

# Zee Entertainment Enterprises

**HOLD****Downgrade from BUY**

## Positives priced in

**Rs192**

Reason for report: Recommendation change

Zee Entertainment Enterprises' (ZEEL) flagship channel, Zee TV, has shown remarkable improvement in ratings, leading to the recent outperformance by the stock. But competition in Hindi general entertainment channel (GEC) space continues to be high. The likely fund infusion in Dish TV can improve ZEEL's working capital, though we expect the infusion to have limited impact on ZEEL's long-term valuations in spite of the move boosting sentiment. Sustained improvement in market share will be the key driver for stock performance.

We downgrade ZEEL to HOLD from Buy on account of the recent outperformance versus the broader markets. We raise target price to Rs190/share from Rs152/share based on 20x FY10E P/E, which is at 20% premium to the Sensex's current P/E. Historically, ZEEL has traded at 40-80% premium to the Sensex at a time when Zee TV was a clear tier-I GEC player with relatively stable viewership share and lower competition. Our target price implies no upside from the current market price of Rs192/share. We recommend profit booking in ZEEL.

- **Improvement in Zee TV's GRP strong but competition remains.** Zee TV has continued its improvement in GRP share and has moved to be a strong contender for #1 spot among Hindi GECs from a poor #3. However, the intense competition in the Hindi GEC space will continue due to the entry of new players and cannibalisation of viewership share by cricket & regional channels.
- **Fund infusion in Dish TV to have limited impact on ZEEL's long-term valuations.** The premium of Dish TV's shares to partly paid-up rights provides its promoters an opportunity to reduce their stake so as to pay the remaining Rs8.1bn for the rights. The fund infusion in Dish TV by the promoters and the proposed FCCBs for up to US\$200mn will help improve ZEEL's working capital, but the fund infusion will have limited impact on ZEEL's long-term valuations.
- **Downgrade ZEEL to HOLD from Buy** on account of the recent outperformance of the stock versus the broader markets. We raise target price to Rs190/share from Rs152/share based on 20x FY10E P/E, which is at 20% premium to the Sensex's current P/E. Our target price implies no upside from the current market price of Rs192/share. We recommend profit booking in ZEEL.

Market Cap	Rs53.8bn/US\$1.1bn
Reuters/Bloomberg	ZEE.BO/Z IN
Shares Outstanding (mn)	433.6
52-week Range (Rs)	243/90
Free Float (%)	58.5
FII (%)	29.5
Daily Volume (US\$'000)	7,200
Absolute Return 3m (%)	92.8
Absolute Return 12m (%)	(14.4)
Sensex Return 3m (%)	81.4
Sensex Return 12m (%)	(3.0)

Year to Mar	2008	2009E	2010E	2011E
Revenue (Rs mn)	18,354	21,729	22,901	26,346
Rec. Net Income (Rs mn)	3,851	3,718	4,112	4,832
EPS (Rs)	8.9	8.6	9.5	11.1
% Chg YoY	58.4	(3.5)	10.6	17.5
P/E (x)	21.6	22.4	20.2	17.2
CEPS (Rs)	9.4	9.3	10.5	12.3
EV/E (x)	15.6	15.7	14.1	11.7
Dividend Yield (%)	1.0	1.4	1.1	1.3
RoCE (%)	10.8	8.9	7.7	8.7
RoE (%)	14.1	12.2	12.1	12.9

## Media

### Earnings revision

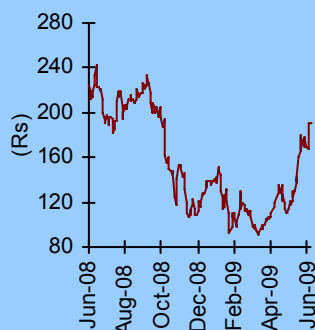
(%)	FY11E
Sales	↑ 0.8
EBITDA	↑ 3.2
EPS	↑ 3.0

### Shareholding pattern

	Sep '08	Dec '08	Mar '09
Promoters	41.5	41.5	41.5
Institutional investors	47.2	50.5	50.3
MFs and UTI	11.6	11.6	10.0
Insurance Cos.	9.7	10.7	10.8
FII	25.9	28.1	29.5
Others	11.3	8.0	8.2

Source: NSE

### Price chart

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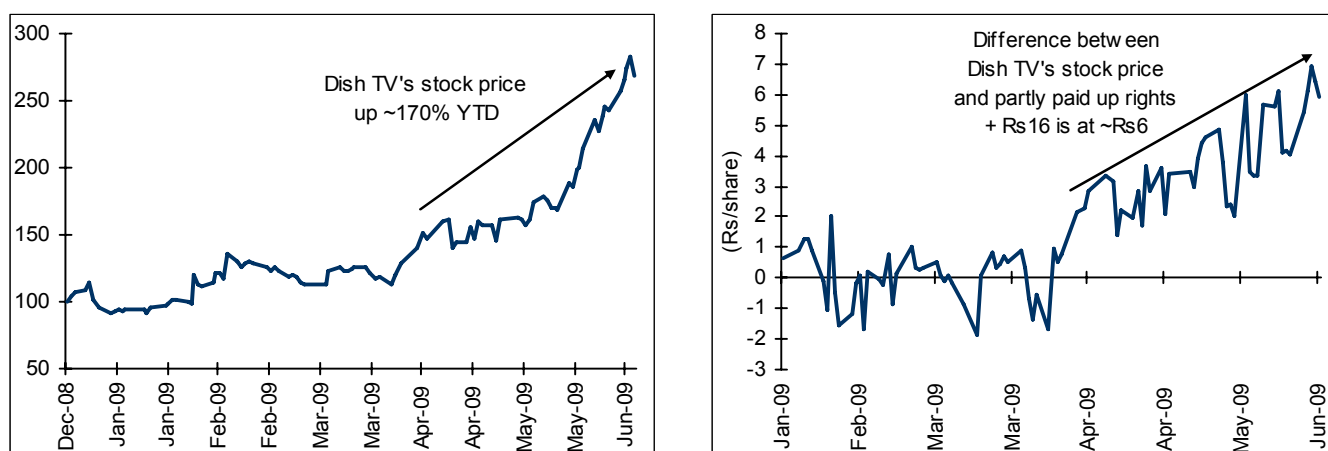
+91 22 6637 7510

## Fund infusion in Dish TV to ease balance sheet strain

Since the completion of the rights issue, Dish TV's stock price has increased ~2.8x to Rs53.7/share from Rs19/share and partly paid-up rights (Rs6/share already paid-up; Rs16/share yet to be paid) are trading at Rs31.8/share. This premium provides the promoters an opportunity to reduce their shareholding in Dish TV's ordinary shares so as to pay the remaining Rs8.1bn for the rights. After having subscribed to 98.5% of the entire rights, promoters' effective shareholding had increased from 58% to 80.1%.

We expect further fund infusion in Dish TV by the promoters to help ease Essel Group's liquidity. We believe fund infusion will lead to reduction in high loans and advances from ZEEL to Group companies. The total corporate advances to the Group companies, Dish TV and Wire & Wireless India (WWIL), dipped to Rs4.86bn as of end-Q4FY09 from Rs6.6bn as of end-Q3FY09 and as per ZEEL's management, loans & advances made to Dish TV and WWIL are expected to be returned by end-FY10. Debt-on-books of ZEEL decreased to Rs5.76bn as of end-Q4FY09 from Rs6.25bn as of end-Q3FY09. Cash-on-books was Rs1.94bn, implying net debt of Rs3.82bn.

**Chart 1: Price performance – Dish TV's ordinary share versus partly paid-up rights**



Source: Bloomberg, I-Sec Research

## Rights issue – Details

Dish TV raised Rs11.4bn in December '08 from its rights issues for ~0.5bn shares at Rs22/share and has plans for further capital raising of up to US\$200mn through FCCBs. The amount of Rs11.4bn is callable in parts, of which only Rs3.1bn (Rs6/share) has been collected so far; Rs8/share or Rs4.1bn was to become payable within 3-9 months from the date of allotment and another Rs8/share or Rs4.1bn within 9-18 months.

**Table 1: Rights issue – Structure**

	Rs/share	Total (Rs bn)	Timeline
Tranche I	6.0	3.1	On application
Tranche II	8.0	4.1	3-9 months from date of allotment
Tranche III	8.0	4.1	9-18 months from date of allotment
<b>Total</b>	<b>22.0</b>	<b>11.4</b>	

Source: Company data, I-Sec Research

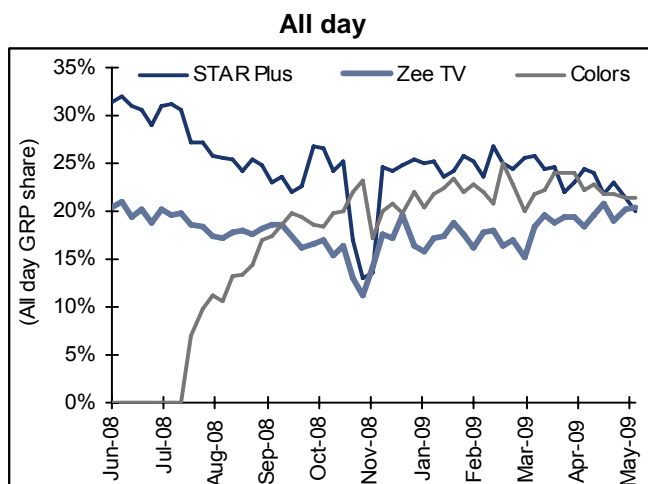
## Impressive improvement in Zee TV's GRP but competition remains

### Zee TV emerges as a strong contender for #1 position...

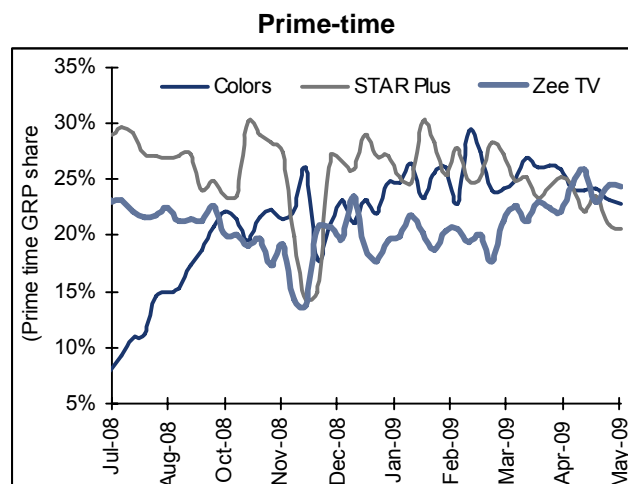
Zee TV has continued its improvement in GRP share and has moved to be a strong contender for #1 spot among Hindi GECs from a poor #3. Zee TV's share of GRPs has increased to an average of 19.6% in Q1FY10 from a low of 16.1% in Q3FY09. For the week ended May 30, '09, Zee TV was at #2 with 245 GRPs behind Colors with 258 GRPs and ahead of STAR Plus with 240 GRPs.

In the prime time slot, Zee TV's performance has been more impressive with the share of GRPs increasing to 23.4% in Q1FY10 from 19% in Q3FY09. For the week ended May 30, '09, Zee TV was the #1 in prime-time with 138 GRPs, ahead of Colors at 129 GRPs and STAR Plus at 116 GRPs.

**Chart 2: Zee TV showing sustained improvement in GRP share**



Source: TAM CS4+, HSM markets



Source: TAM CS4+, HSM markets

The improvement in ratings has come from new programme traction and not from blockbuster movies. Programmes such as *Chhoti Bahu*, *Agle Janam*, *Dance India Dance* and *Shree* are consistently garnering 2.5+ TRPs and featuring in top-50 shows on Hindi GECs. *Dance India Dance* grand finale garnered average TRPs of 5.5 and was the #3 programme in week 22 CY09.

**Table 2: New programmes gain traction**

Programme	Time slot	Average TRPs								
		wk 14	wk 15	wk 16	wk 17	wk 18	wk 19	wk 20	wk 21	wk 22
Ghar Ghar Mein	7:00-8:30pm Mon-Fri	0.9	1.1	1.1	0.8	0.7	0.7	0.7	0.6	0.6
Chhoti Bahu	7:30-8:00pm Mon-Fri	3.4	4.3	4.2	3.7	4.3	4.0	4.1	3.5	3.4
Agle Janam	9:30-10:00pm Mon-Fri	3.7	3.2	3.2	3.1	3.8	4.0	3.5	3.4	3.5
Shree	10:30-11:00pm Mon-Thu	3.5	2.8	2.9	2.5	2.3	2.2	1.9	2.0	2.3
Dance India Dance	Fri-Sat 9:30-10:30pm	3.2	3.4	3.4	3.1	3.4	3.6	2.9	3.2	5.5

Source: TAM CS4+, HSM markets

**...however, share of Hindi GECs in total TV ad pie to shrink**

The Hindi GEC space has witnessed intense competition not only from the entry of new players but also due to shrinkage in viewership owing to the annual extravaganza of Indian Premiere League (IPL) and the rising viewership in regional markets, especially Bengali and Marathi. Post IPL '09, the Hindi GEC space has seen a flurry of new programming and high decibel effort from *Sony Entertainment* and *NDTV Imagine* to emerge as strong tier-II GEC players. We believe content costs and distribution costs (carriage fee) will continue to increase. World Cup T20 and Champions League T20 in Q1FY10 will increase pressure on ad revenue growth for Hindi GECs.

**Earnings upgrade – Higher ad growth in FY11**

We have raised FY11E estimates, factoring in higher YoY ad revenue growth of 10% (earlier 8%) on account of improvement in Zee TV's GRP share. However, maintaining the current market share will likely be a challenge for any player in the GEC space owing to high churn in viewership.

**Table 3: Earnings revision***(Rs mn)*

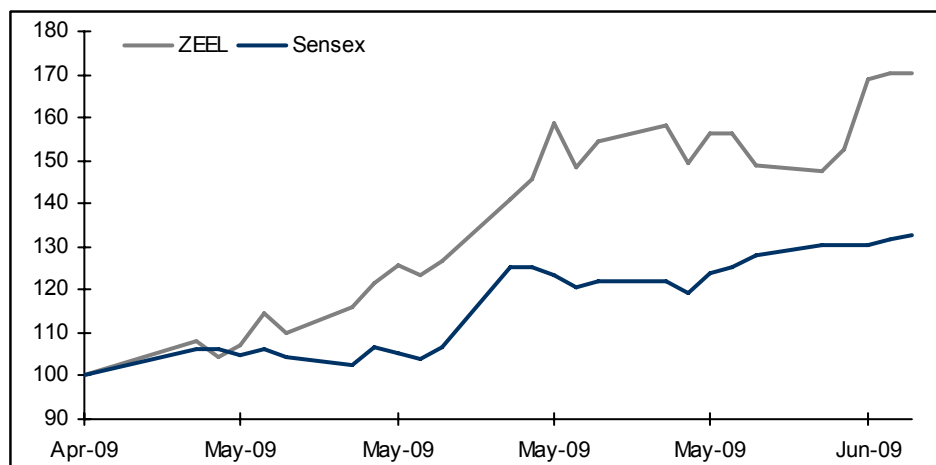
	FY11E		
	Revised	Old	% chg
Sales	26,346	26,133	0.8
EBITDA	6,911	6,697	3.2
PAT	4,832	4,691	3.0

Source: Company data, I-Sec Research

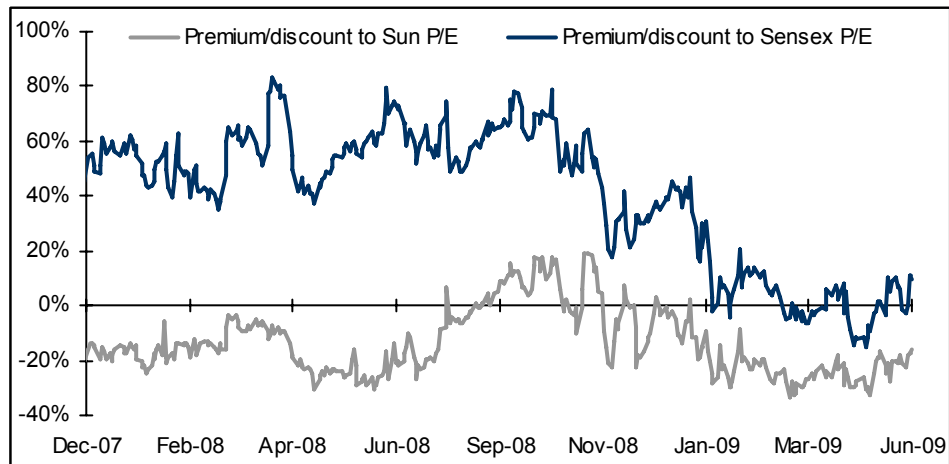
**Downgrade to HOLD from Buy**

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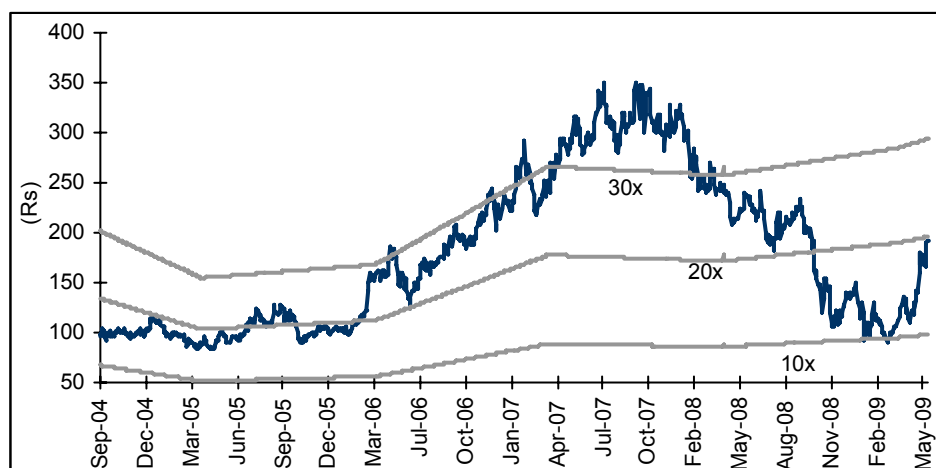
Our target price implies no upside from the current market price of Rs192/share. The likely fund infusion in Dish TV can improve ZEEL's working capital, though we expect the infusion to have limited impact on ZEEL's long-term valuations in spite of the move boosting sentiment. Sustained market share by channels will be the key driver going forward for stock performance. We recommend profit booking above in ZEEL.

**Chart 3: ZEEL outperformed Sensex ~38% in May-June '09**

Source: Bloomberg, Company data, I-Sec Research

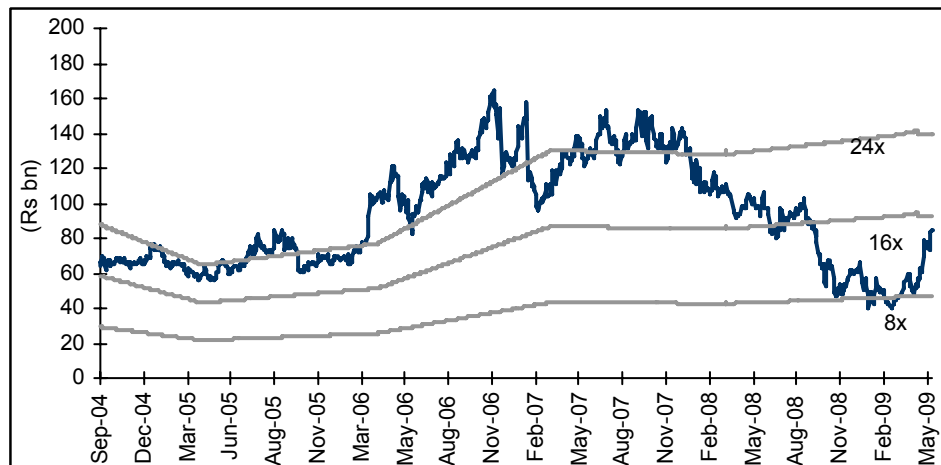
**Chart 4: ZEEL's P/E at 16% discount to Sun's versus 30-50% historically**

Source: Bloomberg, Company data, I-Sec Research

**Chart 5: P/E no longer in lower band**

Source: Bloomberg, Company data, I-Sec Research

Chart 6: EV/EBITDA



Source: Bloomberg, Company data, I-Sec Research

## Financial Summary

**Table 4: Profit and Loss Statement**
*(Rs mn, year ending March 31)*

	FY08	FY09	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>18,354</b>	<b>21,729</b>	<b>22,901</b>	<b>26,346</b>
of which advertising	9,307	10,617	9,984	10,987
of which subscription	7,436	9,014	10,490	12,539
of which movies	-	340	612	765
of which others	1,611	1,758	1,815	2,056
<b>Operating Expenses</b>	<b>12,931</b>	<b>16,397</b>	<b>17,103</b>	<b>19,435</b>
<b>EBITDA</b>	<b>5,423</b>	<b>5,332</b>	<b>5,798</b>	<b>6,911</b>
margins	29.5	24.5	25.3	26.2
Depreciation & Amortisation	232	303	436	504
Gross Interest	516	1,331	865	995
Other Income	1,138	1,597	1,677	1,845
<b>Recurring PBT</b>	<b>5,813</b>	<b>5,295</b>	<b>6,174</b>	<b>7,256</b>
Add: Extraordinaries	(26)	1,456	-	-
Less: Taxes	1,627	1,554	2,038	2,395
- Current tax	1,627	1,554	2,038	2,395
- Deferred tax	-	-	-	-
Less: Minority Interest	1,117	1,140	1,165	1,194
<b>Net Income (Reported)</b>	<b>3,833</b>	<b>5,174</b>	<b>4,112</b>	<b>4,832</b>
<b>Recurring Net Income</b>	<b>3,851</b>	<b>3,718</b>	<b>4,112</b>	<b>4,832</b>

Source: Company data, I-Sec Research

**Table 5: Balance Sheet**
*(Rs mn, year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	21,508	25,546	26,581	29,680
of which cash & cash eqv.	1,652	2,751	4,562	5,138
Total Current Liabilities & Provisions	6,279	6,954	6,392	6,417
<b>Net Current Assets</b>	<b>15,230</b>	<b>18,593</b>	<b>20,189</b>	<b>23,263</b>
<b>Investments</b>	<b>2,515</b>	<b>2,515</b>	<b>2,515</b>	<b>2,515</b>
<b>Net Fixed Assets</b>	<b>2,646</b>	<b>3,894</b>	<b>4,927</b>	<b>5,532</b>
Goodwill	12,960	12,960	12,960	12,960
<b>Total Assets</b>	<b>33,351</b>	<b>37,962</b>	<b>40,592</b>	<b>44,271</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>3,866</b>	<b>4,554</b>	<b>4,054</b>	<b>4,054</b>
<b>Deferred Tax Liability</b>	<b>(243)</b>	<b>(243)</b>	<b>(243)</b>	<b>(243)</b>
Minority Interest	1,117	1,140	1,165	1,194
Equity Share Capital	434	434	434	434
Face Value per share (Rs)	1.0	1.0	1.0	1.0
Reserves & Surplus*	28,177	32,077	35,182	38,832
Less: Misc. Exp. n.w.o.	0	-	-	-
<b>Net Worth</b>	<b>28,611</b>	<b>32,510</b>	<b>35,616</b>	<b>39,265</b>
<b>Total Liabilities</b>	<b>33,351</b>	<b>37,962</b>	<b>40,592</b>	<b>44,271</b>

Source: Company data, I-Sec Research

**Table 8: Quarterly trends**
*(Rs mn, year ending March 31)*

	Jun-08	Sep-08	Dec-08	Mar-09
Net sales	5,420	5,716	5,456	5,137
growth (YoY)	38	43	5	(2)
EBITDA	1,442	1,488	1,200	1,202
Margin (%)	27	26	22	23
Other income	278	280	401	639
Add: Extraordinaries	(574)	(792)	(26)	(65)
<b>Net profit</b>	<b>1,027</b>	<b>1,162</b>	<b>806</b>	<b>916</b>

Source: Company data

**Table 6: Cash Flow Statement**
*(Rs mn, year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow</b>	<b>3,810</b>	<b>2,626</b>	<b>2,688</b>	<b>3,500</b>
Working Capital Changes	(2,480)	(2,082)	559	(2,352)
Capital Commitments	(920)	(1,625)	(1,469)	(1,110)
<b>Free Cash Flow</b>	<b>409</b>	<b>(1,081)</b>	<b>1,778</b>	<b>38</b>
<b>Cash flow from Investing Activities</b>	<b>950</b>	<b>1,286</b>	<b>1,516</b>	<b>1,691</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	(0)	-	-
Inc (Dec) in Borrowings	640	689	(500)	-
Dividend paid	(1,018)	(1,298)	(1,031)	(1,212)
<b>Extraordinary Items</b>	<b>(26)</b>	<b>1,456</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>697</b>	<b>1,099</b>	<b>1,812</b>	<b>576</b>

Source: Company data, I-Sec Research

**Table 7: Key Ratios**
*(Year ending March 31)*

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (in Rs.)</b>				
Diluted Recurring EPS	8.9	8.6	9.5	11.1
Diluted Reported EPS	8.8	11.9	9.5	11.1
Recurring Cash EPS	9.4	9.3	10.5	12.3
Dividend per share (DPS)	2.0	2.6	2.1	2.5
Book Value per share (BV)	65.8	74.8	82.0	90.4
<b>Growth Ratios (%)</b>				
Operating Income	21.1	18.4	5.4	15.0
EBITDA	69.3	(1.7)	8.7	19.2
Recurring Net Income	62.1	(3.5)	10.6	17.5
Diluted Recurring EPS	58.4	(3.5)	10.6	17.5
Diluted Recurring CEPS	55.9	(1.5)	13.1	17.4
<b>Valuation Ratios (x)</b>				
P/E	21.6	22.4	20.2	17.2
P/CEPS	20.4	20.7	18.3	15.6
P/BV	2.9	2.6	2.3	2.1
EV / EBITDA	15.6	15.7	14.1	11.7
EV / Operating Income	4.6	3.9	3.6	3.1
EV / Operating FCF	63.4	154.2	25.1	70.6
<b>Operating Ratio (%)</b>				
Production cost/Sales	11.6	9.3	10.2	10.2
Other Income / PBT	19.6	30.2	27.2	25.4
Effective Tax Rate	28.1	23.0	33.0	33.0
NWC / Total Assets	40.7	41.7	38.5	40.9
Inventory Turnover (days)	NA	NA	NA	NA
Receivables (days)	111.7	104.6	102.2	93.5
Payables (days)	102.4	90.6	91.4	77.7
D/E Ratio (x)	12.7	13.3	10.7	9.7

**Return/Profitability Ratio (%)**

Recurring Net Income Margins	19.8	15.9	16.7	17.1
RoCE	10.8	8.9	7.7	8.7
RoNW	14.1	12.2	12.1	12.9
Dividend Payout Ratio	22.5	30.6	22.0	22.0
Dividend Yield	1.0	1.4	1.1	1.3
EBITDA Margins	29.5	24.5	25.3	26.2

Source: Company data, I-Sec Research

**ANALYST CERTIFICATION**

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