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Telefolio Plus

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Zee Entertainment Enterprises

Worth entertaining

Gains from demerger of loss-making businesses, increase in TRPs, widening pay market, and competitors' problems make Zee attractive

Buy	Zee Entertainment Enterprises	Related Tables
BSE Code	505537	▶ Zee Entertainment Enterprises: Consolidated Financials
NSE Code	ZEEL	▶ Zee Entertainment Enterprises: Consolidated results
Bloomberg	Not listed	▶ Zee Entertainment Enterprises: Consolidated Segment Results
Reuter	ZEE.BO	▶ Zee Entertainment Enterprises: Proforma Consolidated Results
52-week High/Low	Rs 381 / Rs 189	
Current Price	Rs 241 (as on 28th March 2007)	

Zee Entertainment Enterprises was previously known as Zee Telefilms Limited (ZTL), which got demerged into 4 companies in 2006. Through a High Court approved scheme of arrangement, the cable undertaking and the news undertaking of Zee Telefilms Limited were demerged. Consequent to the demerger and with an objective to focus on the entire gamut of entertainment business, and to give a rightful identity to the company, shareholders have approved the name change to Zee Entertainment Enterprises Limited, in their meeting held on December 28 2006. Subsequently DTH business has also been demerged.

Today, Zee Entertainment Enterprises is India's leading television broadcasting company with a global presence, close to 500 million viewers through Zee TV, Zee Cinema, Zee Sports, Zee Music and English.

Zee has an integrated range of businesses, encompassing the content-to-consumer value chain of media and entertainment business. Zee is a pioneer in India, in every aspect of content aggregation and distribution through satellite, cable and Internet.

Zee is the largest producer and aggregator of Hindi programming in the world, with more than 30,000 hours of original programming in the library. It is one of the most popular entertainment brands in India. It was ranked as the ninth most popular brand within a decade of its launch. It is also one of the largest Indian multiple distribution platforms with an estimated reach of 500 million viewers in over 120 countries globally including USA, Canada, Europe, Africa, the Middle East, South East Asia, Australia and New Zealand

Encouraging performance

For the quarter ended December 2006, Zee Entertainment registered a whopping 53% growth in revenues to Rs 417.67 crore. OPM jumped from 17.3% to 32.5%, which took OP up by an astonishing 187% to Rs 135.72 crore. As other income jumped 37% (to Rs 15.49 crore), interest cost fell (36% to Rs 6.79 crore) and depreciation cost rose 33% to Rs 6.93 crore, PBT soared 221% to Rs 137.49 crore. After providing for tax (up 396% to Rs 41.68 crore), PAT jumped 179% to Rs 95.81 crore.

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Management upbeat about the company's future

Elaborating on the performance, Mr. Pradeep Guha, CEO said, "We are pleased with the strong operating results in the third quarter. We have outperformed the market locking in higher advertising rates, which would continue to help us in the future. Looking ahead, we are confident that continued execution of our content strategy would result in a revenue growth faster than that of industry. Additionally, with digitization of Indian cable and satellite industry, we expect to reap a rich harvest from subscription based revenues."

Mr Subhash Chandra, Chairman, stated, "Zee Entertainment finished the third quarter with outstanding performance, highlighted by strong advertising revenue growth of 59%, extremely robust operating profit growth of 187% and 179% growth in net earnings. Our television broadcasting business continues to lead industry in converting rating success into strong growth in revenues and operating profits. The performance reflects our success in delivering superior content to viewers and stronger relationship with our consumers."

"We are extremely pleased to see the steady steps towards digitization of the Indian cable and satellite industry. CAS has been successfully implemented in the notified areas of Mumbai, Delhi and Kolkata. With more subscribers opting for digital services even in other parts of the country, it will give a big boost to our subscription revenues in the near future. Our investment in Ten Sports is doing well. All these have extremely positive and long term impact on our business." Mr. Chandra added.

Advertisement revenues to grow strongly

As far as Advertisement revenues goes, Zee is set to be a major gainer from the failure of KBC on Star Plus and India's premature exit from Cricket World cup being telecast on Sony. This has come when its own serials are increasing their popularity and television rating points. Zee had lost out to Star for the past few years, but now the tables have turned. Star has lost most of its key executives and its high-stake show KBC turned out to be a damp squib. We expect Zee to significantly increase its pie in the overall electronic media ad revenues in the next couple of quarters. Moreover the overall electronic media ad spends are likely to continue to grow at much higher rate than the GDP growth on the back of higher spends from FMCG and retail companies, besides introduction of many new brands to capitalise on the increasing consumerism in India.

CAS, DTH growth to boost subscription revenues

Digitization is being led by a government mandate to increase set-top box adoptability over Pay Cable TV, and new distribution mediums such as DTH (satellite TV). These trends will increase the reported subscriber base substantially and curb pay revenue leakages, resulting in significant increase in pay revenues for broadcasting companies.

Addressable distribution mediums such as DTH and broadband are likely to drive significant changes in how content is valued, resulting in an increased value disparity between strong and weak content. Broadcasters with strong or 'killer' content are likely to benefit the most.

With ratings for ZEE having picked up strongly over the last few quarters, it is well poised to benefit significantly from the above trends. Already, pay revenues have started to pick up significantly; growing at 55% in 3QFY07, the highest for Zee ever.

Demerger of loss making and capital guzzling business will lead to spurt in profitability and return ratios

The company has exited from cable and DTH businesses both of which were

loss making and would have required continuous capital infusion for a couple of years without much returns. The news business which has been hived off is also low profitability business due to high competition. These demergers have thus improved Zee's profitability substantially and return (ROCE and RONW) will go up significantly in the current year's balance sheet.

Reasonable valuation

In FY 2007 we expect the company to register revenues and net profit after minority interest of Rs 1474.43 crore and Rs 246.64 crore respectively. On equity of Rs 43.36 crore and face value of Re 1 per share, EPS works out to Rs 5.7. This EPS is likely to rise to Rs 9.6 in FY 2008. The share price trades at Rs 241. P/E on FY 2008 EPS (of Rs 9.6) is 25.

Zee Entertainment Enterprises: Consolidated Financials

	0503(12)	0603(12)	0703(12P)	0803(12P)
Sales	1275.4	1423.32	1474.43	1916.76
OPM (%)	33.8	19.0	24.4	33.4
OP	431.64	270.20	359.34	639.48
Other inc.	55.58	64.15	60.81	66.00
PBIDT	487.22	334.35	420.15	705.48
Interest	20.66	24.16	27.90	25.00
PBDT	466.56	310.19	392.25	681.48
Dep.	32.87	39.14	24.11	25.32
PBT before EO	433.69	271.05	368.14	656.17
EO	14.00	-1.90	0.00	0.00
PBT after EO	419.69	272.95	368.14	656.17
Tax	102.32	51.56	101.60	216.53
PAT	317.37	221.39	266.54	439.63
Minority interest	11.89	4.11	19.90	25.00
PPA	-0.07	-0.09	0.00	0.00
Net Profit	305.55	217.37	246.64	414.63
EPS (Rs)*	7.4	5.0	5.7	9.6

Not Annualised. Current equity of Rs 43.36 crore.

Face Value: Rs 1

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Source: Capitaline Corporate Database

Zee Entertainment Enterprises: Consolidated results

	0612 (3)	0512 (3)	Var. (%)	0612 (9)	0512 (9)	Var. (%)	0603(12)	0503(12)	Var. (%)
Sales	417.67	377.7	11	1056.76	1026.69	3	1423.32	1275.4	12
OPM (%)	32.5	9.7		21.2	18.9		19.0	33.8	
OP	135.72	36.58	271	223.62	194.15	15	270.20	431.64	-37
Other inc.	15.49	25.35	-39	45.32	51.61	-12	64.15	55.58	15
PBIDT	151.21	61.93	144	268.94	245.76	9	334.35	487.22	-31
Interest	6.79	12.01	-43	21.11	22.11	-5	24.16	20.66	17
PBDT	144.42	49.92	189	247.83	223.65	11	310.19	466.56	-34
Dep.	6.93	10.42	-33	17.18	28.98	-41	39.14	32.87	19

PBT before EO	137.49	39.50	248	230.65	194.67	18	271.05	433.69	-38
EO	0.00	-1.90		0.00	-1.90		-1.90	14.00	
PBT after EO	137.49	41.40	232	230.65	196.57	17	272.95	419.69	-35
Tax	41.68	7.85	431	59.92	42.71	40	51.56	102.32	-50
PAT	95.81	33.55	186	170.73	153.86	11	221.39	317.37	-30
Minority interest	8.28	1.69	390	11.62	4.88	138	4.11	11.89	-65
PPA	0.00	0.00		0.00	0.00		-0.09	-0.07	
Net Profit	87.53	31.86	175	159.11	148.98	7	217.37	305.55	-29
EPS (Rs)*	#	#		#	#		5	7.4	

Not Annualised. Current equity of Rs 43.36 crore. Face Value: Rs 1

Var. (%) exceeding 999 has been truncated to 999

LP: Loss to Profit PL: Profit to Loss

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Source: Capitaline Corporate Databases

Zee Entertainment Enterprises: Consolidated Segment Results

Particulars	0612 (3)	0512 (3)	Var. (%)	% of total	0612 (9)	0512 (9)	Var. (%)	% of total	0603 (12)
Segment Revenue									
Content & Broadcasting	410.12	307.22	33	98	1036.19	850.87	22	98	1196.50
Access	0.00	79.03		0	0.00	204.48		0	266.28
Film Prodn./Distn.	0.00	0.06		0	0.00	0.92		0	0.92
Education	7.55	6.18	22	2	20.57	14.30	44	2	21.26
Total Revenue	417.67	392.49	6	100	1056.76	1070.57	-1	100	1484.96
Less: inter-segment revenue	0.00	14.79			0.00	43.88			61.64
Net Revenue	417.67	377.70	11		1056.76	1026.69	3		1423.32
Segment EBITA									
Content & Broadcasting	128.11	41.82	206	99	205.13	184.51	11	99	244.86
Access	0.00	-15.51		0	0.00	-20.71	-100	0	-15.54
Film Prodn./Distn.	0.00	-0.29		0	0.00	0.58		0	0.58
Education	0.68	0.14	386	1	1.31	0.25	424	1	1.17
Total EBITA	128.79	26.16	392	100	206.44	164.63	25	100	231.07
Less: Finance Cost	6.79	12.01	-43		21.11	22.17	-5		24.16
Add: Other Income	15.49	25.35	-39		45.32	51.61	-12		64.15
PBT	137.49	39.50	248		230.65	194.07	19		271.06
Segment Assets									
Content & Broadcasting	2196.83	2597.12	-15	100	2196.83	2597.12	-15	100	2656.57
Access	0.00	-3.98	-100	0	0.00	-3.98	-100	0	-1.92
Film Prodn./Distn.	0.00	10.65	-100	0	0.00	10.65	-100	0	10.66
Education	1.23	-0.38	PL	0	1.23	-0.38	PL	0	0.61

Total Assets	2198.06	2603.41	-16	100	2198.06	2603.41	-16	100	2665.92
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Rs in crore

Source: Capitaline Corporate Database

Zee Entertainment Enterprises: Proforma Consolidated Results

	0612 (3)	0512 (3)	Var. (%)
Sales	417.67	272.8	53
OPM (%)	32.5	17.3	
OP	135.72	47.30	187
Other income	15.49	11.30	37
PBIDT	151.21	58.60	158
Interest	6.79	10.60	-36
PBDT	144.42	48.00	201
Depreciation	6.93	5.20	33
PBT before EO	137.49	42.80	221
EO	0.00	0.00	
PBT after EO	137.49	42.80	221
Tax	41.68	8.40	396
PAT	95.81	34.40	179
Minority interest	8.28	1.69	390
Prior Period Adj.	0.00	0.00	
Net Profit	87.53	32.71	168
EPS (Rs)*	#	#	

Not Annualised. Current equity of Rs 43.34 crore.

Face Value: Rs 1

Var. (%) exceeding 999 has been truncated to 999

LP: Loss to Profit PL: Profit to Loss

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Source: Capitaline Corporate Database

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