July 23, 2010

Dish TV (DISHTV)

Rs 46

Rating matrix

Rating	:	**Buy**
Target	:	Rs 53
Target Period	:	12 months
Potential Upside	:	15%

Key Financials

(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	738.1	1084.8	1350.4	1712.9
EBITDA	-123.3	86.2	227.7	380.7
Net Profit	-480.7	-261.3	-157.4	-73.2
EPS (Rs)	-7.0	-2.5	-1.5	-0.7

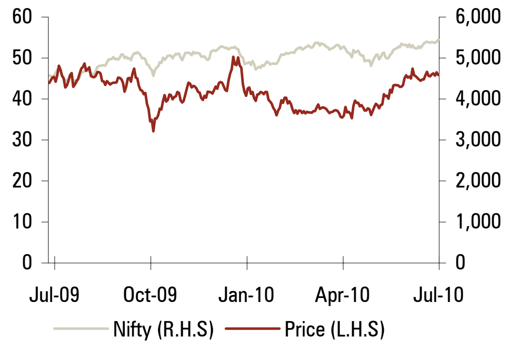
Valuation summary

	FY09	FY10E	FY11E	FY12E
PE (x)	NA	NA	NA	NA
EV/Sales (x)	5.7	4.3	3.2	2.5
EV/EBITDA (x)	-34.0	54.6	19.0	11.1
P/BV (x)	9.0	3.2	2.5	2.5
RoNW (%)	NA	-17.2	-8.1	-3.8
RoCE (%)	NA	-9.0	-4.3	-1.0

Stock data

Market Capitalization	Rs 4822.6 Crore
Debt-Cons. (FY09)	Rs 1149.2 Crore
Cash & Invst.-Cons. (FY09)	Rs 80.5 Crore
EV	Rs 4185.5 Crore
52 week H/L	54 / 31
Equity capital	Rs 106.3 Crore
Face value	Rs 1
MF Holding (%)	6.8
FII Holding (%)	5.7

Price movement



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WHAT'S CHANGED...

PRICE TARGET .... Changed from Rs 50 to Rs 53
EPS (FY11E) .... Changed from Rs -1.9 to Rs -1.5
EPS (FY12E) .... Unchanged
RATING.. Changed from STRONG BUY to BUY

Riding high on football fever...

Dish TV reported its Q1FY11 consolidated results, which were slightly below our expectations. The company reported a topline of Rs 304.3 crore against our expectation of Rs 319 crore, growing 23.4% YoY while it remained flat sequentially due to the transfer of non-DTH related business to Integrated Subscriber Management Services Ltd (ISMSL). EBITDA margin for the quarter at 10.6% improved 469 bps YoY and declined 93 bps QoQ on higher promotional expenses, which increased 29.8% QoQ due to launch of HD services. Net loss for the quarter was at Rs 63.2 crore as compared to Rs 59.8 crore in the last quarter, primarily due to higher operational cost and one-time fees on new credit window.

- **Highlights for the quarter**

  DTH revenues for the quarter grew 8.1% QoQ to Rs 294.0 crore. Dish TV added 0.64 million subscribers against 0.44 million each in Q4FY10 and Q1FY10 on the back of high demand during the Fifa World Cup while the churn rate for the quarter stood at 0.7%. The company continues to lead the market with ~33% share. ARPU for the quarter at Rs 139 was marginally up QoQ. EBITDA margin declined on the back of higher advertisement and promotional expenses, attributed to the launch of DTH on high definition (HD) platform. However, the subscriber acquisition cost declined to Rs 2147 from Rs 2383 and administrative expense was down as well. Interest cost was up by Rs 2.7 crore to Rs 13.35 crore due to one-time fee paid towards a new credit window from a bank.

Valuation

Low penetration and high demand for digital TV augur well for the growth of the company. Assuming revenue CAGR of 16.8% over FY11E–FY20E and terminal growth of 4% thereon, we have arrived at a target price of Rs 53/share. The stock is currently trading at Rs 46. Our target price implies an upside potential of 15%. Due to the recent run up in the stock we have changed our rating on the stock from STRONG BUY to **BUY**.

Exhibit 1: Valuation Metrics

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	304.3	319.0	246.7	303.1	0.4	23.4
EBITDA	32.2	49.9	14.5	34.9	-7.8	121.8
EBITDA Margin (%)	10.6	15.6	5.9	11.5	-93 bps	469 bps
Depreciation	88.9	86.9	68.9	84.6	5.1	29.0
Interest	13.3	13.5	20.2	10.6	25.7	-33.9
Reported PAT	-63.2	-48.5	-69.2	-59.8	5.7	-8.7
EPS (Rs)	-0.6	-0.5	-1.0	-0.9	-31.7	-41.0

Source: Company, ICICIdirect.com Research

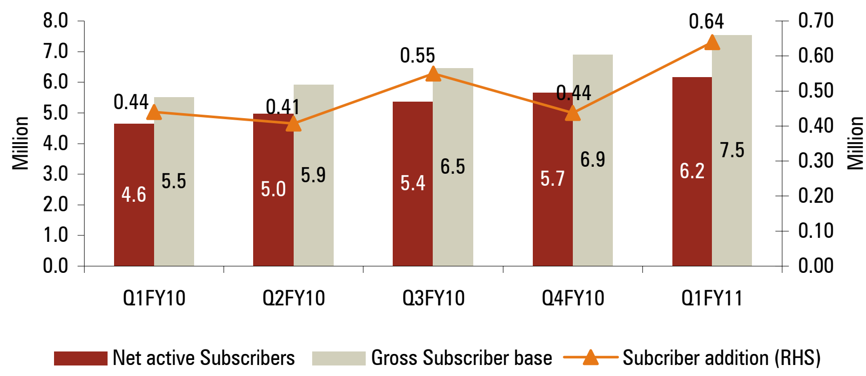
Dish TV added 0.64 million subscribers during Q1FY11 as compared to 0.44 million each in Q1FY10 and Q4FY10, on the back of higher demand during the Fifa World Cup

Result Analysis

- **Key metrics – heading northwards**

Dish TV added 0.64 million subscribers during Q1FY11 as compared to 0.44 million each in Q1FY10 and Q4FY10, on the back of higher demand during the Fifa World Cup. The impending festive season coupled with sporting events in the coming quarters would lead to higher subscriber additions at a sustained level. We expect the company to add 2.1 million subscribers for the current fiscal.

Exhibit 2: Subscriber details



Source: Company, ICICIdirect.com Research

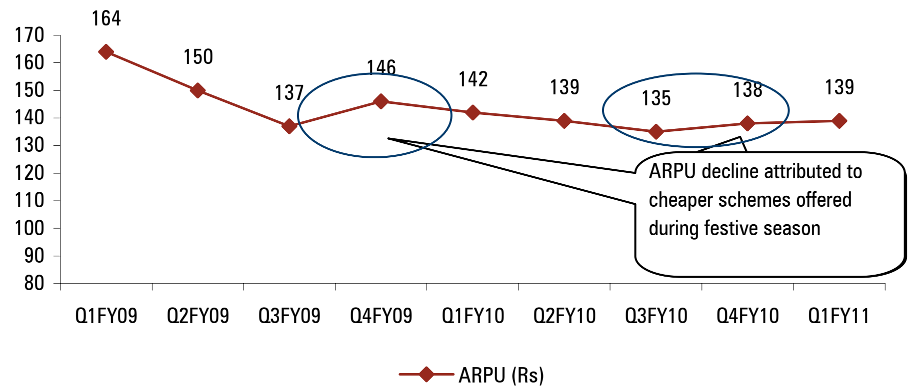
The ARPU during the quarter was marginally up to Rs 139 crore partly on the back of the launch of HD services. The company reported a reverse churn in this quarter and higher renewals due to the sporting season. This aided the growth in renewal ARPU. Renewal ARPU improved to Rs 172 from Rs 162 in Q4FY10

ARPU trend

The ARPU during the quarter was marginally up to Rs 139 crore partly on the back of the launch of HD services. The company reported a reverse churn in this quarter and higher renewals due to the sporting season. This aided the growth in renewal ARPU. Renewal ARPU improved to Rs 172 from Rs 162 in Q4FY10.

Increased VAS usage and higher additions on the HD platform would support ARPU, going forward. We expect the ARPU to stabilise at the current levels in the near term. However, in the medium to long term, we think it is likely that ARPUs may pick up. The management is expecting the ARPU to be at Rs 152 by the end of FY11E.

Exhibit 3: ARPU trend



Source: Company, ICICIdirect.com Research

Outlook & Valuations

Outlook

Dish TV remains the market leader with a market share of ~33%. The company has also launched HD services during the quarter. The high end HD services are expected to support the ARPU in the short-term despite the prevailing intense competition.

Dish TV reported better-than-expected subscriber additions in Q1FY11. Strong subscriber addition of 0.64 million and QoQ increase in ARPU led to an 8.1% increase in DTH revenues. Dish TV remains the market leader with a market share of ~33%. The company has also launched HD services during the quarter. The high-end HD services are expected to support the ARPU in the short-term despite the prevailing intense competition. The upcoming festive season and sporting events in the coming quarters would drive higher subscriber addition. We expect the company to maintain its leadership position in the DTH industry. The management is expecting the ARPU to be at Rs 152 by the end of FY11E. With the continuous declining content cost and improving operating efficiency we expect the EBITDA margin to improve in the coming quarters.

DTH penetration is still at lower levels as compared to total cable TV households (HHs). The current penetration level stands at 24.4% DTH HHs to Pay TV HHs. This leaves a huge head room for the company to expand. We believe rapidly increasing penetration and higher acceptability of digital platform augur well for the growth of the DTH industry, going forward. The company raised close to Rs 1615 crore in the last fiscal. We believe with the funding in place and with the first mover advantage, the company is poised for robust growth.

Trai has issued new guidelines for DTH players that will come into existence from September 2010. It has put a minimum cap of Rs 150 on ARPU and ordered DTH operators to allow customers to choose only those channels that they want to watch. Secondly, it has said that no operator can increase the charges of subscription package for a minimum of six months from the date of enrolment of subscriber. The silver lining for the DTH operators is that Trai has also reduced the maximum amount broadcasters can charge from DTH operators.

The minimum cap of Rs 150 on ARPU would help incumbent players to retain their subscriber base while the lower fixed content fees would help them to improve their margins. However, the a la carte option for all channels is likely to add to technical and administrative cost. Moreover, the fixed fee prescribed by the regulator seems to be too low. The broadcasters may be unable to match the same. Both DTH players as well as broadcasters are in discussions with Trai regarding the guidelines. The final order may be somewhat different from these guidelines.

Valuation

DCF-based target price of Rs 50/share

Low penetration and high demand for digital TV augur well for the growth of the company, going forward. With funding in place, Dish TV is well poised to capitalise on this growth opportunity. Assuming revenue CAGR of 16.8% over FY11E–FY20E and terminal growth of 4% thereon we have arrived at a target price of Rs 53/share.

The stock is currently trading at Rs 46. Our target price implies an upside potential of 15%. Due to the recent run up in the stock we have changed our rating on the stock from STRONG BUY to **BUY**.

Exhibit 4: DCF assumptions

Rs in Crore	
WACC	12.9%
Revenue CAGR over FY11E-20E	16.8%
Present Value of Cash Flow till FY20E	2,486.4
Terminal Growth	4.0%
Present Value of terminal cash flow	4,330.8
PV of firm	6,817.2
Less: Current Debt	1,149.2
Total present value of the Equity	5,668.0
Number of Equity Shares outstanding (Cr)	106.3
DCF - Target price (Rs)	**53**

Source: Company, ICICIdirect.com Research

Exhibit 5: Valuation table

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	738.1	78.60	-7.0	27.42	NA	-33.95	NA	NA
FY10	1084.8	47.0	-2.5	74.6	NA	54.6	-17.2	-9.0
FY11E	1350.4	24.5	-1.5	39.8	NA	19.0	-8.1	-4.3
FY12E	1712.9	26.8	-0.7	53.5	NA	11.1	-3.8	-1.0

Source: Company, ICICIdirect.com Research

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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