



## Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,683	Z IN
	REUTERS CODE
S&P CNX: 3,235	ZEE.BO

21 October 2008

Neutral

Previous Recommendation: Neutral

Rs148

		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	2,426	5.6	12.1	26.4	2.5	9.1	12.8	4.4	20.7
52-Week Range	349/126	3/08A	18,354	4,033	9.3	66.2	15.9	2.3	13.5	19.6	3.6	12.2
1,6,12 Rel. Perf. (%)	-5/4/-14	3/09E	22,722	4,584	10.6	13.7	14.0	2.0	14.5	21.5	2.9	10.0
M.Cap. (Rs b)	64.0	3/10E	26,892	5,782	13.3	26.1	11.1	1.8	15.7	22.7	2.5	8.5
M.Cap. (US\$ b)	1.3											

- Zee Entertainment 2QFY09 results are below our estimates. While revenue growth of 43% YoY to Rs5.7b was higher than our est. of Rs5.3b, adjusted PAT grew by 8% to Rs1b (v/s our est. of Rs1.2b). Reported PAT stood at Rs1.78b which includes one-time gain of Rs789m on account of income tax refund (FY2001-04) in its wholly owned subsidiary, Asia Today Ltd. EBITDA at Rs1.4b (up 12.6% YoY) is lower than est. of Rs1.6b. EBITDA margin declined 711bp to 26% due to increase in programming cost, higher carriage fee, loss in sports business.
- Ad revenues grew by 30% YoY at Rs2.85b (v/s our estimate of Rs2.6b) on the back of strong advertising growth in the sport business. ZEEL continued to post strong traction in advertising revenue despite increase in competition, as a majority of ad inventory is booked in advance. Zee TV's GRPs have witnessed a sharp decline with entry of Colors. We expect ZEEL's advertising revenue to be impacted in the coming quarters.
- Subscription revenues stood at Rs2.2b, up 38% YoY and 4.4% QoQ, on account of strong growth in both domestic and international subscription revenue. Domestic subscription revenue grew by 43% YoY and 5.4% QoQ on account of continued traction seen in DTH subscription revenue, which grew 117% YoY and 8.9% QoQ to Rs271m.
- We expect the coming quarters to be challenging if the low GRPs are accompanied by any slowdown in ad industry growth; particularly as the fragmentation in the GEC space is rising at a fast pace.
- We are downgrading EPS estimates to factor in higher programming cost and carriage fee. Our revised EPS for FY09 stands at Rs10.6 (earlier Rs11.3) and for FY10, at Rs13.3 (earlier Rs13.5) respectively. The stock is trading at 14x FY09 EPS of Rs10.6 and 11.1x FY10 EPS of Rs13.3. Maintain **Neutral**.

Y/E MARCH	QUARTERLY PERFORMANCE										(Rs Million)	
	FY08				FY09				FY08	FY09E		
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Advertising Revenue	2,044	2,195	2,638	2,466	2,798	2,851	3,050	2,882	9,307	11,581		
Subscription Revenue	1,681	1,625	1,950	2,071	2,150	2,244	2,310	2,413	7,436	9,118		
Other Sales and Services	191	167	594	723	471	621	450	481	1,611	2,023		
<b>Net Sales</b>	<b>3,916</b>	<b>3,986</b>	<b>5,182</b>	<b>5,260</b>	<b>5,420</b>	<b>5,717</b>	<b>5,810</b>	<b>5,776</b>	<b>18,354</b>	<b>22,722</b>		
Change (%)	35.3	14.0	24.1	36.8	38.4	43.4	12.1	9.8	21.1	23.8		
<b>EBITDA</b>	<b>1,197</b>	<b>1,321</b>	<b>1,569</b>	<b>1,303</b>	<b>1,443</b>	<b>1,488</b>	<b>1,810</b>	<b>1,914</b>	<b>5,423</b>	<b>6,655</b>		
Change (%)	80.9	508.1	15.6	36.9	20.5	12.6	15.4	46.9	69.2	22.7		
As of % Sales	30.6	33.1	30.3	24.8	26.6	26.0	31.2	33.1	29.5	29.3		
Depreciation	67	55	47	54	55	65	65	100	232	286		
Interest	118	85	167	184	214	223	210	201	335	848		
Other Income	213	225	238	435	278	280	350	416	1,138	1,323		
Extra-ordinary				26	574	792			208	1,366		
<b>PBT</b>	<b>1,225</b>	<b>1,405</b>	<b>1,592</b>	<b>1,475</b>	<b>2,025</b>	<b>2,271</b>	<b>1,885</b>	<b>2,030</b>	<b>5,786</b>	<b>8,210</b>		
Tax	412	435	458	430	417	489	622	770	1,634	2,299		
Effective Tax Rate (%)	33.6	30.9	33.4	29.2	27.0	21.5	33.0	38.0	28.2	28.0		
<b>Reported PAT</b>	<b>813</b>	<b>971</b>	<b>1,135</b>	<b>1,044</b>	<b>1,608</b>	<b>1,782</b>	<b>1,263</b>	<b>1,259</b>	<b>4,152</b>	<b>5,911</b>		
Minority Interest	41.9	45.6	38.0	119.9	60.0	-11.0	70.0	208.7	327.7	328		
<b>PAT after Minority Interest</b>	<b>771</b>	<b>925</b>	<b>1,097</b>	<b>924</b>	<b>1,092</b>	<b>1,001</b>	<b>1,310</b>	<b>1,168</b>	<b>3,825</b>	<b>4,688</b>		
Change (%)	46.6	316.5	25.3	53.1	41.5	8.2	19.5	26.4	61.0	22.6		
E: MOST Estimates												

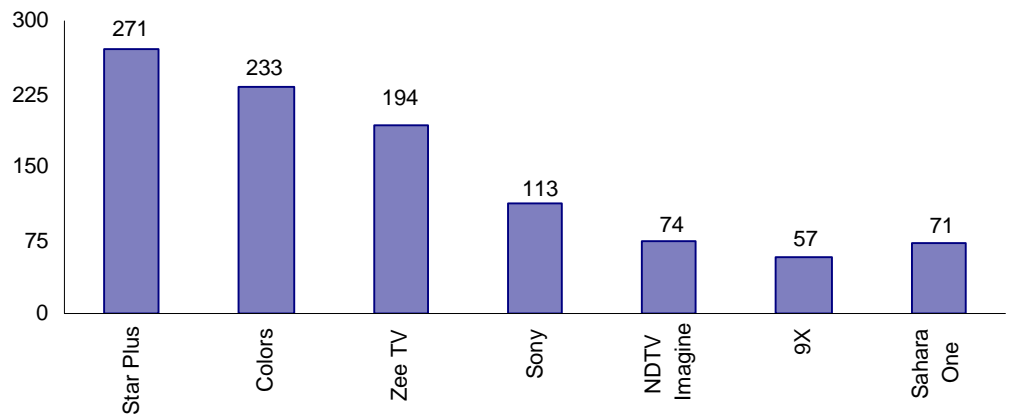
**30% growth in ad revenues; trend difficult to sustain**

Ad revenues grew by 30% YoY at Rs2.8b (v/s our estimate of Rs2.6b). Excluding the revenue of Rs117m from Zee Entertainment Studio (ZES), advertising growth was 25%.

Strong ad growth, despite entry of new players, mainly Colors, is a positive surprise. ZEEL continued to post strong traction in advertising revenue despite increase in competition, as a majority of ad inventory is booked in advance. Zee TV’s GRP gap has witnessed a sharp decline with entry of Colors. We expect ZEEL’s advertising revenue to be impacted in the coming quarters.

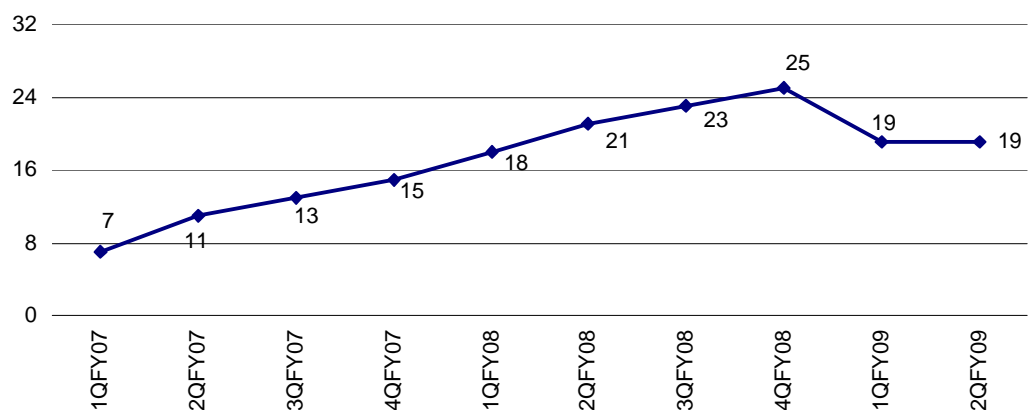
Colors has grabbed the No.2 position in GRPs. For the week ended 11 October, Zee TV’s GRPs stood at 194 while Colors posted a GRP of 233. Sustainance of the ratings of Colors would have significant advertising revenue implications for Zee TV.

COLORS SUSTAINS NO.2 POSITION AS ON 11<sup>TH</sup> OCT 2008



Source: Industry

ZEE TV SHARE IN TOP 50 PROGRAMS



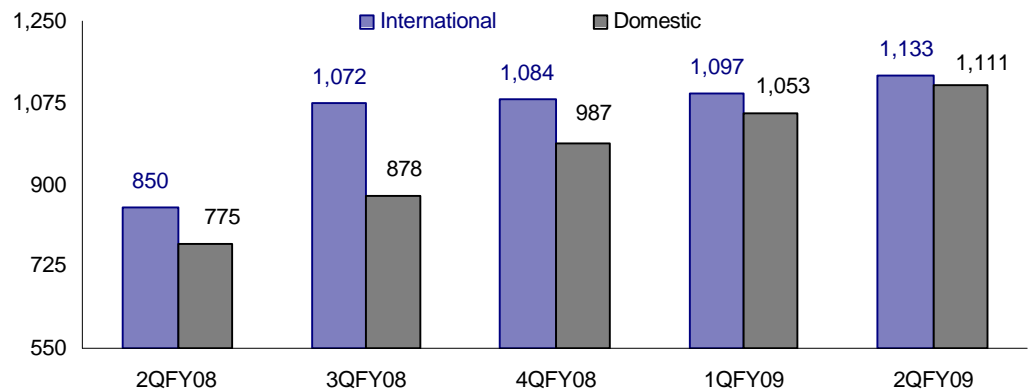
Source: Company/MOSL

Zee Cinema continues to maintain its leadership position in the Hindi movie genre with 33% channel share. Zee Café with 23% channel share is a No.2 player in the English GEC space with a wide variety of English entertainment targeting the young audience.

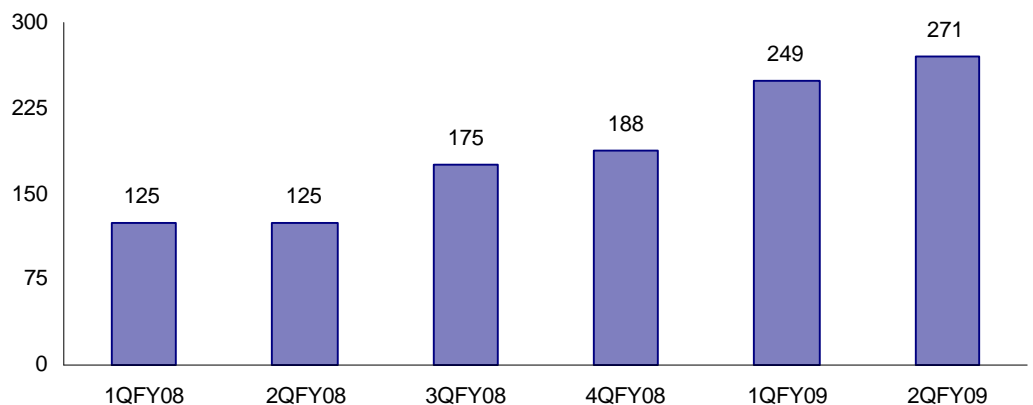
**Subscription revenue in line with expectation**

Subscription revenues stood at Rs2.2b, up 38% YoY and 4.4% QoQ, on account of strong growth in both domestic and international subscription revenue. Domestic subscription revenue grew by 43% YoY and 5.4% QoQ on account of continued traction seen in DTH subscription revenue, which grew 117% YoY and 8.9% QoQ to Rs271m. DTH revenue is expected to maintain strong growth momentum due to entry of new players in the DTH space. International subscription revenue was up 33% YoY and the growth momentum is expected to continue due to depreciation in the rupee. .

SUSTAINED GROWTH MOMENTUM IN DOMESTIC REVENUE



DTH REVENUE GAINING TRACTION



Source: Company/MOSL

### High programming cost and carriage fee impacts margins

EBITDA grew by 12.6% to Rs1.49b on account of a sharp decline of 711bp in margins. Higher programming cost, increase in sports programming (India-Sri Lanka Cricket Series), higher cost of movie rights and start-up cost of Zee Next and Zee Studio boosted total programming cost by Rs1.1b. Programming cost was up 57% to Rs2.6b. Further increase in carriage fees resulted in a 65% increase in selling and other cost. We expect EBITDA margins to improve in the coming quarters, as losses in the sport business (Rs85m loss in 2QFY09 on revenues of Rs1.2b) will decline.

### Valuations

ZEEL continues to post strong advertising revenue growth and subscription revenue has started showing double-digit growth on the back domestic subscription revenues. We expect DTH subscription revenue growth to ramp up going forward on account entry of new player namely Reliance and Bharti. GEC space has been witnessing a lot of action and the incumbent player like ZEEL is likely to face tough competition in the coming quarters.

We expect the coming quarters to be challenging if the low GRPs are accompanied by any slow down in ad industry growth; particularly as the fragmentation in GEC space is rising at a fast pace. We are downgrading EPS estimates to factor in higher programming cost and carriage fee. Our revised EPS for FY09 stands at Rs10.6 (earlier Rs11.3) and for FY10, at Rs13.3 (earlier Rs13.5) respectively. The stock trades at 14x FY09 EPS of Rs10.6 and 11.1x FY10 EPS of Rs13.3. Maintain **Neutral**.

## Zee Entertainment Enterprises: an investment profile

### Company description

ZEEL is a 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 a 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.
- ✍ Digitization of the distribution network will result in strong growth in subscription revenue for broadcasters like ZEEL.

### Key investment risks

- ✍ With no regulation, the sector saw bottom-up growth, but it is now increasingly coming under regulatory watch. This could stymie digitization in the television network.
- ✍ Proliferation of new channels in the GEC genre will lead to fragmentation of viewership, thereby impacting the advertising revenue for the broadcasters.

### Recent developments

- ✍ Nil

### Valuation and view

- ✍ Current market price is factoring in all the potential growth triggers without taking into account the execution risk.
- ✍ We expect revenue and earnings to post 21% and 19% CAGR over FY08-10E.
- ✍ The stock is trading at 14x FY09E EPS and 11.1x FY10E EPS. We maintain **Neutral**.

### Sector view

- ✍ We are positive on the long term potential of the Indian broadcasting sector, as digitization in television will result in strong growth in subscription revenue.
- ✍ Advertising is also expected to pick up with economic growth and emergence of a new advertiser base.
- ✍ The sector is increasingly getting fragmented, which could pressurize profitability.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	10.6	10.9	-2.5
FY10	13.3	13.3	-0.1

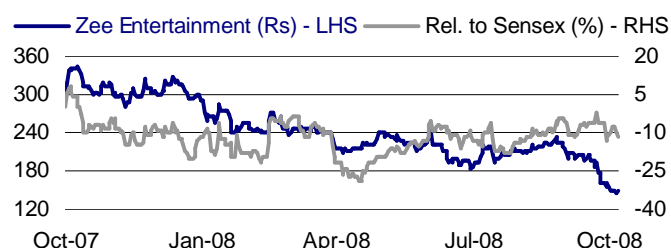
SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	41.5	41.5	41.5
Domestic Inst	21.3	21.0	16.5
Foreign	27.7	27.9	32.9
Others	9.5	9.6	9.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
148	212	43.2	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Advertisement Revenues	5,351	7,035	9,307	11,581	13,798	
Subscription Revenues	5,221	6,648	7,436	9,118	10,665	
Other Sales & Services	2,232	1,476	1,611	2,023	2,429	
<b>Net Sales</b>	<b>12,804</b>	<b>15,159</b>	<b>18,354</b>	<b>22,722</b>	<b>26,892</b>	
Change (%)		18.4	21.1	23.8	18.4	
<b>Total Income</b>	<b>12,804</b>	<b>15,159</b>	<b>18,354</b>	<b>22,722</b>	<b>26,892</b>	
<b>Total Expenses</b>	<b>10,306</b>	<b>11,955</b>	<b>12,931</b>	<b>16,067</b>	<b>19,143</b>	
<b>EBITDA</b>	<b>2,498</b>	<b>3,204</b>	<b>5,423</b>	<b>6,655</b>	<b>7,750</b>	
Change (%)		28.3	69.3	22.7	16.5	
% of Net Sales	19.5	21.1	29.5	29.3	28.8	
Depreciation	160	185	232	286	324	
EBIT	2,338	3,019	5,191	6,369	7,425	
Other Income	639	747	1,138	1,323	1,634	
Interest & Finance Charges	131	283	335	378	361	
Extraordinary Expenses			182			
<b>PBT</b>	<b>2,846</b>	<b>3,483</b>	<b>5,812</b>	<b>7,315</b>	<b>8,698</b>	
Tax	603	999	1,634	2,299	2,522	
Deferred Tax	0	0	0	0	0	
Effective Rate (%)	2.12	28.7	28.1	31.4	29.0	
PAT	2,243	2,484	4,178	5,016	6,176	
Minority Interest	-117	-58	-328	-328	-393	
Extraordinary Expenses	19	0	182	104	0	
<b>Adj. PAT</b>	<b>2,107</b>	<b>2,426</b>	<b>4,033</b>	<b>4,584</b>	<b>5,782</b>	
Change (%)	0.0	15.2	66.2	13.7	26.1	

E: M OSt Estimates

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Share Capital	413	434	434	434	434	
Reserves	20,874	25,747	28,177	31,834	36,344	
<b>Net Worth</b>	<b>21,286</b>	<b>26,181</b>	<b>28,611</b>	<b>32,268</b>	<b>36,778</b>	
Minority Interest	458	819	1,117	1,445	1,838	
Loans	4,901	3,226	3,866	4,000	3,600	
Deferred tax liability	-148	-75	-243	-407	-494	
<b>Capital Employed</b>	<b>26,498</b>	<b>30,150</b>	<b>33,351</b>	<b>37,305</b>	<b>41,722</b>	
<b>Net Fixed Assets</b>	<b>12,484</b>	<b>14,622</b>	<b>14,986</b>	<b>15,403</b>	<b>15,582</b>	
Capital WIP	464	219	619	400	300	
Investments	3,024	2,326	2,515	2,245	2,245	
<b>Curr. Assets, Loans &amp; A</b>	<b>14,860</b>	<b>18,088</b>	<b>21,508</b>	<b>26,786</b>	<b>32,421</b>	
Program Films	2,398	2,016	2,442	3,014	3,591	
Inventory	128	24	32	32	38	
Sundry Debtors	4,855	5,331	5,907	7,159	8,473	
Cash & Bank Balances	1,286	955	1,652	1,951	1,826	
Loans & Advances	6,193	9,762	11,475	14,629	18,493	
<b>Current Liab. &amp; Prov.</b>	<b>4,346</b>	<b>5,106</b>	<b>6,279</b>	<b>7,530</b>	<b>8,827</b>	
Sundry Creditors	2,374	3,238	3,213	3,962	4,720	
Other Liabilities	734	671	939	880	1,049	
Provisions	1,238	1,198	2,127	2,688	3,058	
<b>Net Current Assets</b>	<b>10,514</b>	<b>12,981</b>	<b>15,230</b>	<b>19,256</b>	<b>23,594</b>	
Misc. Exps.	12	2	0	0	0	
<b>Appl. of Funds</b>	<b>26,498</b>	<b>30,150</b>	<b>33,351</b>	<b>37,305</b>	<b>41,721</b>	

E: M OSt Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>5.1</b>	<b>5.6</b>	<b>9.3</b>	<b>10.6</b>	<b>13.3</b>	
Cash EPS	5.5	6.0	9.8	11.2	14.1	
Book Value per Share	516	60.4	66.0	74.4	84.8	
DPS	1.0	1.5	2.0	2.4	2.9	
Payout (Incl. Div. Tax) %	19.4	26.7	20.9	22.0	22.0	
<b>Valuation</b>						
P/E		26.4	15.9	14.0	11.1	
Cash P/E		24.5	15.0	13.1	10.5	
EV/EBITDA		20.7	12.2	10.0	8.5	
EV/Sales		4.4	3.6	2.9	2.5	
Price/Book Value		2.5	2.3	2.0	1.8	
Dividend Yield (%)		1.0	1.4	1.6	2.0	
<b>Profitability Ratios (%)</b>						
RoE	10.0	9.1	13.5	14.5	15.7	
RoCE	11.4	12.8	19.6	21.5	22.7	
<b>Turnover Ratios</b>						
Debtors (No. of Days)	107	128	117	115	115	
Inventory (No. of Days)	53	105	96	95	95	
Creditors (No. of Days)	63	99	91	90	90	
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.6	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2007	2008	2009E	2010E	
OP/(Loss) before Tax	3,019	5,191	6,369	7,425	
Interest/Div. Received	747	1,138	1,323	1,634	
Interest paid	-283	-335	-378	-361	
Depreciation & Amort.	185	232	286	324	
Direct Taxes Paid	-999	-1,634	-2,299	-2,522	
(Inc)/Dec in Wkg. Capital	-2,798	-1,551	-3,727	-4,463	
<b>CF from Oper. Activity</b>	<b>-129</b>	<b>3,042</b>	<b>1,575</b>	<b>2,036</b>	
Extraordinary Items	0	182	104	0	
Other Items	-448	-645	-652	-622	
<b>CF after EO Items</b>	<b>-448</b>	<b>-463</b>	<b>-548</b>	<b>-622</b>	
(Inc)/Dec in FA +CWIP	-1,708	-532	88	245	
(Pur)/Sale of Invest.	698	-190	270	0	
<b>CF from Invest. Activity</b>	<b>-1,009</b>	<b>-722</b>	<b>358</b>	<b>245</b>	
Issue of Shares	3,562	-602	267	306	
Inc/(Dec) in Debt	-1,676	640	134	-400	
Interest Paid	-283	-335	-378	-361	
Dividends Paid	-650	-868	-1,031	-1,272	
Others	303	5	-78	-58	
<b>CF from Finan. Activity</b>	<b>1,256</b>	<b>-1,160</b>	<b>-1,085</b>	<b>-1,785</b>	
<b>Inc/(Dec) in Cash</b>	<b>-331</b>	<b>697</b>	<b>299</b>	<b>-125</b>	
Add: Beginning Balance	1,286	955	1,652	1,951	
<b>Closing Balance</b>	<b>955</b>	<b>1,652</b>	<b>1,951</b>	<b>1,826</b>	

**N O T E S**



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**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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