



Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,513	Z IN
	REUTERS CODE
S&P CNX: 5,496	ZEE.BO

24 October 2007

Neutral

Previous Recommendation: Neutral

Rs341

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	434	3/07A	15,159	2,374	5.5	11.7	62.5	5.7	14.3	12.8	9.9	47.0
52-Week Range	381/210	3/08E	17,120	3,738	8.6	57.5	39.7	5.1	17.7	19.4	8.7	27.0
1,6,12 Rel. Perf. (%)	0/-15/-29	3/09E	20,975	5,207	12.0	39.3	28.5	4.4	18.2	22.9	7.0	19.6
M.Cap. (Rs b)	147.9											
M.Cap. (US\$ b)	3.7											

- Zee Entertainment's 2QFY08 results were better than expectations. Revenues grew 14% YoY to Rs4b v/s our estimate of Rs4.2b. EBITDA increased to Rs1.3b v/s our estimate of Rs1.2b, as margins expanded to 33.1% against our estimate of 29.9%. Reported PAT was Rs925m v/s our estimate of Rs817m.
- Advertising revenue remains the key growth driver – GRP rating of its flagship channel has improved from 234 in 1QFY08 to 310 in 2QFY08. Zee TV has not only bridged the gap with the genre leader, Star TV but has surpassed it in prime time. We expect higher TRP ratings to improve inventory utilization in coming quarters.
- Advertising revenue grew 27.8% YoY and 7.4% QoQ to Rs2.2b. Subscription revenue increased by just 10% YoY and posted a 3.4% decline QoQ on account of: [a] lower international revenue at Rs850m as against Rs927m in 1QFY08, due to rupee appreciation; [b] domestic subscription revenue growth of 2.7% QoQ to Rs775m, with DTH accounting for Rs125m.
- We remain positive on advertising revenue growth in the medium-term due to rising TRPs. However, subscription revenue growth continues to disappoint due to lack of addressability and slow roll out of CAS.
- We have revised our estimates for FY08 and FY09 to factor in strong advertising revenue and lower than expected subscription revenue. We are upgrading our EPS estimates from Rs8.1 to Rs8.6 for FY08 and from Rs11.7 to Rs12 for FY09. The stock quotes at 39.7x FY08E and 28.5x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY07				FY08				FY07	FY08E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Advertising Revenue	1,392	1,717	2,105	1,849	2,044	2,195	2,524	2,592	7,064	9,356	
Subscription Revenue	1,327	1,474	1,956	1,849	1,681	1,625	1,750	1,950	6,648	7,006	
Other Sales and Services	175	305	116	146	191	167	200	200	742	758	
Net Sales	2,894	3,496	4,177	3,844	3,916	3,986	4,474	4,742	14,454	17,120	
Change (%)			53.0	10.6	35.3	14.0	7.1	23.4	30.9	18.4	
Prog, Transmission & Direct exp	1,598	2,403	1,721	1,632	1,585	1,660	1,853	1,950	7,353	7,048	
Staff Cost	244	239	232	292	375	338	350	349	1,008	1,411	
Selling and other exp	391	636	867	969	759	668	800	898	2,864	3,125	
EBITDA	662	217	1,357	951	1,197	1,321	1,471	1,545	3,229	5,535	
Change (%)			186.3	111.9	80.9	508.1	8.4	62.4	30.5	71.4	
As of % Sales	22.9	6.2	32.5	24.8	30.6	33.1	32.9	32.6	22.3	32.3	
Depreciation	52	51	69	56	67	55	66	66	228	254	
Interest	109	34	68	8	118	85	50	21	220	274	
Other Income	147	152	155	177	213	225	200	200	630	838	
PBT	648	284	1,375	1,064	1,225	1,405	1,555	1,658	3,411	5,845	
Tax	109	74	417	365	412	435	519	564	964	1,929	
Effective Tax Rate (%)	16.8	26.0	30.3	34.3	33.6	30.9	33.4	34.0	28.3	33.0	
Reported PAT	539	210	958	699	813	971	1,036	1,095	2,447	3,916	
Minority Interest	13	-12	83	95	42	46	45	45	212	178	
Adj PAT	526	222	875	604	771	925	991	1,050	2,235	3,738	
Change (%)			166.9	12.8	46.6	316.5	13.2	73.8	10.4	67.3	

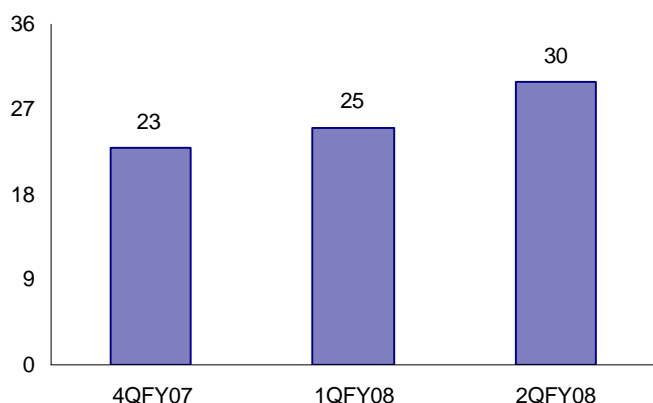
E: MOST Estimates

TRP ratings improving; advertising revenue continues to gain traction

Zee posted 27.8% YoY and 7.4% QoQ growth in advertising revenue in 2QFY08 to Rs2.2b as against our estimate of Rs2.1b. After adjusting for revenue from telecast of cricket (as part of the BCCI contract), advertising revenue grew 60% YoY. Higher than expected sales growth was due to better inventory utilization coupled with strong TRP ratings of its key shows like *Sa Re Ga Ma Pa*, *Kasamh Se*, and *Banoo Main Teri Dulhaan*.

Zee TV has not only bridged the gap with the genre leader, Star TV but has surpassed it in prime time. The channel's GRP rating has improved from 234 in 1QFY08 to 310 in 2QFY08, resulting in an increase in market share from 25% in 1QFY08 to 30% in 2QFY08.

ZEE TV: INCREASING CHANNEL SHARE (%)



Source: Company/Motilal Oswal Securities

Zee's other channels have improved or maintained their position. *Zee Cinema* continues to hold its leadership position and *Zee Café* is now a leader amongst English general entertainment channels. *Zee Café* will telecast 11 new programs, which are currently running in USA.

The company's continuous focus on content is now paying off, with *Sa Re Ga Ma Pa* being rated as the No.1 show on television. We believe that the Zee will have to not only maintain but increase on focus on contents quality in view

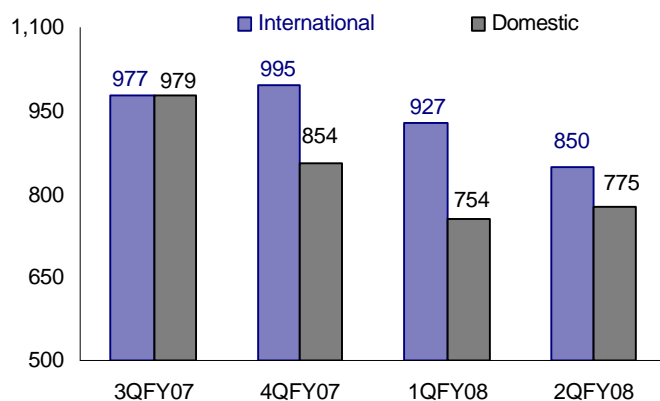
of expected increase in competition from new entrants. Consistent increase in channel share would result in higher growth in advertising revenue. We have revised our advertising revenue estimate for FY08 by 3.7% to Rs9.3b. Consistent strong TRP ratings of *Zee TV* could bring the channel in the No.1 spot, resulting in higher than expected advertising revenue for Zee.

Subscription revenue continues to disappoint

Slow pace of digitization has adversely impacted Zee's subscription revenue, which declined 3.4% QoQ (up just 10% YoY) in 2QFY08. Domestic revenue, which grew 2.7% QoQ, contributed Rs775m to subscription revenue. Rupee appreciation adversely impacted international subscription revenue, which declined from Rs927m in 1QFY08 to Rs850m in 2QFY08.

DTH subscription revenue at Rs125m remained flat on a sequential basis despite rising DTH subscribers. Slow roll out of CAS and lack of addressability continues to impact domestic subscription revenue. Recent guidelines from the TRAI freezing the price per channel and allowing a la carte in DTH does not bode well for broadcasters like Zee. Consequently, we have downgraded our subscription revenue estimate by 12.3% to Rs7b for FY08.

SUBSCRIPTION REVENUE CONTINUES TO DECLINE



Source: Company/Motilal Oswal Securities

Turnaround in Sports business to improve margins

Zee's Sports business reported an operating profit of Rs3.5m in 2QFY08 as against a loss of Rs3m in 1QFY08. The division witnessed strong revenue growth of 22.3% QoQ at Rs422m on account various sports events telecasted. Zee Sports telecast the hugely successful Nehru Cup Football Tournament, which was won by India.

Further, in 3QFY08, the channel will showcase the launch of "Indian Cricket League" (ICL) and re-launch of "National Football League". ICL is scheduled to take place from 30 November to 16 December 2007. *Zee Sports* and *Ten Sports* will together telecast the tournament and will have a revenue sharing agreement with ICL. A revenue share agreement instead of a minimum guarantee would help improve the operating profit of this division.

Revising EPS estimates to factor in strong advertising revenue growth

We have revised our revenue estimates for FY08 and FY09 to factor in strong advertising revenue and lower than expected subscription revenue. We expect the company to post revenue of Rs17b in FY08 and Rs21b in FY09. We have factored an EBITDA margin improvement of 230bp to 32.3% in FY08 and 90bp to 35.9% to 35.9%. We are upgrading our EPS estimates from Rs8.1 to Rs8.6 for FY08 and from Rs11.7 to Rs12 for FY09.

Valuation and view

We are positive on the company's growth initiatives in content development, and consequently higher TRPs and advertisement revenue. Lower growth in subscription revenue due to poor pace of digitization and lack of addressability remains a key concern. The stock quotes at 39.7x FY08E and 28.5x FY09E earnings. We maintain **Neutral**.

Zee Entertainment Enterprises: an investment profile

Company description

ZEEL is the leading player in television broadcasting and syndication of content overseas with well established brands such as Zee TV, Zee Cinema, Zee Music, Zee Sports and Zee Studio. It has well-established reach both in India and overseas.

Key investment argument

- ✎ The Indian cable and satellite audience is likely to grow at a good pace, with increase in penetration of television (TV) and in the share of cable and satellite TV.
- ✎ Zee has a strong bouquet of channels covering almost all genres except sports.
- ✎ The DTH market in India, though nascent, offers good long-term potential, given its advantages over cable and thus will offer indirect benefits to all broadcasters.

Key investment risks

- ✎ With no regulation, the sector saw bottom-up growth, but it is now increasingly coming under regulatory watch. This could stymie growth over the short-to-medium term.
- ✎ Recent acquisition of cricket rights at neutral venues could result in losses, at least in the short term.
- ✎ Competition is heating up in international markets with the entry of Star.

Recent developments

- ✎ ZEEL's has announced the ZeeNext, the second general entertainment channel which will be target youth. The channel will cover various genres of programming encompassing Thriller, Comedy and Action among others.

Valuation and view

- ✎ Current market price is factoring in all the potential growth triggers without taking into account the execution risk.
- ✎ We expect revenues and earnings to report 17.6% and 48% CAGR over FY07-09E.
- ✎ The stock is trading at 39.7x FY08E EPS and 28.5x FY09E EPS. We maintain **Neutral**.

Sector view

- ✎ We are positive on the longer-term potential of the Indian broadcasting sector, given increasing incomes and room for TV penetration growth.
- ✎ Advertising is also expected to pick up with economic growth and emergence of a new advertiser base.
- ✎ However, the sector is increasingly getting fragmented, which could pressurize profitability.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	8.6	8.2	4.4
FY09	12.0	10.9	10.5

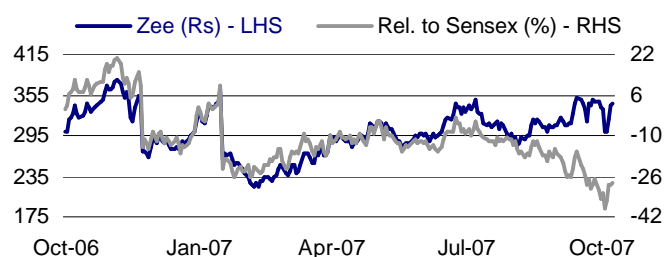
SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	41.5	43.3	44.8
Domestic Inst	16.5	15.6	14.7
Foreign	32.9	32.6	33.4
Others	9.1	8.5	7.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
341	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2006	2007	2008E	2009E	
Advertisement Revenues	5,351	7,035	9,356	11,695	
Subscription Revenues	5,221	6,648	7,006	8,446	
Other Sales & Services	2,232	1,476	758	834	
Net Sales	12,804	15,159	17,120	20,975	
Change (%)		18.4	2.9	22.5	
Total Income	12,804	15,159	17,120	20,975	
Total Expenses	10,306	11,955	11,585	13,441	
EBITDA	2,498	3,203	5,535	7,533	
Change (%)		28.2	72.8	36.1	
% of Net Sales	19.5	21.1	32.3	35.9	
Depreciation	160	185	254	236	
EBIT	2,338	3,018	5,282	7,297	
Other Income	639	747	838	950	
Interest & Finance Charges	131	334	274	209	
PBT	2,846	3,431	5,845	8,038	
Tax	603	999	1,929	2,653	
Deferred Tax	0	0	0	0	
Effective Rate (%)	212	29.1	33.0	33.0	
PAT	2,243	2,432	3,916	5,385	
Minority Interest	-117	-58	-178	-178	
Extraordinary Expenses	19	0	0	0	
Adj. PAT	2,107	2,374	3,738	5,207	
Change (%)	0.0	12.7	57.5	39.3	

E: M O S t Estimates

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2006E	2007	2008E	2009E	
Share Capital	413	434	434	434	
Reserves	18,971	25,747	28,995	33,712	
Net Worth	19,384	26,181	29,429	34,145	
Minority Interest	458	819	997	1,175	
Loans	4,456	3,226	2,259	1,925	
Deferred tax liability	-148	-75	-75	-75	
Capital Employed	24,150	30,150	32,610	37,170	
Net Fixed Assets	10,910	14,622	14,468	14,332	
Capital WIP	596	219	500	500	
Investments	2,152	2,326	2,500	3,000	
Curr. Assets, Loans & Adv.	12,919	18,088	21,041	26,521	
Program Films	1,894	2,016	2,345	2,873	
Inventory	210	24	141	172	
Sundry Debtors	4,280	5,331	6,332	7,758	
Cash & Bank Balances	1,273	955	1,200	2,500	
Loans & Advances	5,262	9,762	11,023	13,217	
Current Liab. & Prov.	2,438	5,106	5,911	7,194	
Sundry Creditors	1,412	3,238	2,857	3,314	
Other Liabilities	424	671	635	737	
Provisions	603	1,198	2,420	3,143	
Net Current Assets	10,481	12,981	15,130	19,327	
Misc. Exps.	12	2	12	12	
Appl. of Funds	24,150	30,150	32,610	37,170	

E: M O S t Estimates

RATIOS		(Rs Million)			
Y/E MARCH	2006	2007	2008E	2009E	
Basic (Rs)					
EPS	4.9	5.5	8.6	12.0	
Cash EPS	5.3	5.9	9.2	12.5	
Book Value per Share	45.9	59.4	66.9	77.8	
DPS	1.0	1.0	1.0	1.0	
Payout (Incl. Div. Tax) %	22.0	20.2	12.5	9.1	
Valuation					
P/E	69.8	62.5	39.7	28.5	
Cash P/E	64.9	58.0	37.2	27.3	
EV/EBITDA	60.7	47.0	27.0	19.6	
EV/Sales	11.8	9.9	8.7	7.0	
Price/Book Value	7.4	5.7	5.1	4.4	
Dividend Yield (%)	0.3	0.3	0.3	0.3	
Profitability Ratios (%)					
RoE	12.2	14.3	17.7	18.2	
RoCE	12.6	12.8	19.4	22.9	
Turnover Ratios					
Debtors (No. of Days)	122	128	135	135	
Inventory (No. of Days)	54	49	50	50	
Creditors (No. of Days)	50	99	90	90	
Asset Turnover (x)	0.6	0.6	0.6	0.7	
Leverage Ratio					
Debt/Equity (x)	0.2	0.1	0.1	0.1	

CASH FLOW STATEMENT		(Rs Million)		
Y/E MARCH	2007	2008E	2009E	
OP/(Loss) before Tax	3,018	5,282	7,297	
Interest/Div. Received	747	838	950	
Interest paid	-334	-274	-209	
Depreciation & Amort.	185	254	236	
Direct Taxes Paid	-999	-1,929	-2,653	
(Inc)/Dec in Wkg. Capital	-2,819	-1,903	-2,897	
CF from Oper. Activity	-201	2,267	2,725	
Extraordinary Items	0	0	0	
Other Items	-448	-645	-652	
CF after EO Items	-448	-645	-652	
(Inc)/Dec in FA + CWIP	-3,150	127	373	
(Pur)/Sale of Invest.	-174	-174	-500	
CF from Invest. Activity	-3,324	-48	-127	
Issue of Shares	5,357	168	178	
Inc/(Dec) in Debt	-1,230	-967	-334	
Interest Paid	-334	-274	-209	
Dividends Paid	-491	-491	-491	
Others	354	234	211	
CF from Finan. Activity	3,656	-1,329	-645	
Inc/(Dec) in Cash	-318	245	1,300	
Add: Beginning Balance	1,273	955	1,200	
Closing Balance	955	1,200	2,500	



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Disclosure of Interest Statement

Zee Entertainment Enterprises

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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