

Dish TV India Ltd

Margin expansion surprises positively; upgrade to BUY

While aggressive promotional offers continued the subscriber addition momentum for Dish TV (DITV), marginal improvement in ARPU (+2.2% QoQ) enabled the company to record strong revenue growth in Q3FY11. Further, lower overheads led to an above-expected operational performance (+260bps QoQ) during the quarter. While we maintain our earnings estimates, we upgrade DITV to BUY (post the recent correction). We also maintain our positive bias on distributors and expect DITV to be one of the key beneficiaries of rising digitisation in India.

Revenue growth in line: Driven by aggressive subscriber addition, DITV saw its Q3FY11 revenues grow 35% YoY and 14.4% QoQ to Rs 3.7bn, in line with our estimate of Rs 3.6bn for the quarter. ARPU also increased to Rs 142 in Q3 (on expected lines), up from Rs139 in Q2 and Rs135 in Q3FY10. Such improvement was partly driven by higher realisations in two of its schemes in Q3.

Aggressive promotional offers aid subscriber addition; sub acquisition cost up 3% QoQ: To gain higher incremental market share (25%+ in Q3) in a six-player DTH market, DITV continued to offer attractive schemes. This led to an addition of 1.1mn gross subscribers to 9.4mn in Q3FY11. However, on account of such aggressive promotional offers, the company's subscriber acquisition cost increased by ~3% QoQ in the quarter.

Margins expand on lower overheads: Backed by lower overheads, DITV recorded a 260bps QoQ expansion in its Q3FY11 EBITDA margin to 17.9%. While operating cost jumped to 38.2% of revenues in Q3FY11, as against 37.8% in Q2FY11 and 43.2% in Q3FY10, advertising and other overheads dropped to 18.3% of revenues from 20.2% and 22.6% during these respective quarters.

Higher interest outgo dampens operational performance: Despite an excellent operational performance, DITV reported a net loss of Rs 443mn in Q3FY11, primarily due to a higher interest outgo (+72% QoQ) in the quarter. Interest outgo increased due to one-time LC charges (Rs 80mn) during the quarter.

New transponders to aid improved channel offering: DITV has increased its transponder capacity from 432mhz to 648mhz, which will enable the company to offer greater number of channels (Neo Sports and other regional channels already included) and higher HD offerings to consumers. Although the subscriber acquisition cost for such HD customers will be high, the management expects this shift to be margin accretive (due to much higher APRUs) in the medium term.

Valuation: We maintain our estimates for the company, but upgrade the stock from HOLD to BUY post the recent sell-off in the stock (down 16% since our last update). We maintain our positive bias on distributors and expect DITV to be one of the prime beneficiaries of such digitisation.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	10,848	13,751	18,857	24,073
Growth (%)	47.1	26.8	37.1	27.7
Adj net income	(2,612)	(2,189)	(538)	1,709
Growth (%)	NA	NA	NA	NA
FDEPS (Rs)	(2.5)	(2.1)	(0.5)	1.6
Growth (%)	NA	NA	NA	NA

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	7.9	13.3	21.2	25.9
EBIT margin	(20.1)	(12.7)	(0.7)	8.2
Adj PAT margin	(24.1)	(15.9)	(2.9)	7.1
ROE	(26.4)	(13.4)	(3.3)	10.5
ROIC	(12.7)	(7.8)	(0.5)	8.4
ROCE	(10.5)	(6.6)	(0.1)	8.6

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 61	Rs 75	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532839	DISHTV	DITV IN

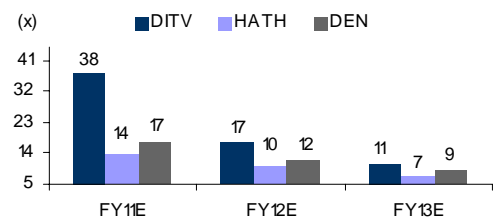
Company data

Market cap (Rs mn / US\$ mn)	77,531 / 1,685
Outstanding equity shares (mn)	1,062
Free float (%)	35.2
Dividend yield (%)	-
52-week high/low (Rs)	77 / 35
2-month average daily volume	4,007,205

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dish TV	61	(8.6)	9.9	31.4
Sensex	19,008	(5.2)	(6.2)	5.7

EV/EBITDA comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
EV/Sales @ CMP	6.2	4.9	3.6	2.8
EV/EBITDA @ CMP	78.3	37.0	16.9	10.8
EV/EBITDA @ Target	96.5	45.6	20.8	13.3





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	3,732	3,550	5.1
EBITDA	667	519	28.5
Adj net income	(443)	(475)	6.8

Source: RCML Research

Revenues in line; lower-than-expected overheads lead to relatively better operational performance

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Revenue	3,732	2,775	34.5	3,261	14.4
Operating Cost	2,101	1,804	16.4	1,824	15.2
Employee cost	134	96	40.0	130	3.5
Other Overheads	682	628	8.6	658	3.7
EBITDA	667	134	397.8	498	33.8
Depreciation	902	779	15.8	843	6.9
Interest	225	129	75.1	131	71.5
Other income	17	11	57.8	25	(29.7)
PBT	(443)	(762)		(452)	
Tax	--	--		0	
PAT	(443)	(762)		(452)	
FDEPS (Rs)	(0.4)	(0.9)		(0.4)	
EBITDA margin (%)	17.9	4.8	1310bps	15.3	260bps

Source: Company, RCML Research

Lower overheads aid margin expansion

Higher interest outgo dampens an otherwise excellent operational performance

Fig 3 - Operational snapshot

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Gross subscribers (mn)	9.40	6.46	2.9	8.30	1.1
Net Subscribers (mn)	7.70	5.37	2.3	6.80	0.9
Net subs as % of Gross subs	81.9	83.0		81.9	
ARPU (Rs/sub/month)	142	135	5.2	139	2.2
Subscriber acquisition cost (Rs/sub)	2,142	2,477	(13.5)	2,083	2.8

Source: Company, RCML Research

Subscriber acquisition cost increases ~3% QoQ due to greater promotional offers

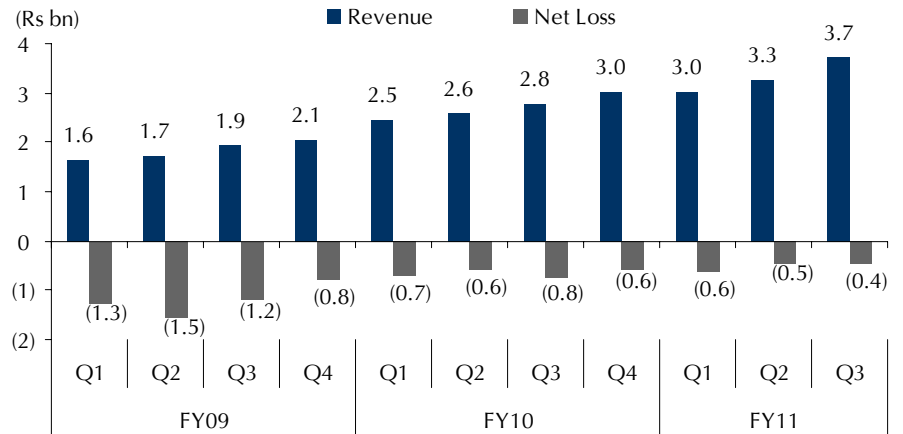
Other key highlights-

- ❖ Aggregate DTH subscribers for the industry increased by 4.5mn in Q3 to 30.6mn
- ❖ Since TAM has increased the digital weightage to 15% (from 8% earlier), DITV management plans to capitalise on advertisement revenues, going ahead.
- ❖ DITV management expects the benefit of increased realisation (in two of its schemes) to continue in Q4 as well (30-40% benefit borne in Q3).
- ❖ HD subscribers contribute <2% to DITV's aggregate revenues currently.
- ❖ The management does not expect the *a-la-carte* offering (by Dish TV and other competitors) to have any significant impact and expect package sales to be dominated in renewals, going ahead.



Operational Performance

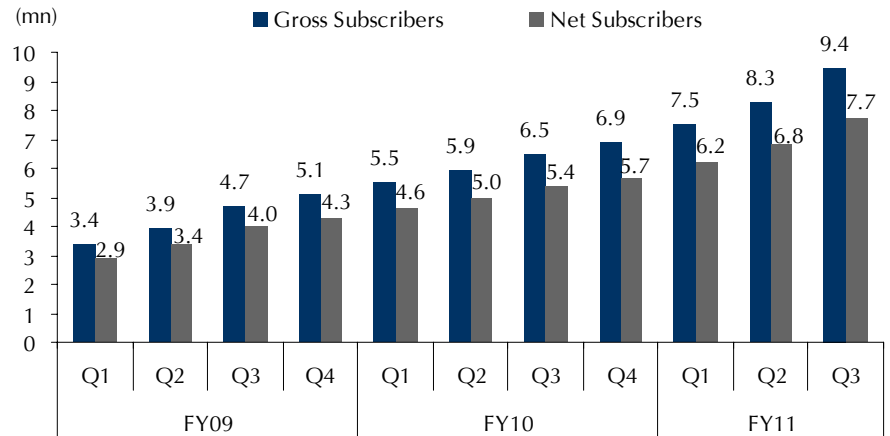
Fig 4 - Revenue and profitability trend



Revenues continue to rise on the back on increasing subscribers

Source: RCML Research, Company

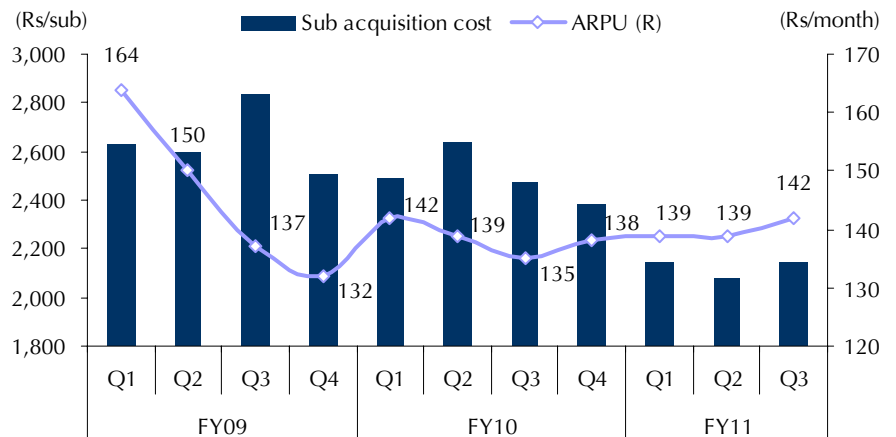
Fig 5 - Trend in subscriber addition



New subscriber addition continues

Source: RCML Research, Company

Fig 6 - Subscriber acquisition cost and ARPU



Subscriber acquisition cost increases due to greater promotional offers

ARPU remains under pressure due to higher subscriber addition

Source: RCML Research, Company



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	10,848	13,751	18,857	24,073
Growth (%)	47.1	26.8	37.1	27.7
EBITDA	862	1,824	4,001	6,233
Growth (%)	NA	111.6	119.4	55.8
Depreciation & amortisation	3,043	3,577	4,128	4,250
EBIT	(2,181)	(1,752)	(127)	1,983
Growth (%)	NA	NA	NA	NA
Interest	485	505	505	395
Other income	53	69	94	120
EBT	(2,612)	(2,189)	(538)	1,709
Income taxes	-	-	-	-
Effective tax rate (%)	-	-	-	-
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	(2,612)	(2,189)	(538)	1,709
Adjustments	-	-	-	-
Adjusted net income	(2,612)	(2,189)	(538)	1,709
Growth (%)	NA	NA	NA	NA
Shares outstanding (mn)	1,062.1	1,062.1	1,062.1	1,062.1
FDEPS (Rs) (adj)	(2.5)	(2.1)	(0.5)	1.6
Growth (%)	NA	NA	NA	NA
DPS (Rs)	-	-	-	-

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	431	1,388	3,591	5,959
Non-cash adjustments	388	-	-	-
Changes in working capital	(1,951)	1,314	3,118	2,420
Cash flow from operations	(1,132)	2,702	6,709	8,379
Capital expenditure	(2,032)	(7,683)	(7,405)	(7,125)
Change in investments	(2,506)	1,500	1,006	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(4,538)	(6,183)	(6,399)	(7,125)
Issue of equity	12,606	-	-	-
Issue/repay debt	(2,314)	-	-	(2,000)
Dividends paid	(6)	(8)	(11)	(13)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	4,617	(3,489)	299	(759)
Closing cash & cash eq	5,321	1,832	2,132	1,373

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	13.5	13.5	13.5	13.5
ROIC (%)	(12.7)	(8.0)	(0.5)	8.7
Invested capital (Rs mn)	20,156	23,692	23,423	22,210
EVA (Rs mn)	(5,276)	(5,092)	(3,288)	(1,068)
EVA spread (%)	(26.2)	(21.5)	(14.0)	(4.8)

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	5,422	942	1,242	483
Accounts receivable	338	523	660	722
Inventories	28	41	57	72
Other current assets	8,045	11,545	11,545	11,545
Investments	2,506	1,006	-	-
Gross fixed assets	16,228	24,128	31,728	39,028
Net fixed assets	9,842	14,165	17,637	20,686
CWIP	2,165	1,949	1,754	1,579
Intangible assets	394	394	394	394
Deferred tax assets, net	-	-	-	-
Other assets	12,342	14,530	15,068	13,359
Total assets	41,083	45,096	48,356	48,841
Accounts payable	890	898	898	898
Other current liabilities	14,614	18,674	21,904	24,361
Provisions	56	110	151	193
Debt funds	9,178	9,178	9,178	7,178
Other liabilities	-	-	-	-
Equity capital	1,062	1,062	1,062	1,062
Reserves & surplus	15,282	15,174	15,163	15,150
Shareholder's funds	16,344	16,236	16,226	16,212
Total liabilities	41,083	45,096	48,356	48,841
BVPS (Rs)	15.4	15.3	15.3	15.3

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	7.9	13.3	21.2	25.9
EBIT margin	(20.1)	(12.7)	(0.7)	8.2
Net profit margin	(24.1)	(15.9)	(2.9)	7.1
ROE	(26.4)	(13.4)	(3.3)	10.5
ROCE	(10.5)	(6.6)	(0.1)	8.6
Working Capital & Liquidity ratios				
Receivables (days)	15	11	11	10
Inventory (days)	1	1	1	1
Payables (days)	-	-	-	-
Current ratio (x)	0.9	0.7	0.6	0.5
Quick ratio (x)	0.4	0.1	0.1	0.1
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.7	0.7	0.7
Total asset turnover	0.3	0.3	0.4	0.5
Interest coverage ratio	(4.5)	(3.5)	(0.3)	5.0
Adjusted debt/equity	0.6	0.6	0.6	0.4
Valuation ratios (x)				
EV/Sales	6.2	4.9	3.6	2.8
EV/EBITDA	78.3	37.0	16.9	10.8
P/E	NM	NM	NM	37.3
P/BV	3.9	3.9	3.9	3.9



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	2,775	3,031	3,043	3,261	3,732
YoY growth (%)	43.9	46.4	23.4	26.7	34.5
QoQ growth (%)	(8.5)	9.3	0.4	7.2	14.4
EBITDA (Rs mn)	134	349	322	498	667
EBITDA margin (%)	4.8	11.5	10.6	15.3	17.9
Adj net income (Rs mn)	(762)	(598)	(632)	(452)	(443)
YoY growth (%)	NA	NA	NA	NA	NA
QoQ growth (%)	NA	NA	NA	NA	NA

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	100.1	100.0	100.0	100.0	100.0
Interest burden (PBT/EBIT)	135.7	119.8	124.9	423.1	86.2
EBIT margin (EBIT/Revenues)	(47.5)	(20.1)	(12.7)	(0.7)	8.2
Asset turnover (Revenues/Avg TA)	30.1	29.9	31.6	39.6	48.6
Leverage (Avg TA/Avg equitiy)	1,252.3	365.4	267.2	293.4	305.1
Return on equity	(243.7)	(26.4)	(13.4)	(3.3)	10.5

Company profile

Dish TV India Ltd. is India's largest and first direct-to-home (DTH) company. It is engaged in DTH satellite television service, which includes teleport service, transponder space leasing and customer support. Dish TV has currently, on its platform, around 250 channels and services including 21 audio channels with over 8MM subscribers. It has a distribution network of about 1400 distributors and 55,000 dealers spread across 6600 towns in the country.

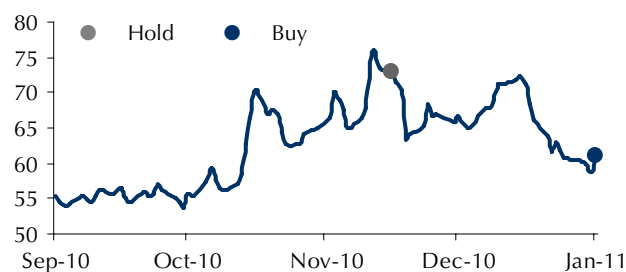
Shareholding pattern

(%)	Mar-10	Jun-10	Sep-10
Promoters	64.8	64.8	64.8
FIs	17.0	17.0	19.4
Banks & FIs	5.8	6.8	6.1
Public	12.4	11.4	9.7

Recommendation history

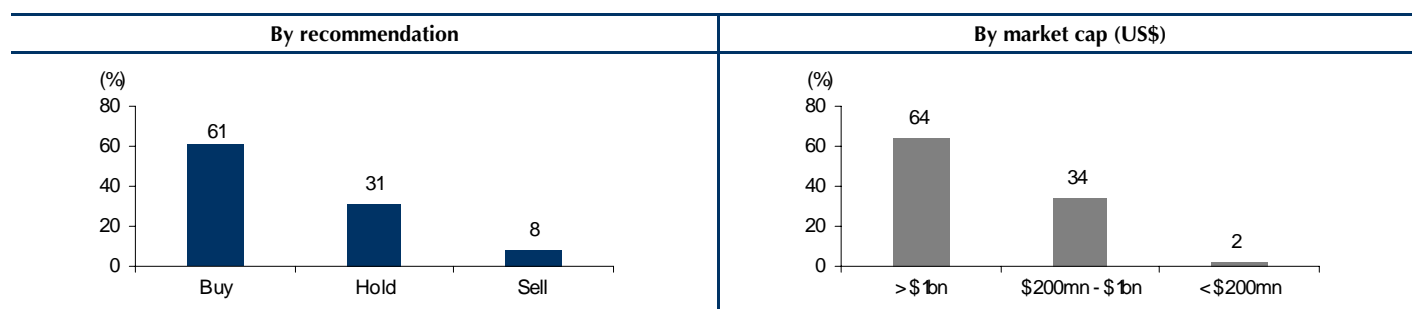
Date	Event	Reco price	Tgt price	Reco
7-Dec-10	Initiating Coverage	73	75	Hold
21-Jan-11	Results Review	61	75	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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