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Updates

India Cements: Upgrade estimates to reflect higher realization growth in South India

Media: A single flower costs less than a bouquet but says more

News Roundup

Corporate

- Text
- The liquidity crunch in global markets following the crisis in the US sub-prime mortgage business has prompted Jet Airways to postpone its US\$400 million rights issue to finance the airline's aircraft acquisition by two or three months. The issue was scheduled for October. (BS)
- Amas Bank, part of the Hinduja Group, is believed to be buying a majority stake in the Mumbai-based Network Stock Broking, in a move that will likely pave the way for the group's entry into India's broking business. (ET)
- Reliance Industries (RIL) has become the first Indian company to buy petroleum retail assets outside India. The company has acquired Mauritius-headquartered Gulf Africa Petroleum Corporation (Gapco), a petroleum distribution company with an extensive network and large storage facilities in east Africa. (BS)
- Dow Chemicals, which has drawn up major investment plans for India and is reported to be in talks with Reliance Industries (RIL) for a manufacturing joint venture, has volunteered to pay for cleaning up the Bhopal gas disaster site as long as it is not slapped with the legal liabilities of Union Carbide Corporation (UCC). (ET)
- Real estate company Puravankara Projects is close to signing a memorandum of understanding (MoU) with France-based hospitality group Accor for the former's first hotel in Bangalore. Indian hospitality major Taj Hotels Resorts and Palaces has struck a marketing alliance with Japan's Okura Hotels to explore cross-promotional opportunities for both the companies. (ET)

Economic and political

- In an attempt to rationalize the treatment of indirect foreign equity ownership in joint venture broadcasting, banking, insurance and telecom service companies, the Department of Industrial Policy and Promotion (DIPP) has suggested a significant relaxation in the definition of indirect foreign shareholding. (BS)
- The government has chalked out a plan to merge 13 more Regional Rural Banks (RRBs) as a part of its consolidated strategy to make them viable. (FE)
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Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	4-Sep	1-day	1-mo	3-mo
Sensex	15,465	0.3	2.2	6.4
Nifty	4,479	0.1	1.8	4.5
Global/Regional indices				
Dow Jones	13,449	0.7	2.0	(1.1)
Nasdaq Composite	2,630	1.3	4.7	0.7
FTSE	6,377	1.0	2.5	(3.9)
Nikkei	16,409	(0.1)	(3.4)	(9.1)
Hang Seng	24,239	1.5	7.5	16.3
KOSPI	1,889	0.8	0.7	8.4
Value traded - India				
	Moving avg, Rs bn			
	4-Sep	1-mo	3-mo	
Cash (NSE+BSE)	153.4	149.9	155.8	
Derivatives (NSE)	390.1	339.4	287.3	
Deri. open interest	711.2	807.4	542.1	

Forex/money market

	Change, basis points			
	4-Sep	1-day	1-mo	3-mo
Rs/US\$	40.9	-	52	38
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	1	6	(18)

Net investment (US\$m)

	3-Sep	MTD	CYTD
FIs	131	131	8,505
MFs	35	35	785

Top movers -3mo basis

Best performers	Change, %			
	4-Sep	1-day	1-mo	3-mo
Reliance Energy	823	6.0	9.3	49.6
Chambal Fert	51	1.3	51.4	44.5
BHEL	1,911	(1.5)	11.1	38.2
Thermax	655	1.6	2.9	35.6
Exide Indus	61	0.2	5.7	33.7
Worst performers				
Polaris	120	0.2	7.8	(25.6)
Punjab Tractors	238	0.5	(9.9)	(24.4)
Escorts	95	(1.2)	1.9	(22.4)
Balrampur Chini	60	(0.4)	(7.9)	(19.7)
Pfizer	683	(0.6)	(7.9)	(19.3)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Cement**ICMN.BO, Rs268**

Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	230
52W High -Low (Rs)	271 - 145
Market Cap (Rs bn)	69.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	22.4	30.6	33.4
Net Profit (Rs bn)	5.8	7.7	7.2
EPS (Rs)	26.1	29.6	27.7
EPS gth	1,635	13.5	(6.4)
P/E (x)	10.3	9.1	9.7
EV/EBITDA (x)	11.8	7.5	6.5
Div yield (%)	0.4	0.7	0.8

Shareholding, June 2007

	% of Pattern	Portfolio	Over/(under) weight
Promoters	26.9	-	-
FIs	30.7	0.2	0.1
MFs	12.0	0.5	0.3
UTI	-	-	(0.1)
LIC	7.1	0.3	0.1

India Cements: Upgrade estimates to reflect higher realization growth in South India

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **Sales growth of 37% likely in FY2008 due to firm prices in South India**
- **We expect capacity addition to be slower than the company's targeted capacity of 15 mn tpa by October 2009**
- **Absorbing tax losses—corporate tax rate applicable from FY2009**
- **Retain IL rating, raise target price to Rs230/share**

We expect India Cements (ICEM) to report strong growth in revenues on account of the firm price trend currently prevalent in South India. We have retained our cement volume assumptions at 9.8 mn tonnes (+16% yoy) and 10.8 mn tonnes (+10% yoy) for FY2008 and FY2009, respectively. Our estimates factor in the impact of the merger of Visaka Cements which has been effected from July 1, 2006. With higher profits during FY2009, ICEM will likely have absorbed all tax losses carried forward and will have to pay tax at the marginal tax rate from FY2009. We have revised our EPS estimates for FY2008 and FY2009 to Rs29.6 (Rs25.9 previously) and Rs27.7 (Rs29.5 previously), respectively. We retain our In-Line rating and raise our target price to Rs230/share (Rs200/share previously). Our target price implies an EV/ton of US\$183 based on estimated production of 10.8 mn tonnes during FY2009.

Sales growth of 37% likely in FY2008 due to firm prices in South India We expect sales for ICEM to grow by 37% in FY2008 to Rs30.6 bn on account of the firm price trend in its primary market of South India. We note that prices in South India have increased to Rs237/bag (16.4% yoy growth, 8% increase from March 2007) in July 2007. Higher realizations, coupled with strong volume growth, partly due to the merger of Visaka Cements, will help ICEM post strong growth in revenues. We expect the demand-supply scenario to reverse in FY2009, thereby restricting further growth in realizations. Our estimates assume flat realizations during FY2009, with the prices gradually coming off as new capacities commission during the year.

We expect capacity addition to be slower than the company's targeted capacity of 15 mn tpa by October 2009 ICEM has revised its capacity addition program and plans to increase its capacity to 15 mn tpa from 11 mn tpa planned earlier. We expect some delays in capacity addition and build in a growth of 16% and 10% in cement sales volumes during FY2008 and FY2009, respectively. The capex requires an outlay of Rs4.6 bn in FY2008 and Rs3.8 bn in FY2009. The company intends to fund this expenditure through the FCCB (US\$75 mn or Rs3.3 bn) issued earlier and the balance through internal accruals. Management has ruled out any further dilution of equity or raising of additional debt to meet the capex plans. The increased capacity would be a mix of grinding units and kiln capacity. The conversion of the Sankaridurg unit from wet process to dry is expected to be complete by September 2007, while two additional grinding units of 1mn tpa capacity each are expected to be commissioned at Pali and Chennai by March 2009. The company plans to set up an integrated plant at Malkapur (1.2 mn tpa) with expected commissioning by October 2009.

Absorbing tax losses—corporate tax rate applicable from FY2009 ICEM provided Rs114 mn for deferred tax during FY2007. ICEM continues to enjoy the benefits of carried forward tax losses with an effective tax rate of 0.3% for FY2007 and 12% for 1QFY08. The company expects to maintain the effective tax rate at ~12% for FY2008 as it has tax credits and unabsorbed losses of Rs3.6 bn from its merger with Visaka Cements. The effective tax rate from FY2009 is expected to be the marginal corporate tax rate, resulting in a corresponding decline in FY2009E earnings.

Retain IL rating with a target price of Rs230/share We have revised earnings estimates to reflect higher cement prices in FY2008 in South India and the transition to marginal rate of tax in FY2009E. Our revised EPS estimates are Rs29.6/share for FY2008E (Rs25.9/share previously) and Rs27.7/share for FY2009E (Rs29.5/share previously). We retain our inline rating with a target price to Rs230/share (Rs200/share previously) to reflect the higher realizations in FY2008 and transition to the marginal tax rate in FY2009.

India Cements, Consolidated profit model, March Fiscal year-ends, 2005-2009E

(Rs million)

	2005	2006	2007	2008E	2009E
Average realization (Rs per bag)	104.6	105.1	132.4	156.4	155.1
<i>Change (%)</i>	27.3	0.5	25.9	18.1	(0.8)
Volume (mn tonnes)	6.3	7.3	8.4	9.8	10.8
<i>Change (%)</i>	8.6	15.8	15.4	16.2	10.1
Net sales	11,362	15,023	22,366	30,617	33,430
Raw materials	(1,437)	(2,137)	(2,384)	(3,307)	(3,761)
Power costs	(4,352)	(4,844)	(5,502)	(7,045)	(7,511)
Freight cost	(1,641)	(2,750)	(3,258)	(4,578)	(5,014)
Employee costs	(792)	(816)	(1,027)	(1,284)	(1,412)
Other expenses	(2,090)	(2,333)	(3,047)	(3,368)	(3,673)
Operating profits	1,051	2,144	7,147	11,035	12,058
Sales tax benefits	293	415	198	281	280
Other income	181	89	129	161	190
EBITD	1,524	2,647	7,475	11,477	12,528
EBITD margin, %	13.4	17.6	33.4	37.5	37.5
Interest	(1,636)	(1,490)	(1,498)	(1,483)	(1,293)
Depreciation	(790)	(791)	(1,028)	(1,407)	(1,601)
Pretax profits	(902)	367	4,949	8,588	9,633
Tax	(0)	(24)	(18)	(966)	(2,524)
Provision for deferred taxes	0	(23)	(114)	94	115
Proportionate profit /loss of associate companies	(37)	12	964	0	0
Adjusted net profits	(938)	332	5,782	7,715	7,224
Extraordinaries	934	96	0	0	0
Net profits	(4)	427	5,782	7,715	7,224
Diluted EPS (Rs)	(6.8)	1.5	26.1	29.6	27.7
Fully diluted shares outstanding (mn)	138.6	220.4	221.4	260.4	260.4
Growth (%)					
Sales	14.6	32.2	48.9	36.9	9.2
EBITDA	46.6	73.7	182.4	53.5	9.2
Net income	(100)	(10,209)	1,252.7	33.4	(6.4)
EPS	(23)	(122)	1,635.1	13.5	(6.4)

Source: Company data, Kotak Institutional Equities estimates

Valuation of India Cements

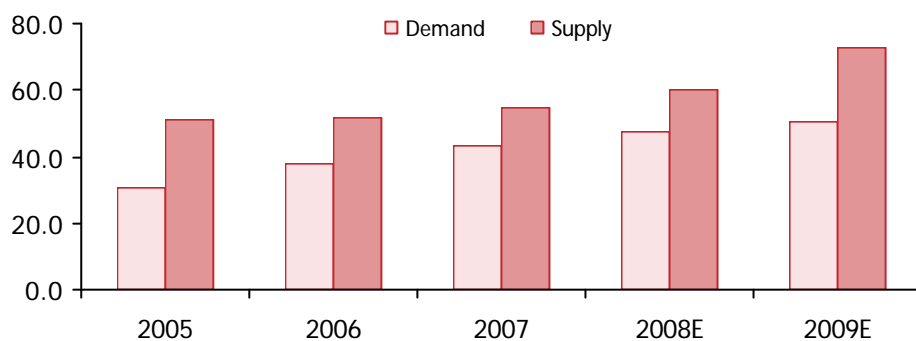
Calculation of target prices using our multi-stage valuation process

March 2008 CROGCI/WACC (X)	1.32
Assigned premium of EV/GCI to CROGCI/WACC (%)	(15)
Assigned EV/GCI (X)	1.1
GCI (Rs bn)	66.0
EV (Rs bn)	74.3
Net debt (Rs bn)	10.8
Market capitalization (Rs bn)	63.6
Number of shares (fully diluted)	261
Target price (Rs)	230

Source: Kotak Institutional Equities estimates

Increasing supplies to impact realizations in FY2009

Demand for and supply of cement in South India (mtpa)



Source: CMA, Kotak Institutional Equities

Media

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		4-Sep	Target
ZEEL	U	314	230
Sun TV	U	343	310
Dish TV	OP	86	100

A single flower costs less than a bouquet but says more

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

Amit Kumar : amit.ckumar@kotak.com, +91-22-6634-1392

- **TRAI makes it mandatory for broadcasters to offer unbundled channels to DTH operators**
- **Next step could be unbundling for DTH subscribers**
- **Another area of potential disappointment for pay-TV revenues of broadcasters**

We see the recommendations of the TRAI regarding unbundling of pay-TV channels offered to DTH operators by broadcasters as a positive for DTH operators but a potential negative for domestic pay-TV revenues of broadcasters. We do not rule further consumer-friendly action by the regulator in the form of unbundled channels for DTH subscribers too. We believe the street may have to review its optimistic view about pay-TV revenues for broadcasters. Most recent developments do not augur well for pay-TV revenues; these include (1) low penetration of a CAS in notified areas of metros, which raises issues about demand for pay-TV channels, (2) huge execution problems in CAS-notified areas, which raises issues about a smooth roll-out even if a mandatory CAS is extended to other cities (very unlikely in our view) and (3) unbundling of channels for broadcasters.

We retain our earnings estimates for ZEEL and Sun TV but may have to review our domestic pay-TV subscription revenues based on the above-mentioned developments. We model strong growth in pay-TV revenues of both ZEEL and Sun TV—2X and 2.7X, respectively between FY2007 and FY2010E. Key risks to our 12-month DCF-based target prices of ZEEL (Rs230) and Sun TV (Rs310) stem from higher-than-expected ad and subscription revenues. Our 12-month DCF-based target price of Rs100 for Dish TV faces downside risk from lower-than-expected ARPU.

TRAI notifies unbundling of channels. Key details of the notification are:

- 1. Mandatory for broadcasters to offer unbundled pay channels to DTH operators.** Broadcasters will have to offer their pay channels on an unbundled (a-la-carte) basis to DTH operators in addition to bouquet of channels.
- 2. Restrictions on relative rates of individual channels.** The TRAI has specified that (1) the sum of individual channels will not exceed 1.5X of the bouquet rate and (2) the rate of any individual channel will not exceed 3X the average price of a pay channel in a bouquet (bouquet rate divided by the number of channels).

Positive for DTH operators but watch for further consumer-friendly action (unbundling for subscribers also). We expect the above-mentioned changes to be a positive for DTH operators such as Dish TV and Tata-Sky. We expect content costs to decline for DTH operators because they will take the more popular channels and ignore the smaller channels. Also, the price of the more popular channels in a bouquet may come down based on the conditions imposed by the regulator on relative pricing of channels within bouquets.

We would watch for potential consumer-friendly actions of the regulator in the future, namely, unbundling of channels for a DTH subscriber. We think that this is the next logical step and we could see TRAI implementing this once the DTH subscriber base reaches a certain critical mass. We note that the TRAI has mandated the provision of unbundled channels in areas with a CAS.

Negative for broadcasters; subscription revenues may not grow as expected.

We see the development as a potential negative for broadcasters. More important, the development again raises issues about the risks to our and street expectations regarding pay-TV revenues. We highlight a few recent developments.

1. Low penetration of a CAS and DTH households in CAS-notified areas of the three metros.

As per a study of TAM (Wave 2-June 15, 2007), the penetration of addressable systems was around 32% (573,000 households with addressable systems out of 1.81 mn households). The penetration of a CAS on cable stood at 44%, 29% and 18%, respectively in Mumbai, Delhi and Kolkata, respectively. Exhibit 1 gives details of penetration of a CAS in the major cities broken down by socio-economic categories. We note that this does not include the number of DTH households but at 16,852 DTH households, this figure is negligible to change the overall penetration of addressable systems.

2. Bad reviews about performance of a CAS in Delhi as per a TRAI audit.

A TRAI-sponsored audit for quality of service in CAS-notified areas of Delhi reveals the unsatisfactory performance of a CAS in terms of quality of service. It is in the process of concluding the audits in Mumbai and Kolkata. The problems (probably of an initial nature) include (1) incorrect billing, (2) non-availability of channels chosen by a household and being billed by the MSO and (3) non-availability of channel request forms. We believe the above issues highlight (1) likely slower-than-expected adoption of a mandatory CAS in the remaining parts of the notified metros and in new cities, if notified by the government and (2) execution problems due to the peculiar two-tier structure of the Indian cable industry.

3. Unbundling of channels under both a CAS on cable and DTH. We have already discussed the negative aspects of this development above.**CAS penetration levels in CAS-notified areas lower than expected**

Penetration levels of STBs in the CAS-notified areas

	SEC A	SEC B	SEC C	SEC D	SEC E	Total HHs
Mumbai						
Base HHs (#)	118,404	143,000	131,560	111,540	67,496	572,000
CAS HHs (#)	76,619	76,674	49,300	26,731	20,660	249,985
Penetration (%)	65	54	37	24	31	
Delhi						
Base HHs (#)	278,355	166,290	105,558	89,652	83,145	723,000
CAS HHs (#)	121,024	49,965	22,194	9,482	9,718	212,384
Penetration (%)	43	30	21	11	12	
Kolkata						
Base HHs (#)	88,749	114,699	101,205	107,433	106,914	519,000
CAS HHs (#)	40,119	29,617	14,883	5,654	3,888	94,162
Penetration (%)	45	26	15	5	4	

Source: TAM Media Research, compiled by Kotak Institutional Equities.

We model Sun's revenues to grow strongly led by growth in pay-TV and FM radio revenues

Derivation of revenues of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Advertisement revenues									
Sun TV	1,038	1,085	1,491	1,858	2,130	2,442	2,799	3,147	3,538
K TV	100	123	141	162	182	205	226	248	273
Sun News	28	39	47	55	62	70	78	86	95
Sun Music	2	94	122	163	183	206	232	255	281
Sun Kids	—	—	—	151	209	249	297	345	399
Sun Documentary	—	—	—	64	164	196	233	271	313
Sun Sports	—	—	9	58	65	73	82	91	100
Surya TV	226	386	476	574	663	764	881	1,003	1,142
Kiran TV	3	28	40	59	82	92	104	114	125
Gemini TV	—	—	467	596	686	789	907	1,032	1,173
Teja TV	—	—	44	51	57	64	70	77	85
Gemini News	—	—	35	41	46	52	58	64	70
Gemini Music	—	—	75	100	113	127	142	157	172
Udaya TV	—	—	428	535	615	708	814	926	1,053
Udaya Movies	—	—	43	49	55	62	68	75	82
Udaya Varthegulu (News)	—	—	25	29	33	37	42	46	50
Udaya TV 2	—	—	30	40	45	51	57	63	69
Total TV ad revenues	1,397	1,755	3,472	4,584	5,389	6,187	7,091	7,999	9,022
Radio	144	158	168	658	1,375	1,862	2,304	2,816	3,027
Total advertisement revenues	1,542	1,913	3,640	5,242	6,764	8,048	9,395	10,815	12,050
Broadcast revenues (or slot sales)									
Sun TV	455	531	607	698	768	845	930	1,023	1,125
Surya TV	38	60	60	69	75	83	91	100	111
Gemini TV	—	—	332	381	419	461	507	558	614
Udaya TV	—	—	86	101	111	123	135	148	163
Total broadcast revenues	493	591	1,085	1,250	1,375	1,512	1,663	1,830	2,012
Total ad and broadcast revenues	2,034	2,504	4,725	6,491	8,139	9,560	11,058	12,644	14,062
Pay-TV revenues									
Sun TV	398	447	659	1,335	2,016	2,473	2,874	3,196	3,509
Surya TV	—	—	—	—	162	208	249	284	319
Gemini TV	—	—	643	767	911	1,113	1,328	1,555	1,735
Udaya TV	—	—	373	447	535	656	785	920	1,029
Total pay-TV revenues	398	447	1,675	2,549	3,624	4,449	5,235	5,956	6,592
International revenues	88	183	339	355	371	386	399	409	416
Others	10	18	42	70	100	130	154	178	203
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
Total revenues	2,886	3,152	6,781	9,465	12,234	14,525	16,847	19,188	21,274
Growth (%)	7	9	115	40	29	19	16	14	11

Source: Company, Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and SunTV Network for 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	3,219	6,780	9,465	12,234	14,525	16,847	19,188
EBITDA	2,035	3,874	5,977	8,073	9,951	11,795	13,617
Other income	172	411	789	910	1,196	1,550	1,974
Interest (expense)/income	(65)	(64)	(18)	—	—	—	—
Depreciation	(147)	(294)	(525)	(630)	(515)	(436)	(381)
Amortization	—	(56)	(235)	(235)	(235)	(235)	(195)
Pretax profits	1,995	3,871	5,989	8,118	10,398	12,675	15,015
Tax-cash	(709)	(1,509)	(2,059)	(2,852)	(3,614)	(4,377)	(5,163)
Tax-deferred	16	108	(18)	51	38	27	17
Minority interest	—	(9)	21	(25)	(50)	(72)	(96)
Net profits after minority interests	1,302	2,461	3,932	5,292	6,771	8,253	9,773
Earnings per share (Rs)	5.3	6.3	10.0	13.4	17.2	20.9	24.8
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,714	18,277	22,628	27,930	34,210
Deferred Tax	32	(56)	(38)	(88)	(127)	(153)	(170)
Total borrowings	2,333	867	—	—	—	—	—
Current liabilities	741	1,693	1,633	1,766	1,845	1,930	2,023
Total capital	6,209	14,478	16,329	19,999	24,441	29,874	36,325
Cash	732	6,494	6,348	9,522	13,507	18,355	24,121
Current assets	2,440	3,221	5,143	6,338	7,356	8,397	9,458
Total fixed assets	2,830	3,543	2,910	2,405	2,040	1,779	1,599
Intangible assets	206	1,220	1,927	1,732	1,537	1,342	1,146
Total assets	6,209	14,478	16,329	19,999	24,441	29,874	36,325
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,721	6,350	7,579	8,784	9,956
Working capital	(251)	(1,992)	(1,982)	(1,063)	(938)	(956)	(968)
Capital expenditure	(2,091)	(433)	(793)	(125)	(150)	(175)	(200)
Investments	(326)	(849)	(821)	(1,129)	(1,242)	(1,366)	(1,503)
Other income	80	402	789	910	1,196	1,550	1,974
Free cash flow	(619)	814	1,946	5,161	6,490	7,654	8,788
Ratios (%)							
Debt/equity	76.0	7.3	—	—	—	—	—
Net debt/equity	52.1	(47.2)	(43.1)	(52.1)	(59.7)	(65.7)	(70.5)
RoAE	36.1	32.9	29.6	32.2	33.3	32.8	31.6
RoACE	26.6	26.8	29.9	33.0	34.1	33.6	32.3

Source: Company, Kotak Institutional Equities estimates.

Consolidated profit and loss statement for Zee Telefilms, March fiscal year-ends, 2004-2006, ZEEL, March fiscal year-ends, 2007-2013E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Revenues										
National Hindi (Zee TV)	2,539	1,826	2,119	3,088	4,240	4,781	5,509	6,299	7,120	8,002
National Hindi (Zee Cinema)	756	914	996	1,271	1,710	1,928	2,222	2,541	2,872	3,228
Niche channels (News, English, Music, ETC Music and ZED)	965	956	1,081	417	535	636	752	884	991	1,107
Regional channels (incl. ETC Punjabi)	1,365	1,324	1,486	—	—	—	—	—	—	—
Zee Sports + Taj TV	—	—	72	1,619	1,636	1,942	2,193	2,471	2,775	3,111
Cable TV (Siti)	220	266	261	—	—	—	—	—	—	—
Overseas - ZMWL	482	530	590	667	633	652	672	688	704	721
Others	28	(117)	(40)	—	—	—	—	—	—	—
Advertisement	6,355	5,698	6,566	7,062	8,754	9,940	11,348	12,882	14,462	16,168
Domestic pay-TV	2,173	2,696	2,742	3,064	3,682	4,677	5,980	7,052	7,878	8,640
Overseas	2,620	2,964	3,097	3,543	4,037	4,294	4,522	4,727	4,937	5,157
Domestic subscription	1,168	1,002	978	—	—	—	—	—	—	—
Others	64	(129)	356	—	—	—	—	—	—	—
Subscription	6,026	6,533	7,174	6,607	7,718	8,971	10,501	11,780	12,815	13,797
Education	131	106	162	302	318	334	351	368	387	406
Others	1,190	742	2,641	440	460	483	506	531	557	584
Total revenues	13,702	13,079	16,544	14,412	17,251	19,727	22,706	25,560	28,221	30,956
Programming/Content	(2,520)	(2,611)	(4,247)	(5,051)	(5,426)	(5,663)	(6,264)	(6,868)	(7,530)	(8,257)
Broadcasting	(618)	(675)	(515)	(508)	(468)	(477)	(485)	(494)	(503)	(512)
Distribution	(1,837)	(1,534)	(2,565)	(1,473)	(1,426)	(1,519)	(1,597)	(1,657)	(1,719)	(1,784)
Other direct operating	—	—	(262)	(322)	(338)	(355)	(373)	(391)	(411)	(431)
Employees	(727)	(858)	(1,089)	(1,008)	(1,228)	(1,328)	(1,424)	(1,529)	(1,643)	(1,770)
SG&A	(3,691)	(3,051)	(3,431)	(2,863)	(2,717)	(2,988)	(3,190)	(3,488)	(3,779)	(4,082)
Total expenses	(9,393)	(8,728)	(13,848)	(11,224)	(11,604)	(12,331)	(13,332)	(14,427)	(15,586)	(16,837)
EBITDA	4,309	4,351	2,695	3,188	5,647	7,396	9,374	11,134	12,635	14,118
Other income	776	521	639	630	743	820	954	1,241	1,590	1,998
Interest expense	(583)	(207)	(188)	(219)	(371)	(131)	(2)	—	—	—
Depreciation	(320)	(329)	(360)	(228)	(274)	(287)	(299)	(305)	(315)	(323)
Amortization	—	—	—	—	—	—	—	—	—	—
Pretax profits	4,183	4,336	2,787	3,371	5,744	7,799	10,027	12,069	13,910	15,793
Extraordinary items	26	(140)	19	—	—	—	—	—	—	—
Tax	(1,103)	(1,123)	(528)	(984)	(1,896)	(2,602)	(3,474)	(4,204)	(4,842)	(5,493)
Deferred tax	54	99	(9)	20	19	19	19	18	18	18
Minority interest	(192)	(50)	(117)	(212)	(79)	(198)	(238)	(274)	(307)	(340)
Net income	2,969	3,123	2,153	2,195	3,789	5,018	6,335	7,609	8,779	9,977
Recurring net income	2,942	3,263	2,134	2,195	3,789	5,018	6,335	7,609	8,779	9,977
Fully diluted EPS	7.1	7.5	4.9	5.0	8.7	11.5	14.6	17.5	20.2	22.9
Key ratios										
EBITDA growth (%)	15	1	(38)	18	77	31	27	19	13	12
EPS growth (%)	18	5	(35)	3	73	32	26	20	15	14
EBITDA margin (%)	31.5	33.3	16.3	22.1	32.7	37.5	41.3	43.6	44.8	45.6
Tax rate (%)	24.9	24.4	19.1	28.6	32.7	33.1	34.4	34.7	34.7	34.7
Shares o/s year end (mn)	412	412	413	435	435	435	435	435	435	435
Shares o/s fully diluted (mn)	412	435	435	435	435	435	435	435	435	435

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Zee Telefilms for 2006 and ZEEL for 2007-2012E, March fiscal year-ends (Rs mn)

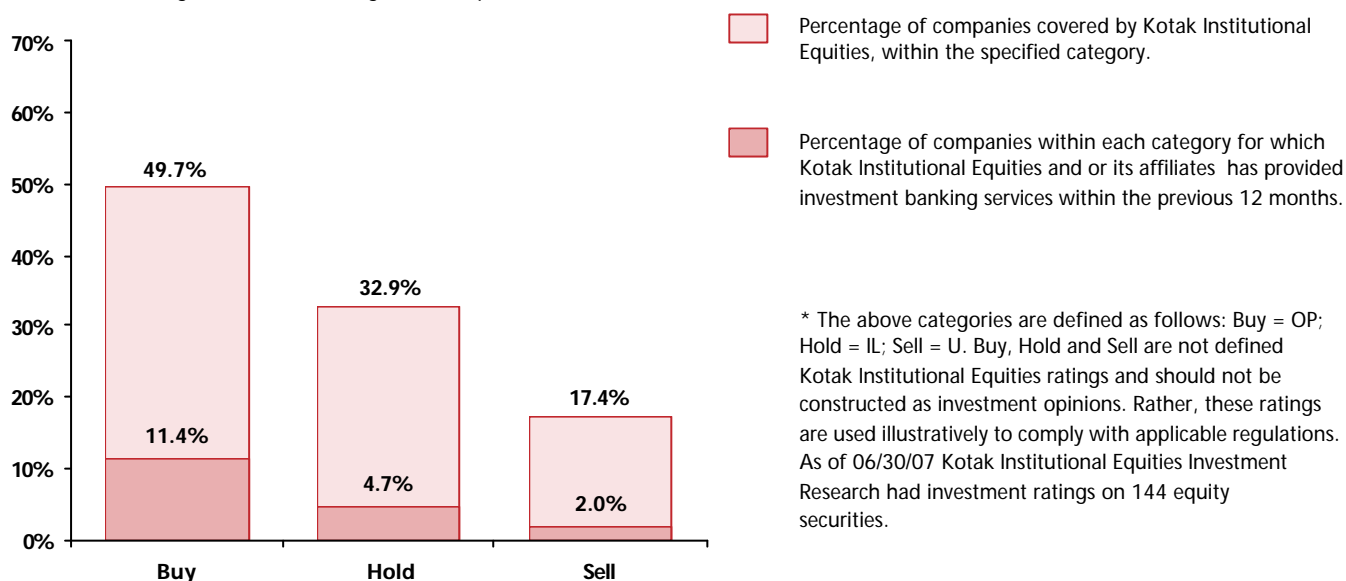
	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Total revenues	16,544	14,412	17,251	19,727	22,706	25,560	28,221
EBITDA	2,695	3,188	5,647	7,396	9,374	11,134	12,635
Other income	639	630	743	820	954	1,241	1,590
Interest	(188)	(219)	(371)	(131)	(2)	—	—
Depreciation	(360)	(228)	(274)	(287)	(299)	(305)	(315)
Amortization	—	—	—	—	—	—	—
Pretax profits	2,787	3,371	5,744	7,799	10,027	12,069	13,910
Extraordinary items	19	—	—	—	—	—	—
Tax	(528)	(984)	(1,896)	(2,602)	(3,474)	(4,204)	(4,842)
Deferred tax	(9)	20	19	19	19	18	18
Minority interest	(117)	(212)	(79)	(198)	(238)	(274)	(307)
Net income	2,153	2,195	3,789	5,018	6,335	7,609	8,779
Recurring net income	2,134	2,195	3,789	5,018	6,335	7,609	8,779
Earnings per share (Rs)	4.9	5.0	8.7	11.5	14.6	17.5	20.2
Balance sheet (Rs mn)							
Total equity	21,286	27,363	30,296	34,181	39,085	44,976	51,772
Deferred tax balance	(148)	(168)	(188)	(207)	(226)	(244)	(262)
Minority interest	458	670	748	947	1,185	1,459	1,766
Total borrowings	4,901	3,880	2,880	40	—	—	—
Current liabilities	4,346	2,628	2,691	2,786	2,968	3,147	3,342
Total capital	30,844	34,373	36,428	37,747	43,012	49,337	56,618
Cash	1,286	1,200	3,552	3,797	8,018	13,333	19,666
Current assets	13,574	14,651	14,429	15,589	16,732	17,848	18,911
Net fixed assets	12,948	12,921	12,846	12,760	12,661	12,555	12,440
Investments	3,024	5,589	5,589	5,589	5,589	5,589	5,589
Deferred expenditure	12	12	12	12	12	12	12
Total assets	30,844	34,373	36,428	37,747	43,012	49,337	56,618
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,931	1,984	3,380	4,663	5,898	6,930	7,793
Working capital	(3,950)	(2,794)	284	(1,065)	(961)	(937)	(868)
Capital expenditure	(383)	(200)	(200)	(200)	(200)	(200)	(200)
Investments	418	(2,565)	—	—	—	—	—
Other income	488	630	743	820	954	1,241	1,590
Free cash flow	(1,496)	(2,945)	4,207	4,219	5,692	7,033	8,315
Revenue model (Rs mn)							
Advertising	6,566	7,062	8,754	9,940	11,348	12,882	14,462
Subscription-domestic	2,742	3,064	3,682	4,677	5,980	7,052	7,878
Subscription-overseas	3,097	3,543	4,037	4,294	4,522	4,727	4,937
Subscription-cable	978	—	—	—	—	—	—
Others	3,160	742	778	817	857	899	943
Total revenues	16,544	14,412	17,251	19,727	22,706	25,560	28,221

Source: Kotak Institutional Equities estimates.

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**Corporate Office
Kotak Securities Ltd.**

Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices**Kotak Mahindra (UK) Ltd.**

6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.

50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

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Kotak Securities Ltd.

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453