

Dish TV India Ltd.

CMP: Rs 34

Target Price: Rs 59

DOLAT CAPITAL

Media / Buy

Dish TV Q2FY10 revenues were in line with our expectation with subscriber addition of 0.41 million. Reported ARPU has declined marginally from Rs 142 p.m to Rs 139 p.m. Higher S&D expenses are an indication of increased competitive activity in the sector. Dish TV offers an opportunity to participate in high growth Indian M&E space, with annuity like revenue flow and staggered capex commitment over a period of time. We value Dish TV on DCF for its predictability of revenue streams. We maintain Buy on the stock with DCF based 12 month price target of Rs 59.

Q2FY10 Result

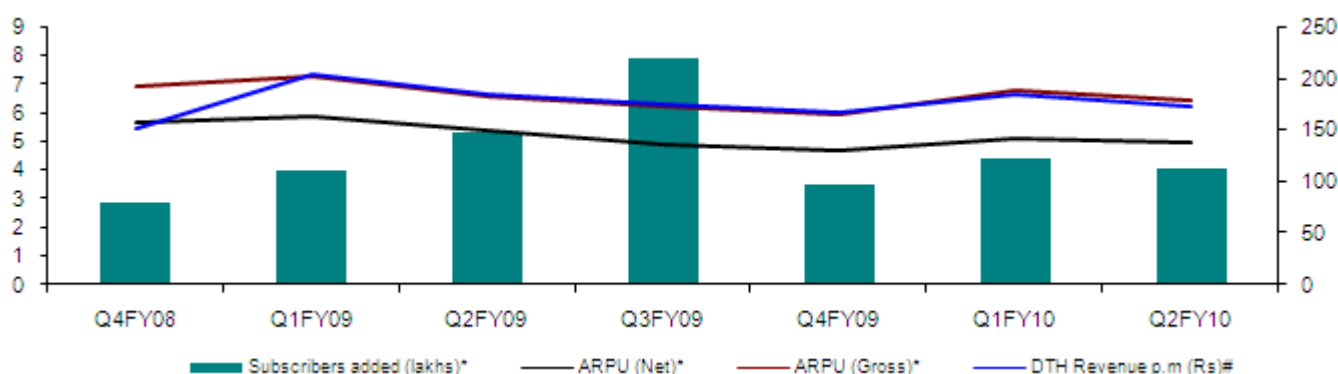
Particulars (Rs mn)	Q2FY10	Q2FY09	YoY(%)	Q1FY10	QoQ(%)
Sales	2575	1733	48.6	2467	4.4
Total Expenditure	2344	2218	5.7	2322	1.0
Content/Programming Cost	1128	980	15.2	1068	5.7
Content cost % of sales	44	57		43	
EBIDTA (Exl OI)	231	-486	-	145	59.1
OPM(%)	9.0	-28.0		5.9	
PAT	-562	-1153	-	-692	-
NPM(%)	-21.8	-66.5		-28.1	

Subscriber addition:

The company has added 0.41 million subscribers representing 50% YoY and 7% QoQ growth. We expect higher subscriber addition on account of increased demand from festive season.

Revenue:

Dish TV reported revenue of Rs 2.57 Bn in Q2FY10 as compared to Rs 2.46 Bn in Q1FY10 – an increase of 4.4%. This was the result of 7% sequential growth in net subscriber base and decline of 2% in ARPU.



Source : Company, Dolat Research; Note: * Given by the company, # Calculated by us

Profitability:

The company reported 9% OPM though the content/programming cost was up sequentially by 6%. Lower advertisement and commission cost has helped the company to post positive EBIDTA of Rs 231 Mn for the third successive quarter.

With depreciation charge of Rs 730 Mn, net loss stands at Rs 562 Mn in Q2FY10 as compared to Rs 692 million in Q1FY10.

Key to watch for:

Excessive promotional activities

Last year, industry has witnessed 3 new players in DTH with heightened promotional activities, which has increased subscriber acquisition cost from Rs 2000-2500 to Rs 3000. Subscriber acquisition cost now stands at Rs 2635 in Q2FY10.

Alternate technology poses biggest threat

3G and Mobile TV though at nascent stage poses biggest risk as they provide truly personalized experience. Any technology breakthrough in cable or IPTV will offer many choices to customers.

Valuation

At CMP, the stock quotes at 3x FY10E EV/Sales. We value Dish TV on DCF for its predictability of revenue streams. We maintain Buy on the stock with DCF based 12 month price target of Rs 59.

INCOME STATEMENT						Rs.mn	IMPORTANT RATIOS								
Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E	Mar'12E		Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E	Mar'12E			
Net Sales						4,127.4	7,376.9	11,848.9	17,158.5	24,068.9	(A) Measures of Performance (%)				
Other income	29.7	12.7	178.0	360.0	480.0		Contribution Margin								
Total Income	4,157.2	7,389.7	12,026.9	17,518.5	24,548.9		EBIDTA Margin (excl. O.I.)	(52.1)	(18.3)	12.8	16.0	25.0			
Total Expenditure	6,279.6	8,727.3	10,331.1	14,409.6	18,058.8		EBIDTA Margin (incl. O.I.)	(51.1)	(18.1)	14.1	17.7	26.4			
EBIDTA (Excl. Other Income)	(2,152.2)	(1,350.3)	1,517.8	2,748.9	6,010.2		Interest / Sales	12.4	17.1	8.8	6.7	0.7			
EBIDTA (Incl. Other Income)	(2,122.4)	(1,337.6)	1,695.8	3,108.9	6,490.2		Gross Profit Margin	(63.4)	(35.2)	5.4	11.2	25.7			
Interest	513.2	1,263.8	1,048.1	1,150.0	180.0		Tax/PBT	(0.2)	(0.2)	11.3	11.3	11.3			
Gross Profit	(2,635.7)	(2,601.4)	647.7	1,958.9	6,310.2		Net Profit Margin	(99.4)	(64.5)	(18.4)	(10.4)	5.6			
Depreciation	1,490.5	2,154.1	3,137.0	4,009.3	4,749.3		(B) As Percentage of Net Sales								
Profit Before Tax & EO Items	(4,126.2)	(4,755.5)	(2,489.3)	(2,050.5)	1,560.9		Raw Material	5.0	1.9	64.0	66.0	61.3			
Extra Ordinary Exps/(Income)	0.0	0.0	0.0	0.0	0.0		Employee Expenses	7.1	5.3	3.3	2.6	2.1			
Profit Before Tax	(4,126.2)	(4,755.5)	(2,489.3)	(2,050.5)	1,560.9		Power, Oil & Fuel	83.1	71.3	9.2	6.6	5.1			
Tax	6.4	7.3	(282.0)	(232.3)	176.9		Selling & Administrative Expenses	49.1	34.0	5.2	5.3	4.0			
Net Profit	(4,132.5)	(4,762.8)	(2,207.3)	(1,818.1)	1,384.1		Provisions & Write Offs	0.0	0.0	0.0	0.0	0.0			
Minority Interest							Other Expenses	7.8	5.7	5.5	3.5	2.5			
Net Profit	(4,132.5)	(4,762.8)	(2,207.3)	(1,818.1)	1,384.1		(C) Measures of Financial Status								
BALANCE SHEET							Debt / Equity (x)	12.3	3.3	2.7	1.3	1.0			
Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E	Mar'12E		Interest Coverage (x)	(4.1)	(1.1)	1.6	2.7	36.1			
Sources of Funds							Average Cost Of Debt (%)	14.6	15.2	8.6	9.4	1.8			
Equity Capital	428.2	687.3	687.3	946.0	946.0		Debtors Period (days)	34.0	25.1	20.0	20.0	20.0			
Preference Capital	0.0	0.0					Closing stock (days)	4.2	1.5	0.0	0.0	0.0			
Share Premium	0.0	0.0	4,083.0	8,166.1	8,166.1		Inventory Turnover Ratio (x)	87.6	238.5	#DIV/0!	#DIV/0!	#DIV/0!			
Other Reserves	0.0	2,792.3					Fixed Assets Turnover (x)	0.5	0.6	0.6	0.7	0.9			
Net Worth	428.2	3,479.6	4,770.3	9,112.1	9,112.1		Working Capital Turnover (x)	(0.5)	(1.0)	(1.6)	(2.8)	(3.9)			
Revaluation reserve							Non Cash Working Capital (Rs Mn)	(8,100.5)	(7,601.6)	(7,719.7)	(7,034.8)	(6,222.8)			
Secured Loans	683.9	2,696.2	0.0	0.0	0.0		(D) Measures of Investment								
Unsecured Loans	4,582.4	8,615.2	13,000.0	11,500.0	9,000.0		EPS (Rs.) (excl EO)	(9.7)	(6.9)	(3.2)	(1.9)	1.5			
Loan Funds	5,266.3	11,311.4	13,000.0	11,500.0	9,000.0		EPS (Rs.)	(9.7)	(6.9)	(3.2)	(1.9)	1.5			
Deferred Tax Liability	0.0	0.0					CEPS (Rs.)	(6.2)	(3.8)	1.4	2.3	6.5			
Total Capital Employed	5,694.5	14,791.0	17,770.3	20,612.1	18,112.1		DPS (Rs.)								
Applications of Funds							Dividend Payout (%)	0.0	0.0	0.0	0.0	0.0			
Gross Block	8,480.4	13,122.8	19,535.7	23,585.7	27,230.7		Profit Ploughback (%)	100.0	100.0	100.0	100.0	100.0			
Less: Accumulated Depreciation	2,164.1	4,316.3	7,453.3	11,462.7	16,211.9		Book Value (Rs.)	1.0	5.1	6.9	9.6	9.6			
Net Block	6,316.3	8,806.4	12,082.3	12,123.0	11,018.7		RoANW (%)	(965.0)	(243.8)	(53.5)	(26.2)	15.2			
Capital Work in Progress	1,379.8	2,380.9	0.0	0.0	0.0		RoACE (%)	(91.8)	(34.1)	(8.9)	(4.7)	9.0			
Investments	944.5	944.5	944.5	944.5	944.5		RoAIC (%) (Excl Cash & Invest.)	(95.6)	(35.4)	(9.2)	(4.9)	9.2			
Current Assets, Loans & Advances							(E) Valuation Ratios								
Inventories	47.1	30.9	0.0	0.0	0.0		CMP (Rs.)	34.0	34.0	34.0	34.0	34.0			
Sundry Debtors	384.4	506.6	649.3	940.2	1,318.8		P/E (x)	(3.5)	(4.9)	(10.6)	(17.7)	23.2			
Cash and Bank Balance	199.4	540.4	535.5	833.6	9.9		Market Cap. (Rs. Mn.)	14,559.6	23,368.1	23,368.1	32,164.0	32,164.0			
Loans and Advances	2,844.2	7,759.6	4,000.0	4,400.0	4,840.0		MCap/ Sales (x)	3.5	3.2	2.0	1.9	1.3			
Other Current Assets							EV (Rs. Mn.)	19,626.4	34,139.1	35,832.6	42,830.4	41,154.1			
sub total	3,475.1	8,837.5	5,184.8	6,173.8	6,168.8		EV/Sales (x)	4.8	4.6	3.0	2.5	1.7			
Less : Current Liabilities & Provisions							EV/EBDITA (x)	(9.1)	(25.3)	23.6	15.6	6.8			
Current Liabilities	11,340.8	15,843.4	12,308.1	12,308.1	12,308.1		P/BV (x)	34.0	6.7	4.9	3.5	3.5			
Provisions	35.3	55.3	60.8	66.9	73.6		Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0			
sub total	11,376.1	15,898.7	12,368.9	12,375.0	12,381.7		E-estimates								
Net Current Assets	(7,901.1)	(7,061.2)	(7,184.1)	(6,201.2)	(6,212.9)		DCF Model								
Misc Expenses/ P&L Bal	4,955.0	9,720.3	11,927.6	13,745.8	12,361.7		Particulars	Mar'07	Mar'08	Mar'09	Mar'10E	Mar'11E	Mar'12E	Mar'20E
Total Assets	5,694.5	14,791.0	17,770.3	20,612.1	18,112.1		PAT	(2,518.8)	(4,132.5)	(4,762.8)	(2,207.3)	(1,818.1)	1,384.1	-	29,179.5
CASHFLOW							Depreciation	575.3	1,490.5	2,154.1	3,137.0	4,009.3	4,749.3	-	840.0
Particulars	Mar'08	Mar'09	Mar'10E	Mar'11E	Mar'12E		Interest(1-T)	117.9	514.0	1,265.8	929.4	1,019.7	159.6	-	70.0
Profit before tax and extra ordinary items	(4,126.2)	(4,755.5)	(2,489.3)	(2,050.5)	1,560.9		Capex	6,103.3	2,563.5	5,643.5	4,032.0	4,050.0	3,645.0	-	1,500.0
Depreciation & w.o.	1,490.5	2,154.1	3,137.0	4,009.3	4,749.3		Inc in Non-Cash	(6,053.1)	(1,776.0)	498.9	(118.1)	684.9	812.0	-	250.0
Net Interest Exp	513.2	1,263.8	1,048.1	1,150.0	180.0		Working Capital								
Direct taxes paid	(6.4)	(7.3)	282.0	232.3	(176.9)		Free Cash Flow	(1,775.4)	(1,340.5)	(7,485.4)	(2,054.8)	(1,524.0)	1,836.0	-	28,339.5
Change in Working Capital (Non Cash)	1,776.0	(498.9)	118.1	(684.9)	(812.0)		Add: Deferred Tax			0.0	0.0	0.0	0.0	-	0.0
Other							Total Free Cash Flow			(7,485.4)	(2,054.8)	(1,524.0)	1,836.0	-	28,339.5
(A) Cash Flow from Operating Activities	(352.8)	(1,843.8)	2,095.9	2,656.3	5,501.4				100.0	114.9	132.0	151.7	174.3	-	529.4
Capex (Inc./ (Dec.) in Fixed Assets n WIP)	(2,563.5)	(5,643.5)	(4,032.0)	(4,050.0)	(3,645.0)		Discount Rate	0.0	0.9	0.8	0.7	0.6	-	-	0.2
Free Cash Flow	(2,916.3)	(7,487.3)	(1,936.1)	(1,393.7)	1,856.4		PV of Free Cash Flow			(6,514.8)	(1,556.5)	(1,004.7)	1,053.5	-	5,353.6
Inc./ (Dec.) in Investments	0.0	0.0	0.0	0.0	0.0		Cumulative Cash Flow			(6,514.8)	(8,071.3)	(9,076.0)	(8,022.6)	-	26,621.9
Other							Assumed Terminal Year (n)								
(B) Cash Flow from Investing Activities	(2,563.5)	(5,643.5)	(4,032.0)	(4,050.0)	(3,645.0)		Cash Flow at N+1							-	2,021.0
Issue of Equity/ Preference	0.0	259.1	4,083.0	4,341.7	0.0		Growth Rate (Post 2020)							-	28,906.3
Inc./ (Dec.) in Debt	3,515.2	6,045.1	1,688.6	(1,500.0)	(2,500.0)		WACC (%)							-	2.0
Interest exp net	(513.2)	(1,263.8)	(1,048.1)	(1,150.0)	(180.0)									-	14.9
Dividend Paid (Incl. Tax)	0.0	0.0	0.0	0.0	0.0		Terminal Value							-	
Other							Discounted Terminal Value							-	224,116.9
(C) Cash Flow from Financing	3,002.0	5,040.4	4,723.5	1,691.7	(2,680.0)		Present Value of Firm till Terminal Year							-	42,338.1
Net Change in Cash	85.7	(2,446.9)	2,787.5	298.1	(823.6)		Total Discounted Value of Firm							-26,621.9	
Opening Cash balances	113.3	199.4	540.4	535.5	833.6		Less: Current net Debt of the Firm							-	68,960.0
Closing Cash balances	199.4	540.4	535.5	833.6	9.9		Present Value of Equity							-	13,000.0
E-estimates							No. of Equity Shares (Mn)							-	55,960.0
							Fair Value of Equity Shares							-	946.0
							E-estimates								59.2



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The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

DOLAT TEAM

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