

Investment Thesis

Exhibit 1: Dish TV, DEN Networks, Hathway: Valuation comps, Revenue and EBITDA CAGR (Mar'10-Mar'14e)

	Dish TV	DEN Networks	Hathway
Current Share Price	INR 61	INR 85	INR 97
Target Price	INR 78	INR 139	INR 174
Upside(Downside/Potential)	27%	64%	79%
OS Shares Mn	1,062	130	143
Mkt Cap INR Mn	64,893	11,105	13,871
Float	33%	30%	34%
EV/EBITDA (2012e)	16.4	4.9	7.4
Revenue CAGR (2010 - 2014e)	25%	14%	12%
EBITDA CAGR (2010 - 2014e)	63%	32%	23%

Source: Bloomberg, Company Data, MAPE Estimates

We initiate our coverage on Dish TV, DEN Networks and Hathway Cable & Data Comm. (Bloomberg codes: DITV IN Equity, DEN IN Equity, HATH IN Equity) with **BUY** ratings. We estimate an average 39% EBITDA CAGR (2010-2014e) and 9.56x Mar'12e EV/EBITDA for Dish TV, DEN Networks and Hathway.

Growing Digital Pay TV Subscribers on both the DTH and Cable TV platform due to increase in digital penetration and the legitimization of Hidden Subscribers (by Local Cable TV Operators, LCOs henceforth) to drive industry revenues and profitability: We expect the penetration of TV households in India to grow from 50% in Mar'10 to 54% in Mar'14e at a 7% CAGR (2010-2014e), with TV households reaching 190 Mn in Mar'14e. In this same period, the Pay TV penetration is expected to increase from 80% (in Mar'10) to 86%, reaching 164 Mn by Mar'14e and growing at a 9% CAGR (2010-2014e). We expect both the DTH and Digital Cable TV platform to individually experience hyper growth at a 24% CAGR (2010-2014e). The subscriber base on the DTH platform is expected to increase from 21 Mn in Mar'10 to 49 Mn by Mar'14e and Digital Cable TV subscribers are expected to increase from 7 Mn in Mar'10 to 16.5 Mn by Mar'14e.

Hidden Analogue Cable TV Subscribers by LCOs are main barrier for Pay TV industry to reach its potential: The current market size of Pay TV in India is expected to be in the range of INR 146 Bn (US\$ 3.32 Bn) as of Mar'11e, whereas the actual potential for Pay TV services is INR 296 Bn (US\$ 6.58 Bn). This itself determines the magnitude, the opportunity and the available depth in the Pay TV subscription market in India. The wide gap is mainly attributed to the fact that of nearly 72 Mn subscribers (almost 80% of the Secondary Analogue Cable TV subscribers) as of Mar'11e are not disclosed by LCOs and ICOs (Independent Cable Operators) to MSOs (Multi System Operators). With the ongoing increase in digital penetration and regulatory pressures, we expect the gap to be reduced benefitting both Broadcasters and Video Content Distributors, such as Dish TV, DEN Networks and Hathway.

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Favorable regulatory changes and implementation of TRAI's Sunset Clause recommendations may provide further upside to our growth assumptions: We estimate a 24% CAGR (2010-2014e) for both DTH and Digital Cable TV subscribers and we forecast the digitization process to continue over the next three to four years without any upside from TRAI's recommendations on the Sunset Clause deadlines. If the Ministry of Information and Broadcasting (MIB) accepts TRAI's Sunset Clause recommendations, this should further boost the growth rates of digital Subscriber and we may have to revise our growth estimates upwards. We believe that LCOs at some point will review their decision to digitize their existing subscribers with the help of MSOs and retain a pre-defined percentage of the ARPU or they will lose the subscribers completely to DTH operators. Certain concerns from the industry and the MIB regarding a reduction in the Basic Duty structure for imported set top boxes (STBs), a License Fee reduction and the availability of STB across India are genuine to some extent, but are miniscule considering the opportunity and depth available in the Pay TV market.

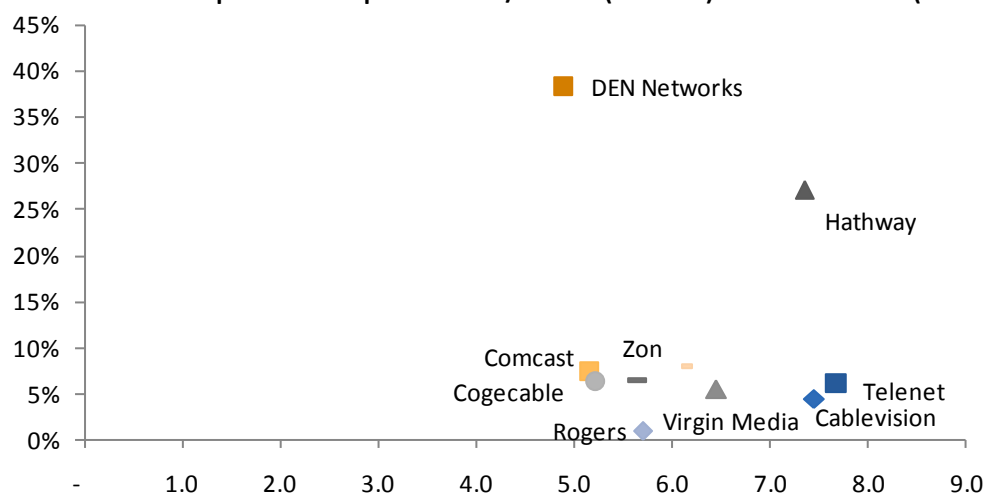
Video Content Distribution companies in India are trading at attractive valuations: Global DTH and Cable TV/MSOs are expected to grow at a 5-10% EBITDA CAGR (2010-2013e), while we expect Dish TV, DEN Networks and Hathway to grow at a 24-60% EBITDA CAGR (2010-2013e) due to strong growth from both DTH and Digital Cable TV subscribers, from a small existing subscriber base. Currently Dish TV, DEN Networks and Hathway are trading between 5.0x and 16.0x Mar'12e EV/EBITDA, which is marginally more expensive than global peers, but they look very attractive on a growth-adjusted basis.

Exhibit 2: Absolute performance

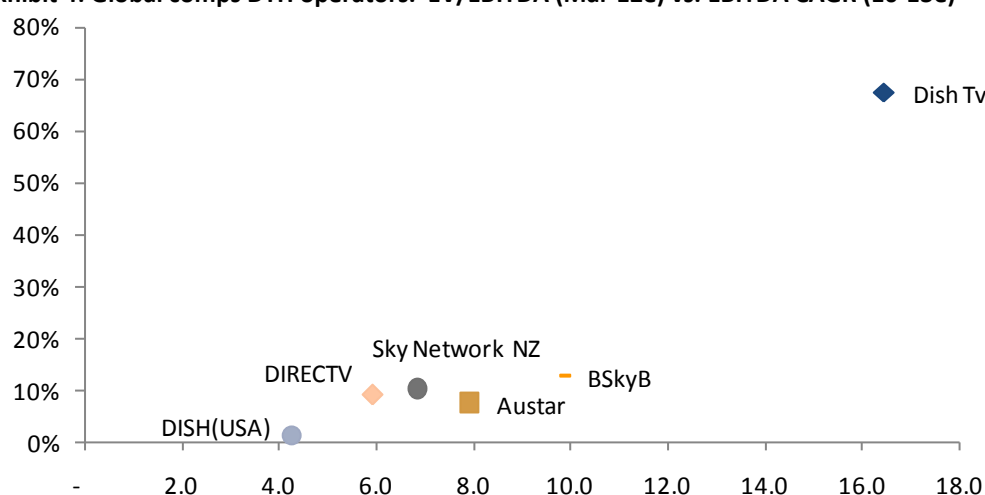
	1 Month	3 Months	6 Months	1 Year	YTD
Sensex	9%	-5%	-3%	13%	-5%
Dish TV	14%	-6%	21%	83%	-6%
DEN Networks	-18%	-53%	-64%	-57%	-53%
Hathway	-18%	-42%	-52%	-53%	-42%

Source: Bloomberg

Exhibit 3: Global comps Cable TV operators. EV/EBITDA (Mar'12e) vs. EBITDA CAGR (10-13e)



Source: Bloomberg, Company Data, MAPE Estimates

Exhibit 4: Global comps DTH operators. EV/EBITDA (Mar'12e) vs. EBITDA CAGR (10-13e)

Source: Bloomberg, Company Data, MAPE Estimates

With the exception of Dish TV, both DEN Networks and Hathway have significantly underperformed the Sensex as seen in Exhibit 2. We feel that it is a good opportunity to **BUY** into this sector considering both the digital platforms have long-term growth potential to drive the Pay TV market for the next three to four years.

Risks to Upside

- **Broadcasters could demand higher ARPU share:** Once digitization penetrates well within the Pay TV market in India by Mar'14/Mar'15, broadcasters might demand a bigger share from the Digital ARPU from MSOs and DTH operators. Currently, broadcasters retain 14% of the ARPU, and post digitization broadcasters are expected to retain 45% of the ARPU. However broadcasters may demand a much higher share of ARPU, which will have a direct impact on Pay Channel costs and lower the EBITDA margins for DTH operators and MSOs.
- **Capex for HD (High Definition) systems upgrade and HD set top box:** DTH operators and MSOs may have to replace and upgrade their existing broadcast systems to transmit HD (High Definition) content, which could have a direct impact on the FCF. As a result we expect high capex and lower FCF yields post digitization. Operators may also have to subsidize HD set top boxes as replacement capex for their existing customers. Dish TV's present cost for HD set top boxes along with the low noise block convertor (LNB), the feedhorn and the antenna is approximately INR 4,000, so upgrading even 15% of the net subscriber base every year would amount to INR 3.2 Bn (US\$ 70 Mn) for the next 6.5 years (considering a 60% subsidy that would translate to negative FCF until Mar'16)
- **Structured cabling costs:** Modern condominiums in major cities and metros require structured cabling across multiple floors and buildings. These structured cabling costs could vary from INR 1,500 to INR 2,000 per home passed, which could translate to a total capex of INR 4 Mn per condominium for 2,000 households. In such cases, operators might require more than a 70% utilization rate to breakeven, which looks quite challenging.
- **Significant delay in implementation of Sunset Clause deadlines:** Due to reasons which may be politically motivated or unstable political environment, there may be further delay in implementation of the Sunset Clause, which might go against MSO and DTH operators in short term.
- **Digital saturation in metros:** Three to four years from now, we expect significant number of subscribers in metros and Tier-1 and Tier-2 cities on the digital platform, which will force the MSOs to explore unknown territory and rural markets to avoid stiff competition and slow growth rates. MSOs will have to deploy additional capex of INR 50 Mn per headend as well as capex to either deploy last mile copper access or buy over incumbent ICOs (Individual Cable Operator) or LCOs (Local Cable Operators) at anywhere between 24 to 30 months of ARPU of the total active subscriber base.

- **Technology threat from “Big Brother”:** MSOs such as Hathway and DEN who are focused on metros and Tier-1/Tier-2 cities, could be threatened from other competing technologies in metros such as IPTV, which could result in MSOs moving faster than expected to rural markets. Although insignificant, IPTV is definitely a big threat for MSOs in metros. In rural markets, MSOs will also be threatened by “*Big Brother*” DTH operators.
- **Faster decline in Placement & Carriage fees:** There could be faster than expected decline in revenues from Placement & Carriage fees, which account for nearly 50% of the total subscription revenues for DEN Networks and 38% of the total subscription revenues for Hathway as of Mar’10. If there are not enough new/niche channels in the pipeline to be launched and if digitization accelerates beyond our expectations, broadcasters might pay significantly lower Placement & Carriage fees, which will affect the top line revenues for all MSOs across India.
- **Price competition:** Price competition among MSOs and DTH operators might have a significant impact on the Video, VAS and Broadband ARPU in the case of MSOs. Low up take of VoD (Video on Demand), Gaming and other VAS (Value Added Services) provided by MSOs and DTH operators will affect the overall ARPU in the long run.

Section 1: Industry Dynamics

Case Study: Global Comparison

The number of Digital Cable TV Subscribers in Western Europe has grown at a 28% CAGR (2005-2010), reaching 27 Mn in Dec'10 from 8 Mn in 2005. In the US, Digital Cable TV Subscribers increased at a 13% CAGR (2005-2010), reaching 50 Mn in Dec'10 from 27 Mn in 2005. Considering the above digitization process in developed western countries, we have benchmarked Indian Digital Cable TV and DTH growth on similar lines. The digitization in the Pay TV market in India is not expected to be immediate, with the process expected to continue over the next three to four years. Further, we expect more subscribers opting for digital services, with or without the implementation of the Sunset Clause by the Ministry of Information and Broadcasting (MIB).

In the case of DTH services, we have seen significant growth emerging from markets in Latin America. Brazil's Pay TV market grew by 27% in terms of revenues in 2009. New operators such as OI-DTH, who entered the Brazilian market in 2010, started bundling services like voice, broadband and mobile with their existing DTH service and started gaining market share (along with other DTH operators) from the incumbent operator Sky. We can expect big telcos in India to implement a similar strategy of bundling triple play services with their existing DTH offerings. Interestingly enough, there could also be a scenario in which a wireless operator that does not have a DTH platform in India looks for a strategic alliance with another DTH operator and vice versa for bundling service. In 2009, Brazilian DTH operator Embratel signed up 100k DTH subscribers in just eight months, which shows the potential and demand for the DTH platform in emerging markets.

Telefonica's affiliate in Peru offered pre-paid programming packages with small sachet payments for monthly or even weekly fees to attract a large number of users. Visiontel launched DTH services in Chile sometime in 2008 when the Pay TV market size was just 1.5 Mn households and with 40% of the market share held by three existing DTH operators. Similar to other emerging countries, Colombia's Pay TV penetration was quite low at 8.2% in Jan'10, but experienced a 31% growth in subscribers on a YoY basis, which resulted in the total Pay TV subscribers reaching 436K by Jan'10.

In 2009, CASBAA (the Cable and Satellite Broadcasting Association of Asia) revealed that Pay TV subscribers across Asia had grown by 26 Mn in 2009 to reach a total of 326 Mn, with most of the subscribers being added from India and China. With 28 Mn Digital Pay TV subscribers in India in Mar'10 on the total estimated Pay TV subscriber base of 115 Mn, the digital penetration was close to 24%, which was much below the Asian average of 36% across 14 countries. This shows the available depth in the digitization process for India and the potential growth opportunities which are expected to be across both Cable TV and DTH platforms.

This lag of digital penetration in India for the Pay TV market vs. its Asian peers is similar to the situation in early 2000, when India's wireless penetration lagged behind its Asian peers. However, as time progressed, the wireless penetration increased significantly. In 2005, India's wireless penetration was 7% vs. the 21% average wireless penetration for emerging Asia, but in 2009 India reached the wireless penetration of 44% vs. 54% wireless penetration in emerging Asia. In the same timeframe, the average wireless penetration in developed Asian markets moved from 78% to 95%. We do estimate that the lag in digital penetration in India vs. its Asian peers will remain, but the gap is expected to narrow every year.

Digital Value Chain

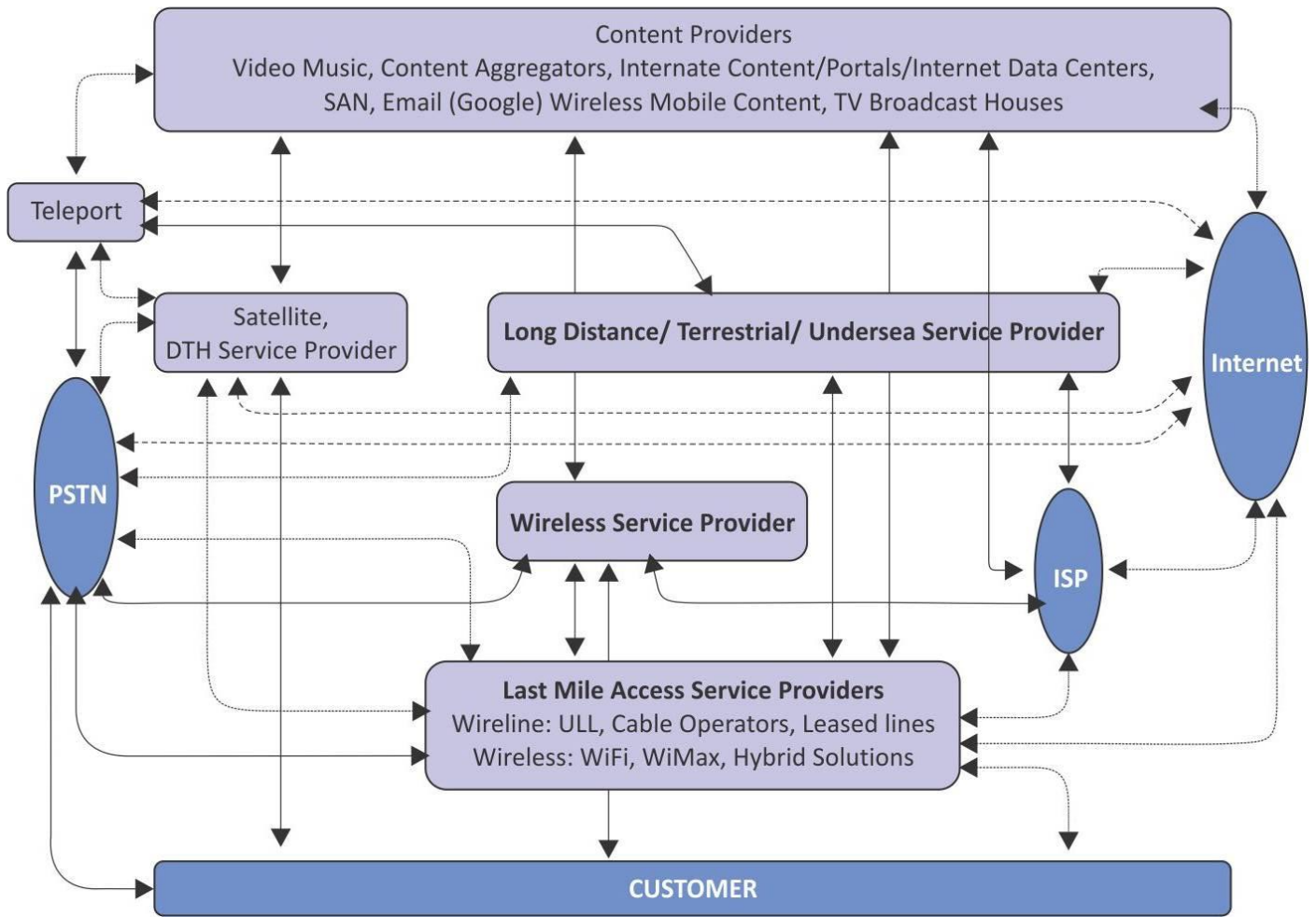
Regarding the Digital Value Chain schematic diagram below, we can observe that there are multiple mediums for content of different types such as Voice, Video and Data to reach the end user who is the ultimate consumer of such services and content.

A typical voice call originated from a Fixed Line operator or PSTN to a Mobile user travels from the PSTN's Switching Centre to the Long Distance Network, followed by which the voice travels to the Mobile operator's MSC (Mobile Switching Centre), then to the BSC (Base Station Controller), then over the intra city's OFC (Optical Fiber Cable) network to the BTS (Base Station Transmitter) and then ultimately over the last mile RF (Radio Frequency) Network to the recipient's Mobile handset.

In a similar structure Video Content from Broadcasters could reach the end user via different modes: 1. Through Direct to Home (DTH) Services; 2. Directly from Multi System Operator (MSO); 3. Through a combination of MSO and Local Cable Operator (LCO); 4. Through IPTV (Internet Protocol TV) using the existing last mile xDSL network; and 5. Through Wireless broadband (LTE, 3G, Wimax)

Considering India's wireless broadband is just emerging and that fixed line penetration is just 3.3% (Mar'10), this means that we have approximately 37.2 Mn fixed landlines and most of them are not ready for Video Content Distribution vs. the existing 93 Mn Cable TV Households (Mar'10). This implies that Cable TV operators (MSO and LCO combination) were the de facto mode for Pay TV Video content distribution in India until the recent past. MSOs are becoming aggressive and acquiring LCOs, they have strategic alliances with the LCO who owns the last mile to provide Video Distribution services. However, over the recent last three years, DTH operators have also participated in the Video Content Distribution business and have been very aggressive in acquiring a substantial number of Pay TV Subscribers in India and also by providing High Definition (HD) content and Personal Video Recorders (PVR). DTH subscribers have grown from 3.6 Mn in Mar'07 to 21 Mn in Mar'10. As mentioned earlier, due to low wireline penetration across the nation, IPTV has continued to lag in Video Content distribution except in a few metros. This leaves us to discuss MSO and DTH operators in India for Video Distribution business. Companies discussed in this report include: 1. Hathway Cable and Data Communication 2. DEN Networks and 3. Dish TV.

Exhibit 5: Digital Value Chain



Source: MAPE

Strengths, Weaknesses, Opportunities and Threats (SWOT Analysis)

Company Discussed	DTH Operators in India	Cable TV MSO in India
Strengths	<ul style="list-style-type: none"> Independent of LCO for last mile. All subscribers on the network are accounted for. HD platform available with most DTH operators. PVR services available. National presence; can provide services across the nation wherever the satellite foot print is available. Services can be made available in rural and mountainous regions very easily. 	<ul style="list-style-type: none"> Existing Cable TV Subscriber base large enough for any Video content/Broadcaster to consider them seriously. Significant existing base in Metros and large cities (legacy metro subscribers). High ARPU subscribers only in some pockets of metros. Capable of upgrading the network for 2 way communication. VAS revenues from VoIP and Internet Service.
Weaknesses	<ul style="list-style-type: none"> Unable to provide Voice and Data services. Less presence in metros who are high ARPU subscribers. Services can be affected for a few hours every year due to heavy rains/overcast weather because of small Ku band antennas in high rainfall regions. 	<ul style="list-style-type: none"> Dependent on LCOs for last mile. Dependent on LCOs for subscriber disclosures and ARPU sharing terms. Currently no HD content and PVR services. Localized presence and operations, not providing services on nationwide basis.
Opportunities	<ul style="list-style-type: none"> Indifferent behavior and poor quality reception from LCOs could drive more users to DTH platform. Digitization push from Govt. 	<ul style="list-style-type: none"> Digitization and legitimizing subscribers will drive revenue growth. Digitization push from Govt.
Threats	<ul style="list-style-type: none"> Competing with big Telecom operators who have significant national dominance in marketing activities, brand recognition, financial strength and capabilities to bundle services. 	<ul style="list-style-type: none"> DTH operators are growing faster with new services like HD and PVR, this might result in losing market share especially in metros. Increasing IPTV services in certain pockets within metros.

Michael Porter's Five Forces on DTH and Cable TV Industry

Bargaining Power of Customers: High

Customers have multiple choices for Pay TV services like Analogue Cable TV, Digital Cable TV, DTH platform or IPTV. LCOs also have the option to switch over to another MSO who offers more favorable terms. In many cases LCOs provide their last mile access to multiple MSOs.

Bargaining Power of Suppliers: Low

STBs account for more than 95% of the MSO/DTH operator's annual capex plans. These STBs are available in excess and are mostly imported from China, Taiwan and South Korea. The average price of an STB is approx. US\$ 25 to US\$ 30. STBs are declining at more than 5% YoY due to matured STB technology and economies of scale in manufacturing. In many instances MSOs and DTH operators have been provided financing by vendors of STBs from 60-80% of the value with deferred payment terms for 2.5 years.

Threat of Substitutes: High

In addition to the Analogue/Digital Cable and DTH platform, customers in metros have an additional choice of opting for IPTV services; however it is restricted to only a few neighborhoods. In Cable dark areas, subscribers have the option to select DTH services from multiple operators since the DTH platform is available across the nation, which is not the case for the MSOs. As of Mar'11e, estimated DTH and Cable TV market share in the Indian Pay TV market is expected to be 22% and 77% respectively, which in Mar'09 was at 17% for DTH and 83% for Cable TV.

Barriers to Entry: Low for MSO/ High for DTH

There is no restriction from the regulator in terms of number and the geographical demarcation for MSOs. The existing Pay TV industry structure has more than 55,000 LCOs and 1,000 MSOs in India but only 6 DTH operators. The initial capex for setting up MSO operations is not significant, since the cost for a digital head end is approx. INR 50 Mn (US\$ 1.11 Mn) and negligible expenditure towards getting connected to multiple LCOs via OFC/leased lines.

On the other hand DTH operators will be required to identify satellite operators that have satellite footprints across India and have available transponders to lease for DTH services. Approval from multiple regulatory authorities and co ordination with ISRO is required because of spectrum allocation issues for Up-Linking and broadcasting of video content. Not all the satellites that have footprint across India can be used for DTH services. In many cases the look angle (the angle at which the consumer's dish antenna looks at the satellite) is also a matter of concern for short listing a satellite operator for DTH services. In addition to the capex for Digital Hub for DTH services, the annual satellite lease charges should be in the range of US\$ 1.1 Mn for a 36MHz equivalent transponder in Ku band.

Competitive Rivalry in Industry: High

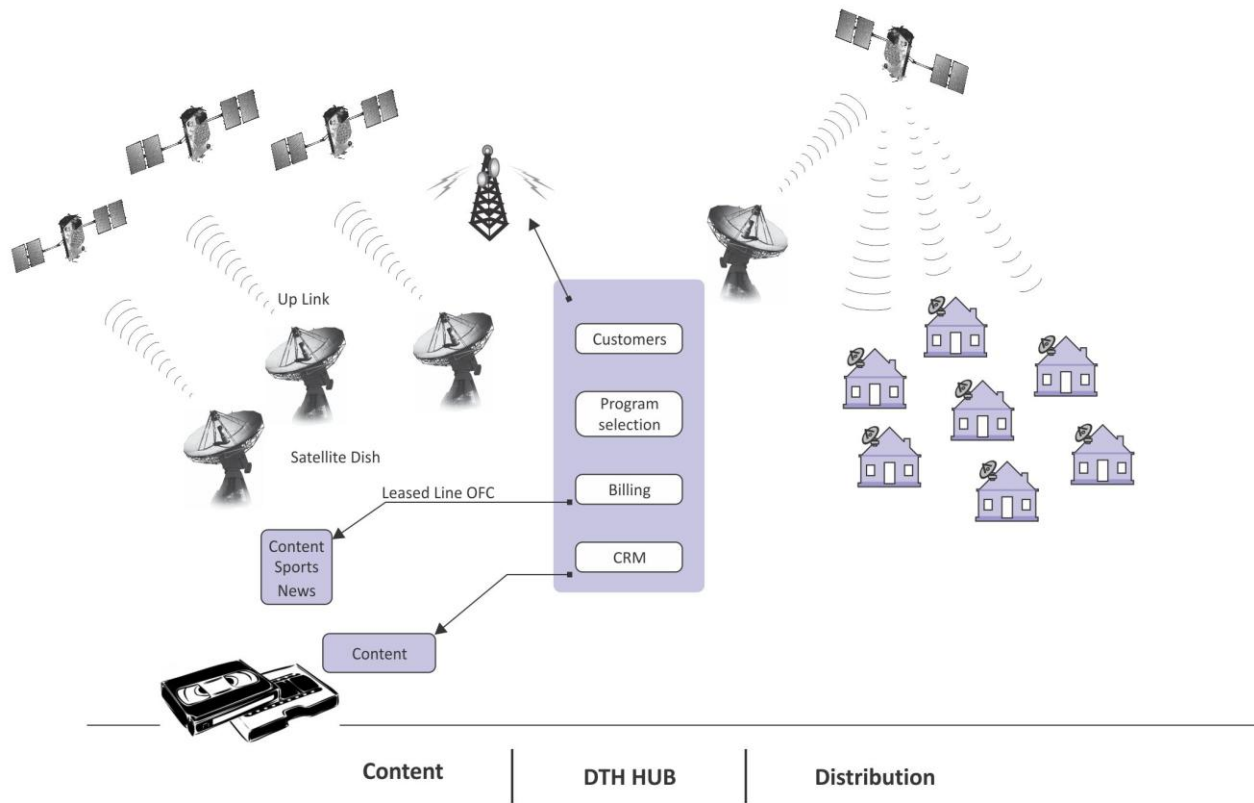
Since the Cable TV industry is extremely fragmented and with over 1,000 MSOs trying to access 55,000 LCOs for the last mile connectivity, we expect intense competition among MSOs. In addition to the above the Cable TV industry is extremely unregulated. With the impending Sunset Clause on the horizon, we expect intense competition among MSOs to attract LCOs onto their network. We expect broadcasters will also have a significant bargaining power over MSOs and DTH operators regarding ARPU sharing terms once the Sunset Clause sets in the Pay TV market. As per TRAI recommendations, post digitalization the broadcasters are expected to retain 45% of the ARPU, but we expect to see a change in this and the broadcaster might eventually retain a much higher share of the ARPU post- Sunset Clause/Digitization, which will be negative for MSOs and DTH operators.

Pay TV and Cable TV Definitions and Terminology for Indian market

Definition	Description
TV Households	Number of Household that have television sets
Pay TV Households	Households that are expected to Pay for Video services, but need not be paying for Pay TV HHs= Cable TV HHs +DTH HHs + IPTV HHs
Cable TV Households	Cable TV HHs = Cable TV HHs Reached by MSOs from organized sector + Cable TV HHs Reached by MSOs from un-organized sector. Includes Paying and Non Paying/ Hidden HHs
Reached Cable TV HHs by MSO	Estimated number of Households that MSO believes is providing Video Services to. Reached households need not be considered as Paying subs. Reached Cable HHs= Hidden/Non Paying Cable HHs + Paying Cable HHs.
Paying Cable Households	Paying Cable HHs = Paying Analogue Cable HHs + Paying Digital Cable HHs + Paying Voluntary Digital Cable HHs (Analogue, Digital or Digital Voluntary Household paying ARPU directly to MSO or indirectly to MSO via LCO)
Paying Analogue Cable HHs	These Cable HHs are disclosed by LCO/MSO and ARPU generated from these subs. is accounted for. These HHs do not use STB
Paying Digital Cable HHs	These Cable HHs are disclosed by LCO/MSO and ARPU generated from these subs is accounted for. It is compulsory for these HHs to use STB for Cable TV services
Non Paying /Hidden HHs	Non Paying /Hidden HHs = Reached Households - Paying Cable Households
Voluntary Digital Cable HHs	Voluntary Digital Cable HHs are those Cable HHs in a particular neighborhood or region/city in which the CAS (Conditional Access System) is not compulsory. However, these HHs have voluntarily opted for an STB for the digital experience
Overall Pay TV HHs	Pay TV HHs = (DTH HHs + IPTV HHs + Paying Analogue HHs + Paying Digital HHs + Paying Voluntary Digital HHs) + Hidden Cable HHs by LCOs via organized MSOs + Hidden Cable HHs by LCOs via un organized MSOs
Cable Pay TV HHs	Cable Pay TV HHs = (Paying Analogue HHs + Paying Digital HHs + Paying Voluntary Digital HHs) + Hidden Cable HHs by LCOs via organized MSOs + Hidden HHs Cable by LCOs via un organized MSOs

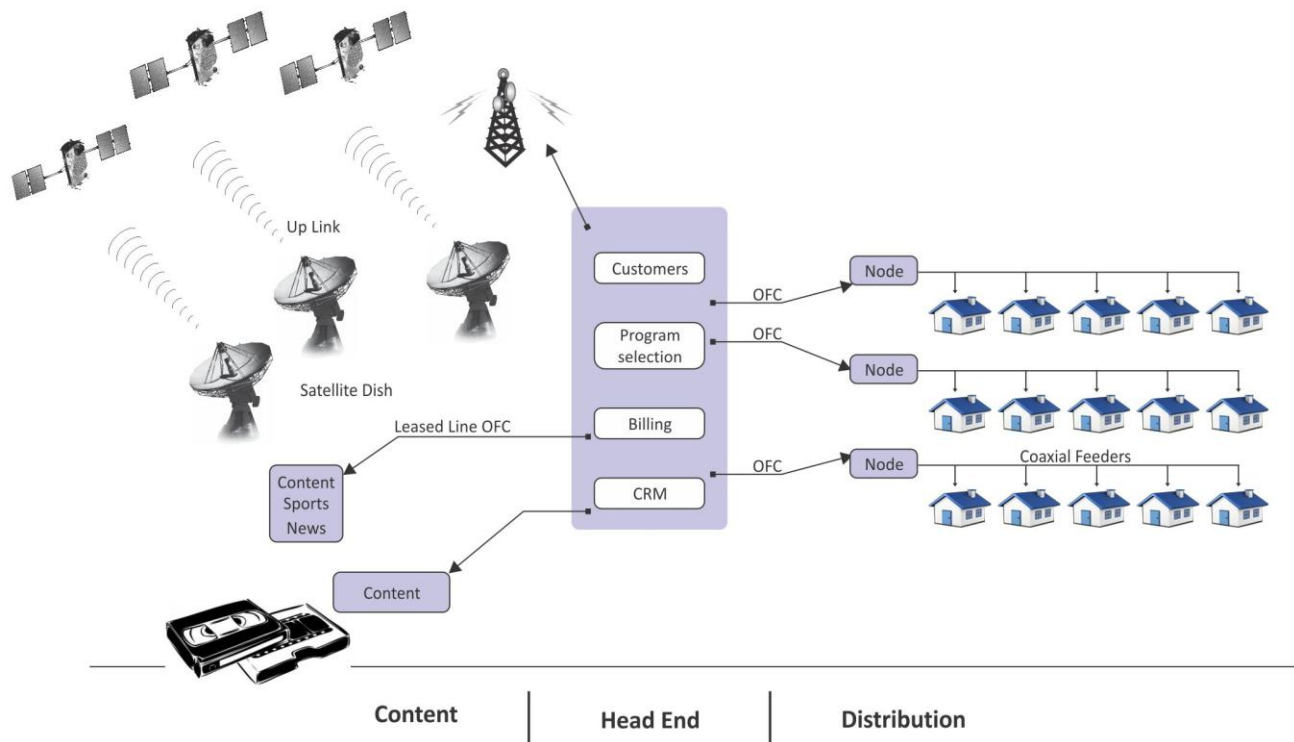
Exhibit 6: Overview of DTH Network, Schematic diagram

Overview of DTH



Source: Company and DTH Industry data

Exhibit 7: Overview of Cable TV Distribution Platform/ Network Architecture



Source: Company Data, Cable TV industry

Section 2: Indian Pay TV Market Size and Opportunity

Indian Pay TV Market size and Assessment of Opportunity

Referring to the above terminologies and definitions, the overall Pay TV market as a whole is quite unique in India. Across the globe Cable TV Subscribers are always Paying Subscribers, whereas in India, there are a significant amount of Subscribers whose ARPU, although collected by the LCO, does not reach the MSO and the broadcaster.

The number of Pay TV subscribers in India was at 116 Mn in Mar'10 and is expected to grow at 9% CAGR (2010-2014e), reaching 164 Mn by Mar'16e. During the same period (2010 to 2014e), Pay TV market penetration is expected to increase from 80% in Mar'10 to 86% in Mar'14e.

Growing Digital Pay TV Subscribers on both the DTH and Digital Cable TV platform due to increase in digital penetration and the legitimization of Hidden Subscribers (by Local Cable TV Operators, LCOs henceforth) to drive industry revenues and profitability: We expect the penetration of TV households in India to grow from 50% in Mar'10 to 54% in Mar'14e at a 7% CAGR (2010-2014e), with TV households reaching 190 Mn in Mar'14e. In this same period, the Pay TV penetration is expected to increase from 80% (in Mar'10) to 86%, reaching 164 Mn by Mar'14e and growing at a 9% CAGR (2010-2014e). We expect both the DTH and Digital Cable TV platform to individually experience hyper growth at a 24% CAGR (2010-2014e). The subscriber base on the DTH platform is expected to increase from 21 Mn in Mar'10 to 49 Mn by Mar'14e and Digital Cable TV subscribers are expected to increase from 7 Mn in Mar'10 to 16.5 Mn by Mar'14e.

Currently, Cable TV technology has the largest share of the Indian Pay TV and Video Distribution market, with DTH lagging behind in a distant second place. IPTV is also in the mix, but its share is very small and irrelevant by comparison. As of Mar'10, 80% of the total Pay TV market was dominated by Cable TV technology, with DTH technology services representing only 18%. From Mar'10 to Mar'14e, we expect the balance to shift away from Analogue Cable in favor of Digital Cable and DTH services, with the DTH platform reaching a 30% market share of the total Pay TV subscribers in India by Mar 14e

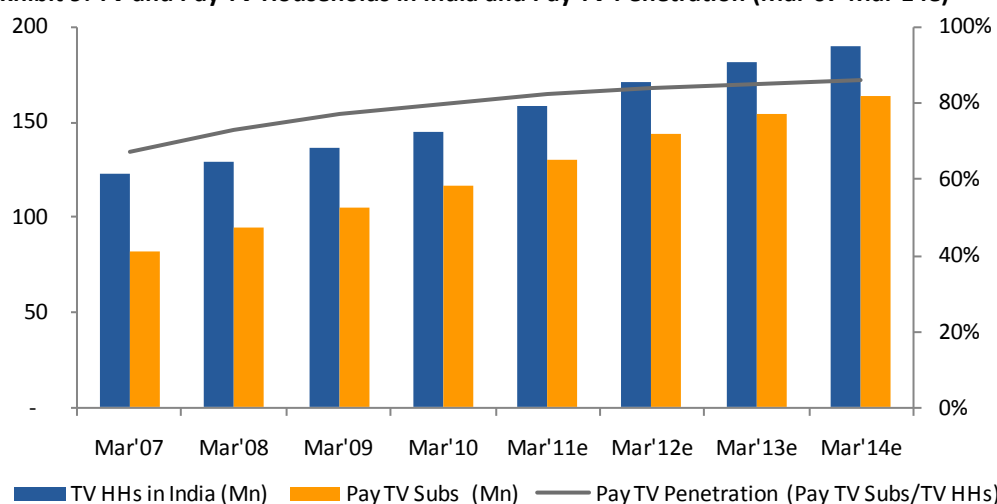
DTH subscribers are expected to grow at a 24% CAGR (2010-2014e) on the existing base of 21 Mn as of Mar'10, while Digital Cable subscribers are also expected to grow at a 24% CAGR on an existing base of 7 Mn as of Mar'10 in the same time period (even faster if the Analogue Cable TV Sunset Clause is implemented). In contrast, Analogue Cable TV subscribers are expected to grow at a 2.34% CAGR (2010-2014e). If the Regulator TRAI and the Ministry of Information and Broadcasting (MIB) introduce digitization across major metros/cities during the coming years, we will see a significant shift from Analogue Cable subscribers to either the Digital Cable or DTH platform. The biggest driver for the Cable TV and DTH platforms to grow exponentially over the next few years would be digitization by Gol.

Exhibit 8: TV and Pay TV Households in India and Pay TV Penetration (Mar'07-Mar'14e)

	Mar'07	Mar'08	Mar'09	Mar'10	Mar'11e	Mar'12e	Mar'13e	Mar'14e
Total HHs in India (Mn)	244	258	272	282	303	322	339	353
TV HHs in India (Mn)	122	129	136	145	159	171	181	190
TV Penetration per HHs	50%	50%	50%	51%	52%	53%	53%	54%
Pay TV Subs (Mn)	82	94	105	116	130	143	154	164
Pay TV Penetration (Pay TV Subs/TV HHs)	67%	73%	77%	80%	82%	84%	85%	86%

Source: MPA Report, MAPE Estimates

Exhibit 9: TV and Pay TV Households in India and Pay TV Penetration (Mar'07-Mar'14e)



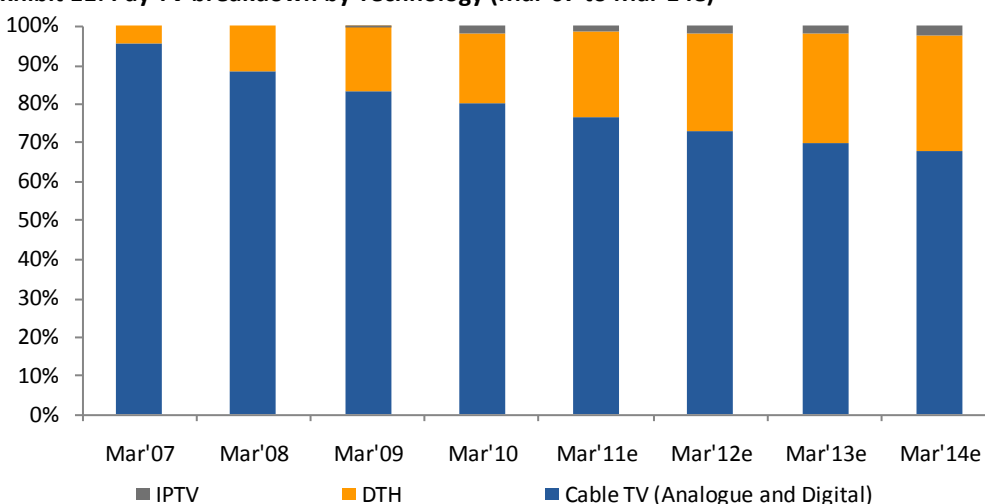
Source: MPA Report, Company Data, MAPE Estimates

Exhibit 10: Pay TV Breakdown by Technology (Mar'07 to Mar'14e)

	Mar'07	Mar'08	Mar'09	Mar'10	Mar'11e	Mar'12e	Mar'13e	Mar'14e
Cable TV (Analogue and Digital)	96%	88%	83%	80%	77%	73%	70%	68%
DTH	4%	12%	17%	18%	22%	26%	28%	30%
IPTV	0%	0%	0%	2%	2%	2%	2%	2%

Source: MPA Report, Company Data, MAPE Estimates

Exhibit 11: Pay TV breakdown by Technology (Mar'07 to Mar'14e)

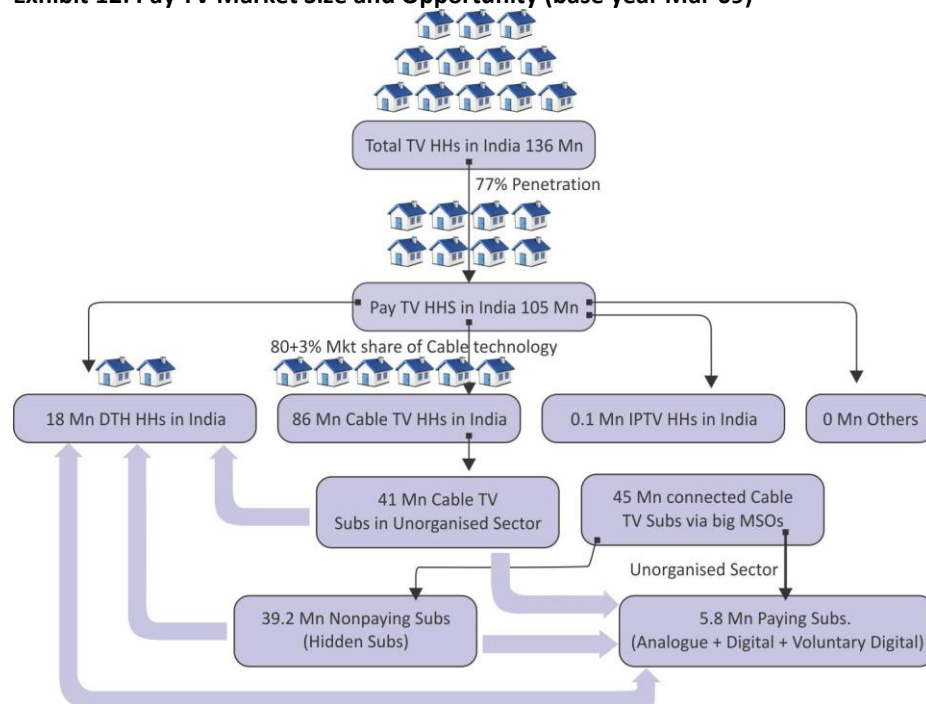


Source: MPA Report, Company Data, MAPE Estimates

As of Mar'09, there were 104.9 Mn Pay TV subscribers in India, out of which 87 Mn were Cable TV Subscribers and remaining 18 Mn were on the DTH platform. Considering the Cable TV platform alone in Mar'09, 45 Mn Cable TV subscribers were serviced from MSOs in the organized sector and the remaining 42 Mn Cable TV subscribers were serviced by un-organized MSOs. Investigating deeper into the 45 Mn Cable TV subscribers serviced by MSOs from the organized sector, we observe that 39.2 Mn Cable TV subs are hidden/non-paying and only the remaining 5.8 Mn subscribers' ARPU is accounted for and reaches the MSOs and Broadcasters, which is mainly due to under reporting by LCOs. This leaves us with the thought that the Cable TV market in India has a huge potential that can be exploited, firstly by legitimizing existing Cable TV subscribers from organized sector MSOs, and secondly by legitimizing existing Cable TV subscribers from un-organized MSOs. As of Mar'09 there were only 5.8 Mn Cable TV paying subscribers out of a total of 45 Mn Cable TV subscribers reached via organized MSOs. This

translates to just 13% as Paying Subscribers, while the remaining 87% will have to be legitimized so as to share the ARPU between LCOs, MSOs and Broadcasters.

Exhibit 12: Pay TV Market Size and Opportunity (base year Mar'09)



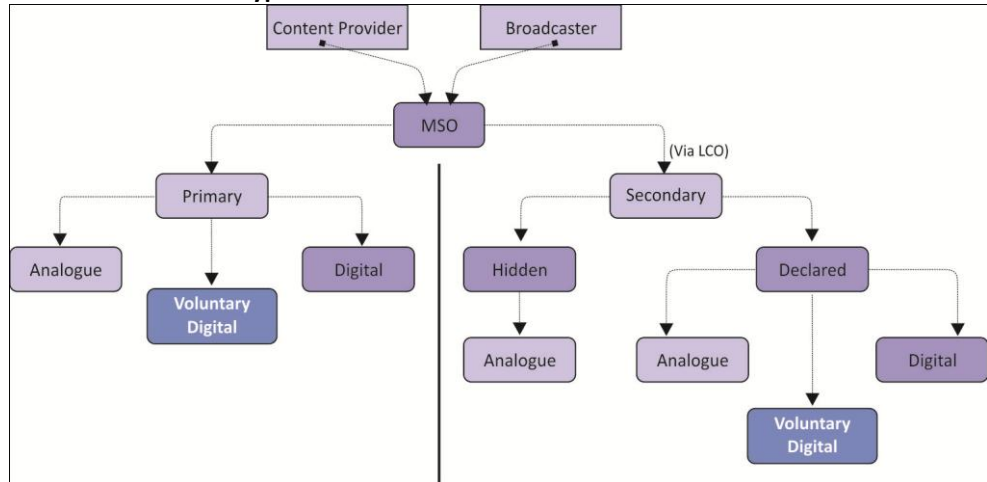
Source: MPA Report, Company Data

With the current estimates, there are 130 Mn Pay TV subscribers in India as of Mar'11, out of which 100 Mn are Cable TV Subscribers and 29 Mn are DTH; the remaining 2 Mn comes from IPTV/other technologies.

Hidden Analogue Cable TV Subscribers by LCOs are main barrier for Pay TV industry to reach its potential: The current market size of Pay TV in India is expected to be in the range of INR 146 Bn (US\$ 3.32 Bn) as of Mar'11e, whereas the actual potential for Pay TV services is INR 296 Bn (US\$ 6.58 Bn). This itself determines the magnitude, the opportunity and the available depth in the Pay TV subscription market in India. The wide gap is mainly attributed to the fact that of nearly 72 Mn subscribers (almost 80% of the Secondary Analogue Cable TV subscribers) as of Mar'11e are not disclosed by LCOs and ICOs (Independent Cable Operators) to MSOs (Multi System Operators). With the ongoing increase in digital penetration and regulatory pressures, we expect the gap to be reduced benefitting both Broadcasters and Video Content Distributors, such as Dish TV, DEN Networks and Hathway.

Hypothetically, let us assume that all the Cable TV Subscribers are accounted for and are legitimized, and that 90% are Analogue Pay TV Cable subscribers and the other 10% are Digital Pay TV Cable subscribers. Based on these assumptions, the Indian Pay TV market revenues would reach INR 296 Bn (US\$ 6.58 Bn), considering Analogue Cable TV ARPU of INR 170, Digital Cable TV ARPU of INR 205, DTH ARPU of INR 240 and IPTV ARPU of INR 250. In contrast, the actual collection is expected to be in the range of INR 150 Bn (US\$ 3.32 Bn), primarily due to under reporting of secondary Analogue Cable TV subscribers by LCOs. We estimate that close to 80% of the existing Analogue Pay TV subscribers are Hidden Subscribers, due to which the estimated revenue leakage as of Mar'11 is INR 147 Bn (US\$ 3.26 Bn).

Exhibit 13: Different Types of Cable TV Subscribers



Source: Company Data, Cable TV Industry

Digitization and legitimization of subscribers to be the key drivers for Pay TV Cable TV Industry

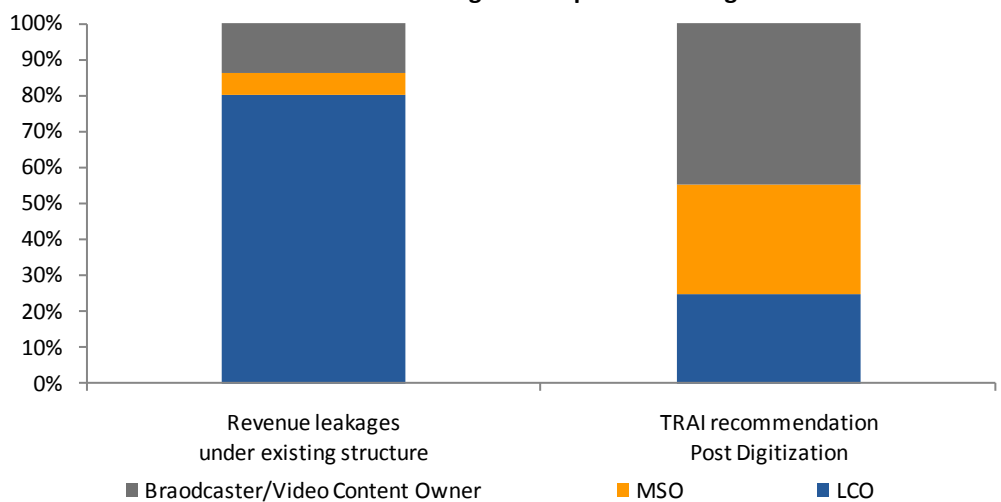
We expect digitization to continue extensively over the next three to five years from now onwards, and we expect that digitization to shift the equilibrium in favor of MSOs, DTH operators, and content owners, and away from LCOs. Upon digitization, we expect revenue leakages and under reporting to reduce substantially, and at the same time, we expect the ARPU to be shared in a pre-defined ratio between LCOs, MSOs and Broadcasters.

Exhibit 14: Revenue Share Structure: Existing and Proposed Post Digitization

	Revenue leakages under existing structure	TRAI recommendation Post Digitization
LCO	80.0%	25.0%
MSO	6.0%	30.0%
Broadcaster/Video Content Owner	14.0%	45.0%

Source: TRAI, Company Data

Exhibit 15: Revenue Share Structure: Existing and Proposed Post Digitization



Source: TRAI, Company Data

Referring to the above chart, it is extremely evident that the key beneficiaries of digitization in the Cable industry will be MSOs like Hathway, DEN Networks and Broadcasters. The Gol is also expected to be the biggest beneficiary due to additional collection of Entertainment and Service taxes.

Cable TV Capex Estimation:

- The Acquisition Price per Analogue Customer is the price paid by MSOs to the LCO and is in the range of INR 2,500 to INR 4,500. The acquisition price paid is usually the multiples of ARPU multiplied by the total active subscriber base of the LCO. Currently, these multiples range from 15 to 25 months ARPU and post digitization, we expect to see a change in this and the LCOs might be willing to sell their business at much lower multiples.
- Capex per broadband connection should be in the range of INR 2,500 which relates to upgrading the LCOs last mile to 2 way communication and providing subsidy for Cable Broadband STB.
- The Cable TV STB cost for MSOs is INR 1,300 and we expect the prices to reduce by 5% YoY. The STB subsidy can be anywhere between 40-50% depending on competitive market conditions.

Broadband Services over Cable TV network

Cable TV Operators/ MSOs can offer Broadband as a part of their supplementary services, with the price depending on the bandwidth speed or the volume of usage (MB/GB consumed). This is a service, which a DTH operator cannot offer. As of Mar'10, Broadband penetration as a percentage of Total Households in India was 3%, which translates to 8.5 Mn Broadband Households in India. However, the Broadband penetration via the Cable TV DOCSIS technology is not quite as popular in India and had a market share of just 11% in Mar'10. The rest is being shared by 2G Wireless dongles and xDSL technology over the existing fixed line network.

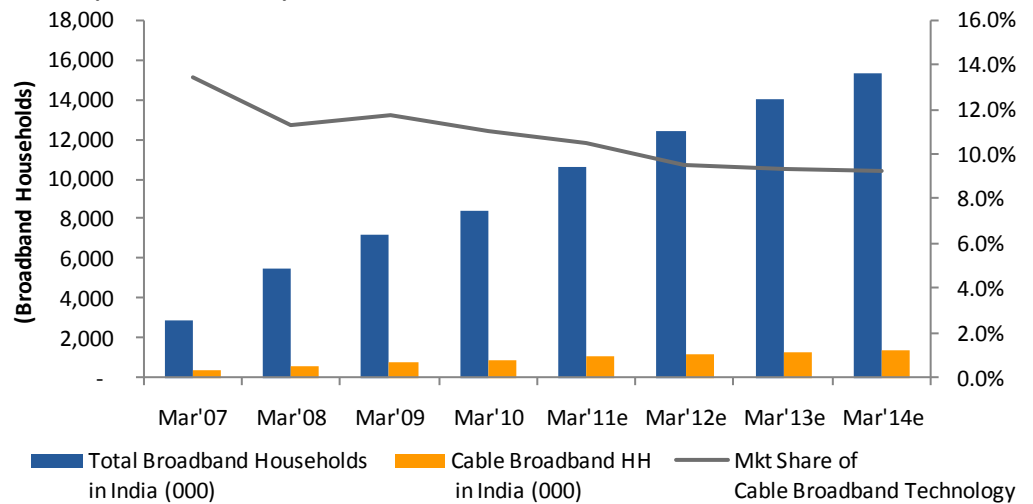
We believe that the Broadband Over Cable TV DOCSIS technology might not have a significant impact on the total revenues and margins of MSOs, since there will be stiff competition from Broadband wireless technologies like 3G/WiMax/LTE, who also plan to provide services at similar tariffs and are expected to have the same target market in focus. These wireless Broadband services by telecom operators would be capable of being used while travelling, unlike Broadband services offered by MSOs which will have no mobility.

Exhibit 16: Cable TV Broadband Households and Market Share for Cable Broadband Technology in India (Mar'07-Mar'14e)

	Mar'07	Mar'08	Mar'09	Mar'10	Mar'11e	Mar'12e	Mar'13e	Mar'14e
Broadband (000)								
Total HHS in India	244,000	258,000	272,000	281,897	303,417	322,287	338,608	352,620
% Broadband/HH Penetration	1.2%	2.1%	2.7%	3.0%	3.5%	3.9%	4.2%	4.4%
Total Broadband Households in India (000)	2,963	5,521	7,248	8,457	10,620	12,489	14,073	15,400
% Growth								
Mkt Share of								
Cable Broadband Technology	13.4%	11.3%	11.8%	11.1%	10.6%	9.6%	9.4%	9.3%
Cable Broadband HH in India (000)	398	623	854	938	1,122	1,199	1,323	1,432

Source: MPA Report, Company Data, MAPE Estimates

Exhibit 17: Cable TV Broadband households and Market share Cable Broadband technology in India (Mar'07-Mar'14e)



Source: MPA Report, Company Data, MAPE Estimates

As of Mar'10, the Broadband enabled households in India were 8.5 Mn, a number which is estimated to grow to 15.4 Mn by Mar'14 at a 16% CAGR (2010-2014e). During the same time period, Cable Broadband households are expected to grow from 0.94 Mn to 1.42 Mn at an 11% CAGR (2010-2014e). Considering the Cable Broadband ARPU of INR 350 as of Mar'11e, we expect the total the broadband revenues from the Cable industry to be INR 4.7 Bn, which is a very small fraction of the revenues from Video Distribution business of INR 150 Bn for Mar'11e.

Regulatory:

Favorable regulatory changes and implementation of TRAI's Sunset Clause recommendations may provide further upside to our growth assumptions: We estimate a 24% CAGR (2010-2014e) for both DTH and Digital Cable TV subscribers and we forecast the digitization process to continue over the next three to four years without any upside from TRAI's recommendations on the Sunset Clause deadlines. If the Ministry of Information and Broadcasting (MIB) accepts TRAI's Sunset Clause recommendations, this should further boost the growth rates of digital Subscriber and we may have to revise our growth estimates upwards. We believe that LCOs at some point will review their decision to digitize their existing subscribers with the help of MSOs and retain a pre-defined percentage of the ARPU or they will lose the subscribers completely to DTH operators. Certain concerns from the industry and the MIB regarding a reduction in the Basic Duty structure for imported set top boxes (STBs), a License Fee reduction and the availability of STB across India are genuine to some extent, but are miniscule considering the opportunity and depth available in the Pay TV market.

Section 3

Investment Thesis

We initiate our coverage with a **BUY** rating on Dish TV, at a Target Price of INR 78, which implies an upside potential of 27% using DCF. We believe that Dish TV is at a significant advantage as compared to its peers and Cable TV MSOs for the following reasons:

- it is independent of LCOs, which implies that it can expand without negotiating terms and conditions for payment receivables with LCOs.
- All active subscribers on Dish TV's network are accounted for and are liable to pay for its services. The pre-paid mechanism is an additional advantage since bad debts on collection would be close to zero
- Dish TV has fixed content costs with Broadcasters for the next few years, irrespective of the number of active subscribers, which puts it at an advantage over its peers. Dish TV has a substantial number of subscribers, with a current base of 10Mn and market share close to 33% on the DTH platform.
- There is a significant STB subsidy to attract new subscribers and HD content. The subsidy ranges from 40% for HD STB to 65% for Non HD STB. VAS services such as HD and nVoD were already available much before MSO could offer to their subscribers.
- Extensive distribution network and efficient re-charge mechanism.
- National presence -available in metros, rural areas and Cable TV dark areas.
- TRAI's recent recommendations on digitization will definitely push subscribers that have Analogue Cable TV network to migrate to either Digital Cable TV or the DTH platform, Dish TV being the biggest DTH operator is expected to be a beneficiary of these regulations.

Dish TV is trading at 16.4x Mar'12e EV/EBITDA and 12.7x Mar'13e EV/EBITDA, which we believe is extremely reasonable considering the high growth phase the company is experiencing. We forecast a 24% revenue CAGR (2010-2014e) and a 62% EBITDA CAGR (2010-2014e), considering that subscribers are increasing and therefore margins are improving. Currently Net Debt stands at INR 5.5 Bn, and during the time period from Mar'11 to Mar'13e we estimate that Net Debt/EBITDA will fall from 3.60x to 0.91x and we expect at least 2-5% dilution in Mar'12e considering the Board has already given the broader approval to raise INR 9 Bn (US\$ 200 Mn) through equity issuance and other equity related instruments in Oct'10. We value EV/Gross Sub for Dish TV (Mar'12e) at INR 6,219 (US\$ 140).

Dish TV

	2012e	2013e	2014e
EV/EBITDA	16.44	12.71	8.38
FCF Yield %	1%	2%	5%
Net Debt/EBITDA	1.47	0.91	0.26
Rev CAGR(2010-14e)	25%		
EBITDA CAGR(2010-14e)	63%		

Initiating Coverage

April 1, 2011

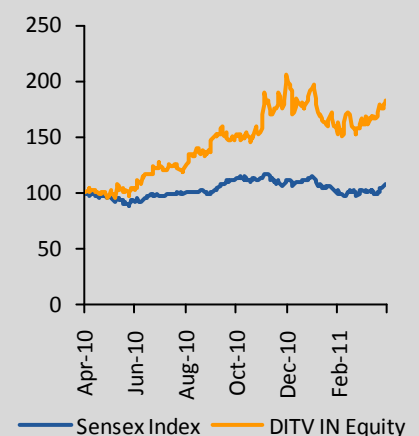
Market Data

Rating	BUY
Price (31 Mar'11)	INR 61
52 Week Range	INR 77/ INR 35
Target Price	INR 78
Upside(Downside) potential	27%
Div yield (Mar12)	0%
Expected Total Return	27%
Outstanding Shares Mn	1,062
Mkt Cap INR Mn	64,893
Mkt Cap US\$ Mn	1,452
Net Debt INR Mn	5,500
Free float	33%

Returns

	Sensex	Dish TV
1 Month	9%	14%
3 Months	-5%	-6%
6 Months	-3%	21%
1 Year	13%	83%
YTD	-5%	-6%

Sensex vs. Dish TV



We estimate that Dish TV will remain FCF negative for Mar'11e. However, in Mar'12e we estimate that FCF yield could increase from 1% in Mar'12e to 8% by Mar'15e. Investors should not expect any dividends for next three to four years, considering that the industry and Dish TV are growing rapidly and are going to require a substantial amount of STB capex to drive digitization, which will lead to low FCF yields for the next few years. We expect contribution of HD Subscribers to have an impact on Dish TV's overall revenue and EBITDA from Mar'14e onwards, and by that time we expect digitization to have spread throughout the Pay TV market in India.

During the current phase of hyper growth and intense competition, we estimate that ARPU from plain vanilla subscription services should grow at a negligible rate of just 1% YoY for next three years. However during the same time period, we estimate that HD subscription ARPU will grow at 3% YoY. We assume that HD subscribers will be willing to pay for VAS, near VoD, special sports events, etc., which will be offered over Dish TV's DTH platform.

We believe it is highly unlikely for Dish TV to form a strategic alliance with a telecom operator to bundle internet services using 3G/2G dongles, since its main focus will be to digitize and focus on gaining market share. However, we do not rule out any possibilities in the near future.

We believe that Programming Cost, which we a major contributor to Total Costs, is critical and will drive the DCF valuation for Dish TV. We estimate that Dish TV will be able to negotiate better terms on these costs with Broadcasters, considering their number of subscribers, market share and reach across the nation. For Mar'10, Programming Costs as a percentage of Total Income was 38%, we do forecast a gentle decline YoY and we estimate Programming Costs as a percentage of Total Income to be 33% by Mar'14e.

The Subscriber Acquisition Cost (SAC) includes STB Subsidy, Commission, and Marketing Costs per Gross Add, and is expected to fall by 5% YoY for the next two years (Mar'13e and Mar'14e) due to efficiencies in the distribution system and cheaper STBs, as a result of economies of scale and a significant subscriber base. SAC will remain an important link in attracting subscribers on one hand, and dealers on the other hand, as it will encourage them to sell Dish TV. We estimate the SAC to reduce from INR 2,571 in Mar'10 to INR 1,999 by Mar'13e.

Dish TV Market Share, SAC and ARPU

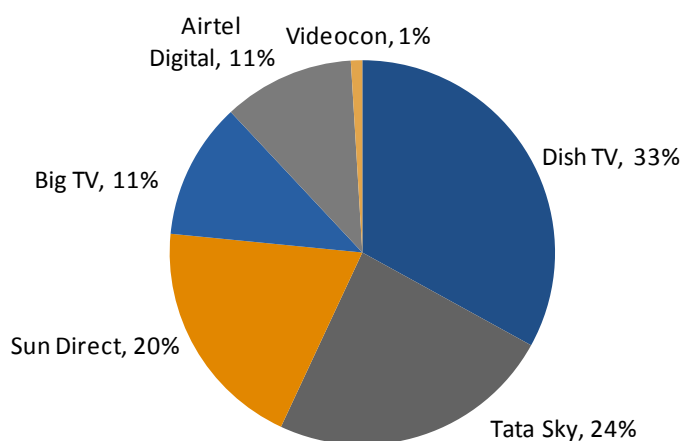
The competitive scenario in the Pay TV market in India has intensified in recent years. The DTH platform is expected to grow at a 24% CAGR (2010-2013e), whereas the Cable TV platform is expected to grow at a mere 4.5% CAGR (2010-2013e) during the same time period. Cable dark areas and rural India where Cable TV was unable to reach or provide decent services has been the target market for DTH operators. The advent of LCD television sets and in some cases HD LCD/LED television sets, is expected to play a significant role in driving the sales for DTH services. Certain DTH operators have been aggressive by giving subsidies on STBs to gain market share. These subsidies, along with commissions paid to the dealers, has also played an important role in driving DTH services.

Exhibit 18: DTH Subscribers by Operator and Mkt. Share (Mar'10)

DTH Operator	Subs as of Mar'10	Mkt Share
Dish TV	6,900	33%
Tata Sky	5,000	24%
Sun Direct	4,100	20%
Big TV	2,400	11%
Airtel Digital	2,300	11%
Videocon	200	1%
Total	20,900	100%

Source: Company Data

Exhibit 19: Mkt Share of DTH Operators (Mar'10)



Source: MPA Report, Company Data

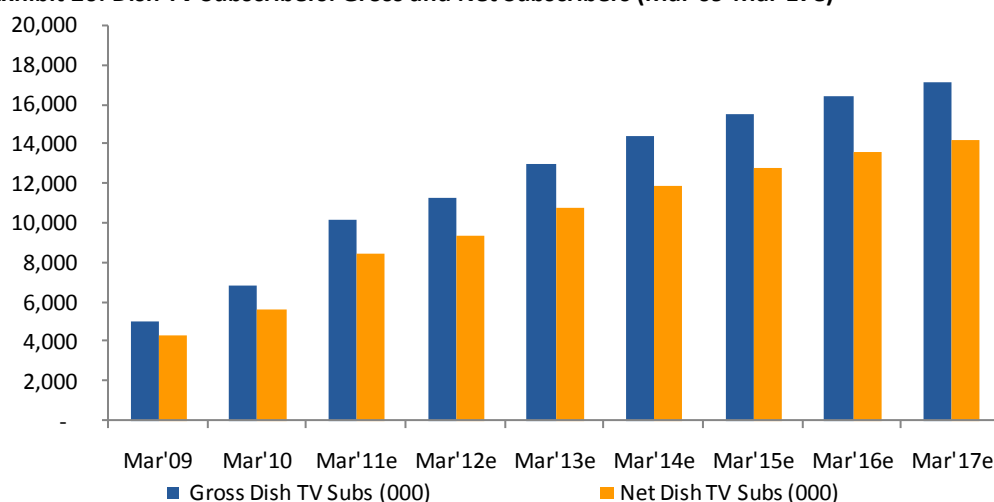
As of Mar'10, Dish TV subsidized STBs by approximately 70%. The landed price of an STB (incl. antenna, feedhorn, LNB plus cabling and installation) was INR 2,750, out of which the subscriber paid INR 850 and the remaining INR 1,900 was subsidized. The total SAC as of Mar 10 was INR 2,571, which includes Marketing Expenses per Gross Add of INR 261, commission paid to dealers of INR 409 and the STB subsidy of INR 1,900.

Over the next few years, as the competition is expected to intensify between Cable TV and DTH platforms due to digitization, we do not expect either the subsidy offered, nor the commissions paid to dealers, or the Marketing Expenses per Gross Add to reduce substantially. We have considered the subsidy provided for HD STBs from year 2011 onwards. HD STB subsidies are expected to be in the range of 45% (the landed cost for HD STBs is INR 4,350, plus INR 1200 towards antenna, LNB, cabling and installation).

For the last two years, Dish TV has had approximately 16-17% of Gross Subscribers as inactive. These subscribers at one given point had subscribed to Dish TV services; however, they have

not renewed their subscription recently. We expect that this phenomenon will continue over next five to six years (and maybe more), but it should not have any material impact on the valuation.

Exhibit 20: Dish TV Subscribers: Gross and Net Subscribers (Mar'09-Mar'17e)



Source: Copany Data, MAPE Estimates

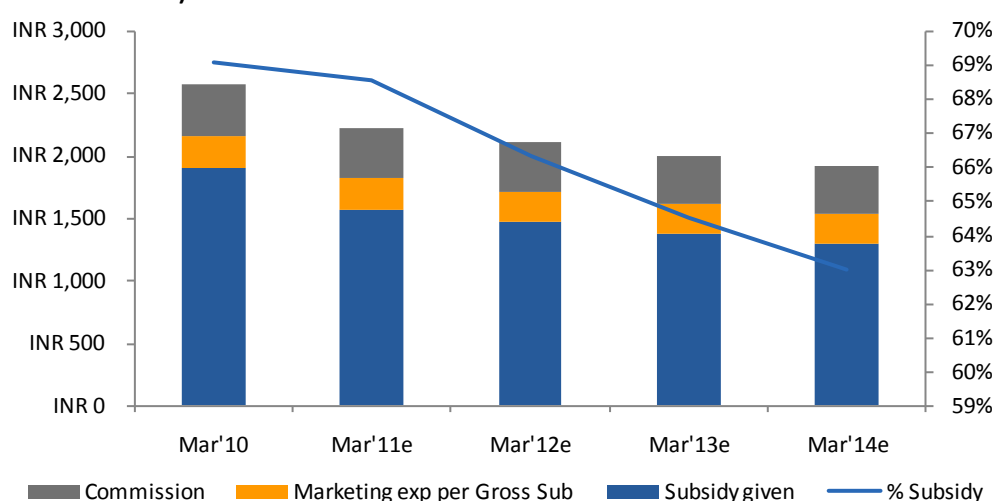
The table shows us the expected SAC and the percentage of STB Subsidy given per Gross Add (2010-2014e).

Exhibit 21: Dish TV SAC details (Mar'10-Mar'14e)

	Mar'10	Mar'11e	Mar'12e	Mar'13e	Mar'14e
STB Cost incl Wiring, LBB to Dish TV	INR 2,750	INR 2,279	INR 2,202	INR 2,129	INR 2,059
Consumer Pays	INR 850	INR 717	INR 741	INR 755	INR 762
Subsidy given	INR 1,900	INR 1,562	INR 1,461	INR 1,374	INR 1,297
% Subsidy	69%	69%	66%	65%	63%
Marketing exp per Gross Sub	INR 261	INR 253	INR 248	INR 244	INR 240
Commission	INR 409	INR 397	INR 389	INR 381	INR 374
Subscription acquisition cost	INR 2,571	INR 2,212	INR 2,099	INR 1,999	INR 1,911

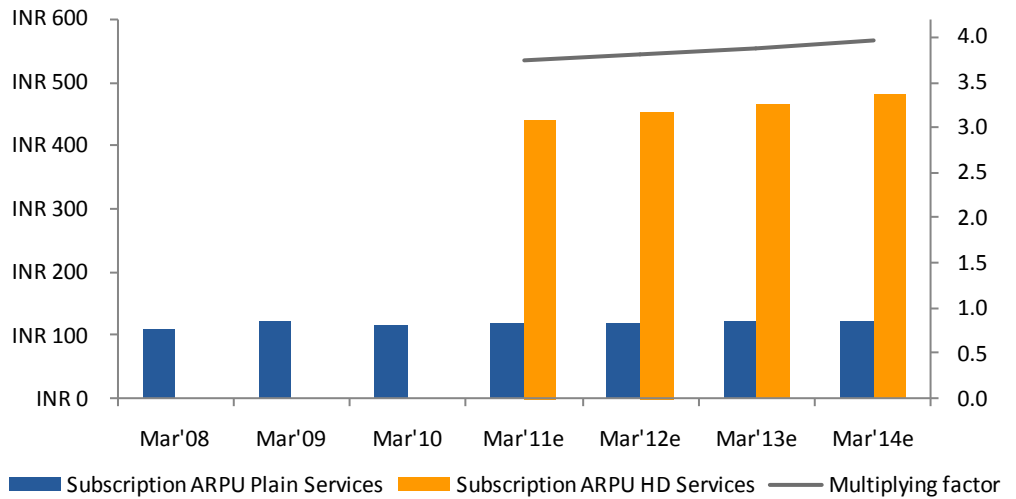
Source: Company Data, MAPE estimates

Exhibit 22: Dish TV SAC per Gross Add: Subsidy, Mktg. Costs, Commission and % of Subsidy (Mar'10-Mar'14e)



Source: Company Data, MAPE Estimates

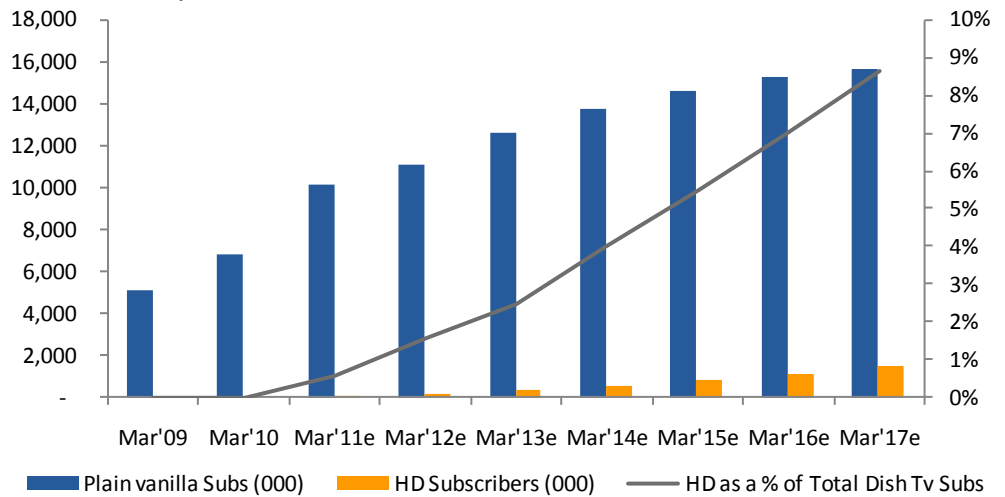
Exhibit 23: Dish TV Subscription ARPU and Ratio of Digital to Analogue Subscription ARPU (Mar'08-Mar-10e)



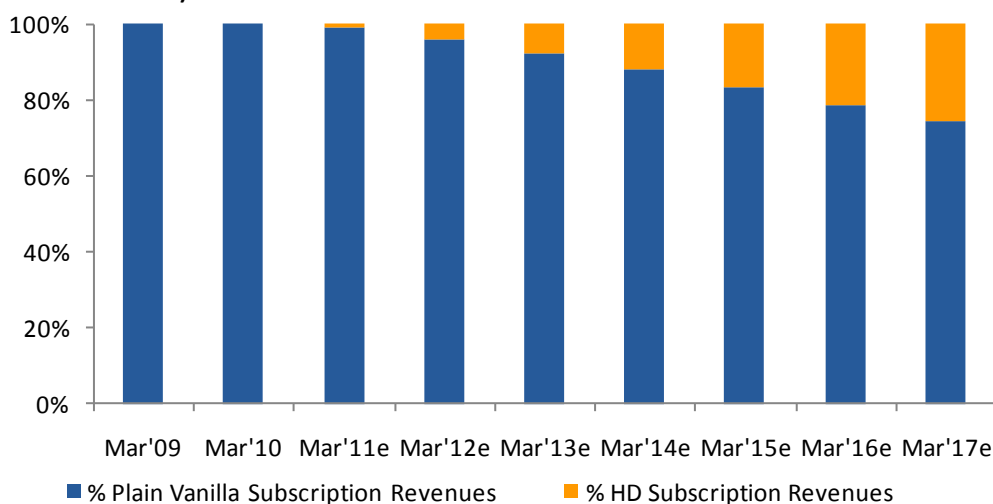
Source: Company Data, MAPE Estimates

The ratio of HD Subscription ARPU to Plain Vanilla Subscription ARPU is in the range of 3.7x to 4.0x, which implies that Net Adds to HD services would directly impact the total Subscription Revenues of Dish TV. As of Mar'11e, Dish TV is expected to have 60,000 HD subscribers, primarily driven by the Cricket World Cup in March 2011. Dish TV HD subscribers are expected to grow at a 58% CAGR (2012e-2015e). From 2013e onwards, we expect Dish TV's HD Subscription Revenues to have an impact on the overall Service Revenues. HD Revenues are expected to grow at a 115% CAGR (2012e-2015e).

Exhibit 24: Dish TV Subscribers: Analogue and Digital and % of Subscribers on HD platform (Mar'09-Mar'17e)



Source: Company Data, MAPE Estimates

Exhibit 25: Dish TV Subscription Revenue Breakup: Plain Vanilla revenues and HD Revenues (Mar'09-Mar'17e)


Source: Company Data, MAPE Estimates

HD Subscription revenues are expected to generate 4% of Total Subscription Revenues in 2012e, which is expected to grow to 17% by 2015e.

Satellites used

Dish TV uses three satellites for DTH services to be provided to their subscribers. Dish TV broadcasts 231 Non HD Video Channels, 21 radio channels, 30 HD Channels and DD Channels using 17 Ku band transponders (36 MHz equivalent) of NSS-6 (94.5 Deg E), Asiasat-5 (100.5 Deg E) and Doordarshan satellites on the Ku band.

NSS-6 was launched in 2002 and has a remaining life of six years in orbit considering that a satellite's average life is approximately 15 years. Post 2016, we believe that NSS will provide alternate/new satellite in the same orbital space to Dish TV. The Asiasat-5 satellite is relatively new as it was launched in Aug-2009, and it has expected life span until 2024.

The approximate price per 36 MHz of Ku band Transponder with a beam focusing on the Indian subcontinent should be in the range of US\$ 1.1 Mn to US\$1.25 Mn. Since Dish TV uses 17 Transponders, the satellite bandwidth lease charges per annum are expected to be in the range of US\$ 20 Mn (INR 900 Mn) for the existing set of channel offerings and Dish TV's DTH platform.

Regulations:

Currently, the License Fee is at 10% of Revenues, but in discussions to be reduced to 6%. This is unlikely to happen soon since the matter is in the courts. In our forecast, we have considered 10% License Fees until Mar'2013e, after which we have assumed 6% as License Fee. Entertainment Tax, which varies from state to state, is a matter of concern with the DTH industry. The rationalization of the Entertainment Tax across states or the deployment of GST is expected to simplify matters for DTH operators. The Foreign Investment Limit for the DTH sector is currently at 49% (sub limit of 20% for FDI).

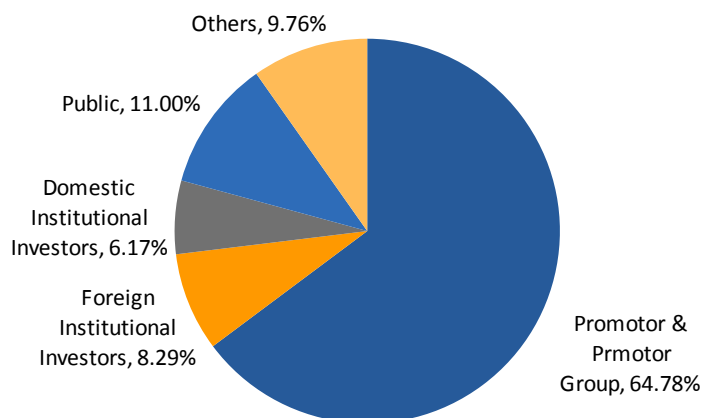
Company Overview

Dish TV is a division of Zee Network Enterprise (Essel Group Venture). EGV has national and global presence with business interests in media programming, broadcasting & distribution, specialty packaging and entertainment. Zee Network incorporated Dish TV to modernize TV viewing. Dish TV was India's first direct to home (DTH) entertainment service.

Company Management and Shareholding Structure

Mr. Subhash Chandra (Chairman) and Mr. Jawahar Goel representing the Promoter Group along with Mr. RC Venkateish (CEO), Mr. Salil Kapoor (COO) and Mr. Rajeev Dalmia (CFO). With their vast experience and industry knowledge, they form a strong management team to drive the DTH business for Dish TV.

Exhibit 26: Dish TV Shareholding Structure (as on Dec 10)



Source: Company Data

Referring to the above chart, the Promoter and Promoter Group together hold close to 65% of the total outstanding shares, with the rest being distributed between FII, DII, Others and the Public. With Promoter's significant stake in the organization, we believe that they will be determined to drive results and performance for Dish TV.

DCF Valuation

Equity multiples and FCF multiples have not been used in the valuation of Dish TV due to low near term EBITDA numbers and negative FCF, which together do not reflect a true or steady state of Dish TV's business. Currently Dish TV is in a high growth phase, gaining subscribers from the Analogue and Digital Cable TV platforms, as well as from Cable TV dark areas. Further, it is deploying high capex towards the subsidy for STBs, which makes it difficult to use Multiples methodology. Therefore, we have used DCF valuations to derive our Target Price, considering a rolling WACC and Terminal Growth Rate of 8.5%. Details of which are outlined in the Exhibit enclosed below. Investors should be cautious, considering that a large part of the valuation is driven by Terminal Growth Rate/Terminal Value.

Exhibit 27: Dish TV DCF Valuation

Dish TV	Mar'12e	Mar'13e	Mar'14e	Mar'15e	Mar'16e	Mar'17e	
Year							
Operating profit	-433	932	3,643	5,614	7,603	9,547	
Depreciation	4,714	4,606	4,754	4,670	4,458	4,190	
Cash taxes	0	-23	-716	-1,493	-2,524	-3,307	
Working capital	1,767	1,632	685	1,166	1,109	1,083	
Net capital expenditure	-4,425	-5,077	-4,520	-4,046	-3,659	-3,336	
Net acquisitions	0	0	0	0	0	0	TV
Free cash flow (FCF)	1,623	2,070	3,845	5,911	6,988	8,178	156,175
Tax shield on interest payable	251	251	251	301	351	351	
PV of FCF	1,647	1,786	2,751	3,653	3,778	3,844	70,388
Total value of FCF	87,846						
Net Debt	5,500						
Equity	82,346						
Oustanding Shares Mn	1,062						
Value per share	78						
Rf	7.9%						
Beta	1.10						
Expected Returns	14.0%						
Mkt Risk Premium	6.1%						
Ke	14.6%						
Kd (pre tax)	10.5%						
Tax Rate	35.0%						
Terminal Growth	8.5%						

Source: Bloomberg, Company data, MAPE estimates

Financial Statements (Dish TV)

(All values in INR Mn, unless otherwise specified)

Profit & Loss Statement.	2010	2011e	2012e	2013e	2014e
Revenues	10,915	14,906	19,261	22,471	26,314
% growth		37%	29%	17%	17%
EBITDA	1,182	1,529	4,281	5,538	8,397
D&A	-3,227	-3,693	-4,714	-4,606	-4,754
EBIT	-2,045	-2,164	-433	932	3,643
PBT	-2,628	-2,869	-1,367	92	2,865
Net Income	-2,622	-2,869	-1,367	69	2,149
Retained Earnings	-2,622	-2,869	-1,367	69	1,934
EPS	-INR 3.2	-INR 2.7	-INR 1.3	INR 0.1	INR 2.0
DPS	INR 0.0	INR 0.0	INR 0.0	INR 0.0	INR 0.2
Outsanding Shares Mn	1,062	1,062	1,082	1,082	1,082

(All values in INR Mn, unless otherwise specified)

Cash Flow Statement	2010	2011e	2012e	2013e	2014e
Operating Cash Flow	2,331	2,427	5,114	6,307	7,587
Capex	-5,096	-6,791	-4,425	-5,077	-4,520
Sale of fixed assets	1	0	0	0	0
Free cash flow	-2,765	-4,363	689	1,230	3,067
Investing cash flow as reported	-8,735	-6,791	-4,425	-5,077	-4,520
Non-operating cash flow	11,149	200	1,200	0	-215
Net cash inflow/outflow	4,745	-4,163	1,889	1,230	2,852

Key Performance Indicators	2010	2011e	2012e	2013e	2014e
Total Pay TV Subs in India	115,725	130,362	143,180	154,194	163,544
Cable HHs in India (000)	92,580	99,727	103,984	107,502	110,456
DTH HHs in India (000)	20,900	28,680	36,511	43,367	49,217
Dish TV Subscribers (000)	6,900	10,230	11,318	13,010	14,396
Dish TV Mkt Share	33%	36%	31%	30%	29%

Plain vanilla Subs (000)	6,900	10,170	11,138	12,685	13,820
HD Subscribers (000)	-	60	180	325	576
Pure Subscription ARPU Plain Services	INR 116	INR 117	INR 119	INR 120	INR 122
Pure Subscription ARPU HD Services	-	INR 440	INR 453	INR 467	INR 481

EV/Sub INR	INR 6,881	INR 6,219	INR 5,411	INR 4,890
EV/Sub US\$	\$154	\$140	\$121	\$110

(All values in INR Mn, unless otherwise specified)

Balance Sheet Statement	2010	2011e	2012e	2013e	2014e
Cash & equivalents	5,550	1,387	3,276	4,506	7,358
Accounts receivable	359	517	693	831	993
Inventories	28	115	215	302	370
Other	6,966	7,952	9,258	9,117	9,057
Current Assets	12,903	9,971	13,443	14,756	17,779
Gross Block	18,344	25,135	29,559	34,637	39,157
less depreciation	-7,298	-10,991	-15,705	-20,311	-25,064
Investment in affiliates	1,561	1,561	1,561	1,561	1,561
Other	3,541	3,541	3,541	3,541	3,541
Fixed Assets	16,148	19,246	18,957	19,428	19,194
Total Assets	29,051	29,216	32,399	34,184	36,973

ST Borrowings	179	179	179	179	179
Accounts payable	6,182	7,481	8,823	9,512	9,858
Due to related parties	1,279	1,559	1,850	2,004	2,085
Other	8,464	9,719	11,436	12,308	12,737
Current Liabilities	16,104	18,938	22,289	24,004	24,859
LT Borrowings	9,179	9,379	9,379	9,379	9,379
Other	-	-	-	-	-
Long-term Liabilities	9,179	9,379	9,379	9,379	9,379
Minority Interest	-	-	-	-	-
Shareholders Funds	3,768	899	732	801	2,735
Total funds employed	3,768	899	732	801	2,735
Total Liabilities	29,051	29,216	32,399	34,184	36,973

Ratios	2010	2011e	2012e	2013e	2014e
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Gearing Ratios:

Net debt / EBITDA	3.2	3.6	1.5	0.9	0.3
Net Debt/ Equity	1.0	9.1	8.6	6.3	0.8
Debt/Equity	2.5	10.6	13.1	11.9	3.5

Valuations:

EV/ Revenues	-	3.7	3.1	2.7	2.3
EV/ EBITDA	-	-	16.4	12.7	8.4
Price/Earnings Ratio	-	-	-	-	30.76
FCF Yield	-4%	-7%	1%	2%	5%
Dividend yield	0%	0%	0%	0%	0%

Profitability

EBITDA Margin %	11%	10%	22%	25%	32%
ROCE	-43%	-34%	-17%	1%	53%
ROIC	-35%	-32%	-19%	1%	44%
ROA	-9%	-10%	-4%	0%	6%
ROE	-70%	-319%	-187%	9%	79%
Net Profit Margin	-24%	-19%	-7%	0%	8%
Capex/Sales	47%	46%	23%	23%	17%

Source: Company Data, MAPE estimates

Section 4: Cable TV/ MSO

Cable TV Regulations:

Considering the current scenario in which 80- 85% of the households reached by MSOs are Hidden Subscribers, which implies that the ARPU of Hidden Subscribers that is collected by the LCOs do not reach the MSOs. Publicly listed MSOs, privately held MSOs and DTH operators will be very happy with the revised recommendations from TRAI on the Sunset Clause, which accelerates the deadline across India.

TRAI has addressed the Ministry of Information and Broadcasting's (MIB) concern about the availability of STBs and upgrade of Analogue Head-ends to Digital Head-ends. As per the latest recommendation dated 22 Feb'11 from TRAI, the Regulator does not see any major hurdles in the availability of STBs by MSOs, either from the domestic or international market, since STBs are available in abundance in China, South Korea and Taiwan. The Regulator believes that with the acceptance and implementation of these recommendations, the sector can expect higher capital expenditures and renewed investor confidence.

We do believe that the MIB and TRAI are extremely serious in implementing the Sunset Clause; however, the only difference in opinion is the time-frame, but whether it happens or not is a matter of discussion and debate. Any local state elections and general elections, if called for, will play an important decision in postponing or keeping this recommendation from TRAI on hold. Historically, we have seen that deadlines for Mobile Number Portability (MNP) and the 3G Auction dates have been postponed and rescheduled quite a few times.

Nevertheless, if the Sunset Clause is accepted by the MIB within a pre-defined time-frame for implementation, this will have negative implications on the LCOs. Currently, the LCOs have strong bargaining power over the MSOs, and because of this they disclose fewer Analogue Subs to MSOs, which results in revenue leakage for MSOs and Broadcasters. In addition to this, currently the LCOs are demanding at least 36-38 months of ARPU in case of an acquisition. Post the Sunset Clause and implementation of STBs across subscribers, LCOs will be compelled to share a substantial part of the ARPU with the MSO and Broadcaster. LCOs that plan to exit their business will be forced to seek much lower ARPU multiples of 24- 30 months on their total subscriber base.

After the recent Union Budget for 2011-2012 the MSO Alliance and DTH industry had expectations of a reduction in Basic Duty for imported STBs from the current level 5% to 0%; however, this did not happen. The MSO alliance and DTH industry in India believes that any reduction would lower the cost for STBs since more than 90% of the STBs are imported. We believe that the landed prices of STBs would definitely be lowered upon a reduction in the Basic Duty, but it might not necessarily be passed on to the subscribers, since the MSO/DTH operator might be looking at lowering its own STB subsidy cost. Any reduction of the Basic Duty on imported STBs is not expected to have a material impact on the Govt's tax collection since it will be compensated by an increase in tax collection. The increase in taxes will be a result of the legitimization of Hidden Subscribers and the digitization process, as there will be a corporate tax collection from Broadcasters, MSOs and DTH operators due to this.

Post the implementation of the Sunset clause, we expect a significant increase in migration of subscribers from the existing Analogue platform to either the DTH or Digital Cable TV platform. Our current analysis and forecast in this report expects digitization to continue every year even if the Sunset Clause is not implemented as scheduled, since more and more Cable TV subscribers would like to experience Digital Services. High-end LCD/LED television sets will also play an important role in driving subscribers to the Digital/DTH platform. We expect digitization in India to be an ongoing process for the next three to four years, during which the Pay TV industry will experience hyper growth. Further, we anticipate Broadcasters and Content Providers also be beneficiaries, since they are expected to receive much higher revenues from MSOs/DTH operators as the ARPU from Hidden subscribers will start reaching them on a pre-defined ARPU terms.

Drivers for the MSO Business

Most of the drivers below are applicable to all MSOs across India and the intensity of each would vary depending on which market these MSOs are operating in and the local competitive market scenario.

- Implementation of the Sunset Clause and acceleration of the digitization process by the MIB on recommendations by TRAI. Secondary Hidden Analogue subscribers from LCOs will come under the digital fold and will be accounted for, with substantial ARPU sharing between value chain and eco system members.
- A reduction in STB prices and a reduction the Basic Duty Structure from the current level of 5% to 0%, will make STBs cheaper and drive subscribers towards digitization.
- High-end LCD/LED television sets will force subscribers to voluntarily opt for Digital Cable TV services, which will drive ARPU and EBITDA margins for MSOs.
- Additional revenues for MSOs from Broadband business, which has comparatively higher ARPU of INR 350, as compared to Analogue and Digital Cable TV service ARPU. MSOs can leverage on their existing fiber backbone and the last mile infrastructure from LCOs to provide this high EBITDA margin business.
- LCOs opting to sell a stake or form a Strategic Alliance with an MSO due to intense competition from DTH operators will also help in driving revenues and margins for the MSO business.
- Content costs as percentage of Cable TV Subscription revenues are improving and in many cases stabilizing. This is expected to improve MSO's EBITDA margins in the long run.

Risk Associated with the MSO Business

- Intense competition from other MSOs is unlikely, but the threat from DTH operators will remain intense. DTH operators have started providing HD and PVR services and have taken a significant lead over MSOs. This could result in losing high ARPU paying subscribers to DTH operators, especially in metros
- The inability of MSOs in reaching hilly/mountainous regions. MSOs have no plans to expand the households reached, as their primary focus is to digitize rather than expand their footprint, unlike DTH operators. DTH operators have economies of scale in distribution and a national presence, unlike MSOs who are always localized in a few pockets within a city/region/state.
- Further delay in deciding on the Sunset Clause deadlines due to political instability.
- 3G/WiMax/LTE services, whenever launched, will be a threat to the MSO's Broadband business model. Telecom operators have financial strength and have roaming agreements with other telecom operators to provide subscribers with 3G services in areas/regions/circles where they do not have operations. This will act as a significant setback for the MSO's broadband plans, which provides no mobility.
- MSOs rely on LCOs to declare subscribers and also to give them access to the last mile. LCOs can terminate their contract though, and in many situations have done so with MSOs in the past, with a notice period of three to five months.
- As an unsaid rule in the industry, MSOs do not compete among themselves. They have regions/areas demarcated for where to provide services. However, this might change and we could expect fierce rivalry among MSOs once digitization saturates. This looks unlikely for the next three to four years, but could be a reality after that.



Investment Thesis

We initiate our coverage on DEN Networks with a **BUY** rating and a Target Price of INR 139 with an upside potential of 64% using the DCF methodology. The prime reasons behind our preference towards this stock and the Pay TV market in India is digitization and the conversion of Hidden Subscribers on the LCO's network to Paying Subscribers. In our estimates, we are assuming that the Sunset Clause will not be accepted by MIB with the revised time frames as suggested by TRAI. However, we are assuming a continuous trend in which every year more subscribers are digitized and legitimized, which itself is a very big opportunity and the key driver for MSO stocks in India.

DEN Network trades at Mar'12e EV/EBITDA of 4.9x, Mar'13e EV/EBITDA of 4.1x ,P/E 9.0x Mar'12e and P/E Mar'13e 7.2x, which is extremely reasonable considering that the Revenue CAGR (2010-2014e) of 14% and EBITDA CAGR (2010-2014e) is 32%. We estimate the FCF yield to increase from 8% in Mar'12e to 14% by Mar'14e and estimate EV/Paying Subscriber at INR 5,617 (US\$ 126) in Mar'12e. Unlike Dish TV, we not expect any dilution for the next couple of years. The JV with Star provides a significant advantage for DEN Networks over its competitors, as the revenues from this venture will flow in annually since it acts as a Broadcaster and Content Aggregator for other MSOs, DTH operators and ICOs across India. Star DEN Revenues are expected to grow at a 13% CAGR (2010-2014e). These revenues from the JV are independent of the digitization plans for DEN's cable network. Capex is primarily due to STB costs and the minimal amount is allocated to Headend, Production and Broadcast Infrastructure Capex. We estimate a cumulative Capex of INR 2,177 Mn from Mar'11e to Mar'14e. We do not estimate any dividends to be paid for next three to four years.

As of Mar'10, DEN reaches out to 11 Mn households, and post discussions with company management and multiple channel checks, we do not believe that the company will expand in terms of its footprint. DEN is expected to digitize its existing subscribers rather than focus on increasing households reached. Of the households DEN reached in Mar'10, 10% were Paying Subscribers and remaining 90% were Hidden Subscribers. We estimate this scenario will change over the next few years and by Mar'14e, DEN is expected to have 20% of the total households reached as Paying Subscribers, and 50% of these Paying Subscribers will be on the Digital platform vs. 41% as of Mar'10.

	2012e	2013e	2014e
EV/EBITDA	4.89	4.09	3.59
FCF Yield %	8%	12%	14%
Net Debt/EBITDA	(0.85)	(1.23)	(1.61)
Rev CAGR(2010-14e)	14%		
EBITDA CAGR(2010-14e)	32%		

Initiating Coverage

April 1, 2011

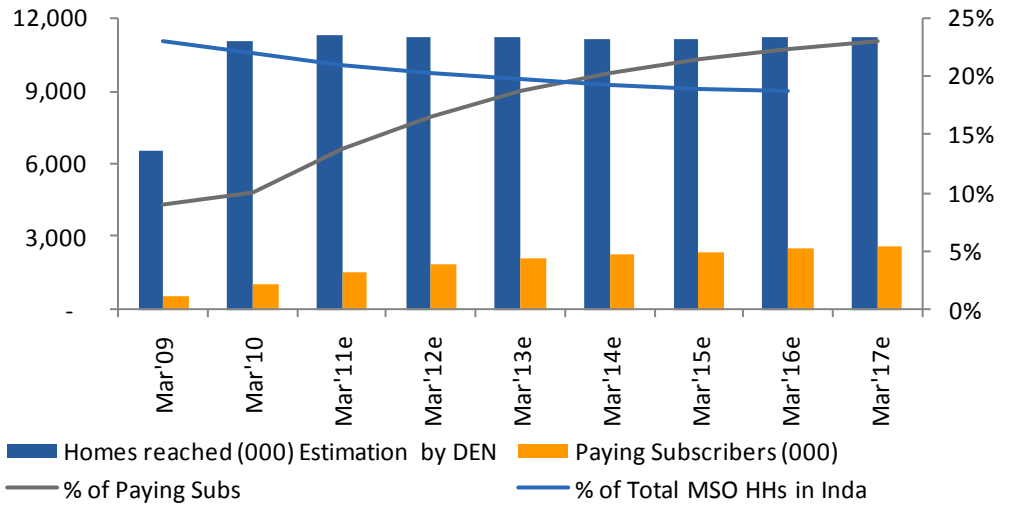
Market Data	
Rating	BUY
Price (31 Mar'11)	INR 85
52 Week Range	INR 256/ INR 78
Target Price	INR 139
Upside(Downside) potential	64%
Div yield (Mar12)	0%
Expected Total Return	64%
Outstanding Shares Mn	130
Mkt Cap INR Mn	11,105
Mkt Cap US\$ Mn	248
Net Debt INR Mn	-682
Free float	30%

Returns	Sensex	DEN
1 Month	9%	-18%
3 Months	-5%	-53%
6 Months	-3%	-64%
1 Year	13%	-56%
YTD	-5%	-53%

Sensex vs. DEN Networks

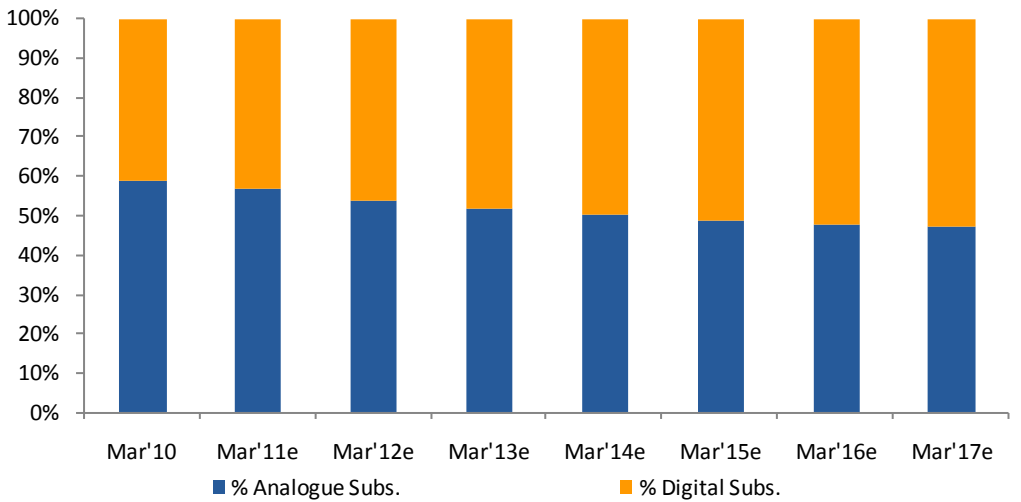


Exhibit 28: DEN Networks: Households reached, Paying Subscribers, % Paying Subscribers, % of total MSO Households (Mar'09-Mar17e)



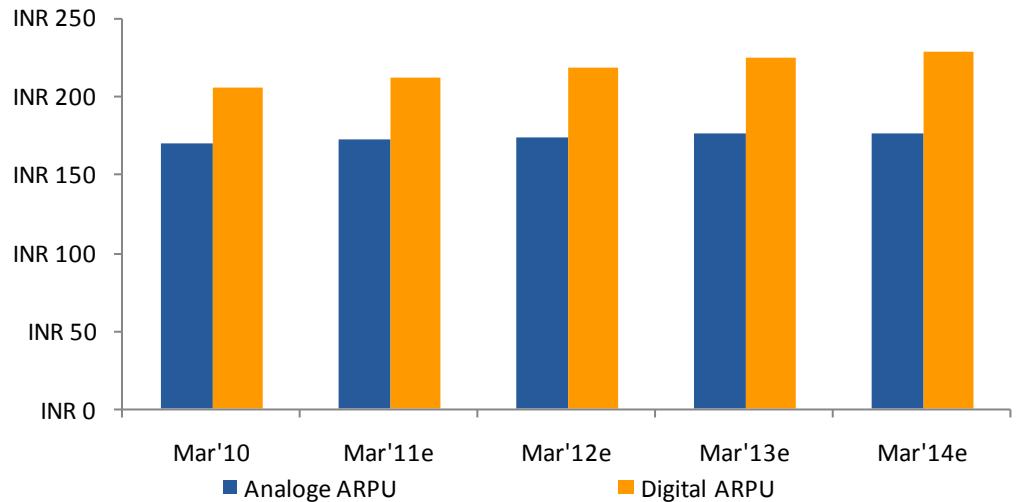
Source: MPA Report, Company Data, MAPE Estimates

Exhibit 29: DEN Networks: % Breakdown Digital Subscribers and Analogue Subscribers (Mar'10-Mar'14e)



Source: MPA Report, Company Data, MAPE Estimates

Analogue ARPU is expected to increase 1% YoY for the next two to three years vs. Digital ARPU, which is expected to grow by 3% YoY for the next three years because of digitization and an increase in ARPU share from LCOs. We estimate that Analogue ARPU will increase from INR 170 in Mar'10 to INR 175 by Mar'14e, and in the same time period, we expect Digital ARPU to increase from INR 205 to INR 228.

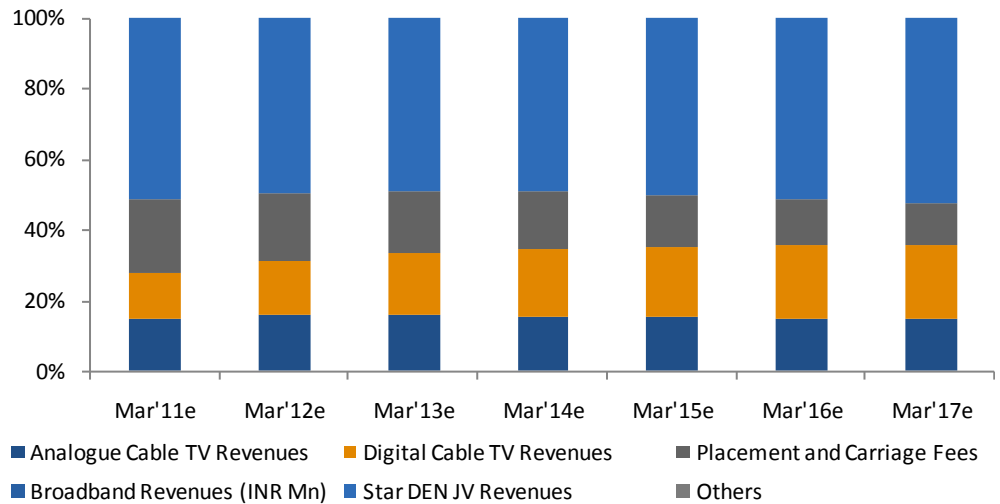
Exhibit 30: DEN Networks: Analogue and Digital ARPU (Mar'10-Mar'14e)

Source: Company Data, MAPE Estimates

We are not considering the acceptance of the Sunset Clause deadlines in our current estimates for forecasting Paying and Hidden Subscribers. If the revised Sunset Clause recommendations by TRAI as per 22 Feb'11 are accepted by the MIB, we would review and accelerate the number of Paying Subs and Digital Subs on the total households reached by DEN Networks. This would mean overall higher ARPU, higher subscription revenues and higher EBITDA margins at an incremental cost of the STB subsidy. All of this will translate to an upward revision in the Target Price for DEN Networks. We would also be open to reviewing the valuation in case of any substantial variations which might affect the HD business assumptions and HD STB price variations.

Placement & Carriage fees are INR 2,217, which account for close to 50% of the total Cable TV Subscription revenues as of Mar'10. Following discussions with multiple Broadcasters and MSOs across the nation, we estimate that Placement & Carriage will grow at a nominal rate of 2-5% over the next three years to INR 2,446 by Mar'14e and will account for 32% of the total Cable TV subscription revenues. Following this, we expect a decline in Placement & Carriage fees from 2015e onwards since most of the subscribers would be on the Digital platform, and sufficient bandwidth would be available to carry more than 500 channels. Our growth estimates for the next few years for Placement & Carriage fees are estimated to be between 2-5%, as we see an existing pipeline of new/niche channels to be launched by Broadcasters. This current scenario along with the existing large base of Analogue Subscribers will benefit MSOs in attracting Placement & Carriage fees but only for a short term. From Mar'15e onwards we estimate the MSO's dependence on Placement & Carriage fees to decline, and revenues from Analogue and Digital Subscriptions to account for more than 70% of the total Cable TV subscription revenues.

Exhibit 31: DEN Networks: : Revenues breakup (Mar'11e-Mar14e)

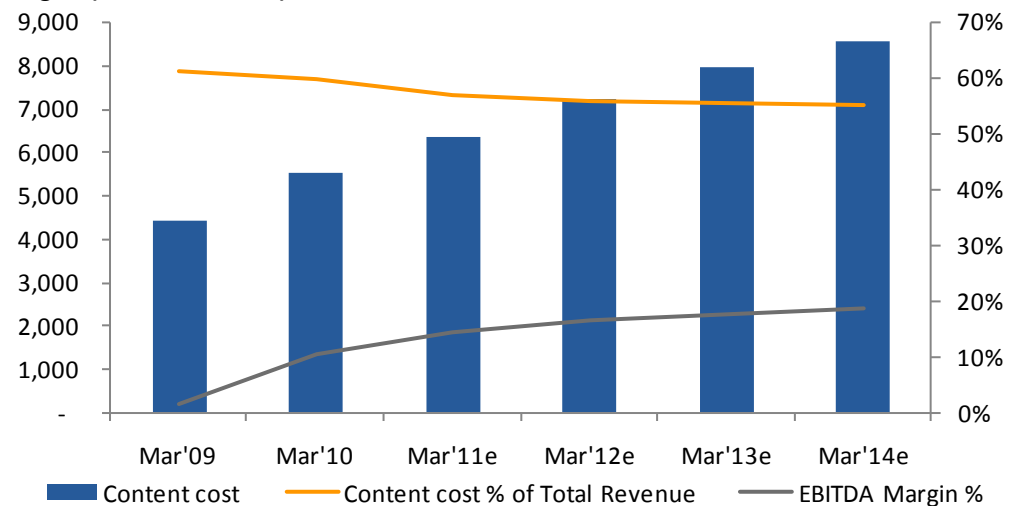


Source: Company Data, MAPE Estimates

Revenues from the 50:50 JV between Star and DEN as on Mar'10 were INR 4,667 Mn. The Star DEN JV is a content aggregator and receives revenues every year from multiple MSOs, DTH operators and Independent Cable Operators across India. These revenues from the JV are not only dependent on the digitization/expansion plans of DEN Networks, but depend on legitimizing and digitizing subscribers across all MSOs, ICOs and DTH operators. We estimate a 13% Revenue CAGR (2010-2014e) from the JV and estimate revenues of INR 8,090 Mn in Mar'15e.

Content Costs form the biggest portion of the costs for any MSO/DTH operator across the world and therefore, any savings on the Content costs from Broadcasters will directly impact the EBITDA margin. In the case for DEN Networks, Contents Costs are paid on Cable TV Subscription revenues and revenues earned from the Star DEN JV. We forecast the Content Costs to increase from INR 5,511 Mn in Mar'10 to INR 8,546 Mn by Mar'14e but decline as percentage of Total Income from 60% Mar'10 to 55% by Mar'14e, which translates to an expansion in EBITDA margins from 10% in Mar'10 to 19% by Mar'14e. Consequently, we estimate a 32% EBITDA CAGR (2010-2014e).

Exhibit 32: DEN Networks: Content costs, Contents costs as % of Revenues and EBITDA margins (Mar'09-Mar'14e)



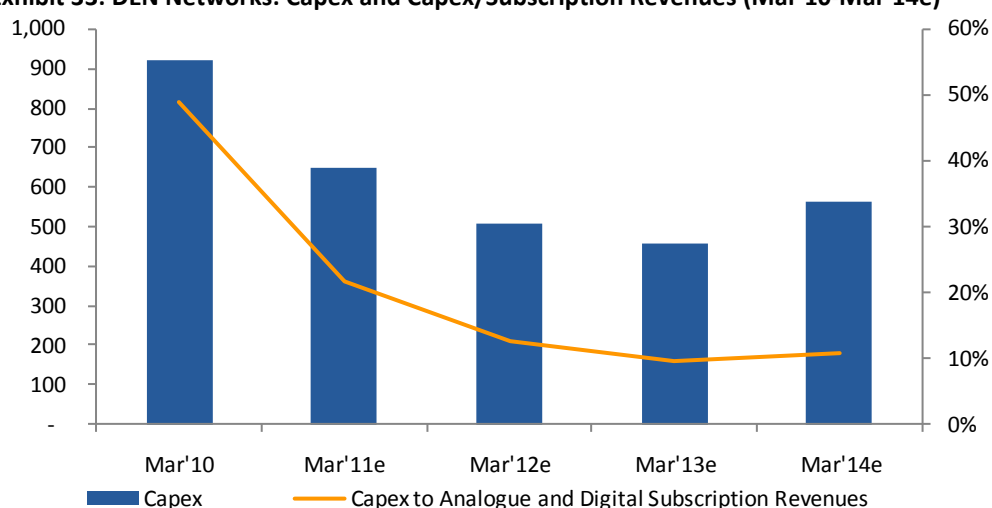
Source: Company Data, MAPE Estimates

Capex is critical for estimating the FCF and determination of the Target Price. Using DCF methodology, our Capex forecast depends on the STB prices and the Gross Adds per year. With

an STB landed price of INR 1,125 (US\$ 25) for DEN Networks, we forecast a total Capex of INR 2,177 Mn from Mar'11e to Mar'14e and 4% decline YoY for next two years. The Capex estimation is subject to upward revision if the Sunset Clause is implemented, and as mentioned earlier, this would also lead to higher ARPU, EBITDA margins and valuation for DEN Networks.

We forecast Capex/ Total Subscription revenues to decline from 49% in Mar'10 to 11% in Mar'14e. DEN is expected to be in a similar situation to Dish TV and Hathway, where 95% of the Capex is allocated towards STBs. This is mainly because of hyper growth, which is expected to the Digitization of Pay TV subscribers in India. Unlike DTH operators, the MSO's Capex plans do not include customer premises antenna cost, LNB (Low Noise Block down convertor, which converts electromagnetic waves to electrical signals) or feedhorn. In most cases, cabling costs not included either, since the cabling is already present on customer's premises. Only a very small portion of the total Capex is allocated towards upgrading the last mile cable network .

Exhibit 33: DEN Networks: Capex and Capex/Subscription Revenues (Mar'10-Mar'14e)



Source: Company Data, MAPE Estimates

Company Overview

DEN Networks is a distribution company for Analogue and Digital Cable TV services. DEN serves households in Delhi, Uttar Pradesh, Karnataka, Maharashtra, Gujarat, Rajasthan, Haryana and Kerala.

DEN has a 50:50 JV with Star TV group, which is named Start DEN, and is the exclusive distributor of over 25 channels in India.

Management

The management team consists of Mr. Sameer Manchanda (Chairman, MD and Promoter), S.N. Sharma (President Operations), Vikas Bali (Digital Services, Corporate Strategy), Mr. Navroz Behramfram (CTO), Mr. Mohammad Gulam Azad (President Strategy and Business Development), Mr. Rajesh Kaushal (CFO) and Mr. Hemant Narang (Chartered Accountant). The team has comprehensive and vast experience in finance, operations, business strategy, M&A and technology, which is needed for driving a media and content distribution services business.

DCF Valuation

We have estimated the Target Price for DEN Networks using the DCF methodology. Our Target Price for DEN Networks is INR 139 using a rolling WACC and Terminal Growth Rate of 4.2%. Details can be viewed in the table below. Investors should remain cautious though, as a substantial amount of valuation is driven by Terminal Growth Rate/Terminal Value. The major subjective drivers of the DCF model are estimates on Revenue, EBITDA margin assumptions which is derived from estimating various costs associated with the MSO business and estimation of Capex which are used for determining the FCF.

Exhibit 34: DEN Networks Valuation

DEN Networks	Mar'12e	Mar'13e	Mar'14e	Mar'15e	Mar'16e	Mar'17e	
Year							
Operating profit	1,715	2,104	2,451	2,739	3,006	3,244	
Depreciation	419	442	450	477	493	499	
Cash taxes	-412	-518	-618	-705	-1,107	-1,218	
Working capital	-271	-222	-185	-149	-130	-116	
Net capital expenditure	-506	-456	-565	-536	-514	-501	
Net acquisitions	0	0	0	0	0	0	TV
Free cash flow (FCF)	945	1,351	1,534	1,826	1,746	1,909	23,278
Tax shield on interest payable	44	44	44	44	61	61	
PV of FCF	877	1,096	1,099	1,155	990	956	11,301
Total value of FCF	17,475						
Net Debt	-682						
Equity	18,157						
Oustanding Shares Mn	130						
Value per share	139						
Rf	7.9%						
Beta	0.80						
Expected Returns	14.0%						
Mkt Risk Premium	6.1%						
Ke	12.8%						
Kd (pre tax)	10.5%						
Tax Rate	35.0%						
Terminal Growth	4.2%						

Source: Bloomberg, Company Data, MAPE Estimates

Financial Statements (DEN Networks)

(All values in INR Mn, unless otherwise specified)

Profit & Loss Statement.	2010	2011e	2012e	2013e	2014e
Revenues	9,256	11,142	12,868	14,317	15,503
% growth		20%	15%	11%	8%
EBITDA	962	1,616	2,133	2,546	2,901
D&A	-329	-352	-419	-442	-450
EBIT	632	1,264	1,715	2,104	2,451
PBT	438	1,186	1,647	2,071	2,471
Net Income	301	889	1,235	1,553	1,853
Retained Earnings	301	889	1,235	1,553	1,853
EPS	INR 2.6	INR 6.8	INR 9.5	INR 11.9	INR 14.2
DPS	INR 0.0	INR 0.0	INR 0.0	INR 0.0	INR 0.0
Outstanding Shares Mn	130	130	130	130	130

(All values in INR Mn, unless otherwise specified)

Cash Flow Statement	2010	2011e	2012e	2013e	2014e
Operating Cash Flow	683	896	1,383	1,773	2,119
Capex	-921	-650	-506	-456	-565
Sale of fixed assets	0	0	0	0	0
Free cash flow	-238	246	877	1,318	1,554
Investing cash flow as reported	-3,226	-650	-506	-456	-565
Non-operating cash flow	4,465	0	0	0	0
Net cash inflow/outflow	1,922	246	877	1,318	1,554

KPIs	2010	2011e	2012e	2013e	2014e
Estimated Homes reached (000) by DEN	11,000	11,279	11,203	11,152	11,128
% of Total Cable HHs in India	12%	11%	11%	10%	10%
% of Total MSO HHs in India	23%	22%	21%	20%	20%
Hidden Subs (000)	9,900	9,728	9,348	9,070	8,874
Paying Subs (000)	1,100	1,551	1,856	2,082	2,254

Analogue Sub's ARPU	INR 170	INR 172	INR 174	INR 175	INR 175
Digital Sub's ARPU	INR 205	INR 211	INR 217	INR 224	INR 228
EV/Households Reached INR		INR 924	INR 930	INR 935	INR 937
EV/ Paying Subscriber INR		INR 6,721	INR 5,617	INR 5,005	INR 4,624
EV/ Paying Subscriber US\$		\$151	\$126	\$112	\$104

(All values in INR Mn, unless otherwise specified)

Balance Sheet Statement	2010	2011e	2012e	2013e	2014e
Cash & equivalents	2,432	2,678	3,555	4,873	6,427
Accounts receivable	2,535	2,985	3,390	3,723	3,993
Inventories	-	-	-	-	-
Other	1,924	2,126	2,327	2,496	2,628
Current Assets	6,891	7,789	9,272	11,092	13,048
Gross Block	2,219	2,869	3,375	3,830	4,395
less depreciation	-402	-754	-1,173	-1,615	-2,065
Investment in affiliates	917	917	917	917	917
Other	3,255	3,255	3,255	3,255	3,255
Fixed Assets	5,989	6,287	6,374	6,387	6,502
Total Assets	12,879	14,075	15,646	17,479	19,549

ST Borrowings	129	129	129	129	129
Accounts payable	3,440	3,772	4,104	4,381	4,595
Due to related parties	-	-	-	-	-
Other	36	11	14	18	20
Current Liabilities	3,605	3,912	4,248	4,528	4,745
LT Borrowings	1,621	1,621	1,621	1,621	1,621
Other	73	73	73	73	73
Long-term Liabilities	1,693	1,693	1,693	1,693	1,693
Minority Interest	212	212	212	212	212
Shareholders Funds	7,369	8,258	9,493	11,047	12,900
Total funds employed	7,580	8,470	9,705	11,258	13,111
Total Liabilities	12,879	14,075	15,646	17,479	19,549

Ratios	2010	2011e	2012e	2013e	2014e
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Gearing Ratios:

Net debt / EBITDA	(0.7)	(0.6)	(0.8)	(1.2)	(1.6)
Net Debt/ Equity	-0.1	-0.1	-0.2	-0.3	-0.4
Debt/Equity	0.24	0.21	0.18	0.16	0.14

Valuations:

EV/ Revenues	1.1	0.9	0.8	0.7	0.7
EV/ EBITDA	10.8	6.5	4.9	4.1	3.6
Price/Earnings Ratio			9.0	7.1	6.0
FCF Yield	-2%	2%	8%	12%	14%
Dividend yield	0%	0%	0%	0%	0%

Profitability:

EBITDA Margin%	10%	15%	17%	18%	19%
ROCE	14%	20%	21%	26%	30%
ROIC	4%	12%	15%	19%	22%
ROA	2%	6%	8%	9%	9%
ROE	4%	11%	13%	14%	14%
Net Profit Margin	3%	8%	10%	11%	12%
Capex/Subscription Revenues	49%	22%	13%	10%	11%

Source: Company Data, MAPE estimates



Investment Thesis

We initiate coverage on Hathway with a **BUY** rating at a Target Price of INR 174 and with an upside potential of 79%. Hathway trades at 7.4x Mar'12e EV/EBITDA and 28.1x Mar'12e P/E with an FCF yield of 4% for Mar'12e. We forecast revenues to increase from INR 7,396 Mn in Mar'10 to INR 11,548 Mn in Mar'14e, with a 12% Revenue CAGR (2010-2014e) during this period of hyper growth. We estimate EBITDA to increase from INR 1,327 Mn in Mar'10 to INR 3,023 Mn in Mar'14e with a 23% EBITDA CAGR in the same timeframe. EBITDA margins are expected to swell from 18% in Mar'10 to 26% by Mar'14e. We do not expect Hathway to declare dividends for the next three years, considering that Hathway is growing, substantial Capex will be deployed towards STBs and FCF yields are expected to be low. The estimated cumulative Capex over the next three years from Mar'11e to Mar'14e is expected to be INR 2,676 Mn. We forecast the EV/Paying Subscriber ratio to be at INR 7,903 (US\$ 177) for Mar'12e.

Hathway's strategic alliances and relationships with LCOs, as well as its presence in metros and some pockets of high ARPU areas, should encourage it to provide HD, PVR, VoD and VAS to increase digital ARPU for the next three to four years. Currently, none of the MSOs in India are offering high-end services such as HD, VoD and PVR. MSOs have significantly lagged behind DTH operators in increasing their drive for ARPU expansion, and currently we do not have any confirmed time frame from either of the two MSOs for introducing high-end services. The only threat to this might be losing high ARPU paying subscribers to the DTH platform.

We do not expect Hathway to significantly increase the number of households reached from the current number of to 9 Mn in Mar'11e. Hathway is expected to focus on increasing the number of Digital Subscribers for the next three to four years and ride the digitization wave rather than increasing the households reached. From having just 20% of the households reached as Paying Subscribers in Mar'10, we estimate Hathway will have close to 30% as Paying Subscribers by Mar'15e. This trend of increasing the number of Paying Subscribers over the existing number of households reached is expected to accelerate because of digitization. Our estimates in this report do not consider 100% implementation of the Sunset Clause recommendations by TRAI, but considers a gradual increase in digitalization and legitimization of subscribers every year. Acceptance and implementation of these TRAI recommendations by the MIB will benefit Hathway and would see an upward revision in the Target Price.

	2012e	2013e	2014e
EV/EBITDA	7.35	6.43	5.78
FCF Yield %	4.4%	5.7%	7.5%
Net Debt/EBITDA	1.18	0.74	0.32

Rev CAGR(2010-14e)	11.8%
EBITDA CAGR(2010-14e)	23%

Initiating Coverage

April 1, 2011

Market Data	
Rating	BUY
Price (31 Mar'11)	INR 97
52 Week Range	INR 240/ INR 93
Target Price	INR 174
Upside(Downside) potential	79%
Div yield (Mar12)	0%
Expected Total Return	79%
Outstanding Shares Mn	143
Mkt Cap INR Mn	13,871
Mkt Cap US\$ Mn	310
Net Debt INR Mn	3,603
Free float	34%

Returns	Sensex	Hathway
1 Month	9%	-18%
3 Months	-5%	-42%
6 Months	-3%	-52%
1 Year	13%	-53%
YTD	-5%	-42%

Sensex vs. Hathway

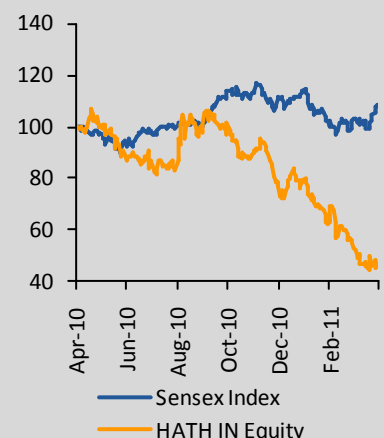
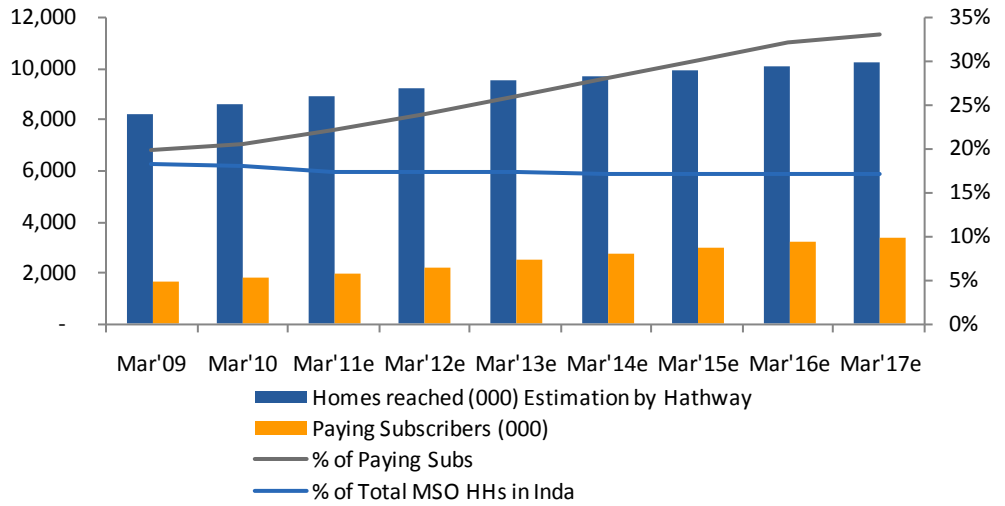


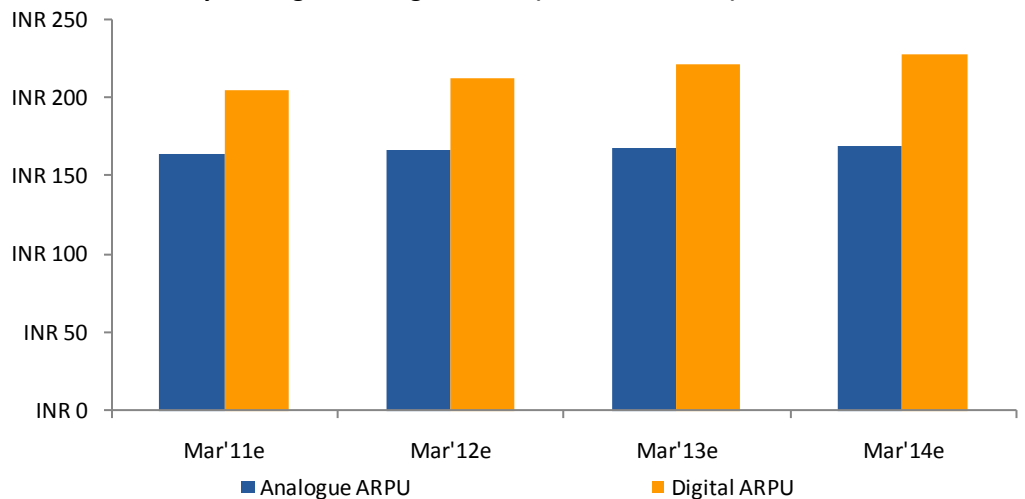
Exhibit 35: Hathway: Households reached, Paying Subscribers, % Paying subscribers, % of total MSO households (Mar'09-Mar17e)



Source: MPA Report, Company Data and MAPE Estimates

At current levels, Analogue ARPU stands at INR 165, which is the blended average of Analogue Primary and Analogue Secondary subscribers. More than 80% of Hathway’s Analogue subscribers being Secondary and having an ARPU of INR 160. We forecast Analogue ARPU to increase by 1% YoY for the next three to four years, reaching INR 170 by Mar’14e. On the other hand, we are bullish on growth in Digital ARPU and expect it to increase by 4% YoY for next two years, primarily because of an increase in ARPU share from LCOs due to digitization. We estimate the Digital ARPU to be in the range of INR 230 to INR 235 by Mar’15e from the current levels of INR 205. ARPU from HD, PVR and other VAS services has not been incorporated since there is no definite time-frame defined by Hathway to launch these services.

Exhibit 36: Hathway: Analogue and Digital ARPU (Mar’11e-Mar14e)

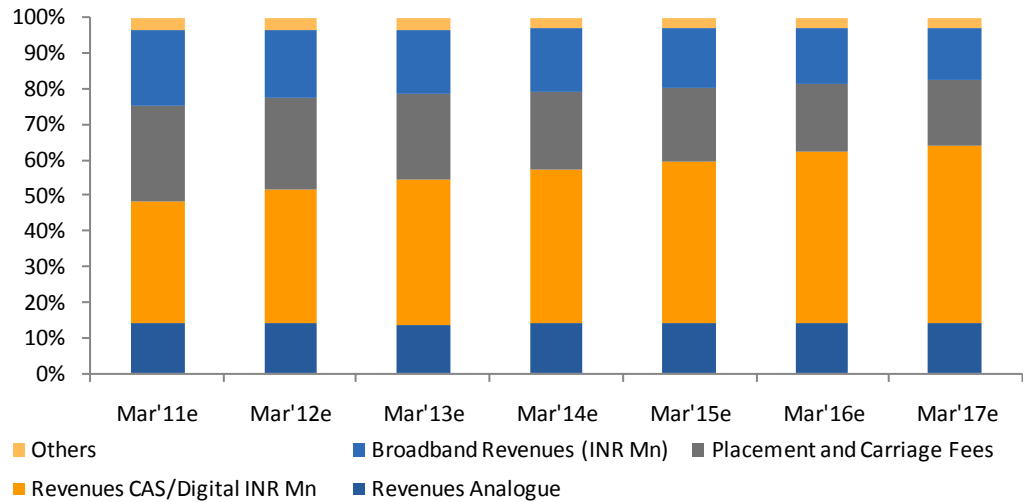


Source: MAPE Estimates

Hathway’s dependence on Placement & Carriage fees is expected to shrink from 38% of the total Cable TV Subscription Revenues in Mar’10 to 25% by Mar’15e. Further, we expect just Placement & Carriage Fees to grow by just a 3% CAGR (2010-2014e). We have forecasted 3-5% growth for these fees over the next three years, following which we may see 0% growth rates and hence we expect the Placement & Carriage Fees Revenues to increase from INR 2,274 Mn from Mar’10 to INR 2,558 Mn by Mar’14e. This is mainly due to the fact that through digitization, significant bandwidth will be available on the LCOs/MSOs last mile (approx. 500 channels or more) and hence Broadcasters will be unwilling to pay higher Placement & Carriage fees. Our growth estimates for Placement & Carriage Fees for the next few years are

moderate since a number of new/niche channels are expected to be launched by Broadcasters in the near future, which will to some extent counter-balance the argument for a steep decline in Placement & Carriage Fees due to digitalization.

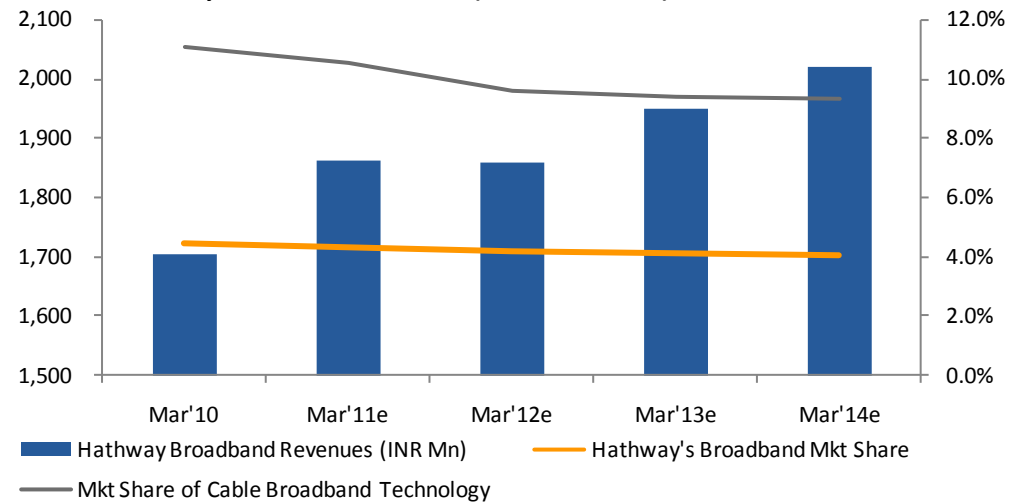
Exhibit 37: Hathway: Revenues breakup (Mar'11e-Mar14e)



Source: MAPE estimates

MSOs have not been able to have significant presence in the Indian broadband market, mainly because their primary focus is to digitize and secondly because most of the last mile was not enabled for two way communication. Unlike DEN Networks, Hathway provides Broadband services in some pockets/regions of its Cable TV footprint area. Hathway's total broadband market share in terms of subscribers as of Mar'10 was close to 4.5% and we do not expect any significant improvement for the next three years until digitalization penetrates well within Indian households. Hathway's Broadband Revenues are expected to increase from INR 1,703 Mn in Mar'10 to INR 2,021 by Mar'14e, which translates to a 4% Revenue CAGR (2010-2014e). WiMax/LTE operators who plan to offer national services at competitively low ARPU levels are also expected to pose a significant threat to MSOs who have localized presence without mobility/roaming services. We estimate that the overall Cable Broadband technology market share in India will decline over the next few years to be 9% of the total broadband households in India by Mar'15e. We also forecast a 4% decline in Hathway's Broadband ARPU (INR 290 in Mar'10) YoY basis for next two years due to competitive forces. Broadband revenues should account for 17% of the Subscription Income by Mar'15e as against 24% in Mar'10.

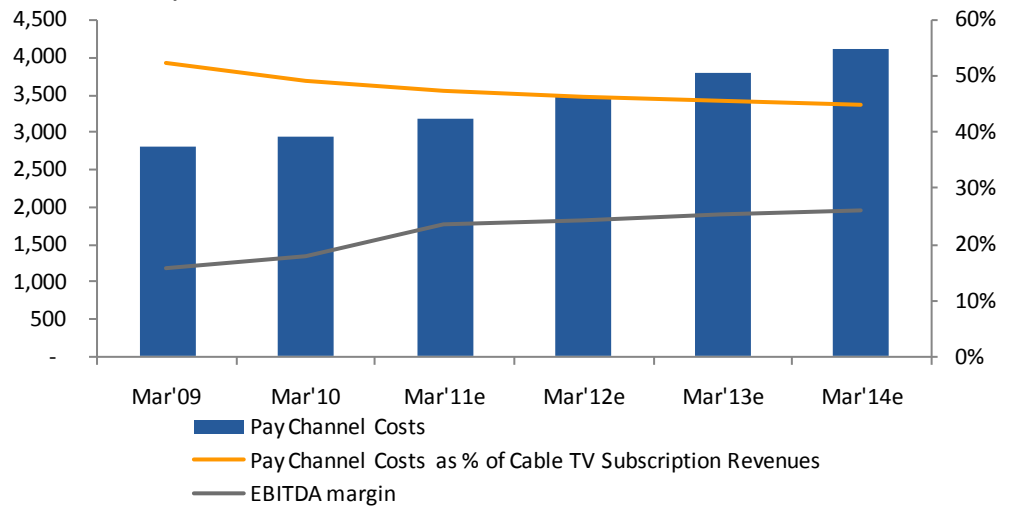
Exhibit 38: Hathway: Broadband Revenues (Mar'10-Mar'14e)



Source: Company Data, MAPE Estimates

Pay channel costs are expected to decline as more subscribers are legitimized and economies of scale kick in with Broadcasters. Like DTH operators, MSOs also have fixed-rate contracts with Broadcasters that are open for negotiations once every two to three years. Considering the above, we forecast the Pay Channel costs to increase from INR 2,924 Mn in Mar'10 to INR 4,090 by Mar'14e, but decline as a percentage of Cable TV Subscription Revenue from 49% in Mar'10 to 44% by Mar'15e. Any savings in Pay Channel costs directly affect the EBITDA margins, which can be observed in the EBITDA margin expansion from 18% in Mar'10 to 27% in Mar'15e.

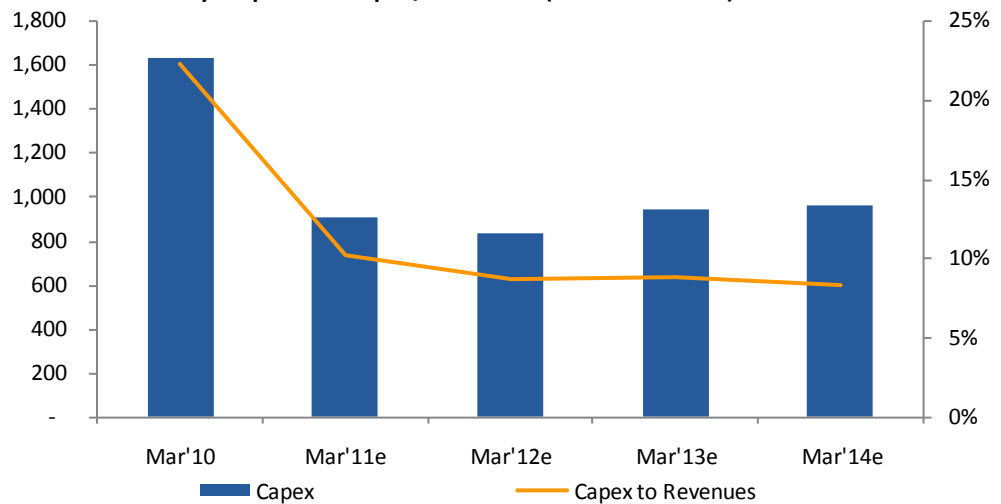
Exhibit 39: Hathway: Content costs, Content costs as % revenues and EBITDA margins (Mar'09-Mar14e)



Source: Company Data, MAPE Estimates

Capex, in addition to EBITDA, is a critical factor in determining the Target Price using FCF estimates. We estimate the total Capex by determining the Cable TV Gross Adds after forecasting the churn rate, the STB Capex per Gross Add, the broadband infrastructure and the broadband STB Capex. As per our discussions with hardware vendors and multiple MSOs/ICOs across India, we understand that MSOs are expected to depend on STB manufacturers for up to 80% of vendor financing with payment terms of up to a maximum of three years and interest rates close to 8%.

Exhibit 40: Hathway: Capex and Capex/ Revenues (Mar'10-Mar14e)



Source: Company Data, MAPE Estimates

Company Overview

Hathway was established in 1995 as an MSO and is currently providing Analogue and Digital Cable TV services across multiple towns and cities across India. Hathway also participates in Broadband Services across multiple cities/towns using the existing last mile Cable TV network. Hathway has under its umbrella multiple news, entertainment and local channels. Since September 2000 Hathway has had a Strategic Alliance with STAR to provide enhanced digital interactive TV experience.

Management

K. Jayaraman (MD & CEO), Milind Karnik (President-Finance & Company Secretary), G Subramanian (CFO)

DCF Valuation

We have estimated the Target Price for Hathway at INR 173 using the DCF methodology with a rolling WACC and Terminal Growth Rate of 3.7%. Details can be observed in the table below. Investors should remain cautious though, since a substantial amount of the valuation is driven by Terminal Growth Rate/Terminal Value. The major subjective driver of the DCF model is forecasting FCF, which is determined by Revenue Growth, long-term EBITDA margin assumptions derived from estimating various costs associated with the MSO business (especially the Content and Pay TV costs), and Capex estimation.

Exhibit 41: Hathway: Valuation

Hathway	Mar'12e	Mar'13e	Mar'14e	Mar'15e	Mar'16e	Mar'17e	
Year							
Operating profit	1,311	1,653	1,948	2,230	2,497	2,725	
Depreciation	1,066	1,066	1,075	1,074	1,071	1,071	
Cash taxes	-273	-385	-485	-585	-683	-770	
Working capital	-115	-74	-33	-22	-14	-10	
Net capital expenditure	-835	-942	-957	-976	-1,010	-904	
Net acquisitions	0	0	0	0	0	0	TV
Free cash flow (FCF)	1,155	1,318	1,548	1,721	1,862	2,112	37,438
Tax shield on interest payable	138	138	138	138	138	138	
PV of FCF	1,165	1,186	1,246	1,250	1,229	1,268	21,101
Total value of FCF	28,446						
Net Debt	3,603						
Equity	24,843						
Ousting Shares Mn	143						
Value per share INR	174						
Rf	7.9%						
Beta	70.0%						
Expected Returns	14.0%						
Mkt Risk Premium	6.1%						
Ke	12.2%						
Kd (pre tax)	10.6%						
Tax Rate	35.0%						
Terminal Growth	3.8%						

Source: Bloomberg, Company Data, MAPE Estimates

Financial Statements (Hathway)

(All values in INR Mn, unless otherwise specified)

Profit & Loss Statement.	2010	2011e	2012e	2013e	2014e
Revenues	7,396	8,903	9,695	10,670	11,548
% growth		20%	9%	10%	8%
EBITDA	1,327	2,089	2,377	2,719	3,023
D&A	-1,129	-1,025	-1,066	-1,066	-1,075
EBIT	198	1,063	1,311	1,653	1,948
PBT	-505	653	911	1,283	1,618
Net Income	-754	346	492	738	960
Retained Earnings	-801	346	492	738	960
EPS	-INR 6.3	INR 2.4	INR 3.4	INR 5.2	INR 6.7
DPS	INR 0.0	INR 0.0	INR 0.0	INR 0.0	INR 0.0
Outstanding Shares Mn	143	143	143	143	143

(All values in INR Mn, unless otherwise specified)

Cash Flow Statement	2010	2011e	2012e	2013e	2014e
Operating Cash Flow	1,370	1,100	1,443	1,730	2,001
Capex	-1,628	-900	-835	-942	-957
Sale of fixed assets	11	0	0	0	0
Free cash flow	-248	200	609	788	1,044
Investing cash flow as reported	-5,644	-900	-835	-942	-957
Non-operating cash flow	4,828	0	0	0	0
Net cash inflow/outflow	553	200	609	788	1,044

KPIs	2010	2011e	2012e	2013e	2014e
(000)					
by Hathway	8,548	8,900	9,214	9,474	9,695
% of Total Cable HHs in Indi	9%	9%	9%	9%	9%
% of Total MSO HHs in Inda	18%	17%	17%	17%	17%
Hidden Subs (000)	6,788	6,942	7,002	7,011	6,980
Paying Subs (000)	1,760	1,958	2,211	2,463	2,715
Analogue Sub's ARPU	INR 180	INR 165	INR 167	INR 168	INR 170
Digital Sub's ARPU	INR 190	INR 205	INR 213	INR 222	INR 228
Broadband Sub's ARPU					
EV/Households Reached INR		1,963	1,897	1,844	1,802
EV/ Paying Subscriber INR		8,925	7,903	7,094	6,437
EV/ Paying Subscriber US\$		200	177	159	144

(All values in INR Mn, unless otherwise specified)

Balance Sheet Statement	2010	2011e	2012e	2013e	2014e
Cash & equivalents	1,004	1,204	1,813	2,602	3,646
Accounts receivable	1,955	2,298	2,455	2,663	2,851
Inventories	25	63	173	227	245
Other	1,500	1,572	1,675	1,804	1,922
Current Assets	4,485	5,137	6,116	7,296	8,665
Gross Block	8,625	9,525	10,359	11,301	12,258
less depreciation	-3,035	-4,061	-5,127	-6,193	-7,268
Investment in affiliates	4,183	4,183	4,183	4,183	4,183
Other	4,190	4,190	4,191	4,191	4,191
Fixed Assets	13,963	13,838	13,606	13,482	13,364
Total Assets	18,448	18,975	19,722	20,778	22,029
ST Borrowings	377	377	377	377	377
Accounts payable	2,112	2,187	2,308	2,466	2,612
Due to related parties	1,412	1,501	1,616	1,756	1,883
Other	119	136	155	175	193
Current Liabilities	4,020	4,201	4,456	4,773	5,065
LT Borrowings	4,231	4,231	4,231	4,231	4,231
Other	91	91	91	91	91
Long-term Liabilities	4,322	4,322	4,322	4,322	4,322
Minority Interest	1,280	1,280	1,280	1,280	1,280
Shareholders Funds	8,826	9,172	9,664	10,403	11,362
Total funds employed	10,106	10,452	10,945	11,683	12,643
Total Liabilities	18,448	18,975	19,722	20,778	22,029
Ratios	2010	2011e	2012e	2013e	2014e
Gearing Ratios:					
Net debt / EBITDA	2.7	1.6	1.2	0.7	0.3
Net Debt/ Equity	0.4	0.4	0.3	0.2	0.1
Debt/Equity	0.5	0.5	0.5	0.4	0.4
Valuations:					
EV/ Revenues		2.4	2.0	1.8	1.6
EV/ EBITDA		8.4	7.4	6.4	5.8
Price/Earnings Ratio	-	-	28.2	18.8	14.5
FCF Yield	-2%	1%	4%	6%	8%
Dividend yield	0%	0%	0%	0%	0%
Profitability:					
EBITDA Margin %	18%	23%	25%	25%	26%
ROCE	-3%	4%	6%	9%	11%
ROIC	-5%	2%	4%	5%	7%
ROA	-4%	2%	2%	4%	4%
ROE	-9%	4%	5%	7%	8%
Net Profit Margin	-10%	4%	5%	7%	8%
Capex/Subscription Revenues	22%	10%	9%	9%	8%

Source: Company Data, MAPE estimates

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