

# DEN NETWORKS

## Cable business lacklustre

India Equity Research | Media

Den Networks (Den) reported a weak Q4FY19 with revenue, EBITDA and PAT belying our estimates. Key highlights: i) consolidated revenue dipped 11.4% QoQ; ii) cable subscription revenue slipped ~8% QoQ due to the new tariff order's implementation; iii) content cost fell 15.2% QoQ, boosting consolidated gross margin 207bps; and iv) EBITDA slid 22.3% QoQ & EBITDA margin contracted 191bps QoQ primarily due to increase in staff & other expenditure as a percentage of revenue. Considering the slowdown in broadband and cable businesses, we retain 12 month forward EV/EBITDA of 8x and TP of INR74. Maintain 'HOLD'.

### Cable business remains subdued

Management did not disclose cable business' ARPU and subscriber count for Q4FY19. Hence, the cable business' performance could not be compared on those metrics. Overall cable business fell ~12% QoQ and ~14% YoY. The broadband business continued to be weak with subscriber base inching up to 118,000 from 116,000 in Q3FY19 and ARPU improving marginally to INR562 (INR559 in Q3FY19). Competition from Airtel TV, Tata Sky as well as the expanding OTT space can exert pressure on cable ARPU, we believe. However, potential benefits from RJIO deal remain key monitorable. Reliance (via group entities) holds 78.62% in Den (after the open offer) as at March 31, 2019.

### Reported net loss inflated due to exceptional items

Reported net loss stood at INR2.1bn primarily due to exceptional items of INR2.1bn. The exceptional items include: a) provision for impairment of trade receivables and fixed assets including set top boxes amounting to INR1.8bn (pursuant to the New Regulatory Framework notified by TRAI and assessment carried out by the management); and b) one-time exceptional provision for certain tax-related matters and other assets amounting to INR0.3bn. Excluding exceptional items, adjusted net loss stood at INR17mn.

### Outlook and valuation: Challenging; maintain 'HOLD'

While the deadline for migrating subscribers to the new tariff regime has passed, we will keep an eye on further recalibration of bouquets offered to customers. Taking in to account RJIO's plan to enter the distribution space and potential benefits thereof, we retain the 8x 12 month forward EV/EBITDA multiple that yields TP of INR74. We maintain 'HOLD/SU'. At CMP, the stock trades at FY20/FY21 EV/EBITDA multiple of 7.3x/6.3x.

Financials		(INR mn)						
Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Revenue	2,731	3,150	(13.3)	3,084	(11.4)	12,061	13,382	14,072
EBITDA	374	568	(34.3)	481	(22.3)	1,827	2,357	2,589
Adj. Profit	(17)	(100)	NM	(312)	NM	(895)	(590)	(318)
Adj. Dil. EPS	(0.0)	(0.5)		(1.6)		(1.9)	(1.2)	(0.7)
EV/EBITDA (x)						9.1	7.3	6.3

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

#### MARKET DATA (R: DENN.BO, B: DEN IN)

CMP	: INR 68
Target Price	: INR 74
52-week range (INR)	: 113 / 45
Share in issue (mn)	: 477.2
M cap (INR bn/USD mn)	: 32 / 464
Avg. Daily Vol.BSE/NSE('000)	: 399.2

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	74.5	74.5	36.5
MF's, FI's & BK's	12.2	12.2	29.8
FII's	4.6	4.6	16.1
Others	8.8	8.8	17.7
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Media Index
1 month	5.0	6.2	1.0
3 months	6.0	6.5	(2.3)
12 months	(18.1)	12.8	(26.0)

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Table 1: Trends at a glance

	Q3FY17	Q4FY17	FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Phase 1 ARPU	111	117	-	109	117	120	122	122	124	123	NA
Phase 2 ARPU	81	85	-	87	90	96	96	93	90	94	NA
Phase 3 ARPU	57	62	-	87	90	96	96	93	90	72	NA
Phase 4 ARPU	25	46	-	57	61	64	66	67	73	60	NA
Total revenue (INR mn)	2,988	3,172	11,573	3,141	3,278	3,282	3,150	3,142	3,104	3,084	2,731
EBITDA (INR mn)	503	565	1,788	611	816	788	568	464	508	481	374
EBITDA ex-activation (INR mn)	283	335	928	381	456	438	328	224	258	231	114
Subscription revenues (INR mn)	1,440	1,570	5,440	1,540	1,640	1,740	1,750	1,700	1,720	1,720	1,590
Carriage revenues (INR mn)	890	890	3,510	890	880	850	830	850	810	810	660
Activation revenues (INR mn)	220	230	860	230	360	350	240	240	250	250	250
Content cost (INR mn)	1,193	1,233	4,733	1,308	1,325	1,346	1,420	1,501	1,482	1,487	1,260
Broadband ARPU (INR)	752	733	-	725	664	579	565	552	554	559	562
Content cost (% of revenues)	39.9	38.9	40.9	41.6	40.4	41.0	45.1	47.8	47.8	48.2	46.1
EBITDA margins (%)	16.8	17.8	15.5	19.4	24.9	24.0	18.0	14.8	16.4	15.6	13.7
EBITDA margins ex-activation (%)	10.2	11.4	-	13.1	15.6	14.9	11.3	7.7	9.1	8.2	4.6
<b>QoQ growth</b>											
Phase 1 ARPU	16.8	5.4		(6.8)	7.3	2.6	1.7	-	1.6	(0.8)	NA
Phase 2 ARPU	5.2	4.9		2.4	3.4	6.7	-	(3.1)	(3.2)	4.4	NA
Phase 3 ARPU	23.9	8.8		40.3	3.4	6.7	-	(3.1)	(3.2)	(20.0)	NA
Phase 4 ARPU	8.7	84.0		23.9	7.0	4.9	3.1	1.5	9.0	(17.8)	NA
Subscription revenues	9.1	9.0		(1.9)	6.5	6.1	0.6	(2.9)	1.2	-	(7.6)
Carriage revenues	3.5	-		-	(1.1)	(3.4)	(2.4)	2.4	(4.7)	-	(18.5)
Activation revenues	340.0	4.5		-	56.5	(2.8)	(31.4)	-	4.2	-	-
Content cost	0.9	3.4		6.1	1.3	1.6	5.5	5.7	(1.3)	0.3	(15.2)

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q4FY19	Q4FY18	% change	Q3FY19	% change	FY19	FY20E	FY21E
Net revenues	2,731	3,150	(13.3)	3,084	(11.4)	12,061	13,382	14,072
Pay channel cost	1,260	1,420	(11.3)	1,487	(15.2)	5,730	6,074	6,317
Staff costs	249	231	7.7	238	4.7	958	996	1,046
Other operating expenses	848	930	(8.8)	879	(3.5)	3,546	3,956	4,119
Total expenditure	2,357	2,581	(8.7)	2,603	(9.4)	10,234	11,026	11,482
EBITDA	374	568	(34.3)	481	(22.3)	1,827	2,357	2,589
Depreciation	525	623	(15.7)	637	(17.6)	2,416	2,916	2,968
EBIT	(151)	(54)	NA	(156)	NA	(589)	(560)	(378)
Interest	135	194	(30.3)	139	(2.6)	587	500	400
Other income	280	78	260.2	49	469.3	463	600	600
Add: Prior period items								
Add: Exceptional items	(2,111)					(2,111)		
Profit before tax	(2,117)	(171)	NA	(245)	NA	(2,823)	(460)	(178)
Provision for taxes	16	(111)	(114.2)	48	(66.8)	129	130	140
Minority interest								
Associate profit share	5	(41)	(112.4)	(19)	(126.2)	(54)	-	-
Reported net profit	(2,128)	(100)	NA	(312)	NA	(3,006)	(590)	(318)
Adjusted Profit	(17)	(100)	NA	(312)	NA	(895)	(590)	(318)
Diluted shares (mn)	477	194		195		477	477	477
Adjusted Diluted EPS		(0.5)	NA	(1.6)	NA	(1.9)	(1.2)	(0.7)
EV/EBITDA (x)	-	-		-		9.1	7.3	6.3
ROAE (%)						(5.1)	(2.3)	(1.2)
Tax Rate	(0.7)	65.2		(19.4)		(4.6)	(28.3)	(78.6)
Pay channel cost	46.1	45.1		48.2		47.5	45.4	44.9
Employee cost	9.1	7.3		7.7		7.9	7.4	7.4
Other operating expenses	31.1	29.5		28.5		29.4	29.6	29.3
EBITDA	13.7	18.0		15.6		15.1	17.6	18.4
Reported net profit	(0.6)	(3.2)		(10.1)		(7.4)	(4.4)	(2.3)

### Company Description

DEN Networks (Den) is one of the leading multiple system operators (MSO) in the Indian TV distribution industry with ~7mn pay TV subscribers in the markets of Delhi, Rajasthan, Haryana, Gujarat, Maharashtra, Karnataka, Madhya Pradesh, Uttarakhand, Kerala, and select cities of Uttar Pradesh. The company continues to expand its presence in India, evident from its entry into key cities of West Bengal, Jharkhand and Bihar. Overall, Den has a presence in 115 cities and towns with a strong foothold in all high-penetration markets. Hundred percent of the homes passed are digital-ready and require only additional set-top boxes. The company, incorporated in July 2007, is promoted by Sameer Manchanda, who has had an association with the Indian TV industry for over two decades. With an experienced management team, DEN's growth strategy has been to acquire majority interest in smaller MSOs and consolidate its position. In 2010, DEN became the first MSO to report positive PAT. Its digital cable TV services are compliant with TRAI's Quality of Service regulations and backed by 19 digital head-ends. DEN has also installed an efficient customer service platform to provide timely and effective customer care to subscribers.

### Investment Theme

DEN is one of the best-placed MSOs to capitalise on the huge opportunity thrown up by mandatory digitisation. In a short span of time, the company garnered a significant subscriber base, and has the distinction of being the first national MSO to turn in a profit. DEN intends to tap the high-potential broadband market by capitalising on its existing cable TV infrastructure and providing hi-speed fixed broadband internet. However, the road ahead will be challenging on multiple accounts such as losses arising from broadband, heightened competition players and TV commerce business. Post the majority stake acquisition by Reliance, Den Networks could play a major role in Reliance's much awaited roll-out of FTTH service.

### Key Risks

- DTH players can leverage their first-mover advantage and stronger-brand
- ARPU volatility in light of the transition to new tariff regime
- Intense competition from other players in the pay TV segment may limit ARPU growth
- Heightened competition from other players in the distribution
- Commercial terms with the LCOs and broadcasters in the new tariff regime
- Long-term risk from cord-cutting and OTTs

## Financial Statements

### Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Company</b>				
Int rate on debt (%)	11.3	11.7	9.4	7.8
Digital sub adds (mn)	1	1	1	1
Broadband subs (mn)	0.2	0.1	0.2	0.2
Placement rev growth (%)	-	-	2.0	2.0
Broadband rev (% of rev)	5.8	5.5	5.9	5.8
<b>Cost assumptions</b>				
Paychannelcost(% of rev)	42.0	42.9	43.1	43.8
Personnel cost(% of rev)	8.4	8.5	8.4	8.6
Debtor days	77	77	77	77
Payable days	229	229	229	229
Dep. (% gross block)	16.0	13.0	13.8	13.0

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	12,851	12,061	13,382	14,072
Pay channel cost	5,398	5,730	6,074	6,317
Employee costs	1,080	958	996	1,046
Operating expenses	3,590	3,546	3,956	4,119
Total operating expenses	10,068	10,234	11,026	11,482
EBITDA	2,783	1,827	2,357	2,589
Depreciation	2,486	2,416	2,916	2,968
EBIT	297	(589)	(560)	(378)
Less: Interest Expense	661	587	500	400
Add: Other income	298.8	463.41	600.00	600.00
Profit Before Tax	(66)	(2,823)	(460)	(178)
Less: Provision for Tax	100	129	130	140
Add: Exceptional items	(1)	(2,111)	-	-
Associate profit share	(6)	(54)	-	-
Reported Profit	(171)	(3,006)	(590)	(318)
Exceptional Items	(1)	(2,111)	-	-
Adjusted Profit	(170)	(895)	(590)	(318)
Shares o/s (mn)	194	477	477	477
Adjusted Basic EPS	(0.9)	(1.9)	(1.2)	(0.7)
Diluted shares o/s (mn)	194	477	477	477
Adjusted Diluted EPS	(0.9)	(1.9)	(1.2)	(0.7)
Adjusted Cash EPS	11.9	3.2	4.9	5.6

### Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
S G & A expenses	27.9	29.4	29.6	29.3
Programming/content cost	42.0	47.5	45.4	44.9
EBITDA margins	21.7	15.1	17.6	18.4
Net Profit margins	(1.3)	(7.4)	(4.4)	(2.3)

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	11.0	(6.2)	11.0	5.2
EBITDA	55.6	(34.4)	29.0	9.9
Adjusted Profit	89.3	(426.2)	34.1	46.0
EPS	89.3	(113.9)	34.1	46.0

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	1,953	4,768	4,768	4,768	
Reserves & Surplus	5,907	20,693	20,103	19,785	
Shareholders' funds	7,860	25,460	24,871	24,552	
Minority Interest	1,039	781	781	781	
Long term borrowings	3,145	2,661	2,500	2,500	
Short term borrowings	2,740	3,859	2,400	2,300	
Total Borrowings	5,885	6,520	4,900	4,800	
Long Term Liabilities	3,625	2,772	2,598	2,600	
Def. Tax Liability (net)	(929)	(915)	(915)	(915)	
<b>Sources of funds</b>	<b>17,481</b>	<b>34,618</b>	<b>32,234</b>	<b>31,818</b>	
Gross Block	15,980	17,980	18,980	19,980	
Net Block	10,076	7,589	6,803	5,206	
Capital work in progress	504	187	500	500	
Intangible Assets	1,782	1,756	2,979	3,109	
Total Fixed Assets	12,362	9,532	10,282	8,815	
Cash and Equivalents	3,714	22,958	20,657	21,416	
Sundry Debtors	3,023	2,260	2,825	2,970	
Loans & Advances	1,903	1,021	1,100	1,100	
Other Current Assets	1,641	2,861	2,700	2,700	
Current Assets (ex cash)	6,567	6,142	6,625	6,770	
Trade payable	3,454	2,644	3,817	3,970	
Other Current Liab	1,708	1,369	1,514	1,214	
Total Current Liab	5,162	4,014	5,331	5,183	
Net Curr Assets-ex cash	1,405	2,128	1,294	1,587	
<b>Uses of funds</b>	<b>17,481</b>	<b>34,618</b>	<b>32,234</b>	<b>31,818</b>	
BVPS (INR)	40.5	53.4	52.1	51.4	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	(171)	(3,006)	(590)	(318)	
Add: Depreciation	2,486	2,416	2,916	2,968	
Interest (Net of Tax)	661	587	500	400	
Others	(298)	1,648	(600)	(600)	
Less: Changes in WC	597	350	(751)	293	
Operating cash flow	2,081	1,294	2,978	2,157	
Less: Capex	100	2,996	-	1,000	
<b>Free Cash Flow</b>	<b>1,981</b>	<b>(1,702)</b>	<b>2,978</b>	<b>1,157</b>	

Cash flow metrics					
Year to March	FY18	FY19	FY20E	FY21E	
Operating cash flow	2,081	1,294	2,978	2,157	
Financing cash flow	(626)	20,498	(2,120)	(500)	
Investing cash flow	(464)	(23,513)	100	(900)	
Net cash Flow	991	(1,720)	958	757	
Capex	(100)	(2,996)	-	(1,000)	

Profitability and efficiency ratios					
Year to March	FY18	FY19	FY20E	FY21E	
ROAE (%)	(1.8)	(5.1)	(2.3)	(1.2)	
ROACE (%)	3.9	(0.5)	0.1	0.7	
Debtors Days	77	77	77	77	
Payable Days	229	229	229	229	
Cash Conversion Cycle	(152)	(152)	(152)	(152)	
Current Ratio	2.0	7.3	5.1	5.4	
Gross Debt/EBITDA	2.1	3.6	2.1	1.9	
Gross Debt/Equity	0.7	0.2	0.2	0.2	
Adjusted Debt/Equity	0.7	0.2	0.2	0.2	
Interest Coverage Ratio	0.4	(1.0)	(1.1)	(0.9)	

Operating ratios					
Year to March	FY18	FY19	FY20E	FY21E	
Total Asset Turnover	0.7	0.5	0.4	0.4	
Fixed Asset Turnover	1.0	1.1	1.4	1.6	
Equity Turnover	1.4	0.7	0.5	0.6	

Valuation parameters					
Year to March	FY18	FY19	FY20E	FY21E	
Adj. Diluted EPS (INR)	(0.9)	(1.9)	(1.2)	(0.7)	
Y-o-Y growth (%)	89.3	(113.9)	34.1	46.0	
Adjusted Cash EPS (INR)	11.9	3.2	4.9	5.6	
Diluted P/E (x)	(77.1)	(36.0)	(54.7)	(101.3)	
P/B (x)	1.7	1.3	1.3	1.3	
EV / Sales (x)	1.3	1.4	1.3	1.2	
EV / EBITDA (x)	5.9	9.1	7.3	6.3	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
DEN Networks	464	NM	NM	7.3	6.3	(2.3)	(1.2)
Dish TV India	1,066	NM	NM	4.7	5.0	0.4	(2.3)
Hathway Cable & Datacom	748	NM	NM	11.4	10.2	(1.0)	(0.6)
Median	-	-	-	7.3	6.3	(1.0)	(1.2)
AVERAGE	-	-	-	7.8	7.2	(0.9)	(1.4)

Source: Edelweiss research

## Additional Data

### Directors Data

Mr. Sameer Manchanda	Chairman & MD	Mr. Shahzaad Siraj Dalal	Nominee Director
Mr. Krishna Kumar	Alternate Director to Mr. Shahzaad Siraj Dalal	Mr. Ajaya Chand	Non Executive, Independent Director
Mr. Robindra Sharma	Non Executive, Independent Director	Mr. Atul Sharma	Non Executive, Independent Director
Mr. Ankur Sahu	Additional Director	Mr. Vishal Bakshi	Alternate Director
M G Azhar	Executive Director		

Auditors - M/s. Deloitte Haskins & Sells

### Holding - Top10

	Perc. Holding		Perc. Holding
Broad Street Singapore	4	Rajasthan Global Securities	3.02
Norges Bank	1.29	Vanguard Group	1.28
Dimensional Fund Advisors	1.09	State Of California	1.08
Manulife Financial Corp	0.49		

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
01 Feb 2019	NORGES BANK ON ACCOUNT OF THE GOVERNMENT PENSION FUND GLOBAL	SELL	1147315	71.57
20 Nov 2018	SHAILENDER NATH SHARMA	SELL	1000000	68.00
24 Oct 2018	MSD INDIA FUND LTD	SELL	2994075	66.77
23 Oct 2018	MSD INDIA FUND LTD	SELL	1600790	66.29

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
05 Feb 2019	Verve Engineering Private Limited	Sell	4529670.00
05 Feb 2019	Sameer Manchanda	Sell	29055330.00
21 Nov 2018	Shailender Nath Sharma	Sell	1200000.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
DB Corp	HOLD	SU	M	DEN Networks	HOLD	SU	H
Dish TV India	HOLD	SU	M	Hathway Cable & Datacom	HOLD	SP	M
Jagran Prakashan	HOLD	SU	M	PVR	BUY	SO	M
Sun TV Network	BUY	SO	H	Zee Entertainment Enterprises	BUY	SP	M

**ABSOLUTE RATING**

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

**RELATIVE RETURNS RATING**

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

**RELATIVE RISK RATING**

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

**SECTOR RATING**

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect



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

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

#### Recent Research

Date	Company	Title	Price (INR)	Recos
16-Apr-19	<b>Hathway Cable &amp; Datacom</b>	Challenges persist; <i>Result Update</i>	29	Hold
09-Apr-19	<b>Media</b>	Q4FY19: A Phenomenal Show!; <i>Sector Update</i>		
04-Apr-19	<b>Media</b>	Transition to slowdown broadcasters; multiplexes to shine; <i>Q4FY19 result preview</i>		

#### Distribution of Ratings / Market Cap

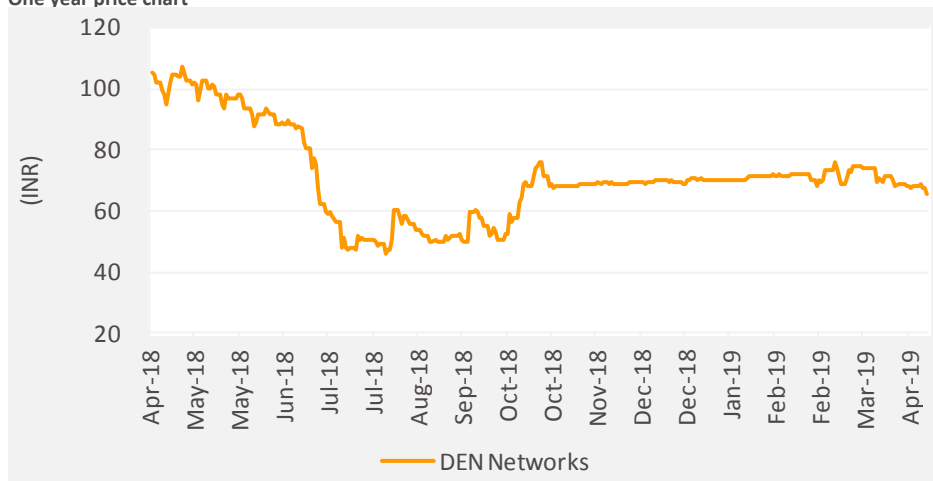
##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

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

One year price chart



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