

# Zee Entertainment

BSE SENSEX 15,739 S&P CNX 4,714

CMP: INR117

TP: INR110

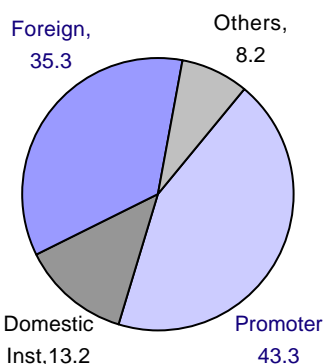
Neutral



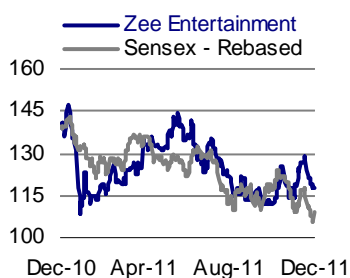
Bloomberg	Z IN
Equity Shares (m)	978.1
52-Week Range (INR)	152/106
1,6,12 Rel. Perf. (%)	4/-3/6
M.Cap. (INR b)	114.9
M.Cap. (USD b)	2.2

Y/E	March	2011	2012E	2013E
Net Sales (INR b)	29.4	29.2	32.1	
EBITDA (INR b)	7.6	8.1	8.8	
NP (INR b)	5.9	6.1	6.7	
EPS (INR)	6.0	6.2	6.8	
EPS Gr. (%)	14.4	3.6	9.8	
BV/Sh. (INR)	31.6	34.9	38.5	
P/E (x)	19.6	18.9	17.3	
P/BV (x)	3.8	3.5	3.1	
EV/EBITDA (x)	14.7	13.4	12.2	
EV/SALES (x)	3.8	3.7	3.3	
RoE (%)	16.9	18.6	18.5	
RoCE (%)	23.8	27.3	27.7	

## Shareholding pattern % (Sep-11)



## Stock performance (1 year)



## Intensifying competition, weak industry ad growth key headwinds

### Stable subscription, capped sports losses to support earnings

- ZEE has been losing viewership share in Hindi GEC, Marathi GEC and Hindi Movies. However, it has recorded market share increase in the Bengali and Kannada GEC markets.
- After declining 5% in FY12, we expect ad revenue (including Sports) to grow 10% in FY13. We also model acceleration in domestic subscription growth from ~12% in FY12 to ~18% in FY13.
- EBITDA loss in Sports business is likely to be below INR1b in FY12 and decline further in FY13.
- We expect EPS growth of 4% in FY12 and 10% in FY13. The stock trades at 19x FY12E EPS of INR6.2 and 17x FY13E EPS of INR6.8. Maintain Neutral.

### Competition in Hindi GEC space continues to intensify; ZEE remains vulnerable:

Competition for Zee Entertainment Enterprises' (ZEE) flagship channel, Zee TV continues to intensify in the Hindi GEC space, with its viewership share declining to ~12% over the last six weeks from 14.5% YTD and 16.8% in FY11. With Sony overtaking by a wide margin, pushing Zee TV to the number-4 slot and launch of new GEC, Life OK by Star (in place of Star One), we expect competition to remain tough, exerting pressure on yields. While Star One was garnering ~40 GRPs/week, we expect Life OK to clock ~100 GRPs on the back of strong promotions and fresh content. Other genres that have seen competitive position weakening for ZEE in FY12 are Marathi GEC (share down by >10 percentage points YoY) and Hindi Movies (lost number-1 slot to Star Gold). However, ZEE has recorded market share increase in the Bengali and Kannada GEC markets.

### Broadcasting industry ad growth in FY12 to be in mid-single digits; down YoY for ZEE:

Ad revenue for the broadcasting industry is now expected at mid-single digits during FY12, as against the expectation of ~15% growth at the start of the year. ZEE is likely to underperform the industry, given (1) market share/leadership loss in some key genres like Hindi GEC, Hindi Movies and Marathi GEC, and (2) lower ad revenue from Sports business due to lack of India-specific cricket content. Our recent industry interactions indicate continued weakness in advertising market post the festive season in October; we believe our estimate of 5% decline in ZEE's ad revenue (including Sports) for FY12 could have downside risks. Our 10% ad growth estimate for FY13 assumes recovery in ad markets (no history of back-to-back single-digit/low growth years) as well as relatively better ratings performance by the flagship channel. Every 1% change in ad growth impacts EPS by ~2%.

### Domestic subscription revenue growth to accelerate in FY13:

We model acceleration in ZEE's domestic subscription growth from ~12% in FY12 to ~18% in FY13, driven by (1) renegotiation of cable contracts by Media Pro (distribution JV with Star Den), and (2) increased revenue from digitization. Subscription revenue momentum in the international markets remains weak. We continue to model 4/5% decline during FY12/13 despite INR depreciation.

**OPH at ~29 hours/week; core margins could decline, given ratings pressure:** Zee TV is currently running ~29 hours/week of original programming hours (OPH) v/s 27-28 hours in 1HFY12. Despite the loss in ratings, the management is not looking towards any major overhaul but plans to steadily work towards getting back slot leaderships to regain the number-2 spot. Core (non-Sports) EBITDA margin for 2QFY12 was at a healthy 36.5% and is likely to be under pressure given the weak ad revenue environment and more investment in content.

**Sports loss guidance at <INR1b for FY12, ~INR0.5b for FY13:** ZEE's management remains confident about maintaining EBITDA loss in the Sports business below INR1b in FY12 (INR0.8b incurred in 1HFY12) and reducing it further to INR0.5b in FY13. Our estimates are broadly in line with the management guidance.

**Expect 7% EPS CAGR over FY11-13; continued buyback could provide downside support to stock price; maintain Neutral with a target price of INR110:** Post our recent company visit, we are keeping estimates unchanged. Our estimates imply ~7% ad revenue decline in 2HFY12 v/s 2% decline in 1HFY12. We expect EPS growth of 4% in FY12 and 10% in FY13. Zee has till date made a buyback of 15.7m shares (v/s minimum of 12.6m shares) for a total outlay of ~INR1.9b (v/s maximum of INR7b). The average price of the buyback is ~INR116 (v/s maximum buyback price of INR126). Continued buy-back could provide downside support to the stock price. The stock trades at 19x FY12E EPS of INR6.2 and 17x FY13E EPS of INR6.8. Maintain **Neutral** with a price target of INR110 (16x FY13E EPS).

#### Zee Entertainment: A snapshot (INR m)

	FY10	FY11 *	FY12E	FY13E	FY14E
<b>Advertisement Revenues</b>	<b>10,680</b>	<b>17,085</b>	<b>16,295</b>	<b>17,981</b>	<b>20,016</b>
YoY (%)	1	60	-5	10	11
<b>Subscription Revenues</b>	<b>9,824</b>	<b>11,275</b>	<b>11,966</b>	<b>13,192</b>	<b>14,193</b>
YoY (%)	9	15	6	10	8
- Domestic (DTH)	2,296	3,302	4,280	5,138	6,082
YoY (%)	94	44	30	20	18
- Domestic (Analog)	3,356	3,884	3,763	4,327	4,460
YoY (%)	1	16	-3	15	3
- International	4,173	4,090	3,922	3,726	3,652
YoY (%)	-8	-2	-4	-5	-2
<b>Other Sales &amp; Services</b>	<b>1,462</b>	<b>1,053</b>	<b>923</b>	<b>928</b>	<b>933</b>
YoY (%)	-32	-28	-12	1	1
<b>Total Revenue</b>	<b>21,966</b>	<b>29,414</b>	<b>29,183</b>	<b>32,101</b>	<b>35,142</b>
YoY (%)	1	34	-1	10	9
Operating expenses	15,880	21,849	21,069	23,321	25,763
YoY (%)	-3	38	-4	11	10
<b>EBITDA</b>	<b>6,087</b>	<b>7,565</b>	<b>8,114</b>	<b>8,780</b>	<b>9,379</b>
YoY (%)	11	24	7	8	7
<b>EBITDA margin (%)</b>	<b>27.7</b>	<b>25.7</b>	<b>27.8</b>	<b>27.4</b>	<b>26.7</b>
<b>Revenue mix (%)</b>					
Ad and broadcast revenue	49	58	56	56	57
Subscription revenue	45	38	41	41	40
- DTH	10	11	15	16	17
- Analog	15	13	13	13	13
- International	19	14	13	12	10
Other sales and services	7	4	3	3	3

\* Includes merger of Regional General Entertainment Channels

Source: Company/MOSL

**Competition in Hindi GEC space continues to intensify; ZEE remains vulnerable**

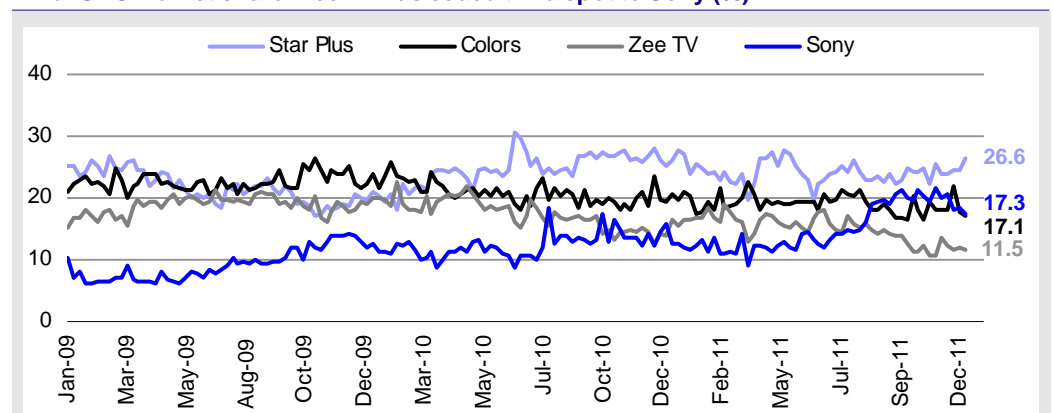
Competition for Zee Entertainment Enterprises' (ZEE) flagship channel, *Zee TV* continues to intensify in the Hindi GEC space, with its viewership share declining to ~12% over the last six weeks from 14.5% YTD and 16.8% in FY11. With *Sony* overtaking by a wide margin, pushing *Zee TV* to the number-4 slot and launch of new GEC, *Life OK* by Star (in place of *Star One*), we expect competition to remain tough, exerting pressure on yields. While *Star One* was garnering ~40 GRPs/week, we expect *Life OK* to clock ~100 GRPs on the back of strong promotions and fresh content. Other genres that have seen competitive position weakening for ZEE in FY12 are Marathi GEC (share down by >10 percentage points YoY) and Hindi Movies (lost number-1 slot to *Star Gold*). However, ZEE has recorded market share increase in the Bengali and Kannada GEC markets.

**Viewership share of key channels (%)**

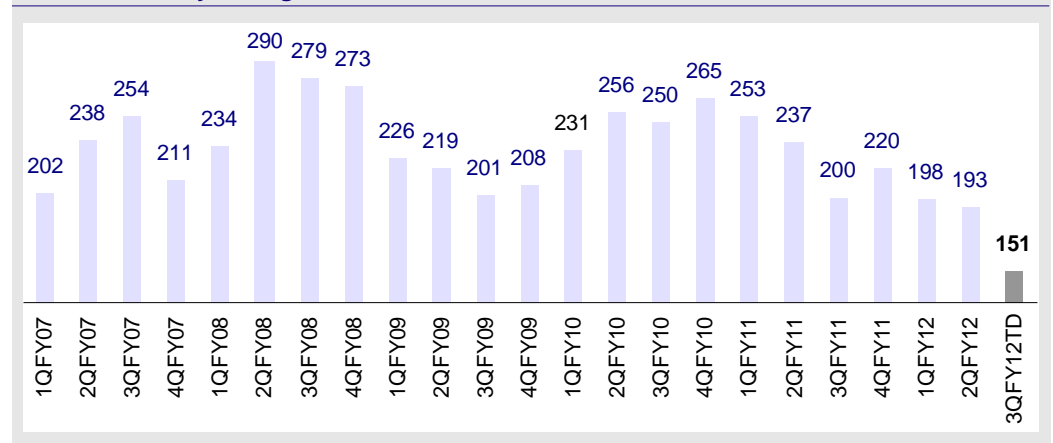
	FY11	FY12 (YTD)	Last month	Last month vs FY12	FY12 vs FY11
Zee TV	16.8	14.6	12.0	-2.6	-2.2
Zee Cinema	25.0	24.6	23.4	-1.2	-0.4
Zee Marathi	38.8	28.5	26.9	-1.7	-10.2
Zee Bangla	27.6	33.0	35.7	2.7	5.3
Zee Telugu	17.9	17.9	18.6	0.7	0.0
Zee Kannada	13.9	16.9	18.7	1.8	3.0

Source: Company/MOSL

**Hindi GEC market share: Zee TV has ceded third spot to Sony (%)**

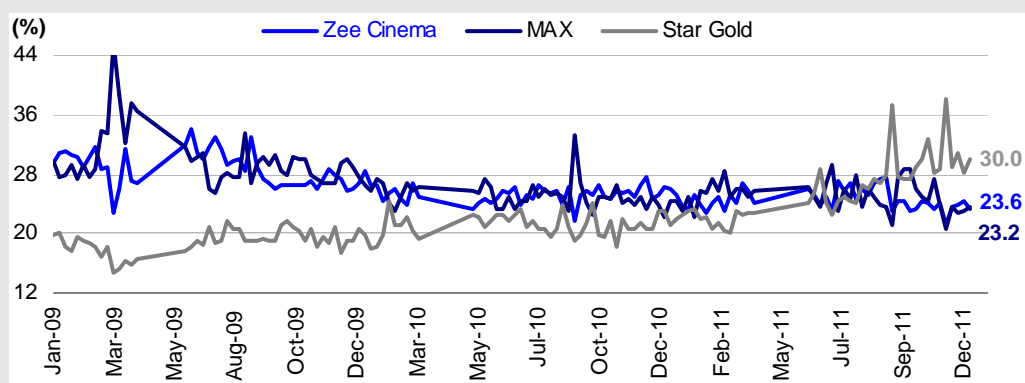


**Zee TV: Quarterly average GRP declined 22% QoQ at ~150**

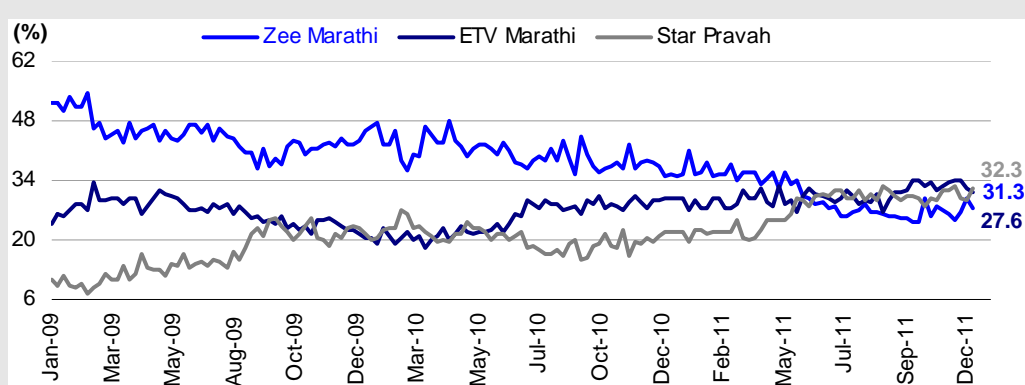


Source: Company/MOSL

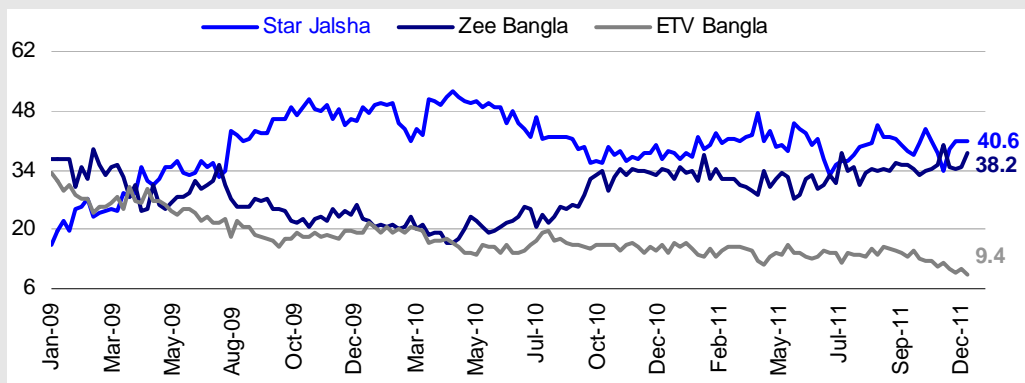
**Hindi movies market share (ex-IPL): Star Gold has taken leadership position post re-branding**



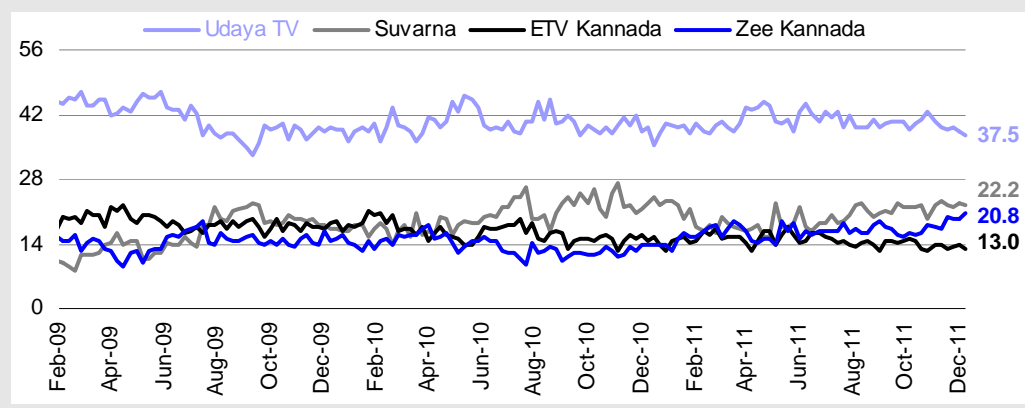
**Marathi GEC market share: Three-way competition for Zee v/s absolute leadership earlier**



**Bengali GEC market share: Zee has posted strong turnaround (%)**

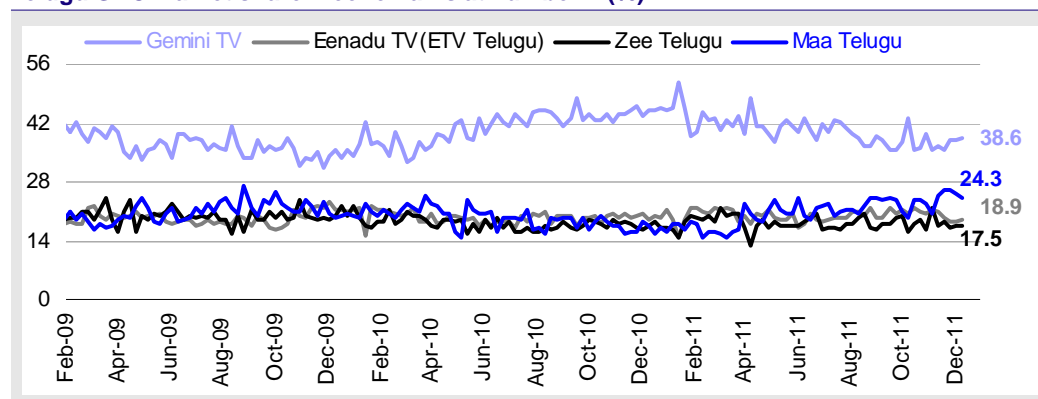


**Kannada GEC market share: Significant pick-up in Zee's ratings (%)**



Source: Exchange4media.com/MOSL

**Telugu GEC market share: Zee remains at number-4 (%)**

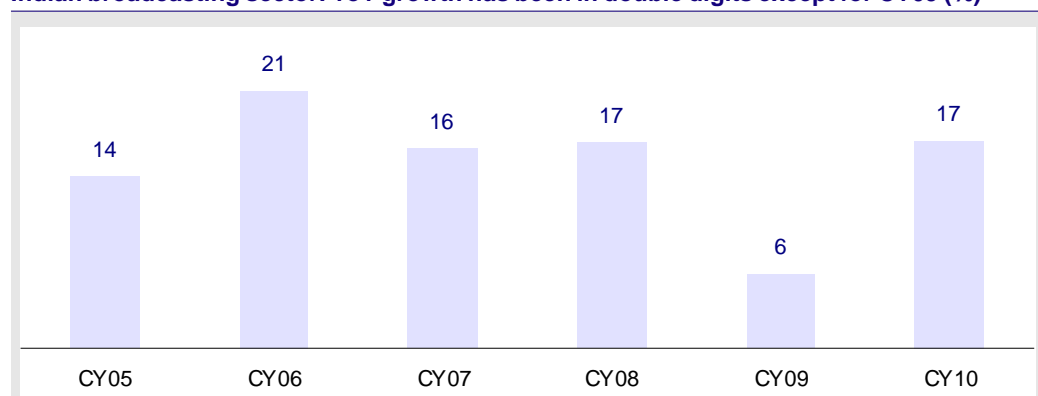


Source: Exchange4media.com/MOSL

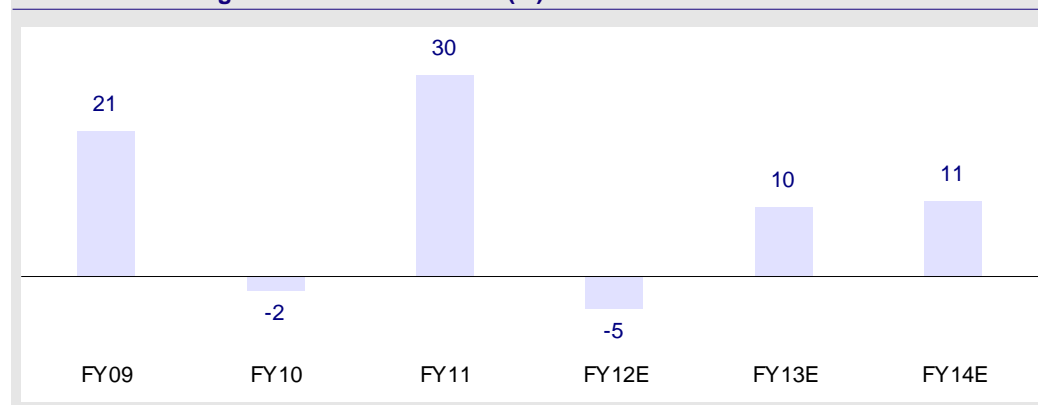
**Broadcasting industry ad growth in FY12 to be in mid-single digits; down YoY for ZEE**

Ad revenue for the broadcasting industry is expected at mid-single digits during FY12, as against the expectation of ~15% growth at the start of the year. ZEE is likely to underperform the industry, given (1) market share/leadership loss in some key genres like Hindi GEC, Hindi Movies and Marathi GEC, and (2) lower ad revenue from Sports business due to lack of India-specific cricket content. Our industry interactions indicate continued weakness in advertising market post the festive season in October; we believe our estimate of 5% decline in ZEE's ad revenue (including Sports) for FY12 could have downside risks. Our 10% ad growth estimate for FY13 assumes recovery in ad markets (no history of back-to-back single-digit/low growth years) as well as relatively better ratings performance by the flagship channel. Every 1% change in ad growth impacts EPS by ~2%.

**Indian broadcasting sector: YoY growth has been in double digits except for CY09 (%)**



**ZEE: Proforma ad growth to decline in FY12 (%)**

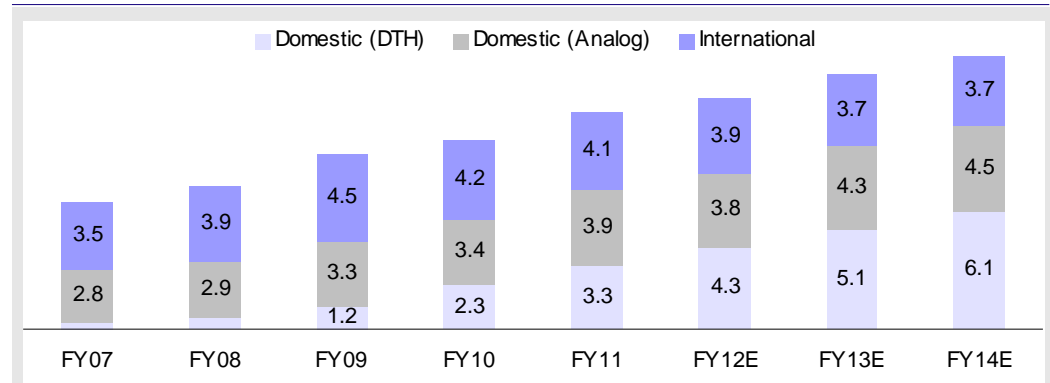


Source: Company/MOSL

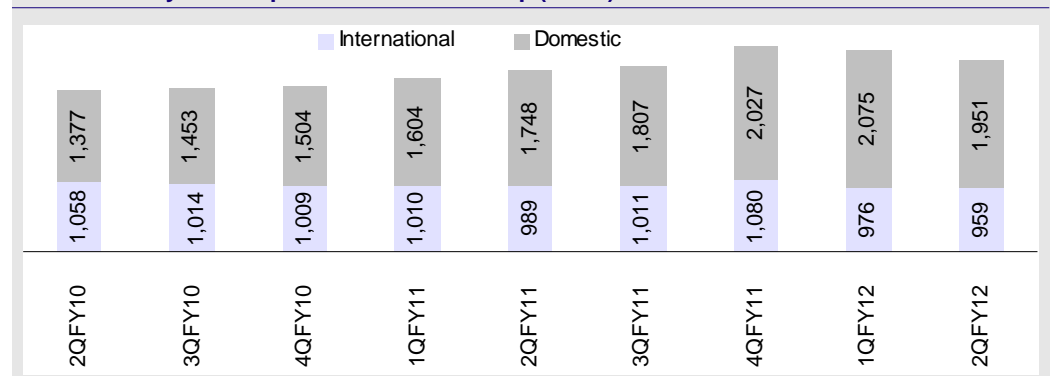
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We model acceleration in ZEE’s domestic subscription growth from ~12% in FY12 to ~18%, driven by (1) renegotiation of cable contracts by Media Pro (distribution JV with Star Den), and (2) increased revenue from digitization. Subscription revenue momentum in the international markets remains weak. We continue to model 4/5% decline during FY12/13 despite INR depreciation.

**ZEE: Subscription revenue break-up (INR b)**



**ZEE: Quarterly subscription revenue break-up (INR b)**

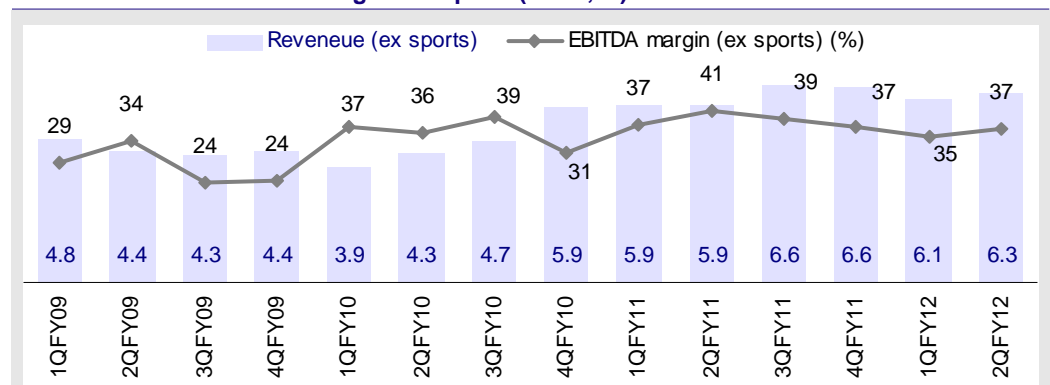


Source: Company/MOSL

**OPH at ~29 hours/week; core margins could decline given ratings pressure**

Zee TV is currently running ~29 hours/week of original programming hours (OPH) v/s 27-28 hours in 1HFY12. Despite the loss in ratings, the management is not looking towards any major overhaul but plans to steadily work towards getting back slot leaderships to regain the number-2 spot. Core (non-Sports) EBITDA margin for 2QFY12 was at a healthy 36.5% and is likely to be under pressure given the weak ad revenue environment and more investment in content.

**ZEE: Trend in EBITDA and margins ex-sports (INR b, %)**

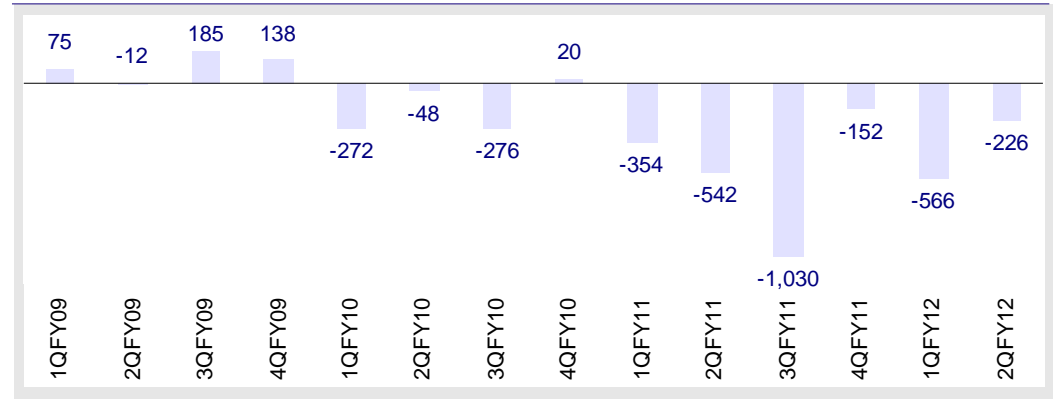


Source: Company/MOSL

**Sports loss guidance at <INR1b for FY12, ~INR0.5b for FY13**

In its Sports business, ZEE reported a loss of INR0.8b in 1HFY12. We expect Sports business loss for FY12 to be lower than the management’s guidance of ~INR1b. For FY13, the management has guided Sports business loss of INR0.5b.

**Sports business: Quarterly EBITDA loss (INR m)**

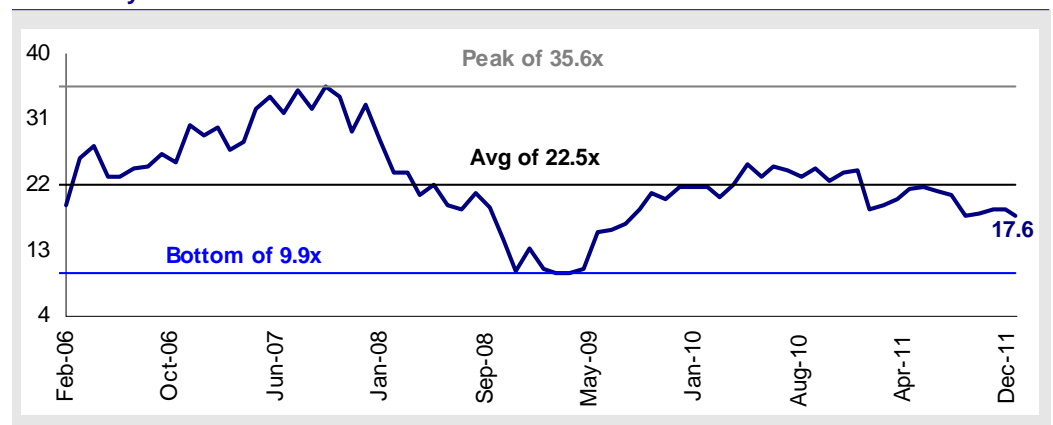


Source: Company/MOSL

**Expect 7% EPS CAGR over FY11-13; continued buyback could provide downside support to stock price; Neutral with a target price of INR110**

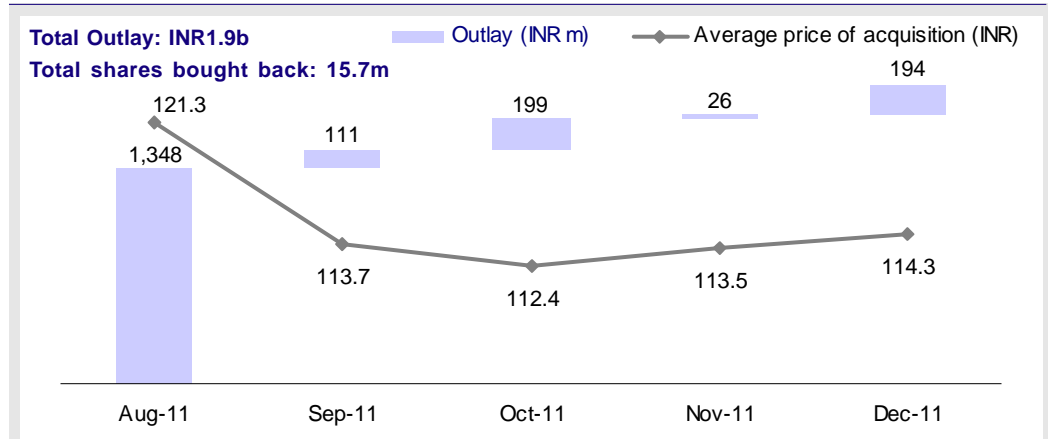
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**ZEE: One-year forward P/E bands**

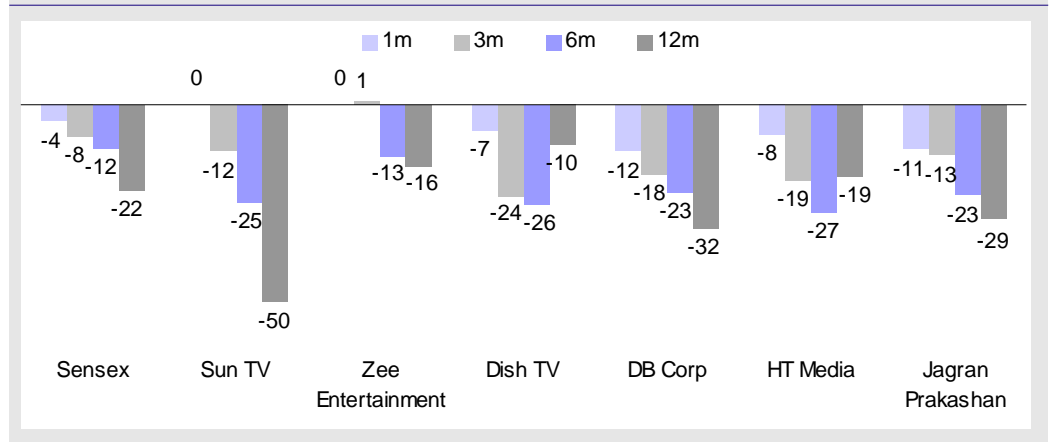


Source: Company/MOSL

**Month-wise outlay and average price of acquisition for buyback of shares (INR m)**



**Absolute performance of media companies (%)**



## Financials and Valuation

Income Statement					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Advertisement Revenues	9,307	10,593	10,680	17,085	16,295	17,981
Subscription Revenues	7,436	9,038	9,824	11,275	11,966	13,192
Other Sales & Services	1,611	2,143	1,462	1,053	923	928
<b>Net Sales</b>	<b>18,354</b>	<b>21,773</b>	<b>21,966</b>	<b>29,414</b>	<b>29,183</b>	<b>32,101</b>
Change (%)	21.1	18.6	0.9	33.9	-0.8	10.0
<b>Total Income</b>	<b>18,354</b>	<b>21,773</b>	<b>21,966</b>	<b>29,414</b>	<b>29,183</b>	<b>32,101</b>
<b>Total Expenses</b>	<b>12,931</b>	<b>16,293</b>	<b>15,880</b>	<b>21,849</b>	<b>21,069</b>	<b>23,321</b>
<b>EBITDA</b>	<b>5,423</b>	<b>5,480</b>	<b>6,087</b>	<b>7,565</b>	<b>8,114</b>	<b>8,780</b>
Change (%)	69.3	1.1	11.1	24.3	7.3	8.2
% of Net Sales	29.5	25.2	27.7	25.7	27.8	27.4
Depreciation	232	310	284	288	332	374
<b>EBIT</b>	<b>5,191</b>	<b>5,170</b>	<b>5,803</b>	<b>7,276</b>	<b>7,782</b>	<b>8,406</b>
Other Income	1,138	1,376	1,230	1,070	1,089	1,558
Interest & Finance Charges	335	450	350	103	142	122
Extraordinary Income	208	759	303	897	0	0
<b>PBT</b>	<b>5,786</b>	<b>6,854</b>	<b>6,986</b>	<b>9,140</b>	<b>8,729</b>	<b>9,843</b>
Tax	1,634	1,633	2,210	2,751	2,619	3,150
Effective Rate (%)	28.2	23.8	31.6	30.1	30.0	32.0
<b>PAT</b>	<b>4,152</b>	<b>5,221</b>	<b>4,776</b>	<b>6,390</b>	<b>6,110</b>	<b>6,693</b>
Minority Interest	328	98	-213	-118	45	36
Extraordinary Income	26	759	303	656	0	0
<b>Adj. PAT</b>	<b>3,799</b>	<b>4,365</b>	<b>4,686</b>	<b>5,852</b>	<b>6,065</b>	<b>6,657</b>
Change (%)	49.4	14.9	7.3	24.9	3.6	9.8

Balance Sheet					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Share Capital	867	868	978	978	978	978
Reserves	27,744	33,127	37,322	29,970	33,189	36,723
<b>Net Worth</b>	<b>28,611</b>	<b>33,995</b>	<b>38,300</b>	<b>30,948</b>	<b>34,167</b>	<b>37,701</b>
Minority Interest	1,117	948	22	-119	-119	-119
Loans	3,866	5,757	1,195	17	17	17
Deffered tax liability	-243	-113	-133	-192	0	0
<b>Capital Employed</b>	<b>33,351</b>	<b>40,587</b>	<b>39,384</b>	<b>30,654</b>	<b>34,065</b>	<b>37,599</b>
<b>Net Fixed Assets</b>	<b>14,986</b>	<b>17,423</b>	<b>18,479</b>	<b>8,064</b>	<b>8,039</b>	<b>8,165</b>
Capital WIP	619	669	1,108	399	399	399
Investments	2,515	1,271	3,203	6,964	6,964	6,964
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>21,508</b>	<b>27,026</b>	<b>24,435</b>	<b>23,026</b>	<b>26,517</b>	<b>30,498</b>
Program Films	2,442	4,532	4,671	5,382	5,357	5,912
Inventory	32	44	42	14	45	49
Sundry Debtors	5,907	6,437	7,488	8,955	9,754	10,730
Cash & Bank Balances	1,652	1,926	5,864	3,858	6,164	8,091
Loans & Advances	11,475	14,087	6,370	4,818	5,197	5,717
<b>Current Liab. &amp; Prov.</b>	<b>6,279</b>	<b>5,803</b>	<b>7,840</b>	<b>7,801</b>	<b>7,854</b>	<b>8,428</b>
Sundry Creditors	3,213	3,250	4,376	4,238	4,329	4,792
Other Liabilities	939	1,067	1,023	1,077	1,039	1,150
Provisions	2,127	1,486	2,441	2,486	2,486	2,486
<b>Net Current Assets</b>	<b>15,230</b>	<b>21,223</b>	<b>16,594</b>	<b>15,225</b>	<b>18,663</b>	<b>22,070</b>
<b>Appl. of Funds</b>	<b>33,351</b>	<b>40,587</b>	<b>39,384</b>	<b>30,654</b>	<b>34,066</b>	<b>37,599</b>

E: MOSL Estimates

## Financials and Valuation

### Ratios

Y/E March	2008	2009	2010	2011	2012E	2013E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>4.4</b>	<b>5.0</b>	<b>5.2</b>	<b>6.0</b>	<b>6.2</b>	<b>6.8</b>
Cash EPS	4.6	5.4	5.1	6.3	6.5	7.2
Book Value per Share	33.0	39.2	39.2	31.6	34.9	38.5
DPS	2.0	2.0	1.4	2.4	2.5	2.7
Payout (Incl. Div. Tax) %	20.9	16.6	30.0	40.0	40.0	40.0

### Valuation

P/E	26.7	23.4		19.6	18.9	17.3
Cash P/E	25.2	21.8		18.7	18.0	16.3
EV/EBITDA	9.8	10.0		14.7	13.4	12.2
EV/Sales	2.9	2.5		3.8	3.7	3.3
Price/Book Value	3.7	3.1		3.8	3.5	3.1
Dividend Yield (%)	1.7	1.7		2.0	2.1	2.3

### Profitability Ratios (%)

RoE	14.1	13.9	13.0	16.9	18.6	18.5
RoCE	20.6	18.2	17.8	23.8	27.3	27.7

### Turnover Ratios

Debtors (No. of Days)	117	108	124	111	122	122
Inventory (No. of Days)	96	156	160	115	120	120
Creditors (No. of Days)	91	73	101	71	75	75
Asset Turnover (x)	0.6	0.5	0.6	1.0	0.9	0.9

### Leverage Ratio

Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0	0.0
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### Cash Flow Statement

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	5,191	5,170	5,803	7,276	7,782	8,406
Interest/Div. Received	1,138	1,376	1,230	1,070	1,089	1,558
Interest paid	-335	-450	-350	-103	-142	-122
Depreciation & Amort.	232	310	284	288	332	374
Direct Taxes Paid	-1,634	-1,633	-2,210	-2,751	-2,619	-3,150
(Inc)/Dec in Wkg. Capital	-1,655	-5,719	8,567	-638	-1,131	-1,480
<b>CF from Oper. Activity</b>	<b>2,938</b>	<b>-946</b>	<b>13,324</b>	<b>5,143</b>	<b>5,311</b>	<b>5,587</b>
Extraordinary Items	26	759	303	656	0	0
<b>CF after EO Items</b>	<b>26</b>	<b>759</b>	<b>303</b>	<b>656</b>	<b>0</b>	<b>0</b>
(Inc)/Dec in FA + CWIP	-893	-2,797	-1,779	10,835	-306	-500
(Pur)/Sale of Invest.	-190	1,244	-1,932	-3,761	0	0
<b>CF from Invest. Activity</b>	<b>-1,083</b>	<b>-1,553</b>	<b>-3,711</b>	<b>7,074</b>	<b>-306</b>	<b>-500</b>
Issue of Shares	-722	992	-10	-11,602	-272	-497
Inc/(Dec) in Debt	640	1,891	-4,562	-1,178	0	0
Dividends Paid	-868	-868	-1,406	-2,341	-2,426	-2,663
Others	-233	0	0	0	0	0
<b>CF from Finan. Activity</b>	<b>-1,183</b>	<b>2,015</b>	<b>-5,978</b>	<b>-15,121</b>	<b>-2,699</b>	<b>-3,159</b>
Inc/(Dec) in Cash	698	274	3,938	-2,006	2,306	1,927
Add: Beginning Balance	955	1,652	1,926	5,864	3,858	6,164
<b>Closing Balance</b>	<b>1,653</b>	<b>1,926</b>	<b>5,864</b>	<b>3,858</b>	<b>6,164</b>	<b>8,091</b>

E: MOSL Estimates

# Motilal Oswal Company Gallery

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 Out of turbulence

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