Zee Entertainment Enterprises (ZEE) has announced the launch of India’s first 24-hour Bengali movie channel, *Zee Bangla Cinema*. In our view, the latest launch further exemplifies ZEE’s increasing focus on key regional markets (ZEE has increased investments in Tamil Nadu which is the largest regional market). This will fortify its presence in Bengal (one of the largest regional markets) post its strong resurgence in the local GEC market. Though this launch might lead to compression in near-term margins, we believe that the positive impact of digitisation on subscription revenue and long term value created by new channels (*Zee Bangla Cinema*, *Zee Tamizh*, *Zee Alwan*, etc) will help reap returns for ZEE. Maintain ‘BUY’.

**Bangla movie channel extends ZEE’s aggressive content strategy**

*Zee Bangla Cinema*, to be launched on September 23rd, has an extensive library of 400 movie titles. Initially, the channel will be distributed in West Bengal, New Delhi, Bangalore, Mumbai, Jharkhand and New York. This launch is in line with ZEE’s aggressive content strategy, which seems to be paying off. As per the latest rankings, *Zee TV*’s *DID Superkids* received ratings of 4.6TVR, higher than *Sony*’s *KBC* (4.3TVR). This also helped *Zee TV* stay ahead of *Sony* in terms of overall viewership (allaying earlier fears that *KBC* will create an upheaval the rankings).

**FDI norms, dip in DTH churn augur well for digitisation**

The Govt has notified FDI in broadcast norms as per which cable and DTH companies will have to provide identity of customers (KYC forms). According to the latest Media Partners Asia (MPA) report, in H1CY12, the DTH industry has added 4.4mn gross subscribers while reducing the churn rates.

**Outlook and valuations: Positive; maintain ‘BUY’**

Sturdy free cash flow generation, “~INR11bn net cash, minimal debt, and an increasing payout are key positives. At CMP of INR185, the stock is trading at P/E of 26.6x and 22.6x FY13E and FY14E earnings, respectively. Maintain ‘BUY/Sector Outperformer’.

### Financials

<table>
<thead>
<tr>
<th>Year to March</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (INR mn)</td>
<td>30,088</td>
<td>30,405</td>
<td>33,083</td>
<td>36,914</td>
</tr>
<tr>
<td>Rev. growth (%)</td>
<td>36.8</td>
<td>1.1</td>
<td>8.8</td>
<td>11.6</td>
</tr>
<tr>
<td>EBITDA (INR mn)</td>
<td>8,219</td>
<td>7,395</td>
<td>8,701</td>
<td>10,447</td>
</tr>
<tr>
<td>Core profit (INR mn)</td>
<td>6,055</td>
<td>5,906</td>
<td>6,653</td>
<td>7,849</td>
</tr>
<tr>
<td>Diluted EPS (INR)</td>
<td>6.3</td>
<td>6.1</td>
<td>6.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Dil. EPS post-digitisation (INR)*</td>
<td>6.3</td>
<td>6.1</td>
<td>7.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Diluted P/E (x)</td>
<td>21.5</td>
<td>30.1</td>
<td>26.6</td>
<td>22.6</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>14.8</td>
<td>22.4</td>
<td>18.5</td>
<td>15.0</td>
</tr>
<tr>
<td>ROAE (%)</td>
<td>17.5</td>
<td>18.1</td>
<td>18.1</td>
<td>18.7</td>
</tr>
</tbody>
</table>

* Only this line item factors in the post-digitisation impact

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ZEE ENTERTAINMENT ENTERPRISES

Bangla movie channel to firm up regional efforts

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