

# Dish TV India Ltd (DITV IN)

## ARPU and subscriber adds miss estimates

INDIA | MEDIA | Quarterly Update

4 February 2016

### Top takeaways from Q3FY16

- ✖ ARPU misses our estimates for the third quarter in a row
- ✖ Net subscriber addition for the quarter was below estimates
- ↔ Operating costs were in-line with estimates with content cost as a % of total revenue declining 22bps qoq
- ✖ EBITDA was below estimates due to miss on revenue; margins improvement also lagged
- ✖ Other non-operating income declined significantly on a yoy and qoq basis
- ↔ Dish TV pruned its debt by Rs 3bn. The net debt is now around Rs 5.61bn
- ↔ Free cash flow for the quarter was Rs 1.3bn

**Key highlights:** Dish TV missed our revenue estimates by 5% on lower ARPU growth and lower than estimated net subscriber addition. However, it continues to manage its operating costs optimally, resulting in only a 2% qoq increase. Nonetheless, EBITDA was 7% below estimate due to the revenue miss – EBITDA margin at 34.4% was also lower than our estimate by 80bps. Other non-operating expenditures were below estimates due to lower-than-estimated other income.

### Conference call takeaways

- ✖ Subscriber addition was negatively impacted due to delay in digitization of phase-3 market, but management maintained its full-year subscriber addition guidance of 1.5mn
- ✓ Proportion of Zing and HD subscriber stood at 20-22% of gross addition in Q3. Dish intends to focus more on adding HD subscribers to negate the impact of low-ARPU subscribers
- ✓ It has launched a new product for HSM, which is very attractively priced at Rs 174 (vs. existing base pack price of Rs 260). This new product will enable the company to target low-ARPU subscribers in phase-3 and 4 markets
- ✓ Dish has ~1mn HD subscribers with an ARPU of Rs 380 (vs. overall ARPU of Rs 172)
- ✓ Entry of Netflix and other competing digital platforms will have minimal impact on traditional distributors – economics doesn't support mass adoption of such platforms
- ✓ Dish will bring down the net debt to Rs 4bn by the end of FY16

**Outlook and valuation:** We have lowered our FY16/17 ARPU estimate to Rs 172/177 from Rs 175/182 to factor in lower-than-expected ARPU growth in DAS phase-3 and 4 markets. Correspondingly, we reduce our FY16/17 EBITDA estimates by 1%/7%. We rollover our target price to FY18 and maintain Buy. DCF-based PT at Rs 115 (from Rs 127 earlier) – we believe that Dish's operating and financial performance will improve with underlying structural changes in the industry, revival of pricing power, and moderating content-cost inflation. At our target, the stock will trade at 13x/11x FY16/17 EV/EBITDA.

## BUY (Maintain)

CMP RS 77 / TARGET RS 115 (+49%)

### COMPANY DATA

O/S SHARES (MN) :	1066
MARKET CAP (RSBN) :	96
MARKET CAP (USDBN) :	1.4
52 - WK HI/LO (RS) :	122 / 69
LIQUIDITY 3M (USDMN) :	6.3
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Sep 15	Jun 15	Mar 15
PROMOTERS :	64.5	64.5	64.5
FII / NRI :	20.2	22.8	13.1
FI / MF :	3.8	3.7	3.4
NON PRO :	1.2	4.8	4.1
PUBLIC & OTHERS :	10.6	8.2	7.0

### Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	27,816	30,925	35,240
EBIDTA	7,331	9,889	11,321
Net Profit	31	2,414	3,904
EPS, Rs	0.0	2.3	3.7
PER, x	2,619.9	34.1	21.1
EV/EBIDTA, x	12.7	9.2	7.8
PBV, x	NM	NM	25.8
ROE, %	NM	NM	122.6
Debt/Equity (%)	NM	NM	339.2

### CHANGE IN ESTIMATES

	Revised Est.		% Revision	
Rs mn	FY16E	FY17E	FY16E	FY17E
Revenue	30,925	35,240	-1.8%	-3.3%
EBITDA	9,889	11,321	-0.9%	-7.2%
Core PAT	2,414	3,904	-2.6%	-8.8%
EPS (Rs)	2.3	3.7	-1.5%	-8.4%

Manoj Behera

(in Rs mn)	Q3FY16	Q3FY15	yoy gwth %	Q2FY16	qoq vs. expectations gwth %	Comments
ARPU(in Rs)	172	171	0.6	173	(0.6)	(1)
Net adds(in '000s)	317	416	(23.8)	390	(18.7)	(30)
Churn (%)	0.70%	0.70%		0.70%		
SAC(Rs)	1750	1725	1.4	1750	-	-
Subscription revenue	7111	6315	12.6	6926	2.7	(4)
Lease rental revenue	100	210	(52.4)	110	(9.1)	-
Bandwidth charges	280	200	40.0	270	3.7	2
Advt. and other operating revenue	180	120	50.0	165	9.1	-
<b>Total consolidated Revenue</b>	<b>7715</b>	<b>7139</b>	<b>8.1</b>	<b>7524</b>	<b>2.5</b>	<b>(5)</b>
<b>EBITDA</b>	<b>2655</b>	<b>1912</b>	<b>38.9</b>	<b>2550</b>	<b>4.1</b>	<b>(7)</b>
EBIDTA (%)	34.4%	26.8%		33.9%		
Depreciation costs	1463	1616	(9.5)	1330	10.0	(13)
EBIT	1192	296	302.5	1220	(2.3)	0
<b>PAT</b>	<b>685</b>	<b>-29</b>	<b>NM</b>	<b>870</b>	<b>(21.2)</b>	<b>(4)</b>

## Quarterly results review

(in Rs mn)	Q3FY16	Q3FY16E	Q3FY15	Q2FY16	% change		
					vs. est	yoy	qoq
<b>Revenue</b>	<b>7715</b>	<b>8138</b>	<b>6901</b>	<b>7524</b>	<b>-5.2%</b>	<b>11.8%</b>	<b>2.5%</b>
Operating cost	3695	3822	3530	3618	-3.3%	4.7%	2.1%
Programming/content costs	2070	2178	1989	2035	-4.9%	4.1%	1.7%
as a % of revenue	26.8%	26.8%	28.8%	27.1%	7bps	-199bps	-22bps
Other operating costs	1625	1644	1541	1583	-1.2%	5.4%	2.7%
S&D cost	679	750	893	681	-9.5%	-24.0%	-0.3%
Employee cost	289	300	259	296	-3.8%	11.4%	-2.5%
Admn and Other Cost	397	400	311	379	-0.7%	27.7%	4.7%
<b>Total cost</b>	<b>5060</b>	<b>5272</b>	<b>4993</b>	<b>4974</b>	<b>-4.0%</b>	<b>1.3%</b>	<b>1.7%</b>
<b>EBITDA</b>	<b>2655</b>	<b>2866</b>	<b>1908</b>	<b>2550</b>	<b>-7.3%</b>	<b>39.2%</b>	<b>4.1%</b>
EBIDTAM	34.4%	35.2%	27.6%	33.9%	-79bps	677bps	53bps
Depreciation	1463	1675	1616	1330	-12.7%	-9.5%	10.0%
EBIT	1192	1191	292	1220	0.1%	308.6%	-2.3%
Finance charges (net)	549	575	478	548	-4.5%	14.9%	0.3%
Other income	42	175	170	197	-76.0%	-75.3%	-78.7%
Exceptional items/Others							
<b>PBT</b>	<b>685</b>	<b>791</b>	<b>-16</b>	<b>870</b>	<b>-13.3%</b>	<b>NM</b>	<b>-21.2%</b>
Tax expense							
Tax rate							
<b>PAT</b>	<b>685</b>	<b>711</b>	<b>-26</b>	<b>870</b>	<b>-3.7%</b>	<b>NM</b>	<b>-21.2%</b>

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>27,816</b>	<b>30,925</b>	<b>35,240</b>
Growth, %	7	20	11	14
Total income	23,261	27,816	30,925	35,240
Raw material expenses	-75	-57	0	0
Employee expenses	-79	-69	-73	-77
Other Operating expenses	-18,597	-20,359	-20,963	-23,843
<b>EBITDA (Core)</b>	<b>4,511</b>	<b>7,331</b>	<b>9,889</b>	<b>11,321</b>
Growth, %	(22.1)	62.5	34.9	14.5
Margin, %	19.4	26.4	32.0	32.1
Depreciation	-5,974	-6,138	-5,856	-6,198
<b>EBIT</b>	<b>-1,462</b>	<b>1,193</b>	<b>4,033</b>	<b>5,123</b>
Growth, %	203.6	(181.6)	238.1	27.0
Margin, %	(6.3)	4.3	13.0	14.5
Interest paid	-1,328	-1,754	-2,223	-2,076
Other Non-Operating Income	379	635	604	857
<b>Pre-tax profit</b>	<b>-2,410</b>	<b>74</b>	<b>2,414</b>	<b>3,904</b>
Tax provided	-1	-42	0	0
<b>Profit after tax</b>	<b>-2,411</b>	<b>31</b>	<b>2,414</b>	<b>3,904</b>
<b>Net Profit</b>	<b>-2,411</b>	<b>31</b>	<b>2,414</b>	<b>3,904</b>
Growth, %	265.2	(101.3)	7,586.6	61.8
<b>Net Profit (adjusted)</b>	<b>(2,411)</b>	<b>31</b>	<b>2,414</b>	<b>3,904</b>
Unadj. shares (m)	1,065	1,066	1,066	1,066
Wtd avg shares (m)	1,065	1,066	1,066	1,066

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	3,426	4,286	3,105	5,056
Marketable securities at cost	500	0	0	0
Debtors	415	637	708	807
Inventory	75	99	85	97
Loans & advances	3,029	3,909	4,346	4,953
Other current assets	6	216	240	273
Total current assets	7,451	9,147	8,484	11,186
Gross fixed assets	40,989	48,160	56,219	64,083
Less: Depreciation	-27,418	-33,621	-40,077	-46,775
Add: Capital WIP	4,226	4,972	4,972	4,972
Net fixed assets	17,797	19,510	21,113	22,279
<b>Total assets</b>	<b>27,702</b>	<b>31,663</b>	<b>32,603</b>	<b>36,471</b>
Current liabilities	21,976	34,548	28,575	28,538
Total current liabilities	21,976	34,548	28,575	28,538
Non-current liabilities	8,851	248	4,748	4,748
Total liabilities	30,828	34,796	33,323	33,287
Reserves & surplus	-3,126	-3,134	-720	3,184
Shareholders' equity	-3,126	-3,134	-720	3,184
<b>Total equity &amp; liabilities</b>	<b>27,702</b>	<b>31,663</b>	<b>32,603</b>	<b>36,471</b>

Source: Company, PhillipCapital India Research Estimates

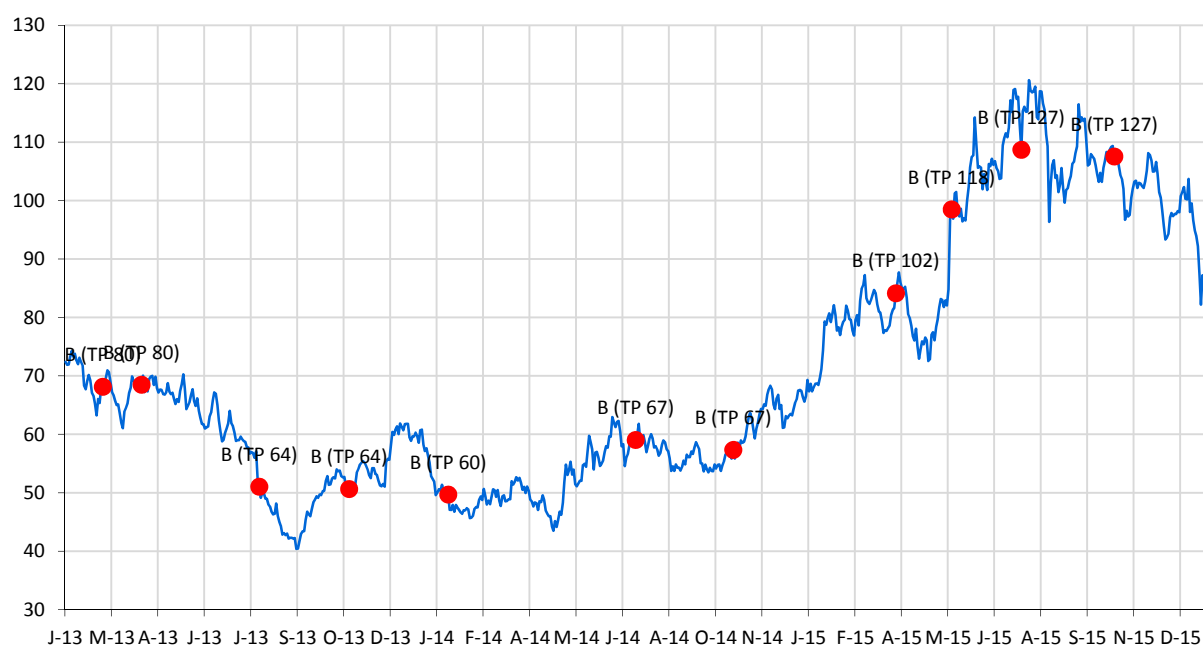
### Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	-2,410	74	2,414	3,904
Depreciation	5,974	6,138	5,856	6,198
Chg in working capital	1,440	1,338	547	713
Total tax paid & others	-1	-42	0	0
<b>Cash flow from operating activities</b>	<b>5,778</b>	<b>7,507</b>	<b>8,817</b>	<b>10,815</b>
Capital expenditure	-2,895	-7,852	-7,459	-7,364
Chg in marketable securities	2,282	500	0	0
<b>Cash flow from investing activities</b>	<b>-613</b>	<b>-7,352</b>	<b>-7,459</b>	<b>-7,364</b>
Free cash flow	2,886	155	1,358	3,451
Equity raised/(repaid)	0	1	0	0
Debt raised/(repaid)	-669	744	-2,539	-1,500
<b>Cash flow from financing activities</b>	<b>-669</b>	<b>744</b>	<b>-2,539</b>	<b>-1,500</b>
Net chg in cash	2,217	900	-1,181	1,951

### Valuation Ratios

	FY14	FY15e	FY16e	FY17e
<b>Per Share data</b>				
EPS (INR)	(2.3)	0.0	2.3	3.7
Growth, %	NM	NM	NM	61.8
Book NAV/share (INR)	(2.9)	(2.9)	(0.7)	3.0
CEPS (INR)	3.3	5.8	7.8	9.5
CFPS (INR)	2.9	7.0	7.7	9.3
<b>Return ratios</b>				
Return on assets (%)	(5.3)	3.9	11.9	15.1
Return on equity (%)	NM	NM	NM	122.6
Return on capital employed (%)	(21.9)	81.2	671.4	87.1
<b>Turnover ratios</b>				
Asset turnover (x)	3.8	6.2	6.3	6.2
Sales/Total assets (x)	0.8	0.9	1.0	1.0
Sales/Net FA (x)	1.2	1.5	1.5	1.6
Working capital/Sales (x)	(0.8)	(1.1)	(0.8)	(0.6)
Working capital days	(289.5)	(389.6)	(273.8)	(232.1)
<b>Liquidity ratios</b>				
Current ratio (x)	0.3	0.3	0.3	0.4
Quick ratio (x)	0.3	0.3	0.3	0.4
Interest cover (x)	(1.1)	0.7	1.8	2.5
Total debt/Equity (%)	NM	NM	NM	339.2
Net debt/Equity (%)	NM	NM	NM	180.4
<b>Valuation</b>				
PER (x)	NM	NM	34.1	21.1
Price/Book (x)	NM	NM	NM	25.8
EV/Net sales (x)	4.0	3.3	3.0	2.5
EV/EBITDA (x)	20.5	12.7	9.2	7.8
EV/EBIT (x)	NM	77.8	22.7	17.2

## 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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