

Zee Entertainment Enterprises Ltd.

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Detailed Review

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Summary

Current Price : Rs 117.95 (as on Nov 26, 2008)

Market Cap : Rs 51,139 million

Year End	FY06	FY07	FY08	FY09E	FY10E	FY11E
FDEPS	4.9	5.5	8.8	10.8	10.0	10.1
PER	23.9	21.6	13.4	10.9	11.8	11.7
PCF	20.4	20.0	12.6	10.3	11.0	10.8

Background

Zee Telefilms is India's largest vertically integrated media and entertainment company. Zee TV is India's first private TV channel covering nearly 30% of Indian television homes. It reaches an estimated 35 m households and 225 million people worldwide. Though the channel did not face competition in the initial years of its launch, it has been losing market share in recent years to competition from other channels like Sony and Star.

Reasons to buy

- ▶ **High viewership ratings:** Zee's flagship channel Zee TV, a general entertainment channel, had on an average approximately 21 shows in the Top 50 and 35 shows in the Top 100 across all general entertainment categories in FY08. The gap between Zee TV and the broadcasting leader Star Plus has been narrowing considerably with the improvement in the gross rating points (GRPs) of the latter. 'Zee Cinema' is also gaining market share and is the number three channel in the country across all genres. This has enabled the company to hike ad rates leading to a 33% YoY increase in FY08 in advertisement revenues. This also increases its bargaining power with the MSOs and DTH operators, enabling it to command higher average revenue per user (ARPU).
- ▶ **Complete bouquet of channels:** Zee offers a complete bouquet of channels. Besides its flagship channel 'Zee TV' which is a general entertainment channel, the company has offerings in comedy, music, sports and fashion. All these channels enjoy high viewership ratings, which make it necessary for the MSOs and the DTH players to offer them. Although other broadcasters such as TV18, NDTV are trying to replicate the offering, Zee enjoys a first mover advantage.
- ▶ **High subscription revenues:** Zee enjoys high subscription revenues from international as well as domestic subscribers. It is one of the few broadcasters enjoying such high subscription revenues, which cushions it from any slowdown in advertisement revenues. The company's broadcasting services reaches out to more than 500 m people across the globe. The company beams its channels to over 120 countries through various distribution platforms. Zee generally receives subscription or licensing fees from the local cable operators and the DTH operators and it retains the advertising revenue it sells on its channels. Zee's principal broadcasting operations are, apart from India, in the US, Canada, Caribbean, UK, Europe, Africa, Middle East and other parts of South Asia.

Zee's diversified subscriber base

Zee network subscribers	Americas	Europe	Africa	Asia Pac	Total
Paying	575,000	155,000	150,000	4,430,000	5,310,000
Non Paying	110,000	36,000	36,000	10,000,000	10,182,000

- ▶ **Rollout of digital delivery platforms:** Subscription revenues from digital platforms are expected to be another major growth driver for the television industry going forward. This will not only lead to an increase in number of cable and satellite households but will also push up the ARPUs. We have factored in a CAGR of 15% in Zee's subscription revenues between FY07 and FY10.

Reasons not to buy

- ▶ **Competition vying for the same advertisement pie:** The segment is intensely competitive with the entry of players like NDTV, INX Media, UTV and Viacom 18. The entry of so many strong players could lead to a fragmentation in market shares and consequently a fragmentation in advertisement revenues. While we expect the company's advertising revenues to clock a CAGR of 22% between FY08 and FY11, intense competition might result in a lower growth rate.

Growth in the number of channels

	Jan-Dec04	Jan-Dec06	Jan-Dec07
No. of channels	209	305	345
Growth %		46%	13%

- ▶ **Content is expensive:** Content cost is increasing. Moreover, there aren't many organised players providing quality content. This is amply reflected in the steep rise of realisations per hour of Balaji Telefilms, the leading content provider in the country. With no big content provider of note apart from Balaji on the horizon, this problem is unlikely to subside anytime soon and might exert pressure on Zee's margins.
- ▶ **The attrition agony:** The entry of new players has led to an increase in the demand for talent in the television entertainment industry leading to high employee attrition rates. The company has decided to keep bench strength of 15% in the key departments to cope with the problem of attrition thereby putting pressure on the operating margins of the company. While we have assumed the operating margins of the company to remain constant, a fall due to attrition related problems cannot be ruled out.

Capex

- ▶ With most of the infrastructure in place, we don't expect the company to incur capex significantly higher than the normal maintenance capex. As such, we believe that an amount in the range of Rs 600 to Rs 700 m would take care of the company's capex needs in the medium term.

Views on News

- [Zee Entertainment: Topline marches on](#)
(Oct 21, 2008)
- [Zee Entertainment: Feel good story](#)
(Jul 24, 2008)
- [Zee Entertainment: Domestic subscription drives the show](#)
(Apr 15, 2008)
- [TV Media: Importance of TRP's](#)
(Dec 6, 2007)
- [Media: Fragmented ad revenues?](#)
(Dec 3, 2007)
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Stock Graph

One-year comparative graph with BSE



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Disclosure: The analyst and dependent family members do not hold shares in this Company. Please read [QIS' Share Trading Guidelines](#).

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