SSKI

INDIA RESEARCH

13 December 2006

BSE Sensex: 13181

Zee Telefilms

Rs335

OUTPERFORMER

Event Update – Restructuring

Mkt Cap: Rs138bn; US$2.9bn

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As per the scheme of demerger, Zee Telefilms ceases to trade as a combined entity on 15th December. From 18th December 2006, Zee Telefilms (renamed as Zee Entertainment Enterprises Limited) will trade at price adjusted to demerger of Wire and Wireless India Limited (Siticable) and Zee News Limited. While we expect WWIL and Zee News to get listed by February 2007, demerger and listing of Dish TV (DTH business) as separate entity will happen by March 2007.

We continue to maintain our positive bias over the business direction of Zee Telefilms – rapidly improving content, aggressive content marketing, investment on both the distribution platforms – DTH and Siticable and willingness to bleed. While we are confident of strong growth in the broadcasting operations, capitalization of distribution businesses, WWIL in particular, will hold the key to growth of distribution business. Based on sum of parts valuations, we expect Zee Telefilms to get repriced at Rs255-275 on 18th December (post demerger). Reiterate Outperformer.

❑ Scheme of Demerger

Zee Telefilms is demerging its business into four separate entities, viz. Zee Entertainment Enterprises Limited (Global Broadcasting business), Zee News Limited (News channels and regional channels), WWIL (Siticable) and Dish TV (DTH business). The rationale of the demerger is to scale up investments in distribution business, reduce complexities and focused growth.

Post demerger, existing shareholders of Zee Telefilms will hold 100% in Zee Entertainment, 80% in Zee News, 98% in WWIL and 57% in Dish TV. As per the scheme, a shareholder currently holding 100 shares of Zee Telefilms will be entitled to 100 shares in Zee Entertainment, 50 shares in WWIL, 230 shares in Dish TV (however, 57 shares post adjustment of share capital reduction by 75%) and 137 shares of Zee News (45 shares post adjustment of capital reduction).

Scheme of Demerger

Company	Shares in new entity for every 100 shares currently held	Total Equity Shares (no. m)	% holding of existing shareholders
Zee Entertainment Enterprises Limited (ZEEL)	100	465	100
Zee News (ZNL)	45 (post reduction)	262	80
WWIL	50	237	98
Dish TV	57 (post reduction)	465	57

Source: SSKI Research, Company

Key dates

	Date
Effective date of WWIL and ZNL's demerger	22nd November 2006
Trading of Zee on demerger of WWIL and ZNL	18th December 2006
Book Closure Date	24th – 28th December 2006

We expect listing of WWIL and ZNL to happen by February 2007. Record date for demerger of DTH business will be announced later and listing of the same is expected to happen by March 2007.

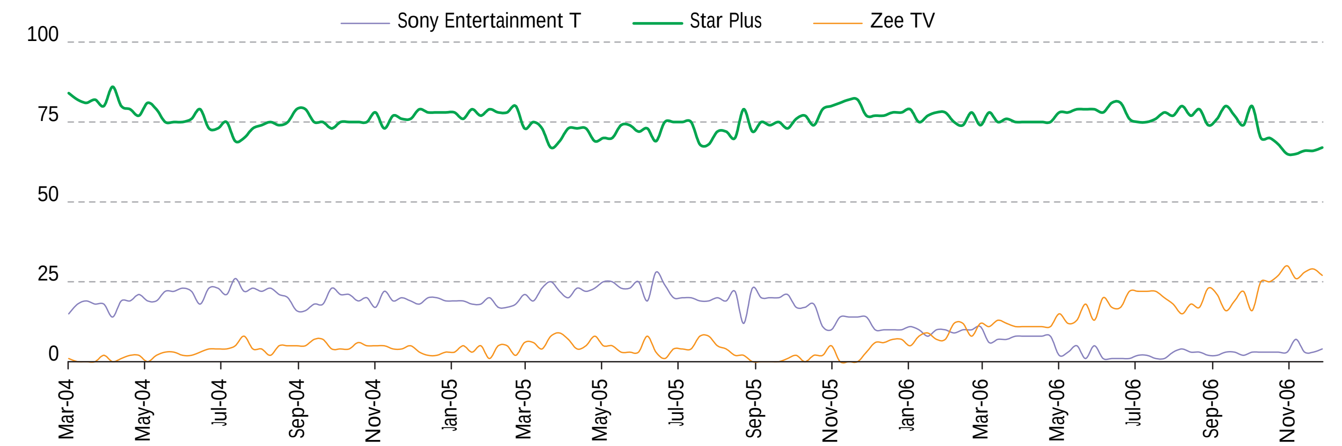
❑ Attractive business – making right moves

We continue to maintain our positive bias on the business, as Zee makes right moves across businesses and also on account of structural shift underway on the broadcast distribution business in India. While Zee continues to focus on content investment in the broadcasting business, it has upped its ante in the distribution business as well. With distribution scenario improving in India, we also see an incremental potential PBT of Rs3bn in Zee broadcasting business over the next 3 years.

Content investment continues

The core general broadcasting business continues to be driven by content enhancement. 12 of the Zee's shows consistently feature amongst the top 50 and Zee is the only player gaining viewership share. Zee dominates 6-8pm and 9-10pm slots. Besides, the pipeline is also strong given the fact that Zee has 4 different shows featuring high in the ranking. We like the fact that Zee continues to focus on content enhancement over profitability. Zee now spends 65% of the revenues on transmission and programming as against 35-40% spent historically.

Improving ratings – Top 100



Source: Published data

Zee broadcasting – Rs3bn in waiting

We believe that Indian broadcasting space will now be driven by the distribution businesses (CAS, DTH). Structural shift is evident as macro dynamics and government policies drive higher declaration levels in India. We believe that a strong broadcast property stands to gain the most. Given the strong and complete broadcasting bouquet of Zee, we believe that Zee's broadcasting business is the natural beneficiary, irrespective of who wins the distribution war. If incremental declaration levels in India move up by 10m C&S households by 2010, Zee can garner Rs3bn of annual subscription revenue, largely flowing down to the bottomline.

Acquisition of Ten Sports

With a view to strengthen its position in sports genre and consolidate the market, Zee Telefilms (Zee) has acquired 50% stake in Taj TV, which owns Ten Sports. Ten Sports clocked revenues of USD60m, EBITDA of USD15m and PAT of USD8.5m in FY06. We are enthused with the strategic value that the acquisition can bring on table as also the attractive valuations (2.2x revenues). Ten Sports has rights for some of the strongest sports properties including cricket telecast rights from the boards of Sri Lanka, Pakistan and West Indies, Men's Hockey World Cup, US Open, WWE, UEFA Champions League, etc. We see this move as a major positive on account of a) strong sports property, b) synergy with Zee Sports c) consolidation in the market and also attractive valuations.

WWIL – Capitalization is must

Zee has charted out aggressive expansion plans in the cable distribution business and has lined up investment of over Rs5bn towards STB subsidies, Triple Play and LCO acquisition. With CAS implementation in notified areas happening by 1st January 2007 and emergence of competitive distribution platform like DTH forcing LCOs to align with MSOs, we see immense growth potential in the cable distribution business. However, we have reservation over ability to grow through LCO acquisition in the long run. The key monitorable in the Siticable operations will remain capitalization of the business by a financial or a strategic investor.

DTH – Scaling up

With Tata Sky not making aggressive moves on subsidizing, Zee gets significant room to scale up its subscriber base. Currently Zee has 1.6m DTH subscribers. Zee has lined up investment of Rs3bn in the business. While currently the players are not subsidizing, we believe that going forward players will have to bleed to ensure growth, as witnessed in the US market.

❑ Demerged price in the Rs255-275 range

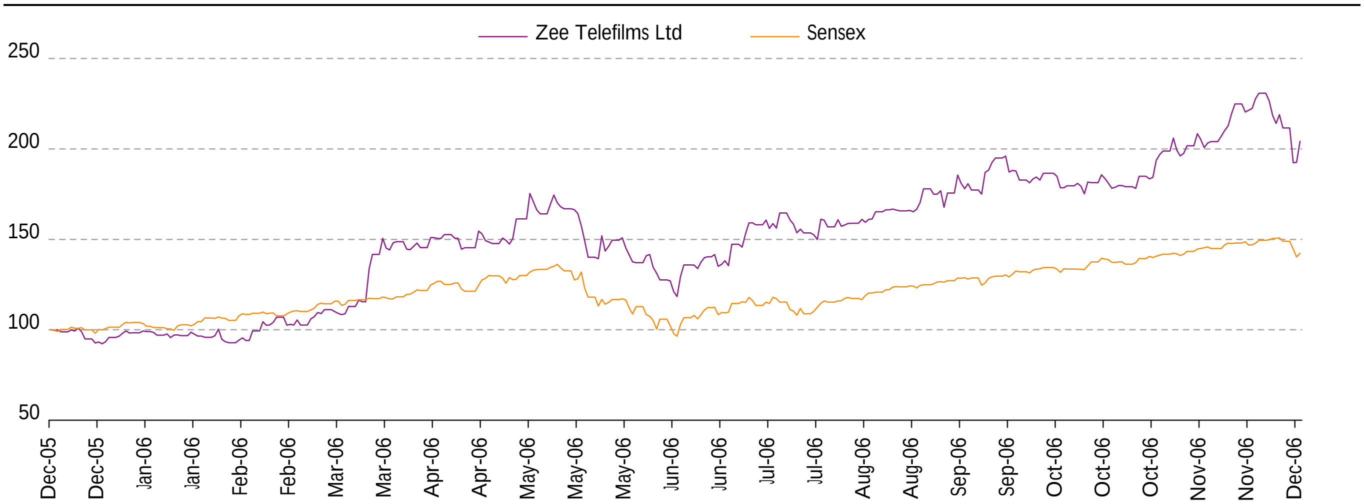
We have valued ZEEL at 25x FY08E earnings (including Ten Sports), ZNL at 3x FY08 revenues (similar to TV Today's valuations), WWIL at USD250 for paid subscriber and USD50 for unpaid and DTH business also at USD250 per subscriber. As Zee's price gets adjusted to WWIL and ZNL's demerger, fair value of Zee is expected to be in the price band of Rs255-275.

Sum of part valuation

	Basis of Valuations	Total value (Rs m)	Existing shareholder's holding (%)	Accrued Value (Rs m)	Per Share (Rs)
Zee Telefilms (including Ten Sports)	25x FY08E earnings	100,000	100.0%	100,000	215 -230
Zee News	3x FY08 revenues	7,500	80.0%	6,000	13 - 15
WWIL*	EV/ Sub of USD250 for paid EV/ Sub of USD50 for non-paid	24,300	98.0%	23,814	51 - 55
Dish TV	EV/ Sub of USD250 for paid	33,750	57.0%	19,238	41 - 45
Total		**165,550**		**149,052**	**320 - 345**

**-valued as ongoing concern*

Relative price performance



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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

1. SSKI and its affiliates have not received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and Other corporate advisory services.
2. Affiliates of SSKI are currently having a mandate from the subsidiary company of Zee Telefilms Ltd.
3. SSKI and its affiliates do not hold paid up capital of the company.
4. The Equity Analyst and his/her relatives/dependents hold no shares of the company covered as on the date of publication of research on the subject company.