Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

Dish TV India Ltd.

EQUITY REPORT

June 28, 2013

BSE Code:	532839	NSE Code:	DISHTV	Reuters Code:	DSTV.NS	Bloomberg Code:	DITV:IN

Dish TV India Ltd is in the business of providing direct to home (DTH) services primarily in India. The DTH services are rendered to the customer through Consumer Premise Equipment (CPE), used for receiving and broadcasting DTH signals to the subscriber. Dish TV provides more than 250 TV channels and services. The company has a network of over 60,000 retail outlets. It is well positioned to benefit from the ongoing digitization further boosted by government regulations to phase out analogue broadcasting. As of March 2013, it enjoys 30% subscriber share in the 6-player DTH market.

Investor's Rationale

- Dish TV witnessed a rise in revenue by 5.8% YoY to ₹5,554 mn for the fourth quarter ended March 2013, sequentially up by 0.4%. EBITDA for the quarter stood at ₹1,200 mn, up 16.8% YoY and down 12.8% QoQ. EBIDTA margins came lower at 21.6% in Q4FY'13 compared with 24.7%, a quarter earlier. However, the management indicated that dip in margin was due to pending content agreement, which was settled during the quarter. Excluding the same, the EBIDTA would have been higher by ₹400-500 mn. Meanwhile, its losses contracted 2.8% sequentially to ₹438 mn Q4FY'13.

- Dish TV has hiked the monthly subscription packages by 10% from April and this is likely to boost the ARPU of the company as well as have a positive impact on cash flows, going forward. The basic pack price was hiked to ₹220 from ₹200 earlier, while that on its super gold, super world and super platinum packs was increased to ₹280, ₹320 and ₹400, respectively. With input costs and cost of content going up and service taxes rising, the price hike is a step in the right direction. The rising popularity of HD channels also augurs well for Dish TV. The company expects an addition of 2.5 mn HD households in India this year, giving it a huge opportunity to tap this market.

- Dish TV is continuously taking steps to lower its interest cost burden. The company had reduced its interest cost by almost 30-35% in FY'13. Further, it targets to repay the loan out of its internal accrual and the cash in hand.

- Dish TV is well positioned to benefit from the government's digitization drive. The first two phases of digitisation roll-out included four metro cities while the third phase, the deadline for which is 30th September next year, will cover all other urban areas. Dish TV hold an advantage in urban areas since they already have an infrastructure in place. The fourth and the final phase will cover mostly rural India, and the deadline for it is 31st December 2014.

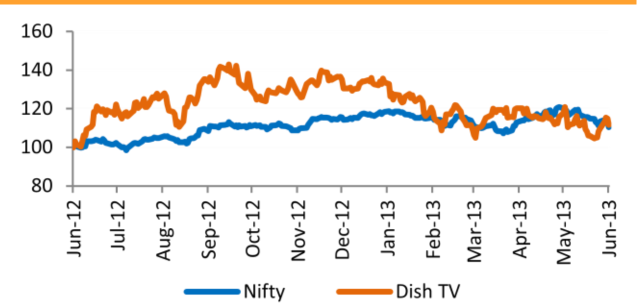
Market Data

Rating	**BUY**
CMP (₹)	61.0
Target (₹)	**70.0**
Potential Upside	~15.0%
Duration	Long Term
Face Value (₹)	1
52 week H/L (₹)	84.9/56.7
Adj. all time High (₹)	130.6
Decline from 52WH (%)	(28.1)
Rise from 52WL (%)	7.6
Beta	0.8
Mkt. Cap (₹ bn)	64.9
Enterprise Value (₹ bn)	71.3

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹ bn)	19.6	21.7	24.5	28.4
EBITDA (₹ bn)	5.0	5.8	6.9	8.6
Net Profit (₹ bn)	(1.3)	(0.7)	(0.9)	(0.04)
Adj EPS (₹)	(1.3)	(1.2)	(0.8)	(0.0)
P/E (x)	-	-	-	-
P/BV (x)	(69.1)	(41.7)	(26.9)	(26.4)
EV/EBITDA (x)	14.7	12.3	10.5	8.5
ROCE (%)	5.7	0.3	5.2	16.0
ROE (%)	141.8	80.6	35.6	1.9

One year Price Chart



Shareholding Pattern	Mar'13	Dec'12	Diff.
Promoters	63.55	63.55	-
FII	13.30	13.30	-
DII	4.41	4.56	(0.15)
Others	18.74	18.59	0.15

India's 1st DTH Service provider

Dish TV uses the unique NSS-6 satellite platform due to its automated power control and contoured beam which makes it fit for use in ITU K and N rain zones perfectly suited for India's tropical climate.

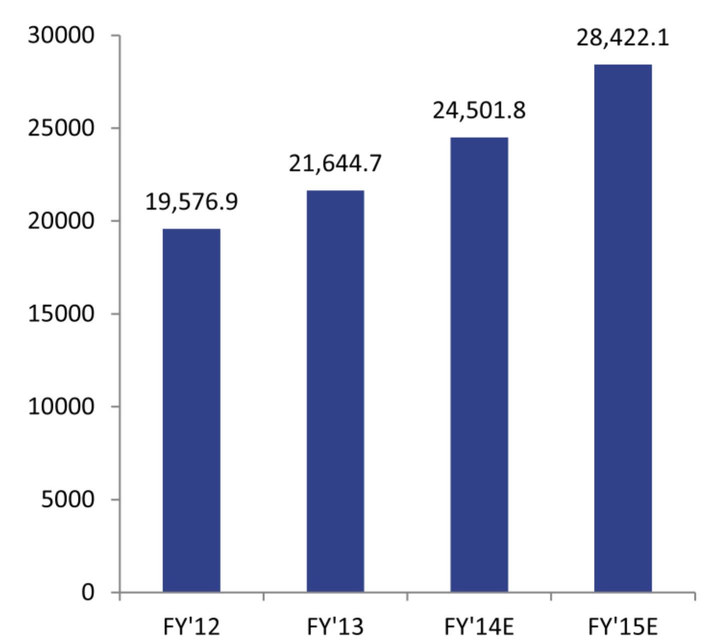
Dish TV India Ltd, (DISHTV), an Indian direct-to-home (DTH) Service provider, was founded in 2004 by Essel Group. It is a division of Zee Network Enterprise. The company uses the unique NSS-6 satellite platform due to its automated power control and contoured beam which makes it fit for use in ITU K and N rain zones perfectly suited for India's tropical climate. Dish TV is India's first DTH entertainment service that has digitalized Indian entertainment to bring to home the best in television viewing through the latest in digital technology. It has taken television viewing to the next level as it supports various futuristic features like Electronic Programme Guide, Parental Lock, Capacity up to 400 channels, Games, Interactive TV, Movie on Demand etc. It is well positioned to benefit from the ongoing digitization further boosted by government regulations to phase out analogue broadcasting. As of March 2013, it enjoys 30% subscriber share in the 6-player DTH market.

The company offers the highest number of 25 HD channels and 17 HD services on its platform

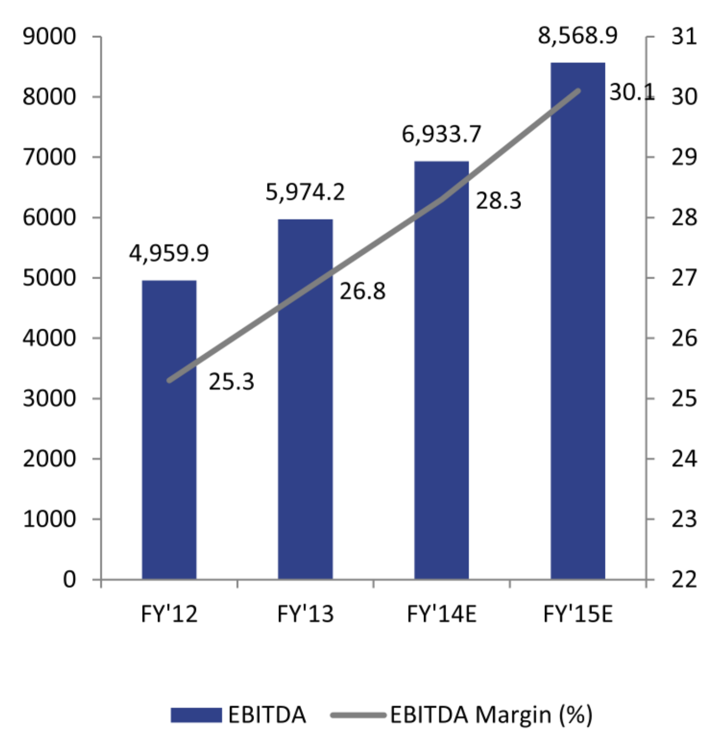
Dish TV has added 5 new HD channels with effect from April, 2013. With this addition, it now offers the highest number of 25 HD channels and 17 HD services on its platform

In FY'13, Dish TV's revenue grew 10.7% YoY to ₹21.7 bn. EBITDA went up 16.2% YoY to ₹6.3 bn with margins expanded by 128bps YoY to 26.7%. Further, net loss halved to ₹660 mn as against ₹1,587 mn in FY'12. During the year, content cost as percentage of revenue also came down to 30.1% compared to 31.1% in FY'12. The company enjoys a leadership position in the DTH market with around 30% subscriber share (had 10.7 mn active subscribers as of March 2013).

Net Sales Trend (in ₹mn)



EBITDA Trend (in ₹mn)



Dish TV hold an advantage in urban areas since they already have an infrastructure in place, while the strong reach of DTH companies in rural areas vis-à-vis cable operators offers huge opportunities for companies.

Well Positioned to benefit from digitisation

The DTH segment has grown 7-8 times ever since the digitisation process has started in the country. The first two phases of digitalization roll-out included four metros including Delhi, Mumbai, Kolkata and Chennai, and 38 cities having population over 1 mn. The third phase, the deadline for which is 30th September 2014, will cover all other urban areas. Dish TV hold an advantage in urban areas since they already have an infrastructure in place. The fourth and the final phase will cover mostly rural India, and the deadline for it is 31st December 2014. The strong reach of DTH companies in rural areas vis-à-vis cable operators offers huge opportunities for companies. The rising popularity of HD channels also augurs well for Dish TV. The company expects an addition of 2.5 mn HD households in India this year, giving Dish TV a huge opportunity to tap this market.

Government's digitization drive set to help Dish TV

Sunset Dates	Coverage	Status	Key Considerations
Phase I Deadline : 31st October 2012	4 Metro : Delhi, Mumbai, Kolkata and Chennai	• 2 out of 4 done • Chennai & Kolkata – Lack of ruling government support • Dish TV continues to get subscribers from phase I cities at ~ double the run rate before digitization.	• Provided DTH players a level playing field with cable operators. • Win back opportunity.
Phase II Deadline : 31st March 2013	38 cities with more than 1 mn population	• Behind schedule • MSOs readiness on encryption packaging and dunning taking undue time.	Customers expected to gradually align to service oriented platform, DTH.
Phase III Deadline : 30th September 2014	All other urban areas (municipal Corp./ municipalities)	• Substantial on-ground activity expected only around sunset date. • Regular conversion on-going.	Key target market with significant upside potential for DTH operators.
Phase IV Deadline : 31st December 2014	Rest of India (mostly rural areas)	• Substantial on-ground activity expected only around sunset date. • Regular conversion on-going.	Strong reach for DTH operators vis-à-vis cable operators.

As customers move from hitherto analog mode of viewing television to the digital way, owing to both regulatory push and improving lifestyles, the company gets a big market to play in.

Regulatory push and improved lifestyles to augment growth in DTH space

Given the strong positioning in the DTH space of Dish TV, the largest DTH player domestically, it would be able to add subscribers at a remarkable pace and improve its revenues generated on a per user basis. As customers move from hitherto analog mode of viewing television to the digital way, owing to both regulatory push and improving lifestyles, the company gets a big market to play in. Strong brand value of the company in Phase-III & IV areas would encourage strong additions.

Quarterly Update

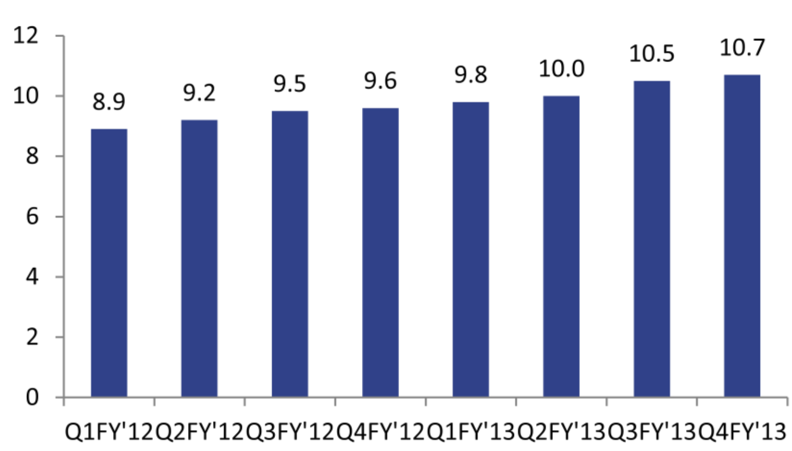
Top-line grew 5.8% YoY and 0.4% QoQ to ₹5,554 mn in Q4FY'13, while its losses contracted 2.8% sequentially to ₹438 mn in Q4FY'13.

Net loss contracted 2.8% QoQ in Q4FY'13 - During Q4FY'13, Dish TV's revenue grew 5.8% YoY and 0.4% QoQ to ₹5,554 mn. Others segment contributed nearly 10.0% of the overall revenue to ₹553 mn. EBITDA for the quarter stood at ₹1,200 mn, up 16.8% YoY and down 12.8% QoQ. EBIDTA margins came lower at 21.6% in Q4FY'13 compared with 24.7%, a quarter earlier. However, the management indicated that dip in margin was due to pending content agreement, which was settled during the quarter. Excluding the same, the EBIDTA would have been higher by ₹400-500 mn. Meanwhile, its losses contracted 2.8% sequentially to ₹438 mn in Q4FY'13.

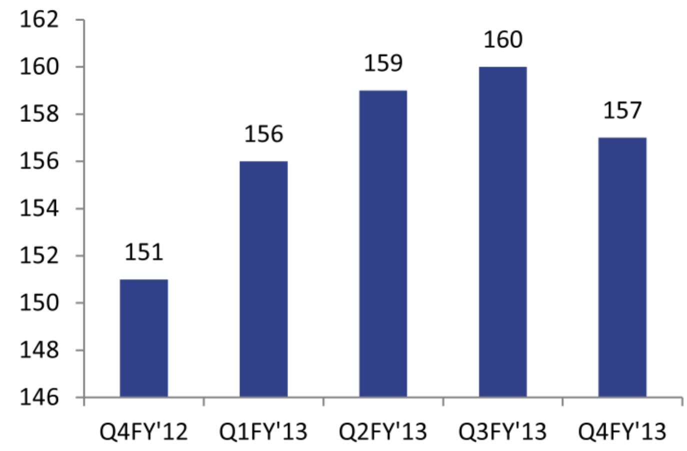
The company posted gross subscriber addition of 0.57 mn in Q4FY'13 as compared to 0.80 mn in Q3FY'13 and 0.40 mn in Q4FY'12.

Added 0.57 mn subscribers in Q4FY'13 - Dish TV reported gross subscriber addition of 0.57 mn in Q4FY'13 as compared to 0.80 mn in Q3FY'13 and 0.40 mn in Q4FY'12. The last quarter gross addition includes effect of government mandated digitalization program. Monthly churn rate was at 0.8% per month for Q4FY'13 (~0.25 mn subscribers churned during the quarter), down from 1% in the previous quarter. The industry added nearly 2.0 mn subscriber during the quarter which illustrates that the company's market share stood over 25% of total gross addition. With 325 linear channels and 42 HD channels, Dish TV has the highest number of channels offered by any other player in the industry, giving it a competitive edge over its customers. In April 2013, the company added 5 HD channels.

Growing Subscriber base (in mn)



Trend in ARPU (₹)



The subscription revenue contributed nearly 90% of overall revenue and grew by 15.3% YoY and 1.2% QoQ to ₹5,001 mn.

Striving to achieve Average Revenue Per User (ARPU) of ₹175 - ARPU stood at ₹157 during Q4FY'13 vs ₹160 in Q3FY'13. This was mainly due to 90 day period in Q4FY'13 as compared to 92 days in Q3FY'13. However, it would have been ₹160. The subscription revenue contributed nearly 90% of overall revenue and grew by 15.3% YoY and 1.2% QoQ to ₹5,001 mn. The increase in subscription revenue was led by launch of few new technologies & contents, favourable pack mix and some traction in HD services. The recent 10% pack price hike will boost ARPU in the coming quarters. The company is targeting an ARPU of ₹175 this fiscal. Higher ARPUs tends to translate into higher profitability.

Subscriber Acquisition Costs (SAC) declined due to higher entry level prices - The company reported lower SAC during Q4FY'13 at ₹1,996 (v/s ₹2,201 in Q3FY'13 and ₹2,273 in Q2FY'13) due to higher entry level prices. It launched a 'lifetime free' scheme which will enable to watch 70 free channels for 5 years for a recharge of ₹200 every 6 months. As percentage of revenue, SAC stood at 36% as against 39.5% in Q3FY'13 and 42.6% Q2FY'13. The company's distribution commissions and selling and distribution expenses also went down by 20%/15% QoQ to ₹383/₹358mn, respectively. As a result, commission as percentage of revenue went down to 7% v/s 9% in Q3FY'13.

Tariff Price hike augurs well for the company

The price hike would result in improved cash flows, better realization for incremental subscriber additions and offset the negative impact of a hike in import duty on the STB (revised to 10% from 5% in the budget).

Cashing in on the digitisation drive, DTH operators such as Dish TV have quietly hiked their base pan-India tariff. The increase, which is across all packs and regions, including south India - a price-sensitive market - was done soon after the second phase of digitisation started on March 31, 2013. The move was in response to deterioration in bottom-line as it has not hiked tariffs since the last two years. It was not possible for the company to sustain the high operating cost involved in DTH services and was forced to pass on some part of the service tax component to subscribers. This move would result in improved cash flows, better realization for incremental subscriber additions and offset the negative impact of a hike in import duty on the STB (revised to 10% from 5% in the budget). Following the two price hikes in February 2013, the price of an SD STB for a new customer of Dish TV has increased to ₹1,999, while the same on a HD STB has moved up by ₹209 to ₹3,099, improving the earnings outlook for the company. However, price increases might impact routine subscriber addition in the near term.

Besides, the hike in monthly subscription packages by 10% from April 2013 is likely to boost the ARPU of the company as well as have a positive impact on cash flows, going forward. The basic pack price was hiked to ₹220 from ₹200 earlier, while that on its super gold, super world and super platinum packs was increased to ₹280, ₹320 and ₹400, respectively. With input costs and cost of content going up and service taxes rising, the price hike is a step in the right direction. The rising popularity of HD channels also augurs well for Dish TV. The company expects an addition of 2.5 mn HD households in India this year, giving it a huge opportunity to tap this market.

Surge in STB prices across the industry

	Cost of new connection (in ₹)		Additional benefit	
Operator	**Previous**	**Revised**	**Previous**	**Revised**
Tata Sky	1,690	1,999	1 month free subscription	No free subscription
Airtel Digital	1,690	2,199	1 month free subscription	1 month free subscription
Dish TV	1,640	1,999	1 month free subscription	No free subscription
Videocon D2H	1,690	1,990	1 month free subscription	No free subscription

Rural India accounts for 45 to 50% of DIL's domestic sales and is a very strong driver for growth for the company.

New launches to drive growth

Dish TV recently launched India's first Standard Definition Recorder, 'Dish+', with unlimited recording facility. 'Dish+' comes equipped with a USB slot and is positioned at a competitive price compared to non-recorder ready boxes. 'Dish+' was initially launched in the 42 cities covered under Phase I and Phase II of digitization and is now available across India as a value for money differentiator over other boxes in the market. In a first within the television distribution industry, Dish TV has launched recharge option through Interbank Mobile Payment Service (IMPS) through which the subscriber can recharge his Dish TV account securely and conveniently through an instant, interbank electronic fund transfer service that can be initiated only through mobile phones.

Growth Trajectory since listing

	2008	2013
Company Profile	First Indian DTH player	Asia's largest DTH provider
Net Customer base	<3.0 mn	10.7 mn
Total Revenues	₹4,162 mn	₹21,668 mn
EBITDA (%margin)	(₹2,095 mn)	₹5,795 mn (26.7%)
Market Capitalization	~₹21.1 bn	₹65 bn

**2013 market Capitalization as on June 28, 2013*

Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	1,064	1,065	1,065	1,065
Reserve and surplus	(2,002)	(2,621)	(3,481)	(3,527)
Net Worth	(939)	(1,556)	(2,417)	(2,463)
Loan	10,194	8,460	8,291	8,042
Other liabilities	1,798	1,504	1,444	1,401
Long Term Provisions	105	127	127	127
Current liabilities	15,181	23,012	22,553	22,147
Capital Employed	**26,340**	**31,548**	**29,999**	**29,255**
Fixed assets	18,088	20,875	21,084	21,189
Other assets	1,918	743	814	903
Current assets	6,335	9,929	8,101	7,162
Capital Deployed	**26,340**	**31,548**	**29,999**	**29,255**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Total Income	**19,579**	**21,668**	**24,522**	**28,443**
Expenses	14,619	15,874	17,588	19,875
EBITDA	**4,960**	**5,794**	**6,934**	**8,569**
EBITDA Margin %	*25.3*	*26.8*	*28.3*	*30.1*
Other Income	900	511	511	511
Depreciation	5,219	6,276	7,060	7,943
EBIT	**641**	**30**	**385**	**1,137**
Interest	1,973	1,284	1,246	1,183
Profit Before Tax	**(1,331)**	**(1,254)**	**(861)**	**(46)**
Exceptional	0	(594)	0	0
Tax	0	0	0	0
Reported Net Profit	**(1,331)**	**(660)**	**(861)**	**(46)**
Adj. Net Profit	**(1,331)**	**(1,254)**	**(861)**	**(46)**
NPM %	*(6.8)*	*(5.8)*	*(3.5)*	*(0.2)*

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	25.3	26.8	28.3	30.1
EBIT Margin (%)	3.3	0.1	1.6	4.0
NPM (%)	(6.8)	(3.0)	(3.5)	(0.2)
ROCE (%)	5.7	0.3	5.2	16.0
ROE (%)	141.8	80.6	35.6	1.9
Adj EPS (₹)	(1.3)	(1.2)	(0.8)	(0.0)
P/E (x)	-	-	-	-
BVPS (₹)	(0.9)	(1.5)	(2.3)	(2.3)
P/BVPS (x)	(69.1)	(41.7)	(26.9)	(26.4)
EV/Operating Income (x)	12.5	11.3	9.8	8.0
EV/EBITDA (x)	14.7	12.3	10.5	8.5
EV/EBIT (x)	113.9	2,391.7	188.9	64.1

Valuation and view

Dish TV will benefit during the digitization process owing to its huge brand, innovation and scale. Impact of digitization to be visible in phase III & IV with robust growth in subscriber addition as it has sufficient digital cable infrastructure to ensure smooth service delivery. Healthy growth in ARPU (owing to surge in prices of STB's and packages) and increase in net subscriber base due to reduced churn will boost revenues. Meanwhile, lower interest cost burden in next few years would improve the profitability.

We rate the stock as 'BUY' at the current market price of ₹61, given the long term growth visibility. At current price, the stock is trading at 10.5x and 8.5x EV/EBITDA to its FY14E and FY15E earnings, respectively.

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