

# [Yogesh Zambare]

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[MEDIA & ENTERTAINMENT]

## DISH TV INDIA LTD

Date: 4-1-2013

Recommendation: Buy

CMP: Rs.78.10  
Price target 12m Rs.94.00

### Stock Details

52Wk High/Low (Rs) 84.85/51.65  
Shares o/s (Crs) 106.47  
Market Cap(Rs.Crs) 8,315.3  
Daily Avg Vol. (No of sh) 41,47,394  
BSE: 532839  
NSE: DISHTV  
Bloomberg Code: DITV.IN

### Share holding (%)

Promoters 63.56%  
FII 13.72%  
DII 4.47%  
Others 18.25%

### Stock Movement



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## India's and Asia's no.1 DTH player at point of inflexion

India's cable and satellite market is undergoing a paradigm shift from analog to digital and it's a great opportunity for DTH players to capture a significant share from local cable operators by offering a customised product plans at different price points. The main beneficiaries in our opinion in this transition will be those DTH companies which has pan India distribution network. Dish TV with network of over 114,000 dealers located across 8,500+ towns in India and is well poised to make most of the opportunity in coming days. EBITDA for the company is expected to increase significantly by FY14 due to strong subscriber base growth and higher ARPUs and therefore is a strong BUY.

**Subscriber base growing:** The subscriber base has grown from 6.9m in FY'10 to 13.9m in Q1FY'13. The subscriber base is expected to grow at rapid rate due to following factors- Adoption of DAS, low penetration levels in India compared to developed countries offering big room for growth, increasing number of households owning more than 1 TV in the homes.

**Growing ARPUs:** There is increasing number of customers opting for HD LCD/LED TVs and this will led to more subscribers shifting to HD services thereby increasing ARPUs. The ARPUs is also expected to grow consistently for the company due to increase in subscription fees on regular basis.

**Valuation:** The stock is trading 14.7x and 12.2x EV/EBITDA of FY13E and FY14E earnings. We value this company at 14.5x EV/EBITDA for FY14E giving us target price of Rs.94.

### Exhibit:1

Financial Summary Year Ended	Mar-11	Mar-12	Proj Mar-13	Proj Mar-14	Proj Mar-15
Revenues(Rs.Crs)	1,436.7	1,957.9	2,153.7	2,347.6	2,547.1
EBITDA(Rs.Crs)	238.0	496.0	614.1	739.8	853.6
EBITDA margin	16.6%	25.3%	28.5%	31.5%	33.5%
Net income	(192.0)	(133.1)	(37.5)	12.6	56.1
EPS	(1.8)	(1.3)	(0.4)	0.1	0.5
P/E	(43.3)	(62.5)	(221.8)	661.4	148.1
EV/EBITDA	35.3	17.6	14.7	12.2	10.5

Source: Company data

## Exhibit 2: Q2FY13 results

<b>INCOME STATEMENT (Rs. Crores)</b>	<b>Sep-12</b>	<b>Jun-12</b>	<b>Sep-11</b>	<b>YoY</b>	<b>QoQ</b>
Revenues	533.3	520.0	484.9	10.0%	2.6%
COGS	254.8	257.8	238.0	7.0%	-1.2%
Gross profit	278.5	262.1	246.9	12.8%	6.2%
Gross margin	52.2%	50.4%	50.9%		
SGA	74.5	65.1	81.8	-9.0%	14.4%
Operating expenses	48.7	41.5	33.4	45.8%	17.5%
EBITDA	155.3	155.6	131.7	18.0%	-0.2%
EBITDA margin	29.1%	29.9%	27.2%		
Depreciation	153.3	151.2	126.0	21.7%	1.4%
EBIT	2.0	4.4	5.6	-64.4%	-54.1%
EBIT margin	0.4%	0.8%	1.2%		
Non-oper expenses	(8.4)	(20.5)	(23.3)	-64.0%	-59.2%
Exceptional	76.4	0.0	0.0		
Interest expense	31.7	57.2	77.5	-59.1%	-44.6%
<b>PAT</b>	<b>55.1</b>	<b>(32.3)</b>	<b>(48.6)</b>	<b>-213.5%</b>	<b>-270.5%</b>

Source: Company data

### Q2FY13 Earnings Highlights

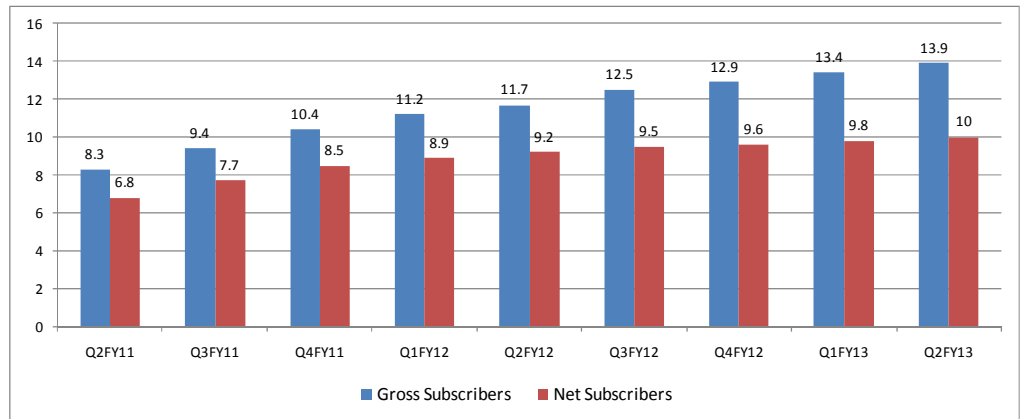
- Company added 477 thousand new subscribers for the quarter taking its total gross and net subscriber base to 13.9mn and 10.0 million respectively.
- Standalone revenues increased by 10% in the quarter YoY to Rs.533 crores. Subscription revenues increased by 14.6% YoY to Rs.47.3 crores.
- Subscriber Acquisition Cost (SAC) increased to Rs.2,273 compared to Rs.2,145 from the immediate preceding quarter.
- EBITDA increased by 18% in the quarter YoY to Rs.155 crores and EBITDA margin stood at 29%.
- Exceptional gain of Rs.76.4 crores in the quarter on account of reversal of borrowing cost and higher depreciation charge resulted in PAT of Rs.55.1 crores.
- Overall gross debts at Rs.1,250 crores and cash balance at Rs.375 crores.
- Churn rate remained at 1%.
- ARPU increased to Rs.159 in this quarter compared to Rs.156 in preceding quarter due to price hikes.
- Launched India's first standard Definition Recorder 'Dish+' with unlimited recording at competitive price of Rs.1,690.
- Announced special scheme offering 70 free to air channels after paying subscriptions twice a year.
- Incremental market share of 23% for the quarter.

### Company Profile

**Dish Tv** launched in May 2005 is India’s first and largest DTH Company promoted by Essel Group. It has a pan-India presence in 8,500+ towns through network of ~114,000 dealers. The gross subscriber base is over 13.9m translating into 28.2% market share. The company offers ~400 channels and services including 41 HD channels to its customers.

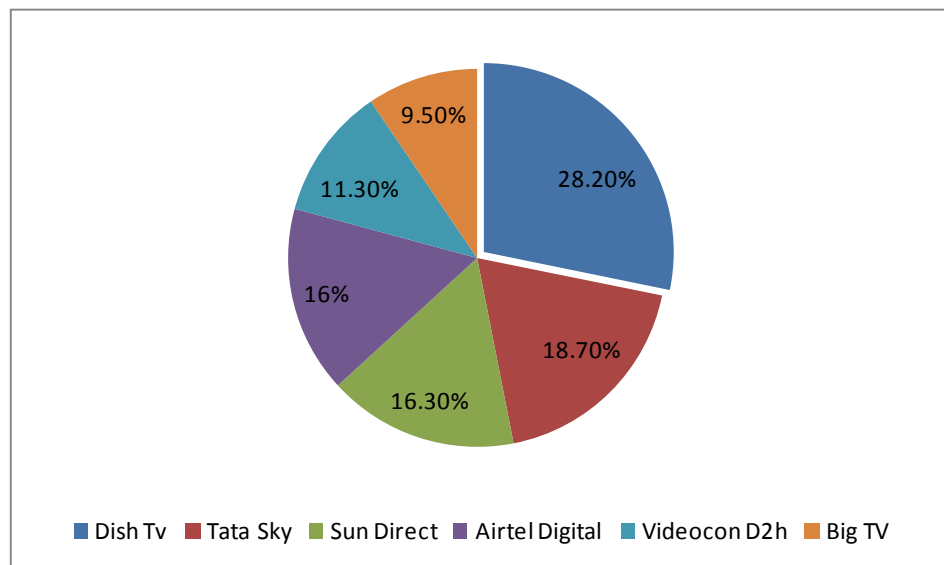
Currently it is the only DTH provider in India to be serviced by two satellites; additional satellite to provide redundancy in case of satellite failure.

**Exhibit 3: Subscriber base - Growing**



Source: Company data

**Exhibit 4: DTH Industry Market share**



Source: Company data, Industry

*‘Largest DTH Provider in Asia by Gross Subscribers’*

*‘Consistent growth in Gross Subscribers additions’*

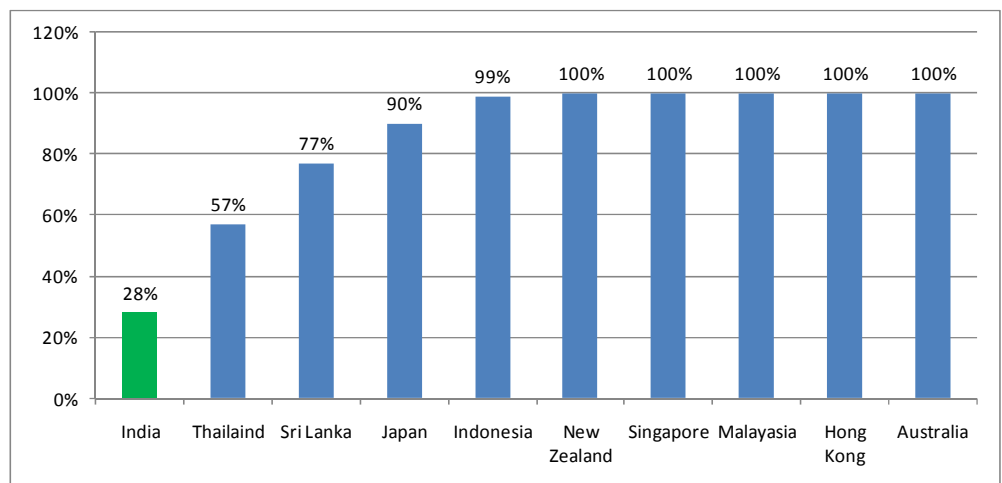
*‘Clear market leader position in the DTH industry’*

## Industry Overview

India is the world's third largest TV market, next only to China and USA. The 140 Million TV households in the country continue to grow in the range of 7% per annum thereby expanding room for the DTH players to convert the existing terrestrial and analog households. The appetite for entertainment, infotainment and sports is increasing as a result of rise in level of education, high level of social connectivity, improved affordability, linguistic diversity and the rise of worldly outlook amongst the majority of educated Indians. Today around 550 satellite channels across multiple genres are available in the country. Rising consumerism in rural India and increased level of discretionary spends has heightened the aspiration quotient among all socio economic categories, thus enabling adoption of DTH in the country. Meanwhile, some of the already digitized homes have begun upgrading to High Definition transmission. Various value added services have also supplemented the growth and popularity of DTH.

Digitization continued to play a major role in transforming the face of the Indian media and entertainment industry with DTH being the single greatest force behind it. The Indian DTH industry grew exponentially in the previous fiscal, acquiring in its fold 10 million new. A series of national and international sporting events and introduction of new age services like High Definition complemented the proliferation of DTH subscribers in the country. The cumulative DTH subscribers in India stand at around 49 Million currently.

**Exhibit 5: Digital penetration in Asia region**



Source: Company data, Industry

*'A low penetration level offers immense growth potential to DTH players'*

## Dish Tv - SWOT Analysis

<b>Strengths</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• Largest DTH Provider in Asia by Gross Subscribers</li> <li>• Pan-India presence through strong network of dealers.</li> <li>• Significant Operating Leverage resulting in higher Profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple taxation results in increased cost to the industry compared to unorganised cable operators.</li> <li>• Depreciation of rupee results into higher acquisition cost of imported hardware and services.</li> <li>• Under declaration of subscribers by cable operators results into stagnant cable rates.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Compulsory digitalisation by 2014 gives huge opportunity to DTH operators.</li> <li>• Reduction in price of flat panel televisions, demand for quality television experience will grow.</li> <li>• Emergence of HD services will results in higher ARPUs in long run.</li> </ul>	<ul style="list-style-type: none"> <li>• Intense competition from other DTH players and digital cable</li> <li>• The result of such unreasonable competition can result in slow growth in ARPU, and higher incidence of churn.</li> <li>• High incidence of taxation and regulatory intervention is restricting the growth and profitability of the DTH sector.</li> </ul>

## Strategy

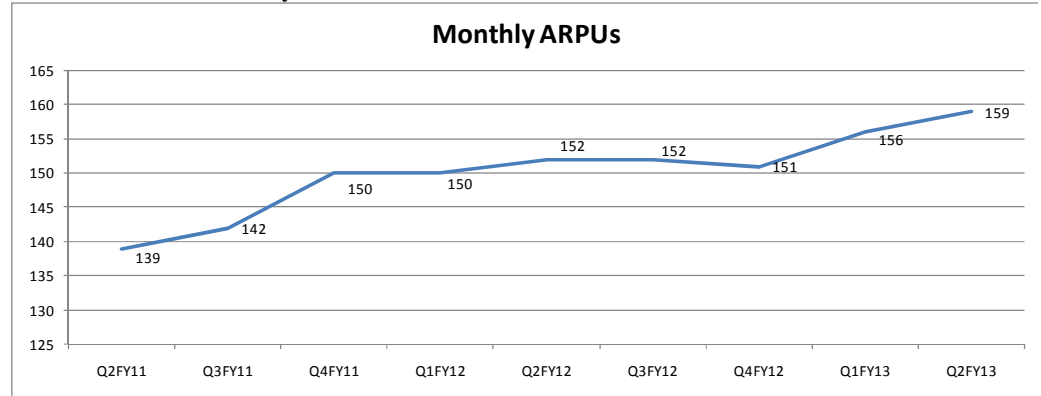
- Capture maximum subscribers in the next two years during DAS implementation and maintain the leadership position.
- Constantly improve the customer service experience to ensure retention of existing customers and timely recharge through different modes of payment options.
- Maximise ARPUs by offering more HD, HD DVR services to customers on demand. DISH currently offers 41 HD services.
- Introduce new product offerings like SD DCR affordable price points.
- Maximise revenue through Value added services like Interactive channels.

### Financial Forecasting and Valuation

We expect Dish TV garner more share from small MSOs in the next phase of digitisation due to its high brand visibility and technological superiority. At CMP, the stock is trading 14.7x and 12.2x EV/EBITDA of FY13E and FY14E earnings. We value this company at 14.5x EV/EBITDA for FY14E giving us target price of Rs.94.

*‘DISH TV monthly ARPUs are growing over the period of time’*

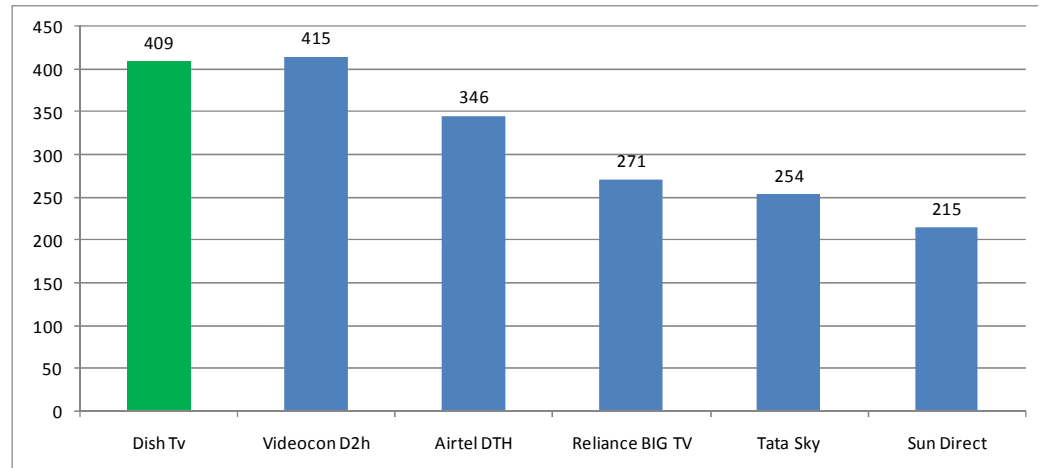
**Exhibit 4: DISH Tv Monthly ARPU – on rise**



Source: Company data

*‘DISH TV offers more than 400 Channels and Services including 22 Audio and 41 HD Services’*

**Exhibit 5: Total Channels and Services**



Source: Company data, Industry

**Exhibit 6: Income Statement**

<b>Consolidated INCOME STATEMENT (Rs. Crores)</b>	<b>Mar-11</b>	<b>Mar-12</b>	<b>Proj Mar-13</b>	<b>Proj Mar-14</b>	<b>Proj Mar-15</b>	<b>Proj Mar-16</b>	<b>Proj Mar-17</b>
Revenues	1,436.7	1,957.9	2,153.7	2,347.6	2,547.1	2,750.9	2,957.2
COGS	786.1	1,002.1	1,033.8	1,056.4	1,095.3	1,127.9	1,153.3
Gross profit	650.6	955.9	1,119.9	1,291.2	1,451.8	1,623.0	1,803.9
Gross margin	45.3%	48.8%	52.0%	55.0%	57.0%	59.0%	61.0%
SGA	257.2	284.5	313.0	341.1	370.1	399.7	429.7
Operating expenses	155.4	175.4	192.9	210.2	228.1	246.4	264.8
EBITDA	238.0	496.0	614.1	739.8	853.6	976.9	1,109.3
EBITDA margin	16.6%	25.3%	28.5%	31.5%	33.5%	35.5%	37.5%
Depreciation	399.6	521.9	574.0	625.7	678.9	733.2	788.2
EBIT	(161.5)	(25.9)	40.1	114.1	174.7	243.7	321.1
EBIT margin	(11.2%)	(1.3%)	1.9%	4.9%	6.9%	8.9%	10.9%
Non-oper expenses	(122.6)	(70.7)	0.0	0.0	0.0	0.0	0.0
Exceptional	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	153.4	178.0	121.4	127.1	128.1	125.4	121.4
EBT	(192.3)	(133.1)	(51.0)	17.7	77.7	149.7	233.0
EBT margin	(13.4%)	(6.8%)	(2.4%)	0.8%	3.1%	5.4%	7.9%
Provision for taxes	(0.3)	0.0	(12.7)	4.4	19.4	37.4	58.2
<b>PAT</b>	<b>(192.0)</b>	<b>(133.1)</b>	<b>(38.2)</b>	<b>13.3</b>	<b>58.3</b>	<b>112.3</b>	<b>174.7</b>

Source: Company, Estimate

**Exhibit 7: Balance Sheet**

<b>BALANCE SHEET (Rs. Crores)</b>	<b>Mar-11</b>	<b>Mar-12</b>	<b>Proj Mar-13</b>	<b>Proj Mar-14</b>	<b>Proj Mar-15</b>	<b>Proj Mar-16</b>	<b>Proj Mar-17</b>
<b>SHAREHOLDERS' EQUITY</b>							
Common stock	106.3	106.4	106.4	106.4	106.4	106.4	106.4
Retained earnings	(69.3)	(200.2)	(245.8)	(230.1)	(168.9)	(54.5)	120.8
<b>Shareholders' equity</b>	<b>37.0</b>	<b>(93.9)</b>	<b>(139.5)</b>	<b>(123.7)</b>	<b>(62.5)</b>	<b>51.8</b>	<b>227.2</b>
Long-term Borrowings	648.5	1,019.4	1,019.4	1,019.4	1,019.4	1,019.4	1,019.4
Other Long-term Liabilities	214.7	190.4	209.4	228.2	247.6	267.5	287.5
Non-Current liabilities	863.2	1,209.7	1,228.7	1,247.6	1,267.0	1,286.8	1,306.9
Short-term notes	0.0	195.0	195.0	195.0	195.0	195.0	195.0
Accounts payable	249.7	79.5	87.4	95.3	103.4	111.7	120.0
Other current liabilities	1,573.2	1,243.7	1,368.0	1,491.1	1,617.9	1,747.3	1,878.4
Total liabilities	2,686.1	2,727.8	2,879.2	3,029.0	3,183.3	3,340.8	3,500.3
<b>Total Liabilities</b>	<b>2,723.1</b>	<b>2,634.0</b>	<b>2,739.7</b>	<b>2,905.3</b>	<b>3,120.8</b>	<b>3,392.6</b>	<b>3,727.5</b>
<b>ASSETS</b>							
Net PPE	1,847.4	1,804.4	1,951.2	2,111.1	2,284.7	2,472.1	2,673.6
Investment in affiliates	233.9	169.5	169.5	169.5	169.5	169.5	169.5
Intangibles	38.4	4.3	4.3	4.3	4.3	4.3	4.3
Long-term assets	12.8	7.0	7.6	8.3	9.0	9.8	10.5
Non-Current assets	2,132.5	1,985.2	2,132.7	2,293.3	2,467.6	2,655.7	2,858.0
Cash and Bank Balances	325.7	391.9	547.0	546.9	583.0	661.4	788.8
Account receivable	22.7	28.6	31.5	34.3	37.2	40.2	43.2
Inventory	4.4	6.9	7.1	7.3	7.5	7.7	7.9
Other current assets	237.8	221.4	21.5	23.5	25.5	27.5	29.6
<b>Total Assets</b>	<b>2,723.1</b>	<b>2,634.0</b>	<b>2,739.7</b>	<b>2,905.3</b>	<b>3,120.8</b>	<b>3,392.6</b>	<b>3,727.5</b>

Source: Company, Estimate

## Exhibit 8: Ratios

<b>RATIOS</b>	<b>Mar-11</b>	<b>Mar-12</b>	<b>Proj Mar-13</b>	<b>Proj Mar-14</b>	<b>Proj Mar-15</b>	<b>Proj Mar-16</b>	<b>Proj Mar-17</b>
<b>I. Liquidity</b>							
Current Ratio	0.32	0.43	0.41	0.40	0.39	0.40	0.41
Quick Ratio	0.32	0.42	0.40	0.39	0.39	0.39	0.40
<b>II. Efficiency</b>							
Acc. receivable/sales*365	5.75	5.33	5.33	5.33	5.33	5.33	5.33
Inventory/COGS*365	2.06	2.51	2.51	2.51	2.51	2.51	2.51
Acc. payable/COGS*365	115.96	28.95	30.86	32.92	34.45	36.13	37.99
Sales/net fixed assets	0.78	1.09	1.10	1.11	1.11	1.11	1.11
Sales/total assets	0.53	0.74	0.76	0.77	0.78	0.78	0.78
<b>III. Profitability</b>							
Gross margin	45.3%	48.8%	52.0%	55.0%	57.0%	59.0%	61.0%
EBITDA margin	16.6%	25.3%	28.5%	31.5%	33.5%	35.5%	37.5%
EBIT margin	-11.2%	-1.3%	1.9%	4.9%	6.9%	8.9%	10.9%
Net margin	-13.4%	-6.8%	-1.7%	0.5%	2.2%	3.9%	5.8%
Return on equity	-518.9%	141.8%	28.5%	-10.6%	-89.6%	236.7%	78.8%
Return on assets	-7.1%	-5.1%	-1.3%	0.4%	1.7%	3.1%	4.5%
<b>IV. Leverage</b>							
Total debt/shareholders' equity	17.53	-12.94	-9.97	-11.44	-21.94	29.44	5.90
Net debt/shareholders' equity	2.38	-6.49	-5.02	-5.58	-10.08	12.20	2.02
Total debt/total invested capital	0.95	1.08	1.11	1.10	1.05	0.97	0.86
Total debt/EBITDA	2.72	2.45	2.13	1.84	1.61	1.38	1.15
Net debt/EBITDA	0.37	1.23	1.07	0.90	0.74	0.57	0.39
<b>V. Coverage</b>							
EBIT/Int. Exp	-1.1	-0.1	0.3	0.9	1.3	1.8	2.4
<b>VI. Valuation</b>							
P/E	-43.3	-62.5	-221.8	661.4	148.1	76.7	48.9
P/B	224.7	-88.6	-63.3	-70.0	-132.7	181.4	38.5
EV/EBITDA	35.3	17.6	14.7	12.2	10.5	9.1	7.9



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