Macquarie
Equities Research

MACQUARIE

INDIA

DITV IN Outperform

Stock price
As of 6 Nov 09 Rs36.10

12-month target	**Rs**	**45.00**
Upside/Downside	**%**	**24.7**
Valuation	**Rs**	**45.00**
- DCF (WACC 13.0%)		
GICS sector		**media**
Market cap	**Rsm**	**34,165**
30-day avg turnover	**US$m**	**10.0**
Market cap	**US$m**	**726**
Number shares on issue	**m**	**946.4**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	7,381	10,878	14,496	17,918
EBITDA	m	-1233	1,008	2,909	3,681
EBITDA growth	%	41.0	nmf	188.5	26.5
Adjusted profit	m	-4807	-2773	-1700	-2011
EPS adj	Rs	-10.11	-3.45	-1.80	-2.12
EPS adj growth	%	-4.6	65.9	47.9	-18.3
PER adj	x	nmf	nmf	nmf	nmf
EV/EBITDA	x	-18.3	39.3	13.6	10.8
Net debt/equity	%	nmf	nmf	nmf	nmf
P/BV	x	nmf	nmf	nmf	nmf

DITV IN rel BSE Sensex performance, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, November 2009
(all figures in INR unless noted)

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9 November 2009

Dish TV India

Primed for growth; funding in place

Event

- We transfer coverage of this stock to Nitin Mohta from Shubham Majumder. We upgrade Dish TV to Outperform from Neutral and raise our target price to Rs45 from Rs11.6.

Impact

- **Expect DTH industry to add 10m subscribers in each of the next three years.** Based on our interaction with the managements of various DTH operators, we remain confident of our industrywide subscriber addition forecasts. We expect Dish to remain the market leader for the next five years, despite an assumed decline in net adds market share from 25.6% in FY3/09 to 22% in FY3/10E and thereafter. (Please see Figure 6.)
- **EBITDA expected to treble in FY3/12 from FY3/10E level.** Dish has delivered positive EBITDA for three consecutive quarters, clearly surprising us and the Street positively. We now forecast EBITDA margins to double to 20.1% in FY3/11 from 9.3% in FY3/10E. Despite assuming no major uptick in margins in FY3/12 (20.5%), we forecast EBITDA to increase by over 3x to Rs3.7bn from Rs1bn in FY3/10E.
- **Positive investment view based on strong improvement in operating cashflows, led by strong growth in subscriber base and tight cost control.** We expect Dish TV to add 4.4m subscribers over the next two years, implying a CAGR of 27.4% in the subscriber base for FY3/10–12. Dish TV management has done a commendable job in capping the content cost as a percentage of subscription revenues by entering into fixed-price contracts; we view this as the key reason for the sharp rise in EBITDA.
- **Funding overhang removed.** Sixty-four percent of the money raised in a rights issue has been infused into the company, and we do not view funding as a bottleneck to growth.

Earnings and target price revision

- Transfer of coverage; target price raised to Rs45 from Rs11.6.

Price catalyst

- 12-month price target: Rs45.00 based on a DCF methodology.
- Catalyst: Subscription ARPU in excess of Rs150 in 3Q FY3/10E.

Action and recommendation

- **Recommend investors play the India media story by accumulating Dish TV.** We are bearish on Indian broadcasters and advise investors to accumulate play DTH companies instead to benefit from growth in DTH.
- **Sustained positive EBITDA and certainty on growth plans could result in re-rating.** We expect Dish to be viewed favourably by investors who have refrained from accumulating the stock given Dish's negative EBITDA and uncertainty surrounding its substantial funding needs for future growth.
- **At our TP, Dish would trade at an EV/sub of US$190.** Dish is currently trading at EV/sub value of US$159 vs the global average of US$1,507 (Figure 4). With transfer of coverage, stock upgraded to Outperform from Neutral.

Valuation: Positive EBITDA could re-rate the company among investors

- **DCF-based target price of Rs45 implies 25% upside.** We set a one-year target price of Rs45 based on DCF, which, in our view, is the most appropriate methodology given the nascent stage of business. Dish could trade at a one-year forward EV/Sales multiple of 3.6x at our target price.

Valuation: DCF-derived target price of Rs45

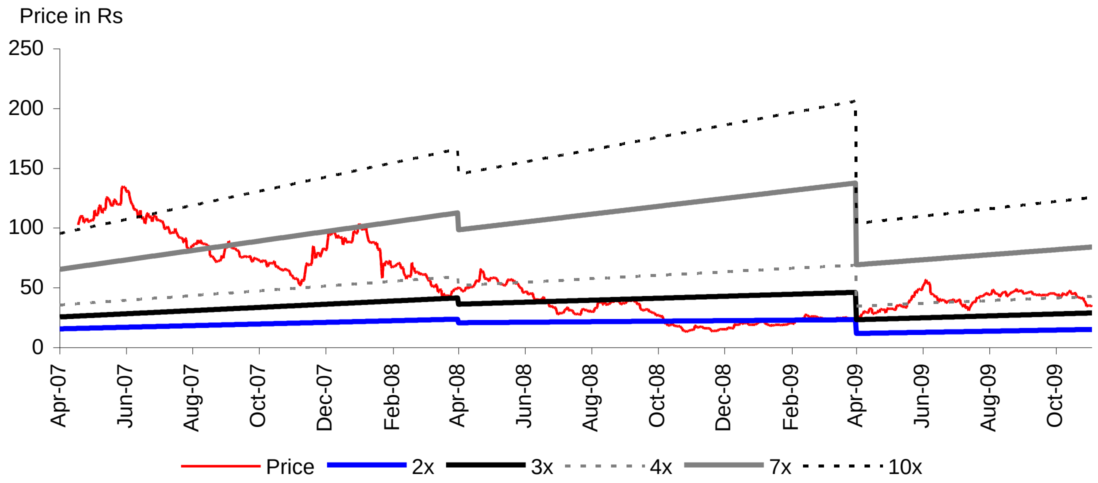
Fig 1 Key DCF assumptions

Parameters	
WACC (%)	13.0%
Risk-free rate of return = Rf (%)	7.5
Equity risk premium (%)	7.5
Beta	1.10
Cost of equity = Re (%)	15.8
Cost of debt = Rd (%)	7.87
FCF growth from 2020 to perpetuity (%)	4%
DCF fair value (Rs)	**45.0**

Source: Macquarie Research, November 2009

- **Two-year revenue CAGR of 28% would translate into EBITDA CAGR of 91% as margins expand**. A key variable element in Dish TV's cost structure is its selling and distribution cost. Dish management has successfully negotiated the other key variable cost, ie, content costs on a fixed-price basis with media broadcasters. We highlight the tie-up with regional broadcaster Etv, which is the recent addition to the basket of broadcasters that have de-linked their revenues to subscribers on Dish TV's platform. As a result, we forecast EBITDA to triple to Rs3.7bn in FY3/12 from Rs1bn in FY3/10E.
- **Forecast Dish to achieve EBITDA margin of 20.1% in FY11.** Our positive investment view of Dish is based on a two-fold increase in its EBITDA margin to 20.1% in FY3/11E from 9.3% in FY3/10E. We believe Dish has done a commendable job of keeping the content cost as a percentage of subscription revenues under control, and we expect content cost as a percentage of subscription revenues to decline to 38% in March 2011 from the current ~43%.
- **Rights issue cash infusion has provided Dish with enough liquidity to improve business fundamentals.** Dish announced a Rs11.4bn rights issue in October last year. The cash from the rights issue was to be called by the company in three tranches: the first tranche (27.2%) in the first three months of the issue, the second (36.4%) after three months but before nine months of the issue, and the final tranche nine months after but before 18 months of the issue. The rights issue was closed on 9 January 2009, and the first two tranches have already been called by the company. The third and final tranche is expected to be called by the Board in the January–June 2010 period. We expect the same to be called in the 4Q FY3/10. Even so, we believe Dish TV needs to raise Rs2bn in debt in FY3/11 to keep pace with the robust subscriber growth in the industry. However, given current market conditions, we do not view this as an overhang on the stock price.

Fig 2 Dish TV India: One-year forward rolling EV/sales chart



Source: Company data, Macquarie Research, November 2009

Fig 3 Dish TV India – DCF valuation

Year-end Mar (Rs m)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	2,909	3,681	5,097	6,350	7,584	8,911	10,292	11,325	12,143	12,674
Tax expense	1	1	1	0	3	(365)	(735)	(1,102)	(1,470)	(1,731)
Change in working capital	(1,225)	3,159	3,558	1,316	806	872	854	1,075	972	905
Cash flow from operations	1,686	6,841	8,656	7,667	8,393	9,418	10,411	11,298	11,645	11,847
Capital expenditure	(6,090)	(6,108)	(6,017)	(5,295)	(5,165)	(4,811)	(4,545)	(4,085)	(3,434)	(2,616)
Free cash flow	(4,404)	732	2,638	2,372	3,227	4,607	5,866	7,214	8,210	9,231
Growth (% YoY)	na	na	na	-10%	36%	43%	27%	23%	14%	12%
Free Cash flow for valuation purposes	(4,404)	732	2,638	2,372	3,227	4,607	5,866	7,214	8,210	9,231
Present Value of Free Cash flow	(4,144)	610	1,944	1,547	1,862	2,353	2,651	2,885	2,906	2,892

Discount rate (%)	**13.0%**
1. Present value of cash flow till 2017	
Total PV of free cash flow till Terminal Year	15,505
3. Terminal value calculation	
Terminal growth (%)	**4.0%**
FCF in Terminal year	9,231
Exit FCF multiple (X)	11.6
Terminal value	106,788
Implied Exit EV/EBITDA Multiple (X)	8.4
PV of terminal value {b}	33,451
Total company value {a} + {b}	48,956
Net debt/(cash)	6,352
Value to equity holders	42,604
Value to equity holders (Rs/share)	**45.0**
Period end shares outstanding (m)	946

WACC calculation	
Risk free rate of return = Rf (%)	7.5
Equity risk premium	7.5
Beta	1.10
Cost of equity = Re	15.8
Unadjusted cost of debt	11.00
Cost of debt = Rd	7.87
Equity = We	65.0
Debt = Wd	35.0
WACC = Re x We + Rd x Wd	13.0%

		WACC (%)				
Terminal growth (%)	45.02	12.0%	12.5%	13.0%	13.5%	14.0%
	5.0%	60.8	54.9	49.8	45.3	41.4
	4.5%	57.2	51.9	47.3	43.2	39.5
	4.0%	54.1	49.3	45.0	41.2	37.8
	3.5%	51.4	46.9	43.0	39.5	36.3
	3.0%	48.9	44.8	41.2	37.9	34.9

Source: Macquarie Research, November 2009

Fig 4 Global DTH operator valuation comps

Company Name	Bloomberg Ticker	Reco	Price (lcy)	TP (lcy)	Up/Down (%)	EV (US$ m)	Subscriber base ('000s)	EV / SUB (US$)
Dish TV India	DITV IN	OP	36.1	45.0	24.8%	941	5,919	159
Astro All Asia Networks	ASTR MK	OP	3.3	3.9	18.0%	2,277	2,646	860
BSkyB	BSY LN	OP	544.0	625.0	14.9%	18,864	9,442	1,998
Direct TV (1)	DTV US	OP	28.5	37.0	15.6%	32,087	22,469	1,428
DISH Network US	DISH US	N	18.5	21.0	13.8%	12,054	13,610	886
Sky Deutschland AG	SKYD GR	Not rated	3.2	NA	NA	2,322	2,364	982
Austar	AUN AU	Not rated	1.3	NA	NA	2,079	729	2,853

(1) Subscriber and ARPU metrics for all players except Dish TV India are for 2Q CY09. For Dish it is based on 2Q FY3/10. Prices as of 5 November 2009.

Source: Bloomberg, Macquarie Research, November 2009

Analysis of key changes in our estimates

Fig 5 Dish TV new estimates, old estimates and change in estimates

	New Estimates			Old Estimates			Change (%)		
	FY10E	**FY11E**	**FY12E**	**FY10E**	**FY11E**	**FY12E**	**FY10E**	**FY11E**	**FY12E**
Subscription revenues	8,886	12,099	15,522	8,914	12,343	16,152	-0.3%	-2.0%	-3.9%
Lease rentals	1,394	1,772	1,743	1,324	1,660	1,619	5.3%	6.8%	7.6%
DTH Revenue	10,438	14,034	17,433	10,238	14,002	17,771	1.9%	0.2%	-1.9%
Growth (%)	51	34	24	41	37	27			
Trading	39	41	43	245	257	270	-84.0%	-84.0%	-84.0%
Teleport Services	401	421	442	132	138	145	204.4%	204.4%	204.4%
Total Revenues	**10,878**	**14,496**	**17,918**	**10,615**	**14,398**	**18,186**	**2.5%**	**0.7%**	**-1.5%**
Growth (%)	47.4	33.3	23.6	39.8	35.6	26.3			
Cost of goods sold	31	33	35	196	206	216	-84.0%	-84.0%	-84.0%
Content cost	3,796	4,598	6,209	4,579	5,991	7,547	-17.1%	-23.3%	-17.7%
% of subscription revenue	42.7	38.0	40.0	(9)	3	3			
Transponder lease	547	805	797	552	680	700	-0.9%	18.4%	13.9%
License fees	1,044	842	1,046	614	840	1,066	69.9%	0.2%	-1.9%
Other operating cost	1,339	1,856	2,426	749	980	1,234	78.9%	89.4%	96.6%
Total Cost of Goods and Services	6,757	8,133	10,513	6,690	8,696	10,763	1.0%	-6.5%	-2.3%
Advertisement Expenses	709	850	978	1,295	1,451	1,523	-45.3%	-41.4%	-35.8%
Other selling & distribution expenses	1,126	1,216	1,277	1,572	1,808	1,881	-28.4%	-32.8%	-32.1%
Administrative & other expenses	707	742	780	1,113	1,202	1,274	-36.4%	-38.2%	-38.8%
Personnel cost	571	645	690	941	1,054	1,180	-39.3%	-38.8%	-41.5%
Total Operating Expenditure	9,870	11,587	14,237	11,611	14,210	16,621	-15.0%	-18.5%	-14.3%
Growth (%)	15	17	23	15.4	22.4	-			
EBIDTA	**1,008.4**	**2,909.2**	**3,681.0**	**(996)**	**187**	**1,565**	**na**	**na**	**135.2%**
EBIDTA Margin	9.3	20.1	20.5	(9)	1	9			
EBIDTA Growth (%)	(181.8)	188.5	26.5	(60)	(119)	736			
Depreciation	2,996	3,504	4,113	3,067	3,843	4,127	-2.3%	-8.8%	-0.4%
EBIT	(1,987)	(595)	(432)	(4,063)	(3,656)	(2,562)	-51.1%	-83.7%	-83.1%
Interest cost	858	1,180	1,656	1,260	1,890	2,030	-31.9%	-37.6%	-18.4%
Other income	72	74	76	22	23	23	225.6%	225.6%	225.6%
Profit before tax	(2,774)	(1,701)	(2,012)	(5,301)	(5,523)	(4,569)	-47.7%	-69.2%	-56.0%
Provision for taxation	(1)	(1)	(1)	14	16	18	-109.9%	-105.4%	-105.7%
Adjusted Net Profit after Tax	**(2,773)**	**(1,700)**	**(2,011)**	**(5,315)**	**(5,539)**	**(4,586)**	**-47.8%**	**-69.3%**	**-56.2%**
Gross Subscriber Base (m)	7.1	9.3	11.5	6.1	7.6	9.1	16.6%	22.5%	26.0%
Net Additions (m)	2.0	2.2	2.2	1.4	1.5	1.5	42.5%	46.7%	42.9%
Net Subscriber Base (in m)	5.8	7.3	8.7	na	na	na	na	na	na
Monthly churn (%)	0.7	0.8	0.8	na	na	na	na	na	na
Gross ARPU (Rs, on net subs base)	179.9	184.8	187.0	na	na	na	na	na	na
YoY change (%)	0.0	2.8	1.2	na	na	na	na	na	na
Suscription ARPU (Rs, on net subs base)	146.9	154.3	162.0	na	na	na	na	na	na
YoY change (%)	2.3	5.0	5.0	na	na	na	na	na	na

Source: Macquarie Research, November 2009

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Expect industry to add 9m subs in FY3/10, after explosive growth in FY3/09

Indian DTH operators added ~8.1m subscribers in FY3/09. As a result, the industrywide subscriber base grew to 13.3m from 5.2m in March 2008, implying 155% YoY growth. We are increasing our DTH subscriber forecast by 4–23% to factor in the positive momentum generated by the entry of large-scale players in the industry and by a technology shift from analogue to digital in the Indian market. The number of players in the Indian DTH market doubled following the entry of Videocon D2H, two leading telecom operators, and the geographical expansion of Sun Direct in North India.

Fig 6 Macquarie India DTH subscriber forecasts by company

	FY08	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total DTH subscribers (m)	5.2	13.3	22.3	32.3	42.3	52.3	60.9	69.5
YoY growth (%)	100.0	155.2	67.8	44.9	31.0	23.7	16.6	14.1
Industry net additions (m)	2.6	8.1	9.0	10.0	10.0	10.0	8.7	8.6
Total subscribers (m)								
Dish TV	3.0	5.1	7.1	9.3	11.5	13.7	15.6	17.4
Tata Sky	1.7	3.2	4.6	6.0	7.4	8.8	10.0	11.2
Reliance	-	1.5	2.6	3.9	5.3	6.8	8.1	9.4
Bharti	-	1.0	2.5	4.2	5.9	7.6	9.1	10.6
Sun TV	0.5	2.5	5.1	7.9	10.6	13.2	15.4	17.4
Videocon		-	0.5	1.1	1.7	2.3	2.9	3.5
Net adds (m)								
Dish TV	1.1	2.1	2.0	2.2	2.2	2.2	1.9	1.9
Tata Sky	1.0	1.5	1.4	1.4	1.4	1.4	1.2	1.2
Reliance	-	1.5	1.1	1.3	1.4	1.5	1.3	1.3
Bharti	-	1.0	1.5	1.7	1.7	1.7	1.5	1.5
Sun TV	0.5	2.0	2.6	2.8	2.7	2.6	2.2	2.1
Videocon			0.5	0.6	0.6	0.6	0.6	0.7
Subscriber YoY growth (%)								
Dish TV	56.6	68.8	39.0	31.2	23.8	19.2	14.0	12.1
Tata Sky	152.9	87.2	41.9	30.6	23.5	19.0	13.9	12.0
Reliance			72.0	50.4	36.1	28.4	19.2	15.9
Bharti			153.0	67.2	40.2	28.7	19.3	16.0
Sun TV		421.9	105.5	55.1	34.2	24.6	16.5	13.4
Videocon				133.3	57.1	36.4	27.0	24.0
Market share of net adds (%)								
Dish TV	45.0	25.6	22.0	22.0	22.0	22.0	22.0	22.0
Tata Sky	40.0	18.6	15.0	14.0	14.0	14.0	14.0	14.0
Reliance	-	18.6	12.0	13.0	14.0	15.0	15.0	15.0
Bharti	-	12.4	17.0	17.0	17.0	17.0	17.0	17.0
Sun TV	15.0	24.8	29.0	28.0	27.0	26.0	25.0	24.0
Videocon			5.0	6.0	6.0	6.0	7.0	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Overall market share (%)								
Dish TV	57.8	38.2	31.7	28.7	27.1	26.1	25.5	25.1
Tata Sky	33.1	24.3	20.5	18.5	17.4	16.8	16.4	16.1
Reliance	-	11.3	11.6	12.0	12.5	13.0	13.3	13.5
Bharti	-	7.5	11.4	13.1	14.0	14.6	14.9	15.2
Sun TV	9.1	18.6	22.8	24.4	25.0	25.2	25.2	25.0
Videocon			2.0	3.3	3.9	4.3	4.7	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, Macquarie Research, November 2009

Fig 7 Raising subs forecast to factor in positive subs addition momentum and shift from analogue to digital

	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
New DTH subscriber base (m)	22.3	32.3	42.3	52.3	60.9	69.5
Old DTH subscriber base (m)	21.4	28.4	35.4	42.4	49.4	56.3
New vs. Old (%)	4.1%	13.6%	19.4%	23.3%	23.4%	23.5%

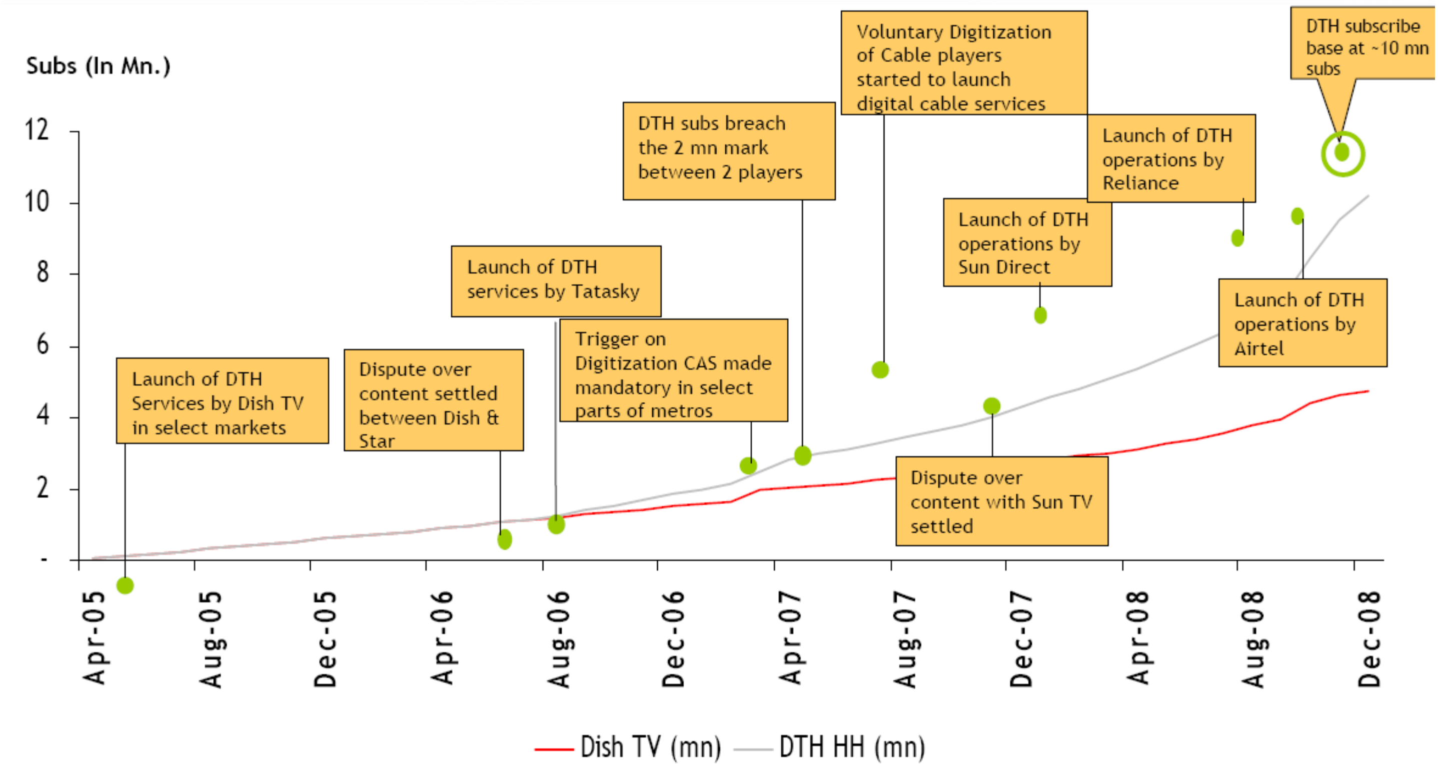
Source: Macquarie Research, November 2009

- **Monthly addition run-rate has jumped to 750k, industry set to add 9m subs this year.** Indian DTH operators are adding an average of ~750k DTH subscribers per month. We expect this to increase to ~800k by next year, allowing Indian DTH operators to comfortably meet or exceed our 10m industry addition forecast for FY3/11.

Analysing the industry growth drivers

- It has taken Indian DTH operators only five years to cross the 10m subscriber mark. Figure 8 plots the evolution of the industry over the past four years. In this section, we analyse the four key drivers of the strong growth in the industry.

Fig 8 Key milestones for the Indian DTH industry



Source: Company data, Macquarie Research, November 2009

- **Entry of new players has increased category awareness…** The Indian DTH market grew from a two-player market to a five-player market between December 2007 and October 2008. The launch of DTH services with big budget advertising campaigns increased the category awareness and expanded the market.

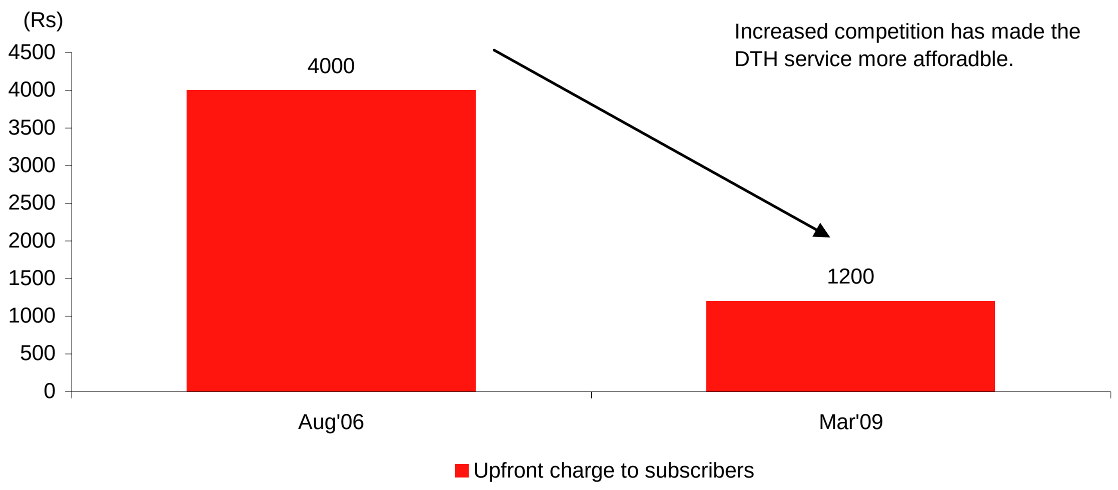
Fig 9 Sustained advertising campaigns by Airtel and BIGTV have raised category awareness

Source: Company data, Macquarie Research, November 2009

Source: Company data, Macquarie Research, November 2009

- **…and driven down the upfront costs in the past year.** With the entry of telco heavyweights and the expansion of Sun Direct in North India, upfront costs for getting a new DTH connection fell sharply in FY3/09.

Fig 10 Entry of new DTH players has been the key driver for reduced upfront costs



Source: Tata Sky data, Macquarie Research, November 2009

- **DTH operators are offering wide variety of subscription packages.** In order to differentiate themselves from the competition, DTH players are offering a wide range of monthly subscription packages. For example, DTH customers opting for Tata Sky service have the option to choose from six subscription packages for a monthly subscription vs a lone offering in August 2006.

Fig 11 DTH players have widened consumer offerings and dropped subscription charges

Packages	Aug 06	Feb 07	July 07	June 08	Oct 08
Intro Pack	200	-	-	-	-
Super Saver	-	300	300	260	260
South Starter	-	-	160	175	125
Family	-	-	250	200	200
South Value	-	-	250	260	260
South Jumbo	-	-	350	310	310
Super Hit	-	-	-	-	99

Source: Tata Sky data, Macquarie Research, November 2009

- **Drop in monthly subscription charges.** In a bid to capture market share, DTH operators have aggressively wooed customers by dropping upfront costs and introducing low monthly subscription packages to customers. We note that, in 2008, three major players – Dish TV, Tata Sky and Sun Direct –introduced monthly subscription packages that cost Rs100, Rs99 and Rs120, respectively. As a result, the operators were able to attract new customers since these monthly subscription rates were very attractively priced vs analogue cable subscription charges of ~Rs200–250.

Dish TV set to be key beneficiary of robust industry growth

- **Forecast Dish TV to maintain its lead, corner 22% net adds market share.** We expect Dish to capture a 22% share of total industry gross additions starting in FY3/10, implying 2m gross additions. We note that Dish was able to garner a 25.6% share of total industry additions in FY3/09, despite the entry of two leading telcos and the aggressive price promotion run by Sun, marking its pan-India foray. As such, we remain comfortable with our net adds market share assumption.
- **Active subs base at 5m in 2Q FY3/10, expect monthly churn to be less than 1%.** We believe the monthly churn for the company is likely to remain at ~0.7–0.8% in the mid-term and is unlikely to exceed 1% until there is inter-operator churn in the market. Currently, the churn in the market place is largely due to the non-renewal of subscriptions by customers added under promotional schemes.
- **Three levers to address the key challenge of subscription ARPU growth.** Dish management has identified three ways to augment the subscription ARPU for the company.
  - ⇒ Addition of new subscribers on high ARPU packages
  - ⇒ Renewal of existing low ARPU customers to higher ARPU package
  - ⇒ Uptake in VAS services
- **New subscriber acquisition strategy: analysing the volume and price drivers.** Dish TV currently offers four packages ranging from Silver to Platinum for monthly subscriptions. The Silver package, priced at Rs113, is the volume driver for the company. The strategy here is to offer limited channel offerings and to attract higher ARPU through add-ons. For ARPU enhancement, Dish offers Gold and Platinum packs – priced at monthly subscription ARPUs of Rs190 and Rs283, respectively. For premium customers, the company is offering a Titanium annual pack for a subscription fee of Rs3,617, implying monthly subscription ARPU of Rs301.

Fig 12 Dish TV existing schemes on offer

Pack	Channels & Services	Price per month *
Silver Pack	135	113
Gold Pack	155	190
Platinum Pack	185	283
Titanium Annual Pack	188	3,617
Child Pack	185	150 for 28 cities and 204 for other cities

*Excludes Taxes

Source: Company data, Macquarie Research, November 2009

- **"Happy Home" subscribers coming up for renewal in 3Q FY3/10, represent attractive opportunity.** Dish TV added a record 0.79m subscribers in the July–September 2008 quarter. Record subscriber additions in the quarter were driven by Dish TV's "Happy Home" offer, under which Dish added 0.4 subscribers. Subscription ARPU for the customers who have signed under this scheme is Rs72 (vs blended subscription ARPU of Rs139 for 2Q FY3/10). We note that subscribers added under the scheme had to renew their monthly subscription package in September 2009, and we expect blended ARPU to improve as a result of customers signing for higher-ARPU packages.
- **Dish TV has augmented its basket of VAS services in the past year.** Popular VAS services used on Dish TV's platform are Movies on Demand and Gaming services. FY3/09 VAS ARPU accounts for 6% of total subscription ARPU for Dish TV. Management has identified an aggressive push in VAS services as one of the key levers to augment subscription ARPU.

EBITDA breakeven achieved two quarters ahead of guidance

- **EBITDA breakeven achieved in 4Q FY3/09, expect margins to jump to 20% by FY3/11.** Dish surprised positively by reporting breakeven at the EBITDA level for the January–March 2009 quarter. We expect Dish to report EBITDA of Rs2.9bn in FY3/11, implying an EBITDA margin of 20.1%. We believe Dish will be able to increase its EBITDA margins as a result of a sharp reduction in content costs (38% of subscription revenues in FY3/11E, down from 43% in FY3/10E).
- **Fixed-price contracts with broadcasters have helped Dish to cut down content costs.** For the quarter ending September 2009, content costs as a percentage of subscription revenue were ~43 vs 59% for FY3/09.The reduction in content costs was largely achieved by Dish TV entering into fixed-price contracts with broadcasters. This is the key reason why subscription revenues from DTH are not increasing in a linear fashion with the strong growth in DTH subscribers for Indian broadcasters. It is also one of the primary reasons for our negative view on India media broadcasters.
- **Forecast advertising expense expected to increase to Rs850m in FY3/11, up 20% YoY.** We expect telcos to step up their advertising and promotional spending this year on their DTH offerings. As a result, we expect Dish to spend Rs850m on advertising in FY3/11. This implies 6% of Dish's FY3/10E top line. We could see some pressure on costs if Dish were to allocate more money to its advertising budget.
- **Expect personnel costs to rise by 13% YoY in FY3/11.** The increase in staff costs is likely to remain muted in FY3/10 at 5% YoY due to general economic conditions. However, we are building in 13% YoY growth to Rs645m in personnel expense for the March 2011 fiscal year.

Dish could need to raise debt, even after the rights issue cash infusion

Estimate debt financing of Rs2bn over and above the rights issue equity infusion in FY3/11. Based on our subscriber addition, subscription ARPU and EBITDA margin assumptions discussed earlier, we foresee an Rs2bn cash-funding requirement for Dish TV in FY3/11. After that, we expect the operating cashflow from the business to be sufficient to meet the cash requirement of the business.

Dish TV – Financial statements

Fig 13 Dish TV – annual income statement

	FY09	FY10E	FY11E	FY12E
Total Revenues (Rs m)	7,381	10,878	14,496	17,918
Operating expenditure				
Total cost of goods and services	5,440	6,757	8,133	10,513
YoY change (%)	73.7	62.1	56.1	58.7
Cost of goods sold	50.5	24.2	20.4	29.3
Content cost	3,479	3,796	4,598	6,209
% of subscription revenue	*59.0*	*42.7*	*38.0*	*40.0*
Transponder lease	477	547	805	797
License fees	746	1,044	842	1,046
Other operating cost	591	1,339	1,856	2,426
Advertisement expenses	898	709	850	978
Other selling & distribution expenses	1,264	1,126	1,216	1,277
Administrative & other expenses	469	707	742	780
Personnel cost	543	571	645	690
Total operating expenditure	8,614	9,870	11,587	14,237
EBITDA	(1,233)	1,008	2,909	3,681
EBITDA margin (%)	(16.7)	9.3	20.1	20.5
YoY change (%)	(41)	(182)	188	27
Depreciation	2,289	2,996	3,504	4,113
EBIT	(3,521)	(1,987)	(595)	(432)
EBIT margin (%)	(47.7)	(18.3)	(4.1)	(2.4)
Interest cost	1,293	858	1,180	1,656
Other income	13	72	74	76
Profit before tax	(4,801)	(2,774)	(1,701)	(2,012)
PBT margin (%)	(65.0)	(25.5)	(11.7)	
Provision for taxation	6	(1)	(1)	(1)
Profit/loss for the year	(4,807)	(2,773)	(1,700)	(2,011)
Weighted average shares outstanding (m)	475	817	946	946
Period end shares outstanding (m)	475	946	946	946
EPS (Rs)	(10.11)	(3.39)	(1.80)	(2.12)
Key Operating Metrics				
Subscriber base, ARPU and rental assumptions				
Number of Subscribers (in m)	5.07	7.1	9.3	11.5
Net Additions (m)	2.1	2.0	2.2	2.2
Subscription ARPU (Rs / m)	144	147	154	162
YoY change (%)		2.3	5.0	5.0
Gross ARPU (Rs/m)	180	180	185	187
YoY change (%)		0.0	2.8	1.2

Source: Company data, Macquarie Research, November 2009

Fig 14 Dish TV – balance sheet

	FY09	FY10E	FY11E	FY12E
Assets				
Current Assets, Loans and Advances				
Inventories	32	48	56	69
Sundry Debtors	526	778	889	1,104
Cash and Bank Balances	805	5,318	1,809	961
Loans and Advances	6,706	10,099	9,184	9,021
Total Current Assets	8,069	16,243	11,938	11,156
Fixed Assets				
Gross Block	14,211	19,717	25,807	31,915
Less : Depreciation/Amortisation	4,600	7,524	11,028	15,141
Net Block	9,611	12,193	14,778	16,774
Capital Work-in-Progress	3,734	3,734	3,734	3,734
Net Fixed Assets	13,345	15,927	18,512	20,508
Total Assets	21,414	32,170	30,451	31,663
Liabilities and Shareholders' Equity				
Current Liability and Provisions				
Current Liabilities				
Creditors for Goods	883	1,347	2,383	3,191
Creditors for Expenses and Other Liabilities	7,019	12,801	9,523	11,702
Interest accrued but not due	14	-	-	-
Advances/Deposits	8,395	7,341	7,562	7,799
Total current liabilities	16,391	21,569	19,548	22,772
Deferred Tax Liability (Net)	6	6	7	7
Loan Funds				
Secured Loans	2,697	2,697	2,697	2,697
Unsecured Loans	8,795	9,103	11,103	11,103
Shareholders' Funds				
Share Capital	687	817	817	817
Reserves and Surplus	2,792	10,706	10,706	10,706
Profit and Loss Account	(9,954)	(12,727)	(14,427)	(16,438)
Total Liabilities and Shareholders' Equity	21,414	32,170	30,451	31,663

Source: Company data, Macquarie Research, November 2009

Fig 15 Dish TV – cashflow statement

	FY09	FY10E	FY11E	FY12E
Cash flows from operating activities				
Net profit before taxation, and extraordinary item	(4,801)	(2,774)	(1,701)	(2,012)
Adjustments for:				
Depreciation	2,289	2,996	3,504	4,113
Others	849	-	-	-
Operating profit before working capital changes	(1,664)	222	1,803	2,101
Change in Sundry Debtors	(4,844)	(252)	(111)	(215)
Change in inventory	26	(15)	(9)	(13)
Change in Other Current Assets	-	(3,394)	915	163
Change in Current Liabilities	4,177	5,178	(2,021)	3,224
Change in working capital	(640)	1,516	(1,225)	3,159
Cash generated from operations	(2,304)	1,738	578	5,259
Income taxes paid	(24)	0	0	0
Net cash from operating activities	(2,329)	1,739	578	5,260
Cash flows from investing activities				
(Purchase)/ Sale of investments	0	-	-	-
Purchase of fixed assets	(5,470)	(5,506)	(6,090)	(6,108)
(Increase)/ Decrease in Capital Work in Progress	-	-	-	-
Net cash from investing activities	(5,470)	(5,506)	(6,090)	(6,108)
FCF before financing activities	(7,798)	(3,767)	(5,511)	(849)
Cash flows from financing activities				
Proceeds from issuance of share capital	3,077	8,172	-	-
Proceeds / (Repayment) of long-term borrowings	5,899	308	2,000	(0)
Dividend & CDT paid	-	-		
Other	(884)	-	1	-
Net cash used in financing activities	8,092	8,481	2,001	(0)
Net (decrease)/increase in cash and cash equivalents	**294**	**4,713**	**(3,510)**	**(849)**

Source: Company data, Macquarie Research, November 2009

Dish TV India (DITV IN, Outperform, Target Price: Rs45.00)

Quarterly Results		2Q/10A	3Q/10E	4Q/10E	1Q/11E
Revenue	**m**	**2,573**	**2,766**	**3,072**	**3,262**
Gross Profit	**m**	**2,570**	**2,753**	**3,064**	**3,254**
Cost of Goods Sold	m	3	14	8	7
EBITDA	**m**	**229**	**158**	**476**	**655**
Depreciation	m	730	753	823	788
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**-501**	**-595**	**-347**	**-134**
Net Interest Income	m	-66	-295	-295	-266
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	6	2	9	17
Pre-Tax Profit	**m**	**-562**	**-888**	**-633**	**-383**
Tax Expense	m	0	0	0	0
Net Profit	**m**	**-561**	**-888**	**-632**	**-383**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**-561**	**-888**	**-632**	**-383**
Adjusted Earnings	**m**	**-561**	**-888**	**-632**	**-383**
EPS (rep)		-0.69	-1.09	-0.67	-0.40
EPS (adj)		-0.69	-1.09	-0.67	-0.40
EPS Growth yoy (adj)	%	78.8	56.2	61.8	59.8
EBITDA Margin	%	8.9	5.7	15.5	20.1
EBIT Margin	%	-19.5	-21.5	-11.3	-4.1
Earnings Split	%	20.2	32.0	22.8	22.5
Revenue Growth	%	48.5	43.5	47.9	32.2
EBIT Growth	%	63.4	38.0	-324.5	75.4

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	79.0	47.4	33.3	23.6
EBITDA Growth	%	41.0	nmf	188.5	26.5
EBIT Growth	%	3.8	43.6	70.1	27.4
Gross Profit Margin	%	98.0	99.7	99.8	99.8
EBITDA Margin	%	-16.7	9.3	20.1	20.5
EBIT Margin	%	-47.7	-18.3	-4.1	-2.4
Net Profit Margin	%	-65.1	-25.5	-11.7	-11.2
Payout Ratio	%	nmf	nmf	nmf	nmf
EV/EBITDA	x	-18.3	39.3	13.6	10.8
EV/EBIT	x	-6.4	-19.9	-66.5	-91.7
Balance Sheet Ratios					
ROE	%	86.0	73.5	85.5	51.4
ROA	%	-20.8	-7.4	-1.9	-1.4
ROIC	%	-1,579.6	-47.2	-11.3	-4.8
Net Debt/Equity	%	nmf	nmf	nmf	nmf
Interest Cover	x	-2.7	-2.3	-0.5	-0.3
Price/Book	x	nmf	nmf	nmf	nmf
Book Value per Share		-13.6	-1.1	-3.1	-5.2

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**7,381**	**10,878**	**14,496**	**17,918**
Gross Profit	**m**	**7,234**	**10,847**	**14,463**	**17,884**
Cost of Goods Sold	m	147	31	33	35
EBITDA	**m**	**-1,233**	**1,008**	**2,909**	**3,681**
Depreciation	m	2,289	2,996	3,504	4,113
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**-3,521**	**-1,987**	**-595**	**-432**
Net Interest Income	m	-1,293	-858	-1,180	-1,656
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	13	72	74	76
Pre-Tax Profit	**m**	**-4,801**	**-2,774**	**-1,701**	**-2,012**
Tax Expense	m	-6	1	1	1
Net Profit	**m**	**-4,807**	**-2,773**	**-1,700**	**-2,011**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**-4,807**	**-2,773**	**-1,700**	**-2,011**
Adjusted Earnings	**m**	**-4,807**	**-2,773**	**-1,700**	**-2,011**
EPS (rep)		-10.11	-3.39	-1.80	-2.12
EPS (adj)		-10.11	-3.45	-1.80	-2.12
EPS Growth (adj)	%	-4.6	65.9	47.9	-18.3
PE (rep)	x	nmf	nmf	nmf	nmf
PE (adj)	x	nmf	nmf	nmf	nmf
Total DPS		0.00	0.00	0.00	0.00
Total Div Yield	%	0.0	0.0	0.0	0.0
Weighted Average Shares	m	475	817	946	946
Period End Shares	m	475	946	946	946

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**-1,233**	**1,008**	**2,909**	**3,681**
Tax Paid	m	-8	0	0	0
Chgs in Working Cap	m	-281	1,516	-1,225	3,159
Net Interest Paid	m	0	0	0	0
Other	m	-1,280	-787	-1,106	-1,580
Operating Cashflow	**m**	**-2,801**	**1,739**	**578**	**5,260**
Acquisitions	m	0	0	0	0
Capex	m	-5,092	-5,506	-6,090	-6,108
Asset Sales	m	0	0	0	0
Other	m	0	0	0	0
Investing Cashflow	**m**	**-5,092**	**-5,506**	**-6,090**	**-6,108**
Dividend (Ordinary)	m	0	0	0	0
Equity Raised	m	3,051	8,172	0	0
Debt Movements	m	6,047	308	2,000	-0
Other	m	-2	0	1	0
Financing Cashflow	**m**	**9,096**	**8,481**	**2,001**	**-0**
Net Chg in Cash/Debt	**m**	**1,225**	**4,751**	**-3,510**	**-849**
Free Cashflow	**m**	**-7,893**	**-3,767**	**-5,511**	**-849**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	805	5,448	1,809	961
Receivables	m	526	778	889	1,104
Inventories	m	32	48	56	69
Investments	m	0	0	0	0
Fixed Assets	m	13,345	15,927	18,512	20,508
Intangibles	m	0	0	0	0
Other Assets	m	6,706	10,099	9,184	9,021
Total Assets	**m**	**21,414**	**32,300**	**30,451**	**31,663**
Payables	m	7,902	14,147	11,906	14,893
Short Term Debt	m	0	0	0	0
Long Term Debt	m	11,492	11,800	13,800	13,800
Provisions	m	80	80	80	80
Other Liabilities	m	8,415	7,347	7,569	7,806
Total Liabilities	**m**	**27,889**	**33,375**	**33,355**	**36,579**
Shareholders' Funds	m	-6,475	-1,075	-2,905	-4,915
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**-6,475**	**-1,075**	**-2,905**	**-4,915**
Total Liab & S/H Funds	**m**	**21,414**	**32,300**	**30,451**	**31,663**

All figures in INR unless noted.
Source: Company data, Macquarie Research, November 2009

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.08%	54.02%	40.00%	42.31%	62.86%	43.61%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Neutral	39.77%	19.10%	45.00%	43.36%	31.90%	39.85%	(for US coverage by MCUSA, 0.35% of stocks covered are investment banking clients)
Underperform	15.15%	26.88%	15.00%	14.34%	5.24%	16.54%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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