

Media - Distribution

Result Review

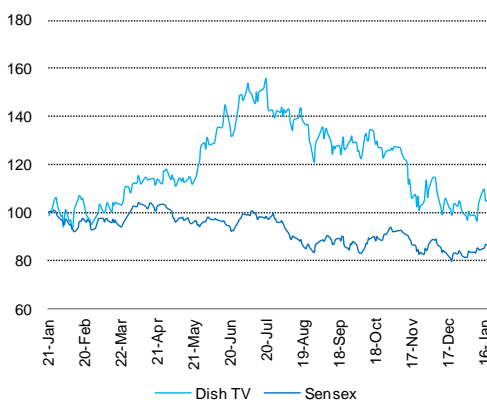
Rating: **HOLD**
Current Price (Rs): 61
Target Price (Rs): 71

Stock Data

52-week high/low	97/54
O/S shares (m)	1,064
Mkt Cap Rs (bn)	62
Avg Daily Vol	4,061,487
Bloomberg Code	DISH IN
Reuters Code	DSTV.NS

Shareholding (%)

	Dec-11
Promoters	64.8
FIIIs	12.8
DIIIs	15.8
Public	6.6



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Demand softens; downgrade to HOLD

Results below expectation: Dish TV's revenue grew 1.7% QoQ to Rs 4,905 mn in 3QFY12, 4.3% below our estimate. EBITDA declined 1.4% QoQ to Rs 1,202 mn in 3QFY12 and was 15.1% lower vs. our estimate of Rs 1,415. The lower net income was largely due to sluggish underlying growth in 3QFY12. Adjusted PAT of Rs (274) mn in 3QFY12 was below our estimate of Rs (22) mn.

Guidance revised on uncertain business environment: Given the uncertain economic conditions, momentum in discretionary spending has slackened. Additionally increase in price of new connections has led to lower demand in 3QFY12. Dish TV lowered its gross HH addition forecast to 2.6-2.7 mn from 3.0-3.5 mn earlier. We revise our ARPU estimate downwards to Rs 151.7 for FY12. The impact of tariff increase would be realised in ARPU over time as the inactive and low-price-point subscriber remains a concern. The Dish TV management has revised its FY12 exit ARPU guidance to Rs 155 from Rs 160/165.

Digitisation is likely to be a trigger: HH addressability is believed to have increased with the passage of the Cable bill in both the houses. However, we see operational and financial challenges at different levels of the value chain. Unlike DTH operators, cable companies are perceived to be inefficient on operational parameters to drive digitisation. The Dish TV management has expressed its readiness in execution capabilities.

Valuation & Recommendation: Given the tough business environment, we have downgraded our revenue and earnings estimate for FY12 and FY13. Moreover, given concerns on competition, we are apprehensive about the business growth rate going forward. We arrive at target price of Rs 71 per share representing potential upside of 17%. **We downgrade Dish TV to HOLD.**

Y/E Mar (Rs. Mn)	FY10	FY11	FY12E	FY13E
Net Sales	10,850	14,367	19,378	22,892
EBITDA	1,182	3,607	4,785	6,075
Net Profit	(2,622)	(1,920)	(1,412)	304
EPS (Rs)	(2.5)	(1.8)	(1.3)	0.3
Book Value/(Rs.)	15.4	15.4	15.4	15.4
PER	n.a	n.a	n.a	213.8
P/BV	4.0	4.0	4.0	4.0
EV/EBITDA	56.8	19.5	15.2	12.0
ROE (%)	(26.5)	(11.7)	(8.6)	1.9
ROCE (%)	(10.1)	(1.5)	0.1	3.7

Figure 1: Dish TV 3QFY12 results snapshot

INR mn	3QFY12	2QFY12	3QFY11	YoY	QoQ	FY11	FY12
Revenues	4,905	4,823	3,732	31.4	1.7	14,367	19,378
Programming cost	1,576	1,472	1,426	10.5	7.1	7,861	6,239
Employee cost	173	171	134	28.7	0.9	761	693
SG&A and Other cost	1,954	1,961	1,504	29.9	(0.4)	3,364	7,668
Total Expenses	3,703	3,604	3,065	20.8	2.7	11,986	14,600
EBITDA	1,202	1,218	667	80.2	(1.4)	3,607	4,785
EBITDA (%)	24	25	18	663	(77)	25	25
Depreciation	1,232	1,162	902	36.7	6.1	3,996	4,759
Other income	78	92	17	347.1	(15.4)	1,226	6
Interest	477	634	225	111.8	(24.8)	1,534	1,438
PBT	(430)	(486)	(443)	N.A	N.A	(1,923)	(1,412)
Tax	0	0	0	N.A	N.A	0	0
PAT*	(430)	(486)	(443)	N.A	N.A	(1,920)	(1,412)
EPS	(0.4)	(0.5)	(0.4)	N.A	N.A	(1.8)	(1.3)

Source: Company IFIN Research, *Reported data (3QFY12 adjusted PAT Rs (274) mn)

Result Highlights

Lower net income was largely due to the sluggish underlying growth in 3QFY12. Adjusted PAT at Rs (274) mn in 3QFY12 was below our estimate of Rs (22) mn. Given the uncertain economic environment, Dish TV has revised its gross HH addition estimates to 2.6-2.7 mn for FY12.

3QFY12 result lower than estimate

Dish TV Ltd. (Dish TV's) revenue growth of 31% YoY and 1.7% QoQ to Rs 4,905 mn in 3QFY12 was driven by higher Household (HH) base and stable ARPU. Additionally lease rental declined to Rs 449 mn in 3QFY12 from Rs 550 mn in 2QFY12 as the quantum of low package subscriber increased on the network. EBITDA declined 1.4% QoQ in 3QFY12 and it was 15.1% below our estimate. Adjusted PAT of Rs (274) mn in 3QFY12 was below our estimate of Rs (22) mn. Lower-than-expected underlying growth has led to lower adjusted PAT in 3QFY12.

HH addition concern to remain; estimates revised downwards

Dish TV reported gross HH addition of 0.74 mn in 3QFY12 representing QoQ growth of 6.5%. This was below our expectation by 0.8 mn HH in 3QFY12. In the advent of uncertain economic conditions, momentum in discretionary spending is believed to have slackened. Furthermore, industry-level increase in price of a new connection has led to lower demand in 3QFY12.

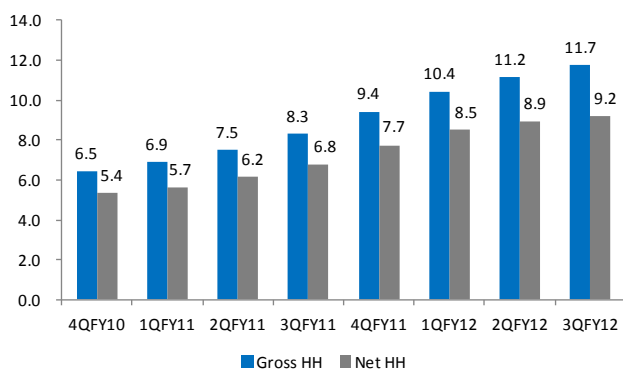
Adjusted PAT of Rs (274) mn was below our estimate in 3QFY12

Dish TV's gross HH addition was 0.74 mn in 3QFY12

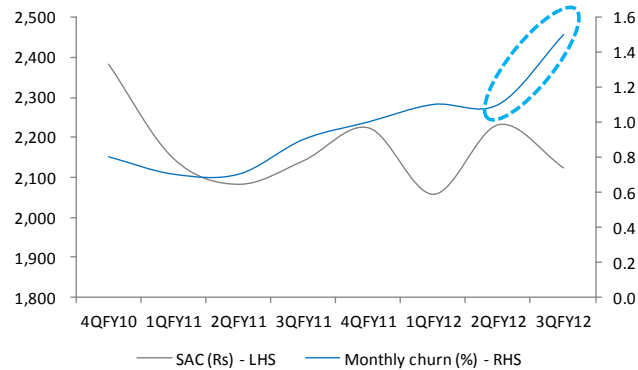
Dish TV lowered its gross HH addition guidance from 3-3.5 mn to 2.6-2.7 mn

The end of the festive season coupled with increase in tariffs would remain a drag on visibility over HH addition going forward. 4QFY12 gross HH addition has been slower compared with 3QFY12. So if Dish TV adds 0.53 mn HHs during 4QFY12, the total HH base will be 13.03 mn by end-FY12. Hence gross HH addition target of 3.0-3.5 mn appears to be unlikely. While Dish TV has lowered its gross HH addition forecast to 2.6-2.7 mn, we see it to be 2.59 mn for FY12.

HH addition below expectation (mn)



SAC positive; churn to settle going forward

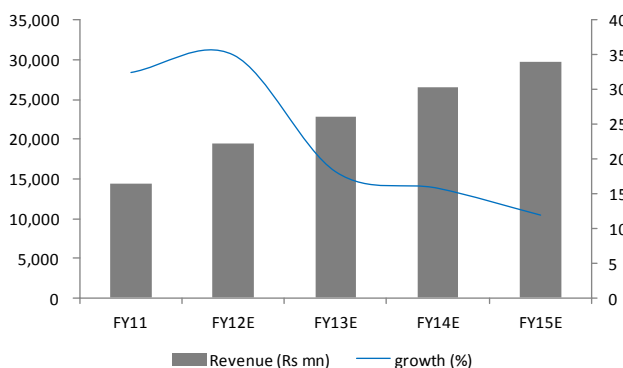


Source: Company

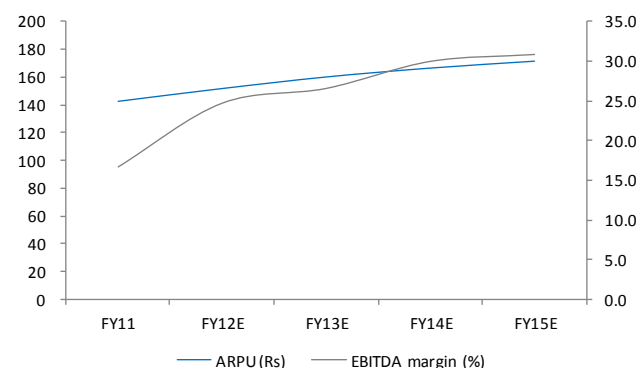
Quantum of inactive and low price point subscribers remain a concern

FY12 exit ARPU revised downwards to Rs 155: While churn rate of 1% is affordable, 1.5% churn during 3QFY12 is attributed to voluntary cleaning of floating customers added during 4QFY11. The quantum of inactive and low-price-point subscribers remains a concern and management has revised its FY12 exit ARPU guidance to Rs 155.

Revenue growth visibility a concern



Better ARPU to boost EBITDA margin



Source: Company, IFIN Research

We estimate average ARPU for FY12 at Rs 151.7

Nevertheless, Dish TV has made Rs10 increase in the base pack tariff during November 2011. The base pack would cost Rs175 for a Dish TV subscriber. With a base pack subscriber base at 44-47%, it appears that pricing power is coming back to DTH operators. We believe the impact of the increase would be realised in ARPU during Q4FY12E. With this, we believe the company would be able to realise average ARPU of Rs 151.7 in FY12. We have accordingly revised our ARPU estimates downwards for FY12 and FY13.

Mandatory digitization is likely to open up market potential of 70 mn HHs

Fund Raising plan seen as a key negative

Plan to raise US\$200 mn has been one of the concerns that led to 20% correction in the stock price during the quarter. Post mandatory digitisation, we believe the proceeds would be utilised to tap unattended cable HH. Mandatory digitisation is likely to open up a market potential of 70 mn HH. Nevertheless, Dish TV is yet to decide on the time and amount of the money to be raised.

Cable companies are perceived to be inefficient on operational parameters

Poised to benefit from the digitisation drive:

With the passage of the Cable bill in both the houses, addressability would increase for major distribution companies and broadcasters. However, we see operational and financial challenges at different levels of the value chain. The Dish TV management has expressed its readiness in terms of execution capacity, customer handling and financial capabilities. Similar bandwidth is not available with a majority of cable companies. Hence, we see Dish TV benefiting the most from the digitisation drive.

Valuation & View

We have revised our revenue estimates for Dish TV downward to Rs 19,378 mn for FY12 and Rs 22,892 mn for FY13

We believe the current economic environment does not offer growth visibility seen in the past. In addition to concerns related to competition, we are would be apprehensive about the business growth rate going forward. Owing to downward revision in gross HH addition and ARPU estimates for FY12 and FY13, we have revised our revenue estimates for the company downward to Rs 19,378 mn for FY12 and Rs 22,892 mn for FY13. We estimate EPS in FY12 at Rs (1.3) and FY13 at Rs 0.3.

Change in FY12 and FY13 estimates

	Changes in estimates					
	FY12E			FY13E		
	Old	New	% Change	Old	New	% Change
Net Sales (Rs mn)	20,500	19,378	(5.5)	25,907	22,892	(11.6)
EPS (Rs)	(0.5)	(1.3)	N.A	1.0	0.3	(71.5)

Source: IFIN Research

Valuation

Dish TV underperformed the by 16% vis-à-vis the Sensex due to uncertainty over HH addition for FY12. Given the current business environment, we expect lower estimates for the next two years. We see slowdown in gross HH addition and intensifying competition post digitisation as key concerns in the near-to-medium term for Dish TV.

We use the DCF methodology to value Dish TV because:

- 1) Visibility of Free Cash Flow (FCF) for Dish TV is relatively higher
- 2) Capex is likely to remain stable in the medium term, given visibility over HH addition
- 3) Following the launch of the High Definition (HD) technology, we do not envisage significant investments in the medium term for Dish TV.

We arrive at target price of Rs 71 per share representing a potential upside of 17%. We **downgrade Dish TV to HOLD**. Broad assumptions are perpetuity growth at 3.0%, beta of 1.2, and WACC of 11.8%.

Financials

Income Statement

(Rs Million)

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	10,850	14,367	19,378	22,892
Sales Growth (%)	47	32	35	18
Operation cost	6,926	7,861	6,239	7,275
Employee cost	516	761	693	779
SG&A and Other cost	2,292	3,364	7,668	8,770
EBITDA	1,182	3,607	4,785	6,075
EBITDA (%)	11	25	25	27
Depreciation	3,227	3,996	4,759	5,015
Interest	583	1,534	1,438	757
Tax	(6)	(3)	0	0
Adjusted PAT	(2,622)	(1,920)	(1,412)	304
Extraordinary Items	0	0	0	0
Reported PAT	(2,622)	(1,920)	(1,412)	304

Source: Company IFIN Research

Ratios

Y/E March	FY10	FY11	FY12E	FY13E
EPS (Rs)	(2.5)	(1.8)	(1.3)	0.3
CEPS (Rs)	0.6	2.0	3.1	5.0
BV (Rs.)	15.4	15.4	15.4	15.4
DPS	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	n.a	n.a	n.a	213.8
EV/EBITDA	56.8	19.5	15.2	12.0
EV/Sales	6.2	4.9	3.7	3.2
Price/Book Value	4.0	4.0	4.0	4.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Profitability Ratio (%)				
RoE	(26.5)	(11.7)	(8.6)	1.9
RoCE	(10.1)	(1.5)	0.1	3.7
Turnover Ratios				
Debtors (Days)	12.1	5.8	6.0	6.0
Fixed Asset Turnover (x)	0.8	0.9	1.0	1.1

Source: Company IFIN Research

Balance Sheet

(Rs Million)

Y/E March	FY10	FY11	FY12E	FY13E
Share Capital	1,062	1,063	1,064	1,064
Reserves	15,282	15,314	15,314	15,314
Net Worth	16,344	16,377	16,378	16,378
Debt	9,358	10,763	12,011	12,011
Total Current Liabilities	15,925	16,098	16,600	16,593
Total Equity & Liabilities	41,627	43,238	44,989	44,983
Net Block	11,046	14,437	15,904	16,360
CWP	3,541	4,580	4,580	4,580
Investments	1,561	2,000	2,000	2,000
Curr. Assets				
Debtors	359	227	319	376
Cash & Bank Balance	5,550	3,385	2,292	2,253
Loans & Advance	6,966	2,539	2,389	2,195
Other Current Assets	12,604	16,071	17,506	17,218
Total Assets	41,627	43,238	44,989	44,983

Source: Company IFIN Research

Cash Flow Statement

(Rs million)

Y/E March	FY10	FY11	FY12E	FY13E
Consolidated PAT	(2,628)	(1,920)	(1,412)	304
Depreciation	3,227	3,996	4,759	5,015
Others	651	0	0	0
Cash Flow from Operation	1,250	2,076	3,347	5,318
Inc/(Dec) in WC	1,080	4,697	536	114
Operating Cash Flow	2,331	6,773	3,883	5,432
Capex	(5,096)	(8,426)	(6,226)	(5,471)
Free Cash Flow	(2,766)	(1,653)	(2,342)	(39)
Equity Raised	12,906	33	1	0
Debt Raised	(716)	1,405	1,248	0
Investment	5,001	0	0	0
Misc Expense	0	0	0	0
Net Cash Flow	4,745	(2,165)	(1,093)	(39)
Opening Cash Bal.	805	5,550	3,385	2,292
Add: Net Cash	4,745	(2,165)	(1,093)	(39)
Closing Cash Bal.	5,550	3,385	2,292	2,253

Source: Company IFIN Research

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Key ratings:

Rating	LARGE CAP	MID CAP
	Market Cap \geq Rs 100 bn	Market Cap $<$ Rs 100 bn
BUY (B)	$> 15\%$	$> 25\%$
Hold (H)	5-15%	10-25%
SELL (S)	$< 5\%$	$< 8\%$
Not Rated (NR)	Not initiated coverage on the stock	

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