

Dish TV

Rs39
NEUTRAL

RESULT NOTE

Mkt Cap: Rs36.9bn; US \$787m

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Result: **Q2FY10**

Comment: **Upping the ARPU – key monitorable!**

Key valuation metrics

Year to 31 March (Rs m)	Net Sales	% change yoy	Net Profit	% change yoy	EPS (Rs)	% change yoy	PER (x)	E/EBITDA
FY08	4,133	117	(4,132)	n/a	(9.7)	n/a	n/a	n/a
FY09	7,383	79	(4,809)	n/a	(5.1)	n/a	n/a	(23.3)
FY10E	11,525	56	(2,096)	n/a	(2.2)	n/a	n/a	38.7
FY11E	15,274	33	(1,098)	n/a	(1.2)	n/a	n/a	13.4

KEY HIGHLIGHTS OF Q2FY10 RESULTS AND POST RESULTS CONFERENCE CALL

- In Q2FY10, Dish TV has reported a revenue growth of 4.3%qoq at Rs2.57bn (estimates of Rs2.68bn), EBITDA of Rs229m (estimates of Rs186m) and net loss of Rs561m (estimates of Rs629m of losses).
- Of the total Rs2.57bn revenues, ~Rs2.4bn is from subscriber revenues and rental revenues, Rs40m is on account of carriage fees and Rs35m is from teleport services.
- Dish TV has during the quarter added 0.41m subscribers (0.44m in Q1FY10) on gross basis to 5.92m. However, net subscriber addition stood at 0.33m over Q1FY10 at 4.98m. Churn rate during the quarter stood at ~0.5% per month.
- Dish TV now accounts for 38% of the rapidly growing DTH market and accounts for 22% of the incremental market addition
- We are negatively surprised by the drop in ARPU – down from Rs142 per month in Q1FY10 to Rs139 per month in Q2FY10.
- Programming cost during the quarter has increased from Rs1.07bn in Q1FY10 to Rs1.13bn in Q2FY10 (up from 43% of revenues to 44%).
- Dish TV has cut down its advertising and commission cost during the quarter from Rs468m in Q1FY10 to Rs408m in Q2FY10.
- Dish TV's average subscriber acquisition cost during the quarter stood at ~Rs2500 (from ~Rs2600 in Q1FY10).
- Interest cost during the quarter stood at Rs66m (net of Rs189.7m of interest income) with total debt on books of Rs9bn (including Rs2.5bn of group debt).
- Of the Rs11.4bn raised through the rights issue, Rs3.1bn was received at the time of application. During the quarter, the board has made the first call for money of Rs8 per share - total of Rs4.2bn. Remaining Rs4.2bn would be called for by July 2010.

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- Dish TV board has approved fund raise to the tune of USD150m through FCCB route

Television distribution landscape is changing at a rapid pace. Adequately capitalized and non-regulated DTH market drove the first round of digitization of television distribution and is already a 14m subscribers market (digital cable is ~3m subscribers). With likes of Dish TV, Tata Sky, Bharti, Reliance ADAG and Sun Direct infusing USD3-4bn to create a customer pull and subsidize heavily, Indian DTH space continues to add 7-8m subscribers annually. However, our concerns with regards to Dish TV had been the risk of aggressive price led competition and non-funded balance sheet - declining share of the incremental market (20%) and 6x increase in customer acquisition cost over the past 3 years. However, incrementally we see these risks receding as barring Sun Direct, which is operating on aggressive price proposition; all other DTH players are playing on the proposition of value added features on DTH platform. This would lead to more rational pricing and customer acquisition subsidy, and thereby help Dish TV improve upon its profitability. While the macros within DTH space are turning favourable, the key monitorable would be Dish TV's ability to up its ARPU from current level of Rs139/ month and thereby the profitability. At current valuations of 13x FY11E EV/EBITDA and continued gestation losses, we maintain our Neutral stance.

Cost structures

Cost structure (%)	Q2FY10	Q1FY10	Q2FY09
Revenues - Rs m	2573.0	2467.0	1732.7
Programming cost	43.9	43.3	56.5
Other cost of goods	22.8	23.3	24.5
Personnel Cost	3.8	4.1	7.3
Admin cost	4.8	4.5	22.4
ASP spends	15.9	19.0	39.7

Quarterly results

Quarterly results (Rs Mn)	Q2FY09	Q3FY09	Q4FY09	FY09	Q1FY10	Q2FY10	FY10E	FY11E
Net Sales	1,732.7	1,927.3	2,071.3	7,382.5	2,467.0	2,573.0	11,525.3	15,273.7
% yoy	129.5	72.0	52.0	79.1	50.0	48.5	56.1	32.5
EBITDA	(874.1)	(389.3)	41.7	(1,790.5)	145.6	228.9	1,026.1	2,644.3
EBITDA %	(50.4)	(20.2)	2.0	(24.3)	5.9	8.9	8.9	17.3
Depreciation	494.7	569.6	644.1	2,288.7	689.2	730.3	2,928.2	3,370.6
Net interest	170.8	221.2	192.4	736.9	202.0	66.1	436.9	554.3
Other Income	0.4	1.5	9.9	12.8	54.0	6.0	243.0	182.3
Profit before Tax	(1,539.2)	(1,178.5)	(784.9)	(4,803.3)	(691.6)	(561.5)	(2,096.0)	(1,098.3)
Tax	2.0	1.9	1.7	5.7	0.0	(0.3)	-	-
Profit After Tax	(1,541.2)	(1,180.4)	(786.6)	(4,809.0)	(691.6)	(561.2)	(2,096.0)	(1,098.3)

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2. Neutral: Within 0-10% to Index
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