

26<sup>th</sup> October 2009**Key Take Away**

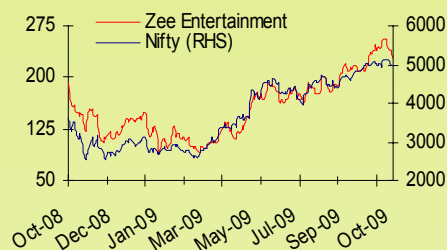
<b>CMP</b>	Rs 250
<b>Recommendation</b>	BUY

**Scrip Details**

<b>Market Cap (Rs crores)</b>	10,850
<b>P/E (x) - FY10E</b>	25.0
<b>Equity Capital (Rs crores)</b>	43.4
<b>Face Value (Rs)</b>	1.0
<b>52 Week High/Low (Rs)</b>	261.8/88
<b>Website: <a href="http://www.zeetelevision.com">www.zeetelevision.com</a></b>	
<b>NSE Code</b>	ZEEL
<b>Sensex</b>	16810.9
<b>Nifty</b>	4997.0

**Shareholding Pattern (%)**

<b>As on September 2009</b>	
<b>Promoters</b>	41.5
<b>MFs, FIs &amp; Banks</b>	24.9
<b>FII</b>	26.3
<b>Other Bodies corporate</b>	4.4
<b>Public and others</b>	2.8

**Comparative Price Movement**

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**Unlocking shareholder value: Zee News (ZNL) to transfer of 6 regional General Entertainment Channels (R-GEC) to Zee Entertainment (ZEEL)**

**The arrangement**

- The Zee Group has announced restructuring of its entertainment business whereby it will de-merge the Regional entertainment channel business undertaking (comprising of 6 television channels viz. Zee Marathi, Zee Talkies, Zee Bangla, Zee Telugu, Zee Kannada & Zee Cinemalu) from Zee News into Zee Entertainment Enterprises Ltd.
- The Scheme of Arrangement for the purpose and its terms, including but not limited to the share swap ratio would be considered at a separate meeting of the Board of Directors of the Company, to be scheduled soon
- ZNL would retain all the news channels that include Zee News, Zee Business, Zee 24 Taas, Zee 24 Ghanta, Zee UP News, Zee 24 Ghantalu. After de-merger, ZNL will be left with only the news channel portfolio and two entertainment channels Zee Punjabi & Zee Tamil (which air news content as well).

**Rationale for de-merger**

- To bring its entertainment business under one head giving Zee Entertainment a large growth opportunity and provide better control to exploit synergies across the entertainment spectrum.
- To unlock value for ZNL shareholders as profitability was getting suppressed due to losses from its news channels.
- News channels have FDI limits of around 26% which was restricting expansion of GEC channels within Zee News' portfolio. By hiving it off, the FDI limit could increase for GECs if they are transferred to Zee Entertainment.

**Long-term positive for ZEEL**

- ZEEL has leadership position in Hindi GEC, Hindi movies, sports etc. With these regional GECs coming under its umbrella, ZEEL would have an unparalleled reach across the country in the regional entertainment space which is still very under penetrated and there is lot of scope for a new players.

**Near-term positive for ZNL, however negative in the longer term**

- The proposed restructuring which will unlock full value of the profitable business of ZNL is a likely near term trigger for ZNL. The regional GEC does entail higher valuation as against that which is reflected in the stock price of ZNL. The swap ratio will be announced soon would likely act as a near-term trigger for ZNL.
- The residual business of ZNL appears weak with losses at the operating and net profit levels. The news space is getting extremely crowded and faces lot of competition which might result in lesser investor interest.

Overall, the restructuring is a positive for both ZEEL and ZNL. However, we have apprehension about the future prospects of the news business. One can BUY ZEE Entertainment and continue to HOLD ZEE News.

## Expected timeline of the scheme

	Estimated Date
Board meeting for approval of swap ratio	Oct/Nov 2009
Ministry of I&B approval	January 2010
Shareholder/ Creditor approval	January 2010
Court approval of the scheme	March 2010

## Financial snapshot - Zee News after demerger

H1FY10 Rs cores	ZNL pre-demerger	R-GEC's transferred to Zee	Remaining ZNL
Revenues	298.6	186.8	111.8
Operating profit	50.6	59.7	-9.1
PAT	25.1	48.9	-23.8
OPM%	16.9	32.0	-8.2
PAT%	8.4	26.2	-21.3

## Financial snapshot - Zee Entertainment after demerger

Revenue (Rs crores)	ZEEL	R-GEC	ZEEL+ R-GEC
FY07	1515.9	116.3	1632.2
FY08	1835.4	210.9	2046.3
FY09	2177.3	340.3	2517.6

## Financials - Zee News

Q2FY10 Rs cores	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ	H1FY10	H1FY09	% Chg YoY	FY09
Net Sales	161.2	127.7	26.3	137.4	17.3	298.6	240.7	24.1	522.1
Total Expenditure	135.5	106.5	27.2	112.6	20.3	248.1	202.0	22.8	438.5
Operating Profit	25.8	21.2	21.8	24.8	3.9	50.6	38.7	30.8	83.7
PBT	20.3	18.0	12.5	18.1	11.8	38.4	33.1	15.9	70.7
PAT	13.2	11.5	14.6	11.9	10.4	25.1	20.8	20.8	44.7
Equity Share capital	24.0	24.0		24.0		24.0	24.0		24.0
EPS (Rs.)	0.5	0.5	14.6	0.5	10.4	1.0	0.9	20.8	1.9
CEPS (Rs)	0.6	0.6	7.2	0.6	0.1	1.2	1.0	17.5	2.3
OPM (%)	16.0	16.6		18.0		16.9	16.1		16.0
PBT (%)	12.6	14.1		13.2		12.9	13.8		13.5
PAT (%)	8.2	9.0		8.7		8.4	8.6		8.6

## Financials - Zee Entertainment

Consolidated Q2FY10 Rs cores	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ	H1FY10	H1FY09	% Chg YoY	FY09
Advertising revenue	247.6	285.1	-13.2	198.0	25.1	445.6	565.0	-21.1	1059.3
Subscription & Other Pay Income	243.5	224.4	8.5	241.0	1.0	484.5	439.4	10.2	903.8
Other Sales and Services	49.4	62.1	-20.5	37.0	33.5	86.4	109.2	-20.9	214.3
<b>Total Sales</b>	<b>540.5</b>	<b>571.7</b>	<b>-5.5</b>	<b>475.9</b>	<b>13.6</b>	<b>1016.4</b>	<b>1113.6</b>	<b>-8.7</b>	<b>2177.3</b>
Programming & Operating cost	222.9	261.3	-14.7	239.2	-6.8	462.1	497.9	-7.2	981.0
Admin & Others expenses	52.0	50.6	2.6	38.3	35.7	90.3	84.3	7.0	186.0
Selling & Other expenses	70.7	59.6	18.6	42.5	66.4	113.1	118.0	-4.2	259.2
Personnel	44.2	51.3	-13.9	39.0	13.4	83.2	120.4	-30.9	203.1
<b>Total expenditure</b>	<b>389.7</b>	<b>422.9</b>	<b>-7.8</b>	<b>358.9</b>	<b>8.6</b>	<b>748.7</b>	<b>820.6</b>	<b>-8.8</b>	<b>1629.3</b>
<b>Operating Profit</b>	<b>150.8</b>	<b>148.8</b>	<b>1.3</b>	<b>117.0</b>	<b>28.9</b>	<b>267.8</b>	<b>293.0</b>	<b>-8.6</b>	<b>548.0</b>
Other Income	29.1	28.0	4.3	32.5	-10.4	61.7	55.8	10.6	157.2
Interest	8.4	22.3	-62.5	9.1	-8.3	17.4	43.7	-60.1	133.9
<b>Gross Profit</b>	<b>171.5</b>	<b>154.5</b>	<b>11.1</b>	<b>140.4</b>	<b>22.2</b>	<b>312.0</b>	<b>305.1</b>	<b>2.3</b>	<b>571.4</b>
Depreciation & Amortisation	7.7	6.5	17.6	7.5	2.5	15.2	12.1	25.8	31.0
<b>PBT</b>	<b>163.9</b>	<b>147.9</b>	<b>10.8</b>	<b>132.9</b>	<b>23.3</b>	<b>296.8</b>	<b>293.0</b>	<b>1.3</b>	<b>540.3</b>
Prov. for Tax	52.9	48.9	8.1	41.6	-99.8	94.5	90.6	4.2	163.3
<b>PAT</b>	<b>111.0</b>	<b>99.0</b>	<b>12.1</b>	<b>91.3</b>	<b>21.5</b>	<b>202.3</b>	<b>202.3</b>	<b>0.0</b>	<b>379.6</b>
Equity Share capital	43.4	43.4		43.4		43.4	43.4		43.4
<b>EPS (Rs.)</b>	<b>2.6</b>	<b>2.3</b>	<b>12.1</b>	<b>2.1</b>	<b>21.5</b>	<b>4.7</b>	<b>4.7</b>	<b>0.0</b>	<b>8.7</b>
<b>CEPS (Rs)</b>	<b>2.7</b>	<b>2.4</b>	<b>12.4</b>	<b>2.3</b>	<b>20.1</b>	<b>5.0</b>	<b>4.9</b>	<b>1.4</b>	<b>9.5</b>
<i>OPM (%)</i>	<i>27.9</i>	<i>26.0</i>		<i>24.6</i>		<i>26.3</i>	<i>26.3</i>		<i>25.2</i>
<i>PBT (%)</i>	<i>30.3</i>	<i>25.9</i>		<i>27.9</i>		<i>29.2</i>	<i>26.3</i>		<i>24.8</i>
<i>PAT (%)</i>	<i>20.5</i>	<i>17.3</i>		<i>19.2</i>		<i>19.9</i>	<i>18.2</i>		<i>17.4</i>

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