

Dish TV (DISHTV)

Strong performance, sustainability is the key

- Dish TV reported strong performance on subscription revenue owing to (i) Price hikes across majority of the packages (ii) Lower discounts at package level (iii) Higher share of HD subscribers in net additions. The subscriber additions also picked up during the sports heavy quarter and also on festivities.
- Subscription revenues stood at ₹ 1489.3 crore, which was up by 8.1% QoQ attributable to strong performance at ARPU level i.e 6.5% QoQ growth to ₹214 (vs our expectation of 2% QoQ growth). Subscriber addition also remained strong at 0.3 mn additions (vs our exp of 0.25 mn). 44% of the total subscribers added for the quarter were HD; HD subscribers forms 17% of the net base. The total revenues grew by 5.2% QoQ to ₹1655.6 crore
- EBITDA came in at ₹ 556.8 crore, up 39% QoQ (vs. our expectations of 501.9 crore), while reported EBITDA margin was at 33.6%, compared to our expectations of 31.9%. Backend, IT and
- The net profit was at ₹ 27.9 crore vs our expectation of ₹ ₹24 crore. The suppression at PAT level was on account of sharp 34% QoQ growth in interest cost to ₹177.5 crore. The interest cost for the quarter had one-off cost of ₹20 crore related to refinancing of loans.

ARPU/Subscriber growth surprising, sustainability is the key...

Dish TV reported strong growth in ARPU for the quarter, however this growth has come on the background of many factors such as price hikes as well as discount reductions and higher share of HD subscribers (sports heavy quarter) in new additions during the quarter. The company claims that the tariff hike has been taken on account of some pricing power gained during the period. We believe that considering historical ARPU QoQ trends for the company, this high ARPU growth would probably taper down in the subsequent quarters to a normalised growth of 1-2% QoQ. We have incorporated 5.8% CAGR growth in ARPU over FY18-20E. We have incorporated 1.2 mn and 1.14 mn net additions during FY19E and FY20E respectively.

Jio's entry into distribution space is a continuous risk

Jio has recently announced plans to enter into cable broadband and IPTV space. We believe that TV distribution business model has already started feeling the heat of ever increasing shift of content viewing on small screens from linear TV, supported by rock bottom mobile data prices. While, Dish with 2/3rd subscriber base in rural/semi-urban is likely to have relatively lesser hit, the steep impact on its urban base cannot be ruled out over the next couple of years. We, therefore, change our stance to neutral and would await the offering details of Jio.

Synergy benefits seen but Jio risk looms large; Assign HOLD ...

We are impressed by the sooner than anticipated synergy by Dish and same is likely to drive margins expansion ahead. However, we remain sceptical of the kind of damage Jio entry can create mainly in terms of pricing in the urban linear cable/DTH space. We note that, Dish, currently, trades at an attractive valuation of 6.2x FY20E EV/EBITDA. However, we believe that perceived threat of Jio can restrict Dish's re-rating despite its synergy led benefits. We, therefore, assign a HOLD rating with a revised target price of ₹ 80, valuing it at 7.5x FY20E EV/EBITDA for combined entity, post synergy benefits of ~₹ 300 crore in FY19E and FY20E and adjusted for license fee liability of ~₹ 1950 crore.

Rating matrix		
Rating	:	Hold
Target	:	₹ 80
Target Period	:	12 months
Potential Upside	:	9%

What's changed?	
Target	Changed from ₹ 84 to ₹ 80
EPS FY19E	Changed from 1.5 to 1.2
EPS FY20E	Changed from 2.6 to 2.6
Rating	Downgrade to HOLD

Quarterly performance					
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	1,655.6	738.9	NA	1,532.4	8.0
EBITDA	556.8	201.2	NA	400.7	39.0
EBITDA (%)	33.6	27.2	NA	26.1	748 bps
PAT	27.9	(11.7)	NA	121.3	NA

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	3,004	4,634	6,611	7,059
EBITDA	969	1,316	2,247	2,547
Adj. Net Profit	109	10	216	474
Adj. EPS (₹)	1.0	0.1	1.1	2.5

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	71.8	NM	64.6	30.4
Target P/E	86.1	NM	77.4	36.5
EV / EBITDA	14.8	12.1	7.1	6.1
P/BV	16.0	2.0	2.0	1.9
RoNW	22.3	0.1	3.1	6.2
RoCE	20.8	3.1	8.3	10.3

Stock data	
Particular	Amount (₹ crore)
Market Capitalization	13,469.1
Total Debt (FY18)	2,748.1
Cash (FY18)	267.5
EV	15,803.7
52 week H/L	111 / 68
Equity capital	184.1
Face value	1.0

Price performance				
	1M	3M	6M	12M
Dish TV	0.0	-0.7	-13.0	-9.0
Hathway Cable	-36.6	-48.8	-52.4	-48.5

Research Analysts	
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Variance analysis

	Q1FY19	Q1FY19E	Q1FY18	Q4FY18	YoY (%)	QoQ (%)	Comments
Revenue	1,655.6	1,574.4	738.9	1,532.4	124.1	8.0	The revenue growth was driven by strong ARPU growth, came at the back of price hike
Other Income	15.7	12.0	9.8	12.7	60.5	23.5	
Employee Expenses	57.7	70.9	38.8	66.9	48.6	-13.7	
Programming Cost	881.9	850.2	373.2	866.4	136	2	
Other Operating Cost	157.1	148.0	122.4	196.0	28.3	-19.9	
Others	2.2	3.5	3.3	2.5	-32	-12	
EBITDA	556.8	501.9	201.2	400.7	176.7	39.0	EBITDA growth and EBITDA margin expansion played out on synergy benefits kicking in
EBITDA Margin (%)	33.6	31.9	27.2	26.1	640 bps	748 bps	
Depreciation	360.8	352.5	182.2	347.1	98.0	3.9	
Interest	177.5	130.0	59.0	132.9	201	34	
Total Tax	8.7	10.5	-16.2	-184.9	NA	NA	
PAT	27.9	24.0	-11.7	121.3	NA	NA	PAT was impacted by one-off cost related to refinancing of loans
Key Metrics							
Net Subscriber Additions (Mn)	0.30	0.25	0.19	0.20	61.8	50.5	
Net Subscribers (Mn)	23.3	23.3	15.70	23.00	48.5	1.3	
ARPU (in ₹)	214	205	148	201	44.8	6.5	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,389.5	6,611.3	3.5	6,917.4	7,059.3	2.1	We have incorporated Q1FY19 performance
EBITDA	2,215.5	2,247.5	1.4	2,503.0	2,547.5	1.8	
EBITDA Margin (%)	34.7	34.0	-68 bps	36.2	36.1	-10 bps	
PAT	279.3	216.1	-22.6	496.8	473.8	-4.6	PAT will be impacted by increase in finance costs
EPS (₹)	1.5	1.1	-25.1	2.6	2.5	-5.3	

Source: Company, ICICI Direct Research

Assumptions

	FY16	FY17	Current		FY20E	Earlier	
			FY18	FY19E		FY19E	FY20E
Net Subscriber Additions (Mn)	1.6	1.0	7.5	1.2	1.1	1.2	1.1
Net Subscribers (Mn)	14.5	15.5	23.0	24.2	25.3	24.2	25.4
ARPU (in ₹)	172.0	153.9	173.2	213.0	218.4	206.2	213.5
Monthly Churn Rate	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%

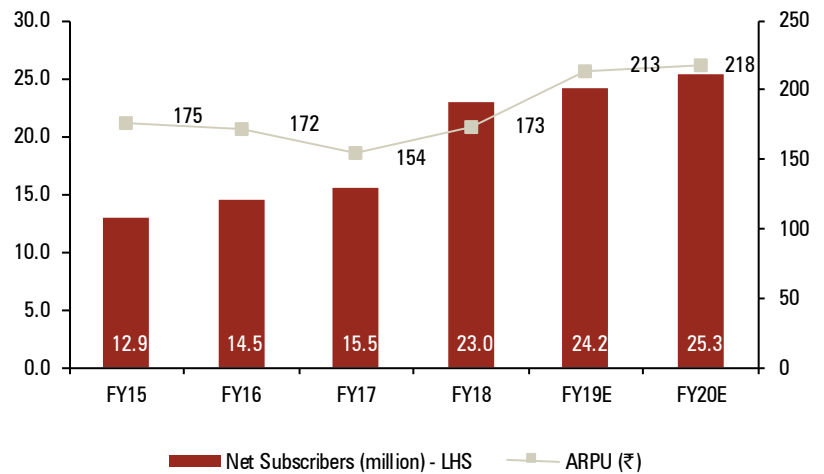
Source: Company, ICICI Direct Research

Company Analysis

ARPU to reach ₹ 218 in FY20E

We note that company has guided for ~8-9% revenues growth in FY19. We factor in subscriber addition of 1.2 million and 1.1 million for FY19E & FY20E, respectively and ARPU of ₹ 218 in FY20 leading to subscription revenues of ₹ 6491 crore.

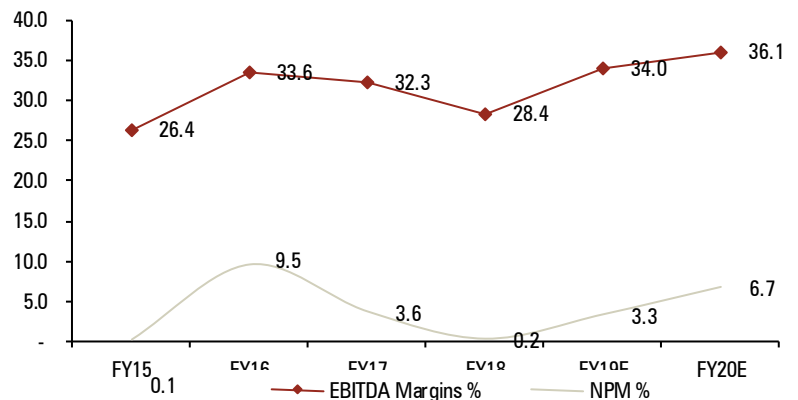
Exhibit 1: Subscriber details trends



*FY18, 19E, ARPU are not comparable owing to change in accounting policy
Source: Company, ICICI Direct Research*

We expect the company to report margins of 34.0% and 36.1% in FY19E and FY20E, respectively.

Exhibit 2: EBITDA trend



Source: Company, ICICI Direct Research

Other Highlights:

- **Maintained revenue growth guidance of 8-9% for FY19:** Management re-iterated revenue growth guidance of 8-9% for FY19, to be driven by stable ARPU as well subscriber additions. During Q1FY19, ₹15 crore of activation revenue was deferred for the quarter on account of IndAS 115 accounting.
- **Management indicate that ARPU growth is sustainable:** Management said that strong ARPU growth is likely to sustain in the subsequent quarter on account of some benefit flowing in from the tariff hikes taken in Q1FY19 and maintained guidance of 4-5% ARPU growth in FY19.
- **Capex guidance revised downward on rationalization:** Management guided for ₹800 to ₹900 cr capex which is in downward trajectory compared to earlier guidance of ₹1200 crore for FY19. This alluded to re-negotiation of set top box prices as well as dish prices (came down by ₹35 per sub as per management). The capex incurred for 1QFY19 stands at ₹190 crore.
- **Maintained EBITDA margin guidance of 34-35%:** Management said that EBITDA growth and margin expansion for the quarter was on account of backend, IT and infrastructure synergies kicked in during the quarter. Management foresees continued benefit of the same in the subsequent quarter and maintained EBITDA margin guidance of 34-35% in FY19.
- **Management perceives no immediate threat from Jio:** Management is of the opinion that Jio's impending entry into distribution space poses long term threat but ruled out any immediate impact on the business model of the company on account of favorable rural urban mix. Management further said that TV is still a preferred medium of entertainment for family programs.
- **New tariff order to reduce discriminatory pricing:** As per management new tariff order from TRAI, if implemented in letter and spirit would reduce discriminatory pricing ensuring level playing field. As per management, this would help in ARPU uptick.
- **Other highlights:** Gross debt stands at ₹2750 crore and net debt stands at ₹2220 crore. Churn rate stands at 1% for Q1FY19. The interest cost for the quarter includes one-time loan refinancing cost of ₹21 crore

Valuation

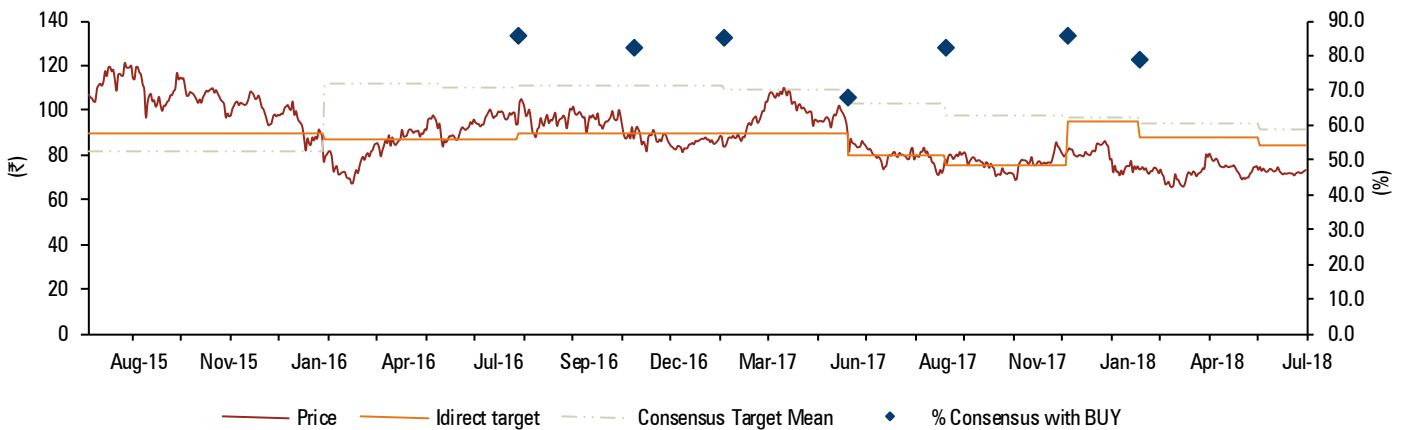
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Exhibit 3: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	3,004.2	(0.0)	1.0	NA	NA	14.8	22.3	20.8
FY18	4,634.2	54.3	(0.4)	NA	NA	12.0	0.1	3.1
FY19E	6,611.3	42.7	1.1	NA	65.1	7.2	3.1	9.1
FY20E	7,059.3	6.8	2.5	119.2	29.7	6.2	6.4	11.1

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus Estimates



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Mar-11	Registers a very high churn of 1.94 million subscribers and records a churn rate of 2.3%
Jun-12	Sunset date for Phase I of digitisation. Dish TV able to add only 1.1 million net subscribers
Mar-13	Sunset date for Phase II of digitisation. Dish TV able to add only 1.1 million net subscribers
Jan-14	Dish TV starts offering all the Indiacast UTV (except ETV) channels on an a la carte basis
Mar-14	Dish TV issues disconnection notice to 10 channels distributed by IndiaCast UTV, including CNBC-TV18 and IBN7 and some ETV regional channels, claiming low popularity
Mar-14	In a bid to provide customised local television channels to regional viewers of the state, Dish TV India rolls out a new brand Zing. The new brand will offer regional channels as the base while other segments can be added as per the needs of customers
Jul-14	Trai recommends license period extension to 20 years from 10 years, renewable for 10 years at once and license fees calculation as 8% of adjusted gross revenues vs. 10% of gross revenues paid currently
Jan-15	Launches Zing in Tamil Nadu
Mar-18	Videocon d2H merged with the company

Source: Company, ICICI Direct Research

Top 10 Shareholders

No.	Name	Latest Filing Date	% O/S	Position	Change
1	Essel Group	31-Mar-18	30.85	568.06M	0.0
2	Deutsche Asset Management (Asia) Ltd.	31-Mar-18	15.05	277.10M	+277.10M
3	Electroparts India Pvt. Ltd.	31-Mar-18	6.63	122.07M	+122.07M
4	Solitaire Appliances Pvt. Ltd.	31-Mar-18	5.53	101.76M	+101.76M
5	Greenfield Appliances Pvt. Ltd.	31-Mar-18	5.53	101.76M	+101.76M
6	Waluj Components Pvt. Ltd.	31-Mar-18	5.50	101.28M	+101.28M
7	World Crest Advisors LLP	12-Apr-18	4.97	91.50M	+91.50M
8	Direct Media Distribution Ventures Pvt. Ltd.	31-Mar-18	2.83	52.15M	0.0
9	HDFC Asset Management Co., Ltd.	31-Mar-18	2.67	49.22M	+13.07M
10	Amansa Capital Pte Ltd.	31-Mar-18	2.40	44.19M	+44.19M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	64.4	64.4	64.4	31.5	36.4
FII	17.3	18.8	18.5	11.1	13.3
DII	7.9	7.8	8.2	36.2	26.8
Others	10.4	8.9	8.9	21.3	23.5

Recent Activity

Buys			Sells		
Name	Value	Shares	Name	Value	Shares
Deutsche Asset Management (Asia) Ltd.	+303.03M	+277.10M	Macquarie Funds Management Hong Kong Ltd.	-4.64M	-3.61M
Electroparts India Pvt. Ltd.	+133.50M	+122.07M	Reliance Nippon Life Asset Management Limited	-2.37M	-2.17M
Solitaire Appliances Pvt. Ltd.	+111.29M	+101.76M	JM Financial Asset Management Pvt. Ltd.	-2.24M	-2.05M
Greenfield Appliances Pvt. Ltd.	+111.29M	+101.76M	Aditya Birla Sun Life AMC Limited	-1.90M	-1.68M
Waluj Components Pvt. Ltd.	+110.75M	+101.28M	Schroder Investment Management (Hong Kong) Ltd.	-2.01M	-1.67M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	3014.4	4634.2	6611.3	7059.3	
Growth (%)	10.0	-1.5	NC	6.8	
Employee Expenses	146.5	209.6	246.0	282.4	
Administrative Expenses	0.0	0.0	0.0	0.0	
Programing Cost	1050.9	2476.6	3471.8	3529.7	
License Fees	166.2	0.0	0.0	0.0	
Commission	-	-	-	-	
Other Expenses	681.8	631.9	646.0	699.8	
Total Operating Expenditure	2045.5	3318.1	4363.8	4511.9	
EBITDA	968.9	1316.0	2247.5	2547.5	
Growth (%)	39.8	-5.5	NC	13.3	
Depreciation	663.1	1071.7	1421.4	1482.5	
Interest	223.9	396.4	654.4	629.2	
Other Income	51.5	54.2	63.7	80.0	
PBT	133.4	-97.9	235.4	515.8	
Exceptional Items	-402.9	0.0	0.0	0.0	
Prior Period Items	0.0	0.0	0.0	0.0	
Total Tax	24.1	-13.0	28.8	51.6	
PAT	109.3	-75.0	216.1	473.8	
Growth (%)	NM	-84.2	NC	119.2	
Adjusted PAT	109.3	10.0	216.1	473.8	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	106.6	184.1	192.4	192.4	
Reserve and Surplus	384.0	6,570.0	6,786.1	7,259.9	
Total Shareholders funds	490.6	6,754.1	6,978.5	7,452.3	
Total Debt	1,130.0	2,748.1	2,748.1	2,748.1	
Other Non Current Liabilities	100.0	121.4	121.4	121.4	
Total Liabilities	1,720.6	9,605.5	9,820.4	10,294.1	
Assets					
Gross Block	6,529.7	11,590.6	12,490.6	13,490.6	
Less: Acc Depreciation	4,609.4	5,681.1	7,102.5	8,585.0	
Net Block	1,920.3	5,909.5	5,388.1	4,905.6	
Capital WIP	786.8	678.1	678.1	678.1	
Total Fixed Assets	2,707.1	6,587.6	6,066.1	5,583.7	
Goodwill on Consolidation	-	6,275.4	6,275.4	6,275.4	
Investments	164.4	296.0	356.0	406.0	
Inventory	13.1	38.1	54.3	58.0	
Debtors	87.0	302.0	434.7	464.2	
Loans and Advances	475.5	481.1	755.0	886.8	
Other Current Assets	11.2	229.1	326.9	383.9	
Cash	292.3	267.5	389.6	738.1	
Total Current Assets	879.0	1,317.8	1,960.5	2,531.0	
Creditors	1,093.5	2,752.1	2,852.8	2,891.4	
Provisions	1,446.8	2,829.5	2,695.2	2,320.9	
Total Current Liabilities	2,540.3	5,581.6	5,548.0	5,212.3	
Net Current Assets	-1,661.3	-4,263.8	-3,587.6	-2,681.3	
Other Non Current Assets	510.4	710.4	710.4	710.4	
Profit & Loss (Negative)	0.0	0.0	0.0	0.0	
Application of Funds	1,720.6	9,605.6	9,820.4	10,294.1	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	109.3	-75.0	216.1	473.8	
Add: Depreciation	663.1	1,071.7	1,421.4	1,482.5	
Add: Interest Paid	629.2	0.0	0.0	0.0	
(Inc)/dec in Current Assets	-77.4	-463.5	-520.6	-222.0	
Inc/(dec) in CL and Provisions	201.5	3,041.3	-33.5	-335.7	
Others	(405.3)	396.4	654.4	629.2	
CF from operating activities	1,120.4	3,970.8	1,737.8	2,027.8	
(Inc)/dec in Investments	67.6	-131.6	-60.0	-50.0	
(Inc)/dec in Fixed Assets	-950.1	-4,952.2	-900.0	-1,000.0	
Others	-35.2	-6,472.1	-9.6	0.0	
CF from investing activities	-917.6	-11,555.9	-969.6	-1,050.0	
Issue/(Buy back) of Equity	0.0	77.5	8.3	0.0	
Inc/(dec) in loan funds	-26.4	1,618.1	0.0	0.0	
Dividend paid & dividend tax	0.0	0.0	0.0	0.0	
Interest Paid	629.2	0.0	0.0	0.0	
Others	-852.5	5,864.7	-654.4	-629.2	
CF from financing activities	-249.7	7,560.3	-646.2	-629.2	
Net Cash flow	-46.9	-24.7	122.1	348.5	
Opening Cash	339.2	292.3	267.5	389.6	
Closing Cash	292.3	267.5	389.6	738.1	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18	FY19E	FY20E
(Year-end March)					
Per share data (₹)					
EPS		1.0	-0.4	1.1	2.5
Adj EPS		1.0	0.1	1.1	2.5
BV		4.6	36.7	36.3	38.7
DPS		0.0	0.0	0.0	0.0
Cash Per Share		2.7	1.5	2.0	3.8
Operating Ratios (%)					
EBITDA Margin		32.3	28.4	34.0	36.1
PBT / Total Operating income		10.2	5.3	12.5	15.1
PAT Margin		3.6	0.2	3.3	6.7
Inventory days		1.6	3.0	3.0	3.0
Debtor days		10.6	23.8	24.0	24.0
Creditor days		20.8	52.8	48.0	40.0
Return Ratios (%)					
RoE		22.3	0.1	3.1	6.4
RoCE		NM	3.1	9.1	11.1
Valuation Ratios (x)					
P/E		NM	NM	65.1	29.7
EV / EBITDA		14.8	12.0	7.2	6.2
EV / Net Sales		4.8	3.4	2.5	2.2
Market Cap / Sales		0.0	0.0	2.1	2.0
Price to Book Value		0.0	0.0	2.0	1.9
Solvency Ratios					
Debt/EBITDA		1.2	2.1	1.2	1.1
Debt / Equity		2.3	0.4	0.4	0.4
Current Ratio		0.2	0.2	0.3	0.3
Quick Ratio		0.2	0.2	0.3	0.3

Source: Company, ICICI Direct Research

ICICI Direct research coverage universe (Media)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
DB Corp (DBCORP)	279	280	Hold	5,126	20.4	17.6	18.5	13.7	15.8	15.1	7.8	8.6	8.1	32.2	23.5	22.8	23.5	16.8	16.3
DISH TV (DISHTV)	73	80	Hold	13,469	1.0	-0.4	1.1	71.4		65.1	14.8	12.0	7.0	20.8	3.1	9.1	22.3	0.1	3.1
ENIL (ENTNET)	703	749	Buy	3,351	11.6	7.5	16.4	60.8	94.0	43.0	26.6	28.1	19.2	9.3	6.2	11.3	6.4	3.5	8.1
HT Media (HTMED)	74	NA	Unrated	1,715	7.3	13.2	7.4	10.1	5.6	10.0	8.1	4.9	5.6	10.9	12.7	9.8	7.6	12.0	6.4
Inox Leisure (INOX)	256	360	Buy	2,466	3.2	12.0	9.9	80.6	21.4	26.0	19.1	13.0	10.9	7.3	13.3	14.5	5.5	10.6	12.4
Jagran Prakashan (JAGPRA)	132	185	Hold	4,111	10.6	9.6	9.1	12.4	13.7	14.4	6.3	7.2	6.9	18.9	18.0	17.8	16.1	15.1	13.6
Music Broadcast (MUSBRO)	310	444	Buy	1,769	8.1	8.3	12.7	38.5	37.2	24.5	17.8	16.8	12.2	11.3	13.8	16.9	6.7	8.0	10.8
PVR (PVRLIM)	1,395	1,408	Hold	6,522	20.5	26.4	28.8	68.1	52.9	48.5	20.5	18.2	17.1	13.0	14.7	14.2	10.2	11.5	11.2
Sun TV (SUNTV)	802	1,150	Buy	31,603	26.1	28.8	36.4	30.7	27.8	22.0	17.1	14.8	11.6	37.2	35.5	37.3	25.6	24.2	25.4
TV Today (TVTNET)	439	425	Hold	2,616	17.1	19.9	25.3	25.6	22.0	17.3	14.6	11.6	9.4	26.0	30.4	29.6	16.6	19.3	19.2
ZEE Ent. (ZEEENT)	543	630	Hold	52,169	23.1	15.4	16.7	23.5	35.3	32.6	25.1	23.7	19.9	21.2	25.6	24.4	15.0	15.3	15.4

Source: Company, ICICI Direct Research

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