

Dish TV India Ltd

Rs 45.05

Leading the DTH space

BUY

Company description: Dish TV is India's first Direct-to-Home (DTH) broadcast service provider with subscriber-base of over ~7.0 mn and market share of ~33% at the end of Q4FY10. Dish TV is part of the Essel group headed by Chairman Subhash Chandra.

Indian C&S industry –DTH heading digitization growth

When we compare global C&S industry in developed nations such as USA and Europe, India has low TV penetration and thus offers wide potential for DTH penetration. Indian C&S industry is dominated by unorganized MSOs with ~68 mn analogue subscriber base. With entry of DTH players, migration from analogue to digital subscribers intensified resulting into DTH penetration reaching ~20% by FY10 which is expected to reach 40% by FY14.

Investment rationale:

First mover advantage and strong backing from promoter: Dish TV holds first mover advantage which has given the company a degree of dominance in terms of reach, pricing and focus on subscriber retention. Backing from its promoter (Essel Group) allows Dish TV access to Zee's bouquet of channels. Promoter backing has also helped Dish TV to influx Rs 310 crore through a rights issue, which has strengthened its balance sheet.

DTH revenues poised for significant upside with increasing DTH penetration: With large potential for DTH penetration in India, and increasing demand for DTH from rural and semi-urban areas, DTH subscribers are expected to reach 46 mn by FY 2014 from current 22 mn. Dish TV, with its strong presence through its dealer network, customer service and competitive package offerings is well placed to capture incremental market share of ~18% in FY11 and 17.5% in FY12. Large subscriber-base and higher channel offerings give Dish TV a good bargaining power with broadcasters as well as subscribers.

Fixed payment content deals could be biggest driver: Fixed content cost deals to charge on fixed fee rather than per subscriber basis with all the broadcasters except SUN TV is expected to benefit company to reduce their content cost per subscriber. In this case of high subscriber growth rate scenario, we see such deals to benefit Dish TV in the long run.

Stabilizing SAC and ARPU levels: With Dish TV's stance to offer no more subsidies and with increase in ARPU first time after six quarters, we see improvement in margin performance. In fact we don't see further downside in ARPU levels while the latter is expected to witness growth with increasing VAS offerings such as Movie Demand and other interactive services.

Valuation

We have considered the discounted value of the firm's estimated free cash flow from FY11 to FY25. We have factored beta for the company at 1.1 and cost of equity at 12.7% and cost of tax adjusted debt of 5.9% to arrive at WACC of 11.4%. Based on a WACC of 11.4% and a perpetual growth rate of 3% we arrive at a DCF fair value of Rs 56 for the Dish TV.

Particulars (Rs in crore)	FY10A	FY11E	FY12E	FY13E
Revenues	1085	1513	2009	2449
EBITDA	86	171	370	503
Net Profit	(261)	(177)	(16)	55
EPS	-3.8	-2.6	-0.2	0.8
EV/EBITDA (x)	53.5	28.7	13.2	9.7
Subscriber growth	6.9	8.7	10.3	11.6
EV/Subscriber (Rs)	7,100	5,631	4,768	4,211

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Price Target (INR): 56.00

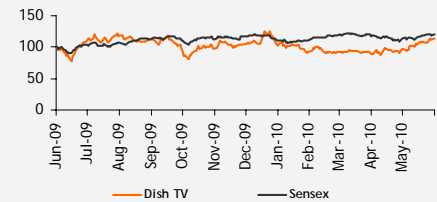
Market Data

Shares outs (Cr)	106.3
Equity Cap (Rs. Cr)	106.3
Mkt Cap (Rs. Cr)	4003
52 Wk H/L (Rs)	51.10/ 30.65
Avg Vol (1yr avg)	210667
Face Value (Re)	1.0
Bloomberg Code	DITV IN

Market Info:

SENSEX	17534
NIFTY	5256

Price Performance



Share Holding pattern (%)

Particulars	Mar-10	Dec-09	Chg
Promoters	64.8	64.8	-
DIIs	5.8	6.6	-0.8
FIIIs	5.6	4.4	1.2
Public & Other	23.8	24.2	-0.4
Total	100	100	-

Analyst :

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