

January 24, 2012

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	Accumulate
Rating	
Price	Rs119
Target Price	Rs130
Implied Upside	9.2%
Sensex	16,996
Nifty	5,127

(Prices as on January 24, 2012)

Trading data

Market Cap. (Rs bn)	116.7
Shares o/s (m)	978.1
3M Avg. Daily value (Rs m)	163.5

Major shareholders

Promoters	43.51%
Foreign	35.64%
Domestic Inst.	12.80%
Public & Other	8.05%

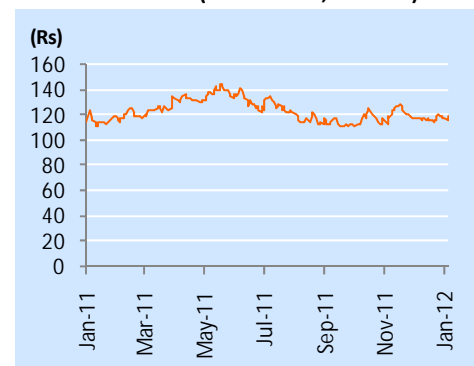
Stock Performance

(%)	1M	6M	12M
Absolute	1.2	(11.0)	(0.7)
Relative	(6.8)	(1.7)	10.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	7.2	7.2	0.8
2014	8.4	8.4	0.1

Price Performance (RIC: ZEE.BO, BB: Z IN)



Source: Bloomberg

- Ad revenues decline; pay revenues record strong growth:** Zee Entertainment (ZEEL) has recorded a 10% YoY decline in ad revenues, owing to a high base in Q3FY11 when the India-South Africa series was aired. The slippage in the ratings for flagship channel, *Zee TV*, also contributed to the decline. Subscription revenues grew by 12% QoQ driven by 14% QoQ growth in domestic revenues as *Media Pro* renegotiated distribution deals on DTH and cable. International pay revenues also showed strong growth of 8% QoQ, driven by the weakness in INR.
- Sports business losses in line with guidance:** Lack of major cricket properties helped cut losses in the sports business to Rs100m (loss of Rs1.03bn in Q3FY11) on revenues of Rs901m. For 9MFY12, sports losses are Rs892m (down 54% YoY), amounting to ~89% of the FY12 loss guidance of Rs1bn.
- Reduced sports drag helps boost margin despite flat revenue:** Lower losses on the Sports business led to lower programming costs at 45% of revenue in Q3FY12 (55% in Q3FY11) even as non-sports costs (grossed up for subscription related expenses) continued to trend upwards. Increased programming hours on Zee TV and the regional channels and aggressive acquisition of satellite rights has led to 14% YoY increase in non-sports programming costs.
- Outlook:** The strong growth in domestic subscription revenues will help profitability despite weak ad revenues and structurally rising core programming costs. Any turnaround in ratings and ad revenues could provide significant margin expansion on the higher pay revenue base. Benefits of the Media Pro distribution JV continues to remain the primary trigger for Zee, going forward. We have adjusted our EPS upwards for FY12E (5%) and FY13E (4%) to account for better-than-expected subscription revenues. Maintain our '**Accumulate**' rating, with a **target price of Rs 130 (Rs 126)**.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	30,135	29,652	33,066	36,623
Growth (%)	37.0	(1.6)	11.5	10.8
EBITDA (Rs m)	8,265	8,205	9,809	11,518
PAT (Rs m)	6,030	5,901	6,957	8,098
EPS (Rs)	6.2	6.1	7.2	8.4
Growth (%)	(50.2)	(0.5)	17.9	16.4
Net DPS (Rs)	2.0	1.2	1.4	1.7

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	27.4	27.7	29.7	31.5
RoE (%)	17.4	18.3	19.2	19.3
RoCE (%)	17.0	18.8	19.2	19.3
EV / sales (x)	3.7	3.7	3.2	2.8
EV / EBITDA (x)	13.7	13.5	10.8	8.8
PE (x)	19.3	19.4	16.5	14.2
P / BV (x)	3.8	3.4	3.0	2.5
Net dividend yield (%)	1.7	1.0	1.2	1.4

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	7,548	7,548	(0.0)	7,184	21,714	21,434	1.3
Programming & Operating Cost	3,422	4,152	(17.6)	3,224	10,069	10,660	(5.5)
<i>% of net sales</i>	<i>45.3</i>	<i>55.0</i>		<i>44.9</i>	<i>46.4</i>	<i>49.7</i>	
Staff Cost	731	687	6.5	688	2,166	1,927	12.4
<i>% of net sales</i>	<i>9.7</i>	<i>9.1</i>		<i>9.6</i>	<i>10.0</i>	<i>9.0</i>	
Selling & Other Expenditure	1,236	1,169	5.7	1,197	3,685	3,551	3.8
<i>% of net sales</i>	<i>16.4</i>	<i>15.5</i>		<i>16.7</i>	<i>17.0</i>	<i>16.6</i>	
Total Expenses	5,389	6,008	(10.3)	5,108	15,920	16,138	(1.3)
<i>% of net sales</i>	<i>71.4</i>	<i>79.6</i>		<i>71.1</i>	<i>73.3</i>	<i>75.3</i>	
Operating profit	2,160	1,541	40.1	2,076	5,795	5,297	9.4
<i>OPM (%)</i>	<i>28.6</i>	<i>20.4</i>		<i>28.9</i>	<i>26.7</i>	<i>24.7</i>	
Other income	340	232	46.3	279	874	598	46.1
EBITDA	2,499	1,773	41.0	2,355	6,668	5,895	13.1
<i>EBITDA margins (%)</i>	<i>33.1</i>	<i>23.5</i>		<i>32.8</i>	<i>30.7</i>	<i>27.5</i>	
Depreciation	74	78	(4.6)	78	241	196	23.0
Interest	182	24	668.8	56	268	79	239.3
Profit before tax	2,243	1,672	34.2	2,221	6,159	5,620	9.6
Extraordinary income	(55)	700	(107.9)	-	(55)	991	(105.6)
Tax	812	818	(0.7)	621	1,827	2,292	(20.3)
<i>Tax rate (%)</i>	<i>36.2</i>	<i>48.9</i>		<i>28.0</i>	<i>29.7</i>	<i>40.8</i>	
PAT before minority interest & exceptional items	1,431	854	67.6	1,600	4,332	3,328	30.2
Less: Minority interest	17	45	(62.1)	40	22	8	181.8
Add Share of profit/ (Loss) in unconsolidated subsidiaries	-	-		-	-	-	
Adjusted profit after tax	1,414	809	74.9	1,560	4,310	3,320	29.8
Exceptional Items	(55)	700		-	(55)	991	
Reported profit after tax	1,359	1,509	(9.9)	1,560	4,255	4,311	(1.3)

Source: Company Data, PL Research

Exhibit 2: Segmental Revenues (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Advertisement	3,955	4,398	(10.1)	3,949	11,692	12,288	(4.9)
Subscription	3,262	2,818	15.7	2,909	9,222	8,169	12.9
Others	332	333	(0.3)	324	801	977	(18.0)
Total revenues	7,548	7,548	(0.0)	7,183	21,714	21,434	1.3

Source: Company Data, PL Research

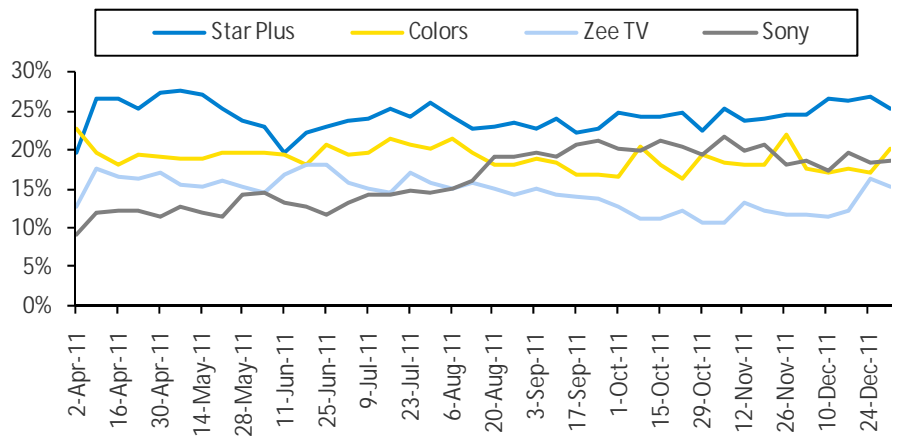
Other highlights and takeaways from earnings call

Buy-back: Up to December 31, 2011, 16.7m shares have been bought back at an average cost of Rs119.6/share (total cost of ~Rs2bn out of maximum buy-back amount of Rs7bn). ZEEL has extinguished 16.45m shares and the paid-up equity capital at the end of Q3FY12 and stands at 961.69m shares of Re 1 each. In Q4FY12, the company has bought back additional 1.24m shares till January 20, 2012.

Aggression on content to continue: Zee expects to increase the original hours of programming from the current 29 hrs/week currently to ~36 hrs/ week by next year. The management also indicated that they will continue to bid aggressively for satellite rights.

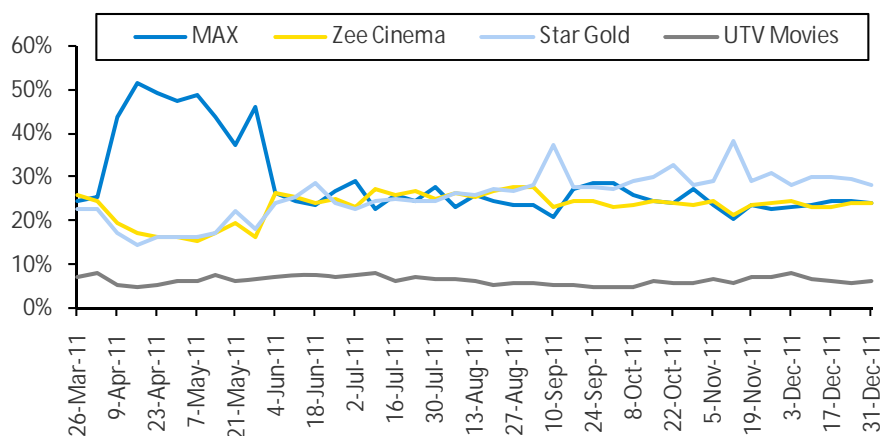
End-Q3FY12 gross debt: Rs728m; Cash and cash equivalents: Rs1.1bn

Exhibit 3: Sony's success further fragments the Hindi GEC space



Source: TAM

Exhibit 4: Aggressive acquisition of satellite rights to drive Hindi movies space



Source: TAM

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	30,135	29,652	33,066	36,623
Raw Material Expenses	14,369	13,488	14,386	15,354
Gross Profit	15,766	16,165	18,680	21,269
Employee Cost	2,738	2,957	3,346	3,748
Other Expenses	4,762	5,002	5,526	6,003
EBITDA	8,265	8,205	9,809	11,518
Depr. & Amortization	288	326	353	375
Net Interest	104	313	179	188
Other Income	851	1,138	954	953
Profit before Tax	8,725	8,704	10,231	11,908
Total Tax	2,813	2,803	3,274	3,811
Profit after Tax	5,912	5,901	6,957	8,097
Ex-Od items / Min. Int.	(118)	—	—	—
Adj. PAT	6,030	5,901	6,957	8,098
Avg. Shares O/S (m)	978.1	961.7	961.7	961.7
EPS (Rs.)	6.2	6.1	7.2	8.4

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	5,727	3,458	5,474	6,547
C/F from Investing	(4,990)	920	723	706
C/F from Financing	(2,951)	(1,875)	(1,551)	(1,805)
Inc. / Dec. in Cash	(2,214)	2,503	4,646	5,448
Opening Cash	6,072	3,858	4,426	9,073
Closing Cash	3,858	4,426	9,073	14,520
FCFF	5,715	2,764	6,264	7,330
FCFE	4,537	3,475	6,264	7,330

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	37.0	(1.6)	11.5	10.8
EBITDA (%)	34.7	(0.7)	19.5	17.4
PAT (%)	(0.5)	(2.1)	17.9	16.4
EPS (%)	(50.2)	(0.5)	17.9	16.4

Profitability

EBITDA Margin (%)	27.4	27.7	29.7	31.5
PAT Margin (%)	20.0	19.9	21.0	22.1
RoCE (%)	17.0	18.8	19.2	19.3
RoE (%)	17.4	18.3	19.2	19.3

Balance Sheet

Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	5	21	18	17

Valuation

PER (x)	19.3	19.4	16.5	14.2
P / B (x)	3.8	3.4	3.0	2.5
EV / EBITDA (x)	13.7	13.5	10.8	8.8
EV / Sales (x)	3.7	3.7	3.2	2.8

Earnings Quality

Eff. Tax Rate	32.2	32.2	32.0	32.0
Other Inc / PBT	9.8	13.1	9.3	8.0
Eff. Depr. Rate (%)	8.2	7.8	7.9	7.8
FCFE / PAT	75.2	58.9	90.0	90.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	30,948	33,544	38,884	45,099
Total Debt	17	728	728	728
Other Liabilities	(118)	(119)	(119)	(119)
Total Liabilities	30,846	34,153	39,493	45,709
Net Fixed Assets	2,320	2,320	2,320	2,320
Goodwill	6,144	6,094	6,045	5,995
Investments	6,964	6,964	6,965	6,965
Net Current Assets	15,225	18,582	23,972	30,237
Cash & Equivalents	3,858	4,426	9,073	14,520
Other Current Assets	20,512	22,960	24,275	25,706
Current Liabilities	9,145	8,804	9,376	9,989
Other Assets	193	193	193	193
Total Assets	30,846	34,153	39,493	45,709

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	7,980	6,983	7,184	7,548
EBITDA	2,269	1,561	2,076	2,160
% of revenue	28.4	22.3	28.9	28.6
Depr. & Amortization	68	89	78	74
Net Interest	23	31	56	182
Other Income	228	255	279	340
Profit before Tax	2,406	1,696	2,221	2,243
Total Tax	501	394	621	812
Profit after Tax	1,954	1,337	1,560	1,359
Adj. PAT	1,941	1,337	1,560	1,414

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Ad Rev (Rs m)	17,010	16,094	17,572	19,037
Total Pay Rev (Rs m)	11,259	12,471	14,538	16,744
DTH Rev (Rs m)	3,295	4,481	5,826	7,573
Cable Rev (Rs m)	3,870	4,019	4,701	5,120
Int. Cable Rev (Rs m)	4,094	3,971	4,011	4,051

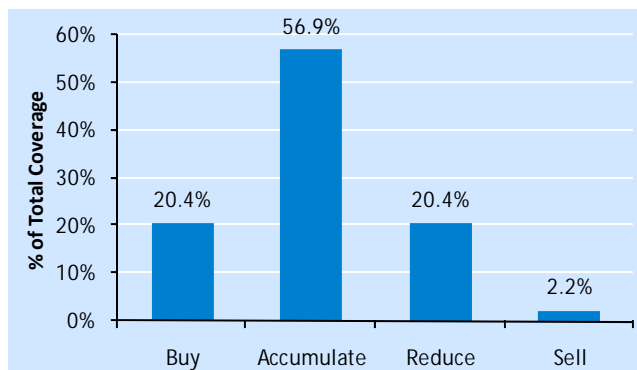
Ad rev growth (%)	59.4	(5.4)	9.2	8.3
DTH rev growth (%)	46.7	36.0	30.0	30.0

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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