INSTITUTIONAL EQUITY RESEARCH

PhillipCapital

Dish TV India Ltd (DITV IN)

Out of the woods

INDIA | MEDIA | Company Update

1 April 2015

Over the last six months, DishTV stock price has appreciated by 41% outperforming the BSE midcap index by ~31% primarily on account of (a) price hike led ARPU improvement – ARPU has increased by Rs 7-8 (+5%) in the last three quarters (b) Sharp uptick in net subscriber addition - (has added 1m+ net subs in 9MFY15 vs. 0.7mn net adds in FY14) (c) stable content cost resulting in improved EBITDA margins by 250bps over the last three quarters. We believe that driven by underlying structural changes in the industry of revival of pricing power and moderating content cost inflation, the operating and financial performance of the company will improve further. We expect the EBITDA margins of the company to improve by additional ~350bps and EBITDA to grow at CAGR of 22% over the next couple of years. We maintain our BUY rating with a revised March'16 PT of Rs 102.

ARPU momentum to continue – expect a 6% CAGR from FY15-17E: After a 4-5% price hike across all its packs in the month of August 2014, DishTV has yet again raised prices by a similar amount in the month of Feb 2015. MSOs are now paying content fee to the broadcasters based on RIO rates which have lead to overall increase in price charged to the customers. As a result, DTH service providers have more headroom to increase their prices especially inTier-1 cities. Hence the price charged by the DTH players which was stagnant for the last 4-5 years may witness upward momentum going ahead. Also to monetize premium customers, Dish TV has launched a differential pricing strategy in the Metros wherein the channel packs would cost Rs 10 higher. Increase in package prices tends to get reflected in ARPU numbers with a lag of 2-3 months and we expect the recent price hike to get reflected in FY16 ARPU numbers. Higher proportion of HD subscriber will provide further impetus to ARPU growth rate and it will partially negate the ARPU dilution on account of Zing's subscriber addition.

Phase III and IV of digitization will aid subscriber growth momentum – company to add 2.5mn net subs over the next two years: DTH players enjoy inherent advantage over cable players in Phase III and IV markets (TAM of ~70 mn TV households) as most of the cable TV players are unorganized and lack the financial capability to seed STBs. Packaged channel offering and lack of backend infrastructure further compound the problems for the MSOs. Hence we expect that the DTH players to take the major pie of subscribers during these two phases. Dish TV with its localized service offering (brand name - Zing) targeted at non HSM market is expected to benefit from this structural benefit for the DTH players.

Timing and quantum of content cost escalation provide margin improvement visibility: DishTV has signed up long term content cost deal with majority of the broadcasters and the next renewal is at least six quarters away, hence we are unlikely to witness major uptick on the content cost (management has guided for mid-single digit growth in the next two years) in the near term. We expect that the EBITDA margins to improve by ~350bps by FY17E. Margins for Zing (16-17% of incremental addition) are higher than that of regular subscribers because of lower content cost and some of the other operational cost borne by the distributor. Similarly rising proportion of HD subscribers (17-18% of incremental addition) will also aid margin improvement. Any positive outcome on the license fee dispute could further boost the margins by 200bps.

To generate Rs 10bn+ OCF in FY17 to sustain subscriber addition momentum and repay existing debt: Driven by improving operating margins and cash flow generation from WC changes (Dish TV follows a pre-paid business model) we expect the company to generate 8.7bn/10.5bn of OCF in FY16/FY17. With STB cost expected to remain stable, the company can easily add ~3.6/4.0mn subscriber in FY16/FY17 without raising incremental debt. We expect the company to add 2.5mn/2.2mn subscriber in FY16/FY17, thereby allowing the company to repay some of the debt in coming years.

Consistent financial performance key to re-rating; maintain BUY with March'16 PT of Rs 102: We value the company on a DCF basis using a WACC of 13.6% and terminal growth rate of 5% and arrive at March'16 PT of Rs 102, implying an upside of 22% from the current level. At our target price the stock will trade at 13.0x/10.5x FY16/17E EV/EBITDA.

BUY

CMP Rs 84

TARGET Rs 102 (+22%)

COMPANY DATA

O/S SHARES (MN) :	1066
MARKET CAP (RSBN) :	87
MARKET CAP (USDBN) :	1.4
52 - WK HI/LO (RS) :	88 / 43
LIQUIDITY 3M (USDMN) :	5.9
PAR VALUE (RS) :	1

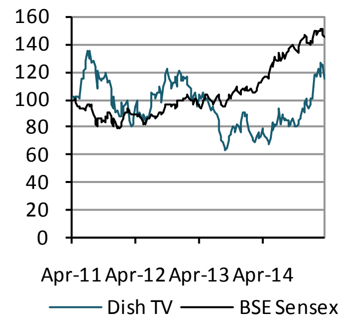
SHARE HOLDING PATTERN, %

PROMOTERS :	64.5
FII / NRI :	24.5
FI / MF :	3.2
NON PROMOTER CORP. HOLDINGS :	3.6
PUBLIC & OTHERS :	4.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-3.9	23.6	55.1
REL TO BSE	1.9	22.6	31.2

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Net Sales	27,786	31,839	36,300
EBIDTA	7,292	9,088	10,916
Net Profit	-302	1,340	3,045
EPS, Rs	(0.3)	1.3	2.9
PER, x	(296.6)	66.8	29.4
EV/EBIDTA, x	13.9	11.2	8.7
P/BV, x	(26.1)	(42.8)	93.5
ROE, %	8.8	(64.2)	318.1
Debt/Equity (%)	(484.5)	(730.3)	605.1

Source: PhillipCapital India Research Est.

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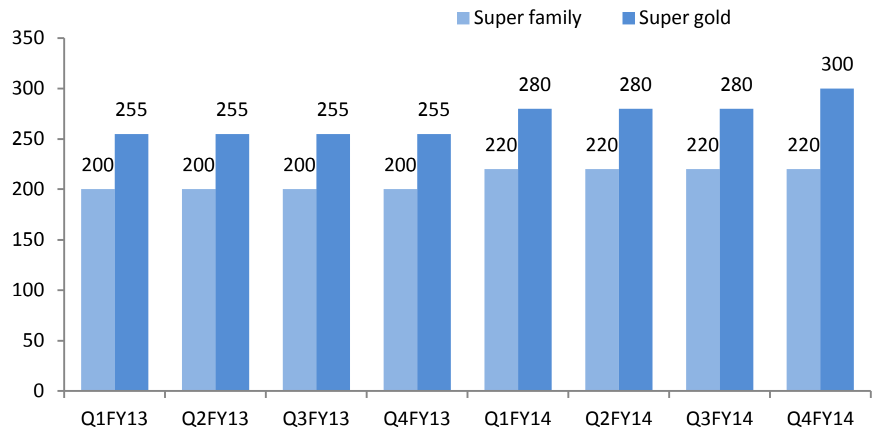
ARPU momentum to continue – expect a 6% CAGR from FY15-17E: Historically as can be seen from chart 1 below (price increased by 10% in FY13 and FY14) it was difficult for DishTV to raise the price of its base pack primarily on account of lower prices charged by the local cable TV players allowing the customer to shift to analog platform whenever there was a price hike.

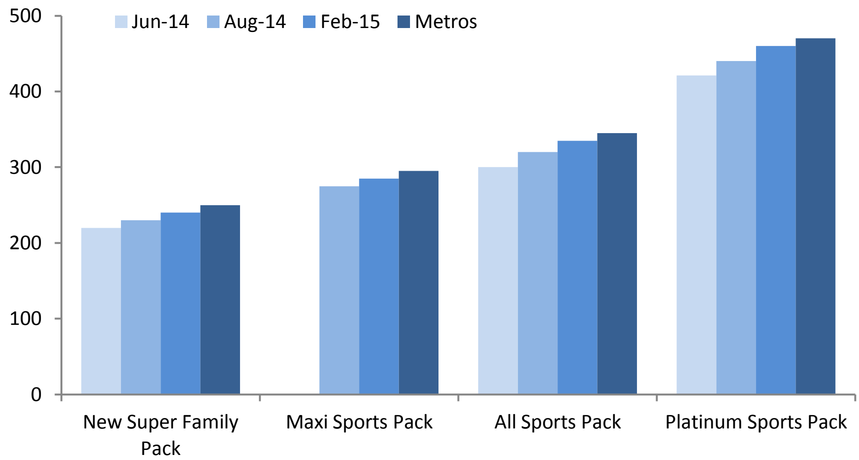
Historical price movement (FY13 and FY14) for entry level packs



Source: Company

But since the implementation of packaged channel offering by the MSOs post phase I and II of digitization, Dish TV (and other DTH players) had more headroom to increase the pack prices. MSOs are now paying content fee to the broadcasters based on RIO rates which have lead to overall increase in price charged to the customers. As a result of which DishTV increased its pack prices by Rs 20 across all the pack in the last six months (see chart 2 for pack wise price increase).

Pack wise price movement since Q2FY15

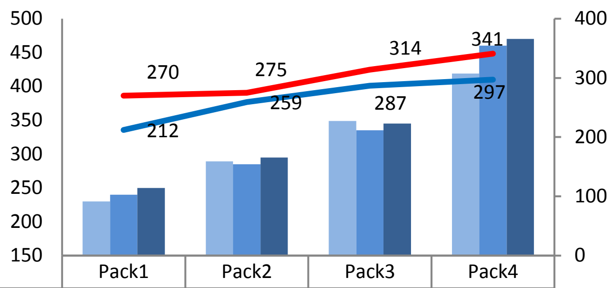


Source: Company

Pack wise price comparison, shows that DishTV's entry level pack prices are now comparable to that of Hathway's and also offer higher no of channels. DishTV has very limited presence in the four metros hence with lower price differential and better service offering (HD), it is better positioned to gain higher market in the four metros. Also rollout of channel packages has not started yet in most of the Phase II cities providing further upside in terms of gaining market share from cable TV players.

The above steps are positive but flow through to ARPU needs to be closely watched over the next couple of quarters. Historically the flow through of price hikes to ARPU has been disappointing. However over the last three quarters, we have witnessed positive uptick on ARPU – are up by 5% in 9MFY15 vs. FY14. Hence, we believe that recent price hikes along with differential pricing will help sustain a 6% ARPU increase in FY16 &FY17.

Pack wise price comparison – DishTV and Hathway



	Pack1	Pack2	Pack3	Pack4
Hathway	230	289	349	419
DishTV	240	285	335	460
DishTV(Metro)	250	295	345	470
Hathway (No of Channels)	212	259	287	297
DishTV(No of Channels)	270	275	314	341

Source: Hathway's website, Dish TV

Phase III and IV of digitization will aid subscriber growth momentum – company to add 2.3mn net subs over the next two years: DTH players enjoy inherent advantage over cable players in Phase III and IV markets (TAM of 70 mn households) as most of the cable TV players are unorganized and lack the financial capability to seed the STB and provide back-end infrastructure. Phase I and II entailed installing STBs in roughly 22 million homes in a relatively well defined and densely populated geographical area. Covering this ground has stretched the financial and operational resources of the cable industry to the limit, with very little clarity on the payback period on their investments so far indicating that Phases III and IV are expected to pose greater logistical challenges. Hence DTH players have the upper hand in these markets and can see robust subscriber addition.

Dish TV with its localized service offering (brand name - Zing) targeted at non HSM market is expected to benefit from this structural benefit for the DTH players: 72% of the Indian cable TV market is located where Hindi is not the principal language. Also regional GECs and movie genre enjoys ~27% viewership share in the cable TV homes. Hence a differentiated service offering based on language preferences whereby a user can directly choose to get a set-top box to watch local channels instead of waiting for the local cable operator to install a set-top box can provide a strategic boost to customer addition for DishTV.

Currently Zing has been launched in five regional markets of Odisha, West Bengal, Maharashtra, Tamil Nadu and AP market which constitutes 58% of all India cable TV homes. Also majority of the TV HH's in these markets are analog in nature and hence are target for digitization during implementation of DAS in phase III and IV.

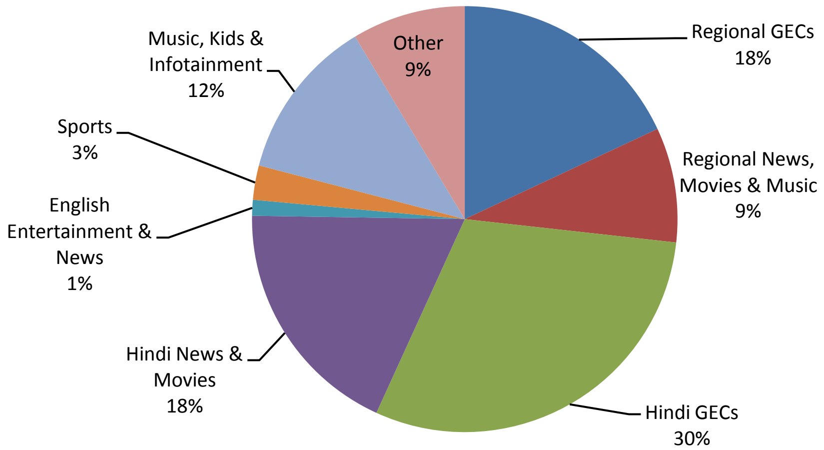
Cable TV homes (% of all India Cable TV homes)

	Cable TV homes (% of all India Cable TV homes)
Andhra Pradesh	15
Assam	1
Bihar	3
Delhi	5
Gujarat	6
Haryana	3
Karnataka	9
Kerala	4
Maharashtra & Goa	13
MP & Chhattisgarh	6
Orissa	1
Punjab & HP	3
Rajasthan	3
Tamil Nadu	14
UP & Uttrakhand	6
West Bengal	8

Source:TRAI

Cell highlighted indicates Zing's current target market

Viewership share (2013)



Source: FICCI KPMG report 2013

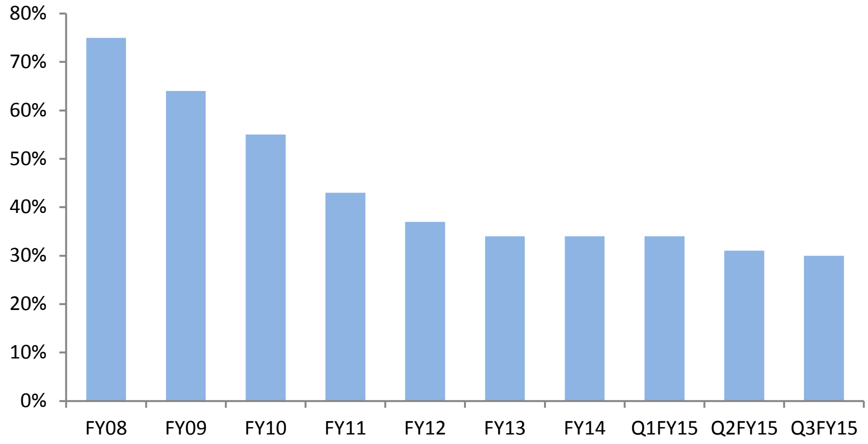
Timing and quantum of content cost escalation provide margin improvement visibility: Content cost as a % of subscription revenue (as can be seen from chart below) has been consistently coming down for Dish TV primarily on account of higher subscriber addition, increase in ARPU and fixed fee negotiation with 50% of the broadcasters. Going ahead DishTV has signed up long term content cost deal with majority of the broadcasters and the next renewal is at least six quarters away, hence we are unlikely to witness major uptick on the content cost side (management has guided for mid-single digit growth in the next two years) in the near term.

Margins for Zing (16-17% of incremental addition) are higher than that of regular subscriber because of lower content cost and some of the other operational cost borne by the distributor. As for the content, Zing's base pack focuses on the region's prevalent language channels (a mix of paid and free-to-air) and other national channels are offered as add-ons.

Similarly higher proportion of HD subscriber (17-18% of incremental addition), on account of higher ARPU, will also aid margin improvement.

We expect that the EBITDA margins to improve by ~350bps by FY17E.

Programming and Other Costs as % of Subscription Revenues



Source: Company

EBITDA margin movement from FY15E-17E

	FY15E	FY16E	FY17E
Revenue	27786	31839	36300
% change y-o-y	15.3%	14.6%	14.0%
Content cost	8204	9358	10659
as a % of revenue	29.5%	29.4%	29.4%
Other operating cost	6058	6566	7350
as a % of revenue	21.8%	20.6%	20.2%
Employee cost	1025	1128	1241
as a % of revenue	3.7%	3.5%	3.4%
S&D cost	3799	4152	4433
as a % of revenue	13.7%	13.0%	12.2%
Admin and Other Cost	1407	1548	1703
as a % of revenue	5.1%	4.9%	4.7%
EBITDA	7292	9088	10916
EBITDA Margin (%)	26.2%	28.5%	30.1%
% change y-o-y	36.4%	24.6%	20.1%

Source: PhillipCapital India Research

To generate Rs 10bn+ OCF in FY17 to sustain subscriber addition momentum and repay existing debt: Driven by improving operating margins and cash flow generation from WC changes we expect the company to generate Rs8.6/10.5bn of OCF in FY16/FY17. With STB cost expected to remain stable, the company can easily add ~3.5-4mn subscriber per year without raising incremental debt. We expect the company to add 2.5mn subscriber in FY16/FY17, hence the company has flexibility to pare some of its debt.

Break-up of estimated Operating cash flow

(in Rs mn)	FY16E	FY17E	FY18E
PBDT	1,411	3,383	6,973
D&A	6,434	6,459	6,580
Other adjustments	-	-	-
Op CF ex WCAP changes	7,844	9,842	13,554
WCAP changes	835	944	1,044
Change in sundry debtors	-70	-77	-79
Change in inventories	-11	-12	-13
Change in loans & advances	-509	-561	-580
Change in provisions	637	726	818
Change in current liabilities	788	868	898
Direct taxes paid	-71	-338	-1,046
Cash flow from operations	8,608	10,447	13,552
No of gross adds (in mn)	2.5	2.2	2.2
Purchase of fixed assets	-7,475	-7,067	-6,705
FCFF	**1,133**	**3,381**	**6,846**

Source: PhillipCapital India Research

Improving operating performance key to re-rating: Maintain BUY with March'16 PT of Rs 102: We expect DishTV to continue displaying improved operating performance on account of higher subscriber addition and return of pricing power. We value the company on a DCF basis using a WACC of 13.6% and terminal growth rate of 5% and arrive at March'16 PT of Rs 102, implying an upside of 22% from the current level. At our target price the stock will trade at 13.0x/10.5x FY16/17E EV/EBITDA.

Below we outline the derivation of our DCF valuation

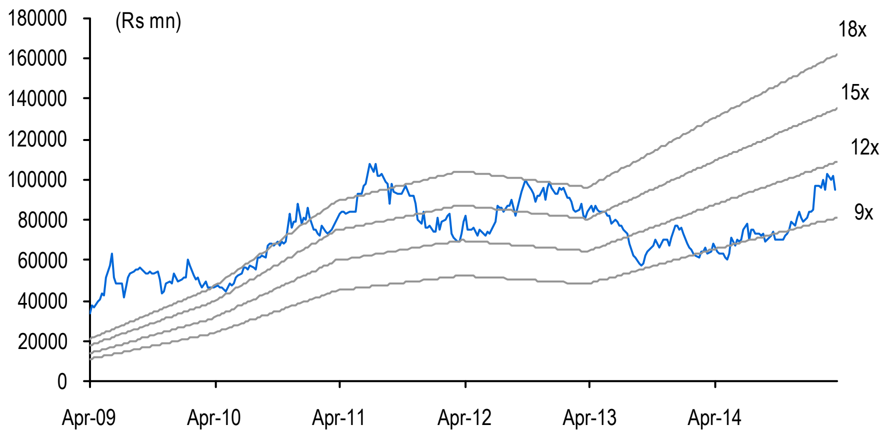
Rs mn	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
EBIT	2,654	4,456	7,225	9,606	11,907	14,207	16,564	19,013
Tax	(133)	(446)	(1,084)	(1,921)	(2,977)	(3,552)	(4,141)	(4,753)
D&A	6,434	6,459	6,580	6,801	7,021	7,158	7,371	7,629
Wcap changes	835	944	1,044	1,044	991	1,368	1,500	1,639
Capex	(7,475)	(7,067)	(6,705)	(7,098)	(7,281)	(7,538)	(7,799)	(8,064)
FCFF	2,314	4,347	7,060	8,432	9,660	11,643	13,495	15,463
Disc Factor	1.0	1.1	1.3	1.5	1.7	1.9	2.2	2.4
PV of FCF	2,314	3,825	5,466	5,744	5,791	6,142	6,264	6,315

WACC calculation	
Risk free rate	7.8%
Risk premium	6.0%
Beta	1.2
Cost of equity	15.0%
Post tax Cost of debt	11.0%
D/E ratio	0.33
WACC	**13.6%**
Terminal growth rate	**5.0%**

Valuation date	3-31-16
PV of CF	41,862
FCFF in terminal year	15,463
TV of CF	76,693
Implied exit FCFF multiple (x)	12.1
FCFF	1,18,555
Implied exit EV/EBITDA(x)	7.0
Net debt	9,687
FCFE	1,08,868
O/s shares	1,065
Value per share (Mar-15)	102
Upside/downside	22%

Source: PhillipCapital India Research

1yr forward EV/EBITDA band chart



Source: PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	**24,096**	**27,786**	**31,839**	**36,300**
Growth, %	11	15	15	14
Total income	24,096	27,786	31,839	36,300
Raw material expenses	-75	0	0	0
Employee expenses	-79	-83	-87	-91
Other Operating expenses	-18,597	-20,412	-22,664	-25,293
EBITDA (Core)	**5,346**	**7,292**	**9,088**	**10,916**
Growth, %	(7.7)	36.4	24.6	20.1
Margin, %	22.2	26.2	28.5	30.1
Depreciation	-5,974	-6,244	-6,434	-6,459
EBIT	**-628**	**1,048**	**2,654**	**4,456**
Growth, %	30.3	(266.9)	153.3	67.9
Margin, %	(2.6)	3.8	8.3	12.3
Interest paid	-1,328	-1,729	-1,623	-1,453
Other Non-Operating Income	379	379	379	379
Pre-tax profit	**-1,576**	**-302**	**1,411**	**3,383**
Tax provided	-1	0	-71	-338
Profit after tax	**-1,576**	**-302**	**1,340**	**3,045**
Net Profit	**-1,576**	**-302**	**1,340**	**3,045**
Growth, %	138.8	(80.9)	(544.3)	127.2
Net Profit (adjusted)	**(1,576)**	**(302)**	**1,340**	**3,045**
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	4,585	2,718	484
Marketable securities at cost	500	0	0	0
Debtors	415	478	548	625
Inventory	75	76	87	99
Loans & advances	3,029	3,493	4,002	4,563
Other current assets	6	0	0	0
Total current assets	7,451	8,633	7,356	5,772
Gross fixed assets	40,989	44,149	43,762	44,710
Less: Depreciation	-27,418	-29,584	-28,578	-29,383
Add: Capital WIP	4,226	4,226	4,648	5,113
Net fixed assets	17,797	18,791	19,832	20,440
Total assets	**27,702**	**29,878**	**29,643**	**28,667**
Current liabilities	15,673	16,840	18,265	19,858
Total current liabilities	15,673	16,840	18,265	19,858
Non-current liabilities	15,155	16,466	13,466	7,851
Total liabilities	30,828	33,305	31,731	27,710
Reserves & surplus	-3,126	-3,428	-2,088	957
Shareholders' equity	-3,126	-3,428	-2,088	957
Total equity & liabilities	**27,702**	**29,878**	**29,643**	**28,667**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	-1,576	-302	1,411	3,383
Depreciation	5,974	6,244	6,434	6,459
Chg in working capital	-1,629	1,955	-165	-4,671
Total tax paid & others	-1,712	0	-71	-338
Cash flow from operating activities	**1,058**	**7,897**	**7,608**	**4,833**
Capital expenditure	-2,895	-7,238	-7,475	-7,067
Chg in marketable securities	2,282	500	0	0
Cash flow from investing activities	**-613**	**-6,738**	**-7,475**	**-7,067**
Free cash flow	444	1,159	133	-2,234
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-669	0	-2,000	0
Cash flow from financing activities	**-669**	**0**	**-2,000**	**0**
Net chg in cash	-225	1,159	-1,867	-2,234

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	(1.5)	(0.3)	1.3	2.9
Growth, %	138.8	(80.9)	(544.3)	127.2
Book NAV/share (INR)	(2.9)	(3.2)	(2.0)	0.9
CEPS (INR)	4.1	5.6	7.3	8.9
CFPS (INR)	(1.1)	6.5	6.2	13.1
Return ratios				
Return on assets (%)	(2.5)	2.8	8.0	13.6
Return on equity (%)	50.4	8.8	(64.2)	318.1
Return on capital employed (%)	(5.1)	6.4	19.5	39.2
Turnover ratios				
Asset turnover (x)	3.8	4.4	4.5	6.2
Sales/Total assets (x)	0.8	1.0	1.1	1.2
Sales/Net FA (x)	1.2	1.5	1.6	1.8
Working capital/Sales (x)	(0.5)	(0.5)	(0.4)	(0.4)
Working capital days	(184.0)	(168.0)	(156.2)	(146.5)
Liquidity ratios				
Current ratio (x)	0.5	0.5	0.4	0.3
Quick ratio (x)	0.5	0.5	0.4	0.3
Interest cover (x)	(0.5)	0.6	1.6	3.1
Total debt/Equity (%)	(513.5)	(484.5)	(730.3)	605.1
Net debt/Equity (%)	(403.9)	(350.8)	(600.1)	554.5
Valuation				
PER (x)	(56.8)	(296.6)	66.8	29.4
Price/Book (x)	(28.6)	(26.1)	(42.8)	93.5
EV/Net sales (x)	4.2	3.7	3.2	2.6
EV/EBITDA (x)	19.0	13.9	11.2	8.7
EV/EBIT (x)	(161.8)	96.9	38.4	21.3

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