

Rating matrix		
Rating	:	Hold
Target	:	₹ 42
Target Period	:	12 months
Potential Upside	:	-3%

What's changed?	
Target	Changed from ₹ 80 to ₹ 42
EPS FY19E	Changed from 1.5 to 0.9
EPS FY20E	Changed from ₹ 2.5 to ₹ 2.0
Rating	Unchanged

Quarterly performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	1,594.3	748.6	NA	1,655.6	-3.7
EBITDA	540.6	216.1	NA	556.8	-2.9
EBITDA (%)	33.9	28.9	NA	33.6	28 bps
PAT	25.5	(16.2)	NA	27.9	NA

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	3,004	4,634	6,517	6,918
EBITDA	969	1,316	2,217	2,427
Adj. Net Profit	109	10	175	394
Adj. EPS (₹)	1.0	0.1	0.9	2.0

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	42.1	NM	47.5	21.1
Target P/E	40.7	NM	45.9	20.4
EV / EBITDA	9.1	7.8	4.8	4.2
P/BV	9.4	1.2	1.2	1.1
RoNW	22.3	0.1	2.5	5.4
RoCE	20.8	3.1	9.0	10.4

Stock data	
Particular	Amount (₹ crore)
Market Capitalization	7,945.2
Total Debt (FY18)	2,748.1
Cash (FY18)	267.5
EV	10,279.8
52 week H/L	111 / 68
Equity capital	184.1
Face value	1.0

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## Dish TV (DISHTV)

₹ 43

### Weak performance; Jio threat looms large...

- Overall revenues came in at ₹ 1594.3 crore (3.4% lower than our expectation), on account of 3.3% QoQ decline in ARPU vs. our expectation of 1% QoQ decline while subscriber addition was at 200,000 (vs. 250,000 expectation)
- EBITDA came in at ₹ 540.6 crore (vs. ₹ 565.9 crore expectation) while margins came in at 33.9% vs. our expectation of 34.3% on account of negative operating leverage
- PAT came in at ₹ 25.5 crore (vs. our expectation of 30.3 crore) on account of a weak operating performance

#### Jio – serious threat now to incumbent cable/DTH business...

Jio, which had announced plans to enter the cable broadband and IPTV space, strengthened its distribution reach by acquiring a majority stake in two of the MSOs Hathway Cable and Network. The deal gave Jio access to ~24 million households and ~27000 LCOs. We believe this is a major breakthrough for last mile connectivity. The management indicated that as per their vulnerability assessment, only 1% of its subscriber base is under threat from Jio's impending home broadband launch. As per the management, the impact would be visible in the next four to six quarters. However, we note that while Dish with two-third subscriber base in rural/semi-urban may be relatively less hit, a steep impact on its urban base cannot be ruled out over the next couple of years. Moreover, the offering, if done through freebies (as seen in wireless offerings), could have an overall impact on ARPUs erosion. Notwithstanding the lack of clarity on proposed offering and pricing thereon, we believe Dish as well as other cable/DTH players is on a weak footing given the might of capital of Reliance Jio despite its intent to launch OTT services.

#### Maintains net adds and revenues guidance

Dish TV reported subdued growth in net additions for the quarter with net adds of 0.2 million (mn) vs. expectation of 0.25 mn. It attributed the same to a content lean quarter as well as some impact of floods and drought in some parts of the country. We note that the company maintained its guidance of 1.3 mn net adds and 8% revenue growth for FY19. We believe that achievement of the guidance is an uphill task given the muted H1FY19 additions and possible impact on net additions by Jio's aggressive push in FTTH, where it could come out with lucrative offers in the festive season to garner pace in subs additions (similar to what witnessed in wireless space). Our estimates of 1.1 mn net adds in FY19 and 1.15 mn in FY20, therefore, pose a downside risk.

#### Jio risk looms large; cut target multiple further...

We remain sceptical of the kind of damage Jio's entry can create mainly in terms of pricing in the urban linear cable/DTH space. The acquisition of cable operators has fortified Jio's positioning. Thus, it could remain an overhang for the cable/DTH industry. Moreover, the improvement in Q1FY19 by Dish, was largely offset by a weak Q2FY19. We note that Dish is currently trading at an alluring valuation of 4.1x FY20E EV/EBITDA. However, we believe the perceived threat of Jio is a much bigger issue casting doubts over the existing business model and growth prospects thereof. We cut our DCF based target price to ₹ 42, implying 5x FY20E EV/EBITDA, after adjusting for regulatory dues of ~₹ 2100 crore. While we maintain our **HOLD** recommendation, we believe the re-rating of Dish hinges on its strategy to tackle the Jio threat. High promoter pledge (~84% of promoters' stake is pledged) is also a concern.

### Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	Q1FY19	YoY (%)	QoQ (%)	Comments
Revenue	1,594.3	1,650.9	748.6	1,655.6	113.0	-3.7	Weakness in ARPU and slower subscriber addition led to revenues miss
Other Income	14.7	15.0	7.7	15.7	90.5	-6.7	
Employee Expenses	62.6	57.8	36.6	57.7	71.0	8.5	
Programming Cost	864.8	870.0	389.3	881.9	122	-2	
Other Operating Cost	123.8	155.2	103.8	157.1	19.3	-21.2	
Others	2.4	2.0	2.7	2.2	-10	9	
EBITDA	540.6	565.9	216.1	556.8	150.2	-2.9	
EBITDA Margin (%)	33.9	34.3	28.9	33.6	504 bps	28 bps	Lower topline impacted the EBITDA
Depreciation	367.5	360.8	189.9	360.8	93.6	1.9	
Interest	159.2	180.9	61.1	177.5	161	-10	
Total Tax	8.9	9.8	-9.3	8.7	NA	NA	
PAT	25.5	30.3	-16.2	27.9	NA	NA	Lower PAT was on account of miss on EBITDA front
<b>Key Metrics</b>							
Net Subscriber Additions (Mn)	0.20	0.25	0.19	0.30	6.4	-33.6	
Net Subscribers (Mn)	23.5	23.6	15.88	23.30	48.0	0.9	
ARPU (in ₹)	207	212	149	214	39.1	-3.3	

Source: Company, ICICI Direct Research

### Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,613.3	6,517.1	-1.5	7,059.3	6,917.6	-2.0	We realign our estimates post H1FY19 performance
EBITDA	2,247.5	2,217.3	-1.3	2,547.5	2,427.0	-4.7	
EBITDA Margin (%)	34.0	34.0	4 bps	36.1	35.1	-100 bps	
PAT	216.1	174.8	-19.1	473.8	394.0	-16.8	
EPS (₹)	1.1	0.9	-17.4	2.5	2.0	-18.1	

Source: Company, ICICI Direct Research

### Assumptions

	FY16	FY17	Current		Earlier		
			FY18	FY19E	FY20E	FY19E	FY20E
Net Subscriber Additions (M)	1.6	1.0	7.5	1.1	1.1	1.2	1.1
Net Subscribers (Mn)	14.5	15.5	23.0	24.1	25.2	24.2	25.3
ARPU (in ₹)	172.0	153.9	173.2	209.9	214.5	213.0	218.4
Monthly Churn Rate	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%

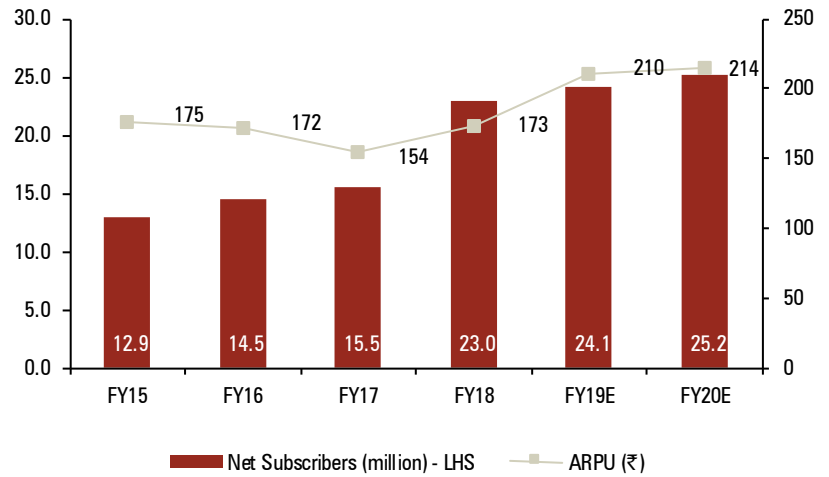
Source: Company, ICICI Direct Research

## Company Analysis

### ARPU to reach ₹ 214 in FY20E

We note that the company has guided for ~8-9% revenue growth in FY19. We factor in subscriber addition of 1.1 million for FY19E & FY20E, respectively, and ARPU of ₹ 214 in FY20 leading to subscription revenues of ₹ 6350 crore.

**Exhibit 1: Subscriber details trends**

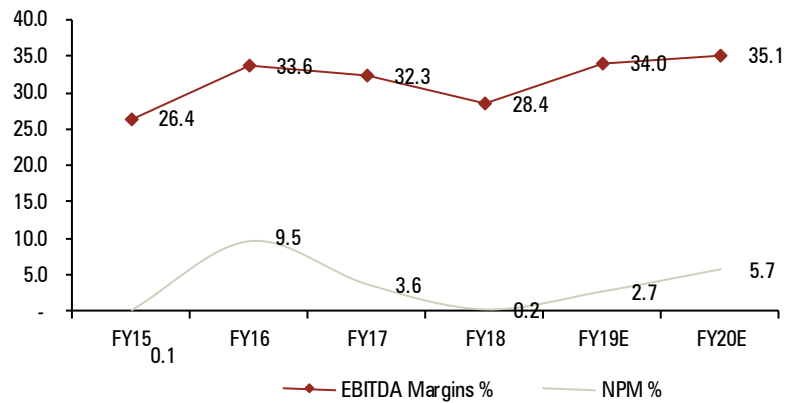


*FY18, 19E, ARPU are not comparable owing to change in accounting policy*

*Source: Company, ICICI Direct Research*

We expect the company to report margins of 34.0% and 35.1% in FY19E and FY20, respectively.

**Exhibit 2: EBITDA trend**



*Source: Company, ICICI Direct Research*

**Other Highlights:**

- **Maintain guidance of 1.3 mn net subs addition, 8% revenue growth for FY19:** The management indicated subscriber additions during the quarter were impacted on account of a sports lean quarter. The company reiterated its guidance of 1.3 mn net additions for FY19 to be aided by the festive season ahead. It also maintained 8% revenue guidance for FY19
- **~1% of base under threat from Jio:** The management indicated that as per their vulnerability assessment, only 1% of its subscriber base is under threat from Jio's impending home broadband launch. As per the management, the impact would be visible for the next four to six quarters
- **Launching OTT platform, hybrid android box in Q3FY19:** The management indicated they are looking to launch OTT services in Q3FY19 while trials for the same are under way. As per the management, it has incurred a capex of ₹ 35 crore for these services and clarified that their OTT will not compete with another group company's OTT (Zee5) since target customers are different
- **Maintains guidance of 35% EBITDA margin in FY19:** The management indicated that EBITDA margin expansion for the quarter was aided by cost savings. However, synergy benefits may not be directly visible due to mix of cost items. The company indicated there is further scope of costs to go down by 5% from the current level and maintained EBITDA margin guidance of 35% in FY19
- **Aiming for debt free company in two years:** The management indicated that gross debt was at ₹ 2550 crore while net debt was at ₹ 2150 crore as on Q2FY19. As per the management, they are looking to pay ₹ 500 crore towards debt repayment and guided for ₹ 1600-1650 crore debt in FY19
- **TV household expected to grow to 220 mn:** The management indicated that TV HHs in the country are expected to reach 220 mn in the next three years vs. 197 mn currently. Majority of these additions will come from the non-urban market, boding well for the company
- **Other highlights:** (i) Capex for the quarter was ₹ 230 crore and guided for capex of ₹ 850 to 900 crore for FY19, ii) net increase of ₹ 350 crore in working capital was due to advanced payments to suppliers of equipment, lii) current inventory of STBs (CWIP) was at 0.85 mn boxes amounting to ₹ 650 crore iv) subscriber acquisition cost for the quarter was ₹ 1575 per sub and v) content cost is 35% of revenue

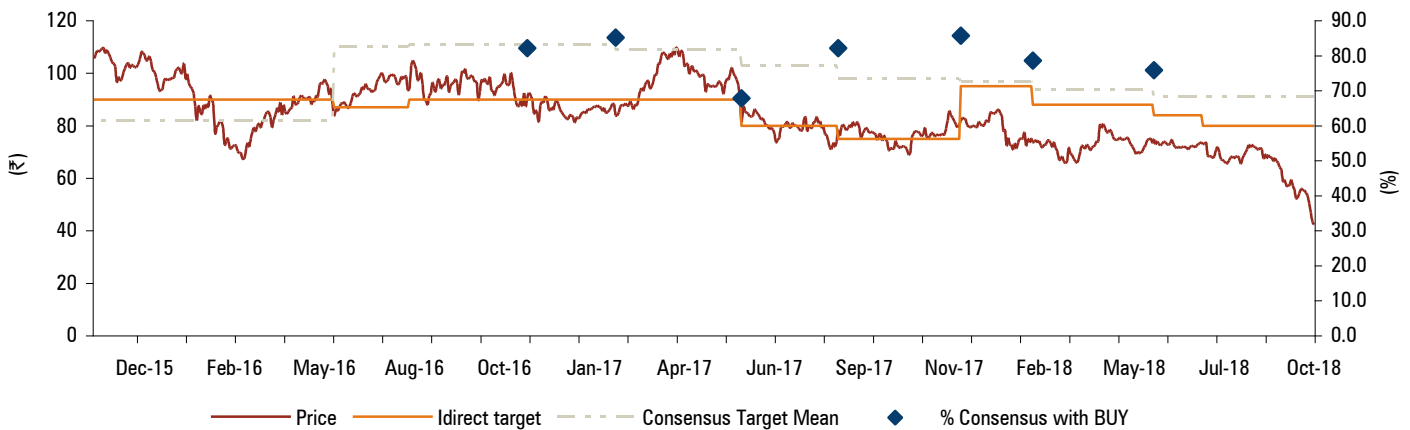
## Valuation

We remain sceptical of the kind of damage Jio's entry can create, mainly in terms of pricing in the urban linear cable/DTH space. The acquisition of cable operators has fortified Jio positioning and, thus, could remain an overhang for the cable/DTH industry. Moreover, the improvement in Q1FY19 by Dish, was largely offset by a weak Q2FY19. We note that Dish is currently trading at alluring valuations of 4.1x FY20E EV/EBITDA. However, we believe the perceived threat of Jio is a much bigger issue casting doubts over the existing business model and growth prospects thereof. We cut our DCF based target price to ₹ 42, implying 5x FY20E EV/EBITDA, after adjusting for regulatory dues of ~₹ 2100 crore. While we maintain our **HOLD** recommendation, we believe the re-rating of Dish hinges on its strategy to tackle the Jio threat. High promoter pledge (~84% of promoters' stake is pledged) is also a concern.

**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	9.1	22.3	20.8
FY18	4,634.2	54.3	(0.4)	NA	NA	7.8	0.1	3.1
FY19E	6,517.1	40.6	0.9	NA	47.5	4.8	2.5	9.0
FY20E	6,917.6	6.1	2.0	125.4	21.1	4.2	5.4	10.4

### 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	30-Jun-18	0.31	568.1	0.0
2	World Crest Advisors LLP	19-Sep-18	0.29	540.7	3.0
3	Catalyst Trusteeship Ltd.	30-Jun-18	0.19	348.6	348.6
4	Direct Media Distribution Ventures Pvt. Ltd.	30-Jun-18	0.03	52.2	0.0
5	Amansa Capital Pte Ltd.	30-Jun-18	0.03	46.2	2.0
6	Agrani Holdings Mauritius, Ltd.	30-Jun-18	0.02	35.2	0.0
7	Artisan Partners Limited Partnership	30-Jun-18	0.02	33.0	-10.1
8	T. Rowe Price International (UK) Ltd.	30-Jun-18	0.01	26.2	0.0
9	Fidelity International	31-Oct-17	0.01	16.8	16.8
10	Aditya Birla Sun Life AMC Limited	30-Sep-18	0.01	14.2	0.0

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	64.4	64.4	31.5	36.4	60.8
FII	18.8	18.5	11.1	13.3	11.7
DII	7.8	8.2	36.2	26.8	1.5
Others	8.9	8.9	21.3	23.5	26.0

### Recent Activity

Buys			Sells		
Name	Value	Shares	Name	Value	Shares
Catalyst Trusteeship Ltd.	+365.60M	+348.55M	Deutsche Asset Management (Asia) Ltd.	-290.65M	-277.10M
World Crest Advisors LLP	+2.38M	+3.00M	Artisan Partners Limited Partnership	-10.59M	-10.10M
Amansa Capital Pte Ltd.	+2.08M	+1.99M	ICICI Prudential Asset Management Co. Ltd.	-2.63M	-2.61M
BlackRock Institutional Trust Company, N.A.	+0.46M	+0.58M	TT International	-2.33M	-2.06M
FIL Investment Management (Australia) Limited	+0.26M	+0.23M	L&T Investment Management Limited	-0.79M	-0.78M

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	6517.1	6917.6	
Growth (%)	10.0	-1.5	NC	6.1	
Employee Expenses	146.5	209.6	244.5	276.7	
Administrative Expenses	0.0	0.0	0.0	0.0	
Programing Cost	1050.9	2476.6	3510.9	3597.2	
License Fees	166.2	0.0	0.0	0.0	
Commission	-	-	-	-	
Other Expenses	681.8	631.9	544.4	616.8	
Total Operating Expenditure	2045.5	3318.1	4299.8	4490.6	
EBITDA	968.9	1316.0	2217.3	2427.0	
Growth (%)	39.8	-5.5	NC	9.5	
Depreciation	663.1	1071.7	1401.2	1452.7	
Interest	223.9	396.4	651.7	617.9	
Other Income	51.5	54.2	62.4	80.0	
PBT	133.4	-97.9	226.8	436.4	
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	71.7	65.5	
PAT	109.3	-75.0	174.8	394.0	
Growth (%)	NM	-84.2	NC	125.4	
Adjusted PAT	109.3	10.0	174.8	394.0	
Growth (%)	NM	-62.4	NC	125.4	
EPS (₹)	1.0	-0.4	0.9	2.0	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Liabilities</b>					
Equity Capital	106.6	184.1	192.4	192.4	
Reserve and Surplus	384.0	6,570.0	6,744.8	7,138.8	
Total Shareholders funds	490.6	6,754.1	6,937.2	7,331.2	
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	9,768.9	10,162.9	
<b>Assets</b>					
Gross Block	6,529.7	11,590.6	12,490.6	13,490.6	
Less: Acc Depreciation	4,609.4	5,681.1	7,082.3	8,535.0	
Net Block	1,920.3	5,909.5	5,408.3	4,955.6	
Capital WIP	786.8	678.1	678.1	678.1	
Total Fixed Assets	2,707.1	6,587.6	6,086.4	5,633.7	
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	53.5	56.8	
Debtors	87.0	302.0	428.5	454.9	
Loans and Advances	475.5	481.1	744.3	869.0	
Other Current Assets	11.2	229.1	322.2	376.2	
Cash	292.3	267.5	261.2	488.2	
Total Current Assets	879.0	1,317.8	1,809.7	2,245.1	
Creditors	1,093.5	2,752.1	2,812.2	2,833.4	
Provisions	1,446.8	2,829.5	2,656.8	2,274.3	
Total Current Liabilities	2,540.3	5,581.6	5,469.0	5,107.7	
Net Current Assets	-1,661.3	-4,263.8	-3,659.2	-2,862.6	
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	9,768.9	10,162.9	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	109.3	-75.0	174.8	394.0	
Add: Depreciation	663.1	1,071.7	1,401.2	1,452.7	
Add: Interest Paid	617.9	0.0	0.0	0.0	
(Inc)/dec in Current Assets	-77.4	-463.5	-498.3	-208.4	
Inc/(dec) in CL and Provisions	201.5	3,041.3	-112.6	-361.3	
Others	(394.0)	396.4	651.7	617.9	
CF from operating activities	1,120.4	3,970.8	1,616.8	1,894.9	
(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	-19.7	0.0	
CF from investing activities	-917.6	-11,555.9	-979.7	-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	617.9	0.0	0.0	0.0	
Others	-841.2	5,864.7	-651.7	-617.9	
CF from financing activities	-249.7	7,560.3	-643.4	-617.9	
Net Cash flow	-46.9	-24.7	-6.3	227.0	
Opening Cash	339.2	292.3	267.5	261.2	
Closing Cash	292.3	267.5	261.2	488.2	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
<b>Per share data (₹)</b>					
EPS	1.0	-0.4	0.9	2.0	
Adj EPS	1.0	0.1	0.9	2.0	
BV	4.6	36.7	36.1	38.1	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share	2.7	1.5	1.4	2.5	
<b>Operating Ratios (%)</b>					
EBITDA Margin	32.3	28.4	34.0	35.1	
PBT / Total Operating income	10.2	5.3	12.5	14.1	
PAT Margin	3.6	0.2	2.7	5.7	
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	
<b>Return Ratios (%)</b>					
RoE	22.3	0.1	2.5	5.4	
RoCE	NM	3.1	9.0	10.4	
<b>Valuation Ratios (x)</b>					
P/E	NM	NM	47.5	21.1	
EV / EBITDA	9.1	7.8	4.8	4.2	
EV / Net Sales	2.9	2.2	1.6	1.5	
Market Cap / Sales	0.0	0.0	1.3	1.2	
Price to Book Value	0.0	0.0	1.2	1.1	
<b>Solvency Ratios</b>					
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(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
DB Corp (DBCORP)	162	190	Buy	2,986	17.1	14.9	17.3	9.5	10.9	9.4	4.9	6.0	4.9	23.1	22.4	24.4	16.3	16.1	17.2
DISH TV (DISHTV)	43	42	Hold	7,973	-0.4	0.9	2.0	NM	47.7	21.1	7.8	4.6	4.1	3.1	9.0	10.4	0.1	2.5	5.4
ENIL (ENTNET)	651	780	Hold	3,104	7.5	13.7	23.9	87.1	47.4	27.2	26.0	19.2	13.2	6.2	10.3	16.0	3.5	6.9	10.8
Inox Leisure (INOX)	216	260	Buy	2,081	11.9	7.8	11.4	18.2	27.9	18.9	11.2	11.0	8.5	13.2	11.9	14.8	10.6	10.0	12.9
Jagran Prakashan (JAGPRA)	115	185	Hold	3,566	10.6	9.6	9.9	10.8	11.9	11.5	5.5	6.1	5.7	18.9	18.6	18.8	16.1	14.7	14.3
PVR (PVRLIM)	1,317	1,385	Hold	6,155	26.4	35.7	43.6	49.9	36.9	30.2	17.3	13.9	11.5	14.7	13.2	15.5	11.5	13.5	14.3
Sun TV (SUNTV)	649	920	Buy	25,588	28.8	35.7	41.8	22.5	18.2	15.5	11.8	9.4	7.5	35.5	36.7	36.0	24.2	25.0	24.2
TV Today (TVTNET)	382	450	Hold	2,278	19.9	26.6	30.0	19.2	14.4	12.7	10.0	7.7	6.1	30.4	30.9	29.7	19.3	20.0	19.0
ZEE Ent. (ZEEENT)	431	540	Buy	41,422	15.4	15.7	20.0	28.0	27.5	21.6	18.5	15.2	12.6	25.6	24.5	25.5	15.3	14.7	16.0

Source: Company, ICICI Direct Research



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