

## Den Networks Ltd.

### Digitisation led growth

#### Outlook

Although the valuation of stock seems expensive at 35.8 & 29.4x for FY13/14, we maintain a BUY. Given the fact that subscriber additions remain strong and the benefits of digitization would start accruing to the top line from Q1FY14. Further with not much significant costs being associated with the incremental revenues, the profitability should be positively affected. We have not yet modeled this incremental revenue, as we would like to see proof of the pudding before revising our forecast.

The Ministry of information & broadcasting (MIB) has demonstrated the seriousness of DAS implementation in phase 2 cities. This can be reiterated from the various key initiatives (such as increasing intervals of review meetings and conducting workshops) taken by MIB to achieve the superior results. Given that MSO's are expected to be the biggest beneficiaries of digitisation, we believe Den Networks Ltd is well placed to reap the benefit on the back of its strong subscriber revenue base of ~11 mn and aggressive management team.

#### Key Takeaways

- According to the management, various steps are being initiated by the Ministry of Information & Broadcasting (MIB) to lay emphasis on the seriousness of digitisation in phase 2 cities. Some of the initiatives include increasing the intervals of review meetings (from every 10 days to 3 days), one day workshop with all the nodal officers and IAS officials (of 38 phase 2 cities) to discuss various issues (queries related to customers, stakeholders, technologies, etc). Further, state level meetings are also likely to be held with participants being LCOs, MSOs and nodal officers.
- Den Networks reported strong set sets of numbers during the quarter with 13.3% QoQ top-line growth in its cable business led largely by consolidation of acquired JVs and successful completion of Phase I. Consolidated revenues were at Rs 241.8 crore during the current quarter. It is to be noted that consolidated top-line is not comparable with corresponding period of previous year due to the change in accounting policy at Media Pro which has started reporting revenues on a net basis (Gross revenues – Cost of Distribution rights).
- Moreover, the company has been able to save on operating costs (64.8% v/s 66.0% of sales QoQ) in cable business which has lead to significant improvement in margins by 260 bps QoQ (25.5% v/s 22.9%). Consequently, consolidated EBITDA was at Rs 60.4 crore (+21.8% QoQ). PAT growth (+12% QoQ) was offset by higher depreciation (+21.4% QoQ; higher deployment of set top boxes) and higher interest expense

Recommendation (Rs)	
CMP	209
Rating	BUY

Index Details	
Sensex	19,964
Nifty	6,039
Industry	Cable TV

Scrip Details	
Mkt Cap (Rs cr)	2,794
Eq Shares O/s (Cr)	13.4
Avg Vol (Lakhs)	0.1
52 Week H/L	212/67
Dividend Yield (%)	0.0
Face Value (Rs)	10.0

Latest shareholding pattern (%)	
Promoters	53.8
Indian Institutions	3.2
FII's	11.9
Public	31.1
Total	100.0

Stock performance (%)			
	1m	3m	6m
Den Net.	9.1	27.4	76.5
Nifty	3.1	6.7	16.3

(29% QoQ).

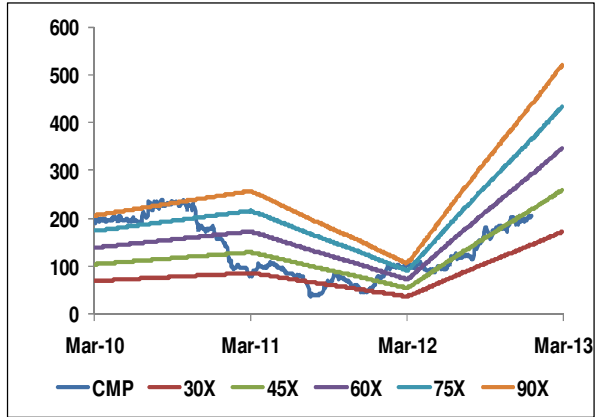
- During the quarter, company added over ~9,00,000 more set top boxes taking its total universe to ~2.4 mn (~1.8 mn in Phase 1 cities; ~0.6 mn in Phase 2 cities). Moreover, the company expects to seed another 0.2 mn set top boxes in Kolkata in Q4FY13. We remain upbeat on the company as it has analog network of over 3.75 mn subscribers in Phase 2 cities (presence in 60% of all Phase 2 cities) and is likely to convert a significant portion. The company has a strong analog presence in Phase II cities across Uttar Pradesh (7 cities), Maharashtra (5 cities), Gujarat (3 cities), Karnataka (2 cities), Rajasthan (2 cities) and Haryana (1 city).
- Den Networks Ltd has allocated ESOPs to employees in March, 2011 and as a result would amortise the ESOP premium over the next three years. The company has amortised Rs 0.81 crore during the quarter.
- **Concall Takeaways**
  - Gross debt stands Rs 520 crore (Rs 280 crore – Term loans; Rs 240 crore – Buyers' & Vendors' credit) and Cash at Rs 170 crore. While the gross debt is expected to increase by Rs 200 crore by end of current fiscal, net debt is expected to be at similar levels (~Rs 350-400 crore).
  - The management has guided for aggressive layout plans for its broadband business in coming 3-6 months.
  - The company currently bills on a net basis owing to the ongoing transformation process (45-60 days) and expects to bill on a per customer basis from Q1FY14. It is imperative to note that despite November 1 deadline (for phase 1), the company (industry as well) witnessed substantial seeding of set top boxes in the month of November, 2012 and could only start billing in December, 2012.

# Quarterly Result Update

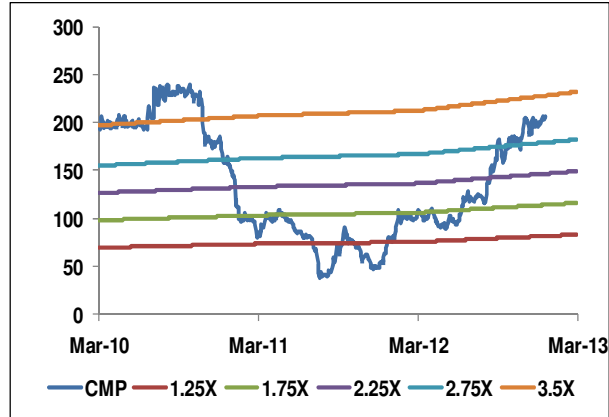
Description	Q3FY13	Q3FY12	% Chg.	Q3FY13	Q2FY13	% Chg.	FY201203	FY201103	% Chg.
<b>Net Sales</b>	<b>235.3</b>	<b>278.1</b>	<b>-15.4</b>	<b>235.3</b>	<b>202.7</b>	<b>16.1</b>	<b>1129.5</b>	<b>1022.1</b>	<b>10.5</b>
Other operational Income	1.8	0.2	1037.5	1.8	7.9	-77.2	12.2	19.7	-38.2
<b>Total Oper. Income(TOI)</b>	<b>237.1</b>	<b>278.2</b>	<b>-14.8</b>	<b>237.1</b>	<b>210.6</b>	<b>12.6</b>	<b>1141.7</b>	<b>1041.9</b>	<b>9.6</b>
Raw Materials Cons.-	-	-	-	-	-	-	-	-	-
<i>% to TOI</i>	-	-	-	-	-	-	-	-	-
Stock adj. (-)Inc / (+)Dec-	-	-	-	-	-	-	-	-	-
<i>% to TOI</i>	-	-	-	-	-	-	-	-	-
Net Raw Mat adj. for stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>% to TOI</i>	<i>0.0</i>	<i>0.0</i>	-	<i>0.0</i>	<i>0.0</i>	--	<i>0.0</i>	<i>0.0</i>	-
Other expenses	159.4	232.6	-31.5	159.4	144.7	10.2	954.1	867.5	10.0
<i>% to TOI</i>	<i>67.2</i>	<i>83.6</i>	-	<i>67.2</i>	<i>68.7</i>	--	<i>83.6</i>	<i>83.3</i>	-
Contribution Net_Sales	77.7	45.6	70.3	77.7	65.9	17.9	187.6	174.4	7.6
Personnel	23.3	22.2	4.8	23.3	22.7	2.6	93.2	63.6	46.4
<i>% to TOI</i>	<i>9.8</i>	<i>8.0</i>	-	<i>9.8</i>	<i>10.8</i>	--	<i>8.2</i>	<i>6.1</i>	-
Total expenditure	182.6	254.8	-28.3	182.6	167.4	9.1	1047.3	931.1	12.5
<b>Operating Profit</b>	<b>54.5</b>	<b>23.5</b>	<b>132.3</b>	<b>54.5</b>	<b>43.2</b>	<b>26.2</b>	<b>94.4</b>	<b>110.8</b>	<b>-14.8</b>
<i>% to TOI</i>	<i>23.0</i>	<i>8.4</i>	-	<i>23.0</i>	<i>20.5</i>	--	<i>8.3</i>	<i>10.6</i>	-
Non-Operating Income	4.7	3.9	19.3	4.7	5.5	-14.5	14.9	16.2	-8.1
Interest	11.7	6.8	72.4	11.7	9.1	28.6	26.9	19.2	40.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-96.0
Gross Profit	47.5	20.6	130.4	47.5	39.7	19.6	82.4	108.3	-23.9
Depreciation	21.0	14.0	50.5	21.0	17.3	21.4	53.8	45.6	18.1
<b>PBT before Extra-ord</b>	<b>26.5</b>	<b>6.7</b>	<b>297.5</b>	<b>26.5</b>	<b>22.4</b>	<b>18.3</b>	<b>28.6</b>	<b>61.7</b>	<b>-53.7</b>
<i>% to TOI</i>	<i>11.2</i>	<i>2.4</i>	-	<i>11.2</i>	<i>10.6</i>	-	<i>2.5</i>	<i>5.9</i>	-
Extraordinary Items	-	-	-	0.0	0.0	-	0.0	0.0	-
<b>PBT</b>	<b>26.5</b>	<b>6.7</b>	<b>297.5</b>	<b>26.5</b>	<b>22.4</b>	<b>18.3</b>	<b>28.6</b>	<b>61.7</b>	<b>-53.7</b>
Tax Rate	26.0	22.9	13.3	26.0	19.7	32.0	35.1	28.2	24.4
Prov. for Tax	6.9	1.5	350.3	6.9	4.4	56.8	10.0	17.4	-42.4
<i>% to TOI</i>	<i>2.9</i>	<i>0.5</i>	-	<i>2.9</i>	<i>2.1</i>	-	<i>0.9</i>	<i>1.7</i>	-
<b>Profit after Tax</b>	<b>19.6</b>	<b>5.1</b>	<b>281.7</b>	<b>19.6</b>	<b>18.0</b>	<b>8.9</b>	<b>18.6</b>	<b>44.3</b>	<b>-58.1</b>
<i>% to TOI</i>	<i>8.3</i>	<i>1.8</i>	-	<i>8.3</i>	<i>8.5</i>	-	<i>1.6</i>	<i>4.3</i>	-
Minority Interest	-2.5	-1.6	52.2	-2.5	-2.4	-4.2	-4.5	-6.8	-33.4
<b>PAT (adj. For MI)</b>	<b>17.2</b>	<b>3.5</b>	<b>386.4</b>	<b>17.2</b>	<b>15.6</b>	<b>10.3</b>	<b>14.3</b>	<b>37.5</b>	<b>-62.0</b>
Face Value	10.0	10.0	-	10.0	10.0	-	10.0	10.0	-
Equity Share capital	134.0	130.5	-	134.0	132.7	-	130.5	130.5	-
EPS (Rs.)	1.5	0.4	271.7	1.5	1.4	7.1	1.4	3.4	-58.1
CEPS (Rs.)	3.0	1.5	107.1	3.0	2.7	11.1	5.5	6.9	-19.5

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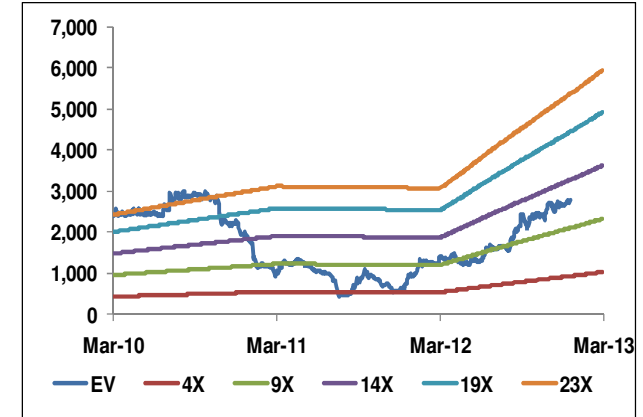
**P/E Bands**



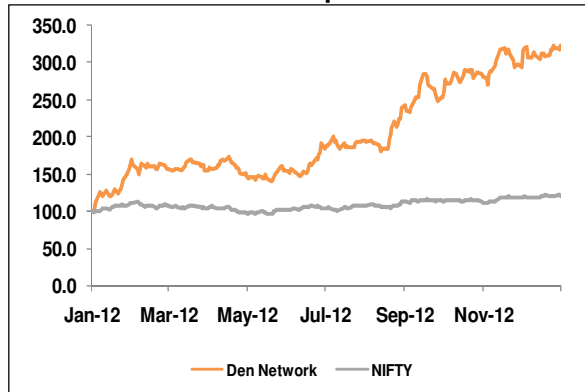
**P/B Bands**



**EV/EBITDA Bands**



**NIFTY Comparison**



## Financials and Projections

Y/E March, Fig in Rs. Cr	FY 2011	FY 2012	FY 2013e	FY 2014e	Y/E March, Fig in Rs. Cr	FY 2011	FY 2012	FY 2013e	FY 2014e
<b>Profit &amp; Loss Statement</b>					<b>Per Share Data (Rs)</b>				
<b>Net Sales</b>	<b>606.6</b>	<b>714.3</b>	<b>936.4</b>	<b>1280.9</b>	EPS	2.8	1.1	5.8	7.0
% Chg.		17.8	31.1	36.8	Cash EPS	6.3	5.2	12.8	15.2
<b>Total Expenditure</b>	<b>470.5</b>	<b>580.3</b>	<b>677.4</b>	<b>972.3</b>	DPS	0.0	0.0	0.0	0.0
% Chg.		23.3	16.7	43.5	Book Value	58.4	60.7	66.4	73.5
<b>EBITDA</b>	<b>136.1</b>	<b>134.0</b>	<b>259.1</b>	<b>308.6</b>	<b>Capital, Liquidity, Returns Ratio</b>				
EBITDA Margin %	22.4	18.8	27.7	24.1	Debt / Equity (x)	0.2	0.3	0.4	0.4
Other Income	0.0	0.0	0.0	0.0	Current Ratio (x)	1.9	2.1	1.7	1.7
Exceptional items	9.4	6.8	0.0	0.0	ROE (%)	4.8	1.8	8.7	9.6
PBDIT	126.7	127.3	259.1	308.6	ROCE (%)	13.1	11.3	20.3	21.3
Depreciation	45.6	53.8	92.7	108.2	Dividend Yield (%)	0.0	0.0	0.0	0.0
Interest	19.2	27.0	41.4	49.2	<b>Valuation Ratio (x)</b>				
<b>PBT</b>	<b>61.9</b>	<b>46.5</b>	<b>125.0</b>	<b>151.2</b>	P/E	73.3	188.4	35.8	29.4
Tax Provisions	17.4	10.8	31.3	37.8	P/BV	3.5	3.4	3.1	2.8
<b>PAT</b>	<b>44.5</b>	<b>35.7</b>	<b>93.8</b>	<b>113.4</b>	EV/Sales	4.4	3.8	2.9	2.1
Minority Interest & Others	7.0	21.1	17.1	20.0	EV/EBIDTA	19.8	20.1	10.4	8.7
<b>Reported PAT</b>	<b>37.5</b>	<b>14.6</b>	<b>76.7</b>	<b>93.4</b>	<b>Efficiency Ratio (x)</b>				
PAT Margin (%)	6.2	2.0	8.2	7.3	Inventory (days)	0.0	0.0	0.0	0.0
Manpower cost / Sales (%)	9.9	10.3	11.3	11.3	Debtors (days)	104.4	89.6	90.0	90.0
Tax Rate (%)	28.1	23.2	25.0	25.0	Creditors (days)	133.9	127.1	125.0	125.0
<b>Balance Sheet</b>					<b>Cash Flow statement</b>				
Share Capital	133.2	149.2	149.2	149.2	<b>Profit After Tax</b>	<b>37.5</b>	<b>19.6</b>	<b>90.8</b>	<b>110.4</b>
Reserves & Surplus	641.4	655.7	732.4	825.8	Depreciation	45.6	53.8	92.7	108.2
Minority Interest & Others	36.5	62.5	76.6	93.6	Working Capital Changes	-5.8	-1.3	16.1	-36.9
Total Loans	158.0	258.2	318.2	378.2	Others	4.8	25.6	0.0	0.0
Deferred Tax liability	0.0	0.0	0.0	0.0	<b>Operating Cash Flow</b>	<b>82.2</b>	<b>97.6</b>	<b>199.5</b>	<b>181.7</b>
<b>Total Liabilities</b>	<b>969.1</b>	<b>1125.7</b>	<b>1276.4</b>	<b>1446.9</b>	Capital Expenditure	-86.3	-115.1	-436.0	-194.0
Goodwill	0.0	0.0	0.0	0.0	Change in Investment	51.7	-43.8	0.0	0.0
<b>Gross Block</b>	<b>607.3</b>	<b>722.4</b>	<b>1158.4</b>	<b>1352.4</b>	<b>Cash Flow from Investing</b>	<b>-34.6</b>	<b>-158.9</b>	<b>-436.0</b>	<b>-194.0</b>
Less: Acc. Depreciation	94.2	146.7	239.4	347.6	Proceeds from equity issue	0.0	-2.5	0.0	0.0
<b>Net Block</b>	<b>513.1</b>	<b>575.7</b>	<b>919.0</b>	<b>1004.8</b>	Inc/ Dec in Debt	-17.0	100.2	60.0	60.0
Capital Work in Progress	41.3	78.6	78.6	78.6	Dividend and DDT	0.0	0.0	0.0	0.0
Investments	19.0	25.5	25.5	25.5	<b>Cash Flow from Financing</b>	<b>-17.0</b>	<b>97.7</b>	<b>60.0</b>	<b>60.0</b>
<b>Net Current Assets</b>	<b>382.6</b>	<b>426.6</b>	<b>234.0</b>	<b>318.6</b>	<b>Net Change in Cash</b>	<b>30.5</b>	<b>36.4</b>	<b>-176.5</b>	<b>47.7</b>
Deferred Tax Assets	13.1	19.3	19.3	19.3	<b>Opening Cash Balance</b>	<b>243.2</b>	<b>273.8</b>	<b>310.2</b>	<b>133.7</b>
<b>Total Assets</b>	<b>969.1</b>	<b>1125.7</b>	<b>1276.4</b>	<b>1446.9</b>	<b>Closing Cash Balance</b>	<b>273.8</b>	<b>310.2</b>	<b>133.7</b>	<b>181.5</b>

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