UBS

UBS Investment Research

Dish TV India

Well funded for growth

■ Initiate coverage with a Buy rating

Dish TV India (Dish TV) is the first and largest satellite TV operator in India, with 5.7m net subscribers and an estimated gross subscriber market share of 33% in FY10. It has a strong brand presence, a broad distribution network and significant scale benefits owing to its first-mover advantage. We consider Dish TV a play on India's growing direct-to-home (DTH) subscriber base, which is being driven by rising income levels and increasing awareness of DTH services. We forecast a CAGR of 22.5% for Dish TV's subscriber base from FY11 to FY13.

■ We expect Dish TV to break even in FY12

We expect Dish TV to break even in terms of net profit in FY12, led by revenue growth and improved profitability because of economies of scale. We forecast programming costs to decline to 38.5% of sales in FY11 (from 47.1% in FY09) as Dish TV has entered into fixed price contracts with broadcasters. With funding in place following a rights issue and a GDR issue, we think Dish TV is well positioned for further subscriber growth in FY11.

■ Positive catalysts: good quarterly results, licence fee reduction, GST, CAS

Potential share price catalysts include: 1) quarterly results in FY11 showing strong subscriber additions, higher ARPU and a better EBITDA margin; 2) the implementation of a goods and service tax (GST); 3) a likely reduction in licence fees for DTH operators from 10% to 6% in the medium term; and 4) the implementation of mandatory digitisation (CAS) in large cities in the medium to long term.

■ Valuation: DCF-based price target of Rs55.00

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume WACC of 12.73%.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	4,128	7,381	10,873	15,108	19,653
EBIT (UBS)	(3,654)	(3,521)	(2,084)	(805)	430
Net Income (UBS)	(4,141)	(4,807)	(2,555)	(1,146)	4
EPS (UBS, Rs)	(9.67)	(5.08)	(2.40)	(1.08)	0.00
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	-96.1	-47.7	-19.2	-5.3	2.2
ROIC (EBIT) %	-	(158.3)	(47.0)	(14.2)	6.1
EV/EBITDA (core) x	-	-21.0	47.7	17.9	11.0
PE (UBS) x	-	-6.0	-16.7	-37.3	>100
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs40.15 on 09 Jun 2010 23:38 HKT

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Global Equity Research

India

Entertainment

12-month rating	Buy
	Prior: Not Rated
12m price target	Rs55.00/US$1.17
	-
Price	Rs40.15/US$0.86

RIC: DSTV.BO BBG: DITV IB

10 June 2010

Trading data (local/US$)	
52-wk range	Rs50.35-30.95/US$1.10-0.63
Market cap.	Rs38.0bn/US$0.81bn
Shares o/s	946m (ORD)
Free float	35%
Avg. daily volume ('000)	790
Avg. daily value (Rsm)	30.1

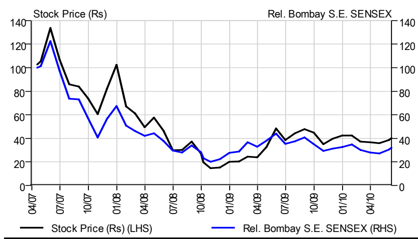
Balance sheet data 03/10E	
Shareholders' equity	(Rs0.22bn)
P/BV (UBS)	NM
Net Cash (debt)	(Rs4.87bn)

Forecast returns	
Forecast price appreciation	+37.0%
Forecast dividend yield	0.0%
Forecast stock return	+37.0%
Market return assumption	12.8%
Forecast excess return	+24.2%

EPS (UBS, Rs)

	03/10E			03/09
	From	To	Cons.	Actual
Q1E	-	(1.18)	-	(0.95)
Q2E	-	(1.45)	-	(0.97)
Q3E	-	(1.11)	-	(1.23)
Q4E	-	(0.74)	-	(1.22)
03/10E	-	(2.40)	*(2.76)*	
03/11E	-	(1.08)	*(0.56)*	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

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Investment Thesis

We initiate coverage of Dish TV India (Dish TV) with a Buy rating and a price target of Rs55.00. Dish TV is the largest satellite TV (also referred to as direct-to-home [DTH]) operator in India, with an estimated net subscriber base of 5.7m and a gross subscriber market share of 33% in FY10. While Dish TV is profitable on an EBITDA basis, it is yet to break even in terms of net profit.

Our Buy rating is premised on the following:

(1) Dish TV is a play on India's growing DTH subscriber base, driven by rising income levels and an increasing awareness of DTH services. Consumers are likely to prefer a better quality digital platform. We forecast Dish TV's subscriber base to grow at an average annual rate of 22.5% for the three years to FY13.

(2) It has a strong brand presence due to its marketing initiatives and broad distribution network. Dish TV has significant scale benefits as it was the first entrant in the Indian DTH space.

(3) Following the third tranche of its rights issue and the GDR issue, Dish TV will now be able to finance the strong subscriber growth expected in FY11. The company (excluding subsidiaries) had cash of approximately Rs6.5bn at end-FY10.

We believe the key risks for Dish TV are strong competition from other DTH operators and digital cable TV distributors, and regulatory intervention.

Key catalysts

Possible reduction in licence fees

- **Reduction in licence fees.** The likely reduction in licence fees from 10% of annual gross revenue to 6% could be a catalyst for the share price, in our view.

Strong quarterly results in FY11

- **Strong financial and operating performance in the next few quarters.** Quarterly results showing an improving operating performance (in terms of number of subscribers added, subscriber acquisition costs and ARPU) and financial performance (in terms of revenue growth, EBITDA margins, and net profit breakeven).

Implementation of CAS will increase conversion to digital platform

- **Implementation of CAS to speed up digitisation.** The implementation of CAS (the conversion to a digital platform will be mandatory in 55 cities, as per the Telecom Regulatory Authority of India (TRAI) recommendation, if subscribers want to view channels that are not free-to-air) in the medium to long term (three to five years) is likely to speed up the digitisation process.

Implementation of GST

- **Implementation of GST.** DTH operators are heavily taxed at present, and if a goods and service tax (GST) is implemented, Dish TV could pass on part of this expense to end-subscribers.

Risks

- **Faster adoption of digital cable.** We think digital cable could be a threat to DTH if the digital cable market consolidates. However, we expect DTH and digital cable to co-exist, given a significant proportion of the market is still on the analogue platform.

Faster adoption of digital cable

- **Competition from other DTH players.** Dish TV faces significant competition from five other DTH operators. Some DTH operators, such as Bharti Airtel (Bharti), have the financial and brand strength to help them dominate subscriber share on an incremental basis.

Competition from other DTH players

- **Regulatory risks.** The DTH industry is regulated by the TRAI, the Department of Telecommunications (DoT), and the Ministry of Information and Broadcasting (MIB). Some of the issues being considered by the TRAI are: 1) technical interoperability of set top boxes (STB); 2) implementation of the conditional access system (CAS) to be extended to 55 cities; 3) no exclusive content to be broadcast on the DTH platform; and 4) whether the carriage fee should be regulated.

Regulatory risks

- **Content costs.** Content costs could increase for Dish TV if broadcasters negotiate a variable pay structure (based on subscriber numbers).

Content costs could increase

Valuation and basis for our price target

Our price target of Rs55.00 is 37% above the current level. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. Our price target assumes a WACC of 12.73%. Dish is trading at an EV/EBITDA of 17.9x in FY11E and 11.0x in FY12E.

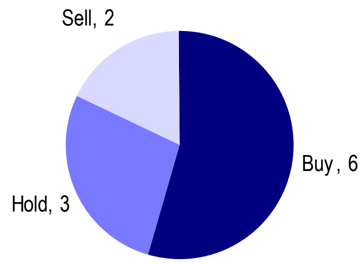
UBS versus consensus

Table 1: UBS versus consensus estimates

	UBS estimates			Consensus			UBS vs. consensus		
(Rs m)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Revenue	15,108	19,653	23,285	14,424	18,105	21,122	4.7%	8.5%	10.2%
EBITDA	2,487	4,227	5,822	2,609	4,053	6,425	-4.7%	4.3%	-9.4%
EBITDA margin	16.5%	21.5%	25.0%	18.1%	22.4%	30.4%			
Net profit	(1,146)	4	910	(1,261)	(190)	1,564	-9.1%	102.1%	-41.8%

Source: Reuters, UBS estimates

Chart 1: Consensus view (rating)



Source: Reuters

Sensitivity analysis

We have carried out a sensitivity analysis on our valuation, using the following parameters:

- **WACC:** A 1% increase in WACC from 12.73% to 13.73% would lead to a 12.6% decline in our valuation. A 1% decrease in WACC would lead to a 15.6% increase in our valuation.
- **Sales growth:** A 1% increase in our long-term sales growth assumption would lead to 13.7% increase in our valuation, while a 1% decline would lead to a 12.5% decline in our valuation.
- **EBIT margin:** A 1% increase in our long-term EBIT margin assumption would lead to a 3.8% increase in our valuation, while a 1% decline would lead to a 3.8% decline in our valuation.
- **Capex to sales:** A 1% increase in long-term capex as a percentage of sales would lead to a 5.0% decline in our valuation, while a 1% decrease would lead to a 5.0% increase in our valuation.

Table 2: Sensitivity analysis

Parameter	% change in valuation
WACC	
- 1% increase in WACC	-12.6%
- 1% decrease in WACC	15.6%
Sales growth	
- 1% increase in sales growth assumptions	13.7%
- 1% decrease in sales growth assumptions	-12.5%
EBIT margin	
- 1% increase in EBIT margin assumptions	3.8%
- 1% decrease in EBIT margin assumptions	-3.8%
Capex to sales	
- 1% increase in capex to sales assumptions	-5.0%
- 1% decrease in capex to sales assumptions	5.0%

Source: UBS estimates

Risk analysis

- **Faster adoption of digital cable:** We believe one of the major threats to DTH is digital cable, which involves transmission of digital signals through local cable operators on their cable network. The rapid consolidation of the cable industry could limit DTH growth. However, given a significant proportion of the market is still on the analogue platform, we expect both DTH and digital cable to co-exist as India increasingly adopts the digital platform.

- **Competition from other DTH operators:** Dish TV faces significant competition from other DTH operators—Tata Sky, Sun Direct, Reliance Communications (RCom), Bharti and Videocon. Some of these companies, such as Bharti, have financial and brand strength that could help them dominate subscriber share on an incremental basis. Dish TV's incremental subscriber market share has fallen in the past few quarters following the launch of DTH services by Bharti and RCom.

  While ARPU in India is one of the lowest globally, we believe the prevailing intense competition could continue to put pressure on ARPU.

  No new licences have been issued, but we believe the potential entry of more greenfield operators in the DTH space could increase competitive intensity.

- **Regulatory risks:** The DTH industry is regulated by the TRAI, the DoT, and the MIB. The TRAI is considering various issues, including:

  - Making STBs technically interoperable; that is, a consumer can switch their DTH service provider, while keeping the original STB.
  - Extending CAS, which has been implemented in parts of Chennai, Delhi, Kolkata and Mumbai, to 55 cities across India. However, this is still in the negotiation phase and has been delayed.
  - Reducing the licence fee for DTH operators from 10% of revenue currently to 6%.
  - Not allowing exclusive content to be broadcast on the DTH platform.
  - Regulating carriage fees. DTH operators can only have a limited number of channels (due to limited transponder space). This demand-supply mismatch allows DTH operators to charge a carriage fee to broadcasters to carry their channel.

- **Content costs could increase:** Dish TV entered into fixed content fee contracts with some broadcasters, and this led to an improvement in its EBITDA margin in Q4 FY09. If these contracts revert to a variable content fee structure (based on the number of subscribers), it would have an impact on EBITDA margin and might delay Dish TV achieving net profit breakeven.

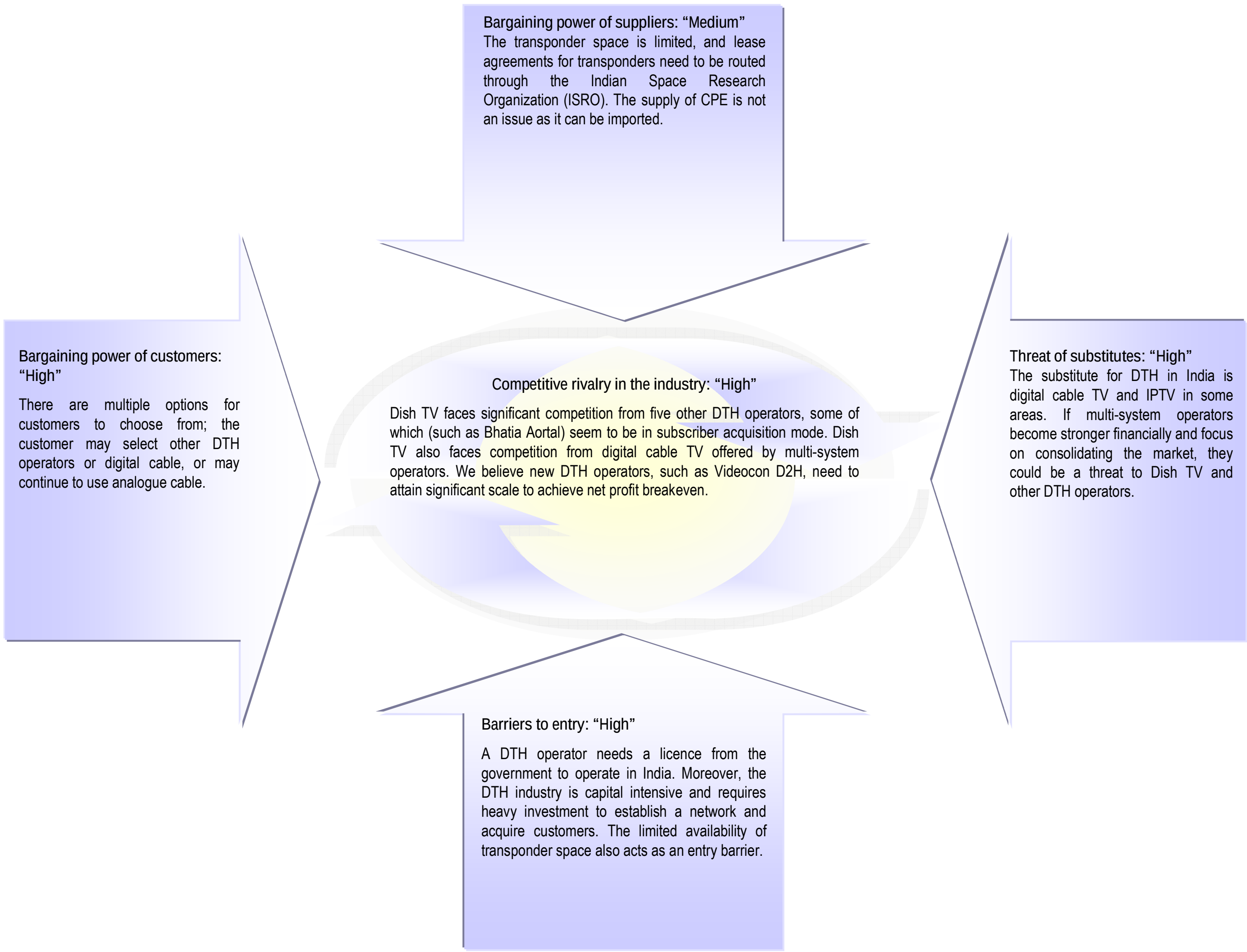
- **Currency exposure:** Dish TV imports a significant portion of its consumer premises equipment (CPE), which exposes it to currency fluctuation risk, primarily the rupee/US dollar exchange rate.

- **High debt in capital structure:** Dish TV had debt to total capital of 254% in FY09 and negative shareholder equity. This has limited its ability to take on further debt.

Competitive analysis

Assessment of industry attractiveness

Figure 1: Five competitive forces analysis



Source: Michael Porter, UBS

Industry structure

Dish TV is the largest player with an estimated 33% market share in FY10

There are six private operators in the DTH industry in India: Dish TV, Tata Sky, Sun Direct, RCom, Bharti and Videocon. In addition, the national broadcaster Doordarshan operates its own DTH service called *DD Direct Plus*.

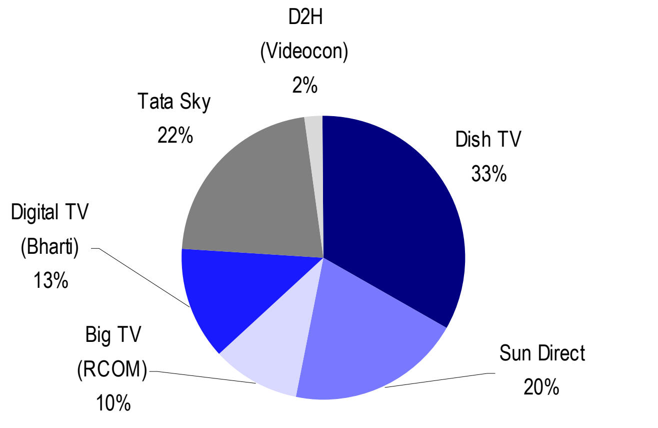
The DTH market has grown significantly from a one player market (Dish TV) with 0.6m subscribers in 2005 to a six-player market with 19.1m subscribers in December 2009. Dish TV is the leading operator in India with an estimated market share of 33% in FY10 and a net subscriber base of 5.7m as at March 2010.

Table 3: Competitive landscape

	Dish TV	Tata Sky	Sun Direct	RCom	Bharti	Videocon
Brand name	Dish TV	Tata Sky	Sun Direct	Big TV	Digital TV	D2H
Launch date	Oct-03	Aug-06	Jan-08	Aug-08	Oct-08	Apr-09
Technology	MPEG 2	MPEG 2	MPEG 4	MPEG 4	MPEG 4	MPEG 4
FY10 gross subscriber market share	33%	22%	20%	10%	13%	2%
Number of channels offered	234	165	219	198	189	183
Number of services offered	16	17	1	37	20	4

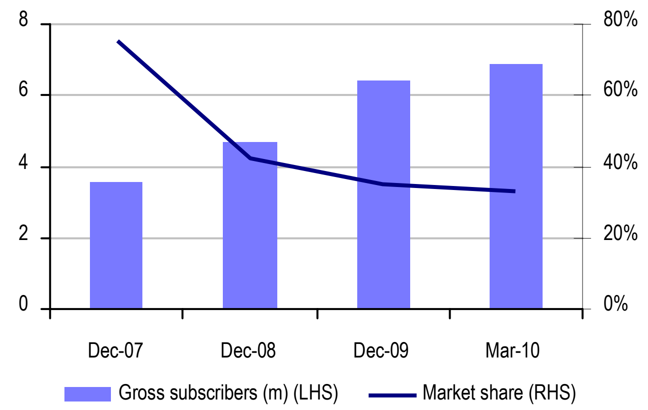
Source: Company data, UBS

Chart 2: Dish TV is the largest DTH operator in terms of subscriber market share (March 2010)



Source: Company data, UBS estimates

Chart 3: However, its market share has been under pressure



Source: Company data

Table 4: Base package prices and number of channels offered

	Rest of India			South India		
	Package	Rent per month	Number of channels	Package	Rent per month	Number of channels
Dish TV	Silver	Rs125	160	South Silver	Rs125	146
Tata Sky	Super Hit Pack	Rs125	65	South Starter Pack	Rs125	74
Digital TV (Airtel)	Super Value Pack	Rs115	119	South Super Value Pack	Rs110	112
Big TV (RCom)	Value Pack	Rs115+taxes	101	Value Pack	Rs115+taxes	105
Sun Direct	Shine Pack	Rs120	130	Freedom Pack	Rs99	130
D2H (Videocon)	Gold Pack	Rs150	194	South Gold Pack	Rs150	198

Source: Company websites

Digital revenue likely to grow

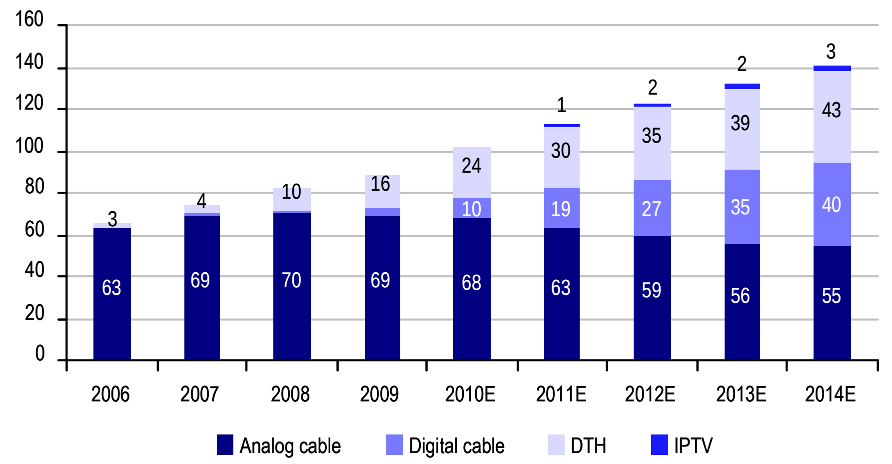
We believe digital cable revenue is likely to grow in India due to:

- An increase in the digital subscriber base, as analogue cable subscribers may upgrade to a digital delivery platform, driven by rising income levels in the near to medium term and increasing consumer awareness due to heavy advertising by DTH operators. According to the 2010 FICCI-KPMG Indian Media and Entertainment Industry report, *Back in the Spotlight*, India's DTH subscriber base is likely to grow at an average annual rate of 22% for the next five years.

  There were 129m TV households in India at end-2009, of which 95m were cable and satellite (C&S) homes. There are 69m analogue cable homes in India that are potential target customers for the digital platform and DTH services. Non C&S households (34m homes) also represent a target market for DTH operators, in our view.

Digital subscriber base likely to grow

Chart 4: Pay TV household estimates in India (m subscribers)



Source: FICCI-KPMG report, 2010

The DTH subscriber base has grown faster than digital cable in the past. This is due to high DTH subscriber growth in rural areas, where cable was not present, in our view. DTH has also grown in parts of India where cable is difficult to install due to mountainous terrain, such as parts of Assam. We estimate 70% of the existing DTH subscriber base is in rural areas. FICCI-KPMG estimates India's digital cable subscriber numbers will record a CAGR of 58% for the period 2009-14, compared with a CAGR of 22% for DTH over the same period.

India's subscriber base forecast to grow at an average annual rate of 22% over the next five years

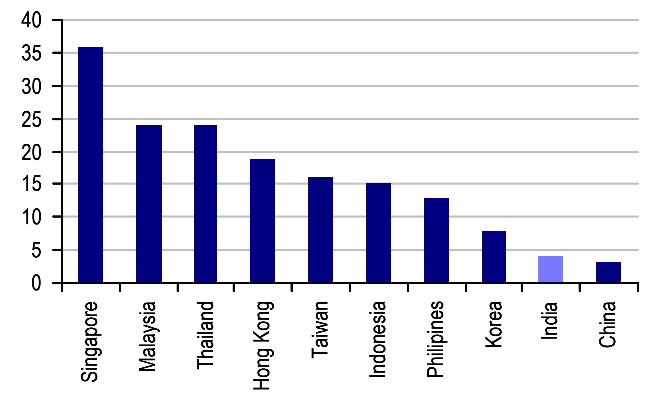
We think digital cable is likely to grow faster than DTH over the next five years as: 1) digital cable is a two-way communication, unlike DTH. Digital cable can provide three services: cable TV, cable broadband and cable telephony. We believe there is no significant difference in picture quality. 2) Digital cable has a lower entry price than DTH. A digital cable STB costs an end-consumer around Rs999. 3) DTH operators in India are not allowed to distribute exclusive content, while digital cable operators can offer channels that contain local content.

DTH ARPU likely to increase in FY12

- An increase in ARPU in the medium term due to the delivery of more channels on the DTH platform compared to analogue cable, and the provision of value added services, such as video on demand. We expect India's pay TV ARPU to remain under pressure in the near term as some DTH operators are currently in subscriber acquisition mode as they aim to reach a critical mass to achieve profitability. We expect industry ARPU to pick up in FY12.

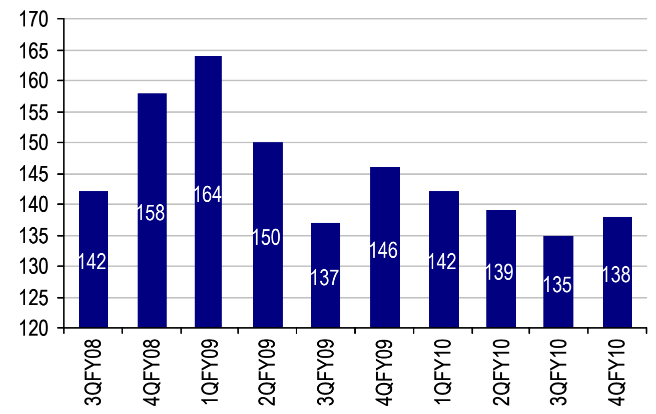
  According to the 2009 Media Partners Asia (MPA) report, pay TV ARPU in India was among the lowest in Asia in 2009 at US$4 per month, versus US$36 in Singapore, US$24 in Malaysia, US$24 in Thailand, and US$19 in Hong Kong.

Chart 5: Pay TV ARPU in key Asian markets



Source: MPA Report 2009

Chart 6: Dish TV subscription ARPU



Source: Company data

Implementation of CAS to speed up digitisation process

- Implementation of CAS in the medium to long term, which is likely to speed up the digitisation process. CAS has already been implemented in parts of Chennai, Delhi, Mumbai and Kolkata, and the TRAI is recommending implementation in 55 other cities. However, CAS is likely to be implemented only in the medium to long term as it is still in the negotiation phase.

Industry growth drivers

- **DTH to grow faster in 'cable dark' and rural areas:** There has been a high acceptance of DTH in rural areas, particularly in areas where analogue cable service is unavailable. DTH is driven by signals received from a satellite and can even reach remote areas where cable TV services do not exist. We estimate approximately 70% of total DTH subscribers in India are in rural areas.

- **Heavy advertising to increase consumer awareness:** DTH operators have stepped up their marketing efforts for DTH services, and this has raised consumer awareness, leading to a higher adoption of the DTH platform.

- **Superior quality to analogue cable:** By using a digital mode of transmission, DTH is able to provide superior picture and sound quality to cable, which uses analogue transmission.

- **Strong growth in premium TV segment:** The premium TV segment including plasma and LCD TV has grown strongly over the past few years. We think consumers in this segment are likely to prefer DTH over the analogue platform given the former's superior picture quality.

- **Rising income levels and increasing urbanisation:** UBS India economist, Philip Wyatt, expects India's real GDP to grow 8-9% in the next 15-20 years. He forecasts per capita income to increase from US$989 in FY09 to US$1,043 in FY10 and US$1,260 in FY11. Moreover, we expect India to experience rapid urbanisation, with the total urbanisation level increasing to 40% by 2030 (from around 30% currently). This trend should have favourable implications for consumption, in our view.

Challenges faced

- **High subscriber acquisition costs:** Stiff competition has forced DTH operators to subsidise STB in order to attract subscribers. As a result, operators' subscriber acquisition cost (SAC) has risen steeply, varying according to the extent of subsidy given and the cost of STB provided. Dish TV's SAC was around Rs2,500 per subscriber in FY10, comprising hardware subsidy (capitalised), selling and marketing costs (expensed in the income statement).

- **Critical mass needed to achieve EBITDA breakeven:** Dish TV launched its service in 2005 and achieved EBITDA breakeven only in Q4 FY09 when it reached a critical mass of 5.0m gross subscribers, primarily due to a decline in content costs as it entered into fixed price contracts with broadcasters.

DTH and digital cable: a comparison

Table 5: DTH vs digital cable

Features	Digital cable	DTH
Two-way communication	√	X
Ability to offer localised content	√	X
Triple play	√	X
Geographical reach	X	√
Standardised customer care	X	√
Channel capacity	Higher	Lower
Network operating costs	Lower	Higher
Marginal operating costs	Lower	Higher

Source: Company data

Competitive strengths

Figure 2: SWOT analysis

STRENGTHS	OPPORTUNITIES
1. First-mover advantage and significant scale 2. Availability of additional transponder capacity 3. Broad distribution network 4. Channel offering	1. Increasing digitisation 2. Implementation of CAS 3. Implementation of GST
WEAKNESSES	**THREATS**
1. Availability of limited internal accruals 2. Negative shareholders equity 3. Yet to achieve net profit breakeven and free cash flows	1. Competiton from digital cable 2. Competition from other DTH operators 3. Regulatory intervention and risks

Source: UBS estimates

- **First-mover advantage and significant scale:** Dish TV was the first DTH operator in India, and launched its operations in 2003. It is the leader in terms of subscriber market share with an estimated 33% in FY10. Given its scale, Dish TV is likely to have stronger bargaining power with suppliers and broadcasters. We estimate Dish TV will achieve net profit breakeven in FY13, before other DTH operators.

- **Broad distribution network:** It has a pan-India distribution network with approximately 1,000 distributors and around 48,000 dealers in 6,600 towns.

- **Channel offering:** Dish TV offers 234 channels and services, marginally higher than its competitors.

- **Transponder capacity:** Dish TV has 10 transponders on the NSS6 satellite, of which four have 54MHz capacity (supports 20-22 channels per transponder on MPEG2), and the remaining six have 36MHz capacity (supports up to 15 channels per transponder). It has the ability to assign a few additional transponders due to the current satellite location (close to the Doordarshan transponders).

Management strategy

Focus on subscriber acquisition

Likely to add 2.5m+ subscribers in FY11

Dish TV aims to add 2.5-3m subscribers in FY11 (compared with 1.8m additions in FY10), mainly led by strong DTH subscriber growth prospects given multiple sports events taking place in FY11, including the FIFA World Cup. Dish TV has launched a "*Fantastic FIFA offer*"—free 'Gold' package subscription for three months, a free STB and a start-up kit for Rs1,590 (excluding an installation charge of Rs200 and service tax).

Table 6: Attractive promotions for new subscriptions

	Price	Features or benefits offered
Box Free offer	1,990	Set top box and Dish TV kit for free Free subscription of Rs1,990 valid for 100 days Excludes installation charge of Rs200 and service tax
Super Saver Home offer	1,890	Set top box and Dish TV kit for free Free subscription to 195+ channels for four months Excludes installation charge of Rs200 and service tax
Sports Unlimited offer	1,690	Set top box and Dish TV kit for free Free subscription to 186+ channels (including 6 sports channels) for four months Excludes installation charge of Rs200 and service tax
Fantastic FIFA offer	1,590	Set top box and Dish TV kit for free Free subscription to the 'Gold' package (including ESPN and 5 sports channels) for 3 months Excludes installation charge of Rs200 and service tax

Source: Company website

Dish TV launched HD services recently

The company has also entered into a tie-up with Zee Group and ESPN Star Sports and has launched high definition (HD) services in June 2010 for the following channels: Zee TV, Zee Cinema, ESPN (for the FIFA World Cup), Discovery World, and National Geographic under the brand name 'Dish Tru HD' at an introductory price of Rs5,990. Subscribers will need to pay Rs150 per month for subscription to these channels in addition to the base package subscription fee. We believe this should help Dish TV acquire subscribers at the premium end of the market that own HD TVs and would be willing to subscribe to premium packages. *Business Line* reported on 27 May 2010 that Dish TV targets to sell 60,000 HD STBs in FY11 and 250,000 STBs in FY12.

On 8 June 2010, *Business Line* reported that Dish TV plans to launch Conditional Access Module (CAM) in the next two months. This is a data card that can be used in any DTH operator's STB, to get Dish TV's services. We believe Dish TV is likely to target the churned boxes with this product and it is likely to be preloaded with content.

Dish TV will continue to focus on marketing in order to maintain and strengthen its brand image. It plans to spend Rs1bn on advertising in FY11.

Focus on improving ARPU

Key factors that drive ARPU are:

- **Package mix** (this is the dominant factor, in our view): Approximately 50-55% of Dish TV subscribers are on the 'Silver' package, 20-25% are on the 'Gold' package, and the remaining subscribers are on the 'Platinum' package (see Table 7 for package details).

  Dish TV recently launched two new subscription packages with the aim of improving ARPU. These packages are:

  — The 'Silver Saver' package: Dish TV aims to migrate 'Silver' package subscribers to this package as it offers more channels, which will lead to additional ARPU of Rs25.

  — The 'Gold Saver' package: Similarly, Dish TV aims to migrate 'Gold' package subscribers to this package, which will lead to additional ARPU of Rs60.

Table 7: Dish TV packages

Packages for rest of India	Rs per month	Number of channels & services	Packages for South India	Rs per month	Number of channels & services
Silver	125	160+	South Silver	125	150+
Silver Saver	150	165+	South Silver Saver	150	154+
Gold	210	182+	South Gold	210	173+
Gold Saver	270	189+	South Gold Saver	270	180+
Platinum	325	208+	South Platinum	325	202+
Child	170	208+	South Child	170	202+

Source: Company data

- **Collection efficiency:** Collection efficiency stands at 75% (implying 75% of subscribers pay within one month of payment being due). Delay in payment of subscription fees by subscribers leads to loss of revenue. Dish TV will continue to focus on improving its collection efficiency.
- **Events** such as the T-20 World Cup (cricket) help increase revenue as some of the sports channels are not part of the base packages, and require additional subscription.

Breakeven analysis

In this section, we analyse the subscriber level at which a hypothetical DTH operator is likely to reach EBITDA breakeven. We conclude that a DTH operator needs to attain a critical mass of approximately 5.5m subscribers to achieve EBITDA breakeven (refer to table below for detailed analysis).

Table 8: Hypothetical DTH operator per subscriber profitability analysis

(Rs m)	Year 1	Year 2	Year 3	Year 4	Year 5
Total number of subscribers (m)	1.1	2.8	4.2	5.2	6.2
Average number of subscribers (m)	1.1	2.0	3.5	4.7	5.7
ARPU (Rs/sub/month)	140	145	150	155	160
Total revenue	1,863	3,414	6,286	8,768	11,015
Cost of goods sold	(47)	(102)	(126)	(132)	(165)
Transponder lease	(414)	(465)	(517)	(517)	(517)
Licence fees	(93)	(341)	(629)	(877)	(661)
Uplink charges	(75)	(82)	(90)	(99)	(104)
Programming and other costs	(1,165)	(2,096)	(2,725)	(3,406)	(4,088)
Entertainment tax	(23)	(85)	(157)	(219)	(275)
Other operating charges	(112)	(129)	(148)	(163)	(171)
Personnel cost	(186)	(512)	(566)	(614)	(661)
Selling and distribution expenses	(732)	(1,144)	(1,020)	(931)	(939)
Advertising costs	(466)	(699)	(873)	(1,048)	(1,258)
Administration and other expenses	(186)	(683)	(1,131)	(1,227)	(1,212)
Total operating expenses	(3,498)	(6,339)	(7,982)	(9,233)	(10,050)
EBITDA	(2,567)	(2,925)	(1,696)	(465)	965
% margin	-275.5%	-85.7%	-27.0%	-5.3%	8.8%
EBITDA per subscriber (Rs/sub)	(4,626)	(1,489)	(485)	(99)	168

Source: UBS estimates

Assumptions

- We assume year 1 ARPU to be Rs140 and expect it to increase marginally every year.
- We assume an operator would require eight transponders to transmit channels and the cost of each transponder would be US$1.1m pa.
- We assume the content cost will be approximately Rs1.2bn in year 1 of operations (120% of revenue) and that it would continue to decline gradually (as a percentage of sales) to 37% in year 5 of operations.
- We assume marketing and distribution expenses (excluding advertising) are Rs600 per gross subscriber added.

Table 9: UBS assumptions for key operating expenses

(Rs m)	Year 1	Year 2	Year 3	Year 4	Year 5
Transponder lease					
No. of channels supported per transponder on MPEG 4	25	25	25	25	25
Total number of channels beamed	200	220	240	250	260
No. of transponders needed	8	9	10	10	10
Transponder lease per transponder per annum	52	52	52	52	52
Total transponder lease rent	414	465	517	517	517
Programming and other costs					
Programming and other costs	1,165	2,096	2,725	3,406	4,088
% growth		80.0%	30.0%	25.0%	20.0%
% of sales	125.0%	61.4%	43.4%	38.9%	37.1%
Selling and distribution expenses					
Distribution expense per sub	350	350	345	340	335
Total distribution expense	427	667	586	527	524
Marketing expense per sub	250	250	255	260	265
Total marketing expense	305	477	433	403	415
Total selling and distribution expense	732	1,144	1,020	931	939

Source: UBS estimates

Table 10: UBS assumptions for other operating expenses

% of sales	Year 1	Year 2	Year 3	Year 4	Year 5
Cost of goods sold	5.0%	3.0%	2.0%	1.5%	1.5%
Licence fees	10.0%	10.0%	10.0%	10.0%	6.0%
Uplink charges	8.0%	1.2%	0.7%	0.6%	0.9%
Personnel cost	20.0%	15.0%	9.0%	7.0%	6.0%
Entertainment tax	2.5%	2.5%	2.5%	2.5%	2.5%
Other operating costs	12.0%	3.8%	2.4%	1.9%	1.6%
Administration and other expenses	20.0%	20.0%	18.0%	14.0%	11.0%
Advertising expenses	50.0%	20.5%	13.9%	12.0%	11.4%

Source: UBS estimates

Financials

Profit and loss

Table 11: Consolidated income statement

Year to 31 March (Rs m)	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Revenue	527	1,916	4,128	7,381	10,873	15,108	19,653	23,285
Cost of goods sold	(915)	(2,207)	(3,615)	(5,440)	(6,856)	(8,874)	(10,984)	(12,457)
Gross profit	(388)	(291)	513	1,942	4,017	6,234	8,668	10,828
SGA	(538)	(2,038)	(4,167)	(5,463)	(6,101)	(7,039)	(8,239)	(9,305)
EBIT	(926)	(2,329)	(3,654)	(3,521)	(2,084)	(805)	430	1,523
Other investment income	15	46	34	13	74	110	165	215
Interest	(43)	(118)	(513)	(1,293)	(544)	(451)	(590)	(601)
Profit before taxes	(954)	(2,401)	(4,134)	(4,801)	(2,555)	(1,146)	5	1,137
Taxes	(2)	0	(7)	(6)	-	-	(1)	(227)
Net income	(956)	(2,401)	(4,141)	(4,807)	(2,555)	(1,146)	4	910
Revenue growth	16%	263%	115%	79%	47%	39%	30%	18%
EBIT margin	-176%	-122%	-89%	-48%	-19%	-5%	2%	7%
EBIT growth	n/m	n/m	n/m	n/m	n/m	n/m	n/m	255%
Net profit growth	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

Source: Company data, UBS estimates

Table 12: Consolidated revenue composition

Year to 31 March (Rs m)	2007	2008	2009	2010E	2011E	2012E	2013E
Subscription revenue	1,219	3,288	5,897	8,313	11,540	15,119	18,006
Lease rentals	218	604	1,007	1,934	2,709	3,416	4,037
Other operating income	1	0	2	2	2	3	3
Teleport services	105	112	133	141	147	150	152
Bandwidth charges	-	5	242	329	494	692	761
Sales - CPE, Accessories, Others	368	114	97	150	210	264	313
Call centre	6	4	3	4	6	9	13
Total consolidated revenue	1,916	4,128	7,381	10,873	15,108	19,653	23,285

Source: Company data, UBS estimates

Dish TV recorded a four-year consolidated revenue CAGR of 101% (FY05-09). The increase in consolidated revenue was led by growth in subscription revenue, which expanded at a FY07-09 CAGR of 120%. The contribution of subscription revenue to total consolidated revenue grew from 64% in FY07 to 80% in FY09. Dish TV's net subscriber base grew from 2.2m in Q3 FY08 to 5.7m in FY10. We forecast a revenue CAGR of 33% for the period FY09-13, to Rs23.3bn, led by growth in subscription revenue.

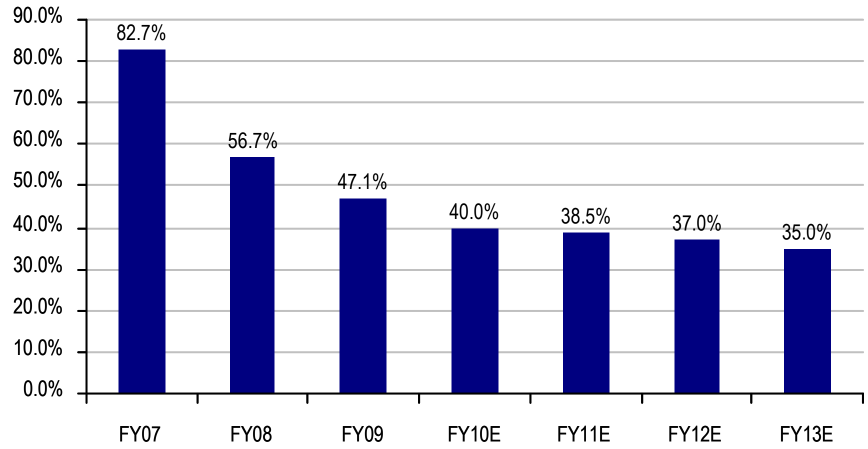
Table 13: Operating cost breakdown (consolidated)

Year to 31 March (Rs m)	2007	2008	2009	2010E	2011E	2012E	2013E
Cost of traded goods	5	202	147	207	227	197	233
Operating expenses	2,202	3,413	5,293	6,650	8,647	10,788	12,224
- Transponder lease	338	345	477	549	582	617	654
- Licence fees	156	407	746	1,087	1,511	1,965	2,329
- Uplink charges	60	69	90	99	104	109	114
- Programming and other costs	1,585	2,339	3,479	4,349	5,817	7,272	8,150
- Entertainment tax	12	74	178	239	332	432	512
- Other operating charges	50	179	322	326	302	393	466
Personnel cost	220	420	543	652	755	865	931
Administration and other expenses	295	358	469	576	589	629	722
Selling and distribution expenses:	900	1,819	2,162	1,828	2,402	2,948	3,353
- Advertisement expenses	535	969	898	755	1,027	1,277	1,490
- Commission	330	759	1,126	943	1,224	1,474	1,630
- Other selling and distribution expenses	34	91	138	130	151	197	233
Total operating expenses	3,622	6,212	8,614	9,913	12,621	15,426	17,463
EBITDA	(1,706)	(2,084)	(1,233)	960	2,487	4,227	5,822
EBITDA margin	-89.0%	-50.5%	-16.7%	8.8%	16.5%	21.5%	25.0%
Incremental EBITDA/incremental revenue	-59.7%	-17.1%	26.2%	62.8%	36.1%	38.3%	43.9%

Source: Company data, UBS estimates

Dish TV recorded a total operating expense CAGR of 83% for the period FY05-09 as it continued to expand its subscriber base. We forecast an operating cost CAGR of 19% for the period FY09-13.

Chart 7: Programming and other costs as % of sales



Source: Company data, UBS estimates

Programming and other costs comprised 47.1% of total consolidated revenue (59% of subscription revenue) in FY09, compared with 82.7% of consolidated revenue in FY07. The increase in programming and other costs was driven by growth in the subscriber base. We forecast programming and other costs to decline to 38.5% of total revenues in FY11 and 37.0% of total revenue in FY12 as a significant proportion of these costs is now not linked to subscriber base criteria and is fixed in nature.

We forecast EBITDA margin to improve to 16.5% in FY11

The company's consolidated EBITDA margin has continued to improve over the past few years, from -89.0% in FY07 to -16.7% in FY09. It achieved EBITDA breakeven at the standalone level in Q4 FY09, and reported a 7.8% EBITDA margin in FY10 (standalone). We forecast a consolidated EBITDA margin of 8.8% in FY10 and 16.5% in FY11 as Dish TV gains further scale.

We expect it to achieve net profit breakeven in FY12

Dish TV has reported negative EBIT and net losses in the past few years. We forecast it to achieve EBIT and net profit breakeven in FY12, driven by revenue growth and improved profitability given economies of scale. We forecast it to report a net loss of Rs1,146m in FY11 and net profit of Rs4m in FY12.

We believe additional revenue earned will be incrementally profitable and will help improve the company's EBITDA margin, as a significant portion of total costs are fixed.

Table 14: Key assumptions

	FY09	FY10E	FY11E	FY12E	FY13E
Revenue (Rs m)	7,381	10,873	15,108	19,653	23,285
Net subscribers (m)	4.27	5.66	7.59	9.09	10.29
Monthly churn (%)	0.7%	0.7%	0.8%	0.8%	0.8%
Subscription ARPU (Rs)	145	140	145	151	155
Programming costs (% of sales)	47.1%	40.0%	38.5%	37.0%	35.0%
Programming costs (Rs/sub/month)	85.6	73.0	73.2	72.7	70.1
SAC (Rs/sub)	2,680	2,600	2,539	2,720	2,920
EBITDA margin	-16.7%	8.8%	16.5%	21.5%	25.0%
Capex as % to sales	76.6%	38.7%	37.1%	26.8%	20.2%

Source: Company data, UBS estimates

We expect Dish TV's net subscriber base to increase from 5.7m in FY10 to 7.6m in FY11 and 9.1m in FY12, led by rising income levels, increasing consumer awareness, and multiple sports events being held in FY11. While we continue to expect Dish TV to grow its subscriber base, its market share is likely to continue to decline as other DTH operators such as Bharti (Digital TV) appear to be in subscriber acquisition mode. We think Bharti is likely to benefit from its stronger brand image in the mobile business.

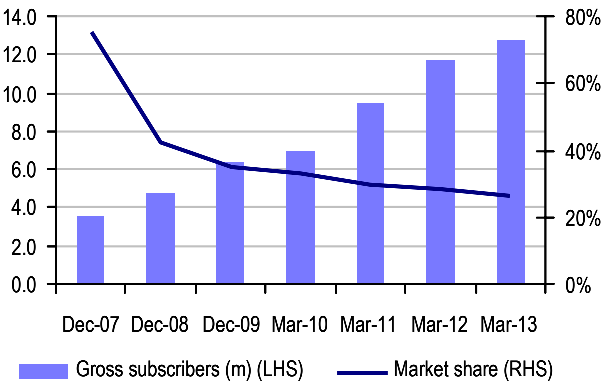
Expect Dish TV ARPU to improve in FY11

We expect Dish TV's ARPU to increase marginally as it has introduced newer packages in the low-mid level range, which offer more channels and services, with a view to migrate existing subscribers to these packages. Additionally, some of the sports channels are not part of the base packages, and subscribers need to pay extra for these. We believe this will also help improve ARPU.

Dish TV now has fixed price contracts with broadcasters for a significant proportion of its content costs. While the content cost is not linked to subscriber base criteria, we expect content cost to increase on an absolute basis when these contracts are due for renewal. Also, Dish TV is likely to add a few more TV channels to its content offering, which could lead to an increase in content costs on an absolute basis. However, we expect programming costs to decline marginally on a per subscriber basis. We think programming costs (or content costs) could be low in India as a significant number of channels are free-to-air. While there were 485 channels registered in India as of December 2009 according to the TRAI, only 142 were pay channels.

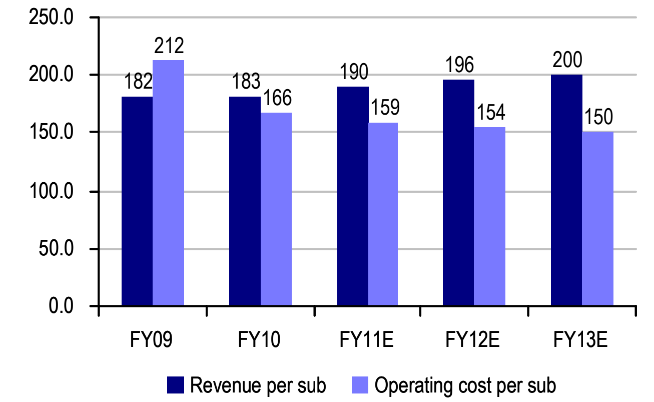
Content cost to decline as a percentage of sales

Chart 8: Dish TV market share is likely to be under pressure



Source: Company data, UBS estimates

Chart 9: Dish TV revenue and cost per subscriber (Rs/month)



Source: Company data, UBS estimates

Balance sheet

Table 15: Consolidated balance sheet

As at 31 March (Rs m)	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Net tangible fixed assets	2,401	8,285	9,599	13,345	14,509	16,818	18,281	18,679
Net working capital	(628)	(7,045)	(9,368)	(9,127)	(9,857)	(10,162)	(10,786)	(10,794)
Total invested capital	1,772	1,240	231	4,218	4,653	6,656	7,495	7,885
Investments/other assets	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4
Total capital employed	1,772	1,240	231	4,218	4,653	6,656	7,496	7,885
Net (cash)/debt	185	1,809	4,942	10,692	4,872	8,021	8,856	8,336
Shareholders' funds	1,587	(569)	(4,710)	(6,475)	(219)	(1,365)	(1,361)	(451)
Total capital employed	1,772	1,240	231	4,218	4,653	6,656	7,496	7,885
Fixed asset growth	55%	245%	16%	39%	9%	16%	9%	2%
Working capital growth	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
Capital employed growth	-7%	-30%	-81%	1725%	10%	43%	13%	5%

Source: Company data, UBS estimates

Dish TV has funded its operations through a combination of new debt and new equity over the past few years. It announced a rights issue in October 2008 and raised money from it in three tranches—Rs7.24bn in the first two tranches and Rs4.16bn in the third tranche. Dish TV also received funding of US$100m (Rs4.65bn) from US-based Apollo Management, through a GDR issue. Apollo now has an 11% stake in Dish TV. Dish TV had cash of approximately Rs6.5bn at end-March 2010, post the rights and GDR issues.

Table 16: Consolidated net working capital

As at 31 March (Rs m)	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Accounts receivable	101	418	403	526	526	775	1,077	1,401
Inventory	5	12	58	32	47	66	86	101
Other current assets	1,149	1,555	1,876	6,706	10,330	13,597	16,705	18,628
Accounts payable	(1,883)	(9,010)	(11,657)	(16,311)	(20,660)	(24,475)	(28,497)	(30,736)
Other short-term liabilities	-	(20)	(48)	(80)	(100)	(125)	(157)	(188)
Net working capital	(628)	(7,045)	(9,368)	(9,127)	(9,857)	(10,162)	(10,786)	(10,794)
Days of receivables	70	80	36	26	18	19	20	22
Days of Inventory	2	2	6	2	3	3	3	3
Days of payables	751	1,490	1,177	1,094	1,100	1,007	947	901
Days of NWC	(435)	(1,342)	(828)	(451)	(331)	(246)	(200)	(169)

Source: Company data, UBS estimates

DTH works on a prepaid model in India, hence the working capital is negative. Other current assets are primarily loans and advances.

Cash flow

Table 17: Consolidated cash flow statement

Year to 31 March (Rs m)	2006	2007	2008	2009	2010E	2011E	2012E	2013E
EBIT	(926)	(2,329)	(3,654)	(3,521)	(2,084)	(805)	430	1,523
Depreciation	49	624	1,570	2,289	3,044	3,292	3,797	4,298
Change in working cap	293	3,826	2,781	(640)	730	306	624	8
Other operating	42	10	9	112	-	-	-	-
Operating cash flow	(542)	2,131	706	(1,761)	1,690	2,793	4,851	5,830
Interest	(6)	(86)	(469)	(737)	(544)	(451)	(590)	(601)
Taxes paid	(1)	(11)	(26)	(24)	-	-	-	-
Capex	(1,015)	(3,617)	(3,289)	(5,470)	(4,208)	(5,601)	(5,260)	(4,696)
Investment in affiliates	182	-	2	-	(0)	-	-	-
Free cash flow	(1,564)	(1,583)	(3,077)	(7,993)	(3,063)	(3,259)	(1,000)	532
Share issues/buybacks	619	-	-	3,109	8,810	-	-	-
Other	660	(41)	(58)	(867)	74	110	164	(12)
Cash flow (increase)/decrease in net debt	(103)	(1,624)	(3,132)	(5,751)	5,820	(3,148)	(836)	520
Free cash flow yield	n/a	n/a	-8.5%	-44.2%	-8.0%	-8.5%	-2.6%	1.4%
Dividend yield	n/a	n/a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capex/sales	192.5%	188.8%	79.7%	74.1%	38.7%	37.1%	26.8%	20.2%
Net debt to equity	11.7%	-317.8%	-104.9%	-165.1%	-2224.4%	-587.8%	-650.9%	-1848.6%

Source: Company data, UBS estimates

We expect Dish TV to achieve free cash flow breakeven in FY13, as it continues to invest in subscriber growth. The company’s capex-to-sales ratio has been high in the past few years as it has grown its subscriber base and a significant proportion of capex relates to CPE. Dish TV has increased its subscriber base by an average of 50% pa in the past two years. Although we estimate capex to sales will decline from current levels, we expect it to remain high in absolute terms as the company continues to grow its subscriber base.

Return on capital

Table 18: ROE/ROCE decomposition

	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Asset turnover	29.8%	127.2%	561.3%	331.8%	245.2%	267.2%	277.8%	302.8%
EBIT margin	-175.6%	-121.6%	-88.5%	-47.7%	-19.2%	-5.3%	2.2%	6.5%
EBIT ROIC	-52.2%	-154.7%	-496.9%	-158.3%	-47.0%	-14.2%	6.1%	19.8%
Taxes	100.2%	100.0%	100.2%	100.1%	100.0%	100.0%	80.0%	80.0%
Returns on invested capital	-52.3%	-154.7%	-497.7%	-158.5%	-47.0%	-14.2%	4.9%	15.8%
IC as % of capital employed	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Returns on other invested capital	57490.6%	179366.8%	131846.8%	50219.2%	31599.0%	25072.7%	30089.1%	39115.9%
Other assets/CE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Returns on capital employed	-51.5%	-151.6%	-493.1%	-157.9%	-45.3%	-12.3%	6.7%	18.1%
Leverage	117.0%	311.2%	-31.8%	-54.4%	-168.4%	-1177.6%	-4.3%	-555.3%
Minorities	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Exceptional	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
ROE	-60.3%	-471.8%	156.9%	86.0%	76.3%	144.7%	-0.3%	-100.4%

Source: Company data, UBS estimates

Dish TV has reported negative EBIT and a net loss in the past few years, and consequently negative ROCE. We forecast it to achieve net profit breakeven in FY12. We expect Dish TV to report positive ROCE beginning in FY12.

ROE data is not meaningful because shareholder funds are negative for Dish TV due to the accumulated losses (shareholder equity was negative Rs6,475m in FY09) and are likely to remain negative until FY13.

Valuation

Price target derivation

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. Our price target assumes beta of 1.25 and WACC of 12.73%. We forecast revenue to grow 5% pa in the longer term (+25 years) and EBIT margin to increase to 17.5% over the same period, led by economies of scale.

VCAM is a DCF and an economic profit model

VCAM is a discounted cash flow (DCF) and economic profit analysis (EPA) valuation methodology which calculates economic profit along with free cash flows each year.

- It assumes that a company's DCF Value = Current earnings [NOPAT] valued in perpetuity + present value of all future incremental economic profit
- The accompanying economic profit forecast indicates whether or not free cash flow is value-added and it is economic profit growth that justifies an intrinsic value greater than the company's current earnings valued in perpetuity.
- A key assumption in the VCAM model is the value creation horizon (VCH), which refers to the number of future years a company is expected to generate ***incremental*** economic profits. At the end of the VCH, we value the NOPAT into perpetuity to calculate terminal value.
- The major subjective drivers of our VCAM price targets are long-term margin assumptions and the weighted average cost of capital (WACC).

Our sensitivity and valuation tables come directly from VCAM and clients are free to modify the data and/or use their own assumptions on our website *(www.ubs.com/investmentresearch)*. The site also has a number of tools including sensitivity analysis, long-term trends, and a goal seeker, and an extensive VCAM user guide.

Table 19: UBS VCAM Valuation Summary for Dish TV [DSTV.BO]

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	(805)	430	1,523	3,277	4,579	5,268	5,845	6,484	7,193	7,979
D&A*	3,292	3,797	4,298	4,734	4,776	5,284	5,813	6,394	7,034	7,737
Capex	(5,601)	(5,260)	(4,696)	(4,615)	(4,653)	(6,606)	(7,266)	(7,993)	(8,792)	(9,671)
Chg. in wkg. cap.	3,548	3,700	1,900	2,528	2,841	1,193	1,424	1,358	1,266	1,142
Tax (operating)	0	(86)	(305)	(655)	(916)	(814)	(904)	(1,002)	(1,112)	(1,234)
Other	(125)	(134)	(107)	(98)	(101)	(328)	(363)	(402)	(444)	(492)
Free Cash Flow	310	2,446	2,614	5,170	6,526	3,998	4,549	4,840	5,144	5,461
growth		*690.2%*	*6.8%*	*97.8%*	*26.2%*	*-38.7%*	*13.8%*	*6.4%*	*6.3%*	*6.2%*

Valuation	
PV of explicit cash flow	48,482
PV of terminal value (yr. 25)	8,151
Enterprise Value	56,633
% terminal	*14%*
Associates & other	0
- Minority interests	0
Surplus cash**	3,695
- Debt***	9,498
Equity value	50,831
Shares outstanding	1,063.4
Equity per share (Rs/sh)	47.80
Cost of equity	14.05%
Dividend yield	0.00%
1-year Price Target (Rs/sh)	54.52

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	10.0%	9.0%	5.0%
EBIT margin	16.5%	17.0%	17.5%
Capex/sales	20.0%	20.0%	20.0%
ROIC	36.0%	30.3%	28.0%

Valuation-Implied Metrics			
Fiscal year	2011E	2012E	1-yr Fwd.
EV / EBITDA	22.8x	13.4x	20.1x
EV / EBIT	NM	131.8x	NM
FCF Yield	0.5%	4.3%	1.2%
P / E (PV)	NM	13000.2x	NM
P / E (Target)	NM	14827.0x	NM

WACC	
Risk free rate	7.80%
ERP	5.0%
Beta	1.25
Debt / equity***	21.7%
Marg. tax rate	30.0%
Cost of equity	14.05%
Cost of debt	9.50%
WACC	12.73%

Terminal Assumptions	
VCH (years)	25
Impl. FCF gr.	-1.6%
Incr. ROIC	12.8%

Figures in Rs m, unless noted otherwise.

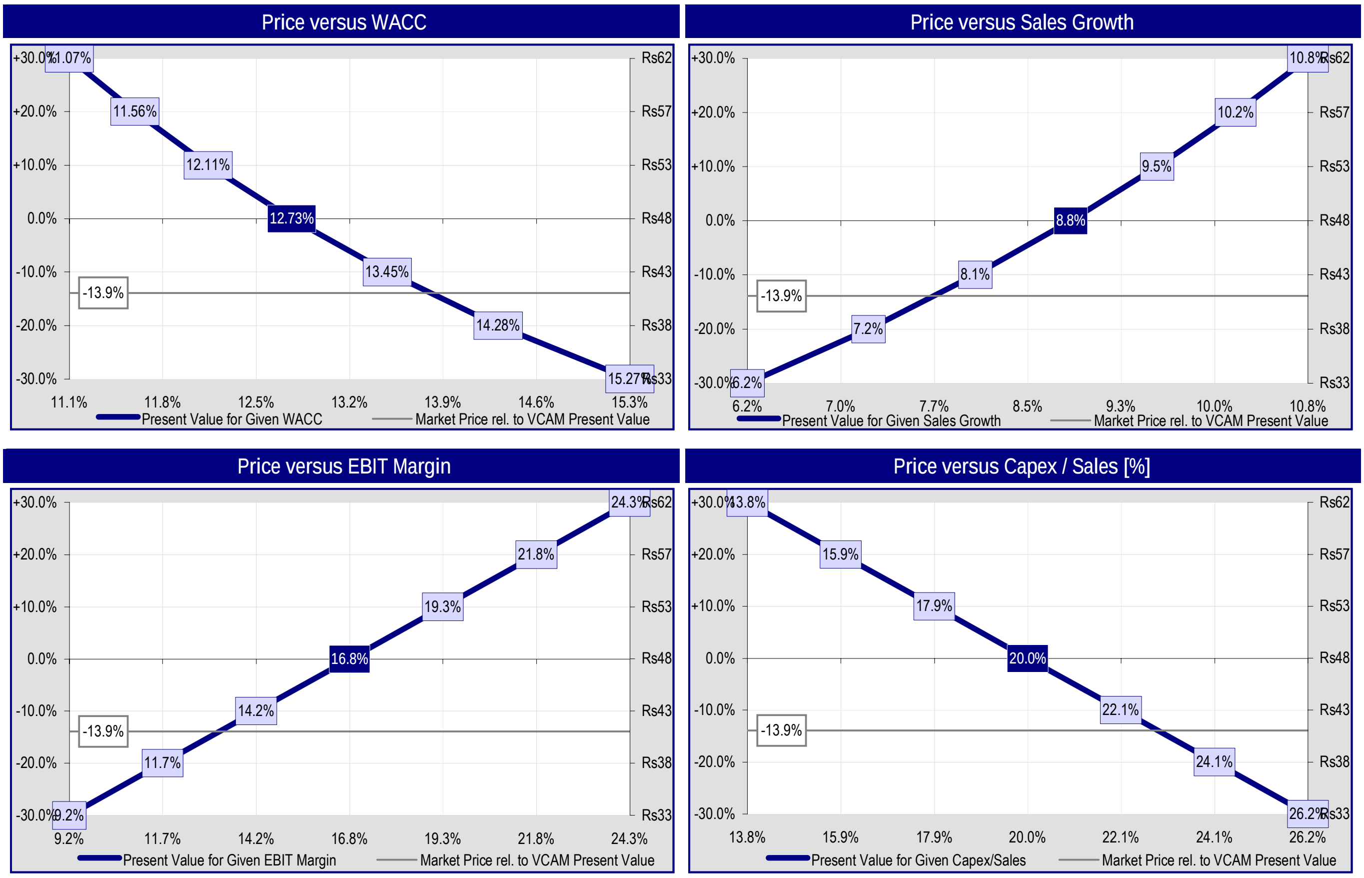
* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

Chart 10: UBS VCAM Sensitivities for Dish TV [DSTV.BO]



Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 4 through the VCH.
Explicit estimates in years 1 through 5 do not vary, and always represent the assumptions on the Inputs Page.
For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page.

Source: UBS VCAM

Comparables

The only India-listed direct comparables to Dish TV are cable TV distributors Wire and Wireless India (WWIL), Hathway Cable & Datacom (Hathway), and DEN. However, we think comparison with cable TV distributors may not be appropriate as DTH is a more capital intensive business with a higher operating cost structure. The listed telecom companies in India are predominantly mobile operators and hence are not comparable.

Table 20: Valuation comparison: India media sector

			Price	PT	%	Mkt cap	EPS (Rs)		PE (x)		EV/EBITDA (x)	
	Category	Rating	(Rs)	(Rs)	upside	(US$ m)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Dish TV	DTH	Buy	40.15	55.00	37.0%	808	(1.1)	0.0	n/m	n/m	17.9	11.0
Hathway	Cable	Buy	187.35	275.00	46.8%	569	4.9	6.2	38.0	30.3	10.8	8.6
Zee Entertainment	Broadcaster	Buy	282.85	345.00	22.0%	2,611	12.7	15.3	22.2	18.4	13.6	11.3
Sun TV	Broadcaster	Sell	393.05	400.00	1.8%	3,294	15.7	18.6	25.1	21.2	11.7	10.0
WWIL*	Cable	Not Rated	13.91	n/a	n/a	134	(1.9)	(1.1)	n/m	n/m	n/m	n/m
DEN Network*	Cable	Not Rated	198.25	n/a	n/a	554	3.3	4.3	60.1	46.1	17.3	11.6

Prices as of 9 June 2010. Source: *Bloomberg consensus estimates, UBS estimates

We prefer Hathway to Dish TV as we are more positive on the digital cable subscriber growth prospects as compared to DTH. We believe Hathway has an advantage as it offers cable TV and cable broadband services, which helps improve revenue potential and profitability.

Prefer Hathway Cable & Datacom to Dish TV

Table 21: Global satellite companies valuation comparison

	Share price	PE (x)			EV/EBITDA (x)			Earnings growth (%)			EBITDA growth (%)			ROIC (%)		
		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
DIRECTV Group	US$37.7	15.3	11.0	8.3	6.2	5.6	5.2	69.8%	39.2%	32.2%	17.8%	11.7%	6.9%	55.1%	69.6%	81.7%
DISH Network	US$ 20.2	11.0	10.6	9.7	5.4	5.1	4.9	-17.9%	3.8%	10.1%	0.2%	6.5%	4.8%	40.3%	44.8%	51.1%
America average		13.2	10.8	9.0	5.8	5.3	5.0									
BSkyB	574p	19.3	15.2	11.8	9.5	7.8	6.1	16.2%	26.9%	29.3%	7.2%	17.0%	21.3%	71.7%	85.6%	105.4%
Cyfrowy Polsat	PLN14.9	16.4	14.6	13.6	11.0	9.7	8.5	9.2%	11.7%	7.3%	16.6%	12.9%	14.3%	102.4%	90.0%	82.5%
Sky Deutschland	€1.2	n/a	n/a	n/a	n/a	n/a	n/a	-39.7%	-49.6%	-70.5%	-32.0%	-76.5%	-217.9%	-53.6%	-38.3%	-0.7%
EMEA Average		17.8	14.9	12.7	10.2	8.7	7.3									
Austar United Communication	A$1.0	21.1	16.7	13.7	8.7	8.3	6.7	73.7%	26.0%	22.1%	14.6%	13.1%	9.7%	44.3%	52.2%	59.2%
Sky Network	NZ$4.6	17.3	13.4	12.5	7.7	6.5	6.2	13.7%	29.5%	6.8%	11.7%	17.9%	2.5%	11.7%	13.0%	14.3%
APAC average		19.2	15.0	13.1	8.2	7.4	6.4									

Data as of 9 June 2010. Data calendarised to ensure comparison. Source: UBS estimates

Pay-TV companies trade at a global average of 7.4x 2011E EBITDA. While most of these companies operate in developed markets, which are already saturated or are close to saturation, India is likely to remain a high growth market over the next few years. We believe Dish TV is likely to have higher EBITDA growth beyond FY12 than global peers and is likely to trade at a premium to them.

Table 22: Global satellite TV companies ARPU and EV/video subscriber

	EV/subscriber (US$)				ARPU (US$)			
	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E
DIRECTV Group Inc.	1,949	2,039	1,999	1,973	85.3	87.9	90.8	93.9
DISH Network Corp.	1,060	1,003	988	977	70.0	71.6	73.7	75.9
Americas average	1,504	1,521	1,493	1,475	77.7	79.7	82.2	84.9
BSkyB	1,972	1,544	1,435	1,319	53.7	56.8	60.9	64.7
Cyfrowy Polsat	403	331	310	302	11.7	12.0	12.2	12.5
Sky Deutschland	692	384	399	383	31.6	37.5	38.9	40.7
EMEA average	1,022	753	715	668	32.3	35.4	37.4	39.3
Austar United Communications	3,086	2,254	2,226	1,807	62.2	65.0	66.9	69.0
Sky Network Television	2,321	1,879	1,763	1,634	42.7	45.3	47.4	48.2
APAC average	2,703	2,067	1,994	1,720	52.4	55.1	57.2	58.6
Dish TV India	178	133	111	98	3.0	3.1	3.2	3.3

Source: Company data, UBS estimates

Dish TV is trading at a significant discount to the global average on an EV/subscriber basis, despite being in a higher growth phase.

Appendix

Company background

Dish TV commenced operations in October 2003 and is the first and the largest DTH operator with an estimated 33% subscriber share in FY10. It is part of Essel Group, a media conglomerate, and was formed after the demerger of Zee Entertainment's Direct Consumer Services business. Dish TV was listed in April 2007 and recently raised Rs4.16bn in the third and final tranche of a rights issue. It raised Rs7.24bn in the first two tranches. It also received funding of US$100m (Rs4.65bn) from US-based Apollo Management, through a GDR issue.

Table 23: Key management personnel

Name	Designation	Responsibilities
Subhash Chandra	Non-Executive Chairman	Mr Chandra is the promoter of Essel Group of Companies.
Jawahar Lal Goel	Managing Director	Mr Goel has been the Managing Director of Dish TV since January 2007.
Salil Kapoor	Chief Operating Officer	Mr Kapoor has been the Chief Operating Officer since July 2008. He is responsible for sales, marketing, service and overall supervision of the regional offices.
Rajiv Khattar	President Projects	Mr Khattar has been the President-Projects since September 2005. He is responsible for strategic tie-ups and technology upgrades of the DTH platform.
Amitabh Kumar	President Technology	Since September 2005, Mr Kumar has been responsible for the company's broadcasting operations. Prior to joining Dish, he held various senior positions in the industry including acting Chairman and Managing Director of Tata Communications. Mr Kumar has 31 years of experience in the telecom industry.
Rajeev Dalmia	CFO	Mr Dalmia has 20 years experience in the finance industry. He is a qualified Chartered Accountant from the Institute of Chartered Accountants of India.

Source: Company

Table 24: Shareholding trend

%	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Promoter												
Indian	45.8	45.7	45.7	45.7	45.7	45.7	45.7	74.6	69.0	69.0	61.4	61.4
Foreign	12.2	12.3	12.3	12.3	12.3	12.3	12.3	5.5	3.8	3.8	3.4	3.4
Public												
Mutual funds / UTI	6.1	5.2	4.3	4.1	3.2	3.7	4.0	2.2	5.0	5.3	5.4	4.7
Financial institutions / banks	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Insurance companies	2.8	2.8	2.8	2.9	2.9	2.9	2.9	1.3	1.3	1.4	1.2	1.1
FII	24.6	19.1	15.3	14.9	12.7	10.1	10.2	5.5	5.1	4.3	4.4	5.6
Bodies corporate	4.3	6.8	7.1	6.2	7.3	8.4	6.2	2.7	6.7	7.0	5.1	4.9
Individuals	3.8	7.8	12.1	13.4	15.4	16.1	18.0	7.9	8.8	8.8	7.7	7.5
Others	0.4	0.4	0.5	0.5	0.6	0.6	0.8	0.3	0.3	0.4	0.4	0.4
Shares held by custodian	-	-	-	-	-	-	-	-	-	-	11.0	11.0

Source: BSE

Dish TV India

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	456	527	1,916	4,128	7,381	10,873	47.3	15,108	38.9	19,653	30.1
Operating expenses (ex depn)	(774)	(1,404)	(3,622)	(6,212)	(8,614)	(9,913)	15.1	(12,621)	27.3	(15,426)	22.2
EBITDA (UBS)	(318)	(877)	(1,706)	(2,084)	(1,233)	960	-	2,487	159.1	4,227	69.9
Depreciation	(48)	(49)	(624)	(1,570)	(2,289)	(3,044)	33.0	(3,292)	8.2	(3,797)	15.3
Operating income (EBIT, UBS)	(366)	(926)	(2,329)	(3,654)	(3,521)	(2,084)	-40.8	(805)	-61.4	430	-
Other income & associates	41	15	46	34	13	74	475.0	110	50.0	165	50.0
Net interest	(33)	(43)	(118)	(513)	(1,293)	(544)	-57.9	(451)	-17.2	(590)	30.9
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	(358)	(954)	(2,401)	(4,134)	(4,801)	(2,555)	-46.8	(1,146)	-55.2	5	-
Tax	0	(2)	0	(7)	(6)	0	-	0	-	(1)	-
Profit after tax	(358)	(956)	(2,401)	(4,141)	(4,807)	(2,555)	-46.9	(1,146)	-55.2	4	-
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	(358)	(956)	(2,401)	(4,141)	(4,807)	(2,555)	-46.9	(1,146)	-55.2	4	-
Net Income (UBS)	(358)	(956)	(2,401)	(4,141)	(4,807)	(2,555)	-46.9	(1,146)	-55.2	4	-
Tax rate (%)	0	0	0	0	0	0	-	0	-	20	-
Pre-abnormal tax rate (%)	0	0	0	0	0	0	-	0	-	20	-

Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	(0.50)	(1.34)	(5.61)	(9.67)	(5.08)	(2.40)	-52.7	(1.08)	-55.2	0.00	-
EPS (UBS)	(0.50)	(1.34)	(5.61)	(9.67)	(5.08)	(2.40)	-52.7	(1.08)	-55.2	0.00	-
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	(0.43)	(1.27)	(4.15)	(6.00)	(2.66)	0.46	-	2.02	338.8	3.57	77.1
BVPS	4.27	3.71	(1.33)	(11.00)	(6.84)	(0.21)	-97.0	(1.28)	523.0	(1.28)	-0.3

Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	1,552	2,401	8,285	9,599	13,345	14,509	8.7	16,818	15.9	18,281	8.7
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	362	(628)	(7,045)	(9,368)	(9,127)	(9,857)	8.0	(10,162)	3.1	(10,786)	6.1
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	1,914	1,772	1,240	231	4,218	4,653	10.3	6,656	43.0	7,495	12.6
Investments	0	0	0	0	0	0	1625.5	0	0.0	0	0.0
Total capital employed	1,914	1,772	1,240	231	4,218	4,653	10.3	6,656	43.0	7,496	12.6
Shareholders' equity	1,827	1,587	(569)	(4,710)	(6,475)	(219)	-96.6	(1,365)	523.0	(1,361)	-0.3
Minority interests	5	0	0	0	0	0	-	0	-	0	-
Total equity	1,832	1,587	(569)	(4,710)	(6,475)	(219)	-96.6	(1,365)	523.0	(1,361)	-0.3
Net debt / (cash)	82	185	1,809	4,942	10,692	4,872	-54.4	8,021	64.6	8,856	10.4
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	1,914	1,772	1,240	231	4,218	4,653	10.3	6,656	43.0	7,496	12.6

Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	(366)	(926)	(2,329)	(3,654)	(3,521)	(2,084)	-40.8	(805)	-61.4	430	-
Depreciation	48	49	624	1,570	2,289	3,044	33.0	3,292	8.2	3,797	15.3
Net change in working capital	280	293	3,826	2,781	(640)	730	-	306	-58.1	624	104.0
Other (operating)	0	0	0	0	0	0	-	0	-	0	-
Operating cash flow	(39)	(585)	2,121	697	(1,873)	1,690	-	2,793	65.3	4,851	73.7
Net interest received / (paid)	3	(6)	(86)	(469)	(737)	(544)	-26.1	(451)	-17.2	(590)	30.9
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(4)	(1)	(11)	(26)	(24)	0	-	0	-	0	-
Capital expenditure	(69)	(1,015)	(3,617)	(3,289)	(5,470)	(4,208)	-23.1	(5,601)	33.1	(5,260)	-6.1
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(262)	857	79	9	(29)	73	-	110	50.9	165	50.0
Share issues	377	619	0	0	3,109	8,810	183.4	0	-	0	-
Cash flow (inc)/dec in net debt	32	(89)	(1,503)	(3,068)	(4,913)	5,820	-	(3,148)	-	(835)	-73.5
FX / non cash items	(14)	(14)	(120)	(65)	(838)	0	-	0	-	(1)	-
Balance sheet (inc)/dec in net debt	17	(103)	(1,624)	(3,132)	(5,751)	5,820	-	(3,148)	-	(836)	-73.5
Core EBITDA	(318)	(877)	(1,706)	(2,084)	(1,233)	960	-	2,487	159.1	4,227	69.9
Maintenance capital expenditure	(69)	(1,015)	(3,617)	(3,289)	(5,470)	(4,208)	-23.1	(5,601)	33.1	(5,260)	-6.1
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	(388)	(1,892)	(5,323)	(5,373)	(6,703)	(3,248)	-51.5	(3,114)	-4.1	(1,034)	-66.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Entertainment

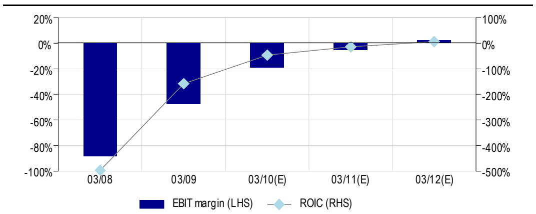
Dish TV India

12-month rating	Buy
12m price target	Rs55.00

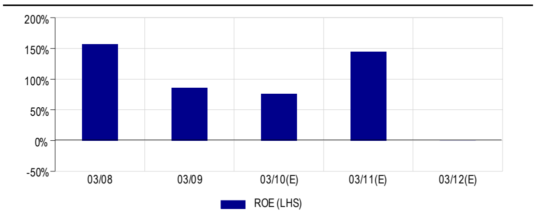
Company profile

Dish TV commenced operations in October 2003 and is the first and the largest DTH operator in India with 5.7m subscribers in FY10. It is part of Essel Group, a media conglomerate, and was formed after the demerger of Zee Entertainment's Direct Consumer Services business. Dish TV was listed in April 2007 and recently raised Rs4.16bn in the third and final tranche of a rights issue. It also received funding of US$100m (Rs4.65bn) from US-based Apollo Management, through a GDR issue.

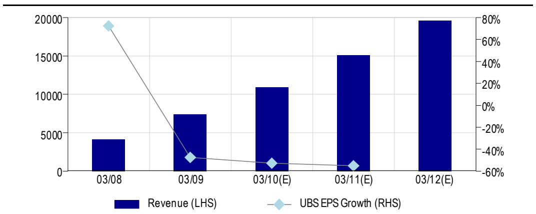
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	-	NM	NM	NM	NM	NM
P/E (UBS)	-	-8.7	-6.0	-16.7	-37.3	>100
P/CEPS	-	NM	NM	NM	19.9	11.2
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	NM	NM	NM	NM	NM
EV/revenue (core)	-	9.6	3.5	4.2	2.9	2.4
EV/EBITDA (core)	-	-18.9	-21.0	47.7	17.9	11.0
EV/EBIT (core)	-	NM	NM	NM	NM	NM
EV/OpFCF (core)	-	NM	NM	NM	NM	NM
EV/op. invested capital	-	NM	NM	NM	7.9	6.6

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	36,074	18,103	37,997	37,997	37,997
+ minority interests	0	0	0	0	0
+ average net debt (cash)	3,375	7,817	7,782	6,446	8,438
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	39,449	25,920	45,779	44,443	46,435

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	41.6	115.4	78.8	47.3	38.9	30.1
EBITDA (UBS)	-	22.2	-40.8	-	159.1	69.9
EBIT (UBS)	-	56.9	-3.6	-40.8	-61.4	-
EPS (UBS)	-	72.5	-47.5	-52.7	-55.2	-
Cash EPS	-	44.7	-55.7	-	NM	77.1
Net DPS	-	-	-	-	-	-
BVPS	-	NM	-37.8	-97.0	NM	-0.3

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	NM	NM	NM	8.8	16.5	21.5
EBIT / revenue	-96.1	-88.5	-47.7	-19.2	-5.3	2.2
Net profit (UBS) / revenue	NM	NM	NM	NM	NM	0.0

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	-	NM	NM	NM	NM	6.1
ROIC post tax	-	NM	NM	NM	NM	4.9
Net ROE	-79.4	156.9	86.0	76.3	144.7	(0.3)

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	-	-	-	-	-	1.0
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	NM	NM	NM	5.1	3.2	2.1

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	-	5.6	3.3	2.5	2.7	2.8
Revenue / fixed assets	-	0.5	0.6	0.8	1.0	1.1
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	-	1.5	1.9	1.6	3.9	NM
Capex / revenue (%)	-	NM	NM	NM	NM	26.8
Capex / depreciation	-	2.1	2.4	1.4	1.7	1.4

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	NM	NM	NM	NM	NM	NM
Net debt (core) / EV	-	8.6	30.2	17.0	14.5	18.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs40.15 on 09 Jun 2010 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Dish TV India

Dish TV commenced operations in October 2003 and is the first and the largest DTH operator in India with 5.7m subscribers in FY10. It is part of Essel Group, a media conglomerate, and was formed after the demerger of Zee Entertainment's Direct Consumer Services business. Dish TV was listed in April 2007 and recently raised Rs4.16bn in the third and final tranche of a rights issue. It also received funding of US$100m (Rs4.65bn) from US-based Apollo Management, through a GDR issue.

■ Statement of Risk

We believe the key risks for Dish TV are: 1) intense competition from other DTH operators as well as large multi-system operators that offer digital cable; and 2) regulatory risks. We believe content costs could increase for Dish TV if broadcasters negotiate a variable fee structure based on the number of subscribers. Dish TV is also exposed to currency risks as it imports set top boxes.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	50%	39%
Neutral	**Hold/Neutral**	40%	33%
Sell	**Sell**	11%	24%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	29%
Sell	**Sell**	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Dish TV India	DSTV.BO	Not Rated	N/A	Rs40.15	09 Jun 2010
Hathway Cable & Datacom[2, 4, 5]	HAWY.BO	Buy	N/A	Rs187.45	09 Jun 2010

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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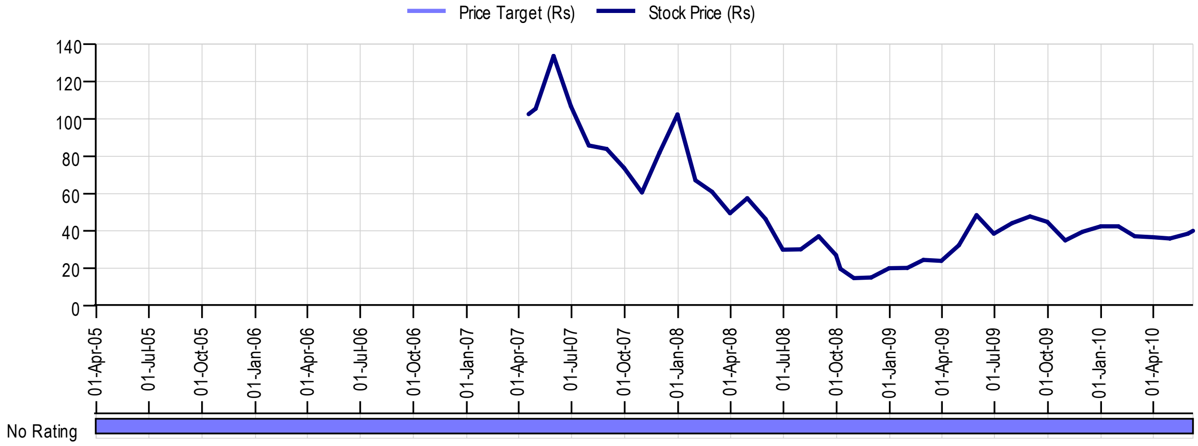
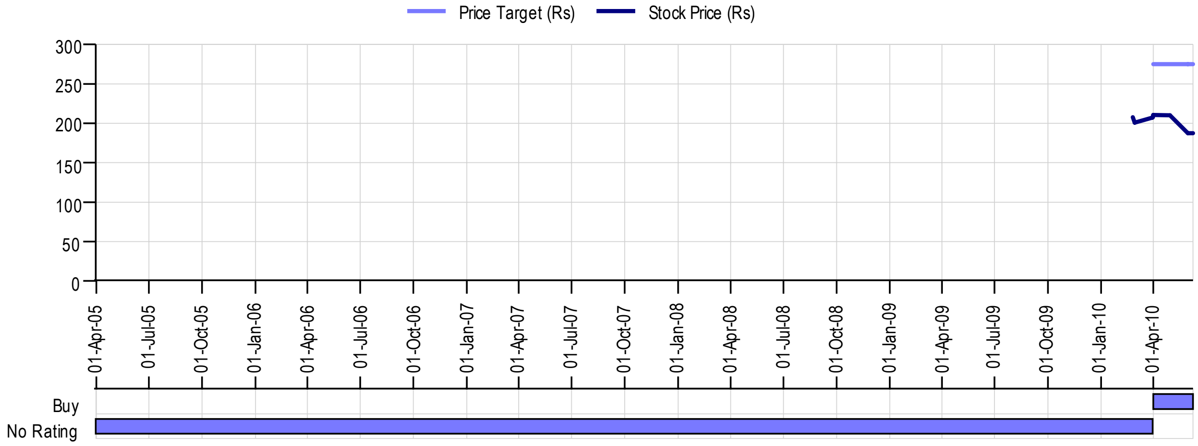
Dish TV India (Rs)



Source: UBS; as of 09 Jun 2010

Hathway Cable & Datacom (Rs)



Source: UBS; as of 09 Jun 2010

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