

ZEE NEWS

Robust show; best play in news broadcasting space

■ **Ad revenues up in festive season; new channels gain traction**

Zee News (ZNL) reported revenues of INR 744 mn in Q3FY11 (ahead of our estimate of INR 676 mn). Ad revenues grew 33% Q-o-Q to INR 542 mn; for 9mFY11, ad revenues were up 21.5% over 9mFY10 - impressive, considering the latter was boosted by General Elections related ad spends. Subscription revenues for Q3FY11, at INR 186 mn, were down 4% Q-o-Q as ZNL signed fixed fee deal with Tata Sky.

■ **EBITDA expands with lower new channel losses**

EBITDA stood at INR 135 mn (against estimated INR 81 mn), up 92% Q-o-Q. EBITDA margins for Q3FY11 stood at 18% against 11% in Q2FY11. The robust EBITDA margin expansion was driven by programming and employee costs (as a percentage of sales) going down 630bps and 340bps, respectively. SG&A expenses (as a percentage of sales), however, increased 300bps Q-o-Q. The existing channels, Zee News, Zee Business, Zee 24 Taas, Zee Punjabi, and 24 Ghanta, reported EBITDA of INR 225 mn and EBITDA margin of 32.6%. The new channels, Zee News UP, Zee 24 Gantalu, and Zee Tamil, continued to report operating loss of INR 91 mn (against INR 261 mn in Q2FY11).

■ **PAT surges on the back of strong operating level performance**

Q3FY11 reported PAT, at INR 62 mn (against our estimate of INR 31 mn), was up from just INR 2 mn in Q2FY11, aided by the strong operating level performance. Interest cost has dropped 26% Y-o-Y.

■ **An all-round performance**

Zee News, ZNL's flagship channel, was No. 1 in the prime time slot in the top 8 metros. 24 Ghanta was No. 1 in Q3FY11 in the West Bengal news market, both in terms of time spent per viewer and relative share. Zee Tamiz has been closing in on the 100 GRP mark in the Tamil market. Other new channels, Zee 24 Gantalu and Zee News UP, have also enhanced their viewership shares in the Andhra Pradesh and Uttar Pradesh/Uttarakhand markets, respectively.

■ **Outlook and valuations: Good prospects; maintain 'BUY'**

We continue to prefer ZNL as a good pick in the news broadcasting space. It has multiple growth drivers— strong bouquet of news channels, rising viewership, strong management and overall improvement in the advertisement industry. We expect it to be one of the key beneficiaries of the uptick in advertisement spending and, hence, maintain our 'BUY' recommendation on the stock. On relative return basis, we rate the stock 'Sector Performer'.

January 20, 2011

Reuters: ZEEN.BO Bloomberg: ZEEN IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 14
52-week range (INR)	:	78 / 11
Share in issue (mn)	:	239.8
M cap (INR bn/USD mn)	:	3 / 72
Avg. Daily Vol. BSE/NSE ('000)	:	3,007.3

SHARE HOLDING PATTERN (%)

Promoters*	:	54.1
MFs, FIs & Banks	:	11.2
FIIIs	:	2.8
Others	:	31.9
* Promoters pledged shares (% of share in issue)	:	20.8

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	(4.8)	(4.3)	(11.9)
3 months	(17.4)	(5.6)	(5.6)
12 months	(3.0)	8.9	13.4

Financials

(INR mn)

Year to March	Q3FY11	Q3FY10	% Chg	Q2FY11	% Chg	FY10	FY11E
Net revenues	744	1,706	(56.4)	616	20.9	5,293	2,659
EBITDA	135	364	(63.0)	70	91.6	924	366
Diluted EPS (INR)	0.3	0.8	(67.7)	0.0	NM	1.9	0.5
Diluted P/E (x)						7.2	25.9
EV/EBITDA (x)						5.2	9.8
Market cap / rev. (x)						0.6	1.2

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Chart 1: Y-o-Y ad revenue growth

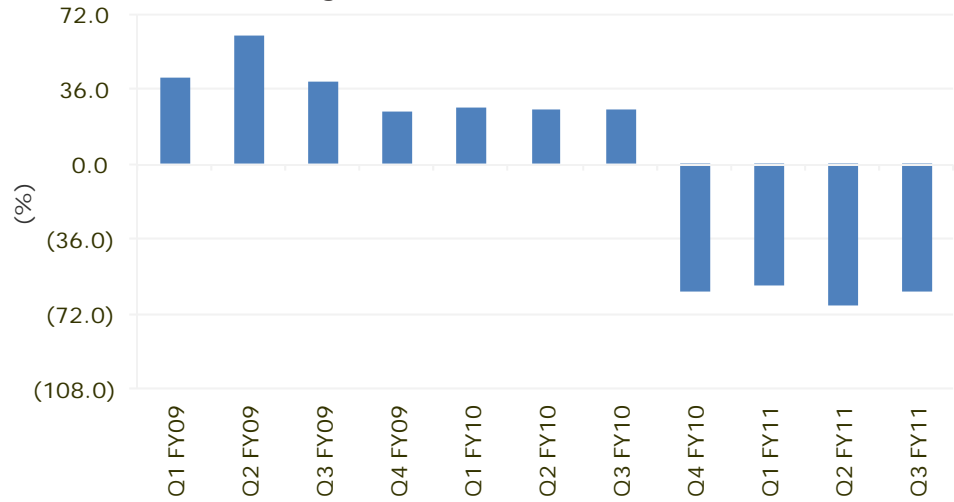


Chart 2: Y-o-Y subscription revenue growth

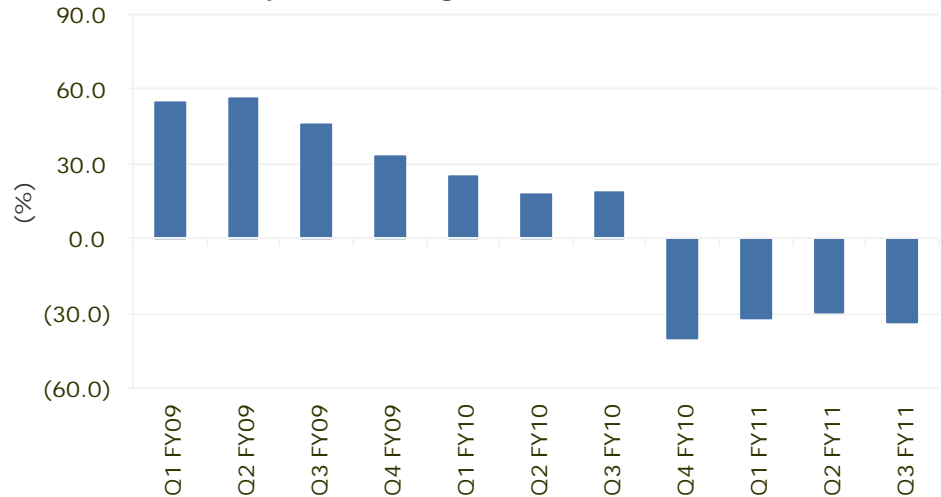
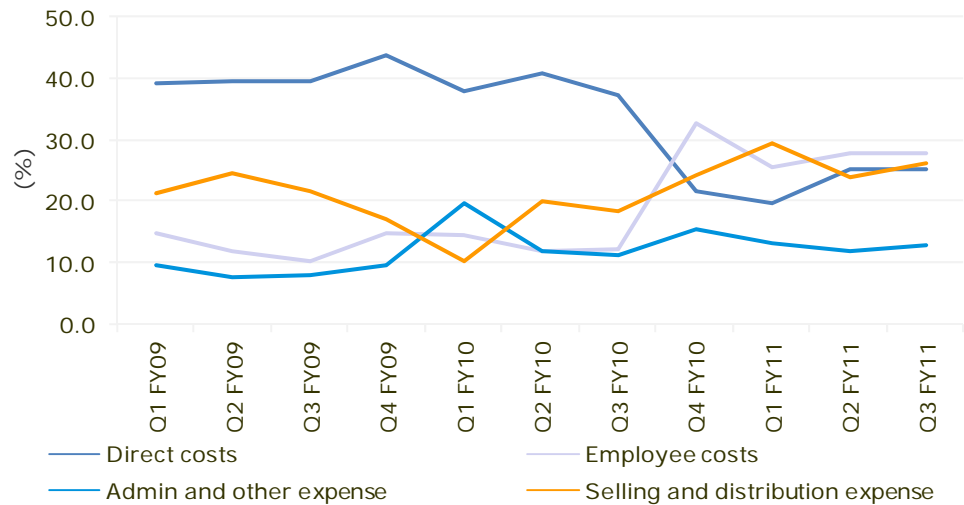


Chart 3: Cost as % of sales



Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q3FY11	Q3FY10*	% Change	Q2FY11	% Change	FY10*	FY11E	FY12E
Net revenues	744	1,706	(56.4)	616	20.9	5,293	2,659	3,058
Direct costs	140	637	(78.0)	155	(9.5)	1,947	563	651
SG&A	288	500	(42.4)	219	31.1	1,635	1,040	1,182
Employee expenses	182	206	(11.6)	171	6.2	787	690	795
Total expenditure	610	1,342	(54.6)	546	11.8	4,368	2,293	2,628
EBITDA	135	364	(63.0)	70	91.6	924	366	430
Depreciation	27	29	(7.2)	24	11.8	112	105	115
Other income	24	47	(49.9)	23	1.2	185	131	151
Interest	28	80	(65.2)	38	(25.9)	261	152	133
Profit before tax	104	302	(65.7)	32	223.0	736	240	333
Provision for taxes	27	101	(73.5)	29	(7.3)	268	77	107
PAT	77	201	(61.7)	3	NM	468	163	227
Minority interest	15	9	64.9	1	NM	11	36	50
Reported net profit	62	191	(67.7)	2	NM	457	127	176
Equity capital (FV INR 1)	240	240		240		240	240	240
No. of shares (mn)	240	240		240		240	240	240
Diluted EPS (INR)	0.3	0.8	(67.7)	-	NM	1.9	0.5	0.7
Market cap / rev. (x)	-	-		-		0.6	1.2	1.1

As % of revenues

Direct costs	18.8	37.3		25.2		36.8	21.2	21.3
Employee cost	24.4	12.1		27.8		14.9	25.9	26.0
Other expenses	38.7	29.3		35.6		30.9	39.1	38.6
EBITDA	18.1	21.3		11.4		17.5	13.8	14.1
Reported net profit	10.3	11.8		0.5		8.8	6.1	7.4

* In view of the de merger of RGEC channels from ZNL to Zee Entertainment Enterprises, Q3FY11 numbers are not comparable with Q3FY10

▪ Company Description

Zee News Limited is a leading news network of India. It has a unique cluster of news, current affairs and regional news channels, which includes Zee News, Zee Business, Zee Punjabi, Zee 24 Taas, Zee Tamizh, Zee 24 Gantalu and Zee News U.P

▪ Investment Theme

With the nominal GDP growth expected to improve, the outlook on ad spends is expected to improve. Also increasing digitization and higher penetration of DTH augur well for faster growth in subscription revenues. ZNL's news channel portfolio includes both national and regional news channels, and together they form an exciting growth segment. ZNL also has a strong presence in Hindi business news space. Also the company benefits from being a part of the Zee Group enhancing its ability to market its channels to advertisers and bargaining power with distributors.

▪ Key Risks

- Slowdown in the Indian ad market
- Decline in popularity of channels
- Subscription revenue deal may take time to materialise

Financial Statements

Income statement					(INR mn)
Year to March	FY09	FY10	FY11E	FY12E	FY13E
Net revenue	5,221	5,293	2,659	3,058	3,516
Direct costs	2,133	1,947	563	651	756
Employee costs	660	787	690	795	914
Total SG&A expenses	1,592	1,635	1,040	1,182	1,341
Total operating expenses	4,385	4,368	2,293	2,628	3,012
EBITDA	836	924	366	430	505
Depreciation & amortization	95	112	105	115	124
EBIT	741	812	261	315	380
Other income	176	185	131	151	174
Interest expenses	211	261	152	133	118
Profit before tax	706	736	240	333	436
Provision for tax	259	268	77	107	140
Core profit	447	468	163	227	296
Profit after tax	447	468	163	227	296
Minority interest	1	11	36	50	66
Profit after minority interest	446	457	127	176	231
Basic shares outstanding (mn)	240	240	240	240	240
Basic EPS (INR)	1.9	1.9	0.5	0.7	1.0
Diluted equity shares (mn)	240	240	240	240	240
Diluted EPS (INR)	1.9	1.9	0.5	0.7	1.0
CEPS (INR)	2.3	2.2	1.0	1.2	1.5
Dividend per share (INR)	0.5	-	-	-	-
Dividend payout (%)	25.1	-	-	-	-

Common size metrics					
Year to March	FY09	FY10	FY11E	FY12E	FY13E
Operating expenses	84.0	82.5	86.2	86.0	85.7
Employee expenses	12.6	14.9	25.9	26.0	26.0
S G & A expenses	30.5	30.9	39.1	38.6	38.1
Direct Cost	40.9	36.8	21.2	21.3	21.5
Depreciation	1.8	2.1	3.9	3.7	3.5
Interest expenditure	4.0	4.9	5.7	4.3	3.4
EBITDA margins	16.0	17.5	13.8	14.1	14.3
EBIT margins	14.2	15.3	9.8	10.3	10.8
Net profit margins	8.6	8.8	6.1	7.4	8.4

Growth ratios (%)					
Year to March	FY09	FY10	FY11E	FY12E	FY13E
Revenues	42.1	1.4	(49.8)	15.0	15.0
EBITDA	23.4	10.5	(60.4)	17.4	17.5
PBT	17.4	4.3	(67.3)	38.6	30.8
Net profit	21.0	4.8	(65.1)	38.6	30.8
EPS	20.4	2.4	(72.2)	38.6	30.8

Balance sheet					(INR mn)
As on 31st March	FY09	FY10	FY11E	FY12E	FY13E
Equity capital	240	240	240	240	240
Reserves & surplus	2,166	1,375	1,539	1,765	2,062
Shareholders funds	2,406	1,615	1,778	2,005	2,301
Minority interest (BS)	53	65	101	152	217
Secured loans	2,017	1,189	1,100	970	900
Unsecured loans	-	500	415	310	300
Borrowings	2,017	1,689	1,515	1,280	1,200
Deferred tax liability	(19)	(26)	(26)	(26)	(26)
Sources of funds	4,457	3,343	3,369	3,411	3,693
Gross block	1,130	1,225	1,325	1,450	1,575
Depreciation	254	311	416	530	655
Net block	876	914	909	920	920
Capital work in progress	172	39	39	39	39
Investments	-	61	65	72	80
Inventories	7	4	2	2	2
Sundry debtors	1,791	737	635	730	840
Cash and equivalents	508	143	1,257	1,045	1,047
Loans and advances	1,085	1,951	980	1,127	1,296
Other current assets	1,644	294	294	294	294
Total current assets	5,034	3,129	3,167	3,198	3,479
Sundry creditors and others	246	27	40	46	53
Others current liabilities	1,216	622	622	622	622
Provisions	163	150	150	150	150
Total current liabilities & provisions	1,625	799	811	817	825
Net current assets	3,410	2,330	2,356	2,380	2,654
Miscellaneous expenditure	-	-	-	-	-
Uses of funds	4,457	3,343	3,369	3,411	3,693
Book value per share (INR)	10.0	6.7	7.4	8.4	9.6

Free cash flow					(INR mn)
Year to March	FY09	FY10	FY11E	FY12E	FY13E
Net profit	446	457	127	176	231
Depreciation	95	112	105	115	124
Deferred tax	(1)	(32)	-	-	-
Others	42	227	36	50	66
Gross cash flow	582	763	268	341	421
Less: Changes in WC	1,337	710	(1,088)	236	272
Operating cash flow	(755)	54	1,356	105	149
Less: Capex	342	112	100	125	125
Free cash flow	(1,098)	(58)	1,256	(20)	24

Cash flow metrics					
Year to March	FY09	FY10	FY11E	FY12E	FY13E
Operating cash flow	(755)	54	1,356	105	149
Investing cash flow	(405)	(1,154)	(104)	(132)	(133)
Financing cash flow	1,630	822	(138)	(185)	(14)
Net cash flow	469	(278)	1,114	(212)	2
Capex	(342)	(112)	(100)	(125)	(125)
Dividends paid	(112)	(112)	-	-	-

Profitability & efficiency ratios

Year to March	FY09	FY10	FY11E	FY12E	FY13E
ROAE (%)	19.9	22.7	7.5	9.3	10.7
ROACE (%)	22.2	21.0	7.9	9.5	10.9
Inventory day	1	1	2	1	1
Debtors days	112	87	87	87	87
Payable days	56	26	22	24	24
Current ratio	3.1	3.9	3.9	3.9	4.2
Debt/EBITDA	2.4	1.8	4.1	3.0	2.4
Debt/Equity	0.8	1.0	0.9	0.6	0.5
Adjusted debt/equity	0.8	1.0	0.9	0.6	0.5
Interest coverage	3.5	3.1	1.7	2.4	3.2

Operating ratios

Year to March	FY09	FY10	FY11E	FY12E	FY13E
Total asset turnover	1.6	1.4	0.8	0.9	1.0
Fixed asset turnover	6.2	5.9	2.9	3.3	3.8
Equity turnover	2.3	2.6	1.6	1.6	1.6

Du pont analysis

Year to March	FY09	FY10	FY11E	FY12E	FY13E
NP margin (%)	8.5	8.6	4.8	5.8	6.6
Total assets turnover	1.6	1.4	0.8	0.9	1.0
Leverage multiplier	1.5	1.9	2.0	1.8	1.6
ROAE (%)	19.9	22.7	7.5	9.3	10.7

Valuation parameters

Year to March	FY09	FY10	FY11E	FY12E	FY13E
Diluted EPS (INR)	1.9	1.9	0.5	0.7	1.0
Y-o-Y growth (%)	20.4	2.4	(72.2)	38.6	30.8
CEPS (INR)	2.3	2.2	1.0	1.2	1.5
Diluted PE (x)	7.4	7.2	25.9	18.7	14.3
Price/BV (x)	1.4	2.0	1.9	1.6	1.4
EV/Sales (x)	0.9	0.9	1.4	1.2	1.0
EV/EBITDA (x)	5.8	5.2	9.8	8.4	7.1
Dividend yield (%)	3.6	-	-	-	-



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Dish TV India	BUY	SP	M	Jagran Prakashan	BUY	SP	M
PVR	BUY	SP	M	Sun TV Network	BUY	SO	M
Zee News	BUY	SP	M	IBN18 Broadcast	BUY	SP	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



RBI POLICY PREVIEW

25bps hike in policy rates anticipated

January 21, 2011

In the forthcoming quarterly review of the monetary and credit policy on January 25, 2011, the Reserve Bank of India (RBI) is likely to raise repo and reverse repo rates by 25bps each. In the previous (December) policy review, the central bank had kept both rates unchanged and injected liquidity in the system, keeping excessive liquidity deficit in mind. Now, as liquidity conditions are beginning to improve and inflation has rebounded much above the comfort level, RBI is expected to focus on inflation. Headline inflation has rebounded largely due to high food prices. Sticky non-food primary articles' and non-food manufacturing products' inflation also contributed to the rise. Food prices are on an uptrend due to temporary and structural reasons. As the economy is growing close to trend, the risk of structural food inflation spilling over into prices of other commodities is significant. Additionally, inflation pressure persists both from domestic demand and higher global commodity prices. Therefore, in an effort to anchor inflationary expectation and control the spillover of high food inflation into manufacturing inflation, the central bank is likely to resume tightening by raising repo and reverse repo rates 25bps each, keeping the LAF corridor intact at 100bps.

The forthcoming mid-quarter review will be conducted against a backdrop of rebound in headline inflation, decent domestic growth momentum, and improving growth prospects in western economies led by the US. Though price stabilisation is expected to be RBI's dominant concern, an aggressive tightening (given the tight liquidity conditions) could impact sentiment and derail growth.

- **High inflation poses challenge to monetary policy**

Headline inflation rebounded to ~8.4% in December after some moderation in earlier months. This rebound was largely due to high food inflation. Sticky non-food manufacturing inflation and non-food primary articles' inflation have also contributed to the rise. The upward trend in WPI inflation is reflected in M-o-M 3MMA (seasonally adjusted) growth figure, which has consistently grown in the past four-five months. The sequential growth has jumped from 0.06% in August 2010 to 1.34% in December 2010.

Food inflation has catapulted largely due to unseasonal rains and hoarding, leading to rise in prices of vegetables and fruits. Apart from this, structural rise in demand of certain protein-rich food items—milk, meat, and fish—due to changing consumption patterns also contributed to the stickiness in food inflation. Food prices are expected to correct to relatively lower levels in the next couple of months due to a host of measures taken by the government such as selling subsidised vegetables. Non-food manufacturing inflation (core inflation) has stabilised around 5.4%, but due to increasing global commodity prices and higher primary articles' inflation feeding into core inflation there are significant risks to the upside.

Inflation remains significantly above RBI's comfort level and risk to core inflation is on the upside. Based on this, we expect the central bank to increase its inflation projection of 5.5% by March 2011 to 6.0%.

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