

Result Update

Hold

Codes	
CMP(Rs)	312
BSE	505537
NSE	ZEEL
Bloomberg	Z IN
Reuters	ZEE.BO
Industry	Media

Stock Data		
Equity Cap(Rs crore)		3494
Face Value (Rs)		1
Market Cap. (Rs crore)		13567
Avg. Vol. (2 wk) (lacs)		3.14
52 wk	High	Rs 313
	Low	Rs 107
EPS (4Q)		10.68
P/E (trailing 4Q EPS)		29
P/B (FY'10E BV)		6.8

Share Holding Pattern (%)	
Promoter	41.50
MFs	12.77
FI/Banks	9.49
FIIIs	28.71
Corp. bodies	5.09
Public	2.09
As on Mar'31, 2010	

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ZEE Entertainment Enterprises, ZEEL, is one of the largest Indian media conglomerate which has dominated the Indian television broadcasting space for nearly 2 decades. It has 22 operational channels in various languages and different genres. Besides television broadcasting it has recently entered into film production & distribution business with intention to produce 40 films every year in Hindi and other regional languages (five).

Investment Rationale

➤ Advertisement –back on growth track

ZEEL reported a growth of 54% (YoY) in Q4 FY'10, which resulted in 1% (YoY) growth in advertisement revenue. Total advertisement revenue in Q4 FY'10 was Rs 352crore and in FY'10 it was 1059.26crore. Last year advertisement volumes and advertisement rates were under pressure because of slowdown and increased competition in general entertainment channel, GEC, space. In FY'10 ZEEL entered into short term contracts to keep advertisement yields high. After Q2'FY10 when advertisement volumes revived, ZEEL increased its advertisement rates and short term contracts helped ZEEL to make hiked advertisement rates effective.

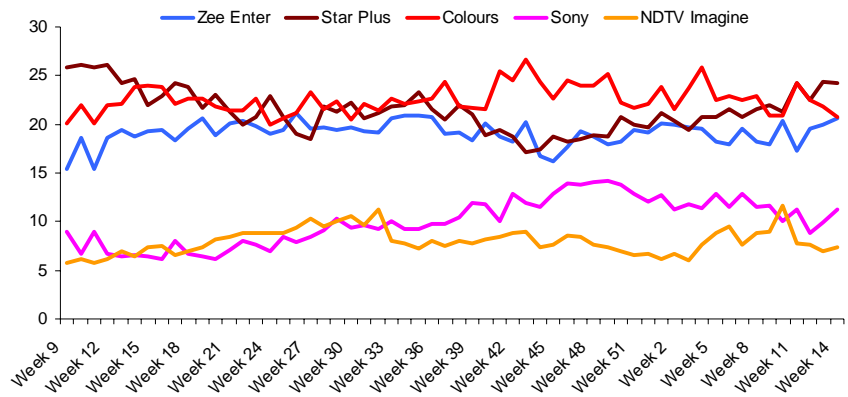
➤ DTH subscription ARPU down due to inclusion of RGEC's

DTH revenue in Q4'FY10 was Rs 68.3crore, growth of 89 %(YoY). ZEEL reported DTH subscriber base of 11 million as on March 31st 2010. The ARPU of ZEEL came down to Rs 20.6 from Rs 23.47 because of inclusion of 6 RGEC's. Overall subscription revenue of ZEEL was Rs 251.26crore in Q4 FY'10, a growth of 9%(YoY). International subscription revenue de-grew by 9% (YoY) mainly because of slow economic recovery in international markets. ZEEL has undertaken array of marketing and programming efforts to boost its international subscription revenue. Analogue revenue remained flat. Inclusion of RGEC's did not result in any significant increase in subscription revenues This indicates that ZEEL's subscription revenue (mainly analogue) has de- grown during the quarter.

➤ GRP ratings – improve significantly

The flagship channel of ZEEL, ZEE TV, recorded average weekly channel share of 20% along with average weekly GRP of 265. ZEE TV remained at number three among GEC's in the quarter. The GRP's of ZEE TV were not affected despite on going IPL tournament. 'ZEE Rishtey Awards 2010' delivered a TVR of 7, which was the highest for any event across all channels. Among RGEC's Zee Marathi maintained its leadership position with an average weekly GRP of 232, 100 GRP points more than its closest competitors. 'ZEE Bangla' continued to loose market share to 'Star Jalsa' in Bangla market and plans to introduce new content to revamp channel.

➤ Viewership performance



Source: exchange4media

➤ Debt free balance sheet

ZEEL has pre-paid debt of Rs 516crore in FY'10 bringing its debt to equity ratio down to 0.015 from 0.27. Because of this pre-payment in Q4 FY'10 the finance cost increased owing to pre payment charges paid. It has also received back Rs 875crore of outstanding loans and advances earlier given to the group companies, Dish TV and WWIL. As on March 31, 2010 the cash balance stood at Rs 581.4crore.

➤ 9X- GEC channel acquisition

ZEEL board has approved acquisition of 9X (GEC owned by INX Media). The financials of the deal will be discussed on April 29th, 2010 by the management. The reason for this acquisition could be ongoing tight government approvals policy for new channels and implied tax benefits. ZEEL management did not indicate much except that it will continue to maintain the channel in GEC genre. The deal would be a share swap deal details of which to be provided after the board meeting.

Current fiscal performance

- In FY'10 ZEEL reported total income of Rs 2197crore a growth of 1 % (YoY). The growth was mainly propelled by 9% growth in the subscription revenue. Advertisement revenue grew by only 1 % (YoY) mainly because of the slowdown in advertisement spends and increased competition in GEC space.
- Total DTH subscription revenue grew by 94%. The DTH subscriber base increased from 5.5mn at the end of FY09 to 11mn at the end of FY'10. The analogue revenue remained flat for the year at Rs 335crore and international revenue declined by 7% owing to economic condition in international markets.

- EBITDA grew by 11% to Rs 609crore, YoY improvement of 300 basis points in margin. EBITDA margins were 28.3% in FY'10. Improvement in margins was mainly a result of cost control measures taken by the management on programming cost front from Q2 FY'10. Total cost of sales decreased by 3% (YoY), while personal cost decreased by 7% (YoY).
- PAT margins for the year were 22% which is a decrease of 200 basis points from last year because of tax refunds received in FY'09, which was not present this year. The company has reduced its debt nearly to nil, which would bring its finance cost down and would help to expand its margins. In FY'10 the finance cost was 74% less than the previous year.
- Sports business reported revenue of Rs 61.7crore and cost incurred during the quarter was Rs 59.7crore. Operating margin for this business was 3.24%. The business benefited from world cup hockey and various other international tournaments. Film business reported revenue of Rs 3.8crore and expenditure of Rs 4.6crore

Financial Performance

(Rs crore)	Q4'FY10	Q4'FY09	Growth YoY (%)	Q3'FY10	Growth QoQ(%)
Operating income	649	514	26	531	22
- Advertisement	352	228	54	271	30
- Subscription	251	235	7	247	2
- Other	46	51	-9	14	243
Expenditure	466	394	18	390	25
-Operating exp.	261	224	16	231	13
-Personnel cost	69	44	57	37	85
-Other expenses	136	126	8	106	28
EBITDA	184	120	53	157	17
<i>Margin %</i>	28	23	-	30	-
Depreciation	6	10	-43	8	-27
Interest	11	51	-78	7	69
Other income	29	64	-54	32	-10
PBT	196	123	59	175	12
Tax	67	26	154	29	132
PAT	129	97	33	146	-12
<i>Margin %</i>	20	19	-	28	-



Zee Entertainment Enterprises Ltd.

Financials

(Rs crore)	FY'09	FY'10	FY'11E	FY'12E
Total revenue	2177	2197	2957	3412
Ad revenue	1059	1068	1620	1954
Subscription revenue	904	982	1143	1244
Other sales and services	210	146	194	214
Total cost of sales	1629	1588	2194	2922
EBITDA	548	609	772	899
<i>Margin %</i>	25	28	26	26
Finance cost	134	35	49	39
Depreciation	31	28	40	45
Other income	157	123	206	232
PBT	540	669	889	1,047
Tax	21	191	275	324
PAT	522	478	601	709
<i>Margin %</i>	24	22	20	21
EPS	11.81	10.68	12.4	14.62

Valuations

We had recommended a Buy on the stock at Rs 262 in the quarterly review of 3Q FY'09 with target of Rs 307, which is in place. At the current price of Rs 312 ZEEL is trading at a PE of 29x FY'10 EPS of Rs 10.68. Mata research expects the scrip has some upside potential of 10-12% from current level discounting a P/E of 24x FY'12 EPS of Rs 14.62. We recommend hold on the stock.



Zee Entertainment Enterprises Ltd.

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