

Key data
Sector Media

Market Cap Rs147bn/US\$3.7bn

52 Wk H/L (Rs) 362.8/186.27

Avg. daily vol. (6 month) 2,228,421

BSE Code 505537

NSE Code ZEE

Bloomberg Z IN

Reuters ZEE.BO

Sensex 18,513

Nifty 5,496

Shareholding pattern (%)

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	32.6	32.9
MFs and institutions	15.6	16.5
Promoters	43.3	41.5
Others	8.5	9.1

Absolute returns (%)

	1mth	3mth	12mth
Zee Entertainment	9.9	2.2	80.4
Sensex	9.9	17.2	46.7

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Zee Entertainment

Buy

Current Price: Rs341

Target price: Rs415

Results were better than our estimates due to higher other income and lower interest costs.

Figure 1: Actual Vs Religare Estimates

	Q2FY08A	Q2FY08E	Difference (%)	Consensus
Net sales	3,986	4,195	-4.98	4,232
EBITDA	1,322	1,345	-1.71	1,264
EBITDA margins (%)	33.2	32.1	110.41	29.9
PAT	930	849	9.54	868
PAT margins (%)	23.3	20.2	309.3	20.5

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

- **Net sales** have risen by 20% YoY to Rs3,986mn. This was due to:
 - ↳ Sharp growth in ad revenues by 28% YoY to Rs2,195mn due to improvement in the ratings of Zee TV and increase in ad rates. Ad rates were increased in April, 2007 and in Aug, 2007.
 - ↳ Modest growth in subscription revenues by 10% YoY to Rs1,625mn. International revenues were impacted by rupee appreciation.
- **EBITDA** has risen by 507% YoY to Rs1,322mn. EBITDA margins have increased to 33.2%, an increase of 2,700 bps over Q2FY07 because of lower costs.
- **Interest** cost was at Rs85mn which was lower than our estimates of Rs125mn. **Depreciation** cost was at Rs55mn which was lower than our estimates of Rs69mn.
- **Adjusted PAT** has risen by 264% YoY to Rs930mn. Adj PAT margins have improved to 23.3%, an increase of 1,600 bps over Q2FY07.

Valuations and Recommendation

ZEEL currently trades at 35.8x 1-year forward earnings and EV/EBITDA multiple of 26.7x FY08E and 20.5x FY09E. We have valued ZEEL at 34x 2-year forward earnings which give a target price of Rs415. ZEEL's revenues and profits will rise sharply at a CAGR of 24% and 40% respectively over FY07-10. Hence, we believe that ZEEL offers reasonable upside. We maintain a Buy rating on ZEEL.

Figure 2: Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QA	FY07	FY08E
Net Sales	2894.4	3,496	4,177	3,844	3,916	3,986	14,412	17,960
<i>Change</i>			53	11	35	20	31	25
EBITDA	662	218	1,357	951	1,197	1,322	3,188	5,456
<i>EBITDA margin (%)</i>	22.9	6.2	32.5	24.7	30.6	33.2	22.1	30.4
<i>Change (%)</i>	185	186	187	112	81	507	29	71
Depreciation	51.5	52	69	56	67	55	228	275
Other Income	146.8	151	155	177	213	225	629	850
Interest exp/(inc)	109	34	68	8	118	85	219	418
PBT	648	283	1,375	1,063	1,225	1,407	3,370	5,613
<i>PBT margin (%)</i>	22	8	33	28	31	35	23	31
<i>PBT growth (%)</i>					89	397		67
Extraordinary exp/(Inc)	0	0	0	0	0	0	0	0
Tax	109	74	417	365	412	434	964	1,684
<i>Effective tax rate (%)</i>	17	26	30	34	34	34	29	30
PAT reported	459.1	255.6	876.0	603.8	770.8	930.1	2,194.5	3,679.0
Adjusted PAT *	459	256	876	604	771	930	2,195	3,678
<i>Adj PAT margin (%)</i>	15.9	7.3	21.0	15.7	19.7	23.3	15.2	20.5
<i>Change (%)</i>			178	32	68	264	12	68
Equity Capital (Rs mn)	434	434	434	434	434	434	434	434
Adj EPS	1.06	0.59	2.02	1.39	1.78	2.15	5.06	8.50

* Excluding extraordinary

Other business highlights

- On a like to like basis, ad revenues grew by 60% (if we exclude the revenues from cricket rights in Q2FY07). Ad revenues grew by 7% QoQ.

Figure 3: Revenue growth QoQ

Rs mn	Q2FY08	Q1FY08	% increase YoY
Ad revenues	2,195	2,044	7
Subscription numbers	1,625	1,681	-3
Other sales and services	166	191	-13
Total	3,986	3,916	2

- Subscription revenues were disappointing and declined by 3% QoQ. International cable revenues growth rate slowed down due to rupee appreciation. DTH revenues declined to Rs125 mn in revenues in Q2FY08 from Rs180mn in revenues in Q1FY08. Domestic cable revenues grew by 19.8% YoY. However, the number of international subscribers grew to 4.9 mn in Q2FY08 up from 4.6 mn in Q1FY08.

Figure 4: slowdown in growth of international subscription revenues

Overall Model		
Subscription Revenues (Rs mn)	Q1FY08	Q2FY08
Domestic	754	775
Growth % YoY	21.6	19.8
International	927	850
Growth % YoY	23.6	9.3

Improvement in the ratings of Zee TV. Zee TV had an average channel share of 30% in Q2FY08 up from 25% in Q1FY08. The channel's rating has grown across all time bands and has averaged 310 gross rating points (GRPs) in the recent weeks up from average 234 GRPs in Q1FY08. It is the number one player in the time band from 5 pm-10 pm in the weekdays due to its popular shows like Betiyaan, Saath Pher, Kasamh Se, Teen Bahuraniyan & Dulhan. During weekends, its musical show Sa Re Ga Ma Pa is the number one programme. It now has 20 programmes in the Top 50 which is growing by 3-5 programmes every quarter. Zee Café and Zee Cinema too have done well and are the number one in their genre.

Change in revenue mix: Revenue mix of Zee has changed with the share of ad revenues increasing by 600 bps and the subscription revenues decreasing its share by 100 bps.

Figure 5: Revenue mix change

	Q2FY08	Q2FY07
Ad revenues	55	49
Subscription numbers	41	42
Other sales and services	4	9
Total	100	100

Source: Religare Institutional Equity Research

Tight control on costs: Costs decreased by 2% QoQ to Rs2,665mn. ZEEL was successful in keeping its other expenses and employee costs lower as compared to Q1FY08.

Figure 6: Cost break up – decrease seen on QoQ basis

Rs mn	Q2FY08	Q1FY08	% increase QoQ
Cost of goods and operations	1,660	1,585	5
Employee cost	337	375	-10
Other expenses	668	759	-12
Total	2,665	2,719	-2

Costs decreased by 19% YoY to Rs2,665mn.

Figure 7: Cost break up – decrease seen on YoY basis

Rs mn	Q2FY08	Q2FY07	% increase YoY
Cost of goods and operations	1,660	2,403	-31
Employee cost	337	239	41
Other expenses	668	636	5
Total	2,665	3,278	-19

Source: Religare Institutional Equity Research

Cost of goods and operations as a % of total sales has come down to 42% in Q1FY08 from 69% in Q1FY07. However, employee costs increased sharply by 41% YoY to Rs337mn due inclusion of Ten Sports numbers.

Figure 8: Cost as % of total sales

% of total sales	Q2FY08	Q2FY07
Cost of goods and operations	42	69
Employee cost	8	7
Other expenses	17	18
Total	67	94

Source: Religare Institutional Equity Research

Figure 9: Earnings revised upwards for FY08 due to lower costs, higher other income and lower minority interest

(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Net Sales	15158	17,960	22,246	15158	17,960	22,246	0.0	0.0	0.0
EBITDA	3203	4,820	6,979	3203	5,456	6,979	0.0	13.2	0.0
EBITDA margin (%)	21.1	16.6	19.0	21.1	16.6	19.0	0.0	0.0	0.0
PBT	3431	4,877	7,126	3431	5,613	7,126	0.0	15.1	0.0
Adj PAT	2375	3,124	4,668	2375	3,679	4,668	0.0	17.8	0.0
Adj PAT margin (%)	15.7	8.0	8.6	15.7	8.0	8.6	0.0	0.0	0.0
Adj EPS (Rs)	5.8	7.6	11.0	5.8	8.9	11.0	0.0	17.8	0.0

Source: Religare Institutional Equity Research, Bloomberg

Figure 10: Valuation summary

Media: TV Segment	Price (Rs)	Rating	Mkt Cap (Rs bn)	Sales		EBITDA		Net Profit		EPS (Rs)		FY08E		FY09E	
				Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	EPS	P/E	EPS	P/E
Zee Entertainment	340	Buy	147	3986	20	1322	507	930	264	2.15	264	8.5	40.1	11.0	31.6
TV18	497	Accumulate	56	774	46	154	-34	49	-69	1	-69	12.4	40.2	21.2	23.4

Source: Religare Institutional Equity Research

Future outlook

The key drivers are:

Ad revenue growth in the existing TV channels due to further improvement in audience ratings: The flagship channel Zee TV has consistently improved its ratings and we expect this to continue. TV ad revenues are expected to increase by 15-17% every year for the next three years. The flagship channel ZEE TV has taken 2 hikes in FY08. Zee's successful programmes including Sa Re Ga Ma Pa, Saat Phere, Kasamh Se, Maayka, Antakshari, Betiyaan and Dulhann continued to deliver strong numbers for the channel.

Launch of new channels: Zee will launch a new channel called 'Zee Next' in Q4FY08. The new channel will be positioned as a metro-centric and youth channel similar to Star One/ SAB TV. The logic of the new channel is that it will be essentially targeted as a channel that is more focused at marking its presence on addressable systems like CAS and DTH and will also be a flanking strategy against new launches. Zee Group owns both cable (WWIL) and DTH (Dish TV) platforms.

However, Zee Entertainment faces few risks as given below:

Higher Competitive Intensity

Entry of new players into ZEEL's markets could lead to price wars, losses, etc. and depressed return ratios. New channels will be from INX, TV18 Group (JV with Viacom), NDTV, UTV, Raj, etc. to launch GEC in the next two years.

- ☞ These channels are expected to be free-to-air (FTA) while most of Zee's channels are currently pay channels.
- ☞ No issue on Funding: Funding has been tied up for INX from Temasek Holdings (via Dunearn Investments), New Silk Route, New Vernon, Kotak and SREI Group; NDTV Networks Plc. has already raised money and will have an investment outlay of US\$106 mn; TV18 has a tie up with Viacom and has raised money.
- ☞ Distribution: Peter Mukerjea (INX), Sameer Nair (NDTV) and TV18 are expected to tide over any bottlenecks in this, due to strong relationships and understanding of the business.

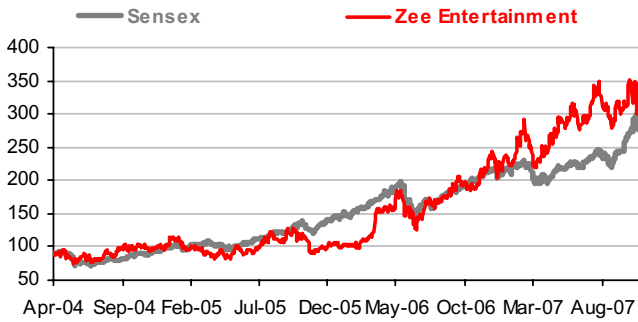
Subscription revenue deal may take time to materialize

The ramp up in subscription depends on the mandatory CAS/ DTH implementation to an extent. ZEEL also faces the risk of currency appreciation which can hit its international subscription revenues.

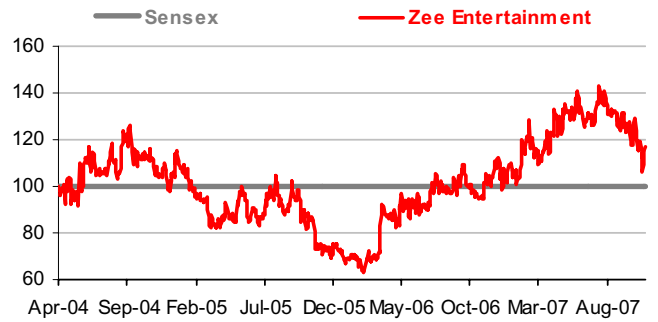
Stock performance

ZEE Entertainment

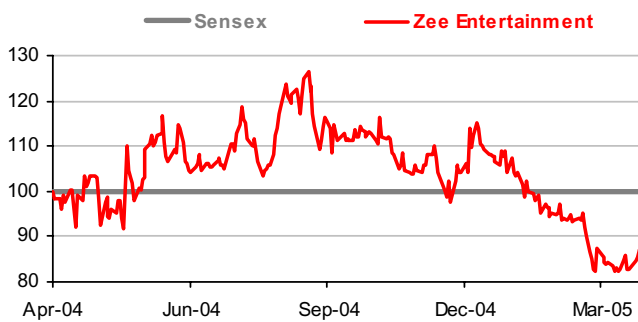
Absolute Perf. From Apr 04



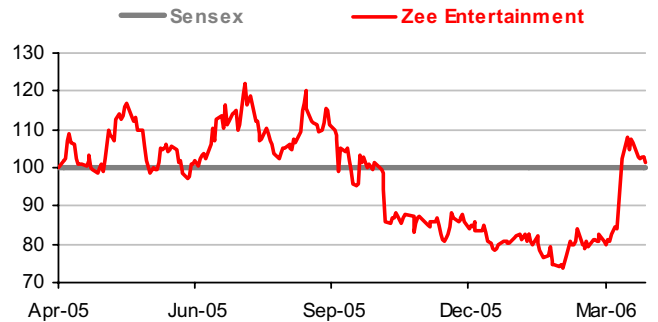
Relative Perf. From Apr 04



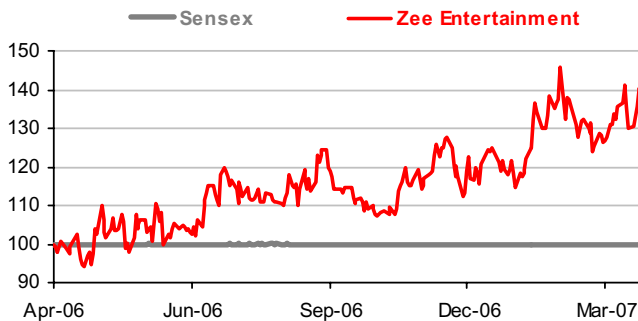
Relative Perf. From Apr 04 to Mar 05



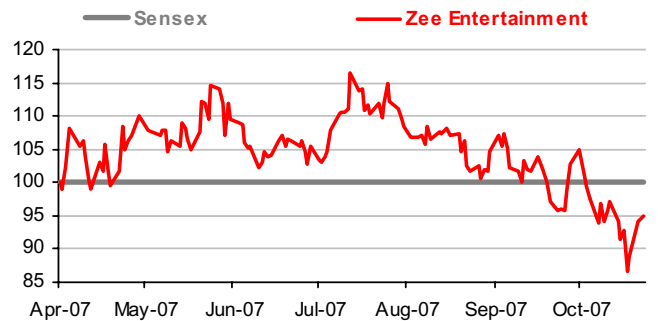
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

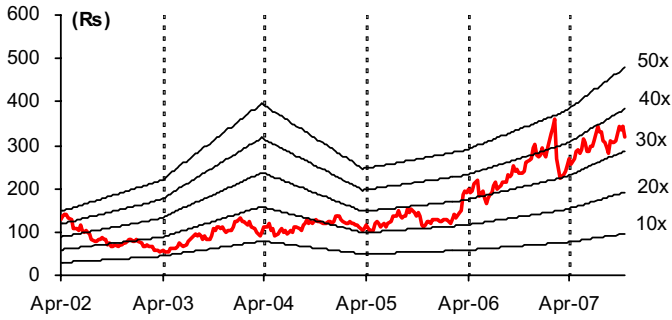


Source: Bloomberg, Religare Institutional Equity Research

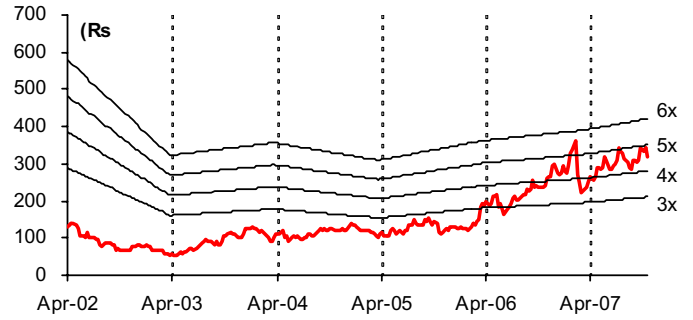
12 month forward rolling band charts

ZEE Entertainment

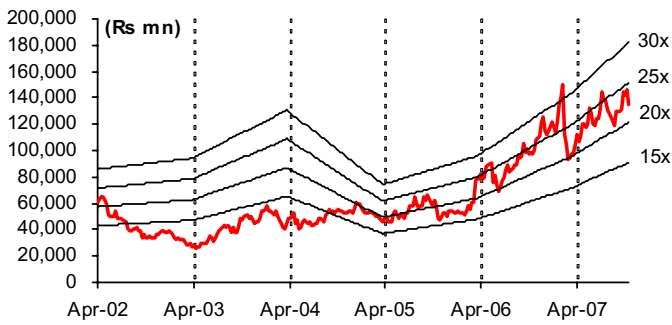
P/E Band



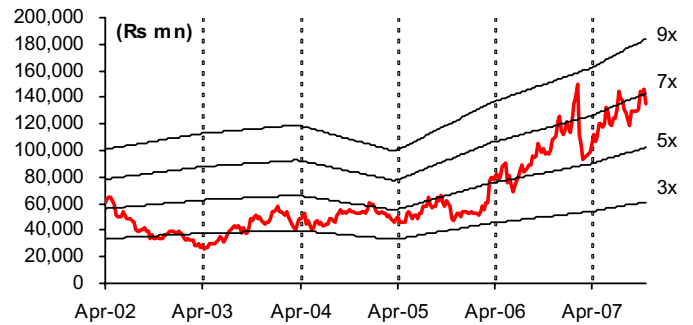
P/BV Band



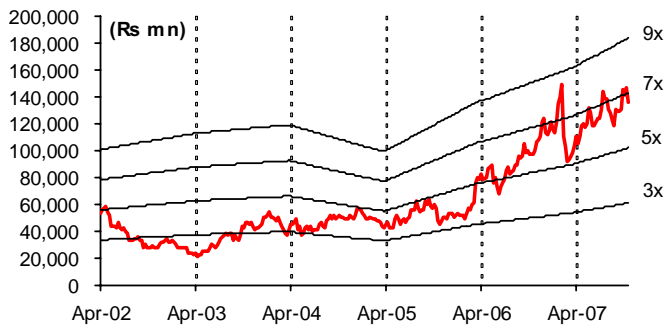
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

	(Rs mn)				
Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net Sales	11,042	15,158	17,960	22,246	27,187
EBITDA	2,474	3,203	5,456	6,979	9,627
EBITDA margin (%)	22.4	21.1	30.4	31.4	35.4
Depreciation	160	185	275	295	303
EBIT	2,314	3,018	5,181	6,684	9,324
Other income	562	747	850	800	850
Interest exp/ (inc)	131	334	418	358	300
PBT	2,745	3,431	5,613	7,126	9,874
PBT margin (%)	24.9	22.6	31.3	32.0	36.3
Extra ord (inc)/exp	0	0	0	0	0
Taxes	603	998	1,684	2,138	2,962
Minority interest	117	58	250	320	340
PAT (Reported)	2,025	2,375	3,679	4,668	6,572
Less: Extra ordinary income / Others	0	0	0	0	0
Adj PAT	2,025	2,375	3,679	4,668	6,572
Adj PAT margin (%)	18.3	15.7	20.5	21.0	24.2

Quarterly – Financials

	(Rs mn)				
(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net Sales	2,301	2,874	2,335	3,844	3,916
Change (%)	40	52	1	11	35
EBITDA	242	79	1,113	951	1,197
Change (%)	(39)	(71)	162	112	81
Margin (%)	11	3	48	25	31
PAT	156	110	794	699	771
PAT adj	156	110	794	699	771
Change (%)	(49)	(51)	166	178	68
Margin (%)	7	4	34	18	20
EPS adj (Rs)	0	0	2	2	2
EPS dil (Rs)	0	0	2	2	2

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	(16.7)	37.3	18.5	23.9	22.2
EBITDA (%)	(43.2)	29.5	70.3	27.9	38.0
PAT adjusted (%)	(35.2)	17.3	54.9	26.9	40.8
EPS adjusted (%)	(35.2)	11.6	54.9	26.9	40.8
EPS diluted (%)	(38.0)	17.3	54.9	23.7	37.4
EPS Consl and diluted (%)	(38.0)	17.3	54.9	23.7	37.4

Valuations

	FY06	FY07	FY08E	FY09E	FY10E
P/E (x)	69.3	60.6	40.1	31.6	22.4
Price/BV (x)	6.6	5.6	5.1	4.5	3.9
EV/EBITDA (x)	55.9	45.4	26.7	20.5	14.5
EV/Sales (x)	12.5	9.6	8.1	6.4	5.1

Profitability

	FY06	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	22.4	21.1	30.4	31.4	35.4
Adj PAT margin (%)	18.3	15.7	20.5	21.0	24.2
RoE (%)	9.5	9.1	12.7	14.3	17.2
RoCE (%)	8.2	10.9	17.1	20.2	24.9
RoIC (%)*	6.6	8.0	13.0	15.5	20.7

B/S ratios

	FY06	FY07	FY08E	FY09E	FY10E
Inventory days	4.2	0.6	0.5	0.5	0.4
Creditor days	102.7	94.1	83.1	76.6	71.3
Debtors days	160.5	128.4	125.0	122.0	120.0
Working Capital days	266.7	269.9	250.8	222.5	200.8
Net debt/equity	0.2	0.1	0.1	0.1	0.1

ROIC is calculated on post tax basis.

Balance sheet

	(Rs mn)				
Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	413	434	434	434	434
Total Res. & Surplus	20,873	25,747	28,433	32,109	37,688
Total Shareholders' funds	21,286	26,180	28,867	32,542	38,122
Convertible debt	4,366	233	0	0	0
Others	535	2,993	2,700	2,200	2,000
Total loans	4,901	3,226	2,700	2,200	2,000
Deferred tax liability (net)/ Minority Interest	458	819	1,139	1,479	1,479
Total liabilities	26,645	30,225	32,706	36,221	41,601
Assets					
Net fixed assets & others	12,484	14,622	14,866	15,290	15,706
Capital WIP & others	464	219	2,224	2,224	2,224
Total non-current assets	12,948	14,841	17,090	17,514	17,930
Total investments - non current	2,184	2,184	2,184	2,184	2,184
Current assets					
Inventories	129	24	26	28	30
Sundry debtors	4,855	5,331	6,151	7,436	8,938
Cash & cash equivalents	4,683	3,190	2,373	4,353	8,019
Cash	1772	2,884	2,068	4,047	7,713
Liquid investments	305	305	305	305	305
Other current assets	6,192	9,762	10,250	10,763	11,301
Total current assets	15,858	18,307	18,800	22,579	28,288
Total current liabilities	3,108	3,908	4,088	4,666	5,311
Total provisions	1,238	1,198	1,280	1,390	1,490
Net current assets	11,513	13,201	13,432	16,523	21,487
Misc. expenditure	12	2	2	2	2
Total assets	26,645	30,225	32,706	36,221	41,601

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from op.					
PBT	2,745	3,431	5,613	7,126	9,874
Tax Paid	(603)	(998)	(1,684)	(2,138)	(2,962)
Dep&other amor. exp.	788	185	275	295	303
Working capital changes	(3,199)	(3,142)	(1,130)	(1,221)	(1,397)
Others	0	0	0	0	0
Net cash from operations	(269)	(524)	3,074	4,062	5,818
Cash from investments					
Capital expenditure	(362)	(2,733)	(519)	(719)	(719)
Sale/pur. of inv & others	885	0	0	0	0
Net cash from investments	523	(2,733)	(519)	(719)	(719)
Cash from financing					
Issue of shares & share premium	0	4,162	0	0	0
Dividends paid	(478)	(498)	(993)	(993)	(993)
Debt change	(449)	(1,675)	(526)	(500)	(200)
Minority Interest & Others	172	2,380	(1,853)	130	(240)
Net cash from financing	(756)	4,369	(3,372)	(1,363)	(1,433)
Net change in cash	(502)	1,112	(817)	1,980	3,666

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	4.9	5.5	8.5	10.8	15.2
EPS diluted - wtd	4.9	5.6	8.5	10.8	15.2
EPS Consl and diluted	4.9	5.6	8.5	10.8	15.2
CEPS	5.3	5.9	9.1	11.4	15.9
Book value	51.6	60.4	66.6	75.1	87.9
Dividend	1.1	1.5	2.0	2.0	2.0
O/s shs.-actual (mn)	412.5	433.6	433.6	433.6	433.6
O/s shs.-diluted (mn)	412.5	433.6	433.6	433.6	433.6
O/s shs wtd / diluted (mn)	412.5	423.1	433.6	433.6	433.6

Religare Institutional Equity Team

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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