

MARCH 21, 2011

UPDATE

BSE-30: 17,879

Cricket World Cup rules—Part 1. The ICC Cricket World Cup (CWC) 2011 ruled the minds of Indian viewership with strong ratings of 8.6 TRPs for India matches and a credible 1.2 TRPs for non-India matches. The ratings of other genres, notably Indian language GE channels, declined by 4-16% in March as a result. More important, CWC 2011 ratings are ahead of leading Hindi, Kannada, Marathi and Bengali GE channels and runner-up Tamil, Telugu and Malayalam channels, justifying the estimated 10-15% impact on advertising revenues during this period. We retain moderately positive stance on Indian broadcasters given fair valuations; strong advertising spends on cricket give comfort on continued robust advertising environment.

ICC CWC 2011 rules thus far: the journey ahead depends on Indian team's performance

Exhibit 1 presents ratings performance of ICC CWC 2011 for the initial league matches; we highlight the strong performance of the India matches with average all-India 8.6 TRPs, much ahead of leading Hindi GE programs. The ratings of non-India matches have been predictably lower but nonetheless robust at 1.2 TRPs. The overall ratings performance has been largely in line with expectations (2.4 TRPs) thus far, given the league stages of the tournament and significant number of one-side matches during this stage.

Exhibit 2 presents potential advertising revenue for the broadcaster ESPN-Star Sports from the ICC CWC 2011, estimated to be between Rs5 bn and Rs7 bn depending on the performance of the Indian cricket team. The ratings of non-India matches will likely increase to 3-4 TRPs going forward but India's matches in the knockout stage will likely deliver ~15 TRPs; this would be critical in the broadcasters' ability to monetize spot advertising (~20% of total inventory/volumes) notably if India manages to reach the finals of the CWC 2011.

Advertising impact on other broadcasting genres such as GECs: Potentially between 10 and 15%

Exhibits 3-9 highlight the 4-16% impact on ratings of various Indian language GECs in March, arguably on account of ICC CWC 2011. More important, we highlight that combined ratings of ESPN-Star Sports channels (including DD1) has been ahead of (1) leading Hindi, Kannada, Marathi and Bengali channels and (2) runner-up Tamil, Telugu and Malayalam channels thus far in March. The impact on advertising revenues of GECs is estimated at 10-15% during this period given pressure on yields and shift in advertising volumes.

Exhibit 10 presents potential advertising revenue for broadcaster SET-MAX from IPL Season 4, the other flagship cricket tournament following ICC CWC 2011, estimated at Rs8 bn. The estimates may be conservative given (1) our assumed flat average advertising rates (advertisers have choice of CWC or IPL) given (2) higher inventory due to increased 74 matches in Season 4 (versus 60 matches in Season 3). However, IPL being a professional franchise league format, its performance is consistent and not dependent on the fortunes of individual teams.

Exhibit 11 presents the list of presenting as well as associate sponsors associated with CWC and IPL in CY2011E. The key cause for concern for Indian language GECs (beyond the short-term advertising impact) is (1) rising and disproportionate share of sports/cricket in advertising budgets of national advertisers and (2) flagship annual cricket properties like IPL (versus once-in-2/4-year tournaments like CWC). Most important, IPL's stickiness with male and youth viewership is valued across advertising categories; the trend of rising consumer (L'Oreal) and durable advertisers on IPL will likely impact GECs over the long term.

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TRP ratings of 2011 season of ICC CWC matches (%)

Date	Day	Match	TRP
19-Feb-11	Saturday	IND versus BAN	7.5
20-Feb-11	Sunday	KEN versus NZ (early start)	0.6
20-Feb-11	Sunday	SL versus CAN	1.4
21-Feb-11	Monday	AUS versus ZIM	1.4
22-Feb-11	Tuesday	ENG versus NED	1.7
23-Feb-11	Wednesday	PAK versus KEN	1.4
24-Feb-11	Thursday	SA versus WI	1.7
25-Feb-11	Friday	AUS versus NZ (early start)	0.7
25-Feb-11	Friday	BAN versus IRE	0.7
26-Feb-11	Saturday	SL versus PAK	3.3
27-Feb-11	Sunday	IND versus ENG	11.0
28-Feb-11	Monday	ZIM versus CAN (early start)	0.3
28-Feb-11	Monday	WI versus NED	0.8
01-Mar-11	Tuesday	SL versus KEN	0.9
02-Mar-11	Wednesday	ENG versus IRE	1.8
03-Mar-11	Thursday	SA versus NED (early start)	0.4
03-Mar-11	Thursday	PAK versus CAN	1.7
04-Mar-11	Friday	NZ versus ZIM (early start)	0.3
04-Mar-11	Friday	WI versus BAN	0.4
05-Mar-11	Saturday	AUS versus SL	0.1
06-Mar-11	Sunday	SA versus ENG (early start)	1.0
06-Mar-11	Sunday	IND versus IRE	8.8
07-Mar-11	Monday	KEN versus CAN	1.0
08-Mar-11	Tuesday	PAK versus NZ	2.5
09-Mar-11	Wednesday	IND versus NED	5.6
10-Mar-11	Thursday	SL versus ZIM	1.7
11-Mar-11	Friday	WI versus IRE (early start)	0.5
11-Mar-11	Friday	ENG versus BAN	1.6
12-Mar-11	Saturday	IND versus SA	10.1
		Average India ratings	8.6
		Average non-India ratings	1.2
		Average weekend ratings	4.4
		Average weekday ratings	1.4
		Average primetime ratings	3.0
		Average daytime ratings	0.5
		Average ratings	2.4

Source: TAM Media Research, Kotak Institutional Equities

Retain moderately positive view on broadcasters, cricket notwithstanding

Exhibit 12 presents the valuation summary of broadcasters under our coverage; we maintain our moderately positive stance on Indian broadcasters on account of (1) continued robust advertising environment in general and (2) continued strong DTH growth as well as potential benefits of mandatory digitization on subscription revenues coupled with (3) relatively fair valuations (19X FY2012E consolidated EPS for both Zee TV and Sun TV; 16X FY2012E EPS for Zee TV based on core – ex. sports – business). Strong advertising spends on cricket provide comfort on continued robust advertising environment.

However, we highlight the impact of CWC and IPL in 4QFY11-1QFY12E but potentially in 2QFY12E as well (seasonally weak quarter coming on the back of above-average advertising spending). In the long run, we are more concerned about competition and fragmentation in the Indian C&S TV segment, which would force investors to take cognizance of potential negative surprises in earnings and valuations.

Advertising revenues generated by CWC 2011 across various scenarios

	Scenario A	Scenario B	Comments
Number of matches (#)	49	49	
Inventory per match (secs)	5,000	5,000	One-day versus T20 matches
Total inventory ('000 slots)	24.5	24.5	
India matches (#)	6	9	Depends on whether India reaches the finals
India ad rate (Rs '000/slot)	1,000	1,200	Additional premium for final matches
Non-India matches	43	40	
Non-india ad rate (Rs '000/slot)	100	100	Based on average all-India ~2.0 TRPs
Advertising revenue (Rs bn)	5.2	7.4	

Source: Industry data, Kotak Institutional Equities estimates

Trends in Hindi Market GRPs of Hindi GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	17	66	67	50	16	17	53	18	55	97	50	26	76	(48)	52	
ESPN	2	2	3	1	3	5	62	27	42	31	2	24	37	1,125	1,772	
Star Cricket	16	14	15	17	17	12	90	129	155	260	16	62	208	299	1,236	
Star Sports	1	3	4	7	4	4	36	81	115	208	4	31	161	772	4,409	
Total Sports	36	84	89	75	39	38	241	255	367	597	71	143	482	102	578	
Hindi																
Colors	296	276	243	239	265	238	283	225	231	235	264	253	233	(4)	(12)	
Imagine TV	76	83	86	80	100	86	75	71	73	69	81	83	71	2	(13)	
SAB	138	136	137	138	152	153	134	153	143	124	137	148	133	8	(3)	
Sony TV	168	158	173	178	154	180	143	136	140	133	169	153	137	(10)	(19)	
Star Plus	379	326	360	338	327	318	299	297	280	275	351	310	278	(12)	(21)	
Zee TV	232	222	235	226	250	219	210	233	217	203	229	228	210	(0)	(8)	
Total Hindi	1,290	1,201	1,235	1,200	1,248	1,194	1,144	1,116	1,084	1,038	1,232	1,176	1,061	(5)	(14)	

Source: TAM Media Research, Kotak Institutional Equities

Trends in Tamil Nadu GRPs of Tamil GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)	
														Feb-11	Mar-11
Sports															
DD1	2	21	19	19	3	2	14	3	18	38	15	5	28	(64)	84
ESPN	1	2	1	3	3	4	27	18	35	24	2	13	30	610	1,523
Star Cricket	6	5	8	6	5	6	89	126	174	289	6	56	232	832	3,721
Star Sports	1	1	1	1	1	2	15	17	19	29	1	9	24	895	2,603
Total Sports	10	29	28	29	12	14	145	164	247	380	24	84	313	247	1,201
Tamil															
Adithya TV	198	219	215	194	175	194	209	204	204	189	207	195	197	(5)	(5)
Jaya TV	95	120	130	89	90	87	87	96	111	99	108	90	105	(17)	(3)
KTV	434	399	388	419	435	403	447	425	370	350	410	428	360	4	(12)
Kalaighnar TV	211	293	279	238	178	185	197	200	202	183	255	190	192	(26)	(25)
Sun TV	1,724	1,920	1,730	1,639	1,526	1,614	1,473	1,544	1,479	1,396	1,753	1,539	1,437	(12)	(18)
Vijay TV	136	184	180	146	138	158	144	136	151	137	161	144	144	(11)	(11)
Total Tamil	2,799	3,135	2,922	2,724	2,542	2,641	2,556	2,604	2,517	2,353	2,895	2,586	2,435	(11)	(16)

Source: TAM Media Research, Kotak Institutional Equities

Trends in Andhra Pradesh GRPs of Telugu GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	7	22	16	21	7	10	17	6	22	37	16	10	29	(40)	80	
ESPN	0	1	0	1	1	3	35	25	42	25	0	16	33	3,166	6,728	
Star Cricket	13	11	15	16	13	13	127	168	245	350	14	80	297	485	2,064	
Star Sports	0	0	3	5	3	4	16	13	24	51	2	9	37	304	1,583	
Total Sports	21	34	34	43	24	31	195	211	333	462	33	115	398	250	1,110	
Telugu																
Eenadu TV	347	320	370	411	400	385	335	374	388	352	362	373	370	3	2	
Gemini Movies	356	378	358	266	225	362	272	293	410	305	340	288	357	(15)	5	
Gemini TV	829	1,136	889	731	730	829	710	743	734	687	896	753	711	(16)	(21)	
Maa Movies	-	-	-	-	19	94	114	105	130	171	-	83	151			
Maa Telugu	331	391	324	344	332	274	267	274	283	235	347	287	259	(17)	(25)	
Zee Telugu	305	326	362	375	357	354	330	318	397	318	342	340	357	(1)	4	
Total Telugu	2,167	2,552	2,302	2,127	2,063	2,298	2,030	2,106	2,342	2,068	2,287	2,124	2,205	(7)	(4)	

Source: TAM Media Research, Kotak Institutional Equities

Trends in Karnataka GRPs of Kannada GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	17	42	38	37	31	28	38	23	46	73	34	30	60	(12)	77	
ESPN	2	1	3	1	4	7	78	24	42	33	2	28	37	1,517	2,031	
Star Cricket	15	19	20	19	20	11	120	213	309	475	18	91	392	393	2,028	
Star Sports	2	2	5	10	2	3	18	32	59	84	5	14	72	197	1,454	
Total Sports	36	65	66	67	56	49	254	292	456	666	58	163	561	178	859	
Kannada																
ETV Kannada	217	220	222	208	213	243	217	233	204	182	217	226	193	5	(11)	
Kasturi	108	89	91	114	135	125	108	83	92	80	100	113	86	12	(14)	
Suvarna	338	325	276	313	253	245	244	224	266	219	313	241	243	(23)	(23)	
Udaya Movies	246	231	264	250	253	194	256	240	248	187	248	236	218	(5)	(12)	
Udaya TV	582	570	561	554	578	552	516	540	546	459	567	547	503	(4)	(11)	
Zee Kannada	184	216	232	226	227	245	237	247	208	204	215	239	206	11	(4)	
Total Kannada	1,675	1,651	1,645	1,666	1,660	1,603	1,578	1,567	1,565	1,331	1,659	1,602	1,448	(3)	(13)	

Source: TAM Media Research, Kotak Institutional Equities

Trends in Kerala GRPs of Malayalam GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	3	21	28	18	5	8	19	6	22	42	18	10	32	(46)	81	
ESPN	9	10	12	11	11	11	50	16	41	27	10	22	34	111	232	
Star Cricket	6	5	6	8	9	16	37	62	83	219	6	31	151	379	2,241	
Star Sports	3	13	8	14	4	5	29	22	42	73	9	15	58	61	523	
Total Sports	22	48	53	51	29	39	135	105	188	361	44	77	275	77	530	
Malayalam																
Amrita TV	179	136	145	165	96	104	99	106	104	107	156	101	105	(35)	(33)	
Asianet	929	859	845	950	992	957	890	706	765	739	896	886	752	(1)	(16)	
Asianet Plus	222	209	243	243	257	265	219	176	200	195	229	229	197	(0)	(14)	
Kairali	185	173	163	183	218	189	169	184	204	145	176	190	174	8	(1)	
Kiran TV	136	77	91	81	75	73	109	123	128	134	96	95	131	(1)	36	
Surya TV	457	466	528	455	298	210	450	456	456	435	477	353	445	(26)	(7)	
Total Malayalam	2,109	1,921	2,014	2,078	1,936	1,797	1,935	1,752	1,856	1,754	2,030	1,855	1,805	(9)	(11)	

Source: TAM Media Research, Kotak Institutional Equities

Trends in Maharashtra GRPs of Marathi GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	20	67	82	54	25	24	69	25	65	115	56	36	90	(36)	62	
ESPN	3	3	4	2	3	6	74	24	52	37	3	27	44	747	1,309	
Star Cricket	20	17	19	19	21	15	90	146	181	318	19	68	249	264	1,235	
Star Sports	2	4	5	8	5	6	43	80	117	203	5	33	160	603	3,263	
Total Sports	45	90	111	83	53	51	275	276	415	672	82	164	544	99	562	
Marathi																
ETV Marathi	176	164	173	164	171	144	156	157	166	160	169	157	163	(7)	(4)	
Mi Marathi	39	39	40	45	44	38	50	39	35	38	41	43	37	5	(10)	
Star Pravah	130	120	133	133	133	150	119	124	133	140	129	132	136	2	6	
Zee Marathi	227	251	209	215	238	223	201	200	227	192	226	216	210	(4)	(7)	
Zee Talkies	75	90	73	97	82	85	83	83	73	59	84	83	66	(1)	(21)	
Total Marathi	648	664	627	654	669	639	609	603	635	589	648	630	612	(3)	(6)	

Source: TAM Media Research, Kotak Institutional Equities

Trends in West Bengal GRPs of Bengali GE/Sports channels (%)

	2-Jan	9-Jan	16-Jan	23-Jan	30-Jan	6-Feb	13-Feb	20-Feb	27-Feb	6-Mar	Jan-11	Feb-11	Mar-11	Change vs Jan-11 (%)		
														Feb-11	Mar-11	
Sports																
DD1	3	24	32	25	3	5	16	5	19	37	21	7	28	(66)	36	
ESPN	3	2	10	3	5	11	62	22	46	27	5	25	36	451	702	
Star Cricket	9	11	12	8	10	8	114	176	223	407	10	77	315	672	3,057	
Star Sports	3	13	9	13	3	5	21	40	71	113	10	17	92	82	858	
Total Sports	19	50	62	49	22	29	214	242	359	585	45	127	472	182	949	
Bengali																
Akash Bangla	47	48	47	46	44	41	39	41	35	28	47	41	32	(12)	(33)	
ETV Bangla	173	202	177	173	169	177	171	175	174	153	181	173	163	(5)	(10)	
Rupashi Bangla	67	65	73	58	51	63	48	68	58	43	66	58	50	(12)	(24)	
Sony Aath	57	57	55	68	66	65	50	56	58	43	59	59	50	0	(15)	
Star Jalsha	400	455	422	508	497	460	536	474	456	394	446	492	425	10	(5)	
Zee Bangla	381	398	385	385	476	369	429	377	352	303	387	412	328	7	(15)	
Total Bengali	1,124	1,225	1,158	1,238	1,302	1,175	1,274	1,191	1,133	963	1,186	1,235	1,048	4	(12)	

Source: TAM Media Research, Kotak Institutional Equities

Advertising revenues generated by IPL across various seasons

	2008	2009	2010	2011E	Comments
Number of matches (#)	59	59	60	74	Increase of two teams in Season 4 (CY2011E)
Inventory per match (secs)	2,000	2,400	2,400	2,400	Increase due to extra breaks in Season 2 (CY2009)
Total inventory ('000 spots)	11.8	14.2	14.4	17.8	One slot is equivalent to 10 seconds
Pre-sold inventory (%)	90	85	85	85	IPL was an unknown property in Season 1 (CY2008)
Pre-sold ad rate (Rs '000/spot)	200	350	400	400	Assuming no increase in Season 4 (CY2011E)
Spot-buy inventory (%)	10	15	15	15	
Spot inventory premium (X)	3.0	2.0	2.0	2.0	IPL was an unknown property in Season 1 (CY2008)
Spot-buy ad rate (Rs '000/spot)	600	700	800	800	
Advertising revenue (Rs bn)	2.8	5.7	6.6	8.2	

Source: Industry data, Kotak Institutional Equities estimates

Key sponsors of upcoming cricket properties

ICC CWC 2011		IPL Season 4	
Advertiser	Category	Advertiser	Category
Presenting sponsors			
Vodafone	Telecom	Vodafone	Telecom
Hero Honda	Automobiles	Videocon	Durables
Sony India	Durables		
Associate sponsors			
Airtel Digital TV	DTH	Samsung	Durables
Nokia	Mobiles	Pepsi	Consumers
Maruti Suzuki	Automobiles	Tata Photon	Telecom
Philips	Durables	LG Electronics	Durables
Pepsi	Consumers	Havels	Electronics
		Cadbury	Consumers
		Godrej	Various
		Hyundai	Automobiles
		Loreal	Consumers

Source: Media reports, Kotak Institutional Equities

Summary financials and valuations of Zee and Sun TV, March fiscal year-ends

	Financials (Rs bn)				Valuations (X)			
	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E
Zee consolidated								
Revenues	22.0	28.9	32.7	37.0				
EBITDA	6.1	6.6	8.7	11.2	17.4	16.1	12.3	9.6
EPS (Rs/share)	5.3	4.8	6.2	7.8	22.8	25.0	19.4	15.3
Sports business								
Revenues	3.2	4.1	4.6	5.1				
EBITDA	(0.6)	(2.6)	(1.9)	(0.7)				
R-GECs business								
Revenues	1.1	5.1	6.0	7.1				
EBITDA	0.3	1.6	2.0	2.6				
Hindi-rest business								
Revenues	17.8	19.7	22.1	24.8				
EBITDA	6.4	7.6	8.5	9.3				
Zee core business								
Revenues	18.8	24.8	28.1	31.9				
EBITDA	6.7	9.3	10.5	11.9	15.9	11.5	10.1	9.0
EPS (Rs/share)	5.8	6.7	7.5	8.3	20.8	17.9	16.0	14.4
Sun TV consolidated								
Revenues	14.5	19.8	23.6	27.8				
EBIT	7.7	10.6	13.1	15.9	21.5	15.5	12.5	10.4
EPS (Rs/share)	13.1	18.3	22.7	27.2	33.6	24.1	19.4	16.2

Notes:

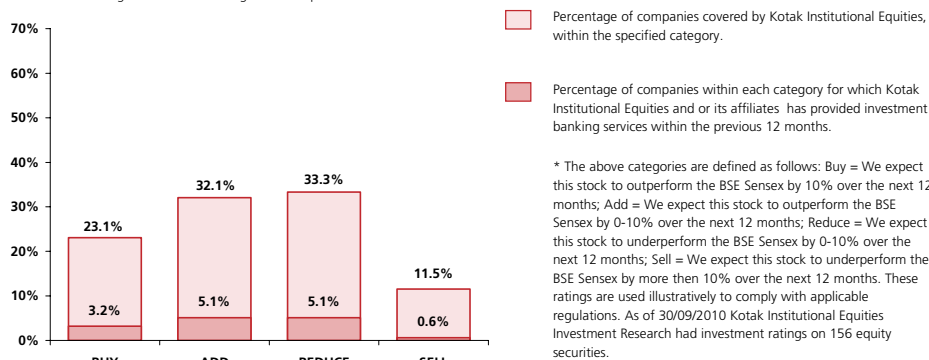
(a) Zee's FY2010 financials include only one quarter (4QFY10) of R-GEC financials.

Source: Company data, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of September 30, 2010

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BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

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