22 March 2010

India | Media | Company Update

Zee Entertainment | Z IN

Price: Rs266

HOLD

Target: Rs290 (Mar'11)

JM FINANCIAL

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Restructuring value accretive, largely priced-in

- **ZEEL to benefit from housing full entertainment bouquet:** In our view, ZEEL is a proxy play on the DTH-led subscription revenue growth prospects and GDP growth led 10-12% YoY prospective rise in TV advertisement revenues. Post the three-point broadcasting business restructuring, together with management's intent to retire debt from recovery of intra-Group loans/advances in 4QFY10, we believe ZEEL will offer fairly robust earnings growth prospects. Capturing our R-GEC forecast financials starting 4QFY10, we peg ZEEL's FY10E-12E CAGR of revenue, EBITDA, and EPS (weighted avg fully diluted) at 21.4%, 29.3% and 19.5% respectively.

- **R-GEC business to boost consolidated EBITDA by c.21% in FY11E/12E:** We peg ZEEL's FY10E-12E R-GEC advertisement/subscription revenue CAGR at c.14%/22% and expect the R-GEC business to comprise c.16%/17% of ZEEL's consolidated revenues/EBITDA in FY11E/12E, enhancing consolidated EBITDA margin by c.40bps over the next two years.

- **Maintain HOLD, 12-mth TP pegged at Rs290, implying c.10% upside:** Our 12-mth TP for ZEEL is pegged at 20x FY12E consolidated EPS of Rs14.5; the 20x multiple is based on a 2-yr PEG of c.1.0x, underlying FY10E-12E fully diluted EPS CAGR is 19.5%. Our FY12E target P/E multiple of 20x for ZEEL implies a 7% discount to the 3-yr average of its 2-yr fwd P/E.

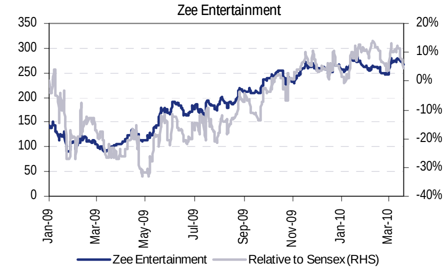
- **We prefer SUN over ZEEL, c.20% discount to SUN's valuation is merited:** Our target FY12E P/E multiple for ZEEL (20x) implies a 20% discount to our target FY12E P/E multiple for SUN (24x). Over the next 12-months, we believe ZEEL should continue to trade at a discount to SUN on account of [1] SUN's stronger FY10E-12E EPS growth prospects (c.24% vs c.20% for ZEEL) and [2] lesser vulnerability to forecast utilization levels/ad revenue growth for SUN in a sports-heavy FY2011 as SUN is arguably a 'price maker' with clear, significant lead in viewership in the South India R-GEC space.

- **Key downside risks:** [1] Competitive intensity, lack of sustained viewership lead in the Hindi GEC space dents forecast ad revenue growth. [2] ZEEL's utilization level and share of ad spend are dented from the long line-up of prime-viewership sports (161 days of India-centric cricket and 25 days of FIFA World Cup). [3] Inefficient deployment of growing cash chest (post debt repayment) in FY11E/12E.

Key Data

Market cap (bn)	Rs 115.3 / US$ 2.5
Shares in issue (mn)	434.0
Diluted share (mn)	434.0
3-mon avg daily val (mn)	Rs 281.7 / US$ 6.2
52-week range	303.1 / 94.0
Sensex/Nifty (19-03-2010)	17,578/5,263
Rs/US$	45.5

Daily Performance



%	1M	3M	12M
Absolute	6.1	5.8	177.1
Relative*	-2.5	0.7	81.8

** To the BSE Sensex*

Shareholding Pattern (%)

	3Q FY09	3Q FY10
Promoters	41.5	41.5
FII	28.1	28.1
DII	22.4	23.0
Public / others	8.0	7.4

Exhibit 1: Financial Summary (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Net sales	18,354	21,773	21,642	27,353	31,884
Sales growth (%)		18.6	-0.6	26.4	16.6
EBITDA	5,423	5,480	5,996	8,181	10,017
EBITDA (%)	29.5	25.2	27.7	29.9	31.4
Adjusted net profit	3,890	3,673	4,555	5,820	7,097
EPS (Rs)	9.0	8.5	10.2	11.9	14.5
EPS growth (%)		-5.7	20.2	17.0	21.9
ROCE (%)	11.5	10.5	9.9	11.8	14.1
ROE (%)	13.6	11.7	10.8	11.1	12.3
PE (x)	32.9	20.2	26.1	22.3	18.3
Price/Book value (x)	4.5	2.2	2.3	2.1	1.9
EV/EBITDA (x)	23.5	14.0	18.2	12.9	10.2

Source: Company data, JM Financial. Note: Valuations as of 19 / 03 / 2010

Maintain HOLD, 12-mth TP raised to Rs290

In our view, Zee Entertainment (ZEEL) is a play on the robust growth prospects (stemming from progressive DTH-led digitization and GDP growth-led 10-12% YoY prospective rise in ad revenues) for the broadcasting space in India, over the next two years. We believe the broadcasting business restructuring by Zee Group (amalgamation of R-GEC business with ZEEL, merger of entertainment business of ETC Networks and raising stake in Taj TV (Mauritius) from 45% to 95%) is value accretive for ZEEL.

We expect the R-GEC business to comprise c.16%/17% of ZEEL's consolidated revenues/EBITDA in FY11E/12E, enhancing consolidated EBITDA margin by c.40bps over the next two years. Capturing our R-GEC forecast financials starting 4QFY10, we peg ZEEL's FY10E-12E CAGR of revenue, EBITDA, and EPS (weighted avg fully diluted) at 21.4%, 29.3% and 19.5% respectively. Our earnings forecast for ZEEL is largely in line with consensus (Exhibit 3).

Our 12-mth TP of Rs290 (Rs254 previously) for ZEEL is pegged at 20x FY12E consolidated EPS of Rs14.5; the 20x P/E multiple is based on FY10E-12E PEG of c.1.0x, in line with the methodology followed for Sun TV (SUN) and previous basis of pegging ZEEL's 12-mth TP (Exhibit 2). Our FY12E target P/E multiple of 20x for ZEEL implies a 7% discount to the 3-yr average of its 2-yr fwd P/E. At its CMP of Rs266, the potential upside to our 12-mth TP for ZEEL is c.10%, suggesting that the restructuring-led growth prospects are largely priced-in; accordingly, we maintain our HOLD rating on the stock.

We prefer SUN over ZEEL over a 12-mth period and believe ZEEL should trade at a c.20% discount to SUN, as reflected in our target FY12E P/E multiple for ZEEL @20x vs SUN @24x. We believe the discount is merited on account of [1] SUN's superior FY10E-12E EPS growth and returns prospects (c.24% vs c.20% for ZEEL), [2] lesser vulnerability to forecast utilization levels/ad revenue growth for SUN in a sports-heavy FY2011 as SUN is arguably a 'price maker' with clear, significant lead in viewership in the South India R-GEC space, and [3] similar subscription revenue growth prospects for both ZEEL and SUN in FY11E. Exhibit 11 presents our forecast financials for ZEEL vs SUN.

Key downside risks to our earning estimates, TP for ZEEL include [1] Competitive intensity, lack of sustained viewership lead in the Hindi GEC space dents forecast ad revenue growth, [2] ZEEL's utilization level and share of ad spend are dented by the long line-up of prime-viewership sports (161 days of India-centric cricket and 25 days of FIFA World Cup), [3] Inefficient deployment of growing cash chest (post debt repayment) in FY11E/12E.

Exhibit 2: PEG-based 12-mth TP implies 9% upside
We assign a FY10E-12E PEG of 1.0x to arrive at TP of Rs290

2-yr Target PEG (x)	1.0
FY10E-12E EPS CAGR	19.5%
Target P/E (x) [Rounded]	20.0
FY12E EPS (Rs)	14.5
Target Price (Rs)	**290**
Potential upside/downside to TP	*9.0%*

	CMP (Rs)	TP (Rs)	FY10E-12E CAGR		FY12E P/E	
			EBITDA	EPS	Current	Target
SUN	420	474	19.0%	23.9%	21.2	24.0
ZEEL	266	290	29.3%	19.5%	18.3	20.0
DISH	37	44	140.9%	NM	NM	NM

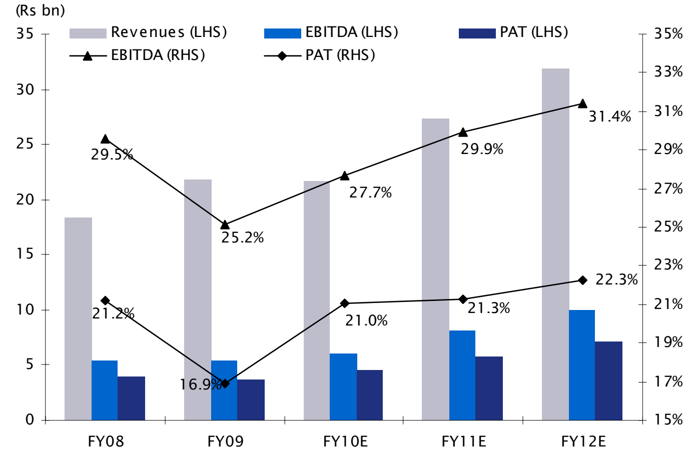
Source: Bloomberg, JM Financial

Exhibit 3: ZEEL – JM Financial vs Consensus
EBITDA/PAT forecast is largely in-line with consensus

Y/E Mar (Rs mn)	2010E	2011E	2012E
Sales			
JM Financial	21,642	27,353	31,884
Consensus (Mean)	21,980	26,960	31,870
JM Financial vs. Consensus	*-1.5%*	*1.5%*	*0.0%*
EBITDA			
JM Financial	5,995	8,181	10,017
Consensus (Mean)	6,007	7,820	9,820
JM Financial vs. Consensus	*-0.2%*	*4.6%*	*2.0%*
Net Profit			
JM Financial	4,555	5,820	7,097
Consensus (Mean)	4,497	5,670	7,041
JM Financial vs. Consensus	*1.3%*	*2.6%*	*0.8%*

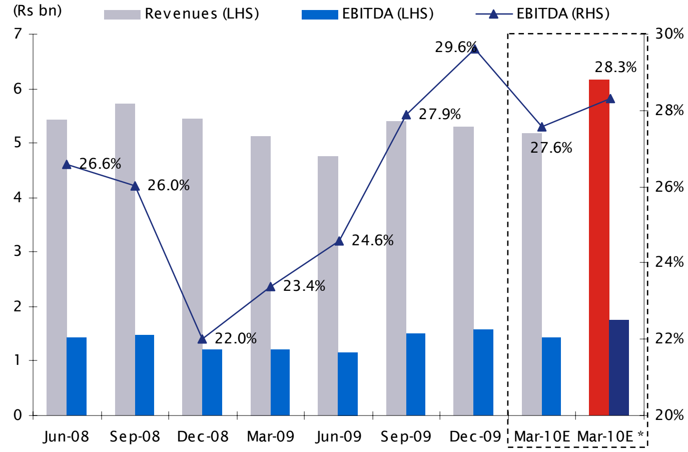
Source: Bloomberg, JM Financial

Exhibit 4: ZEEL - Revenue and margin forecast
FY10E-12E Revenue/EBITDA CAGR at 21%/29% respectively



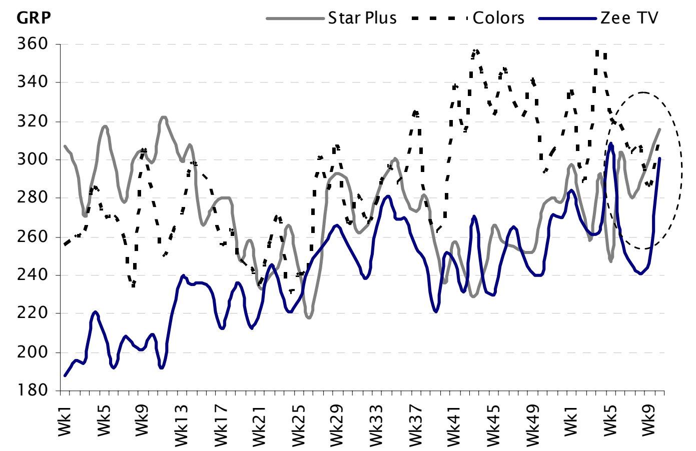
Source: Company, JM Financial

Exhibit 5: ZEEL - Quarterly trend including R-GEC
Margins improve by 60bps after inclusion of R-GEC in 4Q



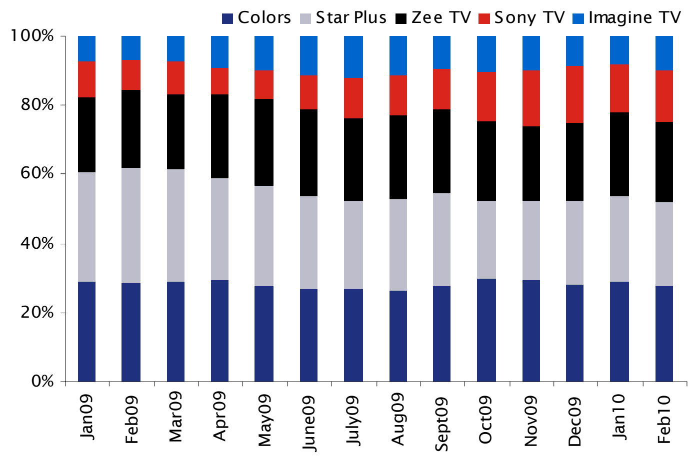
Note: Mar-10 E * is including R-GEC
Source: Company, JM Financial

Exhibit 6: Top 3 Hindi GEC GRP trend since Wk1 2009
Top three battle out for high GRP



Source: Industry, JM Financial

Exhibit 7: Viewership – Hindi GEC
Colors leads with an average channel share of c.23%



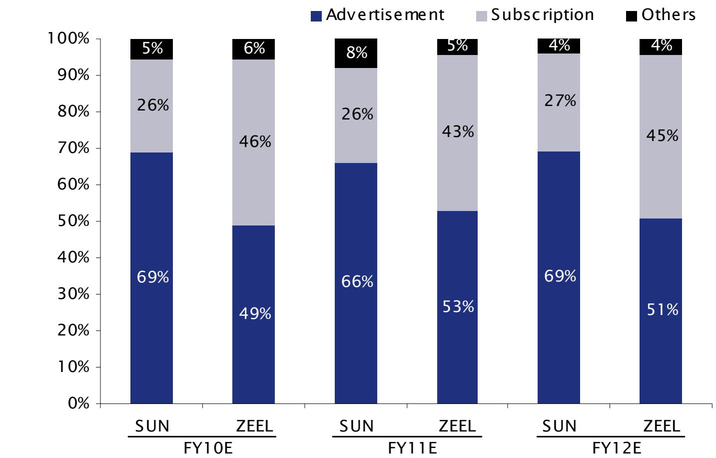
Source: exchange4media

Exhibit 8: ZEEL – Consolidated summary financials
Post R-GEC merger 4QFY10 onwards, we expect revenues/EBITDA to increase by 17%/21% in FY12E

(Rs mn)	FY10E			FY11E			FY12E		
	New	Old	change	New	Old	change	New	Old	change
Advertisement	10,519	9,793	7.4%	14,397	11,257	27.9%	16,241	13,098	24.0%
Subscription	9,879	9,803	0.8%	11,724	11,005	6.5%	14,274	12,527	13.9%
Others	1,244	1,194	4.1%	1,233	1,454	-15.2%	1,369	1,552	-11.8%
Revenues	21,642	20,790	4.1%	27,353	23,716	15.3%	31,884	27,177	17.3%
EBITDA	5,995	5,813	3.1%	8,181	6,998	16.9%	10,017	8,284	20.9%
EBITDA margin	27.7%	28.0%	-0.3%	29.9%	29.5%	0.4%	31.4%	30.5%	0.9%
PAT	4,555	4,581	-0.6%	5,820	5,047	15.3%	7,097	6,031	17.7%
EPS (Rs)	10.2	10.6	-3.6%	11.9	11.5	3.4%	14.5	13.8	5.5%
W. Avg. Fully diluted Shares o/s (mn)	448	434		489	438		489	438	

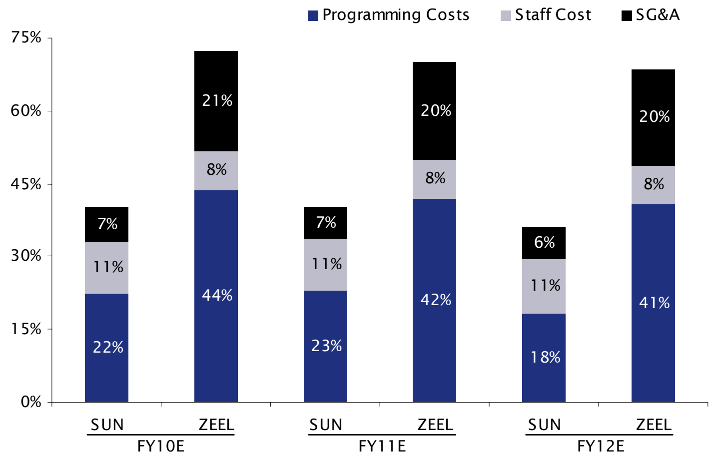
Note: 1) Old estimates are excluding financials of R-GEC, 2) FY10E includes only 4Q of R-GEC
Source: Company, JM Financial

Exhibit 9: ZEEL – Revenue mix vs SUN
ZEEL ad revenue comprise c.50% of total vs c.69% for SUN



Source: Company, JM Financial

Exhibit 10: ZEEL - Opex mix vs SUN
ZEEL's prog. cost as % of revenues is double than SUN



Source: Company, JM Financial

Exhibit 11: ZEEL vs SUN – Key financial metrics
Relative to ZEEL, SUN offers better EPS growth prospects, margin of safety

	FY09	FY10E	FY11E	FY12E
Advertisement Revenue (Rs mn)				
SUN	6,057	8,533	9,734	11,322
YoY	*27.4%*	*40.9%*	*14.1%*	*16.3%*
ZEEL	10,593	10,519	14,397	16,241
YoY	*13.8%*	*-0.7%*	*36.9%*	*12.8%*
Annual average Ad rate hike				
SUN		3.8%	14.3%	12.5%
ZEEL		5.0%	10.0%	10.0%
Average Utlization				
SUN	43.4%	59.0%	59.0%	61.0%
ZEEL	74.1%	67.0%	66.0%	69.0%
Subscription Revenue (Rs mn)				
SUN	2,692	3,728	4,522	5,077
YoY	*0.6%*	*38.5%*	*21.3%*	*12.3%*
ZEEL	9,038	9,879	11,724	14,274
YoY	*21.5%*	*9.3%*	*18.7%*	*21.8%*
Yr-end paid DTH subs (mn)				
SUN	4.4	6.0	7.5	9.0
YoY		*37.1%*	*25.0%*	*20.0%*
ZEEL (excl R-GEC)	5.5	10.0	15.9	22.3
YoY		*81.0%*	*59.4%*	*40.2%*
ROE				
SUN	23.4%	26.3%	26.6%	26.5%
ZEEL	11.7%	10.8%	11.1%	12.3%
ROIC				
SUN	27.0%	32.8%	35.8%	38.5%
ZEEL	10.5%	9.9%	11.8%	14.1%

Source: Company, JM Financial

Relative valuations and earnings/TP sensitivity

We peg our 12-mth TP of Rs290 for ZEEL at 20x FY12E EPS

Prior to incorporating R-GEC financials, our 12-mth TP for ZEEL was based on a sum of [1] 20x ZEEL's FY11E P/E, the 20x multiple being derived by pegging FY09-11E PEG at 1.0x, and [2] applying the same multiple to our FY11E forecast EPS of Rs1.2/sh for the R-GEC business (based on skeletal financials).

After incorporating the R-GEC financials and impact of the two other business restructurings, we continue to derive our target earnings multiple by pegging 2-yr PEG (FY10E-12E) at 1.0x and apply the multiple to our FY12E EPS of Rs14.5 for ZEEL. Our earnings forecast imply an FY10E-12E fully-diluted EPS CAGR of 19.5%; we round-up the derived multiple to 20x and arrive at a 12-mth TP of Rs290 for ZEEL. Our FY12E target P/E multiple of 20x implies a 7% discount to the 3-yr average of its 2-yr fwd P/E (Exhibit 16).

Valuations, price performance relative to SUN, BSE Sensex

Our FY12E target P/E multiple for both ZEEL and SUN is derived by pegging FY10E-12E PEG of 1.0x; on this basis, our FY12E target P/E of 20x for ZEEL implies a 20% discount to our FY12E target P/E of 24x for SUN. On a 1-yr fwd P/E, over the past three years, SUN has typically traded at c.15% premium to ZEEL, albeit the premium has notably shrunk with time (avg premium is 9% over the past 2-yrs) as earnings growth profile of both companies converge. We believe the 20% discount on earnings multiple for ZEEL is justified in the context of SUN's stronger earnings growth profile, and lesser vulnerability to utilization level/advertising revenues in a sports-heavy FY2011 calendar.

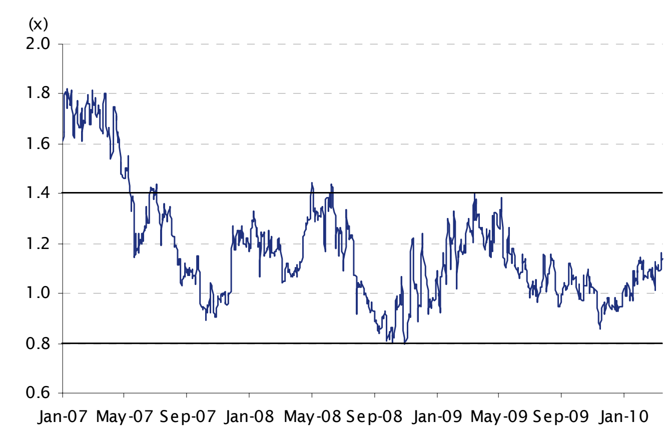
We note that although ZEEL has underperformed SUN on a 1-mth/3-mth horizon (largely due to the 3QFY10 earnings surprise by SUN), relative price performance is broadly in line over the past 6-mth (Exhibit 12).

Exhibit 12: ZEEL – Absolute returns vs SUN, BSE Sensex
ZEEL has underperformed SUN over 1-mth/3-mth; outperformed over 12-mth

	1m	3m	6m	12m
ZEEL	6.1%	5.8%	27.1%	177.1%
SUN	12.8%	28.2%	36.0%	152.3%
BSE Sensex	8.6%	5.1%	5.0%	95.3%

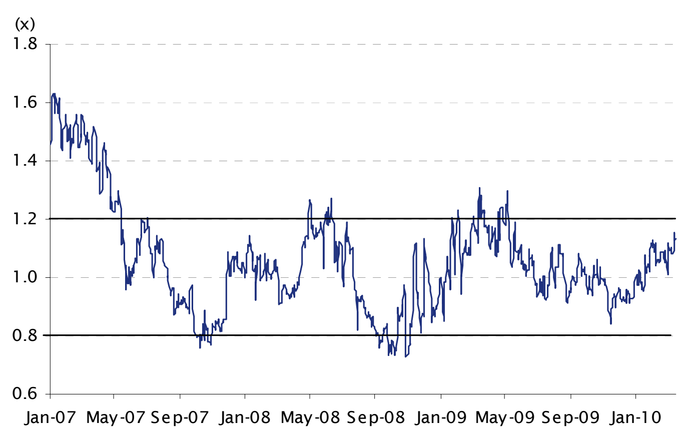
Source: Bloomberg, JM Financial

Exhibit 13: SUN – 1-yr fwd P/E premium over ZEEL
SUN's premium to ZEEL ranges between -20% to 40%



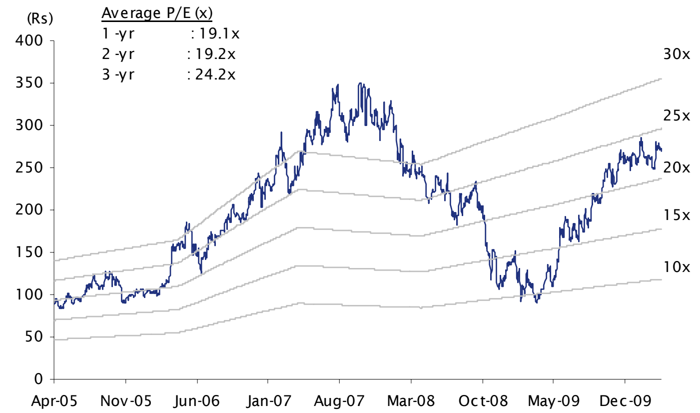
Source: Bloomberg, JM Financial

Exhibit 14: SUN – 2-yr fwd P/E premium over ZEEL
SUN's premium to ZEEL ranges between -20% to 20%



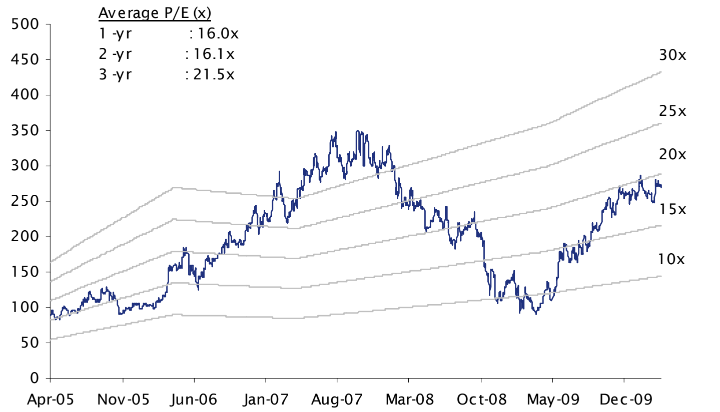
Source: Bloomberg, JM Financial

Exhibit 15: ZEEL – 1-yr fwd P/E band
2/3 yr average 1-yr fwd P/E multiple is 19x/24x



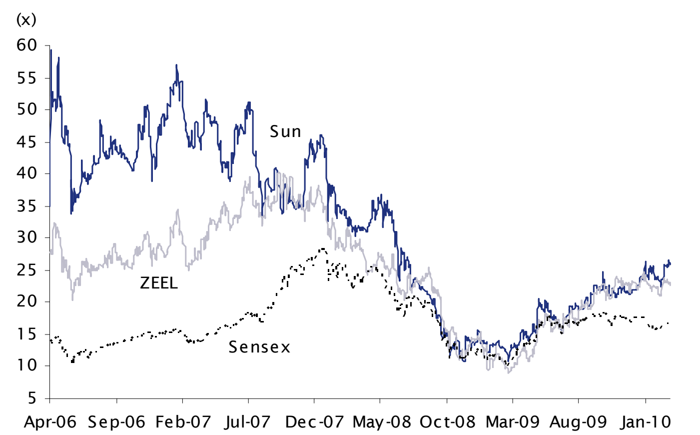
Source: Bloomberg, JM Financial

Exhibit 16: ZEEL – 2-yr fwd P/E band
2/3 yr average 2-yr fwd P/E multiple is 16x/21x



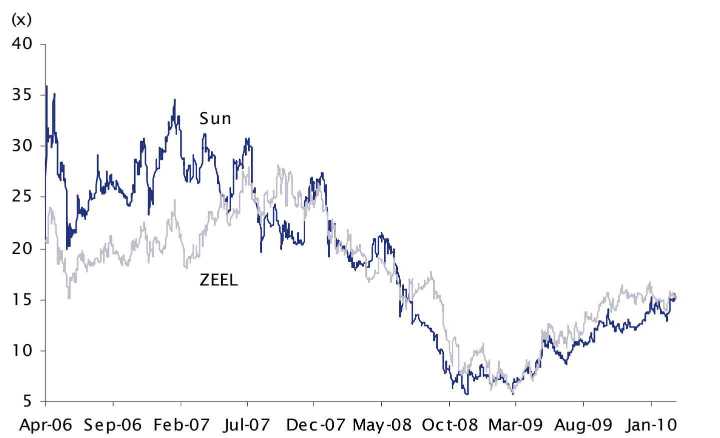
Source: Bloomberg, JM Financial

Exhibit 17: ZEEL – 1-yr fwd P/E vs SUN, BSE Sensex
ZEEL currently trades at a 14% discount to SUN



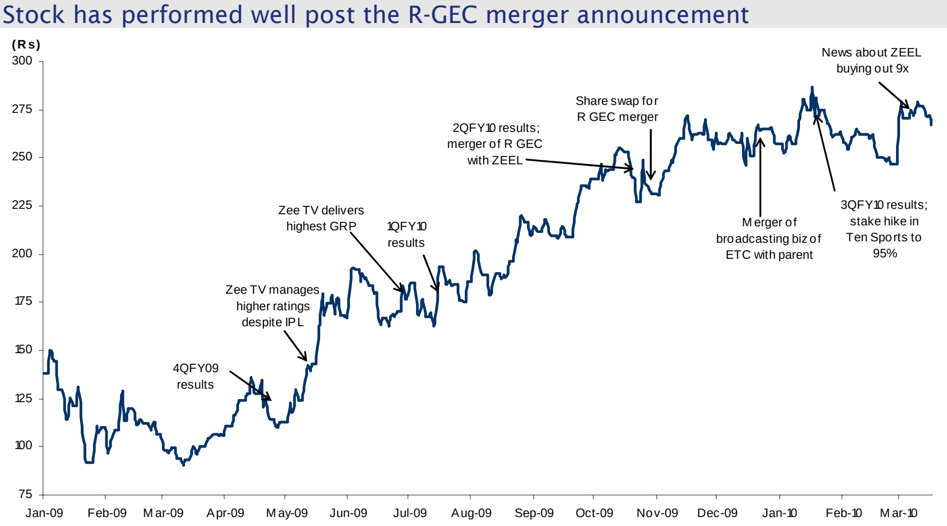
Source: Bloomberg, JM Financial

Exhibit 18: ZEEL – 1-yr fwd EV/EBITDA vs SUN
SUN traded at an avg discount of c.5% to ZEEL in last 3 yrs



Source: Bloomberg, JM Financial

Exhibit 19: ZEEL – Stock price movement and key events
Stock has performed well post the R-GEC merger announcement



Source: Bloomberg, JM Financial

Earnings/TP highly sensitive to programming cost

ZEEL's FY11E/12E EPS and 12-mth TP is highly sensitive to our forecast programming costs (45% of 9mFY10 revenues). Maintaining the target FY12E P/E multiple of 20x, 10% higher programming cost (comprising of cost of revenues, transmission cost and stock-in-trade) in FY11E/12E would lower FY11E/12E forecast EPS by c.13%; 12-mth TP would drop 13% to Rs252/sh.

By our calculations, [1] 10% higher advertisement revenues in FY11E/12E would raise FY11E/12E forecast EPS by c.8%; 12-mth TP would rise 8% to Rs313/sh, and [2] 10% higher subscription revenues in FY11E/12E would raise FY11E/12E forecast EPS by c.7%; 12-mth TP would rise c.7% to Rs310/sh.

Compared to SUN, ZEEL's advertisement revenue sensitivity is lower, indicating SUN's high dependence on ad revenue growth. This is primarily because SUN's revenue mix is more favorable towards advertisement revenues.

Exhibit 20: ZEEL – EPS, TP sensitivity to ad/subscription revenue, programming cost
EPS and TP is highly sensitive to programming costs

	Revenues		EBITDA		Consolidated PAT		Fully diluted EPS (Rs)		12-mth TP
(Rs mn)	**FY11E**	**FY12E**	**FY11E**	**FY12E**	**FY11E**	**FY12E**	**FY11E**	**FY12E**	**Rs/share**
Advertisement Revenue									
Bear case (-10%)	25,914	30,259	7,480	9,226	5,340	6,551	10.9	13.4	268.0
Base case	27,353	31,884	8,181	10,017	5,820	7,097	11.9	14.5	290.0
Bull case (+10%)	28,793	33,508	8,882	10,809	6,300	7,642	12.9	15.6	312.6
Sensitivity (bps)	*53*	*51*	*86*	*79*	*83*	*77*	*83*	*77*	*77*
Subscription Revenue									
Bear case (-10%)	26,181	30,456	7,610	9,321	5,429	6,617	11.1	13.5	270.7
Base case	27,353	31,884	8,181	10,017	5,820	7,097	11.9	14.5	290.0
Bull case (+10%)	28,526	33,311	8,752	10,713	6,211	7,576	12.7	15.5	309.9
Sensitivity (bps)	*43*	*45*	*70*	*69*	*67*	*68*	*67*	*68*	*68*
Programming Costs *									
Bear case (+10%)	27,353	31,884	7,031	8,715	5,032	6,161	10.3	12.6	252.0
Base case	27,353	31,884	8,181	10,017	5,820	7,097	11.9	14.5	290.0
Bull case (-10%)	27,353	31,884	9,331	11,320	6,608	8,033	13.5	16.4	328.6
Sensitivity (bps)	*0*	*0*	*141*	*130*	*135*	*132*	*135*	*132*	*132*

Note: 1) Change in sensitivity in ad and subscription revenue is on the assumption of EBITDA margins remaining the same for FY11E/12E 2)* Programming cost includes cost of revenues, transmission cost and stock-in-trade.

Source: Company, JM Financial

Exhibit 21: ZEEL – Global Valuation comparables

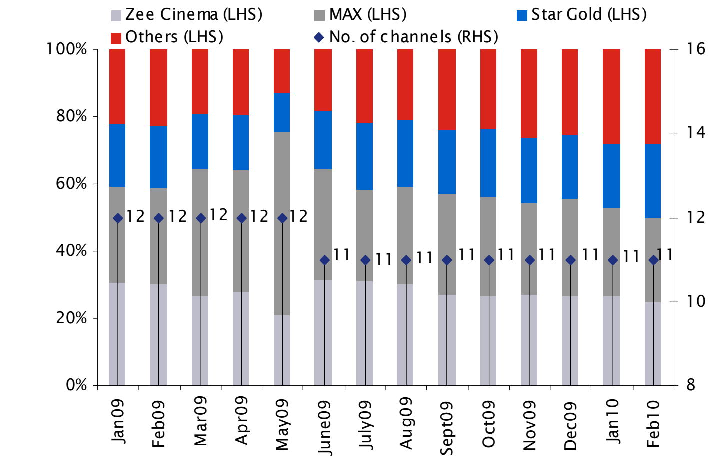
ZEEL FY10E-12E EPS CAGR of c.20% is in the middle range of 15-25% earnings growth profile for regional/global comparables, SUN EPS CAGR of 24% is at an upper end

	Ticker	Currency	Y/E	Price	Mkt Cap.	FY10-12E CAGR			PEG (x)	EVG(x)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					(US$mn)	Rev	EBITDA	EPS	FY10-12E	FY10-12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
USA																			
Times Warner	TWX US	USD	Dec	31.2	35,933	3.8%	6.7%	16.7%	0.9	1.1	17.5	14.6	12.9	8.4	7.6	7.0	1.9	1.8	1.6
Viacom Inc	VIA/B US	USD	Dec	31.6	19,318	2.5%	8.1%	11.4%	1.0	0.9	13.5	11.9	10.9	8.0	7.2	6.3	1.8	1.8	1.6
News Corp	NWSA US	USD	June	14.0	38,691	3.6%	8.5%	15.7%	0.8	0.8	15.4	13.1	11.5	8.2	7.2	6.1	1.5	1.3	1.2
CBS Corp	CBS US	USD	Dec	14.0	9,466	3.8%	14.5%	46.5%	0.3	0.5	26.7	14.9	12.4	8.9	6.9	6.3	1.2	1.1	1.1
Asia																			
Seven Network Ltd.	SEV AU	AUD	June	7.8	1,358	8.3%	9.2%	24.7%	0.9	1.0	28.1	21.7	18.1	9.9	9.6	9.1	5.2	4.8	4.8
Tokyo Broadcasting	9401 JT	JPY	Mar	1,373.0	2,891	0.0%	7.8%	NM	NM	1.7	NM	97.9	55.4	15.8	13.5	12.8	1.0	1.0	0.9
TV Asahi Corp	9409 JT	JPY	Mar	143,700.0	1,598	1.0%	5.4%	10.8%	2.7	0.9	32.5	29.7	26.5	5.4	4.6	4.0	0.4	0.4	0.3
TV Tokyo Corp	9411 JT	JPY	Mar	1,846.0	421	0.5%	8.2%	38.1%	1.1	0.8	56.5	41.5	29.6	7.7	6.9	6.2	0.3	0.3	0.3
Nippon TV Network	9404 JT	JPY	April	12,510.0	3,509	0.7%	5.2%	8.5%	2.4	1.4	22.7	20.8	19.3	8.2	7.1	6.8	0.8	0.8	0.8
TV Broadcasts Ltd.	511 HK	HKD	Dec	36.6	2,066	6.4%	9.9%	13.6%	1.1	0.8	17.5	15.0	13.5	9.4	8.2	7.3	3.4	3.1	2.8
Phoenix Satellite TV	2008 HK	HKD	Dec	2.0	1,298	27.5%	41.6%	29.8%	0.9	0.5	35.4	26.2	21.0	30.1	19.2	15.0	6.9	5.3	4.2
Europe																			
Mediaset	MS IM	EUR	Dec	5.9	9,406	7.6%	12.5%	24.2%	0.7	0.5	23.5	18.0	15.2	7.0	6.0	5.3	2.2	2.0	1.8
Modern Times Group	MTGB SS	SEK	Dec	407.0	3,748	7.3%	59.5%	21.1%	0.8	0.2	19.9	16.6	13.6	27.9	12.4	10.1	2.1	1.9	1.7
TVN	TVN PW	PLN	Dec	16.6	1,957	12.7%	17.3%	16.1%	1.4	0.7	23.4	23.2	17.3	12.8	12.0	9.4	3.6	3.2	2.8
ITV	ITV LN	GBp	Dec	0.5	3,161	3.4%	37.2%	90.1%	0.2	0.2	41.7	18.7	11.5	13.4	8.9	6.3	1.5	1.4	1.3
B Sky B	BSY LN	GBp	June	5.9	15,497	6.9%	15.3%	23.5%	0.7	0.6	19.4	15.7	12.7	10.1	8.5	7.2	2.0	1.8	1.7
TV Azteca	TVAZTCPO MM	MXN	Dec	7.4	1,713	4.8%	5.7%	16.5%	0.8	1.1	17.8	13.9	13.1	6.9	6.2	5.8	2.8	2.5	2.4
India																			
Sun TV Network *	SUNTV IN	INR	Mar	419.8	3,636	14.9%	19.0%	23.9%	1.1	0.8	32.6	26.0	21.2	18.5	15.1	12.5	11.1	9.1	8.0
Sun TV Network @TP	SUNTV IN	INR	Mar	474.4	4,109	14.9%	19.0%	23.9%	1.2	0.9	36.8	29.4	24.0	21.0	17.2	14.3	12.5	10.3	9.1
Zee Entertainment *	**Z IN**	**INR**	**Mar**	265.8	2,535	21.4%	29.3%	19.5%	1.1	0.4	26.1	22.3	18.3	18.3	13.0	10.3	5.1	3.9	3.2
Zee Entertainment at TP	**Z IN**	**INR**	**Mar**	290.0	2,766	21.4%	29.3%	19.5%	1.3	0.5	28.5	24.4	20.0	20.0	14.3	11.3	5.6	4.3	3.6
NDTV	NDTV IN	INR	Mar	125.5	173	11.0%	85.9%	63.9%	NM	NM	NM	NM	NM	NM	NM	NM	1.2	1.0	1.1
TV18	TLEI IN	INR	Mar	74.4	296	1.9%	115.7%	NM	NM	0.2	NM	NM	NM	88.5	23.4	18.9	3.8	3.1	3.7
Zee News Ltd.	ZEEN IN	INR	Mar	60.4	318	10.1%	12.0%	15.1%	1.5	1.1	25.9	22.6	19.6	14.2	12.8	10.9	2.6	2.4	2.1
IBN18	IBN18 IN	INR	Mar	97.1	504	33.8%	NM	NM	NM	NM	NM	NM	NM	(62.1)	40.8	21.7	4.6	3.7	2.4

Note:
1) Figures for companies with reporting year ending Dec 2009/10/11 and June 2010/11/12 correspond to FY10/11/12 respectively.
2) PEG denotes FY10E-12E EPS CAGR to FY11E P/E multiple, EVG denotes FY10E-12E EBITDA CAGR to FY11E EV/EBITDA multiple
3) 'Normalized EBITDA' is used for all EBITDA-based metrics for SUN
4) * JMF estimates
Source: Bloomberg, JM Financial, Valuations as on 19/03/2010

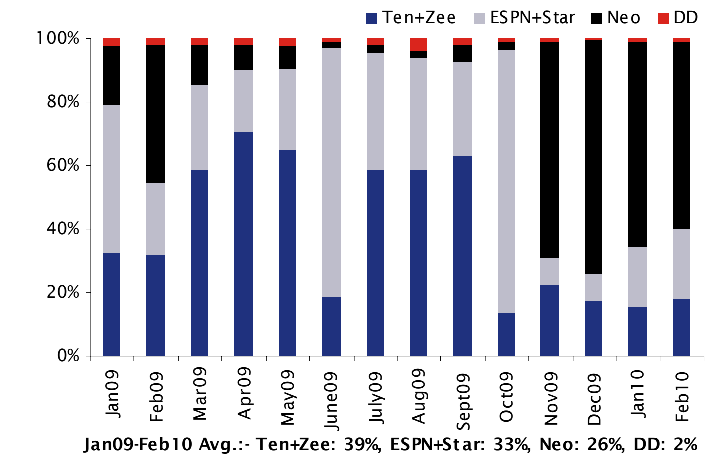
ZEEL – Share of viewership across genres

Exhibit 22: Viewership – Hindi movies
Zee Cinema, Max share at c.25%, Max ratings rise from IPL



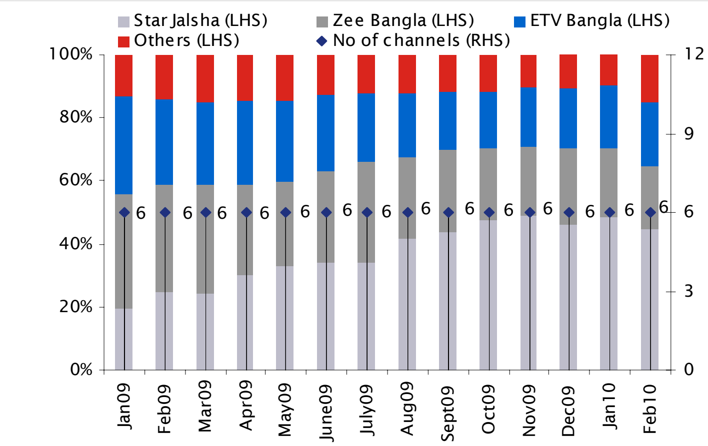
Source: exchange4media

Exhibit 23: Viewership – Sports genre
Clearly, content drives channel viewership



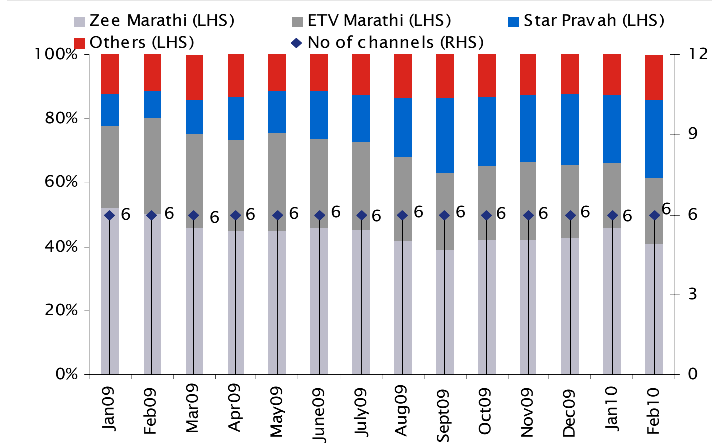
Source: exchange4media

Exhibit 24: Viewership – Bengali genre
Star Jalsha leads with c.45% channel share



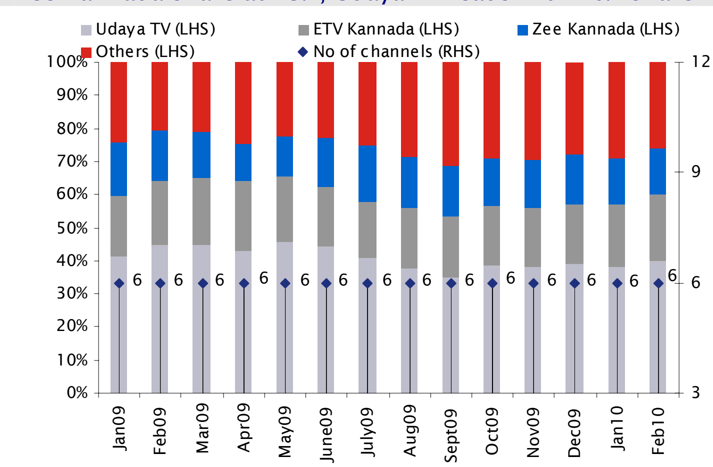
Source: exchange4media

Exhibit 25: Viewership – Marathi genre
Zee Marathi leads with >40% viewership share



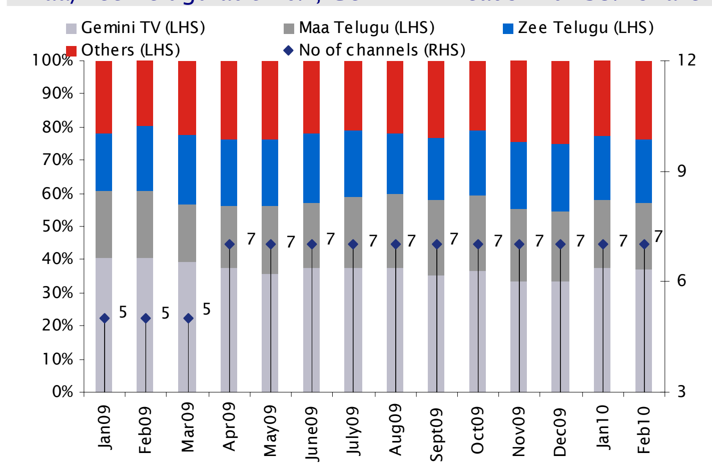
Source: exchange4media

Exhibit 26: Viewership – Kannada GEC
Zee Kannada share at 15%, Udaya TV leads with 40% share



Source: exchange4media

Exhibit 27: Viewership – Telugu GEC
Maa/Zee Telugu at c.20%, Gemini TV leads with 35% share



Source: exchange4media

We peg FY10E-12E consolidated EPS CAGR at 20%

In summary, capturing R-GEC forecast financials starting 4QFY10, we peg ZEEL's FY10E-12E CAGR of revenue, EBITDA, and EPS (weighted avg fully diluted) at 21.4%, 29.3% and 19.5% respectively. By our calculations, R-GEC business will comprise c.16% of ZEEL's consolidated revenues and c.17% of consolidated EBITDA in FY11E/12E; we forecast consolidated EBITDA margin at 29.9%/31.4% in FY11E/12E (vs 27.4% in 9M FY10). We expect subscription revenue growth (FY10E-12E CAGR of 20.2%) to drive ZEEL's top line, although the FY10E-12E CAGR in ad revenues appears higher due to the inclusion of R-GEC financials 4QFY10 onwards. Incorporating the likely equity dilution post announced restructurings and management's guidance to utilize funds received from Group concerns (i.e. inter-company loans and advances) in 4QFY10 to repay debt, we expect weighted avg fully diluted EPS to rise from Rs10.2/sh in FY10E to Rs11.9/sh in FY11E (17% YoY) and Rs14.5/sh in FY12E (c.22% YoY).

R-GEC financials to boost consolidated forecast revenues, margins

Our earnings model for ZEEL captures a revenue/EBITDA of Rs1.0bn/Rs320mn for the R-GEC business in 4QFY10; thereafter, we forecast FY10E-12E CAGR for R-GEC revenues/EBITDA at c.15%/17% respectively. Our R-GEC revenue forecast is based on advertisement/subscription parameters (including ad rate hike, paid DTH-subs growth) similar to those for the GEC business; this translates to FY10E-12E advertisement/subscription revenue CAGR of 14.4%/22.4%. We expect R-GEC margins to remain around 32-33% (higher than GEC business margins), thus adding c.40bps to the FY11E/12E consolidated EBITDA margin for the company. (Exhibits 28,29).

Exhibit 28: ZEEL – R-GEC business revenue, EBITDA forecast
R-GEC would expand consolidated EBITDA margin by c.40bps in FY11E/12E

(Rs mn)	FY09	1HFY10	4QFY10E	FY10E *	FY11E	FY12E
Advertisement	2,859	1,569	843	3,303	3,790	4,326
Subscription	306	168	85	336	391	504
Others	238	131	72	271	299	329
Revenues	**3,403**	**1,868**	**1,000**	**3,911**	**4,480**	**5,158**
EBITDA	797	597	320	1,262	1,445	1,728
EBITDA margin	23.4%	32.0%	32.0%	32.3%	32.3%	33.5%

Notes: (1) Financials for FY09/1HFY09 has been provided by company (2) *FY10E – Proforma for 4-qtrs (3) Mgmt has indicated R-GEC financials is unlikely to be reported separately going ahead.
Source: Company, JM Financial

Exhibit 29: ZEEL – Revenue/EBITDA contribution from R-GEC business
R-GEC to comprise c.17% of consolidated EBITDA in FY11E/12E

(Rs mn)	FY10E *	FY11E	FY12E
Consolidated Revenues	21,642	27,353	31,884
ZEEL (excluding R-GEC)	20,642	22,874	26,725
R-GEC	1,000	4,480	5,158
Consolidated EBITDA	5,995	8,181	10,017
ZEEL (excluding R-GEC)	5,675	6,737	8,289
R-GEC	320	1,445	1,728
Consolidated EBITDA margin	27.7%	29.9%	31.4%
ZEEL (excluding R-GEC)	27.5%	29.5%	31.0%
R-GEC	32.0%	32.3%	33.5%

Note : *FY10E includes only 4QFY10E financials of R-GEC
Source: Company, JM Financial

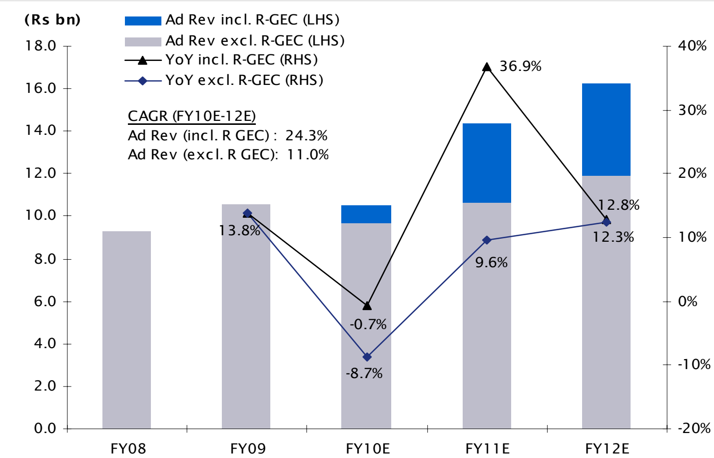
Ad revenues (excl. R-GEC) expected to post FY10E-12E CAGR of 11%

We believe there is a significant correlation between the growth in industry ad spend and India's GDP – growth in ad spend tends to overshoot GDP growth during periods of recovery/boom and undershoot GDP growth in periods of recession (Exhibit 31). As the economic revival gains momentum, assuming an 8-9% YoY real GDP growth over the next two years, we expect a 10-12% YoY growth in ad rates in the Hindi GEC space.

For ZEEL, we expect GEC advertisement revenues to post an 8%/15% YoY growth in FY11E/12E, driven by a 10% YoY hike in ad rates and average utilization levels of 66%/69% in FY11E/12E (vs 67% in FY10E). We expect average utilization level to drop in FY11E due to a big-ticket sports-heavy calendar which includes 161 days of India-centric cricket (Exhibit 32). We expect revenues from the sports channels to post a c.20%/-3% YoY in FY11E/12E – growth in FY11E being driven by Ten Sports having the rights to telecast 3/6 India-centric cricket series in FY11 (India vs Sri Lanka in 2QFY11, India vs South Africa in 3Q/4QFY11 and India vs Zimbabwe in 1QFY11.

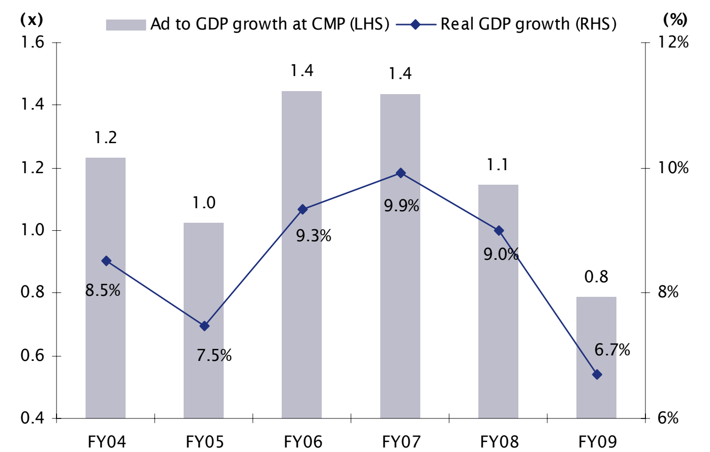
Overall, we expect ZEEL's ad revenues (excl. R-GEC) to exhibit a 9.6%/12.3% growth in FY11E/FY12E. Including R-GEC ad revenues 4QFY10 onwards, we forecast ZEEL's consolidated ad revenues to grow 37%/13% YoY in FY11E/12E.

Exhibit 30: ZEEL – Advertisement revenue forecast
Excl. R-GEC, ad revenues to rise 9.6%/12.3% in FY11E/12E



Source: Company, JM Financial

Exhibit 31: India media – Growth in ad spend & GDP
Ad spend tends to overshoot GDP growth in boom periods



Source: FICCI 2009, CSO, JM Financial

Exhibit 32: FY2011 – A sports-heavy year for the Indian audience
High viewership sporting events for 186 days include India-centric cricket for 161 days and FIFA World Cup for 25 days

Period	Months	Tournament	Venue	Broadcaster	No of matches	Days
4QFY10/1QFY11	Mar/Apr 2010	IPL 2010	India	Set Max	59	45
1QFY11	Apr/May 2010	ICC T20 World Cup	West Indies	ESPN/Star	27	15
1QFY11/2QFY11	June/July 2010	FIFA World Cup 2010	South Africa	ESPN/Star	64	25
1QFY11	May 2010	India vs Zimbabwe	Zimbabwe	Ten Sports	13	13
2QFY11	July 2010	India vs Sri Lanka	Sri Lanka	Ten Sports	5	5
3QFY11	Oct 2010	India vs Australia	India	Neo Cricket	7	7
3QFY11	Oct/Nov 2010	India vs New Zealand	India	Neo Cricket	8	20
3QFY11/4QFY11	Dec/Jan 2010/11	India vs South Africa	South Africa	Ten Sports	8	20
4QFY11	Feb/Mar 2011	ICC World Cup	India, Sri Lanka, Bangladesh	ESPN/Star	49	36
Total					**240**	**186**

Note: FY09/FY10 had 161/121 days of India centric cricket
Source: ICC, FIFA, JM Financial

DTH-led subscription revenue (excl. R-GEC) FY10E-12E CAGR pegged at 18.6%

Excluding the R-GEC business, we expect ZEEL's subscription revenues to post a FY10E-12E CAGR of 18.6%, largely driven by a 56% CAGR of revenues from DTH subs, which in turn is based on our forecast of [1] Year-end DTH paid subs to rise 59%/40% YoY in FY11E/12E to 15.9mn/22.3mn respectively on the assumption that Zee bouquet is subscribed by 60-65% of all-India DTH net adds over the next two years, [2] Monthly ARPU to rise from Rs22 in FY10E to Rs23/Rs24 in FY11E/12E.

We forecast non-DTH domestic subscription revenues to grow 1.2%/4.4% YoY in FY11E/12E assuming a marginal reduction in subs under-reporting by LCOs and international subscription revenues to post FY10E-12E CAGR of 6.4% assuming a 5% YoY rise in both subs and monthly ARPUs in FY11E/FY12E. We expect R-GEC subscription revenues to add c.4% to ZEEL's consolidated subscription revenues, resulting in 20.2% FY10E-12E CAGR of overall subscription revenues (Exhibit 34). We continue to expect subscription revenues to comprise c.45% of ZEEL's consolidated revenues.

R-GEC business merger to enhance EBITDA margin by c.40bps in FY11E/12E

For ZEEL's existing business (excl. R-GEC), as against an FY10E EBITDA margin of 27.5%, we forecast EBITDA margin for FY11E at 29.5% (previously 29.5%) and 31% for FY12E (previously 30.5%). The EBITDA margin expansion is primarily a result of higher subscription revenue growth forecast (FY10E-12E CAGR at 19% vs 13% previously), resulting in a drop in programming cost as a % of revenues from 44% in FY10E to 41% in FY12E.

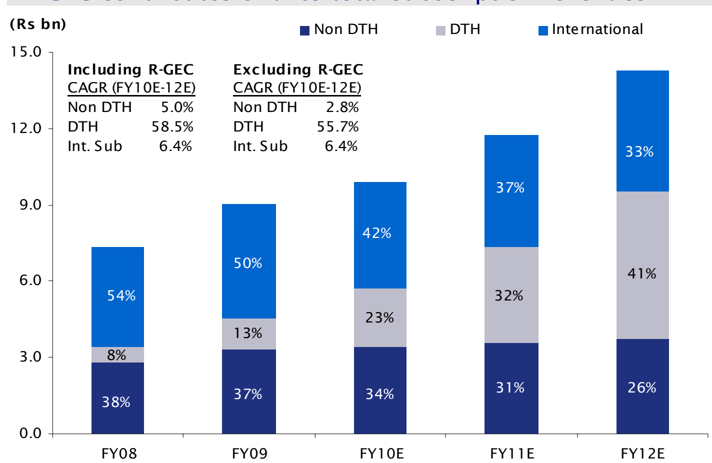
By our calculations, consolidation of the R-GEC business, which generates a 32-33% EBITDA margin, would enhance ZEEL's existing business margins by c.40bps in FY11E/12E. Including R-GEC financials 4QFY10 onwards, we expect ZEEL's consolidated EBITDA margin to expand by 220bps/150bps in FY11E/12E to 29.9%/31.4% from 27.7% in FY10E.

Exhibit 33: ZEEL – Forecast OPEX composition
Programming cost reduction to enhance overall margins

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Prog. Cost	7,818	9,810	9,444	11,502	13,026
Staff Cost	1,438	2,031	1,749	2,172	2,479
Admin Cost	2,132	1,860	1,979	2,284	2,694
S&D Cost	1,543	2,592	2,474	3,214	3,667
Total Opex	**12,931**	**16,293**	**15,646**	**19,172**	**21,866**
YoY		26.0%	-4.0%	22.5%	14.1%
% of Revenues					
Prog. Cost	42.6%	45.1%	43.6%	42.0%	40.9%
Staff Cost	7.8%	9.3%	8.1%	7.9%	7.8%
Admin Cost	11.6%	8.5%	9.1%	8.4%	8.5%
S&D Cost	8.4%	11.9%	11.4%	11.8%	11.5%
EBITDA margin	29.5%	25.2%	27.7%	29.9%	31.4%

Source: Company, JM Financial

Exhibit 34: ZEEL - Subscription revenue forecast
R-GEC contributes c.4% to total subscription revenues



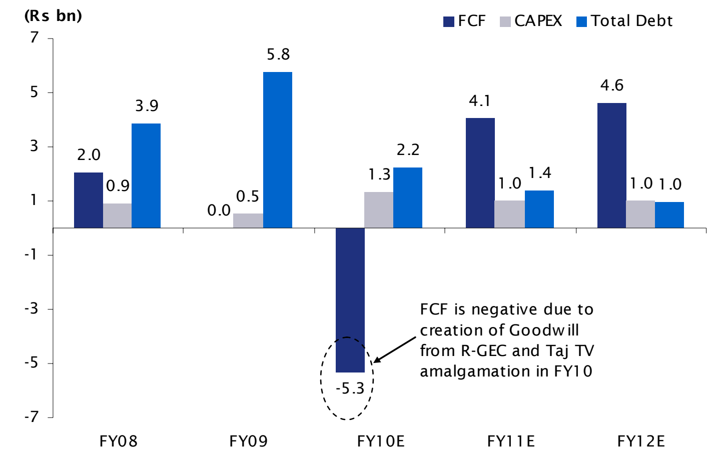
Note: Subscription revenues include R-GEC financials from 4QFY10 onwards
Source: Company, JM Financial

Cash chest to rise even as ZEEL moves towards a debt-free capital structure

We expect ZEEL to end 4QFY10 with consolidated debt of Rs2.2bn (including Rs1.2bn debt for the R-GEC business) vs Rs4.9bn debt on books (excl. R-GEC) as of Dec'09, in line with management's indication to utilize the expected inflow of Rs8.5bn in 4QFY10 (from repayment of loans and advances given by ZEEL to Group companies, including Dish TV) to retire debt.

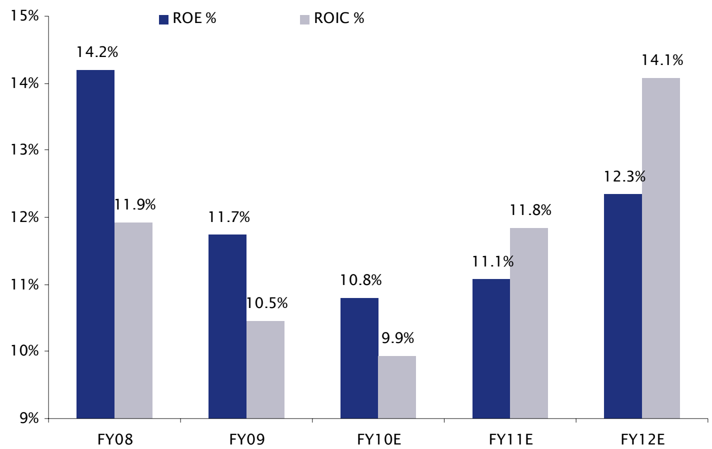
We expect ZEEL to exhibit a steady rise in FCF going ahead, although reported FCF will likely be negative for FY10E due to the expected creation of goodwill from the R-GEC and Taj TV restructuring (Exhibit 35). Our forecast assumes an outlay of Rs1bn each in FY11E/12E towards capex. At 11% to 13%, ZEEL's ROE is almost half of SUN's ROE of 26% to 27%.

Exhibit 35: ZEEL – CAPEX, FCF, Debt outlook
Negative FCF in FY10 due to generation of Goodwill



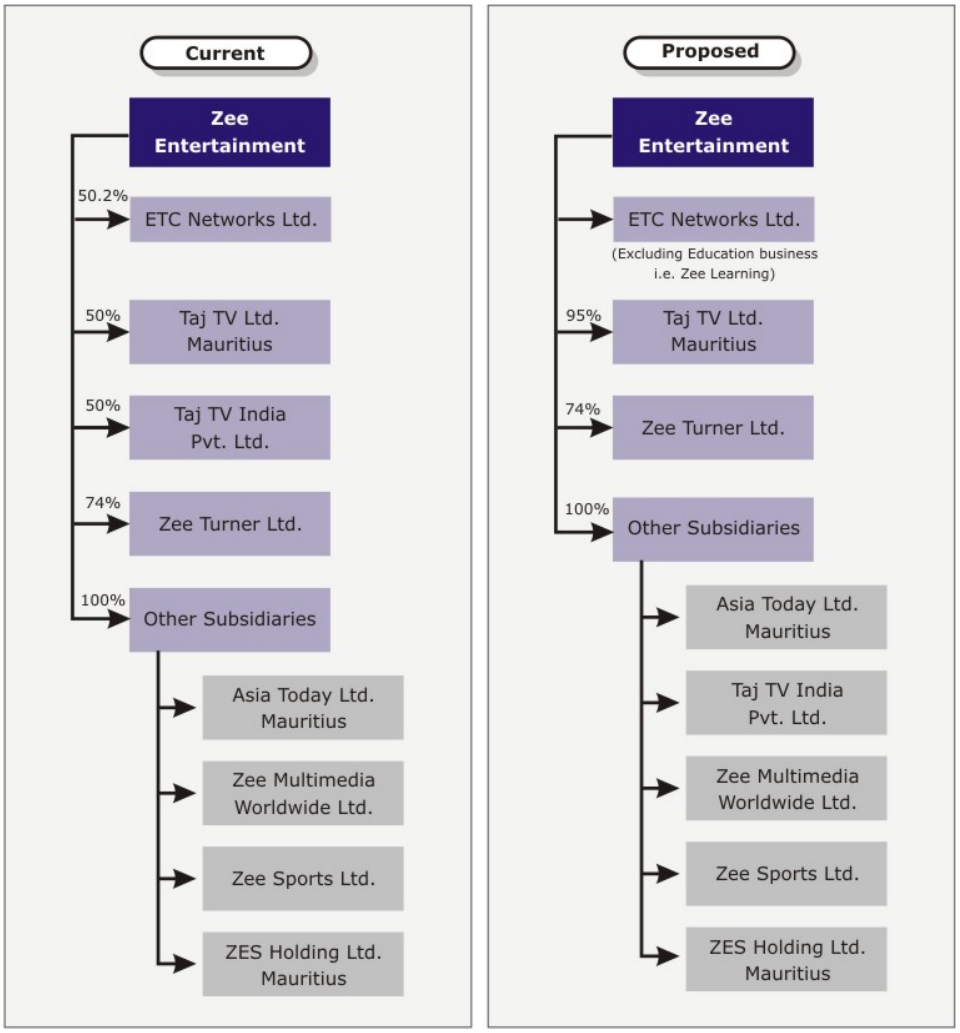
Source: Company, JM Financial

Exhibit 36: ZEEL – ROE/ROIC trend
ROE to stabilize at 12%, ROIC to improve going forward



Source: Company, JM Financial

Exhibit 37: ZEEL current and proposed business structure
ETC (excl. education biz) to be merged with parent, Taj TV stake increase to 95%



Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Net sales (Net of excise)	**18,354**	**21,773**	**21,642**	**27,353**	**31,884**
Growth (%)		18.6	-0.6	26.4	16.6
Other operational income	0	0	0	0	0
Raw material (or COGS)	7,818	9,810	9,444	11,502	13,026
Personnel cost	1,438	2,031	1,749	2,172	2,479
Other expenses (or SG&A)	3,675	4,452	4,454	5,498	6,361
EBITDA	**5,423**	**5,480**	**5,996**	**8,181**	**10,017**
EBITDA (%)	29.5	25.2	27.7	29.9	31.4
Growth (%)		1.1	9.4	36.4	22.4
Other non-op. income	0	0	0	0	0
Depreciation and amort.	232	310	320	409	473
EBIT	5,191	5,170	5,676	7,773	9,544
Add: Net interest income	622	233	732	695	772
Pre tax profit	5,813	5,403	6,408	8,467	10,316
Taxes	1,595	1,633	2,117	2,667	3,250
Add: Extraordinary items	-57	1,451	364	0	0
Less: Minority interest	328	98	-265	-20	-30
Reported net profit	3,833	5,124	4,920	5,820	7,097
Adjusted net profit	**3,890**	**3,673**	**4,555**	**5,820**	**7,097**
Margin (%)	21.2	16.9	21.0	21.3	22.3
Diluted share cap. (mn)	434	434	448	489	489
Diluted EPS (Rs.)	**9.0**	**8.5**	**10.2**	**11.9**	**14.5**
Growth (%)	NA	-5.7	20.2	17.0	21.9
Total Dividend + Tax	1,018	1,013	1,144	1,425	1,710

Source: Company, JM Financial

Balance Sheet (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Share capital	434	434	489	489	489
Other capital	0	0	0	0	0
Reserves and surplus	28,177	33,561	49,900	54,295	59,682
Networth	28,611	33,995	50,389	54,784	60,171
Total loans	3,866	5,757	2,229	1,392	974
Minority interest	1,117	948	137	117	87
Sources of funds	**33,594**	**40,700**	**52,755**	**56,293**	**61,231**
Intangible assets	13,008	15,239	27,302	27,313	27,324
Fixed assets	3,217	3,692	5,153	6,218	7,250
Less: Depn. and amort.	1,239	1,508	1,802	2,211	2,683
Net block	14,986	17,423	30,653	31,320	31,891
Capital WIP	619	669	529	465	432
Investments	1,648	607	607	607	607
Def tax assets/- liability	243	113	-9	-179	-385
Current assets	22,376	27,691	27,735	31,819	37,848
Inventories	32	44	62	75	87
Sundry debtors	5,907	6,437	7,965	8,993	10,482
Cash & bank balances	2,520	2,591	7,924	10,532	13,432
Other current assets	2,442	4,532	5,607	6,291	7,333
Loans & advances	11,475	14,087	6,177	5,928	6,513
Current liabilities & prov.	6,279	5,803	6,760	7,739	9,163
Current liabilities	4,152	4,318	4,821	4,998	5,587
Provisions and others	2,127	1,486	1,939	2,741	3,576
Net current assets	16,097	21,887	20,974	24,080	28,685
Others (net)	0	0	0	0	0
Application of funds	**33,594**	**40,700**	**52,754**	**56,292**	**61,231**

Source: Company, JM Financial

Cash flow statement (Rs. mn)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Reported net profit	3,833	5,124	4,920	5,820	7,097
Depreciation and amort.	158	269	293	409	473
-Inc/dec in working cap.	-609	-504	-1,123	-933	-982
Others	299	-169	-811	-20	-30
Cash from operations (a)	**3,680**	**4,720**	**3,279**	**5,276**	**6,558**
-Inc/dec in investments	-43	1,041	0	0	0
Capex	-923	-2,757	-13,383	-1,011	-1,012
Others	-942	-5,215	7,369	436	-724
Cash flow from inv. (b)	**-1,908**	**-6,931**	**-6,015**	**-574**	**-1,736**
Inc/-dec in capital	-385	1,274	12,618	0	0
Dividend+Tax thereon	-1,018	-1,013	-1,144	-1,425	-1,710
Inc/-dec in loans	640	1,891	-3,528	-837	-418
Others	-166	130	122	169	206
Financial cash flow (c)	**-929**	**2,282**	**8,068**	**-2,093**	**-1,922**
Inc/-dec in cash (a+b+c)	844	71	5,333	2,609	2,900
Opening cash balance	1,676	2,520	2,591	7,924	10,532
Closing cash balance	2,520	2,591	7,924	10,532	13,432

Source: Company, JM Financial

Key Ratios

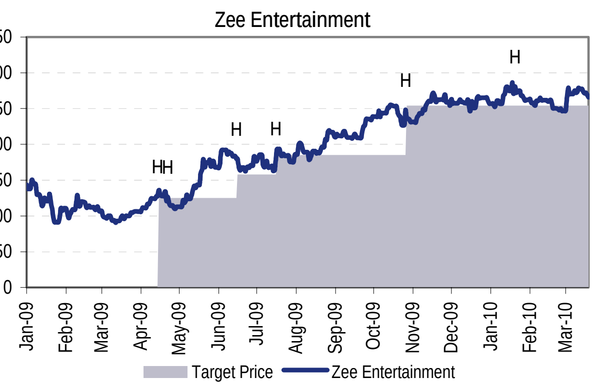
Y/E March	FY08	FY09	FY10E	FY11E	FY12E
BV/Share (Rs)	66.0	78.3	116.1	126.2	138.6
ROCE (%)	11.5	10.5	9.9	11.8	14.1
ROE (%)	13.6	11.7	10.8	11.1	12.3
Net Debt/equity ratio (x)	0.0	0.1	-0.1	-0.2	-0.2
Valuation ratios (x)					
PER	32.9	20.2	26.1	22.3	18.3
PBV	4.5	2.2	2.3	2.1	1.9
EV/EBITDA	23.5	14.0	18.2	12.9	10.2
EV/Sales	6.9	3.5	5.0	3.9	3.2
Turnover ratios (no.)					
Debtor days	117	108	134	120	120
Inventory days	1	1	1	1	1
Creditor days	150	121	142	120	121

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY10E EPS (Rs)	% Chg.	FY11E EPS (Rs)	% Chg.	Target Price	Target Date	% Chg.
15-Apr-09	9.2		10.5		126	Apr-10	
23-Apr-09	9.0	-2.2	10.4	-1.0	125	Apr-10	-0.8
16-Jun-09	9.3	3.3	11.0	5.8	158	Mar-10	26.4
17-Jul-09	9.7	4.3	11.4	3.6	185	Apr-10	17.1
27-Oct-09	10.3	6.2	11.8	3.5	254	Sep-10	37.3
21-Jan-10	10.6	2.9	11.5	-2.5	254	Mar-11	0.0

Recommendation history



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