



## Den Networks Ltd. Q1 FY16 Quarterly Update

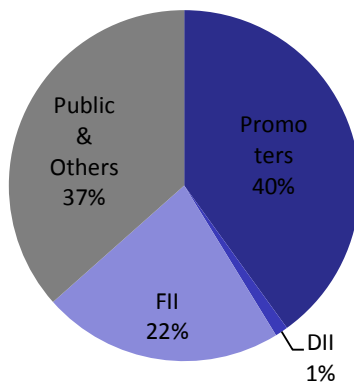
### MARKET DATA

NSE TICKER	DEN
Net worth (₹ Cr)	1,496
P/BV Ratio (FY16E) (x)	1.6
EPS (FY16E) (₹)	NA
Market Price (₹)	152
EV / EBIDTA Ratio (FY16E) (x)	17.9
52 Week High (06/08/2014) (₹)	207
52 Week Low (04/02/2014) (₹)	100
Market Capitalisation (₹ Cr)	2,709

### AVERAGE MONTHLY VOLUME ('000)

BSE	23.7
NSE	209.8

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Den Networks	18%	38%	-22%
Sensex	3%	-2%	10%

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Increasing content cost and slow progress in its ability to pass on the cost to subscribers along with investment in both cable and broadband business impacted overall Den's performance for the quarter. Excluding Local Cable Operator (LCO), revenue share the top line was flat (earlier the company was reporting gross revenue which was changed to net revenue i.e. excluding LCO revenue share and net of taxes), while company reported loss of ₹ 52 crores against profit of ₹ 1 crore in Q1 FY15.

#### ■ Content cost increased while Net ARPU remained flat on YOY basis:

Cable revenue was flat on y-o-y basis at ₹ 256 crores while sequentially it de-grew by 3.4%. Content cost moved up sequentially while net revenue per subscriber was flat at ₹ 78 during the quarter. Even though on sequential basis company was able to increase net realization by 5% to ₹ 78, it remained flat compared to Q1 FY15; at the same time content cost increased by 28% to ₹ 136 crores in Q1 FY16 from last year.

#### ■ Slow progress for Phase 3 digitization; passing on content cost is also sluggish:

Digitisation roll out has been slow compared to our expectation. Against the deadline of December 2015 and December 2016 for Phase 3 and Phase 4, we expect government to postpone its December 2015 deadline for Phase 3 implementation by 3-6 months. Any delay will impact MSOs, as they have been investing in seeding of STBs and delay will result in lower cable paying subscribers and higher benefit to LCOs.

Roll outs in phase 1 and Phase 2, have benefitted broadcasters as reflected in the surging content cost. However, for MSOs, the expected increase in ARPU and higher share in subscriber's fee is yet to be visible. We expect the net benefit of digitisation, to be more gradual compared to earlier expectation. The industry continues to face challenges on tax collection and subscription revenue sharing between LCO and MSOs.

#### ■ Broadband huge opportunity, Den's progress on track:

Den is progressing steadily in broadband segment; it has added 12K subscribers during the quarter compared to 23K by the end of Q4 FY15. The home passed also increased by 157K to 486K during the quarter. The company targets to achieve 1mn home passed by the end of FY16. Broadband offers huge untapped opportunity and can provide additional revenue stream given the fact that DEN has reach of 13 mn households through cable TV. Net realization remained strong at ₹ 760, flat on QOQ basis.

#### ■ Outlook and Valuation

We believe that long term prospects of digitization are intact but near term outlook seems challenging due to slow implementation. However, DEN is well capitalised to deal with the current phase of digitisation. Looking at slow digitization process and sluggish improvement in net realizations, we downgrade our earnings estimates. We have revised our revenue estimates by -14.6% and -2% for FY16E and FY17E.

At CMP DEN is trading at 17.9x FY16E and 8.6x FY17E EV / EBIDTA. We recommend HOLD rating on the stock with price target of ₹ 160.

### Quarterly Performance:

Particulars (Rs. Crs.)	Q1 FY16	Q1 FY15	YOY %	Q4 FY15	QOQ%	FY15	FY14	YOY %
Net Sales	265.6	298.8	-11.1%	270.3	-1.7%	1129.6	1116.8	1.1%
EBIDTA	-4.7	57.1	NM	-5.9	-21.7%	92.4	302.0	-69.4%
EBIDTA (Ex. Activation)	-19.7	37.1	NM	-19.0	NM	28.4	144.6	NM
EBIT	-28.0	32.5	NM	-30.5	-8.0%	-5.8	202.0	NM
PBT	-46.3	12.7	NM	-46.9	-1.2%	-88.0	113.0	NM
Reported Net Profit	-51.9	1.1	NM	-62.0	NM	-144.0	38.4	NM



**Q1 FY16 CONFERENCE CALL HIGHLIGHTS: -**

- As on Q1 FY16, the company has deployed 2.25 mn STBs in Phase 3 & 4 markets, out of 8.1 mn existing subscribers in phase 3 & 4.
- The company has reiterated its intention of hiving of Soccer business.
- TV Commerce business: Den increased its reach to 33 mn homes against 25 mn in Q4 FY15; the annualised GMV also increased to ₹ 144 crore run rates against ₹ 117 crore in last quarter.
- Den has taken price adjustment in some markets.
- The company is focusing on improving collection efficiency. It has also started packaging implementation; as of June 2015, 44% of digital subscribers are on packaged schemes.
- Low consumer penetration in HD is also impacting overall net realizations in cable business.
- The management opined that content cost should not be seen in isolation, one should look at net content cost i.e. excluding placement revenue.

**Cable Business overview:**

During the quarter, Den deployed 185K STBs in Phase 3 & 4 markets; increased the total deployment to 2.25 mn by the end of Q1 FY16. The carriage & placement revenue will not go away, but it may come down as a percentage of total cable revenue. EBIDTA (Pre activation) for the segment stood at ₹ 3 crores against ₹ 1 crore in Q4 FY15 and ₹ 49 crores in Q1 FY16.

Cable revenue breakup	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16
Placement	119.2	116.0	118.0	115.6	124.0	118.0
Digital Activation	36.6	20.0	16.0	15.0	13.0	15.0
Subscription	126.0	115.0	147.0	115.7	113.0	119.0
Other operating income	3.9	3.0	5.0	10.5	15.0	4.0
Total revenue	285.7	254.0	286.0	256.8	265.0	256.0
Set up box deployed / seeded ('000)	450.0	270.0	220.0	197.0	190.0	185.0

(The company started reporting net subscription revenue (net of LCO share and taxes) since Q3 FY15, so prior period numbers are not comparable)

Cable (Rs. Crs.)	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16
Revenue	285.0	285.0	287.0	256.6	265.0	256.0
EBIDTA (Inc. Activation)	42.0	69.3	54.0	72.8	15.0	18.0
EBIDTA (Exl. Activation)	5.4	49.0	38.0	57.8	1.0	3.0
PBT	39.0	24.6	11.0	7.5	-25.0	-20.0
PAT	18.0	13.1	-6.3	-11.8	-41.0	-26.0

**Broadband Business overview**

Broadband is bright spot for the company, as broadband penetration in India is amongst the lowest in emerging countries and Den has reach of 13 mn homes. The company provides high speed broadband services, DEN Boomband on DOCSIS 3.0 platform which can contribute 13-15% to the top line and 16-18% of EBIDTA in next 3-4 years.

Broadband performance was encouraging; company added 12K subscribers during the quarter and maintained average realization at ₹ 760 per subscriber. Higher investment in broadband segment has led to loss of ₹ 20 crores during the quarter. Key operational parameters are shown below in following table.

Broadband (Rs. Crs.)	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16
Revenue	1.0	1.1	1.0	2.2	3.0	5.0
EBIDTA	-3.0	-8.3	-10.0	-11.4	-14.0	-18.0
PBT	-4.0	-8.5	-11.0	-13.0	-16.0	-20.0
PAT	-4.0	-8.5	-11.1	-13.0	-16.0	-20.0
Broadband subscribers		4000	8000	14000	23000	35000
Broadband ARPU		740	740	746	759	760
Home Passed		30000	160000	272000	329000	486000



**QUARTERLY PERFORMANCE:**

Particulars (Rs. Crs.)	Q1 FY16	Q1 FY15	YOY %	Q4 FY15	QOQ%	FY15	FY14	YOY %
Sales	264.5	298.4	-11.3%	261.7	1.1%	1129.6	1116.8	1.1%
Other operating income	1.1	0.4	165.0%	8.6	-87.7%			
Net Sales	265.6	298.8	-11.1%	270.3	-1.7%	1129.6	1116.8	1.1%
<b>Total Expenditures</b>								
Content Cost	136.1	106.4	27.9%	139.1	-2.2%	458.4	382.9	19.7%
Employee Cost	34.2	28.5	19.8%	30.1	13.5%	110.7	106.0	4.4%
Other operating expense	100.1	106.8	-6.3%	107.0	-6.5%	468.1	325.9	43.6%
Expenses - Total	270.3	241.7	11.8%	276.3	-2.2%	1037.2	814.8	27.3%
EBIDTA	-4.7	57.1	NM	-5.9	-21.7%	92.4	302.0	-69.4%
EBIDTA (Ex. Activation)	-19.7	37.1	NM	-19.0	NM	28.4	144.6	NM
Depreciation	50.1	43.3	15.6%	47.4	5.6%	186.0	147.4	26.2%
Other Income	26.7	18.7	42.8%	22.9	16.6%	87.8	47.4	85.3%
EBIT	-28.0	32.5	NM	-30.5	-8.0%	-5.8	202.0	NM
Interest Cost	18.3	19.8	-7.7%	16.4	11.4%	82.3	89.0	-7.5%
PBT	-46.3	12.7	NM	-46.9	-1.2%	-88.0	113.0	NM
Tax	3.5	4.3	-19.3%	14.2	NM	33.6	37.9	-11.3%
PAT	-49.8	8.4	NM	-61.1	NM	-121.6	75.2	NM
Minority Interest	-2.1	-7.3	NM	-0.9	NM	-22.4	-36.7	NM
Reported Net Profit	-51.9	1.1	NM	-62.0	NM	-144.0	38.4	NM
Equity Capital	178.2	178.2		178.2		178.2	178.2	
FV	10.0	10.0		10.0		10.0	10.0	
EPS	-2.79	0.47		-3.43		-6.83	4.22	

PL - 100	Q1 FY16	Q1 FY15		Q4 FY15		FY15	FY14	
Content Cost	51.2%	35.6%		51.5%		40.6%	34.3%	
Employee expense	12.9%	9.5%		11.1%		9.8%	9.5%	
Other operating expense	37.7%	35.7%		39.6%		41.4%	29.2%	
EBIDTA	-1.8%	19.1%		-2.2%		8.2%	27.0%	
EBIDTA (Ex activation)	-7.4%	12.4%		-7.0%		2.5%	12.9%	
EBIT	-10.5%	10.9%		-11.3%		-0.5%	18.1%	
PAT	-18.7%	2.8%		-22.6%		-10.8%	6.7%	

Revenue Breakup (Rs. Crs)	Q1 FY16	Q1 FY15	YOY %	Q4 FY15	QOQ%	FY15	FY14	YOY %
Cable	256.0	285.0	-10.2%	265.0	-3.4%	1093.2	1055.9	3.5%
Broadband	5.0	1.1	354.5%	3.0	66.7%	8.0	3.8	108.9%
TV Commerce	1.8	0.0	NM	1.0	80.0%	2.0	0.0	NM
Soccer	0.9	0.0	NM	0.0	NM	8.0	0.0	NM
Distribution	1.3	12.7	-89.8%	1.2	8.3%	18.4	57.1	-67.8%



## OUTLOOK & VALUATION: -

We believe that long term prospects of digitization are intact but near term outlook seems challenging. Direct billing, fulfilment of KYC norms and efficient collection will be key monitorables; any improvement will enhance the revenue visibility for the sector.

Den is the largest player in domestic cable TV segment with ~13 mn subscriber base, recently it got FIPB nod to increase the FDI limit to 74% from 49% earlier. It has opened new avenues for company to rope in foreign strategic partner in emerging distribution industry. To address investor's concern the management is also looking for divesting its stake in Soccer league. We expect that any of the above events may result in rerating of the stock.

At CMP DEN is trading at 17.9x FY16E and 8.6x FY17E EV / EBIDTA. We recommend HOLD rating on the stock with price target of ₹ 160.

## REVISED ESTIMATES: -

Due to sluggish growth in net realizations and delay in phase 3 implementation, we have downgraded DEN's revenue forecast. We also lower our profitability expectations due to inability of MSO to pass on the content cost and higher capex in broadband business. Our change in earning forecasting is shown in below table.

Rs. Crs.	FY16E			FY17E		
	New	Old	% change	New	Old	% change
Sales	1395	1634	-15%	2063	2097	-2%
EBIDTA	171	392	-56%	420	483	-13%
PAT	-95	55	NM	11	36	-69%



## Profit & Loss Statement

Particulars (Rs Crs)	FY 14	FY 15E#	FY 16E	FY 17E
<b>Net sales</b>	<b>1,117</b>	<b>1,130</b>	<b>1,395</b>	<b>2,063</b>
<b>YoY (%)</b>	<b>25%</b>	<b>1%</b>	<b>24%</b>	<b>48%</b>
<b>Total expenses</b>				
Content Cost	383	458	588	814
Employee costs	106	111	122	138
Other Operating Exp.	326	468	515	692
<b>EBITDA</b>	<b>302</b>	<b>92</b>	<b>171</b>	<b>419</b>
<b>YoY (%)</b>		<b>-69%</b>	<b>85%</b>	<b>146%</b>
<b>EBIDTA (%)</b>	<b>27%</b>	<b>8%</b>	<b>12%</b>	<b>20%</b>
<b>EBIDTA (Ex activation)</b>	<b>145</b>	<b>28</b>	<b>51</b>	<b>179</b>
EBIDTA (Ex activation) (%)	13%	3%	4%	9%
Depreciation	147	186	215	296
<b>EBIT</b>	<b>155</b>	<b>-94</b>	<b>-44</b>	<b>124</b>
Interest	89	82	79	107
Other income	47	88	78	57
<b>PBT</b>	<b>113</b>	<b>-88</b>	<b>-45</b>	<b>73</b>
Less: Taxation	38	34	30	30
Effective tax rate (%)	34%	-38%	-67%	41%
JV (profits) / losses share	0	0	0	0
Less: Minority Interest	37	22	20	32
<b>Reported PAT</b>	<b>38</b>	<b>-144</b>	<b>-95</b>	<b>11</b>
<b>YoY (%)</b>				
<b>PAT (%)</b>	<b>3%</b>	<b>-13%</b>	<b>-7%</b>	<b>1%</b>

## Key Ratios

	FY 14	FY 15E#	FY 16E	FY 17E
Reported EPS (Rs)	2.2	(8.1)	(5.3)	0.6
Cash EPS (Rs)	10.5	2.4	6.7	17.2
Book value (Rs)	104.6	96.1	90.9	91.5
Dividend per share (Rs)	0.0	0.0	0.0	0.0
Debt Equity Ratio	0.5	0.4	0.6	0.7
Payable Days	140	98	73	67
Debtor Days	128	129	104	87
Inventory Days	NA	NA	NA	NA
ROCE (%)	7.5%	-0.2%	1.3%	6.5%
ROE (%)	2.1%	-8.4%	-5.9%	0.7%
ROA (%)	1.6%	-6.5%	-4.5%	0.5%
Div Yield (%)	NA	NA	NA	NA
<b>Valuation Ratios</b>				
PE (x)	70.7	NM	NM	247.0
Cash P/E (x)	14.6	65.0	22.7	8.9
Price/book value (x)	1.5	1.6	1.7	1.7
Market cap/sales (x)	3.0	1.9	2.0	1.3
EV/sales (x)	3.0	1.9	2.2	1.8
EV/EBITDA (x)	11.1	22.7	17.9	8.6
<b>Earnings growth</b>				
EBITDA (%)	53%	-69%	85%	146%
EPS (%)	NM	NM	NM	NM
PAT (%)	NM	NM	NM	NM

# FY15 is based on abridged financials

## Balance Sheet

Particulars (Rs Crs)	FY 14	FY 15E#	FY 16E	FY 17E
Equity capital	181	181	181	181
Reserves	1,678	1,532	1,439	1,450
<b>Net worth</b>	<b>1,858</b>	<b>1,712</b>	<b>1,620</b>	<b>1,631</b>
Total borrowings	517	413	572	850
Minority Interest	134	165	185	218
Non Current Liabilities	9	10	12	13
Current Liabilities	1039	1056	986	963
<b>Total liabilities</b>	<b>3,557</b>	<b>3,357</b>	<b>3,374</b>	<b>3,674</b>
Net block	1,449	1,535	1,811	2,283
Investments	379	145	145	145
Others	40	36	55	88
<b>Current assets</b>				
Inventories	0	0	0	0
Debtors	392	398	398	494
Cash	863	821	569	238
Other Current assets	433	421	396	426
<b>Total assets</b>	<b>3,557</b>	<b>3,357</b>	<b>3,374</b>	<b>3,674</b>

## Cash Flow Statement

Particulars (Rs Crs)	FY 14	FY 15E#	FY 16E	FY 17E
Net profit	38	-144	-95	11
Depn and w/o	147	186	215	296
Others	2	0	0	0
Change in working cap	-170	25	-44	-148
<b>Op. Cash flow</b>	<b>18</b>	<b>67</b>	<b>76</b>	<b>159</b>
<b>Capex (Gross*)</b>				
Capex (Net)	-587	-272	-490	-768
Investments	-661	234	0	0
<b>Inv. Cash flow</b>	<b>-1248</b>	<b>-38</b>	<b>-490</b>	<b>-768</b>
Dividend	0	0	0	0
Fresh Equity	962	0	0	0
Minority interest	0	0	0	0
Debt	277	-104	159	278
Others	-28	0	0	0
<b>Fin. Cash flow</b>	<b>1212</b>	<b>-104</b>	<b>159</b>	<b>278</b>
Net change in cash	-19	-75	-255	-331
Others	617	618	618	618
<b>Opening cash</b>	<b>260</b>	<b>246</b>	<b>194</b>	<b>-61</b>
<b>Closing cash</b>	<b>858</b>	<b>789</b>	<b>557</b>	<b>226</b>



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