Dish TV

BUY

INDUSTRY	MEDIA
CMP *(as on 21 Aug 2017)*	Rs 76
Target Price	Rs 105
Nifty	9,754
Sensex	31,259
elyKEY STOCK DATA	
Bloomberg	DITV IN
No. of Shares (mn)	1,066
MCap (Rs bn)/(US$ mn)	81/1,268
6m avg traded value (Rs mn)	517

STOCK PERFORMANCE (%)			
52 Week high / low			Rs 111 / 70
	3M	6M	12M
Absolute (%)	(22.9)	(18.4)	(19.0)
Relative (%)	(25.5)	(27.0)	(30.3)

SHAREHOLDING PATTERN (%)	
Promoters	64.44
FIs & Local MFs	7.87
FPIs	17.32
Public & Others	10.37

Source : BSE

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Getting it right, finally?

Dish TV (DITV), a pioneer in India's DTH (direct-to-home) space is coming off a phase of under-performance (-22% in three months). DITV's weak FY17 performance (EBITDA fell 5%) was in stark contrast with Videocon D2H and Airtel DTH (which posted EBITDA growth in the 20s). Persistently inferior subscriber stability and ARPU have undermined DITV's performance.

The upcoming merger with Videocon D2H holds significant cost rationalisation potential (Rs 4.7bn by FY20E, ~23.7% of FY17 EBITDA). Initiate coverage with BUY and a TP of Rs 105 @ 9x FY19E EV/e. Our positive view on DITV derives from its inexpensive valuations (7.5/6.4x FY19/20E EV/e), synergies from the merger, DAS IV digitisation and GST. Further benefits can accrue from a license fee reduction and TRAI's tariff order.

Key investment arguments

- **Merger synergy:** The DITV-VD2H merger can unleash synergies of ~Rs 5bn (largely cost-led) over FY19-20. DITV-VD2H will benefit from DITV's legacy content cost advantage (~Rs 51/net subscriber per month or 30% of revenue) vs. VD2H's Rs 82 (40% of revenue).
- **Op cost savings**: Besides content (nearly half the synergy benefit), savings in transponders, employee and G&A expenses are significant. Our TP includes Rs 11/sh from merger synergies (50% of the potential).
- **Phase IV digitisation:** Subscriber growth should remain healthy, as 35-40mn of the phase IV universe of 80-85mn subscribers is yet to be digitised. Unlike phase I/II markets, DTH is likely to lead in phase IV, as MSOs cable distribution economics are weaker up-country.
- **GST is the icing on the cake:** GST will be beneficial for DTH, as tax burden falls to 18% from 21-22% (15% Svc Tax + 6-7% Ent. Tax), leading to savings of ~Rs 1-1.2bn. Better tax compliance by cable operators will also add to pricing power for DTH.
- **1QFY18 reflects recovery:** Post a weak 2HFY17 owing to demonetisation, DITV finally registered a recovery in ARPU/subscription revenue (+5% QoQ). Sustenance of subscription revenue growth and RMS is key for re-rating.

Financial Summary (DISH TV Consol, ex-Videocon D2H merger)

(Rs mn)	1QFY18	1QFY17	*YoY (%)*	4QFY17	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	7,389	7,786	*(5.1)*	7,086	*4.3*	30,599	30,144	31,469	35,193	38,291
EBITDA	2,012	2,646	*(24.0)*	1,906	*5.6*	10,249	9,729	9,601	11,629	13,004
APAT	(139)	409	*(134.1)*	(283)	*(50.8)*	6,924	1,093	298	1,045	1,533
Diluted EPS (Rs)	(0.1)	0.4	*(134.1)*	(0.3)	*(50.8)*	6.5	1.0	0.3	1.0	1.4
P/E (x)						12.0	76.1	279.4	79.6	54.2
EV / EBITDA (x)						8.9	9.5	9.5	7.5	6.4
RoIC						NM	20.3	14.0	18.1	24.7

Source: Company, HDFC sec Inst Research

DITV's merger with Videocon D2H (VD2H) will significantly increase the bargaining power with broadcasters

Consolidation in the industry and increased tax compliance owing to GST for cable businesses paves way for ARPU growth

Dish TV and Videocon D2H: 1 + 1 > 2

- **Transaction overview:** Dish TV and Videocon D2H announced a merger of their operations. The combined entity will be named 'Dish TV Videocon Limited'. With the necessary approvals in place, the merger will be effective from 1- Oct- 17.
- DITV will issue 858mn shares (~2 per VD2H share) to Videocon shareholders as part of the deal. Post the deal closure, DITV promoters will own 36% of the merged company, VD2H promoters 28% (classified as non-promoters of the merged entity) and the rest will be owned by minority shareholders.
- The promoters of DITV will acquire an additional 4.95% in the merged entity from the promoters of VD2H, on the first trading day (our est. 1-Oct-17), f the post-merger shares. <u>The acquisition price will be the same as the closing price on the preceding trading day. DITV's share price was Rs 91 at the time of the deal announcement, vs CMP of Rs 78.</u>
- **Merger synergies:** The DITV-VDTH merger is likely to rake in synergies worth Rs 1.8bn in FY18E and Rs 5.1bn (largely cost-led) in FY19E (as per management; we are factoring in lower benefits). We expect DITV-VDTH to benefit from DITV's legacy content cost advantage (~ Rs 52/net subscriber per month or 28% of revenue) against VDTH's Rs 82 or 40% of revenue.
- Besides content (nearly half the benefit), saving in transponders, SG&A, employee and commission costs, higher bargaining power in carriage and placement, advertising and procurement of set top boxes would be additional benefits.
- Synergy benefits of Rs 4-5bn seem feasible. We, however, remain conservative owing to merger hiccups and costs of running a dual brand operation, as explicitly committed by DITV. We thus estimate nil savings in FY18E, Rs 3bn in FY19E and Rs 4.5bn in FY20E.
- Our TP includes Rs 11/sh from merger synergies. Cognizant of DITV's execution and merger hiccups, we are factoring in sustainable synergy benefits of ~Rs 2.4bn p.a. (~50% of management's estimates) in our TP.
- We will discuss each of these synergies below.

Dish TV + Videocon D2H: Proforma Financials (With And Without Synergies)

	DITV		VD2H		DITV+VDTH (without synergies)		DITV + VDTH (with synergies)		Synergy benefit*		% increase/(decrease)	
	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
Revenue	**35,193**	**38,291**	**37,851**	**41,690**	**73,044**	**79,982**	**73,187**	**80,126**	**143**	**144**	**0.2%**	**0.2%**
- subscription and activation	33,041	36,079	35,247	39,105	68,289	75,184	68,289	75,184	-	-		
- others	2,151	2,213	2,604	2,585	4,756	4,798	4,898	4,942	143	144	3.0%	3.0%
Content costs	10,576	11,494	14,819	16,361	25,395	27,855	24,126	25,070	(1,270)	(2,786)	-5.0%	-10.0%
Space management charges	1,962	2,060	1,767	1,856	3,729	3,916	2,797	2,937	(932)	(979)	-25.0%	-25.0%
License fees	2,534	2,757	2,271	2,501	4,805	5,258	5,269	5,769	464	511	9.7%	9.7%
Employee costs	1,657	1,773	1,407	1,477	3,064	3,251	2,605	2,763	(460)	(488)	-15.0%	-15.0%
Customer costs	3,343	3,446	2,603	2,739	5,946	6,185	5,946	6,185	-	-		
Other opex	3,491	3,757	1,692	1,840	5,183	5,597	4,406	4,757	(777)	(840)	-15.0%	-15.0%
Total Opex	**23,564**	**25,287**	**24,559**	**26,774**	**48,123**	**52,062**	**45,148**	**47,481**	**(2,975)**	**(4,581)**	**-6.2%**	**-8.8%**
EBITDA	**11,629**	**13,004**	**13,292**	**14,916**	**24,921**	**27,920**	**28,039**	**32,645**	**3,117**	**4,725**	**12.5%**	**16.9%**
EBITDA margin %	**33.0**	**34.0**	**35.1**	**35.8**	**34.1**	**34.9**	**38.3**	**40.7**	**419 bps**	**583 bps**		
Net Subs	17.7	18.9	14.8	15.9	32.5	34.8	32.5	34.8				
Subscription ARPU	161	164	206	212	182	186	182	186				
Content costs/sub/month	52	52	87	89	68	69	64	62	-5.0%	-10.0%		
EBITDA/sub/month	57	59	78	81	66	69	75	81				
Cost as % of revenue												
Content costs	30.1	30.0	39.2	39.2	34.8	34.8	33.0	31.3				
Space management charges	5.6	5.4	4.7	4.5	5.1	4.9	3.8	3.7				
License fees	7.2	7.2	6.0	6.0	6.6	6.6	7.2	7.2				
Employee costs	4.7	4.6	3.7	3.5	4.2	4.1	3.6	3.4				
Customer costs	9.5	9.0	6.9	6.6	8.1	7.7	8.1	7.7				
Other opex	9.9	9.8	4.5	4.4	7.1	7.0	6.0	5.9				
Total Opex	**67.0**	**66.0**	**64.9**	**64.2**	**65.9**	**65.1**	**61.7**	**59.3**				

* Management foresees potential synergy benefits of Rs 1.8bn and Rs 5.1bn in FY18 and FY19. We remain conservative and believe synergy benefits will accrue only over FY19-20, FY18 being the year of integration.

Synergy benefits

Savings in content and transponder costs to account for 70-80% of the total savings of ~Rs 3/4.7bn as per our estimates in FY19/20. Management estimates a savings of Rs 5.1bn in FY19

- **C&P, advertising revenue and content costs:** Led by economies of scale and higher bargaining power with broadcasters, we estimate a modest 3% increase in other operating income (comprising of carriage and placement, and also advertising revenue from broadcasters) for the merged operations. Further, the blended content/cost per subscriber is Rs 69 (vs. Rs 52 for DITV and Rs 82 for Videocon). We estimate a reduction of 5% in cost/subscribers in FY19 and 10% in FY20 is feasible. In a 1QFY18 call, DITV's management highlighted the fact that it has started witnessing the benefits of content cost renegotiation with a large broadcaster in the current quarter. Savings in content cost is the biggest plus for DITV from the merger with VD2H.

- **Transponder costs:** Both DITV and VD2H currently house ~60 HD channels, as compared to market leader Tata Sky with 80+ HD channels. On the basis of our recent interaction with the Tata Sky management, it is possible to double the targeted HD channels to 150+ with the existing 864MHz transponder capacity. Comparing this to DITV-VDTH's 1,476MHz (DITV 864MHz, VD2H 612MHz) transponder capacity, we believe it is well placed to rev up its HD channel count to match that of Tata Sky, even if it reduces its capacity by ~30%. We assume transponder lease savings of Rs 1bn annually, with a capacity of 1,000MHz. Standard 36MHz transponders can uplink/downlink 24-28 SD channels and 12-14 HD channels. To increase HD channel offerings to 150, DITV-VDTH would need a transponder capacity of ~415MHz. The remaining 585MHz is sufficient to cater to SD needs.

- **License fees:** DITV provides for license fees @ 10% of gross revenues. It, however, routes ~30% of revenues through a 100% subsidiary "Dish Infra Services Private Limited", treating it as non-core/infrastructure income. DITV attributes this revenue to subscriber management activities, not associated with the DTH license. Effective license fee provision is thus 7% of gross revenues. DITV is following this procedure since FY16, and hasn't received any objection / notice from regulatory authorities, but it remains a risk. *We will discuss additional aspects of DITV's license fee in the subsequent section.*

- VD2H provides for licensee fees @ 10% of adjusted gross revenue (AGR), i.e. gross revenue less content costs and taxes, if any. VD2H's effective license is thus 5.5% of gross revenue.

- Post-merger, DITV would align VD2H's license fee accounting with itself. It would thus see an increase of ~150bps in license fee costs on VD2H revenues.

- **Customer costs:** We are assuming nil savings in consumer costs, as we expect DITV to reinvest the potential savings, if any**.** Further, operating the dual brand would keep savings in check. We discuss both the above points in detail below.

- **Employee and G&A costs:** Of the 979 VD2H employees as of Mar-17, 43% are a part of support functions, 37% are in sales and 20% in customer support. DITV doesn't provide details of employees function-wise. Assuming a similar mix as that of VD2H, it is possible for the company to save a minimum of 15-25% on employees and associated G&A costs (we are assuming 15% savings).

Post merger, retention of key talent and banking potential synergies would be inevitable in the near term

Equally important on a structural basis would be the focus on revenue growth through better quality subscribers and ARPU enhancement

Cost focus not enough, revenue growth imperative

- In the past, DITV's primary focus has been on cost management and maintaining its subscriber market share. DITV has been more focussed on content costs, rather than other aspects of customer service. Post-merger, priority of cost management and banking of potential synergies would be inevitable.
- However, Dish TV's ARPU has been stagnant in the past eight quarters (adjusted for accounting change of entertainment tax), and witnessed a steep decline in 2HFY17. Its revenue growth decelerated to 10% from 14-15% and declined in 4QFY17, owing to high share of low-ARPU packs in incremental subs and continuous down-trading of base customers (low-ARPU subs account for ~65% versus 60% a year ago).
- Dish TV has managed costs well, but a lot needs to be done on the revenue retention front (reducing recharge latency, preventing down-trading and upselling of services). It calls for higher investments in S&M. We hope DITV reinvests a portion of synergy benefits from the merger to protect revenue market share.

Performance of both DITV and VD2H has slipped in 2HFY17, post the merger announcement in Nov-16

Integration may post near-term challenges on operating performance, as management attention will be divided and uncertainty amongst employees

DITV's Performance Lags Peers, Though Marginally Recover In 1QFY18

Key Metrics	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Net Subs (Mn)									
Dish TV	13.3	13.6	13.9	14.5	14.9	15.1	15.3	15.5	15.7
Videocon D2H	10.7	10.9	11.3	11.9	12.3	12.5	12.8	12.9	13.0
Airtel Digital TV	10.4	10.6	11.1	11.7	12.2	12.4	12.6	12.8	13.3
Net Adds (000s)									
Dish TV	390	338	317	508	402	259	204	165	186
Videocon D2H	460	200	430	590	430	230	250	130	130
Airtel Digital TV	339	164	530	619	424	256	183	228	487
Monthly Churn (%)									
Dish TV	0.7	0.8	0.7	0.7	0.7	0.8	0.8	0.9	1.0
Videocon D2H	0.5	1.2	0.7	0.6	0.5	1.0	0.9	0.9	1.3
Airtel Digital TV	0.8	1.3	0.7	0.8	0.8	1.2	1.3	1.2	0.9
ARPU (Rs)									
Dish TV	174	171	172	174	165	162	151	141	148
Videocon D2H	205	205	211	214	211	209	205	196	198
Airtel Digital TV	222	224	229	229	233	232	232	228	228
SAC (Rs)									
Dish TV	1,750	1,725	1,750	1,450	1,451	1,590	1,725	1,680	1,800
Key P&L items									
Revenue (Rs Mn)									
Dish TV	7,367	7,112	7,302	7,994	7,786	7,793	7,480	7,086	7,389
Videocon D2H	6,628	6,901	7,315	7,715	7,633	7,762	7,774	7,549	7,726
Airtel Digital TV	6,848	7,068	7,422	7,840	8,369	8,545	8,735	8,657	8,974
Revenue growth YoY (%)									
Dish TV	19.2	9.4	2.3	9.5	5.7	9.6	2.4	(11.4)	(5.1)
Videocon D2H	23.3	20.4	21.6	23.4	15.2	12.5	6.3	(2.1)	1.2
Airtel Digital TV	15.8	12.9	19.1	23.5	22.2	20.9	17.7	10.4	7.2
EBITDA (Rs Mn)									
Dish TV	2,358	2,550	2,654	2,608	2,647	2,642	2,495	1,906	2,012
Videocon D2H	1,874	1,883	1,977	2,162	2,498	2,605	2,651	2,319	2,485
Airtel Digital TV	2,408	2,343	2,474	2,750	3,011	3,030	3,026	3,153	3,300
EBITDA Margin %									
Dish TV	32.0	35.9	36.3	32.6	34.0	33.9	33.4	26.9	27.2
Videocon D2H	28.3	27.3	27.0	28.0	32.7	33.6	34.1	30.7	32.2
Airtel Digital TV	35.2	33.1	33.3	35.1	36.0	35.5	34.6	36.4	36.8

* Note: ARPU & revenue before Jun'16 is not comparable due to accounting change. Dish TV and Videocon d2h started netting-off certain commisions paid to its trade partners from its revenues and costs from 1QFY16 and e-tax from 1QFY17.

Digitisation of 35-40mn analogue subscribers in phase IV offers considerable opportunity to DTH players

Significant uptake of Free Dish is a formidable issue

- **Phase IV digitisation:** With 35-40mn of the 80-85mn universe pending digitisation in phase IV, subscriber growth should remain healthy for DTH operators. Unlike phase I/II markets, DTH is likely to lead in phase IV, as cable economics weaken in India's hinterland.
- The DTH industry has been adding 10-12mn gross and 4-5mn net subscribers per annum, even in the absence of DAS. Cable operators (MSOs) are not willing to expand further in phase IV, owing to weak monetisation in existing markets and stretched balance sheets. With DAS IV, the DTH industry should thus be able to grab a significant share over the next one or two years, although the sunset date remains 31-Dec-17.
- DITV's strength has been in the rural markets (75% of total subscribers), with its value-for-money offerings. These offerings can be made owing to lower content costs, although the competition is catching up. We believe DITV-VD2H is geared to grab a significant share of potential opportunities.
- **Short-term pain**: Though DAS IV offers opportunities, competition from Free Dish has upset the DTH operators' secular growth trajectory. The Free Dish phenomenon came into existence after the launch of DTH (2004). However, with a majority of leading Hindi GEC and movie channels available on Free Dish, uptake has been significant. This problem has confronted existing DTH operators, with a slowdown in subscriber additions, challenges in increasing ARPU as well as churning/downtrading of customers.
- To counter the Free Dish threat, DTH operators launched entry-level packs at Rs 99, consisting of FTA channels with a mandatory regional / add-on-pack.
- **Lower ARPU packs to combat Free Dish:** Last month, Dish TV launched the Swagat pack at Rs 160 per month (ex-GST), in response to the Rs 199 pack launched by Tata Sky and Airtel (to combat Free Dish). While these packs come at a much lower price, they are very similar to the Super Family pack at Rs 240 (ex-GST) in terms of number of channels in key genres except kids channels. Management highlighted that these new packs will not be margin dilutive. Dish TV also withdrew its deep-value discount offers on long-term recharges, and introduced 10% and 20% discount on 3 and 12-month recharges.
- **Long term gain**: DTH players are mandating broadcasters to increase the window of telecast of original programmes of paid channels on FTA (free-to-air) from three to twelve months, as well as raising debit notes for violation of contractual terms. This is expected to have a limited impact in the short term, if any, according to DTH operators.
- On the positive side, Free Dish growth would significantly expand the eco-system of DTH vs. traditional cable operators. DTH operators remain hopeful of the upscaling of services by Free Dish subscribers to the paid platform. This would be a major boost for them.
- We remain conscious of the near-term threat of Free Dish through modest subscriber additions and ARPU growth assumptions, while long-term gains are likely.

GST to benefit DITV (1) By Rs 1-1.2bn owing to reduction in Entertainment Tax (2) Ease of doing business (3) Higher ARPUs as tax compliance for MSOs and LCOs increases

TRAI tariff order is positive for distributor vs. broadcaster at the margin

Implementation of regulation is likely to remain in limbo with legal and administrative challenges

GST: Bonanza for DTH

- Pre-GST, the DTH industry has been paying Service Tax @ 15% and Entertainment Tax @ 6-7% of revenues. GST would reduce the tax incidence on the industry from 21-22% to 18%, leading to financial savings of ~ Rs 1-1.2bn for DITV. Our ARPU assumption partly factors in the potential upside of GST. Management reiterated the upside in ARPU/revenue from GST implementation, though it would be reflected fully only in a couple of quarters, owing to long duration packs sold earlier.
- We don't foresee that the government will implement its anti-profiteering rules, as Entertainment Tax was subject to states levy and varied significantly across states.
- Entertainment Tax being subject to states, its levy varies significantly across states, and generally trends upwards. DTH players' operations are pan-India. Thus, it has been difficult to pass on an increase in Entertainment Tax to customers. GST implementation is significant, as a simpler tax regime, in addition to the ability to pass on the uniform tax to subscribers, would lead to the ease of conducting business and the associated savings in administration, litigation as well as compliance costs.
- An added bonus from the GST rollout would be the increase in tax compliance in the cable business in the country. Higher tax compliance in the cable business may lead to higher ARPU for the sector as a whole.

TRAI tariff order

- TRAI released tariff orders and interconnect regulations to bring in transparency and non-discrimination in broadcaster-distributor contracts, and also protect consumer interest. It is difficult to factor in all variations and quantify the impact, but the implementation should enhance the bargaining power of distributors versus broadcasters.

Key highlights

- **Broadcaster-distributor dealings:** (1) All channels should be available to distributors on an a-la-carte basis, (2) Maximum retail price (MRP) of a 'pay' channel should be uniform for all distributors, irrespective of DTH/Cable and (3) There is no price cap on any pay channel, per se. However, an a-la-carte price (MRP) of any channel cannot exceed Rs 19, if the broadcaster wants to include that channel in any bouquet offering.
- **Bouquet pricing by broadcasters:** Broadcasters are free to offer one or more bouquets of pay channels to distributors provided (1) MRP of such a bouquet is >=85% of the sum of a-la-carte prices of channels in the bouquet, (2) A bouquet cannot have both FTA and pay channels, and both SD and HD variants of the same channel.
- **Distributor's share in subscription revenues:** Every broadcaster will pay a minimum of 20% of MRP of pay channels or bouquet to distributors, and this will be uniform across all platforms. In addition, a broadcaster can offer discounts of up to 15% of MRP to distributors on a transparent, measurable and non-discriminatory basis. At an aggregate level, distribution fees and discounts should <=35% of MRP.

Resolution of impending license fee issue will help clean up the balance sheet

Favourable verdict would be positive for P&L through improvement in margins, however the impact on cash flows would be nil

- **Carriage fee:** For every channel, the broadcaster will pay carriage fee of up to 20 paise/month per subscriber for the entire subscriber base of a distributor. However, it will progressively decline with an increase in penetration from 0-20%, and will be nil if 20% of the subscriber base opts for the channel. Distributors can offer up to 35% discount to broadcasters on transparent, measurable and non-discriminatory terms.

- **Placement and marketing fee**: Broadcasters can pay placement fee to distributors for securing a certain positioning for a channel within the applicable genre. Broadcasters can also engage with distributors for marketing its channels. However, both these have to be transparent, and reported in interconnection agreements.

- **Distributor to subscriber offerings:** Subscribers will have to pay a maximum of Rs 130/month to distributors for access to 100 SD channels and up to Rs 20/month for every additional slab of 25 SD channels (each HD channel will be equivalent to two SD channels). We note that this is only for access to channels irrespective of FTA or Pay channels. In addition to this, subscribers will have to pay subscription fee for pay channels.

- **Question of regulation:** The regulations are effective from 1-Sept-2017, however we foresee (1) A legal challenge owing to a pending court case. Our interaction with industry participants reveals that the losing party may approach a higher court, and thus the implementation could remain in limbo in the foreseeable future (2) Administrative challenges owing to lack of technology and manpower, especially for the smaller players, and (3) This regulation reduces the pricing flexibility of the industry. It may benefit distributors in the short term, but hurt the industry's long-term growth prospects.

License fees: Double whammy?

- Based on the TDSAT judgement, quite some time ago TRAI recommended a reduction in license fees to 8% of adjusted gross revenue from 10% of gross revenue. The matter is pending with MIB, and will be taken up with the cabinet.

- Reduction in license fees by the government to 8% of AGR would improve the DITV margin by ~130-150 bps as it provides @ 10% of gross revenue. However, DITV pays license fee @ 8% of adjusted gross revenue (AGR), after adjusting non-DTH revenues, collection commission, entertainment tax and content costs from revenues. A reduction in license fees would thus have no impact on cash flows.

- DITV is operating under a deemed extension since FY14. Clarity on license fees will likely pave the way for a new license agreement (renewal).

- But, an adverse ruling of the court and / or the government to pay the license fee @ 8/10% of gross revenues would lead to cash outflows for DITV. We note that DITV has made a provision of ~Rs 14bn towards license fee liabilities and interest expenses at 12% for the same, as of end Mar-17 (VD2TH liability stands at Rs 6.4bn as of Mar-17). We have already factored in the potential outgo towards LF in our TP.

DITV management guides for 7-8% revenue growth led by 1mn net adds and flat ARPU YoY. DITV has generally negatively surprised on ARPUs, though it seems feasible, led by GST and price increase. However, we remain conservative and have factored 4.5% revenue growth YoY

In-line with our estimates DITV management has guided for 30-31% EBITDA margin excluding Rs 1.8bn potential synergy benefit from merger

Key Model Assumptions: Dish TV

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
End of period Subscribers (in Mn)												
Gross	5.1	6.9	10.4	12.9	15.2	16.4	18.9	21.7	24.2	27.2	30.2	33.4
Net	**4.3**	**5.7**	**8.5**	**9.6**	**10.7**	**11.4**	**12.9**	**14.5**	**15.5**	**16.5**	**17.7**	**18.9**
% chg YoY - Net subs	*72.2%*	*32.4%*	*50.4%*	*12.9%*	*11.5%*	*6.5%*	*13.1%*	*12.0%*	*7.1%*	*6.5%*	*7.3%*	*6.8%*
Net %	*84.2%*	*82.0%*	*81.5%*	*74.4%*	*70.6%*	*69.5%*	*68.1%*	*66.7%*	*63.9%*	*60.7%*	*58.6%*	*56.6%*
Additions												
Gross	2.06	1.83	3.54	2.46	2.26	1.24	2.54	2.74	2.56	2.92	3.04	3.17
Net	1.79	1.39	2.85	1.10	1.10	0.70	1.50	1.55	1.03	1.01	1.20	1.20
Churn	0.27	0.45	0.69	1.37	1.16	0.54	1.04	1.19	1.53	1.91	1.84	1.97
Churn % / month	*0.67%*	*0.75%*	*0.81%*	*1.26%*	*0.96%*	*0.41%*	*0.71%*	*0.72%*	*0.85%*	*1.00%*	*0.90%*	*0.90%*
Total ARPU/Net Sub (Rs)	**182**	**182**	**169**	**180**	**178**	**182**	**184**	**186**	**168**	**164**	**172**	**179**
% chg YoY	***9.7%***	***0.0%***	***-7.2%***	***6.6%***	***-1.3%***	***2.1%***	***1.5%***	***1.1%***	***-10.0%***	***-2.1%***	***4.4%***	***4.2%***
Subscription ARPU/Net Sub (Rs)	**146**	**140**	**140**	**153**	**158**	**164**	**168**	**172**	**156**	**151**	**157**	**164**
% chg YoY	***11.2%***	***-3.7%***	***0.1%***	***9.1%***	***3.1%***	***3.6%***	***2.7%***	***2.5%***	***-9.5%***	***-3.0%***	***4.0%***	***4.0%***
Subscription revenue	5,897	8,353	11,927	16,639	19,228	21,688	24,499	19,582	28,021	29,414	33,041	36,079
% chg YoY	*79.3%*	*41.6%*	*42.8%*	*39.5%*	*15.6%*	*12.8%*	*13.0%*	*-20.1%*	*43.1%*	*5.0%*	*12.3%*	*9.2%*
Other operating income	1,484	2,497	2,440	2,940	2,440	2,408	2,380	11,018	2,123	2,055	2,151	2,213
% chg YoY	*76.7%*	*68.3%*	*-2.3%*	*20.5%*	*-17.0%*	*-1.3%*	*-1.2%*	*362.9%*	*-80.7%*	*-3.2%*	*4.7%*	*2.9%*
Total revenue	**7,381**	**10,850**	**14,367**	**19,579**	**21,668**	**24,096**	**26,879**	**30,599**	**30,144**	**31,469**	**35,193**	**38,291**
% chg YoY	***78.8%***	***47.0%***	***32.4%***	***36.3%***	***10.7%***	***11.2%***	***11.5%***	***13.8%***	***-1.5%***	***4.4%***	***11.8%***	***8.8%***
Content costs	3,479	4,132	5,036	6,066	6,525	7,784	8,008	8,555	9,142	9,773	10,576	11,494
Content costs/sub/month	***86***	***69***	***59***	***56***	***54***	***59***	***55***	***52***	***51***	***51***	***52***	***52***
EBITDA	**(1,233)**	**1,117**	**2,380**	**4,960**	**5,794**	**5,345**	**7,331**	**10,249**	**9,729**	**9,684**	**11,862**	**13,399**
EBITDA margin %	***-16.7%***	***10.3%***	***16.6%***	***25.3%***	***26.7%***	***22.2%***	***27.3%***	***33.5%***	***32.3%***	***30.8%***	***33.7%***	***35.0%***

* FY17 ARPU is not comparable vs. previous years as DITV netted off entertainment tax from revenue's (~Rs 8-10/sub/month)

Favourable ruling from the court would entail DITV to reverse the license fee provision (difference between license fee accrued in P&L and paid to government) and reduce the current liability

This would increase our TP by Rs 15/share

Financial Snapshot: Dish TV + Videocon

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenue	**41,740**	**50,256**	**59,158**	**60,861**	**65,976**	**73,044**	**79,982**
- DITV	24,096	26,879	30,599	30,144	31,469	35,193	38,291
- VD2H	17,644	23,377	28,559	30,717	34,507	37,851	41,690
EBITDA	**9,266**	**13,287**	**18,144**	**19,801**	**21,520**	**24,921**	**27,920**
- DITV	5,345	7,331	10,249	9,729	9,601	11,629	13,004
- VD2H	3,920	5,956	7,895	10,073	11,918	13,292	14,916
EBITDA Margin %	**22.2**	**26.4**	**30.7**	**32.5**	**32.6**	**34.1**	**34.9**
- DITV	22.2	27.3	33.5	32.3	30.5	33.0	34.0
- VD2H	22.2	25.5	27.6	32.8	34.5	35.1	35.8
Net Debt	**39,293**	**22,323**	**23,517**	**24,157**	**22,707**	**16,209**	**7,881**
- DITV	8,669	8,553	6,600	7,687	7,711	4,350	611
- VD2H	30,625	13,770	16,916	16,471	14,997	11,859	7,270

Source : Company, HDFC Sec Inst Research

Valuation Snapshot

Description	Unit	DITV	VD2H	Upside from synergy*	DITV + VD2H
FY19 EBITDA	**Rs Mn**	**11,629**	**13,292**	**2,362**	**27,284**
EV/EBITDA multiple	X	9.0	9.0	9.0	9.0
Enterprise Value	**Rs Mn**	**104,662**	**119,628**	**21,262**	**245,553**
(-) Net debt	Rs Mn	4,350	11,859		16,209
(-) LF provision	Rs Mn	17,837	9,430		27,267
Total debt	**Rs Mn**	**22,187**	**21,289**		**43,476**
Equity Value	**Rs Mn**	**82,475**	**98,339**	**21,262**	**202,076**
O/s share	Mn	1,066	858	1,924	1,924
Equity Value/share	**Rs**	**77**	**115**	**11**	**105**

Source : Company, HDFC Sec Inst Research

We have factored Rs 2.4bn (50%) of the potential upside from the merger with Videocon D2H owing to merger hiccups, integration issues etc Full realization of synergy benefits from merger would increase our TP by further Rs 10/share (viz. Rs 2.3bn additional synergy benefit * 9x EV/EBITDA multiple / 1.9bn merged entity o/s shares)

Post a steep decline in ARPU for three consecutive quarters led by demonetisation, delay in recharges, down-trading of customers and higher churn, DITV finally reported a recovery in ARPU

ARPU growth should remain healthy, with a reduction in deep discounts on long validity recharges, increase in penetration of HD subscribers, and benefits from GST. Part of ARPU increase would be off-set by increased competition, especially FreeDish (higher churn) and lower ARPU customers from DAS IV

Increase in revenue QoQ and reduction in transponder costs was partly offset by higher content costs (up Rs 190mn QoQ) and marketing costs (up Rs 60mn QoQ)

Depreciation increased QoQ owing to Rs 85mn one-time provision

1QFY18 Financials Snapshot

Operating KPIs

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	*YoY (%)*	*QoQ (%)*
Subscribers (in 000s)							
Gross	22.4	23.0	23.6	24.2	24.9	*11.2*	*2.7*
Net	14.9	15.1	15.3	15.5	15.7	*5.5*	*1.2*
Incremental Subscribers (in 000s)							
Gross	710	620	630	600	653	*(8.0)*	*8.9*
Net	402	259	204	165	186	*(53.7)*	*12.7*
Churn	308	361	426	435	467	*51.7*	*7.4*
Churn % per month	*0.70*	*0.80*	*0.93*	*0.94*	*1.00*		
ARPU							
Total ARPU/Net Sub (Rs)	177	173	164	153	158	*(10.7)*	*3.1*
Subscription ARPU/Net Sub (Rs)	166	162	152	141	148	*(10.6)*	*5.1*

Source: Company, HDFC Sec Inst Research

Quarterly Financials Snapshot

(Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	*YoY (%)*	*QoQ (%)*
Net Sales	**7,786**	**7,793**	**7,480**	**7,086**	**7,389**	***(5.1)***	***4.3***
- Subscription revenue	7,282	7,288	6,921	6,505	6,917	*(5.0)*	*6.3*
- Other operating income	504	505	559	581	472	*(6.3)*	*(18.8)*
Operating Expenses	3,584	3,662	3,443	3,618	3,765	*5.0*	*4.1*
Employee Expenses	381	364	361	359	388	*2.0*	*8.1*
S&D Expenses	880	724	803	701	796	*(9.5)*	*13.6*
Administration Expenses	295	401	378	502	428	*45.2*	*(14.8)*
Total Operating Cost	**5,140**	**5,151**	**4,985**	**5,180**	**5,377**	***4.6***	***3.8***
EBITDA	**2,646**	**2,642**	**2,495**	**1,906**	**2,012**	***(24.0)***	***5.6***
Depreciation	1,613	1,635	1,656	1,728	1,822	*13.0*	*5.5*
EBIT	1,034	1,007	839	178	190	*(81.6)*	*6.7*
Interest Cost	521	554	591	573	590	*13.2*	*2.9*
Other Income	119	111	181	104	98	*(17.4)*	*(5.9)*
Exceptional gain/(loss)	-	-	-	-	-		
PBT	631	564	429	(291)	(302)	*(147.8)*	*3.7*
Tax	223	(136)	163	(8)	(162)		
APAT	409	701	267	(283)	(139)	*(134.1)*	*(50.8)*

Source: Company, HDFC Sec Inst Research

Margin Analysis

As % of Net Sales	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	*YoY (bps)*	*QoQ (bps)*
Operating Expenses (%)	47.7	46.0	47.0	46.0	51.1	51.0	*502*	*(11)*
Employee Expenses (%)	3.7	4.9	4.7	4.8	5.1	5.3	*18*	*19*
S&D Expenses (%)	10.2	11.3	9.3	10.7	9.9	10.8	*(141)*	*88*
Administration Expenses (%)	5.7	3.8	5.1	5.1	7.1	5.8	*330*	*(130)*
Total Operating Cost (%)	67.4	66.0	66.1	66.6	73.1	72.8	*709*	*(34)*
EBITDA Margin (%)	32.6	34.0	33.9	33.4	26.9	27.2	*(709)*	*34*
APAT Margin (%)	60.4	5.2	9.0	3.6	(4.0)	(1.9)	*(925)*	*211*

Source: Company, HDFC Sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	**30,599**	**30,144**	**31,469**	**35,193**	**38,291**
Growth (%)	***13.8***	***(1.5)***	***4.4***	***11.8***	***8.8***
Programming and other costs	8,555	9,142	9,773	10,576	11,494
License fee	2,175	2,173	2,266	2,534	2,757
Gross margin (%)	64.9	62.5	61.7	62.7	62.8
Transponder costs	1,618	1,779	1,868	1,962	2,060
SG&A Expenses	2,836	3,108	3,204	3,343	3,446
Employee expenses	1,229	1,465	1,549	1,657	1,773
Other Operating Expenses	3,873	2,686	3,146	3,428	3,694
Expenditure	**20,350**	**20,415**	**21,868**	**23,564**	**25,287**
EBITDA	**10,249**	**9,729**	**9,601**	**11,629**	**13,004**
EBITDA (%)	***33.5***	***32.3***	***30.5***	***33.0***	***34.0***
EBITDA Growth (%)	***39.8***	***(5.1)***	***(1.3)***	***21.1***	***11.8***
Depreciation	5,907	6,631	7,314	8,171	9,079
EBIT	**4,342**	**3,098**	**2,288**	**3,458**	**3,925**
Other Income	640	475	461	470	471
Interest	2,087	2,239	2,398	2,370	2,108
PBT	**2,895**	**1,334**	**351**	**1,559**	**2,288**
Tax	(4,029)	241	53	514	755
APAT	**6,924**	**1,093**	**298**	**1,045**	**1,533**
APAT Growth (%)	***NM***	***(84.2)***	***(72.8)***	***250.9***	***46.8***
EPS	**6.5**	**1.0**	**0.3**	**1.0**	**1.4**
EPS Growth (%)	***NM***	***(84.2)***	***(72.8)***	***250.9***	***46.8***

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1,066	1,066	1,066	1,066	1,066
Reserves	2,741	3,840	4,138	5,182	6,715
Total Shareholders' Funds	**3,807**	**4,906**	**5,204**	**6,248**	**7,781**
Long term debt	11,535	11,129	8,347	6,260	4,695
Short term debt	777	1,124	1,685	2,528	3,792
Total Debt	**12,312**	**12,253**	**10,032**	**8,788**	**8,487**
Other liabilities and provisions	808	1,230	984	1,082	1,191
TOTAL SOURCES OF FUNDS	**16,927**	**18,389**	**16,220**	**16,118**	**17,459**
APPLICATION OF FUNDS					
Net Block	18,100	19,203	22,652	23,607	24,043
CWIP	6,100	7,868	6,294	5,035	4,532
LT Loans & Advances	6,101	7,116	7,366	7,616	7,866
Total Non-current Assets	**30,302**	**34,187**	**36,312**	**36,259**	**36,441**
Inventories	126	131	144	159	174
Debtors	725	870	914	959	1,007
Cash & Equivalents	5,712	4,566	2,321	4,438	7,876
Other Current Assets	2,529	2,855	2,998	3,148	3,305
Total Current Assets	**9,092**	**8,422**	**6,377**	**8,703**	**12,363**
Creditors	10,315	9,984	10,483	11,007	11,557
Other Current Liabilities & Provns	12,151	14,237	15,987	17,837	19,787
Total Current Liabilities	**22,466**	**24,221**	**26,470**	**28,844**	**31,344**
Net Current Assets	**-13,374**	**-15,799**	**-20,093**	**-20,141**	**-18,982**
TOTAL APPLICATION OF FUNDS	**16,927**	**18,389**	**16,220**	**16,118**	**17,459**

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PAT	6,924	1,093	298	1,045	1,533
Net interest expense	2,087	2,239	2,398	2,370	2,108
Depreciation	5,907	6,631	7,314	8,171	9,079
Working Capital Change & others	4,237	1,279	2,050	2,164	2,279
OPERATING CASH FLOW (a)	**19,156**	**11,241**	**12,059**	**13,749**	**14,999**
Capex	(10,597)	(9,501)	(9,189)	(7,867)	(9,011)
Free cash flow (FCF)	*8,558*	*1,740*	*2,870*	*5,882*	*5,988*
Investments	(4,536)	(593)	(496)	(152)	(142)
INVESTING CASH FLOW (b)	**(15,133)**	**(10,094)**	**(9,685)**	**(8,018)**	**(9,153)**
Debt Issuance	(2,526)	(60)	(2,221)	(1,244)	(301)
Interest expenses	(2,087)	(2,239)	(2,398)	(2,370)	(2,108)
FCFE	**(591)**	**(1,152)**	**(2,245)**	**2,117**	**3,437**
Share capital Issuance	17	6	-	-	-
Dividends	-	-	-	-	-
FINANCING CASH FLOW (c)	**(4,597)**	**(2,293)**	**(4,619)**	**(3,614)**	**(2,409)**
NET CASH FLOW (a+b+c)	**(574)**	**(1,146)**	**(2,245)**	**2,117**	**3,437**
Closing Cash & Equivalents	5,712	4,566	2,322	4,438	7,876

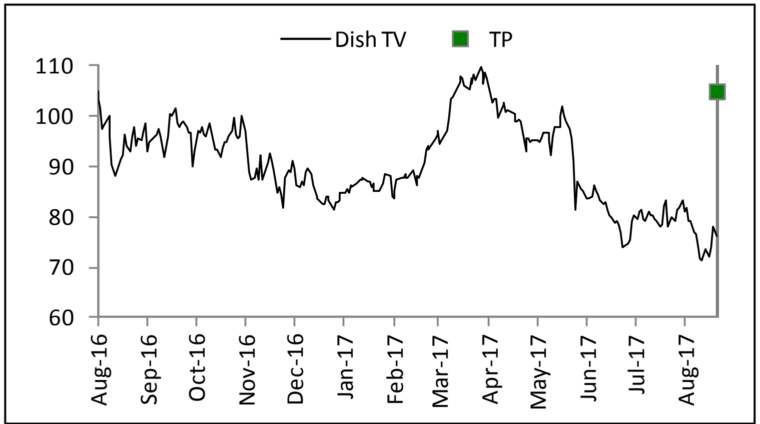
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	64.9	62.5	61.7	62.7	62.8
EBITDA Margin	33.5	32.3	30.5	33.0	34.0
EBIT Margin	14.2	10.3	7.3	9.8	10.2
APAT Margin	NM	3.6	0.9	3.0	4.0
RoE	NM	25.1	5.9	18.2	21.9
RoIC (or Core RoCE)	*NM*	*20.3*	*14.0*	*18.1*	*24.7*
RoCE	NM	14.4	11.2	14.3	15.7
EFFICIENCY					
Tax Rate (%)	(139.2)	18.1	15.1	33.0	33.0
Fixed Asset Turnover (x)	1.9	1.6	1.5	1.5	1.6
Inventory (days)	*2*	*2*	*2*	*2*	*2*
Debtors (days)	*9*	*11*	*11*	*10*	*10*
Other Current Assets (days)	*30*	*35*	*35*	*33*	*32*
Payables (days)	*123*	*121*	*122*	*114*	*110*
Other Current Liab & Provns (days)	*145*	*172*	*185*	*185*	*189*
Cash Conversion Cycle (days)	(228)	(247)	(260)	(255)	(256)
Net D/E (x)	1.7	1.6	1.5	0.7	0.1
Interest Coverage (x)	2.1	1.4	1.0	1.5	1.9
PER SHARE DATA (Rs)					
EPS	6.5	1.0	0.3	1.0	1.4
CEPS	12.0	7.2	7.1	8.6	10.0
Dividend	-	-	-	-	-
Book Value	3.6	4.6	4.9	5.9	7.3
VALUATION					
P/E (x)	12.0	76.1	279.4	79.6	54.2
P/BV (x)	21.8	16.9	16.0	13.3	10.7
EV/EBITDA (x)	8.8	9.3	9.5	7.5	6.4
EV/Revenues (x)	2.9	3.0	2.9	2.5	2.2
OCF/EV (%)	21.3	12.4	13.3	15.7	17.9
FCF/EV (%)	9.5	1.9	3.2	6.7	7.1
FCFE/Mkt Cap (%)	(0.7)	(1.4)	(2.7)	2.5	4.1
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
21-Aug-17	76	BUY	105

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

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