

Zee Entertainment Enterprises

BSE SENSEX	S&P CNX	CMP: INR118	TP: INR112	Neutral						
16,739	5,049									
Bloomberg	Z IN									
Equity Shares (m)	961.4									
52-Week Range (INR)	146/107									
1,6,12 Rel. Perf. (%)	-6/-2/15									
M.Cap. (INR b)	113.4									
M.Cap. (USD b)	2.3									
Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
3/11A	29,414	5,852	6.0	14.4	19.7	3.9	16.9	23.8	3.8	14.7
3/12E	29,328	5,881	6.1	1.3	19.5	3.6	18.7	27.5	3.7	14.0
3/13E	32,242	6,510	6.8	11.7	17.4	3.3	19.3	28.6	3.3	12.2
3/14E	35,126	7,204	7.5	10.6	15.7	3.0	19.2	28.5	3.0	11.0

- Zee Entertainment's 3QFY12 PAT grew 22% YoY to INR1.39b, lower than our estimate of INR1.55b, largely due to higher finance cost and tax rate. Revenue was flat YoY and grew 5.1% QoQ to INR7.5b, 2% above our estimate. Ad revenue declined 10% YoY to INR3.96b due to high base of sports related revenue in 3QFY11, weak macro environment and market share loss.
- Subscription revenue grew 12% QoQ to INR3.3b, supported by 14% QoQ growth in domestic subscription (DTH growth and positive contribution due to Media Pro) and 8% growth in international subscription.
- EBITDA grew 40% YoY and 4% QoQ to INR2.16b v/s our est. of INR2.19b. EBITDA margin declined 30bp QoQ to 28.6%.
- Sports business operating loss was INR100m, in line with our estimate. Core (non-sports) business EBITDA margin declined 500bp YoY and 250bp QoQ to 34% v/s our estimate of 35.1%.
- Finance costs increased significantly to INR182m largely due to forex loss. These losses largely pertain to USD-denominated content costs and other expenses, and a significant portion is unrealized (MTM). Our earnings estimates are largely unchanged, as downgrade in ad revenue is offset by higher assumptions on subscription income.
- We model 8% decline in ad revenue in FY12 and 10% YoY growth in FY13. Our FY13 ad growth estimate could have downside risk as it is based on assumed improvement in ad environment and improvement in ratings for Zee. We remain concerned on the margin outlook, given weak revenue growth and cost pressures led by high competitive intensity.
- Our FY13 assumptions imply core EBITDA margin of 32.7% and sports EBITDA loss of INR0.5b. The stock trades at 19.5x FY12E and 17.4x FY13E EPS. Maintain **Neutral** with a price target of INR112 (15x FY14E EPS).

Quarterly Performance

Y/E March									(INR Million)	
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Advertising Revenue	3,769	4,122	4,398	4,797	3,787	3,949	3,955	4,081	17,085	15,773
Subscription Revenue	2,614	2,737	2,818	3,107	3,051	2,910	3,262	3,195	11,275	12,418
Other Sales and Services	387	257	333	76	145	324	332	337	1,053	1,138
Net Sales	6,770	7,116	7,548	7,980	6,983	7,184	7,548	7,613	29,414	29,328
Change (%)	42.2	31.7	42.2	22.9	3.2	1.0	0.0	-4.6	33.9	-0.3
EBITDA	1,870	1,885	1,541	2,268	1,560	2,076	2,160	2,010	7,565	7,805
Change (%)	59.8	25.0	-2.0	23.5	-16.5	10.1	40.1	-11.4	24.3	3.2
As of % Sales	27.6	26.5	20.4	28.4	22.3	28.9	28.6	26.4	25.7	26.6
Depreciation	62	56	78	68	89	78	74	91	288	332
Finance cost	51	5	24	23	30	56	182	30	103	299
Other Income	126	240	232	228	255	279	340	300	1,070	1,184
Extraordinary items	328		700	-131	0	0	0	0	897	0
PBT	2,211	2,064	2,372	2,275	1,696	2,221	2,243	2,189	9,140	8,359
Tax	710	801	818	356	394	621	867	622	2,751	2,508
Effective Tax Rate (%)	32.1	38.8	34.5	15.7	23.2	28.0	38.6	28.4	30.1	30.0
PAT	1,500	1,263	1,554	1,918	1,302	1,600	1,376	1,566	6,390	5,851
Minority Interest	-38	1	-45	-36	-35	40	-17	-17	-118	-29
Adj PAT after Minority Interest	1,211	1,262	1,141	2,085	1,337	1,560	1,393	1,583	5,852	5,881
Change (%)	18.8	10.6	-8.8	63.7	10.4	23.6	22.1	-24.1	24.9	0.5

E: MOSL Estimates

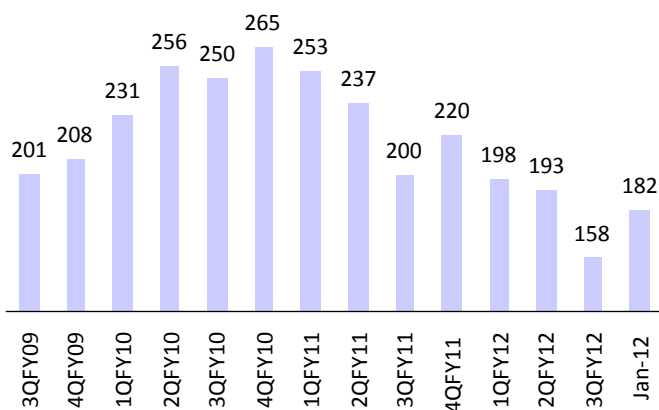
Key result highlights

- Ad revenue declined 10% YoY and remained flat QoQ at INR3.96b (estimate of INR4.2b).
- Reported subscription revenue grew 12% QoQ to INR3.3b. Domestic subscription revenue grew 14% QoQ (YoY figures are not comparable due to a change in accounting).
- Operating expenses declined 10% YoY but grew 5.5% QoQ to INR5.4b (estimate of INR5.2b). Non-sports opex increased 9% YoY and 10% QoQ.
- EBITDA grew 40% YoY and 4% QoQ to INR2.16b (estimate of INR2.19b); EBITDA margin declined 30bp QoQ to 28.6%.
- Sports business revenue declined 7% YoY to INR901m; sports EBITDA loss of INR100m was in-line with estimates and company guidance of restricting the EBITDA loss at INR1b.

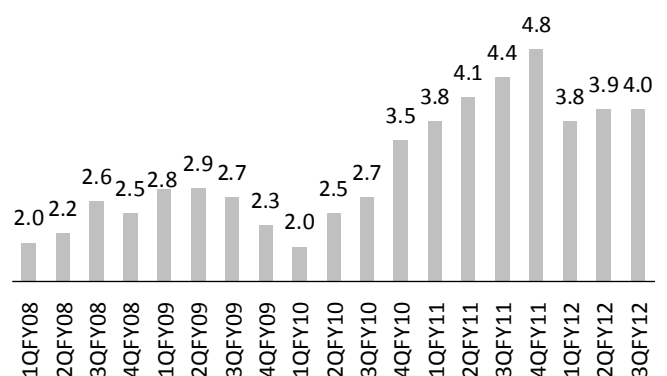
Ad revenue decline of 10% YoY on macro slowdown, market share loss, lower sports contribution

- Advertising revenue declined 10% YoY but remained flat QoQ at INR3.96b led by slowdown in the macro environment, decline in relative market share for some key genres and lower sports revenue.
- Lower ratings have impacted the ad revenue. Zee has been facing significant competition in its key genres and has lost relative market share in Hindi, Hindi Movies and Marathi GEC.
- Zee's flagship channel witnessed 18% QoQ decline in average GRP during 3QFY12.
- We expect Zee to invest more in content by increasing its original programming hours (OPH) during the current quarter.

Zee TV average GRP down 18% QoQ in 3QFY12

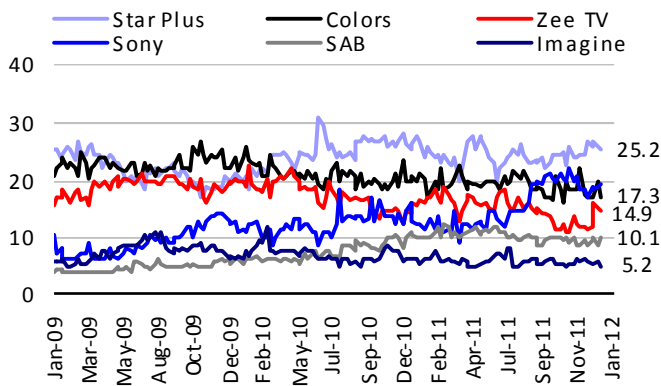


No festive cheer as ad revenue remained flat QoQ (INR b)

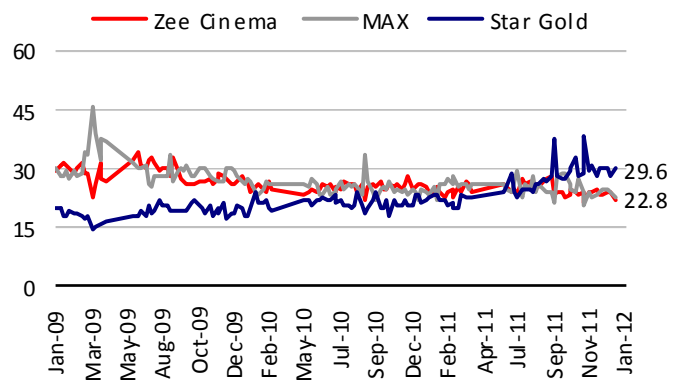


Source: Company/MOSL

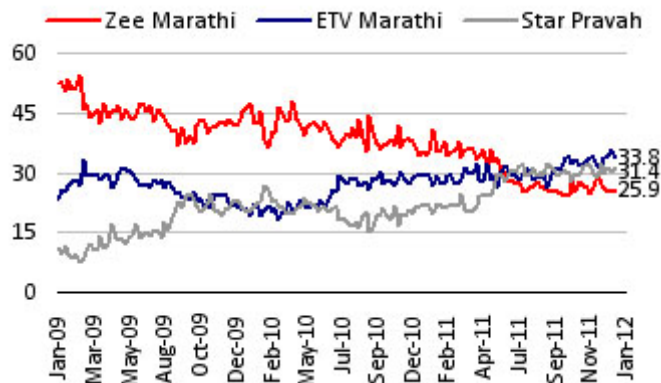
Hindi GEC relative channel share: Zee relative share at ~15%



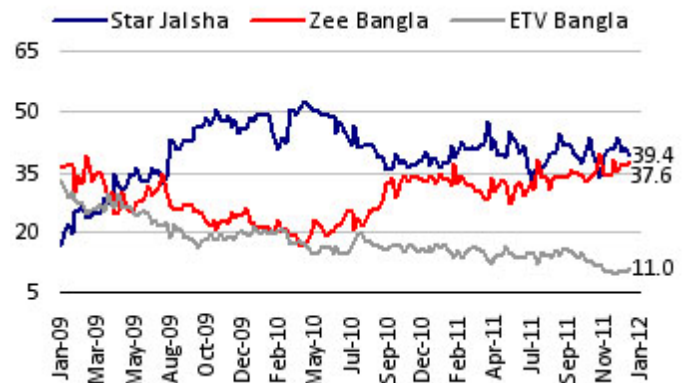
Hindi movies (ex-IPL) relative channel share: Zee & Max compete for third spot



Marathi GEC relative channel share: Zee down to No3 at 26%



Bengali GEC relative channel share: Zee relative share continues to improve

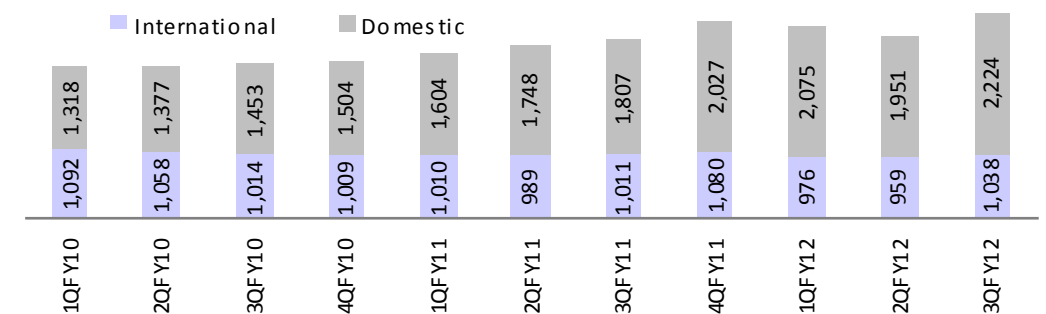


Source: Company/MOSL

Subscription revenue grew 12% QoQ on improved performance in domestic segment

- 3QFY12 subscription revenue grew 12% QoQ to INR3.3b largely due to improved performance from domestic business.
- Domestic subscription revenue grew 14% QoQ (YoY figures are not comparable due to a change in accounting, benefitting from distribution JV Media Pro entering new agreements which had remained unsigned. Full benefit of the JV will accrue from FY13).
- International subscription revenue grew 3% YoY and 8% QoQ to INR1.04b, supported by INR depreciation.

Domestic subscription revenue grew 14% QoQ (INR m)

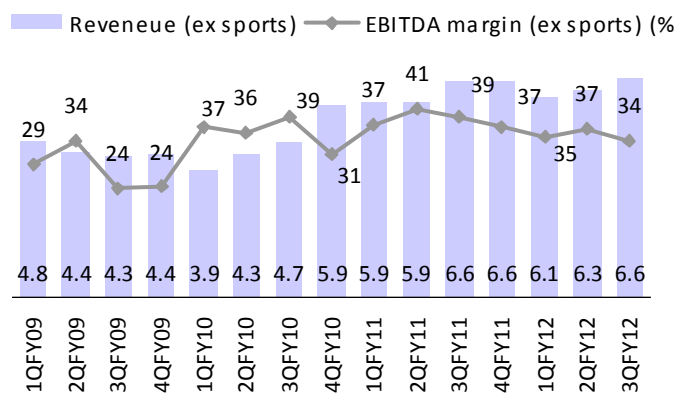


Source: Company/MOSL

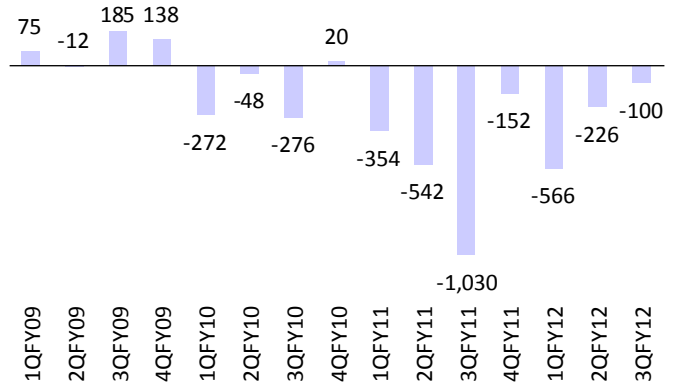
Core EBITDA margins declined 500bp YoY and 250bp QoQ; significant jump in finance cost and tax rate

- Consolidated EBITDA margin declined 30bp QoQ to 28.6% v/s estimate of 29.5%.
- Core EBITDA margin (excluding sports business) declined 500bp YoY and 250bp QoQ to 35%.
- Sports revenue stood at INR901m (down 7% YoY) while operating costs in the sports business amounted to INR1b (down 50% QoQ) resulting in EBITDA loss of INR100m v/s INR790m in 1HFY12.
- Finance costs increased significantly to INR182m (v/s INR56m in 2QFY12) largely due to forex loss. These losses largely pertain to USD denominated content costs and other expenses and significant portion is unrealized (MTM).
- Although effective tax rate was at 38.6% in 3QFY12, the full year tax rate is expected to be ~30%.

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



Significant decline in operating loss for sports business (INR m)



Source: Company/MOSL

Earnings estimates largely unchanged; maintain Neutral with target price of INR112

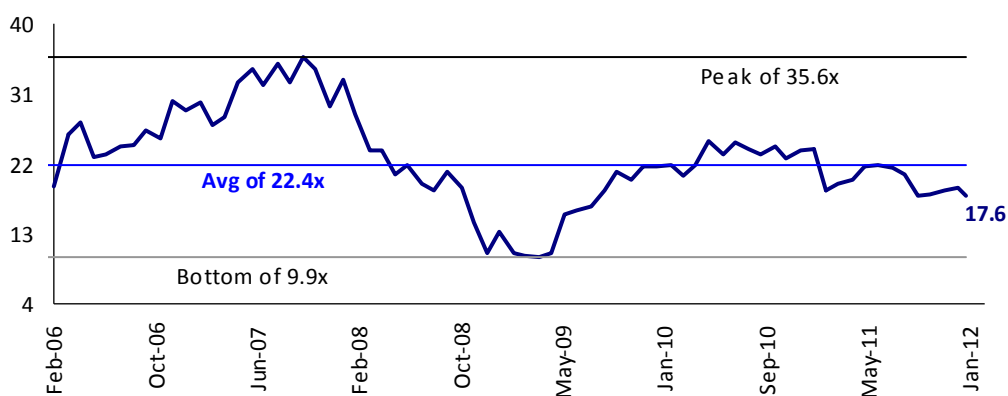
- Our earnings estimates are largely unchanged as downgrade in ad revenue is offset by higher assumptions on subscription income.
- We model 8% decline (v/s 5% earlier) in ad revenue in FY12 (low single digit decline for non-sports business) and 10% YoY growth in FY13. Our FY13 ad growth estimate could have downside risk as it is based on assumed improvement in ad environment and improvement in ratings for Zee.
- Non-sports EBITDA margin for Zee has declined by ~700bp from peak of 41% in 2QFY11. We remain concerned on the margin outlook given weak revenue growth and cost pressures led by high competitive intensity. Our FY13 assumptions imply core EBITDA margin of 32.7% (further 130bp decline v/s 3QFY12) and sports EBITDA loss of INR0.5b.
- We expect EPS CAGR of 8% over FY11-14E. At CMP of INR118, the stock trades at a P/E of 19.5x FY12 and 17.4x FY13.
- We are rolling forward our valuation basis to FY14. Maintain **Neutral** with a price target of INR112 based on 15x FY14 EPS.

Summary of estimate change (INR b)

	FY12E	FY13E
Ad revenue		
Old	16.3	18.0
New	15.8	17.4
Change (%)	-3.2	-3.1
Subscription revenue		
Old	12.0	13.2
New	12.4	13.7
Change (%)	3.8	3.7
Total revenue		
Old	29.2	32.1
New	29.3	32.2
Change (%)	0.5	0.4
EBITDA		
Old	8.1	8.8
New	7.8	8.8
Change (%)	-3.8	0.2
EBITDA margin (%)		
Old	27.8	27.4
New	26.6	27.3
Change (bp)	-119	-5
PAT		
Old	6.1	6.7
New	5.9	6.5
Change (%)	-3.0	-2.2
EPS (INR)		
Old	6.2	6.8
New	6.1	6.8
Change (%)	-2.2	-0.5

Source: MOSL

Zee: one-year forward P/E band



Source: MOSL

Zee Entertainment Enterprises: an investment profile

Company description

ZEEL is the leading player in television broadcasting and syndication of content overseas with well established brands such as Zee TV, Zee Cinema, Zee Music, Zee Sports and Zee Studio. Post the recent merger with Zee News, the company has added regional channels like Zee Telugu, Zee Kannada, Zee Marathi and Zee Bangla in its portfolio. Zee has the world's largest Hindi film library of over 3,000 movie titles. Zee has well-established reach of over 500m viewers across 167 countries.

Key investment arguments

- With its offering of 24 channels, Zee addresses ~64% of the viewer ship market in India and has a pan-India market share of ~11%.
- Zee's flagship channel Zee TV has slipped to the fourth slot in the Hindi GEC segment.
- We expect ad revenue to decline by ~8% in FY12 and grow ~10% in FY13
- We expect margin to be under pressure due to muted ad growth and the planned investments in programming.

Key investment risks

- Declining EBITDA margin in core (non-sports) business.
- Increasing ratings gap v/s the market leader in Hindi GEC; this could prove to be negative for ad revenue momentum as well as cost control.

Comparative valuations

		ZEEL	Sun TV
P/E (x)	FY12E	19.5	14.7
	FY13E	17.4	12.0
EV/EBITDA (x)	FY12E	14.0	6.9
	FY13E	12.2	5.6
EV/Sales (x)	FY12E	3.7	5.5
	FY13E	3.3	4.5
P/BV (x)	FY12E	3.6	4.1
	FY13E	3.3	3.6

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	43.5	43.3	42.8
Domestic Inst	12.8	13.2	12.9
Foreign	35.9	35.3	35.4
Others	7.8	8.2	8.9

Recent developments

- Zee has bought back 17.3m equity shares under the "open market" mechanism for a total outlay of INR2.07b.
- With the government clearing an ordinance for the digitization of cable network, major broadcasters like Zee are likely to benefit.

Valuation and view

- Our earnings estimates are largely unchanged as downgrade in ad revenue if offset by higher assumptions on subscription income.
- We model 8% decline (v/s 5% earlier) in ad revenue in FY12 (low single digit decline for non-sports business) and 10% YoY growth in FY13. Our FY13 ad growth estimate could have downside risk as it is based on assumed improvement in ad environment and improvement in ratings for Zee.
- Our FY13 assumptions imply core EBITDA margin of 32.7% (further 130bp decline v/s 3QFY12) and sports EBITDA loss of INR0.5b.
- We expect EPS CAGR of 8% over FY11-14E. At CMP of INR117, the stock trades at a P/E of 19.5x FY12 and 17.4x FY13.
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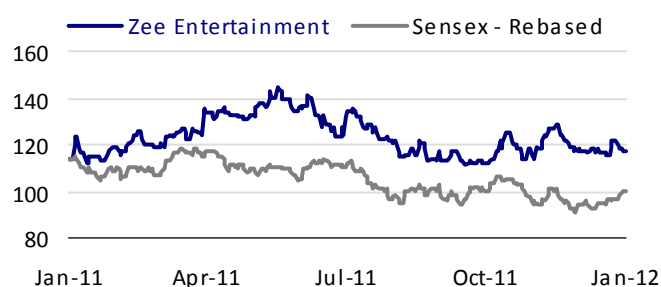
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	6.1	6.2	-1.1
FY13	6.8	7.2	-5.3

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
118	112	-5.1	Neutral

Stock performance (1 year)



Financials and valuations

Income Statement		(INR Million)			
Y/E March	2011	2012E	2013E	2014E	
Advertisement Revenues	17,085	15,773	17,415	19,394	
Subscription Revenues	11,275	12,418	13,684	14,584	
Other Sales & Services	1,053	1,138	1,143	1,148	
Net Sales	29,414	29,328	32,242	35,126	
Change (%)	33.9	-0.3	9.9	8.9	
Total Income	29,414	29,328	32,242	35,126	
Total Expenses	21,849	21,523	23,441	25,587	
EBITDA	7,565	7,805	8,801	9,539	
Change (%)	24.3	3.2	12.8	8.4	
% of Net Sales	25.7	26.6	27.3	27.2	
Depreciation	288	332	374	415	
EBIT	7,276	7,473	8,428	9,124	
Other Income	1,070	1,184	1,233	1,557	
Interest & Finance Charges	103	299	122	122	
Extraordinary Income	897	0	0	0	
PBT	9,140	8,359	9,539	10,559	
Tax	2,751	2,508	3,053	3,379	
Effective Rate (%)	30.1	30.0	32.0	32.0	
PAT	6,390	5,851	6,487	7,180	
Minority Interest	-118	-29	-24	-24	
Extraordinary Income	656	0	0	0	
Adj. PAT	5,852	5,881	6,510	7,204	
Change (%)	24.9	0.5	10.7	10.6	

Balance Sheet		(INR Million)			
Y/E March	2011	2012E	2013E	2014E	
Share Capital	978	961	961	961	
Reserves	29,970	31,112	34,568	38,391	
Net Worth	30,948	32,073	35,529	39,353	
Minority Interest	-119	-119	-119	-119	
Loans	17	17	17	17	
Deferred tax liability	-192	0	0	0	
Capital Employed	30,654	31,972	35,427	39,251	
Net Fixed Assets	8,064	8,039	8,165	8,250	
Capital WIP	399	399	399	399	
Investments	6,964	6,964	6,964	6,964	
Curr. Assets, Loans&Adv.	23,026	24,539	28,357	32,643	
Program Films	5,382	5,186	5,726	6,376	
Inventory	14	43	48	53	
Sundry Debtors	8,955	9,803	10,777	11,741	
Cash & Bank Balances	3,858	4,285	6,066	8,218	
Loans & Advances	4,818	5,223	5,742	6,255	
Current Liab. & Prov.	7,801	7,970	8,458	9,005	
Sundry Creditors	4,238	4,423	4,817	5,258	
Other Liabilities	1,077	1,061	1,156	1,262	
Provisions	2,486	2,486	2,486	2,486	
Net Current Assets	15,225	16,569	19,899	23,638	
Appl. of Funds	30,654	31,972	35,428	39,251	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012E	2013E	2014E	
Basic (INR)					
EPS	6.0	6.1	6.8	7.5	
Cash EPS	6.3	6.5	7.2	7.9	
Book Value per Share	31.6	33.4	37.0	40.9	
DPS	2.4	2.4	2.7	3.0	
Payout (Incl. Div. Tax) %	40.0	40.0	40.0	40.0	
Valuation					
P/E	19.7	19.5	17.4	15.7	
Cash P/E	18.8	18.3	16.5	14.9	
EV/EBITDA	14.7	14.0	12.2	11.0	
EV/Sales	3.8	3.7	3.3	3.0	
Price/Book Value	3.9	3.6	3.3	3.0	
Dividend Yield (%)	2.0	2.1	2.3	2.5	
Profitability Ratios (%)					
RoE	16.9	18.7	19.3	19.2	
RoCE	23.8	27.5	28.6	28.5	
Turnover Ratios					
Debtors (No. of Days)	111	122	122	122	
Inventory (No. of Days)	115	120	120	120	
Creditors (No. of Days)	71	75	75	75	
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	2012E	2013E	2014E	
OP/(Loss) before Tax	7,276	7,473	8,428	9,124	
Interest/Div. Received	1,070	1,184	1,233	1,557	
Interest paid	-103	-299	-122	-122	
Depreciation & Amort.	288	332	374	415	
Direct Taxes Paid	-2,751	-2,508	-3,053	-3,379	
(Inc)/Dec in Wkg. Capital	-638	-917	-1,549	-1,587	
CF from Oper. Activity	5,143	5,267	5,312	6,009	
Extraordinary Items	656	0	0	0	
CF after EO Items	656	0	0	0	
(Inc)/Dec in FA + CWIP	10,835	-306	-500	-500	
(Pur)/Sale of Invest.	-3,761	0	0	0	
CF from Invest. Activity	7,074	-306	-500	-500	
Issue of Shares	-11,602	-2,181	-427	-475	
Inc/(Dec) in Debt	-1,178	0	0	0	
Dividends Paid	-2,341	-2,352	-2,604	-2,881	
Others	0	0	0	0	
CF from Finan. Activity	-15,121	-4,533	-3,031	-3,356	
Inc/(Dec) in Cash	-2,006	427	1,781	2,152	
Add: Beginning Balance	5,864	3,858	4,285	6,066	
Closing Balance	3,858	4,284	6,065	8,218	

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Zee Entertainment Enterprises

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