

Zee Entertainment Enterprises

BSE SENSEX	S&P CNX	CMP: INR113	TP: INR110	Neutral						
17,025	5,118									
Bloomberg	Z IN									
Equity Shares (m)	978.1									
52-Week Range (INR)	153/106									
1,6,12 Rel. Perf. (%)	-1/3/-1									
M.Cap. (INR b)	110.5									
M.Cap. (USD b)	2.3									
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EYI	EVI
END	(INR M)	(INR M)	(INR)	GR (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	21,966	4,686	5.2	4.1	-	-	13.0	17.8	-	-
3/11A	29,414	5,852	6.0	14.4	18.9	3.7	16.9	23.8	3.6	14.1
3/12E	29,183	6,065	6.2	3.6	18.2	3.3	18.6	27.3	3.6	12.9
3/13E	32,101	6,657	6.8	9.8	16.6	3.0	18.5	27.7	3.2	11.7

- Zee Entertainment Enterprises' (Z) 2QFY12 PAT grew 24% YoY to INR1.56b (against our estimate of INR1.6b) supported by higher other income, lower sports losses and a lower tax rate.
- While ad revenue declined ~4% YoY to INR3.95b, subscription revenue grew ~6% YoY to INR2.91b.
- There was 10% negative impact on reported domestic subscription revenue (no EBITDA impact) due to a change in accounting (newly formed JV, Media Pro with Start Den).
- The sports business' operating loss of INR226m was broadly in line with estimates. The management reiterated a cap of INR1b for losses from the sports business in FY12.
- Core (ex-sports) EBITDA declined 5% YoY to INR2.3b and margins declined ~440bp YoY to 36.5%.
- Ad growth environment remains sluggish with no significant recovery during the festive season. 1HFY12 ad revenue declined 2% YoY.
- We expect margins to be under pressure due to muted ad growth and the planned investment in programming.
- Given continued pressure on industry ad spends and channel ratings we downgrade our FY12 and FY13 ad revenue estimates by ~5% (expect 5% YoY decline in FY12), EBITDA by 5-8% and EPS by 6-9%.
- Our revised estimates imply earnings CAGR of ~7% over FY11-13. The stock trades at a P/E of 18.2x FY12E and 16.6x FY13E.
- Maintain **Neutral** with a revised price target of INR110 (INR134 earlier) based on 16x FY13E EPS (~25% discount v/s median P/E).

Quarterly Performance

(INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Advertising Revenue	3,769	4,122	4,398	4,797	3,787	3,949	4,237	4,321	17,085	16,295
Subscription Revenue	2,614	2,737	2,818	3,107	3,051	2,910	2,942	3,063	11,275	11,966
Other Sales and Services	387	257	333	76	145	324	227	227	1,053	923
Net Sales	6,770	7,116	7,548	7,980	6,983	7,184	7,406	7,611	29,414	29,183
Change (%)	42.2	31.7	42.2	22.9	3.2	1.0	-1.9	-4.6	33.9	-0.8
Prog, Transmission & Direct Exp	3,050	3,458	4,152	3,730	3,423	3,224	3,353	3,410	14,391	13,409
Staff Cost	597	643	687	825	747	688	695	760	2,752	2,889
Selling and Other Exp	1,252	1,130	1,169	1,156	1,253	1,197	1,173	1,149	4,706	4,771
EBITDA	1,870	1,885	1,541	2,268	1,560	2,076	2,186	2,292	7,565	8,114
Change (%)	59.8	25.0	-2.0	23.5	-16.5	10.1	41.9	1.0	24.3	7.3
As of % Sales	27.6	26.5	20.4	28.4	22.3	28.9	29.5	30.1	25.7	27.8
Depreciation	62	56	78	68	89	78	80	85	288	332
Interest	51	5	24	23	30	56	28	28	103	142
Other Income	126	240	232	228	255	279	277	278	1,070	1,089
Extraordinary items	328		700	-131	0	0	0	0	897	0
PBT	2,211	2,064	2,372	2,275	1,696	2,221	2,355	2,457	9,140	8,729
Tax	710	801	818	356	394	621	787	817	2,751	2,619
Effective Tax Rate (%)	32.1	38.8	34.5	15.7	23.2	28.0	33.4	33.2	30.1	30.0
PAT	1,500	1,263	1,554	1,918	1,302	1,600	1,568	1,640	6,390	6,110
Minority Interest	-38	1	-45	-36	-35	40	20	21	-118	45
Adj PAT after Minority Interest	1,211	1,262	1,141	2,085	1,337	1,560	1,548	1,620	5,852	6,065
Change (%)	18.8	10.6	-8.8	63.7	10.4	23.6	35.7	-22.3	24.9	3.6

E: MOSL Estimates

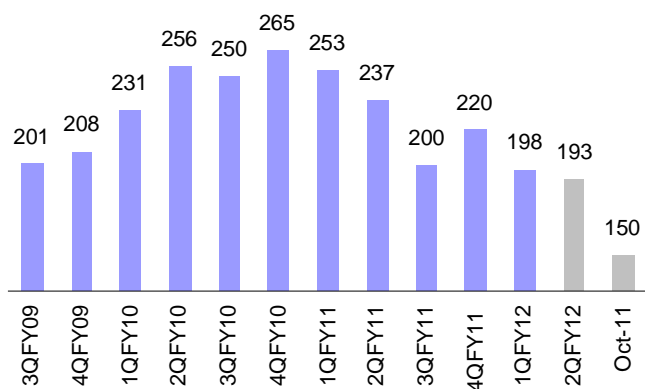
Key result highlights

- Revenue grew 1% YoY and 2.9% QoQ to INR7.2b (3% below our estimates).
- Ad revenue declined 4.2% YoY but grew 4.3% QoQ to INR3.95b (against our estimate of INR4.1b).
- Reported subscription revenue increased 6.3% YoY but declined 4.6% QoQ to INR2.9b.
- On a like-to-like basis, after adjusting for accounting changes related to formation of Media Pro Enterprises (distribution JV with Star Den), subscription revenue grew 13% YoY and ~1% QoQ (in line with our estimates).
- Operating expenses declined 6% YoY and 2% QoQ to INR5.1b (against our estimate of INR5.2b).
- EBITDA grew 10% YoY and 33% QoQ to INR2.1b (against our estimate of INR2.2b). EBITDA margin grew to 28.9%.
- Sports business revenue declined 26% YoY to INR881m resulting in an EBITDA loss of INR226m (against our estimate of INR200m).

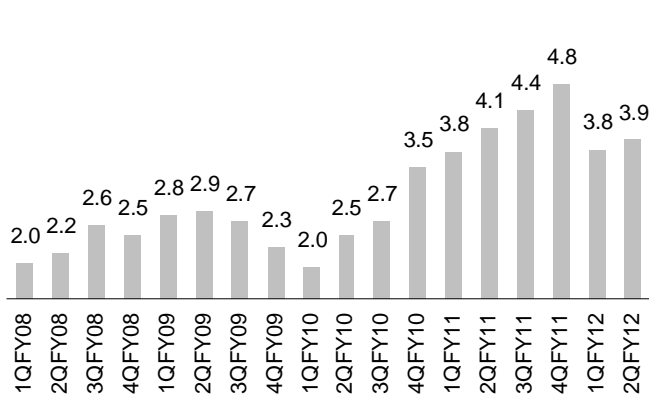
Ad revenue declines YoY on macro slowdown, increased competition

- Zee Entertainment Enterprises' (Z) advertising revenue declined 4.2% YoY but grew 4.3% QoQ to INR3.95b, led by a slowdown in the macroeconomic environment and pressure on relative market shares.
- The ad growth environment remains uncertain with no major recovery during the festive season.
- Lower ratings partially impacted Zee TV's ad revenue. Zee TV has been facing significant competition in its key genres and has lost relative market share in Hindi and Marathi GEC.
- We believe Z might have to invest more in content due to increased competition in its key genres.
- The management said that despite a tough ad environment, it would continue with its plan to increase original programming hours/week on its flagship Zee TV from 28-29 currently to 32-33 by 4QFY12.

**Zee TV 2QFY12 average GRP down 3% QoQ;
Down further 22% in October 2011**

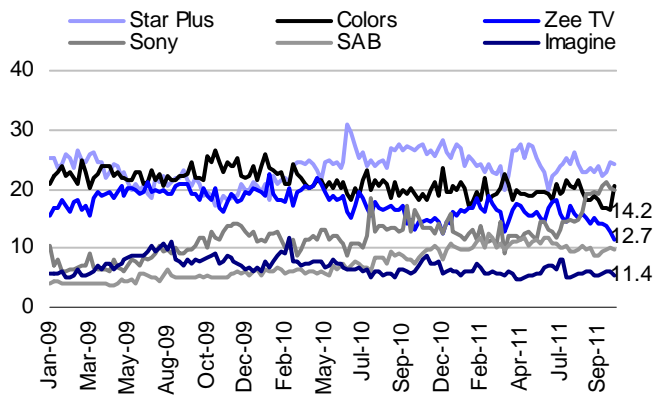


Advertising revenue largely flat sequentially (INR b)

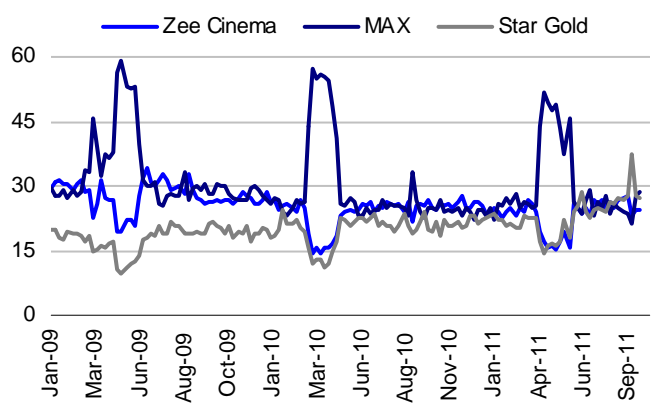


Source: Company/MOSL

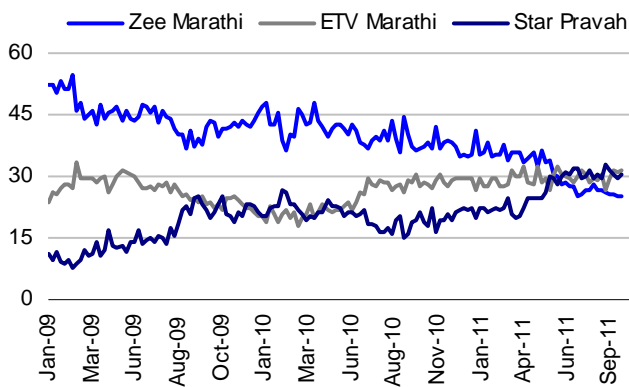
Z's Hindi GEC relative channel share falls to ~12%



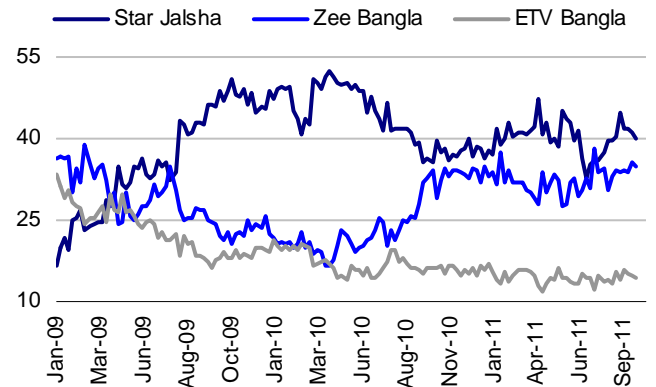
Hindi movies relative channel share: Three-way competition



Z Marathi GEC relative channel share down to No3



Bengali GEC relative channel share: Z fights back strongly

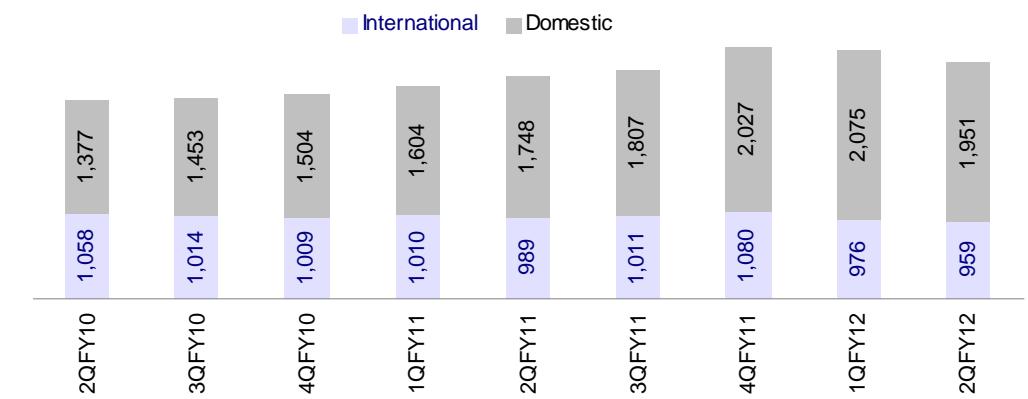


Source: Company/MOSL

Subscription revenue down 5% QoQ on weak international analog revenue, change in accounting treatment

- 2QFY12 subscription revenue was INR2.9b, up 6% YoY, down 5% QoQ.
- International subscription revenue declined 3% YoY and 2% QoQ to INR959m due to de-growth in Europe/UK markets.
- Domestic subscription revenue declined 6% QoQ but grew 12% YoY to INR1.95b.

Subscription revenue (INR m)

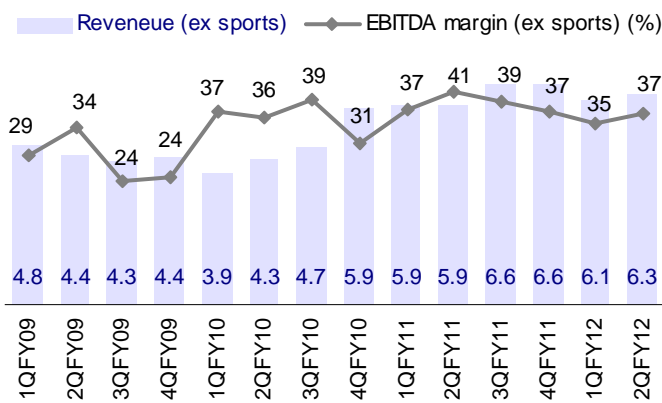


Source: Company/MOSL

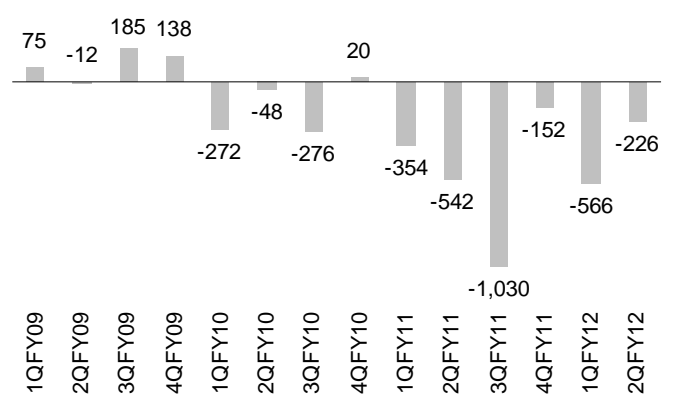
Sports losses broadly in line; Management maintains guidance of less than INR1b loss in sports business in FY12

- Consolidated EBITDA margin was 28.9% (up 239bp YoY and 654bp QoQ) against our estimate of 29.2%.
- Core EBITDA margin (excluding the sports business) increased by ~170bp to 36.5%.
- Sports revenue was INR881m (down 26% YoY) and operating costs in the sports business were INR1.1b (down 23% QoQ) resulting in EBITDA loss of INR226m against loss of INR566m in 1QFY12.
- Z's management maintained sports loss guidance in FY12 at INR1b, implying meaningful recovery in 2HFY12 (1HFY12 sports loss of INR792m).
- Z extended the rights for the South Africa cricket board, reaffirming its commitment to the sports business despite profitability pressure.

Estimated trend in EBITDA, margins ex-sports (INR b)



Operating profit/loss ex one-offs in the sports business (INR m)



Source: Company/MOSL

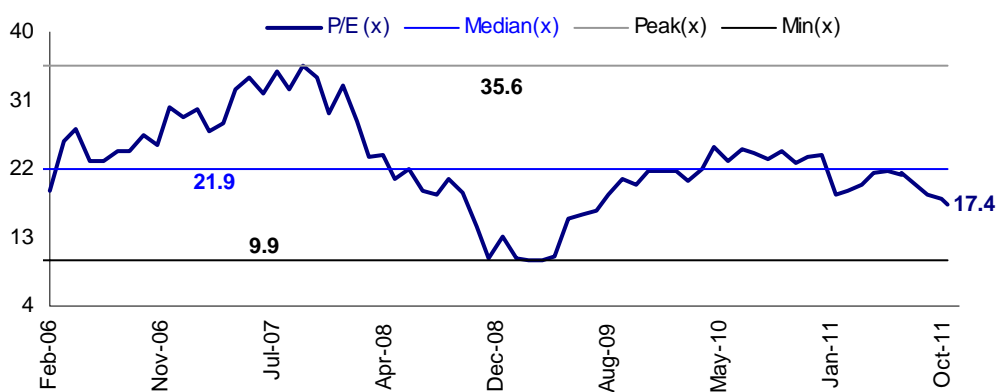
Downgrading earnings by 6-9%; Maintain Neutral, revised target price of INR110 (INR134 earlier)

- The ad growth environment remains sluggish with no significant recovery during the festive season. 1HFY12 ad revenue declined 2% YoY.
- We expect margins to be under pressure due to muted ad growth and planned investment in programming.
- Given continued pressure on industry ad spends and channel ratings we downgrade our FY12 and FY13 ad revenue estimates by ~5% (expect 5% YoY decline in FY12), downgrade estimates of EBITDA by 5-8% and of EPS by 6-9%.
- Our revised estimates imply earnings CAGR of ~7% over FY11-13. The stock trades at a P/E of 18.2x FY12E and 16.6x FY13E.
- Maintain **Neutral** with a revised price target of INR110 (INR134 earlier) based on 16x FY13E EPS (~25% discount to median P/E).

Summary of estimate change (INR b)

	FY12E	FY13E
Ad revenue		
Old	17.1	18.9
New	16.3	18.0
Change (%)	-4.8	-4.9
Subscription revenue		
Old	12.6	14.1
New	12.0	13.2
Change (%)	-5.0	-6.2
Total revenue		
Old	30.3	33.6
New	29.2	32.1
Change (%)	-3.8	-4.4
EBITDA		
Old	8.5	9.5
New	8.1	8.8
Change (%)	-4.5	-8.1
EBITDA margin (%)		
Old	28.0	28.4
New	27.8	27.4
Change (bp)	-19	-108
PAT		
Old	6.4	7.3
New	6.1	6.7
Change (%)	-5.7	-8.8
EPS (INR)		
Old	6.6	7.5
New	6.2	6.8
Change (%)	-5.7	-8.8

Source: MOSL

Zee: one-year forward P/E band

Source: MOSL

Zee Entertainment Enterprises: an investment profile

Company description

Zee Entertainment Enterprises (Z) 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. After the recent merger with Zee News, the company added regional channels like Zee Telugu, Zee Kannada, Zee Marathi and Zee Bangla to its portfolio. Zee has the world's largest Hindi film library of over 3,000 titles. Zee has well-established reach of over 500m viewers across 167 countries.

Key investment arguments

- With its offering of 24 channels, Z addresses ~64% of the viewership market in India and has a pan-India market share of ~11%.
- Z's flagship channel Zee TV slipped to fourth place in the Hindi GEC segment.
- We expect ad revenue to decline by ~5% in FY12 and grow ~10% in FY13.
- Ad growth environment remains sluggish with no significant recovery during the festive season. 1HFY12 ad revenue declined 2% YoY.
- We expect margins to be under pressure due to muted ad growth and planned investment in programming.

Comparative valuations

		ZEEL	Sun TV
P/E (x)	FY12E	18.2	13.0
	FY13E	16.6	11.0
EV/EBITDA (x)	FY12E	12.9	6.2
	FY13E	11.7	5.1
EV/Sales (x)	FY12E	3.6	5.0
	FY13E	3.2	4.1
P/BV (x)	FY12E	3.3	3.9
	FY13E	3.0	3.4

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	43.3	42.8	42.8
Domestic Inst	13.2	14.3	18.1
Foreign	35.3	35.5	30.3
Others	8.2	7.5	8.8

Key investment risks

- Higher-than-expected losses could occur in the sports business.
- The ratings gap is increasing with the market leader in Hindi GEC. This could prove to be negative for ad revenue momentum and cost control.

Recent developments

- Z bought back 13.7m equity shares under the "open market" mechanism for a total outlay of INR1.64b.
- With the government clearing an ordinance for the digitization of cable network, major broadcasters like Z are likely to benefit.

Valuation and view

- Ad growth environment remains sluggish with no significant recovery during the festive season. 1HFY12 ad revenue declined 2% YoY.
- We expect margins to be under pressure due to muted ad growth and the planned investment in programming.
- Given continued pressure on industry ad spends and channel ratings we downgrade our FY12 and FY13 ad revenue estimates by ~5% (expect 5% YoY decline in FY12), downgrade estimates for EBITDA by 5-8% and for EPS by 6-9%. Our revised estimates imply earnings CAGR of ~7% over FY11-13. The stock trades at a P/E of 18.2x FY12E and 16.6x FY13E.
- Maintain **Neutral** with a revised target price of INR110.

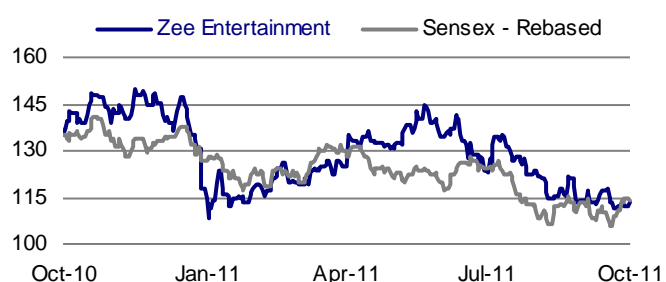
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	6.2	6.3	-2.2
FY13	6.8	7.5	-8.9

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
113	110	-2.7	Neutral

Stock performance (1 year)



Financials and valuations

Income Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Advertisement Revenues	10,680	17,085	16,295	17,981	
Subscription Revenues	9,824	11,275	11,966	13,192	
Other Sales & Services	1,462	1,053	923	928	
Net Sales	21,966	29,414	29,183	32,101	
Change (%)	0.9	33.9	-0.8	10.0	
Total Income	21,966	29,414	29,183	32,101	
Total Expenses	15,880	21,849	21,069	23,321	
EBITDA	6,087	7,565	8,114	8,780	
Change (%)	11.1	24.3	7.3	8.2	
% of Net Sales	27.7	25.7	27.8	27.4	
Depreciation	284	288	332	374	
EBIT	5,803	7,276	7,782	8,406	
Other Income	1,230	1,070	1,089	1,558	
Interest & Finance Charges	350	103	142	122	
Extraordinary Income	303	897	0	0	
PBT	6,986	9,140	8,729	9,843	
Tax	2,210	2,751	2,619	3,150	
Effective Rate (%)	31.6	30.1	30.0	32.0	
PAT	4,776	6,390	6,110	6,693	
Minority Interest	-213	-118	45	36	
Extraordinary Income	303	656	0	0	
Adj. PAT	4,686	5,852	6,065	6,657	
Change (%)	7.3	24.9	3.6	9.8	

Balance Sheet		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	978	978	978	978	
Reserves	37,322	29,970	33,189	36,723	
Net Worth	38,300	30,948	34,167	37,701	
Minority Interest	22	-119	-119	-119	
Loans	1,195	17	17	17	
Deffered tax liability	-133	-192	0	0	
Capital Employed	39,384	30,654	34,065	37,599	
Net Fixed Assets	18,479	8,064	8,039	8,165	
Capital WMP	1,108	399	399	399	
Investments	3,203	6,964	6,964	6,964	
Curr. Assets, Loans&Adv.	24,435	23,026	26,517	30,498	
Program Films	4,671	5,382	5,357	5,912	
Inventory	42	14	45	49	
Sundry Debtors	7,488	8,955	9,754	10,730	
Cash & Bank Balances	5,864	3,858	6,164	8,091	
Loans & Advances	6,370	4,818	5,197	5,717	
Current Liab. & Prov.	7,840	7,801	7,854	8,428	
Sundry Creditors	4,376	4,238	4,329	4,792	
Other Liabilities	1,023	1,077	1,039	1,150	
Provisions	2,441	2,486	2,486	2,486	
Net Current Assets	16,594	15,225	18,663	22,070	
Appl. of Funds	39,384	30,654	34,066	37,599	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Basic (INR)					
EPS	5.2	6.0	6.2	6.8	
Cash EPS	5.1	6.3	6.5	7.2	
Book Value per Share	39.2	31.6	34.9	38.5	
DPS	1.4	2.4	2.5	2.7	
Payout (Incl. Div. Tax) %	30.0	40.0	40.0	40.0	
Valuation					
P/E		18.9	18.2	16.6	
Cash P/E		18.0	17.3	15.7	
EV/EBITDA		14.1	12.9	11.7	
EV/Sales		3.6	3.6	3.2	
Price/Book Value		3.7	3.3	3.0	
Dividend Yield (%)		2.1	2.2	2.4	
Profitability Ratios (%)					
RoE	13.0	16.9	18.6	18.5	
RoCE	17.8	23.8	27.3	27.7	
Turnover Ratios					
Debtors (No. of Days)	124	111	122	122	
Inventory (No. of Days)	160	115	120	120	
Creditors (No. of Days)	101	71	75	75	
Asset Turnover (x)	0.6	1.0	0.9	0.9	
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
OP/(Loss) before Tax	5,803	7,276	7,782	8,406	
Interest/Div. Received	1,230	1,070	1,089	1,558	
Interest paid	-350	-103	-142	-122	
Depreciation & Amort.	284	288	332	374	
Direct Taxes Paid	-2,210	-2,751	-2,619	-3,150	
(Inc)/Dec in Wkg. Capital	8,567	-638	-1,131	-1,480	
CF from Oper. Activity	13,324	5,143	5,311	5,587	
Extraordinary Items	303	656	0	0	
CF after EO Items	303	656	0	0	
(Inc)/Dec in FA + C/M/P	-1,779	10,835	-306	-500	
(Pur)/Sale of Invest.	-1,932	-3,761	0	0	
CF from Invest. Activity	-3,711	7,074	-306	-500	
Issue of Shares	-10	-11,602	-272	-497	
Inc/(Dec) in Debt	-4,562	-1,178	0	0	
Dividends Paid	-1,406	-2,341	-2,426	-2,663	
Others	0	0	0	0	
CF from Finan. Activity	-5,978	-15,121	-2,699	-3,159	
Inc/(Dec) in Cash	3,938	-2,006	2,306	1,927	
Add: Beginning Balance	1,926	5,864	3,858	6,164	
Closing Balance	5,864	3,858	6,164	8,091	

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

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 |

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com