

# ZEE TELEFILMS DE-MERGER

## Restructuring to unlock shareholder value

Zee Telefilms Ltd has approved the de-merger of the company within 4 entities viz. Zee Telefilms Ltd (ZTL), Zee News Ltd (ZNL), Wire and Wireless (India) Ltd (WWIL) and Siti Cable Network Ltd. The ex date for the de-merger has been fixed on 18th December. The shares in ZEE Telefilms (de-merged), which would get listed on the ex-date would also incorporate the value of Dish TV. The de-merger of Dish TV business from ZEE Telefilms (de-merged) would take place at a later date. The other 2 entities viz. ZEE News Ltd and Wire and Wireless India Ltd are expected to get listed by mid of January 2007.

We believe that from a long term perspective, Zee is well placed to benefit from the changing media landscape on account of implementation of CAS in metros and emergence of DTH as an alternate distribution platform. We are positive on Zee's restructuring and believe that it will unlock value for the shareholders. It will result in content and distribution businesses, which have different revenue streams and capital requirements, being attributed appropriate risk and valuation, thereby reducing conglomerate discount. It will open up possibilities to bring in strategic/financial partners, especially in distribution businesses, thereby bringing in the advantage of an external validation on business model and valuation.

We have attempted a sum of parts valuation for Zee Telefilms by valuing each of the four businesses separately. In each case, we have built scenarios so as to get a range that captures the potential upsides and downsides.

Taking the pessimistic and optimistic scenarios for valuation of the individual entities in the above two methods, we get a valuation range of INR 312 – INR 397 for per share of Zee Telefilms share and hence recommend investors to buy the stock (detailed working is given on page 2).

Entity	(INR bn)	
	Lower End	Upper End
ZTL	75	87
Dish TV (57% to ZTL)	19	27
ZNL (81.3% to ZTL)	10	12
WWIL	25	38
No of Shares (mn)	415	415
Price/share of Zee Telefilms	312	397

Note: Zee Telefilms (merged) shareholders will hold 100% of ZTL and WWIL, and 81.3% and 57% of ZNL and Dish TV respectively.

### Schedule of activities

The expiry day for all the F&O contracts is on December 15, 2006. The ex-date for the de-merger is set on December 18, 2006 and on the same day derivatives contracts of ZEE Tele (de-merged) will get reintroduced. The last date for buying the shares in order to be eligible for receiving the de merged entities is 15th Dec, 2006 as no delivery period would start from 18th Dec '06 and go on till 22nd Dec '06. The book closure date for determining shareholders entitled for allotment of shares pursuant to de-merger has been fixed from December 24, 2006 to December 28, 2006

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### ZEE Telefilms

Bloomberg Code	NZ
Cash Price	342
Futures Price (Dec)	341
Market Cap	148,101
52 Week High/Low	381/149

\* Mkt. Cap & Volume in INR mn

### Time line

Expiry of F&O	15 Dec '06
Introduction of new F&O contracts	18 Dec '06
Ex Date	18 Dec '06
No delivery period	18 Dec '06 to 23 Dec '06
Record date	24 Dec '06 to 28 Dec '06

### Swap Ratio

For every 100 shares of ZTL	45 shares of ZNL
	50 Shares of WWIL

Listing of ZNL & WWIL is expected to take place by Jan 07

## Sum of Parts Valuation

### ZTL

ZTL is a stable business and can be valued on a PE multiple basis. We estimate that ZTL will make PAT of INR 3.0 bn in FY08. The valuation of ZTL works out to between INR 75 bn and INR 87 bn assuming the range of PE multiple between 25x and 29x.

#### Valuation of ZTL (INR bn)

PAT	Price/Earning Multiple		
	25	27	29
3.00	75	81	87

### Dish TV

We value Dish TV at a multiple of number of months of sales for subscribers it will have in Mar-08. The idea is that an investor in the company will be willing to pay for certain months of ARPU. We have drawn three scenarios at 48, 54 and 60 months of sales with an ARPU of INR 250 (Zee Telefilms shareholders will get 57% share in Dish TV). The valuation of Dish TV works out in the range of INR 34 bn to INR 48 bn.

#### Valuation of Dish TV @ ARPU of INR 250 (INR bn)

Subscribers	Months of Sales		
	48	54	60
2.80	34	38	42
3.00	36	41	45
3.20	38	43	48

### ZNL

We estimate that ZNL will make PAT of INR 0.5 bn in FY08. The valuation of ZNL works out to between INR 13 bn and INR 15 bn assuming the range of PE multiple between 25x and 29x (value to the shareholders of Zee Telefilms will be 81.3% of the value in the table below).

#### Valuation of ZNL (INR bn)

PAT	Price/Earning Multiple		
	25	27	29
0.50	13	14	15

### WWIL

Similar to Dish TV, we value WWIL at a multiple of number of months of sales for a given number of paid subscribers in Mar-08 and a certain discount to that for the non-paying subscribers. WWIL has 6.7 mn subscribers at present out of which 0.8 mn subscriber are declared. We estimate that the total number of subscribers will grow to 8 mn by Mar-08. We further estimate that 2 mn out of these 8 mn subscribers will be declared. We have drawn three scenarios with 48, 54 and 60 months of sales for 2 mn declared subscribers at an ARPU of INR 200. For the remaining subscribers, we have discounted the ARPU by 90%, 85% and 80% respectively. The valuation of WWIL works out in the range of INR 25 bn to INR 38 bn under different scenarios.

#### Valuation of WWIL @ ARPU of INR 200 (INR bn)

Discount Factor	Months of Sales		
	48	54	60
90%	25	28	31
85%	28	31	35
80%	31	35	38

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Gautam Roy	- 2286 4305	Airlines, Textile	Rajesh Makharia	- 2286 4202
Ashutosh Goel	- 2286 4287	Automobiles, Auto Components	Shabnam Kapur	- 2286 4394
Vishal Goyal, CFA	- 2286 4370	Banking & Finance	Amish Choksi	- 2286 4201
Revathi Myneni	- 2286 4413	Cement	Deepak Rao	- 2286 4204
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Priyanko Panja	- 2286 4300	Infrastructure, Engineering, Telecom	Ashish Agrawal	- 2286 4301
Hitesh Zaveri	- 2286 4424	Information Technology	Nikhil Garg	- 2286 4282
Priyank Singhal	- 2286 4302	Media, Retail	Swati Khemani	- 2286 4266
Prakash Kapadia	- 2286 4432	Mid Caps	Neha Shahra	- 2286 4276
Niraj Mansingka	- 2286 4304	Oil & Gas, Petrochemicals	Priya Ramchandran	- 2286 4389
Nimish Mehta	- 2286 4295	Pharmaceuticals, Agrochemicals	Anubhav Kanodia	- 2286 4361
Manika Preamsingh	- 4019 4847	Economist	Tushar Mahajan	- 2286 4439
Sunil Jain	- 2286 4308	Alternative & Quantitative	Harsh Biyani	- 2286 4419
Yogesh Radke	- 2286 4328	Alternative & Quantitative	Nirmal Ajmera	- 2286 4258
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**RATING INTERPRETATION**

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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