

MEDIA

Moderate growth in ad revenues; multiplexes impress

India Equity Research | Media

For Q1FY16, we expect our media universe to clock 11.1% YoY (8.2% YoY in Q4FY15) growth in revenue, while EBITDA is expected to be flattish YoY (down 3.6% YoY in Q4FY15). Some respite in ad growth was seen in Q4FY15 with pick up in FMCG advertising, which has picked up further. Multiplex players are expected to post bumper results driven by strong content in Q1FY16. Dish TV is likely to see YoY expansion in EBITDA margin. Muted results by cable companies will continue as subscription and carriage revenues are flattish QoQ. Dragged down by cable companies, we expect our media universe to post 304bps YoY dip in margins in Q1FY16 (335bps YoY drop in Q4FY15).

Multiplex players steal the show

For PVR, we expect increase in footfalls (occupancy of ~38%), driven by blockbuster movies in Hindi and English genre and 5-6% LTL ATP growth. ZEE launched &TV channel on March 02, 2015 which will aid Q1FY16 ad revenues. We expect ZEE's ad revenues to grow 14% YoY on high base of 17.4%. We expect Sun TV to report 5-6% YoY ad growth on low base of 0.4% YoY (7.8% YoY growth in Q4FY15 on base of 4.7%). Dish TV's subscription revenue will jump 15% YoY, driven by strong subscriber growth (24.1% YoY growth in Q4FY15) and ARPU hike taken in February. We expect flattish QoQ revenue growth for Den Networks and Hathway.

Margins to decline

We expect margins to decline for most media companies except Dish TV and PVR. With only 2 tournaments in Q1FY16, sports loss for ZEE is expected to be INR100-150mn. Content cost for ZEE is expected to rise due to 3 months production cost coming in for &TV in turn impacting the company's margin YoY. Dish TV is expected to report 28% plus EBITDA margin (up 350bps YoY) led by incremental addition of HD subscribers, ARPU hike and Zing gaining market share. WE expect PVR to report EBITDA margin of 20.9% (up 576bps YoY) on higher proportion of good movies in Q1FY16.

Outlook for the next 12 months

Some progress is likely in Phase 3 and 4 areas in terms of digitisation and signing of content deals between the MSOs and broadcasters. BARC individual data places ZEE at third position compared to fourth position at household level, launch of new channels will help in ad growth. Service tax hike to 14% in the Union Budget 2015 will hurt Dish TV and PVR in the short term. Gross margins of print companies are likely to improve due to benign newsprint prices. Radio companies are likely to see boost in ad revenues once new stations from Phase 3 auction start. MSOs continue to invest in broadband operations, which will pay off in the long term though impact margins over medium term. Acquisition of DT Cinema by PVR will be EPS accretive in FY17 for the latter.

Top Picks

PVR, Dish TV and ZEE.

Media Q1FY16E snapshot

Company	% YoY growth	
	Revenue	EBITDA
ZEE	16.9	(1.8)
Sun TV	5.4	3.2
Dish TV	12.5	28.6
Hathway	7.1	(31.7)
DEN Networks	(12.8)	NA
PVR	23.8	71.0

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July 6, 2015

Table 1: Peer comparison valuation

Company	CMP	M. Cap	P/E (x)		EPS (INR)		EV/EBITDA (x)		ROAE (%)	
	(INR)	(INR bn)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
DEN Networks	140	25	(27.1)	64.4	(5.2)	2.2	14.6	8.2	(3.6)	3.5
Dish TV	106	113	NM	NM	1.0	2.0	12.5	9.6	NM	NM
Hathway Cable & Datacom	51	42	NM	NM	(2.5)	(1.0)	16.3	11.5	NM	NM
PVR	708	31	31.8	23.3	22.3	30.4	12.2	9.7	18.1	22.8
Sun TV Network	283	111	12.6	10.4	22.5	27.2	5.1	4.1	24.8	26.9
ZEE	369	355	39.2	29.9	9.4	12.4	25.3	19.5	28.6	30.3

Source: Edelweiss research

Table 2: Edelweiss' media sector Q1FY16 estimates snapshot

(INR mn)

Stock		Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
ZEE	Revenues	12,337	10,551	16.9	13,471	(8.4)
	EBITDA	3,035	3,092	(1.8)	2,708	12.1
	Reported Profit	2,221	2,106	5.5	2,308	(3.8)
	Other income	500	390		564	
	Tax	1,094	1,164		749	
	EBITDA margin (%)	24.6	29.3		20.1	
Sun TV	Revenues	6,675	6,336	5.4	5,486	21.7
	EBITDA	3,794	3,677	3.2	4,233	(10.4)
	Reported Profit	1,720	1,656	3.8	2,030	(15.3)
	Other income	200	197		234	
	Tax	866	820		1,048	
	EBITDA margin (%)	56.8	58.0		77.2	
Dish TV	Revenues	7,209	6,407	12.5	7,547	(4.5)
	EBITDA	2,020	1,571	28.6	2,219	(9.0)
	Reported Profit	130	(161)	NA	350	(62.9)
	Other income	140	116		137	
	Tax	-	-		-	
	EBITDA margin (%)	28.0	24.5		29.4	
Hathway	Revenues	2,680	2,502	7.1	2,700	(0.8)
	EBITDA	300	439	(31.7)	310	(3.4)
	Reported Profit	(501)	(9)	NA	(770)	NA
	Other income	50	20		46	
	Tax	-	-		-	
	EBITDA margin (%)	11.2	17.5		11.5	
DEN Networks	Revenues	2,605	2,988	(12.8)	2,703	(3.6)
	EBITDA	(185)	572	NA	(60)	NA
	Reported Profit	(655)	11	NA	(621)	NA
	Other income	230	187		229	
	Tax	70	43		142	
	EBITDA margin (%)	(7.1)	19.1		(2.2)	
PVR	Revenues	4,484	3,623	23.8	2,996	49.7
	EBITDA	936	547	71.0	108	770.4
	Reported Profit	433	77	464.8	(356)	NA
	Other income	15	12		20	
	Tax	48	1		5	
	EBITDA margin (%)	20.9	15.1		3.6	

Source: Edelweiss research



ZEE

Ad revenue is expected to grow 14% YoY on higher base of 17.4% YoY (15.0% YoY growth in Q4FY15 on base of 21.5% YoY growth), aided by strong overall viewership and launch of new channels like &TV. Domestic subscription revenue growth is likely to be ~10% YoY. Pakistan-Zimbabwe series and West Indies - England series in Q1FY16 will aid syndication revenue. We expect sport losses of INR100-150mn in Q1FY16. We expect margins to improve QoQ as there will be no new channel launch expenses, though EBITDA margin will be flattish for FY16. Though the high content cost *India Poochega Sabse Shaana Kaun* – a Shah Rukh Khan show on &TV has ended, overall content cost is expected to go up due to 3 months production compared to 1 month production in Q4FY15.

Table 3: Edelweiss estimates

(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	12,337	10,551	16.9	13,471	(8.4)
EBITDA	3,035	3,092	(1.8)	2,708	12.1
Reported Profit	2,221	2,106	5.5	2,308	(3.8)
Other income	500	390		564	
Tax	1,094	1,164		749	
EBITDA margin (%)	24.6	29.3		20.1	

Source: Edelweiss research

Fig.1: TV show in &TV – The Voice



Source: Company

Chart 1: Overall ad revenues

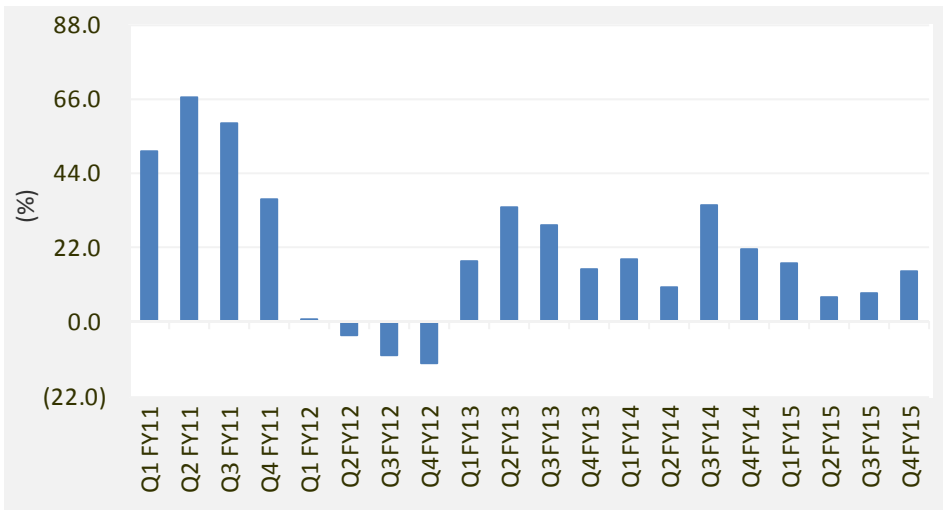


Chart 2: Costs (as a % of revenue)

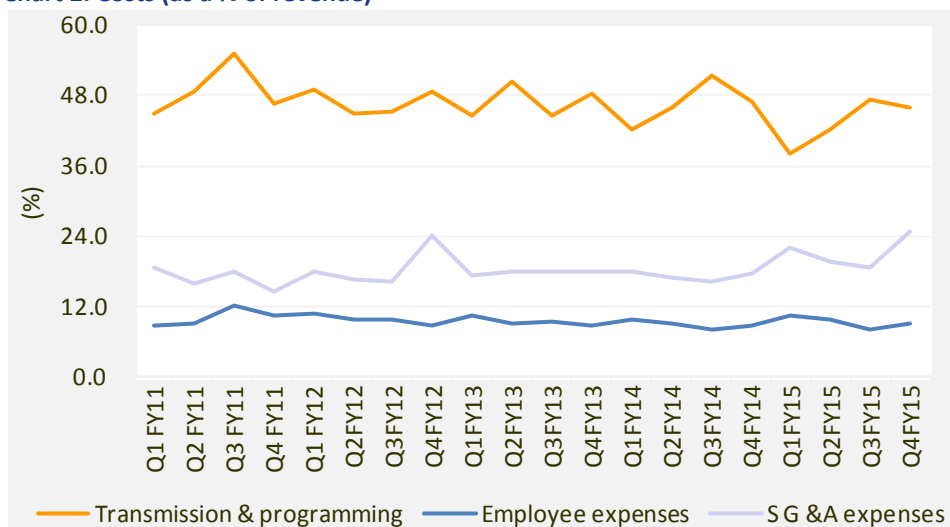
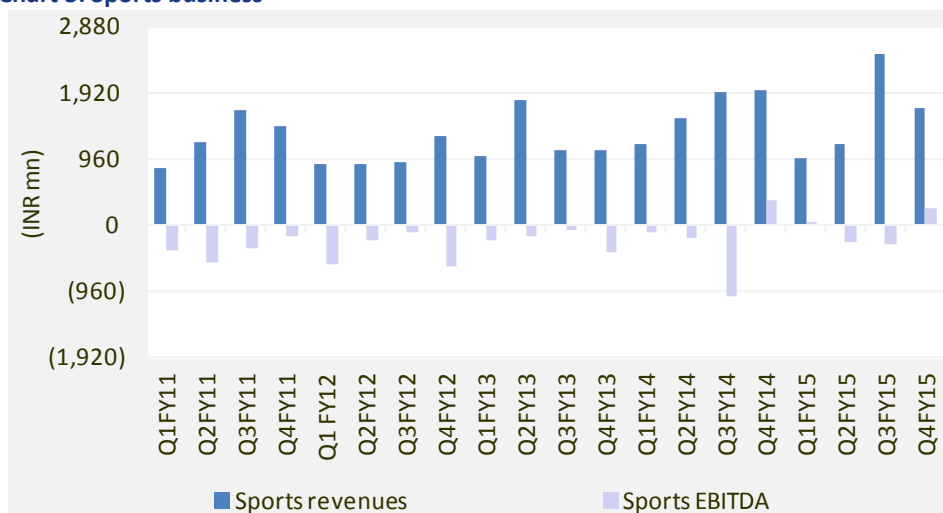
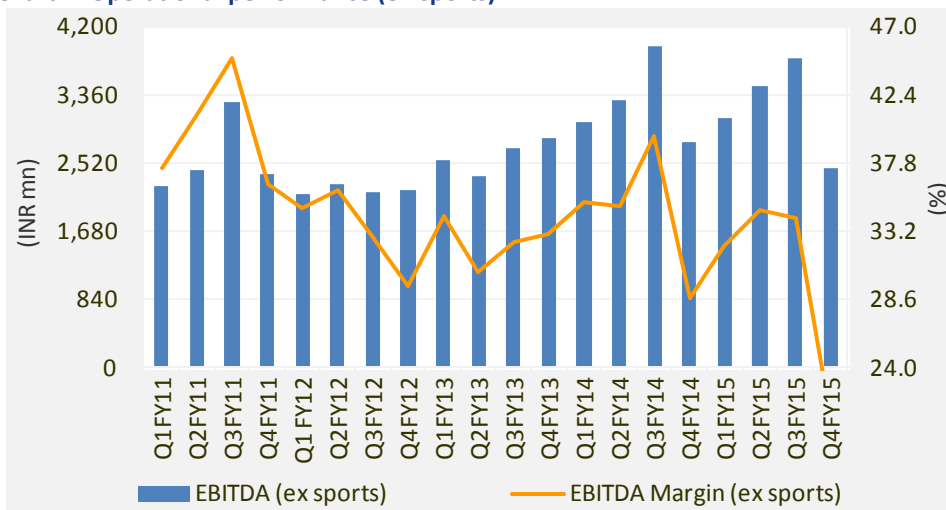


Chart 3: Sports business



Source: Company, Edelweiss research

Chart 4: Operational performance (ex-sports)



Source: Company, Edelweiss research

Table 4: ZEE's revenue break-up

(INR mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Ad revenue	5,094	4,792	5,301	5,833	6,843	5,824	6,221	6,259	7,426	6,697
Domestic subscription	2,961	3,374	3,168	3,350	3,322	3,344	3,238	3,373	3,455	4,175
International revenue	1,136	1,172	1,073	1,231	1,243	1,291	1,189	872	1,007	933
Total subscription	4,097	4,546	4,241	4,581	4,565	4,635	4,427	4,245	4,462	5,108

Source: Company, Edelweiss research

Table 5: Sports business – Quarterly - ZEE

(INR mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Sales	1,078	1,072	1,159	1,558	1,915	1,959	976	1,181	2,476	1,680
Costs	1,164	1,477	1,254	1,749	2,956	1,608	964	1,431	2,746	1,438
EBITDA	(86)	(405)	(95)	(191)	(1,041)	351	12	(250)	(270)	242
EBITDA margin (%)	(8.0)	(37.8)	(8.2)	(12.3)	(54.4)	17.9	1.2	(21.2)	(10.9)	14.4

Source: Company, Edelweiss research

Table 6: EBITDA margin (non-sports)

(INR mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Sales (non-sports)	8,310	8,571	8,574	9,455	9,969	9,629	9,575	9,997	11,161	11,791
Costs (non-sports)	5,613	5,743	5,564	6,159	6,020	6,864	6,495	6,543	7,358	9,325
EBITDA (non-sports)	2,697	2,828	3,010	3,296	3,948	2,765	3,080	3,455	3,803	2,466
EBITDA margin (non-sports) (%)	32.5	33.0	35.1	34.9	39.6	28.7	32.2	34.6	34.1	20.9

Source: Company, Edelweiss research



Sun TV

We expect Sun TV to report 5-6% YoY ad growth on low base of 0.4% YoY (7.8% YoY growth in Q4FY15 on base of 4.7% YoY growth). DTH revenues would grow 12.0% YoY in Q1FY16 (11.6% YoY in Q4FY15, 17.7% YoY in Q3FY15; 20.0% YoY in Q2FY15). We expect the company to report loss of ~INR400mn in its IPL operations in Q1FY16.

Key concern

- Ministry of Home Affairs (MHA) and the Ministry of Information & Broadcasting (MIB) have taken divergent views on granting security clearance to Sun TV Network channels.
- Mr Arun Jaitley (MIB minister) is expected to meet Prime Minister Narendra Modi to discuss the security clearance issue for Sun TV's 33 television channels and FM radio stations.

Table 7: Edelweiss estimates

(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	6,675	6,336	5.4	5,486	21.7
EBITDA	3,794	3,677	3.2	4,233	(10.4)
Reported Profit	1,720	1,656	3.8	2,030	(15.3)
Other income	200	197		234	
Tax	866	820		1,048	
EBITDA margin (%)	56.8	58.0		77.2	

Chart 5: (Ad + broadcast) revenues

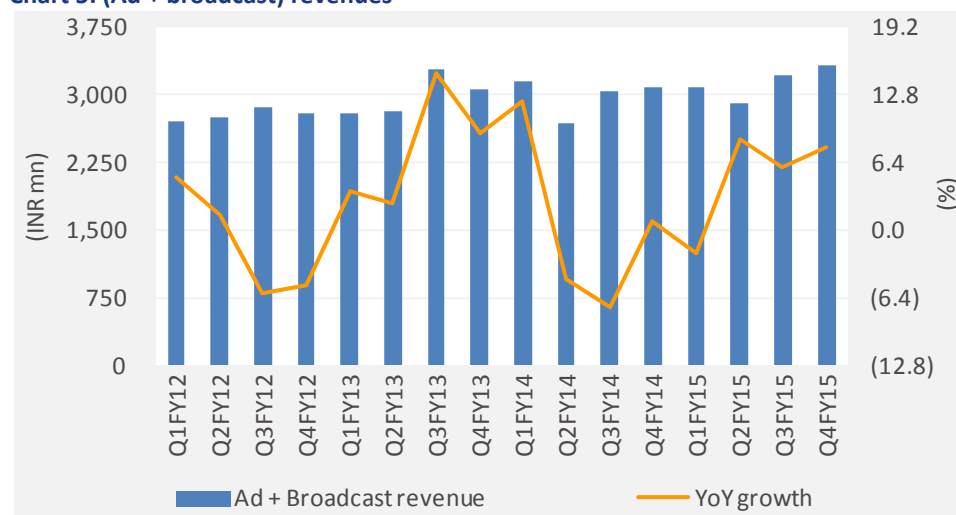
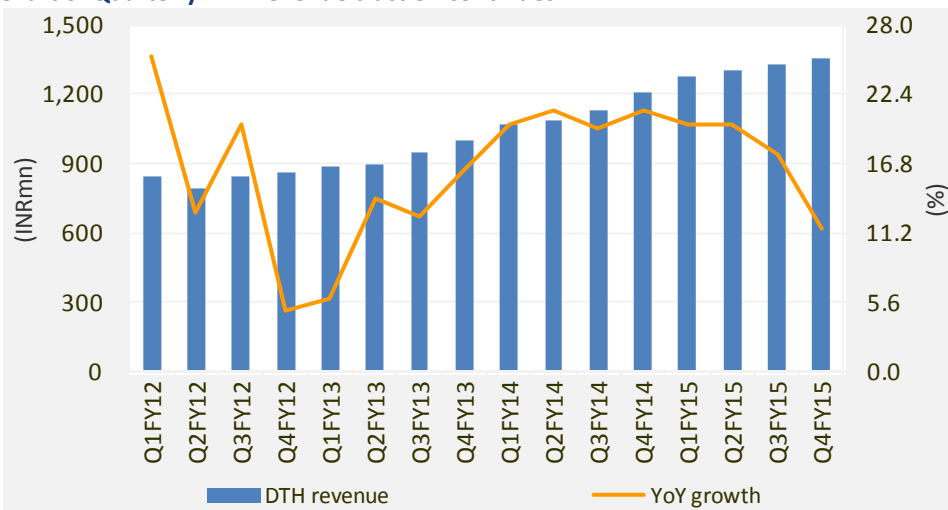
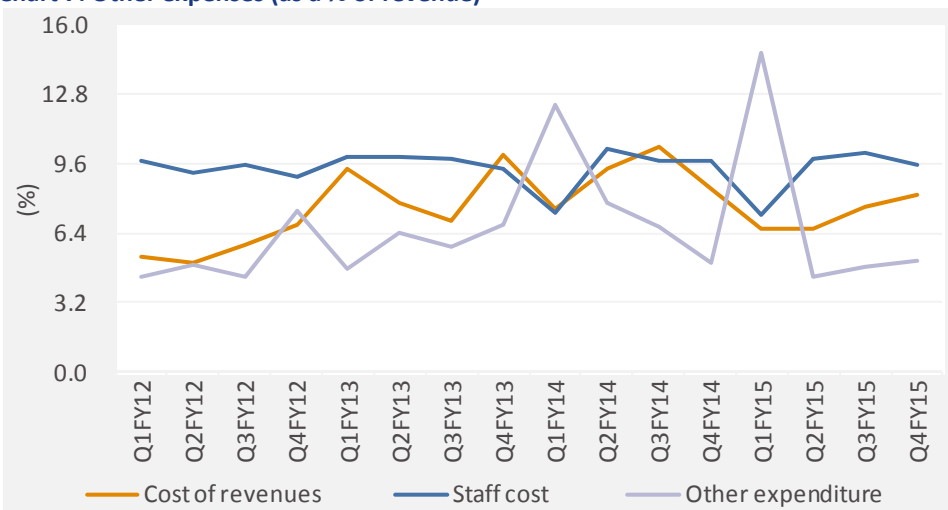


Chart 6: Quarterly DTH revenue traction continues



Source: Edelweiss research

Chart 7: Other expenses (as a % of revenue)



Source: Company, Edelweiss research

Table 8: Quarterly revenue break up of Sun TV

	(INR mn)									
	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Ad	2,930	2,694	2,790	2,336	2,720	2,820	2,800	2,603	2,920	3,040
Broadcast	340	360	350	347	310	260	270	310	290	280
Ad+Broadcast	3,270	3,054	3,140	2,683	3,030	3,080	3,070	2,913	3,210	3,320
DTH	945	1,000	1,068	1,084	1,130	1,210	1,280	1,301	1,330	1,350
Cable	370	380	415	492	540	510	480	490	580	570
Total subscription	1,315	1,380	1,483	1,576	1,671	1,720	1,760	1,791	1,910	1,920
International	260	260	290	323	330	310	330	340	360	340
Movies/Others	10	33	130	28	50	92	42	50	50	45
Total rev. (ex-IPL)	4,855	4,727	5,033	4,610	5,072	5,197	5,202	5,086	5,522	5,486

Source: Company, Edelweiss research



Dish TV

We expect 15% YoY growth in subscription revenues on low base of 11.5% YoY (24.1% YoY growth in Q4FY15 on base of 10% YoY). Dish TV took 4-8% price hike in February 2015. The company also initiated differential pricing in Phase 1 and 2 cities during the quarter. Being the first quarter to show full impact of the February price hike, we expect ARPUs to increase to INR182 QoQ. Carriage revenue is expected to be INR150mn in Q1FY16 with number of small broadcasters wanting to air their channels. Aided by higher HD offering and Zing gaining market share in Phase 3 areas, we expect margins to expand in Q1FY16.

Table 9: Edelweiss estimates

(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	7,209	6,407	12.5	7,547	(4.5)
EBITDA	2,020	1,571	28.6	2,219	(9.0)
Reported Profit	130	(161)	NA	350	(62.9)
Other income	140	116		137	
Tax	-	-		-	
EBITDA margin (%)	28.0	24.5		29.4	

Chart 8: Subscriber base

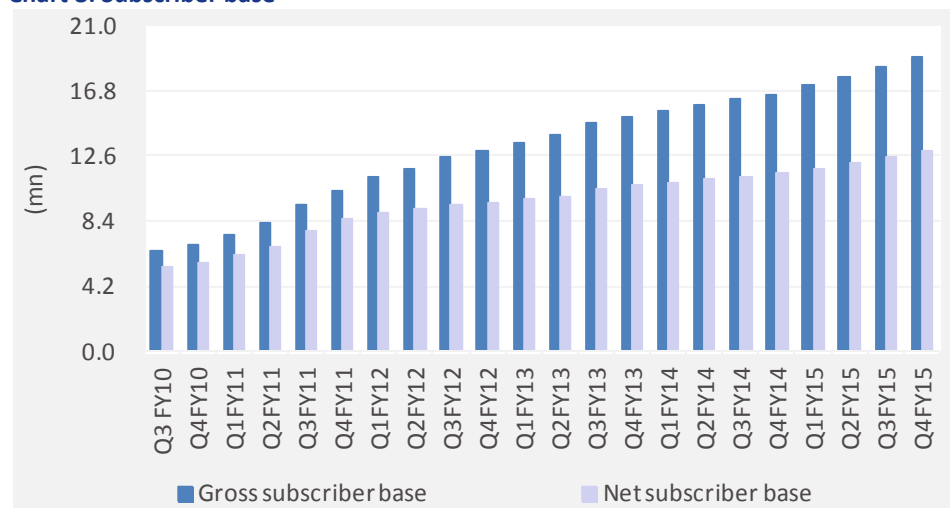
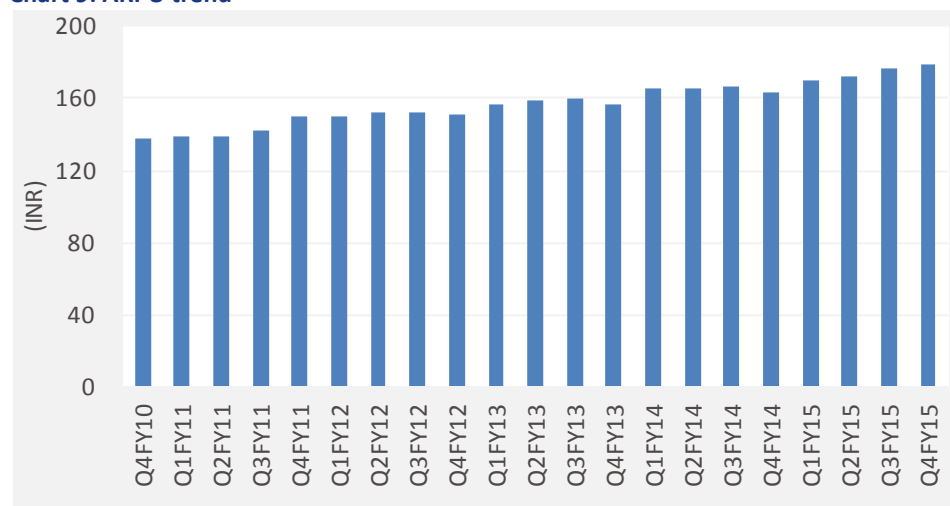


Chart 9: ARPU trend



Source: Edelweiss research

Chart 10: Subscriber acquisition cost

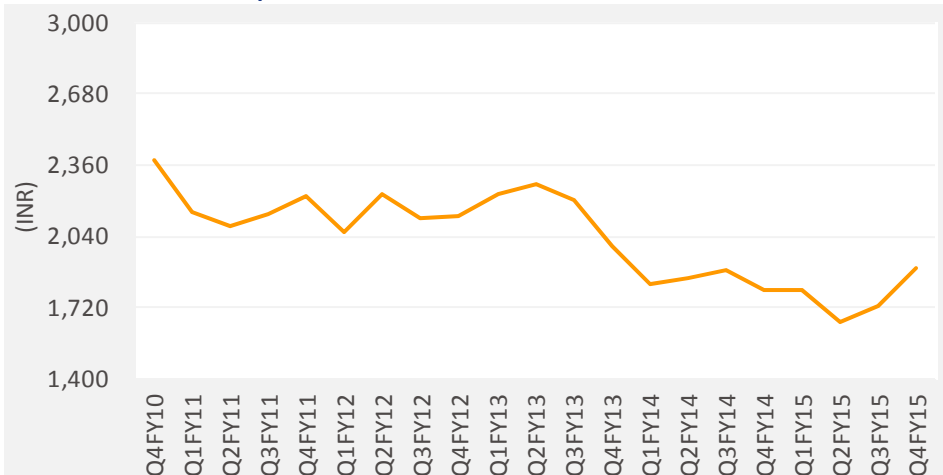


Chart 11: Content cost (% of subscription revenue)

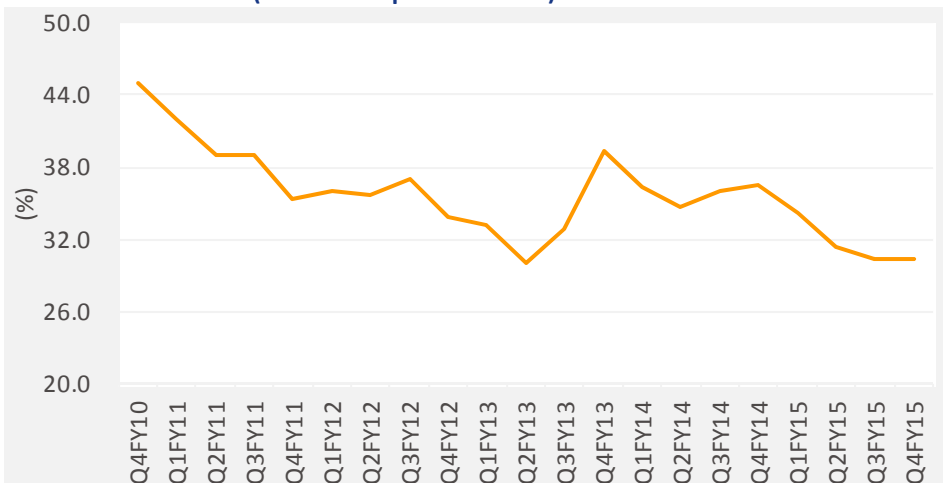
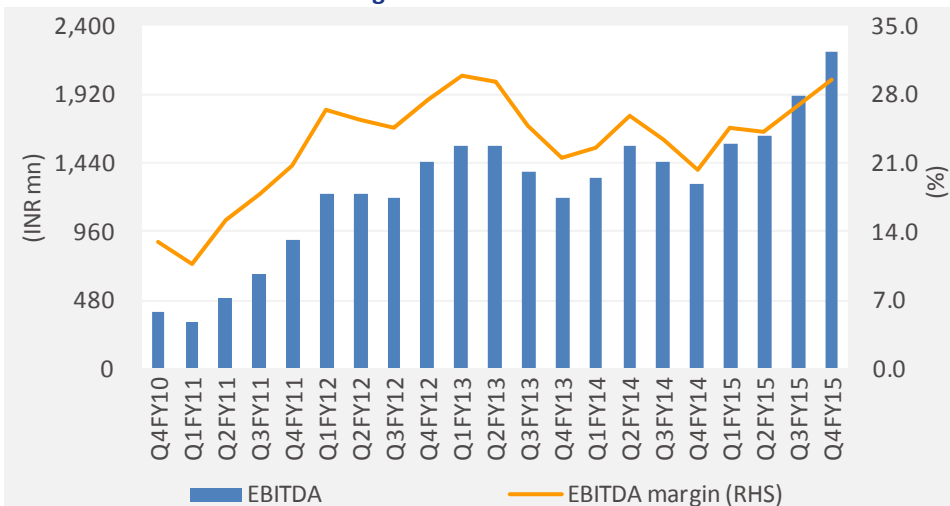


Chart 12: EBITDA and EBITDA margin trend



Source: Company, Edelweiss research



Hathway Cable & Datacom

Though packaging was introduced by Hathway Cable & Datacom (Hathway), not much progress was seen in Q4FY15. In Q1FY16, we expect net realisation in Phase I market to be INR105 and INR72 in Phase II market. We also expect 0.09mn subscriber addition in Q1FY16 (0.09mn in Q4FY15, 0.085mn in Q3FY15). Carriage revenue would be ~INR700-800mn due to number of small broadcasters wanting to air their channels. With net realisation further improving and good traction in broadband (broadband exit ARPU was INR530 in Q4FY15 and INR490 in Q3FY15) will benefit Hathway, though higher content cost YoY will affect EBITDA margin YoY.

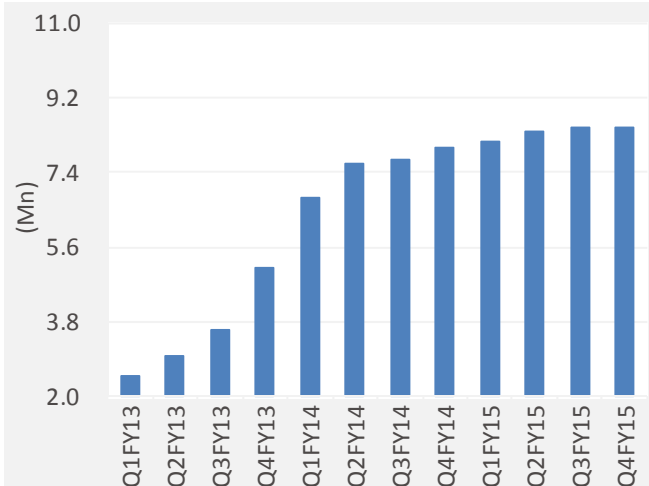
Table 10: Edelweiss estimates

(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	2,680	2,502	7.1	2,700	(0.8)
EBITDA	300	439	(31.7)	310	(3.4)
Reported Profit	(501)	(9)	NA	(770)	NA
Other income	50	20		46	
Tax	-	-		-	
EBITDA margin (%)	11.2	17.5		11.5	

Source: Edelweiss research

Chart 13: Digital subscriber base



Source: Company, Edelweiss research

Fig. 2: Hathway signs Sania Mirza as brand ambassador



Source: Company



DEN Networks

Out of the 13mn subscribers, 7.03mn are already digitised. Therefore, DEN Networks (DEN) still has to digitise ~6mn subscribers. We expect 0.18mn additional digital subscribers in Q1FY16 resulting in INR135mn activation revenue. Subscription revenue growth will remain flattish QoQ due to delays in packaging and billing in Phase 1 and 2 markets. Flattish subscription revenue growth, high content costs and continued investments in broadband and TV commerce will hurt margins.

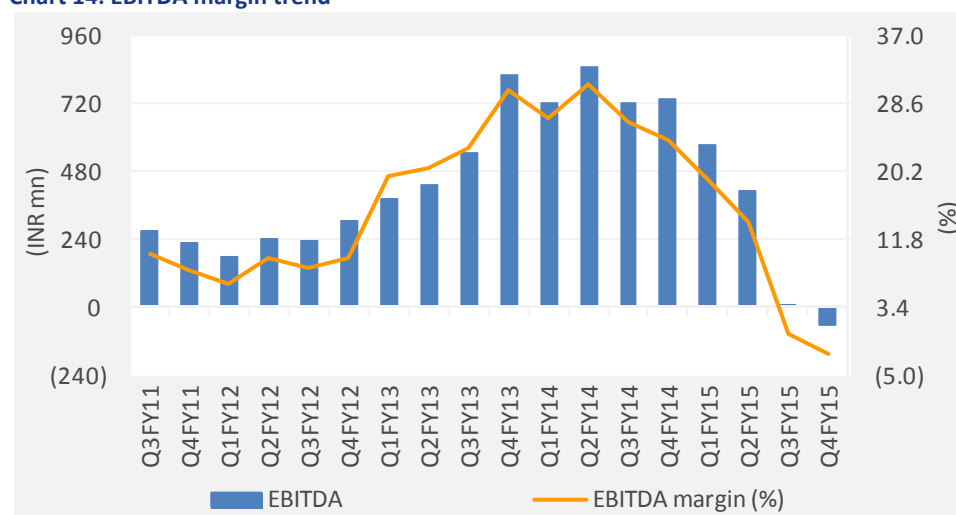
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(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	2,605	2,988	(12.8)	2,703	(3.6)
EBITDA	(185)	572	NA	(60)	NA
Reported Profit	(655)	11	NA	(621)	NA
Other income	230	187		229	
Tax	70	43		142	
EBITDA margin (%)	(7.1)	19.1		(2.2)	

Source: Company, Edelweiss research

Chart 14: EBITDA margin trend



Source: Company, Edelweiss research



PVR

Most of the good content was postponed to the latter part of the year due to World Cup 2015 and IPL Season 8. Q1FY16 was one such quarter which saw movies like *Tanu Weds Manu Returns*, *Piku*, *Dil Dhadakne Do* and *Gabbar is back* performing extremely well. *Tanu Weds Manu Returns* crossed the INR1,500mn box office collection. English content like *Fast & Furious 7*, *Avengers* and *Jurassic World* also performed well in Q1FY16. We expect occupancy rate of ~38% driven by good content. Hence, we expect footfall to increase in Q1FY16. LTL ARPU growth will be 5-6% YoY.

Table 12: Edelweiss estimates

(INR mn)

	Q1FY16E	Q1FY15	YoY	Q4FY15	QoQ
Revenues	4,484	3,623	23.8	2,996	49.7
EBITDA	936	547	71.0	108	770.4
Reported Profit	433	77	464.8	(356)	NA
Other income	15	12		20	
Tax	48	1		5	
EBITDA margin (%)	20.9	15.1		3.6	

Source: Edelweiss research

Key concern

- Entertainment tax in Delhi has increased to 40% from 20% which might slow down footfall growth.
- We believe that footfall is a function of content and the company will play around with the discounts to make sure that the footfall is not impacted after the increase in service tax is passed on to the public.

Table 13: Average ticket price (ATP)

	ATP (INR)		YoY growth (%)	
	Comparable	Total	Comparable	Total
Q4FY13	164	164	NA	NA
Q1FY14	169	169	NA	10.0
Q2FY14	170	169	3.0	4.0
Q3FY14	175	175	4.0	4.0
Q4FY14	161	160	(1.8)	(2.4)
Q1FY15	176	172	4.1	1.8
Q2FY15	186	180	9.4	6.5
Q3FY15	187	184	6.9	5.1
Q4FY15	171	168	6.2	5.0

Source: Company, Edelweiss research

Table 14: Footfalls (mn)

	Footfalls (mn)		YoY growth (%)	
	Comparable	Total	Comparable	Total
Q4FY13	11.4	11.5	NA	NA
Q1FY14	14.4	15.1	NA	17.0
Q2FY14	16.2	16.6	(7.0)	8.0
Q3FY14	12.0	14.3	(18.0)	(5.0)
Q4FY14	11.9	13.9	4.4	20.9
Q1FY15	12.4	15.2	(13.9)	0.7
Q2FY15	13.9	15.7	(14.2)	(5.4)
Q3FY15	14.8	16.0	23.3	11.9
Q4FY15	10.6	12.2	(19.0)	(12.2)

Source: Company, Edelweiss research

Table 15: Net box office revenues (INR mn)

	Net box office (INR mn)	YoY growth (%)
Q4FY13	1,443	NA
Q1FY14	2,026	29.0
Q2FY14	2,217	13.0
Q3FY14	1,960	(1.0)
Q4FY14	1,785	23.7
Q1FY15	2,078	2.6
Q2FY15	2,282	2.9
Q3FY15	2,307	17.7
Q4FY15	1,579	(11.6)

Source: Company, Edelweiss research

Table 16: F&B spend per head

	F&B spend per head (INR)		YoY growth (%)	
	Comparable	Total	Comparable	Total
Q4FY13	48	48	NA	NA
Q1FY14	54	54	NA	39.0
Q2FY14	53	54	12.0	13.0
Q3FY14	54	54	15.0	15.0
Q4FY14	56	56	16.7	16.7
Q1FY15	64	64	18.5	18.5
Q2FY15	65	64	22.6	18.5
Q3FY15	67	67	24.1	24.1
Q4FY15	62	62	10.7	10.7

Source: Company, Edelweiss research

Table 17: F&B revenues

	F&B revenues (INR mn)	YoY growth (%)
Q4FY13	488	NA
Q1FY14	742	39.0
Q2FY14	795	25.0
Q3FY14	731	15.0
Q4FY14	713	45.9
Q1FY15	890	19.9
Q2FY15	908	14.3
Q3FY15	988	35.1
Q4FY15	692	(2.9)

Table 18: Ad revenues

	Ad revenues (INR mn)	YoY growth (%)
Q4FY13	221	NA
Q1FY14	313	60.0
Q2FY14	355	42.0
Q3FY14	420	30.0
Q4FY14	329	48.4
Q1FY15	358	14.5
Q2FY15	407	14.6
Q3FY15	539	28.4
Q4FY15	381	16.0

Table 19: Number of properties

	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
East	4	5	5	5	5	5	5	5
West	46	47	48	49	50	50	51	50
North	28	29	30	31	32	32	33	34
South	11	11	12	12	14	15	15	16
Total	89	92	95	97	101	102	104	105

Table 20: Number of screens

	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
East	14	19	19	19	19	19	19	18
West	187	194	196	200	204	204	207	204
North	109	112	116	125	133	133	138	140
South	73	73	77	77	89	98	98	105
Total	383	398	408	421	445	454	462	467

Table 21: Number of seats

	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
East	3,868	5,014	5,014	5,014	5,014	5,014	5,014	4,794
West	47,693	49,212	49,537	50,335	51,437	51,437	52,372	51,595
North	26,171	26,852	27,605	29,130	30,146	30,146	31,164	31,540
South	15,657	15,657	16,616	16,616	19,071	21,212	21,212	22,595
Total	93,389	96,735	98,772	101,095	105,668	107,809	109,762	110,524

Source: Company, Edelweiss research

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Coverage group(s) of stocks by primary analyst(s): Media

DEN Networks, Dish TV India, Hathway Cable & Datacom, PVR, Sun TV Network, Zee Entertainment Enterprises

Recent Research

Date	Company	Title	Price (INR)	Recos
15-Jun-15	PVR	Consolidating moves; <i>Company Update</i>	644	Buy
01-Jun-15	PVR	Tough quarter; content pipeline enticing; <i>Result Update</i>	673	Buy
01-Jun-15	Hathway	Cable tardy; broadband clicks; <i>Result Update</i>	51	Buy

Distribution of Ratings / Market Cap

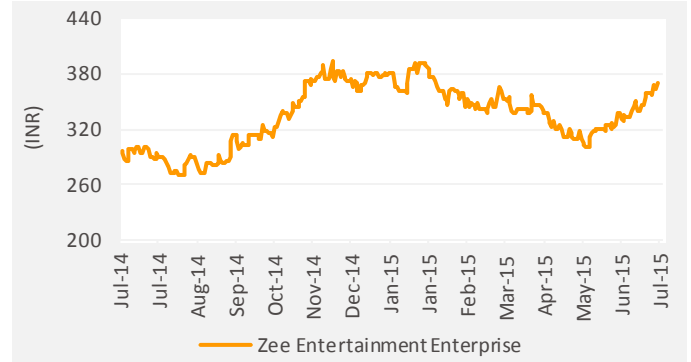
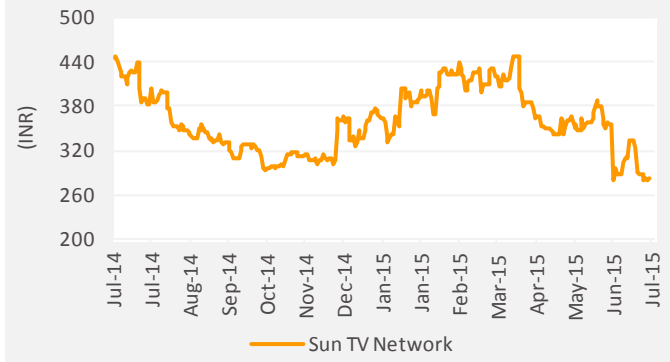
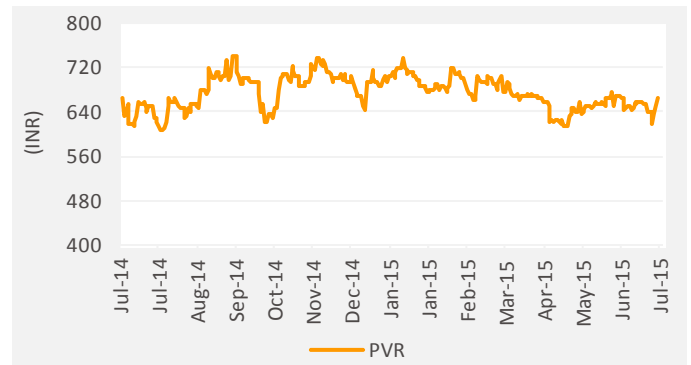
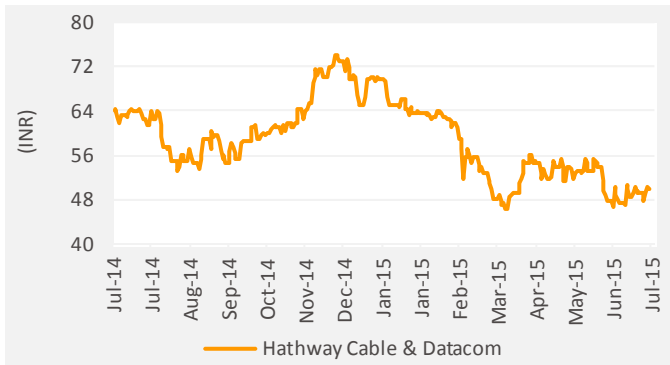
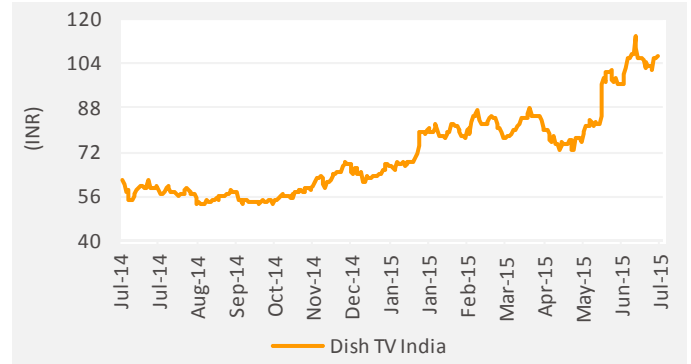
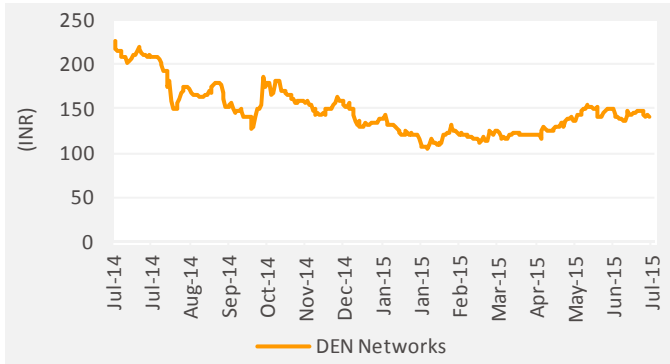
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	155	45	8	208
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	151	54	3	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price charts



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