

BSE Sensex
24,377

S&P CNX
7,276

CMP: INR55
TP: INR70
Buy

Stock Info

Bloomberg	DITV IN
Equity Shares (m)	1,064.8
52-Week Range (INR)	71/40
1, 6, 12 Rel. Per (%)	6/-15/-41
M.Cap. (INR b)	58.2
M.Cap. (USD b)	1.0

Financial Snapshot (INR b)

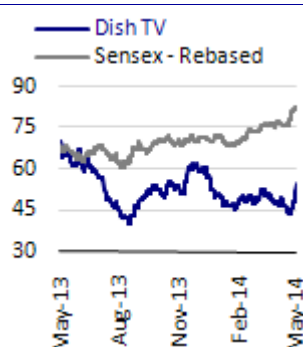
Y/E March	2014E	2015E	2016E
Net Sales	24.0	27.6	31.6
EBITDA	5.6	6.5	8.2
Adj. NP	-1.1	-1.1	0.6
Adj. EPS (INR)	-1.0	-1.0	0.6
Adj. EPS Gr. (%)	NA	NA	NA
BV/Sh (INR)	-2.4	-3.5	-2.9
RoE (%)	NA	NA	NA
RoCE (%)	-2.0	-6.3	21.8
Div. Payout (%)	NA	NA	NA

Valuations

P/E (x)	NA	NA	90.8
P/BV (x)	NA	NA	NA
EV/EBITDA (x)	11.9	10.3	7.8
EV/Sub (INR)	5,852	5,166	4,511

Shareholding pattern (%)

As on	Mar-14	Dec-13	Mar-13
Promoter	64.5	64.5	63.6
Domestic Inst	4.9	5.6	4.4
Foreign	22.8	22.3	24.5
Others	7.8	7.5	7.6

Stock Performance (1-year)


Market share recovery, price hike, content leverage to drive growth

Phase III/IV Digitization, GST key reform initiatives to watch-out

Expect subscriber momentum to accelerate: DITV's subscriber addition during FY11-14 was impacted by decline in industry gross adds from peak of 14.3m in FY11 to 8.5m in FY14E and decline in gross adds market share from ~25% to ~17%. The company has taken several new initiatives like launch of its regional low cost brand 'Zing' and made its entry packages more attractive by reducing entry prices or offering free content for initial 2-3 months. Our industry interactions indicate better subscriber addition momentum for DITV, plugging the market share loss trend. With expected economic recovery and upside from Phase III/IV digitization (deadline of December 2014), we expect DITV's gross additions to recover from ~1.5m in FY14E to 2.5m in FY15E/FY16E.

Increased negotiating power can drive content cost savings: During February 2014, the regulator TRAI issued amendments mandating that only broadcasters can enter the interconnection agreements with MSO/DTH operators. Aggregators are not allowed to change the bouquets as offered in the reference interconnect offer of the broadcaster. This will increase negotiating power of distribution platforms like Dish TV. Contract re-negotiation with India cast, MSM Discovery, Star, and Zee (post dismantling of Media-Pro due to TRAI regulation) can drive cost savings. We conservatively model 10% CAGR in programming and content costs (~32% of revenue). Every 1% decline in programming and content costs increases FY15 EBITDA by 1.3%.

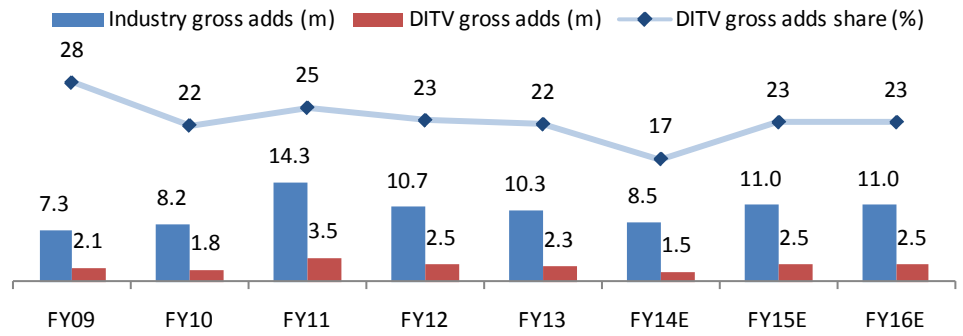
GST implementation can be a significant trigger: Goods and Services Tax (GST) implementation is a key reform expected to be undertaken by the new government. It is expected that entertainment tax (~INR1.7b in FY15E) could be subsumed in the GST. Currently DTH companies are unable to effectively pass-on the entertainment tax to subscribers given varied rates/methodology across states. Entertainment tax varies from NIL in some states to INR45/subscriber per month (Maharashtra) /30% of revenue (Tamil Nadu). If entertainment tax is subsumed into GST, there could be potential upside of ~INR1.5b at the EBITDA level (23% of current FY15 EBITDA) for DITV assuming no pass-through.

Recent price increase in higher denomination packs lend ARPU visibility: DTH operators including DITV have recently taken price increases. DITV has increased monthly subscription rates for its high-end packs by ~INR20 which lends visibility to our 6% ARPU CAGR estimate for FY14-16E.

EBITDA growth to rebound: We expect EBITDA growth to rebound from 3% decline in FY14E to 21% CAGR over FY14-16E led by 10% net subs CAGR, 5% ARPU CAGR, and 260bp EBITDA margin expansion (content cost leverage).

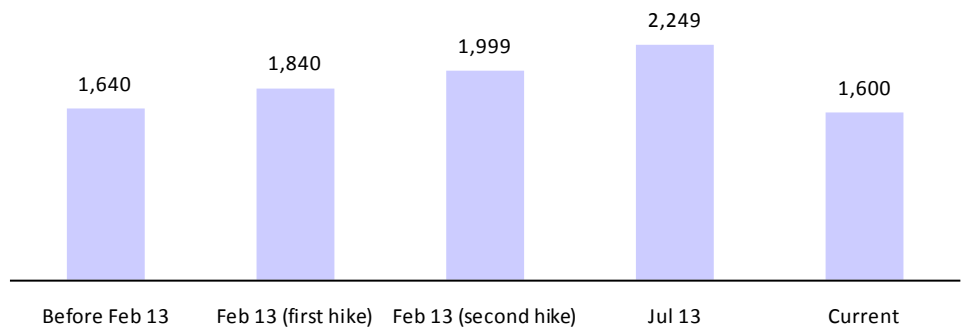
Valuations attractive, Buy: DITV trades close to multi-year low valuations with an EV/EBITDA of 10.3x FY15 and 7.8x FY16. We are increasing our long-term margin assumptions by ~250bp to partially factor-in lower entertainment tax outgo and lower WACC assumption (13.3% vs 13.7%). Maintain **Buy** with a revised DCF based target price of INR70/sh (vs INR62/sh earlier).

DITV: Gross subscriber additions and market share



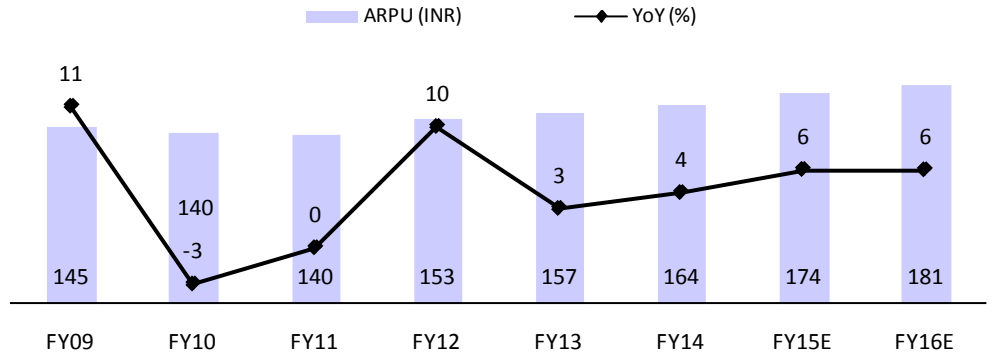
Source: TRAI, MOSL

DITV: Entry price offer for standard definition box (INR)



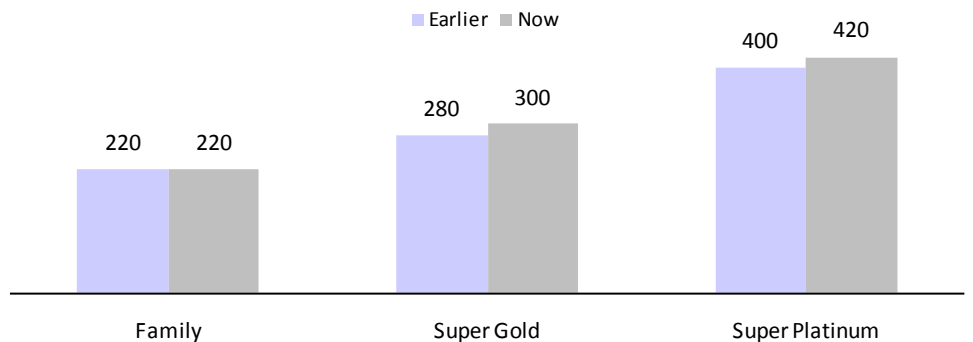
Source: Company, MOSL

DITV: We expect 6% ARPU CAGR over FY14-16E



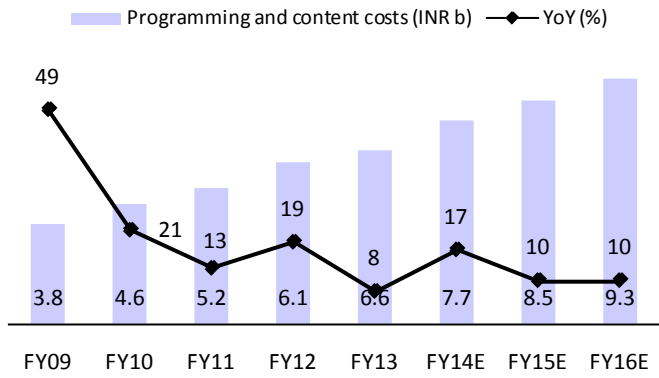
Source: Company, MOSL

DITV: Monthly pack price



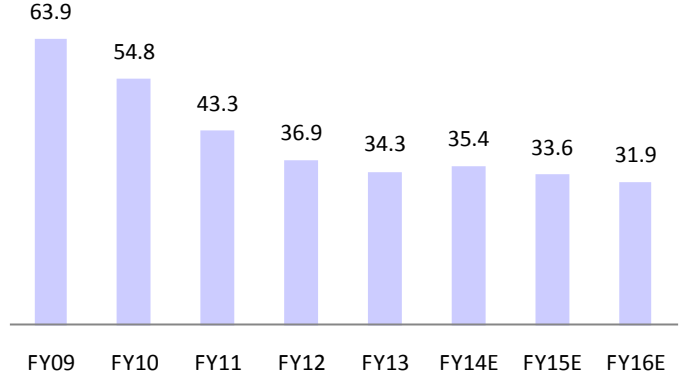
Source: Company, MOSL

DITV: Programming & content cost



Source: Company, MOSL

DITV: Programming & content cost as % of revenue



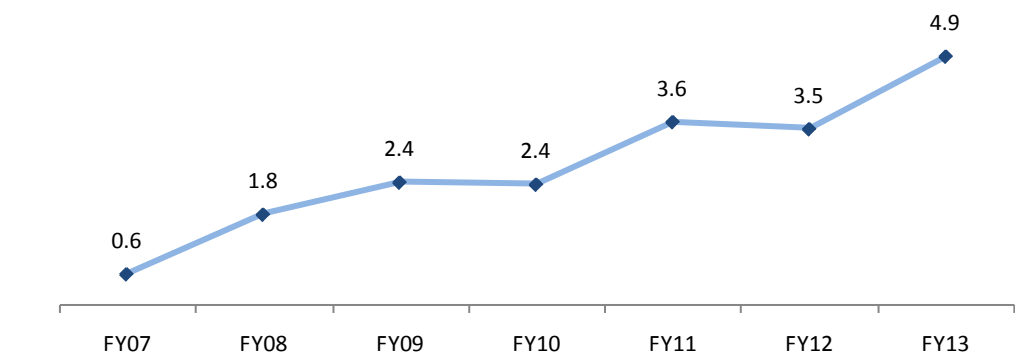
Source: Company, MOSL

State wise entertainment tax

States levying on per subscriber basis (INR/month)		States levying on revenue share basis (%)	
Assam	25	Karnataka	6%
Chhattisgarh	10	Kerala	2%
Chhattisgarh	20	Punjab	10%
Delhi	20	Uttar Pradesh	25%
Goa	30	Madhya Pradesh	20%
Gujarat	16.7	Orissa	5%
Maharashtra - Mumbai city/suburban	45	Bihar	15%
Maharashtra - others	15/30/45	Tamil Nadu	30%
Uttarakhand	25	Jharkhand	10%
Uttarakhand - commercial	50		
West Bengal - Kolkata	10		
West Bengal - Others	5		
Nagaland	10		

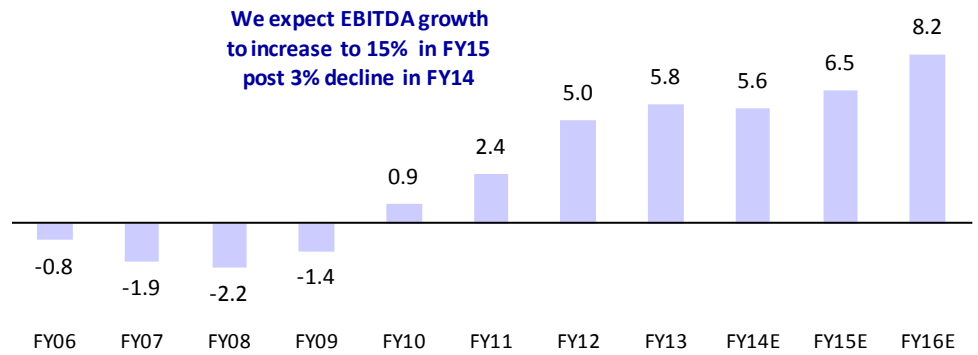
Source: TRAI, MOSL

DITV: Entertainment tax as % of revenue



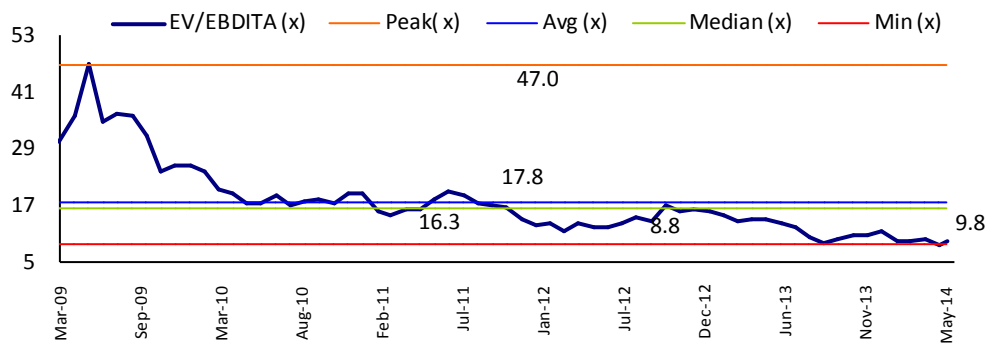
Source: Company, MOSL

DITV: 21% EBITDA CAGR over FY14-16E



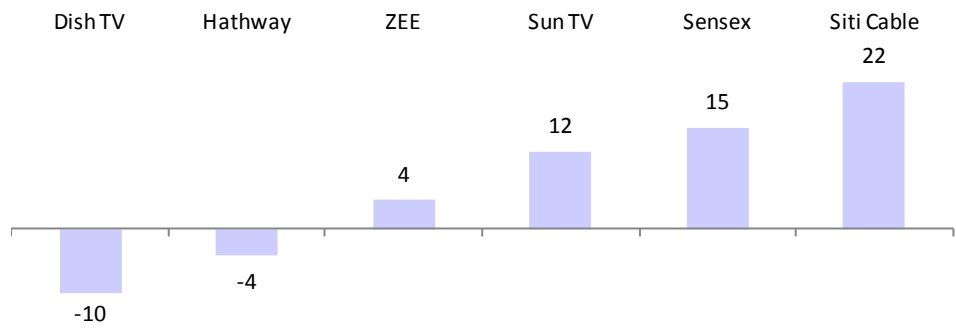
Source: Company, MOSL

DITV: Trading at lower end of valuation on EV/EBITDA



Source: Company, MOSL

CYTD return (%)



Source: MOSL

DITV: DCF valuation

Dish TV: DCF valuation													
INR b	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY14-20 CAGR
Net subscribers (m)	4.3	5.7	8.5	9.6	10.7	11.4	12.8	14.1	15.2	16.3	17.2	18.1	8%
YoY (%)		32	50	13	11	6	12	10	8	7	6	5	
ARPU (INR/month)	145	140	140	153	157	164	174	181	189	197	205	214	5%
YoY (%)		-3	0	10	3	4	6	4	4	4	4	4	
Revenue	7.4	10.8	14.4	19.6	21.7	24.0	27.6	31.6	35.9	40.2	44.6	49.0	13%
Revenue growth (%)		47	32	36	11	11	15	15	14	12	11	10	
EBITDA	-1.4	0.9	2.4	5.0	5.8	5.6	6.5	8.2	11.0	12.8	14.5	16.2	19%
EBITDA margin (%)	-18	9	17	25	27	23	23	26	31	32	33	33	
EBITDA growth (%)		-170	152	109	16	-3	15	27	34	17	14	11	
Capex	4.7	4.5	10.0	5.2	9.2	2.1	7.4	7.4	7.2	7.1	7.1	7.2	
Capex/Sales (%)	63	42	70	27	42	9	27	23	20	18	16	15	
Change in working capital	0.5	0.5	-4.6	1.4	-2.1	-0.3	-2.1	-2.4	-2.1	-2.4	-2.5	-2.7	
Tax outflow											2	3	
Tax rate (%)											33	33	
FCF	-6.5	-4.0	-3.0	-1.6	-1.3	3.8	1.2	3.2	5.8	8.1	7.7	8.8	
FCF growth (%)					-22	-404	-69	172	81	39	-5	14	
Terminal value												111	
Mar' 15E													
PV of FCF													
Net Debt (Mar-15E)	8.3												
PV-Explicit Period	22												
PV-Terminal Value	60												
Equity Value	74												
Equity Value per Share (Mar-15E)	69												
Implied FY16 EV/EBITDA	10.7x												
Implied FY16 EV/Sub (INR)	6,228												
Terminal value assumptions													
EBITDA margin	33%												
Capex/Sales	15%												
Cash tax rate	33%												
FCF margin	12%												
FCF growth	5.0%												
FCF multiple	12.1x												
EBITDA multiple	4.5x												
WACC	13.3%												

WACC Calculations					
	Wt (%)	Cost	Risk Free	ERP	Beta
Equity	0.7	15.7%	8.5	6.5	1.1
Debt	0.3	7.8%			
WACC		13.3%			

Source: Company, MOSL

DITV: Key assumptions

Key Assumptions	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Gross subscribers (m)	7	10	13	15	17	19	22
YoY (%)	36	51	24	18	10	15	13
Gross adds (m)	1.8	3.5	2.5	2.3	1.5	2.5	2.5
YoY (%)	-12	93	-30	-6	-36	69	0
Net subscribers (m)	5.7	8.5	9.6	10.7	11.4	12.8	14.1
YoY (%)	32	50	13	11	6	12	10
Net adds (m)	1.4	2.8	1.1	1.1	0.7	1.4	1.3
YoY (%)	-22	106	-60	-2	-38	108	-11
Monthly churn (%)	7.4	7.9	11.4	8.5	5.0	6.0	6.0
ARPU (INR)	140	140	153	157	164	174	181
YoY (%)	-3	0	10	3	4	6	4
Prog & content costs (INR b)	4.6	5.2	6.1	6.6	7.7	8.5	9.3
% of revenue	42	36	31	30	32	31	30
EBITDA margin (%)	9	17	25	27	23	23	26
CPE capex/gross add (USD)	47	46	46	46	46	45	44
CPE capex/subscription revenue (%)	49	62	34	32	19	27	23

Source: Company, MOSL

Financials and valuations

Income Statement				(INR Million)		
Y/E March	2011	2012	2013	2014E	2015E	2016E
Net Sales	14,366	19,578	21,668	24,025	27,565	31,602
YoY (%)	32.4	36.3	10.7	10.9	14.7	14.6
Operating expenses	11,977	14,595	15,873	18,422	21,114	23,404
Cost of goods and services	7,803	9,954	11,085	13,019	14,491	16,125
Employee Cost	566	710	822	898	1,006	1,126
Selling & distribution exps	2,847	2,909	3,036	3,290	4,282	4,687
Administrative exps	761	1,021	930	1,215	1,335	1,467
EBITDA	2,388	4,984	5,795	5,603	6,452	8,198
EBITDA margin (%)	16.6	25.5	26.7	23.3	23.4	25.9
Depreciation	3,654	5,180	6,276	6,049	6,855	6,983
Interest	1,511	1,778	1,284	1,288	1,021	883
Other Income	880	386	512	682	310	310
PBT	-1,897	-1,589	-1,252	-1,051	-1,114	642
Adjusted PAT	-1,897	-1,589	-1,252	-1,051	-1,114	642
Change (%)	-27.6	-16.3	-21.2	-16.0	6.0	-157.6
Exceptional items	0	0	594	0	0	0
Reported PAT	-1,897	-1,589	-658	-1,051	-1,114	642

Balance Sheet				(INR Million)		
Y/E March	2011	2012	2013	2014E	2015E	2016E
Share Capital	1,063	1,064	1,065	1,065	1,065	1,065
Share Premium	15,314	15,336	15,378	15,378	15,378	15,378
Reserves	-15,750	-17,338	-17,996	-19,047	-20,161	-19,520
Net Worth	628	-938	-1,553	-2,604	-3,719	-3,077
Loans	10,763	14,003	16,330	10,729	10,253	7,594
Deffered Tax Liability	0	0	0	0	0	0
Capital Employed	11,390	13,065	14,777	8,125	6,534	4,517
Gross Fixed Assets	23,520	29,267	35,788	42,453	49,867	57,272
Less: Depreciation	9,883	15,063	21,449	27,498	34,353	41,336
Net Fixed Assets	13,637	14,204	14,339	14,955	15,513	15,936
Capital WIP	4,421	3,884	6,535	3,921	3,921	3,921
Investments	2,002	1,500	0	0	0	0
Curr. Assets	6,808	6,752	10,676	6,509	6,777	7,064
Inventory	44	69	86	95	110	126
Debtors	215	286	304	337	386	443
Cash & Bank Balance	3,074	3,851	6,403	2,000	2,000	2,000
Loans & Advances	3,475	2,546	3,883	4,077	4,281	4,495
Current Liab. & Prov.	15,478	13,275	16,773	17,261	19,677	22,404
Creditors	12,471	8,277	10,099	9,968	11,509	13,255
Provisions & other liab.	3,007	4,999	6,674	7,294	8,169	9,149
Net Current Assets	-8,670	-6,523	-6,097	-10,752	-12,900	-15,340
Miscellaneous exp	0	0	0	0	0	0
Application of Funds	11,390	13,065	14,777	8,125	6,534	4,517

E: MOSL Estimates

Financials and valuations

Ratios						
Y/E March	2011	2012	2013	2014E	2015E	2016E
Basic (INR)						
Adjusted EPS	-1.8	-1.5	-1.2	-1.0	-1.0	0.6
Growth (%)	-44.1	-16.3	-21.3	-16.0	6.0	-157.6
Cash EPS	1.7	3.4	4.7	4.7	5.4	7.2
Book Value	0.6	-0.9	-1.5	-2.4	-3.5	-2.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout (incl. Div. Tax.) (%)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
P/E			NA	NA	NA	90.8
Cash P/E			11.6	11.7	10.1	7.6
EV/EBITDA			11.7	11.9	10.3	7.8
EV/EBITDA (excl lease rentals)			16.2	14.4	11.4	8.1
EV/Sales			3.1	2.8	2.4	2.0
Price/Book Value			NA	NA	NA	NA
EV/net subscriber (INR)			6,336	5,852	5,166	4,511
EV/net subscriber (USD)			108	100	88	77
Profitability Ratios (%)						
RoE	NA	NA	NA	NA	NA	NA
RoCE	NA	NA	1.2	-2.0	-6.3	21.8
Turnover Ratios						
Debtors (Days)	5	5	5	5	5	5
Inventory (Days)	1	1	1	1	1	1
Creditors. (Days)	380	207	232	197	199	207
Asset Turnover (x)	2.5	2.8	2.7	3.3	5.2	9.0
Leverage Ratio						
Debt/Equity (x)	NA	NA	NA	NA	NA	NA

Cash Flow Statement						
(INR Million)						
Y/E March	2011	2012	2013	2014E	2015E	2016E
Op.Profit/(Loss) bef Tax	2,388	4,984	6,390	5,603	6,452	8,198
Other Income	880	386	512	682	310	310
Interest Paid	-1,511	-1,778	-1,284	-1,288	-1,021	-883
Direct Taxes Paid	0	0	0	0	0	0
(Inc)/Dec in Wkg. Cap.	3,084	-1,369	2,125	252	2,149	2,440
CF from Op.Activity	4,841	2,223	7,743	5,249	7,889	10,064
(inc)/Dec in FA + CWIP	-9,311	-5,210	-9,061	-4,052	-7,413	-7,405
(Pur)/Sale of Investments	504	502	1,500	0	0	0
CF from Inv.Activity	-8,807	-4,708	-7,562	-4,052	-7,413	-7,405
Issue of Shares	33	23	43	0	0	0
Inc/(Dec) in Debt	1,585	3,240	2,327	-5,601	-476	-2,659
Dividends Paid	0	0	0	0	0	0
Other Financing Activities	0	0	0	0	0	0
CF from Fin.Activity	1,617	3,263	2,370	-5,601	-476	-2,659
Inc/(Dec) in Cash	-2,349	778	2,552	-4,403	0	0
Add: Opening Balance	5,422	3,074	3,851	6,403	2,000	2,000
Closing Balance	3,074	3,851	6,403	2,000	2,000	2,000

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