

Zee Entertainment Enterprises Ltd.

Rs 128

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

Strong subscription revenue growth lead the quarter..

HOLD

Target Price(Rs): Rs 136

Potential upside: 6%

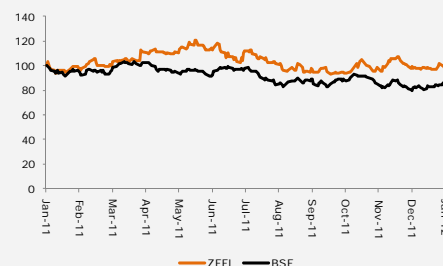
Previous TP : Rs 129

Market Data	
Shares outs (Cr)	97.8
Equity Cap (Rs. Cr)	97.8
Mkt Cap (Rs Cr)	12,322
52 Wk H/L (Rs)	145.8/107.3
Avg Vol (1yr Avg)	19,08,990
Face Value (Rs)	1
Bloomberg Code	Z.IN

Market Info:

SENSEX	17,154
NIFTY	5,180

Price Performance



Share Holding pattern (%)

Particulars	Dec-11	Sept-11	% Chg
Promoter	43.51	43.31	0.5
FII	35.64	35.00	1.8
DII	12.80	13.20	-3.0
Others	8.05	8.49	-5.2
Total	100	100	

Source: BSE

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Zee entertainment's Q3FY12 numbers were in line with our estimates. Net sales stood Rs 755crs, a marginal growth of 5% over QoQ and were down 8.5% YoY mainly on account of lower advertising revenue. EBITDA for the quarter was Rs 216crs which was up by 3.8% QoQ and declined by 3.5% YoY. EBITDA margin was 28.6%, marginally down by 40bps over Q2FY12 and up by 150bps YoY. Net profit for the quarter was Rs 136cr, degrowth of 17.3% QoQ and 14.7% YoY. Strong subscription revenue was commendable however decline in advertising revenue shows signs of lower advertising spend more eminent.

In spite of festive season, advertising revenue disappointed..

ZEEL reported advertising revenue of Rs 396cr, a growth of just 0.1% QoQ and down by 10% YoY. Generally Q3 is the strongest quarter in terms of advertising revenue on the back of festive season, however the company missed the trend as advertising spend has come down substantially. The management is optimistic about the advertising spends to come on track.

Strong subscription revenue stole the show..

The company reported subscription revenue of Rs 326cr, a strong growth of 12% QoQ and 15.7% YoY. This was driven by Zee Star JV had many contracts renewal which lead to growth in subscription revenue. However the management guided this growth is not sustainable going forward.

Sports losses to shrink..

Earlier the management has guided Rs 100cr loss for their sports property. The company had reported loss of 78cr in H1FY12 and Rs 10cr in Q3FY12. Lower loss in sports property will improve the margins going ahead

Valuation and view

Media industry and particularly broadcasting companies are going through a bad patch of slowdown in advertising spend. We believe companies in this space will post early single digit advertising growth for FY12E. We remain positive on ZEEL as subscription revenue will grow at healthy rate. Also reduced losses in sports segment will help to improve margins and positive development on Sports business front. The stock is trading at 20.9x and 19x PE to FY12E and FY13E respectively. We maintain our 'HOLD' recommendation on the stock with a target price of Rs 136 by assigning multiple of 20x PE to its FY13E EPS of Rs 6.8.

Exhibit 1:Key Financial

Particulars	FY10	FY11	FY12E	FY13E
Revenue	2200	3011	3192	3511
Ebitda	614	826	773	851
PAT	596	636	599	660
Ebitda Margin (%)	28%	27%	24%	24%
Npm (%)	27%	21%	19%	19%
Eps, Rs	6.1	6.5	6.1	6.8
P/E, X	21.0	19.7	20.9	19.0
EV/Ebitda	19.4	14.7	15.4	13.8
RoE	16%	21%	17%	17%

Source: Company data, KRChoksey Research

Exhibit 2: Q3FY12 Consolidated Result

Particulars (Rs Crs)	Q3FY12	Q2FY12	q-o-q	Q3FY11	y-o-y
Advertising Revenue	396	395	0.1%	440	-10.1%
Subscription Revenue	326	291	12.1%	282	15.7%
Other operating income	33	32	3.7%	103	-67.8%
Total sales	755	718	5.1%	825	-8.5%
Programming & Operating cost	342	322	6.3%	415	-17.6%
Other expenses	197	188	4.6%	186	6.0%
EBITDA	216	208	3.8%	224	-3.5%
EBITDA Margin (Excl OI)	28.6%	29.0%	-40bps	27.1%	150bps
Other income	34	28	21.4%	23	47.8%
Depreciation	7	8	-7.3%	8	-7.3%
EBIT	243	228	6.4%	239	1.6%
Interest cost	18	6	226.8%	2	667.9%
PBT	224	222	0.9%	236	-5.1%
Tax	87	62	39.8%	82	5.7%
PAT before minority interest	138	160	-14.2%	154	-10.9%
Minority interest	2	4	-57.0%	5	-65.6%
Net profit	136	164	-17.3%	159	-14.7%
Net profit margin (%)	18.0%	22.9%	-490bps	19.3%	-130bps

Source: Company data, KRChoksey Research

Key Highlights of the Concall

- ZEEL witnessed pressure on advertising front in Q2FY12 and the management expects it to continue going forward.
- The management guided single digit growth in advertising revenue y-o-y if things get better in H2FY12.
- Sports business reported revenue of Rs 88cr while the operating losses were at Rs 22.6cr.
- The management guided increase in programming hours with launce of 2 new serials on flagship channel.
- The company has net cash of Rs 11.1bnat the end of Q2FY12.
- Tax rate for FY12E is likely to be 30%.

Exhibit 4: Income Statement

Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Total income	2200	3011	3192	3511
Programming & operating cost	945	1439	1583	1741
Other operating expenses	641	746	836	919
Total expenditure	1586	2185	2419	2660
EBITDA (Excl OI)	614	826	773	851
Other income	122	83	100	110
EBITDA (Incl OI)	736	909	873	961
Depreciation	29	26	30	35
EBIT	707	883	843	926
Interest cost	33	10	5	0
PBT	674	873	838	926
Exceptional items	0	20	0	0
Tax expenses	115	283	251	278
Excess tax provision write back	57	14	0	0
PAT before MI	616	624	587	648
Minority interest	20	12	12	12
PAT	596	636	599	660

Source: Company data, KRChoksey Research

Exhibit 5: Balance Sheet

Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Sources of fund				
Share Capital	49	98	98	98
Reserves & Surplus	3,781	2,997	3,356	3,781
Net worth	3,830	3,095	3,454	3,879
Total debt	119	2	0	0
Total	3,949	3,097	3,454	3,879
Application of funds				
Net Block	1,960	846	1,015	1,218
Investments	320	696	775	850
Deferred tax net assets	13	19	19	19
Current assets, Loans and advances				
Inventories	471	540	787	866
Sundry debtors	749	895	1224	1202
Cash and bank balances	586	386	583	789
Loans and advances	632	480	656	702
Less: Current liabilities and provisions				
less: Current liabilities	540	531	568	625
less: Provisions	244	246	262	289
Net current assets	1,654	1,524	1,632	1,780
Minority Interest	2	12	12	12
Total	3,949	3,097	3,454	3,879

Source: Company data, KRChoksey Research

Exhibit 6: Cash Flow

Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Cash flow from operating activities				
Profit before taxation	673.8	873.0	838.0	926.0
Depreciation and amortization	29.0	26.0	30.0	35.0
Interest expense	33.0	10.0	5.0	0.0
Operating profit before working capital changes	738.7	895.8	858.5	947.0
Net cash from operating activities	1492.0	1198.3	617.7	660.8
Net cash from/ (used) in investment activity	-370.9	-1267.0	-293.5	-304.8
Net cash flow used in financing activity	-727.7	-131.0	-127.0	-150.0
Net increase/ (decrease) in cash & cash equivalent	393.4	-199.7	197.2	206.0
Cash & cash equivalents at the beginning of the year	192.6	586.0	386.0	583.0
Cash & cash equivalent at the end of the year	586.0	386.0	583.0	789.0

Source: Company data, KRChoksey Research

Exhibit 7: Ratios

Particulars, Rs Cr	FY10	FY11E	FY12E	FY13E
EBITDA Margin %	28%	27%	24%	24%
Net Profit Margin %	27%	21%	19%	19%
Revenue growth (%)	1%	37%	6%	10%
Net profit growth (%)	14%	7%	-6%	10%
eps, Rs	6.1	6.5	6.1	6.8
p/e, x	21.0	19.7	20.9	19.0
P/BV, x	3.3	4.0	3.6	3.2
ev/ebitda	19.4	14.7	15.4	13.8
Return on Equity %	16%	21%	17%	17%

Source: Company data, KRChoksey Research

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Zee Entertainment Enterprises Ltd.			
	CMP (Rs)	TP (Rs)	Recommendation
27-Jan-2012	128	136	HOLD
18-Oct-2011	113	129	HOLD
22-July-2011	129	150	HOLD
20-April-2011	135	154	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 - 5%
Sell	Less than 0%

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