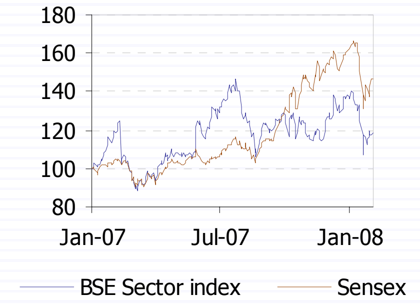
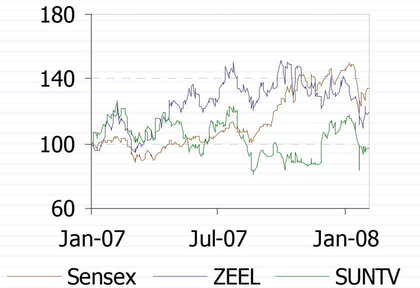
Broadcasting Sector: General Entertainment Channels (GECs)

BSE Sector index vs BSE Sensex



Source: ENAM Research, Bloomberg

Relative Performance



Source: ENAM Research, Bloomberg

It's a gold rush!

- Zee Entertainment Enterprises Ltd (ZEEL): Ratings improvement + increasing addressability to drive profitable growth and help successfully offset rising costs from increasing competition. We expect ZEEL's PAT to grow at ~35% CAGR (FY07-FY10)

- Sun TV Network Ltd (Sun): Ratings dominance, large film library and robust distribution insulates SUN from political turmoil (fallout with DMK)/ increased competition (Kalaignar launch). Ad rate hikes + increased addressability to drive ~46% PAT CAGR (FY07-FY10)

Financial summary

Company	Price	Mkt cap	EPS (Rs.)		CAGR	RoE (%)		RoCE (%)		P/E (x)		EV/EBITDA (x)		Tgt Price	Relative
	(Rs)	(USD mn)	FY08E	FY09E	FY08E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	(Rs.)	to Sector
ZEEL	267	2,930	8.3	11.1	41.7	10.9	13.0	14.8	17.5	32.1	24.0	20.7	15.1	333	OP
Sun TV	338	3,368	9.3	14.1	50.0	34.5	36.5	53.5	56.4	36.3	24.0	20.6	13.8	435	OP

Source: ENAM Research; Note: OP = Outperformer

Analyst: Chirag Negandhi
chirag.negandhi@enam.com (+91 22 6754 7618)

Analyst: Nitin Idnani
nitin.idnani@enam.com (+91 22 6754 7655)

Sahil Desai
sahil.desai@enam.com

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Investment summary

GEC space: Getting crowded

- A large addressable opportunity & easy liquidity leading to a slew of new channel launches
  - Hindi and regional GECs are expected to grow at a CAGR of over 20% & 18% respectively over the next 3 yrs.
  - Easy availability of funding is driving new channel launches; 9X (12th Nov 2007), NDTV Imagine (21st Jan 2008), and another 5-7 channels expected by end-FY09. Even in south India, Balaji, Eenadu & Asianet are expected to launch GECs shortly.
- Opportune time for new entrants:
  - Top 3 slots up for grabs in Hindi GECs
  - Lucrative regional (south) GEC market dominated by 1 player.
- However, ↑ costs & cash burn to test balance sheet strength

Incumbents: Raising entry barriers

- Diversified channel bouquets and existing large content libraries (films, TV content etc.) increase the initial investment threshold for new entrants
  - ZEEL: 15 channels & large content library
  - Sun TV: 15 channels & ~7,700+ movies (perpetual rights)
- Distribution synergies (cost effect) and ad rate bundling (revenue effect) of incumbents to impact margins of new entrants
  - ZEEL: Group Cos., WWIL (cable) & Dish TV(DTH); flanking channel Zee Next to focus on youth-centric GEC content.
  - Sun TV: Group Cos. SCV (cable) and Sun Direct (DTH); plans kids' and sports channels to preempt competition

Recommendations

- **ZEEL: Outperformer – Target Price: Rs 333**
  - Improved ratings + increased addressability to help offset higher costs, thus maintaining margins
- **Sun TV : Outperformer – Target Price: Rs 435**
  - Sustained market dominance to drive revenue growth

Large opportunity canvas

General entertainment: Poised for growth

Subscription growth
Increased addressability through digitization, redistribution of pay revs. in favor of broadcasters

Advertisement growth
Private GEC ad market – largest share of TV ad pie (24% in 2006) - estimated to touch ~Rs 36bn by 2011E

Catalysts for new entrants

Large addressable opportunity | **Churn in leadership** | **Easy access to capital**

Incumbents raising entry barriers

Ad rate bundling | **Flanking channels** | **Distribution strength** | **Leveraging content**

Effects of increased competition

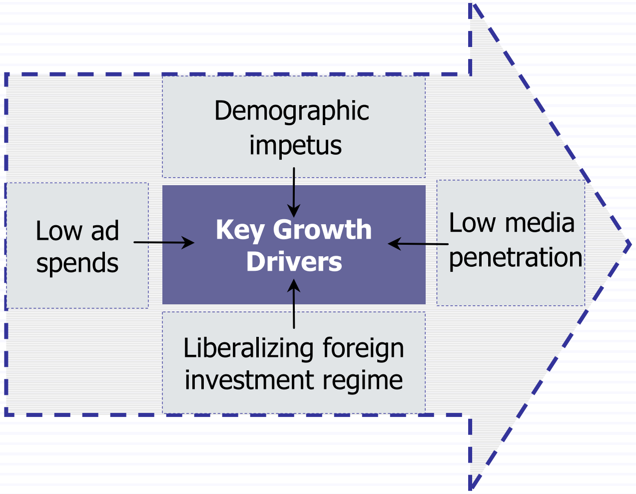
Competition to lead to higher costs
Content, distribution & employee costs ↑

Balance sheet strength will be tested
High cash burn for laggards will eventually lead to consolidation

Source: ENAM Research

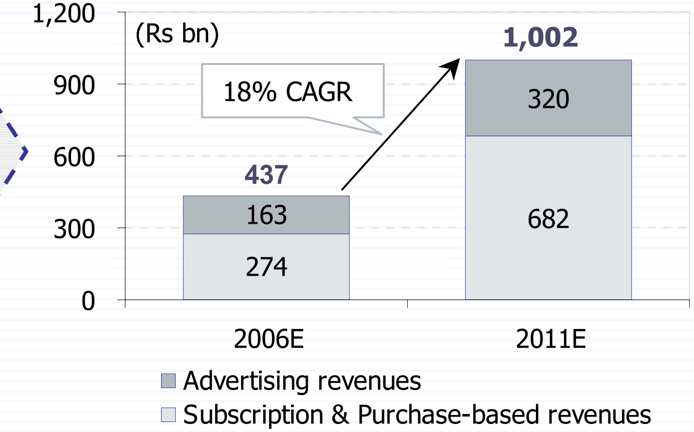
India's E&M Industry: At an inflexion point…

ENAM



Source: Industry estimates & PWC analysis, ENAM Research

Indian Entertainment & Media industry (E&M)



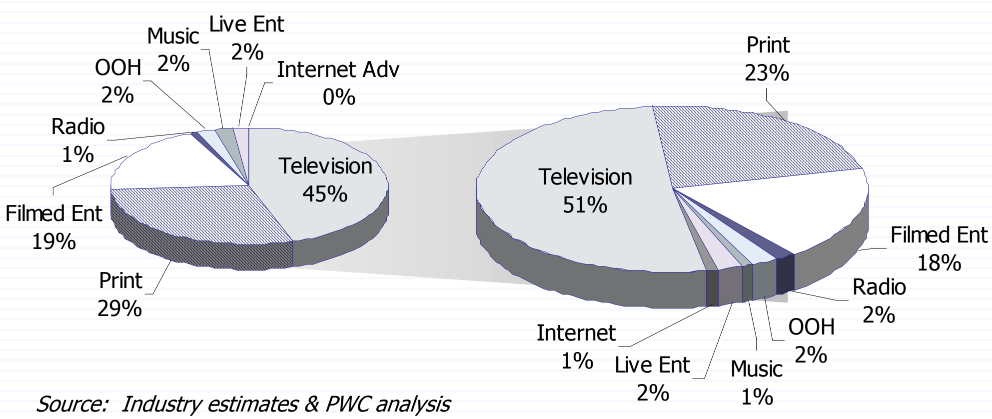
E&M potential in India

- Market expected to grow at 18% through 2006-2011 to ~Rs 1trillion.
- India's ad-spend to GDP (~0.46% in 2006) is way below the global average of 0.98%.
- The ad-market is expected to grow at 14% through 2006-2011 to ~Rs 320bn.
- The media industry target group of 20-39 years will account for 32% of the population by 2010.

Source: Cris-Infac

…as opportunities and growth embrace all its segments

~Rs 437bn market in 2006 ~Rs 1trn market in 2011



Source: Industry estimates & PWC analysis

Indian media: Segment-wise growth

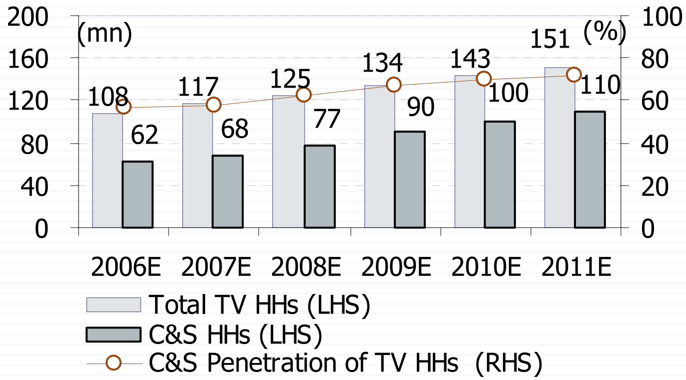
(Rs bn)	2006	2007E	2008E	2009E	2010E	2011E	CAGR
Television	191,200	219,900	266,000	331,300	431,000	519,000	22%
Print Media	127,900	144,000	162,200	182,300	206,500	232,000	13%
Films	84,500	96,800	112,000	126,450	146,000	175,000	16%
Radio	5,000	6,500	8,500	11,000	14,000	17,000	28%
Music	7,200	7,400	7,500	7,600	8,000	8,700	4%
Oudoor	10,000	12,500	14,500	16,500	19,000	21,500	17%
Live Ent.	9,000	11,000	13,000	16,000	18,000	19,000	16%
Internet Advt	1,600	2,700	4,200	6,000	8,200	9,500	43%
Total	**436,500**	**500,800**	**588,300**	**697,150**	**850,700**	**1,001,700**	**18%**

Source: FICCI-PWC The Indian Entertainment and Media Industry 2007

TV leads the media growth story…

ENAM

Cable & satellite (C&S) penetration…

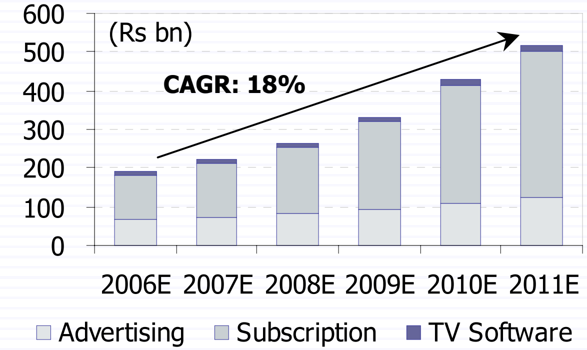


Source: Industry estimates & PWC analysis

…to expand TV's reach…

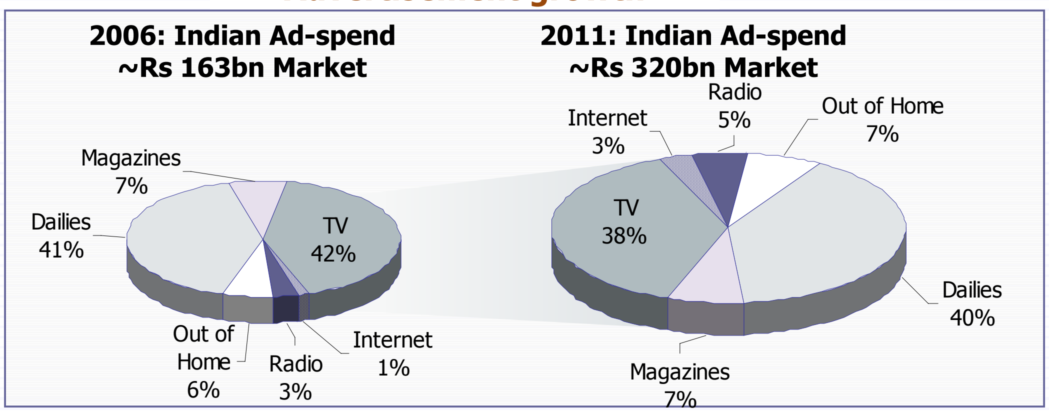
SEC Urban India	TV Reach (mn)	TV Reach (%)
A1	7.64	96.1
A2	14.51	94.5
B1, B2	35.71	90.6
C	41.69	85.8
D	43.15	77.5
E1, E2	45.32	65

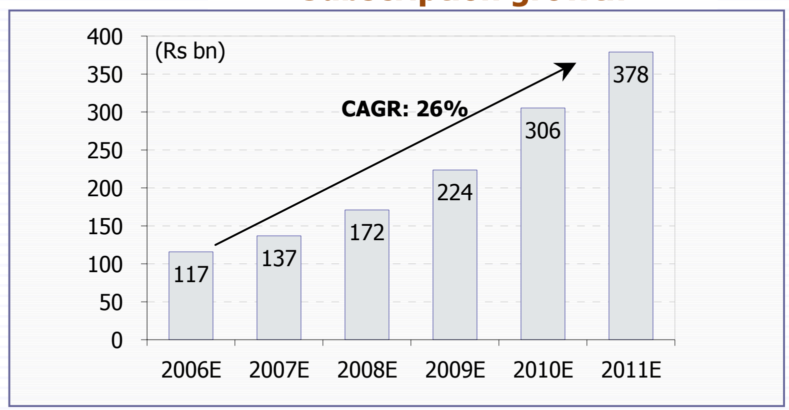
… resulting in TV revenue growth



Source: FICCI-PWC Indian E&M Industry 2007

…with broadcasters as the natural beneficiaries





Source: FICCI-PWC Indian E&M Industry 2007

Hindi GECs:

Maintaining a lion's share...

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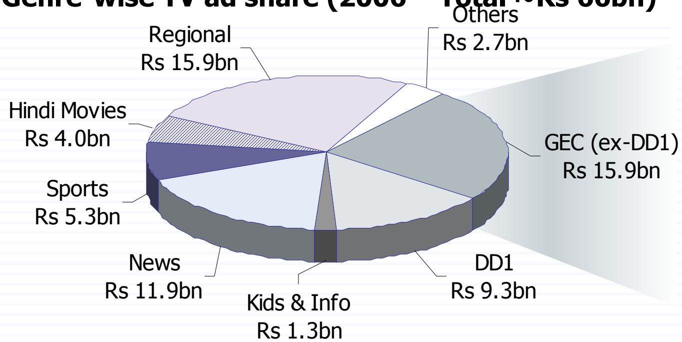
Largest share of a growing ad pie

GECs to grow @18-20% CAGR from Rs 15.9bn (2006) to ~Rs 39bn (2011)

Genre-wise TV ad share (2006 – Total ~Rs 66bn)

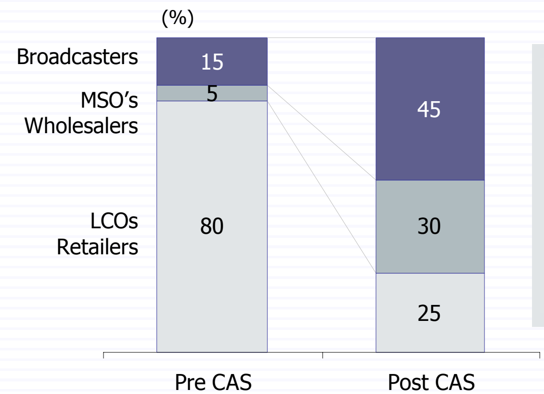


GEC (ex-DD1) ad mrkt (2011) growth sensitivity

CAGR	Pvt GEC mkt (Rs bn)
14%	30.59
16%	33.37
18%	**36.35**
20%	**39.53**
22%	42.94

Source: FICCI-PWC Indian E&M Industry 2007, ENAM Research

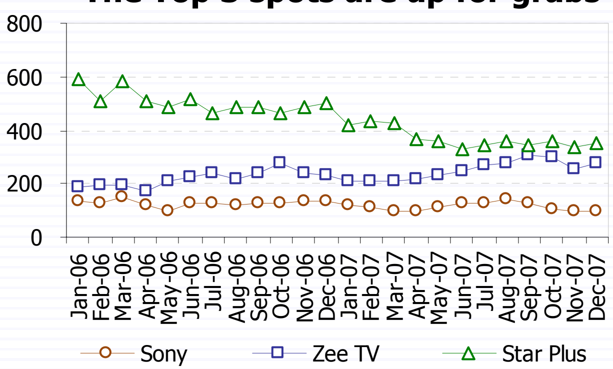
Direct play on increasing addressability



Broadcasters and MSOs to gain at the expense of LCOs

...but still largely under-penetrated

The Top 3 spots are up for grabs



With Star Plus' dominance eroded and Zee TV on the ascent, this churn could see the new players upset the apple cart

+

Huge investor interest in Indian broadcasting

Company	Details
NDTV	Raised USD 120mn through NDTV Networks Plc
INX	Raised funds from a host of PE investors for a slew of channels
UTV Software	Disney acquired UTV's kids' channel, Hungama, for USD 30.5mn along with 14.9% in UTV for ~USD 16mn
Times Global Broadcasting	Reuters acquired 26% for USD 22mn

Opportune time for new entrants

Incumbent	Challengers	
Star Plus	**9X**	**New**
Zee TV	**NDTV Imagine**	
Sony	**R-ADAG**	**Potential**
Sahara	**TV18-Viacom**	
	BAG Films	

Leadership churn in existing GEC's + high investor interest → 5-7 new entrants by end-FY09

But will all of them survive?...Unlikely!

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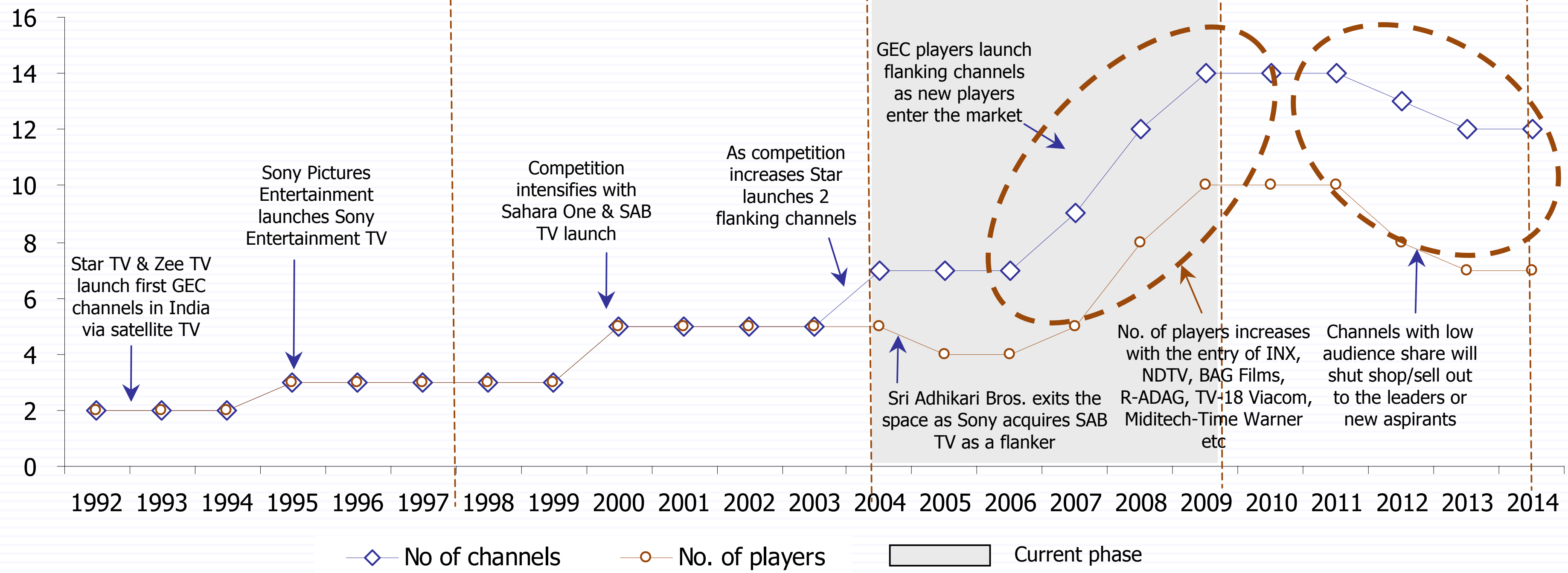
General Entertainment Segment Chronology

Entry of private players, essentially a duopoly	Evolves into a multi-player market	Slew of new players	Eventual consolidation
■ Satellite TV (initiated by CNN beaming the Gulf War to Indian homes) brought in private players.	■ Govt. allowed up-linking of broadcast signals from India. GEC content was homogenized as a number of me-too shows attempted to ape Star's success	■ New players, backed by funds from private equity/ strategic investors, enter the market. ■ **Potentially 6 new channels by end-FY09** ■ Content, distribution & employee costs to spiral up	■ As top 2-3 players garner the biggest chunk of revenues, others will continue burning cash, testing their balance sheet strength and eventually leading to consolidation.



Source: ENAM Research

Survival: What will it take?

ENAM

Content leadership, dominant market position & distribution strength will determine leaders

With potentially 12 channels vying for the top 3 positions, competition will be intense

Success Factors

- Better Programming
- Retaining/Attracting Key Talent
- Distribution/Reach

Fallout

- Higher Content Costs
- Higher Employee Costs
- Higher Distribution Costs (carriage fees)

Strategy for staying afloat

Existing players

New channel launches
Ad space bundling

New entrants

Lower ad rates
Higher carriage fees
Differentiated content

Only the top 2-3 players will make money while there will be huge cash-burn for others

Indicative income statement of top 5 GEC channels

(Rs mn)	No. 1	No. 2	No. 3	No. 4	No. 5
% of total ad rev	40%	25%	18%	7%	5%
Ad Revenues	6,360.0	3,975.0	2,862.0	1,113.0	795.0
Subscription Rev	2,725.7	1,703.6	1,226.6	-	-
Total Revenues	**9,085.7**	**5,678.6**	**4,088.6**	**1,113.0**	**795.0**
Programme Production	2294	2294	2294	2294	2294
Transmission Cost	16	16	16	16	16
Personnel	276	276	276	276	276
Management Cost	60	60	60	60	60
Distribution	900	900	900	900	900
Operating & Admin	106	106	106	106	106
Total Expenditure	**3,651.5**	**3,651.5**	**3,651.5**	**3,651.5**	**3,651.5**
EBITDA	**5,434.2**	**2,027.0**	**437.0**	**(2,538.5)**	**(2,856.5)**
EBITDA Margin	*60%*	*36%*	*11%*	*-228%*	*-359%*

Source: ENAM Research

Race against time

- As the table indicates, the attempt for all players will be to attain/maintain the top 2-3 positions
- At the current cash burn rate, we expect the initial funding for the laggards to be exhausted in 18-24 months.
- If the new entrants fail to attain substantial market share before cash burns out, they will be left with 3 unpleasant options: 1) Raise further debt leading to increased earnings volatility; 2) Dilute further equity at lower valuations; 3) Sale/closure of channel

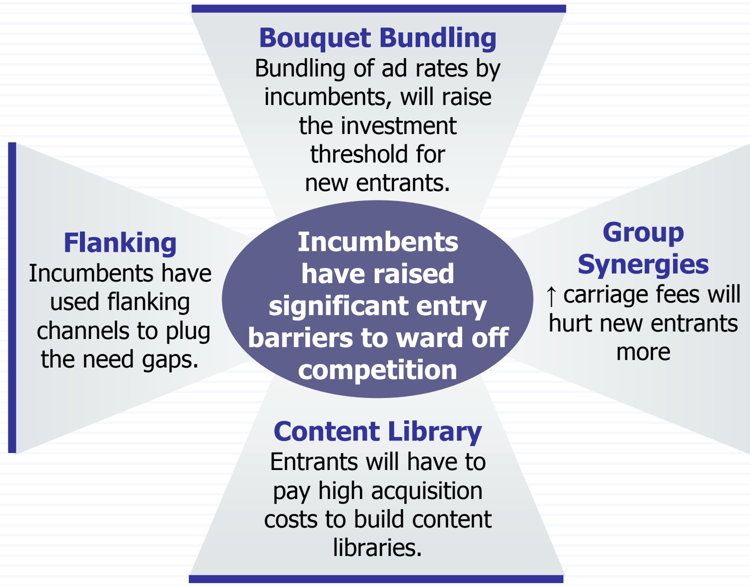
The balance sheet strength of laggards to be severely tested, eventually leading to consolidation

Incumbents: On the offensive

- **Suppressing revenue growth for new entrants**
  - **Bundling** of network channels
    - Ad rate bundling by large networks, will compel new entrants to lower ad rates to remain competitive.
  - **Flanking** channels to widen viewership
    - Prevents new channels from gaining early market share.
      - Incumbents use flankers to plug need gaps & widen viewership.

- **Increasing potential costs**
  - **Bouquet** vs. individual channels
    - With ZEEL and Star having min 15 channels, new entrants will have to match the viewer-diversity they offer to advertisers
    - New entrants will also be forced to enter with a bouquet, raising the minimum investment requirement for entry.
  - Leverage group synergies for **distribution**
    - Large existing players will be able to leverage the distribution networks of associate companies. These groups have presence in cable as well as DTH
    - With low bargaining power, the new entrants will be forced to pay much higher carriage fees.
  - **Content library** in place
    - Incumbents have built substantial libraries of both programs & movies (rights).
      - With more players vying for quality content, building libraries will prove more expensive for new entrants.

Entry barriers



Incumbents	No. of channels	Cable	DTH	Flankers
ZEEL	15+10* =25	WWIL	Dish TV	Zee Next
Star	17	Hathway	TataSky	Star One, Star Utsav

*Source: ENAM Research; *10 channels under Zee News Ltd.*

Incumbents are raising the entry barriers for new entrants

Key players: Hindi GECs

	Balance Sheet Size	Channel Bouquet	Distribution Strength	Content Library	Comments
Zee TV	●	●	●	◕	▪ Better content → Improved ratings ▪ Backing of the Zee Group ▪ Professional management ▪ Challenger to the No.1 spot
Star Plus	●	●	●	◕	▪ Currently the No.1 Hindi GEC in India ▪ Part of Rupert Murdoch's global media conglomerate ▪ Recent senior management exodus has taken its toll ▪ Slippage in dominance/ ratings
Sony	●	◑	◕	◑	▪ Churn in top management a concern ▪ Benefits from being part of Sony OneAlliance ▪ With ratings slipping Sony is out of the race for No. 2 ▪ Few hit shows (Jassi..., Jhalak Dikhla Ja).
9X	◑	◔	◔	◔	▪ Launched November 2007. Initial ratings impressive ▪ Strong management – Peter Mukerjea (ex-CEO Star) ▪ Cash burn could test Balance Sheet strength
NDTV Imagine	◕	◑	◑	◔	▪ Launched Jan 2008. NBC Universal owns 26% in parent NDTV Networks Plc. ▪ Management with proven execution capabilities ▪ Marketing and distribution muscle of NDTV group ▪ 1st week ratings place it in 3rd spot in weekday PT

● *Established* ○ *To be built*

Source: ENAM Research, Industry

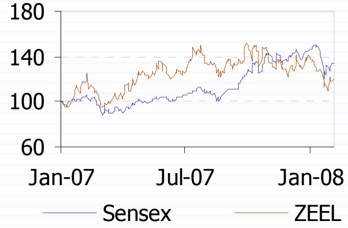
ENAM India Research

Stock Data

No. of shares	: 434m
Market cap	: Rs.116bn
52 week high/low	: Rs.363/ Rs.169
Avg. daily vol. (6mth)	: 1.7mn shares
Bloomberg code	: Z IN
Reuters code	: ZEE.BO

Shareholding (%)		Dec-07	QoQ chg
Promoters	:	41.5	0.0
FIIs	:	29.5	(1.5)
MFs / UTI	:	12.6	1.8
Banks / FIs	:	6.2	0.6
Others	:	10.2	(0.9)

Relative Performance



Source: ENAM Research, Bloomberg

Zee Entertainment Enterprises Ltd. (ZEEL)

Relative to Sector: **Outperformer**

Rs 267

Target Price: Rs.333

Potential Upside: 25%

Not 'content' with No. 2

Financial summary

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006	14,233	2,154	-	5.0	(36)	48	8	8	36	1.2
2007	14,411	2,407	-	5.5	12	45	8	10	33	1.5
2008E	17,642	3,609	8.5	8.3	50	32	11	15	21	3.3
2009E	21,111	4,831	11.2	11.1	34	24	13	18	15	4.5

*Source: *Consensus broker estimates, Company, ENAM estimates*

Analyst: Chirag Negandhi
chirag.negandhi@enam.com (+91 22 6754 7618)

Analyst: Nitin Idnani
nitin.idnani@enam.com (+91 22 6754 7655)

Sahil Desai
sahil.desai@enam.com

February 6, 2008

Investment summary

➲ **ZEEL: On a high-growth trajectory**

- Revenues and profit growth to drive value
  - Improved ratings + addressability → 3-yr revenue CAGR of over 20%
  - Revenue growth to outstrip rising costs → 3 yr PAT CAGR at ~35%
- Zee TV has closed in on Star Plus' No. 1 spot
  - Re-worked content strategy → closed gap with Star Plus
  - Robust distribution set-up makes it strong contender for No.1

➲ **Investment argument**

- Improved ratings to allow for consistent ad rate hikes
  - 36 programs in the Top 100 programs (TAM Week 3, 2008)
  - On weekdays PT, ZTV ahead of Star Plus.
  - 9MFY08 ad revenue has grown 32% (YoY)
- Huge operating leverage from the incremental sub. revenue
  - Digital (CAS + DTH) sub base to expand at ~71% CAGR from 5 mn currently to 25 mn in 2010.
  - Pay-channel bouquet → best placed to capitalize ↑ addressability
- New channel launches (Zee Next) as flankers to help ZEEL widen its viewership and sustain dominance.

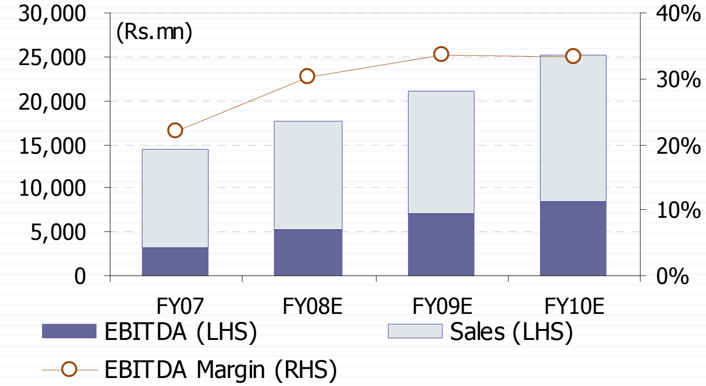
➲ **Key risks**

- **Performance** of Zee Next: Inv. Of ~Rs 2bn over 2 years
- **Decline in viewership of the flagship channel:** Zee TV's ratings have slipped marginally since the completion of its hit talent show SaReGaMaPa (Oct 2007).
- **Delays in CAS rollout and digitization**

➲ **Valuation**

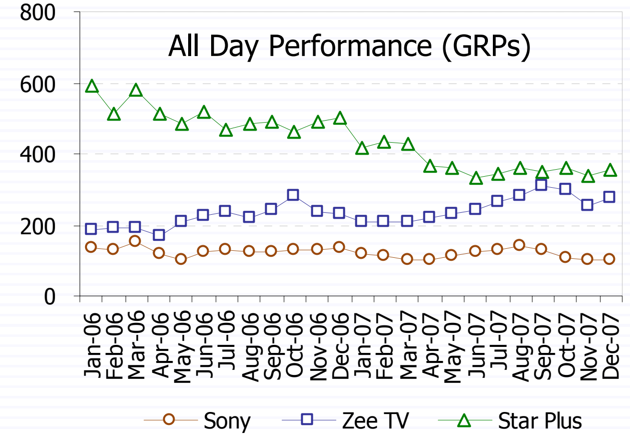
- We maintain **Outperformer** rating: Target price **Rs 333**
  - At CMP of Rs 267, ZEEL trades at 25x FY09E earnings
  - We are confident that Zee TV will be able to withstand impending competition and retain our positive outlook on ad growth and greater addressability benefits.

Revenue and EBITDA growth



Source: ENAM Research

ZEEL: Ratings improvement



Source: ENAM Research

Company background

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ZEEL: India's leading broadcaster

- Largest producer and aggregator of Hindi programming in the world, with a library of 30,000+ hours of original programming.
- One of the largest Indian multiple distribution platforms with an estimated reach of 500 million viewers in over 120 countries globally.
- Part of the Essel group, promoted by Mr. Subhash Chandra.

Diversified channel bouquet

- ZEEL's formidable network of 15 channels covers 6 broad genres in 3 languages → a wide viewer base.
  - Genres: GECs, movies, sports, music, lifestyle & spirituality
  - Zee TV (No.2 in its genre), Zee Cinema (No.1), ETC Punjabi (No.1)

Zee TV: Flagship channel to lead growth

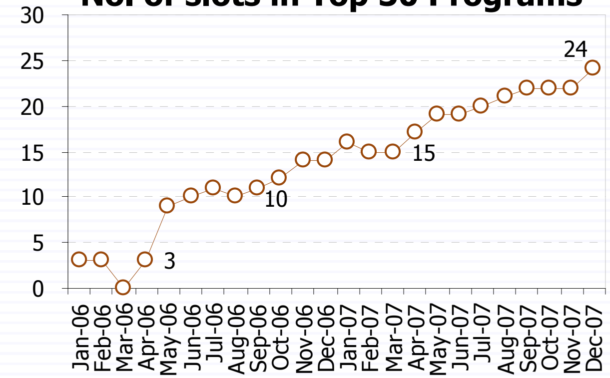
- Zee TV, having got its content in place, is now making a serious bid for leadership in Hindi GECs
- Increasing no. of Zee TV's programs are finding a place in the top 50.
  - Shows like SaReGaMaPa, …Dulhann, Maayka and Saath Phere have helped improve primetime performance.
- Zee TV is at the forefront of ZEEL's subscription growth
  - Domestic reach at ~62% (period: 16 Oct 2007-15 Nov 2007) of C&S homes will ensure benefits from addressability
  - Substantial overseas pay revenues (~50% of subscription revs.) gives ZEEL a competitive edge.

ZEEL Bouquet: Covers all genres

Channel	FTA / Pay	Language	Genre	Audience Share* (%)
		Zee Brands		
Zee TV	Pay	Hindi	GEC	27.4
Zee Cafe	Pay	English	GEC	12.1
Zee Next	FTA	Hindi	Youth centric GEC	-
Zee Cinema	Pay	Hindi	Movies	33.0
Zee Studio	Pay	English	Movies	7.0
Zee Classic	Pay	Hindi	Movies	-
Zee Premier	Pay	Hindi	Movies	-
Zee Action	Pay	Hindi	Movies	-
Zee Music	Pay	Hindi	Music	3.8
Zee Sports	Pay	Multiple Feeds	Sports	0.5
Zee Trendz	Pay	English	Lifestyle	-
Zee Jagran	Pay	English	Spiritual	-
		Other Brands^		
Ten Sports	Pay	English	GEC	25.9
ETC Music	Pay	Hindi	Music	4.0
ETC Punjabi	Pay	Punjabi	GEC	-

*Source: Company; * Ratings fpr 4-weeks ending 19 Jan '08; ^Through ZEEL's holdings: 50% in Ten Sports and 50.16% in ETC Network*

No. of slots in Top 50 Programs



Source: ENAM Research

Business strategy

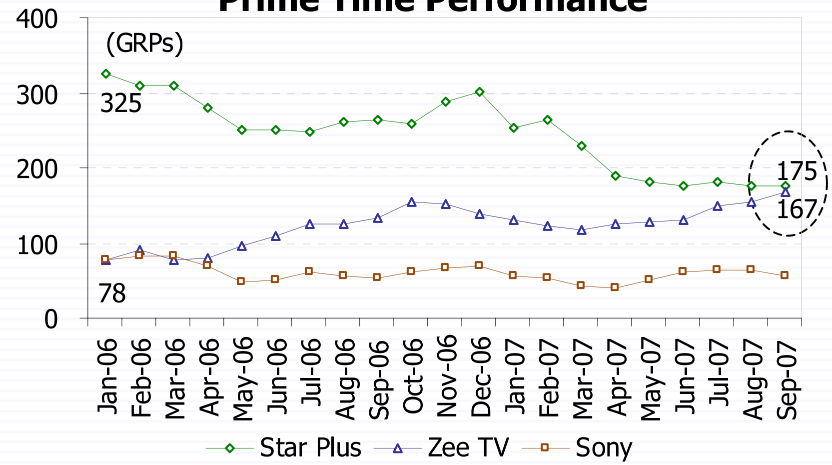
- **Targeted programming to improve ratings**
  - **Weekday primetime:** Soaps to connect with women
  - **Weekend primetime:** Programs/reality shows based on films, songs and dance
  - **Afternoon band:** Soaps for appointment viewing.
- **Differentiated content**
  - Launching soaps but with original concepts portraying real social issues.
    - *'Saat Phere'* and *'Betiyaan'* address prevalent social biases
  - Not chasing costly acquisitions of blockbuster movies.
    - Focusing on next tier of films which yield higher returns.
    - To acquire a couple of big movies per year for branding.
  - Digitization to change the scenario (2 new DTH players to speed up things).
    - Addressability to make content differentiation more viable.
  - Sports: 2-pronged strategy of cricket (ICL) & football
    - Plans to have dedicated channels for cricket & football (Zee Sports & Ten Sports) with 1 FTA for all other sports
- **Flanking competition: New channel**
  - Zee Next to plug the need gap in the GEC space.
    - To cater to the mass urban youth in tier I and tier II cities.
- **Other initiatives**
  - Exploring VAS opportunities
    - SaReGaMaPa: 10mn responses on SMS & internet.
    - Going forward, ZEEL to integrate VAS from content creation stage itself (E.g. participation through SMS)

Snapping At Star Plus' Heels: Attacking prime-time slots

Time Band		ZEE TV's Position	
17.00	17.29	Movie-Leader	
17.30	17.59	Movie-Leader	54% Channel share
18.00	18.29	Kasamh Se (R) - Leader	
18.30	18.79	Saath Phere (R) - Leader	
19.00	19.29	Mamta/Har Ghar - Leader	
19.30	19.79	Parivar - Leader	
20.00	20.29	Dulhan - Leader	
20.30	20.79	Maayka - Leader	
21.00	21.29	Kasamh Se	New launch ' Bidai'
21.30	21.79	Saath Phere - Leader	
22.00	22.29	Betiyaan	Kahani Ghar Ghar Ki
22.30	22.79	Teen Bahuraniyan (Mar-07)	Kyunki (No.1 GEC prog)
23.00	23.29	Arandhangini	Kayamath

Source: Company, ENAM Research

Prime Time Performance



Source: Company

Business drivers

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Higher ratings → Higher ad revenues

- Zee TV's improved ratings will lead to ad revenue growth as the effect of ad rate hikes kicks in.
- Renewals of ad contracts at >10% higher rates.
  - Negotiations are based on channel performance in 13-week clusters and are reflected in revenues after 6 months.

Increasing Addressability → Growth in sub revs.

- Since most of ZEEL's channels are pay, it will benefit immensely from the increasing digitization through CAS and DTH.
- Domestic subscription revenues expected to grow @27% CAGR (FY07-FY10E).

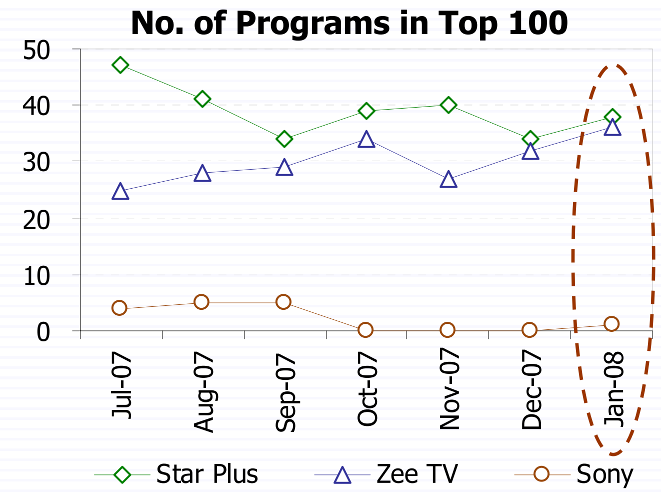
Zee Next: Taking on increased competition

- Launched Zee Next on 17 December 2007 (focused on the mass-youth) to capitalize on existing gap in GEC and increase advertisement inventory
  - Rs 2bn to be spent over the next 1.5-2 yrs
  - Target of 70-75 GRPs initially

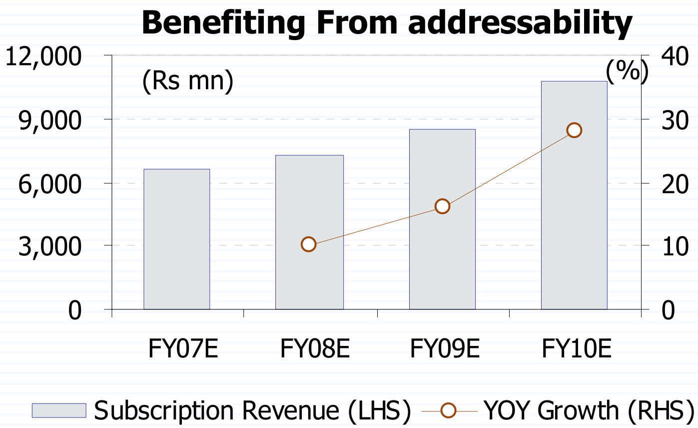
No performance risk of ICL

- Although Zee Sports is to air the Indian Cricket league (ICL) championship, the arrangement is structured such that ICL's performance has neutral impact on ZEEL
  - All advertising income to pass through to ICL, while Zee Sports to be compensated for broadcasting the matches.

Increasing dominance to drive revenues



Source: Industry



Source: ENAM Research

Competitive advantage

Diversified channel bouquet

- ZEEL's cross-genre presence makes it indispensable for advertisers and allows for bundling of ad space
  - Zee TV is closing in on the No. 1 spot; Zee Cinema, the No. 1 Hindi movie channel.
  - Content covers GECs and movies in Hindi and English + sports, music, lifestyle and spirituality.

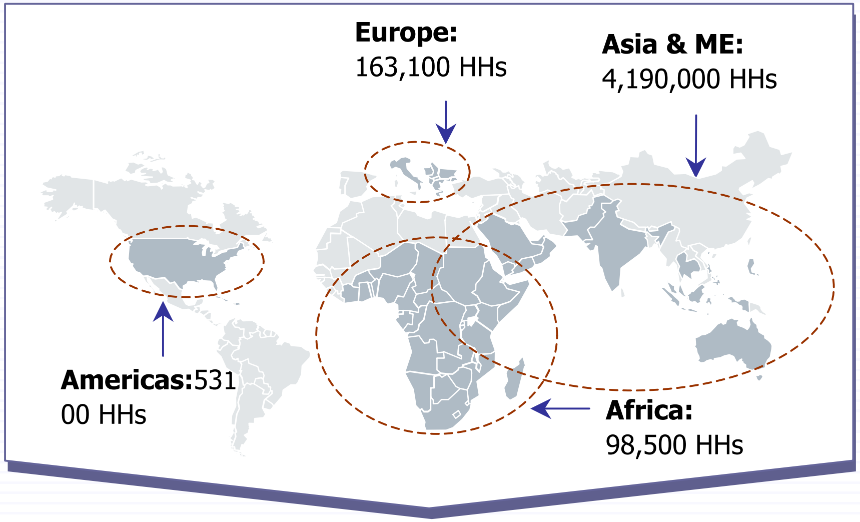
Proven content strategy

- The success of Zee TV's re-worked content strategy demonstrates its understanding of viewer preferences.
  - Shows in non-conventional genres i.e. talent hunts/reality (SaReGaMaPa) have catapulted Zee TV back to the big league.
  - ZEEL's efforts to innovate on the story front within the framework of conventional soaps have also borne fruit, partly on account of viewer fatigue with conventional soaps.

Distribution

- Domestic
  - Established distribution network ensures high domestic reach; flagship Zee TV reaches ~62% of total C&S viewers in India (Delhi penetration as high as ~74%)
- International
  - The substantial global reach of ZEEL's channels allows it to cater to the Indian Diaspora.
  - International subscription revenues account for ~50% of ZEEL's pay TV revenue.

Strong distribution network



Countries	Launched	Channels	Key Platforms
Zee Europe (UK+Eur)	Jul '95	Zee TV, Zee Cinema, Zee Music, Zee Punjabi, Zee Gujarati	Cable –Virgin; DTH - Sky
Zee US (USA + Can + Carib Isl)	Jul '98	Zee TV, Zee Cinema, Zee Punjabi, Zee Gujarati	Cable – Comcast, Time Warner & Cablevision; DTH - DirecTV, Echostar
Zee Africa (34 countries)	April '96	Zee TV, Zee Cinema, Zee Music	Multichoice & Canal Plus
Zee ME (7 countries)	Apr '04	Zee TV	Cable –E-Vision, BR TV, Tecom, Behrain & Qatar Cable; DTH - Pehla
Zee SEA (17 countries)	June '04	Zee TV, Zee Astro	Cable – Vision Asia, Fiji TV, Glodecast, NWCL, S&T, Hongkong Cable

Source: Company, ENAM Research

ENAM

Management evaluation

Rich promoter pedigree

- ZEEL is under the leadership of Mr. Subhash Chandra (Chairman) – a pioneer in the Indian E&M space.
  - He was named 'Global Indian Entertainment Personality of the Year' in 2004 by FICCI
  - He is at the helm of the Essel Group – of which ZEEL is a part – which has interests in packaging, amusement parks, media etc.
  - He has received numerous awards including E&Y Entrepreneur of the Year in 1999.

Professionalized management

- ZEEL has inducted Mr. Pradeep Guha (previously President, Bennett, Coleman & Co.) as CEO, thereby expanding its management bandwidth.
- The recent turnaround of the flagship channel, Zee TV, is evidence of the execution capabilities of the management team at ZEEL.

Successfully retaining employees

- In spite of the employee turnover witnessed in the industry, ZEEL's senior management has been relatively stable. (only 2 members have left)
- ZEEL's policy to immediately incentivize managers rather than offer long-gestation ESOPs has worked well so far.

Management team

Mr. Punit Goenka Whole-time Director	He also serves as the business head of the Zee TV channel. Mr. Goenka is on the Board of other Essel Group companies as well. He has a total experience of 9 years in the industry
Mr. Pradeep Guha CEO	A veteran of the print business, Mr. Guha worked at Bennett, Coleman & Co. prior to joining ZEEL. He is closely associated with many professional bodies in the fields of advertising, marketing and publishing.
Mr. Hitesh Vakil Director – Finance & Operations	He is a Chartered Accountant with 23+ years of experience in the field of finance. He also oversees Credit Control, Commercial, I.T. and operations.
Mr. Ashish Kaul Sr. V.P. – Corp. Brand Development	He has ~14 years of experience in PR, corporate brand development, marketing, communications and advertising. He has done his B.A. from Kurukshetra University and Diploma in Advertising and PR from Welingkar's Institute of Management Development & Research, Mumbai.
Ms. Joy Chakraborthy EVP - Sales	After a career in the army, Mr. Chakraborthy has 17 years of experience in marketing & sales. He has worked with brands like The Times of India & Star Network. Prior to joining Zee, he was Head of Sales at Star Network.
Ms. Sangamitra Ghosh EVP - HR	With over 27 years of experience, she has been heading HR at Zee since 2001. She is a post graduate in Psychology & Management and a certified trainer of Neuro Linguistic Programming and the Thomas Profiling System
Mr. Bharat Ranga EVP	With 18 years experience, he heads international operations at Zee. He has been with the organization since 1998, prior to which, he worked with The Times of India. He is a B.Com. (University of Rajasthan) and a MBA.

Source: Company

Financial evaluation

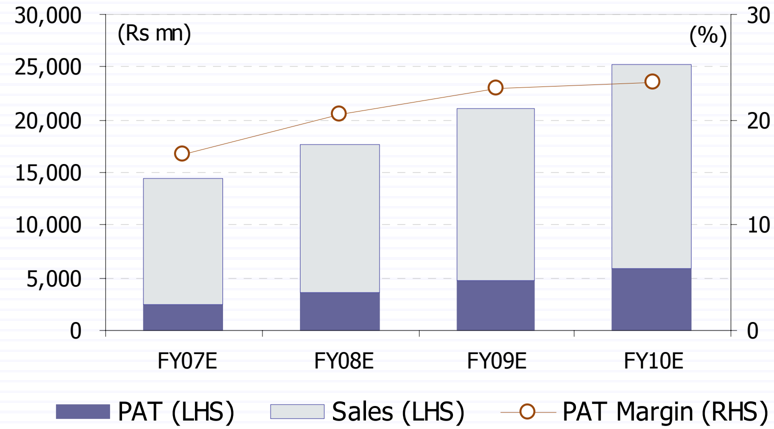
- **FY07-10E revenues to grow at ~20%+**
  - Flagship channel Zee TVs ratings improving → narrowing gap with Star Plus → **driving ad rate hikes**.
  - **Domestic subscription revenues** expected to grow at a CAGR of 27% (FY07 – FY10E) on the back of increased addressability.
- **Operating leverage to expand margins**
  - As operating leverage kicks in, EBITDA margins to improve substantially from 22% in FY07 to 33% in FY10E.
    - Ad + sub. Growth to outpace incremental costs → expanding operating margins
  - Cost increases (content, carriage) to be less for bigger GEC incumbents like Zee and Star.
    - Content: Leveraging its established content library
    - Carriage: Demand-pull from viewers
  - Leveraging existing infrastructure: Incremental cost of new channel launches to be limited as ZEEL builds on its existing distribution and technological infrastructure.
- **ZEEL is not expected to incur any major capex**
  - However, operating expenditure and loss funding on Zee Next (estimated @Rs 2bn) likely to be a drag on margins.

Revenue growth

(Rs mn)	FY07	FY08E	FY09E	FY10E
Advertising	7,064	9,209	11,308	12,917
Subscription	6,605	7,282	8,480	10,816
Others	742	1,151	1,323	1,482
Total	**14,411**	**17,642**	**21,111**	**25,216**

Source: ENAM Research

Improving profitability



Source: ENAM Research

Risk factors

ENAM

➲ Performance risk in Zee Next

- ZEEL's flanking (youth-centric) Hindi GEC may not garner sufficient viewership/ratings.
  - This will extend the payback period for the ~Rs 2bn investment

➲ Intensifying competition → Higher costs

- The GEC space is set to see an unprecedented number of players vying for the top 3-4 positions
  - 9X has launched in Nov 2007; NDTV Imagine launched on 21 Jan 2008 with considerable early success.
  - 4 (with announced intent) players are expected to get into the fray
- These channels will compete for limited quality content, cable bandwidth and talent.
  - Well-funded entrants to cause spike in price of content, employees and distribution.

➲ Ratings slippage/ Delay in CAS rollout

- ZEEL's ability to sustain its recent ratings improvement will be key to ad revenue growth
- Any delay in the rollout of CAS will postpone addressability benefits.
  - Regulatory (Pay TV price caps)/political (lack of will) impediments may spoil the party

➲ Flagship Zee TV has seen a recent drop in ratings

- Zee TV had closed the substantial ratings gap with Star Plus through programs like SaReGaMaPa (Zee TV's hit talent show)
- The completions of SaReGaMaPa's latest season was followed by a drop in Zee TV's ratings.
- We continue to monitor this trend for signs of sustained weakness in channel performance.

Company financials

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Profit & Loss (Rs. mn)

Y/E March	2006	2007	2008E	2009E
Total Income	**14,233**	**14,411**	**17,642**	**21,111**
Advertising	6,445	7,064	9,209	11,308
Subscription	7,002	6,605	7,282	8,480
Others	786	742	1,151	1,323
Total Expenditure	**11,531**	**11,223**	**12,298**	**14,034**
Cost of goods sold	8,413	8,361	9,345	10,938
Advt/Sales/Distrn O/H	3,118	2,862	2,953	3,097
Operating Profit	**2,702**	**3,188**	**5,343**	**7,077**
Other income	642	630	912	1,048
PBIDT	**3,343**	**3,818**	**6,255**	**8,125**
Depreciation	391	228	250	275
Interest	242	220	549	631
Pre-tax profit	**2,711**	**3,371**	**5,456**	**7,219**
Tax provision	516	964	1,691	2,238
(-) Minority Interests	41	0	156	149
Adjusted PAT	**2,154**	**2,407**	**3,609**	**4,831**
E/o income / (Expense)	19	0	0	0
Reported PAT	**2,173**	**2,407**	**3,609**	**4,831**

Key ratios (%)

Y/E March	2006	2007	2008E	2009E
Sales growth	**9.6**	**1.2**	**22.4**	**19.7**
OPM	**19.0**	**22.1**	**30.3**	**33.5**
Oper. profit growth	(38.0)	18.0	67.6	32.4
COGS / Net sales	1,070.3	1,126.2	812.1	826.5
Overheads/Net sales	396.7	385.5	256.6	234.0
Depreciation / G. block	2.1	1.2	1.3	1.4
Effective interest rate	3.6	2.9	7.2	8.3
Net wkg.cap / Net sales	0.7	0.7	0.6	0.5
Net sales / Gr block (x)	0.8	0.8	0.9	1.1
RoCE	**8.4**	**9.5**	**14.8**	**17.5**
Debt / equity (x)	0.3	0.2	0.2	0.2
Effective tax rate	19.0	28.6	31.0	31.0
RoE	**7.8**	**8.0**	**10.9**	**13.0**
Payout ratio (Div/NP)	22.9	27.0	40.0	40.0
EPS (Rs.)	**5.0**	**5.5**	**8.3**	**11.1**
EPS Growth	(36.5)	11.7	49.9	33.9
CEPS (Rs.)	6.2	6.1	8.9	11.8
DPS (Rs.)	1.2	1.5	3.3	4.5

Source: Company , ENAM Research

Company financials

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Balance sheet (Rs. mn)

Y/E March	2006	2007	2008E	2009E
Total assets	**36,390**	**38,818**	**42,426**	**47,258**
Gross block	18,258	18,258	19,058	20,058
Net fixed assets	16,233	16,006	16,484	17,122
CWIP	750	750	750	750
Investments	328	328	328	328
Wkg. cap. (excl cash)	10,052	10,055	10,799	11,337
Cash / Bank balance	9,027	11,679	14,065	17,721
Others/Def tax assets	0	0	0	0
Capital employed	**36,390**	**38,818**	**42,426**	**47,258**
Equity capital	413	434	434	434
Reserves	28,373	30,780	34,388	39,220
Borrowings	7,604	7,604	7,604	7,604
Others	0	0	0	0

Cash flow (Rs. mn)

Y/E March	2006	2007	2008E	2009E
Sources	**2,562**	**2,525**	**2,863**	**2,913**
Cash profit	2,587	2,634	4,015	5,256
(-) Dividends	565	739	1,638	2,193
Retained earnings	2,022	1,895	2,376	3,063
Issue of equity	(41)	21	(156)	(149)
Borrowings	0	0	0	0
Others	581	609	642	0
Applications	**2,562**	**2,525**	**2,863**	**2,913**
Capital expenditure	791	0	729	913
Investments	0	0	0	0
Net current assets	(651)	4	744	538
Change in cash	2,422	2,522	1,391	1,462

Source: Company , ENAM Research

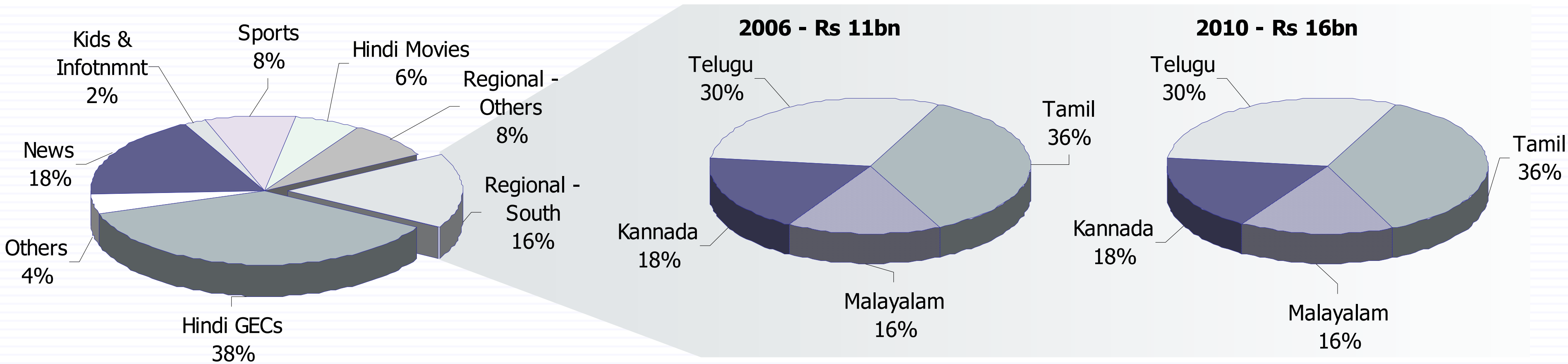
Regional (South) GECs:

South gaining prominence

South India: Dominant share of the regional ad pie

Ad volumes across channel genres (CY06)

Regional (South) TV Ad-spends (Rs bn)



Source: Industry, ENAM Research

Regional TV: Lucrative market

- The regional TV market was ~Rs 16bn in 2006 (accounting for 25% of total ad volumes) and is expected to grow at 18% CAGR.
- The key regional languages are Tamil, Telugu, Kannada, Malayalam, Bengali, Punjabi, Gujarati and Marathi
- Wide range of advertising rates attract all categories of regional and even local advertisers.
- Genre-wise channel-segmentation in Regional TV → Huge upside for regional TV

South India: Lion's share of the regional market

Language	Mkt Size (Rs. bn)	Leader	Other Key Competitors
Telugu	3.2	Gemini TV	ETV, Zee Telugu, Maa TV, Movie channels like Teja TV also compete with the GECs in this market
Tamil	3.8	Sun TV	Kalaignar TV, Vijay TV, Jaya TV, Raj TV
Kannada	1.9	Udaya TV	ETV Kannada, Zee Kannada, Udaya 2
Malayalam	1.7	Asianet	Surya TV, Kiran TV

Source: Industry, ENAM Research

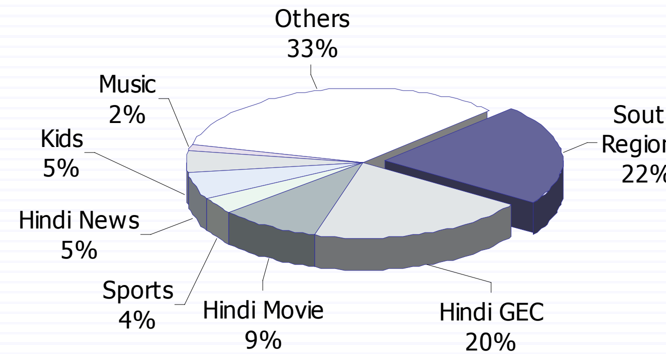
Southern GECs: A goldmine

South Indian regional channels enjoy demographic advantage over other regional languages

South India: 47% of India's C&S HHs

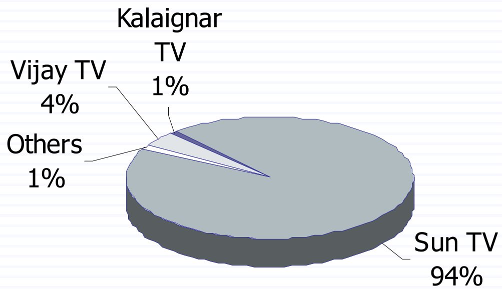
	Tamil Nadu	Andhra Pradesh	Karnataka	Kerala	Total
Population (mn)	62	76	53	32	**223**
Total no. of TV HH (mn)	11	13	8	5	**37**
Total no. of C&S HH (mn)	10	12	7	4	**33**

Largest share of viewership

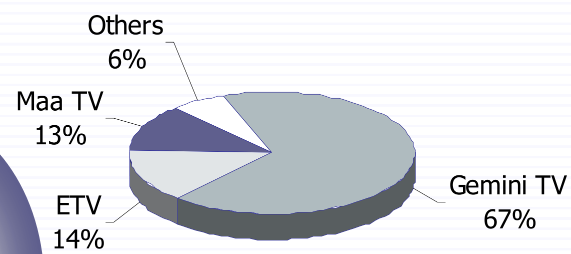


The lucrative South regional TV market: dominated by a single player

Tamil Nadu

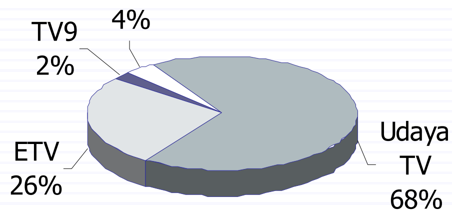


Andhra Pradesh

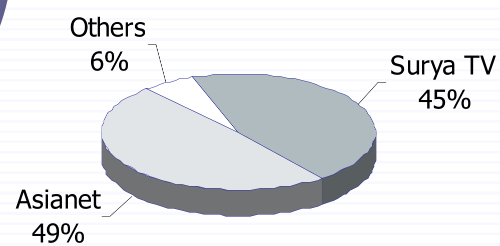


Largest regional market dominated by few players, attractive for new entrants

Karnataka



Kerala



- **The 4 southern states constitute 21% of India's population but accounts for ~47% of India's C&S households.**
- Southern regional channels are the most-watched genre on television (21.8% genre-share for the 4-weeks ended 26 Jan '08; Source: TAM Research)

Source: ENAM Research

Southern GECs: How they stack up

ENAM

	Balance Sheet Size	Channel Bouquet	Distribution Strength	Content Library	Comments
Sun TV	●	●	●	●	▪ Dominant southern player ▪ 94 out of top 100 Tamil programs ▪ Library of over ~7,500 movie titles (perpetual rights)
Zee News	◕	◑	◕	◑	▪ Large pan India bouquet of regional (6), business and news channels (4) ▪ Leveraging on Zee group's strong balance sheet and distribution network
Eenadu	◕	◕	◕	◕	▪ Strong No. 2 player in AP, Karnataka, Gujarat ▪ Bouquet of 12 regional channels ▪ Strong balance sheet (PE inflow from Blackstone)
Kalaignar	◔	◔	◑	◔	▪ GEC channel promoted by Tamil Nadu Chief Minister, and DMK patriarch - M. Karunanidhi. ▪ Building bouquet through launch of '*Isaiyaruvi*' (music) and expected launch of news channel

● *Established* ○ *To be built*

Source: ENAM Research, Industry

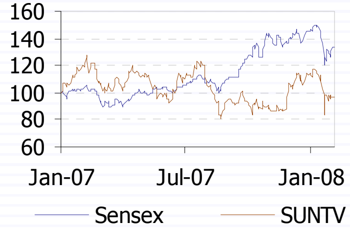
ENAM India Research

Stock Data

No. of shares	: 394m
Market cap	: Rs.133bn
52 week high/low	: Rs.462/ Rs.260
Avg. daily vol. (6mth)	: 409,800 shares
Bloomberg code	: SUNTV IN
Reuters code	: SUTV.BO

Shareholding (%)		Dec-07	QoQ chg
Promoters	:	77.0	(3.0)
FIIs	:	7.5	2.8
MFs / UTI	:	0.9	0.3
Banks / FIs	:	0.0	(0.1)
Others	:	14.5	(0.0)

Relative Performance



Source: ENAM Research, Bloomberg

Sun TV Network Ltd.(SUN)

Rs 338

Relative to Sector: **Outperformer**

Target Price: Rs.435
Potential Upside: 29%

Southern Star – Shining Bright

Financial summary

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2006	3,220	1,313	-	3.3	69	0.0	35.6	40.7	0.7
2007E	6,780	2,469	-	6.3	88	60.4	40.8	54.6	30.6
2008E	8,994	3,665	17.8	9.3	48	36.3	34.5	53.5	20.6
2009E	12,359	5,554	22.7	14.1	52	24.0	36.5	56.4	13.8

*Source: *Consensus broker estimates, Company, ENAM estimates*

Analyst: Chirag Negandhi
chirag.negandhi@enam.com (+91 22 6754 7618)

Analyst: Nitin Idnani
nitin.idnani@enam.com (+91 22 6754 7655)

Sahil Desai
sahil.desai@enam.com

February 6, 2008

ENAM

Investment summary

SUN: Profitable dominance

- Ad revenues to grow @ ~37% by FY10E
  - Ad rate hikes, better inventory utilization, channel launches
- Subscription revenue to grow @ ~51% by FY10E
  - Conversion to pay, ↑ addressability, ↑overseas penetration

Investment argument

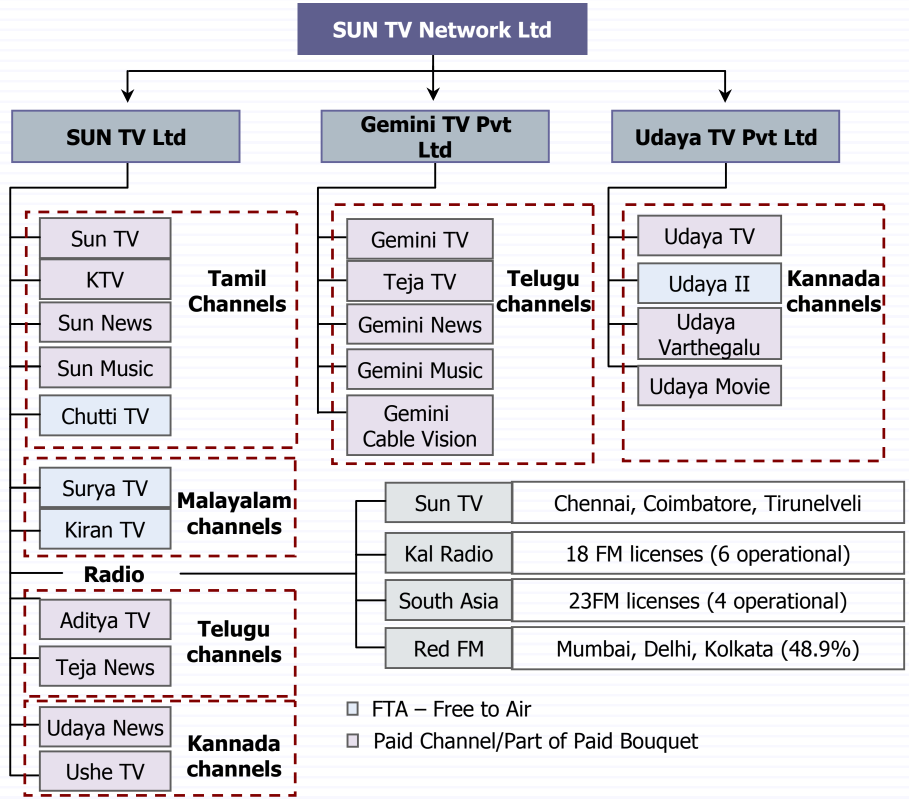
- **Dominant audience share** in all 4 southern markets
  - TN: 60%; AP: 36%; Karnataka: 32%; Kerala: 22%
- **Unique business model**
  - Telecast slot sales → incentivizing content producer to offer best content on an exclusive and sustainable basis
  - Low content acquisition cost → minimum working capital requirement → lean business model
- **Strong distribution network**
  - Flagship 'Sun TV' reaches ~93% of Chennai's C&S HHs
  - Sun Direct (group's DTH foray) targeting a ~3mn subs. base by FY09E. (Sun to receive Rs 25 per subscriber)
- **High quality content**
  - Large movie library of > 7,700 titles (perpetual rights)
  - Understanding viewer preference (94/100 top Tamil programs)

Key risks

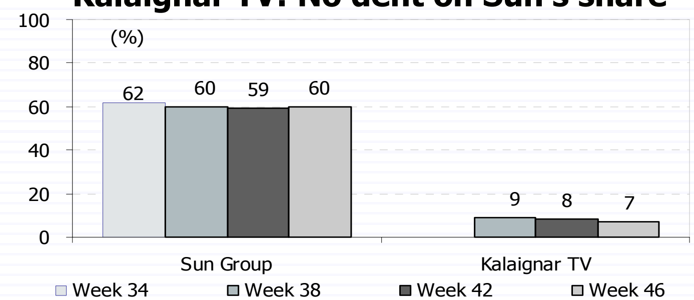
- Ratings slippage/Delay in CAS rollout
- Execution/performance risk in new launches
- We continue to monitor the performance of Kalaignar TV for indications of it eroding Sun's share in Tamil Nadu.

Valuations

- We maintain **Outperforme**r rating: Target price **Rs 435**
  - At CMP of Rs 338, SUN trades at 24x FY09E earnings
  - We continue to remain bullish on Sun's ability to monetize its ratings dominance and believe that the anxieties related to political risk following the rift with the DMK have been overdone



Kalaignar TV: No dent on Sun's share



Source: ENAM Research, TAM Ratings

Company background

- **SUN: Largest regional broadcaster**
  - India's largest viewed network with an All India audience share of 19%
  - Flagship channel Sun TV enjoys 2nd largest audience share among all channels
- **Well established Channel Bouquet**
  - Bouquet of 15 TV channels (operational) in 4 southern languages.
  - Merger of Udaya TV and Gemini TV into SUN (31st Mar 2006) making it the dominant network in Southern India
- **Formidable content base**
  - Library of >7,700 movie titles (perpetual rights)
    - Continues to purchase ~85%+ of all new movie releases across 4 southern languages
- **Radio: Expanding Sun's offering**
  - Largest player in the radio space
    - Won 44 licences; 22 operational, remaining expected to be operational by end-FY08.
    - Also expanding in Metros through ~49% in Red FM.
  - Immense synergistic opportunity in its home turf of south India
    - 21 licenses (15 operational) in South India

Sun's bouquet diversified across languages & genres

Channel	Launch Year	FTA/Pay	Genre	Audience Share* (TAM Research) (%)
Tamil Nadu				
Sun TV	1993	Pay	GEC	37.23
K TV	2001	Pay	Movies	13.36
Sun News	2000	Pay	News	1.44
Sun Music	2004	Pay	Music	2.75
Chutti	2007	FTA	Kids	4.73
Andhra Pradesh				
Gemini TV	1995	Pay	GEC	22.27
Teja TV	2000	Pay	Movies	11.41
Gemini News	2006	Pay	News	0.54
Gemini Music	2006	Pay	Music	1.65
Karnataka				
Udaya TV	1994	Pay	GEC	18.55
Udaya TV 2	2006	FTA	Music	2.94
Udaya Varthegalu	2006	Pay	News	0.46
Udaya Movies	2006	Pay	Movies	9.94
Kerala				
Surya TV	1998	FTA	GEC	17.64
Kiran TV	2005	FTA	Movies	4.54

Source: Company, Tam Research
Audience share is for period Oct 25 –Nov 3, 2007

Sun's portfolio of channels has a dominant cross-genre presence in south India

Business strategy

Diversifying channel bouquet to sustain ad rev growth

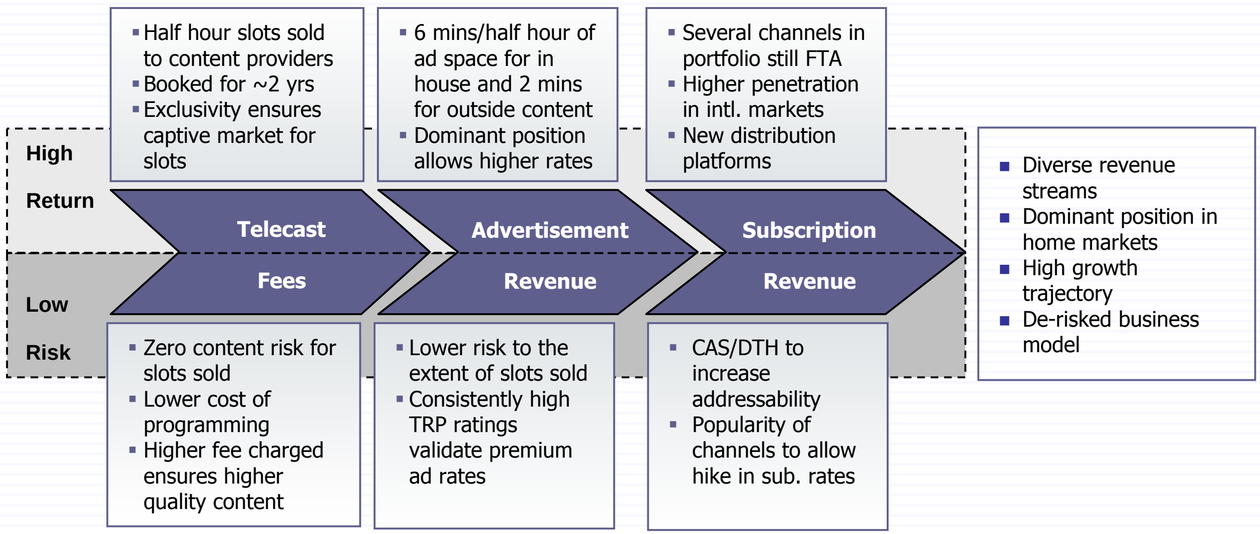
- Expanding its portfolio across genres to capture the eyeballs of the entire family.
  - To Launch: Documentary channels in 4 southern languages; Biz news channels in Tamil & Telugu; To replicate kids' channel 'Chutti TV' in other states.

Capitalizing on increasing addressability

- **Converting** its FTA channels to pay
  - Sun TV pay since Dec '06 benefits entire bouquet (11 of 15 channels already pay); Chutti TV in 6-7 months and 2 Kerala channels next yr
- **Domestic + International distribution push**
  - Using group's distribution ventures in domestic market + Distribution through cable (only DTH so far) in US & Europe & leveraging Sun TV's global distribution pipeline to increase pay revenues for Gemini and Udaya.

Exclusive access to high quality content

- **Slot sales:** Maintaining dominance through control over content quality
  - Compelling incentive to content producers to maintain quality; Exclusive arrangements with content creators deters competition; Low initial investment required as TV content is not purchased
- **Building movie library (with perpetual rights)** through cost-focused approach
  - 85-90% of all south Indian films released (7700+ films in library); 185-190 Tamil & Malayalam films/yr; 80-85 Telugu & Kannada films/yr.



Source: ENAM Research

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Business drivers

Subscription growth: Biggest catalyst

- Addressability to drive sub. rev. growth
  - Conversion of channels to pay to help leverage addressability.
  - ~47% of India's 70mn C&S HHs are in south India → upside from addressability expected to be higher for SUN.
  - Sun TV Network has a DTH subscriber base of 598,000 within 2 months of launching on the DTH platform.
- International subscription will contribute to the growth through the South Indian community abroad.
  - Availability on cable (earlier only on DTH), expansion into new geographies + leveraging Sun TV's distribution network for Udaya & Gemini.

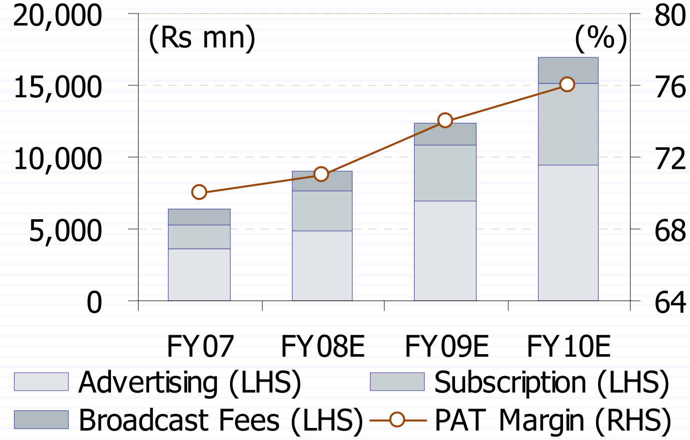
Ad revenues: Consistent growth

- Ad growth of ~30-35% p.a. expected on a/c of:
  - **Ad rate hikes:** We expect SUN to continue to monetize its dominance via consistent ad rate hikes of 10-15%
  - **Better inv. utilization** through increase in primetime and focus on afternoon slots
  - **New channels launches** in the niche genres of documentary, business etc to broaden viewership base
- Avg. ad rates @~Rs 18,000/10 sec. provide significant room for further rate hikes
  - Hindi GEC's charge Rs 80,000/10 sec for same eyeballs

Radio: Completing Sun's media package

- 22 stations operational with balance 22 stations to go operational by end-FY08
  - New stations to break even within 18 months of launch

Riding on twin growth engines



Source: ENAM Research

Key business drivers

Subscription revenue	Advertisement revenue	New channel launches
▪ Increased digitization on account of DTH and CAS to boost sub. rev,. ▪ Sun Direct – targeting ~3mn subscribers within 1st year of launch ▪ Tata Sky and Dish TV to help expand sub. base further ▪ Increased penetration in intl. Markets through cable	▪ Diversified advertiser mix ▪ Increase in primetime slots and renewed focus on afternoon slots ▪ Current ad rates of Rs 18000/- provide ample leeway for future ad rate hikes	▪ Flanking channels to augment ad & sub revs. ▪ Documentary channels in all 4 southern languages ▪ Business news channels in Tamil & Telugu ▪ Replication kids channel (Chutti TV) success in other languages

Competitive advantage

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➲ Synergies across channels

- The amalgamation of Gemini TV (Telugu) and Udaya TV (Kannada) with Sun TV, provides significant synergies.
  - It gives the Sun Network dominant presence in all 4 southern languages across genres (GEC, movies, music and news).
  - The amalgamation also helps reduce redundancies and further improve margins.
  - Strong advertising and telecast fee based earnings coupled with strong domestic & overseas subscription revenues for all 3 companies augurs well for the combined group

➲ Sustainable dominance

- Sun is the 1st choice for any content producer, which has given it significant pricing power.
  - With exclusive access to high quality content SUN is expected to maintain its leadership position going forward.
- Sun is the only broadcaster with significant share in all 4 southern states
  - This makes it an important part of any South India-focused marketing plan.

➲ Control over content

- The unique telecast slot sales model gives Sun unparalleled content.
  - Exclusive arrangement with leading content producers in South India.
    - Sun's slots are booked for 2 yrs → incentive for content producers to maintain quality
  - This model helps Sun mitigate performance risk of the programs

➲ Extensive content library

- Movie library of 7,700+ titles (perpetual rights)
  - Gives it a significant edge in its markets, where films/films-related content are an important driver of audience share.
- Continues to acquire ~85% of movies released in South India
  - Sun is the preferred acquirer for film producers as they can leverage Sun's substantial reach for pre-release marketing campaigns.

Management evaluation

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➲ Capable management with proven execution capabilities

- Professionally managed with qualified and experienced professionals in the senior management.
- Rich experience and understanding of the broadcasting business

➲ Promoter background

- SUN is under the stewardship of Mr. Kalanithi Maran as the Chairman of the company (since 1990).
- Mr. Kalanithi Maran: A MBA from the University of Scranton, Pennsylvania, Mr. Maran has over ~15 years of experience in the Indian media industry.
- He has also won several coveted awards in the media and entertainment space
  - 'Rajiv Gandhi Best Entrepreneur Award' in 1995,
  - Worldcom 'Indian Young Business Achiever', 1999
  - Ernst and Young 'Outstanding Businessman Award' for the entertainment & information sector in 2004.

Management team

Mr. S. Natrajan VP - Finance	Mr. Natrajan, 47 years, is a bachelor in commerce and has been associated with the company since 1993. Prior to that, he worked with Kungumam Publications Private Limited for 12 years in the finance department.
Mrs. P. Laul VP - Marketing	Mrs. Laul, 66 years, holds a Masters degree in Literature and joined the company in 1994. Prior to that, she was the Chief Advertisement Manager (Southern Region) of Express Group of Newspapers for 14 years
Mr. K. Shanmugam VP - Sales	Mr. Shanmugam, 40 years, holds a bachelors degree in science and has been associated with the company since 1994. . He started his career with Glaxo India Limited and later joined India Cements Limited as Marketing Officer
Mr. Hansraj Saxena VP - Programming	Mr. Saxena, 40 years, holds a bachelors degree in physics and has been associated with the company since 1990. Prior to joining the Company he was employed as a manager by Kungumam Publications Private Limited
Mr. S. Kannan VP - Technical	Mr. Kannan, 35 years, holds a diploma in electrical & electronics and has been associated with the company since 1990. Prior to joining the Company he worked as a systems engineer for Kungumam Publications Private Ltd
Mr. K Swaminathan GM - Administration	Mr. Swaminathan, 40 years, holds a bachelor's degree in commerce and a diploma in computer applications. He has been associated with the company since 1993. Prior to that, he worked in a chartered accountancy firm.
Mr. R. Ravi Company Secretary	Mr. Ravi, 39 years, has a bachelor's degree and is an associate member of Companies Secretaries of India. He has been associated with the company since 2001. Prior to that, he worked with Teledata Informatics Limited

Source: Company

Financial evaluation

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Ad Rev: Poised for growth

- Ad rev expected to grow @ ~37% CAGR over FY07-10E contributed by:
  - Hike in ad rate/telecast slot sale fees – 10 to 15%
  - Better inventory utilization – 10 to 15%
  - New channel launches – 5 to 8%

Subscription rev to grow @ ~51% CAGR to FY10E

- Subscription revenue is expected to reach Rs 5.7bn in FY10E (Rs 1.7bn in FY07).
  - Increased digitization from DTH (Tata Sky, Dish TV and Sun Direct) to boost revenues. Sun's paid subscriber base from DTH has grown to >0.5+mn.
  - Conversion of its FTA channels to pay mode overtime.
  - Operating leverage from incremental subscription revenues to increase margins

EBITDA margins sustainable @ 70%+ levels

- Ad + Sub rev growth to offset increasing costs → maintaining EBITDA margins

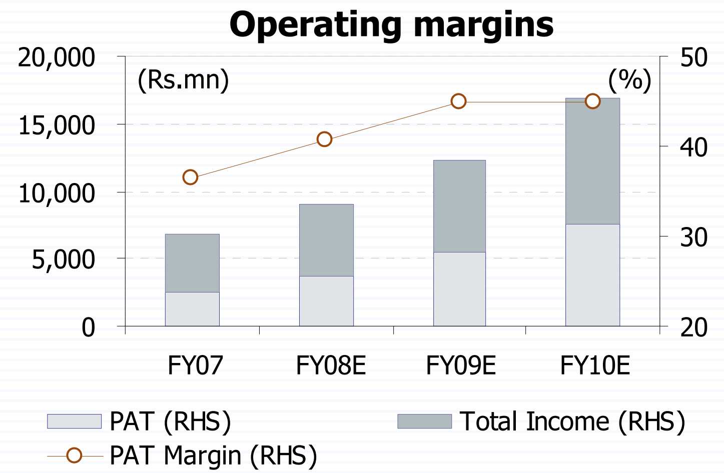
Conservative accounting of movie rights

- Although Sun acquires movie rights on a perpetual basis, it amortizes the entire cost of acquisition at the time of the first screening.
- This will lead to higher margins as the library expands.

Sun's revenue growth

(Rs mn)	FY07	FY08E	FY09E
Advertising	3,640	4,863	6,919
Subscription	1,672	2,804	3,919
Telecast Fee	1,086	1,298	1,489
Others	382	28	32
Total	**6,780**	**8,994**	**12,359**

Source: ENAM Research



Source: ENAM Research

Risk factors

- **Ratings slippage/ delay in CAS rollout**
  - Any slippage in viewership/ratings could reduce Sun's ability to hike ad rates further
  - The delay in CAS rollout/ DTH ramp up could be a dampener on sub. rev. growth
- **Execution/ performance risk in new launches**
  - Sun's new launches in the kids', documentary and sports genres may not attract sufficient viewership
- **Rising costs of content (especially new acquisition of movie rights) and distribution from increased competition could also impact margins**
- **We will monitor the performance of Kalaignar TV for indications of the channel eroding Sun's share in Tamil Nadu**

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Company financials

Profit & Loss (Rs. mn)

Y/E March	2006	2007E	2008E	2009E
Total Income	**3,220**	**6,780**	**8,994**	**12,359**
Advertising Revenue	2,017	3,640	4,863	6,919
Subscription Revenue	440	1,672	2,804	3,919
Telecast Fees	570	1,086	1,298	1,489
Others	194	382	28	32
Total Expenditure	**746**	**2,037**	**2,640**	**3,210**
Cost of goods sold	589	1,480	2,183	2,699
Advt/Sales/Distrn O/H	158	557	457	510
Operating Profit	**2,474**	**4,742**	**6,353**	**9,149**
Other income	172	411	451	470
PBIDT	**2,646**	**5,153**	**6,804**	**9,620**
Depreciation	585	1,218	1,126	1,034
Interest	65	64	41	41
Other pretax	0	0	0	0
Pre-tax profit	**1,995**	**3,871**	**5,638**	**8,544**
Tax provision	683	1,401	1,973	2,991
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	**1,313**	**2,469**	**3,665**	**5,554**
E/o income / (Expense)	(10)	0	0	0
Reported PAT	**1,302**	**2,469**	**3,665**	**5,554**

Key ratios (%)

Y/E March	2006	2007E	2008E	2009E
Sales growth	**10.9**	**110.6**	**32.7**	**37.4**
OPM	**76.8**	**69.9**	**70.6**	**74.0**
Oper. profit growth	49.8	91.7	34.0	44.0
COGS / Net sales	18.3	21.8	24.3	21.8
Overheads/Net sales	4.9	8.2	5.1	4.1
Depreciation / G. block	15.1	18.7	13.1	10.7
Effective interest rate	4.7	5.5	-	-
Net wkg.cap / Net sales	0.3	0.1	0.1	0.1
Net sales / Gr block (x)	1.1	1.3	1.2	1.4
RoCE	**40.7**	**54.6**	**53.5**	**56.4**
Debt / equity (x)	0.7	0.0	0.0	0.0
Effective tax rate	34.2	36.2	35.0	35.0
RoE	**35.6**	**40.8**	**34.5**	**36.5**
EPS (Rs.)	**3.3**	**6.3**	**9.3**	**14.1**
EPS Growth	68.8	88.1	48.4	51.6
CEPS (Rs.)	4.8	9.4	12.2	16.7

Source: Company , ENAM Research

Company financials

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Balance sheet (Rs. mn)

Y/E March	2006	2007E	2008E	2009E
Total assets	**5,674**	**8,834**	**12,499**	**18,053**
Gross block	3,862	6,504	8,613	9,638
Net fixed assets	2,899	3,681	4,666	4,655
CWIP	42	0	0	0
Investments	318	318	318	318
Wkg. cap. (excl cash)	1,453	543	1,096	2,125
Cash / Bank balance	722	4,126	6,200	10,627
Others/Def tax assets	241	165	219	327
Capital employed	**5,674**	**8,834**	**12,499**	**18,053**
Equity capital	620	985	985	985
Reserves	2,689	7,797	11,461	17,015
Borrowings	2,333	0	0	0
Others	32	52	52	52

Cash flow (Rs. mn)

Y/E March	2006	2007E	2008E	2009E
Sources	**4,593**	**1,817**	**4,735**	**6,481**
Cash profit	1,882	3,708	4,790	6,588
(-) Dividends	0	0	0	0
Retained earnings	1,882	3,708	4,790	6,588
Issue of equity	600	365	0	0
Borrowings	1,911	(2,333)	0	0
Others	200	76	(55)	(107)
Applications	**4,593**	**1,817**	**4,735**	**6,481**
Capital expenditure	2,024	1,959	2,110	1,024
Investments	315	0	0	0
Net current assets	718	(909)	552	1,029
Change in cash	1,535	767	2,073	4,428

Source: Company , ENAM Research

ENAM Securities Pvt. Ltd.

7, Tulsiani Chambers, Free Press Journal Marg, Nariman Point, Mumbai – 400 021, India..
Tel:- Board +91-22 6754 7600; **Dealing** +91-22 2280 0167;
Fax:- Research +91-22 6754 7679; **Dealing** +91-22 6754 7575

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Disclosure of interest statement (As of February 6, 2008)	**Sun TV**	**ZEEL**
1. Analyst ownership of the stock	No	No
2. Firm ownership of the stock	No	No
3. Directors ownership of the stock	No	No
4. Investment Banking mandate	No	No
5. Broking relationship	No	No

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