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Index

Zee Entertainment Enterprises

Reco: Buy

Stock Idea

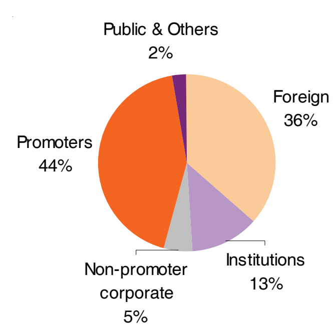
Broadcasting the future

CMP: Rs210

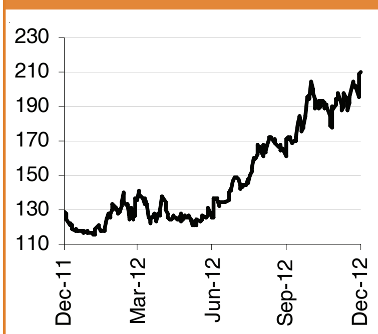
Company details

Price target:	Rs255
Market cap:	Rs20,062 cr
52-week high/low:	Rs213/113
NSE volume: (no. of shares)	22.6 lakh
BSE code:	505537
NSE code:	ZEEL
Sharekhan code:	ZEEL
Free float: (no. of shares)	54.03 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	22.8	68.5	67.3
Relative to Sensex	4.6	9.4	37.7	42.5

Key points

- **Prime beneficiary of digitisation:** Among the key stakeholders of the domestic television industry, we expect broadcasters to be the prime beneficiary of the mandatory digitisation process initiated by the government. The broadcasters would benefit from higher subscription revenues at the least incremental capital expenditure (capex) as the subscriber declaration improves in the cable industry. The completion of phase I of the digital addressable system (DAS) roll-out on October 31, 2012 (except in Chennai), though with a delay of four months from the earlier deadline, shows the positive intent of the government and the other stakeholders and gives us confidence about the roll-out of the future phases. Zee Entertainment Enterprises Ltd (ZEEL), a leading broadcaster in India with a bouquet of more than 30 channels, would be best placed to benefit from the complete digitisation initiative undertaken by the government. MediaPro Enterprise India Pvt Ltd (MediaPro), a joint venture with Star TV to jointly distribute channels of both the companies as a bouquet, would further drive the company's subscription revenues. We expect the subscription revenues of ZEEL to grow at a compounded annual growth rate (CAGR) of 24.6% over FY2012-15.
- **Renewed positioning to boost advertisement share:** In the last three quarters Zee TV, the flagship channel of the company, has consistently gained market share among the top four Hindi general entertainment channels (GECs). Zee TV's market share has improved from 16.5% in Q3FY2012 to 22% in Q2FY2013, with gross rating points (GRPs) of 237 in Q2FY2013. After languishing at the fourth place among the top four GECs in CY2011, Zee TV re-emerged in the second or close second spot gaining viewership share in the recent quarters as well as hitting the top spot in weeks 33 and 36 of CY2012. Its advertisement revenues have shown a significant improvement with a 26% year-on-year (Y-o-Y) growth in H1FY2013. In the recent quarters, ZEEL has gradually increased its investments in the reality content ("Dance India Dance" and "Sa Re Ga Ma Pa") as well as acquired satellite rights of big movies ("Agneepath" and "Don 2"). We believe the company's renewed strategy to invest in quality reality content and big-star movies would augur well for the advertisement revenues. We expect ZEEL to grow at a rate higher than the industry average in FY2013-15E.

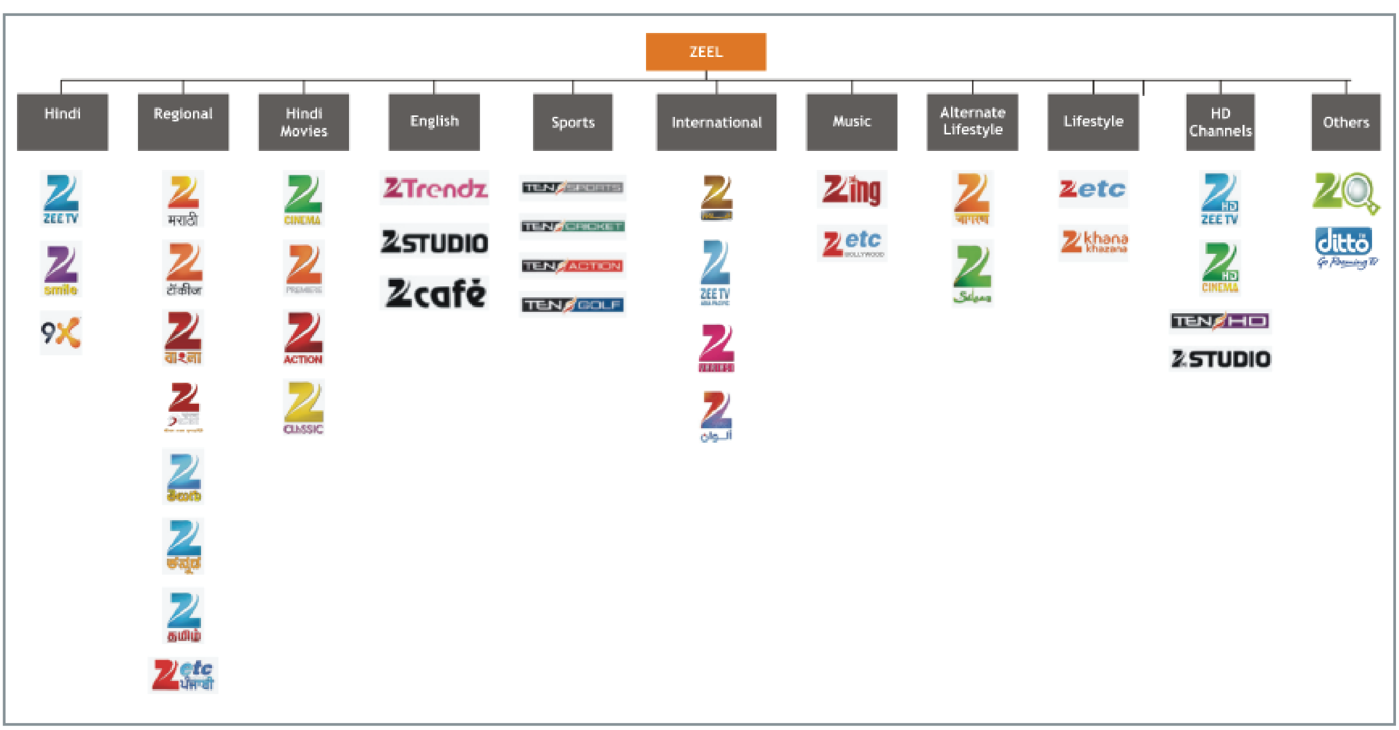
Valuations

Particulars	FY2011	FY2012	FY2013E	FY2014E	FY2015E
Revenues (Rs cr)	3,008.8	3,040.5	3,641.9	4,306.3	5,239.4
EBITDA (%)	27.3	24.3	25.0	27.3	28.2
Net profit (Rs cr)	636.9	589.1	688.6	870.8	1,082.6
EPS (Rs)	6.4	6.1	7.2	9.1	11.3
PE (x)	31.6	34.2	29.2	23.1	18.6
EV/EBITDA (x)	23.3	25.8	20.7	15.6	12.3
RoE (%)	17.5	18.1	18.8	20.8	22.1
RoCE (%)	25.0	25.8	26.9	29.6	31.5
Dividend yield (%)	1.0	1.0	0.7	0.8	1.0

- **Strong balance sheet with healthy return ratios:** By FY2015, we expect ZEEL's cash flows to improve significantly with a jump of around 75% from the FY2012 cash and cash equivalents of Rs1,060.7 crore. With the management comfortable with a cash level of around Rs800-900 crore in the balance sheet and expectations of an increase in the cash level to around Rs1,900 crore by FY2015, we expect ZEEL to reward its shareholders with a higher dividend pay-out or share buy-back programme. In the last three years, the dividend pay-out ratio has been around 25-30%, which will increase in the coming years. Also, in the last two years the company has initiated two share buy-back programmes acquiring shares of cumulative value of Rs290 crore. Thus, there is a likelihood of a further reward for the shareholders in the coming years. That's not all, with strong predictability of its earnings the return ratios are set to improve in the next three years.
- **Valuation—integrated media baron deserves premium valuation:** On the back of an improvement in the earnings predictability driven by significant subscription revenues (a digitisation boost) and above-industry advertisement growth coupled with a gradual improvement in the margin profile, ZEEL's earnings are expected to grow at a CAGR of 25% over FY2013-15. Further, strong cash levels would drive the management's inclination to reward the shareholders which would act as a positive trigger for the stock. Being one of the the largest integrated media broadcasters with a strong reach across the globe ZEEL deserves a premium valuation. At the current market price of Rs210, the stock trades at 23.1x and 18.6x earnings estimates, and 15.7x and 12.4x enterprise value (EV)/EBITDA at FY2014 and FY2015 estimates respectively. We value ZEEL at 25x average earnings per share (EPS) of FY2014-15E, which is in line with the last eight years' average trading multiple of the company. We are taking a longer period trading multiple to capture both the upcycle and the downcycle of the company. We initiate coverage on ZEEL with a Buy recommendation and a price target of Rs255.

About the company

ZEEL, part of the Essel group, is one of India's leading TV and media and entertainment (M&E) companies. It is amongst the largest producers and aggregators of Hindi programming in the world, with a bouquet of 32 channels spanning Hindi, regional, general entertainment, sports, movie and lifestyle channels. It owns an extensive library housing over 100,000 hours of TV content with an estimated reach of more than 650 million viewers in over 168 countries including the USA, Canada, Europe, Africa, the Middle East, South East Asia, Australia and New Zealand. With rights to more than 3,000 movie titles, ZEEL houses one of the world's largest Hindi film libraries. In the Hindi general entertainment space, Zee TV, the flagship channel of the company, has been in the top four and in recent times it has become a close second and even the leader for two weeks in CY2012.



Source: Company

Investment arguments

Prime beneficiary of digitisation: Mandatory digitisation by 2014 (notwithstanding some delay) will be a major boost for the broadcasters, as subscription leakages from the local cable operators (LCOs) will get resolved post-digitisation. Among the key stakeholders of the TV industry, we expect the broadcasters to be the prime beneficiary of the mandatory digitisation. Broadcasters would benefit from higher subscription revenues at the least incremental capex as the subscriber declaration improves in the cable industry. The completion of phase I of the DAS roll-out on October 31, 2012 (except in Chennai), though with a delay of four months from the earlier deadline, shows the positive intent of the government and the other stakeholders, and gives us confidence about the roll-out of the future phases. ZEEL, the leading broadcaster in India with a bouquet of about 32 channels, would be best placed to benefit from the DAS era.

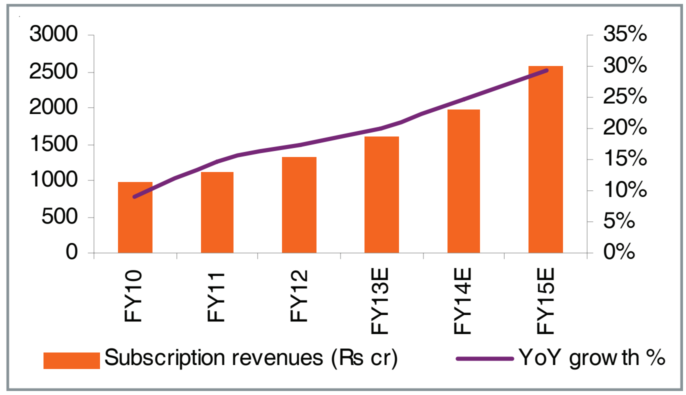
Sunset dates for digitisation

Particulars	Sunset date	Extended sunset date
Delhi, Mumbai, Kolkata and Chennai	June 30, 2012	October 31, 2012
Cities with 1mn population	March 31, 2013	March 31, 2013
All urban areas (municipal corporations /municipalities)	September 30, 2014	September 30, 2014
Rest of India	December 31, 2014	December 31, 2014

Source: Industry

MediaPro to improve bargaining capacity: In May 2011, Zee Turner (the distributor of Zee channels) and Star Den Media Services Pvt Ltd (the distributor of Star channels) entered into a 50:50 joint venture to jointly distribute their respective channel bouquets in the country. MediaPro would distribute about 59 channels, making it the biggest distributor of channels in the country. The big basket of channels along with the leading broadcasters, Star and ZEEL, would give it a bargaining power to demand a higher price for the channels.

Subscription revenues to grow at CAGR of 24.6% over FY2012-15



Source: Company, Sharekhan Research

Subscription revenues to grow at 24.6% CAGR over FY2012-15

- As per FICCI-KPMG Media & Entertainment 2012 report, India was estimated to have around 146 million TV households in 2011, implying a penetration of about 60%. In 2016, the penetration is estimated to increase to 70% at about 188 million.
- During CY2011-16, the share of paid cable and satellite (C&S) homes is expected to increase from 76% to 89%. This would mean higher declaration of subscribers as consumers shift from analogue cable to digital cable or direct-to-home (DTH).

Impact of digitisation

Particulars	Impact of digitisation	Remarks
Broadcasters	Favourable	i) Higher subscription revenues due to higher declaration of subscriber base ii) Lower carriage and placement fees due to increase in channel carrying capacity iii) Higher subscriber base would lead to better negotiation with advertisers
MSO	Favourable	i) Higher declaration would lead to higher subscriber revenues ii) Benefit of double play—broadband services along with cable services iii) Lower carriage and placement fees but the same would be compensated by a higher number of subscribers iv) Higher capex
LCOs	Unfavourable	Higher declaration of subscriber base would lead to lower revenues
DTH operators	Favourable	i) Benefit from digitisation in the first two phases in terms of an increase in the subscriber base ii) Better after-sales services, deep pockets and HD services to be the differentiators
Consumers	Favourable	i) Increase in choice of channels ii) Better quality of viewing iii) Better after-sales services iv) Increase in ARPU but the same would be compensated by other benefits

- This would result in the subscription revenues of broadcasters growing at a CAGR of 29.1% over CY2011-16.
- For ZEEL, subscription revenues accounted for 43.5% of its total revenues in FY2012. Over FY2009-12, its subscription revenues grew at a CAGR of 13.7%.

Stakeholders' revenue share

Particulars	Pre-digitisation	Post-2016
Consumer ARPU	100	100
LCO	65-70%	35-50%
Distributor	5%	0-5%
MSO	15-20%	25-30%
Broadcaster	10-15%	30-35%

Source: FICCI-KPMG M&E 2012report

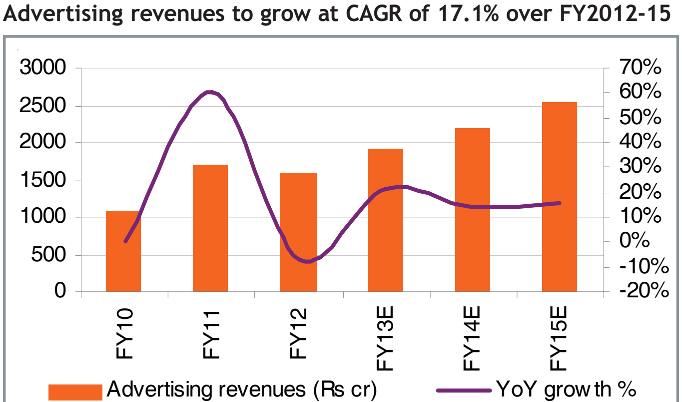
Key drivers

- Digitisation would lead to an increase in the declared subscriber base resulting in higher DTH/multi-system operator (MSO) subscription revenues.
- ZEEL has a diverse bouquet of channels (currently 32 channels) which would increase going ahead as the company launches more paid channels.
- MediaPro because of its strategic positioning would be in a better position to negotiate higher rates.

Renewed positioning to boost advertisement share

In the last three quarters, Zee TV has consistently gained market share among the top four hindi GECs. ZEEL's market share has improved from 16.5% in Q3FY2012 to 22% in Q2FY2013, with GRPs of 237 in Q2FY2013. After languishing at the fourth place among the top four GECs in CY2011, Zee TV re-emerged in the second or close second spot gaining viewership share in the recent quarters as well as hitting the top spot in weeks 33 and 36 of CY2012. Its advertisement revenues have shown a significant improvement with a 26% year-on-year (Y-o-Y) growth in H1FY2013.

Advertising revenues to grow at CAGR of 17.1% over FY2012-15



Source: Company, Sharekhan Research

Advertisement revenues to grow at 17% CAGR over FY2012-15

- TV advertising has the highest share of the total M&E advertising, with the fast moving consumer goods (FMCG) sector spending the most in terms of TV advertising. As a matter of fact, nine of the top ten advertisers on TV are from the FMCG sector and account for over 45% of TV advertising volumes. Players such as Hindustan Unilever Ltd (HUL), Reckitt Benckiser, and Procter and Gamble intensely compete with each other on TV advertising.
- ZEEL's advertisement revenues account for around 52% of its total revenues and grew at a CAGR of over 14% over FY2009-12 (regional GECs included in FY2011).

Key drivers

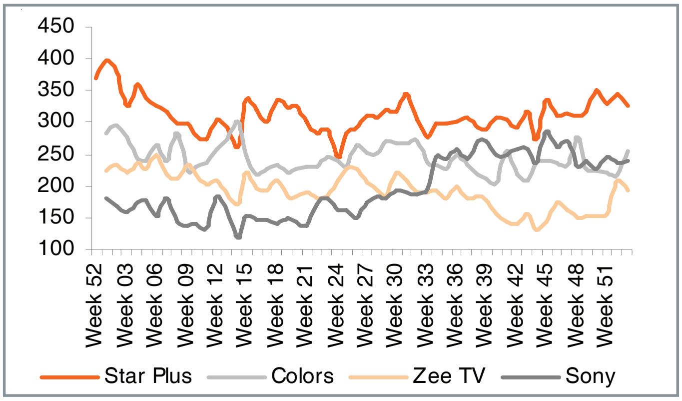
- An increase in the programming hours from 25-26 hours currently to 32-34 hours by the end of FY2013 would lead to higher advertisement revenues.
- In recent quarters, ZEEL has gradually increased its investments in the reality content ("Dance India Dance" and "Sa Re Ga Ma Pa") as well as acquired satellite rights of big movies ("Agneepath" and "Don 2"). The company has earmarked a capex of about Rs150-250 crore towards acquiring movie satellite rights. We believe the company's renewed strategy to invest in quality reality content and big-star movies would boost its advertisement revenues. We expect ZEEL's advertising revenues to grow at a rate higher than the industry average over FY2013-15.
- The diverse positioning of the company's channels with presence across genres, namely Hindi, movies, regional channels and sports, will place the company in a better position to negotiate with advertisers. The company is among the top two in the Marathi and Bangla genres and has reported a stable performance in the Kannada and Telugu markets, thereby gaining advantage in the growing regional market. In the movie segment, Zee Cinema is positioned in the top two whereas Zee Talkies remains on the top. The company has also launched Zee Bangla movie channel, which has received a good response.

Original programming hours per week

Particulars	Q2 FY2012	Q3 FY2012	Q4 FY2012	Q1 FY2013	Q2 FY2013
Colors	24	33	27	30	27
Sony	21	21	22	24	25
Star Plus	35	33	31	30	30
Zee TV	25	24	25	24	26

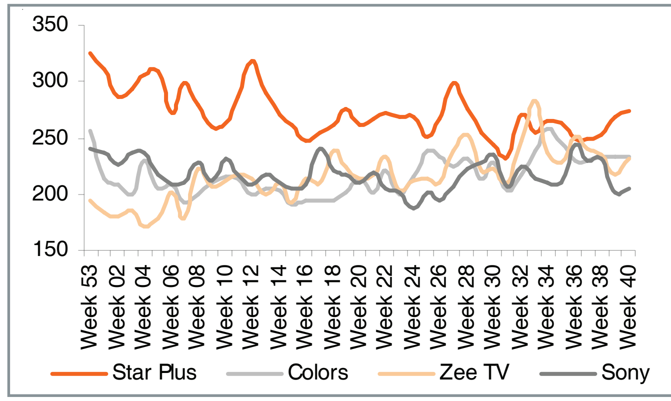
Source: Industry

Hindi GEC: Zee viewership drops to 4th in CY2011



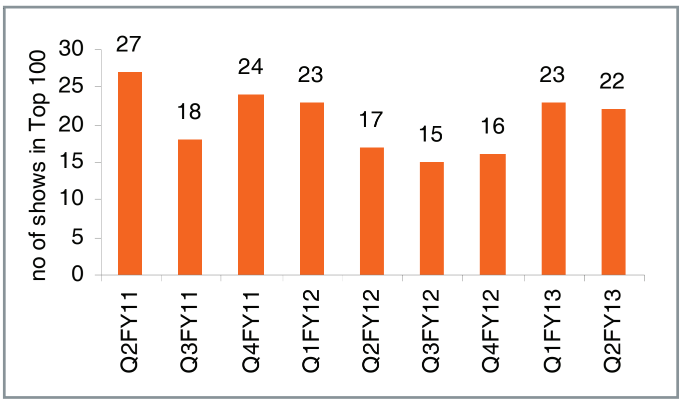
Source: TAM

Hindi GEC: Zee improves positioning from 4th to close 2nd in CY2012



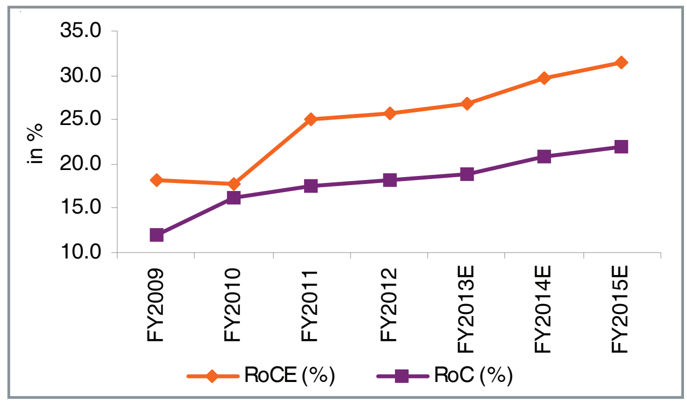
Source: TAM

No. of shows in Top 100



Source: Company

Healthy return ratios (%)



Source: Company, Sharekhan Research

Strong balance sheet with healthy return ratios: By FY2015, we expect ZEEL's cash flows to improve significantly with a jump of around 75% from the FY2012 cash and cash equivalents of Rs1,060.7 crore. With the management comfortable with a cash level of around Rs800-900 crore in the balance sheet and expectations of an increase in the cash level to around Rs1,900 crore by FY2015, we expect ZEEL to reward its shareholders with a higher dividend pay-out or share buy-back programme. In the last three years, the dividend pay-out ratio has been around 25-30%, which will increase in the coming years. Also, in the last two years the company has initiated two share buy-back programmes acquiring shares of cumulative value of Rs290 crore. Thus, there is a likelihood of further reward for the shareholders in the coming years. That's not all, with strong predictability of its earnings the return ratios are set to improve in the next three years.

Details of buy-back

Offer		Amount (Rs cr)		
Open	Close	Max. buy-back price (Rs)	Proposed	Buy-back
July 27, 2011	March 23, 2012	126	700	231.9
April 23, 2012	April 3, 2013	140	280	58.5

Source: Company

Key financial positives

- We expect ZEEL's revenues to grow at a CAGR of 19.9% over FY2012-15 driven by a strong 24.6% CAGR in the subscription revenues and a 17.1% CAGR in the advertising revenues.
- The share of subscription revenues is expected to increase to 48.9% in FY2015 from 43.5% in FY2012.
- The growth in the subscription revenues would be driven by a strong growth in the domestic subscription revenues whereas the international subscription revenues are expected to remain flat.
- We expect the programming cost to increase at a CAGR of 19% over FY2012-15 on the back of an increase in the programming hours as well as the acquisition of satellite rights of movies which, to some extent, will be compensated by lower carriage fees.
- The EBITDA margin had fallen by 300 basis points to 24.3% in FY2012 owing to the drop in the revenues as the company lost viewership market share. Going ahead, the EBITDA margin is expected to improve gradually from 24.3% in FY2012 to 28.2% in FY2015 on the back of a strong growth in the subscription revenues and the lowering of losses in the sports business.

Revenue break-up Rs cr

Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E	CAGR (FY12-15)
Advertising	**1,061.8**	**1,067.8**	**1,708.6**	**1,584.1**	**1,928.5**	**2,194.2**	**2,543.7**	**17.1**
% of revenues	48.9	48.6	56.7	52.0	53.0	51.0	48.5	
Growth %	*13.7*	*0.6*	*60.0*	*-7.3*	*21.7*	*13.8*	*15.9*	
Subscriptions	**901.4**	**982.5**	**1,127.6**	**1,324.5**	**1,588.5**	**1,982.0**	**2,560.3**	**24.6**
% of revenues	41.5	44.7	37.4	43.5	43.6	46.0	48.9	
Growth %	23.0	9.0	14.8	17.5	19.9	24.8	29.2	
Other sales & services	**209.8**	**146.2**	**175.4**	**137.9**	**125.0**	**130.1**	**135.4**	**-0.6**
% of revenues	9.7	6.7	5.8	4.5	3.4	3.0	2.6	
Growth %	25.2	-30.3	20.0	-21.4	-9.3	4.1	4.1	
Total	**2,172.9**	**2,196.5**	**3,011.6**	**3,046.5**	**3,642.0**	**4,306.3**	**5,239.4**	**19.8**
Growth %		1.1	37.1	1.2	19.5	18.2	21.7	

Source: Company, Sharekhan Research

Key risks and concerns

Economic slowdown

After a strong economic growth in the last few years, in FY2012 the gross domestic product (GDP) growth dropped to 6.5% from 8.4% in FY2011 impacting the advertising market. The GDP growth in FY2013 is also expected to be soft. ZEEL's advertising revenues are directly related to the health of the economy and a slowdown in the economy would have an adverse impact on its advertising revenues. However, after a poor FY2012, H1FY2013 saw a strong growth in advertising by ZEEL despite the slow GDP growth on the back of viewership market share increase.

Delay in roll-out of digitisation

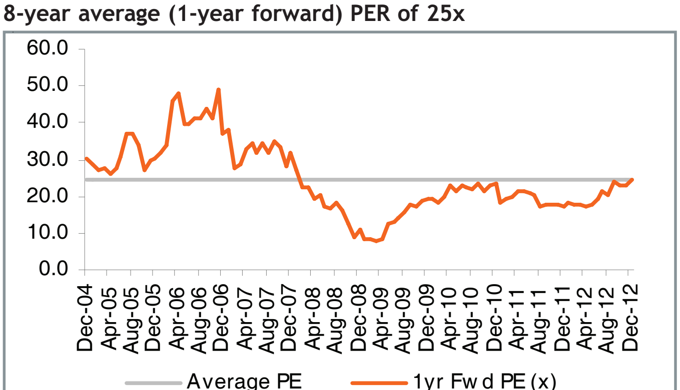
If there is a delay in digitisation, the subscription revenues of the company may not grow as expected. However, looking at the current focus of the government a delay of four to five months has been factored in. If the roll-out is delayed further, it would have an adverse impact on ZEEL's performance.

Getting desired results from content

The success of programming content depends on consumer taste, which is very subjective. If the company is not able to deliver content according to the taste of its viewers, it might not be able to get the desired financial results. Also, the company has started to acquire the satellite rights of movies that are currently highly priced. A failure of such movies on the box office may have a ripple effect on their performance on TV. Also, high-cost content always runs the risk of changing viewer tastes.

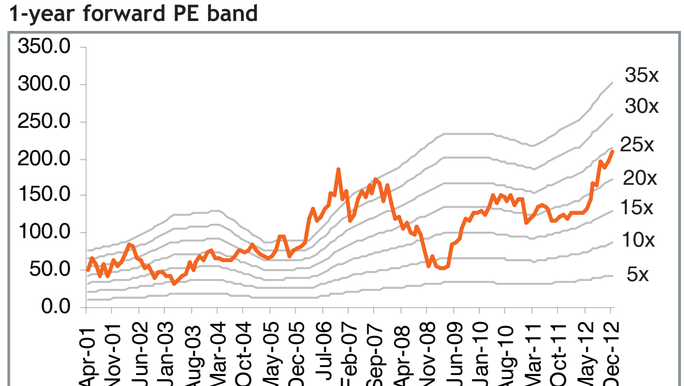
Valuation—integrated media baron deserves premium valuation: On the back of an improvement in the earnings predictability driven by significant subscription revenues (a digitisation boost) and above-industry advertisement growth coupled with a gradual improvement in the margin profile, ZEEL's earnings are expected to grow at a CAGR of 25% over FY2013-15. Further, strong cash levels would drive the management's inclination to reward the shareholders which would act as a positive trigger for the stock. Being one of the the largest integrated media broadcasters with a strong reach across the globe ZEEL deserves a premium valuation. At the current market price of Rs210, the stock trades at 23.1x and 18.6x earnings estimates, and 15.7x and 12.4x EV/EBITDA at FY2014 and FY2015 estimates respectively. We value ZEEL at 25x average EPS of FY2014-15E, which is in line with the last eight years' average trading multiple of the company. We are taking a longer period trading multiple to capture both the upcycle and the downcycle of the company. We initiate coverage on ZEEL with a Buy recommendation and a price target of Rs255.

8-year average (1-year forward) PER of 25x



Source: Bloomberg

1-year forward PE band



Source: Bloomberg

Financials

Profit & Loss statement (Rs cr)

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net sales	3,008.8	3,040.5	3,641.9	4,306.3	5,239.4
Growth %	*36.8*	*1.1*	*19.8*	*18.2*	*21.7*
EBITDA	**822.0**	**739.5**	**910.5**	**1,175.6**	**1,477.5**
Growth %	*34.0*	*(10.0)*	*23.1*	*29.1*	*25.7*
Other income	88.2	138.4	122.2	133.2	144.2
Net interest	8.8	5.0	5.0	5.0	5.0
Depreciation	28.9	32.3	37.3	44.0	52.1
PBT	872.5	840.6	990.4	1,259.8	1,564.6
Growth %	29.5	(3.7)	17.8	27.2	24.2
Tax	267.1	250.0	297.1	377.9	469.4
Adj. PAT	617.2	589.1	688.6	870.8	1,082.6
Growth %	23.3	24.6	(14.3)	59.8	30.5
EPS (Rs)	**6.4**	**6.1**	**7.2**	**9.1**	**11.3**
BVPS (Rs)	32.3	35.8	41.0	47.5	55.7

Balance sheet (Rs cr)

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Equity capital	97.8	95.9	95.9	95.9	95.9
Reserves	3,000.4	3,339.5	3,835.2	4,462.1	5,241.5
Net worth	**3,098.2**	**3,435.4**	**3,931.1**	**4,558.0**	**5,337.4**
Minority interest	(11.9)	(3.2)	(2.2)	8.8	21.4
Total loans	0.9	1.2	1.2	1.2	1.2
Long term provisions	19.0	22.8	22.8	22.8	22.8
Total liabilities	**3,106.2**	**3,456.2**	**3,952.9**	**4,590.8**	**5,382.8**
Net block	809.8	919.9	955.5	997.6	1,050.2
Capital WIP	0.8	20.1	20.1	20.1	20.1
Investments	696.4	799.9	909.8	1,036.1	1,181.4
Long term loans & advances	135.4	117.3	117.3	117.3	117.3
Inventories	539.6	733.9	917.4	1,146.7	1,433.4
Debtors	870.4	869.0	1,062.2	1,256.0	1,528.2
Cash balance	385.6	328.3	444.1	727.0	738.0
Short term loans & advances	416.0	493.2	589.9	835.2	1,217.5
Current liabilities	537.3	688.6	607.0	957.0	1,164.3
Provisions	229.7	170.5	490.0	621.9	772.6
Net current assets	**1,444.6**	**1,565.3**	**1,916.6**	**2,386.1**	**2,980.1**
Deferred tax assets	19.2	33.7	33.7	33.7	33.7
Total assets	**3,106.2**	**3,456.2**	**3,952.9**	**4,590.8**	**5,382.8**

Cash flow (Rs cr)

Particulars	FY11	FY12	FY13E	FY14E	FY15E
PAT	**636.9**	**589.1**	**688.6**	**870.8**	**1,082.6**
Depreciation	28.9	32.3	37.3	44.0	52.1
Change in WC	(107.1)	(156.1)	(235.5)	(186.6)	(583.0)
Operating CF	**558.7**	**465.3**	**490.4**	**728.2**	**551.8**
Capex	(38.9)	(70.5)	(72.8)	(86.1)	(104.8)
Acquisition/Disposal	(64.7)	(86.5)	-	-	-
Investing CF	**(103.7)**	**(157.0)**	**(72.8)**	**(86.1)**	**(104.8)**
Misc.	15.4	124.8	-	-	-
Dividends	(228.3)	(167.8)	(192.9)	(243.9)	(303.3)
Debt	(57.3)	4.1	-	-	-
Equity	-	(231.9)	-	-	-
Minority interest	(9.7)	8.7	1.0	11.0	12.6
Investments	(376.1)	(103.5)	(109.9)	(126.3)	(145.3)
Financing CF	**(656.0)**	**(365.6)**	**(301.8)**	**(359.2)**	**(436.0)**
Net change	(200.9)	(57.3)	115.8	282.9	11.0
Opening cash	586.5	385.6	328.3	444.1	727.0
Closing cash	385.6	328.3	444.1	727.0	738.0

Key ratios

Particulars	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margins (%)	27.3	24.3	25.0	27.3	28.2
NPM (%)	21.2	19.4	18.9	20.2	20.7
RoE %	17.5	18.1	18.8	20.8	22.1
RoCE %	25.0	25.8	26.9	29.6	31.5
D/E (x)	0.0	0.0	0.0	0.0	0.0
Asset turnover (x)	15.6	14.1	14.5	14.6	15.1
Debtors days	104	103	105	105	105
Valuation ratios					
P/CEPS (x)	30.2	32.4	27.7	22.0	17.7
EV/Cash Profit (x)	28.7	30.7	26.0	20.2	16.1
EV/EBIDTA (x)	23.3	25.8	20.7	15.7	12.4
EV/Sales (x)	6.4	6.3	5.2	4.3	3.5
Mkt. cap/sales(x)	6.7	6.6	5.5	4.7	3.8
P/ BV (x)	6.5	5.9	5.1	4.4	3.8
Dividend yield (%)	1.0	1.0	0.7	0.8	1.0

Annexure

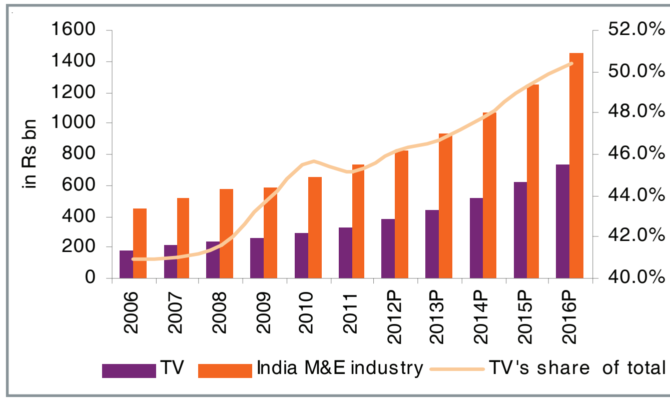
Key milestones

Year	Remarks
1992	Launches Zee TV
	Initial public offering of Zee Telefilms
1995	Commences Siticable operations in joint venture with News Corp
	Launches Zee News and Zee Cinema
	Zee TV goes global, launches Zee TV, UK
1996	Starts first cable channel in India, Siti channel
	Launches Zee TV, Africa
1997	Launches Zee Music
1998	Launches Zee TV in the USA
	Institutes a prime award in the film segment called "Zee Cine Awards"
1999	Acquires News Corp's 50% stake in TV broadcasting business joint venture
	Launches regional channels
2000	Launches Internet over cable services
	Enters into cable distribution joint ventures with MGM and Viacom
	Launches pay bouquet of channels in the Sian region
2001	Introduces Zee TV and Zee News as pay television offerings
2002	Acquires controlling stakes in ETC Networks and Padmalaya Telefilms
2003	Launches "Trendz"—a premium fashion and style channel, targeted at the fashion conscious Indian consumer
2006	De-merger of Zee Telefilms into ZEEL, Zee News (regional GEC and news channels), Dish TV (DTH) and Wire & Wireless (cable business)
2007	Acquires 50% stake in Ten Sports
	ZEEL gets listed as an independent company
2010	Demerger of education business into Zee Learn
	Launches Zee Khana Khazana, India's first 24-hour food channel
	Launches Zee Salaam, India's first Urdu infotainment satellite TV channel
	Acquires more stake in Ten Sports
	Launches Ten Cricket, a dedicated 24-hour cricket channel
	Launches Ten Action+, a sports channel showcasing the best football action from around the world
	Launches India.com, a joint venture between ZEEL and Mail.com Media Corporation
2011	Merger of regional GEC business of Zee News, INX Media Pvt Ltd and ETC Networks into the company
	ZEEL's distribution arm, Zee-Turner, enters into a 50:50 joint venture with Star Den Media Services Pvt Ltd to form MediaPro Enterprise India Pvt Ltd
	Announces share buy-back for an aggregate expendable amount not exceeding Rs700 crore
	Ten Sports becomes 100% subsidiary of the company
2012	Announces share buy-back of Rs280 crore
	Launches Ditto TV, India's first and only over-the-top TV, a distribution platform
	Launches Ten Golf, India's first and exclusive 24-hour golf channel
	Launches ZeeQ, India's first kids edutainment channel

TV share of M&E pie to increase going ahead

As per the FICCI KPMG Media & Entertainment 2012 report, the Indian M&E industry is expected to reach a size of Rs823 billion in 2012, an increase of 12.9% over 2011. Going ahead, as per the report, the M&E industry in India is expected to grow at a CAGR of 14.9% between 2011 and 2016 to Rs1,457 billion.

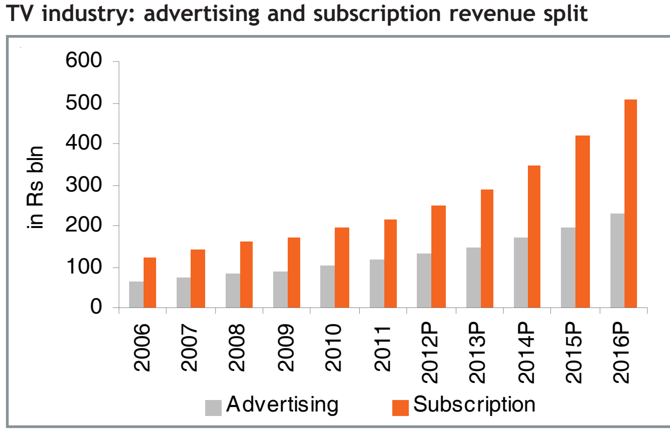
TV to grow to 50% of Indian M&E industry



Source: FICCI-KPMG M&E 2012 report

In 2012, the TV entertainment segment, which constitutes 46% of the overall industry, is expected to grow at 15.5% (faster than the overall industry), backed by a 17% increase in the subscription revenues and a 12% growth in the advertising revenues. Going ahead over CY2012-16, the TV segment is expected to grow at 17.4%, a rate faster than the industry average, to reach a size of Rs735 billion. The dominance of the TV entertainment segment is also expected to increase with its share of the overall industry to rising to 50% in 2016 from 45% in 2011.

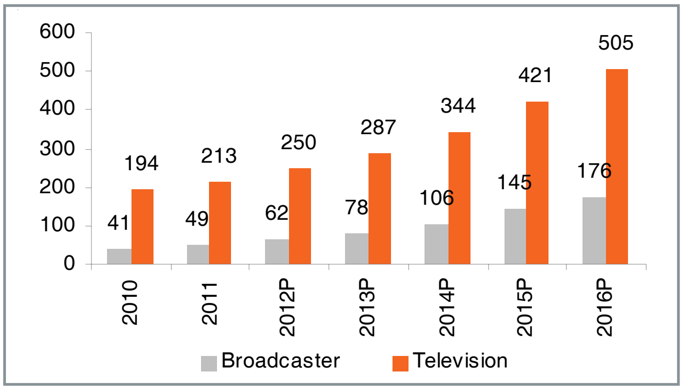
TV industry: advertising and subscription revenue split



Source: FICCI-KPMG M&E 2012 report

In the period 2006-2011, the advertising revenues of the TV industry grew at a CAGR of 13.7% whereas its subscription revenues grew at a CAGR of 11.8%. However, in the next five years, ie over 2012-16, backed by the compulsory digitisation mandate of the government the subscription revenues would grow at a faster clip than the advertising revenues. The subscription revenues are expected to report a CAGR of 18.8% over 2011-16 against a CAGR of 14.7% in the advertising revenues.

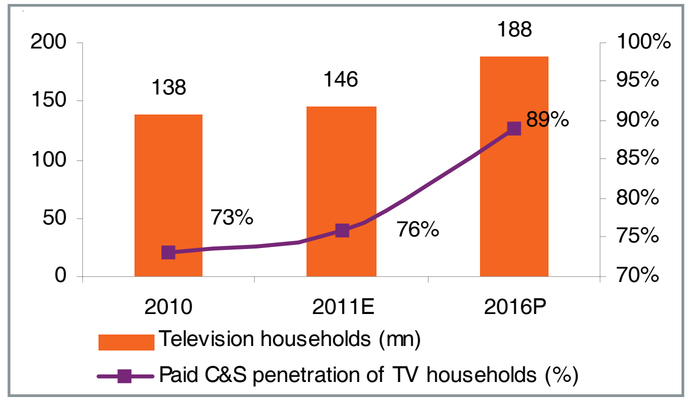
Subscription revenues: broadcasters' revenues to grow at CAGR of 29.1% over 2011-16



Source: FICCI-KPMG M&E 2012report

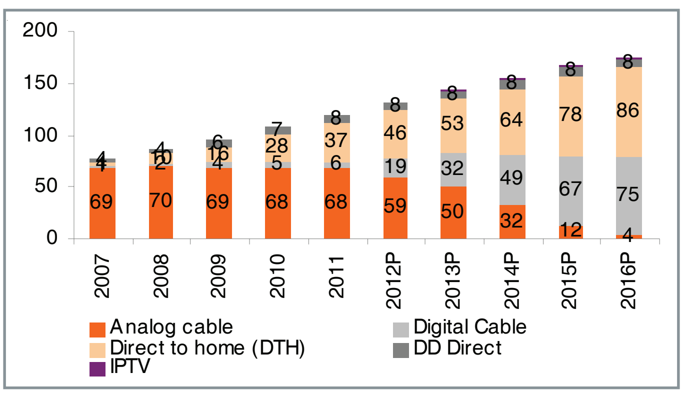
The average TV viewing time in India continues to be low vis-à-vis the developed economies. Thus, there is a potential for growth not only in terms of penetration/ reach but also viewing time.

Growth in number of paid C&S households



Source: FICCI-KPMG M&E 2012 report

Split of subscribers into various TV distribution platforms



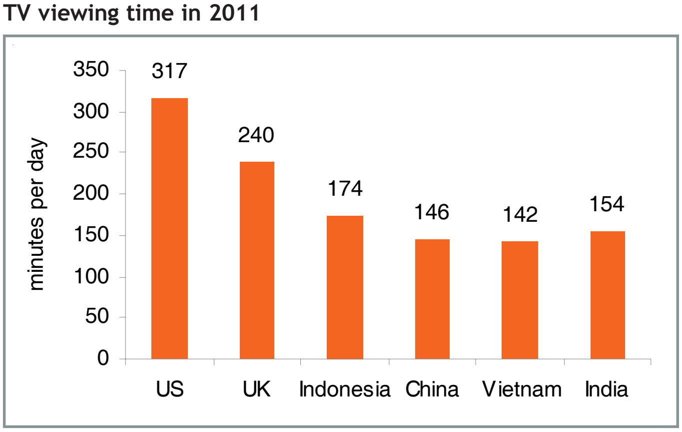
Source: FICCI-KPMG M&E 2012 report

The number of C&S households is estimated to reach approximately 176 million by 2016, of which paid C&S households is estimated at 168 million households, representing 89% of total TV households.

Zee Cinema: shoring up new movies

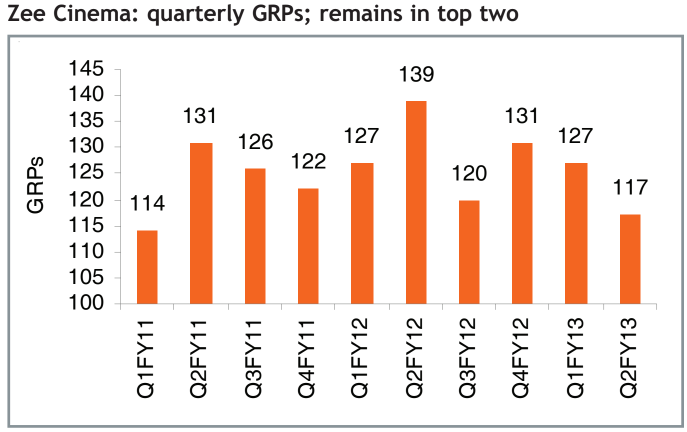
In the Hindi movie genre, ZEEL has five channels, viz Zee Cinema, Zee Premier, Zee Action, Zee Classic and Zee Cinema HD. Zee Cinema had a market share of 33% in Q2FY2013. With competition heating up in the Hindi movie genre, the market share of the Hindi movie channel genre is to a large extent dependent on the new movies telecast on the channels. ZEEL has also acquired the rights of hit Hindi movies like "Don 2" and "Agneepath" to name a few. The company had in October 2010 entered into a satellite distribution deal with Eros International Media for three films, namely "Agent Vinod", "Desi Boyz" and "No Problem", along with certain catalogue of old films for an amount of Rs64 crore. The continuous acquisition of rights of new movies along with the recently acquired new movies would provide a huge impetus to the company's ratings in the Hindi movie space.

TV viewing time in 2011



Source: FICCI-KPMG M&E 2012report

Zee Cinema: quarterly GRPs; remains in top two

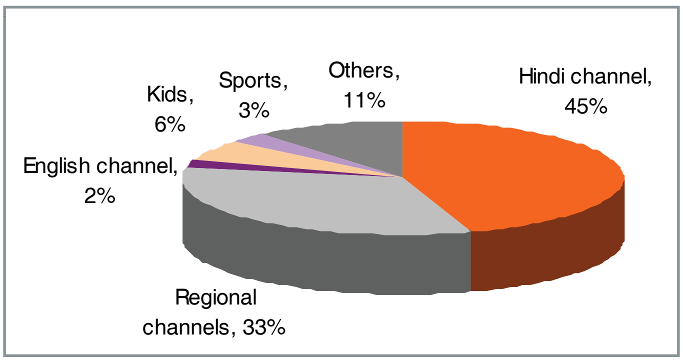


Source: Company, Sharekhan Research

Regional presence cushions growth

Regional markets form a sizeable portion of the total TV pie. After Hindi GECs, the regional GEC genre is the largest in terms of viewership. The regional GECs gets more than 70% of the audiences. Also, the regional market, mainly the south, has strong loyalty to the regional channels. The same has started to happen in terms of Bangla and Marathi channels. The regional advertising markets have grown at a higher rate than the national market, registering a growth of 15% in 2011. They appear to have been more insulated from the current economic slowdown than the national channels on account of a strong growth in the rural, and tier-III and tier-IV towns.

Viewership for regional channels (%)



Source: TAM

Regional advertising market

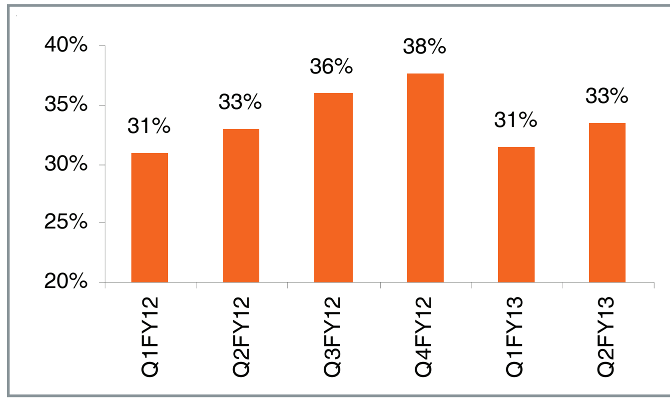
Particulars	Households (in mn)	TV households (in mn)	C&S households (in mn)	Ad market (Rs cr)
Tamil	17.5	16.1	15.4	1170
Telugu	20.5	14.2	13.8	800
Bangla	19.8	8.7	7.4	780
Kannada	13.2	9.3	9.0	560
Malayalam	8.1	7.4	7.0	575
Marathi	24.6	16.2	13.3	390
Oriya	9.8	3.9	3.2	70
Gujarati	12.4	7.6	6.1	40

Source: FICCI-KPMG M&E 2012report

ZEEL has a strong presence in the regional GEC space. The company has presence in the Marathi, Bangla, Punjabi, Kannada, Telugu and Tamil GEC space which account for more than 80% of the regional advertising markets.

The Bangla M&E market has grown from strength to strength in the past three to four years. The viewership of Bangla GEC has doubled from 500-600 GRPs four years back to 1,200 GRPs in 2011. In 2011, the GRPs of the Bangla GECs were more than double the GRPs of the Hindi GECs. The Bangla film industry has also gained momentum with the number of films certified increasing from 42 in 2006 to 110 in 2010, accounting for 11% of the total films certified in 2010. ZEEL is a close second in the Bangla market. Zee Bangla was the leader in the Bangla GEC market till March 2009, when Star Jalsha became the leader in the market. Both the channels moved back and forth in terms of leadership with Star Jalsha taking a larger lead in 2011. However, with ZEEL changing its content strategy, Zee Bangla has become a close second in the market. ZEEL has also launched a dedicated Bangla movie channel, "Zee Bangla Cinema", in order to tap the growing Bangla movie viewership.

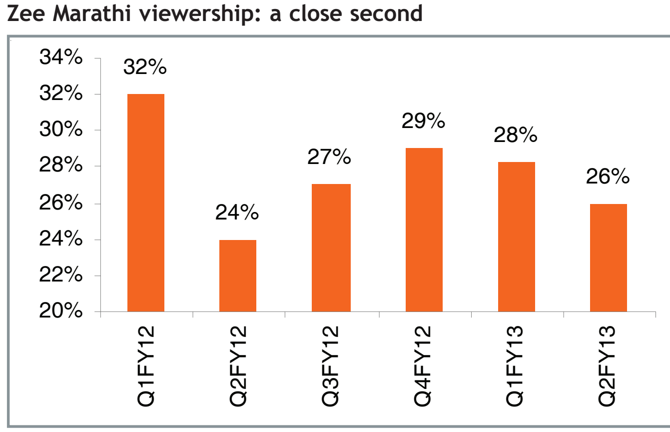
Zee Bangla viewership: staying in the race for top spot



Source: Company

Similar to the Bangla M&E market, the Marathi market has started to see language loyalty over the last few years. The Marathi TV industry has grown from a three-channel market with the entry of new channels like Star Pravah, Mi Marathi and Saam TV. Zee Marathi, once a leader in this space, has seen Star Pravah take over the first position. The competition, however, is very close in this market as the top three take a large share of the market. ZEEL also has its 24-hour movie channel, Zee Talkies.

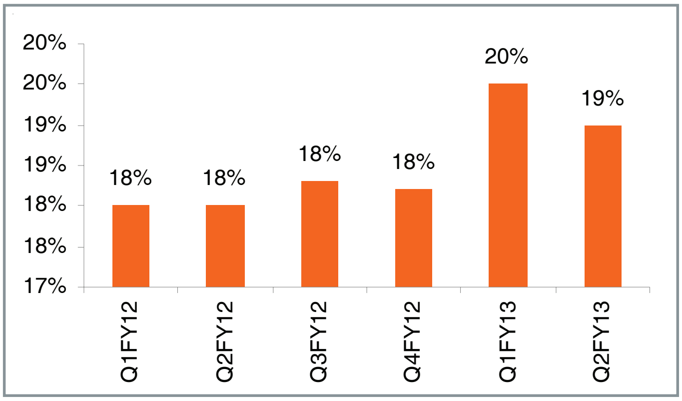
Zee Marathi viewership: a close second



Source: Company

ZEEL has presence in the Telugu market through Zee Telugu. Zee Telugu has gained in viewership since launch and is closing in on the third position in the market. The channel had a market share of 19% in Q2FY2013, marginally lower than that of MAA Telugu, which has a market share of 20%.

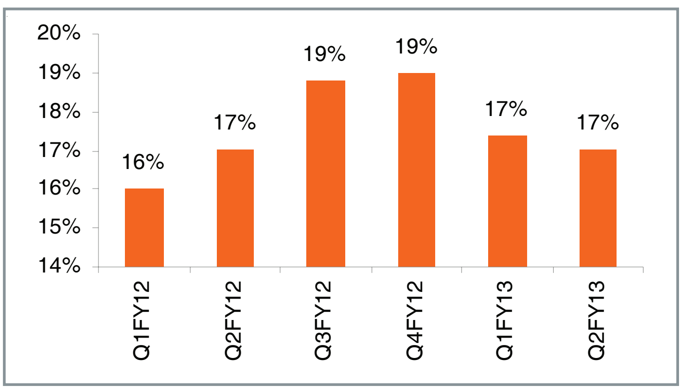
Telugu GEC viewership: closing in on third position



Source: Company

In the Kannada market, like in the Telugu market, Zee Kannada has a relatively stable performance and is a close fourth player. The channel has been closing in on the number three position and would in some weeks overtake the same to be the number three channel in the market. In Q2FY2013, the channel had a market share of 17%.

Kannada GEC viewership: stable performance



Source: Company

Sports business

ZEEL diversified from the GEC space into the sports business through the acquisition of a 50% stake in Ten Sports-owned Taj TV in November 2006. The company has increased it stake in Taj TV to 100% by exercising the option to increase stake. Ten Sports has acquired cricket telecast rights for South Africa, West Indies, Zimbabwe, Sri Lanka and Pakistan. It has renewed its contract with South Africa, Zimbabwe and West Indies cricket boards up to 2019-20. The other contracts would be coming up for renewal in 2013. Along with cricket, the company has also taken the rights for the UEFA Champions League and Europa League for 2012-15 as well as for French Football League. ZEEL has launched Zee Cricket, Zee Action and very recently Zee Golf, increasing its bouquet of channels.

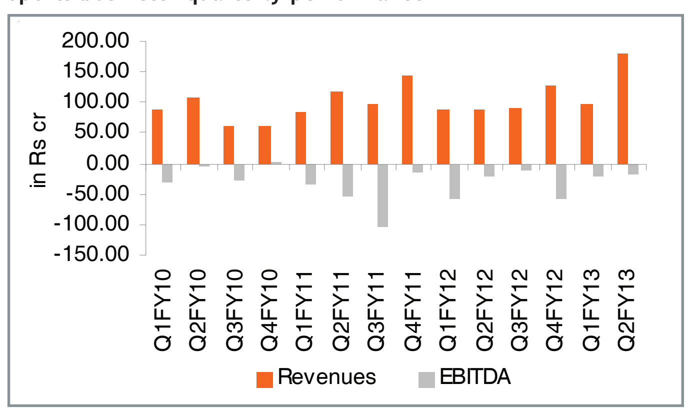
In terms of performance, the sports business has been suffering losses, though the same have been coming down. Going ahead, the management expects to restrict the losses. The management expects the losses to come down and the business to become profitalbe once the subscription revenues start flowing in after complete digitisation. Ten Sports' bouquet of channels is sold on a la carte basis rather than as a part of any bouquet. Hence, once the digitisation drive strengthens the company would be able to benefit from the same.

Proforma list of telecast rights bagged by Ten Sports

Sport	Particulars	Period
Cricket	Zimbabwe	2012-19
	South Africa	2013-20
	West Indies	2013-19
	Sri Lanka	2009-13
	Pakistan	2009-13
Football	Brazilian League	2012-14
	English - The Football League	2012-15
	English - The League Cup	2012-15
	French Football League	2012-15
	UEFA Champion League	2012-15
	UEFA Europa League	2012-15
Tennis	US Open	2013-16
Golf	European Tour	2013-18
	Asian Tour	2013-18
Hockey	FIH Championship	2011-14

Source: Company

Sports business' quarterly performance



Source: Company

Other properties

ZEEL has recently launched an Arabic GEC channel, Zee Alwan, as part of its international growth strategy. The channel would have a blend of Arabic serials and popular Indian TV serials dubbed in Arabic. In November 2012, ZEEL also launched a kids edutainment channel, ZeeQ. The channel would be operated by Zee Learn, its sister concern which runs K-12 schools.

ZEEL has launched Ditto TV to tap the online and on-demand market. The company has an extensive library of over 100,000 hours of TV content and rights to more than 3,000 movies from foremost studios.

Bajaj Auto

Reco: Hold

Stock Update

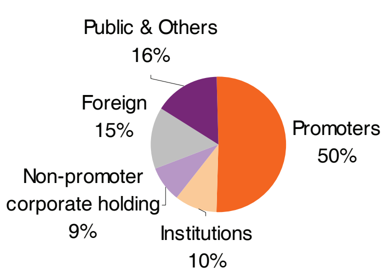
Price target revised to Rs1,983

CMP: Rs1,951

Company details

Price target:	Rs1,983
Market cap:	Rs56,458 cr
52 week high/low:	Rs1977/1410
NSE volume: (no. of shares)	3.2 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (no. of shares)	14.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.8	17.3	33.0	16.7
Relative to Sensex	0.4	4.5	8.7	-0.6

Key points

Domestic motorcycle market subdued…

The domestic motorcycle market continues to remain sluggish on back of a weak economic environment. The industry witnessed some uptick in the demand during the festive season. However, after the festive season, the demand is expected to remain sluggish. The industry remained flat in the April-November 2012 period. The demand is expected to pick-up in FY2014 on an improved economic outlook and a reduction in the interest rates.

…. Bajaj Auto gaining market share

Bajaj Auto Ltd (BAL) has been gaining market share on back of new launches. The recently launched *Pulsar 200* NS and *Discover ST* evinced good response from the market. BAL's market share increased from 23.2% in April 2012 to 28% in October 2012.

Further, BAL is launching a 100cc motorcycle in January 2013. Given BAL's relatively lower presence in the entry-level segment (market share of 20%), the 100cc motorcycle is expected to boost the company's market share. We expect the new launches to maintain the growth momentum for BAL.

Three-wheelers witnessing demand uptick

BAL's three-wheeler volume recovered on back of opening of new three-wheeler permits and replacement demand. States like Delhi and Karnataka opened up new three-wheeler permits, thereby boosting the demand. In October 2012, the industry sales grew by 12.6%. On a year-till-date basis (April-October 2012), the sales have grown by 2.6% year on year (YoY).

BAL outperformed the industry with its market share going up from 38.6% in April 2012 to 42.8% in October 2012 on back of increased sales in the diesel three-wheeler segment. Also, BAL plans to launch product upgrades in Q1FY2014, which would maintain the demand momentum.

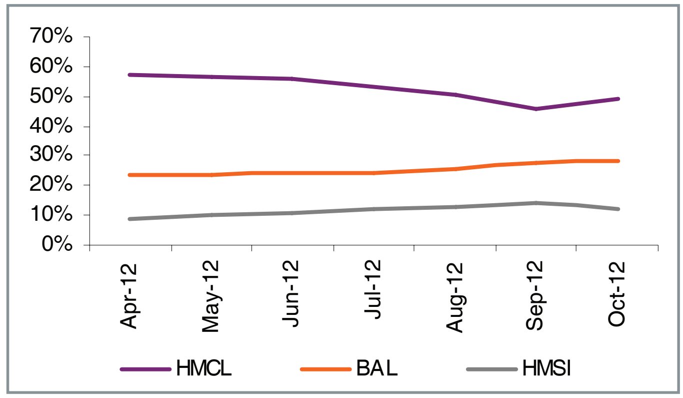
Valuation

Particulars	FY2011	FY2012	FY2013E	FY2014E	FY2015E
Income (Rs cr)	16,398.2	19,529.0	20,904.9	25,651.6	29,345.5
Growth (%)	37.6	19.1	7.0	22.7	14.4
EBIDTA (Rs cr)	3,171.2	3,720.0	3,917.6	5,082.0	5,658.0
OPM (%)	19.3	19.0	18.7	19.8	19.3
PAT (Rs cr)	2,615.2	3,138.1	3,167.7	4,041.9	4,452.3
Growth (%)	44.1	20.0	0.9	27.6	10.2
FD EPS (Rs)	90.4	108.5	109.5	139.8	154.0
P/E (x)	21.6	18.0	17.8	14.0	12.7
P/B (x)	11.5	9.3	7.1	5.5	4.4
EV/EBIDTA (x)	16.7	13.8	12.1	8.8	7.3
RoE (%)	53.3	51.9	40.0	39.2	34.4
RoCE (%)	66.8	65.9	49.1	49.8	45.0

Valuation

To factor in the increased motorcycle and three-wheeler volumes, we are raising our FY2014 estimate. We are also introducing FY2015 estimate in our note. Our revised earnings per share (EPS) estimate for FY2014 stands at Rs139.8 per share. Our FY2015 EPS estimate stands at Rs154 per share. We are rolling over the price target on the average of FY2014 and FY2015 estimates. Our price target stands revised at Rs1,983 per share. We maintain Hold recommendation on the stock.

Market share of key motorcycle players



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Sharekhan Stock Ideas

Automobiles

Apollo Tyres
Ashok Leyland
Bajaj Auto
M&M E
Maruti Suzuki India

Banks & Financials

Allahabad Bank
Andhra Bank
Axis (UTI) Bank
Bajaj Finserv
Bank of Baroda
Bank of India
CanFin Homes
Corp Bank
Federal Bank
HDFC
HDFC Bank
ICICI Bank
IDBI Bank
Punjab National Bank
SBI
Union Bank of India
Yes Bank

Consumer goods

Bajaj Corp
GSK Consumers
Godrej Consumer Products
Hindustan Unilever
ITC
Marico
Mcleod Russel India
TGBL (Tata Tea)
Zydus Wellness

IT / IT services

AGC Networks
CMC
HCL Technologies
Infosys
NIIT Technologies
Persistent Systems
Polaris Financial Technology
Tata Consultancy Services
Wipro

Capital goods / Power

Bharat Heavy Electricals
CESC
Crompton Greaves
Greaves Cotton
Kalpataru Power Transmission
PTC India
Thermax
V-Guard Industries

Infrastructure / Real estate

Gayatri Projects
ITNL
IRB Infra
Jaiprakash Associates
Larsen & Toubro
Mahindra Lifespace Developers
Orbit Corporation
Pratibha Industries
Punj Lloyd
Unity Infraprojects

Oil & gas

GAIL
Oil India
Reliance Ind
Selan Exploration Technology

Pharmaceuticals

Cadila Healthcare
Dishman Pharma
Divi's Labs
Glenmark Pharmaceuticals
Ipca Laboratories
Lupin
Piramal Enterprises
Sun Pharmaceutical Industries
Torrent Pharma

Agri-Inputs

Deepak Fert
Tata Chemicals
United Phosphorus

Building materials

Grasim
India Cements
Madras Cements
Orient Paper and Industries
Shree Cement
UltraTech Cement

Retail

KKCL
Provogue India
Raymond
Relaxo Footwear

Diversified / Miscellaneous

Aditya Birla Nuvo
Bajaj Holdings
Bharti Airtel
Bharat Electronics
Eros International Media
Gateway Distriparks
Indian Hotel Company
Max India
Opto Circuits India
Ratnamani Metals and Tubes
Sintex Industries
Zee Entertainment Enterprises