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Dish TV India Ltd.

CMP – Rs. 50.35

BSE Code –532839

NSE Symbol - DISHTV

Dish TV India Ltd. (Dish TV) is a part of Zee Group and is the pioneer & largest DTH Operator, not only in India but the entire Asia- Pacific. The company is the only pure-play listed DTH Operator in India. The company is the leader in DTH Service offering with 400+ channels & services. The company has a Pan India distribution network with over 1.5 lakh dealers in more than 8500 towns & cities and has over 300 Sales personnel & 14 regional offices.

Business – Explained in Layman’s Language

Let me try and explain in layman’s language or simple terms what the company does.

When a customer wants a DTH Cable Connection, he would buy a Set Top Box which enables him to receive various TV Channels. The customer would pay a monthly subscription to the DTH operator to enable him to view various channels on his TV.

The company gets revenues majorly out Subscription Revenues which constitute roughly 90% of the revenues of the company. The other sources of revenue include Lease Rentals, Bandwidth Charges & Advertising Income – which together form roughly 10% of the Total revenues.

The major Cost heads for the company include – Programming Costs, Licence Fee & Transponder Lease . Programming Cost is the money the company pays to various Channels for rights to beam/ transmit the channels to its subscribers. Licence Fee is paid to the Regulatory Authority & Transponder Lease is the Lease Rental paid by the company to the company which owns Satellite for using the bandwidth for beaming various channels.

The fundamental difference between DTH & Cable business is –

- a) In the case of Cable business, the subscription revenue is shared by the Multi System Operators (MSO’s) (the likes of Den Network, Hathaway Cables etc.) with Local Cable Operator (LCO) who provide last mile connectivity to your home and
- b) The subscription charges are mostly collected by the LCO and then passed on to the company. That’s the reason most cable companies carry high receivables compared to DTH Operators. The MSOs though save on the Transponder Costs.

Financials

The latest financials of the company are given as under :-

QUARTERLY - LATEST RESULTS - Dish TV India Ltd (Curr: Rs in Cr.) As on 19-01-2014

Particulars	Quarter Ended (Sep 13)	Quarter Ended (Sep 12)	Quarter Ended (% Var)	YTD / Latest Half (Sep 13)	YTD / Latest Half (Sep 12)	YTD / Latest Half (% Var)	Year Ended (Mar 13) (12)	Year Ended (Mar 12) (12)	Year Ended (%Var)
Sales	589.68	533.27	10.6	1166.17	1053.22	10.7	2164.47	1957.58	10.6
Other Income	21.05	84.46	-75.1	48.78	78.03	-37.5	110.64	57.87	91.2
Other Operating Inc.									
PBIDT	168.94	240.14	-29.6	318.39	399.25	-20.3	690.16	556.23	24.1
Interest	34.5	31.72	8.8	69.94	65.22	7.2	128.36	197.08	-34.9
PBDT	134.44	208.42	-35.5	248.45	334.03	-25.6	561.8	359.15	56.4
Depreciation	150.44	153.33	-1.9	294.82	311.26	-5.3	627.55	518	21.1
PBT	-16	55.09	PL	-46.37	22.77	0	-65.75	-158.85	58.6
Tax	0	0	-	0	0	0	0	0	-
Deferred Tax	0	0	-	0	0	0	0	0	-
PAT	-16	55.09	PL	-46.37	22.77	0	-65.75	-158.85	58.6

SHARE PRICE - LATEST EQUITY - Dish TV India Ltd (Curr: Rs in Cr.) As on 19-01-2014

Latest Data

Latest Equity(Subscribed)	106.5	
Latest Reserve	-261.77	
Latest Reserve (cons.)	-262.06	
Latest EPS -Unit Curr.	0	
Latest Bookvalue -Unit Curr.	-1.46	
Face Value	1	
Book Value (with YTD NP) - Unit Curr.	-1.89	
Stock Exchange	BSE	NSE
Latest Market Price--Unit Curr.	50.35	50.5
Latest P/E Ratio	0	0
Latest P/BV	-34.49	-34.59
52 Week High -Unit Curr.	80	79.95
52 Week High-Date	18/01/2013	18/01/2013
All Time High -Unit Curr.	144.06	144.06
All Time High-Date	30/05/2007	30/05/2007
52 Week Low -Unit Curr.	39.75	39.5
52 Week Low-Date	04/09/2013	04/09/2013
All Time Low -Unit Curr.	11.75	11.9
All Time Low-Date	27/10/2008	27/10/2008
Market Capitalisation	5362.28	5378.25
Dividend Yield -%	0	0
Price Date	17/01/2014	17/01/2014

(Source : Capitaline)

Digitisation – The Game Changer

In December 2011, the Indian government passed 'The Cable Television Networks (Regulation) Amendment Act' for digitisation of cable television networks by 2014. The cable operators under the digitisation regime are legally bound to transmit only digital signals, while the customer can access the subscribed channels through a set-top box. This led to a significant change in the way business is done.

The underreporting of subscribers which was rampant earlier stopped since each Television required a Set Top Box to receive various channels. This has brought in transparency and has increased subscription revenues for Multi System Operators (MSOs), DTH Operators and broadcasters. Developments and refinements in viewership measurement systems may affect the way advertising is distributed among channels.

CONCLUSION & INVESTMENT RATIONALE

Dish TV is the pioneer and the leading DTH operator now just in India but the entire Asia Pacific. The company has the highest market share in India amongst DTH Operators. The company currently commands a market share of roughly 27% of the DTH Market, with Tata Sky & Airtel Digital TV occupying the second and third place with market shares of 20% & 19% respectively.

Challenges

In a world where technology obsolescence is fast, the company will have to look around for opportunities to grow and at the same time thinking ahead of the time to survive & grow. This would mean that the company will have to work on technologies for delivering channels not just on TV but also on smartphones & tablets.

Economic Moat/ Entry Barriers

The major entry barrier to the DTH business is the cost of customer acquisition. Players like Dish TV have bled in their initial years mainly on account of the subsidy provided by these companies on Set Top Boxes in an effort to acquire customers. This would mean taking a loss on each Set Top Box sold. However, having achieved a significant customer base, the company can now focus towards Profitable Growth in

the future through reduced subsidy on Set Top Box to generate free cash flow & expedite break even. For the customers too, porting from one DTH operator to another may not be as simple as porting operators for Mobile phones since it has got a cost attached to it.

Potential for Subscriber Addition & Increase in ARPU

The company currently has a subscriber base of 11 million and an ARPU of roughly Rs.160. We believe that given the Round 3 & 4 of Digitisation (where over 50 mn subscribers will go from analog to digital) which is expected in next 2-3 years, the company could increase the subscriber base from 11 million to over 15 million conservatively over the next 3 years. Also with the new initiatives, introduction of more number of HD Channels & launch of new channels, we expect a potential for increase in ARPU. Moreover, for a 24X7 medium of family entertainment, we believe the current ARPU of Rs.160 have not really kept pace with other forms of entertainment & believe there is potential for ARPU to rise.

The company which till last year was focussed on customer acquisition & after having achieved a sizeable customer base over the last few years, is now more focussed towards creating value for stakeholders through profitable growth. Infact, over the last few years, a sense of discipline amongst DTH players has been observed which has led to reduced subsidy on Set Top Boxes. We believe the trend is likely to continue. We believe that DTH companies may also increase package prices & also negotiate with the broadcasters to rationalise costs. Infact, Dish TV being a significant player in the industry has already done Fixed Fee deal with most broadcasters for one to three years period. The company has undertaken new initiatives which include Online Streaming of content to Mobile Devices & Laptops, which will open up new streams of revenue for the company.

Dish TV has started generating Free Cash Flows from FY13 onwards. We believe free cash flows will increase going forward & the company shall be able to become debt free in the next 3 years. Also, the negative working capital cycle (Customers pay upfront to subscribe to channels) in the DTH industry makes us bullish on the sector.

With the company having successfully negotiated the difficult times & having managed to increase its subscriber base significantly, good times seem to be coming soon for the company. With expected further addition to the subscriber base coupled with higher ARPUs in the future, we believe Dish TV is an excellent Annuity Business available at reasonable valuations.

Ashish Chugh is an equity analyst based at New Delhi, INDIA. At the time of writing this article, he, his firm or dependent family members have a position in the stock mentioned above. The author, his firm or any of his dependent family members may make purchases or sale of the securities mentioned in the report while the report is in circulation.

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