

# Dish TV India Ltd (DITV IN)

## ARPU to be tad lower; costs drop lead to margin surprise

INDIA | MEDIA | Quarterly Update

27 October 2015

### Top takeaways from Q2FY16

- ✘ ARPU misses our estimates for the second quarter in a row – this time the culprit was increase in service tax to 14% from 12.36%
- ✓ Content-cost fell qoq on rollback of the ~28% increase in wholesale tariff
- ✓ EBITDA margins higher than estimates on lower employee and content costs
- ✘ Interest expense was more than foreseen on higher proportion of rupee-denominated loan, which has higher interest cost
- ✘ Added 338,000 net subscribers – marginally lower than our estimate of 350,000
- ↔ Churn higher than estimates, but lower than industry
- ↔ Subscriber acquisition cost was in line with estimate

**Key highlights:** Dish TV missed our revenue estimates by 1.3% on lower ARPU (which fell by Rs 2 qoq). However, thanks to lower content/employee costs (down 4%/15% qoq), EBITDA was 3% higher than our expectations and up 57% yoy. EBITDA margins at 33.9% (life-time high) exceeded our estimates by 130bps.

### Conference call takeaways:

- ✘ Management has lowered ARPU growth guidance to 4.5-6.0% (from 6-7%) on increased service tax. DishTV is also seeing higher subscriber addition from phase 3/4 markets and these are slightly ARPU dilutive
- ✘ Proportion of HD subscribers in the net additions fell (to 20.5% from 23-25%) on lower sports-related events in Q2. However, these should increase to normalcy in the upcoming festival season
- ↔ The company maintained its net subscriber addition guidance of 1.6-1.7mn for FY16
- ✓ Since content-cost-sharing arrangements with broadcasters are locked until Q3FY17, they are unlikely to see any sharp upticks – this will enable further margin expansion

**Outlook and valuation:** We have marginally lowered our FY16 PAT estimate on lower ARPU assumption. We maintain our BUY rating with a DCF-based PT of Rs 127 (unchanged) as we believe that operating and financial performance will improve driven by underlying structural changes in the industry, revival of pricing power, and moderating content-cost inflation. At our target price, the stock will trade at 14x/12x FY16/17 EV/EBITDA.

## BUY (Maintain)

CMP RS 108 / TARGET RS 127 (+18%)

### COMPANY DATA

O/S SHARES (MN) :	1066
MARKET CAP (RSBN) :	116
MARKET CAP (USDBN) :	1.8
52 - WK HI/LO (RS) :	122 / 54
LIQUIDITY 3M (USDMN) :	12.6
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	64.5	64.5	64.5
FII / NRI :	22.8	13.1	13.5
FI / MF :	3.7	3.4	3.2
NON PRO :	4.8	4.1	3.8
PUBLIC & OTHERS :	8.2	7.0	7.1

### Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	26,865	31,499	36,443
EBIDTA	7,331	9,974	12,203
Net Profit	31	2,478	4,281
EPS, Rs	0.0	2.3	4.0
PER, x	3,662.7	46.4	26.9
EV/EBIDTA, x	17.1	12.5	9.9
ROE, %	NM	NM	116.8
Debt/Equity (%)	NM	NM	185.3
BLM Cons EPS, Rs	0.0	2.0	3.6

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	31,499	36,443	-0.9%	-0.9%
EBITDA	9,974	12,203	-1.0%	0.2%
Core PAT	2,478	4,281	-3.7%	0.1%
EPS (Rs)	2.3	4.0	-3.0%	0.5%

Manoj Behera

(in Rs mn)	Q2FY16	Q2FY15	yoy	Q1FY16	qoq vs. expectations	growth %	Comments
growth %							
ARPU(in Rs)	171	166	3%	173	-1%	-2%	Service tax increase resulted in ARPU decline
Net adds(in '000s)	338	378	-11%	390	-13%	-3%	Below estimate on seasonality
Churn(%)	0.80%	0.70%		0.70%			
SAC(Rs)	1725	1650	5%	1750	-1%	-1%	In line with estimates
Subscription revenue	6926	5945	17%	6828	1%	-2%	Lower ARPU led to the miss
Lease rental revenue	110	190	-42%	120	-8%	10%	
Bandwidth charges	270	180	50%	230	17%	8%	
Advt. and other operating revenue	165	20	725%	100	65%	10%	
<b>Total consolidated Revenue</b>	<b>7524</b>	<b>6724</b>	<b>12%</b>	<b>7367</b>	<b>2%</b>	<b>-1%</b>	
<b>EBITDA</b>	<b>2550</b>	<b>1624</b>	<b>57%</b>	<b>2368</b>	<b>8%</b>	<b>3%</b>	Surpassed on lower content and employee costs
EBIDTA (%)	33.9%	24.1%		32.1%			
Depreciation costs	1330	1519	-12%	1598	-17%	-19%	
EBIT	1220	104	1070%	771	58%	44%	
<b>PAT</b>	<b>870</b>	<b>-151</b>	<b>NM</b>	<b>542</b>	<b>60%</b>	<b>53%</b>	

**Quarterly results review**

(in Rs mn)	Q2FY16	Q2FY16E	Q2FY15	Q1FY16	vs. est	% change	
						yoy	qoq
Revenue	7524	7624	6499	7367	-1.3%	15.8%	2.1%
Operating cost	3587	3748	3399	3623	-4.3%	5.5%	-1.0%
Programming/content costs	2035	2184	1929	2120	-6.8%	5.5%	-4.0%
as a % of revenue	27.1%	28.6%	29.7%	28.8%	-159bps	-263bps	-173bps
Other operating costs	1551	1565	1470	1503	-0.9%	5.5%	3.2%
S&D cost	681	683	920	663	-0.4%	-26.0%	2.6%
Employee cost	296	350	253	347	-15.5%	17.1%	-14.7%
Admn and Other Cost	411	358	307	365	14.9%	33.7%	12.6%
Total cost	4974	5140	4879	4998	-3.2%	2.0%	-0.5%
EBITDA	2550	2485	1620.3	2368.4	2.6%	57.4%	7.7%
EBIDTAM	33.9%	32.6%	24.9%	32.1%	130bps	896bps	174bps
Depreciation	1330	1638	1519.4	1597.9	-18.8%	-12.4%	-16.7%
EBIT	1220	847	100.9	770.5	44.0%	1108.9%	58.3%
Finance charges (net)	548	480	425	479.6	14.2%	28.8%	14.2%
Other income	197	200	192.7	262.2	-1.3%	2.4%	-24.7%
Exceptional items/Others	-	-	-	-			
PBT	870	567	-132	553	53.3%	-761.3%	57.2%
Tax expense	-	-	10	11			
Tax rate	-	-	-7.2%	2.0%			
PAT	870	567	-141	542	53.3%	-716.7%	60.4%

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
<b>Net sales</b>	<b>23,261</b>	<b>26,865</b>	<b>31,499</b>	<b>36,443</b>
Growth, %	7	15	17	16
Total income	23,261	26,865	31,499	36,443
Raw material expenses	-75	0	0	0
Employee expenses	-79	-83	-87	-91
Other Operating expenses	-17,762	-19,451	-21,437	-24,149
<b>EBITDA (Core)</b>	<b>5,346</b>	<b>7,331</b>	<b>9,974</b>	<b>12,203</b>
Growth, %	(7.7)	37.1	36.1	22.3
Margin, %	23.0	27.3	31.7	33.5
Depreciation	-5,974	-6,138	-6,498	-6,733
<b>EBIT</b>	<b>-628</b>	<b>1,193</b>	<b>3,476</b>	<b>5,471</b>
Growth, %	30.3	(290.0)	191.5	57.4
Margin, %	(2.7)	4.4	11.0	15.0
Interest paid	-1,328	-1,754	-1,567	-1,412
Other Non-Operating Income	379	635	699	699
<b>Pre-tax profit</b>	<b>-1,576</b>	<b>74</b>	<b>2,608</b>	<b>4,757</b>
Tax provided	-1	-42	-130	-476
<b>Profit after tax</b>	<b>-1,576</b>	<b>31</b>	<b>2,478</b>	<b>4,281</b>
<b>Net Profit</b>	<b>-1,576</b>	<b>31</b>	<b>2,478</b>	<b>4,281</b>
Growth, %	138.8	(102.0)	7,791.4	72.8
<b>Net Profit (adjusted)</b>	<b>(1,576)</b>	<b>31</b>	<b>2,478</b>	<b>4,281</b>
Unadj. shares (m)	1,065	1,065	1,065	1,065
Wtd avg shares (m)	1,065	1,065	1,065	1,065

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	3,426	4,961	2,991	903
Marketable securities at cost	500	0	0	0
Debtors	415	479	562	650
Inventory	75	74	86	100
Loans & advances	3,029	3,498	4,102	4,746
Other current assets	6	0	0	0
Total current assets	7,451	9,012	7,741	6,398
Gross fixed assets	40,989	43,905	44,844	47,185
Less: Depreciation	-27,418	-29,566	-28,623	-29,703
Add: Capital WIP	4,226	4,226	4,648	5,113
Net fixed assets	17,797	18,566	20,869	22,596
<b>Total assets</b>	<b>27,702</b>	<b>30,032</b>	<b>31,064</b>	<b>31,448</b>
Current liabilities	21,976	24,276	24,829	20,932
Total current liabilities	21,976	24,276	24,829	20,932
Non-current liabilities	8,851	8,851	6,851	6,851
Total liabilities	30,828	33,127	31,680	27,783
Reserves & surplus	-3,126	-3,095	-617	3,665
Shareholders' equity	-3,126	-3,095	-617	3,665
<b>Total equity &amp; liabilities</b>	<b>27,702</b>	<b>30,032</b>	<b>31,064</b>	<b>31,448</b>

Source: Company, PhillipCapital India Research Estimates

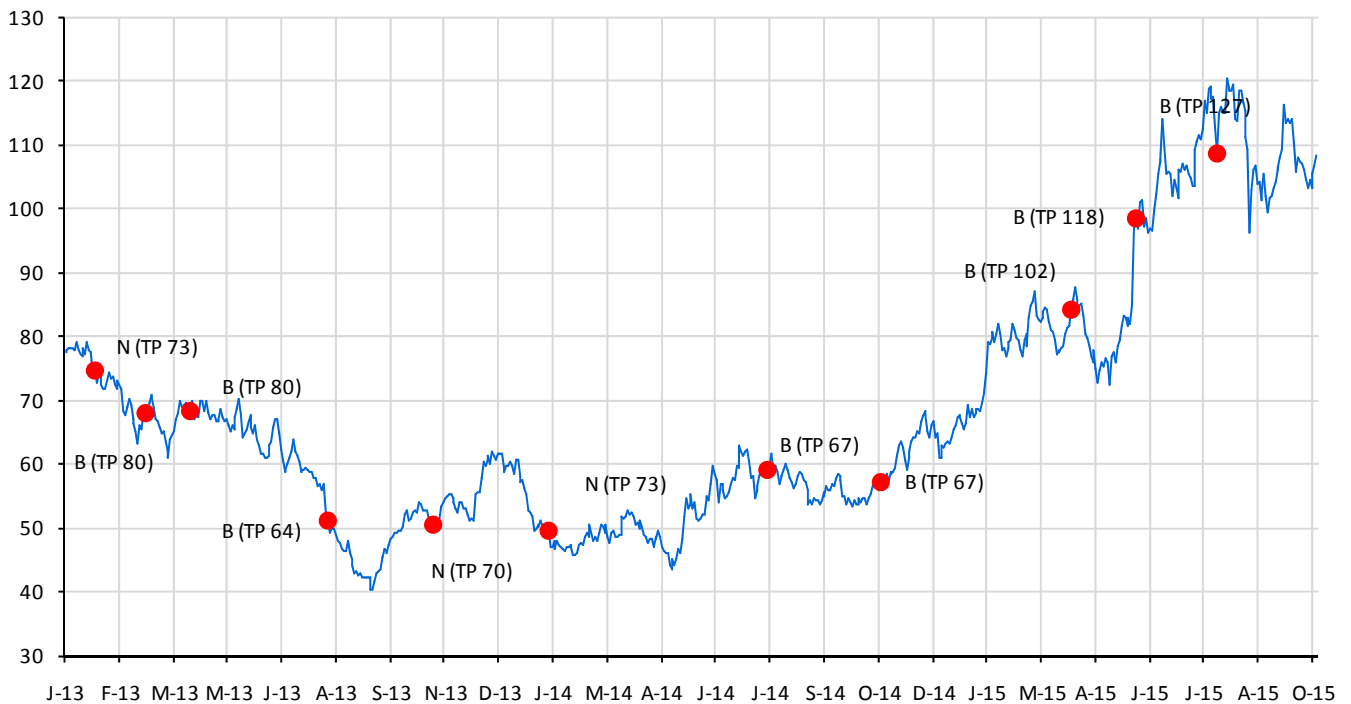
### Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	-1,576	74	2,608	4,757
Depreciation	5,974	6,138	6,498	6,733
Chg in working capital	1,440	462	855	972
Total tax paid & others	-1	-42	-130	-476
<b>Cash flow from operating activities</b>	<b>5,778</b>	<b>6,631</b>	<b>9,831</b>	<b>11,986</b>
Capital expenditure	-2,895	-6,907	-8,801	-8,459
Chg in marketable securities	2,282	500	0	0
<b>Cash flow from investing activities</b>	<b>-613</b>	<b>-6,407</b>	<b>-8,801</b>	<b>-8,459</b>
Free cash flow	3,721	224	1,029	3,526
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-669	1,311	-3,000	-5,615
<b>Cash flow from financing activities</b>	<b>-669</b>	<b>1,311</b>	<b>-3,000</b>	<b>-5,615</b>
Net chg in cash	3,052	1,535	-1,971	-2,088

### Valuation Ratios

	FY14	FY15e	FY16e	FY17e
<b>Per Share data</b>				
EPS (INR)	(1.5)	0.0	2.3	4.0
Growth, %	NM	NM	NM	72.8
Book NAV/share (INR)	(2.9)	(2.9)	(0.6)	3.4
CEPS (INR)	4.1	5.8	8.4	10.3
CFPS (INR)	3.7	5.6	8.6	10.6
<b>Return ratios</b>				
Return on assets (%)	(2.5)	4.0	11.4	16.5
Return on equity (%)	NM	NM	NM	116.8
Return on capital employed (%)	(10.2)	20.1	58.0	61.7
<b>Turnover ratios</b>				
Asset turnover (x)	3.8	5.7	5.6	5.4
Sales/Total assets (x)	0.8	0.9	1.0	1.2
Sales/Net FA (x)	1.2	1.5	1.6	1.7
Working capital/Sales (x)	(0.8)	(0.8)	(0.6)	(0.4)
Working capital days	(289.5)	(274.8)	(232.7)	(154.6)
<b>Liquidity ratios</b>				
Current ratio (x)	0.3	0.4	0.3	0.3
Quick ratio (x)	0.3	0.4	0.3	0.3
Interest cover (x)	(0.5)	0.7	2.2	3.9
Total debt/Equity (%)	NM	NM	NM	185.3
Net debt/Equity (%)	NM	NM	NM	160.7
<b>Valuation</b>				
PER (x)	(73.0)	3,662.7	46.4	26.9
Price/Book (x)	NM	NM	NM	31.4
EV/Net sales (x)	5.4	4.7	4.0	3.3
EV/EBITDA (x)	23.4	17.1	12.5	9.9
EV/EBIT (x)	(199.5)	105.2	35.8	22.1

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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