

INDUSTRY	MEDIA		
CMP (as on 22 Jan 2015)	Rs 74		
Target Price	Rs 92		
Nifty	8,761		
Sensex	29,006		
KEY STOCK DATA			
Bloomberg/Reuters	DITV IN/DSTV.BO		
No. of Shares (mn)	1,065		
MCap (Rs bn) / (\$ mn)	79 / 1,235		
6m avg traded value (Rs mn)	262		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 75/43		
	3M	6M	12M
Absolute (%)	31.0	26.0	47.3
Relative (%)	22.7	14.5	11.3
SHAREHOLDING PATTERN (%)			
Promoters	64.50		
FIs & Local MFs	3.48		
FIIIs	13.14		
Public & Others	18.88		
Source : BSE			

Beats estimates; outlook positive

Dish TV's (DITV) Q3FY15 results were ahead of estimates on account of higher than expected revenue growth as well as cost control. Management commentary on the business outlook is positive and we concur with the same. We see high visibility of growth in the near-term as well as medium-term. Subscriber adds will continue to remain robust due to (1) The 2015 cricket world cup, followed by (2) consistent gains in Phase-III/IV markets, and finally, (3) mandatory digitization of phases III/IV. We believe there is increased visibility on ARPU growth as well, on account of initiatives from MSOs (following reference interconnect offer – RIO, arrangements with a leading broadcaster, more such deals to follow) to raise customer rates by enforcing content packaging and billing. Dish TV has no significant renegotiations with broadcasters till September 2016, which lends visibility to margin expansion as well. Further to these, Dish TV stands to

gain from regulatory initiatives on GST/ reduction in license fees.

We assume coverage with a BUY rating and a DCF-based TP of Rs 92. Our target price implies an EV/EBITDA multiple of 12.3x and 9.7x in FY16 and FY17 respectively.

- **Results ahead of estimates** : Dish TV's 3QFY15 revenue at Rs 7.1bn (+14%YoY/6% QoQ) was ahead of estimates as ARPU as well as subscriber addition surprised positively. During the quarter, the company reaped benefits of package price increases that translated into an improvement in ARPU. Dish also gained ground in phase III/IV areas, leading to robust subscriber addition.
- EBITDA at Rs 1.91bn (+32%YoY/18%QoQ) also surpassed estimates as programming cost remained under control. EBITDA margin at 26.8% improved by 350bps YoY and 260bps QoQ on account of stable programming costs.

FINANCIAL SUMMARY

(Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)	FY14	FY15E	FY16E	FY17E
Net Sales	7,139	6,238	14.4	6,724	6.2	24,096	27,558	32,209	37,206
EBITDA	1,912	1,454	31.5	1,624	17.8	5,346	6,810	8,797	11,102
PAT	(29)	(284)	NM	(151)	NM	(1,576)	(413)	617	2,492
Diluted EPS (Rs)	(0.03)	(0.27)	NM	(0.27)	NM	(1.5)	(0.4)	0.6	2.3
EV / EBITDA (x)						16.6	13.1	10.1	7.9

Source: Company, HDFC sec Inst Research

Programming cost was flat YoY and up 3% QoQ. This resulted in gross margin expansion of 400bps YoY

QUARTERLY FINANCIALS SNAPSHOT

(Rs mn)	3QFY15	3QFY14	YoY (%)	2QFY15	QoQ (%)
Net Sales	7,139	6,238	14.4	6,724	6.2
Programming and Other Expenses	3,530	3,395	4.0	3,408	3.6
Employee Expenses	258	215	20.0	252	2.7
S&D Expenses	1,131	851	32.9	1,145	(1.3)
Administration Expenses	308	323	(4.7)	296	4.3
Total Operating Cost	5,227	4,784	9.3	5,100	2.5
EBITDA	1,912	1,454	31.5	1,624	17.8
Depreciation	1,616	1,534	5.3	1,519	6.4
EBIT	296	(80)		104	-158.6
Interest Cost	479	301		425	
Other Income	154	97		170	
Exceptional gain/(loss)	-	-		-	
PBT	(29)	(284)		(151)	
Tax	-	-		-	
APAT	(29)	(284)		(151)	

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

As % of Net Sales	3QFY15	3QFY14	YoY (bps)	2QFY15	QoQ (bps)
Programming and other expenses (%)	49.4	54.4	(497)	50.7	(124)
Employee Expenses (%)	3.6	3.4	17	3.7	(12)
S&D Expenses (%)	15.8	13.6	220	17.0	(120)
Administration Expenses (%)	4.3	5.2	(87)	4.4	(8)
Total Operating Cost (%)	73.2	76.7	(347)	75.9	(264)
EBITDA Margin (%)	26.8	23.3	347	24.1	264
Net Profit Margin (%)	(0.4)	(4.5)	414	(2.2)	184

Source: Company, HDFC sec Inst Research

Management has guided for sustenance/improvement in EBITDA margins

SEGMENT-WISE REVENUE BREAK-UP

(Rs mn)	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	YoY %	QoQ %
- Subscription, Activation and Rental	5,450	5,497	5,639	5,500	5,886	6,168	6,554	16.2	1.4
- Other Operating Income	1,024	511	599	869	521	556	585	(2.4)	-14.2
Total	6,474	6,009	6,238	6,369	6,407	6,724	7,139	14.4	0.6
EBITDA	1,838	1,554	1,454	1,289	1,571	1,624	1,912	31.5	21.8
Margin %	28.4	25.9	23.3	20.2	24.5	24.1	26.8	347 bps	264 bps

Source : Company, HDFC sec Inst Research

OPERATING PERFORMANCE ON KEY PARAMETERS

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	YoY %	QoQ %
End of period subscribers (in 000's)									
Gross Subscriber	15,510	15,810	16,160	16,400	16,943	17,570	18,255	13.0	11.3
Active Subscriber	10,900	11,064	11,284	11,400	11,700	12,078	12,494	10.7	9.6
Active Subscriber %	70.3	70.0	69.8	69.5	69.1	68.7	68.4		
Subscriber Additions (in 000's)									
Gross	350	300	350	240	543	628	685	95.7	185.4
Active	200	164	220	116	300	378	416	89.1	258.6
Churn	150	136	130	124	243	250	269	106.9	116.9
Churn/month (on active sub) (%)	0.5	0.4	0.4	0.4	0.7	0.7	0.7		
ARPU on Active Subs (in Rs)									
ARPU on total rev (incl. box rental)	200	182	183	187	185	189	194	6.0	3.5
Reported ARPU	165	165	166	163	170	172	177	6.6	8.6
Subscriber acquisition cost (Rs)	2,201	1,996	1,828	1,849	1,889	1,800	1,800	(1.5)	(2.7)

Source : Company, HDFC sec Inst Research

Subscriber growth trajectory has improved while churn has remained under control

KEY MODEL ASSUMPTIONS

	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Subscribers (in 000's)										
End of period										
Gross	10,436	12,900	15,160	16,400	19,050	21,750	24,550	26,150	27,650	29,050
Active	8,558	9,600	10,700	11,400	12,992	14,540	16,056	16,396	16,673	16,864
Active %	82.0	74.4	70.6	69.5	68.2	66.9	65.4	62.7	60.3	58.1
Additions										
Gross	3,536	2,464	2,260	1,240	2,650	2,700	2,800	1,600	1,500	1,400
Active	2,762	1,042	1,100	700	1,592	1,548	1,516	340	277	191
Churn	774	1,422	1,160	540	1,058	1,152	1,284	1,260	1,223	1,209
Churn % / month	0.90	1.30	0.95	0.41	0.72	0.70	0.70	0.65	0.62	0.60
Total ARPU/Active Sub	167	180	178	182	188	195	203	211	221	231
% chg YoY		7.7	(1.0)	2.1	3.6	3.5	3.9	4.1	4.6	4.7
Reported ARPU/Active Sub	142	153	158	164	174	182	191	200	210	220
% chg YoY		7.6	3.4	4.1	5.8	4.8	4.9	4.6	4.9	4.9
Revenue assumption										
Subscription, Activation and Rental	13,912	18,845	20,825	22,957	26,250	30,811	35,712	39,473	42,075	44,652
% chg YoY		35.5	10.5	10.2	14.3	17.4	15.9	10.5	6.6	6.1
Other Operating income	454	735	843	1,140	1,308	1,398	1,494	1,599	1,713	1,837
% chg YoY		61.7	14.8	35.1	14.8	6.8	6.9	7.0	7.1	7.2
Total revenue	14,367	19,579	21,668	24,096	27,558	32,209	37,206	41,072	43,788	46,489
% chg YoY		36.3	10.7	11.2	14.4	16.9	15.5	10.4	6.6	6.2
EBITDA	2,575	4,960	5,794	5,346	6,810	8,797	11,102	12,941	13,723	14,468
% chg YoY		92.6	16.8	(7.7)	27.4	29.2	26.2	16.6	6.0	5.4
EBIT	(1,421)	(259)	(482)	(628)	648	2,009	4,055	5,746	6,493	7,559
Margin (%)										
EBITDA	17.9	25.3	26.7	22.2	24.7	27.3	29.8	31.5	31.3	31.1
EBIT	(9.9)	(1.3)	(2.2)	(2.6)	2.4	6.2	10.9	14.0	14.8	16.3

Source: Company, HDFC sec Inst Research

DITV's EBITDA margin improvements will be driven by operating leverage as we model ~16% FY15-17 revenue CAGR and an EBITDA CAGR of 28% during the same period

VALUATION MATRIX

	FY16E	FY17E	FY18E	FY19E	FY20E
EBIT	2,009	4,055	5,746	6,493	7,559
Tax out-go	(689)	(1,391)	(1,971)	(2,227)	(2,593)
D&A	6,787	7,047	7,194	7,230	6,909
Capex	773	(260)	(388)	(21)	568
Wcap chg	(7,866)	(8,221)	(4,415)	(4,215)	(3,787)
FCFF	1,016	1,229	6,167	7,260	8,658
Disc Factor	1.00	1.12	1.40	1.57	1.76
PV of FCFF	1,016	1,098	4,917	5,169	5,504
Valuation date	1-Apr-16				
PV of FCFF	24,330				
TV of FCFF	82,678				
Enterprise Value	107,008				
Net debt	9,325				
Equity Value	97,683				
O/s shares	1,065				
Value per share	92				
Tax rate	0%	10.0%	15.0%	15.0%	18.0%
Capex/Gross add	2,600	2,600	2,600	2,600	2,600

Source: Company, HDFC sec Inst Research Note: WACC of 12% and terminal growth rate of 5%

SENSITIVITY ANALYSIS

Target price (Rs)	92	Monthly churn (%)				
		0.50	0.60	0.70	0.80	0.90
Discount rate	10.5%	134	127	119	112	105
	11.0%	122	115	108	101	94
	11.5%	113	107	100	94	87
	12.0%	104	98	92	86	80
	12.5%	97	91	85	79	73

Source: Company, HDFC sec Inst Research

STANDALONE INCOME STATEMENT

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	21,668	24,096	27,558	32,209	37,206
Growth (%)	10.7	11.2	14.4	16.9	15.5
Programming and other costs	6,525	7,784	8,136	9,351	10,570
License fee, entertainment tax & transponder lease	4,485	5,320	5,881	6,699	7,574
SG&A Expenses	3,036	3,321	4,451	4,848	5,199
Employee expenses	822	892	1,021	1,133	1,246
Other Operating Expenses	1,006	1,433	1,260	1,381	1,515
EBITDA	5,794	5,346	6,810	8,797	11,102
EBITDA (%)	26.7	22.2	24.7	27.3	29.8
EBITDA Growth (%)	16.8	(7.7)	27.4	29.2	26.2
Other Income	1,037	379	600	800	800
Depreciation	6,276	5,974	6,162	6,787	7,047
EBIT	555	-248	1,248	2,809	4,855
Interest	1,215	1,328	1,661	2,124	1,923
PBT	-660	-1,576	-413	685	2,932
Tax	0	1	0	69	440
APAT	-660	-1,576	-413	617	2,492
APAT Growth (%)	NM	NM	NM	NM	304.2
EPS	(0.6)	(1.5)	(0.4)	0.6	2.3
EPS Growth (%)	NM	NM	NM	NM	304.2

Source: Company, HDFC sec Inst Research

STANDALONE BALANCE SHEET

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
SOURCES OF FUNDS					
Share Capital - Equity	1,065	1,065	1,065	1,065	1,065
Reserves	(2,621)	(4,191)	(4,604)	(3,987)	(1,495)
Total Shareholders Funds	(1,556)	(3,126)	(3,539)	(2,922)	(430)
Long term (LT) debt	8,460	7,791	7,791	4,791	4,791
Short term debt & current portion of LT debt	7,870	6,304	7,615	6,615	5,500
Total Debt	16,330	14,095	15,406	11,406	10,291
Other liabilities and provisions	1,632	1,060	1,060	1,060	1,060
TOTAL SOURCES OF FUNDS	16,406	12,029	12,927	9,544	10,921
APPLICATION OF FUNDS					
Net Block	14,340	13,571	14,777	15,432	16,142
CWIP	6,535	4,226	4,226	4,648	5,113
Investments, LT Loans & Advances	743	2,454	2,454	2,454	2,454
Inventories	86	75	76	88	102
Debtors	304	415	378	441	510
Cash & Equivalents	6,427	3,926	4,711	1,023	966
ST Loans & Advances, Others	3,113	3,035	3,020	3,530	4,077
Total Current Assets	9,929	7,451	8,184	5,082	5,655
Creditors	8,595	7,312	7,803	8,518	8,143
Other Current Liabilities & Provns	6,547	8,361	8,912	9,556	10,300
Total Current Liabilities	15,142	15,673	16,714	18,074	18,443
Net Current Assets	(5,213)	(8,222)	(8,530)	(12,992)	(12,789)
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	16,406	12,029	12,927	9,544	10,921

Source: Company, HDFC sec Inst Research

STANDALONE CASH FLOW

Rs mn (year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Reported PAT	(660)	(1,576)	(413)	617	2,492
Non-operating & EO items	(1,037)	(379)	(600)	(800)	(800)
PAT from Operations	(1,697)	(1,956)	(1,013)	(183)	1,692
Interest expenses	1,215	1,328	1,661	2,124	1,923
Depreciation	6,388	5,974	6,162	6,787	7,047
Working Capital Change	1,757	700	1,093	773	(260)
OPERATING CASH FLOW (a)	7,663	6,046	7,903	9,502	10,402
Capex	(6,983)	(2,989)	(7,368)	(7,866)	(8,221)
Free cash flow (FCF)	680	3,057	535	1,636	2,181
Investments	(2,119)	1,282	-	-	-
INVESTING CASH FLOW (b)	(9,102)	(1,707)	(7,368)	(7,866)	(8,221)
Debt Issuance	5,071	4,317	1,892	(4,000)	(1,115)
Interest expenses	(1,215)	(1,328)	(1,661)	(2,124)	(1,923)
FCFE	2,417	7,328	766	(4,488)	(857)
Share capital Issuance	18	3	-	-	-
FINANCING CASH FLOW (c)	3,874	2,993	231	(6,124)	(3,038)
NET CASH FLOW (a+b+c)	2,435	7,331	766	(4,488)	(857)
Closing Cash & Equivalents	6,427	3,926	4,711	1,023	966

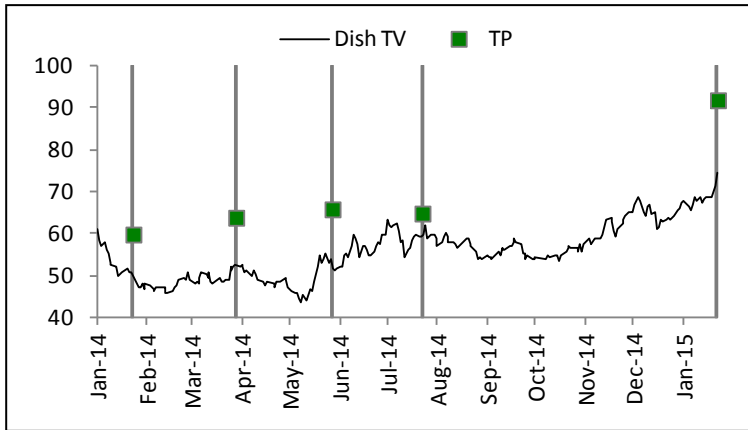
Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY13	FY14	FY15E	FY16E	FY17E
PROFITABILITY (%)					
GPM	30.1	32.3	29.5	29.0	28.4
EBITDA Margin	26.7	22.2	24.7	27.3	29.8
APAT Margin	(3.0)	(6.5)	(1.5)	1.9	6.7
RoE	NM	NM	NM	NM	NM
RoIC or Core RoCE	(4.8)	(7.7)	7.9	21.2	34.6
RoCE	NM	NM	NM	NM	NM
EFFICIENCY					
Tax Rate (%)	(0.0)	(0.0)	-	10.0	15.0
Asset Turnover (x)	1.3	2.0	2.1	3.4	3.4
Inventory (days)	111.5	65.1	57.0	53.7	51.2
Debtors (days)	5	6	5	5	5
Payables (days)	145	111	103	97	80
Cash Conversion Cycle (days)	-28	-39	-41	-38	-24
Debt/EBITDA (x)	2.8	2.6	2.3	1.3	0.9
Net D/E	1.7	1.9	1.6	1.2	0.8
Interest Coverage	0.5	(0.2)	0.8	1.3	2.5
PER SHARE DATA					
EPS (Rs/sh)	(0.6)	(1.5)	(0.4)	0.6	2.3
CEPS (Rs/sh)	5.3	4.1	5.4	7.0	9.0
DPS (Rs/sh)	-	-	-	-	-
BV (Rs/sh)	(1.5)	(2.9)	(3.3)	(2.7)	(0.4)
VALUATION					
P/E	(119.4)	(50.0)	(191.0)	127.8	31.6
P/BV	(50.7)	(25.2)	(22.3)	(27.0)	(183.3)
EV/EBITDA	15.3	16.6	13.1	10.1	7.9
OCF/EV (%)	8.6	6.8	8.8	10.7	11.8
FCF/EV (%)	0.8	3.4	0.6	1.8	2.5
FCFE/mkt cap (%)	3.1	9.3	1.0	(5.7)	(1.1)
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
23-Jan-14	50	BUY	64
28-Mar-14	52	BUY	64
28-May-14	54	BUY	66
23-Jul-14	59	BUY	65
23-Jan-15	74	BUY	92

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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