

**August 13, 2008**

Key Data	
BSE Code	532794
Reuters Code	-
Sensex	14578
CMP, Rs	41
No. of Shares, mn (Diluted)	239.8
Face Value	1.0
Mcap, Rs mn	9832
Mcap, USD mn @ 42	234.1
52 week H/L	92/34
Avg. Daily Vol. BSE	77093
Share holding, June'08 % Holding	
Promoters	54.1%
Institutions	20.6%
FII's	10.4%
Bodies Corporate	5.3%
Public & Others	9.3%
<b>Total</b>	<b>100%</b>
Holding >1% (Non Promoter)	
HDFC Prudence Fund	8.9%
LIC	3.8%
Reliance Capital	3.8%
Nikko Asset (Mauritius) Ltd	3.3%
Merrill Lynch Capital	3.1%
Acasia Partners	2.1%
India Fund Inc.	1.8%
Tata AIG Insurance	2.0%

### Q1 FY09 Highlights

- Consolidated Sales went up by 49% to Rs.1.12Bln, Y-O-Y mainly on account of strong growth registered by both Advertisement and Subscription. Advertisement Revenues stood at Rs.858Mln, a growth of 44% Y-O-Y, similarly Subscription Revenues stood at Rs.212Mln, a growth of 55% Y-O-Y.
- EBIDTA grew by 57%, Y-O-Y to Rs.173Mln. while EBIDTA Margins stood at 15%
- Existing Business (which comprises channels such as Zee News, Zee Business, Zee Marathi, Zee Bangla, Zee Punjabi, and Zee Gujarati) continues to do well. It grew by 39% to Rs.972Mln. with 35% EBIDTA Margins.
- The New Business (which comprises channels such as Zee 24 Taas- a 24 hour Marathi News Channel, Zee Kannada and Zee Telugu) continues to bleed, even if it showed greater traction in the Revenues which stood at Rs.124Mln, a growth of 170% Y-O-Y. Losses at the EBIDTA level stood at Rs.168Mln.
- Zee Akaash News Pvt. Ltd- a 60% subsidiary of ZNL which operates 24 Ghanta, a Bangla News Channels clocked a turnover of Rs.32Mln, a growth of 129% Y-O-Y. It registered Rs.3Mln. loss at the EBIDTA level.
- For Q1FY09, ZNL derived 81% of the revenues from Advertisements while the remaining 19% came from Subscription.
- All channels' share of ZNL channels in the total C&S Universe grew to 4.5% in Q1FY09 as compared to 3.8% in the corresponding period last fiscal.

[Http://www.zeenews.com](http://www.zeenews.com)

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### Valuation (CMP Rs.41)

The scrip currently trades at 19 x FY09 Estimated EPS of Rs.2.20 (10 x FY09 Estimated EPS without considering new business losses). ZNL is a play on Indian Regional GECs and News Channels as well as Hindi News space. The regional GECs are expected to grow at a CAGR of 20% in the coming years, in fact in the case of Marathi, Bengali and the four southern languages, the growth rate could easily outpace the industry growth rate. The 4 southern languages together comprise 60% of the regional GECs. The new business of ZNL is expected to complete the investment phase by FY11 and the existing business is expected to strengthen its hold. We believe that the Government will expedite the CAS implementation in the coming months with the CAS subscribers are expected to grow five-fold from the current 5 Million to 25 Million BY 2010. We recommend a buy with a price target of 63 in 8-10 month's investment horizon.

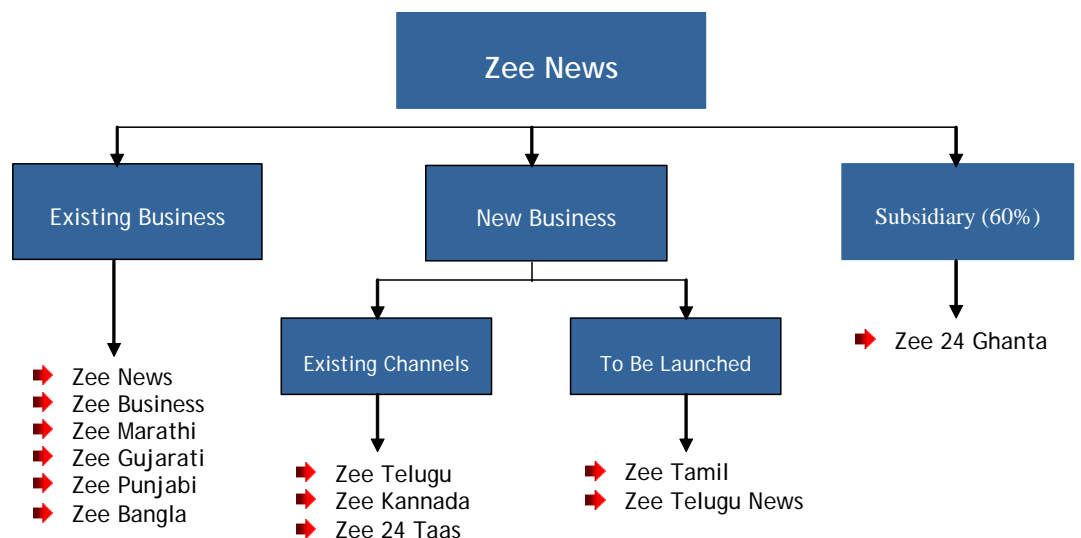


## FY08 Results &amp; Estimates

Consolidated Sales			
Rsm.	FY08	FY09E	FY10E
<b>Operating Revenues</b>	<b>3670.60</b>	<b>5046.22</b>	<b>6400.36</b>
Operating Expenses	2966.70	4121.70	4943.99
<b>EBIDTA</b>	<b>703.90</b>	<b>924.52</b>	<b>1456.37</b>
<b>EBIDTA (%)</b>	<b>19</b>	<b>18</b>	<b>23</b>
Other Income	10.80	10.00	10.00
Depreciation	75.70	120.00	160.00
Interest	5.80	10.00	15.00
<b>PBT &amp; Minority Int.</b>	<b>633.20</b>	<b>804.52</b>	<b>1291.37</b>
Tax Provision	242.80	273.54	439.07
Minority Int.	-4.80	2.40	10.56
<b>PAT</b>	<b>395.20</b>	<b>528.58</b>	<b>841.74</b>
Equity Capital (Re.1 Paid Up)	239.80	239.80	239.80
<b>EPS (Rs.)</b>	<b>1.65</b>	<b>2.20</b>	<b>3.51</b>
<b>PAT before new business losses</b>	<b>732.53</b>	<b>1023.58</b>	<b>1072.74</b>
<b>EPS before new business losses (Rs.)</b>	<b>3.05</b>	<b>4.27</b>	<b>4.47</b>

## Background

- Zee News Limited (ZNL) is a part of Zee group which is present across the value chain in the entertainment space.
- There are broadly 3 markets in which ZNL operates. 1) News, both general news in different languages and business news in Hindi, 2) Regional channels excluding South Indian languages and 3) Regional channels operating in South India.
- The specific channels operated by ZNL are Zee News, Zee Business, Zee Marathi, Zee Bangla, Zee Punjabi, Zee Gujarati, Zee Telugu, Zee Kannada and Zee 24 Taas, the first 24-hour Marathi news channel and 24 Ghanta, a 24 hour Bangla news channel.
- The channels are divided into two segments- Existing business, which includes 6 channels namely Zee News, Zee Business, Zee Marathi, Zee Bangla, Zee Punjabi and Zee Gujarati. The new business includes Zee Telugu, Zee Kannada and Zee 24 Taas, the first 24-hour Marathi news channel. Zee 24 Ghanta, the 24 hour Bangla news channel is operated by its 60% subsidiary company known as Zee Akaash News Private Limited. Following Chart explains the grouping of various channels-





## New Developments

- The company will be launching Zee Tamil and Zee Telugu News Channels in Q2 and Q3FY09 respectively. While the Capex for Zee Telugu News Channel will be in the range of Rs.200-250Mln., for Tamil it will be Rs.900Mln. 40% of the Capex for Tamil will be for Movie acquisition which will be amortized in 5 years., The market potential for Tamil Regional language is around Rs.6000Mln.
- Zee Talkies, the 24 hour Marathi Movies Channel, has now come under ZNL fold. Zee Talkies has a library of 300 movies and recently they entered into Marathi movie production with back to back hit movies 'Sade Made Teen' and 'De Dhakka'.

## Investment Highlights

- ZNL enjoys largest news and regional channel network in India in terms of reach.
- The company operates 10 Channels across various languages and across all genres except sports and movies. These channels across the board are growing at 25-30% p.a. in terms of viewership. During Q1FY09, 'Zee Kannada' and 'Zee 24 Taas' increased their Gross Rating Points (GRP's) by 200% and 127% respectively over the corresponding period last fiscal, while 'Zee Telugu' and 'Zee Bangla' increased their GRP by 97% and 16% respectively. Both Zee Bangla and Zee Marathi maintained their No.1 position in the respective genre.
- The CAS implementation, once it takes momentum, augurs well for the company to grow Pan-India. It will give big push to Subscription revenues as currently almost 90% of the subscription revenue comes from the Analog subscribers where the under reporting can be as high as 90% due to non-implementation of CAS. The subscription revenue will also get boost due to intense pricing pressure in the DTH space with the addition of big players such as ADAG and Bharati.
- Post-CAS revenue sharing ratio seems to favour the broadcasters as this will be- Broadcasters- 45%, Multi State Operators (MSOs) - 30% and Local Cable Operators (LCOs) - 25% as against LCOs- 80%, Broadcasters- 15%, MSOs- 5% in the Pre-CAS regime.
- Being a part of Zee Group, the company is in a position to bundle its channels in a bouquet to increase subscription revenues.
- The existing businesses are showing robust growth and strength amidst growing competition. Some of the channels such as Zee Marathi, Zee Bangla are consistently clocking number 1 spot in their respective genre.
- The new business continues to bleed mainly on account of higher investments in the new channels. Losses in the New Business for Q1FY09 swelled mainly on account of higher investments in Zee Kannada for movie library. These investments are likely to get monetized in the coming quarters. Both Zee Telugu and Zee Kannada has achieved 11% market share in their respective genres and are expected to break-even in this fiscal. The management has guided for Rs.700Mln. loss for the full year. With competition getting intensified in the regional space, we believe that the company has invested in the regional channels at the right time and should see these channels breaking even by FY2011.



- Once the new business starts making contribution, the company expects to fetch 25-30% EBITDA Margins and a healthy top-line growth of 30-35% in the coming years.

#### Some estimates from PWC Report on Media & Entertainment Industry, 2007

- According to PWC Global Entertainment and Media Outlook, India is ranked as the fastest growing market in the world for spends in entertainment and media in the next five years. India will be one of the key drivers in pushing the global entertainment and media industry to \$ 2 Tln. by 2011.
- The Indian Cable & Satellite Households (C&S HHS) are expected to grow from 62Mln. in 2006 to 110Mln. in 2011, a CAGR of 12%.
- The Television Ad-spend is expected to grow from Rs.68Bln. in 2006 to Rs.122Bln in 2011, a CAGR of almost 12%.
- Ad spend in India is just 0.47% of the GDP as compared to world average of around 0.97%. The Advertisement industry is a barometer of the economy. Normally the growth rate of this industry more than twice that of the GDP growth, when the economy is on the growth path. Conversely when the economy slows down, Advertisement industry will be the first hit, since Ad expenses are discretionary expenses. As the Indian economy is slated to grow in the range of 7.5-8% in the near future, the Advertisement industry is expected to grow in the range of 15-18% during the same period.



## Q1FY09 Results

Consolidated Income Statement								
Rsm	Q1FY08	Q4FY08	Q1FY09	QOQ	YOY	FY07	FY08	YOY
Net Sales	759	1130	1127	0%	49%	2405	3671	53%
Total Expenditure	649	861	955	11%	47%	2328	2967	27%
EBITDA	110	269	173	-36%	57%	77	704	814%
Other Income	0	0	3			131	11	
Gross Profit	110	270	176	-35%	59%	208	715	244%
Interest	2	1	3			51	6	
Depreciation	16	21	21			52	76	
PBT	92	248	152	-39%	64%	104	633	507%
Tax	38	97	60			46	243	
PAT	55	151	92	-39%	67%	58	390	571%
Less-Minor. Int.	-4	0	-2			-17	-5	
Net Profit	58	150	93	-38%	59%	75	395	429%
Equity, Rs mn	240	240	240			240	240	
No of Shares,mn	240	240	240			240	240	
EPS, Rs (Annu.)	1.0	2.5	1.6			0.3	3.3	
PE, x	42.1	16.3	26.4			131.6	12.4	
EBITDA	14.5%	23.8%	15.3%			3.2%	19.2%	
NPM	7.2%	13.3%	8.1%			2.4%	10.6%	
TAX	40.8%	39.3%	39.6%			44.3%	38.3%	

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