

ACTION

Buy

Dish TV India (DSTV.BO)

Return Potential: 22%

Equity Research

Several catalysts lined up; Favorable risk-reward; Maintain Buy

Source of opportunity

We retain our Buy on Dish TV as we expect the company to benefit as digitization again picks up pace (slowed during the election period). We expect Dish TV's EBITDA margin to improve 230 bps over FY13-16E led by operating leverage (given the fixed cost structure). We also expect CROCI to improve 170 bps over FY13-FY16E led by improving margins. Management remains optimistic on prospects for its Zing brand launch (for consumers in Phase 3/4 markets which have higher consumption of local language content) and stated that it has crossed initial expectations. As per Dish, contribution from Zing to its total packages from 3 states alone is 14-15%.

Catalyst

1) Potential introduction of GST: DTH operators believe that they may be able to pass part of the current entertainment tax of 7-8% to consumers after implementation of GST (Goods and Services tax) as it will rationalize the tax regime. Also a part of the tax may be subsumed under GST, as per these companies. We await clarity on GST before quantifying the impact for Dish TV; **2) Impact from tariff hikes in the near term;** **3) Debt repayments,** leading to lower interest expense; **4) Phase 3/4 subscriber additions.**

Valuation

We increase FY15-16E EPS by 7-8% to factor in better than earlier expected estimates for Zing uptake and new subs additions. As a result our 12-m DCF based PT increases by 7% to Rs 73 (unchanged WACC/TGR of 10.9%/4.0%). We introduce FY17 EPS of Rs 1.99. Based on our scenario analysis, Dish TV offers 42% upside from current levels in our bull case (assuming higher ARPU increase), vs. 14% downside to the current price in our bear-case scenario (weak subs growth), indicating a favorable risk-reward.

Key risks

1) Higher than expected loss in market share; **2) Aggressive pricing;** **3) Potential equity dilution at unfavorable valuations.**

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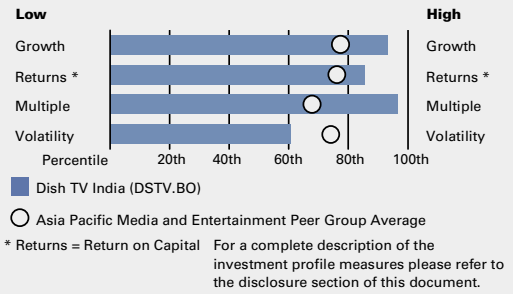
Coverage View: Neutral

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Investment Profile

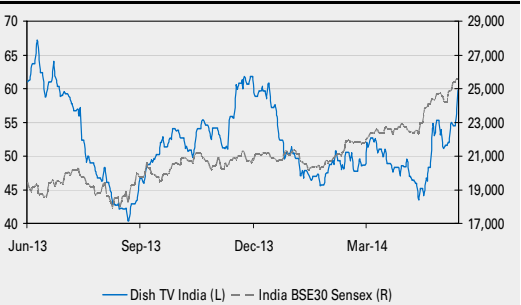


Key data

	Current
Price (Rs)	59.75
12 month price target (Rs)	73.00
Market cap (Rs mn / US\$ mn)	63,538.5 / 1,071.7
Foreign ownership (%)	12.7

	3/14	3/15E	3/16E	3/17E
EPS (Rs) New	(0.39)	0.04	0.87	1.99
EPS revision (%)	67.7	8.0	6.9	--
EPS growth (%)	68.0	109.8	2,185.5	128.8
EPS (dil) (Rs) New	(0.39)	0.04	0.87	1.99
P/E (X)	NM	NM	68.8	30.1
P/B (X)	NM	NM	NM	NM
EV/EBITDA (X)	10.4	10.2	8.3	6.9
Dividend yield (%)	NM	NM	NM	NM
ROE (%)	67.2	(1.3)	(35.2)	(191.0)
CROCI (%)	22.6	23.6	22.9	22.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	18.6	(0.5)	(2.0)
Rel. to India BSE30 Sensex	1.6	(17.3)	(25.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 6/10/2014 close.

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Dish TV India: Summary Financials

Profit model (Rs mn)	3/14	3/15E	3/16E	3/17E	Balance sheet (Rs mn)	3/14	3/15E	3/16E	3/17E
Total revenue	25,089.8	27,525.3	30,121.0	32,265.9	Cash & equivalents	2,897.6	1,125.8	3,044.5	7,532.7
Cost of goods sold	(19,295.6)	(21,330.8)	(22,874.9)	(23,477.1)	Accounts receivable	351.6	385.7	422.0	452.1
SG&A	(5,527.4)	(5,809.5)	(5,935.7)	(6,358.4)	Inventory	99.7	109.4	119.7	128.2
R&D	--	--	--	--	Other current assets	2,060.8	2,260.8	2,474.0	2,650.2
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	5,409.6	3,881.7	6,060.3	10,763.2
EBITDA	6,351.7	7,107.0	8,592.7	9,455.3	Net PP&E	20,555.3	23,903.2	24,597.2	23,073.1
Depreciation & amortization	(5,973.0)	(6,722.0)	(7,282.3)	(7,024.9)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	266.8	385.0	1,310.4	2,430.4	Total investments	743.2	743.2	743.2	743.2
Interest income	--	--	--	--	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(1,326.7)	(992.2)	(920.4)	(619.2)	Total assets	26,708.2	28,528.1	31,400.7	34,579.5
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	2,819.4	3,093.1	3,384.7	3,625.8
Others	648.9	648.9	648.9	648.9	Short-term debt	1,869.5	1,869.5	1,869.5	1,869.5
Pretax profits	(411.0)	41.7	1,038.9	2,460.1	Other current liabilities	15,058.0	16,563.8	18,220.2	20,042.2
Income tax	--	(1.3)	(114.3)	(344.4)	Total current liabilities	19,746.9	21,526.3	23,474.4	25,537.4
Minorities	0.0	0.0	0.0	0.0	Long-term debt	8,460.2	8,460.2	8,460.2	7,460.2
Net income pre-preferred dividends	(411.0)	40.5	924.6	2,115.7	Other long-term liabilities	1,631.6	1,631.6	1,631.6	1,631.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	10,091.8	10,091.8	10,091.8	9,091.8
Net income (pre-exceptionals)	(411.0)	40.5	924.6	2,115.7	Total liabilities	29,838.7	31,618.1	33,566.2	34,629.2
Post-tax exceptionals	(1,163.7)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	(1,574.7)	40.5	924.6	2,115.7	Total common equity	(3,130.5)	(3,090.0)	(2,165.4)	(49.8)
EPS (basic, pre-exception) (Rs)	(0.39)	0.04	0.87	1.99	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	(1.48)	0.04	0.87	1.99	Total liabilities & equity	26,708.2	28,528.1	31,400.7	34,579.5
EPS (diluted, post-exception) (Rs)	(0.39)	0.04	0.87	1.99	BVPS (Rs)	(2.94)	(2.90)	(2.03)	(0.05)
DPS (Rs)	0.00	0.00	0.00	0.00					
Dividend payout ratio (%)	0.0	0.0	0.0	0.0					
Free cash flow yield (%)	2.4	(2.8)	3.0	8.6					
Growth & margins (%)	3/14	3/15E	3/16E	3/17E	Ratios	3/14	3/15E	3/16E	3/17E
Sales growth	15.8	9.7	9.4	7.1	CROCI (%)	22.6	23.6	22.9	22.4
EBITDA growth	11.6	11.9	20.9	10.0	ROE (%)	67.2	(1.3)	(35.2)	(191.0)
EBIT growth	151.6	44.3	240.4	85.5	ROA (%)	(5.4)	0.1	3.1	6.4
Net income growth	(139.6)	102.6	NM	128.8	ROACE (%)	11.9	19.3	31.0	77.1
EPS growth	(139.5)	102.6	2,185.5	128.8	Inventory days	1.8	1.8	1.8	1.9
Gross margin	23.1	22.5	24.1	27.2	Receivables days	4.8	4.9	4.9	4.9
EBITDA margin	25.3	25.8	28.5	29.3	Payable days	46.9	50.6	51.7	54.5
EBIT margin	1.1	1.4	4.4	7.5	Net debt/equity (%)	(237.4)	(297.9)	(336.4)	(3,610.7)
					Interest cover - EBIT (X)	0.2	0.4	1.4	3.9
Cash flow statement (Rs mn)	3/14	3/15E	3/16E	3/17E	Valuation	3/14	3/15E	3/16E	3/17E
Net income pre-preferred dividends	(411.0)	40.5	924.6	2,115.7	P/E (analyst) (X)	NM	NM	68.8	30.1
D&A add-back	5,973.0	6,722.0	7,282.3	7,024.9	P/B (X)	NM	NM	NM	NM
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	10.4	10.2	8.3	6.9
Net (inc)/dec working capital	619.8	229.9	245.0	202.5	EV/GCI (X)	2.0	1.7	1.5	1.2
Other operating cash flow	890.2	1,305.8	1,443.2	1,645.8	Dividend yield (%)	NM	NM	NM	NM
Cash flow from operations	7,072.0	8,298.1	9,895.1	10,988.8					
Capital expenditures	(5,653.0)	(10,069.9)	(7,976.3)	(5,500.7)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	0.0	0.0	0.0	0.0					
Cash flow from investments	(5,653.0)	(10,069.9)	(7,976.3)	(5,500.7)					
Dividends paid (common & pref)	0.0	0.0	0.0	0.0					
Inc/(dec) in debt	(6,000.0)	0.0	0.0	(1,000.0)					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	3,833.7	0.0	0.0	0.0					
Cash flow from financing	(2,166.3)	0.0	0.0	(1,000.0)					
Total cash flow	(747.3)	(1,771.8)	1,918.8	4,488.1					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Reg AC

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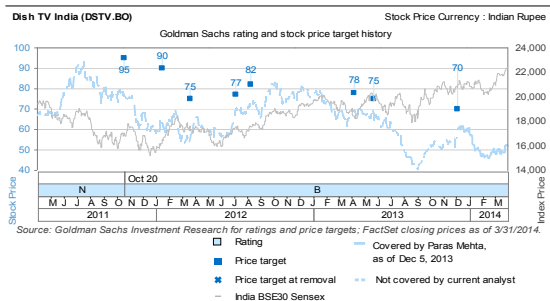
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