZEEL - Cash Flow Statement *

(Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
PBT + Misc Exp w/off	2745	3371	5882	7953	9817
Add: Depreciation W/off	160	228	250	275	303
Less: Taxes Paid	(603)	(964)	(1823)	(2545)	(3141)
Less Other Income	(562)	(630)	(537)	(586)	(801)
Net Change in Working Cap	169	(514)	(863)	(1110)	(1053)
Net Cash from Operations	1909	1491	2909	3987	5124
Other Income	562	630	537	586	801
Capex	1885	(2260)	(300)	(500)	(500)
Investments	720	(1000)	(500)	(500)	(500)
Net Cash from Investing	3167	(2630)	(263)	(414)	(199)
Debt	(449)	(1031)	(1500)	(1500)	0
Dividend Paid	(498)	(761)	(1015)	(1522)	(2536)
Minority Share	61	212	280	308	339
Equity	0	21	0	0	0
Others	(4475)	3913	(280)	(308)	(339)
Net Cash from Financing	(5361)	2353	(2515)	(3022)	(2536)
Cash at Beginning	1571	1286	2500	2630	3183
Net change in Cash	(285)	1214	131	552	2389
Cash at the End	1286	2500	2630	3183	5572

* Note: The historical balance sheet data pertains to the erstwhile Zee Telefilms Ltd. However, the Profit & Loss numbers for the same period pertain to ZEEL

Source: Company, Merrill Lynch Research

Table 6: ZEEL - Key Ratios & Valuation *

	FY06	FY07	FY08E	FY09E	FY10E
EPS (Rs)	4.91	5.06	8.71	11.76	14.61
% growth y-o-y	-38.0%	3.1%	72.1%	35.0%	24.2%
Fully Diluted EPS (Rs)	5.03	5.05	8.69	11.73	14.57
EBITDA (Rs mn)	2474	3188	5795	7729	9405
% growth y-o-y	-43%	29%	82%	33%	22%
P/E (x)	55.6	53.9	31.3	23.2	18.7
CEPS (Rs)	5.30	5.59	9.29	12.40	15.31
P/CEPS (x)	51.5	48.8	29.4	22.0	17.8
EV/E (x)	49.3	37.5	20.4	15.0	12.1
DPS (Rs)	1.1	1.5	2.0	3.0	5.0
Yield (%)	0.4%	0.5%	0.7%	1.1%	1.8%
BV (Rs)	51.57	61.94	68.31	76.57	85.33
P/BV (x)	5.3	4.4	4.0	3.6	3.2
ROCE (%)	14%	16%	26%	33%	35%
ROE (%)	16.9%	16.5%	21.6%	24.7%	26.0%

* Note: The historical balance sheet data pertains to the erstwhile Zee Telefilms Ltd. However, the Profit & Loss numbers for the same period pertain to ZEEL

Source: Company, Merrill Lynch Research

Price Objective Basis & Risk

Our PO of Rs328 (ex-Dish TV) factors-in a) higher earnings & b) roll-over of target earnings. Our PO is based on 10% discount to its current (FY08E) multiples i.e. 28x, to factor-in potential slower earnings beyond FY09E. At our PO, Zee would trade at PEG of 0.7x vs market PEG of 1.2x, which is below its historical averages and Asian peers.

Risks: Competition from Star & New channels from NDTV, lack of penetration of CAS system, continued cap of cable tariffs by TRAI and slowdown in penetration of Zee Turner/Dish TV.

Analyst Certification

I, Bharat Parekh, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

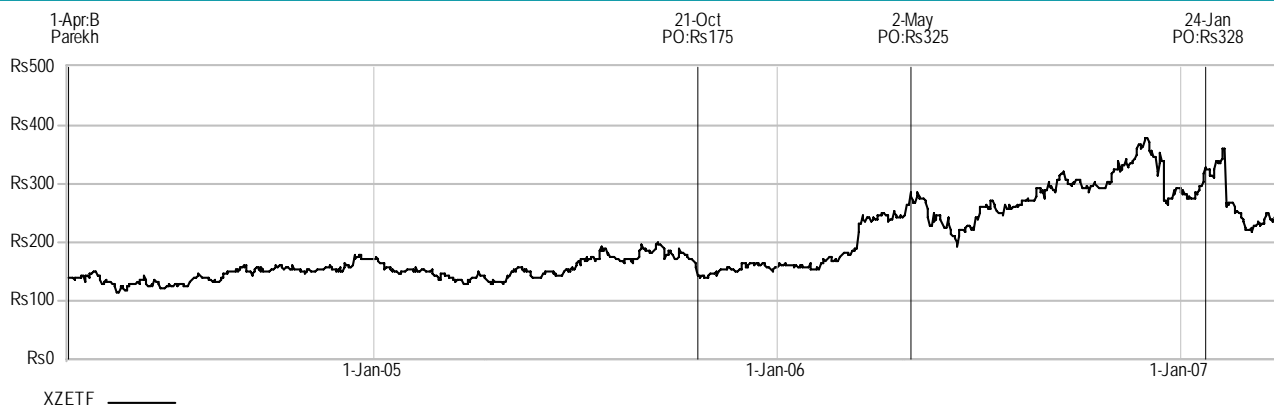
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Important Disclosures

XZETF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of March 31, 2007 or such later date as indicated.

Investment Rating Distribution: Media & Entertainment Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	37.04%	Buy	16	29.63%
Neutral	94	58.02%	Neutral	20	23.53%
Sell	8	4.94%	Sell	2	25.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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