



Zee Entertainment Enterprises

BSE SENSEX
18,882

S&P CNX
5,655

Rs115

Under Review

Bloomberg ZIN

Equity Shares (m) 978.1

52-Week Range (Rs) 160/108

1,6,12 Rel. Perf. (%) -16-31/-23

M.Cap. (Rs b) 112.0

M.Cap. (US\$ b) 2.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	21,966	4,686	5.2	4.1	21.9	3.0	13.0	17.8	4.9	17.6
3/11E	28,092	4,641	4.7	-9.3	24.1	2.8	11.7	17.8	3.7	15.7
3/12E	32,103	5,967	6.1	28.6	18.8	2.6	14.1	20.9	3.2	12.3
3/13E	35,643	6,510	6.7	9.1	17.2	2.4	14.3	21.2	2.8	11.2

- Higher loss in sports business drags margin:** ZEE's 3QFY11 PAT was below estimate due to higher than expected operating cost and EBITDA loss in the sports business. Adjusted PAT down 9.6% QoQ to Rs1.14b v/s estimate of Rs1.56b. ZEE recorded adjusted EBITDA loss of Rs1.03b in the sports business in 3QFY11. EBITDA declined 18.2% QoQ (25.4% below estimate) to Rs1.54b. EBITDA margin was 20.4% (down 607bp QoQ) v/s estimate of 26.9%.
- Continued momentum in advertising and domestic subscription:** Advertising revenue grew 62.4% YoY and 6.7% QoQ on a reported basis. On a proforma basis (including R-GEC financials for 3QFY10), we estimate ad revenue growth of 20-25%. Subscription revenue increased 3% QoQ to Rs2.8b (1.8% below estimate), driven by higher domestic as well as international revenues.
- Core (ex-sports) margin at 39%; continued loss in sports business:** EBITDA declined 18.2% QoQ (25.4% below estimate) to Rs1.54b due to higher than expected operating costs. While EBITDA margin was 20.4%, EBITDA margin ex sports business stood at 39% (v/s 41% in 2QFY11). EBITDA loss in 9MFY11 was Rs1.93b v/s Rs576m in FY10. Management expects lower loss in the sports business in 4QFY11, led by higher revenue from monetization of India-SA ODI series, and a sharp reduction in loss in FY12.
- Downgrading earnings estimates by 14-16% on sports business losses; Under Review:** Given higher loss in the sports business and potential margin decline in the non-sports business, we are cutting our earnings estimates by 13.6% for FY11, 16.3% for FY12 and 26.9% for FY13. We are revising our rating to **Under Review** (Buy earlier) given continued negative surprises, low visibility in the sports business and potential margin headwinds in the non-sports business. The stock trades at 18.8x FY12E EPS and 17.2x FY13E EPS.

QUARTERLY PERFORMANCE

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Advertising Revenue	1,980	2,476	2,707	3,517	3,789	4,122	4,398	3,518	10,680	15,807
Subscription Revenue	2,410	2,435	2,467	2,513	2,614	2,737	2,818	2,873	9,824	11,042
Other Sales and Services	370	494	135	463	387	257	333	266	1,462	1,243
Net Sales	4,759	5,405	5,309	6,493	6,770	7,116	7,548	6,657	21,966	28,091
<i>Change (%)</i>	<i>-12.2</i>	<i>-5.5</i>	<i>-2.7</i>	<i>26.4</i>	<i>42.2</i>	<i>31.7</i>	<i>42.2</i>	<i>2.5</i>	<i>1.1</i>	<i>27.9</i>
Prog, Transmission & Direct Exp	2,392	2,229	2,306	2,609	3,050	3,458	4,152	3,527	9,536	14,187
Staff Cost	390	442	372	689	597	643	687	693	1,893	2,620
Selling and Other Exp	808	1,226	1,059	1,358	1,252	1,130	1,169	1,087	4,451	4,638
EBITDA	1,170	1,508	1,573	1,836	1,870	1,885	1,541	1,350	6,087	6,646
<i>Change (%)</i>	<i>-18.9</i>	<i>1.3</i>	<i>31.0</i>	<i>52.8</i>	<i>59.8</i>	<i>25.0</i>	<i>-2.0</i>	<i>-26.5</i>	<i>14.2</i>	<i>9.2</i>
<i>As of % Sales</i>	<i>24.6</i>	<i>27.9</i>	<i>29.6</i>	<i>28.3</i>	<i>27.6</i>	<i>26.5</i>	<i>20.4</i>	<i>20.3</i>	<i>27.7</i>	<i>23.7</i>
Depreciation	75	77	76	56	62	56	78	64	284	260
Interest	91	84	65	110	51	5	24	24	350	103
Other Income	325	291	323	291	126	240	232	237	1,230	835
Extraordinary items			313	-11	328		700		302	1,028
PBT	1,329	1,638	2,067	1,950	2,211	2,064	2,372	1,499	6,985	8,145
Tax	416	529	603	662	710	801	818	517	2,210	2,846
<i>Effective Tax Rate (%)</i>	<i>31.3</i>	<i>32.3</i>	<i>32.0</i>	<i>33.9</i>	<i>32.1</i>	<i>38.8</i>	<i>34.5</i>	<i>34.5</i>	<i>31.6</i>	<i>34.9</i>
PAT	913	1,109	1,464	1,288	1,500	1,263	1,554	982	4,775	5,300
Minority Interest	-105.8	-32	-100	25	-38	1	-45.4	-45.4	-212.2	-127.8
Adj PAT after Minority Interest	1,019	1,141	1,251	1,274	1,211	1,262	1,141	1,028	4,685	4,641
<i>Change (%)</i>	<i>-17.8</i>	<i>-6.7</i>	<i>22.5</i>	<i>37.4</i>	<i>18.8</i>	<i>10.6</i>	<i>-8.8</i>	<i>-19.3</i>	<i>6.2</i>	<i>-0.9</i>

E: MOSL Estimates

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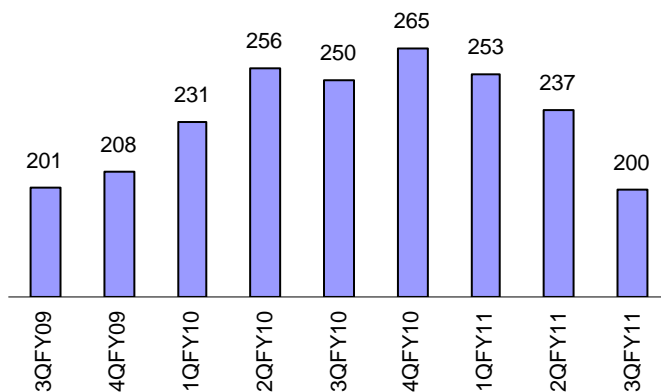
- ZEE's 3QFY11 PAT was below our estimate due to higher than expected operating cost and EBITDA loss in the sports business.
- Adjusted PAT was down 9.6% QoQ to Rs1.14b v/s our estimate of Rs1.56b (not comparable YoY due to R-GEC business merger). Reported PAT was up 26.8% QoQ to Rs1.6b.
- Excluding one-time fees of Rs700m for premature termination of sporting event rights, revenue was up 6.1% QoQ (1.8% below estimate). We estimate 3QFY11 ad revenue growth at 21% on a proforma basis (including regional GEC in 3QFY10). Ad revenue increased 6.7% QoQ to Rs4.4b (1.2% below estimate). Management expects industry ad revenue growth of 14-15% in FY12.
- Subscription revenue increased 3% QoQ to Rs2.8b (1.8% below estimate), driven by higher domestic as well as international revenues.
- Operating expenses increased 14.8% QoQ to Rs6b mainly on account of higher programming and transmission cost (up 20.1% QoQ and 10% above estimate).
- EBITDA declined 18.2% QoQ to Rs1.54b (25.4% below estimate). EBITDA margin was down 607bp QoQ at 20.4% (v/s estimate of 26.9%).
- Adjusted sports revenue stood at Rs97m (excluding one-time receipt of Rs700m) while operating costs in the sports business amounted to Rs1.99b, resulting in adjusted EBITDA loss of Rs1.03b. Higher sports losses in 3QFY11 are attributed to (1) higher costs associated with India-South Africa series, and 2) lower than expected subscription revenue due to delay in launch of new sports channel, Ten Cricket by 4-5 months. EBITDA loss in 9MFY11 was Rs1.93b v/s Rs576m in FY10.
- Management expects lower losses in the sports business in 4QFY11, led by higher revenue from monetization of India-SA ODI series, and a sharp reduction in loss in FY12. Despite high losses, the management remains committed to the sports genre, given opportunities in the medium to long term. We reiterate that the sports business is highly event specific, implying low visibility in quarterly financial performance.
- Core margin excluding sports business declined from 41% in 2QFY11 to 39.1% in 3QFY11. Competitive environment in the non-sports business has been intense in 3QFY11. Zee proposes to further increase original programming hours, which could impact the current EBITDA margin of 39% (ex-sports business) by 200-400bp.
- Tax rate of 34.5% was higher than our estimate (30%) likely due to loss in sports business subsidiaries not being offset against profit in other business.
- We are cutting our earnings estimates by 13.6% for FY11, 16.3% for FY12 and 26.9% for FY13.
- Our rating is Under Review (Buy earlier) given continued negative surprises, low visibility in the sports business and potential margin headwinds in the non-sports business.

Ad revenue growth (proforma) estimated at 20-25% YoY, 6.7% QoQ

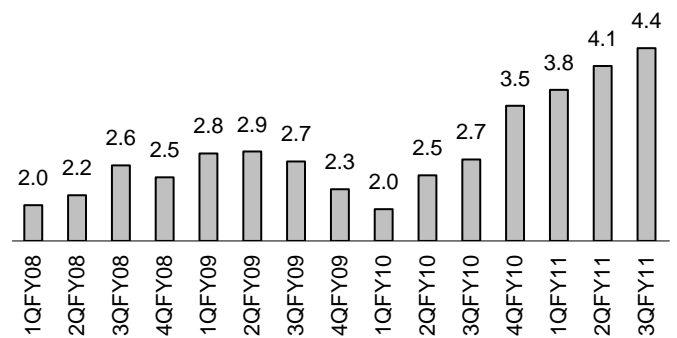
- Advertising revenue grew 62.4% YoY and 6.7% QoQ on a reported basis. On a proforma basis (including R-GEC financials for 3QFY10), we estimate ad revenue growth of 20-25%.
- Flagship channel, Zee TV has lost GRP for the third consecutive quarter to an average of 200 (237 in 2QFY11), with a weekly average channel share of ~19%. Its position in the top-100 programs stands at 18.

- Zee Cinema averaged 126 GRP during the quarter. Zee Marathi continued delivering 209 average weekly GRP, with 33 of the top-50 shows and 68 of the top-100 shows. Zee Bangla averaged 383 weekly GRP in the quarter, with a channel share of 33%.
- Zee Telugu averaged 344 weekly GRP, with a channel share of 18%. Zee Kannada clocked an average GRP of 178.
- Key properties for Ten Sports included Asian Games, Ryder Cup, Shanghai Rolex Masters and TNT NBA Basketball while Ten Action+ included ATP World Rakuten Open. Ten Cricket properties included South Africa v/s Pakistan series, Sri Lanka v/s West Indies series and India v/s South Africa test series.
- In 4QFY11, the sports network would be telecasting India v/s South Africa series (Tests, ODI's and T20), WWE Royal Rumble, Aircel Chennai Open, Grand Prix of Qatar, etc.

Zee TV had an average GRP of 200 in 3QFY11



Advertising revenue including R-GEC from 4QFY10 (Rs b)

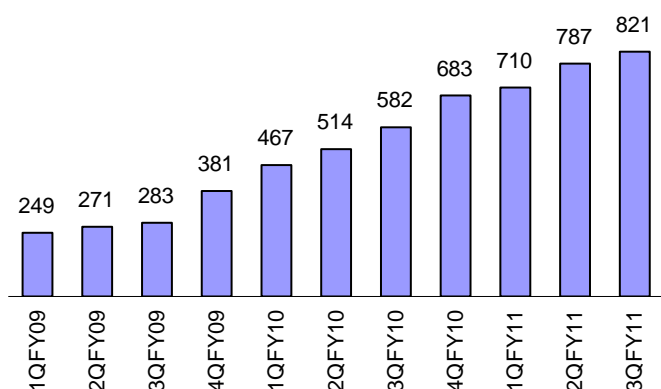


Source: Company/MOSL

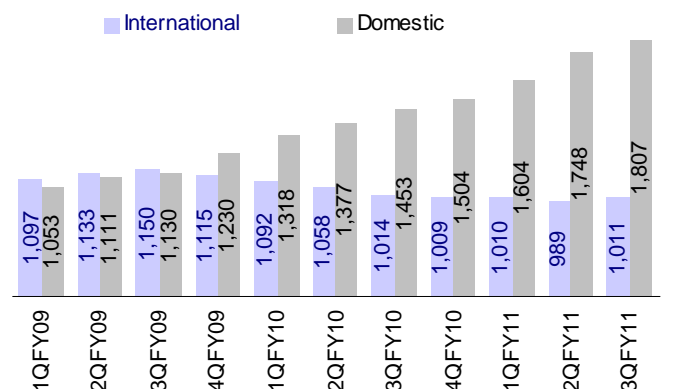
Subscription revenue up 3% QoQ, driven by domestic and international business

- 3QFY11 subscription revenue was at Rs2.8b, up 14.2% YoY and 3% QoQ.
- DTH subscription revenue at Rs821m increased 41% YoY and 4.3% QoQ.
- International subscription revenue increased 2.2% QoQ but was flat YoY at Rs1.01b.
- Domestic subscription excluding DTH revenue grew 2.6% QoQ to Rs986m.

DTH subscription revenue up 41% YoY (Rs m)



International business stabilized; strong growth in domestic business (Rs m)

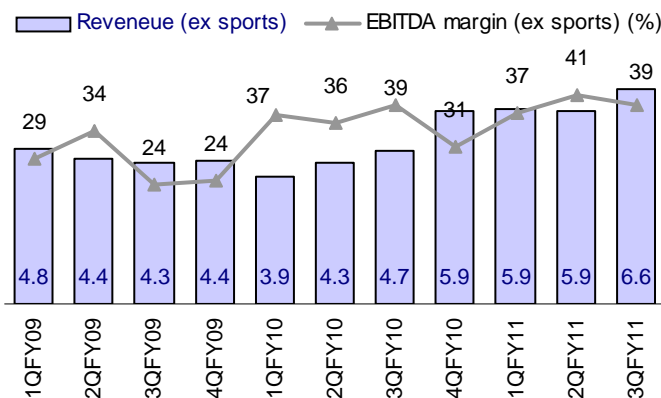


Source: Company/MOSL

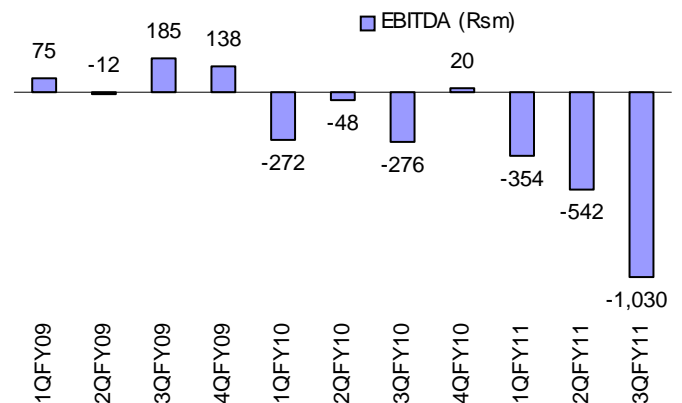
Sports business continues to drag EBITDA margin

- EBITDA margin was 20.4% (down 607bp QoQ) v/s our estimate of 26.9%.
- Core margins (excluding sports business) declined from 41% in 2QFY11 to 39.1% in 3QFY11.
- Sports revenue stood at Rs1.67b (including one-time receipt of Rs700m) while operating costs in the sports business amounted to Rs1.99b, resulting in adjusted EBITDA loss of Rs1.03b.
- Zee had incurred EBITDA loss of Rs354m in the sports business in 1QFY11 and Rs542m in 2QFY11; accordingly, adjusted EBITDA loss for the nine months ended December 2010 stands at Rs1.9b.
- Management expects lower loss in the sports business in 4QFY11, led by higher revenue from monetization of India-SA ODI series, and a sharp reduction in loss in FY12.
- Despite high losses, the management remains committed to the sports genre, given opportunities in the medium to long term.
- We reiterate that the sports business is highly event-specific, implying low visibility in quarterly financial performance.

Estimated trend in EBITDA and margins ex-sports (Rs b)



Operating profit/loss excluding one-offs in sports business



Source: Company/MOSL

Downgrading earnings estimates by 14-16% on sports business losses; Under Review

Given higher loss in the sports business and potential margin decline in the non-sports business, we are cutting our earnings estimates by 13.6% for FY11, 16.3% for FY12 and 26.9% for FY13. We are revising our rating to **Under Review** (Buy earlier) given continued negative surprises, low visibility in the sports business and potential margin headwinds in the non-sports business. We continue to believe that the sports segment remains the single biggest swing factor for ZEE's earnings. The stock trades at 18.8x FY12E EPS and 17.2x FY13E EPS.

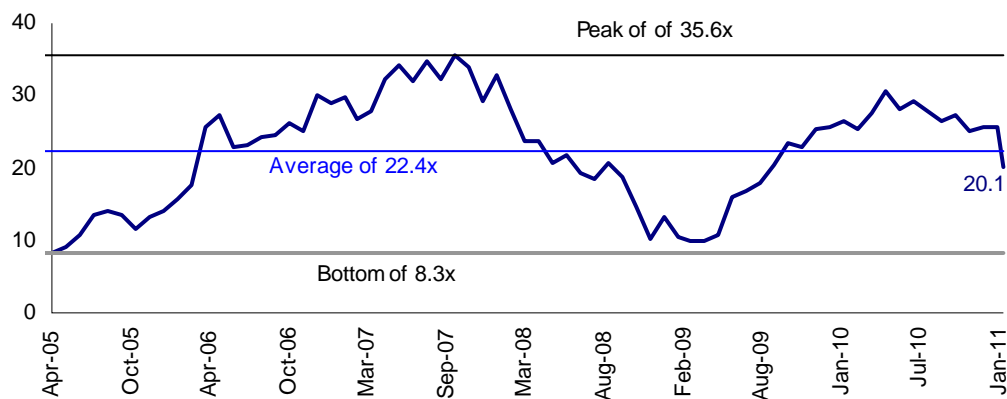
Estimate change summary

Rs b	FY11E	FY12E	FY13E
Revenue			
Old	29.2	34.0	38.4
New	28.1	32.1	35.6
Change (%)	-3.9	-5.6	-7.1
EBITDA			
Old	7.6	9.8	12.3
New	6.6	8.4	9.0
Change (%)	-12.8	-15.0	-26.7
EBITDA Margin (%)			
Old	26.1	28.9	31.9
New	23.7	26.0	25.2
Change (bp)	-243	-287	-673
PAT			
Old	5.4	7.1	8.9
New	4.6	6.0	6.5
Change (%)	-13.6	-16.3	-26.9
EPS (Rs)			
Old	5.5	7.3	9.1
New	4.7	6.1	6.7
Change (%)	-13.6	-16.3	-26.9

Source: MOSL

ZEE: P/E band

ZEE is trading at a ~10% discount to its 5-year average P/E



Source: MOSL

Zee Entertainment Enterprises: an investment profile

Company description

ZEE 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. Post the merger with Zee News, the company has added regional channels like Zee Telugu, Zee Kannada, Zee Marathi and Zee Bangla in its portfolio.

Key investment arguments

- With its offering of 24 channels, ZEE addresses ~64% of the viewership having pan-India ~12% market share.
- ZEE's flagship channel Zee TV is placed strongly among the top three players in the Hindi GEC segment.
- We expect 15% ad revenue CAGR over FY11-13.
- We expect the strong traction in DTH revenues to continue and estimate ~20% CAGR in DTH revenue over FY11-13. This will enable 10% CAGR in total subscription revenue in FY11-13.

Key investment risks

- Higher than expected losses in the sports business.
- Increasing ratings gap v/s the market leader in Hindi GEC; this could prove to be negative for ad revenue momentum as well as cost control.
- Possibility of disruption caused by entry of well funded competition in Hindi GEC (like R-ADAG CBS JV).
- Potential negative regulatory developments in the DTH space.

Comparative valuations

		ZEEL	Sun TV
P/E (x)	FY11E	24.1	27.6
	FY12E	18.8	23.0
EV/EBITDA (x)	FY11E	15.7	12.3
	FY12E	12.3	10.6
EV/Sales (x)	FY11E	3.7	9.8
	FY12E	3.2	8.4
P/BV (x)	FY11E	2.8	7.9
	FY12E	2.6	6.3

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	42.8	42.8	41.5
Domestic Inst	12.9	18.1	23.1
Foreign	35.4	30.3	28.4
Others	8.9	8.8	7.0

Recent developments

- Zee Sports International Limited, ZEE's subsidiary, has increased its 82.2% shareholding in its subsidiary Taj TV Mauritius to 95% by an additional investment of US\$12m.
- The Bombay High Court has approved: (a) merger of ETC Networks Ltd with the company with effect from 31 March 2010, and (b) demerger of education business into Zee Learn Ltd with effect from 1 April 2010.
- The company has recently launched Ten Cricket (cricket focussed sports channel) and Ten Action+ (soccer focussed sports channel).
- The board has approved amalgamation of two wholly owned subsidiaries (ZES Holding Ltd, Mauritius and Zee Multimedia Worldwide, BVI) with the company.

Valuation and view

- We are cutting our earnings estimates by 13.6% for FY11, 16.3% for FY12, 26.9% for FY13 and revising our rating to **Under Review** (Buy earlier) given continued negative surprises, low visibility in the sports business and potential margin headwinds in the non-sports business. We continue to believe that the sports segment remains the single biggest swing factor for ZEE's earnings. The stock trades at 18.8x FY12E EPS and 17.2x FY13E EPS.

EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	4.7	6.0	-21.5
FY12	6.1	7.2	-15.0

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
115	120	4.6	Under Review

Stock performance (1 year)



Financials and valuations

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Advertisement Revenues	10,593	10,680	15,807	18,558	20,887	
Subscription Revenues	9,038	9,824	11,042	12,258	13,398	
Other Sales & Services	2,143	1,462	1,243	1,287	1,358	
Net Sales	21,773	21,966	28,092	32,103	35,643	
<i>Change (%)</i>	<i>18.6</i>	<i>0.9</i>	<i>27.9</i>	<i>14.3</i>	<i>11.0</i>	
Total Income	21,773	21,966	28,092	32,103	35,643	
Total Expenses	16,293	15,880	21,446	23,750	26,659	
EBITDA	5,480	6,087	6,646	8,352	8,983	
<i>Change (%)</i>	<i>1.1</i>	<i>11.1</i>	<i>9.2</i>	<i>25.7</i>	<i>7.6</i>	
<i>% of Net Sales</i>	<i>25.2</i>	<i>27.7</i>	<i>23.7</i>	<i>26.0</i>	<i>25.2</i>	
Depreciation	310	284	260	292	323	
EBIT	5,170	5,803	6,386	8,061	8,660	
Other Income	1,376	1,230	835	985	1,215	
Interest & Finance Charges	450	350	103	92	90	
Extraordinary Income	759	303	1028	0	0	
PBT	6,854	6,986	8,145	8,953	9,785	
Tax	1,633	2,210	2,846	3,089	3,356	
Deferred Tax	0	0	0	0	0	
<i>Effective Rate (%)</i>	<i>23.8</i>	<i>31.6</i>	<i>34.9</i>	<i>34.5</i>	<i>34.3</i>	
PAT	5,221	4,776	5,300	5,865	6,428	
Minority Interest	98	-213	-128	-102	-82	
Extraordinary Income	759	303	786	0	0	
Adj. PAT	4,365	4,686	4,641	5,967	6,510	
<i>Change (%)</i>	<i>14.9</i>	<i>7.3</i>	<i>-0.9</i>	<i>28.6</i>	<i>9.1</i>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	868	978	978	978	978	
Reserves	33,127	37,322	39,785	42,953	46,408	
Net Worth	33,995	38,300	40,763	43,931	47,386	
Minority Interest	948	22	0	0	0	
Loans	5,757	1,195	1,000	1,000	1,000	
Deferred tax liability	-113	-133	0	0	0	
Capital Employed	40,587	39,384	41,763	44,931	48,386	
Net Fixed Assets	17,423	18,479	18,735	18,947	19,126	
Capital WIP	669	1,108	600	600	600	
Investments	1,271	3,203	2,108	2,108	2,108	
Curr. Assets, Loans & P	27,026	24,435	28,163	32,291	36,560	
Program Films	4,532	4,671	5,413	6,355	7,153	
Inventory	44	42	43	51	57	
Sundry Debtors	6,437	7,488	8,466	9,675	10,742	
Cash & Bank Balances	1,926	5,864	8,699	10,317	12,358	
Loans & Advances	14,087	6,370	5,541	5,893	6,250	
Current Liab. & Prov.	5,803	7,840	7,842	9,015	10,008	
Sundry Creditors	3,250	4,376	3,995	4,425	4,967	
Other Liabilities	1,067	1,023	1,058	1,171	1,315	
Provisions	1,486	2,441	2,789	3,419	3,727	
Net Current Assets	21,223	16,594	20,321	23,276	26,552	
Misc. Exps.	0	0	0	0	0	
Appl. of Funds	40,587	39,384	41,764	44,930	48,386	

E: MGS Estimates

RATIOS		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
EPS	5.0	5.2	4.7	6.1	6.7	
Cash EPS	5.4	5.1	5.0	6.4	7.0	
Book Value per Share	39.2	39.2	41.7	44.9	48.4	
DPS	2.0	1.4	1.9	2.4	2.7	
Payout (Incl. Div. Tax) %	16.6	30.0	40.0	40.0	40.0	
Valuation						
P/E	22.8	21.9	24.1	18.8	17.2	
Cash P/E	21.3	22.5	22.9	17.9	16.4	
EW/EBITDA	9.8	17.6	15.7	12.3	11.2	
EV/Sales	2.5	4.9	3.7	3.2	2.8	
Price/Book Value	3.0	3.0	2.8	2.6	2.4	
Dividend Yield (%)	1.7	1.3	1.7	2.1	2.3	
Profitability Ratios (%)						
RoE	13.9	13.0	11.7	14.1	14.3	
RoCE	18.2	17.8	17.8	20.9	21.2	
Turnover Ratios						
Debtors (No. of Days)	108	124	110	110	110	
Inventory (No. of Days)	156	160	125	125	125	
Creditors (No. of Days)	73	75	68	68	68	
Asset Turnover (x)	0.5	0.6	0.7	0.7	0.7	
Leverage Ratio						
Debt/Equity (x)	0.2	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
OP/(Loss) before Tax	5,170	5,803	6,386	8,061	8,660	
Interest/Div. Received	1,376	1,230	835	985	1,215	
Interest paid	-450	-350	-103	-92	-90	
Depreciation & Amort.	310	284	260	292	323	
Direct Taxes Paid	-1,633	-2,210	-2,846	-3,089	-3,356	
(Inc)/Dec in Wkg. Capital	-5,719	8,567	-892	-1,337	-1,235	
CF from Oper. Activity	-946	13,324	3,640	4,819	5,517	
Extraordinary Items	759	303	786	0	0	
CF after EO Items	759	303	786	0	0	
(Inc)/Dec in FA + CWIP	-2,797	-1,779	-8	-503	-503	
(Pur)/Sale of Invest.	1,244	-1,932	1,095	0	0	
CF from Invest. Activiti	-1,553	-3,711	1,087	-503	-503	
Issue of Shares	992	-10	-869	-311	-369	
Incl/(Dec) in Debt	1,891	-4,562	-195	0	0	
Dividends Paid	-868	-1,406	-1,857	-2,387	-2,604	
Others	0	0	0	0	0	
CF from Finan. Activit	2,015	-5,978	-2,921	-2,697	-2,973	
Incl/(Dec) in Cash	274	3,938	2,835	1,619	2,041	
Add: Beginning Balance	1,652	1,926	5,864	8,699	10,317	
Closing Balance	1,926	5,864	8,699	10,318	12,358	



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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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