

Zee Entertainment Enterprises

BSE SENSEX 18,793	S&P CNX 5,717	CMP: INR192	TP: INR190	Neutral								
Bloomberg	Z IN	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	958.8	End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	208/112	3/11A	29,414	5,852	6.0	14.4	-	-	16.9	23.8	-	-
1,6,12 Rel. Perf. (%)	6/47/61	3/12A	30,406	5,712	5.9	-1.4	32.6	5.5	17.5	25.5	5.7	23.4
M.Cap. (INR b)	184.1	3/13E	36,609	7,109	7.4	25.7	25.9	4.8	19.3	27.8	4.7	18.1
M.Cap. (USD b)	3.4	3/14E	41,438	8,160	8.5	14.8	22.6	4.2	19.3	27.8	4.1	15.5

- Zee Entertainment's 2QFY13 PAT grew 20% YoY and 19% QoQ to INR1.88b, above our estimate of INR1.6b. Earnings surprise was largely driven by lower-than-expected sports loss and lower tax rate.
- Non-sports EBITDA grew 2% YoY but declined 8% QoQ to INR2.35b (vs est of INR2.5b). Zee's ex-sports EBITDA has ranged between INR2.1-2.6b for the past ten quarters.
- Revenue grew 33% YoY to INR9.54b. Ad revenue grew 34% YoY and 18% QoQ to INR5.23b largely led by improved ratings performance and 106% revenue growth in sports business.
- Even after removing the impact of sports business (increase led by telecast of India vs Sri Lanka series), ad revenue has grown higher than the industry growth of 7-9%.
- Flagship Zee TV's average GRPs improved from 215 in 1QFY13 to 237 in 2QFY13. Zee plans to increase the original programming hours to ~32 from ~27 currently.
- Subscription revenue grew 8.5% QoQ (YoY growth is not comparable due to change in accounting for Media Pro) to INR3.95b largely driven by domestic segment (+12% QoQ).
- EBITDA grew 5% YoY to INR 2.18b (v/s est of INR2.0b). Margin declined 6 percentage points YoY to 22.8%. Non-sports EBITDA margin declined ~600bp YoY and ~400bp QoQ to 30.4%.
- Zee reported sports business operating loss of INR169m (estimate of ~INR500m loss). Core (non-sports) business EBITDA margin declined 6 percentage points YoY to 30.4% (est of 33.6%).
- Zee expects to incur INR1.5-1.8b EBITDA loss in its new investments which is likely to drag overall margins.
- We are upgrading FY13 EPS by on better-than-expected 2QFY13 performance but largely maintain our FY14 estimates.
- At CMP of INR192, the stock trades at P/E of 25.9x FY13 and 22.6x FY14. Maintain **Neutral** with a price target of INR190 (22x FY14 EPS).

Y/E March	Quarterly Performance									
	FY12				FY13				FY12	FY13
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Advertising Revenue	3,787	3,949	3,955	4,150	4,472	5,281	5,102	4,981	15,841	19,836
Subscription Revenue	3,051	2,910	3,262	4,022	3,641	3,950	3,918	4,017	13,245	15,526
Net Sales	6,983	7,184	7,548	8,691	8,430	9,536	9,330	9,313	30,406	36,609
Change (%)	3.2	1.0	0.0	8.9	20.7	32.7	23.6	7.2	3.4	20.4
Prog, Transmission & Direct Exp	3,423	3,224	3,422	4,242	3,757	4,791	4,291	4,291	14,311	17,130
Staff Cost	747	688	731	759	888	873	882	902	2,925	3,544
Selling and Other Exp	1,253	1,197	1,236	2,090	1,453	1,695	1,675	1,673	5,775	6,495
EBITDA	1,560	2,076	2,160	1,600	2,332	2,177	2,482	2,448	7,395	9,440
As of % Sales	22.3	28.9	28.6	18.4	27.7	22.8	26.6	26.3	24.3	25.8
Depreciation	89	78	74	81	99	96	100	106	323	401
Finance cost	30	56	182	-219	18	23	17	15	50	73
Other Income	255	279	340	330	301	260	275	282	1,204	1,118
PBT	1,696	2,221	2,243	2,248	2,517	2,318	2,640	2,609	8,407	10,084
Tax	394	621	867	618	947	444	823	812	2,500	3,025
Effective Tax Rate (%)	23.2	28.0	38.6	28.2	37.6	19.2	31.2	31.2	29.7	30.0
Adj PAT after Minority Interest	1,337	1,560	1,393	1,422	1,582	1,876	1,835	1,815	5,712	7,109
Change (%)	10.4	23.6	22.1	-31.8	18.3	20.3	31.7	27.7	-2.4	24.5

E: MOSL Estimates

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); +91 22 3982 5428

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Investors are advised to refer through disclosures made at the end of the Research Report.

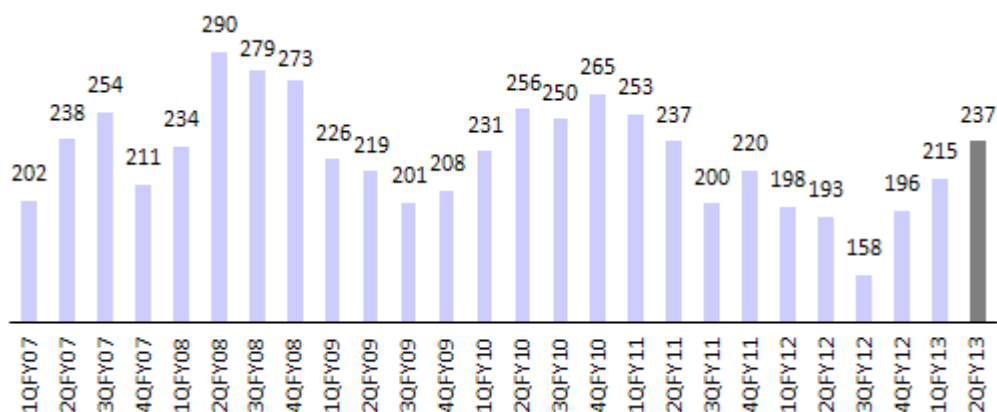
Key result highlights

- Ad revenue grew 34% YoY and 18% QoQ to INR5.28b (est of INR4.62b).
- Subscription revenue grew 36% YoY to INR3.95b. Domestic subscription revenue grew 12% QoQ to INR2.81b.
- Operating expenses increased 44% YoY and 21% QoQ to INR7.36b. Non-sports opex increased 34% YoY.
- Over the past year Zee has undertaken several investments like 'Ditto TV', and new channel launches like Zee Alwan, Ten Golf, HD channels, Zee Bangla Cinema etc.
- EBITDA grew 5% YoY but declined 7% QoQ to INR2.18b (est of INR2.0b); EBITDA margin declined 6 percentage points YoY to 22.8%.
- Sports business revenue grew 106% YoY to INR1.8b ; sports EBITDA loss of INR169m was significantly below our estimate of INR500m.

Ad revenue growth of 34% driven by market share gain and sports business

- Ad revenue growth of 34% was above our expectation due to higher sports revenue.
- Ratings for the flagship channel Zee TV have improved significantly over the past few months.
- Weekly average GRP in 2QFY13 was 237 vs 215 in 1QFY13 and 196 in 4QFY12.

Zee TV average weekly GRP has improved significantly from lows of 3QFY12



Source: Company, MOSL

Quarterly average GRP of other major channels

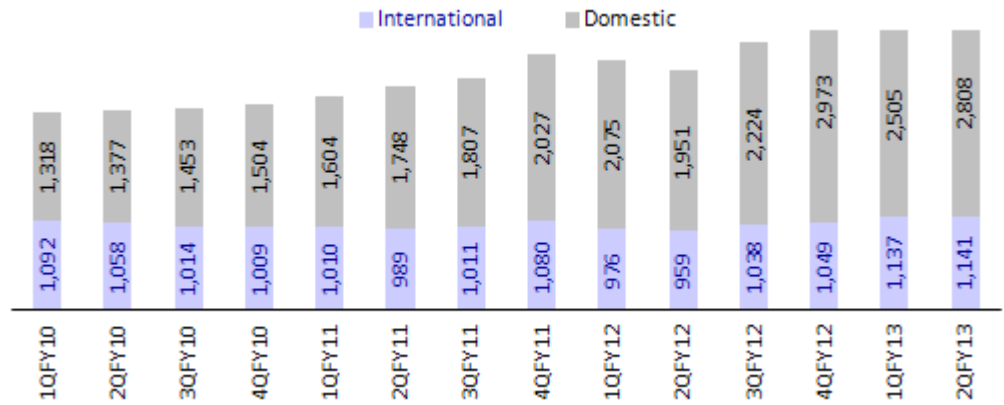
	Zee Cinema	Zee Marathi	Zee Bangla	Zee Telugu	Zee Kannada
1QFY11	114	201	183	325	169
2QFY11	131	229	271	314	158
3QFY11	126	209	383	344	178
4QFY11	122	219	369	343	229
1QFY12	127	192	320	325	222
2QFY12	139	183	375	339	256
3QFY12	120	168	427	312	278
4QFY12	131	174	466	317	254
1QFY13	127	185	342	329	217
2QFY13	117	176	382	313	227

Source: Company, MOSL

Subscription revenue up 8.5% QoQ led by domestic segment

- 2QFY13 subscription revenue grew 36% YoY and 8.5% QoQ to INR3.95b.
- YoY numbers are not comparable due to change in Media-pro accounting effective from 4QFY12.
- International subscription revenue grew 19% YoY but remained flat QoQ.

Domestic subscription revenue up 12% QoQ (INR m)

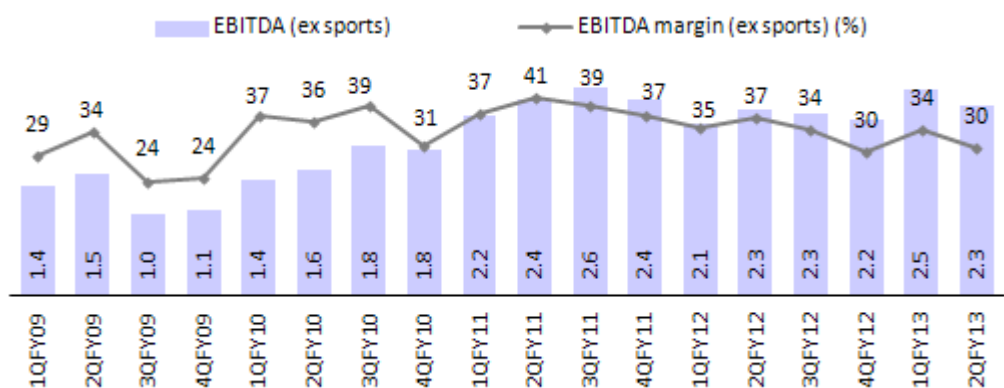


Source: Company, MOSL

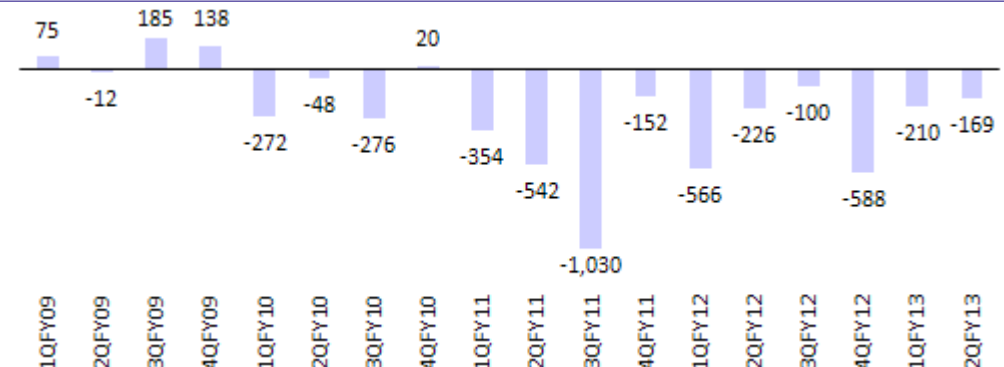
Core EBITDA margins decline QoQ; Sports loss below estimate

- Core EBITDA margin (excluding sports business) declined 380bp QoQ to 30.4% led by increased operating costs.
- Zee's core EBITDA has ranged between INR2.1-2.6b for the past eight quarters.
- Sports revenue stood at INR1.82b (up 106% YoY) while operating costs amounted to INR1.99b (down 80% YoY) resulting in EBITDA loss of INR169m.

Trend in EBITDA and margins ex-sports (INR b)



Sports loss in line (INR m)



Source: Company, MOSL

Advertising environment remains sluggish; digitization upside expected from FY14; Neutral

- Zee expects to incur INR1.5-1.8b EBITDA loss in its new investments which is likely to drag margins.
- We are upgrading FY13 EPS by on better-than-expected 2QFY13 performance but largely maintain our FY14 estimates.
- At CMP of INR192, the stock trades at P/E of 25.9x FY13 and 22.6x FY14. Maintain **Neutral** with a price target of INR190 (22x FY14 EPS).

ZEE ENTERTAINMENT: 2QFY13 Earnings call takeaways

- EBITDA margin expected to be under pressure to new investments to the tune of INR1.5-1.8b.
- New channels normally reach break-even in 3-4 years. New investments undertaken include Zee Bangla Cinema, Zee Alwan (Arabic GEC), Ditto TV, HD Channel, Ten Golf, ZeeQ (kids edutainment) etc. The company is also increasing investments in the Tamil market and increasing programming hours in GECs.
- Advertising market remains sluggish; Zee outperformed industry growth of 7-9% on ex-sports basis.
- Subscription revenue growth largely driven by DTH. Metro digitization to benefit subscription revenue from FY14.
- Carriage fee to remain at current levels in the near-term. Carriage fee is a global phenomenon and would continue as overall cost of doing business.
- International revenue was flat in constant currency terms.
- Net cash at INR10.7b.
- Annual tax rate to remain at 30% despite quarterly volatility.

Summary of estimate change

INR b	FY13E	FY14E
Ad revenue		
Old	18.6	21.2
New	19.8	22.6
Change (%)	6.8	6.9
Subscription revenue		
Old	15.2	17.3
New	15.5	17.5
Change (%)	1.8	1.6
Total revenue		
Old	35.1	39.8
New	36.6	41.4
Change (%)	4.2	4.2
EBITDA		
Old	8.8	10.5
New	9.4	10.8
Change (%)	7.2	3.0
EBITDA margin (%)		
Old	25.1	26.5
New	25.8	26.2
Change (bp)	72	-30
PAT		
Old	6.7	8.1
New	7.1	8.2
Change (%)	5.6	0.6
EPS (INR)		
Old	7.0	8.5
New	7.4	8.5
Change (%)	5.6	0.6

Source: MOSL

Quarterly performance (INR m)

	2Q FY12	1Q FY13	2Q FY13	YoY (%)	QoQ (%)	2Q FY13E	v/s est (%)
Advertising revenue	3,949	4,472	5,281	34	18.1	4,621	14.3
Subscription revenue	2,910	3,641	3,950	36	8.5	3,693	7.0
Other sales and services	324	317	305	-6	-3.6	327	-6.6
Total revenue	7,184	8,430	9,535	33	13.1	8,640	10.4
Total operating expenses	5,108	6,097	7,359	44	20.7	6,643	10.8
EBITDA	2,076	2,332	2,176	5	-6.7	1,997	9.0
EBITDA margin (%)	28.9	27.7	22.8	-607bp	-485bp	23.1	-29bp
Depreciation	78	99	96	23	-2.8	100	-3.8
Finance Cost	56	18	23	-59	27.8	18	26.5
Other income	279	301	260	-7	-13.7	302	-13.9
Reported PBT	2,221	2,517	2,317	4	-7.9	2,181	6.2
Tax	621	947	444	-29	-53.1	595	-25.4
Effective Tax Rate (%)	28.0	37.6	19.2	-881	-1,846	27.3	-814bps
PAT	1,600	1,570	1,873	17	19.3	1,586	18.1
Associates/Minority Interest	40	-12	-2	-105	-83.3	-12	-83.3
Reported PAT after minorities	1,560	1,582	1,875	20	18.5	1,598	17.4
Subscription revenue (INR m)							
Domestic	1,951	2,504	2,808	43.9	12.1	2,542	10.5
International	959	1,137	1,141	19.0	0.4	1,151	-0.9
Total subscription revenue	2,910	3,641	3,950	35.7	8.5	3,693	7.0
Operating costs (INR m)							
Prog, Transmission & Direct Exp	3,224	3,757	4,791	48.6	27.5	4,283	11.9
Staff Cost	688	888	873	26.9	-1.7	828	5.5
Selling and Other Exp	1,197	1,453	1,695	41.6	16.7	1,532	10.6
Total operating costs	5,108	6,097	7,359	44.1	20.7	6,643	10.8
Sports business (INR m)							
Revenue	881	992	1,818	106.4	83.3	1,200	51.5
Operating cost	1,107	1,202	1,987	79.5	65.3	1,700	16.9
EBITDA	-226	-210	-169	-25.2	-19.5	-500	-66.2
EBITDA margin (%)	-26	-21	-9	NA	NA	-42	NA
Non-sports business (INR m)							
Revenue	6,303	7,438	7,717	22.4	3.8	7,440	3.7
Operating cost	4,001	4,895	5,372	34.3	9.7	4,943	8.7
EBITDA	2,302	2,542	2,345	1.9	-7.8	2,497	-6.1
EBITDA margin (%)	36.5	34.2	30.4	-613bp	-380bp	33.6	-318bp

Source: Company, MOSL

Zee Entertainment: A snapshot (INR b)

	FY09	FY10	FY11 *	FY12	FY13E	FY14E
Advertisement Revenue	10.6	10.7	17.1	15.8	19.8	22.6
YoY (%)	14	1	60	-7	25	14
Subscription Revenue	9.0	9.8	11.3	13.2	15.5	17.5
YoY (%)	22	9	15	17	17	13
- Domestic	4.5	5.7	7.2	9.2	10.9	13.0
YoY (%)	29	25	27	28	19	18
- International	4.5	4.2	4.1	4.0	4.6	4.6
YoY (%)	15	-8	-2	-2	14	0
Other Sales & Services	2.1	1.5	1.1	1.3	1.2	1.3
YoY (%)	33	-32	-28	25	-6	0
Total Revenue	21.8	22.0	29.4	30.4	36.6	41.4
YoY (%)	19	1	34	3	20	13
Operating expenses	16.3	15.9	21.8	23.0	27.2	30.6
YoY (%)	26	-3	38	5	18	13
EBITDA	5.5	6.1	7.6	7.4	9.4	10.8
YoY (%)	1	11	24	-2	28	15
EBITDA margin (%)	25.2	27.7	25.7	24.3	25.8	26.2
Revenue mix (%)						
Ad and broadcast revenue	49	49	58	52	54	55
Subscription revenue	42	45	38	44	42	42
- Domestic	21	26	24	30	30	31
- International	21	19	14	13	13	11
Other sales and services	10	7	4	4	3	3
Sports/Non-sports break-up						
Revenue	21.8	22.0	29.4	30.4	36.6	41.4
- Sports	3.9	3.2	4.4	3.9	4.8	5.4
- Non-sports	17.9	18.8	25.0	26.5	31.8	36.1
EBITDA	5.5	6.1	7.6	7.4	9.4	10.8
- Sports	0.4	-0.6	-2.1	-1.5	-0.8	-0.5
- Non-sports	5.1	6.7	9.6	8.9	10.2	11.4
EBITDA margin (%)	25.2	27.7	25.7	24.3	25.8	26.2
Sports	10.0	-18.3	-47.1	-37.6	-16.2	-10.0
Non-sports	28.5	35.4	38.6	33.5	32.1	31.6

* Includes merger of Regional General Entertainment Channels

Zee Entertainment Enterprises: an investment profile

Company description

ZEEL is the leading player in television broadcasting and syndication of content overseas with a bouquet of 30+ TV channels. Zee has well-established reach of over 650m viewers across 167 countries. ZEEL has channels encompassing all major genres like Hindi GEC, Hindi Movies, Regional GECs and Sports.

Key investment arguments

- Zee's flagship channel Zee TV is one of the top-three Hindi GECs in India
- Zee has a strong subscription income base and would further benefit from mandatory digitization
- Advertising revenues likely to improve driven by better economic growth going forward.

Key investment risks

- Sports business continues to generate operating loss
- Ad environment remains weak for broadcasters
- TRAI's QoS regulations seek to cap advertising time on a clock hour basis can impact ad volumes

Recent developments

- Zee recently launched Bengali movies channel Zee Bangla Cinema, Arabic GEC Zee Alwan and Kids edutainment channel ZeeQ.

Valuation and view

- We are upgrading FY13 EPS by on better-than-expected 2QFY13 performance but largely maintain our FY14 estimates.
- At CMP of INR192, the stock trades at P/E of 25.9x FY13 and 22.6x FY14. Maintain **Neutral** with a price target of INR190 (22x FY14 EPS).

Comparative valuations

		ZEEL	Sun TV	Dish TV
P/E (x)	FY13E	25.9	19.7	NA
	FY14E	22.6	17.9	NA
EV/EBITDA (x)	FY13E	18.1	9.3	13.6
	FY14E	15.5	8.1	10.4
EV/Sales (x)	FY13E	4.7	7.3	3.8
	FY14E	4.1	6.3	3.1
P/BV (x)	FY13E	4.8	4.9	NA
	FY14E	4.2	4.5	NA

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	7.4	7.2	3.4
FY14	8.5	8.6	-1.6

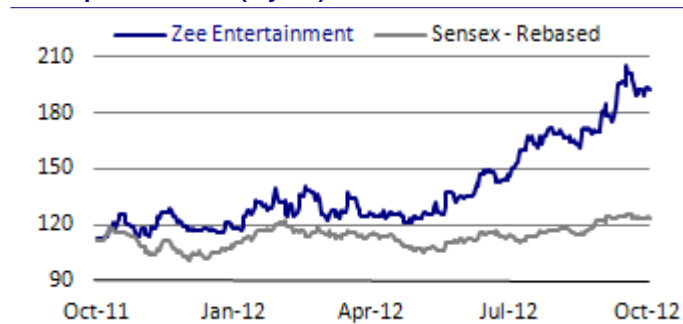
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
192	190	-0.9	Neutral

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	43.4	43.9	43.3
Domestic Inst	12.6	13.1	13.2
Foreign	36.4	35.6	35.3
Others	7.6	7.4	8.2

Stock performance (1 year)



Financials and valuations

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Advertisement Revenues	17,085	15,841	19,836	22,639	
Subscription Revenues	11,275	13,245	15,526	17,547	
Other Sales & Services	1,053	1,320	1,247	1,252	
Net Sales	29,414	30,406	36,609	41,438	
Change (%)	33.9	3.4	20.4	13.2	
Total Income	29,414	30,406	36,609	41,438	
Total Expenses	21,849	23,011	27,169	30,589	
EBITDA	7,565	7,395	9,440	10,848	
Change (%)	24.3	-2.2	27.6	14.9	
% of Net Sales	25.7	24.3	25.8	26.2	
Depreciation	288	323	401	445	
EBIT	7,276	7,073	9,039	10,404	
Other Income	1,070	1,204	1,118	1,258	
Interest & Finance Charges	103	50	73	76	
Extraordinary Income	897	180	0	0	
PBT	9,140	8,407	10,084	11,586	
Tax	2,751	2,500	3,025	3,476	
Effective Rate (%)	30.1	29.7	30.0	30.0	
PAT	6,390	5,907	7,059	8,110	
Minority Interest	-118	15	-50	-50	
Extraordinary Income	656	180	0	0	
Adj. PAT	5,852	5,712	7,109	8,160	
Change (%)	24.9	-2.4	24.5	14.8	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	978	959	959	959	
Reserves	29,970	33,396	38,420	44,187	
Net Worth	30,948	34,355	39,379	45,146	
Minority Interest	-119	-32	0	0	
Loans	17	12	12	12	
Deferred tax liability	-192	-337	-337	-337	
Capital Employed	30,654	33,998	39,053	44,821	
Net Fixed Assets	8,064	9,001	9,100	9,155	
Capital WIP	399	399	399	399	
Investments	6,964	7,999	7,999	7,999	
Curr. Assets, Loans&Adv.	23,026	25,414	31,079	37,746	
Program Films	5,382	7,339	8,152	9,304	
Inventory	14	0	0	0	
Sundry Debtors	8,955	8,690	10,463	11,843	
Cash & Bank Balances	3,858	3,283	4,942	8,084	
Loans & Advances	4,818	6,101	7,522	8,515	
Current Liab. & Prov.	7,801	8,817	9,524	10,480	
Sundry Creditors	4,238	5,844	6,699	7,543	
Other Liabilities	1,077	1,041	893	1,006	
Provisions	2,486	1,932	1,932	1,932	
Net Current Assets	15,225	16,597	21,554	27,266	
Appl. of Funds	30,654	33,997	39,053	44,820	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	6.0	5.9	7.4	8.5	
Cash EPS	6.3	6.3	7.8	9.0	
Book Value per Share	31.6	35.8	41.1	47.1	
DPS	2.0	1.5	1.9	2.1	
Payout (Incl. Div. Tax) %	30.6	24.3	25.0	25.0	
Valuation					
P/E		32.6	25.9	22.6	
Cash P/E		30.5	24.5	21.4	
EV/EBITDA		23.4	18.1	15.5	
EV/Sales		5.7	4.7	4.1	
Price/Book Value		5.5	4.8	4.2	
Dividend Yield (%)		0.8	1.0	1.1	
Profitability Ratios (%)					
RoE	16.9	17.5	19.3	19.3	
RoCE	23.8	25.5	27.8	27.8	
Turnover Ratios					
Debtors (No. of Days)	111	104	104	104	
Inventory (No. of Days)	115	169	150	150	
Creditors (No. of Days)	71	93	90	90	
Asset Turnover (x)	1.0	0.9	0.9	0.9	
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
OP/(Loss) before Tax	7,276	7,073	9,039	10,404	
Interest/Div. Received	1,070	1,204	1,118	1,258	
Interest paid	-103	-50	-73	-76	
Depreciation & Amort.	288	323	401	445	
Direct Taxes Paid	-2,751	-2,500	-3,025	-3,476	
(Inc)/Dec in Wkg. Capital	-638	-1,946	-3,299	-2,569	
CF from Oper. Activity	5,143	4,103	4,161	5,986	
Extraordinary Items	656	180	0	0	
CF after EO Items	656	180	0	0	
(Inc)/Dec in FA + CWIP	10,835	-1,259	-500	-500	
(Pur)/Sale of Invest.	-3,761	-1,035	0	0	
CF from Invest. Activity	7,074	-2,294	-500	-500	
Issue of Shares	-11,987	-1,120	-226	-303	
Inc/(Dec) in Debt	-1,178	-5	0	0	
Dividends Paid	-1,956	-1,438	-1,777	-2,040	
Others	0	0	0	0	
CF from Finan. Activity	-15,121	-2,563	-2,003	-2,343	
Inc/(Dec) in Cash	-2,006	-574	1,658	3,143	
Add: Beginning Balance	5,864	3,858	3,283	4,942	
Closing Balance	3,858	3,283	4,942	8,085	

E: MOSL Estimates

N O T E S

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Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motiloswal.com