DEN Networks

Sector: Broadcasting & Cable TV/ Mid Cap

Initiating Coverage 26 April 2013

Cholamandalam Securities Ltd.

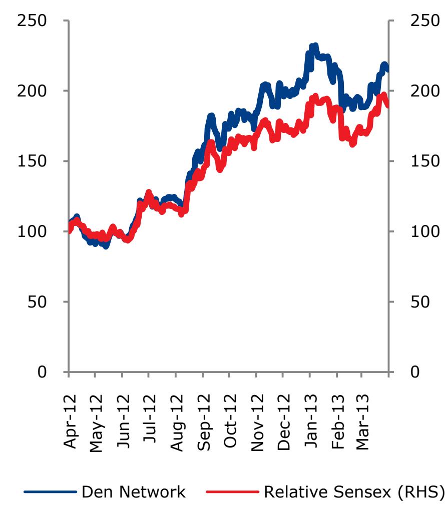
Sensex	Nifty	Price: INR 215	Target Price: INR 219	MARKETPERFORMER
19,407	5,916			

Background: Incorporated in 2007, DEN Networks is a leading Multiple System Operators (MSO) in the Indian TV Distribution Industry, with ~11mn households (digital and analog). DEN's growth strategy has been to acquire majority interests in smaller MSOs and consolidate its position. DEN has controlling stakes in 84 MSO's and utilizes (Local Cable Operators) LCOs to provide the — last mile cable link to reach subscribers. It has also obtained Internet service provider (ISP) license and has plans to roll out broadband internet services in select cities. In 2010, DEN became the first MSO (listed space) to post a positive PAT. DEN Networks has partnered with STAR, ZEE and Turner in MediaPro (DEN Networks holds an effective 25% stake in the JV). MediaPro is India's largest content aggregation and distribution company offering over 70 channels including all Star, ZEE, Turner and NDTV channels.

52 Week High/Low	INR 238/88
Bloomberg code	DEN IN
Reuters code	DENN.BO
Issued Equity (shares in mn)	132.99
Mkt. Cap in mn	INR 29,090
Mkt. Cap in mn USD	$ 537.7
Avg. Daily Vol. ('000)	386.38
Avg. Daily Vol. (mn)	INR 83.1/$ 1.5

Shareholding	Dec11	Sep12	Dec12
Promoters(%)	54.69	53.76	53.24
FII (%)	7.32	11.97	13.69
DII (%)	1.99	3.20	2.37
Others (%)	36.00	31.07	30.70
Pledge (% of promoter holding)	0.00	0.00	0.00

Performance%	1M	3M	12M
DEN Networks	13.79	-0.14	107.83
Sensex	3.88	-2.59	13.15



Alagappan.Ar +91-44-30007363
alagappana@chola.murugappa.com

Valuations an overhang

Digitization to perk up revenues

The extent of digitization success hinges largely on regulatory support. Blackouts have been enforced in Mumbai and Delhi (Phase I cities) post the deadline. DEN Networks has a presence in 23 cities of 38 Phase-II cities, offering a sizeable market for migration of subscribers to the DAS environment. DEN has a subscriber universe of ~4mn in Phase II areas. On seeding of set-top boxes DEN Networks gets ~INR500/STB on a net basis, as activation income. The cost of acquiring a customer is at ~INR 1,000. Set top boxes costing ~INR 1,500/piece are written off over 8 years. With the introduction of the Digital Addressable System (DAS), fortunes are expected to shift in favour of MSOs/DTH service providers and broadcasters, albeit at a gradual pace.

Activation income and accounting change to boost margins

Higher ARPUs under the digitization drive are expected to augur well for revenue growth. Although a churn in subscribers from cables to DTH cannot be ruled out, addition of fresh households is likely to help DEN Networks retain its gross households. Revenue growth is expected to register a 48% growth CAGR (FY13-15E). From April 1, 2012 DEN has started booking net revenues (revenues less cost of distribution rights) of MediaPro as against gross carriage revenue until FY12. Driven by the change in revenue booking and seeding of boxes (as activation income is realized with only negligible costs), margins are expected to perk up.

Debt-equity ratio within comfort zone

Debt is expected to increase, driven by higher capex costs on deployment of STBs. Further a stretched working capital cycle also acts as a dampener. We do not see dividend payouts as the firm is expected to conserve cash until the business reaches stabilisation post FY16. Debt/equity levels are expected to remain within the comfort zone at 1.1X (FY15E). The company has a healthy balance sheet position with cash of INR 2,455 mn as on September 30, 2012; this compares with a debt of INR 3919mn.

Outlook & Valuation

With cable serving as a cost-competitive option as compared to DTH, consumers are likely to stick to cable networks, we believe the stock demands higher valuations. Uncertainty prevailing over revenue sharing structure and a stretched working capital cycle, however, are dampeners. In this light, we assign an EV/EBITDTA of 8X (FY15E) to arrive at target price of INR 219 per share, implying a FY15 P/BV of 2.6X, FY15 P/E of 22.9X. We rate the stock a **MARKETPERFORMER.**

Risks: Threat on margins persist with MSOs yet to reach an agreement on sharing of subscription revenues, lack of last mile ownership and threat of higher levels of competition from existing players with deeper pockets are amongst the key concerns.

Y/E March (INR mn)	FY12	FY13E	FY14E	FY15E
Revenue	11,295	9,243	14,194	20,290
EBIDTA	822	2,148	3,819	5,068
Reported PAT (After MI)	143	754	1,277	1,433
Adjusted PAT (After MI)*			1,181	1,290
Adjusted EPS	1.1	5.6	8.7	9.5
EPS growth (%)	-61.9	419.1	56.6	9.3
P/E	201.1	38.7	24.7	22.6
P/ BV	3.6	3.3	2.9	2.6
EV / EBIDTA	35.2	15.1	9.4	7.9
EV / Sales	2.6	3.5	2.5	2.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROCE (%)	7.7	14.6	19.2	20.1
ROE (%)	1.8	8.6	11.9	11.5
Debt / Equity	0.30	0.63	0.92	1.13

*Higher depreciation charges on STBs – 5 years SLM

Background

Incorporated in 2007, DEN Networks is a leading Multiple System Operators (MSO) in the Indian TV Distribution Industry, with ~11mn households (digital and analog). DEN Networks provides services in 115 cities and towns including Delhi and places in Uttar Pradesh, Rajasthan, Haryana, Gujarat, Maharashtra (including Mumbai), Karnataka, Madhya Pradesh, Uttarakhand, Kerala, West Bengal, Jharkhand and Bihar. DEN's growth strategy has been to acquire majority interests in smaller MSOs and consolidate its position. The industry is fragmented to a large extent with ~7,000 MSOs. The top five MSOs account for less than 50% market share. The last mile link is further fragmented with about 50,000+ LCO (local cable operators). DEN has controlling stakes in 84 MSO's and utilizes LCOs to provide the —last mile cable link to reach subscribers. It has also obtained Internet service provider (ISP) license and plans to roll out broadband internet services in certain cities; however, telecom players owning the backbone are likely to have a cost advantage. In 2010, DEN became the first MSO (listed space) to post a positive PAT. DEN Networks has partnered with STAR, ZEE and Turner in MediaPro (DEN Networks holds an effective 25% stake in the JV). MediaPro is India's largest content aggregation and distribution company offering over 70 channels including all Star, ZEE, Turner and NDTV channels.

Top Management

Sameer Manchanda, Chairman and MD: Mr. Manchanda, a qualified Chartered Accountant, has been associated with the television industry since 1984. He founded DEN in 2007. Earlier in 2005, he co-founded IBN18 and was the Jt. MD of IBN18 from 2005-10. He has also served as a Director on the board of NDTV. He played a key role in the formation of Star DEN (now part of Media PRO), a 50-50 J-V between DEN and the Star TV group.

S.N. Sharma, CEO: Mr. Sharma joined DEN Networks in 2007. He has nearly 25 years of experience in the media industry. In his earlier stints he has been associated with Hathway Cable and Datacom as President, Northern Region of and with IndusInd Media and Communications as a Vice President. He holds a Bachelors degree in Electronics and Communications and a Masters degree in Business Administration from Kurukshetra University.

M.G. Azhar, COO: Mr. Azhar has over 15 years of experience in planning, fund raising, capital structuring, mergers and acquisitions in the media space. He was involved in setting up DEN Networks and has been associated with the company since inception. He holds a Masters degree in Finance and Control.

Rajesh Kaushall, CFO: Mr. Kaushall, a qualified Chartered Accountant and Costs and Works Accountant, has over 13 years of experience in financial systems and processes, project control, treasury and tax compliance.

Navroz Behramfram, CTO: Mr. Behramfram has over 25 years of experience in the television and internet services. Prior to joining DEN in December 2007, he was heading the technical division - Consumer Electronic Products of Tata Sky prior to which he worked as Vice President - Technology with Hathway Cable and Datacom.

Group Structure

Wholly owned Subsidiaries

- Aster Entertainment Private Limited
- Den Digital Entertainment Gujarat Private Limited
- Den Entertainment Network Private Limited
- Den Futuristic Cable Networks Private Limited
- Den RIS Cable Network Private Limited
- Shine Cable Network Private Limited
- IME Networks Private Limited
- Matrix Cable Network Private Limited

Subsidiaries with 51% stake

- 77 companies

Other Subsidiaries

- Den Sky Media Network Private Limited 91%
- Mahavir Den Entertainment Private Limited 69%
- Den Mewar Rajdev Cable Network Private Limited 65%
- Den Radiant Satelite Cable Network Private Limited 65%
- Den Mahendra Satellite Private Limited 60%

Joint venture

- Star Den Media Services 50% (indirect 25% stake in Media PRO)

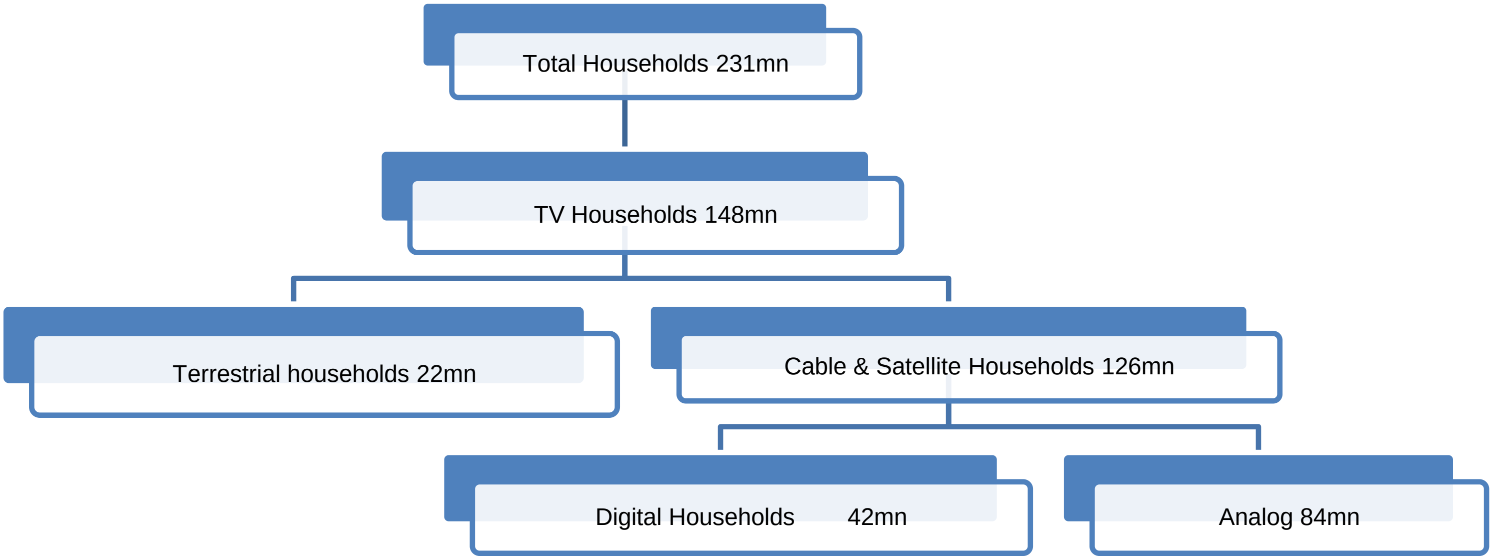
100%/51% Subsidiary	Step down subsidiary	Stake
Den Futuristic Cable Networks Private Limited (100%)	Den Faction Communication System Private Limited	51%
	Den Nanak Communication Private Limited	51%
	Den Saya Channel Network Private Limited	51%
	Fun Cable Network Private Limited	51%
Den Ambey Cable Networks Private Limited (51%)	Den Ambey Farukabad Cable Network Private Limited	100%
	Den Ambey Jhansi Cable Network Private Limited	100%
	Den Ambey Citi Cable Network Private Limited	51%
	Den Deva Cable Network Private Limited	51%
	Star Channel Den Network Private Limited	51%
	Saturn Digital Cable Private Limited	51%
Den Enjoy Cable Networks Private Limited (51%)	Den Enjoy Navaratan Network Private Limited	51%
Den Kashi Cable Network Private Limited (51%)	Kishna DEN Cable Network Private Limited	51%
	Divya Drishti Den Network Private Limited	51%
	DEN Badhohi Cable Network Private Limited	51%
Den Satellite Network Private Limited (51%)	DEN New Broad Communication Private Limited	
IME Networks Private Limited (100%)	Astron Media Networks Private Limited	
Den Entertainment Network Private Limited (100%)	Kerala Entertainment Private Limited	100%
	Rajasthan Entertainment Private Limited	100%
	Uttar Pradesh Digital Cable Network Private Limited	100%
	DEN Enjoy SBNM Cable Network Private Limited	100%
	Capital Entertainment Private Limited	100%
	Eminent Cable Network Private Limited	100%
	Trident Entertainment Private Limited	100%
	Rose Entertainment Private Limited	100%
	Blossom Entertainment Private Limited	100%

Industry Overview

According to the FICCI-KPMG report, on the Indian Media and Entertainment industry registered a 9% CAGR growth over 2007-2011 to INR 728 billion (including movies) in 2011. Consumption in Tier 2 and 3 cities, regional media and new media businesses (animation and VFX, gaming and digital advertising) are expected to be the key drivers for the industry, which is expected to grow at CAGR of 14.9% until 2016.

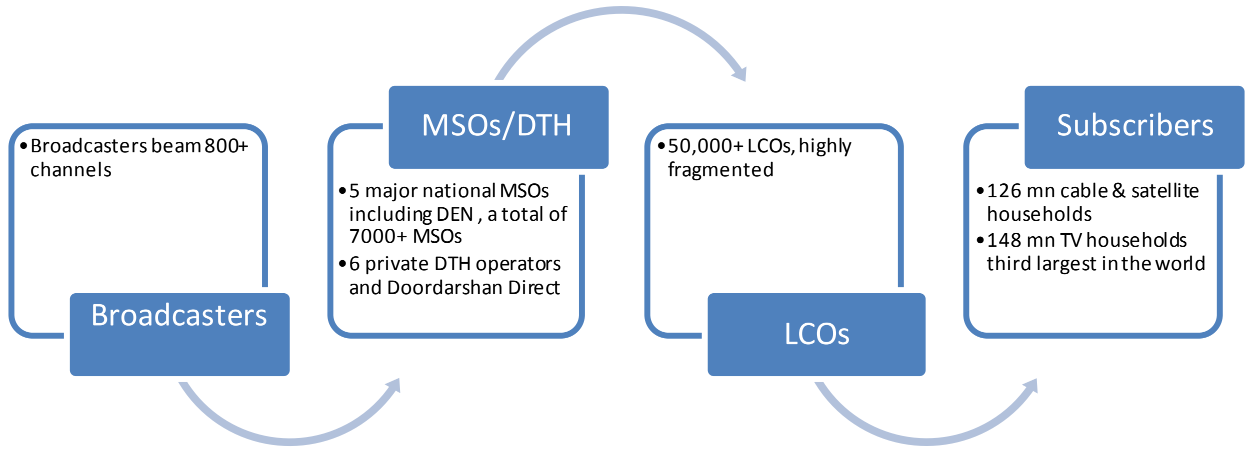
Television, the larger medium in terms of revenue, represents ~45% of the total media industry (INR 728bn). The TV industry continues to have headroom for further growth as penetration in India is estimated at 65% (153mn TV owning households in 2013) of total households. India continues to be the third largest TV market after USA and China. Cable and Satellite (C&S) penetration of television households is close to 92%, with the digital segment amongst the faster growing segments in the recent past. New TV sales in India are estimated at ~ 15 mn/year and TV penetration at ~ 7mn by new households. The FICCI-KPMG report places cable & satellite households' growth at 5.2% CAGR (2011-2016); digital subscribers, however, are expected to grow at faster clip 27.1% CAGR (2011-2016) driven by statutory digitization.

TV penetration in 2012 - TAM Media Research

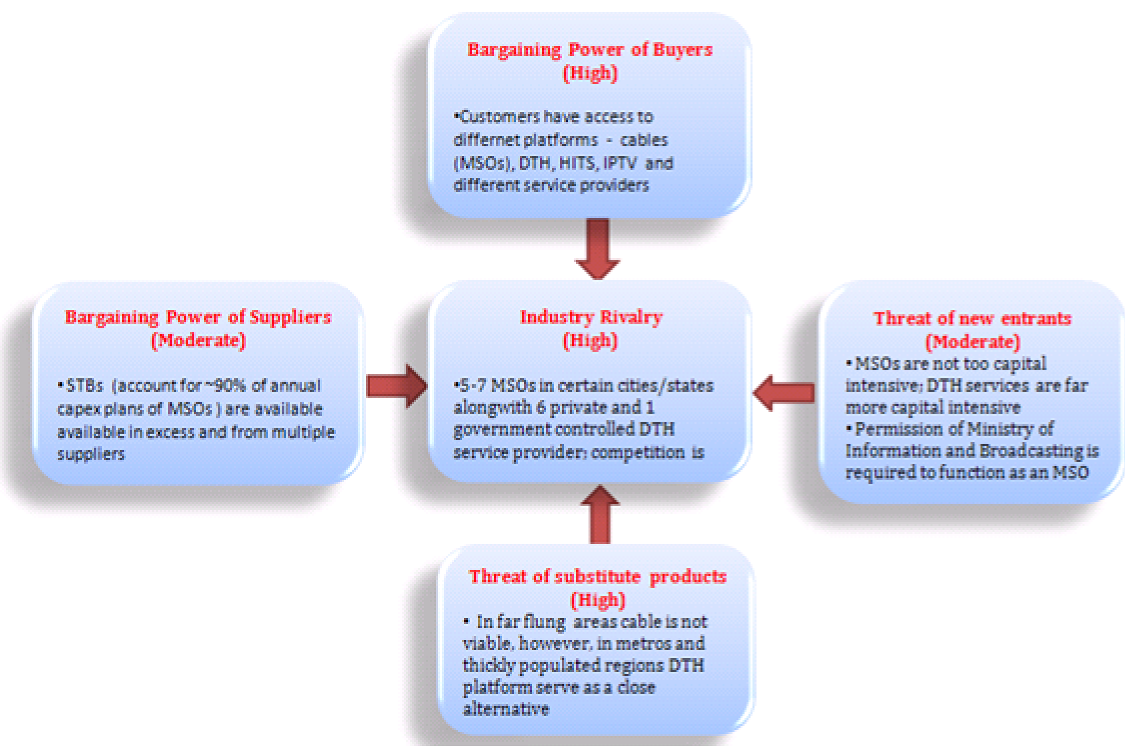


Estimates place the size of the over-all television industry at INR 329bn (subscription and ad revenues) in 2011. According to the FICCI-KPMG report on the Indian Media and Entertainment industry, the TV industry is expected to grow at a CAGR of 17% over 2011-16, to reach INR 735bn in 2016. The share of subscription revenues to TV industry revenues is expected to increase from 65% in 2011 to 69% in 2016.

TV Value chain



Porters Five Forces



Investment Rationale

Enforcement a key to success of digitization

The extent of digitization success hinges largely on regulatory support. With the government losing out on taxes due to underreporting by LCOs, regulatory support has been coming from the Union Government. To ensure that digitization is a success, the government has been keeping a tab on the progress of digitization and regularly holds meetings with key stakeholders. The MIB (ministry of Information and Broadcasting) along with key stakeholders have been advertising to highlight the deadlines. Blackouts had been enforced in Mumbai and Delhi (Phase I cities) post the deadline.

	Digitization Timeline		No. of cities
Phase-I	4 Metros - Delhi, Mumbai, Kolkata and Chennai	31-Oct-12	4
Phase-II	Cities with a population more than one million	31-Mar-13	38
Phase-III	All urban areas (Municipal Corp. / Municipalities)	30-Sep-14	>6000
Phase-IV	Rest of India	31-Dec-14	

Source: MIB, Census 2011

Industry feedback suggests that timelines for the upcoming phases is expected to be pushed further by anywhere between 3 and 6 months with supply of set top boxes and implementation hiccups are amongst the reasons cited. With LCOs bargaining for a higher revenue share, lack of agreement on the same is also leading to delays.

Digitization levels reasonable

Reports from the Ministry of Information and Broadcasting (MIB) indicate that the digitization levels for the industry have been reasonable. As of October 2012, digitalization levels (Digital cable along with DTH) have been reported at over 100% for Mumbai, Delhi at 97%, Kolkata at 85% and Chennai at 86%. Further reports in early March from MIB indicate that 55% of the target has been achieved in Phase II cities. DTH operators accounted for 4.1mn while cable accounted for 4.7mn of 8.8mn digitized connections in Phase II cities. In late March digitization in Phase II cities were reported at 67%, Ministry reports indicate that 10.8mn boxes were installed (DTH and MSOs). Media campaigns and a monitoring committee to review progress are amongst the key drivers of digitization. In mid-April, Ministry reports indicate that digitization penetration in Phase II cities increased to 85% totaling over 13.6mn set top boxes (9.2mn by MSOs and 4.4mn by DTH operators).

Digitization to aid revenue growth

As of December 2012, DEN had seeded over 1.8mn boxes (~0.9mn seeded in 3QFY12) in Delhi, Mumbai and Kolkata - Phase I cities of DAS. DEN does not have a presence in Chennai, were the enforcement is weak. With digitization picking up late in Kolkata, there appears to be further scope for seeding. Over time with increased digitization in Kolkata, Den Networks expects to have ~2mn digital subscribers in Phase I cities. DEN Networks has a presence in 23 cities of 38 Phase-II cities, offering a sizeable market for migration of subscribers to the DAS environment. DEN has a subscriber universe of ~4mn in Phase II areas, out of which it has already seeded 0.6mn boxes. DEN has a wide presence in Uttar Pradesh (all 7 Phase II cities), besides in certain pockets of Maharashtra and Karnataka.

On seeding of set-top boxes DEN Networks gets ~INR500/STB on a net basis, as activation income. The set-top boxes costing ~INR 1,500/piece are written off over 8 years. Customers tend to be sticky as there is no interchangeability of set top boxes between service providers, they would have to move to an alternate platform such as DTH. TV viewers cannot switch from one service provider to another using the same set top box; this along with limited choice of MSOs in certain markets such as Punjab (estimated that the Fast Way Group controls 85%) is a positive. However, instances of cable operators losing subscribers have been the trend in certain developed markets such as the US.

Digitization expected to shift revenue share away from LCOs

LCOs are estimated to have under declared subscriptions. However, with the introduction of the Digital Addressable System (DAS), fortunes are expected to shift in favour of MSOs/DTH service providers and broadcasters, albeit at a gradual pace. The new regime of Digital Addressable System (DAS) is expected to ensure that cable operators transmit TV signals only through a digitally addressable medium. DAS is expected to fare better than Conditional Access System, as it has the backing of key stakeholders - the government, broadcasters and MSOs. Under DAS with MSOs having access to the count of set top boxes, under reporting is expected to be curbed (although earlier industry estimates of gross under reporting appear to be overdone). Revenue share from subscription is expected to tilt in favour of MSOs, DTH service providers and broadcasters driven by shift in sharing structure. Industry estimates have pegged MSOs share of revenues at 25-30% at steady state.

Stake-holder revenue share	Pre-digitization	Post 2016
Consumer ARPU	100%	100%
LCO	65-70%	35-50%
Distributor	5%	0-5%
MSO	15%-20%	25-30%
Broadcaster	10%-15%	30-35%

Source: FICCI-KPMG

DEN's revenue model to shift from carriage income to subscription income

In the analog scheme of things carriage and placement income contributed more than 50% of DEN's revenue. A surge in channels in the recent years had led to a rise in carriage & placement income in the recent years. However, under digitization share of carriage income in revenues is expected to come down substantially. Subscription revenues are expected to incrementally contribute to income. DEN with a subscriber base of ~11mn bills its LCO's on a net basis, however, the company plans to start direct billing of customers in FY14 and simultaneously book LCO's revenue share as expenses.

HD content, VAS and broadband to augur well revenues over the long term

DEN has launched its HD service under the brand name DEN HD. The company plans to scale up its HD (high definition) content offering. With digitization taking precedence over HD, the company has been going slow on the HD front, however, DEN plans to increase its thrust on HD. Penetration of HD services is expected to be better in Phase-I cities as compared to other places . HD will continue to have a miniscule share given the high costs and going by the experience in DTH, who are high value customers. DEN offers value added services (VAS) such as music on demand, a micro blogging platform on TV, a restaurant and event search app (only in Delhi) and interactive games.

HD and VAS (value added services) are expected to provide a leg up to ARPUs. Under the analog system, broadband was not possible, however, digitization facilitates dual play of cable TV and broadband services. DEN holds an ISP (internet service provider) license; DEN's broadband presence is limited to Delhi-NCR and Kanpur. DEN plans to start its broadband services in fully digitized markets. DEN plans to roll out infrastructure in Phase I cities, however, the company faces an uphill task as telecom players enjoy first mover advantage cable. In India it is the other way round.

Strategic interest in content aggregation

Though TV channels can be directly distributed by MSOs/DTH service providers, the broadcaster may also use the services of an aggregator who acts as a distribution agent of TV channels. In 2008, DEN entered into a 50:50 JV with STAR India for content aggregation. In May 2011, STAR-DEN formed a 50:50 JV with Zee-Turner (a 74:26 JV between Zee Entertainment Enterprises and Turner International India) for jointly distributing channels and services of the two entities. MediaPro aggregates and distributes channels licensed to Zee Turner and STAR-DEN (~70 channels). This unique content partnership differentiates DEN from other MSOs. Pass on of subscription revenues (content fee) from MSOs/DTH operators form MediaPro's revenues.

Outlook

Revenues to receive a boost from higher ARPUs, accounting change to boost margins

Higher ARPUs under the digitization drive are expected to augur well for revenue growth. However, under reporting appears to be overdone. Although a churn in subscribers from cables to DTH cannot be ruled out, addition of fresh households is likely to help DEN Networks retain its gross households. Revenue growth is expected to register a 48% growth CAGR (FY13-15E). From April 1, 2012 DEN has started booking net revenues (revenues less cost of distribution rights) of MediaPro as against gross carried on until FY12. Driven by the change in revenue booking and seeding of boxes (as activation income is realized with only negligible costs and are written off over 8 years), margins are expected to perk up, though optically.

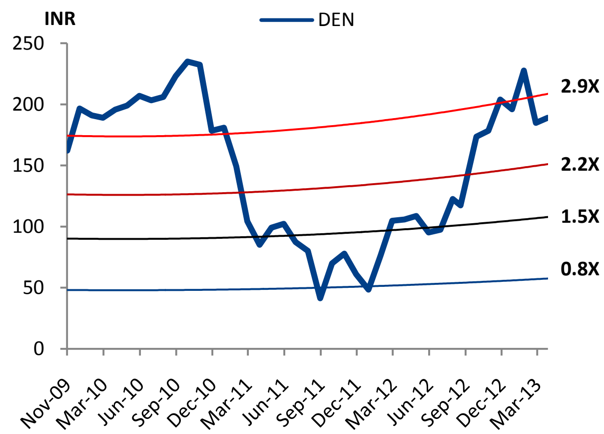
Debt-equity ratio within comfort zone, enabling resolutions to pare debt requirements

Debt is expected to increase, driven by higher capex costs on deployment of STBs. Further a stretched working capital cycle also acts as a dampener. We do not see dividend payouts as the firm is expected to conserve cash until the business reaches stabilisation post FY16. Debt/equity levels are expected to rise to 1.1X (FY15E). Vendor financing are amongst the avenues that the company would tap to fund its capex requirements. The company has a healthy balance sheet position with cash of INR 2,455mn as on September 30, 2012; this compares with a debt of INR 3919mn. Den Networks, with a view to pare debt requirements plans to raise capital by offering up to 26% additional equity. A meeting seeking shareholders approval for the same is to be held on April 25th 2013.

Valuation

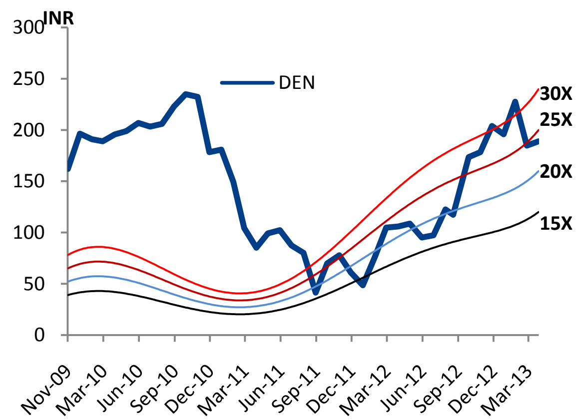
Since November 2009, DEN Networks has traded between the 0.7X to 3.9X its 1-year fwd adjusted book value. On a 1-year forward EV/EBDITA basis the stock has moved in the 5X-38X band, with an average of 11.5X. At current levels the stock trades at 2.7X FY15 P/BV, 25.5X P/E FY15 and 7.9X EV/EBIDTA FY15. With cable serving as a cost-competitive option as compared to DTH, consumers are likely to stick to cable networks, we believe the stock demands higher valuations. Uncertainty prevailing over revenue sharing structure and a stretched working capital cycle, however, are dampeners. In this light, we assign an EV/EBITDTA of 8X (FY15E) to arrive at target price of INR 219 per share, implying a FY15 P/BV of 2.6X, FY15 P/E of 22.9X. We rate the stock a **MARKETPERFORMER.**

Chart 2: 1-year forward P/BV band chart



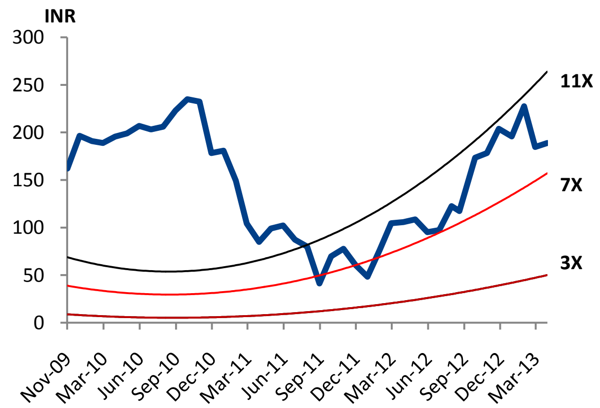
Source: Bloomberg, CSEC Research

Chart 3:1-year forward P / E band chart



Source: Bloomberg, CSEC Research

Chart 4: 1-year forward EV/EBDITA band chart



Source: Bloomberg, CSEC Research

Valuation Metrics

Table 6: Peers and user industry – valuation- consolidated

	CMP (Local Currency)/ Country	EBIDTA Margin (%)		PAT Margin (%)		ROE (%)		P/E	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
DEN NETWORKS LTD	214.9 (India)	26.9	25.0	8.3	6.4	11.9	11.5	24.7	22.6
DISH TV INDIA LTD	68.45 (India)	29.1	30.4	1.5	5.9	11.6	-33.2	201.3	45.9
HATHWAY CABLE AND DATACOM	254.1 (India)	23.0	23.5	5.9	6.8	4.8	9.6	115.2	39.5
COMCAST CORP-CLASS A	40.7 (US)	32.8	33.3	17.1	18.2	13.6	14.2	15.1	12.9
DIRECTV	56.27 (US)	25.0	24.9	13.6	13.8	-46.4	-38.8	9.7	8.5
TIME WARNER CABLE	92.69 (US)	35.9	35.6	14.7	14.9	35.7	45.4	12.1	10.5
BRITISH SKY BROADCASTING GRO	854.5 (UK)	22.7	23.1	16.8	17.4	123.8	90.6	NM	NM
LIBERTY GLOBAL INC-A	72.76 (US)	43.0	41.9	10.8	13.2	24.9	39.3	22.7	16.2

	Business	P/BV		EV/SALES		EV/EBIDTA		Div Yield	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
DEN NETWORKS LTD	Cable/Satellite TV	2.9	2.6	2.5	2.0	9.4	7.9	0.0	0.0
DISH TV INDIA LTD	Cable/Satellite TV	-61.0	409.9	3.1	2.6	10.6	8.7	0.0	0.2
HATHWAY CABLE AND DATACOM	Cable/Satellite TV	4.3	3.9	2.5	1.9	10.7	8.0	0.0	0.0
COMCAST CORP-CLASS A	Cable/Satellite TV	2.1	1.9	2.2	2.1	6.8	6.4	2.2	2.4
DIRECTV	Cable/Satellite TV	-3.0	-2.9	1.4	1.3	5.7	5.4	0.0	0.0
TIME WARNER CABLE	Cable/Satellite TV	4.1	4.2	2.2	2.1	6.1	5.9	3.2	3.5
BRITISH SKY BROADCASTING GRO	Cable/Satellite TV	NM	NM	2.0	1.9	8.9	8.4	0.0	0.0
LIBERTY GLOBAL INC-A	Cable/Satellite TV	4.9	5.4	2.8	2.7	6.4	6.5	0.0	0.0

Risks

Revenue share at risk

Media reports suggest that subscription sharing negotiations among MSOs and LCOs is yet to fructify. LCOs in DEN's key market – Delhi - observed a blackout on January 20, 2013 to protest against the revenue-sharing formula. Further reports indicate that although digitization has been carried out, revenue sharing structure between LCOs and MSOs are fluid. With estimates pegging the revenue share (in subscription revenues) of LCOs to drop by up to 50% under DAS; upward risks for MSOs to sharing revenues exist.

Lack of last mile ownership a risk to revenue and working capital cycle

Lack of last mile ownership faces hurdles on the revenue front. The LCO would continue to play a key role even under the DAS scheme of things. Billing would come under the fold of the MSO; however, collection and transmission of revenue to the MSO would still lie with the LCO. Although signals to non-paying STBs may be switched off; customer inconvenience is expected to act as a deterrent. MSOs are expected to offer a grace period; as a consequence of the lack of last mile ownership, working capital cycles are expected to remain stretched.

Competition levels to increase

With estimates pegging digitization fund requirement at ~INR250bn, huge capex requirements serve as an entry barrier. However, with two of its competitors planning to raise funds, competition amongst existing players is set to rise. Bharat Business Channel (BBC), which owns the brand 'Videocon d2h', plans to raise INR7bn though an IPO. BBC plans to allocate ~INR4.9bn for purchase of equipment. The higher FDI limit (at 74%) also throws the doors open to entry of foreign players, thereby increasing scope for competition.

Financials

Income Statement (Abstract)

INR(million)

Particulars	FY12	FY13E	FY14E	FY15E
Net Revenue	11,295	9,243	14,194	20,290
Growth (%)	10.5	-18.2	53.6	43.0
Operating Exp.	10,473	7,095	10,375	15,222
EBIDTA	822	2,148	3,819	5,068
Growth (%)	-8.7	161.1	77.8	32.7
Depreciation	538	766	1,206	1,784
Other Income	271	209	200	200
Interest	269	457	810	1,236
Exceptional Items	0	0	0	0
Tax Paid	100	281	501	562
Tax Rate (%)	35	25	25	25
PAT (Before MI)	186	853	1,502	1,685
Report PAT (After MI)	143	754	1,277	1,433
Growth (%)	-62	428	69	12
PAT (After MI)*			1,181	1,290

*Higher depreciation charges on STBs – 5 years SLM

Balance Sheet (Abstract)

INR(million)

Particulars	FY12	FY13E	FY14E	FY15E
Share Capital	1,330	1,352	1,352	1,352
Reserves & Surplus	6,748	7,370	8,551	9,841
Net worth	8,078	8,722	9,903	11,193
Minority Interest	616	766	974	1,202
Current Liabilities	1,767	1,912	1,912	1,912
Non-Current Liabilities	4,549	7,683	12,863	18,420
Total Liabilities	15,011	19,083	25,652	32,727
Net Fixed Assets	6,520	9,895	13,343	17,101
Other Non-Current Assets	1,000	1,100	1,100	1,000
Cash	3,230	3,289	4,156	3,982
Other Current Assets	4,262	4,798	7,052	10,644
Total Assets	15,011	19,083	25,652	32,727

Cash Flow statement (Abstract)

INR(million)

Particulars	FY12	FY13E	FY14E	FY15E
Cash flow from operations	852	1,299	2,483	2,827
Cash flow from investing	-1,299	-4,358	-4,805	-5,766
Cash flow from financing	740	2,902	3,190	2,764
Free cash flow	-447	-3,059	-2,323	-2,938
Net change in cash	293	-157	867	-175

Per Share Ratios

Particulars	FY12	FY13E	FY14E	FY15E
Adjusted EPS (Rs.)	1.1	5.6	8.7	9.5
Cash EPS	5.1	11.2	18.8	24.4
BV/Share (Rs.)	60.7	64.5	73.2	82.8
FCF/Share(Rs.)	-3.4	-22.6	-17.2	-21.7
DPS (Rs.)	0.0	0.0	0.0	0.0

Key Ratios

Particulars	FY12	FY13E	FY14E	FY15E
Dividend payout (%)	0.0	0.0	0.0	0.0
EBIDTA margin (%)	7.3	23.2	26.9	25.0
PBT Margin (%)	8.2	26.3	30.2	27.5
RoCE (%)	7.7	14.6	19.2	20.1
RoE (%) –	1.8	8.6	11.9	11.5
Current Ratio	1.6	1.1	0.9	0.8
Debt/Equity	0.3	0.6	0.9	1.1
Inventory Days	0.0	0.0	0.0	0.0
Debtor Days	91.1	89.6	93.9	96.0
Creditor Days	83.8	97.5	93.9	93.7
CCC*	7.3	-7.9	0.1	2.4
Interest Cover Ratio	2.1	3.5	3.3	2.6

DuPont Analysis

Particulars	FY12	FY13E	FY14E	FY15E
Net Profit Margin (%)	1.3	8.2	8.3	6.4
Asset Turnover	0.8	0.5	0.6	0.6
Leverage factor	1.9	2.2	2.6	2.9
RoE (%)	1.8	8.6	11.9	11.5

Valuation Ratios

Particulars	FY12	FY13E	FY14E	FY15E
P/E	201.1	38.7	24.7	22.6
P/BV	3.6	3.3	2.9	2.6
EV/Sales	2.6	3.5	2.5	2.0
EV/EBIDTA	35.2	15.1	9.4	7.9
Div Yield (%)	0.0	0.0	0.0	0.0

*CCC – Cash Conversion Cycle

Cholamandalam Securities Limited
Member: BSE,NSE,MSE
Regd. Office: Dare House,2 (Old) # 234) N.S.C Bose Road, Chennai – 600 001.
Website : www.cholawealthdirect.com
Email id – customercarewm@chola.murugappa.com

Chola Securities is a leading southern India based Stock broker. Our focus area of coverage within the Indian market is Mid and small caps with a focus on companies from southern India.

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RESEARCH			
Singaravelu K P	Head of Research	+91-44 - 4505 6003	singaravelukp@chola.murugappa.com
Alagappan Ar	Financial Services	+91-44 - 3000 7363	alagappana@chola.murugappa.com
Sathyanarayanan M	Consumption	+91-44 - 3000 7361	sathyanarayananm@chola.murugappa.com
Murugesa S	Engineering & Cement	+91-44 - 3000 7344	murugesas@chola.murugappa.com
Michel Charles C	Technicals	+91-44 - 3000 7353	michelcc@chola.murugappa.com
Rajasekhar R	IT & Auto Ancillary	+91-44 - 3000 7266	rajasr@chola.murugappa.com
Sreedevi K	Associate	+91-44 - 3000 7266	sreedevik@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance	+91-44 - 24473310	venkatc@chola.murugappa.com
Lakshmanan T S P	Chennai	+91 - 9840019701	lakshmanantsp@chola.murugappa.com
Santosh Kumar Sharma	Mumbai	+022 - 22617210	santoshks@chola.murugappa.com
RETAIL SALES			
Ohm Halvadiya	AHMEDABAD	079 – 30002968 / 69	omch@chola1.murugappa.com
Sathyanarayana N	BANGLORE	080 - 41503340 / 44	sathyanarayanaN@chola.murugappa.com
Muthiah A N	CHENNAI - HO	044 – 3000 7371	muthiahan@chola.murugappa.com
Baskaran S	CHENNAI - Nungambakkam	044 – 30782350 / 356	baskarans@chola.murugappa.com
Sridharan P S	CHENNAI - Adyar	044 - 2452 2111 / 2333	sridharanps@chola.murugappa.com
V Kumar	COIMBATORE	0422 - 4292041 / 4204620	kumarv@chola.murugappa.com
Maneesh Gupta	DELHI	011 - 30461161 / 62 / 63	maneeshg@chola.murugappa.com
Murthy A S L N	HYDERABAD	040 - 40126821 / 22	murthyasln@chola.murugappa.com
Shibarjun Mukherjee	KOLKATA	033 - 44103638 / 39	shibarjunm@chola.murugappa.com
Sheetal Bheda	MUMBAI	022 - 22617210 / 7203	sheetalbheda@chola.murugappa.com
Gowthaman G	MADURAI	0452 - 2601195 / 96	gowthamang@chola.murugappa.com
Deepak V Kshirsagar	PUNE	020 - 30225432 / 33 /34	deepakvk@chola.murugappa.com
M N Chandra Sekhar	VIZAG	0891 - 6642718	chandrasmn@chola.murugappa.com
COMPLIANCE			
Balaji H	Compliance	+91-44 - 3000 7370	balajih@chola.murugappa.com