

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

Rs mn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	30,925	35,240	-1.8%	-3.3%
EBIDTA	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) Lower ARPU and subscriber addition led to the miss
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	-
Total consolidated Revenue	7715	7139	8.1	7524	2.5	(5)
EBITDA	2655	1912	38.9	2550	4.1	(7)
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
PAT	685	-29	NM	870	(21.2)	(4)

Quarterly results review

(in Rs mn)	Q3FY16	Q3FY16E	Q3FY15	Q2FY16	% change		
					vs. est	yoY	qoq
Revenue	7715	8138	6901	7524	-5.2%	11.8%	2.5%
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%
Total cost	5060	5272	4993	4974	-4.0%	1.3%	1.7%
EBITDA	2655	2866	1908	2550	-7.3%	39.2%	4.1%
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							
PBT	685	791	-16	870	-13.3%	NM	-21.2%
Tax expense							
Tax rate							
PAT	685	711	-26	870	-3.7%	NM	-21.2%

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	23,261	27,816	30,925	35,240
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
EBITDA (Core)	4,511	7,331	9,889	11,321
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
EBIT	-1,462	1,193	4,033	5,123
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
Pre-tax profit	-2,410	74	2,414	3,904
Tax provided	-1	-42	0	0
Profit after tax	-2,411	31	2,414	3,904
Net Profit	-2,411	31	2,414	3,904
Growth, %	265.2	(101.3)	7,586.6	61.8
Net Profit (adjusted)	(2,411)	31	2,414	3,904
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
Total assets	27,702	31,663	32,603	36,471
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
Total equity & liabilities	27,702	31,663	32,603	36,471

Source: Company, PhillipCapital India Research Estimates

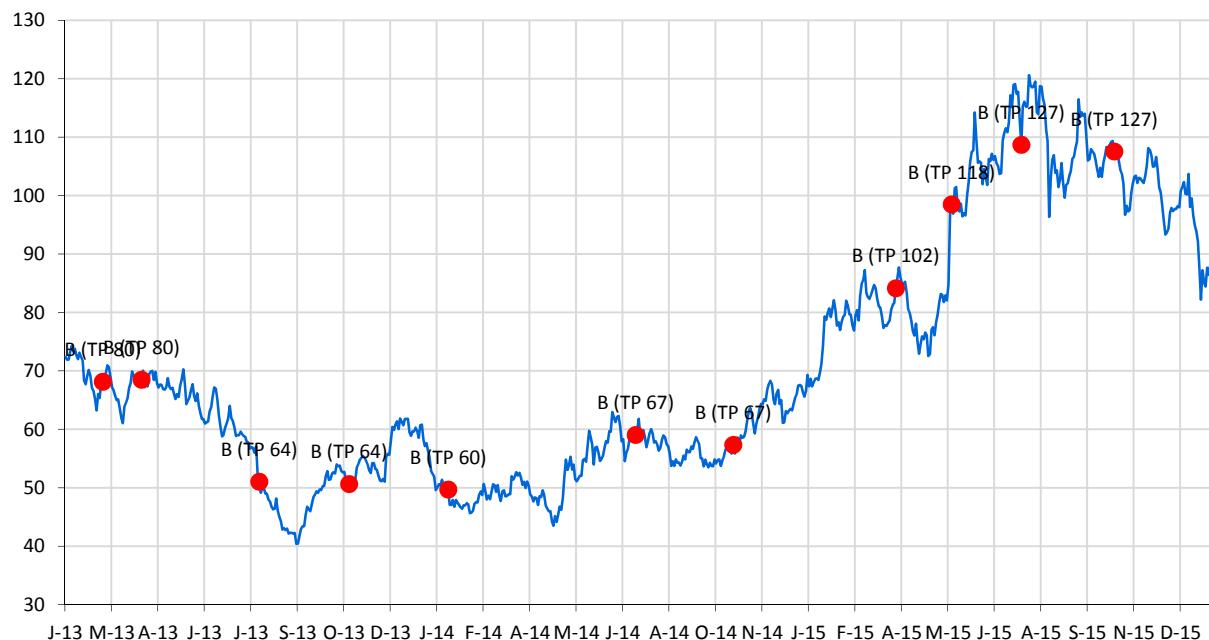
Cash Flow

	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
Cash flow from operating activities	5,778	7,507	8,817	10,815
Capital expenditure	-2,895	-7,852	-7,459	-7,364
Chg in marketable securities	2,282	500	0	0
Cash flow from investing activities	-613	-7,352	-7,459	-7,364
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
Cash flow from financing activities	-669	744	-2,539	-1,500
Net chg in cash	2,217	900	-1,181	1,951

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
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
Return ratios				
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
Turnover ratios				
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)
Liquidity ratios				
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
Valuation				
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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