

Shareholding (%)	Dec-06
Promoters	67
FII's	19
MFs / UTI	9
Others	5

# Dish TV India Ltd

BUY at Rs.120

Poised for Growth

## Summary

Y/E Mar	2006	2007E	2008E	2009E	2010E	2011E
Dish TV Revenue's (USD mn)	18	40	154	276	448	696
Change YoY (%)	-	120	290	79	62	55
Net Subscribers (HH mn)	0.9	1.7	2.7	4.0	5.4	7.1
Effective ARPU (Rs.)	170	210	250	295	350	410

Source: ENAM estimates

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# Investment summary

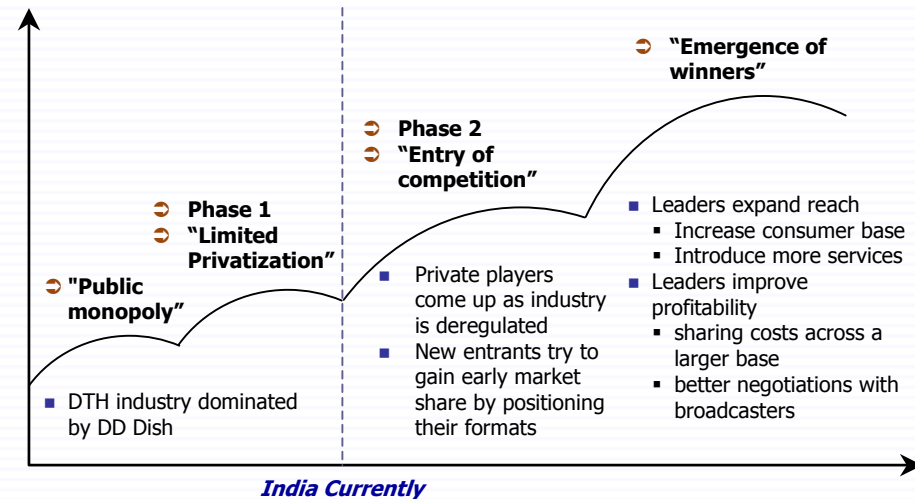
- **Aggressive growth plans**
  - Post restructuring, the management has aggressive subscriber addition plans for its DTH service. Dish TV is targeting 8mn subscribers and revenue of Rs. 31bn by 2011, and a cash breakeven by FY09
- **Large opportunity canvas**
  - DTH subscribers in India are expected to grow at ~91% CAGR, from 2.3mn currently to 30.6mn by 2011, translating into a USD 3.0-3.3 bn industry
- **Dish TV: Ahead of the pack**
  - With a net subscriber base of 1.7 mn, and weekly additions of 25,000 subs, Dish TV has a significant time to market advantage
  - Proactive content tie-ups and lower operating costs give Dish a significant cost advantage over competitors
  - Rich promoter pedigree and brand salience
- **Risks to call:**
  - Increased competition could lead to predatory pricing and value destruction. The presence of 5 prominent players in is expected to lead to both increased subsidies and higher customer acquisition costs.
- **Valuations**
  - At our base case assumption of 7.1mn subs, APRU of Rs. 410, Dish will have Revenues of USD 696mn and EBITDA of USD 167mn in 2011
  - At a 12-14x EV/ EBITDA, and a 20% discount rate we believe the current value is between USD 1.2-1.4bn. Initiating coverage on the stock. **Buy at Rs.120**

## Dish TV: Driving the DTH growth in India

Y/E Mar	2006	2011E	CAGR (%)
No. of TV HHs (mn)	108	151	7
No. of C&S HHs (mn)	62	110	12
No. of DTH Subs, excl. FTA (mn)	0.9	30.6	102
ARPU (Rs.)	170	410	25
<b>Dish TV</b>			
- Subscribers (mn)	0.9	7.1	51
- Sales (USD mn)	18	696	108
- EBITDA (USD mn)	(16)	167	-

Source: Company, ENAM Research

## Phases of Private DTH Development

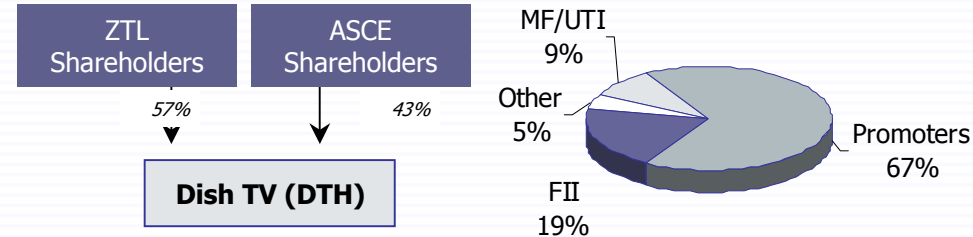


Source: ENAM Research

# Company background

- ➔ **India's first private DTH provider**
  - First private company to start DTH broadcast operations in India
  - Its current subscriber base of 1.7 million also makes it India's largest private DTH provider
  
- ➔ **Superior service offerings**
  - Digital quality transmission and value added services give Dish an edge over competing technologies
  - Attractive options at reasonable rates for consumers through proactive content tie-ups
  - State of the art infrastructure and large distribution network increase customer access
  
- ➔ **Rich promoter pedigree**
  - Promoter group company Zee TV, is India largest vertically integrated media and entertainment company
  
- ➔ **On a high growth trajectory**
  - With 7.1mn subscribers in 2011, Dish TV will account for 22-24% of the Indian DTH market
  - Revenues expected to grow at CAGR of 108% from USD18mn in 2006 to USD696mn in 2011

## Share holding pattern



Source: Company, ENAM Research

## Dish TV: Extensive channel offerings

<b>Movies</b> Zee Cinema Max Star Gold	<b>Music</b> Zee Music ETC Music B4U Music MTV Music MH1 Music Balle Balle VH1 Trace TV Channel V	<b>English Entertainment</b> ABC Asiapac Zoom Zone Reality AXN Zee Cafe Travel & Living Star World
<b>Kids</b> Cartoon Network Pogo Animax Nick Boomerang Toon Disney Disney Channel Hungama	<b>Religious</b> Zee Jagran Aastha GOD TV Sanskar	<b>Regional Entertainment</b> ETC Punjabi ARY Digital India NE TV N TV SS Music Jaya TV AsiaNet Akash Bangla ETV Marathi Kairali
<b>Infotainment</b> Animal Planet Discovery National Geographic The History Channel	<b>International</b> TV5 Asia (French)	<b>English Movies</b> HBO Zee Studio TCM PIX
<b>News</b> Zee News Aaj Tak CNN Headlines Today Total TV BBC Euro News Zee Business CNN Aawaz CNBC TV 18 NDTV 24X7 Star News Times Now	<b>Sports</b> ESPN Star Sports Zee Sports Ten Sports	<b>Break - Free Hindi Movies</b> Zee Premier Zee Action Zee Classic
	<b>Fashion</b> Zee Trendz Fashion TV	<b>MGM</b> Star Movies
	<b>Hindi Entertainment</b> Zee Smile Siti Channel Play TV Sab Star Utsav	<b>Other regional channels</b>

Source: Company



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# **Industry Evaluation**

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# DTH landscape: 2011

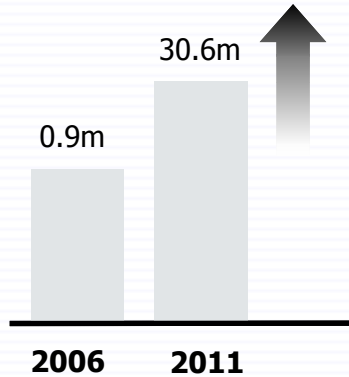
Y/E Mar	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
<b>HHs in India (mn)</b>	<b>210</b>	<b>215</b>	<b>221</b>	<b>226</b>	<b>232</b>	<b>238</b>	<b>244</b>	<b>250</b>	<b>256</b>	<b>262</b>
Growth Rate (%)	-	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<b>TV HHs (mn)</b>	<b>108</b>	<b>117</b>	<b>125</b>	<b>134</b>	<b>143</b>	<b>151</b>	<b>161</b>	<b>170</b>	<b>179</b>	<b>188</b>
Growth Rate %	-	8.0	7.5	7.0	6.5	6.0	6.0	6.0	5.0	5.0
TV penetration in India	51	54	57	59	62	64	66	68	70	72
<b>HHs with only Terrestrial TV (mn)</b>	<b>46</b>	<b>49</b>	<b>48</b>	<b>44</b>	<b>43</b>	<b>42</b>	<b>41</b>	<b>39</b>	<b>34</b>	<b>29</b>
<b>C&amp;S HHs (Mn)</b>	<b>62</b>	<b>68</b>	<b>77</b>	<b>90</b>	<b>100</b>	<b>110</b>	<b>120</b>	<b>131</b>	<b>145</b>	<b>159</b>
Growth rate %	-	10.0	13.6	16.9	10.3	10.1	9.3	9.0	10.6	9.9
C&S penetration in TV HH	57	58	62	67	70	72	75	77	81	85
Multiple TV HHs	-	-	1	2	4	7	10	13	17	22
Additional TV sets in DTH	-	-	-	1	2	3	5	7	9	11
<b>Analogue Cable HHs (mn)</b>	<b>61</b>	<b>64</b>	<b>67</b>	<b>66</b>	<b>60</b>	<b>54</b>	<b>48</b>	<b>40</b>	<b>36</b>	<b>31</b>
Growth Rate %	-	5.0	5.0	-2.0	-9.0	-10.0	-12.0	-15.0	-12.0	-12.0
Penetration in C&S HH	99	94	87	73	60	49	40	31	25	20
<b>DTH Subs, excl. FTA (mn)</b>	<b>0.9</b>	<b>2.4</b>	<b>5.3</b>	<b>12.6</b>	<b>21.0</b>	<b>30.6</b>	<b>40.1</b>	<b>50.8</b>	<b>61.4</b>	<b>72.1</b>
Penetration as % TV HHs in India	0.9	2.1	4.2	9.4	14.7	20.2	25.0	29.8	34.4	38.4
Growth of DTH Subs	-	206.2	115.3	138.2	66.8	45.8	31.3	26.6	20.9	17.5

Source: Industry

**DTH subscribers, in India, is expected to grow at a CAGR of ~91% from 2.3 mn subs currently to 30.6mn subs in 2011**

# What this means for the industry

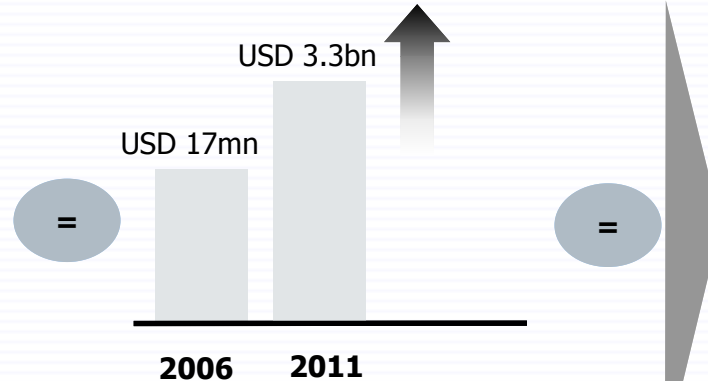
## Subscriber no. rises



**DTH Subs. will rise from .9mn in 2006 to 30.6mn by 2011**

- A ten-fold increase in subscriber base expected over the next 5 years
- Private DTH to account for 18% of India's TV HH's

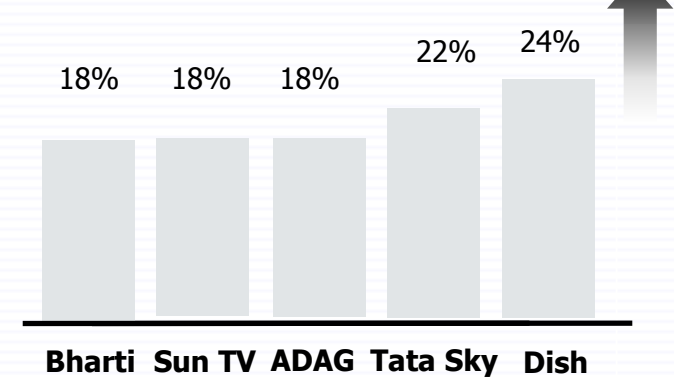
## .. Industry revenue rises faster



**Sector revenues will increase multi fold to USD. 3.3bn**

- Global DTH operators trade at 12-14 x EV/ EBITDA multiple
- On similar EV/ EBITDA multiples of 12x-14x, industry EV will touch ~ USD10bn in 2011

## ...and gallops for the industry



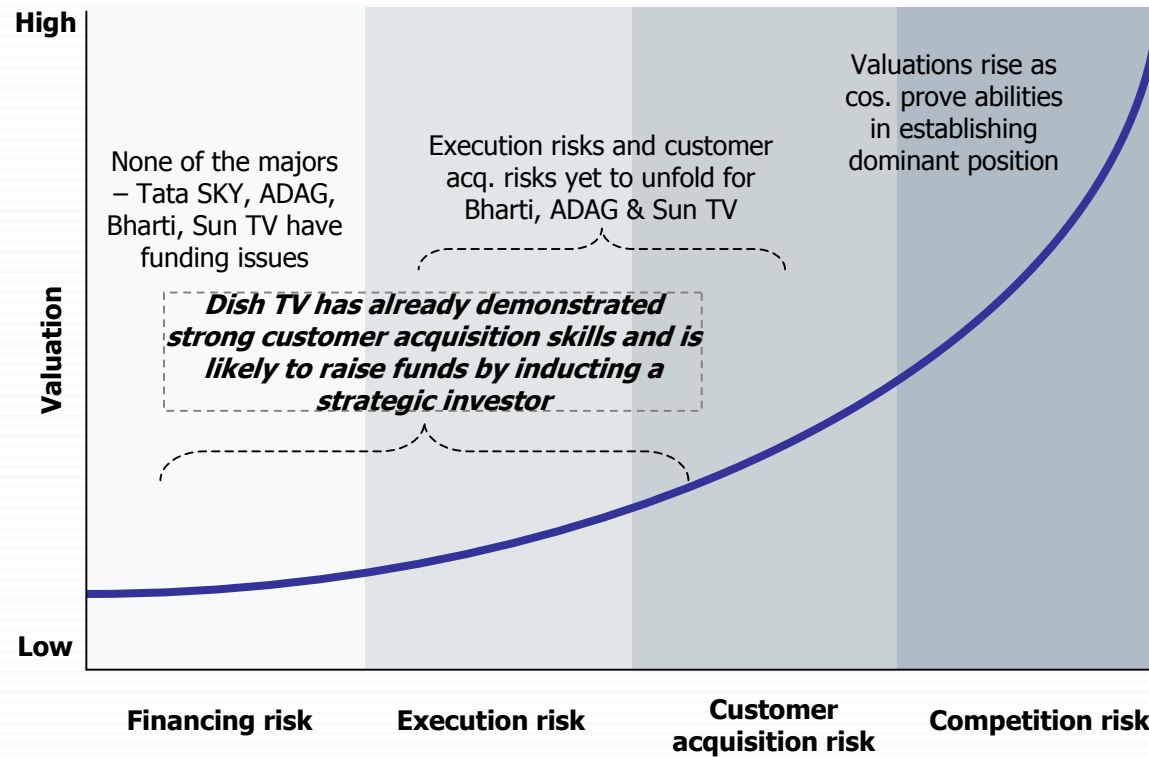
**~ USD 9.5-10bn in EV will be added to the DTH industry**

- Assuming Dish retains 24% of the DTH market in 2011, Tata Sky has 22% and ADAG/ Sun TV/ Bharti succeed in garnering the remaining 54% - the market cap gains would be highly attractive especially for the top 2 players

**USD 9.6bn in EV to be added to the top 5 players over the next 5 years**



# Competitive scenario



**While Dish TV is the largest player with ~1.7 mn subscribers, Tata SKY is currently at ~0.5mn subs. Sun TV is expected to launch in CY07, while ADAG & Bharti have only recently received their DTH licenses and are expected to start operations in CY08**



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# **Dish TV: Gaining Momentum**

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# Raising the entry barriers

## ➤ Targeting critical mass

- Dish TV targets to retain ~26% of the DTH market by 2011
- With a current subscriber base of 1.7 mn, and weekly additions of 25,000 subs, Dish TV has built a significant time to advantage over competitors

## ➤ Aggressive content tie-ups at attractive rates

- Dish TV currently offers 160 channels and is the only player to have content tie-ups with all major broadcasters
- Lower content costs, driven by a rapidly increasing customer base and intense bargaining, give Dish a significant cost advantage over competitors

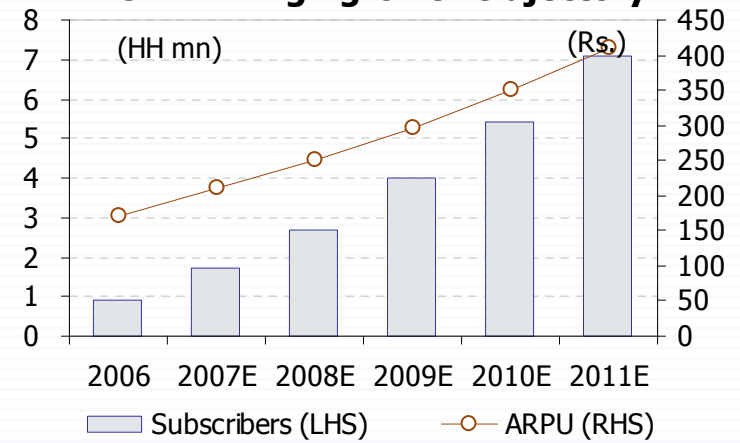
## ➤ Increased brand proliferation

- Dish TV intends to create high brand salience by leveraging its rich promoter background and a pan-India distribution network

## ➤ Scale economies will kick in

- Maximizing subscriber base will lead to lower per sub operating costs and increased profitability for Dish TV

**Dish TV: High growth trajectory**



Source: ENAM Research

## Key cost centres

Cost Overhead	%	Factors Impacting	Controllable/ Uncontrollable
Content Costs	50	Increased sub. base	Controllable
Marketing Costs	10-12	Competition	Uncontrollable

Source: ENAM Research

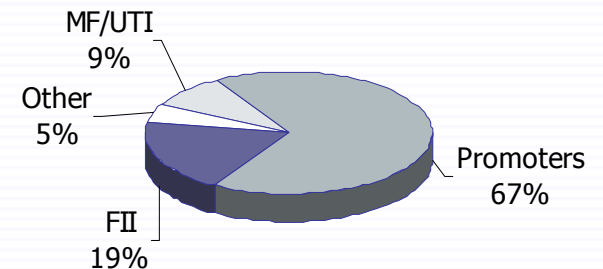
# Funding the growth

		(Rs. mn)
<b>Current Balance Sheet</b>	Total Capital Employed	3,029
	Total Debt	905
<b>Capex envisaged</b>	Gross Block @ Rs. 2500/ sub.	~ 12,500
	<b>Total funds required</b>	<b>~ 12,500</b>
<b>Funds available</b>	Customer Payments on Set Top Boxes	~ 2,500
	<b>Total funds available</b>	<b>~ 2,500</b>
<b>Investment Needed</b>		<b>~ 10,000</b>

Source: ENAM Estimates

- Since the company will be in the investment phase in FY07, we expect cash break even only in FY09
- To achieve its aggressive growth plans, Dish TV would need to raise an additional ~ Rs.10.0bn.
- Among other alternatives, Dish TV is considering the induction of a strategic partner post listing, to fund the capex over the next 2 years

## Share holding pattern



Source: Company

# Management evaluation

## ➤ Capable management with sound execution capabilities

- The Zee group is the largest media and entertainment company in India, with revenues of approximately US\$ 300 mn in FY2006 and a market cap of USD 3.0bn

## ➤ Experienced and well respected Heads of Business

- Mr. Subhash Chandra and Mr. Jawahar Goel are pioneers of the Direct to home (DTH) services in India, and have been instrumental in establishing DishTV as a prominent brand. Going forward, we believe they would play a vital role in the company’s successful growth.

### Key Management Team



# Past financials

## Income statement

Rs. (mn)	FY2006	9m FY2007E
Operating revenues	315	1,250
Expenditure	1,144	2,460
<b>Operating Income</b>	<b>(829)</b>	<b>(1,210)</b>
Add: Other Income	-	25
Depreciation	28	285
Finance Expenses	17	40
<b>PBT before exceptional items</b>	<b>(875)</b>	<b>(1,510)</b>
Less: Exceptional Item	1203	-
Less: Prior Period Adjustments	0.3	-
Less: Provision for Tax	0.3	5
<b>Profit After tax</b>	<b>(2079)</b>	<b>(1,515)</b>
Operating Profit margin (%)	(263)	(97)

## B/S Details

Rs. (mn)	As of December 31, 2006 (Est.)
Share Capital - Equity	428
Share Capital - Preference	-
Reserves & Surplus	1,700
Deferred Tax liabilities	-
Minority Interest	-
Loan Funds	897
<b>Capital employed</b>	<b>3,025</b>
Fixed Assets	6,385
Investments	965
Net Current Assets	(5,835)
Deferred tax Assets	-
Misc. Expenditure not w/o	-
Profits & Loss a/c	1,510
<b>Capital Deployed</b>	<b>3,025</b>

Source: ENAM Estimates

# International peer comparison

(USD mn)	British Sky Broadcasting	Echostar Communication	Astro All Asia Networks
<b>Price (USD)</b>	<b>11</b>	<b>43</b>	<b>1</b>
<b>Market Cap</b>	<b>18,952</b>	<b>19,169</b>	<b>2,719</b>
<b>Sales</b>			
2006	7,373	9,609	544
2007E	8,748	11,020	550
2008E	9,362	11,996	642
<b>EBIDTA</b>			
2006	1,797	2,415	115
2007E	1,877	2,952	114
2008E	2,025	3,350	154
<b>PAT</b>			
2006	979	638	56
2007E	944	876	59
2008E	1,039	1,065	80

(x)	British Sky Broadcasting	Echostar Communication	Astro All Asia Networks
<b>P/E (x)</b>			
2006	20.1	29.4	48.5
2007E	19.9	21.9	46.9
2008E	18.7	17.2	32.7
<b>EV/EBIDTA (x)</b>			
2006	12.7	9.6	21.2
2007E	12.1	7.8	21.4
2008E	11.2	6.9	15.9
<b>Mcap/ Sales (x)</b>			
2006	2.6	2.0	5.0
2007E	2.2	1.7	4.9
2008E	2.0	1.6	4.2

Source: Bloomberg

# Valuation

Y/E 2006	2006	2007E	2008E	2009E	2010E	2011E
<b>No. of DTH Subs, excl. FTA (mn)</b>	<b>0.9</b>	<b>2.4</b>	<b>5.3</b>	<b>12.6</b>	<b>21.0</b>	<b>30.6</b>
India	0.9	2.1	4.2	9.4	14.7	20.2
HHs	-	206.2	115.3	138.2	66.8	45.8
<b>Dish TV Subs (mn)</b>	<b>0.9</b>	<b>1.7</b>	<b>2.7</b>	<b>4.0</b>	<b>5.4</b>	<b>7.1</b>
<b>Dish TV Market Share (%)</b>	<b>100</b>	<b>71</b>	<b>51</b>	<b>32</b>	<b>26</b>	<b>23</b>
<b>Dish TV Revenue's (USD mn)</b>	<b>18</b>	<b>40</b>	<b>153</b>	<b>275</b>	<b>448</b>	<b>696</b>

## Pvt. DTH market in India in 2011

ARPU in 2011 (assuming a CAGR of 18%)

~ USD 3.3bn

Rs 410/ month

### Revenue 2011

(USD mn)	Subscribers (mn)				
	6	6.5	7.1	7.6	8
<b>370</b>	570	595	625	650	670
<b>390</b>	601	628	659	685	706
<b>410</b>	632	660	696	721	743
<b>430</b>	663	692	727	756	779
<b>450</b>	694	724	760	791	815

### Revenue in 2011 from Dish TV (USD mn)

**696**

EBITDA @ 24% 167

EV - @ 12X EV/ EBITDA (USD bn) ~ 2

Present Value @ 20 CAGR (USD bn) **1.2**

**Value per Dish TV share (Rs.) 120**

## International valuation benchmarks

(USD mn)	British Sky Broadcasting	Echostar Communication	Astro All Asia Networks
<b>Price (USD)</b>	<b>11</b>	<b>43</b>	<b>1</b>
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2008E	11.2	6.9	15.9
<b>Mcap/ Sales (x)</b>			
2006	2.6	2.0	5.0
2007E	2.2	1.7	4.9
2008E	2.0	1.6	4.2

Source: Bloomberg



# Risks to Call

- **Increased competition could lead to predatory pricing and value destruction**
  - Considering the industry's huge growth potential, new players are likely to enter the market. Groups such as Reliance ADAG, Bharti and Sun TV. have already expressed a keenness to start DTH operations in India. While we expect the increasing competition to negatively impact the level of STB subsidies we believe entry of prominent players will lead to increased distribution and a much faster pace of net additions.
  
- **Alternative technologies could slow down the off take of DTH in India**
  - A major challenge for the DTH industry is to ensure that it gets a sizeable share of the C&S households. Increased competition from existing technologies like digital cable and from emerging technologies like IPTV could slow down the growth of DTH in India
  
- **Execution risk**
  - Dish TV plans to scale up from a current subscriber base of 1.7 mn to 8 mn by 2011. High growth at a CAGR of 47%, will throw up several challenges. While we are confident of the management's execution capabilities, we will watch this space carefully

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