

RETAIL EQUITY RESEARCH

Dish TV India Ltd

TV Distribution

BSE CODE: 532839

NSE CODE: DISHTV

Bloomberg CODE: DITV:IN

SENSEX: 29,398

HOLD

Rating as per Mid cap

12months investment period

CMP Rs108

TARGET Rs116

RETURN 7% 16th March, 2017**Weak quarter; Pinned hopes of demand recovery in Q4**

Dish TV India Ltd (Dish TV), part of the Essel Group, is one of India's largest DTH operators with a net subscriber base of 15.3mn, as on 31 Dec, 2016. Dish TV has more than 600 channels & services on its platform.

- While revenue declined by 3% YoY during Q3FY17 on account of demonetisation woes, Adj PAT fell 61% YoY owing to higher tax rate.
- While net subscribers rose marginally by 1.3% QoQ, Average revenue per user (ARPU) was down 6.8% QoQ as subscribers deferred recharges.
- EBITDA margin was down 110bps YoY at 33.4% due to adverse operating leverage.
- We factor revenue/EBITDA growth of 10.4%/14.2% CAGR over FY17-19E, led by a CAGR of 9.7%/0.7% in net subscribers/ARPU.
- We reduce our revenue estimates by 4.3%/5.5% for FY17/FY18E to factor in weak Q3 performance.
- We maintain 'HOLD' rating on the stock with a target price (TP) of Rs116 based on 9.0x FY19E EV/EBITDA.

Demonetisation took a toll on sales

During Q3FY17, consolidated revenues were down 3% YoY (↓4% QoQ) mainly impacted by lower ARPU (↓6.8% YoY). However, it got support from higher net subscriber base (↑9.3% YoY). While net subscriber base registered a growth of 1.3% QoQ, Like-to-like ARPU was down 6.8% QoQ to Rs151. More importantly, ARPU growth has declined QoQ owing to higher demand for low end packages & deferral of recharges in the wake of demonetisation (65% of the revenue base resides in non-top 42 cities in India). Further, the management stated that focus would be on increasing the revenue growth (through net adds) and not ARPUs. While we expect ARPUs to grow at a CAGR of just 0.7% over FY17-19E aided by rising HD off-take, net subscriber base would remain buoyant (9.7% CAGR) driven by implementation of DAS (digital addressable system) Phase-IV. Thus, we expect revenue to witness a CAGR of 10.4% over FY17-19E.

Sluggish operating performance

EBITDA margin was down 110bps YoY to 33.4% on account of adverse operating leverage. Adjusted PAT dipped 61% YoY owing to higher depreciation (↑13% YoY), rise in interest cost (↑7% YoY) & higher tax rate (38% in Q3FY17). Further, the management has highlighted that content costs would increase by 6-8% YoY for both FY17 & FY18 (vs earlier guidance of 10-12%), despite two large deals (Zee & Star) coming up for renewal in H2FY17E. Thus, we estimate overall EBITDA margin to expand to 35.9% by FY19E from 33.6% in FY17.

Merger with Videocon D2H on track

During Q3FY17, Dish TV announced the amalgamation of Videocon D2H. Notably, the proposed transaction would make the merged entity (Dish TV Videocon Ltd) the largest television digital subscriber company in India garnering ~46% share in the DTH industry. The merger would create a DTH giant with ~28mn subscribers and account for 16% of Indian TV households. While the merger would yield revenue synergy in terms of higher carriage revenue, the deal would provide cost synergies in terms of content cost & rationalisation of SG&A. The merger is pending for regulatory approvals and is expected to be completed by Q3FY18E. Further, we await for clarity on the synergies derived from this transaction & hence, we currently do not factor in merger synergies into our estimates.

Outlook & Valuation

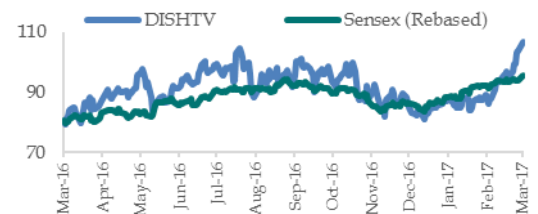
We reduce our EPS estimates by 19%/14% for FY17E/FY18E to mainly factor in lower margin assumptions. We have lowered our EBITDA margin estimates by 90bps/50bps for FY17/FY18 to factor in downward pressure on ARPUs. Although Dish TV posted weak results in Q3FY17, we maintain positive stance on the stock given its first-mover advantage, strong distribution network & implementation of DAS-IV. We project revenue/EBITDA to witness a CAGR of 10.4%/14.2% over FY17-19E. Further, we have introduced FY19 estimates and rollover our target price to FY19E. Maintain 'HOLD' with a TP of Rs116 based on 9.0x FY19E EV/EBITDA.

Company Data

Market Cap (Rs cr)	11,496		
Enterprise Value (Rs cr)	12,253		
Outstanding Shares (cr)	106.6		
Free Float	36.0%		
Dividend Yield	-		
52 week high	Rs110		
52 week low	Rs77		
6m average volume (lakh)	0.6		
Beta	1.9		
Face value	Rs1		
Shareholding %	Q1FY17	Q2FY17	Q3FY17
Promoters	64.4	64.4	64.4
FII's	12.5	19.8	16.0
MFs/Insti	13.9	6.9	8.2
Public	5.0	4.6	5.7
Others	4.2	4.3	5.7
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	25%	12%	35%
Absolute Sensex	11%	4%	20%
Relative Return*	14%	8%	15%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17E	FY18E	FY19E
Sales	3,127	3,402	3,811
Growth (%)	2.2	8.8	12.0
EBITDA	1,050	1,191	1,370
Margin(%)	33.6	35.0	35.9
PAT Adj	183	255	353
Growth (%)	-73.5	39.0	38.6
Adj.EPS	1.7	2.4	3.3
Growth (%)	-73.5	39.0	38.6
P/E	62.7	45.1	32.6
P/B	20.4	14.0	9.8
EV/EBITDA	11.7	10.1	8.4
RoE (%)	38.8	36.8	35.5
D/E	2.1	1.3	0.8

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q3FY17	Q3FY16	YoY Growth %	Q2FY17	QoQ Growth %	9MFY17	9MFY16	YoY Growth %
Sales	748	771	(3.0)	779	(4.0)	2,306	2,261	2.0
EBITDA	250	265	(6.0)	264	(5.6)	779	758	2.7
Margin (%)	33.4%	34.4%	(1.1)bps	33.9%	(0.5)bps	33.8%	33.5%	0.2bps
Depreciation	166	146	13.2	163	1.3	490	439	11.7
EBIT	84	119	(29.6)	101	(16.7)	289	319	(9.6)
Interest	59	55	7.7	55	6.7	167	158	5.7
Other Income	18	4	330.7	11	62.8	41	48	(15.7)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	43	68	(37.3)	56	(24.0)	163	210	(22.5)
Tax	16	-	-	(14)	-	25	-	-
PAT	27	68	(61.0)	70	(61.9)	138	210	(34.4)
Minority Interest/ PL from associates	-	-	-	-	-	-	-	-
Reported PAT	27	68	(61.0)	70	(61.9)	138	210	(34.4)
Adjustment	-	-	-	-	-	-	-	-
Adj PAT	27	68	(61.0)	70	(61.9)	138	210	(34.4)
No. of shares (cr)	106.6	106.6		106.6		106.6	106.6	
EPS (Rs)	0.3	0.6	(61.0)	0.7	(61.9)	1.3	2.0	(34.4)

Key performance indicators

Particulars	Q3FY17	Q3FY16	YoY Growth %	Q2FY17	QoQ Growth %
Net adds (mn)	0.2	0.32	(37.5)	0.26	(23.1)
Net Subscribers (mn)	15.3	14.0	9.3	15.1	1.3
Reported ARPU (Rs/month)	151	162	(6.8)	162	(6.8)

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	3,267	3,601	3,127	3,402	(4.3)	(5.5)
EBITDA	1,131	1,281	1,050	1,191	(7.2)	(7.0)
Margins (%)	34.5	35.5	33.6	35.0	(90) bps	(50) bps
PAT	223	300	183	255	(17.9)	(15)
EPS	2.1	2.8	1.7	2.4	(19.0)	(14.3)

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17E	FY18E	FY19E
Sales	2,688	3,060	3,127	3,402	3,811
% change	7.1%	13.8%	2.2%	8.8%	12.0%
EBITDA	733	1,025	1,050	1,191	1,370
% change	17.5%	39.8%	2.5%	13.4%	15.1%
Depreciation	614	591	659	726	807
EBIT	119	434	391	464	563
Interest	175	209	213	186	159
Other Income	64	64	57	61	66
PBT	7	290	235	340	471
% change	-	-	-18.8%	44.6%	38.6%
Tax	4	(403)	52	85	118
Tax Rate (%)	-	-	22.0%	25.0%	25.0%
Reported PAT	3	692	183	255	353
Adj*	-	-	-	-	-
Adj PAT	3	692	183	255	353
% change	-	-	-73.5%	39.0%	38.6%
No. of shares (cr)	106.6	106.6	106.6	106.6	106.6
Adj EPS (Rs)	0.0	6.5	1.7	2.4	3.3
% change	-	-	-73.5%	39.0%	38.6%
DPS (Rs)	-	-	-	-	-

Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	7	290	235	340	471
Depreciation	614	591	659	726	807
Changes in W.C	41	121	20	55	64
Others	115	151	156	125	92
Tax paid	(10)	(20)	(52)	(85)	(118)
C.F.O	767	1,132	1,019	1,161	1,316
Capital exp.	(706)	(908)	(810)	(700)	(700)
Change in inv.	2	(29)	-	-	-
Other invest.CF	34	128	57	61	66
C.F - investing	(670)	(809)	(753)	(639)	(634)
Issue of equity	3	2	0	-	-
Issue/repay debt	36	(287)	(50)	(150)	(150)
Dividends paid	-	-	-	-	-
Other finance.CF	(76)	(67)	(213)	(186)	(159)
C.F - Financing	(36)	(352)	(263)	(336)	(309)
Chg. in cash	61	(29)	3	187	373
Closing cash	429	339	342	529	902

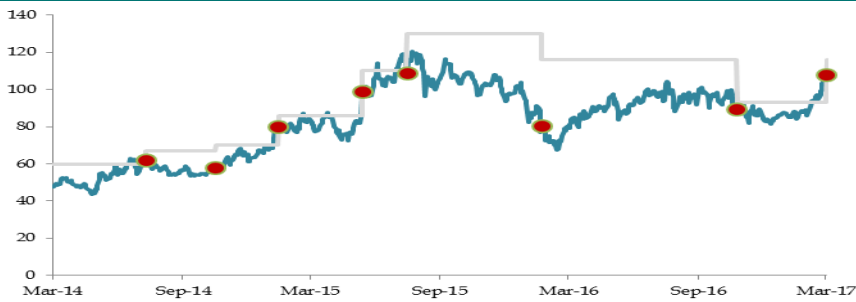
Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17E	FY18E	FY19E
Cash	429	339	342	529	902
Accounts Receivable	64	72	74	81	90
Inventories	10	13	13	13	15
Other Cur. Assets	413	255	270	287	321
Investments	200	232	232	232	232
Gross Fixed Assets	4,816	5,763	6,503	7,333	8,033
Net Fixed Assets	1,454	1,810	1,891	1,994	1,888
CWIP	497	610	680	550	550
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	436	436	436	436
Other Assets	101	172	172	172	172
Total Assets	3,166	3,939	4,110	4,294	4,606
Current Liabilities	1,971	2,247	2,284	2,363	2,472
Provisions	-	-	-	-	-
Debt Funds	1,484	1,231	1,181	1,031	881
Other Liabilities	25	81	81	81	81
Equity Capital	107	107	107	107	107
Reserves & Surplus	(420)	274	457	712	1,065
Shareholder's Fund	(313)	381	564	819	1,172
Minority Interest	-	-	-	-	-
Total Liabilities	3,166	3,939	4,110	4,294	4,606
BVPS (Rs)	(2.9)	3.6	5.3	7.7	11.0

Ratios

Y.E March	FY15	FY16	FY17E	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	27.3	33.5	33.6	35.0	35.9
EBIT margin (%)	4.4	14.2	12.5	13.6	14.8
Net profit mgn.(%)	0.1	22.6	5.9	7.5	9.3
ROE (%)	-	-	38.8	36.8	35.5
ROCE (%)	16.1	35.8	26.7	29.2	32.2
W.C & Liquidity					
Receivables (days)	8.7	8.7	8.7	8.7	8.7
Inventory (days)	2.4	2.8	2.8	2.6	2.7
Payables (days)	23.7	41.2	41.4	41.5	41.4
Current ratio (x)	0.5	0.3	0.3	0.4	0.5
Quick ratio (x)	0.5	0.3	0.3	0.4	0.5
Turnover & Levg.					
Gross asset T.O (x)	0.6	0.6	0.5	0.5	0.5
Total asset T.O (x)	0.9	0.9	0.8	0.8	0.9
Int. covge. ratio (x)	0.7	2.1	1.8	2.5	3.6
Adj. debt/equity (x)	-4.7	3.2	2.1	1.3	0.8
Valuation ratios					
EV/Sales (x)	4.7	4.1	4.0	3.5	3.0
EV/EBITDA (x)	17.1	12.1	11.7	10.1	8.4
P/E (x)	-	16.6	62.7	45.1	32.6
P/BV (x)	-	30.2	20.4	14.0	9.8

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
24-Jul-14	BUY	67
31-Oct-14	BUY	70
28-Jan-15	BUY	86
27-May-15	BUY	110
29-Jul-15	BUY	130
5-Feb-16	BUY	116
08-Nov-16	HOLD	93
16-Mar-17	HOLD	116

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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