Initiating Coverage
SECTOR: MEDIA

Dish TV

Up and ahead

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Contents

Dish TV India

STOCK INFO.	BLOOMBERG
	DITV IN
BSE Sensex: 15,235	REUTERS CODE
S&P CNX: 4,445	DSTV.BO

30 July 2007 **Buy**

Initiating Coverage Rs83

Y/E MARCH	2008E	2009E	2010E	2011E
Subscriber (m)	2.9	4.0	5.2	6.1
ARPU (Rs/month)	230	250	250	275
Net Sales (Rs m)	7,590	11,805	15,855	21,423
EBITDA (Rs m)	-197	863	2,141	5,707
EBITDA margin (%)	*-2.6*	*7.3*	*13.5*	*26.6*
NP (Rs m)	-1,832	-1,500	-950	2,192
EPS (Rs)	-4.3	-3.5	-2.2	5.1
EV/Sub (US$)	344	264	207	167
EV/EBITDA (x)	-	49.4	20.4	7.3
EV/Sales (x)	5.3	3.6	2.7	1.9

DTH – an idea whose time has come: Given its inherent advantages over competing technologies in transmission of digital content to rural/ semi-urban homes and mandatory shift to conditional access system (CAS) in metropolitan areas, we expect the share of direct-to-home (DTH) in the total C&S market to rise from 4% to about 23% over the next five years.

Dish TV – in a sweet spot: Dish TV India (Dish TV) has a first mover advantage in DTH TV distribution, with a subscriber base of over 2.1m, strong dealership and established consumer service network. Dish TV plans to have its own satellite in 2008, which would increase its competitive edge significantly. Further, Dish TV belongs to the Zee group, which has the largest broadcasting network in India.

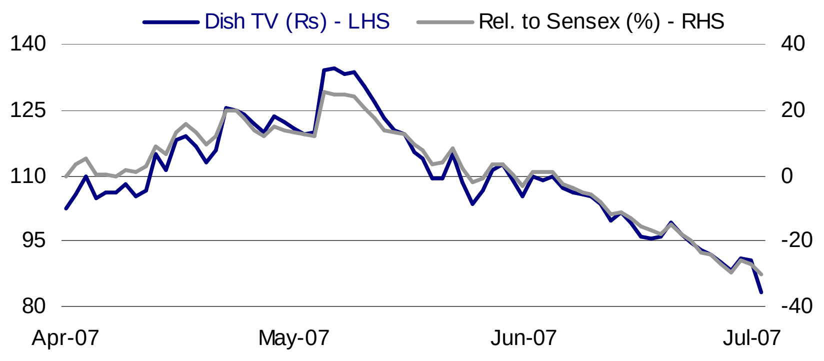
Competition to expand DTH market: The DTH market in India is likely to transform into a five-player market, with Bharti, Sun Astro and Blue Sky Magic planning to launch their services. Though the heightened competition would put pressure on ARPUs, it would also expand the market. We estimate a revenue potential of US$2.1b by FY12 and expect Dish TV's subscriber base to grow at 29% CAGR to 6.8m by FY12.

DCF valuation indicates 42% upside; Buy: We expect the company to achieve EBITDA breakeven by FY09. Though there is a two-year gestation period for breakeven, the annuity nature of business, strong free cash flows and consumer stickiness make the stock attractive. Our DCF valuation of Rs118/share indicates an upside of 42%. We initiate coverage with **Buy**.

KEY FINANCIALS	
Shares Outstanding (m)	428
Market Cap. (Rs b)	35.5
Market Cap. (US$ b)	0.9
Past 3 yrs. Sales Growth (%)	N.A.
Past 3 yrs. NP Growth (%)	N.A.
Dividend Payout (%)	N.A.
Dividend Yield (%)	N.A.

STOCK DATA	
52-Week Range	143/82
Major Shareholders (as of June 2007)	%
Promoters	58.0
Domestic Institutions	8.9
FIIs/FDIs	24.6
Others	8.5
Average Daily Turnover	
Volume ('000 shares)	5,616.8
Value (Rs million)	632.8
1/6/12 Month Rel. Performance (%)	-29/-/-
1/6/12 Month Abs. Performance (%)	-24/-/-

STOCK PERFORMANCE (1 YEAR)



DTH – an idea whose time has come

The number of cable and satellite (C&S) homes in India is likely to grow at about 6% CAGR over FY07-FY12 from 69m to 110m. Given its inherent advantages over competing technologies in transmission of digital content to rural/semi-urban homes and mandatory shift to conditional access system (CAS) in metropolitan areas, we expect the share of direct-to-home (DTH) in the total C&S market to rise from 4% to about 23% over the next five years. We estimate DTH subscriber base at 25.8m by 2012 and 40m by 2015.

DTH PENETRATION AND DISH TV SHARE (M)

PARTICULARS	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	CAGR % (FY07-12)	TIMES (X) (FY07-12)
Number of Household	210	215	220	224	228	232	236	1.9	1.1
Growth (%)		*2.5*	*2.0*	*2.0*	*2.0*	*1.8*	*1.8*		
Number of TV HHs (m)	110	125	132	146	155	163	173	6.7	1.4
TV penetration (%)	*52.4*	*58.0*	*60.0*	*65.0*	*68.0*	*70.0*	*73.0*		
Growth (%)		*13.5*	*5.5*	*10.5*	*6.7*	*4.7*	*6.1*		
Number of C&S households	60	69	72	83	93	102	110	10.0	1.6
C&S / TV HH (%)	*54.5*	*55.0*	*55.0*	*57.0*	*60.0*	*63.0*	*64.0*		
Growth (%)		*14.4*	*5.5*	*14.5*	*12.3*	*10.0*	*7.8*		
DTH Sub (excl FTA)	0.9	2.6	4.6	9.6	15.4	21.0	25.8	58.2	9.9
DTH / C&S (%)	*1.5*	*3.8*	*6.4*	*11.6*	*16.5*	*20.4*	*23.3*		
Growth (%)		*188.9*	*77.0*	*108.2*	*60.3*	*36.4*	*23.1*		
Dish TV	0.9	1.9	2.9	4.0	5.2	6.1	6.8	29.2	3.6
Dish / DTH /%)	*100.0*	*73.1*	*63.0*	*41.5*	*33.9*	*29.2*	*26.5*		
Growth (%)		*111.1*	*52.7*	*37.2*	*30.8*	*17.5*	*11.8*		

Source: Company/Motilal Oswal Securities

Rising income levels to increase C&S affordability

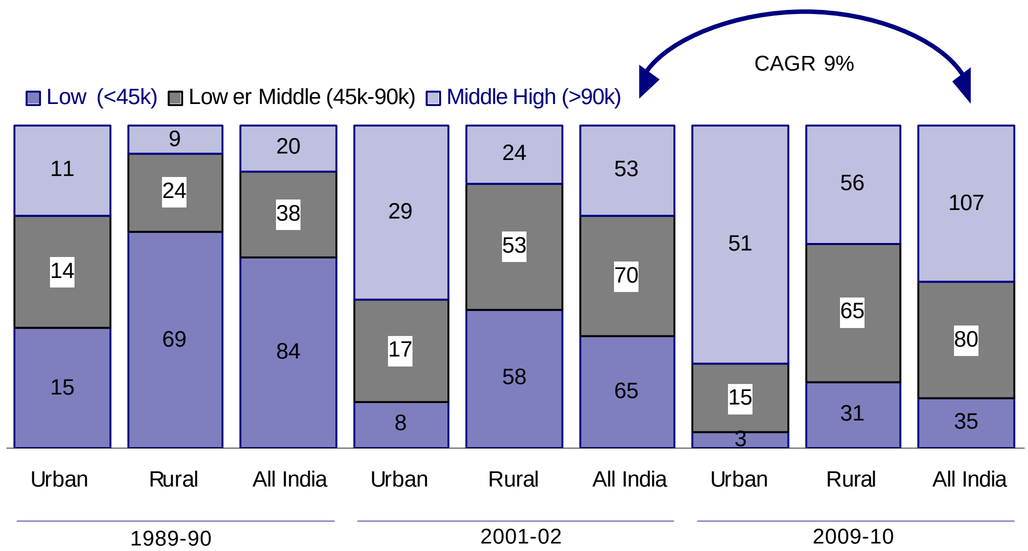
With growing prosperity, the addressable market for C&S is expanding

The Indian economy has been on overdrive for the past few years. GDP has grown at a CAGR of 8.5% in last four years, resulting in an increase in employment opportunities and per capita income. We believe that households with income levels above Rs45,000 per annum represent the addressable market for C&S. By 2010, about 84% of India's households would have an annual income of over Rs45,000.

We expect C&S households to increase to 93m by FY10 and 110m by FY12

We expect C&S households to increase to 93m by FY10 and to 110m by FY12. Our estimates are realistic, as more than 91m consumers from the middle-high income levels would have C&S, assuming 85% penetration. Thus, even if 25% of the households from the lower-middle income bracket opt for C&S, it would result in 111m households, higher than our assumption based on TV penetration.

GROWING PROSPERITY



Source: NCAER/Motilal Oswal Securities

Apart from affordability, the other factors that would drive growth in C&S would be:

- Rising number of channels across genres
- Lack of other entertainment avenues in rural/semi-urban areas
- Rising importance of media and its influence on the public

DTH – expect 23% penetration in C&S household by FY12

There are several competing technologies vying for a share of the C&S market

Direct-to-home (DTH) is an alternative satellite technology to receive digital TV transmission signals. DTH competes with analog cable, digital cable and IPTV for a slice of the C&S TV household market. The C&S household market is likely to grow at 6.1% CAGR over FY07-FY12 to 110m. While DTH is expected to grow from 2.6m currently to 25.8m household by FY12, thereby increasing its share in C&S household to 23% by FY12

CABLE, CAS, IPTV AND DTH: A COMPARISON

PARTICULARS	ANALOG CABLE	DIGITAL CABLE (CAS)	DTH	IPTV
Mode	Cable Network	Cable Network	Satellite	Broadband
Accessibility Rank	2	3	1	4
Capital intensity	High	High	Medium	High
Installation cost (Rs)	500	2000	3200-4000	N A
Monthly Charge (Rs)	150-250	200-300	225-300	N.A
Services	Video, Voice & Data	Video, Voice & Data	Video, Data	Video, Voice & Data
Quality of service	Low	High	High	High
Video on Demand	No	No	Restricted	Full
Nature of Market	Fragmented, numerous small players	Less fragmented than Analog cable	3-5 large players	2-3 large players
Key Players	WWIL In- cable Hathway	WWIL In- cable Hathway	Dish TV Tata Sky, RCOM Bharti, Sun TV	MTNL BSNL, RCOM Bharti

Source: Industry/Motilal Oswal Securities

We believe DTH is best suited for Indian conditions

Although the competing technologies have their own advantages, we believe DTH is best suited for the Indian conditions due to following reasons.

Ease in starting up; most suitable for interiors/rural areas

Ease in starting up, non-reliance on a cable network make DTH most suitable for interiors / rural areas

DTH offers the consumer the most convenient way of starting up services. Analog cable, digital cable and IPTV depend upon the operator's cable network while DTH can be operated even in the remotest parts through a 60cm dish and set top box supplied by the service provider. We expect this technology to gain good acceptance in the interiors as:

- Tier-3 cities, small towns and villages do not have any organized cable operators.
- Villages are unlikely to be covered by local cable operators (LCOs) due to limited number of consumers and high cost of installing equipment for a small target audience. Rural areas, which account for ~70% of the Indian population are the largest contributors to the low penetration of C&S. This is due to insufficient cable infrastructure in these areas. The television is the preferred means of entertainment in rural areas. Currently, rural areas have terrestrial network and some penetration of cable TV through non-addressable systems.

BREAK-UP OF C&S HOUSEHOLDS (M) - 2006

PARTICULARS	URBAN	RURAL	TOTAL
Number of TV Households	50	61	110
% of Total	*45.0*	*55.0*	
C & S Household	36	24	60
% of Total	*60.0*	*40.0*	
% of TV HH	*72.7*	*39.7*	*54.5*
Non C&S Household	14	37	50
% of Total	*27.0*	*73.0*	
% of TV HH	*27.3*	*60.3*	*45.5*

Source: Industry/Motilal Oswal Securities

- Small cable operators in the interiors and rural areas charge Rs150-200 per month for 50-odd channels, which they offer to the consumer.
- We estimate that rural India would have 56m households in the addressable income group for DTH. Per household savings in rural areas are expected to be higher than urban areas for similar level of income, as cost of living is lower in rural areas.

Mandatory CAS to accelerate DTH adoption, although mixed results till now

Mandatory CAS implementation would help drive DTH adoption in metros / urban areas

TRAI (Telecom Regulatory Authority of India) has a long-term objective to accelerate digitization of the industry. Accordingly, CAS (conditional access system) has been introduced effective 1st January 2007 in designated areas of the three metros – Delhi, Mumbai and Kolkata. The results of mandatory CAS implementation have been mixed so far:

- 33% of the population in the designated areas has opted for CAS. 45% of the population has opted for CAS in Mumbai followed by Delhi and Kolkata with 20% and 21%, respectively.
- Adoption is high for SEC-A consumers and declines as the income level goes down. Large majority (83% in Kolkata and 75% in Mumbai) of the people in the designated

areas believe that the services are expensive despite a cap on the monthly fee at Rs5 per channel imposed by TRAI for the paid channels.

- Large section of the population is opting for 30 free-to-air channels, which the cable operator has to offer to the consumers at Rs77 per month.

TRAI has been studying the impact of CAS and has plans to introduce digital technology in 57 cities by March 2011. However, low adoption despite cheap rates on pay channels indicates consumer resistance to both the monthly outgo and the initial investment on the set-top box (STB). Mandatory digitization of CAS has positives for the DTH industry, as the consumers are forced to choose between DTH and STB for receiving pay channels in the CAS mandated areas. DTH gets higher acceptance due to presence of large organized players, better quality reception, restricted video on demand (VOD), and better customer support and after sales service.

DTH players well placed to tap institutional market

Multi-switch has enabled DTH players to connect multiple TV sets to one dish, allowing them to address the institutional market

DTH players seem well placed to tap the institutional market and apartments in metros. Multi-switch has enabled DTH players to install one dish for the entire building and cater to many consumers at the same time. In addition, DTH players have started tapping into the institutional market, based on this concept. Target segments in the institutional space are expected to be hotels, airlines, airports and commercial establishments. Kingfisher Airlines has entered into a contract with Dish TV for live telecast of its services. Such arrangements would showcase the product to the most suitable target income group in the population, in addition to yielding a steady stream of revenues.

Regulatory impetus could further accelerate growth

Possible reduction in taxes and other levies would help make DTH more affordable

The TV distribution industry in India faces a lot of regulatory hurdles and approvals. The following regulatory changes could accelerate the growth of the DTH industry in India:

- Reduction in service tax (12.5%) and revenue sharing (10%) with the GoI, which adds 25% to the monthly subscription rates.
- Mandatory digitization, which would prevent under-reporting and force the consumer to choose between STB and DTH.
- Changes in the mandatory interconnect laws, allowing service providers to have content exclusivity.

We expect the share of DTH to rise from the current 4% to 23% of the C&S market over the next five years

DTH currently has 4% of the total C&S market, but we expect the share to increase to 23% in the coming five years.

PENETRATION OF DTH (M)

PARTICULARS	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E
Nos of of TV HHs (m)	110	125	132	146	155	163	173
TV Penetration (%)	*52.4*	*58.0*	*60.0*	*65.0*	*68.0*	*70.0*	*73.0*
No of C&S Households	60	69	72	83	93	102	110
C&S Penetration (%)	*54.5*	*55.0*	*55.0*	*57.0*	*60.0*	*63.0*	*64.0*
DTH Sub (excl. FTA)	0.9	2.6	4.6	9.6	15.4	21.0	25.8
Penetration (%) of DTH	*1.5*	*3.8*	*6.4*	*11.6*	*16.5*	*20.4*	*23.3*

Source: Industry/Motilal Oswal Securities

Dish TV – in a sweet spot

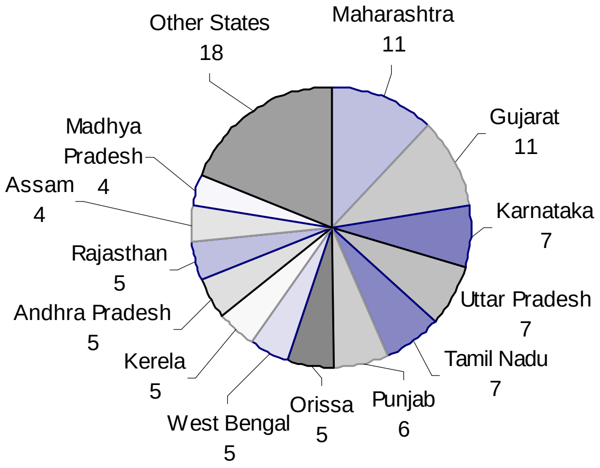
Dish TV has a first mover advantage, with 77% market share and a subscriber base of 2.1m. Geographically diversified subscriber base, strong dealership, and ready infrastructure puts Dish TV in a sweet spot.

Geographically spread out customer base

Dish TV, the first mover, already has a pan-India presence…

Dish TV has a pan India presence and a geographically well-spread subscriber base. The company has a strong presence in Maharashtra, Gujarat and Karnataka, which contribute 30% to its subscriber base.

CUSTOMER BASE SPREAD OUT ACROSS INDIA (%)



Source: Company/Motilal Oswal Securities

No single state accounts for more than 11% of Dish TV's volumes. While Tata Sky's concentration has been in the metros, Dish TV's subscriber base comes largely from tier-2 cities and rural areas. This, we believe, is a strong advantage as tier-2 cities are unlikely to have strong digital cable networks. Also, the subscriber growth in these cities is not linked to the rollout of CAS.

Strong distribution & customer service network

…with a strong distribution & customer service network

The company has a network of 450 distributors and more than 35,000 dealers. We observe that it has dealership presence in 4,300 towns, with population of more than 100,000. We expect the interiors and rural areas to be major drivers of subscriber growth in DTH; Dish TV seems well placed to capture the demand growth in the interiors due to strong distribution in place. The company already has systems in place for collection and customer service. It has over 12,500 service personnel and 100 dish-care centers, speaking seven different languages to provide customer service.

Ready infrastructure at low cost

It has been able to put up infrastructure and acquire customers at low cost

Dish TV has nine transponders and this puts the company in a favorable position, as non-availability of transponders could result in delay in the launch of services by new players. The company has acquired two more transponders and plans to increase the number of channels to 200 by the end of FY08. It has 2.1m subscribers, with a market share of 77%. It has spent close to US$200m in creating infrastructure and acquiring subscribers even when the competition was at very low levels. Any new player will have to spend 50% higher amount in achieving these figures, as the customer acquisition costs have increased from Rs700/customer to Rs1,600/sub in the past one year. This places Dish TV in a strong position – churn rates are expected to be low, as content exclusivity is not allowed.

Satellite launch could add to positives

Dish TV has a wholly owned subsidiary "Agrani Satellite Services Limited" to implement a project to own, establish and operate a Ku band satellite system, and to market and lease their bandwidth capacities to various users in India and the neighboring region. The company has infused Rs1.25b into Agrani during the past few years, which has been spent on pre-operative expenses. The company plans to launch the satellite in FY09.

The draft information memorandum says…

The successful launch of its Ku band satellite system would give Dish TV a further competitive advantage

"The Company has made significant progress towards procuring the satellite transponder capacity. The company continues to have valid renewed Authorization from the Government of India to establish, maintain, and operate Satellite System in the Indian Orbit Spectrum, to offer communication transponder capacities and bandwidth to users. In pursuance to the said authorization, the Company has also entered into a Satellite Capacity Agreement with one of the vendors who will provide satellite transponder capacity to the Company, on an exclusive, non–perceptible and end-of-life basis. The technical aspects of the project are under finalization."

Successful procurement and launch of the satellite could give the company significant advantage over its competitors. We expect this to act as a major catalyst for stock prices.

Competition to expand DTH market

Given the huge opportunity that DTH offers, three new players with deep pockets have announced their entry into this segment. Though the heightened competition would put pressure on ARPUs, it would also expand the market. We expect DTH to have 23% share of TV distribution revenues by FY11 – a slice of Rs87b from a Rs378b pie.

Competition is set to intensify…

With three new players likely to enter the DTH market, competition would intensify…

From a two-player game, the DTH segment is set to transform into a five-player turf. The entry of Tata Sky has already prompted a scramble for customers, resulting in customer acquisition costs increasing from Rs700/customer to Rs1,600/customer in the last one year. With the ADAG-promoted Blue Sky Magic, Bharti and Sun Astro likely to enter the market in 12-15 months, competition would intensify further.

COMPETITION TO INTENSIFY

	DISH TV	TATA SKY	BLUE SKY MAGIC	SUN TV	BHARTI
Starting Time	2005	2006	2008	2008	2008
Promoters	Essel Group	Tata- B Sky	Reliance (ADAG)	Sun Astro JV	Bharti Ent
Strength	Established Network	Tata Reliability	Network of R Com	South India market	Marketing network
	Strong presence in Media	Sky TV Backing	Consumer base of RCOM	Astro association	Consumer base of Bharti

Source: Company/Motilal Oswal Securities

…but the entry of new players would help expand the market

…but the heightened competition would also help expand the DTH market

Unlike the cable industry, which is largely unorganized, with the top-3 organized players (WWIL, In-Cable, Hathway) having just 15-20% of the market, the DTH segment only has large organized players. The entry of three more large players is likely to significantly change overall market dynamics, accelerating market development for DTH. We believe that the market for DTH would expand, aided by the following:

- **Higher ad spend to improve visibility:** The new entrants are likely to significantly increase advertising and marketing spend. This would improve visibility and product knowledge, resulting in faster growth in DTH subscriber base.
- **Known players to increase consumer confidence:** Entry of players with proven track record in consumer service businesses augurs well for the development of the industry, as it increases consumer confidence.
- **Subsidies / subscriber acquisition cost:** New entrants like Bharti and ADAG have deep pockets to sustain losses to develop this annuity-based business. We expect the DTH business to generate huge cash flows after attaining critical mass. Therefore, we expect new players to increase subsidies to encourage adoption of DTH. The past six months have seen an increase in subscriber acquisition cost from Rs700/customer to Rs1,600/customer. We expect subsidies to increase further.

- **Customized packages:** Currently, most of the DTH players are offering 1-2 fixed packages. We expect the players to customize the monthly outgo packages, giving customers some choice to select channels; this would improve their competitiveness vis-à-vis cable operators. We estimate that DTH costs 20% more than the STB-operated cable system for the full service. Flexibility in choosing the channels could alter the dynamics in favor of DTH players.

Expect single-digit ARPU growth for the industry

ARPU growth, however, would be lower than industry expectations

According to PWC estimates, the size of the TV distribution market in India would increase from Rs117b in 2006 to Rs378b in 2011. We believe that DTH has the potential to transform the TV distribution system in India in the coming decade and would have 23% share of TV distribution revenues by FY11. We expect the DTH subscriber base to touch 25.8m by FY12 and 40m by FY15. However, we estimate ARPU growth at just 6% CAGR FY07-FY15 (as against the industry expectation of 10-12%), with industry revenues of US$2.1b by FY12.

STRONG REVENUE GROWTH FOR DISH TV

PARTICULARS	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E
Number of TV HHs (m)	110	125	132	146	155	163	173
Growth (%)		*13.5*	*5.5*	*10.5*	*6.7*	*4.7*	*6.1*
Number of C&S households	60	69	72	83	93	102	110
Growth (%)		*14.4*	*5.5*	*14.5*	*12.3*	*10.0*	*7.8*
DTH Sub (excl FTA)	0.9	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	0.9	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 / month	29	53	177	204	210	247	255
Growth (%)		*83.3*	*230.5*	*15.7*	*2.9*	*17.6*	*3.2*
Revenue (Rs M)	315	1,909	7,590	11,805	15,855	21,423	24,401
Growth (%)		*506.9*	*297.5*	*55.5*	*34.3*	*35.1*	*13.9*

Note: Revenue includes lease rental on Settop box *Source: Company/Motilal Oswal Securities*

The key reasons for our expectation of lower growth in ARPU are:

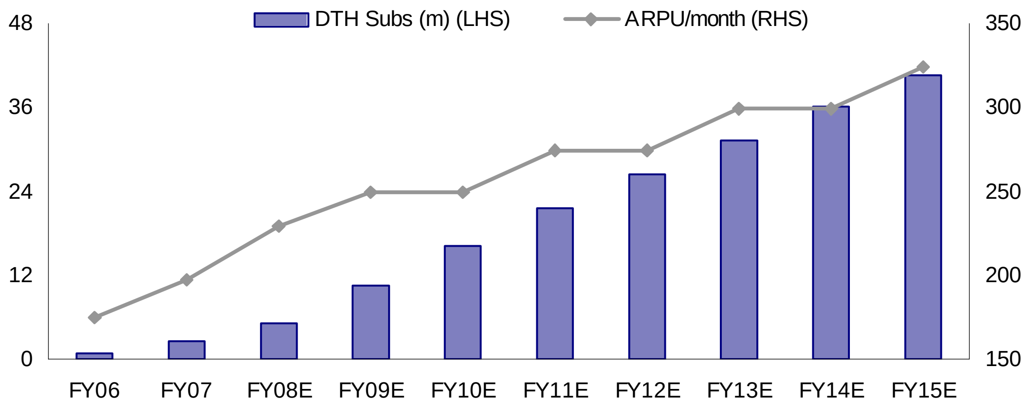
- **Ability to choose channels in digital cable:** We expect DTH players to offer customized packages on a regional basis, which would include fewer channels at lower cost; this would keep the average ARPU in check. This strategy would hold the key to growth in the interiors, which we believe are likely to be major growth drivers in the segment. We believe that DTH players will have to offer this feature to compete with the digital cable in which the consumer can choose the number of channels and consequently trim the bill.
- **Rise in competition:** The DTH market is expected to witness increased competition, with the entry of ADAG, Bharti and Sun TV. We expect the players to increase subsidies and freebies to attract consumers, even if it means lower ARPUs.
- **Lack of content exclusivity:** TRAI does not allow for content exclusivity on various TV distribution platforms. This limits the ability of the service provider to charge content premium from the consumers.

- **Higher start-up costs:** The consumer needs to shell out Rs3,200-4,000 to start DTH services. In addition, the monthly outgo on DTH is 15-20% higher than digital cable. Moreover, TRAI has imposed a price-cap of Rs5 per channel in CAS mandated areas, which has capped the ability of broadcasters to charge higher for premium channels.
- **Consolidation in the LCO segment:** Consolidation in the LCO segment could result in better services and quality for the consumers, thus increasing competition for the DTH segment.

We expect industry majors to achieve EBITDA margins of 25-30% in 4-5 years

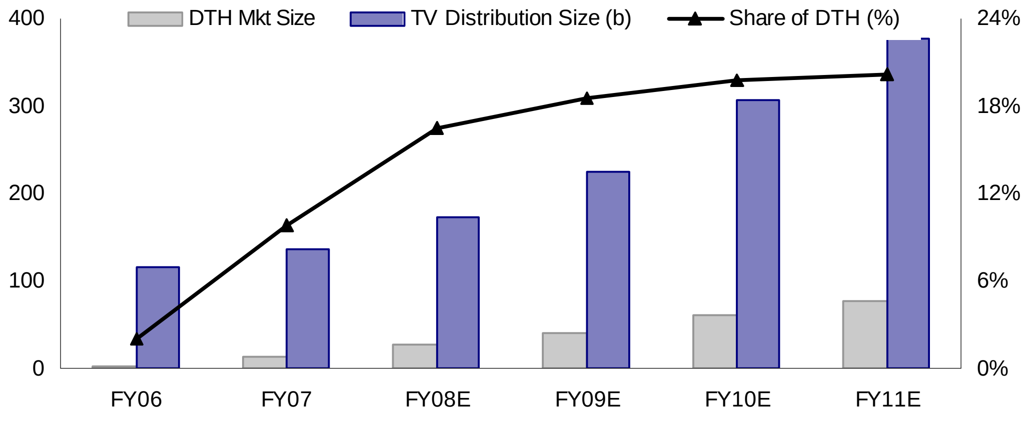
We expect the industry majors to achieve EBITDA margins of 25-30% in 4-5 years, with strong free cash flows. Regulatory changes reducing taxes and content exclusivity could have further upside to our estimates while consolidation in cable industry could emerge as a threat.

ARPU TO GROW AT 6% AMIDST HIGH SUBSCRIBER GROWTH



Source: Company/Motilal Oswal Securities

DTH TO GAIN SHARE IN TV DISTRIBUTION INDUSTRY



Source: Company/Motilal Oswal Securities

Dish TV's subscriber growth to remain strong, ARPU growth to be lumpy

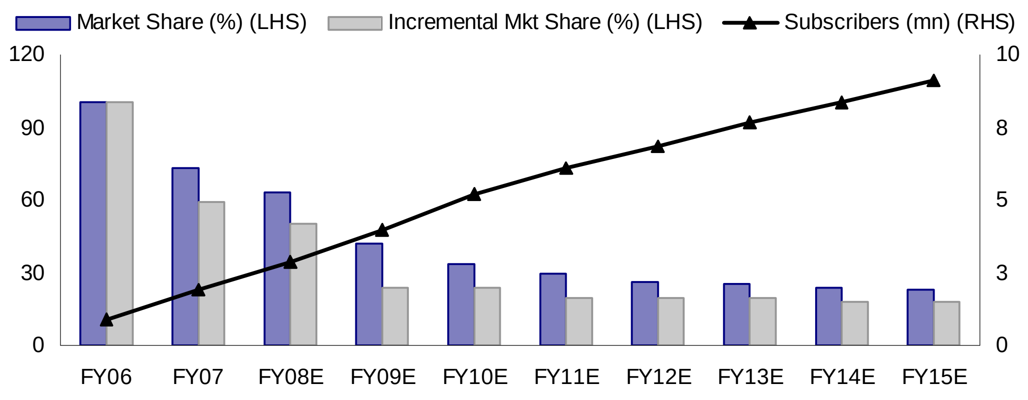
Though Dish TV's market share would decline…

Dish TV had incremental market share of 71% in FY07, down from 100% in FY06, as the industry saw the entry of Tata Sky. We expect the company's incremental market share to decline from an estimated 50% in FY08 to 20% by 2012, as new players enter and grab market share. The absolute market share of Dish TV would decline to 27% by 2012.

…we expect its subscriber growth to remain strong

However, subscriber growth would continue to be strong. We expect Dish TV's subscriber base to grow at 29% CAGR to touch 6.8m by 2012. Delay in the entry of potential competitors could result in subscriber numbers and incremental market share being higher than our estimates.

INCREMENTAL MARKET SHARE TO DECLINE BUT SUBSCRIBER GROWTH TO REMAIN STRONG



Source: Company/Motilal Oswal Securities

Dish TV offers customers three schemes priced at Rs160, Rs262 and Rs300 per month. ARPU has been low on account of the one-year free scheme that the company had offered to customers in the beginning of 2006, followed by free subscription for 3-6 months. The management expects ARPU to grow at a CAGR of 10-12% for the coming five years. However, we have estimated ARPU growth at 6% in the coming few years due to:

- Expectation of higher growth in interiors and rural areas – rural households are unlikely to take a full package
- More lower-priced customized packages for regional consumers
- Presence of digital cable in metros and mini-metros; digital cable has lower setup cost and comparable ARPU
- Lack of content exclusivity in TV distribution
- Several months of free subscriptions

We expect the ARPU increases to be lumpy, as distributors are more likely to increase prices every second year rather than resort to small price increases every year.

Dish TV offers good long-term potential despite high execution risk and entry of new players with deep pockets. We believe that the expected market expansion offers enough opportunity for these players to survive profitably in the medium term.

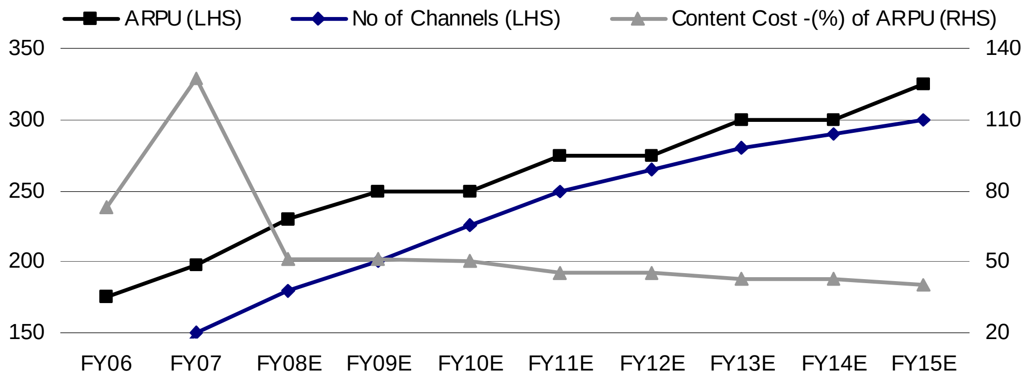
Valuation and view

We expect Dish TV to achieve EBITDA breakeven by FY09. Though there is a two-year gestation period for breakeven, the annuity nature of the business, strong free cash flows post breakeven and customer stickiness make the stock attractive. Our DCF valuation of Rs118/share indicates an upside of 42%. We initiate coverage with **Buy**.

Content cost to decline as per milestones

We expect the number of channels offered by Dish TV to increase by 50% over the coming five years and double in 7-8 years. Content cost should decline to 45% by 2012, which would be in line with global peers. Dish TV has milestone-based arrangements with broadcasters, which would result in gradual reduction of content cost as subscriber base rises. We expect content cost to stabilize at 43-45% in the long term.

CONTENT COST TO DECLINE WITH RISING SUBSCRIBER BASE



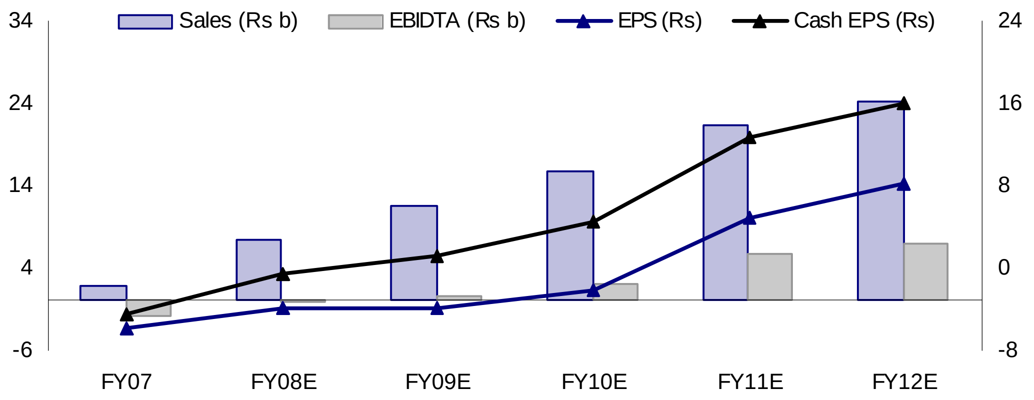
Source: Company/Motilal Oswal Securities

Promoters likely to infuse capital; breakeven likely by FY09

Dish TV should achieve EBITDA breakeven by FY09

Dish TV requires cash infusion of Rs7-10b in the coming 2-3 years in order to scale up operations. The company has sought an increase in authorized capital by Rs7.5b to enable the issue of preference shares to the promoter group. We expect the promoter group to infuse Rs4-4.5b over the next two years. We have assumed that the investment will be made in the form of Non-cumulative, Non-convertible Preference Share. We expect the company to achieve EBITDA breakeven by FY09. We have assumed 20% straight-line depreciation on set-top box, which would delay breakeven at the PAT level to FY11. We estimate EBITDA margin of 29% by FY12, with an EPS of Rs8.7 and CEPS of Rs16.6.

FINANCIAL PERFORMANCE TO IMPROVE CONSIDERABLY



Source: Company/Motilal Oswal Securities

DCF valuation indicates 42% upside; Buy

We recommend Buy, with a target price of Rs118

- Dish TV currently quotes at US$437/subscriber based on its current subscriber base of 2.1m. This is at a discount of 67% to its global counterparts. However, EV/subscriber stands at US$264 based on FY09E subscriber base of 4m. These are early days for DTH in India and the ARPU is very low at US$4.9.
- DTH companies trade at 16-18x two-year forward earnings. Dish TV can command premium valuations, as India would be a growing market for the coming decade. We expect the stock to quote at 25x two-year forward earnings and 15x two-year forward cash EPS post turnaround of operations, given strong free cash flow generation, consumer stickiness and annuity nature of business. At 25x to FY12E EPS of Rs8.7, the stock would quote at Rs218. Discounting this at 14% for four years, the fair value of the stock works out to Rs129.
- We have valued the company on DCF basis to arrive at a price target of Rs118/share, 42% upside from the current level. We initiate coverage with **Buy**.

COMPARATIVE VALUATION

	MKT CAP	EV	SALES GR (%)		EPS GR (%)		EBITDA MAR (%)		P/E (X)		EV/SALES (X)		ARPU	EV/SUBS.
	(USD M)	(USD M)	CY07	CY08	CY07	CY08	CY07	CY08	CY07	CY08	CY07	CY08	US$/MONTH	(X)
ECHO STAR	18,808	22,598	16	11	19	37	26	27	23	17	2.0	1.8	60	1,738
DIRECTV	27,204	28,230	13	9	13	23	24	26	18	15	1.7	1.5	70	1,764
Dish TV	**878**	**918**	**298**	**56**			**-2.6**	**7.3**			**5.3**	**3.6**	**5**	**437**

Note: Echo Star and DirecTV are December ending

Source: Bloomberg/Motilal Oswal Securities

FREE CASH FLOW ANALYSIS (RS M)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
EBIT	**-2,427**	**-1,664**	**-1,280**	**-725**	**2,374**	**3,690**	**6,156**	**7,395**	**10,688**
Less: Adjusted taxes	31	57	74	75	61	-15	1,057	2,436	3,519
NOPLAT	**-2,458**	**-1,720**	**-1,354**	**-801**	**2,313**	**3,706**	**5,099**	**4,959**	**7,169**
Operating cash flow	**3,522**	**-2,028**	**-790**	**86**	**1,725**	**3,111**	**4,882**	**4,660**	**7,188**
Increase in working capital	-5,979	308	-565	-887	587	595	217	300	-19
Capex	6,104	2,602	3,412	3,758	2,763	2,201	2,446	2,244	2,222
Less Depreciation	575	1,467	2,144	2,866	3,333	3,382	3,178	2,953	2,637
Net Investment	**-451**	**1,444**	**704**	**6**	**18**	**-587**	**-515**	**-410**	**-435**
Free cash flow	**-2,007**	**-3,164**	**-2,058**	**-807**	**2,295**	**4,292**	**5,614**	**5,369**	**7,604**

Assumptions	
Growth rate in the first period (gA) (%)	15.0
Growth rate in the second period(gB) (%)	5.0
ROICa (%)	50.0
ROICb (%)	40.0
Discount rate (%)	14.0
No. of years in the first period	10
First part	41,085
Second part	75,782
Total Terminal Value	**116,868**
Discounted terminal value	**43,914**
Discounted Free Cash Flow	**6,492**
Value of Operating Assets	50,406
Non-operating assets & Cash	113
Firm Value	**50,519**
Debt+Pref Sh	1,751
Equity Value as on 31/03/07	**48,768**
NO. of months passed since closing	3
Equity Value as on date	**50,472**
Fair value (Rs) (per share)	**118**

FAIR VALUE SENSITIVITY ANALYSIS (%)

		2.5	3.0	3.5	**5.0**	5.5	6.0	6.5
WACC	12.5	140	143	147	160	166	172	180
	13.0	127	130	133	144	149	154	160
	13.5	116	119	121	130	134	138	143
	14.0	107	109	111	**118**	121	124	128
	14.5	98	99	101	107	110	112	116
	15.0	90	91	93	98	100	102	105
	15.5	83	84	85	89	91	93	95
		2.5	3.0	3.5	5.0	5.5	6.0	6.5
ROIC	34.0	106	108	109	116	119	122	125
	36.0	106	108	110	117	120	123	126
	38.0	107	108	110	117	120	124	127
	40.0	107	109	111	**118**	121	124	128
	42.0	107	109	111	118	121	125	129
	44.0	107	109	111	119	122	125	130
	46.0	107	109	111	119	122	126	130

Source: Motilal Oswal Securities

Annexure: DirecTV – a case study

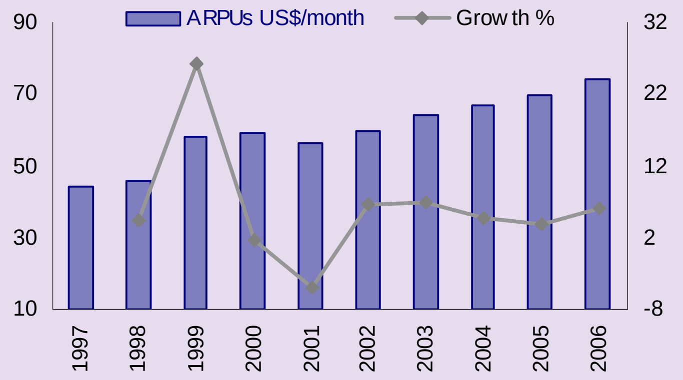
DirecTV delivers satellite-based services to US homes and businesses. It was founded in 1990 and launched its nation-wide service in 1994. In one year of operations, its subscriber base reached 1m and grew 10x in six years. Currently, it has more than 16m subscribers.

DIRECTV (US): KEY FINANCIALS (US$M)

	2002	2003	2004	2005	2006
Revenues	6,445	7,696	9,764	12,216	13,744
Growth (%)		*19*	*27*	*25*	*13*
EBITDA	654.3	955.8	583.1	1,500.2	3,220.7
Margins (%)	*10*	*12*	*6*	*12*	*23*
PAT	135.8	164.3	-420.4	325.30	1,355.90
Growth (%)		*21*	*-356*	*177*	*317*
ARPU (US$)	59.77	63.92	66.95	69.61	73.74
Subscribers ('000s)	11.17	12.21	13.9	15.1	16.0
Subsc. Acqusit. Costs	542	593	643	642	641
Pre SAC Margins (%)	33.8	35.6	33.1	34.2	36.9

Source: Company

ARPU GROWTH



Source: Company

We had a conference call with DirecTV. We present below our key takeaways:

What triggered the satellite TV technology in USA?

DirecTV: The key reasons contributing to the success of DTH technology in USA were higher number of channels and better quality as compared to analog cable technology, which was in use at that time.

Our view: We believe that the success of DTH in India would be driven by lack of organized cable operators and low C&S households in the interiors.

What has been the growth in DTH subscriber base?

DirecTV: DirecTV launched its nationwide services in 1994, and since inception, its subscriber base has increased to 16m subscribers. The second player, Ecostar has a subscriber base of ~13m. DTH has 25% share of the TV distribution market in USA.

Our view: We expect the DTH subscriber base in India to increase to 26.5m by 2012 and 40.6m by 2015 (market share - 30% of C&S household).

What has been the response of cable operators?

DirecTV: The industry has done huge capex for providing digital cable technology, Internet and telephony services. Triple play now poses a threat to DTH, as it offers additional services like Internet and telecom. ARPU for DTH and cable television is similar (US$60-70/month) but the triple play in cable at US$100/month makes it relatively cheaper than standalone DTH at US$60-70.

Our view: DTH services are being offered at a premium of 15-20% than digital cable. As of now, there are no players offering triple play in digital cable. Emergence of any player with triple play could impact the growth rates of DTH players.

What has been the progress on IPTV?

DirecTV: AT&T has rolled out its IPTV services and the technology can provide HDTV (high definition TV) and video on demand. HDTV requires five times bandwidth than an ordinary TV. Only 30% of the households have HDTV and the cost of adopting IPTV is unlikely to result in significant growth in the near term.

India would be having five players in the DTH market. What is your view on the number of players in the DTH industry?

DirecTV: "Lot of Players" to tap the Indian opportunity. We believe in the rule of three, i.e. every industry should have not more than three players to operate profitably.

Our view: We expect the entry of new players to increase the subsidies and improve the service quality to the consumer. Presence of large organized players would enable fast expansion in the subscriber base. As all the new entrants have deep pockets, industry consolidation would be a long-drawn process.

When did DirecTV break even at the operating level?

DirecTV: DirecTV has not been charging for the set-top box and installation since inception and was writing off the expense in the profit and loss account. DirecTV achieved operating breakeven in 2001-02. Accounting breakeven would depend on the accounting standard followed by the company. Recently, the company has started capitalizing the cost of set-top box, which has improved its operating margins from 12% 2005 to 23% 2006.

Our view: Dish TV, the only listed player, is already capitalizing the set-top box cost; hence, breakeven should be achieved faster.

What has been the trend in ARPU?

DirecTV: Over the last four years, ARPU has posted a CAGR of 5% largely on account of increase in programming (3%) and value-added services (2%).

INCOME STATEMENT							(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	20010E	2011E	2012E
Subscriber base (m)	0.9	1.9	2.9	4.0	5.2	6.1	6.8
Net Sales	**315**	**1,909**	**7,590**	**11,805**	**15,855**	**21,423**	**24,401**
Change (%)		*506.9*	*297.5*	*55.5*	*34.3*	*35.1*	*13.9*
Operating Cost	781	2,248	4,721	7,083	9,285	11,539	13,342
Staff Cost	21	149	409	552	663	762	838
Selling & Distribution exp	341	1,364	2,658	3,306	3,767	3,416	3,148
EBITDA	**-830**	**-1,852**	**-197**	**863**	**2,141**	**5,707**	**7,073**
% of Net Sales	*-263.7*	*-97.0*	*-2.6*	*7.3*	*13.5*	*26.6*	*29.0*
Depreciation	28	575	1,467	2,144	2,866	3,333	3,382
Interest	17	118	202	254	260	217	70
Other Income	0	34	34	34	35	35	116
PBT	**-875**	**-2,511**	**-1,832**	**-1,500**	**-950**	**2,192**	**3,736**
Tax	0	3	0	0	0	0	0
Rate (%)	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Reported PAT	**-875**	**-2,513**	**-1,832**	**-1,500**	**-950**	**2,192**	**3,736**
Extra-ordinary Expenses	1,203	0	0	0	0	0	0
Adjusted PAT	**-2,079**	**-2,513**	**-1,832**	**-1,500**	**-950**	**2,192**	**3,736**
Change (%)						*330.8*	*70.4*

E:MOSt Estimates

BALANCE SHEET							(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	20010E	2011E	2012E
Share Capital	716	428	428	428	428	428	428
Preference shares	0	0	1,000	4,000	4,000	4,000	4,000
Reserves	4,468	-823	-2,655	-4,155	-5,105	-2,913	823
Net Worth	**5,184**	**-395**	**-1,227**	**273**	**-677**	**1,515**	**5,251**
Loans	84	1,751	4,027	3,231	4,187	2,013	0
Capital Employed	**5,268**	**1,356**	**2,800**	**3,504**	**3,510**	**3,528**	**5,251**
Gross Fixed Assets	657	6,170	9,399	12,811	16,570	19,333	21,533
Less: Depreciation	51	674	2,140	4,284	7,150	10,483	13,865
Net Fixed Assets	**606**	**5,497**	**7,259**	**8,527**	**9,420**	**8,850**	**7,668**
Capital WIP	537	1,126	500	500	500	500	500
Investments	1,089	945	945	945	945	945	3,255
Curr. Assets	**1,588**	**2,385**	**3,337**	**4,253**	**4,819**	**5,932**	**6,067**
Inventory	5	11	25	25	25	25	25
Debtors	76	391	1,012	1,606	1,801	2,488	2,296
Cash & Bank Balance	59	113	150	150	150	150	150
Loans & Advances	1,448	1,869	2,150	2,472	2,843	3,270	3,597
Current Liab. & Prov.	**1,820**	**8,596**	**9,239**	**10,720**	**12,173**	**12,699**	**12,239**
Creditors	1,024	3,962	4,756	4,940	5,306	6,022	6,311
Advance/Deposit	794	4,615	4,484	5,780	6,867	6,677	5,928
Provisions	1	19	0	0	0	0	0
Net Current Assets	**-232**	**-6,211**	**-5,903**	**-6,468**	**-7,354**	**-6,767**	**-6,172**
Profit & Loss Account	3,269	0	0	0	0	0	0
Application of Funds	5,268	1,356	2,800	3,504	3,510	3,528	5,251

E: MOSt Estimates

RATIOS

Y/E MARCH	2006	2007	2008E	2009E	20010E	2011E	2012E
Basic (Rs)							
Adjusted EPS	**-29.0**	**-5.9**	**-4.3**	**-3.5**	**-2.2**	**5.1**	**8.7**
Growth (%)	-	-	-	-	-	LP	*70.4*
Cash EPS	-28.7	-4.5	-0.9	1.5	4.5	12.9	16.6
Book Value	7.2	-0.9	-2.9	0.6	-1.6	3.5	12.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E (standalone)	-	-	-	-	-	16.2	9.5
Cash P/E	-	-	-	-	-	6.4	5.0
EV/EBITDA	-	-	-	-	-	7.3	5.2
EV/Sales	-	-	-	-	-	1.9	1.5
Price/Book Value	-	-	-	-	-	23.5	6.8
Dividend Yield (%)	-	-	-	-	-	0.0	0.0
Profitability Ratios (%)							
RoE	-	-	-	-	-	144.7	71.1
RoCE	-	-	-	-	-	67.3	70.3
Turnover Ratios							
Debtors (Days)	88	75	49	50	41	42	34
Creditors. (Days)	327	384	223	165	141	140	133
Asset Turnover (x)	0.1	1.4	2.7	3.4	4.5	6.1	4.6
Leverage Ratio							
Debt/Equity (x)	0.0	-4.4	-3.3	11.8	-6.2	1.3	0.0

E: MOSt Estimates

CASH FLOW STATEMENT						(RS MILLION)
Y/E MARCH	2007	2008E	2009E	20010E	2011E	2012E
PBT before Extraordinary Items	**-2,511**	**-1,832**	**-1,500**	**-950**	**2,192**	**3,736**
Add: Depreciation	575	1,467	2,144	2,866	3,333	3,382
Interest	118	202	254	260	217	70
Less : Direct Taxes Paid	3	0	0	0	0	0
(Inc)/Dec in WC	6,033	-272	565	887	-587	-595
CF from Operations	**4,213**	**-434**	**1,462**	**3,062**	**5,154**	**6,594**
(Inc)/Dec in FA	-6,056	-2,602	-3,412	-3,758	-2,763	-2,201
(Pur)/Sale of Investments	144	0	0	0	0	-2,310
CF from Investments	**-5,912**	**-2,602**	**-3,412**	**-3,758**	**-2,763**	**-4,511**
(Inc)/Dec in Networth	203	1,000	3,000	0	0	0
(Inc)/Dec in Debt	1,667	2,276	-796	956	-2,174	-2,013
Less: Interest Paid	118	202	254	260	217	70
Dividend Paid	0	0	0	0	0	0
CF from Fin. Activity	**1,753**	**3,074**	**1,950**	**696**	**-2,391**	**-2,083**
Inc/Dec of Cash	**54**	**37**	**0**	**0**	**0**	**0**
Add: Beginning Balance	59	113	150	150	150	150
Closing Balance	**113**	**150**	**150**	**150**	**150**	**150**

E: MOSt Estimates

N O T E S

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Disclosure of Interest Statement	Dish TV India
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No