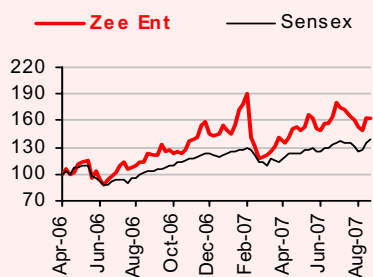


Key data

Sector	Media
Market Cap	Rs129bn / US\$3.2bn
52 Wk H/L (Rs)	361/182
Avg. daily vol. (6 month)	2,037,720
BSE Code	505537
NSE Code	ZEE
Bloomberg	Z IN
Reuters	ZEE.BO
Sensex	15,543
Nifty	4,497


Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, Adr/GDR	32.5	32.6
MFs and institutions	15.4	15.6
Promoters	43.3	43.3
Others	8.9	8.5

Absolute returns (%)

	1 mth	3 mth	12 mth
Zee Entertainment	0.3	10.2	65.5
Sensex	4.9	10.7	35.0

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Zee Entertainment

Buy
Current Price: Rs299
Target price: Rs415

Closes the gap further with STAR!!

Zee TV has improved its ratings yet again and has closed the gap further with Star Plus. The key points are given below:

In the female audiences, Zee TV is in fact now ahead of Star Plus. This has happened for the first time. This is based on the all-day weekly channel shares. This is important as female audience is the decision maker in terms of viewing in the largely single TV homes in India.

In overall ratings, Zee TV is now only 10% behind Star Plus vs 23% in the 1st week of June, 2007 and 15% in the 4th week of July, 2007.

Zee TV's strengthening competitive position will drive a strong growth in ad revenues. ZEEL will see a CAGR of 26% in ad revenues over FY07-10, much faster than the industry. Zee TV's ratings have been on a continuous upswing in the last 18 months. It has closed the % gap with 'Star Plus' to 10% from 67% just 5 months back and a whopping 491% 20 months back. Due to the slipping viewership of both its main competitors Star Plus and Sony, Zee TV has an opportunity to further consolidate its viewership share. ZEEL has a strong bouquet of channels which can help it focus on selling packages.

Valuations still offer upside. ZEEL currently trades at 35x 1-year forward earnings and EV/EBITDA multiple of 25x FY08E and 16.9x FY09E. We remain positive on ZEEL's growth prospects because of the strong and buoyant ad market, Zee TV's sturdy and improving program ratings, the upside from subscription revenues due to increasing addressability, and a strong presence across genres which allows it to sell packages. We expect a CAGR of 24% and 44% in revenues and profits respectively over FY07-10. With its business on an upswing, the possibility of positive surprises and news flow is high. The stock has corrected by around 17% since its good show in Q1. We reiterate our **Buy** rating with a target price of Rs415.

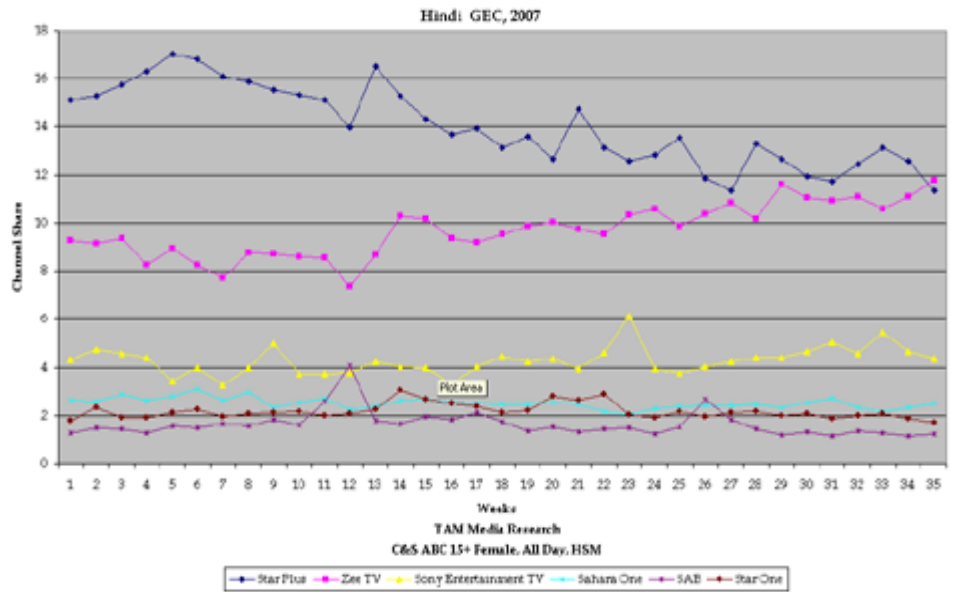
Figure 1: Financials

Year to 31 March	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E
Net Revenues (Rs mn)	11,184	12,529	13,252	11,042	14,412	17,960	22,246
EBITDA (Rs mn)	2,861	3,136	4,352	2,474	3,187	4,820	6,979
PAT adj (Rs mn.)	1,210	1,796	3,125	2,025	2,194	3,124	4,668
EPS adj (Rs.)	2.9	4.4	7.6	4.9	5.1	7.2	10.8
EPS diluted (Rs.)	2.9	4.4	7.6	4.9	5.1	7.2	10.8
EPS growth (%)		48.4	74.0	(35.2)	3.1	42.4	49.4
P/E (x)	101.9	68.7	39.5	60.9	59.1	41.5	27.8
Div. yield (%)	0.2	0.3	0.3	0.4	0.5	0.7	0.7
RoE (%)	3.0	8.1	12.7	9.9	8.4	11.1	14.6
Price/BV (x)	5.3	10.0	13.2	8.3	10.7	14.9	20.6
EV/EBITDA (x)	45.4	40.7	28.1	49.5	38.4	25.0	16.9
EV/Sales (x)	11.6	10.2	9.2	11.1	8.5	6.7	5.3

Source: Company, Religare Institutional Equity Research

In the female audiences, Zee TV is now ahead of Star Plus. This has happened for the first time.

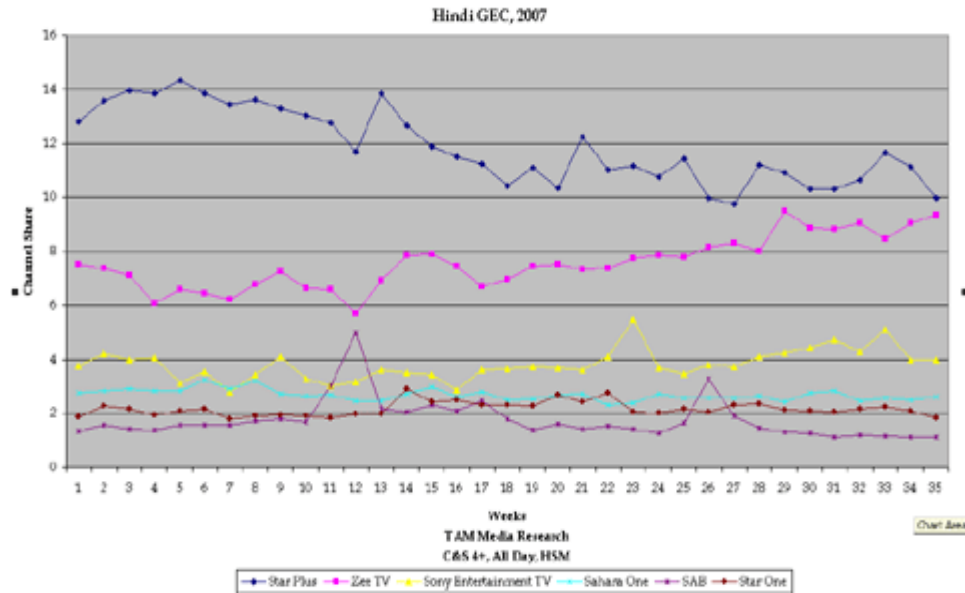
Figure 2: Hindi GEC, 2007



Source: TAM, C & S ABC 15+ Female, All day

In the overall ratings, Zee TV is now only 10% behind Star Plus vs 23% in 1st week of June, 2007 and 15% in the 4th week of July, 2007.

Figure 3: Hindi GEC, 2007



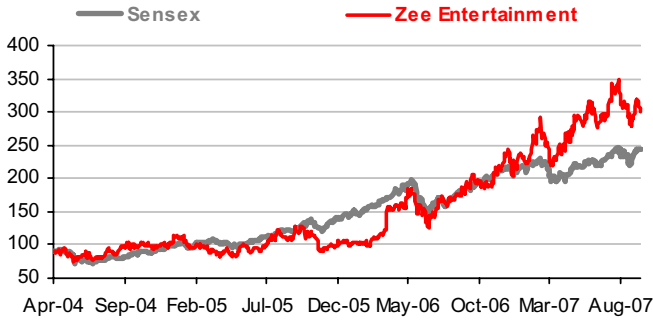
Source: TAM, C & S 4+, All day

The channel’s music format show ‘Saregamapa Challenge’ has given it an 8 plus TRP and even a new show like ‘Rakhi – Ek atoot rishta’ has given the channel 2 plus TRPs. Normally, subsequent editions of reality shows have not done as well as the first show on the other channels, but ‘Saregamapa Challenge’ has defied this and this has worked for Zee TV.

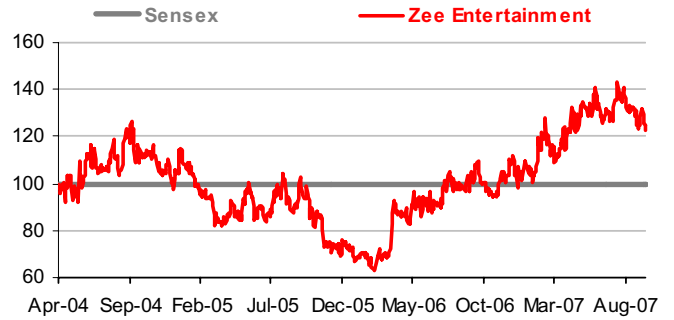
Stock performance

Zee Entertainment

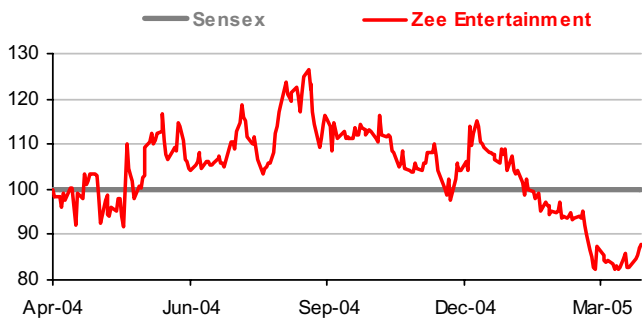
Absolute Perf. From Apr 04



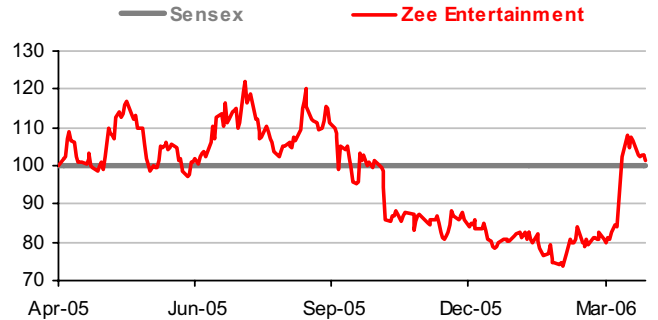
Relative Perf. From Apr 04



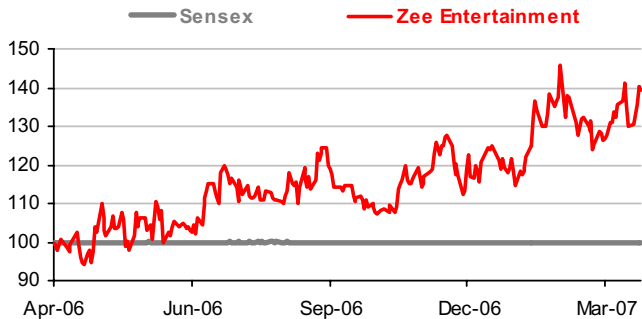
Relative Perf. From Apr 04 to Mar 05



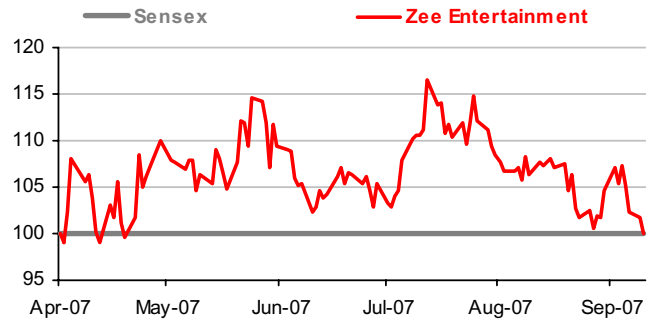
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

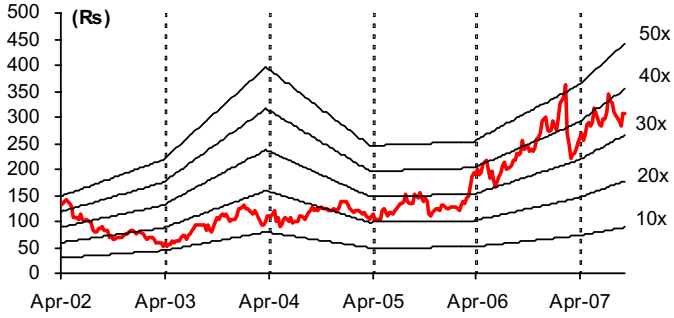


Source: Bloomberg, Religare Institutional Equity Research

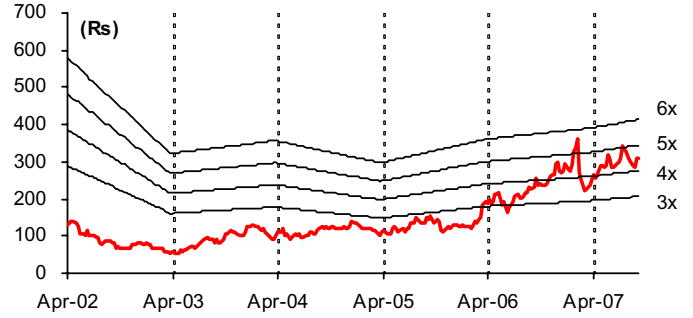
12 month forward rolling band charts

Zee Entertainment

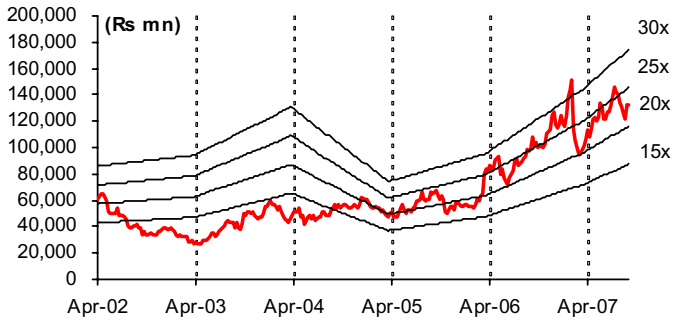
P/E Band



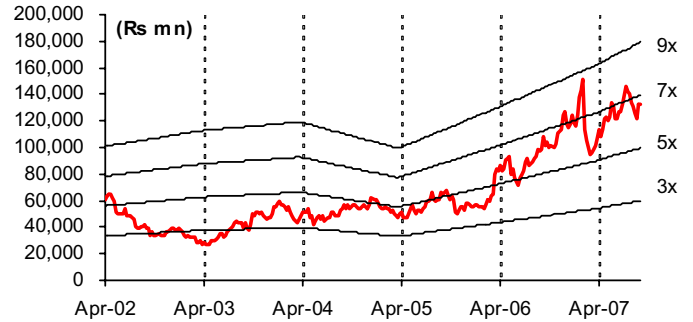
P/BV Band



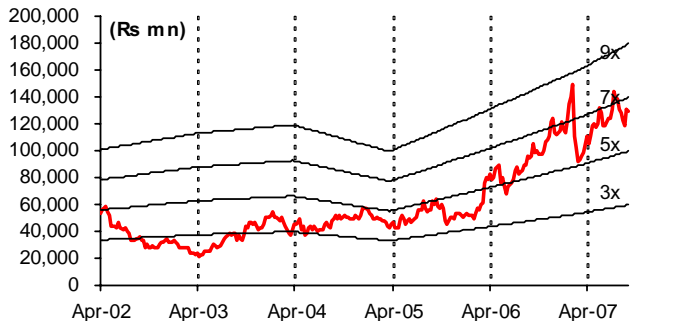
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Zee Entertainment - Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Net Sales	13,252	11,042	14,412	17,960	22,246
EBITDA	4,352	2,474	3,187	4,820	6,979
EBITDA margin (%)	32.8	22.4	22.1	26.8	31.4
Depreciation	329	160	228	275	295
EBIT	4,024	2,314	2,959	4,545	6,684
Other income	521	562	630	750	800
Interest exp/ (inc)	207	131	220	418	358
PBT	4,338	2,745	3,369	4,877	7,126
PBT margin (%)	32.7	24.9	23.4	27.2	32.0
Taxes	1,024	603	964	1,463	2,138
Extra ord exp/ Minority interest	190	117	211	290	320
PAT	3,125	2,025	2,194	3,124	4,668
PAT margin (%)	23.6	18.3	15.2	17.4	21.0
Adj PAT	3,125	2,025	2,194	3,124	4,668
Adj PAT margin (%)	23.6	18.3	15.2	17.4	21.0

Quarterly – Financials

(Rs mn)

(Rs mn)	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Net Sales	2,497	2,301	2,874	2,335	3,844
Change (%)	37.9	40.4	52.0	0.9	11.0
EBITDA	(305)	242	79	1,113	951
Change (%)	(148.2)	(38.6)	(70.8)	161.7	112.0
Margin (%)	(12.2)	10.5	2.8	47.7	24.7
PAT	(133)	156	110	794	699
PAT adj	(133)	156	110	794	699
Change (%)	(131.7)	(49.2)	(51.0)	166.3	178.0
EPS adj (Rs)	(0.3)	0.4	0.3	1.8	1.6
EPS dil (Rs)	(0.3)	0.4	0.3	1.8	1.6

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Growth					
Net sales (%)	5.8	(16.7)	30.5	24.6	23.9
EBITDA (%)	38.8	(43.2)	28.8	51.2	44.8
PAT adj (%)	81.8	(35.2)	8.3	42.4	49.4
EPS adj (%)	81.8	(38.0)	8.3	42.4	49.4

Valuations

P/E (x)	38.6	62.3	60.4	41.5	27.8
Price/BV (x)	5.1	6.2	5.1	4.7	4.2
EV/EBITDA (x)	28.2	50.0	37.9	25.0	16.9
EV/Sales (x)	9.3	11.2	8.4	6.7	5.3

Profitability

EBITDA margin (%)	32.8	22.4	22.1	26.8	31.4
Adj PAT margin (%)	23.6	18.3	15.2	17.4	21.0
RoE (%)	12.7	9.9	8.4	11.1	14.6
RoCE (%)	13.2	8.3	10.7	14.9	20.6
RoIC (%)	10.0	6.9	9.9	15.1	21.4

B/S ratios

Inventory days	2.5	4.2	3.4	2.9	2.6
Creditor days	90.0	106.1	84.8	78.2	72.2
Debtors days	147.2	160.5	121.6	120.0	120.0
Working Capital days	134.1	147.9	95.9	85.4	83.2
Net debt/equity	0.2	0.2	0.1	0.1	0.1

Balance sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Liabilities					
Equity share capital	412	413	434	434	434
Total Res. & Surplus	24,124	20,034	25,645	27,776	31,452
Total Shareholders' funds	24,536	20,447	26,079	28,210	31,885
Convertible debt	4,388	4,406	0	0	0
Others	962	30	3,870	2,700	2,200
Total loans	5,350	4,436	3,870	2,700	2,200
Deferred tax lia. & Minority Interest (net)	219	436	726	1,046	1,386
Total liabilities	30,106	25,319	30,675	31,956	35,471
Assets	FY05	FY06	FY07	FY08	FY09
Net fixed assets	14,225	12,484	14,470	14,959	15,628
Capital WIP	1,148	464	464	464	464
Total non-cur. assets	15,373	12,948	14,934	15,423	16,092
Goodwill	0	0	1,760	1,760	1,760
Inv - non cur.	2,647	2,184	2,184	2,184	2,184
Current assets					
Inventories	91	129	134	144	156
Sundry debtors	5,344	4,855	4,800	5,905	7,314
Cash & cash equivalents	8,653	6,950	9,361	9,867	11,977
Cash	2274	1772	9,055	9,561	11,671
Liquid investments	593	305	305	305	305
Other current assets	2,700	2,700	2,200	2,000	2,000
Total current assets	16,788	14,634	16,494	17,916	21,446
Total current liabilities	3,267	3,209	3,347	3,847	4,401
Total provisions	1,436	1,238	1,350	1,480	1,610
Net current assets	12,085	10,187	11,797	12,589	15,436
Total assets	30,106	25,319	30,675	31,956	35,471

Cash flow

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Cash from op.					
PBT	4,338	2,745	3,369	4,877	7,126
Tax Paid	(1,024)	(603)	(964)	(1,463)	(2,138)
Dep&other amor. exp.	797	788	228	275	295
Cash flow from op.	4,111	2,930	2,633	3,689	5,283
Net change in WC	715	394	688	(416)	(867)
Net cash from op.	4,826	3,324	3,320	3,273	4,416
Cash from inv.					
Capital expenditure	(968)	(362)	(1,760)	(764)	(964)
Sale/pur. of inv & others	(1,046)	885	0	0	0
Net cash from inv.	(2,014)	523	(1,760)	(764)	(964)
Cash from fin.	3,858	2,962	1,560	2,509	3,452
Capital raised	0	0	4,162	0	0
Dividends paid	(471)	(478)	(744)	(993)	(993)
Debt change	601	(914)	(566)	(1,170)	(500)
Minority Interest & Others	(50)	(2,956)	2,871	160	150
Net cash from fin.	80	(4,349)	5,723	(2,003)	(1,343)
Net change in cash	2,893	(502)	7,283	506	2,110

Per share data

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
EPS Basic	7.6	4.9	5.1	7.2	10.8
EPS Adj	7.9	4.9	5.1	7.2	10.8
EPS diluted	7.9	4.9	5.1	7.2	10.8
CEPS	8.7	5.3	5.6	7.8	11.4
Book value	59.5	49.6	60.1	65.1	73.5
Dividend	1.0	1.1	1.5	2.0	2.0
O/s shs.-actual (mn)	412.4	412.5	433.6	433.6	433.6
O/s shs.-diluted (mn)	412.4	412.5	412.4	412.5	433.6

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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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