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Dish TV India Ltd

PRICE : RS.57 | **RECOMMENDATION : ACCUMULATE**

TARGET PRICE : RS.68 | **FY14E P/E: 28.6x**

Dish TV is well placed to benefit from changing viewer preferences as well as significant regulatory changes underway in the broadcasting space. We forecast strong long-term earnings growth for the company, and find the valuations attractive at CMP. Near-term, we believe implementation of digitization, possible rise in foreign investment limits are potential positive triggers. Industry issues, particularly relating with high churn, are being tackled by the DTH industry, in our understanding. Digitization and (consequent) possibility of sharp upward move in ARPUs shall overpower expectedly unimpressive earnings performance in the next few quarters. Irrational competiton during digitization remains the key risk. We initiate with ACCUMULATE rating and price target of Rs.68.

- **Pure-Play on Changing Viewership Platform:** Dish TV, leading the DTH revolution in India, is a pure-play on changing viewership choices. The DTH industry merges the masses from India's faraway villages (scale) with upscale viewers demanding a high quality viewing experiences (channel choice, HDTV, on-demand content). Dish TV, which has led voluntary digitization in the country via DTH, is a pure-play on the necessity of cable and satellite TV (rural areas) and demand for improved services (urban areas).
- **Rising Subscriber Base, Improving Economies:** Dish TV's rising subscriber base (now ~8% of India's C&S universe) has been the driver of revenues. Rising clout in the Indian C&S space has also brought along economies in content expenses as well as subscriber acquisition costs. We expect Dish TV to continue adding subscribers at a robust pace over the next three years (3mn/year), mandatory digitization being the incremental driver. Industry is pushing for higher ARPUs, which, in addition to economies in S&D expenses, will help margins. We foresee a 8.4 ppt rise in the company's margins over FY12-FY16E.
- **Projections, Valuations Suggest Significant Upsides, Barring Irrational Competition:** We expect DTH industry to continue growing at 22% CAGR over the next five years. Dish TV, the leader in the DTH space, is likely to grow 23% CAGR in revenues and 33% CAGR in EBITDA over FY12E-FY14E. We assess fair value of Dish TV stock at Rs 68/ share, while assuming competitive intensity to be high, but not irrational.
- **Expect Digitization to Have a Positive Impact on DTH; ARPUs, Earnings may see an unexpected growth:** We believe digitization of Indian broadcasting, approved by the parliament and kicking off in the metros from July, 2012, shall have a beneficial impact on Dish TV. Compression in LCOs margins impact ARPU positively, which would either improve DTH ARPU (along with revenues and margins), or reduce switching costs, enabling stronger subscriber adds than current estimates. We believe sharply rising ARPUs in the analogue space are a real possibility, and the likelihood of the event is a prime reason why one should invest in Dish TV, in spite of weakening metrics of the company.

Stock details

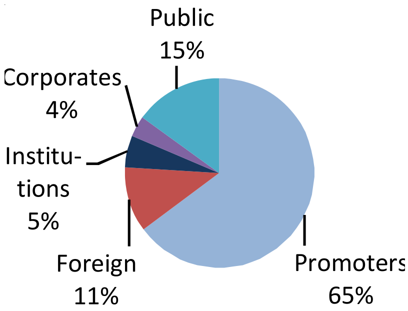
BSE code	: 532839
NSE code	: DISHTV
Market cap (Rs.mn)	: 60.6
Free float (%)	: 35.25
52-wk Hi/Lo (Rs)	: 97/52
Avg. Daily Volume (BSE+NSE)	: 4034.77
Shares o/s (mn)	: 1,064

Summary table

(Rs mn)	FY12E	FY13E	FY14E
Sales	19,418	23,884	29,457
Growth (%)	35.2	23.0	23.3
EBITDA	5,008	6,757	8,801
EBITDA margin (%)	25.8	28.3	29.9
PBT	(1,212)	403	2,120
Net profit	(1,212)	403	2,120
EPS (Rs)	(1.1)	0.4	2.0
Growth (%)	(29.7)	(133.2)	426.4
CEPS (Rs)	3.3	5.5	7.4
Book value (Rs/share)	(0.8)	(0.4)	1.6
Dividend per share (Rs)	-	-	-
ROE (%)	NM	NM	341.7
ROCE (%)	(0.3)	9.3	19.2
Net cash (debt)	(7,457)	(6,104)	(3,044)
Net Working Capital (Days)	-25	-29	-33
P/E (x)	(50.0)	150.6	28.6
P/BV (x)	(72.0)	(138.0)	36.1
EV/Sales (x)	3.6	2.9	2.3
EV/EBITDA (x)	14.0	10.3	7.6

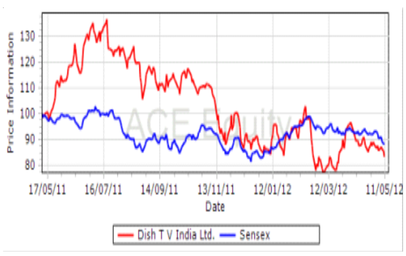
Source: Company, Kotak Securities - Private Client Research

Shareholding pattern



Source: ACE Equity

One-year performance (Rel to Sensex)



Source: ACE Equity

- **Near-Term Earnings View - The Weaknesses are in the Price:** Dish TV is already experiencing fairly high churn (19%, annualized) on account of heightened competitive activity, and we duly account for the same in our estimates. We also believe that industry actions in the recent past provide reason to believe that churn may be contained at lower levels, going forward. Based on our estimates, we think there is a possibility that earnings revisions thus far have been more than adequate, and current multiples (10.3x EV/ EBITDA FY13E) are an insufficient reflection of the potential in Dish TV stock.

We initiate coverage with ACCUMULATE rating on Dish TV India with a price target of Rs.68

- **Sentiment Likely to be Positive, leading to improving valuations, limiting downside risks:** We believe that as the digitization rolls out, and issues relating with concerns on DTH/ Dish TV are resolved, the sentiment on the stock is likely to be positive. Further positive impact could come in from a rise in foreign investment limit in the cable/DTH segment. We find the risk-reward favorable at CMP, and initiate with ACCUMULATE recommendation, and a price target of Rs 68.
- **Key Risks:** Downside risks include higher competitive intensity, persistently low ARPUs in Indian C&S sector, value chain risks and forex risk.

Investment View Summary

Investment Summary

Key evaluation area	Comments
1. FUNDAMENTALS	**STRONG INDUSTRY GROWTH, VALUATION REASONABLE**
	COMPETITION IS KEY NEGATIVE; EARNINGS WEAK ON VISIBLITY
INDUSTRY GROWTH	POSITIVE
a. PENETRATION BENEFITS	High; TV Penetration only 60%
b. PRICING TO END CONSUMER	High Potential if transparency comes in analogue
COMPETITIVE POSITION	WEAK
a. Intra- Industry Competition	High - DTH a 5 player market
b. Bargaining Power of Buyers	High - Low Product Differentiation in DTH
c. Bargaining Power of Suppliers	Low - Broadcasters a fragmented industry
d. Threat of Substitutes	High- Digital Cable is neck and neck with DTH
EARNINGS MOMENTUM	POSITIVE LONG TERM TRENDS
a. Revenue Growth	Strong, 38% CAGR over FY09-FY12E, 23% CAGR over FY12E-FY14E
b. Margin Expansion	+41 ppt over FY09-FY12E, +6 ppt over FY12-FY14E
c. PAT/ EPS Growth	Expect PAT positive in FY13; expect Rs 2.0 in EPS (FY14E)
VALUATION	INVESTMENT POSITIVE
a. DCF Valuation	Rs 68/ share indicates upside
b. Peer Valuation	Expensive relative to MSOs, substitution effect could overwhelm
c. Time Series (EV/ EBITDA)	Suggests Upside, uniqueness destruction (b. above) has likely taken place
EARNINGS AND VALUATION VISIBILITY	INVESTMENT NEGATIVE
a. History of Meeting Estimates	Weak; Dish TV estimates have been slashed 20% for FY12/ FY13 over LTM
b. Confidence in Long-Term Forecasts	Medium; Significant possibilities of negative surprises on account of competititon
2. INVESTMENT RISKS	**CONCERNS APPEAR PRICED IN; SITUATION IMPROVING**
a. Continued Weakness in ARPUs	Low Possibility; rising co-operation b/w industry players, Digitization will impose discipline in cable.
b. Continued Strength in Churn	Churn Likely to reduce on acocunt of concerted industry efforts
c. Estimate Cuts	Larger part factored in, in our opinion
d. Equity Dilution	Expect targets to be met at current level of debt; dilution necessarry only on bigger opportunities
3. TRIGGER ASSESSMENT	**POSITIVE EVENT TRIGGERS COULD OVERSHADOW EARNINGS**
a. DIGITIZATION	Postive; Possibility of stronger ARPUs not priced in
b. CHANGES IN FDI/ FII LIMITS	Positive; could have significant impact on Dish TV
c. WEAK EARNINGS PERFORMANCE	Negative; Largely Priced in

Source: Kotak Securities - Private Client Research

Investment view

Fundamentals	Investment Risks	Triggers
• Key Positives: Strong Industry Growth in Broadcasting; Reasonable Valuations • Key Negatives: Lack of competitive differentiators, Lack of Visibility in earnings, valuation	• Key risks relate to changes from base case (largely on account of competitive intensity) • Risks appear mitigated on account of greater industry co-operation witnessed recently	• Digitization could be a positive trigger; have an unexpectedly large impact on industry ARPUs, if DTH players co-operate • Govt. mulling rise in FDI/ FII limits • Weak earnings performance in the price

Source: Kotak Securities - Private Client Research

Investment Discussion

India's broadcasting Opportunity: Penetration, Transparency, Segmentation

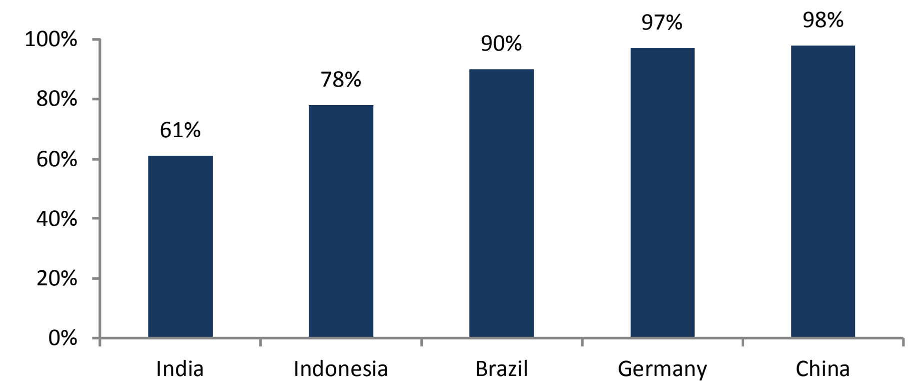
Dish TV is a part of the great Indian broadcasting story - filling of penetration gaps, rise of organized players in the cable and satellite space, and clogged analogue pipe (see appendix "The Problem With Analogue Cable"). The subscription revenues of Indian broadcasting industry, sized at Rs 237Bn, have been witnessing modest growth over the past five years (12% CAGR), which in turn have been held back on account of stagnancy in analogue cable.

Three guiding forces in broad casting subscription revenues: Penetration Transparency and Segmentation

There are three important growth opportunities in Indian broadcasting, based on: 1/ penetration, 2/ transparency, and 3/ segmentation.

Firstly, India's television penetration statistics indicate there is a lot more growth to come. TV Penetration in India is 61%, which is low compared with global peers. Broadcasting industry has plenty of scope to grow, therefore, from rising penetration of cable and satellite TV as well as TV penetration. Pay TV is also a play on some broad trends such as urbanization, rise of the middle class, and rise of nuclear families in India.

Penetration of TV (%)



Source: FICCI-KPMG Report

Secondly, the larger part of the Indian cable and satellite universe (~70%) continues to be serviced by analogue cable. Analogue cable has been a pillar of non-transparency in Indian broadcasting on account of which various inefficiencies have crept into the system. Organized players (broadcasters, larger MSOs) have suffered at the hands of Local Cable Operators, and customer pricing has been weak.

Shift from analogue to digital platforms to aid transparency...

A third (although related to the second point raised above) issue is that of customer segmentation. The feed received by the analogue subscriber is a 'one size fits all' package. While there may be over 600 channels in India, the subscriber is forced to watch what is made available by the MSO that the subscriber's LCO has chosen. Therefore, while willingness to pay may exist, product availability is an issue. Digitization allows for segmentation of the consumer, thus aligning customer wants with product, and (therefore) extracting superior pricing.

Rs 237 Bn are generated in broadcasting industry subscription revenues - of which ~ Rs 150 Bn is received from analogue subscribers. About 85% of the analogue revenues are appropriated by the LCO. The distribution of the subscription revenues generated in the value chain is undergoing a shift as consumers switch from analogue to digital viewing platforms.

Indian Pay TV Model (Rs mn)	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Derivation, Subscription Revenues:												
Population ('000)	1,155,348	1,170,368	1,185,582	1,200,995	1,216,608	1,232,424	1,248,445	1,263,427	1,278,588	1,293,931	1,309,458	1,325,171
Growth (%)		1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2
# per household	4.7	4.6	4.5	4.4	4.3	4.3	4.2	4.1	4.0	3.9	3.8	3.8
Households ('000)	245,507	253,774	262,320	271,153	280,284	289,722	299,478	309,257	319,355	329,783	340,551	351,671
- o/w Television Households	147,304	152,265	162,638	173,538	184,987	197,011	209,635	222,665	236,323	250,635	265,630	281,337
% Penetration (TV)	60	60	62	64	66	68	70	72	74	76	78	80
- o/w C&S Households	91,329	106,585	123,605	133,624	146,140	159,579	173,997	189,265	205,601	225,571	239,067	253,203
% Penetration (C&S TV)	37	42	47	49	52	55	58	61	64	68	70	72
% Grw. (C&S TV)		17	16	8	9	9	9	9	9	10	6	6
- o/w Analogue Households	69,000	74,985	80,045	68,696	49,980	34,995	35,017	36,387	37,435	40,589	35,587	29,375
- o/w Digital Cable Households	4,000	6,000	9,000	20,000	40,000	60,000	66,000	72,600	79,860	87,846	96,631	106,294
- o/w DTH Households	16,000	25,600	34,560	44,928	56,160	64,584	72,980	80,278	88,306	97,136	106,850	117,535
ARPU (Rs/ Month)												
- Analogue Households	160	160	160	160	160	160	160	160	160	171	183	196
- Digital Cable	160	160	160	160	180	193	206	221	236	252	270	289
- DTH	160	160	160	170	180	193	206	221	236	252	270	289
Revenues, Ind (Distrbn. Chain) Rs mn	170,880	204,644	237,322	261,950	303,667	355,129	410,927	474,393	548,006	643,792	737,824	845,439
- Analogue Households	132,480	143,972	153,687	131,897	95,962	67,190	67,232	69,864	71,875	83,386	78,227	69,092
- Digital Cable	7,680	11,520	17,280	38,400	86,400	138,672	163,217	192,106	226,109	266,130	313,236	368,678
- DTH	**30,720**	**49,152**	**66,355**	**91,653**	**121,306**	**149,267**	**180,478**	**212,423**	**250,022**	**294,275**	**346,362**	**407,668**

Source: Kotak Securities - Private Client Research

The Indian broadcasting industry is expected to rise in revenues to Rs 355 Bn by FY2015, if digitization is implemented as per plan. Dish TV, along with other distribution and broadcasting operators has an opportunity to be a part of the growth. As per our estimates, DTH opportunity in India shall see a growth of 22% CAGR over the next ten years (see table above).

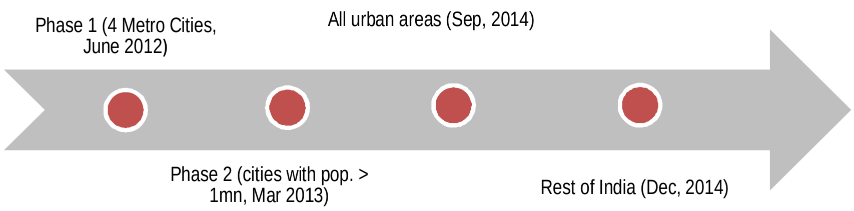
Mandatory Digitization or not, DTH Placed Well

Demand for DTH has been met by improving economies of the sector: declining set-top box prices, and reducing content costs per subscriber (incentives from broadcasters) have enabled the DTH service providers to remain competitive with analogue cable players, which has satisfied urban demand. Rural demand, on the other hand, can be, very often, met only by DTH players (analogue cable economies are poor in sparsely populated areas).

India's broadcasting space is still largely analogue. A key development that has happened recently is the passage of the Cable Networks Amendment Bill, 2011, which makes digitization mandatory, in three phases, the summary of which is provided below:

Cable Networks Amendment Bill will create opportunities for organized players in broad casting

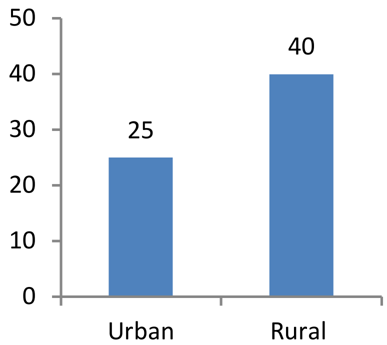
Digitization Timeline



Source: Industry

We believe that DTH operators are placed well whether or not the same is adhered to - and this makes Dish TV a somewhat unique candidate in the listed distribution space. If digitization timelines cannot be met, we think that the inefficiencies of analogue cable viewing will give way to DTH take-up in urban areas. If digitization is in fact made mandatory, DTH would likely gain on certain urban areas where DTH shall have taken longer to penetrate.

Digital household as % C&S



Source: TAM

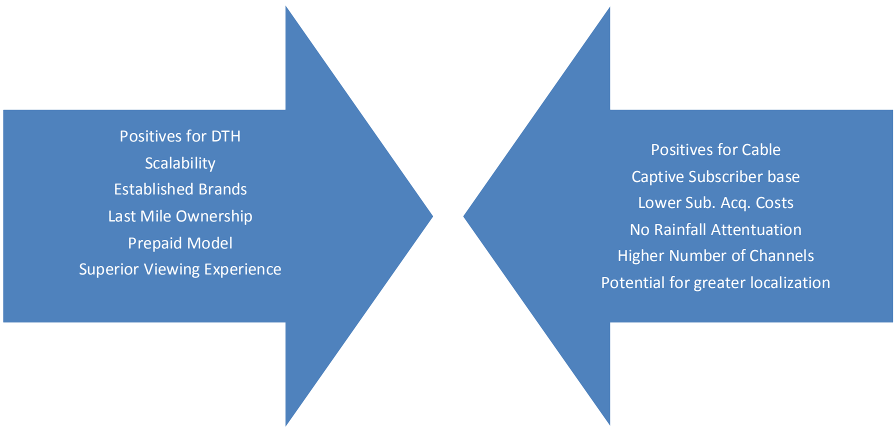
DTH has several positives going for it, in so far as the race to gain subscribers is concerned: 1/ DTH can reach far flung areas, where MSOs are sometimes not viable. This is indeed the reason for DTH's success in rural areas, and shall remain so, 2/ the DTH industry has invested aggressively in branding (over Rs 10Bn have been cumulatively invested by the industry in brand promotion); we believe recall would be a factor in gaining subscribers if digitization mandate plays out, 3/ MSOs are connected to the subscriber through the tenuous link of an LCO, while DTH companies have a billing relationship, and systems in place for customer satisfaction, 4/ DTH companies have a 100% prepaid model which improved cash flows, 5/ despite digitization, even cable companies admit that the viewing experience is better in DTH. Further, DTH companies have also rolled out value added equipment/ services such as movie on demand, HDTV, and PVRs, not all of which are available with most MSOs.

In our opinion, rainfall attenuation is a relatively smaller issue, and the disturbances are somewhat minor. The captive subscriber base and lower acquisition costs of MSOs are advantages that come with a rider: no last mile connectivity, and no direct connect with the subscriber. Further, as we discuss in our next section, it is unlikely that LCOs shall be able to manage operations without significantly raising bill payments, which may bring DTH more on par with digital cable.

DTH well placed relative to digital cable: brands, scalability, last mile ownership are key positives

Lastly, it is believed that MSOs can localize content to a greater extent, given greater channel capacity. This argument has its limitations, for: 1/ DTH operators would themselves ramp up capacity to 400 channels (currently carry 200+ channels), 2/ it is our view that such 400 channels can satisfy a larger part of the Indian C&S audience.

Digital Cable versus DTH



Source: Hathway Cable Investor Presentation, Kotak Securities - Private Client Research?

Consumer Economics: DTH Not at a Disadvantage in a Digitized India

Large number of LCOs may see profits decline substantially if ARPUs do not rise post digitization

DTH industry has an ARPU of Rs 160/ month, approximately the same as ARPU of Dish TV. This is equivalent to the ARPU of analogue cable operators, and is a key bottleneck for DTH operators in making progress in urban areas (given additional cost of equipment that the customer would have to pay, compared with zero installation cost in case of analogue TV). We believe that mandatory digitization shall alter the economics of LCOs in such a way as to force many out of operation, unless consumer payments for the same rise significantly. In an illustration below, we see that operating earnings of a local cable operator with 10,000 subscribers may potentially fall by 70% in a situation where 35% of subscriber payments are retained by the LCO, if billing rates do not rise.

Illustration: LCO Economics - Pre and Post Digitization

	Pre- Digitization	Post-Digitization			
Subscribers	1,000	1,000	1,000	1,000	1,150
ARPU (Rs / month)	160	160	200	250	300
Revenues/ Month	160,000	160,000	200,000	250,000	345,000
Ent. Tax Paid (@10% of reported revs.)	2,400	16,000	20,000	25,000	34,500
Underreporting	85%	-	-	-	-
Revenues Paid Out to MSO (65% of reported revs.)	15,600	104,000	130,000	162,500	224,250
Gross Profit	142,000	40,000	50,000	62,500	86,250
Personnel and Billing Expenses	30,000	20,000	20,000	20,000	20,000
EBITDA	112,000	20,000	30,000	42,500	66,250
EBITDA Margin	70.0%	12.5%	15.0%	17.0%	19.2%

Source: Kotak Securities - Private Client Research, Industry Discussions

Our discussions with some of the MSOs suggest that industry ARPUs are set to rise to Rs 220 - Rs.250/ month over the medium term. This would affect the DTH industry positively, in our opinion. Keeping DTH industry ARPUs constant, this would mean that the higher installation expenses that a customer may have to bear for a DTH connection (~Rs 1000 in excess of the cable STB), shall have an offsetting component in the monthly bill payments, making DTH competitive versus digital cable.

Illustration: Consumer Economics - DTH versus Digital Cable

	DTH	Cable
STB Cost to consumer	1400	500
ARPU (Rs/ month)	200	250
Payment (assuming 2-yr holding)	6200	6500
Payment (assuming 3-yr holding)	8600	9500

Source: Kotak Securities - Private Client Research

Rise in digital cable ARPUs will make DTH competitive, even in terms of cost to consumer

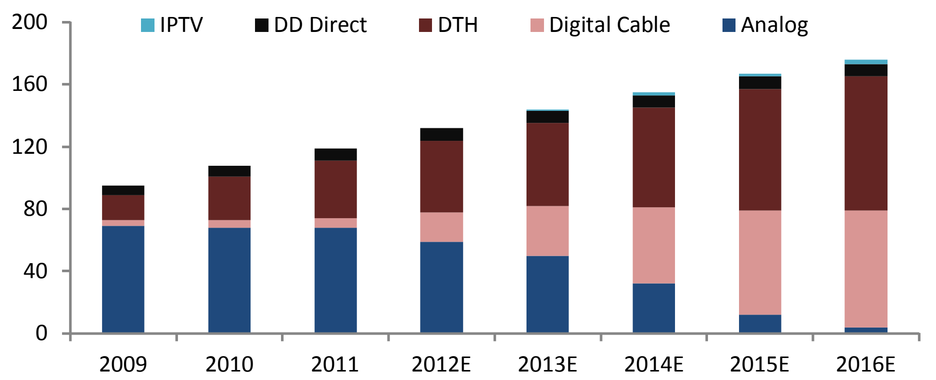
The same shall have one of these implications, depending on how DTH industry's consumer prices move: a/ ARPU of DTH industry may see a sharper rise than forecasts (the larger part of which will flow into EBITDA, raising margins in the short-term), or b/ take-up of DTH may turn out to be stronger than expected by consensus/ industry, which will have a positive long-term impact on margins via scale.

The Story So Far: DTH Growing at a Fast Clip, Dish TV Industry Leader

Dish TV is the largest player in the fast-growing Indian DTH market. DTH subscribers in India have risen to 37mn in a space of six years (Dish TV, the first Indian DTH company, launched operations in 2005).

DTH, digital cable to co-exist in a digitized environment

Summary of Indian Broadcasting Distribution Landscape (mn subscribers)



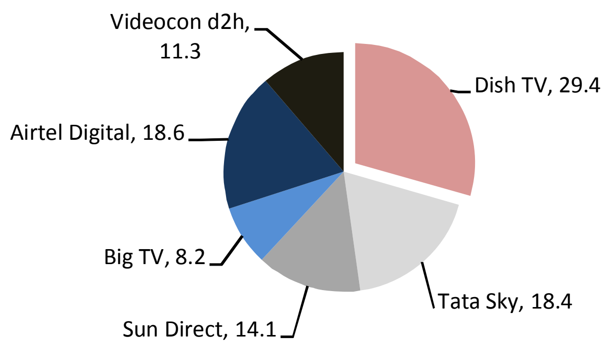
Source: FICCI - KPMG Report, 2012

Two factors, namely channel proliferation and inability of analog cable to convert customers to digital subscribers, and the inability of cable to reach sparsely populated locations, have propelled the demand for DTH services in India.

Dish TV has 12.6 mn subscribers (CY2011- end), and has been the market leader of the industry since inception.

Dish TV: Market leader in a competitive market

Dish TV Market Share



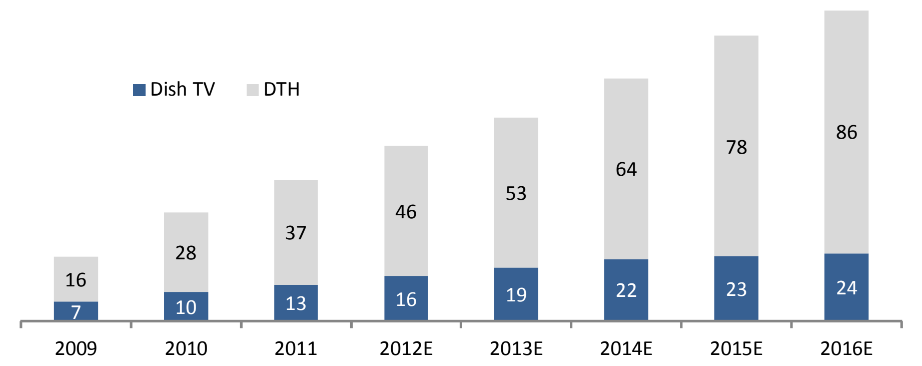
Source: Company Reports

Growth in the DTH industry shall be dependent on: 1/ further growth in subscribers, on account of stronger DTH take-up, and 2/ changes in ARPUs, on account of greater customization of content (MOD, HDTV etc), and greater transparency in the analogue value chain (which will force ARPUs upwards). For this reason, we believe DTH subscribers shall grow at a fast phase in a digital addressable environment.

Subscribers to rise to 86 mn in FY2016, leading to improved economics for DTH Players

Based on changing broadcasting industry demands, coupled with legislation enabling digitization and transparency, we think DTH take-up shall be strong over the next decade. Dish TV targets 25% incremental share of new DTH subscribers. We believe Dish TV subscribers shall rise to 24 mn by CY2016.

Gross Subscribers, DTH Industry and Dish TV



Source: FICCI-KPMG report, Kotak Securities - Private Client Group

We do not think there is any competitive advantage that Dish TV derives: one DTH player is as good as another and the only distinguishing quality among players is packaging of content, and commitment to remain price competitive. There are several entry barriers, however, in terms of consumer premise equipment, branding, and carriage deals. Dish TV is also well-placed in terms of total channels' capacity, having augmented its capacity to 648 MHz. We believe these entry barriers shall hold Dish TV in good stead in the coming years. Dish TV's pricing position relative to the competition is summarized below:

Dish TV price competitive relative to peers, on monthly packages as well as installation

Dish TV versus Peers Pricing of Content

(Rs per month, base pack)	South	Non-South
Dish TV	155	180
Tata Sky	155	180
Airtel	140	158
Reliance	153	202
Videocon	150	178
Sun Direct	143	165

Source: Companies

We note that entry prices (consumer premise equipment) of most DTH players have now risen and stabilised at Rs.1590. Usually there is an offer of free content for two months on South India Packs and a one month for rest of India

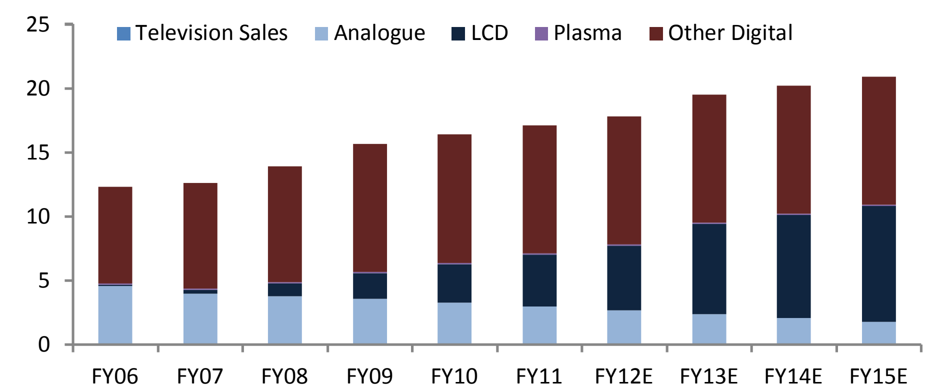
Industry ARPUs Bottomed Out, Likely to See Gains

We believe ARPUs of DTH industry have bottomed out, and are headed upwards. Our belief in rising ARPUs going forward has its roots in the following:

1/ technological changes, such as onset of HD, and availability of Video on Demand, are changing consumer's viewing experience and are effectively redrawing pricing. Dish TV is already marketing HDTV set-top-boxes, which are 5% of the gross adds. HDTV ARPUs are over Rs 400/ month. We believe that as Indian viewers make a switch from analog TV to HDTV, there shall be an upward movement in ARPUs. We note that HDTV-enabled TV sets are already seeing significant take-up in India, and this trend is likely to continue.

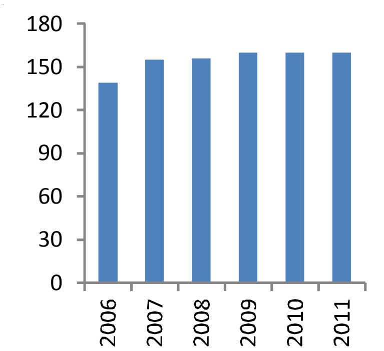
Take up of value-added services, rise in cable ARPUs and greater industry co-operation can take ARPUs upward

Television Sales (mn units)



Source: FICCI- KPMG Report, 2012

Pay TV ARPU in India

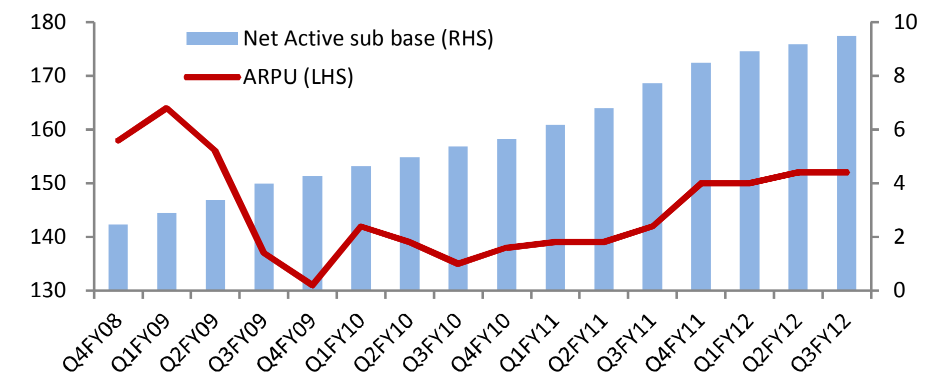


Source: PWC, Industry Discussions

2/ ARPUs of cable have not risen at all in the past five years. The ARPU of analogue operators acts as a ceiling for DTH players. As digitization is implemented the ceiling imposed over DTH players shall change. While we in our model assume a slow growth of ARPUs, there is a case for expecting a sharp rise in ARPUs post digitization.

3/ recent trends indicate that Dish TV is able to raise ARPU while still having significant subscriber gains; therefore, at least for now, it appears that irrational activities have been limited. The company has, in November, raised the price of its base pack, which would have a positive impact on ARPUs in the coming quarters.

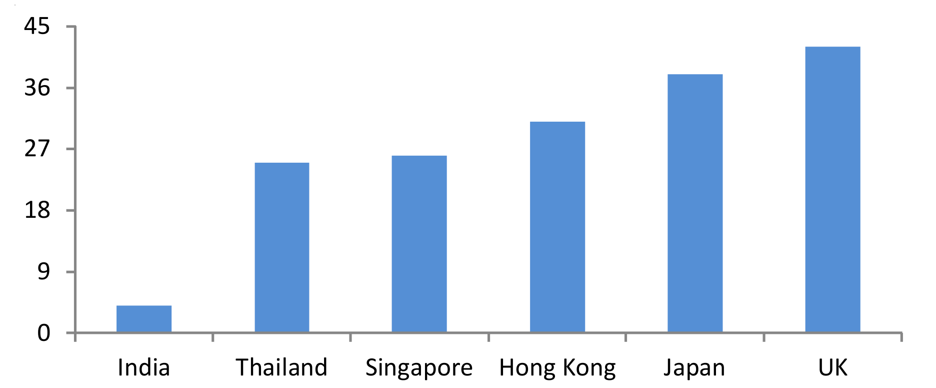
Dish TV Quarterly ARPU Trends (x-axis to read 1QFY10-3QFY12)



Source: Company Reports, Kotak Securities - Private Client Research

Our model, we believe, is a conservative statement of the opportunity from rising ARPUs in India. A comparison of Indian ARPUs with global benchmarks shows that at current price, there may be a willingness to pay that is 45-50% higher than present levels. Given expectations of rising disposable incomes (est. at 10% CAGR through the next ten years), there is a case for expecting ARPUs to rise 4X, if the Indian broadcasting markets were left to market forces.

Cable ARPUs - India verus Global Peers



Source: Industry

Opportunity to gain from economies of scale

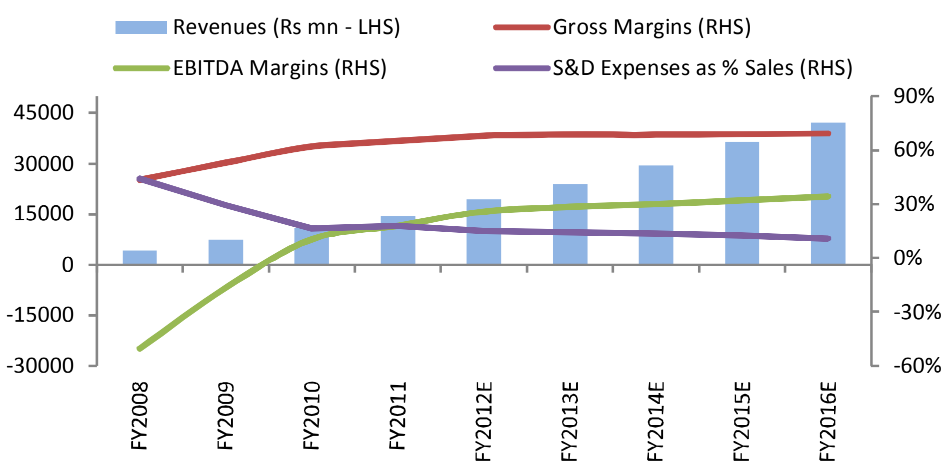
In the past, substantial margin gains have been made by Dish TV as subscriber numbers have ramped up (+25 ppt over past four years). Two key sources of margin expansion have been: a) better content cost management (higher gross margins), b) declining sales and distribution expenses as % of sales on operating leaverage. A 20%+ share in a market of over 86 mn subscribers (as projected) can have substantial benefits to the leading players. Viewership depends on distribution, and rising competitive pressures among broadcasters can lead to lower pay-outs (per subscriber basis, if not on the whole) to the broadcasters. Currently, content costs are 32% of sales of Dish TV.

Modest gains from content expenses, substantial gains in marketing and distribution expenses to drive margins

We also believe substantial leverage gains shall emanate from selling and distribution expenses of companies, which is largely constituted of commissions and advertising and promotion expenses. We believe that Dish TV shall make margin gains of ~8 ppt in this line item as subscriber base ramps up, industry commision decline and subscriber base reaches a steady state. Incremental advertising requirements are low, we believe, while agent commissions would be guided by absolute figures rather than on a per subscriber basis.

Commissions are also closely related with churn; for there exists a trade-off in selling a recharge versus a new package. We note that in recent months, industry has taken concerted action in this regard, reducing commissions on sale of CPE; which raises our confidence in the belief that there shall be leverage to obtain from selling and distribution expenses. This is to say that subscriber acquisition costs and content costs should likely turn downward (as % sales).

Margin Drivers, Dish TV



Source: Company reports, Kotak Securities - Private Client Research

Financial Projections

Stronger Subscriber Adds, Improving ARPUS to Guide 22% Topline Growth (FY12-FY14E)

We present below our revenue model for Dish TV: 1/ We have modeled for gross subscribers of the company to rise to 23mn by FY16-end, 2/ we provision for rising churn of the company and model for 73% active subscribers by the end of FY16, implying 16.8mn net subscribers by FY16-end, 3/ ARPUs have been modeled to rise ~7-10% annually, due to an amalgam of factors such as rising pressures in cable ARPU, company initiatives, migration to HD services, and usage of other value-added services (such as VoD), 4/ we have assumed that current upfront charges (Rs 1590) received by the company per set-top-box shall be maintained into perpetuity, 5/ bandwidth charges have been held constant at Rs 187mn in our model. Net-net we forecast 23% CAGR in company's topline over 2012E-2016E.

We factor in gross subscriber adds of 3 mn per year through FY13-FY15

Our revenue model thus factors in significant benefits coming from the DAS mandate in so far as the subscriber growth of the company is concerned. We also factor in a reasonably high level of competitive activity, which will keep churn high. However, we do not factor in : 1/ possibility of sharply higher ARPU in the near – term, and 2/ Irrational competition that may impact revenues/churn negatively.

Dish TV Revenue Model

Rs mn, FY Ends Mar	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Revenues	**1,916**	**4,128**	**7,381**	**10,850**	**14,367**	**19,418**	**23,884**	**29,457**	**36,451**	**42,189**
-o/w Subscription Revenues	1,219	3,288	5,897	8,353	11,927	16,828	21,520	27,357	34,398	40,492
- o/w Lease Rentals	218	604	1,007	1,501	1,985	2,185	1,998	1,755	1,711	1,356
-o/w Other	479	236	477	996	454	405	366	345	342	341
Growth (%) - Key Revenue Drivers										
- Net revenues		115.4	78.8	47.0	32.4	35.2	23.0	23.3	23.7	15.7
- Subscription revenues		169.8	79.3	41.6	42.8	41.1	27.9	27.1	25.7	17.7
Revenue Assumptions										
Gross Subs	2.0	3.0	5.1	6.9	10.4	13.0	16.0	19.0	22.0	23.0
Gross Adds		1.0	2.1	1.8	3.5	2.6	3.0	3.0	3.0	1.0
Cumulative Churn	0.3	0.5	0.8	1.1	1.9	2.9	4.0	4.9	5.7	6.2
Churn for the year		0.2	0.3	0.3	0.8	1.0	1.1	0.9	0.8	0.5
Cum. Churn as % Gross Subs	17.0	17.6	15.8	16.0	18.0	22.0	25.0	26.0	26.0	27.0
Churn as % Gross Adds		18.8	13.1	16.6	21.9	38.3	38.0	31.3	26.0	49.0
Net Subs	**1.7**	**2.5**	**4.3**	**5.8**	**8.6**	**10.1**	**12.0**	**14.1**	**16.3**	**16.8**
ARPU (Rs/ month)		131	146	139	143	150	162	175	189	204
% Active		82.4	84.2	84.0	82.0	78.0	75.0	74.0	74.0	73.0

Source: Company Data, Kotak Securities – Private Client Research

Margins to Improve to 8.4 ppt over FY12-FY16

We forecast 30% CAGR in Dish TV's EBITDA over FY12-FY16E. Our positive view on the company's EBITDA growth is built on rising margins (leverage on account of significant customer adds), in addition to the company's topline. We believe Dish TV shall be able to gather substantially higher bargaining power with broadcasters going forward, leading to further rise in gross margins of the company. We also believe that with improving scale of DTH operations, there shall be leverage to obtain from other expenses, leading to EBITDA margin expansion of 8.4 ppt over FY12E-FY16E.

Dish TV's balance sheet currently carries debt of Rs.12 Bn, a significant part of which is now denominated and carries lower interest rates, following a restructuring exercise undertaken in 1HFY12. Therefore interest expenses are likely to be lower going forward (FY12 financial expenses include the forex impact of over Rs 450mn. We forecast FY12/FY13 EPS at Rs 0.4/ Rs 2.0.

Income Statement, Dish TV

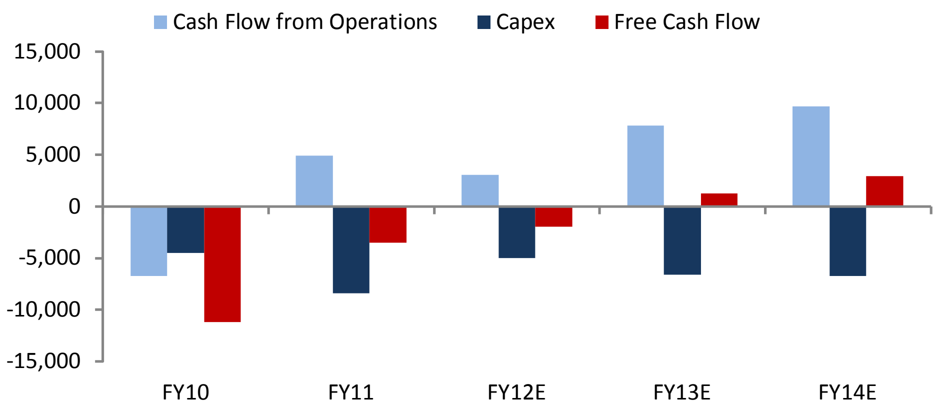
Rs mn, FY Ends Mar	FY10	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Net Sales	**10,850**	**14,367**	**19,418**	**23,884**	**29,457**	**36,451**	**42,189**
Growth, Net Sales (%)	47.0	32.4	35.2	23.0	23.3	23.7	15.7
Content Expenses	4,132	5,036	6,226	7,532	9,301	11,351	12,958
Gross Profit	**6,718**	**9,331**	**13,192**	**16,352**	**20,156**	**25,099**	**29,232**
Gross Margin (%)	61.9	64.9	67.9	68.5	68.4	68.9	69.3
Employee Expenses	514	566	699	860	1,060	1,312	1,519
Operating Expenses	3,317	3,618	4,553	5,322	6,327	7,654	8,772
Selling and Distribution Expenses	1,771	2,572	2,932	3,413	3,967	4,529	4,527
EBITDA	**1,117**	**2,575**	**5,008**	**6,757**	**8,801**	**11,604**	**14,413**
EBITDA Margin (%)	10.3	17.9	25.8	28.3	29.9	31.8	34.2
Depreciation and Amortization	3,227	3,996	4,728	5,421	5,745	5,962	6,002
EBIT	**(2,111)**	**(1,421)**	**280**	**1,336**	**3,056**	**5,641**	**8,411**
Interest Expenses	528	602	1,823	1,292	1,399	872	259
Other Income	11	294	331	358	463	262	400
PBT	**(2,628)**	**(1,728)**	**(1,212)**	**403**	**2,120**	**5,031**	**8,552**
Provision for Tax	(6)	(3)	-	-	-	503	2,822
Effective Tax Rate (%)	0.2	0.2	0.0	0.0	0.0	10.0	33.0
PAT	**(2,622)**	**(1,725)**	**(1,212)**	**403**	**2,120**	**4,528**	**5,730**
Net Margin (%)	-24.17	-12.01	-6.24	1.69	7.20	12.42	13.58
Paid-Up Equity Capital	1,063	1,064	1,064	1,064	1,064	1,064	1,064
EPS (Rs)	**-2.5**	**-1.6**	**-1.1**	**0.4**	**2.0**	**4.3**	**5.4**

Source: Company Reports, Kotak Securities – Private Client Research

Cash Requirements Manageable; Dish TV to be FCF positive in FY13

We believe that capex requirements over FY13-FY15 shall be managed through internal accruals through margin improvement and working capital management which shall bring operating cash flows in line with capex to be incurred. We forecast that Dish TV shall generate positive free cash flow FY13 onward, provided that our assumptions on subscriber adds hold.

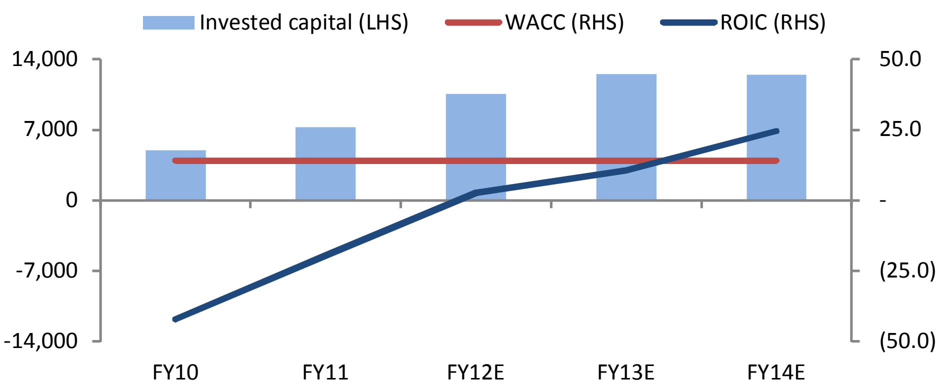
Chart: FCF Generation – Dish TV (FY10-FY16)



Source: Company reports, Kotak Securities – Private Client research

Dish TV shall create economic profits from FY13 onwards, and is therefore a self-sustaining economic entity from that year, in our model.

ROIC versus WACC, Dish TV (2010-2016E)



Source: Company Data, Kotak Securities – Private Client research

Valuations & Triggers

DCF Valuation: Modest Upside Exists

Given the high capital intensity of Dish TV's business, as also our belief that certain critical parameters (ARPU, for example) shall change meaningfully over the next few years, we use the DCF methodology as our primary valuation tool for Dish TV.

DCF valuation suggests fair value of Rs.68 per share (FY13-end)

The following are key assumptions for our DCF valuation – 1/ WACC is set at 12.1%, 15.4% being the cost of equity, and setting 1:1 as the target debt-equity ratio 2/ Terminal growth is set at 4%, 3/ Long – term EBIT margins are set at 24%, broadly in line with international peers (Dish Networks, BSkyB).

We see fair value of Dish TV at Rs 68, at FY – ending March, 2013. 58% of our assessed value is generated over the explicit forecast period. We believe our DCF value is short of aggressive, and, unless significant competitive pressures arise, is indicative of reasonable upsides in the stock.

DCF Valuation, Dish TV

Rs mn, FY Ends Mar	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
Revenues	**23,884**	**29,457**	**36,451**	**42,189**	**46,365**	**50,952**	**56,374**	**62,726**	**72,135**	**82,955**	**95,398**
EBITDA	6,757	8,801	11,604	14,413	15,667	17,060	18,961	21,214	23,307	26,803	30,824
EBITDA Margin (%)	**28**	**30**	**32**	**34**	**34**	**33**	**34**	**34**	**32**	**32**	**32**
EBIT	1,336	3,056	5,641	8,411	9,690	11,057	12,889	15,053	17,010	19,561	22,496
EBIT Margin (%)	**6**	**10**	**15**	**20**	**21**	**22**	**23**	**24**	**24**	**24**	**24**
NOPLAT	1,336	3,056	5,138	5,589	6,276	6,840	7,629	8,910	10,069	11,579	13,316
Add: Depreciation	5,421	5,745	5,962	6,002	5,977	6,003	6,072	6,161	6,297	7,242	8,328
Less: WC Changes	718	1,457	98	519	456.58	401.41	355.29	316.26	290.96	267.68	246.27
Cash Flows from Operations	7,475	10,258	11,199	12,110	12,709	13,244	14,057	15,388	16,657	19,088	21,890
Less: Capital Expenditures	(6,582)	(6,709)	(6,344)	(5,838)	(6,166)	(5,986)	(5,908)	(5,863)	(5,993)	(6,292)	(6,607)
Free Cash Flow to Firm	893	3,549	4,855	6,273	6,543	7,258	8,149	9,524	10,664	12,796	15,283
Discounted FCF - FY13E		3,167	3,866	4,458	4,149	4,107	4,115	4,292	4,289	4,592	4,894
Risk Free Rate	8.7%										
Beta	1.2										
Target Debt-Equity Ratio	1:1										
Cost of Equity	15.4%										
Cost of Debt (1-t)	9%										
WACC	12.1%										
Terminal Growth	4.0%										
Terminal ROIC	20.0%										
		% Value									
Present Value (FCF, 1-10)	41,930	57.8%									
Terminal Value	132,494										
PV-Terminal Value	42,432	58.4%									
Enterprise Value	84,362										
Less: Net Debt	11,763	-16.2%									
Market Cap on Fair Value	72,599										
Fair Value/ Share	**68**										

Source: Kotak Securities – Private Client Research

Likely Triggers: Digitization, Changes in Foreign Investment Norms

Government mulling raising foreign investment limits in DTH/ cable; this may be a potential trigger

We see two possible triggers for Dish TV stock in the near term: 1/ digitization may, we think, lead to a significantly higher overflow of subscribers to DTH than is currently being factored in. As we have discussed previously, digitization may also / otherwise alter the ARPUs in India in a swift move that is not envisaged in our/ consensus estimates. The same may also meaningfully impact subscriber adds for DTH operators. We believe DTH operators face fewer information issues than do MSOs, and possess greater credibility in raising their subscriber base in a fully digital environment. 2/ The government is considering altering the foreign ownership limits in distribution companies. Currently, DTH services are allowed foreign ownership of 49%, with a rider that FDI component should not exceed 20%. This creates an unfair environment, with telcos (some of which have interests in DTH operations) being allowed 74% limit and therefore a superior access to capital.

Foreign Ownership Limits

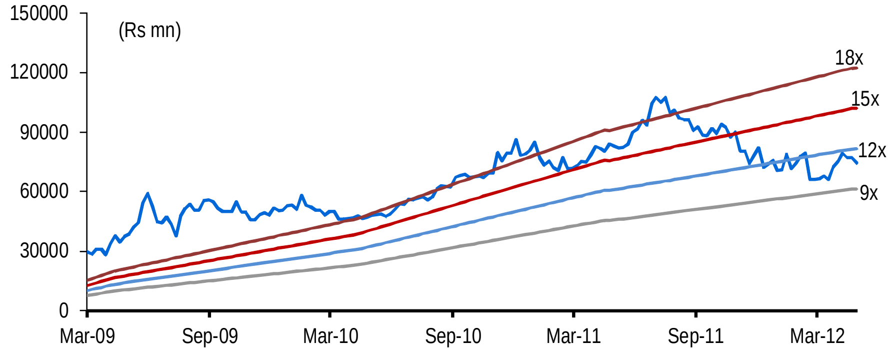
Sub- Sector	Current FI Limit	Recommended* FI Limit
Cable Network	49% (FDI+FII)	74
DTH	49% (FDI+FII) (FDI<=20%)	74
Uplinking Hub/ Teleports	49% (FDI+FII)	74

Source: TRAI

Valuations Reasonable compared with peers; Time Series

At CMP, Dish TV trades at 10.3x EV/ EBITDA, close to the lower end of its valuation band.

EV/ Sales, EV/ EBITDA – Dish TV



Source: Bloomberg, Kotak Securities – Private Client research

Dish TV trading towards lower end of its valuation band

Dish TV has no strict comparable on a national basis, being the only DTH player. The company's valuations are a significant premium to MSO counterparts, which we believe is justified, once one takes into account the fact that MSOs do not own a significant portion of the last mile, and maintenance operations shall continue to be dependent on LCOs, as will the seeding of the set-top-box in the immediate future.

Dish TV versus Peers

	CMP (Rs)	Mkt. Cap.	Ent. Val.	Sales Grw*	EBITDA Grw*	EV/ Sales FY12E	EV/ Sales FY13E	EV/ EBITDA FY13E	EV/ EBITDA FY14E
Dish TV versus Indian peers (broadcasting and distribution)									
Dish TV	**57**	**60,517**	**67,895**	**29.1%**	**69.5%**	**3.5**	**2.8**	**13.8**	**10.1**
Hathway Cable and Datacom	172	24,543	27,102	16.5%	28.9%	2.7	2.3	15.5	10.9
Den Networks	100	13,293	12,475	10.9%	11.5%	1.1	1.0	11.3	8.1
Sun TV Network	294	115,881	110,167	3.4%	3.5%	5.9	5.2	7.8	7.0
Zee Entertainment	122	116,778	115,056	7.4%	13.2%	3.9	3.4	14.6	12.6
Peer Average (Domestic)				**9.5%**	**14.3%**	**3.4**	**3.0**	**12.3**	**9.7**
Dish TV Verus International Peers (cable and DTH)									
Dish TV	57	60,517	67,895	29.1%	69.5%	3.5	2.8	13.8	10.1
BskyB ($)	692	11,719	12,683	5.6%	9.8%	1.9	1.8	8.1	7.6
Dish Networks ($)	31	13,783	18,480	2.9%	-4.1%	1.3	1.2	5.6	5.5
Comcast ($)	30	79,620	131,701	5.8%	6.7%	2.1	2.1	6.7	6.3
Peer average				**4.7%**	**4.2%**	**1.8**	**1.7**	**6.8**	**6.5**

*Source: Bloomberg Consensus Estimates; * Over FY11 to FY13*

Earnings Performance Shall Continue to be Subdued; Weakness is in consensus estimates

Near term weakness in earnings: likely, and factored in

We note the following on Dish TV's quarterly summary: 1/ the company has been adding over half a million subscribers/ quarter over the past seven quarters, 2/ churn has risen in the recent past on account of heightened competitive activity, with 3QFY12 churn rising to 1.6%, 3/ ARPUs have risen on account of discontinuation of the silver pack, and two hikes taken by the company in the course of the year on its base pack (~50% of subs), 4/ q/q revenue growth has declined to low single digits on account of weakening subscription revenue growth (higher churn) as well as weakening lease rentals, 5/ the company's EBITDA margin has continued to improve on account of declining subscriber acquisition costs (led by reducing commissions), 6/ Below the EBITDA line, the company's financials have suffered due to forex losses to the tune of Rs 460 mn in 9MFY12.

Quarterly Financials and 4QFY12 Estimates

Rs mn, FY Ends March	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12E
Revenues	**2,467**	**2,573**	**2,775**	**3,031**	**3,043**	**3,261**	**3,732**	**4,330**	**4,604**	**4,823**	**4,905**	**5,087**
Growth, q/q		4%	8%	9%	0%	7%	14%	16%	6%	5%	2%	4%
EBITDA	**145**	**229**	**116**	**349**	**322**	**497**	**667**	**901**	**1,122**	**1,218**	**1,248**	**1,420**
Margin	5.9%	8.9%	4.2%	11.5%	10.6%	15.2%	17.9%	20.8%	24.4%	25.3%	25.4%	27.9%
Depreciation and Amortization	689	730	779	846	889	843	902	1,020	1,107	1,162	1,232	1,226
EBIT	**(544)**	**(501)**	**(663)**	**(497)**	**(567)**	**(346)**	**(235)**	**(119)**	**14**	**56**	**15**	**194**
PBT	**(692)**	**(565)**	**(762)**	**(598)**	**(632)**	**(452)**	**(443)**	**(371)**	**(183)**	**(486)**	**(383)**	**(160)**
Provision for Tax	0	(0)	-	0	-	-	-	-	-	-	-	-
PAT	**(692)**	**(565)**	**(762)**	**(598)**	**(632)**	**(452)**	**(443)**	**(371)**	**(183)**	**(486)**	**(383)**	**(160)**

Source: Company, Kotak Securities – Private Client research

WE forecast Rs 5087mn in revenues, Rs 1420mn EBITDA, and Rs (160)mn PAT in 4QFY12.

Risks

Significant Capex requirements may arise, leading to equity dilution

Dish has obtained permission from FIPB for rising $200mn of equity. The company has said that the same is on account of substantial capex that the company may have to undertake.

Phase 1 of the DAS regime has a deadline of June 30, 2012. This means that about 11mn subscribers would have to come into the DTH fold. MSOs, which hold a majority of such subscribers, are prepared to ensure that they get the majority of these benefits. Our discussions with the industry suggest that there is likely to be a migration of 15%-20% to DTH players, bringing 2.2mn incremental subscribers to the DTH fold. Assuming 25% of these opt for Dish TV, Dish TV shall add 0.5mn subs on account of migration to DAS. This has been, we believe factored into our estimates, which account for gross adds of 3.0mn subscribers in FY13.

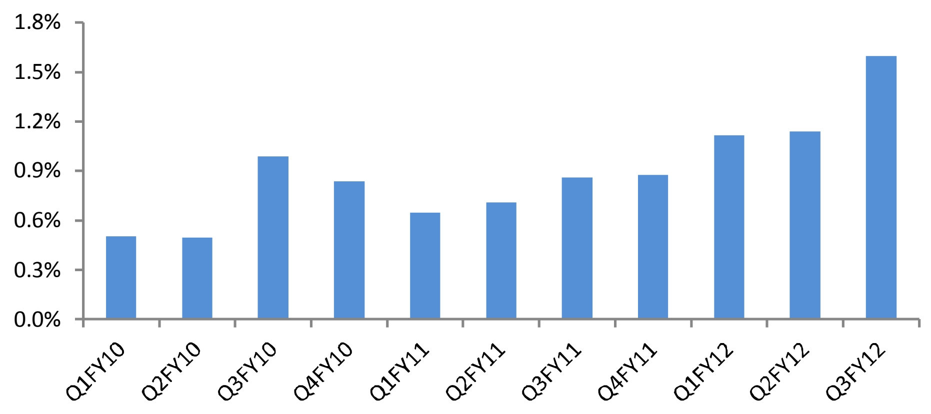
However, Dish TV may choose to be more aggressive in its expansion, given that these are high quality subscribers (read – larger ARPUs), which may mean also that the company may discount its equipment aggressively/ offer attractive 'teaser' packages and the like. All the above may lead to higher cash outflow than anticipated in our model, and may adversely impact Dish TV's financials. The same shall translate into requirements for funds. As such, equity dilution/ substantially higher debt can't be ruled out.

Churn Rates Rising, May Rise Further if consumers switch to digital cable

Dish TV's churn rates have been rising at a fast pace in the recent past, on account of: 1/ reduced stickiness post the busy cricket season, 2/ rising STB prices and hikes in monthly plans. In 3QFY12, the (monthly) churn has climbed to over 1.5% (implying annualized 19%).

Rising churn in especially a source of concern in the face of digitization. Following mandatory digitization, consumers shall also be able to receive digital transmission from digital cable. Our discussions with MSOs suggest that an "open season" irrational competitive event can't be completely ruled out, with MSOs budgeting for a significant number of free set-top boxes.

Monthly Churn Rate (%)



Source: Company Reports, Kotak Securities – Private Client Research

We believe our estimates account sufficiently for churn. Churn rates have risen, so far largely on intra-industry competition, which has led to incentive issues in agent commissions. Also a large amount of subscribers added on low entry prices in FY12 (Rs.999) have been responsible for high churn witnessed recently.

High Intra-Industry Competition May lead to suboptimal returns on capital

While we see that DTH is competitively placed relative to cable, and changing dynamics in the cable industry are likely to have a positive impact on DTH (rising ARPUs), it may also be argued that there may be rising competition in the DTH space itself. This view is not without its merits. DTH players may resort to irrational competition in order to ramp up subscribers.

The experience of the Indian industry does not show any reason to believe there are significant entry barriers in the DTH space. As has been shown earlier, costs of set-top-boxes are a somewhat minor consideration over a period that lasts over a year.

Dish TV would then face any/ all of the following: 1/ rising churn, 2/ rising subscriber acquisition costs, 3/ rising content costs (as % sales) leading to weaker gross margins, 4/ pressures on ARPU, 5/ changes in working capital requirements. All the above can lead to suboptimal returns on capital.

Greater Bargaining Power of Aggregator may Impact Margins

In recent times, there have been moves from the broadcasting industry to create aggregation powerhouses that can improve bargaining power with distribution companies. The most significant of these has been Mediapro – the distribution JV formed by Zee-Turner and Star-Den. Our estimates factor in modest improvements in margins on account of continued leverage on content costs. However, alliances of broadcasters may impact the content costs adversely.

Other Risks

Dish TV is exposed to significant technological risks, as well as macroeconomic risks, apart from competitive risks detailed above. The company may lose subscribers to competing technologies/ may need to upgrade equipment of existing subscribers, which may imply significant capex requirements. Macroeconomic risks relate in the medium-term to forex risks, since most of the consumer premise equipment is imported, and 7.5Bn of the company's debt is denominated in foreign currency. Also a large part of equipment required by the company is imported, and exposed negatively to rupee depreciation.

APPENDIX 1

Broadcasting Distribution Value Chain

The broadcasting value chain typically consists of: 1/ content producer, 2/ broadcaster, 3/ aggregator, 4/ distributor. The distribution aspect of the value chain involves downlinking signals from the satellite and providing the same to the consumer. In India, there are two prevalent distribution platforms: cable and Direct To Home (DTH). DTH differs from cable primarily in the fact that the signals are downlinked by a dish placed at the consumer's end. On the other hand, Multi-System Operators (MSOs) downlink signals, package the same in a set of frequencies, and deliver it to the Local Cable Operator (LCO). The LCO has the primary responsibility for maintaining the last mile, including customer services.

As per TRAI the number of MSOs in India could be upto 10,000, and the number of LCOs in India could be 60,000. The LCO is the key intermediary for Multi-System Operators, as also the key appropriator of consumer payouts. Typically, the LCO is a monopoly provider in a particular area. This limits subscriber migration and competition between LCOs. LCOs, as per industry discussions, take up 85% of the value generated by the customer, by 'underreporting' revenues to the MSOs. The MSOs, broadcasters, and aggregators then share the smaller pie (15% of consumer payments) left over by the LCO.

The DTH operator differs from the cable operators in that the company has a direct billing relationship with the customer, and is responsible for services and maintenance. The DTH operator shares the proceeds with the broadcaster and aggregators.

Distribution Value Chain (Cable)

Source: TRAI

Distribution Value Chain (DTH)

Source: TRAI

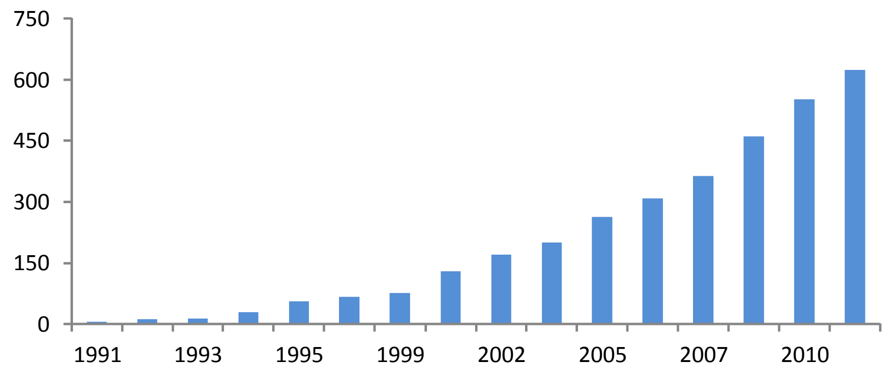
APPENDIX 2

What's the problem with analogue cable?

Analogue cable has brought cable and satellite television to the homes of millions, and is the prime reason for the growth of the broadcasting industry in India. However, the system is inept to cope up with the demands of the industry as of now. The primary problem with analogue cable is the fact that it can deliver a rather limited amount of channels. As of now, there are over 600 broadcasted channels in India, while an analogue line can carry only about 100 channels.

This has led to several problems: 1/ rationing has been done based on auctions which have led to a big market for carriage fees. As per industry estimates, over Rs 15 Bn is paid out by broadcasters as carriage and placement fees, 2/ since the feed from MSO is the same, there is no choice for the consumer (the channels he receives are not the same that he would like to watch), 3/ since there is no choice, there is no willingness to pay.

Number of Channels



Source: FICCI-KPMG Report,2012

Capacity to carry channels by bandwidth

Bandwidth	Max. # Channels
300	36
450	54
550	67
750	92
860	106

Source: TRAI

Appendix 3

How Cable Rates haven't changed over five years (and why they might change now)

One of the most intriguing aspects of the Indian broadcasting sector has been the stagnancy of ARPUs over the years. In the past five years, average cable rates have remained stagnant at Rs 160/ subscriber/ month. That is to say, the cable prices have fallen on a real basis. The same is enabled by under-reporting of the subscriber base that the LCO resort to. By under-reporting revenues to the extent of 80-85% (as per industry discussions), the LCO is able to earn margins of upto 80%. This provides the LCO an incentive to consistently under-report revenues.

The DTH revolution has further aggravated the problem. While broadcasters and MSOs would like to pressurize LCO, and an LCO – a monopoly in the analogue cable regime, would have been able to raise prices, the emergence of the DTH platform in the past five years has been a game changer. DTH players have, in the aspiration to add subscribers, been willing to provide services at monthly payments that have bottomed at Rs 70/ month in certain regions (for certain packs). This has placed an additional pressure on LCOs to maintain ARPUs at low levels.

To this extent, mandatory digitization shall place a 'do-or-die' pressure over LCOs. Small operators who have been used to reporting 15% subscribers shall see profits dwindle, perhaps below opportunity cost of time and effort, when they have to report subscribers in full; the larger operators shall see their margins erode in a very significant fashion, unless prices are raised. There are, no doubt, minor benefits that the cable operators shall be offered from MSOs (example: benefits of double TV households), but the damage control will be too little in our view.

There is likely to be substantial erosion in benefits derived by LCOs. Since the LCOs are integral part of the analogue chain, the MSOs would not like to lose them immediately. Therefore, there is a high probability that the MSOs shall provide for LCOs much larger shares in the beginning, and look to wean them away slowly. Even so, there is a likelihood of atleast a 50% decline in LCO margins, as long as the LCO reports revenues and pays out 40% to broadcasters/ MSOs.

This will lead to many LCOs shutting shop, in our opinion, unless they believe that substantial hikes can be passed on to the consumer. In certain parts of Mumbai and Delhi, cable rates are, in fact higher than Rs 300/ month. We believe significantly higher ARPUs will be the norm post digitization.

We also believe, based on discussions with the industry, that collections of subscriber fees is less than perfect in analogue cable homes. Firstly, multiple TV homes don't always pay a higher fee; secondly, defaulters are often not penalized with a disconnection.

Financials

Profit and Loss Statement (Rs mn)

(Year-end March)	FY11E	FY12E	FY13E	FY14E
Revenues	**14,367**	**19,418**	**23,884**	**29,457**
% change yoy	32.4	35.2	23.0	23.3
EBITDA	**2,575**	**5,008**	**6,757**	**8,801**
% change yoy	130.6	94.5	34.9	30.2
Depreciation	3,996	4,728	5,421	5,745
EBIT	**(1,421)**	**280**	**1,336**	**3,056**
% change yoy	-32.7	-119.7	377.5	128.7
Net Interest	1,280	1,492	933	936
Earnings Before Tax	(1,728)	(1,212)	403	2,120
% change yoy	-34.2	-29.9	-133.2	426.6
Tax	(3)	-	-	-
as % of EBT	0.2	0.0	0.0	0.0
Net Income	(1,725)	(1,212)	403	2,120
% change yoy	-34.2	-29.7	-133.2	426.6
Shares outstanding (m)	1064	1064	1064	1064
EPS (Rs)	-1.6	-1.1	0.4	2.0
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS(Rs)	2.1	3.3	5.5	7.4
BVPS(Rs)	0.3	-0.8	-0.4	1.6

Source: Company, Kotak Securities - Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY11	FY12E	FY13E	FY14E
Shareholder's Equity	1,063	1,063	1,063	1,063
Reserves	(693)	(1,905)	(1,503)	618
Net worth	370	(842)	(440)	1,681
Secured Loans	10,763	10,763	10,763	10,763
Unsecured loans	-	-	-	-
Total Loans	10,763	10,763	10,763	10,763
Minority Interest	-	-	-	-
Net Deferred tax liability	-	-	-	-
Current Liabilities	13,077	12,403	12,486	14,360
Provisions	3,021	3,675	4,068	4,516
Total Liability	**27,231**	**25,999**	**26,878**	**31,319**
Net Fixed Assets	19,017	19,275	20,436	21,400
Goodwill				
Investments/ Assoc	2,000	-	-	-
Inventory	44	54	60	66
Debtors	227	276	305	339
Cash&Bank balances	3,385	3,306	2,659	5,719
Loans & Advances	2,539	3,088	3,418	3,794
Other Current Assets	19	-	-	-
Current Assets	6,214	6,724	6,442	9,919
Miscelleanous Expenses/ Other	-	-	-	-
Total Assets	**27,231**	**25,999**	**26,878**	**31,319**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Year-end March)	FY11	FY12E	FY13E	FY14E
Pre-Tax Profit	(1,728)	(1,212)	403	2,120
Depreciation	3,996	4,728	5,421	5,745
Change in WC	2,662	(609)	111	1,905
Cash Taxes Paid	3	-	-	-
Operating cash flow	**3,948**	**2,907**	**5,935**	**9,770**
Change in Investments	1,561	2,000	-	-
Capex	(8,426)	(4,986)	(6,582)	(6,709)
Investment cash flow	**(6,865)**	**(2,986)**	**(6,582)**	**(6,709)**
Equity Raised	33	-	-	-
Debt Raised	1,441	-	-	-
Other Financing CF	(721)	-	-	-
Financial cash flow	**753**	**-**	**-**	**-**
Change in Cash	(2,165)	(79)	(647)	3,060
Opening Cash	5,550	3,385	3,306	2,659
Closing Cash	3,385	3,306	2,659	5,719

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Year-end March)	FY11	FY12E	FY13E	FY14E
Margins and Growth:				
EBITDA margin (%)	17.9	25.8	28.3	29.9
EBIT margin (%)	-9.9	1.4	5.6	10.4
Net profit margin (%)	-12.0	-6.2	1.7	7.2
Adjusted EPS growth (%)	NM	NM	NM	426.6
Balance Sheet Ratios:				
Receivables (days)	5.8	5.2	4.7	4.2
Fixed Assets Turnover	0.9	1.0	1.2	1.4
Interest coverage (x)	-4.6	0.2	1.4	3.3
Debt/ equity ratio	12.2	15.6	15.0	10.0
Return Ratios:				
ROE (%)	NM	NM	NM	341.7
ROIC	-19.6	2.7	10.7	24.5
ROCE (%)	-9.3	-0.3	8.8	19.2
Multiples:				
EV/ Sales	4.6	3.6	2.9	2.3
EV/EBITDA	25.6	14.0	10.3	7.6
Price to earnings (P/E)	-35.1	-50.0	150.6	28.6

Source: Company, Kotak Securities - Private Client Research

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