



## Dish TV

STOCK INFO.	BLOOMBERG
BSE Sensex: 18,771	DITV IN
	REUTERS CODE
S&P CNX: 5,569	DSTV.BO
Equity Shares (m)	428
52-Week Range	143/60
1,6,12 Rel. Perf. (%)	-20/-70/-
M.Cap. (Rs b)	28.1
M.Cap. (US\$ b)	0.7

25 October 2007

Buy

Previous Recommendation: Buy

Rs66

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	1,909	-2,513	-5.9	79.8	-11.2	-	636.7	-178.9	19.5	-20
3/08E	4,326	-3,214	-7.5	-27.9	-8.8	-	-123.2	-78.8	9.9	-29
3/09E	8,150	-2,911	-6.8	9.4	-9.7	-	115.5	-53.4	5.7	-142

- Dish TV posted revenue of Rs755m in 2QFY08 against Rs892m in 1QFY08. Loss for the quarter was Rs919m against Rs897m in 1QFY08.
- Revenue decline of 15% QoQ is on account of change in accounting policy with respect to placement revenue, otherwise the growth would have been 6.5%. In 1QFY08, income from this stream was accounted as revenue. From 2QFY08, this income is adjusted against content cost, resulting in decline in revenue. Subscription revenue for 2QFY08 grew 19% QoQ to Rs700m and content cost declined 22% QoQ to Rs404m.
- Dish TV added 278,000 subscribers during the quarter, an increase of 54% QoQ. Its subscriber base as on 30 September 2007 stands at 2.4m. The company continued to maintain leadership, with a market share of 68%.
- ARPU declined 4% QoQ to Rs120/month. Decline in ARPU was on account of free promotional schemes launched by the company. We expect ARPU to increase from 3QFY08.
- ARPU and subscriber acquisition cost would continue to be the key variables in determining the company's performance going forward. We have revised our estimates to factor in the lower than expected ARPU. We expect Dish TV to break even at the operating level in FY10 as against our earlier estimate of FY09. We estimate revenue CAGR of 57% over FY07-12.
- We continue to have a positive long-term outlook on Dish TV, as DTH is expected to drive growth in C&S households and Dish TV would be a major gainer due to strong market share. We maintain **Buy**, with a revised price target of Rs102.

### QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07	FY08		FY07	FY08E
	4Q	1Q	2Q		
<b>Sales</b>	<b>659</b>	<b>893</b>	<b>755</b>	<b>1,909</b>	<b>4,326</b>
Change (%)				507	126
<b>EBITDA</b>	<b>-640</b>	<b>-488</b>	<b>-472</b>	<b>-1,852</b>	<b>-1,497</b>
As of % Sales	-97.1	-54.6	-62.6	-97.0	-34.6
Depreciation	292	328	356	575	1,467
Interest	75	81	110	118	284
Other Income	8	1	20	34	34
Extra-ordinary income	2	0	0	0	0
<b>PBT</b>	<b>-1,001</b>	<b>-897</b>	<b>-918</b>	<b>-2,511</b>	<b>-3,214</b>
Tax	0	0	1	3	0
Effective Tax Rate (%)	0.0	0.0	(0.1)	(0.1)	-
<b>Reported PAT</b>	<b>-1,001</b>	<b>-897</b>	<b>-919</b>	<b>-2,513</b>	<b>-3,214</b>
<b>Adj PAT</b>	<b>-999</b>	<b>-897</b>	<b>-919</b>	<b>-2,513</b>	<b>-3,214</b>

E: MOST Estimates

### Lower than expected ARPU impacts revenue and profitability

Dish TV posted revenue of Rs755m in 2QFY08 against Rs892m in 1QFY08. Revenue decline of 15% QoQ is on account of change in accounting policy with respect to placement revenue, otherwise the growth would have been 6.5%. In 1QFY08, income from this stream was accounted as revenue. From 2QFY08, this income is adjusted against content cost, resulting in revenue decline.

Subscription revenue for 2QFY08 grew 19% QoQ to Rs700m. Content cost declined 22% QoQ to Rs404m and subscriber addition cost decreased from Rs1,750/subscriber in 1QFY08 to Rs1,628/subscriber in 2QFY08. EBITDA loss for the quarter was, therefore, 3.2% lower.

ARPU declined 4% QoQ to Rs120/month on account of free promotional schemes launched by the company. We expect ARPU to increase from 3QFY08. However, we expect the ARPU growth to remain muted, as two large players are expected to launch their DTH services in 4QFY08. Reliance (ADAG) is expected to launch its services in January-February 2007 and Bharti is likely to foray in DTH in March-April 2007.

#### ARPU

PARTICULARS	1QFY08	2QFY08
Sub Base (m)	2.1	2.4
Additions (m)	0.2	0.3
Revenue (Rs m)	590	700
Free Subscribers	0.6	0.5
Pay Subscribers	1.5	2.0
ARPU( per month)	127	120

Source: Company/Motilal Oswal Securities

We believe, these are early days for the DTH technology and over the long term, ARPU would post steady growth. We have factored 6% gross ARPU growth over the next 10 years.

### Strong subscriber additions to continue

The DTH technology has gained momentum in the last one year, on account of rollout of CAS in designated metropolitan areas and better service quality. Dish TV, a leader with 68% market share, is aggressively ramping up its subscriber base. In 2QFY08, its subscriber addition increased 54% QoQ to 278,000. The average monthly subscriber addition for the company in 2QFY08 stood at 88,000 as against 60,000 in 1QFY08.

#### SUBSCRIBER ADDITIONS

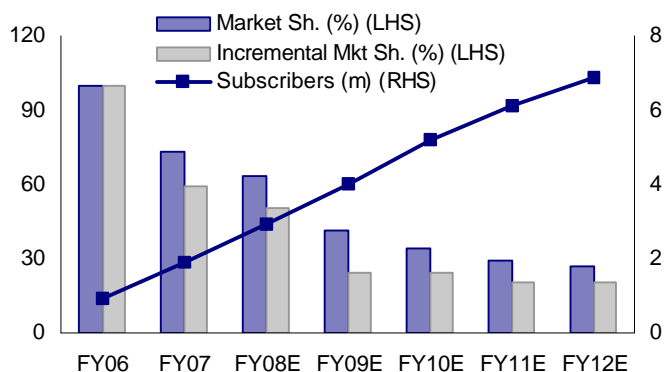
	1QFY08 (AVG)	JUL-07	AUG-07	SEP-07
Monthly Additions	60,000	75,000	90,000	113,000
Subscriber Base	2,145,000	2,220,000	2,310,000	2,423,000
FY08E Sub Base	2,900,000	2,900,000	2,900,000	2,900,000
Add. in Residual mth	83,889	85,000	84,286	79,500

Source: Company/Motilal Oswal Securities

Dish TV, which did not make huge investments in advertising earlier, has now signed Shah Rukh Khan as a brand ambassador to counter competition. This is an important step in brand promotion, as Shah Rukh Khan has popular appeal across India. We expect the heightened advertising with the punch line "Wish Karo Dish Karo" would boost the subscriber numbers in the festival season.

Further, the company has launched a VGA box, using which Dish TV services can be used on a computer. The company has entered into tie-ups with large organized retailers like Essar Telecom, Spencer's, NEXT and Music World, which would increase product visibility in large towns, complementing its strong marketing network of 35,000 dealers across India. We expect the subscriber base to post a CAGR of 29% over FY07-12.

SUBSCRIBER GROWTH



Source: Company/Motilal Oswal Securities

KEY PERFORMANCE PARAMETERS

PARTICULARS	FY07	FY08E	FY09E	FY10E	FY11E	FY12E
DTH Sub (excl FTA)	2.6	4.6	9.6	15.4	21.0	25.8
Growth (%)	188.9	77.0	108.2	60.3	36.4	23.1
Dish TV	1.9	2.9	4.0	5.2	6.1	6.8
Growth (%)	111.1	52.7	37.2	30.8	17.5	11.8
Effective ARPU/mth	53	103	145	162	182	203
Growth (%)	81.9	93.3	41.5	11.7	12.2	11.5
Revenue (Rs m)	1,909	4,326	8,150	11,810	15,415	18,777
Growth (%)	506.9	126.6	88.4	44.9	30.5	21.8

Source: Company/Motilal Oswal Securities

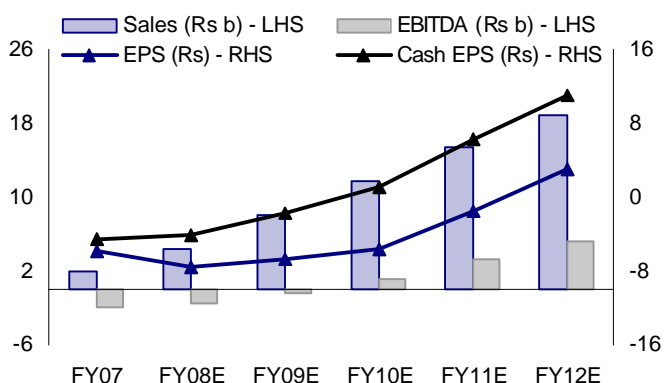
**EBITDA breakeven by FY10 against our earlier expectation of FY09**

We have downgraded our estimates to factor in lower ARPU growth. We expect revenue of Rs4.3b for FY08 (earlier Rs7.6b) and Rs8.2b for FY09 (earlier Rs11.8b). Reduction in our revenue estimate would delay EBITDA breakeven for Dish TV. We expect the company to EBITDA breakeven by FY10 as against our earlier expectation of FY09.

**Valuation and view**

Though the entry of large players (Bharti and Reliance) in the next few months could further impact ARPU and profitability, we believe that the long-term outlook on Dish TV remains good. We expect DTH penetration in C&S households to increase and Dish TV would be a major gainer due to strong market share. We maintain **Buy**, with a revised price target of Rs102.

REVENUE AND EBITDA BREAKEVEN BY FY10E



Source: Company/Motilal Oswal Securities

## Dish TV: an investment profile

### Company description

Dish TV, formed through the de-merger of the erstwhile Zee Telefilms, is the first private company to start DTH services in India. Having started operations in 2005, it has had a two-year headstart over its competitors.

### Key investment arguments

- ✎ The DTH market in India, though nascent, offers good long-term potential due to low penetration of C&S households and better quality service.
- ✎ Entry of new players would increase the size of the DTH market from 2.6m subscribers in FY07 to 26m by FY12. Dish TV would be a major beneficiary, as it has first mover advantage, with 68% market share and a subscriber base of 2.4m.

### Key investment risks

- ✎ Entry of strong players in the DTH market could increase subscriber acquisition costs and reduce ARPU (average revenue per user), delaying breakeven for the company.
- ✎ As the market is at a nascent stage, execution skill and regulatory environment could play a key role in tapping this opportunity.

### Recent developments

- ✎ Dish TV has launched a new VGA set-top box, which is compatible with computers and enables the user to get DTH services on the desktop. The new product would open up new segments like small offices, home offices and students.

### Valuation and view

- ✎ Dish TV India is likely to breakeven at the operating level in FY10 as against our earlier estimate of FY09.
- ✎ We expect revenues to report 58% CAGR over FY07-12.
- ✎ Our DCF valuation of Rs102/share indicates an upside of 55.3%. We maintain **Buy**.

### Sector view

- ✎ DTH technology has inherent advantages over competing technologies in transmission of digital TV content to rural/semi-urban homes, where cable infrastructure is not available.
- ✎ Mandatory shift to conditional access system (CAS) in metropolitan areas has triggered DTH adoption in metros; TRAI plan to roll out CAS in 55 cities augurs well for DTH.
- ✎ We expect the share of direct-to-home (DTH) in the total C&S market to rise from 4% to about 24% over the next five years.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	-7.5	-8.1	-
FY09	-6.8	-7.2	-

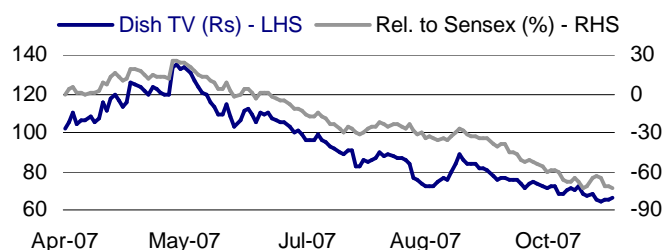
SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	57.9	58.0	N.A.
Domestic Inst	8.0	8.9	N.A.
Foreign	19.4	25.0	N.A.
Others	14.7	8.1	N.A.

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
66	102	55.3	Buy

STOCK PERFORMANCE (SINCE 18 APRIL 2007)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2007	2008E	2009E	20010E	2011E	
<b>Net Sales</b>	<b>1,909</b>	<b>4,326</b>	<b>8,150</b>	<b>11,810</b>	<b>15,415</b>	
Change (%)	506.9	26.6	88.4	44.9	30.5	
Operating Cost	2,248	3,189	4,977	6,647	8,256	
Staff Cost	149	335	435	522	600	
Selling & Distrib. exp	1,364	2,299	3,067	3,603	3,157	
<b>EBITDA</b>	<b>-1,852</b>	<b>-1,497</b>	<b>-328</b>	<b>1,037</b>	<b>3,401</b>	
% of Net Sales	-97.0	-34.6	-4.0	8.8	22.1	
Depreciation	575	1,467	2,144	2,866	3,333	
Interest	18	284	473	594	709	
Other Income	34	34	34	35	35	
<b>PBT</b>	<b>-2,511</b>	<b>-3,214</b>	<b>-2,911</b>	<b>-2,387</b>	<b>-606</b>	
Tax	3	0	0	0	0	
Rate (%)	-0.1	0.0	0.0	0.0	0.0	
<b>Reported PAT</b>	<b>-2,513</b>	<b>-3,214</b>	<b>-2,911</b>	<b>-2,387</b>	<b>-606</b>	
Extra-ordinary Exp.	0	0	0	0	0	
<b>Adjusted PAT</b>	<b>-2,513</b>	<b>-3,214</b>	<b>-2,911</b>	<b>-2,387</b>	<b>-606</b>	
Change (%)	20.9	27.9	-9.4	-18.0	74.6	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2007	2008E	2009E	20010E	2011E	
Share Capital	428	428	428	428	428	
Preference shares	0	1,000	4,000	4,000	4,000	
Reserves	-823	-4,037	-6,948	-9,335	-9,941	
<b>Net Worth</b>	<b>-395</b>	<b>-2,608</b>	<b>-2,519</b>	<b>-4,907</b>	<b>-5,513</b>	
Loans	1,751	6,371	7,147	9,828	10,432	
<b>Capital Employed</b>	<b>1,356</b>	<b>3,762</b>	<b>4,627</b>	<b>4,921</b>	<b>4,919</b>	
Gross Fixed Assets	6,170	9,399	12,811	16,570	19,333	
Less: Depreciation	674	2,140	4,284	7,150	10,483	
<b>Net Fixed Assets</b>	<b>5,497</b>	<b>7,259</b>	<b>8,527</b>	<b>9,420</b>	<b>8,850</b>	
Capital WIP	1,126	500	500	500	500	
Investments	945	945	945	945	945	
<b>Curr. Assets</b>	<b>2,385</b>	<b>2,912</b>	<b>3,787</b>	<b>4,406</b>	<b>5,273</b>	
Inventory	11	25	25	25	25	
Debtors	391	587	1,140	1,388	1,829	
Cash & Bank Balance	113	150	150	150	150	
Loans & Advances	1,869	2,150	2,472	2,843	3,270	
<b>Current Liab. &amp; Prov</b>	<b>8,596</b>	<b>7,853</b>	<b>9,131</b>	<b>10,349</b>	<b>10,649</b>	
Creditors	3,962	4,130	4,340	4,641	5,034	
Advance/Deposit	4,615	3,723	4,792	5,708	5,615	
Provisions	19	0	0	0	0	
<b>Net Current Assets</b>	<b>-6,211</b>	<b>-4,941</b>	<b>-5,344</b>	<b>-5,943</b>	<b>-5,375</b>	
<b>Application of Fund:</b>	<b>1,356</b>	<b>3,762</b>	<b>4,627</b>	<b>4,921</b>	<b>4,919</b>	

E: MOfSt Estimates

RATIOS						
Y/E MARCH	2007	2008E	2009E	20010E	2011E	
<b>Basic (Rs)</b>						
<b>Adjusted EPS</b>	<b>-5.9</b>	<b>-7.5</b>	<b>-6.8</b>	<b>-5.6</b>	<b>-1.4</b>	
Growth (%)	79.8	-27.9	9.4	18.0	74.6	
Cash EPS	-4.5	-4.1	-18	11	6.4	
Book Value	-0.9	-6.1	-5.9	-11.5	-12.9	
DPS	0.0	0.0	0.0	0.0	0.0	
Payout (incl. Div. Tax.)						
<b>Valuation</b>						
P/E (standalone)					-58.6	
Cash P/E					13.0	
EV/EBITDA					14.7	
EV/Sales					3.2	
Price/Book Value					-6.4	
Dividend Yield (%)					0.0	
<b>Profitability Ratios (%)</b>						
RoE					11.0	
RoCE					14	
<b>Turnover Ratios</b>						
Debtors (Days)	75	50	51	43	43	
Creditors. (Days)	384	259	187	157	153	
Asset Turnover (x)	14	1.1	18	2.4	3.1	
<b>Leverage Ratio</b>						
Debt/Equity (x)	-4.4	-2.4	-2.8	-2.0	-19	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2007	2008E	2009E	2010E	2011E	
PBT before Extraordinar	<b>-2,511</b>	<b>-3,214</b>	<b>-2,911</b>	<b>-2,387</b>	<b>-606</b>	
Add : Depreciation	575	1,467	2,144	2,866	3,333	
Interest	18	284	473	594	709	
Less : Direct Taxes Paid	3	0	0	0	0	
(Inc)/Dec in WC	6,033	-1,234	403	599	-568	
<b>CF from Operations</b>	<b>4,213</b>	<b>-2,696</b>	<b>109</b>	<b>1,672</b>	<b>2,868</b>	
(Inc)/Dec in FA	-6,056	-2,602	-3,412	-3,758	-2,763	
(Pur)/Sale of Investment	144	0	0	0	0	
<b>CF from Investment</b>	<b>-5,912</b>	<b>-2,602</b>	<b>-3,412</b>	<b>-3,758</b>	<b>-2,763</b>	
(Inc)/Dec in Networth	203	1,000	3,000	0	0	
(Inc)/Dec in Debt	1,667	4,620	776	2,681	604	
Less : Interest Paid	118	284	473	594	709	
Dividend Paid	0	0	0	0	0	
<b>CF from Fin. Activit</b>	<b>1,753</b>	<b>5,335</b>	<b>3,303</b>	<b>2,087</b>	<b>-105</b>	
<b>Inc/Dec of Cash</b>	<b>54</b>	<b>37</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Add: Beginning Balance	59	113	150	150	150	
<b>Closing Balance</b>	<b>113</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>	



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1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

**Dish TV**

No  
No  
No  
No

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