

DISH TV INDIA

MEDIA

BUY

Target Price: Rs 115

Operational performance muted

Dish TV's (DITV) Q4 operational performance was lower than estimates due to relatively lower net subscriber addition of 0.51 mn (est. of 0.56 mn). Higher content cost (up 12% QoQ, due to sports content) and marketing spends put further pressure on margin. ARPU improved to Rs 174 (Rs 172 in Q3), primarily on higher activation revenue.

Management guided for minimum 1.5 mn net subs adds in FY17 (subject to outcome of multiple stay orders on DAS phase III). While 'Zing' and 'Dish99' pack (effective ARPU of Rs 174) may continue to account for lion's share in sub additions (~50% currently), FY17 ARPU growth is expected at 3-4% as full benefits of price hike undertaken earlier will be visible. We factor in net sub addition of 1.5 mn each and ARPU growth of 3% CAGR over FY17/18E. Maintain **BUY** with revised TP of Rs 115 (10x FY18E EV/adj. EBITDA; Rs 95 earlier).

CMP : Rs 88
Potential Upside : 30%

MARKET DATA

No. of Shares : 1,066mn
Free Float : 36%
Market Cap : Rs 94bn
52-week High / Low : Rs 122 / Rs 65
Avg. Daily vol. (6mth) : 5.0 mn shares
Bloomberg Code : DITV IB Equity
Promoters Holding : 64%
FII / DII : 20% / 6%

Key highlights

- ◆ Q4 revenue grew ~10% YoY (up 3.6% QoQ) to Rs 8bn, while EBITDA margin contracted to 32.6% (down 180 bps QoQ) due to ~200 bps QoQ rise in SGA expenses in Q4; adjusted PAT stood at Rs 468 mn
- ◆ DITV recognized Rs 4.4 bn of deferred tax (out of Rs 7.5 bn), resulting in reported PAT of Rs 4.8 bn in Q4; such step was undertaken to enable the company pay dividends going ahead (no timelines shared)
- ◆ The company incurred capex of Rs 8 bn and had free cashflows of Rs 3.85 bn in FY16; management targets similar capex in FY17 and will focus on seeding HD STBs given the declining price difference vs. SD STB
- ◆ While Zing and Dish99 will enable DITV record higher subs addition (from phase III cities), management expects greater share in HD subs (20% of incremental adds), package upgrade to aid 3-4% ARPU growth in medium term
- ◆ DITV will benefit from its content arrangements till Sep'16 (<10% rise in content cost in FY17); management expects TDSAT ruling on discriminatory pricing to be beneficial for DTH as it will create level playing field with digital cable

Financial summary (Consolidated)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	27,816	30,599	34,391	38,425
EBITDA (Rs mn)	7,331	10,249	11,923	13,370
Adj. PAT (Rs mn)	32	6,924	3,644	5,026
Con. EPS* (Rs.)	-	-	3.5	4.6
EPS (Rs.)	-	6.5	3.4	4.7
RoE (%)	(1.0)	3,319.4	67.8	51.8
RoCE (%)	15.2	35.4	38.9	47.5
P/E (x)	2,983.1	13.6	25.8	18.7
EV/E (x)	14.3	10.0	8.4	7.2
EV/Net Sales (x)	3.8	3.3	2.9	2.5

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY16	FY17E	FY18E
Gross subs (mn)	22.0	24.7	27.3
Net Subs (mn)	14.6	16.1	17.4
Core ARPU* (Rs/month)	163	168	173
Churn Rate (% per month)	0.7%	0.7%	0.7%

*Adjusted for Activation revenues

Price performance

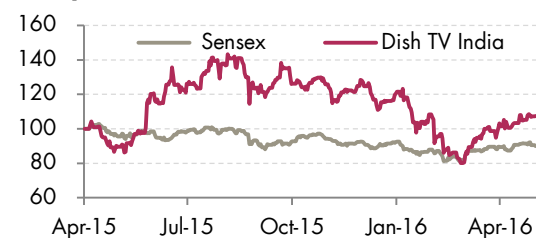


Exhibit 1: Results update

(Rsmn)	Quarter ended					12 months ended		
	Mar-16	Mar-15	% Chg	Dec-15	% Chg	FY16	FY15	% Chg
Net sales	7,994	7,299	9.5	7,715	3.6	30,599	27,816	10.0
EBITDA	2,608	1,962	32.9	2,655	(1.8)	10,249	7,331	39.8
Other income	218	137	59.6	42	419.0	640	635	0.9
PBITD	2,826	2,099	34.7	2,697	4.8	9,609	6,696	43.5
Depreciation	1,516	1,550	(2.2)	1,463	3.6	5,907	6,138	(3.8)
Interest	512	455	12.3	549	(6.8)	2,087	1,754	19.0
PBT	799	93	755.1	686	16.5	2,895	74	-
Tax	(4,029)	0	-	0	-	4,029	(42)	-
Reported PAT	4,828	93	-	686	604.1	6,924	32	-
Extra ordinary income/ (exp.)	(4,360)	0	-	0	-	0	594	-
Adjusted PAT	468	93	400.7	686	(31.8)	(1,331)	(660)	101.7
No. of shares (mn)	1,065	1,065	-	1,065	0	1,065	1,065	-
EBITDA margin (%)	32.6	26.9	-	34.4	-	33.5	26.4	-
PBITD margin (%)	35.4	28.8	-	35.0	-	31.4	24.1	-
AdjustedEPS (Rs.)	4.5	0.1	-	0.6	NA	6.5	0.0	-

Source: Company, Axis Capital

Exhibit 2: Operating performance

	Mar-16	Mar-15	YoYchg	Dec-15	QoQchg
Gross subscribers (mn)	22.1	19.3	2.8	21.3	0.8
Addition (mn)	0.85	0.67		0.65	
Net Subscribers (mn)	14.5	12.9	1.6	13.9	0.51
Addition (mn)	0.5	0.4		0.3	
% Monthly Churn rate	0.7%	0.7%		0.8%	
ARPU (Rs/sub/month)	174	179	(5.0)	172	2.0
Subscriber acquisition cost (Rs/sub)	1,450	1,725		1,550	

Source: Company, Axis Capital

Exhibit 3: Target price workings

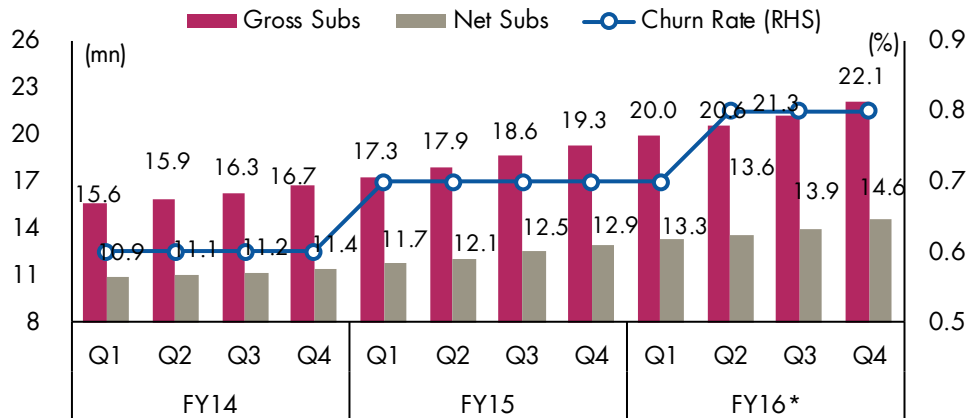
Valuation (EV/EBITDA)	FY18E
FY17E EBITDA (Rsmn)	13,370
Less: One-time Activation rev	910
FY17E core EBITDA (Rsmn)	12,460
EV/EBITDA Multiple (x)	10
Target EV (Rsmn)	124,595
Less: Net Debt (Rsmn)	1,816
Equity Value (Rsmn)	122,779
Diluted No. of shares outstanding (mn)	1,065
Value per share (Rs)	115

Source: Axis Capital

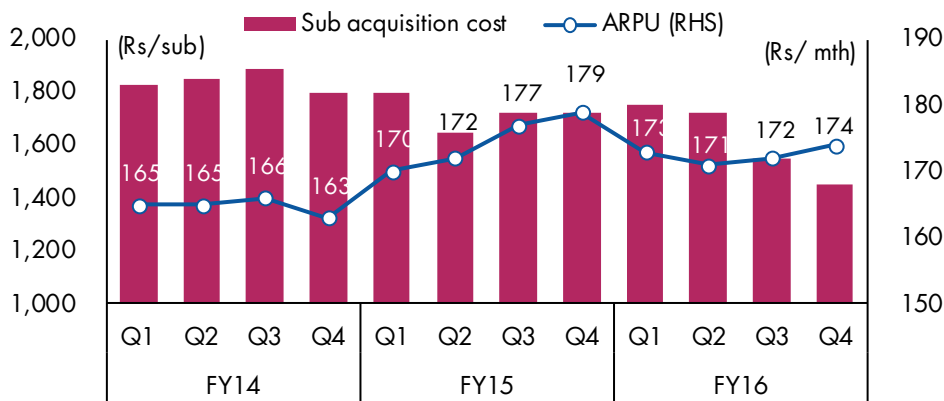
Other concall takeaways:

- ◆ Dish TV selected Wyplay's Frog as the Middleware for its next generation Set-Top-Boxes. This is an HTML5 browser-based system and incorporates all features required for traditional linear broadcast TV consumption, on-demand content and applications distributed over the internet
- ◆ Net debt stood at Rs 6.35 bn (gross debt of Rs 12 bn (USD debt of 135 mn); STB inventory stood at 1 mn STBs; management expects an incremental opportunity of 6-8 mn subscribers in phase III cities
- ◆ DITV booked entertainment tax outgo of Rs 1.6 bn in FY16; expects final outcome on license fee case over the next 3-4 months

Key operating performance

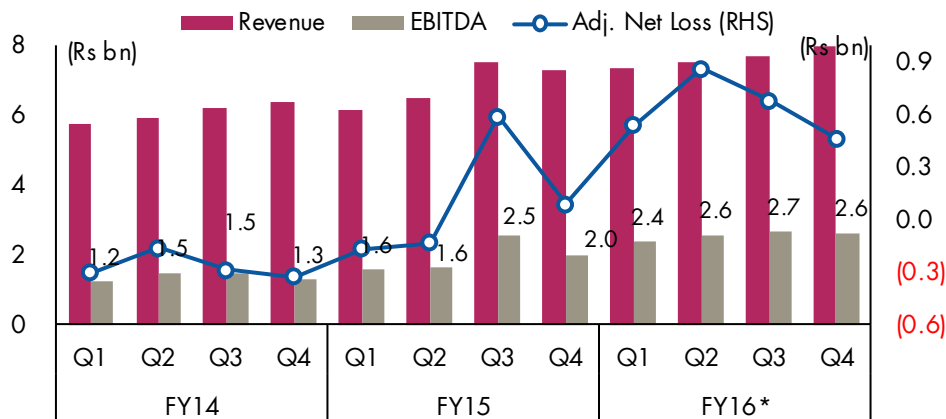
Exhibit 4: Net subscriber addition picks up QoQ


Source: Company, Axis Capital

Exhibit 5: Reported ARPU improves QoQ on higher activation; Adj. ARPU flattish


Source: Company, Axis Capital

*FY16 ARPU growth not comparable YoY due to exclusion of collection charges from Subs revenue

Exhibit 6: EBITDA margin declined on higher overheads


Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rsmn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	27,816	30,599	34,391	38,425
Other operating income	-	-	-	-
Total operating income	27,816	30,599	34,391	38,425
Cost of goods sold	(14,010)	(14,780)	(15,536)	(17,383)
Gross profit	13,806	15,820	18,855	21,042
<i>Gross margin (%)</i>	<i>49.6</i>	<i>51.7</i>	<i>54.8</i>	<i>54.8</i>
Total operating expenses	(6,475)	(5,570)	(6,932)	(7,673)
EBITDA	7,331	10,249	11,923	13,370
<i>EBITDA margin (%)</i>	<i>26.4</i>	<i>33.5</i>	<i>34.7</i>	<i>34.8</i>
Depreciation	(6,138)	(5,907)	(6,123)	(5,868)
EBIT	1,193	4,342	5,800	7,501
Net interest	(1,754)	(2,087)	(818)	(578)
Other income	635	640	224	257
Profit before tax	74	2,895	5,206	7,180
Total taxation	(42)	4,029	(1,562)	(2,154)
<i>Tax rate (%)</i>	<i>57.3</i>	<i>(139.2)</i>	<i>30.0</i>	<i>30.0</i>
Profit after tax	32	6,924	3,644	5,026
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	32	6,924	3,644	5,026
<i>Adj. PAT margin (%)</i>	<i>0.1</i>	<i>22.6</i>	<i>10.6</i>	<i>13.1</i>
Net non-recurring items	-	-	-	-
Reported net profit	32	6,924	3,644	5,026

Balance sheet (Rsmn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	1,066	1,066	1,066	1,066
Reserves & surplus	(4,199)	2,485	6,129	11,155
Net worth	(3,134)	3,551	7,195	12,221
Borrowing	14,839	11,819	6,819	4,819
Other non-current liabilities	248	808	808	808
Total liabilities	31,663	39,393	35,865	37,560
Gross fixed assets	48,160	58,757	65,117	70,097
Less: Depreciation	(33,621)	(39,528)	(45,651)	(51,519)
Net fixed assets	14,539	19,229	19,466	18,578
Add: Capital WIP	4,972	4,972	4,972	4,972
Total fixed assets	19,510	24,201	24,438	23,550
Other Investment	-	820	-	-
Inventory	99	126	96	108
Debtors	637	725	688	769
Cash & bank	4,286	3,392	512	3,004
Loans & advances	3,909	2,308	2,308	2,308
Current liabilities	19,709	23,215	21,042	19,712
Net current assets	(10,563)	(16,422)	(17,195)	(13,281)
Other non-current assets	3,006	7,580	7,580	7,580
Total assets	31,663	39,394	35,865	37,561

Source: Company, Axis Capital

Cash flow (Rsmn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	74	2,895	5,206	7,180
Depreciation & Amortisation	(6,138)	(5,907)	(6,123)	(5,868)
<i>Chg in working capital</i>	<i>2,705</i>	<i>4,965</i>	<i>(2,107)</i>	<i>(1,423)</i>
Cash flow from operations	10,662	15,630	8,478	10,050
<i>Capital expenditure</i>	<i>(8,011)</i>	<i>(10,597)</i>	<i>(6,360)</i>	<i>(4,980)</i>
Cash flow from investing	(8,011)	(11,418)	(5,540)	(4,980)
<i>Equity raised/ (repaid)</i>	<i>35</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(72)</i>	<i>(3,019)</i>	<i>(5,000)</i>	<i>(2,000)</i>
<i>Dividend paid</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Cash flow from financing	(1,792)	(5,106)	(5,818)	(2,578)
Net chg in cash	860	(894)	(2,880)	2,492

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	-	6.5	3.4	4.7
CEPS (Rs)	5.8	12.1	9.2	10.2
DPS (Rs)	-	-	-	-
Dividend payout ratio (%)	-	-	-	-
GROWTH				
Net sales (%)	10.9	10.0	12.4	11.7
EBITDA (%)	17.5	39.8	16.3	12.1
Adj net profit (%)	(107.7)	21,881.6	(47.4)	37.9
FDEPS (%)	(107.7)	21,881.6	(47.4)	37.9
PERFORMANCE				
RoE (%)	(107.7)	21,881.6	(47.4)	(107.7)
RoCE (%)	(107.7)	21,881.6	(47.4)	(107.7)
EFFICIENCY				
Asset turnover (x)	3.7	3.2	2.7	2.8
Sales/ total assets (x)	0.9	0.9	0.9	1.0
Working capital/ sales (x)	(0.5)	(0.6)	(0.5)	(0.4)
Receivable days	8.4	8.6	7.3	7.3
Inventory days	1.8	2.3	1.6	1.6
Payable days	99.7	165.3	138.3	129.5
FINANCIAL STABILITY				
Total debt/ equity (x)	(107.7)	21,881.6	(47.4)	(107.7)
Net debt/ equity (x)	(107.7)	21,881.6	(47.4)	(107.7)
Current ratio (x)	0.5	0.3	0.2	0.3
Interest cover (x)	0.7	2.1	7.1	13.0
VALUATION				
PE (x)	(107.7)	21,881.6	25.8	18.7
EV/ EBITDA (x)	14.3	10.0	8.4	7.2
EV/ Net sales (x)	3.8	3.3	2.9	2.5
PB (x)	(107.7)	21,881.6	(47.4)	(107.7)
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	2.8	5.4	2.3	5.4

Source: Company, Axis Capital

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