

Zee Entertainment

 BSE SENSEX
 19,501

 S&P CNX
 5,898

CMP: INR224
TP: INR232
Neutral


Bloomberg	Z IN
Equity Shares (m)	958.8
M.Cap. (INR b)/(USD b)	214.8/4.0
52-Week Range (INR)	247/119
1,6,12 Rel. Perf. (%)	3/22/63

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Net Sales	36.5	41.6	47.9
EBITDA	9.3	10.7	13.2
Adj. Net Profit	7.1	8.1	10.1
Adj. EPS (INR)	7.4	8.5	10.6
Adj. EPS Gr. (%)	25.8	14.0	24.9
BV/Sh (INR)	41.1	47.1	54.5
RoE (%)	19.3	19.2	20.8
RoCE (%)	27.9	27.7	30.0
Div. Payout (%)	25.0	25.0	25.0

Valuations

P/E (x)	30.2	26.5	21.2
P/BV (x)	5.6	4.9	4.2
EV/EBITDA (x)	21.6	18.5	14.8
Div. Yield (%)	0.8	0.9	1.2

Shareholding pattern %

As on	Dec-12	Sep-12	Dec-11
Promoter	43.4	43.4	43.5
Dom. Inst	11.4	12.6	12.8
Foreign	37.8	36.4	35.9
Others	7.4	7.6	7.8

Significant ad growth outperformance vs industry unlikely

Limited scope for subscription revenue surprise in near-term

We met the management of Zee Entertainment. Key highlights:

- Ad growth is expected to decline from ~27% for 9MFY13 to 12-14% YoY going forward as TV industry ad growth remains sluggish (initial estimates of ~5% in FY13E and 8-9% in FY14E) and majority of Zee's market share and sports business led outperformance vs industry is likely behind. We are downgrading our ad revenue estimates by ~2%; model 14% ad revenue CAGR for FY13-15E.
- Likely bunching-up of sports and new business losses in 4QFY13 (combined loss could be INR0.8-1b) could result in relatively muted margins in the near-term. We now expect FY13/14/15 sports loss of INR0.77/0.97/0.23b vs earlier estimate of INR0.67/0.91/0.17b.
- New business EBITDA loss (Zee Q, Zee Alwan, Ten Golf, New media initiatives, Zee Bangla Cinema, HD channels) guidance remains at ~INR1.5b for FY13E, with losses unlikely to decline in FY14E as these initiatives remain in the ramp-up mode and have break-even time-lines of 3-4 years.
- Assuming no major industry-wide ARPU improvement, there seems to be limited upside to our 22% CAGR estimate for domestic subscription revenue during FY13-15E. Phase I/II digitization led revenue is unlikely to surprise positively as some part of phase I (~13m HHs) upside is already captured and monetization from phase II (~16m HHs) markets is already strong in the current pre-digitization environment. However long-term digitization potential remains high from ~95m Phase III/IV HHs.

Valuation and view

- We are downgrading our EPS estimates by 3-5% led by lower ad revenue and margin estimates. We now expect an EPS of INR8.5 in FY14E (up 14% YoY) and INR10.6 in FY15E (up 25% YoY).
- Digitization upside in the subscription revenue and potential ad market recovery remain key positives for Zee but are unlikely to provide near-term upgrade catalysts.
- Valuations at P/E of 26.5x FY14 and 21.2x FY15 adequately reflect the long-term positive outlook, in our view. Maintain **Neutral** with a revised target price of INR232 (vs INR240 earlier) based on 22x FY14 EPS.

Summary of revised expectations and management commentary on key parameters

Parameter	Earlier Estimate	Revised Estimate	Management comments
Ad growth	FY13: 25%; FY13-15 CAGR: 14%	FY13: 23%; FY13-15 CAGR: 14%	Base case ad growth of ~12% YoY based on current scenario
Domestic subscription	FY13: 24%; FY13-15 CAGR 22%	FY13: 24%; FY13-15 CAGR 22%	18-20% CAGR without assuming major ARPU upsides
Sports loss	FY13/14/15 loss of INR0.67/0.91/0.17b	FY13/14/15 loss of INR0.77/0.97/0.23b	To remain within INR1b in FY13; increase in FY14 due to Ind-SA tour
Non-sports margin	FY13: 32.4%; FY14: 33.5%; FY15: 32.7%	FY13: 32%; FY14: 32.3%; FY15: 32.1%	Core business trends intact; New biz loss ~INR1.5b in FY13; could expand in FY14

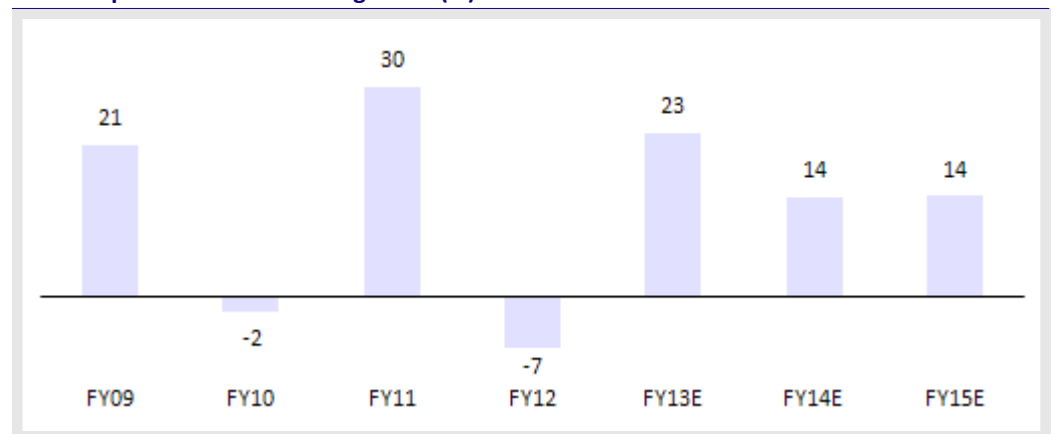
Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

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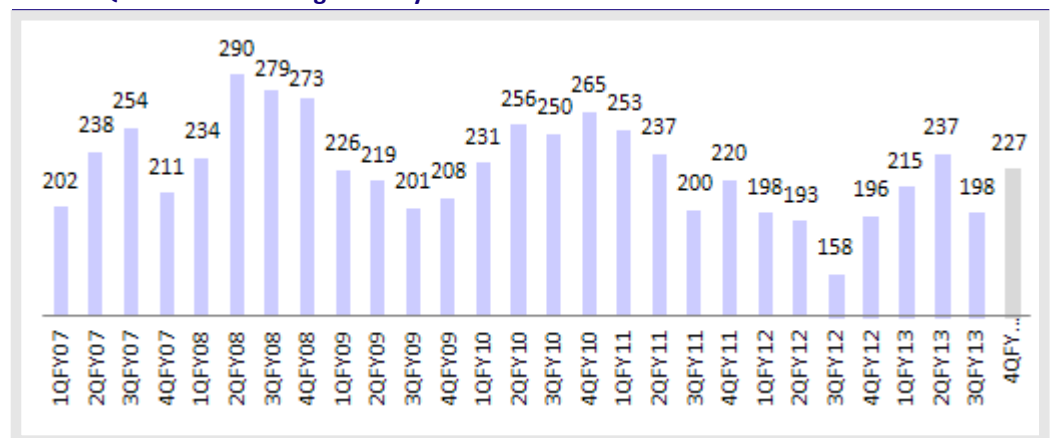
FY14 industry ad growth likely to be 8-9%; Zee unlikely to continue significant outperformance

- During 9MFY13, Zee reported a robust 27% YoY ad growth (vs expected ~5% industry growth during FY13) led by ratings improvement and increased contribution from sports business.
- While ratings performance for Zee remains strong (QTD Hindi GEC GRP at ~227 post inclusion of 5 new LC1 markets), significant outperformance vs an expected FY14 industry ad growth of 8-9% is unlikely for Zee given increased base already reflecting market share gains.
- We are downgrading our 4QFY13 ad growth estimate from 20% YoY to 12% YoY leading to a downgrade in FY13 ad growth estimate to 23% (vs 25% earlier). Our FY13-15E ad CAGR remains unchanged at 14% which builds-in moderate market share gain for Zee.

Zee: YoY proforma ad revenue growth (%)



Zee TV: Quarter-wise average weekly GRP

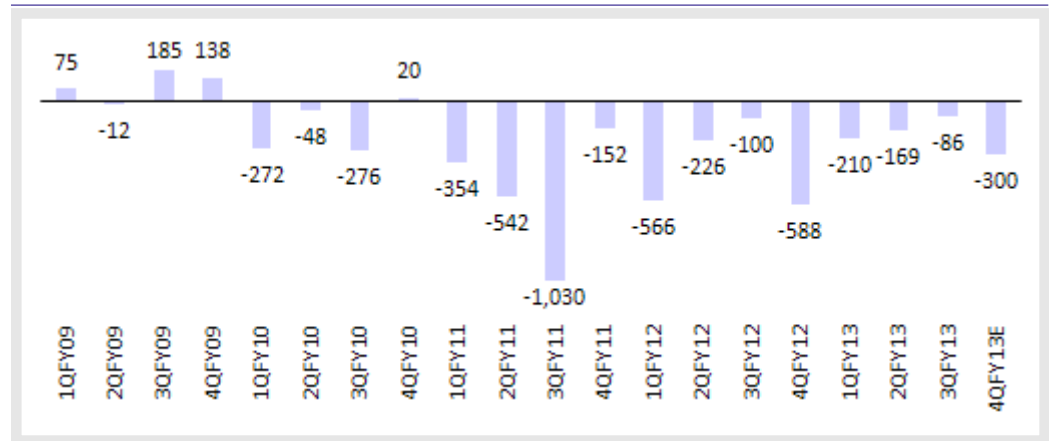


Source: Company, MOSL

FY13 sports loss to remain within INR1b; likely to inch-up in FY14

- Management reiterated that sports loss for FY13 would remain within INR1b (vs INR1.48b loss incurred in FY12 and 9MFY13 loss of ~INR0.5b).
- Sports loss in FY14 is likely to increase due to the impact of India tour of South Africa which would lead to increase in costs for the sports business.
- We now expect FY13/14/15 sports loss of INR0.77/0.97/0.23b vs earlier estimate of INR0.67/0.91/0.17b.

Sports loss likely to increase in 4QFY13 (INR m)

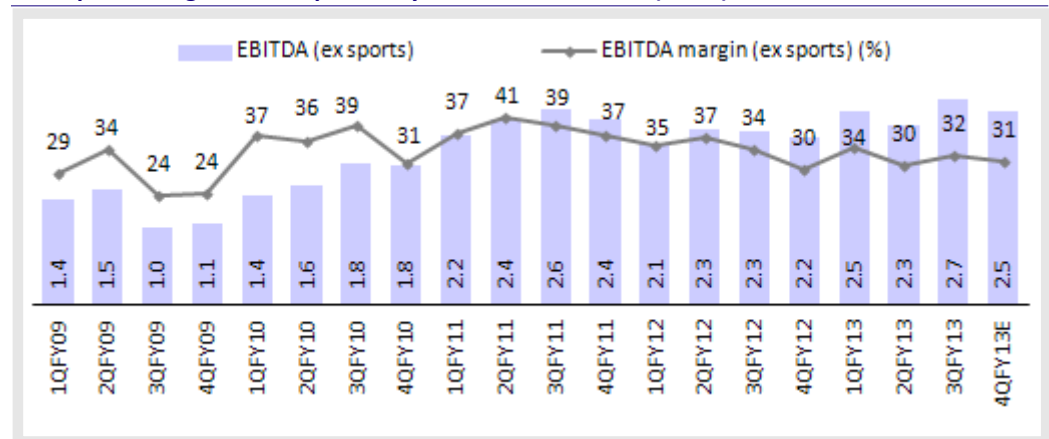


Source: Company, MOSL

Non-sports margin to remain under pressure on new business losses

- FY13 new business (Zee Q, Zee Alwan, Ten Golf, New media initiatives, Zee Bangla Cinema, HD channels) EBITDA loss guidance remains at ~INR1.5b including ~INR1b already incurred in 9MFY13.
- Break-even timeline for each of these initiatives are 3-4 years and FY14E new business loss is unlikely to taper-down given full-year impact of the ramp-up witnessed during FY13.
- We factor-in non-sports EBITDA margin of 31% for 4QFY13E and ~32% for FY14/15E.

Non-sports margin to be impacted by new business losses (INR b)



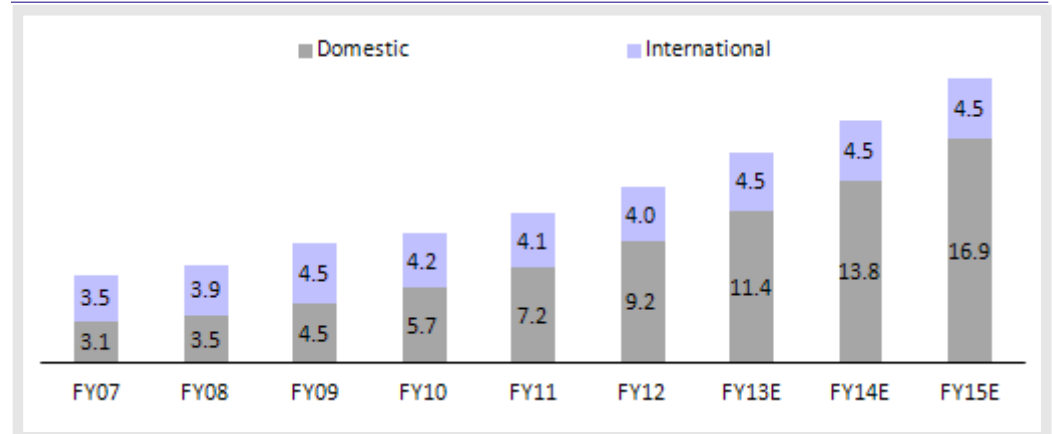
Source: Company, MOSL

Domestic subscription: We expect 22% CAGR; limited scope for upside surprise

- Digitization remains the dominant factor for domestic subscription revenue as it is expected to meaningfully alter the entire broadcasting value-chain.
- Apart from increased subscriber reporting, digitization would also aid ARPU improvement over medium-to-long term.
- However, scope for upside surprises from phase I/II digitization is limited given that current numbers already reflect a portion of digitization upside from phase I markets (~13m HHs in four metros) and monetization from phase II markets (~16m HHs across 38 cities) is already strong even pre-digitization.

- While Phase III (~45m HHs) and Phase IV (~50m HHs) represent significant subscription opportunity post digitization, we believe these upsides are likely to accrue on a full year basis only from FY16.
- We continue to model 22% domestic subscription revenue CAGR for Zee over FY13-15E.

22% domestic subscription revenue CAGR and flat international revenue over FY13-15E (INR b)

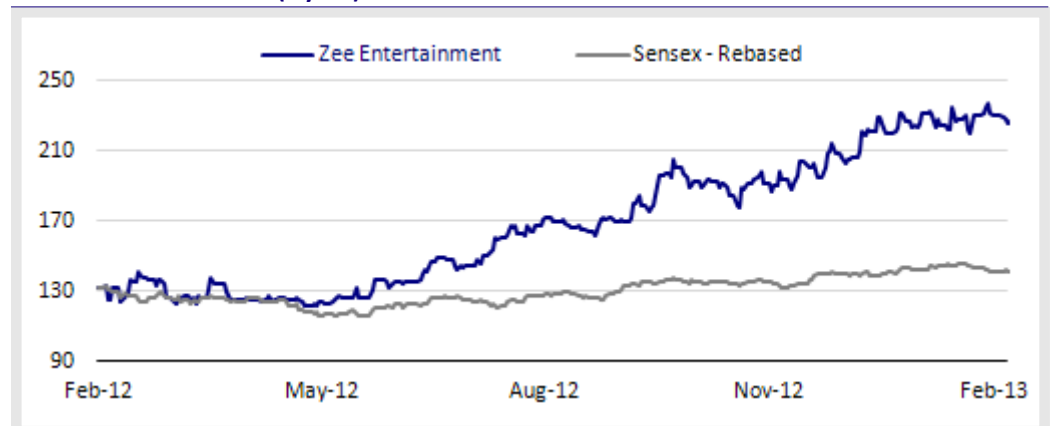


Source: Company, MOSL

Downgrading earnings 3-5%; maintain Neutral

- We are downgrading our EPS estimates by 3-5% led by lower ad revenue and margin estimates. We now expect an EPS of INR8.5 in FY14E (up 14% YoY) and INR10.6 in FY15E (up 25% YoY).
- Digitization upside in the subscription revenue and potential ad market recovery remain key positives for Zee but are unlikely to provide near-term upgrade catalysts.
- Valuations at P/E of 26.5x FY14 and 21.2x FY15 adequately reflect the long-term positive outlook, in our view.
- Maintain **Neutral** with a revised target price of INR232 (vs INR240 earlier) based on 22x FY14 EPS.

ZEE: Stock Performance (1 year)



Source: Bloomberg/MOSL

ZEE: One-year forward P/E band



Source: Bloomberg/MOSL

Summary of estimate change

INR b	FY13E	FY14E	FY15E
Ad revenue			
Old	19.8	22.6	25.9
New	19.5	22.3	25.4
Change (%)	-1.7	-1.7	-1.7
Subscription revenue			
Old	15.9	18.3	21.5
New	15.9	18.3	21.5
Change (%)	0.0	0.0	0.0
Total revenue			
Old	36.8	42.0	48.4
New	36.5	41.6	47.9
Change (%)	-0.9	-0.9	-0.9
EBITDA			
Old	9.7	11.3	13.7
New	9.3	10.7	13.2
Change (%)	-3.5	-5.6	-3.4
EBITDA margin (%)			
Old	26.3	27.0	28.3
New	25.6	25.7	27.5
Change (bp)	-68	-127	-72
PAT			
Old	7.3	8.5	10.4
New	7.1	8.1	10.1
Change (%)	-3.0	-4.7	-2.7
EPS (INR)			
Old	7.6	8.9	10.9
New	7.4	8.5	10.6
Change (%)	-3.0	-4.7	-2.7

Source: MOSL

Zee Entertainment: A snapshot

INR b	FY09	FY10	FY11 *	FY12	FY13E	FY14E	FY15E
Advertisement Revenue	10.6	10.7	17.1	15.8	19.5	22.3	25.4
YoY (%)	14	1	60	-7	23	14	14
Subscription Revenue	9.0	9.8	11.3	13.2	15.9	18.3	21.5
YoY (%)	22	9	15	17	20	15	17
- Domestic	4.5	5.7	7.2	9.2	11.4	13.8	16.9
YoY (%)	29	25	27	28	24	21	23
- International	4.5	4.2	4.1	4.0	4.5	4.5	4.5
YoY (%)	15	-8	-2	-2	13	0	0
Other Sales & Services	2.1	1.5	1.1	1.3	1.0	1.0	1.0
YoY (%)	33	-32	-28	25	-23	0	0
Total Revenue	21.8	22.0	29.4	30.4	36.5	41.6	47.9
YoY (%)	19	1	34	3	20	14	15
Operating expenses	16.3	15.9	21.8	23.0	27.1	30.9	34.7
YoY (%)	26	-3	38	5	18	14	12
EBITDA	5.5	6.1	7.6	7.4	9.3	10.7	13.2
YoY (%)	1	11	24	-2	26	15	23
EBITDA margin (%)	25.2	27.7	25.7	24.3	25.6	25.7	27.5
Revenue mix (%)							
Ad and broadcast revenue	49	49	58	52	53	53	53
Subscription revenue	42	45	38	44	44	44	45
- Domestic	21	26	24	30	31	33	35
- International	21	19	14	13	12	11	9
Other sales and services	10	7	4	4	3	2	2
Sports/Non-sports break-up							
Revenue	21.8	22.0	29.4	30.4	36.5	41.6	47.9
- Sports	3.9	3.2	4.4	3.9	4.9	5.5	6.0
- Non-sports	17.9	18.8	25.0	26.5	31.6	36.1	41.9
EBITDA	5.5	6.1	7.6	7.4	9.3	10.7	13.2
- Sports	0.4	-0.6	-2.1	-1.5	-0.8	-1.0	-0.2
- Non-sports	5.1	6.7	9.6	8.9	10.1	11.7	13.4
EBITDA margin (%)	25.2	27.7	25.7	24.3	25.6	25.7	27.5
Sports	10.0	-18.3	-47.1	-37.6	-15.7	-17.7	-3.8
Non-sports	28.5	35.4	38.6	33.5	32.0	32.3	32.1

* Includes merger of Regional General Entertainment Channels

Source: Company, MOSL

Financials and Valuation

Income Statement				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Advertisement Revenues	10,680	17,085	15,841	19,504	22,258	25,416
Subscription Revenues	9,824	11,275	13,245	15,944	18,325	21,480
Other Sales & Services	1,462	1,053	1,320	1,023	1,028	1,033
Net Sales	21,966	29,414	30,406	36,471	41,611	47,929
Change (%)	0.9	33.9	3.4	19.9	14.1	15.2
Total Income	21,966	29,414	30,406	36,471	41,611	47,929
Total Expenses	15,880	21,849	23,011	27,126	30,904	34,726
EBITDA	6,087	7,565	7,395	9,344	10,707	13,202
Change (%)	11.1	24.3	-2.2	26.4	14.6	23.3
% of Net Sales	27.7	25.7	24.3	25.6	25.7	27.5
Depreciation	284	288	323	385	426	468
EBIT	5,803	7,276	7,073	8,959	10,281	12,734
Other Income	1,230	1,070	1,204	1,229	1,333	1,758
Interest & Finance Charges	350	103	50	73	76	76
Extraordinary Income	303	897	180	0	0	0
PBT	6,986	9,140	8,407	10,116	11,537	14,417
Tax	2,210	2,751	2,500	3,035	3,461	4,325
Effective Rate (%)	31.6	30.1	29.7	30.0	30.0	30.0
PAT	4,776	6,390	5,907	7,081	8,076	10,092
Minority Interest	-213	-118	15	-32	-32	-32
Extraordinary Income	303	656	180	0	0	0
Adj. PAT	4,686	5,852	5,712	7,113	8,108	10,124
Change (%)	7.3	24.9	-2.4	24.5	14.0	24.9

Balance Sheet				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Share Capital	978	978	959	959	959	959
Reserves	37,322	29,970	33,396	38,423	44,153	51,308
Net Worth	38,300	30,948	34,355	39,382	45,112	52,267
Minority Interest	22	-119	-32	0	0	0
Loans	1,195	17	12	12	12	12
Deffered tax liability	-133	-192	-337	-337	-337	-337
Capital Employed	39,384	30,654	33,998	39,056	44,787	51,942
Net Fixed Assets	18,479	8,064	9,001	9,116	9,190	9,222
Capital WIP	1,108	399	399	399	399	399
Investments	3,203	6,964	7,999	7,999	7,999	7,999
Curr. Assets, Loans&Adv.	24,435	23,026	25,414	31,053	37,766	45,958
Program Films	4,671	5,382	7,339	8,015	9,147	10,445
Inventory	42	14	0	0	0	0
Sundry Debtors	7,488	8,955	8,690	10,424	11,893	13,699
Cash & Bank Balances	5,864	3,858	3,283	5,120	8,177	11,966
Loans & Advances	6,370	4,818	6,101	7,494	8,550	9,848
Current Liab. & Prov.	7,840	7,801	8,817	9,513	10,568	11,636
Sundry Creditors	4,376	4,238	5,844	6,689	7,620	8,563
Other Liabilities	1,023	1,077	1,041	892	1,016	1,142
Provisions	2,441	2,486	1,932	1,932	1,932	1,932
Net Current Assets	16,594	15,225	16,597	21,541	27,198	34,321
Appl. of Funds	39,384	30,654	33,998	39,056	44,788	51,943

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2010	2011	2012	2013E	2014E	2015E
Basic (INR)						
EPS	5.2	6.0	5.9	7.4	8.5	10.6
Cash EPS	5.1	6.3	6.3	7.8	8.9	11.0
Book Value per Share	39.2	31.6	35.8	41.1	47.1	54.5
DPS	2.0	2.0	1.5	1.9	2.1	2.6
Payout (Incl. Div. Tax) %	40.8	30.6	24.3	25.0	25.0	25.0
Valuation						
P/E			38.0	30.2	26.5	21.2
Cash P/E			35.6	28.6	25.2	20.3
EV/EBITDA			27.5	21.6	18.5	14.8
EV/Sales			6.7	5.5	4.8	4.1
Price/Book Value			6.4	5.6	4.9	4.2
Dividend Yield (%)			0.7	0.8	0.9	1.2
Profitability Ratios (%)						
RoE	13.0	16.9	17.5	19.3	19.2	20.8
RoCE	17.8	23.8	25.5	27.9	27.7	30.0
Turnover Ratios						
Debtors (No. of Days)	124	111	104	104	104	104
Inventory (No. of Days)	160	115	169	150	150	150
Creditors (No. of Days)	101	71	93	90	90	90
Asset Turnover (x)	0.6	1.0	0.9	0.9	0.9	0.9
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012	2013E	2014E	2015E
OP/(Loss) before Tax	5,803	7,276	7,073	8,959	10,281	12,734
Interest/Div. Received	1,230	1,070	1,204	1,229	1,333	1,758
Interest paid	-350	-103	-50	-73	-76	-76
Depreciation & Amort.	284	288	323	385	426	468
Direct Taxes Paid	-2,210	-2,751	-2,500	-3,035	-3,461	-4,325
(Inc)/Dec in Wkg. Capital	8,567	-638	-1,946	-3,107	-2,601	-3,334
CF from Oper. Activity	13,324	5,143	4,103	4,359	5,901	7,226
Extraordinary Items	303	656	180	0	0	0
CF after EO Items	303	656	180	0	0	0
(Inc)/Dec in FA + CWIP	-1,779	10,835	-1,259	-500	-500	-500
(Pur)/Sale of Invest.	-1,932	-3,761	-1,035	0	0	0
CF from Invest. Activity	-3,711	7,074	-2,294	-500	-500	-500
Issue of Shares	531	-11,987	-1,120	-244	-319	-406
Inc/(Dec) in Debt	-4,562	-1,178	-5	0	0	0
Dividends Paid	-1,947	-1,956	-1,438	-1,778	-2,027	-2,531
CF from Finan. Activity	-5,978	-15,121	-2,563	-2,022	-2,346	-2,937
Inc/(Dec) in Cash	3,938	-2,006	-574	1,837	3,056	3,789
Add: Beginning Balance	1,926	5,864	3,858	3,283	5,120	8,177
Closing Balance	5,864	3,858	3,283	5,121	8,176	11,966

E: MOSL Estimates

N O T E S

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3. Broking relationship with company covered	No
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