Dish TV India Ltd

Initial Opinion BUY

Equity | India | Satellite Services
11 October 2011

Multi year growth story; new Buy with PO of Rs97

Bank of America Merrill Lynch

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India's leading DTH play; our new Buy

We initiate Dish TV at Buy with a PO of Rs97. With a net subscriber base of 9mn and 32% market share, Dish is the industry leader in a six player market. Our rating is driven by 1) potential doubling of subscriber base over next five years 2) likely strong 54% CAGR in EBITDA over FY11-14E led by subscriber growth and content cost leverage and 3) our view of turnaround in net income from 4Q FY12 & FCF in FY13E. Our PO is on DCF and implies EV/EBITDA of 16x our FY13E at a premium to global peers; fair given EBITDA CAGR of 54% vs. 8% for peers.

DTH subscriber base to double over next five years

We expect DTH penetration in India to double to 70% over the next five years, driven by 1) increasing disposable incomes and rising spends on entertainment, 2) consumer preference to adopt digital TV given limited availability of channels in the analogue network due to bandwidth constraints and 3) potential regulatory push (digitalization bill), which mandates the transition of analogue to digital networks across the country in four phases starting March 2012.

Sharp turnaround in financials; well placed vs. peers

With an estimated net subscriber base of 10mn by FY12E and potential increase in ARPUs, we expect net income to turn positive in FY13E, leading to turn around in FCF. Consequently it would now be able to fund growth through internal accruals, a key positive, given our view that peers likely to reel under losses for at least 2-3 more years & may face funding challenges.

Lower license cost, increase in churn to watch out for

We see upside risks from potential reduction in license cost – from 10% to 6% of revenues – based on court judgment (see page 7). Downside risk – Higher-than-expected subscriber churn which could impact valuations adversely.

Stock Data

Price	Rs79.50
Price Objective	Rs97.00
Date Established	11-Oct-2011
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs53.45-Rs97.00
Mrkt Val / Shares Out (mn)	US$1,719 / 1,063.0
Market Value (mn)	Rs84,507
Average Daily Volume	3,730,821
BofAML Ticker / Exchange	XCETF / NSI
Bloomberg / Reuters	DITV IN / DSTV.BO
ROE (2012E)	-1.9%
Net Dbt to Eqty (Dec-2011A)	45.1%
Est. 5-Yr EPS / DPS Growth	477.6% / NA
Free Float	35.0%

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	(2,622)	(1,920)	(298)	1,302	2,047
EPS	(2.47)	(1.81)	(0.281)	1.23	1.93
EPS Change (YoY)	64.7%	26.8%	84.5%	NM	57.1%
Dividend / Share	0	0	0	0	0.587
Free Cash Flow / Share	(2.60)	(5.74)	(1.81)	2.97	4.56

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	NM	NM	NM	64.89x	41.29x
Dividend Yield	0%	0%	0%	0%	0.739%
EV / EBITDA*	85.33x	40.03x	18.36x	13.91x	10.97x
Free Cash Flow Yield*	-3.27%	-7.22%	-2.27%	3.73%	5.73%

* For full definitions of *iQmethod* SM measures, see page 21.

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Refer to important disclosures on page 22 to 24. Analyst Certification on Page 19. Price Objective Basis/Risk on page 19. Link to Definitions on page 19.

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iQprofile SM Dish TV India Ltd

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	10,850	14,367	20,191	24,523	27,971
Gross Profit	6,454	9,308	13,367	16,096	18,824
Sell General & Admin Expense	(2,808)	(4,125)	(4,351)	(4,465)	(4,769)
Operating Profit	(2,111)	(1,615)	640	2,356	3,043
Net Interest & Other Income	(518)	(308)	(938)	(768)	(547)
Associates	NA	NA	NA	NA	NA
Pretax Income	(2,628)	(1,923)	(298)	1,588	2,496
Tax (expense) / Benefit	6	3	0	(286)	(449)
Net Income (Adjusted)	(2,622)	(1,920)	(298)	1,302	2,047
Average Fully Diluted Shares Outstanding	1,062	1,063	1,063	1,063	1,063
Key Cash Flow Statement Data					
Net Income	(2,622)	(1,920)	(298)	1,302	2,047
Depreciation & Amortization	3,227	3,996	4,551	4,496	5,642
Change in Working Capital	1,125	1,602	1,271	1,898	1,784
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	601	271	(412)	1,162	1,074
Cash Flow from Operations	2,331	3,948	5,111	8,858	10,547
Capital Expenditure	(5,096)	(10,052)	(7,031)	(5,704)	(5,704)
(Acquisition) / Disposal of Investments	(1,560)	1,597	(100)	(100)	(100)
Other Cash Inflow / (Outflow)	(2,079)	1,706	0	0	0
Cash Flow from Investing	(8,735)	(6,749)	(7,131)	(5,804)	(5,804)
Shares Issue / (Repurchase)	12,845	56	0	0	0
Cost of Dividends Paid	0	0	0	0	(811)
Cash Flow from Financing	11,219	655	(588)	(2,162)	(2,685)
Free Cash Flow	(2,766)	(6,104)	(1,920)	3,155	4,843
Net Debt	3,772	7,378	10,786	8,893	6,035
Change in Net Debt	(6,660)	3,915	3,408	(1,893)	(2,858)
Key Balance Sheet Data					
Property, Plant & Equipment	14,587	19,017	21,497	22,705	22,767
Other Non-Current Assets	16,137	18,007	18,107	18,207	18,307
Trade Receivables	359	227	443	537	613
Cash & Equivalents	5,550	3,385	777	1,670	3,728
Other Current Assets	4,993	2,602	2,762	2,922	3,082
Total Assets	41,626	43,238	43,586	46,042	48,497
Long-Term Debt	9,322	10,763	11,563	10,563	9,763
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	15,960	16,098	17,745	19,898	21,918
Total Liabilities	25,282	26,861	29,308	30,461	31,681
Total Equity	16,344	16,377	14,279	15,581	16,816
Total Equity & Liabilities	41,627	43,238	43,586	46,042	48,497
iQmethod* SM - Bus Performance					
Return On Capital Employed	-7.6%	-1.8%	3.4%	8.4%	10.8%
Return On Equity	-26.5%	-11.7%	-1.9%	8.7%	12.6%
Operating Margin	-19.5%	-11.2%	3.2%	9.6%	10.9%
EBITDA Margin	10.3%	16.6%	25.7%	27.9%	31.0%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	NM	NM	NM	6.8x	5.2x
Asset Replacement Ratio	1.6x	2.5x	1.5x	1.3x	1.0x
Tax Rate (Reported)	0.2%	0.2%	NM	18.0%	18.0%
Net Debt-to-Equity Ratio	23.1%	45.1%	75.5%	57.1%	35.9%
Interest Cover	-2.2x	-1.1x	0.5x	2.0x	2.8x

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 21.

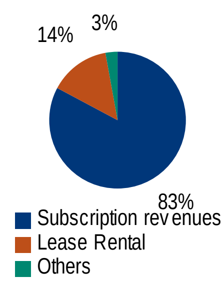
Company Description

Dish TV is the first Indian direct-to-home (DTH) satellite television operator and is the leading DTH operator in the country in terms of subscribers. It was promoted in May 2005 by India's largest media conglomerate Essel Group. Being a part of Zee Network Enterprises (an Essel Group venture), Dish TV holds the advantage of having the largest offerings of channels and services among all the six DTH operators.

Investment Thesis

We believe Dish TV is a secular growth story. We expect DTH subscriber base to double over the next five years driven by 1) rising income level, and 2) adoption of DTH technology given bandwidth constraints with analogue network. Dish is the leader with 32% market share and is at an inflection point now. We forecast EBITDA to jump 4x and FCF turnaround by FY13.

Chart 1: FY11 revenue split



Source: Company

Stock Data

Price to Book Value	5.9x

Bull & Bear case

Theme	Bull case	Bear case	BofAMLe view
Structural growth story	■ We see significant scope to improve digital penetration in the country given only 33% of TV households (HH) have digital connection. Rising income levels and subsidy on set-top boxes will help fuel growth for DTH players. Passage of the digitalization bill, which mandates transition of analogue network to digital, should help accelerate penetration given consumers would likely opt for DTH or Digital Cable.	■ Given slowdown in macro, consumers unlikely to spend on discretionary items such as DTH. Besides churn levels are also on the rise and can impact profitability.	■ We believe growth would be driven by – 1) increasing penetration of digital TV services (DTH and Digital Cable) and growth in TV HH. Besides, with increasing income levels, spends on entertainment is on the rise. Given that nearly 650 channels are available today vs. 100 shown by analogue cables, consumers are likely to adopt digital TV sooner or later.
High churn likely to impact valuations	■ Subscriber churn for Dish TV stands at 10% vs 15% for global majors such as DirecTV. Churn is unlikely to reach levels witnessed by that of peers in developed economies given significant scope to increase penetration of DTH services.	■ Given that the industry today subsidizes hardware and ARPUs are yet to trend up, any increase in churn will impact valuations negatively. Every 1% increase in churn can impact valuations by 6%. ■	■ We believe subscriber churn is a critical factor for the success of DTH players. While we have assumed higher churn of ~10% during next the 3-4 years, we expect churn to decline as industry reaches critical stage of 50-60mn subscribers at which competitive pressure could potentially ease. Moreover, we believe subsidy on hardware could eventually reduce, negating the impact of higher churn.
Capex funding	■ Dish TV to be FCF-positive from FY13 and hence funding set-top box may not be a big constraint.	■ Given that Dish TV provides subsidy on hardware and ARPU levels remain depressed, the company would be required to raise funds to meet capex funding. Over the last two years, Dish raised nearly USD300mn through rights issue and equity placement.	■ We believe Dish is at an inflection point. With an estimated net subscriber base of 10mn in FY12E and likely increase in channel packages, FCF is expected to turn positive in FY13E. Dish should be able to generate enough cash to add nearly 2.5mn gross subscriber's p.a., by our estimates.
Valuations	■ Rich valuations are largely a reflection of potential growth in this industry.	■ Dish is trading at 14x EV/EBITDA, expensive when compared to US peers which are trading at 6-9x .	■ We believe premium valuations are sustainable given 1) EBITDA CAGR of 54% over FY11-14E vs. ~8% for US peers. 2) Likely re-rating driven by FCF turning positive and potential doubling of subscriber base over next 4-5 years.

Source: BofA Merrill Lynch Global Research

Initiating with a Buy rating; PO of Rs97

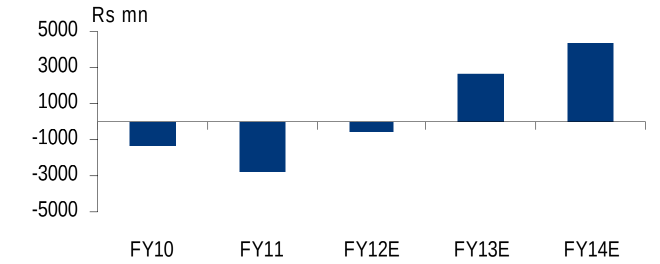
The largest DTH player in India, Dish has 32% market share and a net subscriber base of 9mn. Our Buy rating is driven by:

#1) EBITDA to jump 4x; FCF turn around in sight now

At an inflection point.
12mn subs (FY13E) + ARPU increases= turn around in FCF.
Net profits could turn positive by 4Q FY12E.

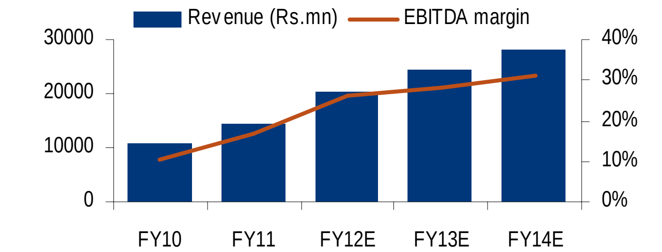
We believe Dish is at an inflection point. With the company likely to reach critical subscriber base (net) of 10mn by FY12E and likely increase in ARPUs we expect net income to turnaround in FY13E. EBITDA margins are likely to expand from 24% (June 2011 Qrt) to 28% by FY13E. Consequently we think FCF is likely to turn positive during FY13E. Forecast strong EBITDA CAGR of 54% over FY11-14E vs. 9% for global peers.

Chart 2: Sharp turnaround in FCF likely



Source: BofA Merrill Lynch Global Research

Chart 3: Robust revenue growth; sharp improvement in margins likely



Source: BofA Merrill Lynch Global Research

#2) 40mn subs up for grab; Dish well place to fund growth

Significant funding required for growth. Dish well placed vs. peers given low debt and likely turn around in FCF.

We expect the industry to add around 40mn subscribers over the next 4-5 years, requiring additional investments of at least US$2-3bn. Our analysis of FY10 filings by DTH players indicate that cumulative losses for the industry stood at US$1.5bn and the cumulative investment stood at US$2.6bn.

The ability to fund subscriber acquisition and achieve threshold subscriber base remains critical for faster turnaround in FCF. While Dish with an estimated net subscriber base of 10mn in FY12 will potentially achieve FCF turnaround in FY13, the industry as such could take a while longer based on how well the competition shapes up.

While we expect peers to reel under losses for at least two to three more years and may face funding challenges, Dish with FCF turnaround and low debt (0.6 vs. 0.9x for peers) should be able to fund growth through internal accruals.

Table 1: DTH- significant investments till date

FY10 company filings (Rs mn)	Accumulated losses	Debt	Cumulative Amount Invested	Net debt	Debt/ Equity
Dish TV	12576	9322	27163	211	0.6
Tata Sky	35313	13514	38415	12346	0.7
Airtel Digital TV*	7148	14890	19295	14785	146
Sun Direct	9634	8260	21261	8111	0.8
Videocon	1326	7328	13163	7223	1.4
Total	65997	53314	119297	42676	
USD,mn	1467	1185	2651	948	

**nil interest bearing loans from parent*

Source: Company filings, BofA Merrill Lynch Global Research

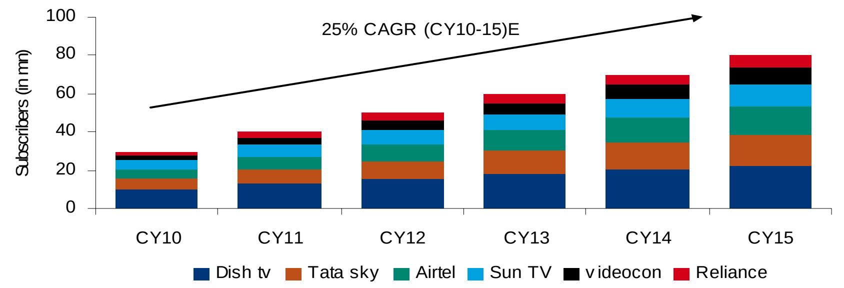
#3) Strong ability to sustain leadership status

DTH base to jump 2x for the industry. Even assuming fall in market share, sub base for Dish could jump 2x

With a gross subscriber base of nearly 11mn (June 2011), Dish is the industry leader with a share of 32% in a market dominated by six players. Despite the entry of large players such as Airtel, Reliance and Videocon with strong distribution reach, Dish has been able to lock in market share of 25% for incremental subscriber addition. Over the last 4-5 years, the company has created a strong distribution reach with presence across 6,600 towns and a dealership network of 55,000. Given its early mover advantage, strong distribution reach, attractive entry level pricing strategy and turn around in FCF we believe Dish will be able to sustain its leadership status.

Dish currently has 11mn gross subscribers (acquired till date) and 9mn net subscribers (active/ contributing to revenues). We forecast its net subscriber base to increase 1.5x by FY14e and double to 17mn by FY18E, with market share of 28-29%.

Chart 4: Likely to retain leadership in a high-growth market



Source: BofA Merrill Lynch Global Research

#4) Compelling growth story- opportunity for both DTH & Digital Cable

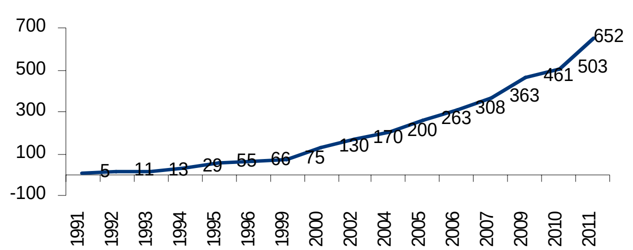
We expect the penetration of digital TV (DTH and Digital Cable) to increase from 31% (CY10) to 70% over the next 4-5 years led by strong DTH sales and digitalization of cable. While India is the second largest C&S market with ~114mn C&S HH, nearly 70% of the connections are still on analogue networks, where only around 100 channels could be offered to the viewer. DTH penetration is just about 26% and, as such, provides significant scope for improvement.

Scope for both digital cable & DTH to co-exist. Expect share of DTH to grow from 26% to 54%. Share of Digital cable to grow from 4% to 15%

While we expect the share of analogue transmission to reduce to 31% from 70% currently, the share of DTH likely to increase from 26% to 54% and that of digital cable TV from 4% to 15%. Given population of TV households is set to increase from 142mn to 161mn by CY15, we believe there is opportunity for both Digital Cable and DTH to improve penetration levels. Key drivers for growth include:

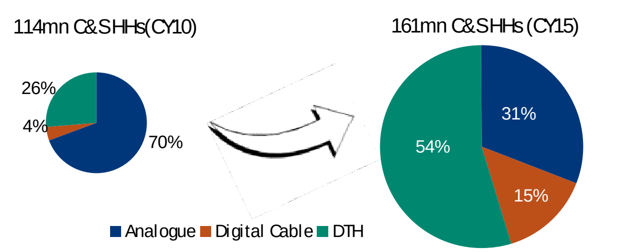
- With nearly 650 channels being telecast now vs. 450 two years ago and given bandwidth constraints with analogue, the demand for digital TV is on the rise.

Chart 5: Increasing number of channels



Source: TRAI

Chart 6: DTH/ Digital Cable penetration likely to expand



Source: BofA Merrill Lynch Global Research

- Strong GDP growth and increasing income levels are driving discretionary spends including spends on entertainment. As per the recent study by McKinsey, the population of middle class households (income levels of

INR0.2-1mn p.a.) is likely to grow 10x over the next 15-20 years. Consequently, spends on entertainment is likely to grow at a CAGR of 9% during this timeframe.

- Passage of the Cable TV digitalization bill by the government will provide the much needed trigger for the growth of Digital TV in India.

#5) Multi year growth story; premium valns sustainable

Given the investment required in subsidizing set top boxes for new subscribers and the gestation period involved, we value Dish on a DCF basis with a PO of Rs97.

Our DCF assumption factor in potential doubling of subscriber base over next seven years driven by scope to improve penetration levels, increase in ARPU (6% CAGR) and expansion in EBITDA margins led by leverage on content cost.

Key assumptions for DCF are as under:

Table 2: DCF – Key assumptions

	FY11	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Net paying subscribers	8.5	10.4	11.7	12.8	13.9	15.0	16.0	17.1	18.1	19.1
ARPU (Rs.pm)	140	152	163	169	179	190	201	213	226	240
Revenue (Rs mn)	14367	20191	24523	27971	31370	35667	40462	45569	51127	56911
Revenue growth % yoy	32%	41%	21%	14%	12%	14%	13%	13%	12%	11%
EBIT (Rs.mn)	-1615	695	2425	3123	3942	6235	9124	11552	14230	16815
EBIT %	-11%	3%	10%	11%	13%	17%	23%	25%	28%	30%
Effective tax rate (%)	0%	0%	18%	18%	18%	18%	30%	30%	30%	30%
Tax Adjusted EBIT (Rs.mn)	-1613	695	1989	2561	3232	5113	6387	8087	9961	11771
Add: Depreciation (Rs.mn)	3996	4551	4496	5642	6132	5722	5418	5388	5358	5328
Less: Working capital Inv (Rs.mn)	-2661	-1271	-1898	-1784	-1946	-2006	-2315	-2468	-2458	-2453
Less: Capex (Rs.mn)	7826	7031	5704	5704	5704	5704	5704	5704	5704	5704
FCF (Rs.mn)	-2782	-514	2679	4284	5607	7137	8416	10239	12074	13849
NPV (Rs.mn)		-514	2367	3343	3865	4346	4528	4866	5069	5136

Rs.mn	Rs.mn	Per share Value (Rs)		
Equity	1063		WACC	13.2%
Explicit Period value	33007	31	Terminal growth	6%
Terminal Value	75615	71		
Less : Net Debt	5378	5		
Total Value	103243	97		

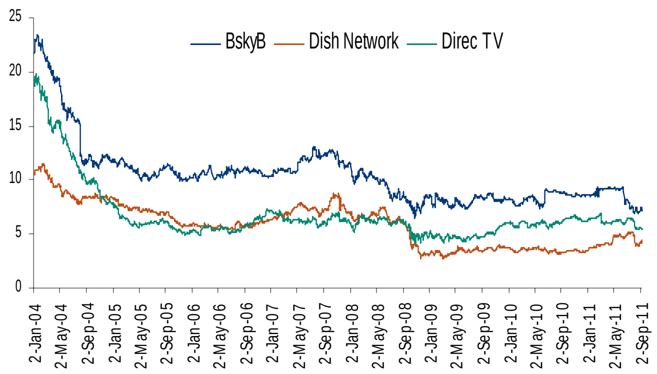
Source: BofA Merrill Lynch Global Research

Likely strong growth beyond FY14E

This implies EV/EBITDA of 16x FY13E and is at a premium to global DTH peers such as DirecTV and Dish Network. We believe this is justified given high EBITDA growth for Dish vs peers. We forecast EBITDA CAGR of 54% over FY11-14E for Dish TV vs ~8% for peers. Besides we believe EBITDA growth could continue to be in 17-18% range even beyond FY14E.

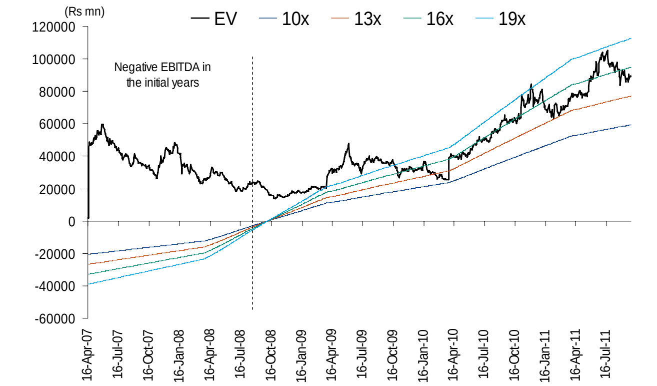
While global peers are currently trading at 6-9x EV/EBITDA currently, we note that historically during their growth phase, these firms have traded at valuations of 12-15x EV/EBITDA.

Chart 7: Global EV/EBITDA



Source: BofA Merrill Lynch Global Research

Chart 8: Dish TV EV/EBITDA band



Source: BofA Merrill Lynch Global Research

Table 3: Relative Comps

	Revenue Growth			EBITDA growth			EPS growth			EV/EBITDA
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2013
Global DTH Players										
BSkyB	12%	6%	6%	17%	18%	3%	32%	28%	9%	9.00
Dish Network Corp	11%	0%	1%	25%	-4%	-5%	55%	-16%	-6%	5.80
DirecTV Group	12%	9%	9%	10%	10%	11%	33%	29%	34%	5.35
Modern Times Group	4%	3%	4%	15%	9%	8%	-46%	11%	10%	6.34
News Corp	2%	7%	6%	9%	13%	12%	23%	21%	20%	5.13
Televisa	14%	8%	5%	14%	10%	7%	4%	16%	15%	6.39
Average										6.04
Dish TV	32%	41%	21%	113%	118%	32%	NM	NM	NM	13.2
India Broadcasting & cable players										
Zee Entertainment	34%	7%	14%	23%	10%	26%	-3%	15%	19%	10.25
Sun TV Network Ltd	39%	4%	14%	37%	6%	17%	46%	7%	17%	6.17
Hathway	21%	16%	20%	33%	28%	41%	-60%	-153%	281%	5.47
Average										7.29

Source: BofA Merrill Lynch Global Research

Key risks

Upside from Lower license cost: We see upside risk from a potential reduction in license cost. Currently, DTH players are providing for license cost at the rate of 10% of total revenues. As per The Telecom Disputes Settlement and Appellate Tribunal (TDSAT) 2010 directive, DTH operators are required to pay license fees on adjusted revenues i.e., revenue adjusted for pay channel costs, service / entertainment tax etc. This directive has been challenged by the government in the Supreme Court. If the court upholds the TDSAT directive, license cost is likely to fall from 10% to around 6% of revenues leading to 400-500bp margin expansion. Consequently, our DCF valuations could expand to Rs110.

Downside from increasing churn: We see downside risk from increasing churn. Given operators currently offer subsidies on set top boxes, increasing churn remains a key concern and could impact valuations adversely. While Dish has an average churn of 9% -10% annually, it is much less than that in developed economies. Any increase in churn will impact profitability adversely (see chart 12).

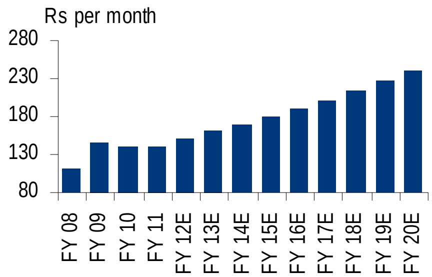
Furthermore, management currently writes off investment in set-top box only if the consumer has not been active for over 500 days. Any change in this policy could lead to higher write-offs.

Financial Assumptions

Average revenue per subscriber (ARPU), subscriber acquisition cost (SAC), churn, & content cost: key variables that impact Dish's long-term viability

ARPU - gradual expansion likely

Chart 9: Trend in realized ARPUs



Source: Company, BofA Merrill Lynch Global Research

Dish realised ARPU of Rs150 per month during 1Q FY12, up 8% YoY. Subscribers who have not been active for over 120 days are not factored for ARPU calculation. While realizations improved, it is lower than local peers such as Tata Sky (Rs200). This could be largely attributed to 1) revenue loss due to subscribers not renewing monthly services on time and 2) temporary disconnections during the renewal cycle.

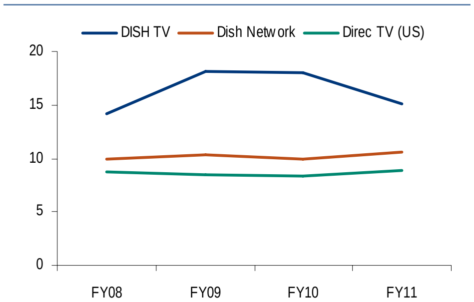
The increases were driven by discontinuation of the base level package and the increase in pricing for select schemes including the base level. While earlier Dish was offering its entry level package to subscribers at Rs135 per month, it now offers the package at Rs165, an increase of 22%. All new subscribers are now subscribing to the new base package.

While we see scope for ARPUs to expand, We believe the competitive environment remains challenging given it is a six-player market and continued competition from analogue cable where ARPUs remain compressed. We have assumed ARPUs to achieve a 6% CAGR over FY11-20E, driven by the annual increase in package costs and mix change in preference for higher value-added schemes. As per management, nearly 22% of its subscribers still enjoy the earlier base pricing of Rs135p.m and would gradually move up, increasing ARPUs for the company. We have assumed exit ARPUs of Rs240p.m in our DCF assumptions for terminal value calculation.

EBITDA margins remain sensitive to increase / decrease in ARPU. Every 1% increase in ARPU is likely to improve EBITDA margins by 15-20bps, in our view.

Subscriber acquisition cost (SAC)

Chart 10: Trend in SAC/ ARPU



Source: BofA Merrill Lynch Global Research

SAC refers to cost incurred in acquiring a new subscriber and comprises subsidy on hardware offered to subscribers, dealer commissions, and advertising & marketing costs in attracting new subscribers. Dish reported SAC of Rs2149 per subscriber in FY11 vs. Rs2500 in FY10. We have assumed SAC of Rs2400 for Dish over the next 4-5 years.

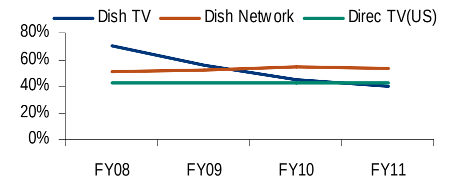
SAC / ARPU for Dish, at 15x, is higher than the 10-11x reported by peers such as DirecTV. While this is partly due to low ARPU currently, it is also higher given global peers include lease rental fees and revenues from premium services such as pay per view and video on demand services in their ARPU calculation. Given scope to expand ARPUs, we expect Dish's SAC / ARPU to converge with that of global peers over the long term.

With FCF turnaround in FY13E, Dish is well placed vs peers to fund growth in our view.

Significant leverage from content cost likely

Content cost to subscription revenues stood at 42% for Dish in line with global peers and is one of the core expenses for the company. The company currently has fixed price contracts with all most all key content providers. This provides significant operating leverage during the growth phase. Over FY07-11, while revenues grew at CAGR of 78%, cost of content grew by around 34% only.

Chart 11: Content cost % revenues



Source: BofA Merrill Lynch Global Research

As per management, its contract with two key broadcasters is due for renegotiation in next year and the cost could increase given subscriber base would be reset after a gap of three years. We forecast content cost to increase at CAGR of 22% vs. 28% growth in subscription revenues over FY11-14E. Consequently, content cost likely to decline from 42% to 37% by FY14E. Besides, contractual terms with ZEE group for content remain favorable as compared to other broadcasters.

Table 4: Sensitivity Analysis

		Content cost						
		33%	35%	37%	39%	41%	43%	45%
ARPU (Rs)	122	74	72	70	68	66	64	62
	132	84	82	80	78	76	74	72
	142	94	92	89	87	85	83	81
	152	104	102	99	97	95	92	90
	162	114	112	109	107	104	102	99
	172	124	122	119	116	114	111	108
	182	134	132	129	126	123	120	118

Source: BofA Merrill Lynch Global Research

Churn likely to trend down

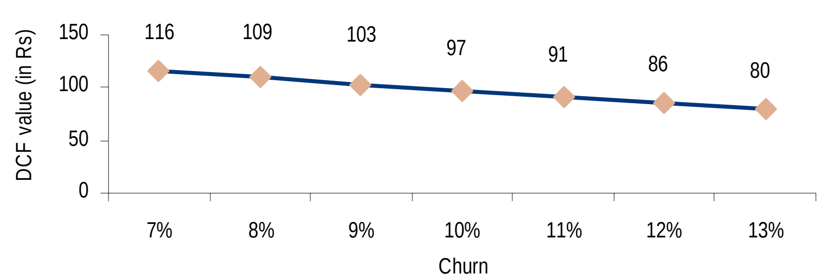
Churn refers to number of consumers opting out of the DTH scheme. Dish reported churn of 10% in FY11 vs 15% for global peers such as DirecTV. We believe churn is a critical factor for success given the industry currently provides subsidy for set-top boxes.

Dish recognizes a subscriber as having churned if the subscriber has not renewed monthly schemes for over 120 days. Further, the company writes off investments in set-top boxes if the subscriber remains inactive for over 500 days.

While we have assumed churn to increase in the near term to 11% by FY13E, our assumptions for DCF bake in average churn rate of ~9% for next 7-10 years. Every 1% increase in churn would have a negative impact of 6% on our DCF valuations.

Assuming SAC to be at Rs2400, every 1% increase in Churn will impact DCF valuations negatively by 6%

Chart 12: ....DCF valuation sensitive to churn



Source: BofA Merrill Lynch Global Research

28% CAGR in subscription revenues

We forecast 28% CAGR in subscription revenues over FY11-14E driven by 20% growth in subscriber base and 6% ARPU CAGR. Even assuming Dish's market share to decline from 32% to 29% over next 4-5 years, the overall subscriber base for the company is expected to grow from 8.5mn currently to 13mn during next 4-5 years.

Lease rentals to remain flattish

Dish TV currently recognizes around Rs600-Rs900 per subscriber for set-top boxes. While subscribers pay the money upfront, this is accounted for in revenues over a three-year period. Lease rentals contribute 14% to revenues currently and are a function of the subsidy provided on set-top boxes and subscriber additions p.a. Given our assumption of gross additions of 2.5mn subscribers per year, we believe lease rentals are likely to remain flattish.

The company also writes off losses for subscribers who have been inactive for over 500 days. We have assumed around Rs300mn & Rs150mn of loss for this in FY12E & FY13E in our lease rental calculations.

Sharp jump in EBITDA margins likely

We forecast EBITDA margins to expand from 17% in FY11 to 31% (FY14E) driven by strong subscriber growth and the leverage on content cost. Margins were also helped by lease rentals given costs related to set-top boxes are reflected below EBITDA in depreciation. Adjusted for lease rentals, EBITDA margins stood at 3% and are forecast to expand to 22% over the next three years.

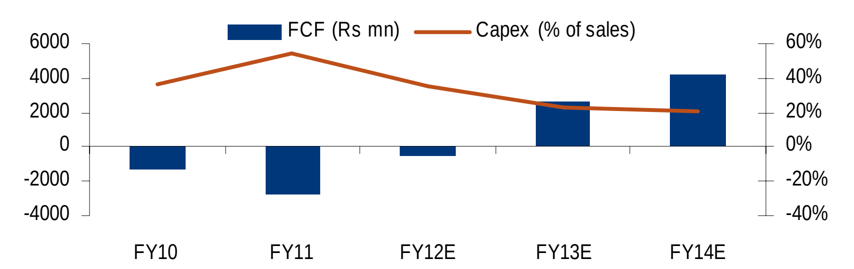
Turnaround in profits and FCF

Consequently, we forecast Dish to be profitable in FY13 and FCF to turnaround in FY13. This is despite robust growth in subscriber additions leading to higher capex.

Capex of Rs7bn in FY12E

We have assumed capex of Rs7bn and Rs5.8bn for FY12E and FY13E. This assumes gross subscriber addition of 2.9mn and 2.5mn for FY12E/FY13E and is based on average capex of Rs2450 per consumer premises equipment which includes the cost of set-top boxes for standard definition/ high definition boxes (USD28-60/ box) and other associated equipments (USD25/ subscriber). The company depreciates the hardware on a five-year basis.

Chart 13: FCF and Capex of Dish TV



Source: BofA Merrill Lynch Global Research

Return ratios likely to trend up over next 5- 10 years

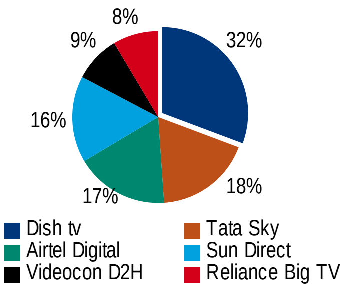
Given that Dish is in subscriber acquisition mode, return ratios currently are in negative zone. We expect ROCEs to trend up to around 25%-28% over next ten years in line with peers such as Direc TV.

Competitive strengths and strategy

Leading DTH player in India; significant distribution reach

Dish TV is the largest DTH provider in India with a gross subscriber base of 11mn. The company currently has an estimated share of 32% in a six-player market and claims an incremental share of 25% in new subscriber additions. It has a strong distribution reach with presence across 6,600 towns and dealership network of 55,000. Dish has an early mover advantage and also benefits from being part of the ZEE network - one of the largest broadcasting networks in the country with nearly 22 channels.

Chart 14: DTH market share



Source: Industry

Differentiating through attractive package offerings

Given regulations do not allow content exclusivity, the ability to offer attractive schemes to consumers remains one of the key differentiators. Dish has been providing the most attractive and best packages to both entry levels and high end subscribers. This has been largely driven by its ability to negotiate fixed price contracts with content providers and leverage on its subscriber base. With a gross subscriber base of 11mn vs. 3mn to 7mn for competition, Dish offers significant viewership reach to content providers.

Table 5: Attractive pricing strategy

	Dish TV	Videocon D2H	Airtel Digital*	Reliance Big TV	Tata Sky
Base pack (Price Rs. p.m)	165	165	158	132	185
Base Pack (Channels offered)	192	197	141	102	93

* Airtel pricing is excluding taxes

Source: BofA Merrill Lynch Global Research

Strong focus on profitability

Dish in our view is the first DTH operator in India to have turned EBITDA positive and potentially the first to turn FCF positive in FY13. While Dish stands out for its attractive schemes, we believe the company is equally focused on its cost structure. As of FY10 accumulated losses for Dish stood at Rs12.5bn vs. Rs35.3bn for Tata Sky despite nearly 50% higher subscriber base, indicating that cash burn on per subscriber base has been much lower than peers. We attribute this to its ability to garner higher subscriber numbers for much lower spends on subscriber acquisition.

Scope to improve ARPU

One of the key focus areas for Dish has been to increase its ARPU levels. With six players competing to acquire subscribers, we believe ARPU expansion will be gradual. ARPU for 1Q FY12 stood at Rs150 pm and was up 9% YoY. This was driven by 1) increase in price of base-level packages and 2) reset of base-level packages.

Over the last 6-9 months, Dish implemented a couple of changes to its packages. It increased pricing for its entry-level package (Silver) to Rs135 from Rs125 and also discontinued offering the package to new subscribers. As per management, it currently has around 22% of subscribers in the old Silver package. However, all new subscribers now come in at the next package i.e., Rs165.

Dish also hiked pricing for its Silver Saver and Gold packages during this period. With scope to upgrade subscribers at the base level and potential increase in prices, we believe ARPU could trend up, albeit gradually.

Table 6: Recent Changes in Packages

	Jun-10	Sep-10	May-11	Sep-11	Comments
Silver	125	135	Discontinued for new subscribers		Raised prices and discontinued the packages. Effectively all new subscribers now come at higher package offerings. 22% of subscribers still at Rs135 and could migrate to higher packages over time.
Silver Saver	160	160	165	165	Increased pricing recently. Subscription for this package estimated at around 25%. Recently re-launched as Family pack with six more channels.
Silver Saver Cricket	195	195	195	-	
Gold	210	225	225	225	Hiked pricing in Sept 2010.
Gold Saver	270	270	285	275	Recently re-launched as world pack with six more channels. Pricing also increased in May 2011.
Platinum	325	325	350	350	

Source: Company

India C&S – Growth led by DTH

With nearly 122mn TV households, the Indian C&S market is the second largest after China. Growth has being driven by an increase in total households and improving TV penetration levels. TV penetration in the country stood at around 60% as compared to c.89% for US and c.46% for China.

However, the industry is largely analogue in nature with nearly 61% of TV households being connected by analogue networks, where due to bandwidth constraints only 100 channels are currently being offered by local cable operators as against the 650 channels available.

Table 7: India C&S Snapshot

India Cable & Satellite Industry	CY11E
No of TV households (mn)	148
Households with C&S connections (mn)	122
Of which DTH	33%
Of which cable –analogue	61%
Of which cable – digital	6%

Source: MPA report, BofA Merrill Lynch Global Research

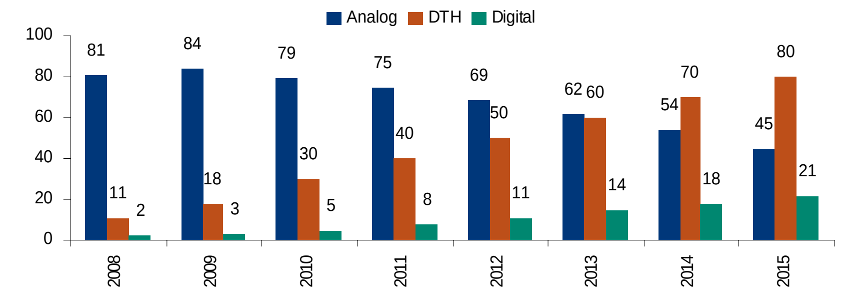
Share of digital TV to increase

Share of digital TV as at end-CY11 stood at 39% and is likely to increase to 69% by CY15 led by DTH and digitalization of last mile cable. However, given that most of the last mile cable is controlled by local cable operators, the digitalization has been rather slow. DTH in the interim has gained significant market share (33%).

The share of digital consumers (DTH and Digital Cable) has increased from 5% (2007) to 39% (2011) driven by strong growth in DTH subscriber base and voluntary adoption of Digital Cable by analogue subscribers. DTH players have been adding nearly 10-12mn subscribers' p.a. and the trend is likely to continue.

We forecast digital TV to achieve 69% penetration over the next 4-5 years, with DTH contributing 55% and Digital Cable 15%.

Chart 15: Growing digital subscriber base (in millions)

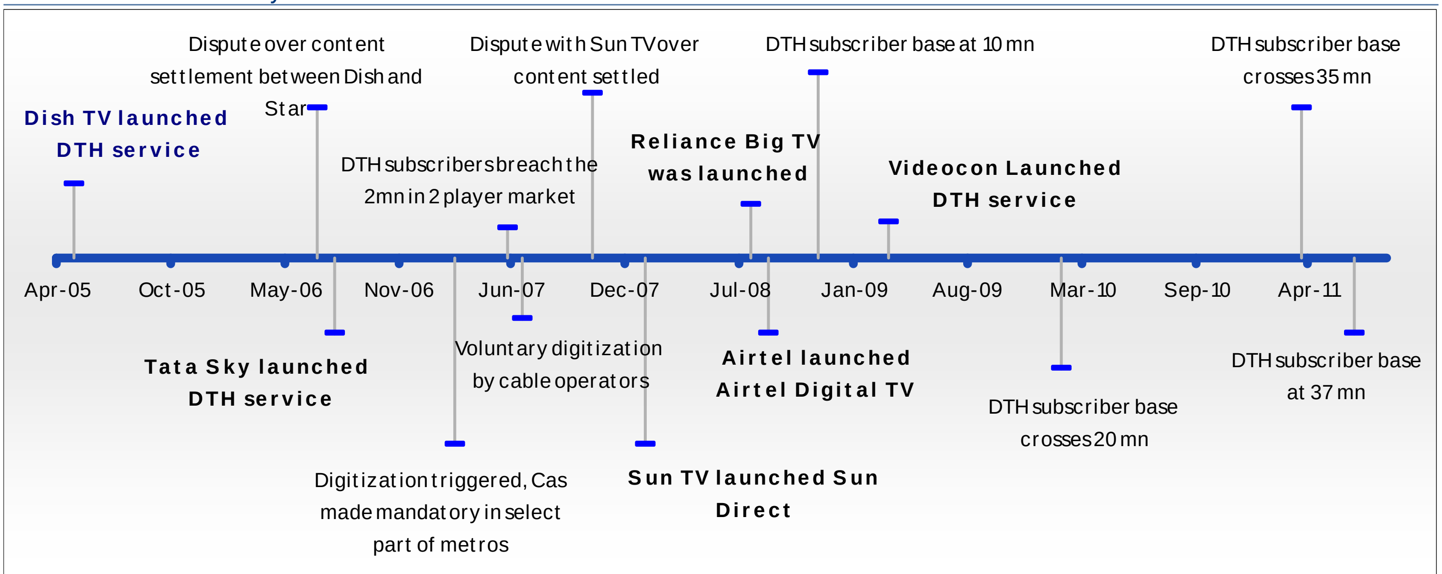


Source: Industry, BofA Merrill Lynch Global Research

DTH – emergence of six-player market

Over the last five years, the DTH industry has been successful in adding 39mn gross subscribers. While Dish was the first to tap the opportunity, the marketplace is now extremely competitive with six players vying for subscriber share. Dish is now the largest DTH operator with a 32% share, followed by Tata Sky and Airtel.

Chart 16: Indian DTH industry



Source: Dish TV presentation

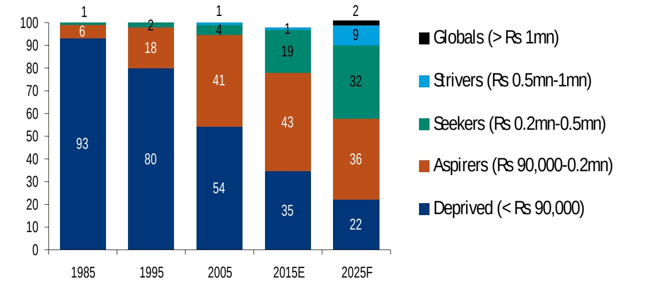
Multiple drivers for growth…

We expect the share of digital TV to increase from the current 31% to 69% over the next five years.

- Growth in the DTH industry has been driven by the adoption of DTH in cable dark areas and conversion of analogue households to DTH networks. While there are over 650 channels available to the consumer, analogue networks offer only 100 due to bandwidth constraints. With DTH operators offering attractive pricing schemes, DTH has emerged as a viable alternative for many analogue subscribers.

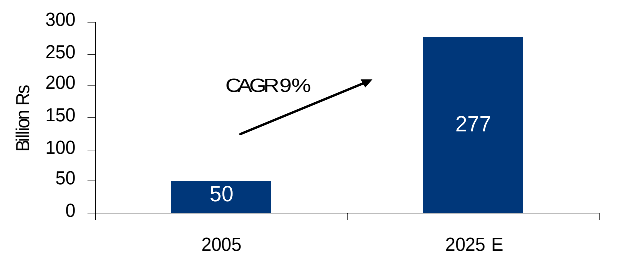
- Strong economic growth led increase in disposable income has been a key driver in the adoption of digital TV. According to recent study by McKinsey, households with income levels of INR 200,000-1,000,000 will likely jump 6x during FY05-25. Consequently, spends on entertainment which is discretionary in nature will likely achieve a 9% CAGR over the same period.

Chart 17: Changing Indian demographic profile



Source: McKinsey, BofA Merrill Lynch Global Research

Chart 18: Increasing spent on entertainment consumption



Source: McKinsey, BofA Merrill Lynch Global Research

According to a CRISIL study, the share of high-end TV (Plasma / LED) is likely to increase from 23% to 57% over the next five years, increasing allocation to discretionary spends. The quality of offerings of DTH players has improved as well with HD channels now being offered to consumers.

Table 8: Growth in the sale of panel TV vs flat TV

In mn Units	2010	2011	2012E	2016E
Conventional Colour TV	3	2	1	0
Flat Color TV	9	8	8	9
Panel TV LVD,LED and Plasma)	1	3	4	12
Total	13	13	14	21

Source: Crisil, BofA Merrill Lynch Global Research

Passage of the digitalization bill, in our view, would be a strong trigger for increasing adoption of digital TV in India. TRAI has recommended a four-phase transition of analogue to digital TV network. While the bill has been approved by key ministries, it is yet to be ratified by the parliament. Passage of the bill will help both multi system operators and DTH players, in our view.

Table 9: Digitalization sunset dates

	Areas suggested by TRAI	Sunset dates
Phase-I	Four Metros of Delhi, Mumbai, Kolkata and Chennai	31st March,2012
Phase-II	Cities with a population more than one million	31st March,2013
Phase-III	All urban areas (Municipal Corp./ Municipalities)	30th Sept,2014
Phase-IV	Rest of India	31st Dec,2014

Source: TRAI, I&B ministry

…but not with out challenges

We believe competitive intensity in the Indian DTH space is unlikely to soften given significant room to expand subscriber base and the desire to recoup investments done till date.

While Dish has already crossed the 10mn subscriber mark at the gross level, we believe there is room for the industry to garner an additional 40mn subscribers. We expect Dish to turn FCF positive in FY13E, at least 2-3 years ahead of the industry, in our view. With three players currently at the 6-7mn subscriber mark, the urge to cross the 10mn mark should lead to intense competition, we view. To us, Dish stands out in terms of strong subscriber base, FCF turnaround and low debt levels.

Table 10: DTH players – financial synopsis (FY10)

Rs in mns	FY 2010										
FY10	Revenues	EBITDA	PAT	Accumulated losses	Debt	Debt/ Equity	Cumulative amount Invested	Cash and equiv	Net debt	Net Worth
Dish TV	10850	1117	-2622	12576	9322	0.6	27163	9111	211	16344
Tata Sky	14266	-3485	-6266	35313	13514	0.7	38415	1169	12346	18673
Airtel Digital TV*	2870	-2411	-4672	7148	14890	146*	19295	105	14785	102
Sun Direct	6600	NA	-4423	9634	8260	0.8	21261	149	8111	10750
Videocon	128	-979	-1294	1326	7328	1.4	13163	104	7223	5260
Total	34714		-19277	65997	53314		119297	10638	42676	
USD,mn	771		-428	1467	1185		2651	236	948	

* Debt from parent company- interest free loans

Source: Company filings, industry ,BofA Global research

Significant investments till date

The Indian DTH market remains extremely competitive with the six incumbents aggressively attracting subscribers. Based on data from FY10 filings, we note that accumulated losses for the industry stood at US$1.5bn and the six players cumulatively have invested over US$4bn to garner 39mn subscribers. Dish is the market leader with 32% share, followed by Tata Sky and Airtel at 18% and 17%, respectively.

Subscribers up for grabs, but funding required

Given under penetration of DTH services in the country, we see scope for potential doubling of subscriber base to 80mn over next 4-5 years.

We estimate that funding to the tune of US$2bn-3bn is needed to reach the 80mn mark. This assumes investments in just the consumer premises equipment. Funding requirement would be higher if one factors operational expenses (content cost, investments in advertising) and cost of servicing debt.

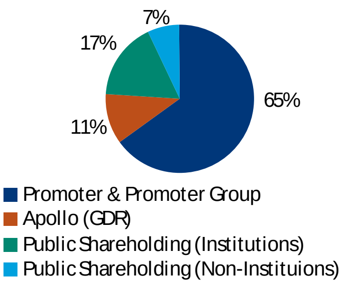
Dish to turn FCF positive, ahead of peers

With industry adding nearly 10mn gross subscriber p.a., we believe DTH operators need to have a critical subscriber base to turn cash flow positive. We expect Dish to turn FCF positive in FY13 with nearly 12mn net subscribers, at least 2-3 years ahead of peers.

Assuming similar operating metrics for the industry, we believe competitors are likely to turn FCF positive in FY15 or later. This should provide a significant advantage to Dish to improve market share further.

Dish TV: India's leading DTH operator

Chart 19: Shareholding as on 30 June 2011



Source: NSE

Dish TV is India's largest DTH operator with a gross subscriber base of 11mn. Established in 2005, Dish TV is part of the ZEE network, one of the largest broadcasting networks, with nearly 31 channels covering all key genres i.e., general entertainment, movies, news and music.

Dish TV is the industry leader with a 32% market share in a six-player market. It has a pan-India presence through 1,400 distributors and 55,000 dealers across 6,600 towns. This network is managed by over 200 sales personnel in its 8 zonal and 19 regional offices ensuring easy access to its end users.

Well funded for growth

Over the last three years, Dish TV raised around US$350mn through a rights issue (US$250mn) and GDR (US$100mn). The GDR issue was fully subscribed by Apollo India Private Equity (Mauritius) Ltd. Post issue, Apollo's stake in the company stood at 11%.

Dish TV is run by the professional management with significant experience in the industry.

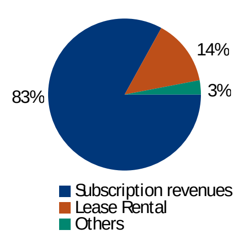
Table 11: Key Management Profile

Subhash Chandra	Non Executive Chairman	Promoter of Essel Group of Companies, India's largest conglomerate, having a diverse portfolio of assets in media, packaging, entertainment, technology-enabled services, infrastructure, development and education.
Jawahar Lal Goel	Managing Director	MD since Jan'07 and instrumental in establishing Dish as India's leading DTH Company. Mr. Goel has been actively involved in the expansion of Essel Group and is an active member on the Board of various committees set up by MIB, Govt. of India for addressing critical matters relating to the Industry.
R.C. Venkateish	Chief Executive Officer	On board since July '10; and prior to that was MD India & South Asia for ESPN Star Sports. An IIT, IIM Graduate, Mr. Venkateish has more than 27 years of experience including 12 years in senior international positions with global brands like SmithKline Beecham, Nestle India, Gillette etc
Salil Kapoor	Chief Operating Officer	Joined Dish TV in July'08. He has a work experience of more than 17 years spanning consumer durables, consultancy services and engineering industries, and has worked with global corporations.

Source: Company

At the end of FY11, Dish TV reported revenues of Rs.14.3bn, a YoY growth of 32% with EBITDA margins of 17%.

Chart 20: Revenue split (%) – FY11



Source: Company filings

Subscription (83% revs), lease rentals (14% revs)

Key revenue streams for Dish TV are subscription revenue and lease rentals, both of which accounted for 83% and 14% of revenues in FY11. Other sources of revenue include bandwidth, teleport services and placement and activation charges. Subscription revenue grew at a CAGR of 77% over FY07-11, driven by increasing subscriber base and overall ARPU level. Lease rentals include the basic hardware cost (set-top box) as purchased by entry-level subscribers, which grew at a CAGR of 74% over FY07-11. Dish also provides other interactive opportunities for advertisers and broadcasters in efforts to reach its 10mn + subscriber base target.

Have assumed debt funding of Rs800mn for FY12. FCF from FY13E.

Financials

Table 12: Profit and Loss statement

(Rs in mn)	FY10	FY11	FY12E	FY13E	FY14E
Sales and Services	10850	14367	20191	24523	27971
Other Income	453	1226	449	394	526
Total Income	11303	15593	20641	24917	28497
Operating expenses	6902	7838	10625	13179	14486
License fees	1096	1499	2019	2452	2797
Programming and other costs	4373	5036	6799	8399	9117
Other operating charges	104	113	118	124	131
Personnel cost	514	761	822	887	958
Administration and other expenses	523	793	864	933	1008
Selling and Distribution expenses	1771	2572	2665	2644	2803
Total Expenditure	9733	11986	15001	17671	19286
EBITDA	1117	2380	5191	6851	8685
less : Depreciation	3227	3996	4551	4496	5642
EBIT	-2111	-1615	640	2356	3043
Less Financial Expenses (Net)	971	1534	1388	1162	1074
PBT	-2628	-1923	-298	1588	2496
Taxes	-6	-3	0	286	449
PAT	-2622	-1920	-298	1302	2047

Source: Company, BofA Merrill Lynch Global Research

Table 13: Balance Sheet

(Rs in mn)	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	1062	1063	1063	1063	1063
Reserves and Surplus	15282	15314	13216	14518	15753
Total Net worth	16344	16377	14279	15581	16816
Secured Loans	9143	10763	11563	10563	9763
Total Loans	9322	10763	11563	10563	9763
Total	25667	27140	25842	26144	26579
Application of funds					
Gross Block	18344	25131	32161	37860	43558
Net Block	11046	14437	16917	18120	18177
Capital WIP	3541	4580	4580	4585	4590
Investments	3561	2000	2100	2200	2300
Current Assets, Loans and advances					
Sundry Debtors	359	227	443	537	613
Cash and Bank Balances	5550	3385	777	1670	3728
Loans and advances	4959	2539	2689	2839	2989
Total	10902	6214	3982	5130	7423
Less : Current Liabilities and Provision					
Current Liabilities	14243	13077	14723	16877	18897
Provisions	1718	3021	3021	3021	3021
Total CL & Provision	15960	16098	17745	19898	21918
Net Current Assets	-5058	-9884	-13763	-14768	-14495
Profit and Loss account	12576	16007	16007	16007	16007
Total	25666	27140	25842	26144	26579

Source: Company, BofA Merrill Lynch Global Research

Table 14: Cash Flow Statement

(Rs in mn)	FY10	FY11	FY12E	FY13E	FY14E
Net Profit/ Loss before taxation	-2628	-1923	-298	1588	2496
Adjustments for:					
Depreciation/ Amortization	3227	3996	4551	4496	5642
Interest Expenses	878	1302	1388	1162	1074
Operating Profit/ (Loss) before working capital changes	1242	2487	5640	7246	9211
(increase)/Decrease in Trade and Other receivables	153	124	-226	-105	-86
Increase/ (Decrease) in Trade and other payables	-1451	-3825	1647	2153	2020
Cash Generated from Operations	2367	4089	6911	9144	10996
Net cash flow from operating activities	2331	3948	5111	8858	10547
Purchases of FA/ CWIP	-5096	-10052	-7031	-5704	-5704
Purchase of investments	-6561	-5924	-100	-100	-100
Net cash flow from investing activities	-8735	-6749	-7131	-5804	-5804
Interest paid	-979	-1152	-1388	-1162	-1074
Proceeds from Long term borrowing	1598	3579	800	-1000	-800
Net Cash flow from financing activities	11219	655	-588	-2162	-2685
Net cash flow during the year	4814	-2145	-2608	893	2058
Cash and cash equivalents at the beginning of the year	805	5550	3385	777	1670
Cash and Cash equivalent at the end of the year	5550	3385	777	1670	3728

Source: Company, BofA Merrill Lynch Global Research

Table 15: Ratios

	FY10	FY11	FY12E	FY13E	FY14E
Growth% yoy					
Subscription revenues	42%	43%	45%	26%	15%
Lease rentals	49%	32%	15%	-3%	10%
Total revenues	47%	32%	41%	21%	14%
EBITDA	NM	NM	118%	32%	27%
EBIT	NM	NM	NM	268%	29%
PAT	NM	NM	NM	NM	57%
Margins					
EBITDA %	10%	17%	26%	28%	31%
EBIT%	-19%	-11%	3%	10%	11%
PBT %	-23%	-12%	-1%	5%	7%
PAT %					
Valuations	-2.5	-1.8	-0.3	1.2	1.9
EPS (Rs)	0.6	2.0	4.0	5.5	7.2
CEPS (Rs)	3.5	0.3	-1.6	-0.4	0.8
BV (Rs)/ share	-32.0	-43.7	-281.3	64.5	41.0
P/E (x)	138.6	40.5	19.7	14.5	10.9
P/CEPS (x)	22.3	227.0	-48.6	-197.0	103.8
P/BV (x)	75.3	37.5	17.9	13.23	10.1
EV/EBIDTA (x)	-39.9	-55.3	144.8	38.5	28.8
EV/ EBIT (x)	-10%	-6%	2.4%	7%	9%
RoCE (%)	-26%	-12%	-2%	9%	13%
RoE (%)	42%	43%	45%	26%	15%

Source: Company, BofA Merrill Lynch Global Research

Price objective basis & risk
Dish TV India Ltd (XCETF)

We value Dish TV on a DCF basis given the investment required in subsidizing set-top boxes for new subscribers and the gestation period involved. Our DCF value is at Rs97 and implies EV/EBITDA of 16x FY13E. Our valuations are at a premium to global DTH peers such as DirecTV and Dish Network. We believe this is justified given high growth in EBITDA for Dish vs peers.

While global peers are trading at 6-9x EV/EBITDA currently, we note that historically during their growth phase these peers have traded at valuations of 12-15x EV/EBITDA.
We see upside risk from potential reduction in license cost from 10% to 6% of revenues based on court judgment. Downside risk is from higher-than-expected churn impacting valuations adversely.

Link to Definitions
Media & Telecom

Click here for definitions of commonly used terms.

Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	D.B.Corp Ltd	XDDCF	DBCL IN	Pratish Krishnan
	Dish TV India Ltd	XCETF	DITV IN	Pratish Krishnan
	ExlService Holdi	EXLS	EXLS US	Kunal Tayal
	Firstsource	FSSOF	FSOL IN	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	Hathway Cable & Datacom Ltd	XHKYF	HATH IN	Pratish Krishnan
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan
	Rolta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
UNDERPERFORM				
	Mahindra Satyam Ltd	XSYAF	SCS IN	Pratish Krishnan
	Mahindra Satyam Ltd	SAYCY	SAYCY US	Pratish Krishnan
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	MphasiS Ltd	MPSSF	MPHL IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	WNS (Holdings) L	WNS	WNS US	Kunal Tayal
RVW				
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	87	49.43%	Buy	35	50.72%
Neutral	53	30.11%	Neutral	28	60.87%
Sell	36	20.45%	Sell	12	38.71%

Investment Rating Distribution: Global Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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