DISH TV

Moving into a sweet spot

Indian DTH industry set to become world's largest

We estimate the domestic DTH market to expand to 40 mn subscribers by FY12 from about 23 mn currently. A large number of sports events, increasing disposable incomes and regulatory push will aid rapid DTH subscriber addition.

Dip in competitive intensity, strong distribution to boost subscribers

Dish TV is the No.1 DTH player with a market share of ~32% and has a head start of one-three years over other players. It has already garnered a subscriber base of ~7.5 mn as of Q1FY11. With INR 6.5 bn in cash, the company will be one of the biggest beneficiaries of high growth in the domestic pay TV market. This is important in the light of decrease in competitive intensity. Dish TV has distribution network across 6,600 towns and also leverages on the brand support and content backing from ZEEL and ZNL, promoter group companies.

Nearing inflection point; sharp margin gains (3x) ahead

Due to its numero uno position, critical mass, and promoter's focus on prudent cost control, Dish TV has cut costs by shifting from variable to fixed-cost content contracts with most broadcasters (content costs as a percentage of sales have dipped to 42% in Q1FY11 from 60% in Q1FY09). Subscriber acquisition cost per gross subscriber has dipped to INR 2,147 in Q1FY11 from INR 2,634 in Q1FY09. Dish TV has barter arrangements which limit ad inflation. We expect a strong 135% CAGR in EBITDA over FY10-12E with EBITDA margins catapulting from 7.9% in FY10 to 26.3% in FY12E.

Fund raising strengthens balance sheet

The fund raising by Dish TV (~INR 16 bn through rights issue and GDR issue) has strengthened the balance sheet. This gives it a fillip to regain leadership in new subscriber additions and invest in product innovations (entry into HD).

Outlook and valuations: Attractive; initiating coverage with **'BUY'**

We are bullish on the Indian pay TV market. Dish TV is at an inflection point with higher growth due to low penetration, favorable regulatory environment, increasing margins, decline in competitive intensity and strong balance sheet. Hence, we initiate coverage on the stock with a **'BUY'** recommendation and a target price of INR 65 based on 15x FY12E EV/EBITDA. On relative return basis, the stock is rated **'Sector Performer'** (refer rating page for details).

Financials

Year to March	FY09	FY10	FY11E	FY12E
Revenues (INR mn)	7,381	10,848	13,684	18,162
Rev. growth (%)	*78.8*	*47.0*	*26.1*	*32.7*
EBITDA (INR mn)	(1,233)	862	2,051	4,768
Net profit (INR mn)	(4,807)	(2,614)	(1,927)	571
Share outstanding (mn)	475	1,063	1,063	1,063
Diluted EPS (INR)	(10.1)	(2.5)	(1.8)	0.5
EPS growth (%)	*(1.3)*	*75.7*	*26.3*	*129.6*
Diluted P/E (x)	NM	NM	NM	101.7
EV/EBITDA (x)	(29.7)	70.4	30.6	12.8
ROAE (%)	NM	NM	NM	26.3

September 23, 2010

Reuters : DSTV.BO Bloomberg : DITV IN

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA		
CMP	:	INR 55
52-week range (INR)	:	60 / 32
Share in issue (mn)	:	1,063.4
M cap (INR bn/USD mn)	:	58 / 1,270
Avg. Daily Vol. BSE ('000)	:	5,253.3

SHARE HOLDING PATTERN (%)		
Promoters*	:	64.8
MFs, FIs & Banks	:	6.8
FIIs	:	5.7
Others	:	22.7
* *Promoters pledged shares (% of share in issue)*	:	*12.4*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	5.8	7.5	3.9
3 months	20.1	12.0	16.3
12 months	23.0	19.9	46.8

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Investment Rationale

Indian DTH industry set to become world's largest

We estimate the domestic DTH market to expand to 40 mn subscribers by FY12 from about 23 mn currently. A large number of sports events (Commonwealth Games, IPL-4, Indian cricket tournaments) will aid rapid DTH subscriber addition. TRAI (Telecom Regulatory Authority of India) has proposed 2013 as the sunset date for digitisation and has recommended income tax holidays, reduction of duties/ levies to accelerate digitisation.

Table 1: Digitisation timeline

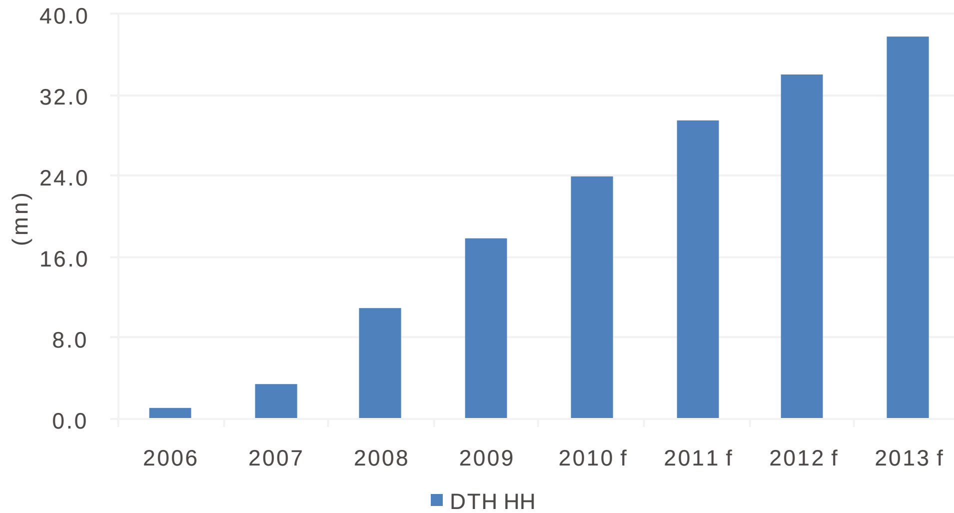
Phase	Sunset date	Coverage
1	31st Mar 2011	4 metros - Delhi, Mumbai, Kolkata, Chennai
2	31st Dec 2011	All cities with 1 mn plus population
3	31st Dec 2012	All other urban areas (municipal corporations/municipalities)
4	31st Dec 2013	Rest of India

Source: Edelweiss research

Rapid increase in DTH subscribers

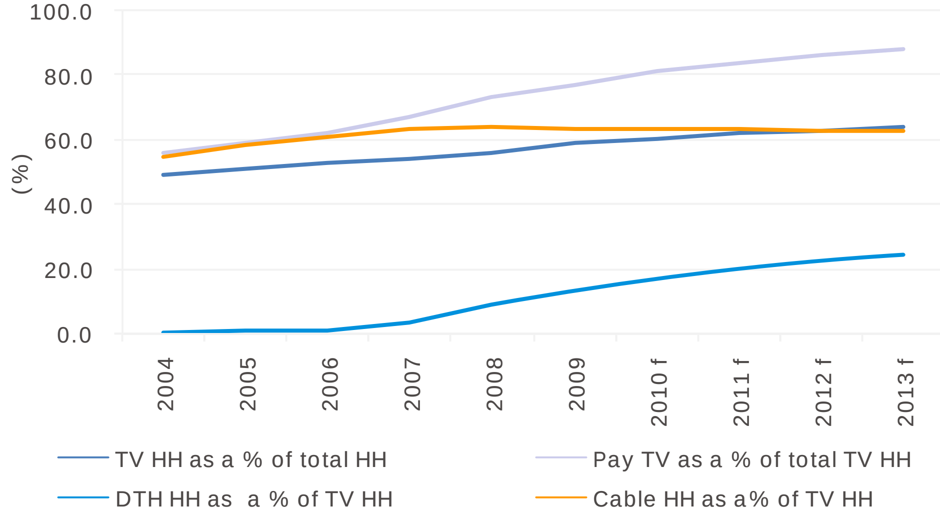
The increase in competitive intensity has resulted in the expansion of the DTH market. The domestic DTH industry is dominated by large corporates such as Dish TV (Zee Group), Tata-Sky (JV between Tata and Newscorp), Big TV (Reliance Group), Digital TV (Bharti Airtel Group), and Sun Direct (Sun TV Group). The sixth DTH operator d2h (Videocon Group) launched its services recently. Increase in marketing spends on DTH services spurred the adoption of DTH services. Subsidization of hardware, introduction of value packs, and aggressive marketing and promotions have helped the DTH industry build a large subscriber base. DTH operators have also been introducing several value-added services. As part of the Video on Demand (VoD) service, DTH operators have been releasing latest hindi films on their DTH platforms immediately after their theatrical release.

Chart 1: DTH households expected to post 16.2% CAGR over 2010-13E



Source: MPA report 2009, Edelweiss research

Chart 2: DTH penetration expected to rise further

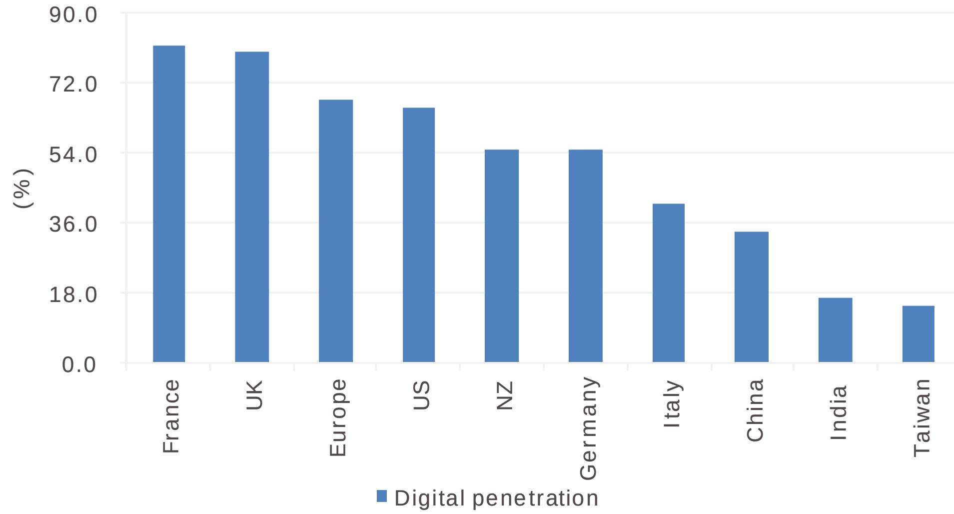


Source: MPA report 2009, Edelweiss research

- **Increasing digitisation**

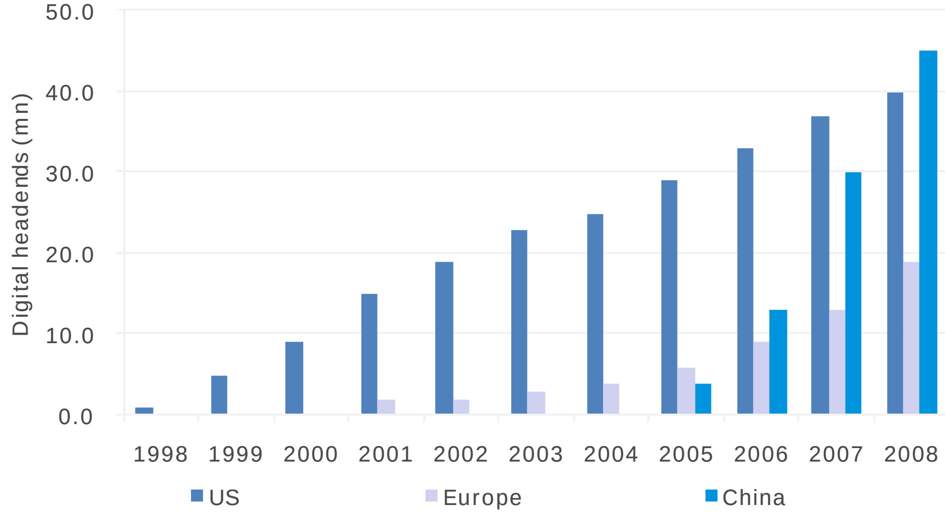
Digitisation has certain distinct advantages over analogue cable. Digitisation enables broadcasting of ~12x more number of channels on a TV set with better picture quality and enables the subscriber to pay for channels of choice. Globally, digital penetration has been increasing with growing preference for digital signals and moderate fall in prices of set top boxes.

Chart 3: Digital penetration as percentage of C&S households



Source: TAM, Edelweiss research

Chart 4: Increasing digital penetration



Source: TAM, Edelweiss research

TV owning households in India have grown from 123 mn in 2009 to 134 mn in 2010. The number of C&S households has doubled in less than six years and crossed the 100-mn mark in 2010. Digital households have grown by a massive 33% over 2009-10. Digitisation is driven by increasing adoption of DTH, MSOs converting their networks from analogue to digital, and consolidation within the LCO space. DTH is expected to remain the fastest growing segment within the TV signal distribution space. One of the key reasons for rapid growth and high penetration of DTH is the adoption of DTH in rural areas. There are ~14 mn digital households in rural areas against ~6 mn in urban areas. Out of the 148 mn rural households only 47% own TV sets. Out of the 70 mn C&S households 30% receive only Doordarshan. Thus, the untapped DTH market is humungous.

Table 2: All India TV households (in mn)

	2009	2010	*% Growth*
Total households	213	223	*5*
TV owning households	123	134	*9*
C&S households	90	103	*14*
Digital households	15	20	*33*
Digital penetration	*17*	*19*	
Analog households	75	83	*11*
Analog penetration	*83*	*81*	

Source: TAM, Edelweiss research

Table 3: Urban-rural TV households in 2010 (in mn)

	Urban	% of total	Rural
Total households	75	0.3	148
TV owning households	64	0.5	70
C&S households	54	0.5	49
Digital households	6	0.3	14
Digital penetration	11.1	0.0	28.6
Analog households	48	0.6	35
Analog penetration	88.9	0.0	71.4

Source: TAM, Edelweiss research

Digital cable is a strong competitor for DTH in urban markets. However, DTH is more scalable as it does not require setting up of cable infrastructure in the area of operation, unlike digital cable. The high capex requirement and reluctance of local cable operators to switch to digital have resulted in lower digital cable penetration. Moreover, under-declaration by LCOs has resulted in poor operational performance of MSOs. Only the increased carriage fees from new channels recently that has resulted in some improvement in the operational level performance. Large investments by DTH operators is leading to rapid expansion of DTH. Cable operators and MSOs have comparatively limited financial resources to invest in upgradation of their networks to digital.

Table 4: Operational performance of leading MSOs

	2010		2009	
(INR mn)	Revenue	EBIT	Revenue	EBIT
Hathway	7,361	82	6,634	(18)
DEN	9,191	634	7,122	(51)
WWIL	2,727	(1,047)	3,083	(2,751)

Source: Company, Edelweiss research

- **DTH helps broadcasters increase subscription revenues**

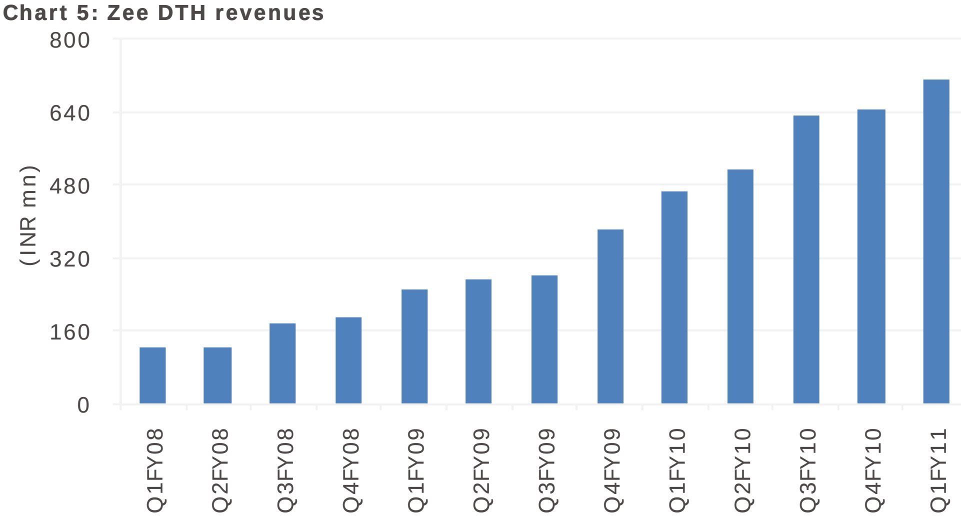
Under-reporting of subscribers by cable operators has been hurting broadcasters. However, DTH has no such constraints. The rapid subscriber addition in DTH industry is helping broadcasters generate a larger share of revenue from subscription. The subscription revenue stream also lends support during periods of economic slowdown and reduced ad revenues.

Table 5: Zee and Sun TV DTH revenues

	Subscriber base (mn)	Q1FY11 DTH revenue (INR mn)	ARPU (INR)
Zee Entertainment	12	710	20
Sun TV	6	670	35

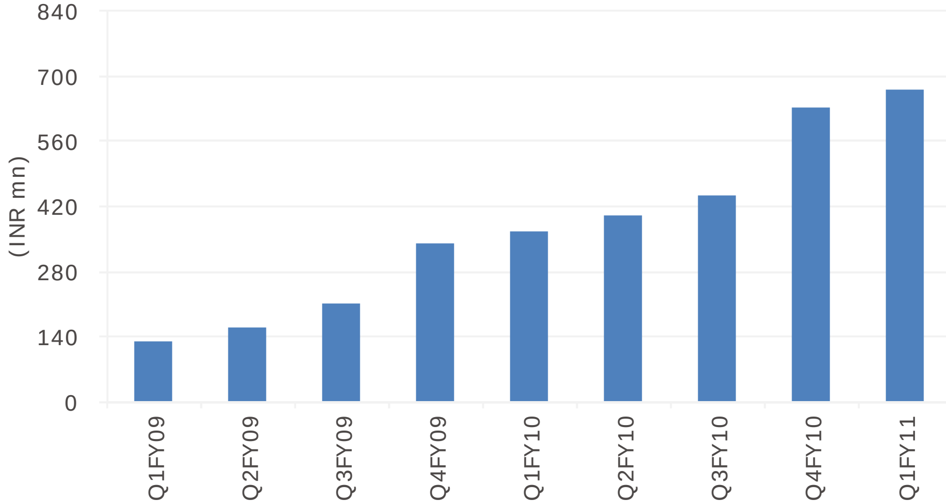
Source: Company, Edelweiss research

Chart 5: Zee DTH revenues



Source: Company, Edelweiss research

Chart 6: Sun TV DTH revenues



Source: Company, Edelweiss research

The LCD/LED/plasma TV segment has been growing much faster than the traditional TV. This is positive for DTH as LCD/LED/plasma TV consumers are likely to prefer DTH over analogue cable due to its superior picture quality.

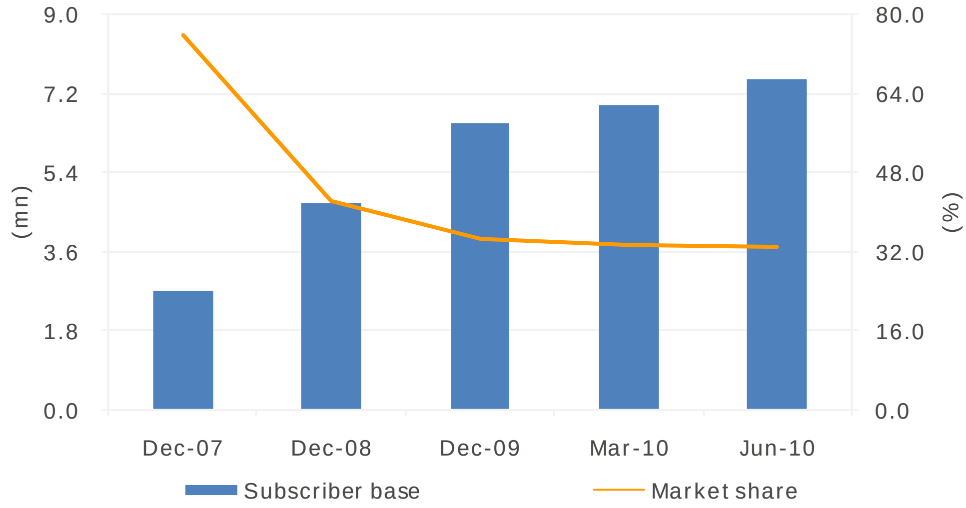
- **Dip in competitive intensity, strong distribution to boost subscribers**

  Dish TV is the No.1 DTH player with a market share of ~32% and has a head start of one-three years over other players. It has already garnered a subscriber base of ~7.5 mn as of Q1FY11. With INR 6.5 bn in cash and subscriber acquisition costs in control, the company will be one of the biggest beneficiaries of high growth in the domestic pay TV market. This is important in the light of decrease in competitive intensity. Dish TV has distribution network of ~1,400 distributors and ~50,000 dealers across 6,600 towns and also leverages on the brand support and content backing from ZEEL and ZNL, promoter group companies. The company has created a zonal structure comprising eight zones with distribution capability spread across urban and rural India to enable it to create a geographically diverse subscriber base. Dish TV's subscribers are distributed across urban and rural regions with top 200 cities accounting for only ~37% of the subscriber base. It has a 24x7 call centre with 1,600 seats in 11 different languages to service subscribers. The company also receives the brand name and content backing of Zee, a promoter group company.

Fig. 1: Dish TV a power brand

Source: Edelweiss research

Chart 7: Dish TV—Subscriber base and market share



Source: Edelweiss research

Table 6: DTH operator profiles

	Launch date	Subscribers (Mar-10)	Gross market share (%)	Channel tie - ups	Services
Dish TV	Oct-03	6.90	33.4	234	21
Tata Sky	Aug-06	4.44	21.5	165	19
Sun Direct	Jan-08	4.00	19.4	219	0
Reliance - Big TV	Aug-08	2.40	11.6	198	26
Bharti - Airtel	Oct-08	2.50	12.1	189	NA
Videocon - d2h	Apr-09	0.43	2.1	183	4

Source: Edelweiss research

Fig. 2: DTH operators in India

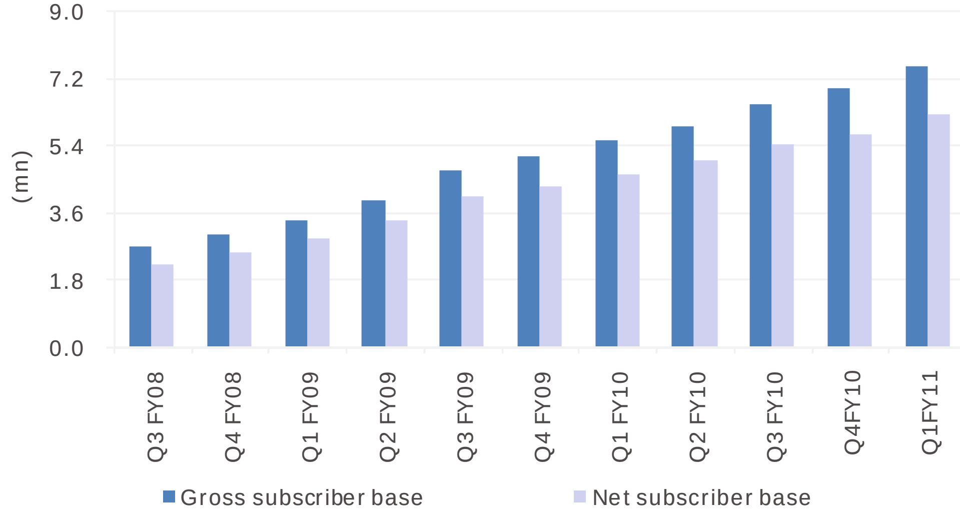
Source: Edelweiss research

Table 7: Dish TV versus Tata Sky—Financial performance

FY09 (INR bn)	Dish TV	Tata Sky
Sales	7.4	8.0
Programming & Content costs	5.4	10.8
Staff Costs	0.5	1.0
Other SG&A	2.6	5.4
EBITDA	(1.2)	(9.2)

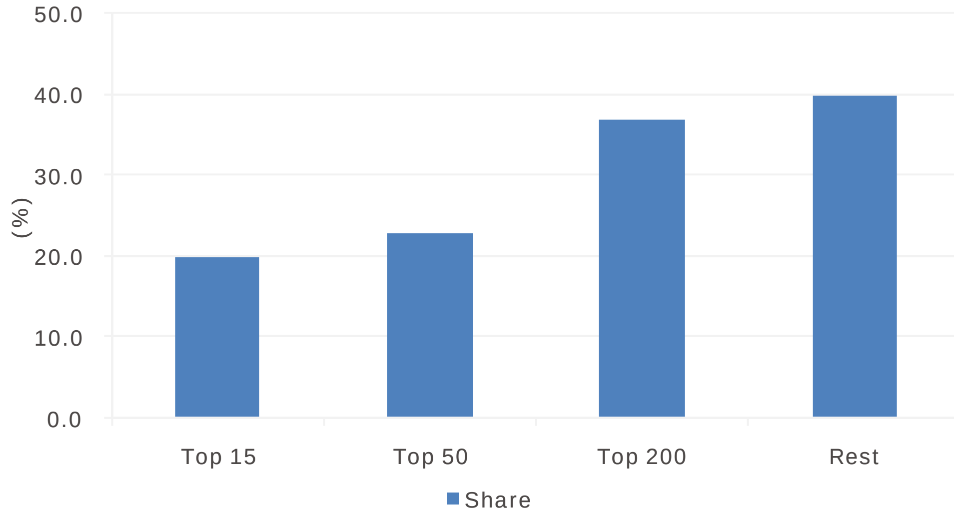
Source: Company, Edelweiss research

Chart 8: Dish TV—Number of subscribers on the rise (mn)



Source: Edelweiss research

Chart 9: Subscriber base composition (city wise)



Source: Edelweiss research

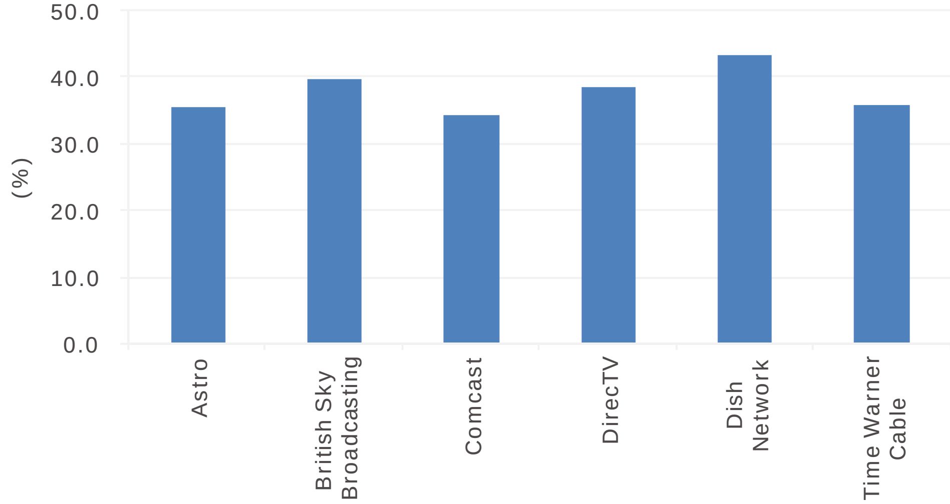
- ## Nearing inflection point; sharp margin gains (3x) ahead

Due to its numero uno position, critical mass, and promoter's focus on prudent cost control, Dish TV has cut costs by shifting from variable to fixed-cost content contracts with most broadcasters. As a result, the company's content costs as a percentage of sales have dipped to 42% in Q1FY11 from 60% in Q1FY09. Subscriber acquisition cost per gross subscriber has dipped to INR 2,147 in Q1FY11 from INR 2,634 in Q1FY09. Dish TV has barter arrangements which limit ad inflation. We expect a strong 135% CAGR in EBITDA over FY10-12E with EBITDA margins catapulting from 7.9% in FY10 to 26.3% in FY12E.

- ## Operating leverage set to become stronger

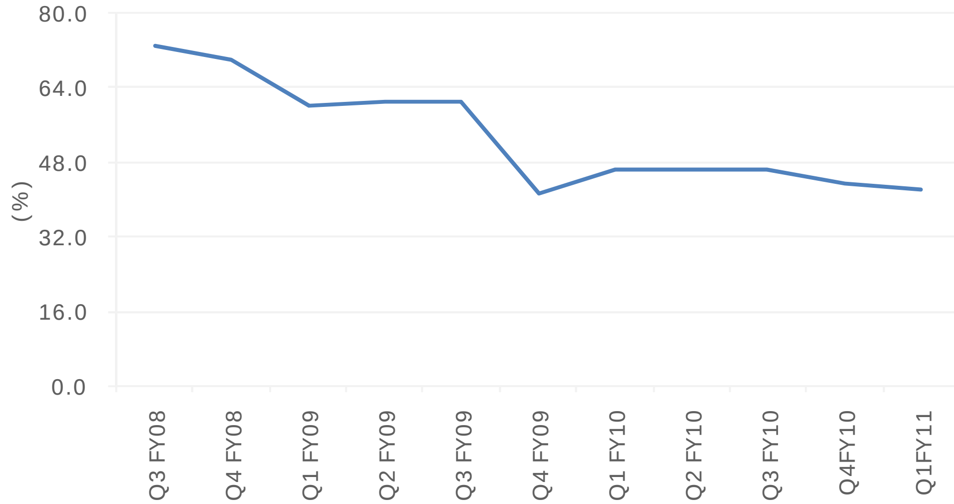
Dish TV turned EBITDA positive in Q4FY09. It has managed to reduce operating costs by shifting from variable to fixed-cost content contracts. As a result, content cost as a percentage of subscription revenue has dipped to 42% in Q1FY11 from 60% in Q1FY09. The global average for content cost as percentage of revenues is ~38%. With no content exclusivity in India and rapid increase in DTH subscriber base DTH players' content cost is expected to fall in the coming years. Advertisement expense per gross subscriber added was INR 411 in FY10 and INR 436 in FY09, down from INR 932 in FY08, as subscriber addition has doubled during the same period. Advertisement expenses are unlikely to decline given the high competitive intensity in the DTH market. Dealer commission per gross subscriber addition too has dipped from INR 575 in FY08 and INR 547 in FY09 to INR 516 in FY10.

Chart 10: Content cost as percentage of revenue for global players



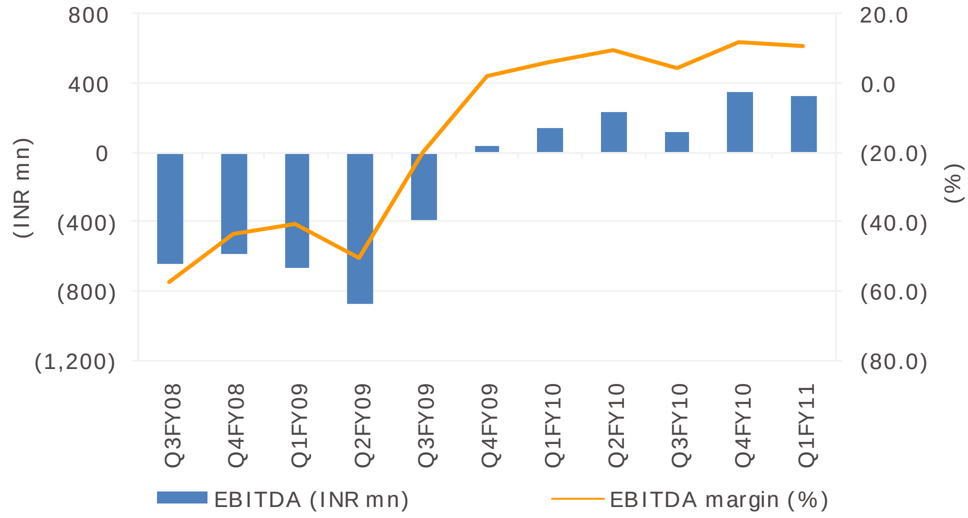
Source: Edelweiss research

Chart 11: Content cost as percentage of subscription revenue declining



Source: Company, Edelweiss research

Chart 12: Dish TV—EBITDA margin on the rise

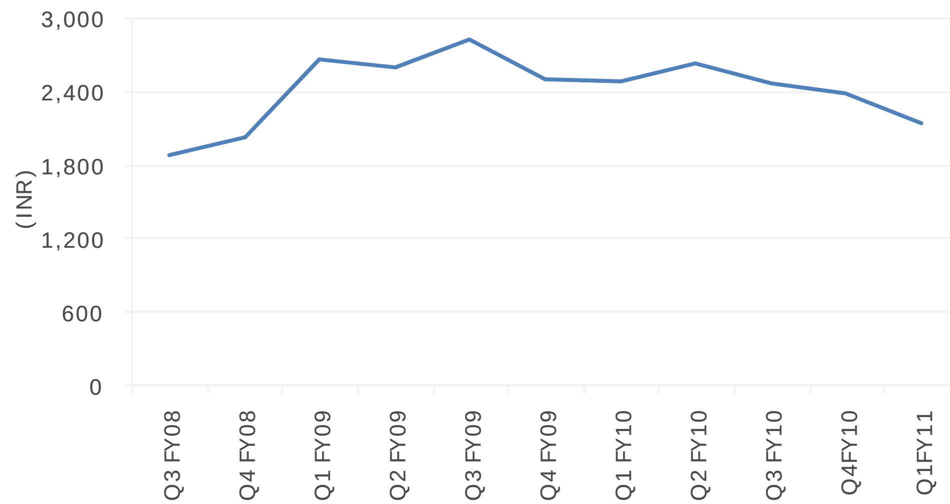


Source: Company, Edelweiss research

- **Subscriber acquisition cost likely to dip**

Subscriber acquisition cost for DTH operators includes the amount spent on subsidising the cost of the set top box, advertising expenses, and commissions paid to dealers for acquiring new customers. Dish TV subsidises ~50% of the STB cost and ~80% of advertising expenses and dealer commissions go towards acquiring new subscribers. The company's subscriber acquisition cost is expected to decline going forward largely on the back of expected drop in STB prices. Subscriber acquisition cost for DTH operators varies between INR 2,500 and INR 4,000; for Dish TV it is INR ~2,400.

Chart 13: Subscriber acquisition cost (INR)



Source: Company, Edelweiss research

- **ARPU growth to be limited over near term**

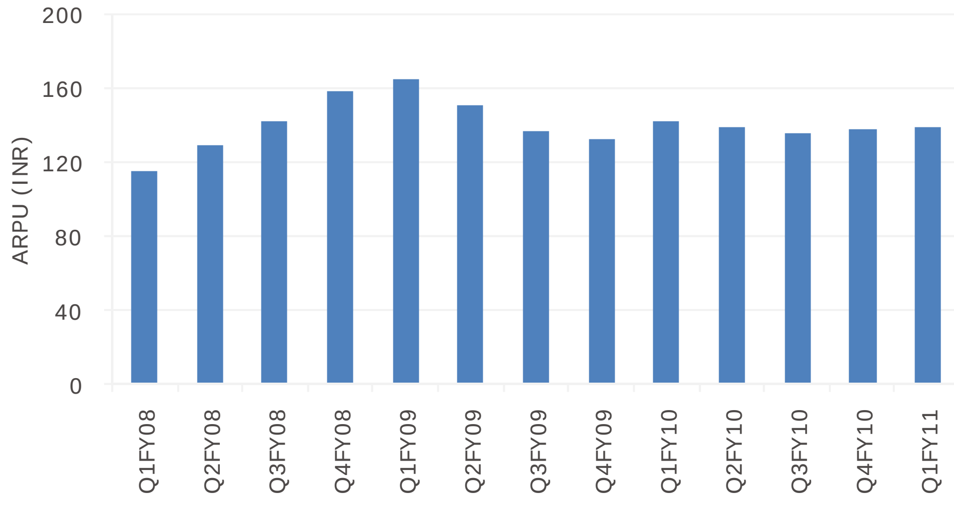
Average revenue per subscriber (ARPU) in India is amongst the lowest in the world. ARPUs of DTH operators have been low as a result of intense competition within DTH operators and with local cable operators to acquire new subscribers. As a result of subscription offers run by Dish TV subscribers were added at incrementally lower ARPU in FY09. The company stopped subsidising content costs since November 2008 and put higher-cost channels in *a la carte* packages to increase ARPU. However, since most competitors continue to bundle content with the set top box, the company too had to resort to subsidising content, which led to the drop in ARPU. Over the long term we expect ARPUs to improve, driven by higher renewal ARPUs, adoption of higher value subscription packages, and other services such as movies-on-demand, high definition content, and other value-added services.

Table 8: Average revenue per cable subscriber

Countries	USD / month
USA	54
Canada	54
UK	35
Japan	28
Hong Kong	23
Thailand	21
Singapore	21
Australia	18
New Zealand	16
Malaysia	13
Indonesia	9
Korea	7
Taiwan	6
Philippines	5
India	4

Source: CRIS INFAC, Edelweiss research

Chart 14: Dish TV ARPU trend



Source: Company, Edelweiss research

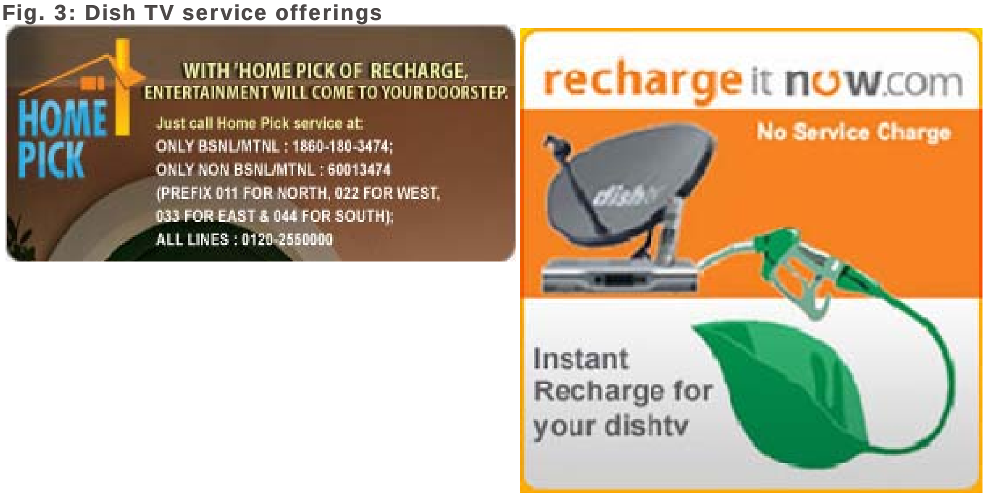
Table 9: DISH TV packages

Pack type	Rest of India Charges (INR per month)	Rest of India No of channels / services
Popular packs		
Silver	125	162
Silver saver	150	175
Gold	210	192
Gold saver	270	199
Platinum	325	218
Child	170	218

Pack type	South India Charges (INR per month)	South India No of channels / services
Popular packs		
South silver	125	150+
Soth silver saver	150	154+
South gold	210	182+
South gold saver	270	189+
South platinum	325	208+
Other packs		
South child	170	208+

Source: Company, Edelweiss research

Fig. 3: Dish TV service offerings



Source: Edelweiss research

- **Likelihood of tariff war between cable operators and DTH operators**

  The Telecom Regulatory Authority of India (TRAI) is considering reduction of the existing pricing formula for broadcasters on DTH. As per the regulator's new pricing formula, DTH operators will have to pay broadcasters 30% of cable tariffs fixed for non-CAS homes against 50% currently. As per the current formula, if a consumer is paying the cable operator INR 50 per month for a cable channel, the same is available for INR 25 on the DTH platform. Under the proposed TRAI formula, the same channel will cost INR 15 on DTH. This move could possibly trigger a price war as cable operators will be forced to reduce charges to remain competitive with DTH. According to sources, DTH operators such as Reliance Big TV, Airtel Digital TV, and Tata Sky are in favour of lower tariffs as it could further boost DTH rollout. However, some operators are opposing the proposal as it will lead to loss of revenue due to reduced ARPU. The latter are of the opinion that TRAI should de-link DTH content pricing from cable tariffs. Some sports and niche broadcasters too have pitched for eliminating tariff barriers.

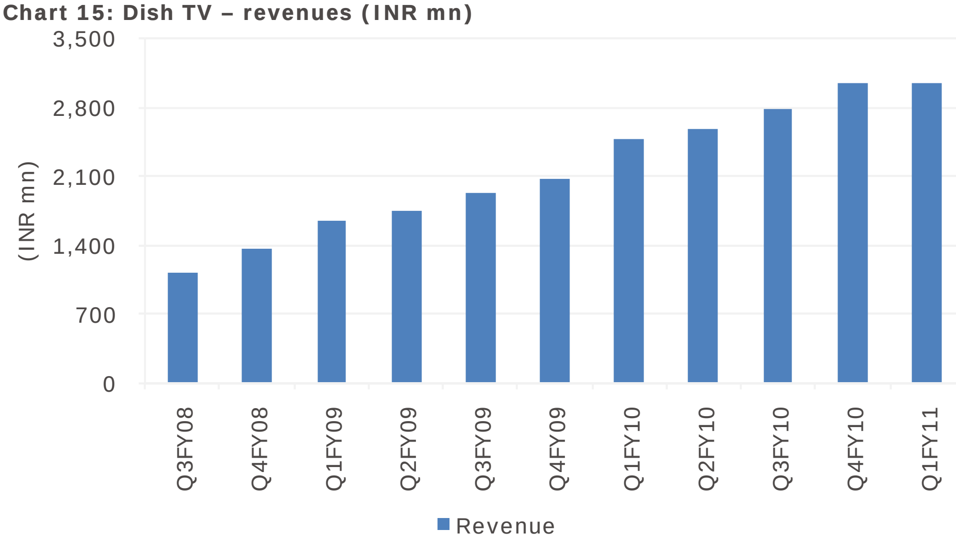
- **Additional streams of revenue: Icing on the cake**

  Cable operators charge broadcasters carriage fees to place their channels in the prime band. DTH operators have also started charging carriage fees (placement fees) for preferential placement of a broadcaster's channel on the DTH operator's menu. The other additional revenue streams for DTH players include pay per view (PPV) and advertising fees. DTH players also provide content tie ups on interactive channels, special short films or promotions. The company's interactive services such as ICICI Active, Monster Jobs Active, Shaadi Active, and Travel Active have received International ITV awards. Although currently these revenue sources do not contribute significantly to a DTH operator's revenues, they will help an operator differentiate its services, as currently content exclusivity is not available on DTH.

Fig. 4: Dish TV value added services

Source: Edelweiss research

Chart 15: Dish TV – revenues (INR mn)



Source: Company, Edelweiss research

Fund raising strengthens balance sheet

The fund raising by Dish TV (~INR 16 bn through rights issue and GDR issue to Apollo Management) has strengthened the company's balance sheet. This gives it a fillip to regain leadership in new subscriber additions and invest in product innovations (entry into HD).

Table 10: Funding details

Period	Jan-09	Jul-09	Nov-09	Mar-10	Total funds raised
Funding Details	Rights Issue- Tranche 1	Rights Issue - Tranche 2	GDRs issued to Apollo management	Rights Issue - Tranche 3	
Amount raised (INR bn)	3.1	4.2	4.7	4.2	16.1

Source: Company, Edelweiss research

Negative working capital

Dish TV has a negative working capital as it gets subscription revenues in advance and broadcasters are paid with a lag.

Launch of high definition (HD) service by Dish TV

Dish TV has further reinforced its leadership position by offering HD services on its DTH platform. The company is all set to monetise the FIFA World Cup 2010 on HD. This service is expected to attract upper end consumers. There are ~2.25 mn HD ready TVs overall in the country currently and we expect it to remain a niche segment. However, it is significant from the marketing perspective as some of the company's competitors already offer this product. Dish TV has the largest bouquet of content offering for viewers and launch of HD services will re-enforce its USP amongst competition. The price of HD is too high to become a mass product. A HD box costs USD 80 compared to USD 29 for a normal digital box.

The launch is unique considering that it is the first time in the history of Indian DTH industry that a distributor (Dish TV) and broadcasters have converged to promote and launch a service on DTH platform. Dish TV has entered into a tie up with both Zee and ESPN Star Sports to enhance its content portfolio by offering Zee TV HD and the most popular Hindi movie channel Zee Cinema HD along with the much awaited FIFA World Cup 2010 on its DTH–HD platform. Other offerings which will be available on 'Dish Tru HD' are Discovery World HD and National Geographic HD.

Dish Tru HD features:

Up to 5X sharper picture clarity and theatre like stereophonic sound.
Variable aspect (screen) ratio: Normal 4:3 as well as 16:9 for wide screen HD quality experience.

HDMI: High Definition Multimedia Interface to transfer H D signals to the TV screen.

SPDIF connector: To enhance the audio - visual HD experience through Home Theatre

1080i : An interlaced HDTV video mode that implies a horizontal resolution of 1920 pixels and a frame resolution of 1920×1080 or about 2.07 million pixels. An astounding ten times better resolution and picture quality.

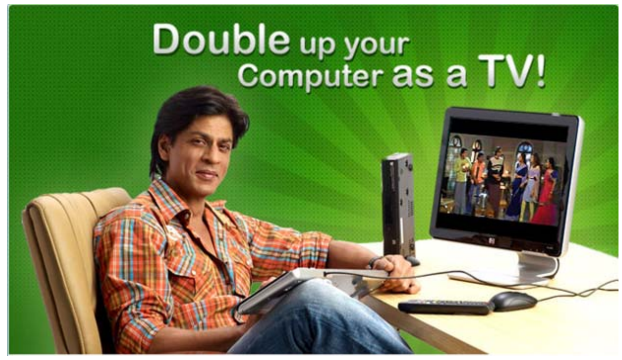
Table 11: HD DTH service pricing (in INR)

DTH operator	HD service price for new customers	HD service price for existing customers
Dish TV	2,990	2,590
Tata Sky	2,599	2,599
Sun Direct	9,990	9,990
Reliance - Big TV *	7,490	5,990
Bharti -Airtel	2,840	2,250

Source: Edelweiss research

*Note: * HD + DVR package*

Fig. 5: Dish TV now offers HD service



Source: Edelweiss research

DISH TV board approves internal restructuring

In our view, this restructuring is a step towards increasing focus on core DTH business.

- Dish TV board has approved transfer of the company's non-DTH business to Integrated Subscriber Management Services (ISMSL) and merger of Agrani Satellite Services ('ASSL') with ISMSL.
- This will be effective from March 31, 2010.
- Both ISMSL and ASSL are wholly owned subsidiaries of Dish TV India.
- Pursuant to the scheme, there will be no change in the share capital or the shareholding pattern of the company.

Valuation

The stock looks attractive at current valuation and is gradually entering a sweet spot. Dish TV is at an inflection point with higher growth due to low penetration, increasing margins, and a strong balance sheet. The company will be one of the biggest beneficiaries of high growth in the Indian pay TV market. With a CAGR of 135% and 29% in EBITDA and sales over FY10-12E, respectively, we expect the stock to re-rate. This multiple is higher than that for Bharti Airtel (e.g., Bharti was trading at a ~13x one year forward EV/EBITDA in its initial growth phase) and also in line with that for global players in their initial growth phase (e.g., 10 years ago when Dish Network in the US was in high growth phase it was trading at ~15x one year forward EV/EBITDA).

We value Dish TV at 15x FY12E EV/EBITDA as: (1) margins are likely to expand 3x in two years. We expect a strong 135% EBITDA CAGR over FY10-12E with EBITDA margins improving from 7.9% in FY10 to 26.3% in FY12E; and (2) expect it to remain the No. 1 player in a high growth Indian pay TV market.

We are bullish on the Indian pay TV market and hence initiate coverage on Dish TV with **'BUY'** recommendation and a target price of INR 65 based on 15x FY12E EV/EBITDA. On relative return basis, the stock is rated **'Sector Performer'** (refer rating page for details).

Table 12: Valuation comparison

		CMP	P/E (x)			EV/EBITDA (x)			ROE (%)			EPS			EPS CAGR FY10-12E
Company	Ratings	(INR)	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	(%)
Dish TV	Buy	55	(22.2)	(30.1)	101.7	70.4	30.6	12.8	196.2	(67.7)	26.3	(2.5)	(1.8)	0.5	NM
Sun TV	Buy	510	38.7	28.7	24.7	17.9	13.3	11.1	28.9	32.8	30.5	13.2	17.8	20.7	25.3
Jagran	Buy	123	21.1	17.7	14.8	12.7	10.5	8.8	28.7	29.3	29.0	5.8	7.0	8.3	19.3
PVR	Buy	176	308.8	19.1	11.9	13.0	6.5	5.2	0.5	7.4	10.9	0.6	9.2	14.8	409.5
Zee News	Buy	17	8.8	24.9	15.4	5.7	14.8	8.8	22.7	9.5	13.5	1.9	0.7	1.1	(24.3)
ZEEL	Buy	306	29.2	23.7	19.6	24.1	16.6	14.0	11.2	12.0	13.1	10.5	12.9	15.6	22.1
TV18*	Hold	94	NM	63.0	52.4	34.8	21.1	19.3	(6.4)	2.9	3.3	(2.5)	1.5	1.8	NM

Source: Edelweiss research

EV/ sub for Dish TV is around USD 160 FY11E (INR 7.1 bn). In contrast, regional peer, Astro is at EV/sub of ~USD 1,100 and global developed market C&S players trade between USD 1,000 and 2,700/subscriber.

Table 13: Global peers

(USD mn)	Mcap	EV	EBIDTA		EV/EBIDTA	
Company		CY10E	CY11E	CY12E	CY11E	CY12E
Dish Network	8,320	12,232	3,038	3,129	4.0	3.9
DirecTV	35,261	42,620	7,074	7,680	6.0	5.5
Comcast	49,188	76,331	15,085	15,939	5.1	4.8
Cable Vision	8,274	19,236	2,793	2,920	6.9	6.6
British Sky Broadcasting	19,402	13,916	1,611	1,766	8.6	7.9
Austar	1,061	1,134	261	286	4.3	4.0
Time Warner Cable	19,608	40,345	7,181	7,507	5.6	5.4

Source: Edelweiss research

- Triggers

Reduction in licence fees

DTH operators currently pay a licence fee of 10% of gross revenues, which is expected to be cut to 6%.

Implementation of goods and service tax (GST)

Post GST, taxes likely to reduce as currently the sector is heavily taxed.

Key Risks

- ## Competition from other DTH service providers

  DTH is currently a six player market—Dish TV, Tata Sky, Sun Direct, Reliance Communications, Bharti, and Videocon. Tata Sky has recently slashed the price of its STBs to INR 999 from INR 1599. Such moves by competitors could further fuel the competition in the DTH space.

- ## Competition from alternative technologies especially digital cable

  Alternative technologies of TV content distribution such as digital cable, HITS, and IPTV are potential threats.

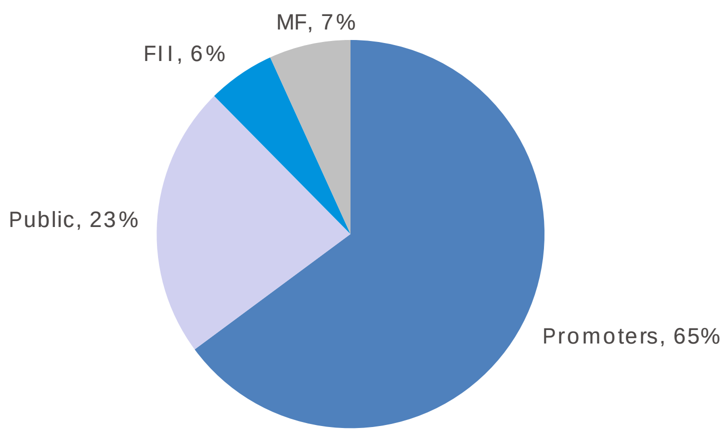
- ## Regulatory risks

  The DTH industry is subject to extensive regulations and hence it faces the risk of an unfavorable regulatory environment. This can adversely affect profitability of companies operating in the sector.

Company Description

Dish TV, part of the Essel Group, is the pioneer in television content distribution via DTH in India. It has three business segments viz., DTH services, teleport services, and trading. The DTH segment provides subscription renewal and lease rentals, placement and active services. The trading segment is into trading in electronics and other equipments. The teleport services segment facilitates up linking of signals. Dish TV offers ~250 channels and services including 21 audio channels on its DTH platform. It has a sales and distribution network of ~1,400 distributors and ~50,000 dealers across 6,600 towns. Dish TV has a 24x7 call centre with 1,600 seats in 11 different languages to service its subscribers. As of March 2010, at ~6.9 mn, Dish TV had the largest number of DTH subscribers in India.

Chart 16: Shareholding pattern

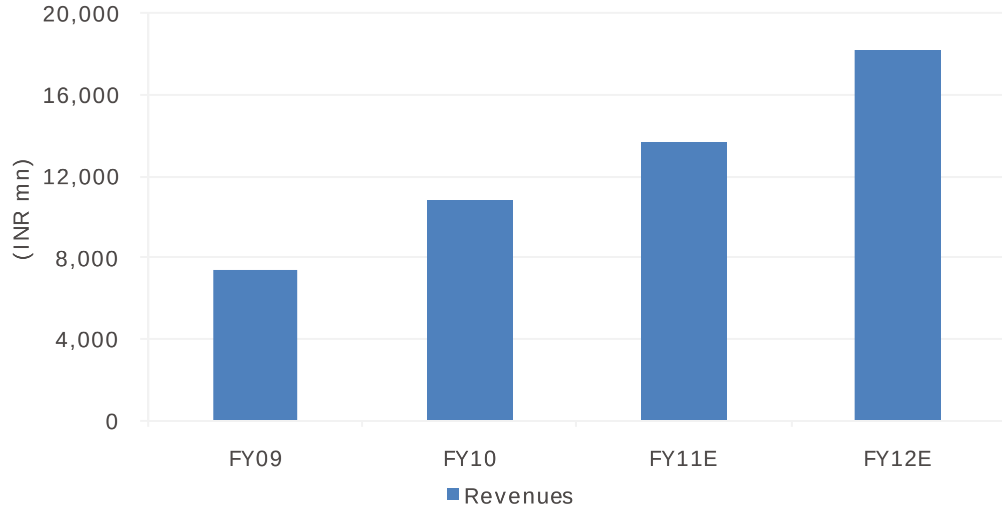


Source: Edelweiss research

Financial Outlook

Dish TV's revenues are expected grow at 29% CAGR over FY10-12E

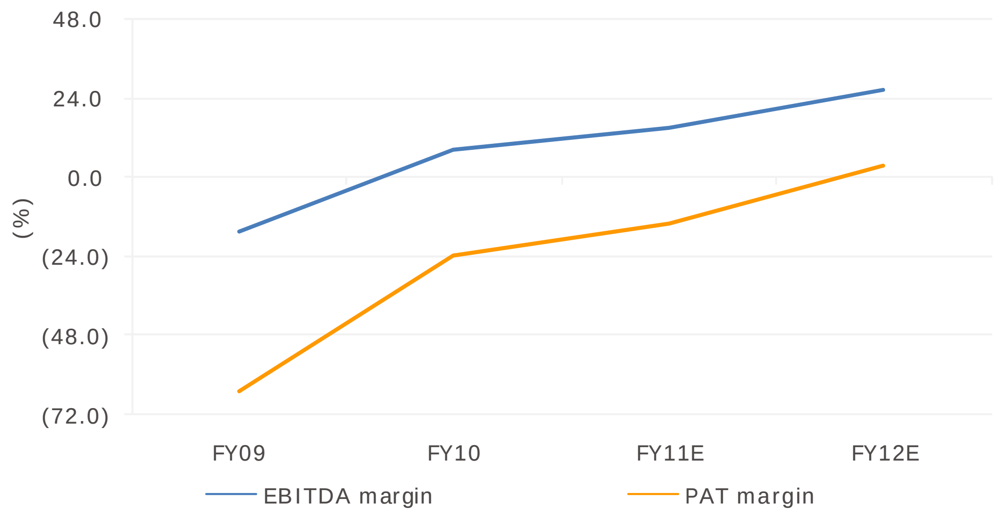
Chart 17: Revenue growth



Source: Edelweiss research

Dish TV expected to become PAT positive in FY12E

Chart 18: EBITDA and Net profit margins



Source: Edelweiss research

Financial Statements

Income statement **(INR mn)**

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenues	4,128	7,381	10,848	13,684	18,162
Direct cost	3,615	5,440	7,030	8,047	10,176
Employee expenses	420	543	405	425	489
S G &A expenses	2,177	2,631	2,551	3,161	2,729
Total operating expenses	6,212	8,614	9,986	11,633	13,394
EBITDA	(2,084)	(1,233)	862	2,051	4,768
Depreciation & amortization	1,570	2,289	3,044	3,297	3,407
EBIT	(3,654)	(3,521)	(2,182)	(1,246)	1,360
Interest expense	513	1,293	485	757	882
Other income	34	13	53	77	94
Profit before tax	(4,134)	(4,801)	(2,613)	(1,927)	571
Provision for tax	7	6	0	0	-
Core profit	(4,141)	(4,807)	(2,614)	(1,927)	571
Profit after tax	(4,141)	(4,807)	(2,614)	(1,927)	571
Profit after minority interest	(4,141)	(4,807)	(2,614)	(1,927)	571
Equity shares outstanding (mn)	415	475	1,063	1,063	1,063
EPS (INR) basic	(10.0)	(10.1)	(2.5)	(1.8)	0.5
Diluted shares (mn)	415	475	1,063	1,063	1,063
EPS (INR) fully diluted	(10.0)	(10.1)	(2.5)	(1.8)	0.5
CEPS (INR)	(6.2)	(5.3)	0.4	1.3	3.7

Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10	FY11E	FY12E
Direct cost	87.6	73.7	64.8	58.8	56.0
Employee expenses	10.2	7.4	3.7	3.1	2.7
S G &A expenses	52.7	35.6	23.5	23.1	15.0
Operating expenses	150.5	116.7	92.1	85.0	73.7
Depreciation and amortization	38.0	31.0	28.1	24.1	18.8
Interest expenditure	12.4	17.5	4.5	5.5	4.9
EBITDA margin	(50.5)	(16.7)	7.9	15.0	26.3
EBIT margin	(88.5)	(47.7)	(20.1)	(9.1)	7.5
Net profit margins	(100.3)	(65.1)	(24.1)	(14.1)	3.1

Growth metrics

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	115.4	78.8	47.0	26.1	32.7
EBITDA	(22.2)	40.8	169.9	137.9	132.5
PBT	(72.2)	(16.1)	45.6	26.3	129.6
Net profit	(72.5)	(16.1)	45.6	26.3	129.6
EPS	(78.0)	(1.3)	75.7	26.3	129.6

Balance sheet (INR mn)

As on31 March	FY08	FY09	FY10	FY11E	FY12E
Equity capital	428	687	1,063	1,063	1,063
Reserves & Surplus	(5,139)	(7,162)	2,747	820	1,392
Shareholders funds	(4,710)	(6,475)	3,810	1,883	2,455
Secured loans	684	2,697	2,697	2,697	2,697
Unsecured loans	4,761	8,795	7,303	7,500	6,500
Borrowings	5,445	11,492	10,000	10,197	9,197
Deferred tax liability	8	6	6	6	6
Sources of funds	**743**	**5,023**	**13,816**	**12,086**	**11,658**
Gross block	9,119	14,211	19,185	25,365	30,975
Less: Depreciation	2,314	4,600	7,644	10,942	14,349
Net block	6,806	9,611	11,541	14,423	16,626
Capital work-in-progress	2,793	3,734	3,734	3,734	3,734
Total Current assets:	2,849	8,069	17,587	18,863	23,785
Debtors	403	526	662	861	1,143
Cash & bank balance	511	805	7,320	5,503	6,057
Inventory	58	32	50	67	85
Advances	1,876	6,706	9,555	12,432	16,501
Total current liabilities & Provisions	11,706	16,391	19,046	24,934	32,488
Creditors	4,624	7,902	6,984	9,265	11,716
Other liabilites	7,034	8,409	11,982	15,589	20,692
Provisions	48	80	80	80	80
Net current assets	(8,857)	(8,322)	(1,459)	(6,071)	(8,702)
Uses of funds	**743**	**5,023**	**13,816**	**12,086**	**11,658**
Book value per share (INR)	(11)	(14)	4	2	2

Free cash flow (INR mn)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net profit	(4,141)	(4,807)	(2,614)	(1,927)	571
Depreciation	1,570	2,289	3,044	3,297	3,407
Deferred tax	8	6	6	6	6
Others	5,545	(1,193)	(703)	5,586	6,365
Gross cash flow	2,982	(3,706)	(267)	6,962	10,349
Less: Changes in WC	2,781	(640)	(349)	2,796	3,185
Operating cash flow	201	(3,066)	82	4,166	7,164
Less: Capex	3,289	5,476	4,974	6,180	5,610
Free cash flow	**(3,088)**	**(8,541)**	**(4,892)**	**(2,014)**	**1,554**

Cash flow metrices

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	201	(3,066)	82	4,166	7,164
Financing cash flow	3,458	8,827	11,353	120	(1,094)
Investing cash flow	(3,275)	(5,468)	(4,921)	(6,103)	(5,516)
Net cash flow	384	294	6,514	(1,817)	554
Capex	(3,289)	(5,476)	(4,974)	(6,180)	(5,610)

Profitability & Liquidity ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE (%)	NM	NM	NM	NM	26.3
ROACE (%)	NM	NM	NM	NM	11.5
Debtors days	36	23	20	20	20
Inventory days	4	3	2	3	3
Fixed assets t/o	0.7	0.9	1.0	1.1	1.2
Debt/Equity	(1.2)	(1.8)	2.6	5.4	3.7
Interest coverage	(7.1)	(2.7)	(4.5)	(1.6)	1.5
Payable days	437	420	386	369	376
Current ratio	0.2	0.5	0.9	0.8	0.7
Debt/EBITDA	(2.6)	(9.3)	11.6	5.0	1.9
Adjusted debt/Equity	(1.2)	(1.8)	2.6	5.4	3.7

Operating ratios

Year to March	FY08	FY09	FY10	FY11E	FY12E
Total asset turnover	3.9	2.6	1.2	1.1	1.5
Fixed asset turnover	0.7	0.9	1.0	1.1	1.2
Equity turnover	(1.6)	(1.3)	(8.1)	4.8	8.4

Du pont analysis

Year to March	FY08	FY09	FY10	FY11E	FY12E
NP margin (%)	(100.3)	(65.1)	(24.1)	(14.1)	3.1
Total assets turnover	3.9	2.6	1.2	1.1	1.5
Leverage multiplier	(0.4)	(0.5)	(7.1)	4.5	5.5
ROAE (%)	NM	NM	NM	NM	26.3

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
EPS (INR) fully diluted	(10.0)	(10.1)	(2.5)	(1.8)	0.5
Y-o-Y growth (%)	*(78.0)*	*(1.3)*	*75.7*	*26.3*	*129.6*
CEPS	(6.2)	(5.3)	0.4	1.3	3.7
Diluted P/E (*x*)	NM	NM	NM	NM	101.7
Price/BV (x)	(4.8)	(4.0)	15.2	30.8	23.6
EV/Sales (x)	6.7	5.0	5.6	4.6	3.4
EV/EBITDA (X)	(13.2)	(29.7)	70.4	30.6	12.8
FCFPS (INR)	(7.4)	(18.0)	(4.6)	(1.9)	1.5
Y-o-Y growth (%)	*(99.4)*	*(141.4)*	*74.4*	*58.8*	*177.2*
FCFPE (*x*)	(7.3)	(3.0)	(11.9)	(28.8)	37.3

STOCK RATING

RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
PVR	Buy	SP	M
Zee News	Buy	SP	M
Zee Entertainment Enterprises	Buy	SO	M
Television Eighteen India	Hold	SP	H
Jagran Prakashan	Buy	SP	M
Sun TV	Buy	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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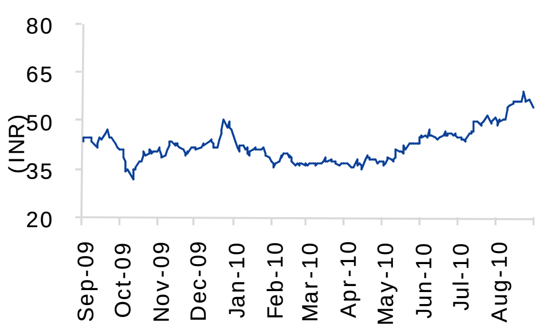
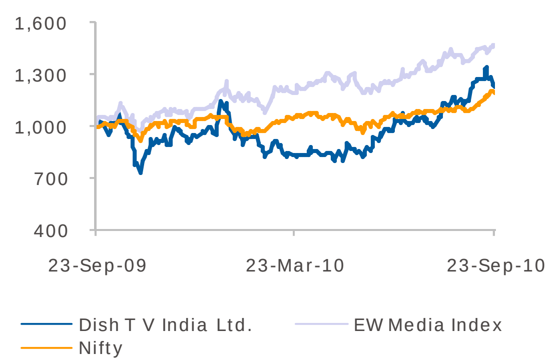
Coverage group(s) of stocks by primary analyst(s): Media

Jagran Prakashan, PVR, Sun TV Network, Television Eighteen India Ltd, Zee Entertainment Enterprise, Zee News

Dish TV



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 3 stocks under review	116	45`	12	176

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	110	53	13

Recent Research

Date	Company	Title	Price (INR)	Recos
18-Aug-10	**PVR**	Improving prospects; *Visit Note*	162	Buy
03-Aug-10	**PVR**	Improving prospects; *Result Update*	150	Buy
02-Aug-10	**Television Eighteen**	Improving outlook; *Result Update*	75	Hold

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