

Dish TV

Rating: ▲

Target price: ▲

EPS: ▼

CMP

Rs. 78

Absolute

Add

Target

Rs. 87

Relative

Outperform

Mandatory digitisation brings a new trigger – Upgrade to Outperform

Dish TV's 2QFY12 results were in line with our expectations. The trend of Q-o-Q improvement in EBITDA margins continued, with a gain of 90bps. Y-o-Y numbers are stupendous (as expected) as EBITDA is 2.5x of that in 2QFY11. Losses stand reduced to 0.4x Y-o-Y. However, subscriber additions slowed down considerably with the company adding only 0.575mn subscribers against 0.73mn in 1QFY12. This is a result of the weakening consumer sentiment and increase in initial (activation) charge by ~Rs300. ARPU improved in line with our expectation at Rs152 per month against Rs150 in 1Q.

Mandatory digitisation of cable brings a fresh trigger: While the slowdown in voluntary addition of subscribers spells a negative especially given the expectations built into the current stock price and would have led us to go negative on the stock, we believe the recent ordinance on digitisation of cable brings a fresh trigger. With ~80mn analog homes likely to go digital over next 3 yrs we expect DTH to garner a good chunk of this. The actual share that digital cable and DTH shall ultimately takeaway from this opportunity shall be based on extent of subsidisation of hardware (STB's), funds with MSO's (especially non corporate MSO's) to convert analog homes to digital, strategy of customer awareness/ advertising by DTH, strictness of implementation of digitisation law by government authorities etc. However, we believe DTH should garner over 30% of this universe, thus speeding up subscriber additions. Dish TV (market share of ~25%) being stronger beyond Tier II cities should reap the benefit more in Phase III and IV of digitisation, more so given the absence of big corporate MSO's beyond Tier II cities (big MSO's are much better funded and better prepared with infrastructure for digitisation).

Key takeaways from interaction with management

- Though 2Q was disappointing on subscriber additions, uptick seen in September and October. 3Q being festive quarter additions to improve. Maintained guidance of ~3-3.5mn subscriber additions in FY12 despite just 1.3mn in 1H, however we believe Dish TV would add ~2.7-2.9mn for the year. Maintained ARPU guidance of ~Rs160-165 per month in 4QFY12. Current ARPU of Rs154. We expect ~Rs156 for FY12.

- Company not to go whole hog on subsidising CPE to corner share in mandatory digitisation.

View and Valuations

Dish TV is likely to breakeven on PAT in 3QFY12 and shall be FCF positive for FY12. While the stock price factors most positives on normal growth of business (on voluntary digitisation), opportunity from compulsory digitisation makes us upgrade the stock to Outperform.

Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA (x)
FY11	14367	2401	-2087	-2.0	-	36.8
FY12E	20266	5446	-41	0.0	-	16.3
FY13E	24687	7325	839	0.8	98.8	11.8

2QFY12 Update

Date: 20 Oct, 2011

Market Data

SENSEX	17085
Nifty	5139
Bloomberg	DITV IN
Shares o/s	1,064mn
Market Cap	Rs. 83bn
52-wk High-Low	Rs. 97-53
3m Avg. Daily Vol	Rs. 351mn
Index member	BSE 500

Latest shareholding (%)

Promoters	64.8
Institutions	17.5
Public	17.7

Stock performance (%)

	1m	3m	12m
Dish TV	5%	-17%	43%
Sensex	2%	-8%	-15%
M&E Index	-8%	-20%	-31%

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Dish TV

Quarterly Financial Results

CMP	Rs. 78	Absolute	Add
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Quarterly Financial Result

Rs. mn\Period	30-Sep-11	30-Sep-10	YoY Growth	30-Jun-11	QoQ Growth	FY12E	FY13E	YoY Growth
Revenues	4823	3261	47.9%	4604	4.8%	20266	24687	21.8%
Content & other costs	2380	1824	30.5%	2472	-3.7%	10183	12136	19.2%
Employee cost	171	130	32.0%	174	-1.8%	951	1132	19.0%
Advertising/ Selling & distribution	818	658	24.4%	605	35.3%	2767	2992	8.1%
Other Expenditure	235	152	54.5%	231	1.7%	919	1103	20.0%
Total Operating Cost	3604	2763	30.4%	3482	3.5%	14819	17362	17.2%
EBITDA	1218	498	144.7%	1122	8.6%	5446	7,325	34.5%
EBITDA margins	25.3%	15.3%	999bps	24.4%	90bps	26.9%	29.7%	280bps
Depreciation	1162	843	37.8%	1107	4.9%	5064	6161	-17.8%
Other income	92	25	271.6%	137	-32.7%	150	170	13.3%
EBIT	148	-320	-	151	-1.6%	532	1334	150.8%
Net Interest	330	131	151.5%	334	-1.2%	572	495	-13.5%
PBT	-182	-452	-	-183	0.9%	-41	839	-
Tax	0	0		0		0	0	
Adjusted PAT	-182	-452	-	-183	-	-41	839	-
Extraordinary Inc/Exp	-304	0		0		-304	0	
Reported PAT	-486	-452	-	-183	-	-345	839	-

Dish TV

Business Overview

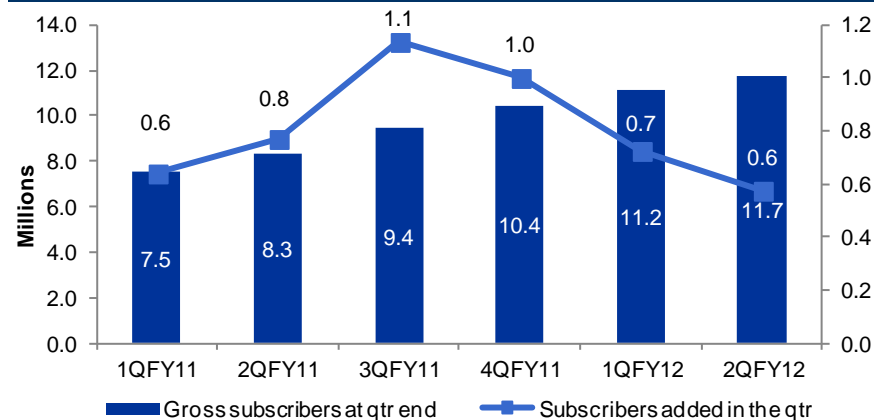
CMP	Rs. 78	Absolute	Add
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Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	20266	20266	0.0%	24611	24687	0.3%
EBITDA	5446	5446	0.0%	7296	7325	0.4%
Margin (%)	26.9%	26.9%	0bps	29.7%	29.7%	3bps
PAT	5	-41	-	964	839	-13.0%
PAT Margin	0.0%	-0.2%	-22bps	3.9%	3.4%	-52bps
EPS	0.0	0.0	-	0.9	0.8	-13.0%

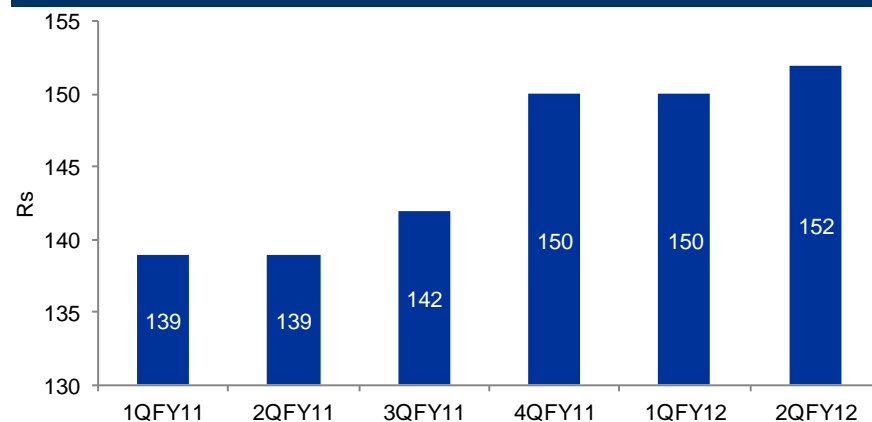
All figures in Rs. mn, except EPS, which is in Rs.

Subscriber additions slowed down in past 2 quarters



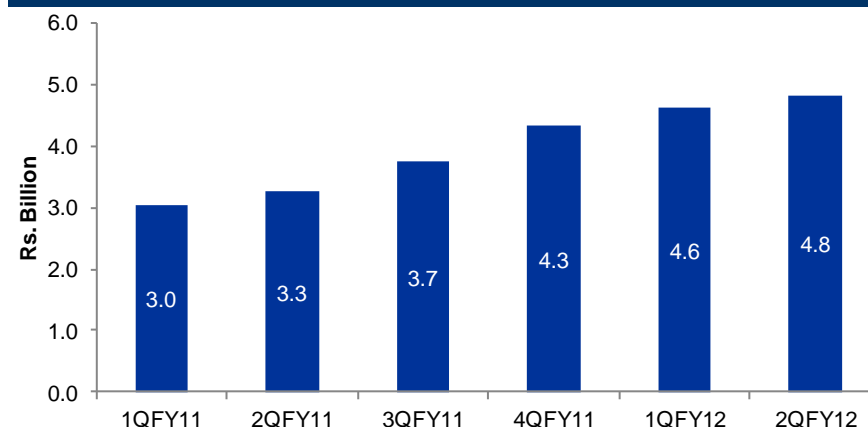
Source: Company, Spark Capital Research

ARPU on increasing trend



Source: Company, Spark Capital Research

Revenues on uptrend



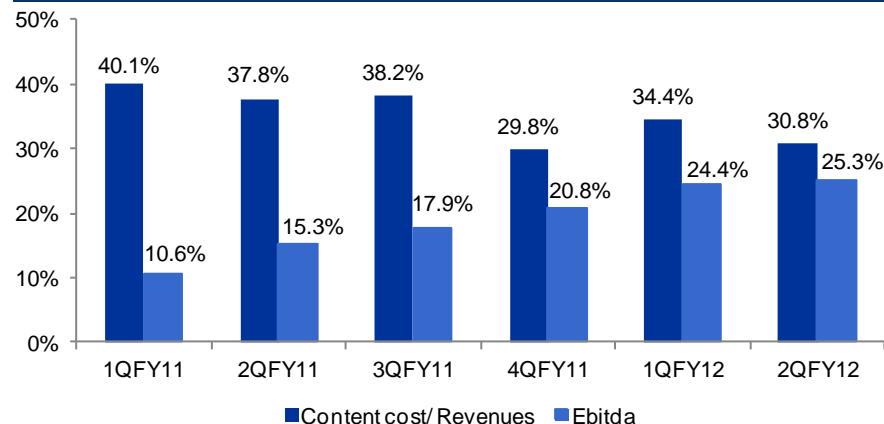
Source: Company, Spark Capital Research

Dish TV

Business Overview (Contd.)

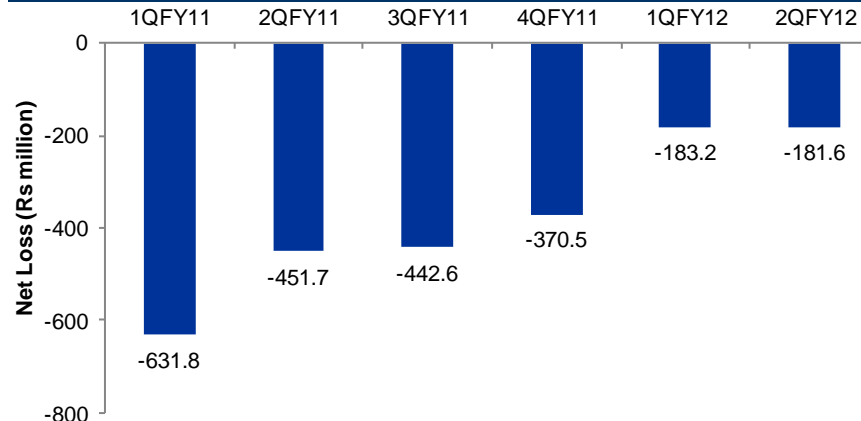
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Scale benefits leading to continuous improvement in profitability



Source: Company, Spark Capital Research

Moving towards positive bottomline



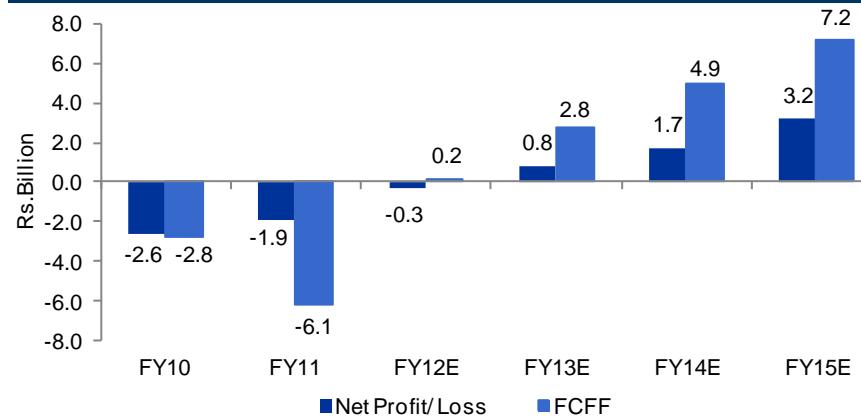
Source: Company, Spark Capital Research

DCF Assumptions

Risk Free Rate	8.5%
Marginal Tax Rate	25.0%
Default Spread	4.0%
Post Tax cost of debt	9.4%
Beta	1.1
Market premium	5.5%
Cost of Equity	14.6%
Debt/Equity	20.0%
WACC	13.5%
Terminal Growth rate	4.0%
Fair Value	87

Source: Company, Spark Capital Research

Profitability/ Cash flow turnaround on the cards



Source: Company, Spark Capital Research

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Financial Summary

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Abridged Financial Statements				
Rs. mn	FY10	FY11	FY12E	FY13E
Profit & Loss				
Revenues	10850	14367	20266	24687
EBITDA	1117	2401	5446	7325
Depreciation	3227	3996	5064	6161
EBIT	-2111	-1595	382	1164
Other Income	65	183	150	170
Interest	583	675	572	495
PBT	-2628	-2087	-41	839
Reported Net Profit	-2622	-1902	-345	839
Adjusted Net Profit	-2622	-2087	-41	839
Balance Sheet				
Shareholders Equity	3768	370	25	864
Deferred Tax	0	0	0	0
Total debt	9358	10763	9000	8000
Total Networth & Liabilities	13126	11133	9025	8864
Net fixed assets	11046	14437	15926	15355
CWIP	3541	4580	4580	4580
Investments	3981	4224	3000	4000
Current assets	10482	3989	3977	5162
Current liabilities	15925	16098	18457	20233
Net current assets	-5442	-12109	-14481	-15071
Misc exp not w/off	0	0	0	0
Total Assets	13126	11133	9025	8864
Cash Flows				
Cash flow s from Operations	2331	3926	6723	8358
Cash flow s from Investing	-10920	-6552	-5483	-6421
Cash flow s from Financing	11219	656	-2335	-1495
Free cash flow to firm	-2766	-6126	170	2768
Free cash flow to equity	-4392	-5526	-2166	1273

Key metrics				
	FY10	FY11	FY12E	FY13E
Growth ratios (%)				
Sales	47.0%	32.4%	41.1%	21.8%
EBITDA	-190.6%	115.0%	126.8%	34.5%
Reduction of Losses	45.5%	27.4%	-	-
Margin ratios (%)				
EBITDA	10.3%	16.7%	26.9%	29.7%
EBIT	-19.5%	-11.1%	1.9%	4.7%
Net Profit	-24.2%	-13.2%	-1.7%	3.4%
Performance ratios				
RoE (%)	-	-	-	-
RoCE (%)	-	-	-	-
Total Assets Turnover (x)	0.5	0.8	1.0	1.2
Fixed Assets Turnover (x)	1.0	1.0	1.3	1.6
Financial stability ratios				
Net Debt to Equity (x)	0.6	14.5	233.3	4.0
Debtor days	12.1	5.8	5.8	5.8
Loans and Advances	234.3	64.5	63.4	61.9
Creditor days	164	173	164	142
Other current liabilities	331	188	142	126
Working capital days	-183	-308	-261	-223
Valuation metrics				
Market Cap (Rs.mn)	82841	82914	82914	82914
Diluted Shares (mn)	1062	1063	1063	1063
Adjusted EPS (Rs.)	-	-	0.0	0.8
P/E (x)	-	-	-	98.8
EV (Rs. mn)	85088	88292	88849	86406
EV to Sales (x)	7.8	6.1	4.4	3.5
EV/ EBITDA (x)	76.2	36.8	16.3	11.8
EV/ Operating cash flow (x)	36.5	22.5	13.2	10.3

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Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
3-Jan 11	71	76	Add	O-PF
21-Feb11	59	73	Add	O-PF
24-May 11	69	78	Add	O-PF
21-Jul 11	89	86	Reduce	U-PF
17-Oct 11	78	85	Add	U-PF

Analyst Certification

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