

# 3Q: Minor set back; growth story intact

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## 3Q results : Minor set back; structural story intact

While 3Q results disappointed on revenues & margins, led by higher subscriber churn during the quarter, we believe the structural growth story is intact. Our DCF valuation stand reduce to Rs90 vs. Rs97 and factors increase in long term churn rate (11% vs. 10% earlier) and marginal reduction in subscriber growth assumptions during FY12. Expect churn rate to improve from 4Q and ARPUs to expand given recent hike in base level schemes by DTH operators. Retain Buy,

## Revs, margin disappoint; Subscriber adds and SAC improve

3Q subscription revs grew by 32% yoy, missing BofAMLe by 4%, led by flattish growth in ARPUs & higher churn. EBITDA margins declined 75bps QoQ to 24.5 % and were led by lower revs and higher content cost given renegotiation of contract with two broadcasters. Recurring losses (excl forex loss) stood at Rs273mn vs Rs 68mn BofAMLe. Key positive was subscriber addition of 0.73mn vs. BofAMLe 0.71mn and decline in subscriber acquisition cost (SAC)

## High churn cause of concern; likely to trend down

Subscriber churn increased to 19% (vs. 14% 2Q) and was driven by pullback in consumer spending leading to delay in renewals & down trading of monthly schemes and possible non renewal of schemes by subscribers post completion of key event such as cricket. We think subscribers who opted for cricket package last year are now getting churned, and churn rate could potentially trend down.

## Retain FCF positive stance; valuations attractive

Expect FCF to turnaround in FY13. While we cut our EPS est for FY13E/ FY14E by 8-9%, EBITDA CAGR at 52% remains healthy. Stock trading at 11X EV/EBITDA FY13 at lower end of trading band of 11 to 18x and attractive. Retain Buy.

## Stock Data

Price	Rs61.05
Price Objective	Rs90.00
Date Established	20-Jan-2012
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs54.05-Rs97.00
Mrkt Val / Shares Out (mn)	US\$1,288 / 1,063.0
Market Value (mn)	Rs64,895
Average Daily Volume	4,346,050
BofAML Ticker / Exchange	XCETF / NSI
Bloomberg / Reuters	DITV IN / DSTV.BO
ROE (2012E)	-5.1%
Net Dbt to Eqty (Dec-2011A)	45.1%
Est. 5-Yr EPS / DPS Growth	0% / 0%
Free Float	35.0%

## Key Changes

(Rs)	Previous	Current
Price Obj.	97.00	90.00
2012E EBITDA (m)	5,204.3	4,829.7
2013E EBITDA (m)	6,927.0	6,672.5
2014E EBITDA (m)	8,777.5	8,435.3

## Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	(2,622)	(1,920)	(770)	1,145	1,782
EPS	(2.47)	(1.81)	(1.07)	1.08	1.68
EPS Change (YoY)	64.7%	26.8%	40.7%	NM	55.6%
Dividend / Share	0	0	0	0	0.511
Free Cash Flow / Share	(2.60)	(5.74)	(2.08)	2.21	4.38

## Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	NM	NM	NM	56.69x	36.42x
Dividend Yield	0%	0%	0%	0%	0.837%
EV / EBITDA*	68.03x	31.91x	15.73x	11.39x	9.01x
Free Cash Flow Yield*	-4.26%	-9.41%	-3.41%	3.63%	7.18%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.

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20 January 2012

# iQprofile<sup>SM</sup> Dish TV India Ltd

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
<b>(Rs Millions)</b>					
Sales	10,850	14,367	19,447	23,356	26,487
Gross Profit	6,454	9,308	13,285	15,901	18,481
Sell General & Admin Expense	(2,808)	(4,125)	(4,737)	(4,752)	(5,055)
Operating Profit	(2,111)	(1,615)	302	2,164	2,720
Net Interest & Other Income	(518)	(308)	(980)	(768)	(547)
Associates	NA	NA	NA	NA	NA
Pretax Income	(2,628)	(1,923)	(678)	1,396	2,173
Tax (expense) / Benefit	6	3	0	(251)	(391)
Net Income (Adjusted)	(2,622)	(1,920)	(770)	1,145	1,782
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)	(678)	1,145	1,782
Depreciation & Amortization	3,227	3,996	4,528	4,509	5,715
Change in Working Capital	1,125	1,602	1,154	1,841	1,791
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	4,591	8,657	10,362
Capital Expenditure	(5,096)	(10,052)	(6,801)	(6,304)	(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)	(6,901)	(6,404)	(5,804)
Shares Issue / (Repurchase)	12,845	56	0	0	0
Cost of Dividends Paid	0	0	0	0	(706)
Cash Flow from Financing	11,219	655	(588)	(2,162)	(2,580)
Free Cash Flow	(2,766)	(6,104)	(2,210)	2,353	4,659
Net Debt	3,772	7,378	11,076	9,984	7,206
Change in Net Debt	(6,660)	3,915	3,698	(1,091)	(2,778)

## Key Balance Sheet Data

Property, Plant & Equipment	14,587	19,017	21,291	23,085	23,074
Other Non-Current Assets	16,137	18,007	18,107	18,207	18,307
Trade Receivables	359	227	426	512	581
Cash & Equivalents	5,550	3,385	487	579	2,557
Other Current Assets	4,993	2,602	2,762	2,922	3,082
Total Assets	41,626	43,238	43,074	45,305	47,600
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	17,611	19,698	21,718
Total Liabilities	25,282	26,861	29,174	30,261	31,481
Total Equity	16,344	16,377	13,807	14,952	16,027
Total Equity & Liabilities	41,627	43,238	42,982	45,213	47,508

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	-7.6%	-1.8%	2.2%	8.0%	10.1%
Return On Equity	-26.5%	-11.7%	-5.1%	8.0%	11.5%
Operating Margin	-19.5%	-11.2%	1.6%	9.3%	10.3%
EBITDA Margin	10.3%	16.6%	24.8%	28.6%	31.8%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	NM	NM	NM	7.6x	5.8x
Asset Replacement Ratio	1.6x	2.5x	1.5x	1.4x	1.0x
Tax Rate (Reported)	0.2%	0.2%	NM	18.0%	18.0%
Net Debt-to-Equity Ratio	23.1%	45.1%	80.2%	66.8%	45.0%
Interest Cover	-2.2x	-1.1x	0.2x	1.9x	2.5x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## 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.

## Stock Data

Price to Book Value 4.7x

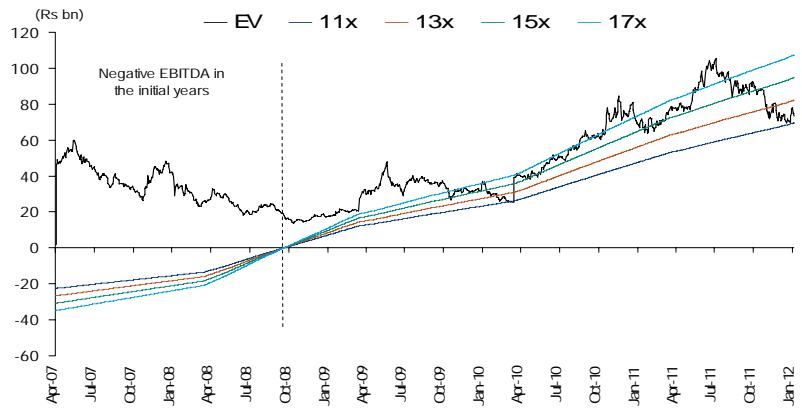
## 3Q results: Minor set back; structural story intact

While 3Q results disappointed on revenues & margins led by higher subscriber churn during the quarter, we believe the structural growth story is intact. Our DCF valuation stand reduce to Rs90 vs. Rs97 and factors increase in long term churn rate (11% vs. 10% earlier) and marginal reduction in subscriber growth during FY12. Expect churn rate to improve from 4Q and ARPUs to expand given recent hike in base level schemes by DTH operators. Retain Buy,

### Valuations attractive

We cut our EPS est for FY13E and FY14E by 8-9% to factor cut in subscriber growth and higher churn rates. Forecast 52% EBITDA growth over FY12-14E led by strong subscriber growth and increase in ARPU. Stock trading at 11X EV/EBITDA FY13 at lower end of trading band of 11 to 18x and attractive.

Chart 1: Dish TV trading at lower band of EV/EBITDA

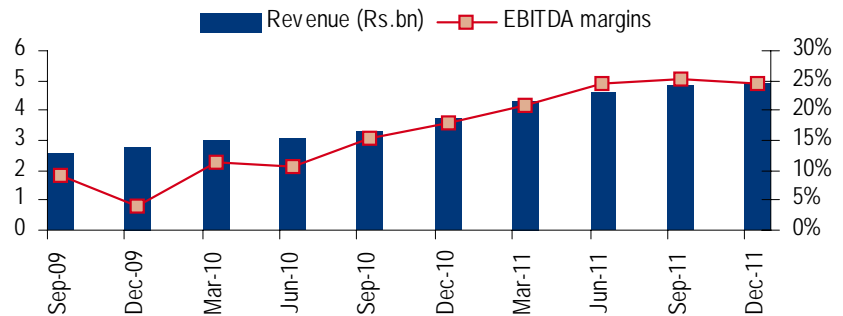


Source: BofA Merrill Lynch Global research

### 3Q disappoints on revenues, margins

Total revenues for the quarter grew at 31% yoy, 5% lower than our estimates. EBITDA margins at 24.5% vs our estimates of 26% improved by 664 bps on a yoy basis. Net losses (excluding the forex loss of Rs156 mn) stood at Rs273mn.

Chart 2: Improvement in margins to continue



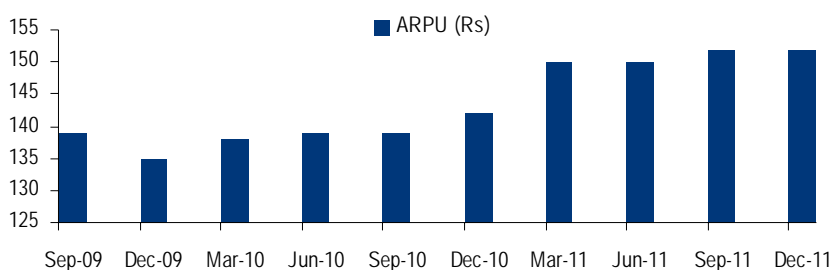
Source: Company, BofA Merrill Lynch Global research

### ARPU tad lower; likely to expand

Subscription revs (87% of revs) stood at Rs4254mn, 4% lower than our estimates and was impacted by higher churn and flattish growth in ARPU. ARPUs during the quarter stood at Rs152 vs our assumption of Rs155. Management attributed the flattish growth in ARPU to shift to lower priced packages amongst high end subscribers, delay in renewals of schemes given sluggish environment and higher churn. Management revised it 4Q ARPU guidance from Rs160-165 to Rs155-156.

We expect ARPUs to expand given potential impact from price hikes effected in month of November in its base pricing schemes and our view that digitalisation of cable TV should help increase tariffs at retail level leading to higher ARPUs for the industry.

Chart 3: Potential expansion in ARPU is expected



Source: Company, BofA Merrill Lynch Global research

### Subscriber adds better than expected....

Gross subscriber additions stood at 0.76mn vs. our expectation of 0.71mn. Management highlighted that while subscriber additions for the month of October was healthy, additions slipped during November and December given weak macro and due to increase in prices effected during November.

Consequently we have now lowered our gross sub additions for 4Q. We now expect Dish to add around 2.65mn gross subscribers during FY12 vs our earlier assumption of 2.9mn. Management has now guided at 2.6-2.7m subscriber additions vs earlier guidance of 3-3.5mn adds.

Table 1: Operational metrics for 3QFY12

	3Q FY11	2Q FY 12	3Q FY12	%YoY	%QoQ	BofAMLe	Variance
Gross Subscribers(in mn)	9.44	12	13	32%	6%	12	0%
Net Subscribers(in mn)	7.73	9	10	23%	3%	10	-2%
ARPU(Rs)	142	152	152	7%	0%	156	-3%

Source: Company, BofA Merrill Lynch Global research

### Expect churn rates to reduce

Net subscriber addition stood 0.3mn, lower than estimates of 0.5mn for the quarter driven by higher than expected churn. Subscriber churn increased to 19% (vs. 14% 2Q) led by 1) pullback in consumer spending leading to delay in renewals & down trading of schemes and 2) tendency amongst subscribers to not renew post completion of key events such as cricket. We suspect consumers who opted for world cup package last year are now getting churned, and hence churn rate could potentially trend down in coming months.

**Table 2: Annualized churn rate**

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Annualised Churn	-12%	-11%	-14%	-14%	-19%

Source: Company, BofA Merrill Lynch Global research

## 3QFY12 Results

**Table 3: 3QFY12 results**

Rs in mn	3Q FY11	2Q FY 12	3Q FY12	%YoY	%QoQ	BofAMLe	Variance
Subscription revenue	3091	4124	4254	38%	3%	4415	-4%
Rental revenue	520	550	449	-14%	-18%	580	-23%
<b>Income from sales and services</b>	<b>3722</b>	<b>4823</b>	<b>4905</b>	<b>32%</b>	<b>2%</b>	<b>5096</b>	<b>-4%</b>
<b>Total Income</b>	<b>3732</b>	<b>4823</b>	<b>4906</b>	<b>31%</b>	<b>2%</b>	<b>5141</b>	<b>-5%</b>
<b>Cost of Goods and Services</b>	<b>2101</b>	<b>2380</b>	<b>2540</b>	<b>21%</b>	<b>7%</b>	<b>2599</b>	<b>-2%</b>
Programming and other costs	1426	1472	1576	10%	7%	1682	-6%
Other cost of goods and services	675	908	964	43%	6%	917	5%
<b>Personnel Cost</b>	<b>134</b>	<b>171</b>	<b>173</b>	<b>29%</b>	<b>1%</b>	<b>204</b>	<b>-15%</b>
<b>Admin. and other expenses</b>	<b>148</b>	<b>235</b>	<b>232</b>	<b>57%</b>	<b>-1%</b>	<b>248</b>	<b>-6%</b>
<b>Selling &amp; Distribution expenses</b>	<b>682</b>	<b>818</b>	<b>758</b>	<b>11%</b>	<b>-7%</b>	<b>739</b>	<b>3%</b>
Advertisement expenses	152	181	192	26%	6%	280	-31%
Commission	256	491	408	59%	-17%	433	-6%
<b>Total Expenditure</b>	<b>3065</b>	<b>3604</b>	<b>3703</b>	<b>21%</b>	<b>3%</b>	<b>3790</b>	<b>-2%</b>
<b>PBITDA</b>	<b>667</b>	<b>1218</b>	<b>1202</b>	<b>80%</b>	<b>-1%</b>	<b>1351</b>	<b>-11%</b>
Less : Depreciation	902	1162	1232	37%	6%	1167	6%
<b>PBIT</b>	<b>-235</b>	<b>56</b>	<b>-30</b>	<b>-87%</b>	<b>-153%</b>	<b>184</b>	<b>-116%</b>
Less : Interest	225	330	321	42%	-3%	352	-9%
Other Income	17	92	78	347%	-15%	100	-22%
PBT	-443	-182	-273	-38%	50%	-68	301%
Forex loss	0	304	156	NA	-49%	0	NA
<b>PAT reported</b>	<b>-443</b>	<b>-486</b>	<b>-429</b>	<b>-3%</b>	<b>-12%</b>	<b>-68</b>	<b>530%</b>
<b>PAT recurring</b>	<b>-443</b>	<b>-274</b>	<b>-273</b>	<b>-38%</b>	<b>0%</b>	<b>-68</b>	<b>301%</b>
<b>Margins</b>	<b>3Q FY11</b>	<b>2Q FY 12</b>	<b>3Q FY12</b>	<b>YoY bps</b>	<b>QoQ bps</b>	<b>BofAMLe</b>	<b>Var bps</b>
EBITDA %	18%	25%	25%	664	-75	26%	-177
EBIT%	-6%	1%	-1%	568	-178	4%	-419
PBT %	-12%	-4%	-6%	630	-179	-1%	-424
PAT %	-12%	-10%	-9%	312	133	-1%	-742

Source: Company, BofA Merrill Lynch Global research

### Other key highlights

- Content costs increased during 3Q largely driven by annual renegotiation of contracts with Sony and Neo Sports.
- Management guided for a full year advertisement spend of Rs 90crs, of which Rs 40 crs will be seen next quarter, given company's initiative of brand repositioning.

## Financials

Table 4: Profit and loss statement

Rs in mn	FY10	FY11	FY12E	FY13E	FY14E
<b>Sales and Services</b>	<b>10850</b>	<b>14367</b>	<b>19445</b>	<b>23356</b>	<b>26487</b>
Other Income	453	1226	408	394	526
<b>Total Income</b>	<b>11303</b>	<b>15593</b>	<b>19853</b>	<b>23751</b>	<b>27013</b>
<b>Operating expenses</b>	<b>6902</b>	<b>7838</b>	<b>9855</b>	<b>11905</b>	<b>12966</b>
License fees	1096	1499	1944	2336	2649
Programming and other costs	4373	5036	6137	7427	7975
Other operating chgs	104	113	100	105	110
<b>Administration and other expenses</b>	<b>1047</b>	<b>1585</b>	<b>1902</b>	<b>2055</b>	<b>2219</b>
<b>Selling and Distribution expenses</b>	<b>1771</b>	<b>2572</b>	<b>3086</b>	<b>2969</b>	<b>3129</b>
<b>Total Expenditure</b>	<b>9733</b>	<b>11986</b>	<b>14617</b>	<b>16684</b>	<b>18051</b>
<b>EBITDA</b>	<b>1117</b>	<b>2380</b>	<b>4828</b>	<b>6672</b>	<b>8435</b>
Depreciation	3227	3996	4528	4509	5715
EBIT	-2111	-1615	301	2164	2720
Financial Expenses (Net)	971	1534	1388	1162	1074
<b>PBT</b>	<b>-2628</b>	<b>-1923</b>	<b>-679</b>	<b>1396</b>	<b>2173</b>
<b>Less : Forex loss/Exceptional Item</b>			<b>-460</b>		
Taxes	-6	-3	0	251	391
<b>PAT reported</b>	<b>-2622</b>	<b>-1920</b>	<b>-1139</b>	<b>1145</b>	<b>1782</b>
<b>PAT recurring</b>	<b>-2622</b>	<b>-1920</b>	<b>-771</b>	<b>1145</b>	<b>1782</b>

Source: Company, BofA Merrill Lynch Global research

Table 5: Balance Sheet

Rs in mn	FY10	FY11	FY12E	FY13E	FY14E
<b>Share Capital</b>	<b>1062</b>	<b>1063</b>	<b>1063</b>	<b>1063</b>	<b>1063</b>
<b>Reserves and Surplus</b>	<b>15282</b>	<b>15314</b>	<b>12836</b>	<b>13981</b>	<b>15056</b>
<b>Total Networth</b>	<b>16344</b>	<b>16377</b>	<b>13899</b>	<b>15044</b>	<b>16119</b>
<b>Total Loans</b>	<b>9322</b>	<b>10763</b>	<b>11563</b>	<b>10563</b>	<b>9763</b>
<b>Total</b>	<b>25667</b>	<b>27140</b>	<b>25462</b>	<b>25607</b>	<b>25882</b>
<b>Application of funds</b>					
Gross Block	18344	25131	31932	38230	43929
<b>Net Block</b>	<b>11046</b>	<b>14437</b>	<b>16710</b>	<b>18500</b>	<b>18484</b>
Capital WIP	3541	4580	4580	4585	4590
Investments	3561	2000	2100	2200	2300
<b>Current Assets, Loans and advances</b>					
Sundry Debtors	359	227	426	512	581
Cash and Bank Balances	5550	3385	487	579	2557
Loans and advances	4959	2539	2689	2839	2989
<b>Total</b>	<b>10902</b>	<b>6214</b>	<b>3676</b>	<b>4013</b>	<b>6219</b>
<b>Less : Current Liabilities and Provision</b>					
Current Liabilities	14243	13077	14590	16677	18697
Provisions	1718	3021	3021	3021	3021
<b>Total CL &amp; Provisions</b>	<b>15960</b>	<b>16098</b>	<b>17611</b>	<b>19698</b>	<b>21718</b>
<b>Net Current Assets</b>	<b>-5058</b>	<b>-9884</b>	<b>-13936</b>	<b>-15685</b>	<b>-15499</b>
<b>Profit and Loss account</b>	<b>12576</b>	<b>16007</b>	<b>16007</b>	<b>16007</b>	<b>16007</b>
<b>Total</b>	<b>25666</b>	<b>27140</b>	<b>25462</b>	<b>25607</b>	<b>25882</b>

Source: Company, BofA Merrill Lynch Global research

**Table 6: Cash Flow statement**

<b>Rs in mn</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
Net Profit/ Loss before taxation	-2628	-1923	-678	1396	2173
Adjustments for:					
Depreciation/ Amortisation	3227	3996	4528	4509	5715
Interest Expenses	878	1302	1388	1162	1074
<b>Operating Profit before working capital changes</b>	<b>1242</b>	<b>2487</b>	<b>5237</b>	<b>7067</b>	<b>8962</b>
(Inc)/Dec in receivables	153	124	-210	-96	-79
Decrease in loans and advances	2418	5319	-150	-150	-150
Inc/ (Dec) in payables	-1451	-3825	1513	2087	2020
<b>Cash Generated from Operations</b>	<b>2367</b>	<b>4089</b>	<b>6391</b>	<b>8908</b>	<b>10753</b>
<b>Net cash flow from operating activities</b>	<b>2331</b>	<b>3948</b>	<b>4591</b>	<b>8657</b>	<b>10362</b>
Purchases of FA/ CWIP	-5096	-10052	-6801	-6304	-5704
Purchase of investments	-6561	-5924	-100	-100	-100
<b>Net cash flow from investing activities</b>	<b>-8735</b>	<b>-6749</b>	<b>-6901</b>	<b>-6404</b>	<b>-5804</b>
Interest paid	-979	-1152	-1388	-1162	-1074
Proceeds from Long term borrowing	1598	3579	800	-1000	-800
<b>Net Cash flow from financing activities</b>	<b>11219</b>	<b>655</b>	<b>-588</b>	<b>-2162</b>	<b>-2580</b>
<b>Net cash flow during the year</b>	<b>4814</b>	<b>-2145</b>	<b>-2898</b>	<b>91</b>	<b>1978</b>
Cash and cash equivalents at the beginning of the year	805	5550	3385	487	579
<b>Cash and Cash equivalent at the end of the year</b>	<b>5550</b>	<b>3385</b>	<b>487</b>	<b>579</b>	<b>2557</b>

Source: Company, BofA Merrill Lynch Global research

**Table 7: Ratios and valuations**

<b>Ratios</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Growth% yoy</b>					
Subscription revenues	42%	43%	39%	24%	14%
Lease rentals	49%	32%	12%	-3%	10%
Total revenues	47%	32%	35%	20%	13%
EBITDA	NM	NM	103%	38%	26%
EBIT	NM	NM	NM	616%	26%
PAT	NM	NM	NM	NM	56%
<b>Margins</b>					
EBITDA %	10%	17%	25%	29%	32%
EBIT%	-19%	-11%	2%	9%	10%
PAT %	-23%	-12%	-6%	5%	7%
<b>Valuations</b>					
EPS (Rs)	-2.5	-1.8	-1.1	1.1	1.7
CEPS (Rs)	0.6	2.0	3.2	5.3	7.1
BV (Rs)/ share	3.5	0.3	-2.0	-0.9	0.1
P/E (x)	-27.5	-37.7	-63.5	63.1	40.6
P/CEPS (x)	119.3	34.8	21.3	12.8	9.6
P/BV (x)	19.2	195.4	-34.3	-75.1	644.6
EV/EBITDA (x)	58.2	29.5	15.3	10.88	8.3
EV/ EBIT (x)	-30.8	-43.5	244.3	33.6	25.6
ROCE (%)	-10%	-6%	1.1%	7%	9%
ROE (%)	-26%	-12%	-8%	8%	11%

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 Rs90 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 the high growth in EBITDA for Dish vs peers.

While global peers trade 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 a potential reduction in license cost from 10% to 6% of revenue based on the 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.

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

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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### XCETF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [December 31, 2011] or such later date as indicated.

### Investment Rating Distribution: Telecommunications Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	50.56%	Buy	50	66.67%
Neutral	49	27.53%	Neutral	34	80.95%
Sell	39	21.91%	Sell	22	64.71%

### Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

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

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20 January 2012

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