

BSE SENSEX 36,240
S&P CNX 10,947

CMP: INR74 TP: INR100(+35%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	DITV IN
Equity Shares (m)	1,066
M.Cap.(INRb)/(USDb)	79.9 / 1.2
52-Week Range (INR)	118 / 50
1, 6, 12 Rel. Per (%)	-15/-53/-51
Avg Val, INRm	1377.0
Free float (%)	57.4

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	46.3	68.2	74.8
EBITDA	13.2	23.5	26.9
PAT	-0.8	3.3	10.1
EPS (INR)	-0.4	1.8	5.5
Gr. (%)	-152.9	-546.4	201.8
BV/Sh (INR)	36.6	38.4	43.9
RoE (%)	-2.1	4.9	13.3
RoCE (%)	5.2	8.5	12.1
P/E (x)	-180.7	40.8	13.4
P/BV (x)	2.0	1.9	1.7
EV/EBITDA (x)	11.5	6.0	4.7

Estimate change 

TP change 

Rating change 

A turnaround quarter; merger synergies to propel growth

- Revenues rebound strongly:** After witnessing a weak performance over the last few quarters, Dish TV (DITV) – post its merger with Videocon – rebounded strongly in 1QFY19. Subscription revenue grew 8% QoQ to INR14.9b, driven by steady 7% QoQ ARPU growth, leading to 8% QoQ growth in consol. revenue to INR16.6b (7% beat). Consol. EBITDA grew by a robust 39% QoQ to INR5.6b (27% beat), led by revenue growth and 3% QoQ opex savings. Adj. EBITDA (excl. merger one-off costs of INR0.6b in 4QFY18) rose 21% QoQ. EBITDA margin expanded 750bp QoQ to 33.6%. Adjusted for INR1.47b deferred tax gain in 4QFY18, PAT stood at INR0.3b (-INR0.3b in 4QFY18), driven by strong EBITDA growth, partly offset by depreciation and interest cost.
- Strong ARPU growth – a positive surprise:** ARPU grew 7% QoQ, led by (a) lower discounts, (b) higher HD subscriber addition and (c) price hikes across packages. Management highlighted that peers also followed with price hikes. Net subscribers grew 0.3m QoQ to 23.3m; HD subscribers grew to 3.9m.
- Concall highlights:** For FY19, DITV guided for revenue growth of 7-8% and EBITDA margin of 34-35%; capex guidance lowered to INR8-9b (from INR10-11b).
- Merger synergies to keep DITV in action:** Turnaround in ARPU, coupled with 360bp QoQ adjusted EBITDA margin expansion, is a positive sign. We increase consol. revenue by ~5% and EBITDA by 14/9% for FY19/20E. We expect like-to-like ARPU growth of 6-7% and healthy 1.3m net subscriber adds. This, coupled with cost saving from merger synergies, should support EBITDA growth. We expect 43% EBITDA CAGR over FY18-20, with margins reaching 36% (+750bp).
- Valuation view:** We believe DITV is attractively priced – at CMP, the stock trades at EV/EBITDA of 6x FY19E and 4.7x FY20E. We increase our TP to INR100 (prior: INR95), valuing DITV at 7x on FY20E. Maintain **Buy**.

Consolidated Quarterly Performance

Y/E March	(INR m)											
	FY18				FY19				FY18	FY19E	1Q	Est.
	1Q*	2Q*	3Q	4Q	1Q	2QE	3QE	4QE		FY19E	1Q	Var %
Net Sales	7,389	7,486	16,143	15,324	16,556	16,802	17,343	17,546	46,342	68,248	15,484	7
YoY Change (%)	-5.1	-3.9	115.8	116.3	124.1	124.5	7.4	14.5	53.7	47.3	109.6	
Total Expenditure	5,377	5,325	11,165	11,317	10,989	11,096	11,337	11,354	33,181	44,775	11,089	-1
EBITDA	2,012	2,161	4,978	4,007	5,568	5,706	6,007	6,192	13,160	23,473	4,395	27
EBITDA margin (%)	27.2	28.9	30.8	26.1	33.6	34.0	34.6	35.3	28.4	34.4	28.4	525
Depreciation	1,822	1,899	3,525	3,471	3,608	3,688	3,688	3,769	10,717	14,754	3,216	12
Interest	590	611	1,434	1,329	1,775	1,124	1,124	1,597	3,964	5,620	538	230
Other Income	98	77	242	127	157	291	291	319	542	1,058	219	-28
PBT	-302	-272	261	-667	342	1,184	1,485	1,146	-979	4,157	859	-60
Tax	-162	-93	1,944	-1,849	87	237	297	211	-130	831	172	
Rate (%)	53.8	34.3	743.8	277.3	25.4	20.0	20.0	18.4	13.3	20.0	20.0	
MI & P/L of Asso. Cos.	(22.7)	(17.1)	(45.5)	(30.4)	(23.9)	0.0	0.0	0.0	(98.6)	(23.9)	0.0	
Reported PAT	-117	-162	-1,637	1,213	279	948	1,188	935	-750	3,349	687	-59
Adjusted PAT	-117	-162	-1,637	-257	279	948	1,188	935	-750	3,349	687	-59
YoY Change (%)	-128.2	-123.0	-1,672.9	5.1	-338.8	-686.4	-172.6	-463.4	-181.5	-546.4	-689.1	
PAT margin (%)	-1.6	-2.2	-10.1	-1.7	1.7	5.6	6.9	5.3	-1.6	4.9	4.4	-276

* Represents Dish TV pre-merger figures, and thus, not comparable on a YoY basis.

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Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

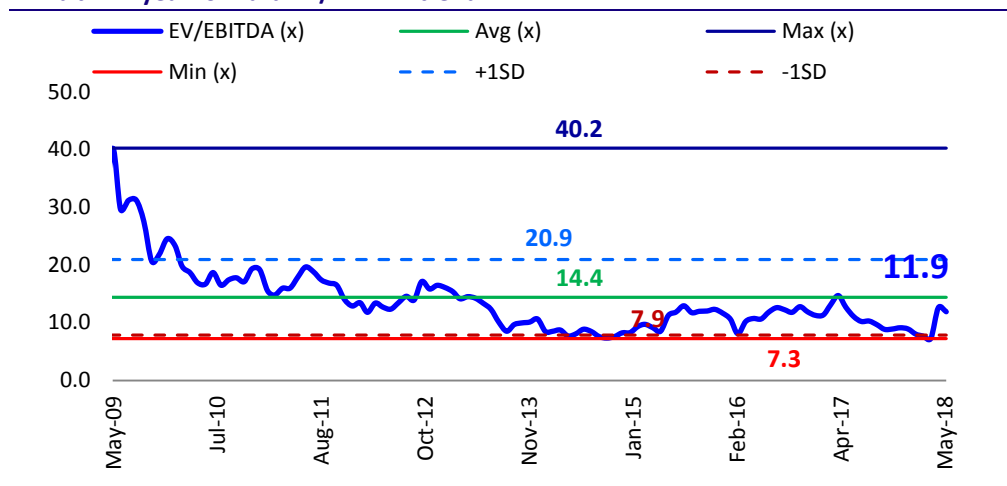
- Strong 7% QoQ ARPU growth and the fillip to the EBITDA margin on the back of merger synergies indicate a turnaround in DITV.
- Thrust on increasing contribution from HD subscribers and price hike strategy should drive 6-7% ARPU growth. This, coupled with healthy 1.2-1.3m net subscriber adds, leads us to increase our consol. revenue estimate by ~5% for FY19/20.
- Further, management's guidance of INR5.1b synergies for FY19 remains intact. Healthy revenue growth and merger synergies lead us to increase our EBITDA estimate by 14%/9% for FY19/20. We expect 43% EBITDA CAGR over FY18-20, with margins reaching 36% (+750bp)
- We believe DITV is attractively priced – at CMP, the stock trades at EV/EBITDA of 6x FY19E and 4.7x FY20E. We increase our TP to INR100 (prior: INR95), valuing DITV at 7x on FY20E. Maintain **Buy**.

Exhibit 1: Valuation summary (INR b)

Particulars	FY20E
EBITDA	27
EBITDA multiple (x)	7
Enterprise Value	175
Net Debt	(9)
Equity Value	184
No of shares (b)	1.8
Target Price (INR)	100
CMP (INR)	74
Upside (%)	35%

Source: Company, MOSL

Exhibit 2: 1-year forward EV/EBITDA trend



Source: Bloomberg, MOSL

Exhibit 3: DITV: Quarterly performance (INR m)

	1QFY18*	4QFY18	1QFY19	YoY%	QoQ%	1QFY19E	v/s est (%)
Revenue	7,389	15,324	16,556	124.1	8.0	15,484	6.9
Operating expenditure	5,377	11,317	10,989	104.4	-2.9	11,089	-0.9
EBITDA	2,012	4,007	5,568	176.7	39.0	4,395	26.7
EBITDA margin (%)	27.2	26.1	33.6	640bps	748bps	28.4	525bps
Depreciation	1,822	3,471	3,608	98.0	3.9	3,216	12.2
Interest	590	1,329	1,775	201.1	33.5	538	229.6
Other income	98	127	157	60.5	23.5	219	-28.1
Exceptional items	0	0	0	NA	NA	0	NA
PBT	-302	-667	342	-213	-151.2	859	-60.3
Tax	-162	-1,849	87	-153.4	-104.7	172	-49.6
Effective tax rate (%)	53.8	277.3	25.4	NM	NM	20.0	539bps
Minority Interest	-22.7	-30.4	-23.9	5.3	-21.4	0.0	NA
Reported PAT	-117	1,213	279	-338.8	-77.0	687	-59.5
Adj. PAT	-117	1,213	279	-338.8	-77.0	687	-59.5
KPI's							
Subscription revenue	6,917	13,771	14,893	115.3	8.1	14,248	4.5
Net subs (m)	15.7	23.0	23.3	48.9	1.3	23.3	-0.1
Net adds (m)	0.2	-6.5	0.3	61.8	-104.6	0.3	-8.6
ARPU (INR/month)	148	201	214	44.6	6.5	205	4.4

*Represents DITV pre-merger performance. Hence not comparable on YoY basis

Source: Company, MOSL

**1QFY19 Earnings call highlights****Key takeaways**

- Taking into account ARPU growth and subscriber adds, DITV guided for FY19 revenue growth of 7-8%.
- Management expects the current ARPU level of INR214 to be sustainable.
- FY19 EBITDA margin guidance stands at 34-35%. Merger synergies should be more evident from 2QFY19.
- FY19 capex guidance lowered to INR8-9b (INR10-11b earlier).
- DITV is going aggressive on subscriber adds in south markets; increasing focus on HD subscribers.

1QFY19 performance

- Of total INR16.6b revenue, subscription revenue is INR14.9b, bandwidth revenue is INR0.4b, lease rentals is INR0.25b, teleport services is INR0.06b, advertising revenue is INR0.5b and income from sale of equipment is INR0.5b.
- Gross debt as on Jun-18 stood at INR27.5b, while net debt stood at INR22b.
- Capex for the quarter stood at INR1.9b, while free cash flow stood at INR1b.
- Monthly churn stood at 1%.
- Subscriber acquisition cost stood at INR1,575.
- Price for Swagat (SD) pack increased from INR199 to INR209, for Swagat (HD) pack increased from INR209 to INR229 and for Super Family pack increased from INR283 to INR299. However, no price increase was taken on INR100 pack.
- Management also took price increase of INR200 for STBs.
- Interest cost rose significantly in 1QFY19 due to INR200m one-time fee for procuring loan so as to pre-pay Videocon's loan.
- Avg. interest cost for 1QFY19 increased from 7.5% to 8.5%.
- Activation income booked per box is INR925.
- License fees, according to new norms (expected to be out in 2-3months), will be 8% of AGR.

- License fee provision during the quarter stood at INR550m.
- DITV's rural subscribers mix stands at 65%, while balance 35% constitutes urban subscribers.
- One-offs during the quarter:
 - INR150m subscription revenue has been deferred to 2QFY19 due to applicability of IND-AS115.
 - Forex loss of INR210m included in other expenses.
- Rjio's Giga fiber should not have any major impact in short term.

Business outlook

- FY19 revenue guidance stands 7-8% on the back of ARPU growth and subscriber adds.
- Management expects the current ARPU level of INR214 to be sustainable.
- FY19 EBITDA margin guidance stands at 34-35%. Merger synergies should be more evident from 2QFY19.
- Though the price hike was taken from the start of 1QFY19, full impact will be seen in 2QFY19 (as there is lag in flow of benefits).
- FY19 capex guidance has been lowered to INR8-9b (INR10-11b earlier).
- DITV is going aggressive on subscriber adds from south markets; focus increasing on HD subscribers.
- DITV continues to have fixed fee deals with broadcasters.
- Tax outflow for FY19 to be in the range of INR200-250m.
- Management considers TRAI's tariff order as an opportunity for DITV; a concern for MSOs though.

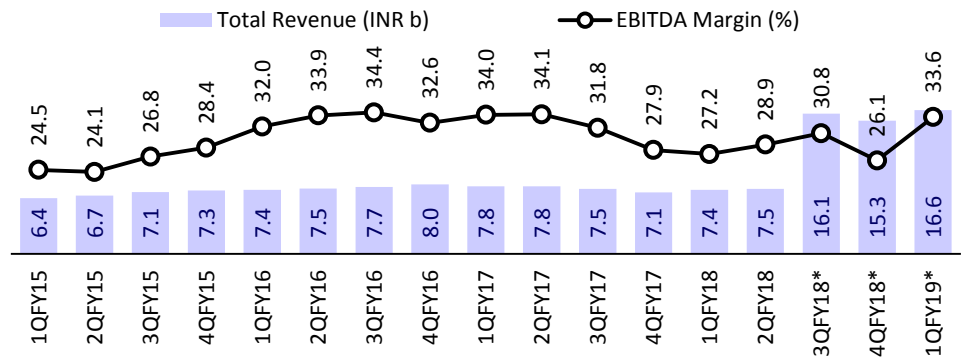
Exhibit 4: Summary of estimate change

	FY19E	FY20E
Revenue (INR b)		
Old	64.6	71.1
Actual/New	68.2	74.8
Change (%)	5.7	5.2
EBITDA (INR b)		
Old	20.6	24.6
Actual/New	23.5	26.9
Change (%)	13.7	9.0
EBITDA Margin (%)		
Old	32.0	34.7
Actual/New	34.4	35.9
Change (bps)	244bp	124bp
Net Profit (INR b)		
Old	4.9	7.3
Actual/New	3.3	10.1
Change (%)	-31.1	38.1

Source: MOSL, Company

Story in charts

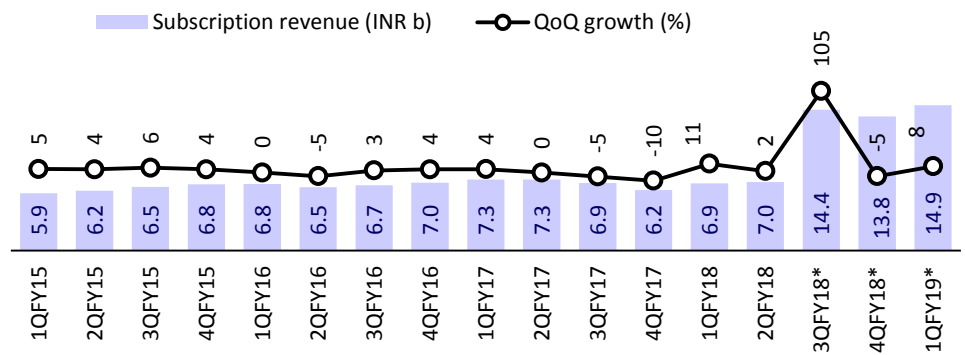
Exhibit 5: Margins get a fillip



*Dish TV and Videocon D2H merged co. figures

Source: MOSL, Company

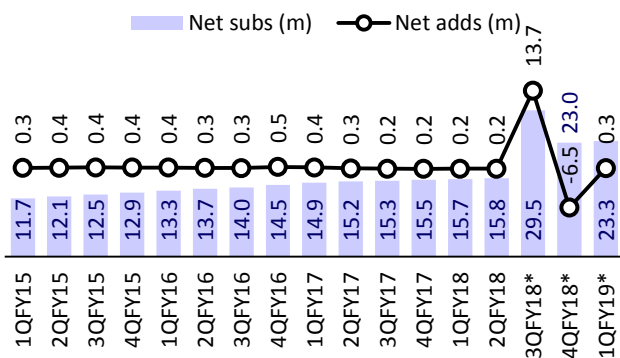
Exhibit 6: Turnaround in subscription revenue growth



*Dish TV and Videocon D2H merged co. figures

Source: MOSL, Company

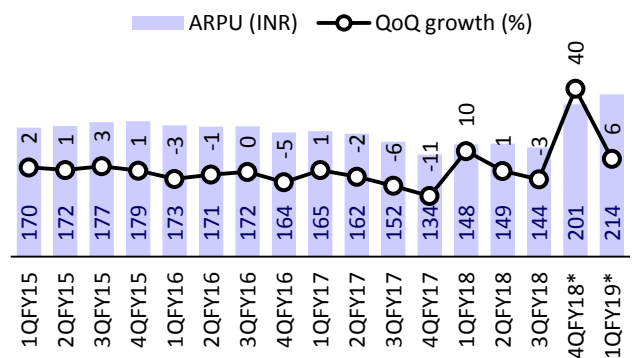
Exhibit 7: Trend in net subscribers base and QoQ additions



*Dish TV and Videocon D2H merged co. figures

Source: MOSL, Company

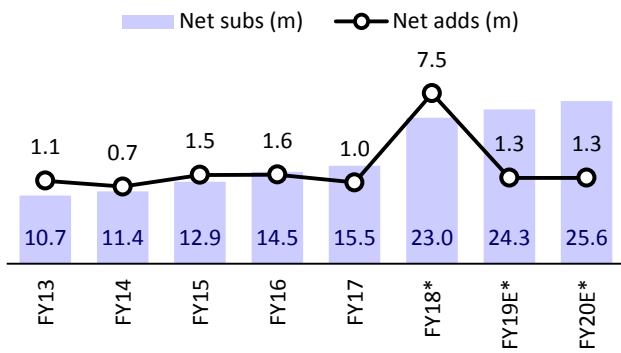
Exhibit 8: QoQ ARPU trend



*Dish TV and Videocon D2H merged co. figures

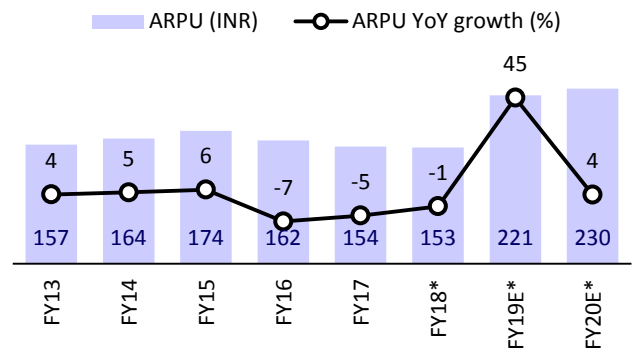
Source: MOSL, Company

Exhibit 9: Net subs to increase steadily



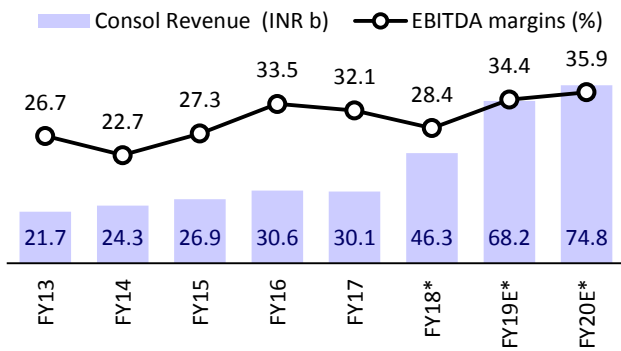
*Dish TV and Videocon D2H merged co. figures Source: MOSL, Company

Exhibit 10: ARPU to witness revival



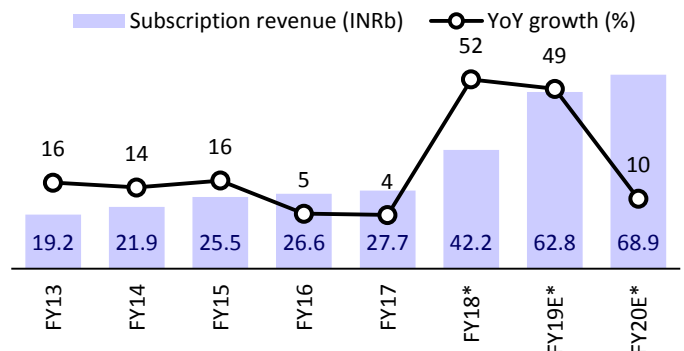
*Dish TV and Videocon D2H merged co. figures Source: MOSL, Company

Exhibit 11: Margins to get a fillip



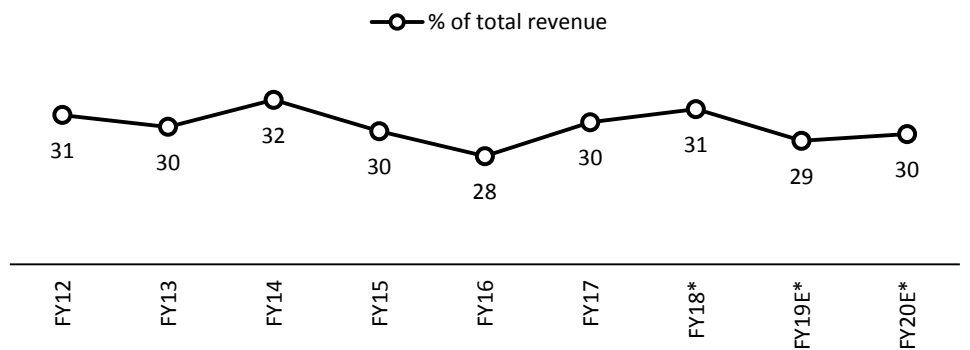
*Dish TV and Videocon D2H merged co. figures Source: MOSL, Company

Exhibit 12: Subscription revenue to rise led by HD push



*Dish TV and Videocon D2H merged co. figures Source: MOSL, Company

Exhibit 13: Content cost as % revenue to come down gradually



*Dish TV and Videocon D2H merged co. figures Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E*	FY20E*
Total Income from Operations	21,668	24,258	26,880	30,599	30,144	46,342	68,248	74,784
Change (%)	10.7	12.0	10.8	13.8	-1.5	53.7	47.3	9.6
Cost of goods and services	10,094	11,872	14,010	14,780	14,479	24,877	36,186	37,958
Employees Cost	822	891	1,018	1,229	1,461	2,096	2,348	2,582
Other Expenses	4,957	5,983	4,521	4,342	4,524	6,208	6,241	7,382
Total Expenditure	15,873	18,745	19,548	20,350	20,464	33,181	44,775	47,922
% of Sales	73.3	77.3	72.7	66.5	67.9	71.6	65.6	64.1
EBITDA	5,795	5,513	7,331	10,249	9,680	13,160	23,473	26,861
Margin (%)	26.7	22.7	27.3	33.5	32.1	28.4	34.4	35.9
Depreciation	6,276	5,973	6,138	5,907	6,908	10,717	14,754	14,119
EBIT	-480	-460	1,194	4,342	2,772	2,443	8,719	12,742
Int. and Finance Charges	1,284	1,327	1,754	2,087	2,292	3,964	5,620	2,248
Other Income	512	660	635	640	615	542	1,058	2,142
PBT bef. EO Exp.	-1,252	-1,127	75	2,895	1,095	-979	4,157	12,636
EO Items	594	-415	0	0	0	0	0	0
PBT after EO Exp.	-658	-1,542	75	2,895	1,095	-979	4,157	12,636
Total Tax	0	0	42	-4,029	274	-130	831	2,527
Tax Rate (%)	0.0	0.0	56.4	-139.2	25.0	13.3	20.0	20.0
Minority Interest	0	0	0	0	-99	-99	-24	0
Reported PAT	-658	-1,542	33	6,924	921	-750	3,349	10,109
Adjusted PAT	-1,252	-1,127	33	6,924	821	-750	3,349	10,109
Change (%)	-20.1	-10.0	-102.9	21,139.0	-88.1	-191.4	-546.4	201.8
Margin (%)	-5.8	-4.6	0.1	22.6	2.7	-1.6	4.9	13.5

* Dish TV and Videocon D2H merged co. figures

Consolidated - Balance Sheet								(INR m)
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E*	FY20E*
Equity Share Capital	1,065	1,065	1,066	1,066	1,066	1,841	1,841	1,841
Total Reserves	-2,618	-4,191	-4,199	2,741	2,904	65,519	68,845	78,954
Net Worth	-1,553	-3,126	-3,134	3,807	3,970	67,361	70,686	80,795
Total Loans	16,330	14,095	14,839	12,313	5,813	22,481	22,481	22,481
Deferred Tax Liabilities	0	0	0	-4,360	-5,117	-6,027	-6,027	-6,027
Capital Employed	14,777	10,969	11,705	11,760	4,666	83,815	87,141	97,250
Net Fixed Assets	14,340	13,571	14,539	18,100	20,423	1,21,849	1,17,143	1,13,474
Capital WIP	6,535	4,226	4,972	6,100	5,796	6,781	7,868	7,868
Total Investments	2,782	2,000	2,000	2,320	1,648	1,500	1,500	1,500
Curr. Assets, Loans & Adv.	7,891	7,905	10,153	8,513	8,717	15,715	27,738	42,664
Inventory	86	75	99	126	131	381	374	410
Account Receivables	304	415	637	725	870	1,460	1,496	1,639
Cash and Bank Balance	3,645	3,427	4,287	3,392	2,922	5,630	16,145	29,962
Loans and Advances	3,856	3,989	5,131	4,271	4,794	8,245	9,723	10,654
Curr. Liability & Prov.	16,773	16,733	19,958	23,274	31,918	62,030	67,107	68,256
Net Current Assets	-8,882	-8,828	-9,805	-14,761	-23,201	-46,315	-39,370	-25,591
Appl. of Funds	14,776	10,969	11,705	11,760	4,666	83,815	87,141	97,250

E: MOSL Estimates, * Dish TV and Videocon D2H merged co. figures

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E*	FY20E*
Basic (INR)								
EPS	-1.2	-1.1	0.0	6.5	0.8	-0.4	1.8	5.5
Cash EPS	4.7	4.5	5.8	12.0	7.3	5.4	9.8	13.2
BV/Share	-1.5	-2.9	-2.9	3.6	3.7	36.6	38.4	43.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E			2,408.1	11.3	95.6	-180.7	40.8	13.4
Cash P/E			12.7	6.1	10.2	13.6	7.5	5.6
P/BV			-25.1	20.6	19.8	2.0	1.9	1.7
EV/Sales			3.2	2.8	2.6	3.3	2.1	1.7
EV/EBITDA			11.9	8.3	8.2	11.5	6.0	4.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-0.8	3.8	0.6	2.1	-0.4	-5.8	8.2	7.6
Return Ratios (%)								
RoE	100.5	48.2	-1.0	NM	21.1	-2.1	4.8	13.3
RoCE	0.2	1.6	7.0	NM	19.6	5.2	8.5	12.1
RoIC	-17.2	-29.4	59.0	NM	NM	6.6	10.6	17.1
Working Capital Ratios								
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.5	0.5	0.5	0.7	0.7
Asset Turnover (x)	1.5	2.2	2.3	2.6	6.5	0.6	0.8	0.8
Inventory (Days)	1	1	1	1	2	3	2	2
Debtor (Days)	5	6	9	9	11	11	8	8
Creditor (Days)	145	110	123	123	199	252	200	175
Leverage Ratio (x)								
Current Ratio	0.5	0.5	0.5	0.4	0.3	0.3	0.4	0.6
Interest Cover Ratio	-0.4	-0.3	0.7	2.1	1.2	0.6	1.6	5.7
Net Debt/Equity	-6.4	-2.8	-2.7	1.7	0.3	0.2	0.1	-0.1

* Dish TV and Videocon D2H merged co. figures

Consolidated - Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18*	FY19E*	FY20E*
(INR m)								
OP/(Loss) before Tax	-660	-1,576	74	2,895	1,095	-979	4,157	12,636
Depreciation	6,388	5,974	6,138	5,907	6,908	10,717	14,754	14,119
Interest & Finance Charges	1,102	1,116	1,544	1,855	1,990	3,964	5,620	2,248
Direct Taxes Paid	-82	-60	-99	-199	-1,240	130	-831	-2,527
(Inc)/Dec in WC	526	1,964	404	1,211	-160	24,912	3,570	38
CF from Operations	7,274	7,417	8,061	11,669	8,594	38,744	27,269	26,515
Others	-1,179	-363	-386	-346	-390	63,698	-1,058	-2,142
CF from Operating incl EO	6,095	7,055	7,675	11,324	8,204	1,02,442	26,211	24,373
(Inc)/Dec in FA	-6,980	-2,986	-7,057	-9,081	-8,612	-1,13,128	-11,135	-10,450
Free Cash Flow	-886	4,069	617	2,243	-408	-10,686	15,076	13,923
(Pur)/Sale of Investments	-1,241	831	24	-287	729	148	0	0
Others	2,858	-508	580	669	355	542	1,058	2,142
CF from Investments	-5,363	-2,663	-6,453	-8,699	-7,528	-1,12,438	-10,076	-8,308
Issue of Shares	18	3	35	17	6	0	0	0
Inc/(Dec) in Debt	1,896	-3,987	364	-2,870	-495	16,668	0	0
Interest Paid	-691	-625	-761	-666	-657	-3,964	-5,620	-2,248
Others	-1	0	0	0	0	0	0	0
CF from Fin. Activity	1,222	-4,610	-362	-3,519	-1,145	12,704	-5,620	-2,248
Inc/Dec of Cash	1,953	-219	860	-894	-469	2,708	10,515	13,817
Opening Balance	1,692	3,645	3,427	4,287	3,392	2,923	5,631	16,145
Closing Balance	3,645	3,427	4,287	3,392	2,923	5,631	16,145	29,962

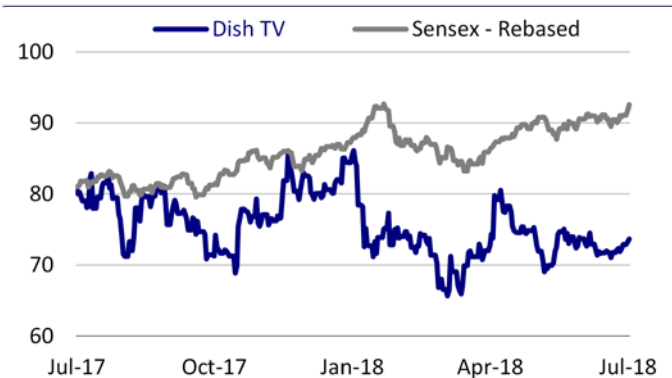
* Dish TV and Videocon D2H merged co. figures

Corporate profile

Company description

DITV is the DTH arm of the Essel group and enjoys a leadership position with a net subscriber base of 14m, implying ~25+% share in the Indian DTH market. DITV is a beneficiary of mandatory digitization as it will benefit from increased content cost and tax parity vs cable (hitherto unorganized). Apart from the flagship brand, DITV also has a sub-brand 'Zing' targeted at phase III/IV language markets.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	31.5	64.4	64.4
DII	19.4	8.4	8.2
FII	11.1	18.5	16.8
Others	38.0	8.7	10.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
DEUTSCHE BANK TRUST COMPANY AMERICAS	15.1
Electroparts (india)private Ltd	6.6
Greenfield Appliances Private Limited	5.5
Solitare Applicances Pvt Ltd	5.5
Waluj Components Private Limited	5.5

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Jawahar Lal Goel	Chairman & Managing Director
Ranjit Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ashok Kurien	Arun Duggal
Bhagwan Dass Narang	Rashmi Aggarwal

*Independent

Exhibit 6: Auditors

Name	Type
Chandra Wadhwa & Co	Cost Auditor
Jayant Gupta	Secretarial Audit
Walker Chandiook & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	1.8	1.4	28.6
FY20	5.5	2.9	90.0

Source: Bloomberg

Explanation of Investment Rating

Investment Rating

BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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