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Dish TV India Ltd

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Dish TV India Ltd (Dish TV), part of the Essel Group, is one of India's largest DTH operators with a net subscriber base of 14.5 mn in FY16. Dish TV has more than 545 channels & services on its platform including 22 audio channels and over 51 HD channels & services.

Investment Rationale

Dominant market share in DTH industry

With first-mover advantage, Dish TV is the largest DTH player which commands a dominant market share of 26% in the Indian DTH industry. Its over 12 years of experience has helped it to dominate the DTH business in India with an active subscriber base of about 14.9 mn (as of June, 2016). The continuous up gradation of service offerings has helped the company in retaining the subscribers.

Growth in subscriber additions to continue

Dish TV is the No.1 DTH player with a head start of three years over the second largest player. Riding on its improved distribution network, decent success of its low-cost regional sub-brand Zing and increasing HD penetration, Dish TV added 1.5 mn net subscribers in FY16. Dish TV has a robust distribution network of over 2,297 distributors & over 241,346 dealers that span across 9,350 towns in the country. It also leverages the brand support and content backing from Zee Entertainment and Zee Media, promoter group companies. Going ahead, we expect Dish TV's subscriber additions to remain buoyant on account of implementation of DAS Phase 3 and Phase 4. We expect net subscriber base to grow at a CAGR of 10% from 14.5 mn in FY16 to 17.5 mn in FY18E.

Higher HD activations to support ARPU

While Dish TV has been adding subscribers, its blended ARPU has not grown much. It has been within the range of Rs 170-174 per month over the past several quarters owing to the additions of Zing (a regional brand) subscribers & '99 Pack' where Dish TV has a relatively lower ARPU. Notably, with growing passion of consumers for HD, Dish TV has increased its HD channel offerings by taking up the number of channels to 51. Dish TV enjoys a higher ARPU of Rs 390 per month & this provides an opportunity of increase in blended ARPU with rising HD subscriber base. We expect ARPU to grow at mere 2% CAGR over FY16-18E as rising HD subscribers in urban India would get slightly offset by subscriber additions due to the implementation of DAS Phase 3 and Phase 4.

Valuation: We are upbeat on the stock given its first-mover advantage, strong distribution network and potential in cable dark areas for Phase 3 &4. We expect revenue & EBITDA to grow at a CAGR of 11% and 15% respectively over FY16-18E. We expect overall EBITDA margin would expand to 36.2% by FY18E from 33.5% in FY16. Hence, we initiate Dish TV with a BUY rating with a TP of Rs 118 based on 9.5x FY18E EV/EBITDA.

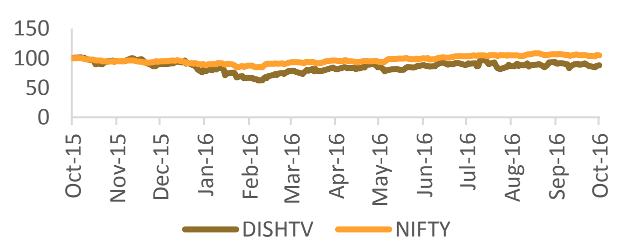
Market Data

Rating	**BUY**
CMP (Rs.)	96
Target (Rs.)	118
Potential Upside (%)	~23
Duration	Long Term
Face Value (Rs.)	1
52 week H/L (Rs.)	112/65
Adj. all time High (Rs.)	143
Decline from 52WH (%)	14.7
Rise from 52WL (%)	46.4
Beta	1.8
Mkt. Cap (Rs.Cr)	10,179

Fiscal Year Ended

Y/E	FY15	FY16	FY17E	FY18E
Revenue (Rs.Cr)	2,688	3,060	3,346	3,755
Adj. Profit (Rs.Cr)	3	692	264	344
EPS (Rs.)	-	6.5	2.5	3.2
P/E (x)	-	14.7	38.6	29.6
P/BV (x)	-	26.7	15.8	10.3
ROE (%)	-	-	51.5	42.2

One year Price Chart



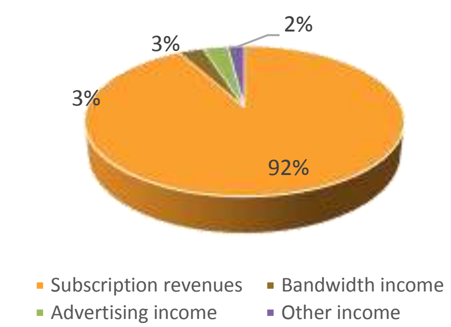
Shareholding Pattern	Jun-16	Mar-16	Change
Promoters (%)	64.4	64.4	0.0
FII (%)	12.5	11.3	1.2
DII (%)	13.8	14.6	(0.8)
Others (%)	9.2	9.7	(0.5)

Dish TV commands a dominant market share of 26% in the Indian DTH industry.

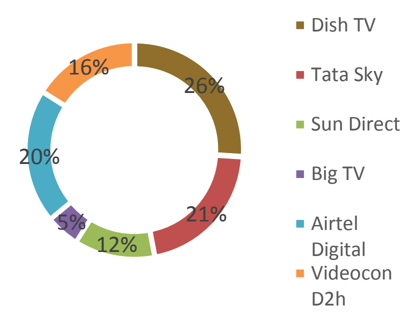
Dish TV: Business overview

Dish TV, an Essel Group company, is the pioneer in DTH (direct to home) space in India. Dish TV has more than 545 channels & services on its platform including 22 audio channels and over 51 HD channels & services. In FY16, subscription revenues contributed the maximum 92% to the consolidated sales followed by bandwidth income (3%), advertising income (3%) & others (2%). The company has a vast distribution network of over 2,297 distributors & over 241,346 dealers that span across 9,350 towns in the country. Dish TV has thirteen 24x7 call centres catering to 11 different languages to service the requirement of the subscribers.

Segmentwise Revenue Breakup (FY16)



Market Share #



Source: Company, In-house research

#Market share based on gross subscribers as on 30thJune, 2016 as per market estimates

Dominant player in the DTH industry

Dish TV enjoys the first-mover advantage in terms of scale with 14.9 mn net subscribers as of June'16. While the DTH space has now evolved into a six-player industry, Dish TV has been able to hold on to its leadership and garner a lion's share in net additions. Dish TV, owing to the first-mover advantage, has been able to build a stronger distribution network and has actively competed with big telecom players such as Bharti Airtel (Airtel Digital TV) and Tata Group (Tata Sky). Also, Dish TV has been able to actively tap the equity market to raise the much needed capital to fund the initial subscriber acquisition cost (SAC). Notably, Dish TV turned PAT positive for the first time in FY15. We believe Dish TV stands to benefit the most in the Indian Pay TV market, led by rising disposable income and regulatory push to digitalization.

Dish TV becomes first DTH player to post a net profit in FY15.

Many Firsts To Its Credit

Year	Particulars
2003	First DTH in India
2007	First to launch Live TV for moving vehicles
2009	First to achieve operational break-even in the Indian DTH industry
2010	First to launch High Definition
2012	First to offer unlimited recording & first to be FCF positive in the Indian DTH industry
2013	First to launch online TV for DTH viewers –'Dish Online
2014	First to launch a sub-brand targeting regional language markets–'Zing'
2015	First to be PAT positive in the Indian DTH industry
2015	First to launch Home Video System–DishFlix

Source: Company, In-house research

Number of C&S homes in India is expected to grow at ~3% CAGR over FY16-20E.

DTH industry to maintain growth momentum

India's TV households have grown at a CAGR of ~4% over 2010-16 & is further estimated to grow at ~3% CAGR from 181 mn in 2016 to 202 mn in 2020. This would be driven by 1) rise of nuclear family in urban India, 2) higher disposable income and 3) increasing penetration of TV viewership in households (from 64% in 2016 to 66% in 2020E). Likewise, the number of cable and satellite (C&S) homes in India is expected to grow at about 3% CAGR over FY16-20E from 152 mn to 173 mn. This would be driven by digitization push. Phase III of cable TV digitization started off with a big bang. However, the process got delayed by stay orders in multiple states. Notably, in Phase-III the total subscriber base was 50 million & out of the 50 mn about 43 mn has already been digitized. Hence, 6 – 7 mn still is pending to be digitized in Phase-III. Similarly, the last phase of digitization (DAS-IV) is another mega opportunity for DTH players where the total subscriber base is expected to be in the range of 30 – 35 mn.

Digitalisation timeline set by the government

Deadline	Particulars
June, 2012 (Phase I)	Mumbai, Delhi, Calcutta, Chennai
March, 2013 (Phase II)	38 cities of population of more than 1 mn
December,2015 (Phase III)	7,709 urban areas
December, 2016 (Phase IV)	Rest of India

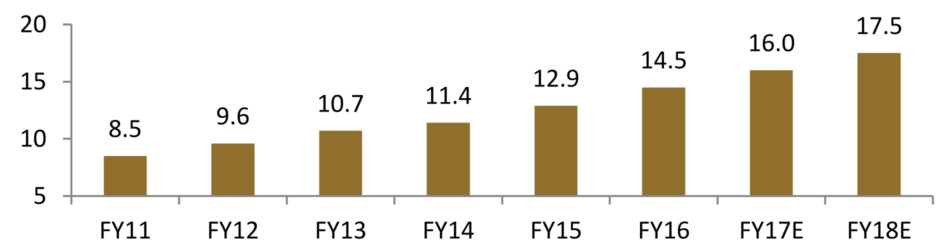
Source: Company, In-house research

Subscriber additions propelled by HD, Zing and improved distribution

After adding just 0.7 mn net subscribers in FY14, Dish TV's subscriber acquisitions accelerated at a rapid pace in FY15 & FY16. Riding on its improved distribution network, decent success of its low-cost regional sub-brand Zing and increasing High Definition (HD) penetration, Dish TV added 1.5 mn & 1.6 mn net subscribers in FY15 & FY16 respectively. Currently, HD category accounts for ~11% of the net subscriber base. Further, Zing has better EBITDA margin than the core Dish TV business due to lower content costs. Going ahead, we expect Dish TV's subscriber additions to remain buoyant due to implementation of DAS Phase 3 & 4. For F17E, the management expects gross subscriber additions and net subscriber additions of 3.0-3.5 mn & 1.5–1.9 mn, respectively. We expect net subscriber base to grow at a CAGR of 10% from 14.5 mn in FY16 to 17.5 mn in FY18E.

Net subscriber base is expected to grow at 10% CAGR over FY16-18E.

Net subscribers base to grow at a CAGR of 10% over FY16-18E



Source: Company, In-house research

Higher HD activations to support ARPU

DTH industry has shifted focus towards achieving profitability in tandem with increasing subscriber base leading to stabilization of ARPU. While Dish TV has been adding subscribers, its blended ARPU has not grown much. It has been within the range of Rs 170-174 over the past several quarters owing to the additions of Zing (a regional brand) subscribers & '99 pack'

Where Dish TV has a relatively lower ARPU. Notably, with growing passion of consumers for HD, Dish TV has increased its HD channel offerings by taking up the number of channels to 51. Dish TV enjoys a higher ARPU of Rs 390 per month & this provides an opportunity of increase in blended ARPU with rising HD subscribers. More importantly, during Q1FY17, management stated that HD contributed 31% to the gross additions (from 20% in earlier periods). Currently, HD category accounts for ~11% of the net subscriber base. We expect ARPU to grow at mere 2% CAGR over FY16-18E as rising HD subscribers in urban India would get slightly offset by subscriber additions due to the implementation of DAS Phase 3 and Phase 4 (these markets have relatively lower disposable income).

EBITDA margin to remain healthy

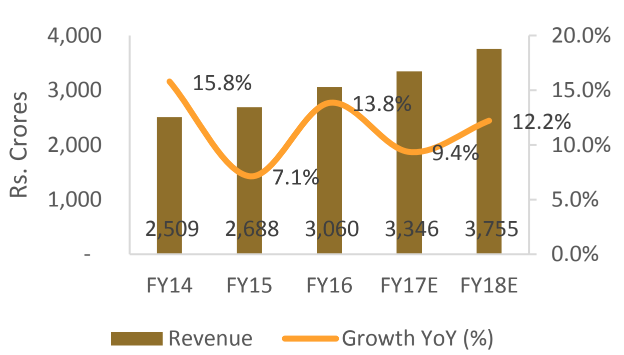
Management expects to clock 35% EBITDA margin in F17 on the back of price hike taken in March, 2016. Further, price increase is expected before Diwali which would translate into uptick in ARPU in FY17. Moreover, the increasing penetration of HD bodes well for the company. On the back of favourable mix (margins in descending order - HD, Zing & Rs99pack and SD offerings), savings on license fees and tighter control on other costs, EBITDA margin is likely to remain healthy. Therefore, we expect overall EBITDA margin would expand to 36.2% by FY18E from 33.5% in FY16.

Revenue to grow at CAGR of 11% over FY16-18E

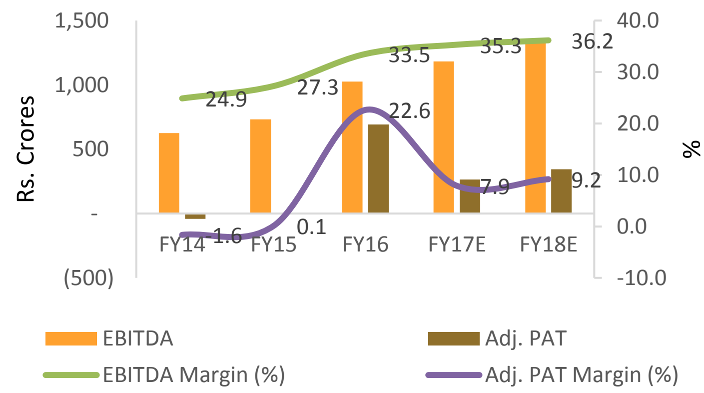
__We expect top-line of the company to grow at a CAGR of 11% over FY16-18E.__

Over the years, Dish TV's rising subscriber base has been the driver of revenues. Rising clout in the Indian C&S space has also brought along economies in content expenses as well as subscriber acquisition costs. We expect net subscribers & ARPU to grow at a CAGR of 10% & 2% respectively over FY16-18E. Hence, we expect revenues to grow at a CAGR of 11% over FY16-18E. On the back of better operational performance, we estimate EBITDA to grow at a CAGR of 15% over FY16-18E.

Revenue to grow at a CAGR of 11% over FY16-18E



EBITDA margin to improve by 270 bps over FY16-18E



Source: Company, In-house research

Key Risks:

1. Intense competition from other DTH service providers.
2. The company faces the risk of an unfavourable regulatory environment.

Profit & Loss Account

Y/E (Rs.Cr)	FY15	FY16	FY17E	FY18E
Total operating Income	**2,688**	**3,060**	**3,346**	**3,755**
Raw Material cost	6	10	10	11
Employee Cost	102	123	133	146
Other operating expenses	1,847	1,902	2,021	2,240
EBITDA	**733**	**1,025**	**1,181**	**1,358**
Depreciation	614	591	674	764
EBIT	**119**	**434**	**508**	**593**
Interest cost	175	209	162	131
Other income	64	64	60	67
Profit before tax	**7**	**290**	**406**	**530**
Tax	4	-403	142	185
Profit after tax	**3**	**692**	**264**	**344**
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	**3**	**692**	**264**	**344**
E/oincome/ (Expense)	-	-	-	-
Reported Profit	**3**	**692**	**264**	**344**

Balance Sheet

Y/E (Rs.Cr)	FY15	FY16	FY17E	FY18E
Paid up capital	107	107	107	107
Reserves and Surplus	(420)	274	538	882
Net worth	(313)	381	645	989
Minority Interest	-	-	-	-
Total Debt	1,484	1,231	1,051	851
Other non-current liabilities	25	81	85	89
Total Liabilities	**1,195**	**1,693**	**1,781**	**1,929**
Net fixed assets	1,454	1,810	1,857	2,022
CWIP	497	610	790	610
Goodwill	-	-	-	-
Investments	200	232	232	232
Net Current assets	(1,056)	(1,567)	(1,711)	(1,553)
Deferred tax assets	-	436	436	436
Other non-current assets	101	172	177	182
Total Assets	**1,195**	**1,693**	**1,781**	**1,929**

Cash Flow Statement

Y/E (Rs.Cr)	FY15	FY16	FY17E	FY18E
Pretax profit	7	290	406	530
Depreciation	614	591	674	764
Chg in Working Capital	41	121	90	118
Others	115	151	102	63
Tax paid	(10)	(20)	(142)	(185)
Cash flow from operating activities	**767**	**1,132**	**1,129**	**1,290**
Capital expenditure	(706)	(908)	(900)	(750)
Chg in investments	2	(29)	-	-
Other investing cashflow	34	128	60	67
Cash flow from investing activities	**(670)**	**(809)**	**(840)**	**(683)**
Equity raised/(repaid)	3	2	-	-
Debt raised/(repaid)	36	(287)	(180)	(200)
Dividend paid	-	-	-	-
Other financing activities	(76)	(67)	(162)	(131)
Cash flow from financing activities	**(36)**	**(352)**	**(342)**	**(331)**
Net chg in cash	**61**	**(29)**	**(53)**	**277**

Key Ratios

Y/E	FY15	FY16	FY7E	FY18E
Valuation (x)				
P/E	-	14.7	38.6	29.6
EV/EBITDA	15.3	10.8	9.3	7.7
EV/Net Sales	4.2	3.6	3.3	2.8
P/B	-	26.7	15.8	10.3
Per share data (Rs.)				
EPS	-	6.5	2.5	3.2
DPS	-	-	-	-
BVPS	-	3.6	6.0	9.3
Growth (%)				
Net Sales	7.2	13.9	9.4	12.2
EBITDA	17.5	39.8	15.3	14.9
Net Profit	-	-	(61.9)	30.5
Operating Ratios (%)				
EBITDA Margin	27.3	33.5	35.3	36.2
EBIT Margin	4.4	14.2	15.2	15.8
PAT Margin	0.1	22.6	7.9	9.2
Return Ratios (%)				
RoE	-	-	51.5	42.2
RoCE	16.1	35.8	34.3	37.4
Turnover Ratios (x)				
Sales/Total Assets	0.9	0.9	0.8	0.9
Sales/Working Capital	(2.0)	(1.8)	(1.7)	(1.8)
Liquidity&Solvency Ratios (x)				
Current Ratio	0.5	0.3	0.3	0.4
Debt/Equity	(4.7)	3.2	1.6	0.9

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Upside or downside is less than 10%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than equal to -10%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

***** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

***** DISH TV is a large-cap company

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