

VISIT UPDATE

SMALL CAP

Share Data

Reuters code	ZEEN.BO
Bloomberg code	ZEEN IN
Market cap. (US\$ mn)	64
6M avg. daily turnover (US\$ mn)	2.1
Issued shares (mn)	240
Target price (Rs)	15

Performance (%) 1M 3M 12M

Absolute	(14)	(80)	(73)
Relative	(13)	(79)	(76)

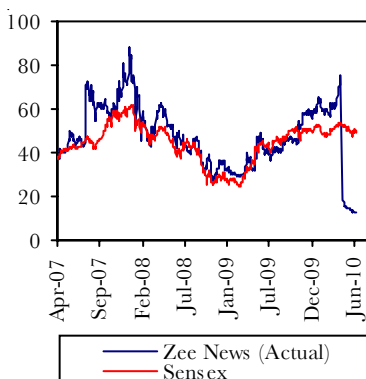
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	0.5	0.8
+/- (%)	(74.5)	71.3
PER (x)	25.4	14.8
PBV (x)	1.7	1.5
EV/Sales (x)	1.4	1.3
EV/EBITDA (x)	12.0	9.0

Major shareholders (%)

Promoters	54
FII's	7
MF's	21
BFSI's	3
Public & Others	15

Relative performance



Zee News

Maintain Outperformer

Price: Rs 13

BSE Index: 16,617

08 June 2010

A news powerhouse in the making...

Key takeaways from management meet:

- Zee News Limited (ZNL) will aim to achieve 20% advertising growth in FY11 due to revival in advertising spends and revenue traction in its loss-making news channels.
- Regional TV news markets (Bengali, Marathi) are growing at a healthy pace of more than 15%. A wide bouquet of regional channels helps acquire national advertisers who get a better choice of specific news channels to reach the target audience.
- Three news channels are loss-making (Zee Tamil, Zee News UP, Zee 24 Ghantalu); nonetheless, management is confident of strong revenue traction and reduced losses from these channels.
- Zee Tamil has already been converted into an infotainment channel with enough news content. Costs are under control but break even will take 18-24 months more.
- Since Zee News (Hindi news channel) turned a pay channel much earlier, its subscription revenue contribution is significant.
- ZNL has no plans of launching a new channel at the moment but will review this in 2HFY11E.
- ZNL accepts that a news powerhouse is incomplete without an English news channel. However, it would take an appropriate decision in this regard at a favourable time.
- Management reiterated that cost of launching an additional news channel is 20-25% less for a larger network such as ZNL compared with a new entrant. Furthermore, fixed costs get spread over a larger base, providing synergy.
- From a near break-even in FY10, the company is hopeful of turning EBITDA positive with a margin of ~13% in FY11E.

B&K View

Zee News Limited is the only listed media company in India, which has significant presence across news genres – general Hindi news, business news and regional news). With renewed focus on news operations (post de-merger of the profitable regional channels); we expect ZNL to emerge a news powerhouse. ZNL could take the inorganic route to build a quick presence in the English news space; international subscription revenue is insignificant without an English news channel in the portfolio.

We have factored in 15% advertising growth in the news operations in FY11 (ZNL could surprise us positively) with 12% EBITDA margin. The company has not reported provisional balance sheet numbers after the transfer of six regional general entertainment channels. FY10 and subsequent balance sheet numbers are our best attempt to reconstruct them. We maintain our OUTPERFORMER rating with a revised target price of Rs 15 (from Rs 17). Our valuation is based on 1.6x FY11E EV/Sales, a 15% premium to FY11E EV/Sales multiple of TV Today.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Net sales	5,221	5,293	2,656	3,015
<i>Growth (%)</i>	<i>42.1</i>	<i>1.4</i>	<i>(49.8)</i>	<i>13.5</i>
Operating expenses	(4,385)	(4,385)	(2,338)	(2,593)
Operating profit	836	908	319	422
EBITDA	836	908	319	422
<i>Growth (%)</i>	<i>23.4</i>	<i>8.6</i>	<i>(64.9)</i>	<i>32.4</i>
Depreciation	(95)	(112)	(94)	(107)
Other income	176	171	147	161
EBIT	917	967	371	477
Interest paid	(211)	(259)	(165)	(138)
Pre-tax profit	706	708	206	340
(before non-recurring)				
Pre-tax profit	706	708	206	340
(after non-recurring)				
Tax (current + deferred)	(259)	(225)	(68)	(112)
Net profit (before Minority interest, Pref. Dividend, etc.)	447	483	138	228
Minority interests	(1)	(20)	(20)	(25)
Reported PAT	446	463	118	203
Adjusted net profit	446	463	118	203
<i>Growth (%)</i>	<i>20.4</i>	<i>3.7</i>	<i>(74.5)</i>	<i>71.3</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash & Marketable sec.	508	68	114	173
Other current assets	4,526	2,335	2,298	2,283
Investments	–	800	800	800
Net fixed assets	1,047	673	679	682
Total assets	6,081	3,877	3,891	3,938
Current liabilities	1,625	548	630	724
Total debt	2,017	1,680	1,500	1,250
Other non-current liabilities	(19)	(20)	(20)	(20)
Total liabilities	3,622	2,208	2,110	1,954
Share capital	240	240	240	240
Reserves & surplus	2,166	1,381	1,499	1,702
Shareholders' funds	2,406	1,621	1,739	1,942
Minorities interests	53	48	42	42
Total equity & liabilities	6,081	3,877	3,891	3,938
Capital employed	4,457	3,329	3,261	3,214

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Pre-tax profit	706	708	206	340
Depreciation	95	112	94	107
Change in working capital	(1,532)	1,114	119	222
Total tax paid	(260)	(225)	(68)	(112)
Cash flow from oper. (a)	(991)	1,709	352	556
Capital expenditure	(327)	262	(100)	(110)
Change in investments	0	(800)	0	0
Others	(4)	(0)	(0)	(0)
Cash flow from inv. (b)	(330)	(538)	(100)	(110)
Free cash flow (a+b)	(1,322)	1,171	252	446
Debt raised/(repaid)	1,900	(337)	(180)	(250)
Dividend (incl. tax)	(112)	0	0	(112)
Others	2	(26)	(26)	(25)
Cash flow from fin. (c)	1,790	(363)	(206)	(387)
Net chg in cash (a+b+c)	468	808	46	59

Key Ratios

Yr end 31 Mar (%)	FY09	FY10E	FY11E	FY12E
Adjusted EPS (Rs)	1.9	1.9	0.5	0.8
Growth	20.4	3.7	(74.5)	71.3
Book NAV/share (Rs)	10.3	7.0	7.4	8.3
Dividend/share (Rs)	0.4	0.0	0.0	0.0
Dividend payout ratio	25.1	0.0	0.0	0.0
Tax	36.7	31.7	33.0	33.0
EBITDA margin	16.0	17.2	12.0	14.0
EBIT margin	17.6	18.3	14.0	15.8
RoCE	27.5	24.8	11.3	14.7
Net debt/Equity	61.4	96.6	77.8	54.3

Valuations

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
PER	6.7	6.5	25.4	14.8
PCE	5.5	5.2	14.1	9.7
Price/Book	1.2	1.8	1.7	1.5
Yield (%)	3.2	0.0	0.0	0.0
EV/Net sales	0.7	0.7	1.4	1.3
EV/EBITDA	4.6	4.2	12.0	9.0

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
Net margin (%)	8.5	8.7	4.4	6.7
Asset turnover	1.1	1.1	0.7	0.8
Leverage factor	2.1	2.4	2.3	2.1
Return on equity (%)	19.5	22.4	6.9	10.8

Rohit Dokania
rohit.dokania@bksec.com
+91-22-4031 7275

Vikash Mantry
vikash.mantry@bksec.com
+91-22-4031 7234

Analyst Declaration: We, Rohit Dokania & Vikash Mantry, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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