

Dish TV

Rs46
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs49.4bn; US\$1.05bn

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Result: **Q1FY11**

Comment: **Time to play!**

Last report: **30 June 2010 (Price Rs45; Recommendation: Outperformer)**

Key valuation metrics

Year to 31 March (Rs m)	Net Sales	% change yoy	Net Profit	% change yoy	EPS (Rs)	% change yoy	E/EBITDA
FY08	4,122	115	(4,140)	n/a	(9.7)	n/a	n/a
FY09	7,375	79	(4,893)	n/a	(5.2)	n/a	n/a
FY10	10,853	47	(2,612)	n/a	(2.5)	n/a	70.4
FY11E	13,292	22	(2,480)	n/a	(2.3)	n/a	26.4
FY12E	22,367	30	(538)	n/a	(0.5)	n/a	11.51

Highlights of Q1FY11 results and our interaction with the management

- Dish TV's performance for the quarter is marginally below estimates with revenues of Rs3.04bn (flat QoQ), EBITDA of Rs322m (estimates of Rs370m) and net loss of Rs632m (estimates of Rs575m) in Q1FY11
- During the quarter, Dish TV has added 0.6m gross subscribers (7.5m subscribers) and 0.4m net subscribers (6.2m subscribers). Churn has improved on QoQ basis at 0.7% per month
- ARPU has improved from Rs137 in Q4FY10 to Rs139 in Q1FY11 with renewal ARPU at Rs172 (up from Rs163)
- ARPU based revenues stood at Rs2.5bn, rental revenues stood at Rs450m and bandwidth revenues stood at Rs55m.
- As WWIL has discontinued HITS, the revenue from the same has stopped (Rs210m of revenues from HITS in Q4FY10). However, as this business was EBITDA neutral, corresponding costs have also reduced (transponder cost in particular)
- Content cost during the quarter has increased by 2.2% QoQ at Rs1bn inspite of strong addition of subscribers, as Dish TV has entered into fixed contracts with most broadcasters. However as some contracts come up for re-negotiation in Q2FY11, content costs would witness an increase in next quarter.
- Advertising, selling and distribution expenses have increased QoQ on the back of strong subscriber addition during the quarter as also launch of HD services. Advertising spends have increased by 36.9% QoQ at Rs249m while S&D expenses have increased by 26% QoQ at Rs421m.
- During the quarter, license fees, transponder costs and other goods and services costs have decreased by 15.7% at Rs574m. This is primarily attributable to exclusion of HITS related transponder costs.
- Total operating expenses have increased by 1.4% QoQ at Rs2.72bn
- Overall subscriber acquisition cost has dropped on quarterly basis from Rs2383 in Q4FY10 to Rs2147 in Q1FY11

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- ♦ As new subscribers entail higher acquisition costs and come at lower introductory ARPUs, they contribute losses in the initial stage. Thus, the strong addition during the quarter has resulted in EBITDA margin erosion of 325bp on a QoQ basis at 10.6%.
- ♦ Net interest cost during the quarter has been higher at Rs133m, as it includes Rs40m on account of line of credit for new STBs. Gross debt currently stands at Rs9.3bn, while cash on books stands at Rs5.75bn
- ♦ Dish TV is targeting to add 2.5m subscribers in FY11 – our estimates are at 2m gross subscribers

After three years of negative bias on the DTH business and Dish TV in particular, reducing competitive element (limited risk of new entrants), strong momentum in the industry addition (10-11m annually) and improving economics have formed the basis of our change in stance. For Dish TV in particular, while a funded balance sheet imparts comfort, our apprehension on the ability to sustain its lead in a six player market has been alleviated with Dish TV accounting for 25% of the incremental subscriber addition (33% overall market share). From hereon, we see customer acquisition costs stabilizing bringing to fore the operating leverage in the business (~40% of costs ex-content costs are fixed). Thus, while we have built in a normative growth in ARPU, overall profitability will look up on the back of an improved margin profile (from 7.8% in FY10 to 30%+ in FY13E). We have valued Dish TV on a cash flow per subscriber basis and arrive a fair value at 33 months of ARPU. With 8m subscribers by FY13E, this implies a price target of Rs61. Maintain Outperformer.

Quarterly results

Quarterly results (Rs Mn)	Q1FY10	Q2FY10	Q3FY10	FY10E	Q1FY11	FY11E	FY12E
Net Sales	2,467.0	2,573.0	2,775.3	10,853.1	3,043.2	13,291.9	17,260.7
QoQ growth %	19.1	4.3	7.9	47.0	0.2	22.5	29.9
EBITDA	145.6	228.9	116.4	845.2	322.5	1,909.8	4,558.6
EBITDA %	5.9	8.9	4.2	7.8	10.6	14.4	26.4
Depreciation	689.2	730.3	778.7	3,043.9	888.7	3,933.2	4,672.2
Net interest	202.0	66.1	110.5	642.9	133.5	575.7	484.1
Other Income	54.0	6.0	11.0	229.1	68.6	118.6	60.0
Profit before Tax	(691.6)	(561.5)	(761.8)	(2,612.5)	(631.1)	(2,480.5)	(537.7)
Tax	-	(0.3)	(0.0)	(0.2)	0.0	0.0	-
Profit After Tax	(691.6)	(561.2)	(761.8)	(2,612.3)	(631.2)	(2,480.5)	(537.7)

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2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

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