Equirus
Onward. Upward.

GTPL Hathway Ltd.

Management meet note

Not rated

Absolute : NA
Relative : NA

NTO boosts profitability, better dividend payouts to drive re-rating

Media & Entertainment

Rating Information	
Price (Rs)	74
Target Price (Rs)	NA

Stock Information	
Market Cap (Rs Mn)	8,266
Free Float (%)	25.6%
52 Wk H/L (Rs)	107.5/53.05
Avg Daily Volume (1yr)	84,051
Equity Cap (RsMn)	6.4
Face Value (Rs)	1,125
Bloomberg Code	10

Price %	1M	3M	12M
Absolute	-3.67	7.93	-12.29
Vs Industry	2.11	22.58	12.14

Ownership	Recent	3M %	12M %
Promoters	78.8%	0.0%	5.0%
DII	0.3%	0.0%	-3.4%
FII	11.4%	0.0%	-0.1%
Public	9.5%	0.0%	-1.5%

GTPL Hathway (GTPL) is one of India's leading cable TV and broadband service providers, and an associate company of R-Jio (post acquisition of Hathway by R-Jio). It is the largest Multiple System Operator (MSO) in Gujarat's cable TV market (67% share) and the second largest in Kolkata and Howrah (24% share). We recently met Mr. Anirudhsinh Jadeja, Promoter & MD, and Mr. Piyush Pankaj, Head Video Business & Chief Strategy officer, to understand how industry dynamics have changed post the New Tariff Order (NTO). As per management, NTO has boosted profitability of all MSOs; for GTPL, there is significant upside potential as it is allowing local cable operators (LCOs) retain >70% of Network Capacity Fee (NCF) of Rs 130 (excl. tax) vs. 60% by other MSOs and 45% recommended by TRAI. GTPL is currently trading at a PE of 6x/5x on FY20E/FY21E consensus estimates; higher dividend payouts would lead to a stock re-rating in our view. NOT RATED.

Cable TV profitability improves post NTO implementation: TRAI's NTO was executed from 1 Feb'19, which caused severe disruption in the cable TV industry. GTPL largely retained its customer base by offering better terms to LCOs. Post NTO, GTPL's average ARPU improved to Rs 119 in 1QFY20 (vs. Rs 79 last year, +50% growth) and EBITDA per subscriber jumped to Rs 35-40 (vs Rs 10-15 previously). As per management, as the NTO execution phase settles, GTPL will gradually start increasing its revenue share (can likely touch 55% from 27% currently). Of NCF of Rs 130 (excl. taxes), GTPL is retaining Rs 35 but has the potential to raise it up to Rs 71 (as per TRAI's recommendations).

With ARPUs largely bottoming out, broadband to be a growth driver: In FY19, GTPL added close to 1.12mn new home-passes in broadband, and its total home passes stood at Rs 2.66mn in 1QFY20. The actual subscriber number is much lower at 34k, implying a conversion rate of ~13% (close to industry conversion rate). GTPL also has an advantage of being an associate company of R-Jio. Broadband ARPU, which had been declining consistently since the last many quarters, now seems to have bottomed out.

FCF generation to improve; higher dividends may lead to re-rating: With strong revenue growth, better profitability and working capital management, GTPL expects solid FCF generation in FY20 as capex would remain at Rs 1.60bn levels (Rs 0.80bn for cable, rest for broadband). Management is targeting to reduce its gross debt by ~Rs 1.3bn while the remaining cash flows would be distributed as dividend to shareholders. The stock is currently trading at a PE multiple of 6x/5x on FY20E/FY21E consensus estimates; higher dividend payouts would lead to a stock re-rating in our view.

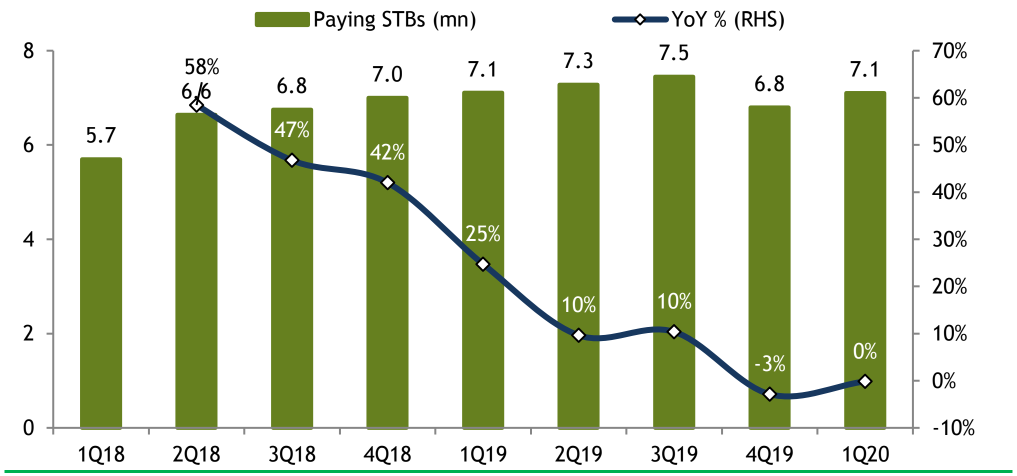
Company Financials

Rs. Mn YE Mar	FY16A	FY17A	FY18A	FY19A
Sales	7,364	9,077	10,913	12,458
EBITDA	1,517	2,064	2,955	3,182
Depreciation	1,073	1,394	1,711	2,019
Interest Expense	445	581	425	514
Other Income	79	341	221	433
Reported PAT	74	403	611	189
Recurring PAT	74	403	653	837
Total Equity	3,378	3,872	6,577	6,648
Gross Debt	3,490	4,848	2,974	2,781
Cash	866	1,073	1,348	1,399
Rs Per Share	**FY16A**	**FY17A**	**FY18A**	**FY19A**
Earnings	0.7	3.6	5.8	7.4
Book Value	34	39	58	59
Dividends	2.0	1.0	1.0	1.0
FCFF	-46.7	3.1	10.5	9.4
P/E (x)	112.9	20.7	12.7	9.9
P/B (x)	2.2	1.9	1.3	1.3
EV/EBITDA (x)	13.6	10.8	6.8	6.1
ROE (%)	2%	11%	13%	13%
Core ROIC (%)	3%	5%	7%	9%
EBITDAM (%)	21%	23%	27%	26%
Net Margin (%)	1%	4%	6%	7%

Cable TV profitability improves post NTO

TRAI's NTO, implemented from 1 Feb'19, led to severe disruption in the cable TV industry. Also, there was significant customer churn across distribution platform operators (DPO) as the service quality was hit in the initial implementation phase. GTPL was able to contain the customer churn (7.5mn in 3Q, dropped to 6.8mn in 4Q and improved to 7.1mn 1QFY20). As per management, this was possible due to better terms offered to LCOs. Under NTO, TRAI has recommended a MSO:LCO split of 55:45; however, in the initial implementation phase, MSOs are offering a higher share to LCOs. GTPL is currently working with a revenue split of 27:73 in favor of LCOs while most other MSOs operating at 40:60 split. Revenue share of LCOs has already been impacted by NTO; to make the implementation gradual for them, most MSOs are working with this revenue split to control the churn.

Exhibit 1: Customer churn due to NTO contained due to better terms with LCOs



Source: Company, Equirus Securities

Post NTO, GTPL's average ARPU improved to Rs 119 in 1QFY20 (vs. Rs 79 last year, +50% growth) and accordingly, gross profit per subscriber increased to Rs 66 in 1QFY20 (vs. Rs 51 in 1QFY19). As per management, operational expenses/subscriber stood at Rs 35-40, implying an improvement in EBITDA/subscriber from Rs 10-15 to Rs 35-40; this translates into a 3-4x improvement in profitability per subscriber.

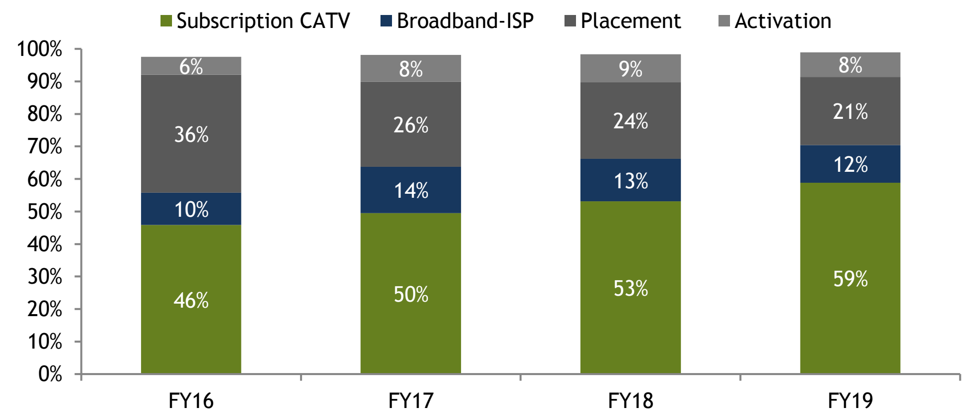
Exhibit 2: CATV profitability improves post NTO implementation

Rs	1Q19	2Q19	3Q19	4Q19	1Q20	YoY (%)
Cable TV ARPU	79	82	81	97	119	50%
Placement fee/sub/month	31	33	32	24	34	9%
Pay channel cost/sub/month	60	61	62	55	86	45%
CATV gross profit/sub/month	**51**	**54**	**51**	**67**	**66**	**30%**

Profitability is expected to improve further with the help of:

1. **Better terms with LCOs:** According to management, it has kept revenue-sharing terms for LCOs very favorable in the initial phase to contain their churn. However, as the NTO implementation phase settles down, GTPL would gradually start increasing its revenue share (can likely touch 55% from 27% currently). So, out of NCF of Rs 130 (excl. taxes), GTPL currently retains Rs 35, but has the potential to raise it up to Rs 71 (as per TRAI's recommendations).
2. **Increasing penetration of HD boxes**: As customers move towards better content and better quality, ARPUs would improve further.
3. With GTPL's increasing market share, it would be able to command better placement/ marketing fees from broadcasters; this in turn would boost profitability.

Exhibit 3: CATV segment continues to be the biggest revenue contributor

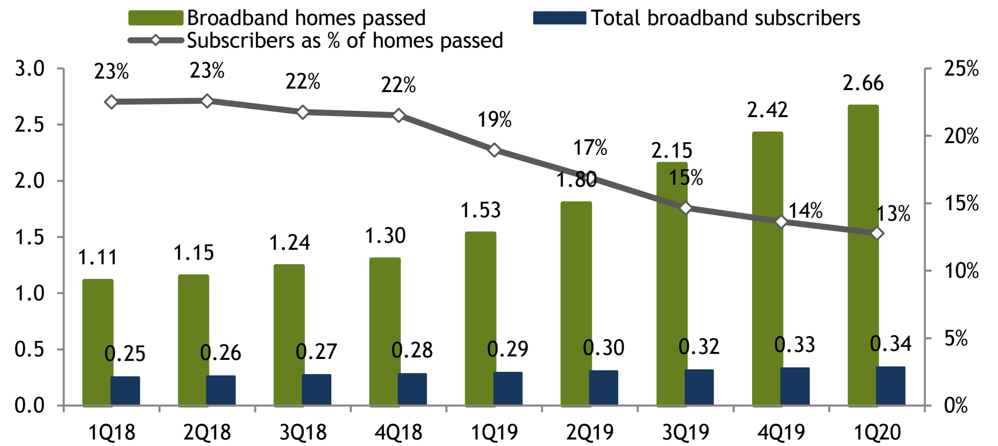


Source: Company, Equirus Securities

With ARPUs largely bottoming out, broadband to be a growth driver

GTPL has been aggressive in its broadband deployment. In FY19, it added close to 1.12mn new home-passes in broadband and its total home passes stood at 2.66mn in 1QFY20. Actual subscriber number is much lower at 34k, implying conversion of ~13% (close to industry conversion rate).

Exhibit 4: Subscriber growth not consistent with growth in home passes



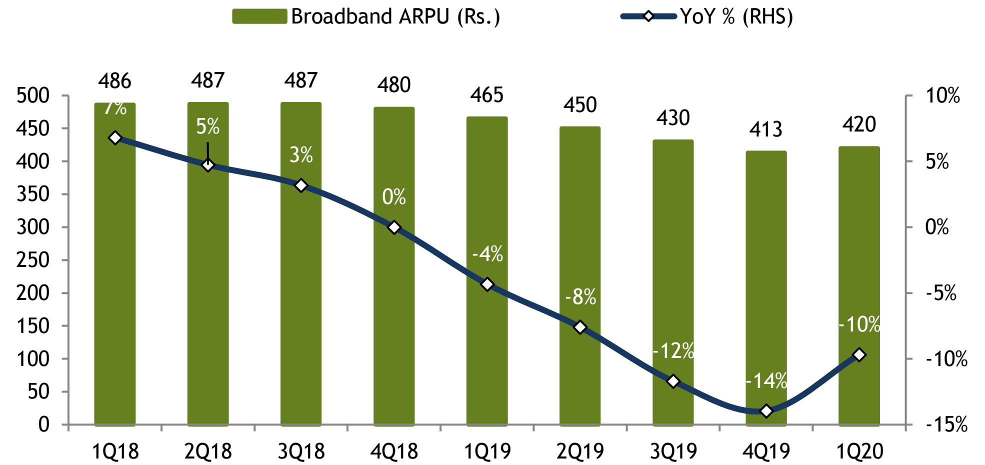
Source: Company, Equirus Securities

GTPL has launched 40mbps and 100mbps plans with options of annual and half yearly subscription, which are gaining traction.

Management highlighted that till the wireless data prices increase, wireline broadband penetration will be difficult to scale up in a big way. Reliance Industries has a target of increasing its broadband penetration to 20mn households. GTPL has an advantage of being an associate company of R-Jio due to which there are clear demarcation of areas where DEN, Hathaway and GTPL would penetrate.

Broadband ARPU, consistently on a downward spiral since the last many quarters, has now bottomed out. R-Jio has announced its gagafiber plans in the range of Rs 700-Rs 10,000, which has supported pricing levels of existing players. GTPL's two main plans are at (1) 50mbps speed with unlimited data prices at Rs 424 and (2) 100mbps speed with unlimited data prices at Rs 624. Most of these packs are priced below R-Jio's new plans and therefore would not put any further pressure on pricing.

Exhibit 5: Trend in broadband ARPU



Source: Company, Equirus Securities

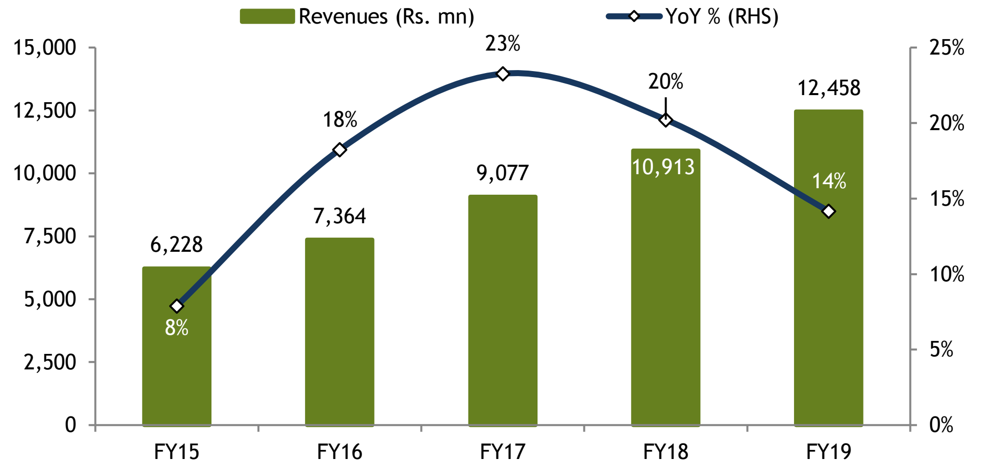
With implementation of GPON technology, operating expenses are also expected to come down, leading to better EBITDAM going forward.

Gujarat's EPC project more of a strategic move than a new business line

GTPL has been awarded a work order of Rs 12.46bn for implementation of BharatNet Phase II in Gujarat (Saurashtra) by Gujarat Fibre Grid Network Limited (GFGNL) under digital India initiative. Work order comprises Rs 10.73bn for capex in FY20 and the balance amount is for O&M for three years. GTPL will connect 3.767 gram panchayats in 10 districts by implementing end-to-end optic fibre cables and digital infrastructure at centralized network operations centre at Gandhinagar. This project has already started and GTPL is targeting to finish the same by Feb'20. In the initial implementation phase, due to partnership with Polycab, EBITDA margins would be in the range of 7-8%; however, in the O&M part, EBITDAM would be higher at 25-30% levels. Management highlighted that this is more of strategic move as GTPL would be the one laying the cables.

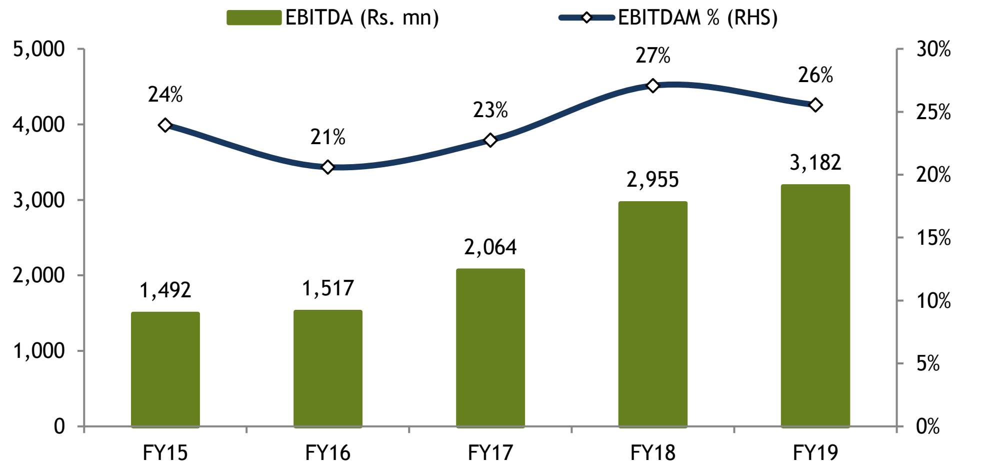
Overall, one-time revenue from the EPC business would be to the tune of Rs 10.5bn; however, excluding that, management expects revenue close to ~Rs 17bn in FY20 and an EBITDA of Rs 4.5bn. Growth will be mainly driven by the Cable TV business with broadband business also scaling up in the coming years. GTPL expects broadband segment's revenue share to increase to 40% from 12% currently in the medium term.

Exhibit 6: Consolidated revenue has grown at a ~19% CAGR over FY15-FY19



Source: Company, Equirus Securities

Exhibit 7: Consolidated EBITDA has grown ~21% CAGR over FY15-FY19



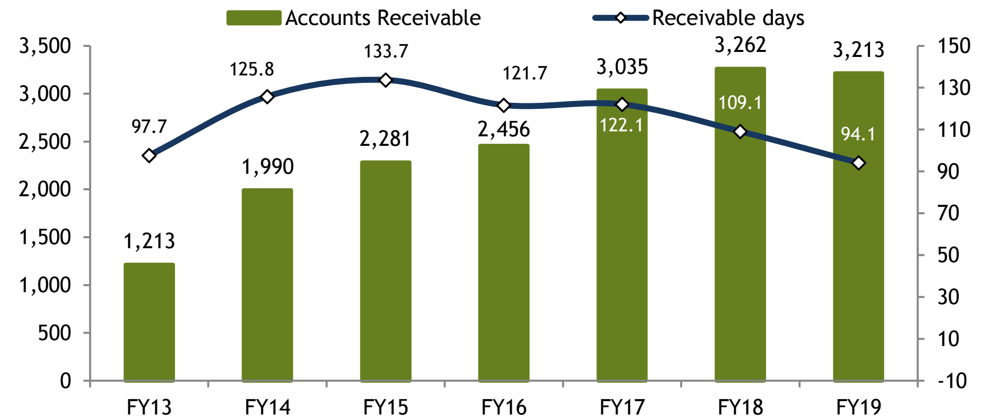
Source: Company, Equirus Securities

Shift to pre-paid and auto-dunning model to reduce receivables going forward

Management highlighted that it has completely shifted all customers to the prepaid and auto-dunning model (i.e. customer is notified of the due date of billing; on non-payment, the connection gets disabled). Consequently, there would be no growth in receivables going forward.

GTPL highlighted part of these receivables are from broadcasters, which are settled every six months or yearly; remaining are old receivables (prior to NTO) from various LCOs. GTPL expects these receivables to be recovered over the next 12 months.

Exhibit 8: Receivable days shall further go down in FY20 and ahead

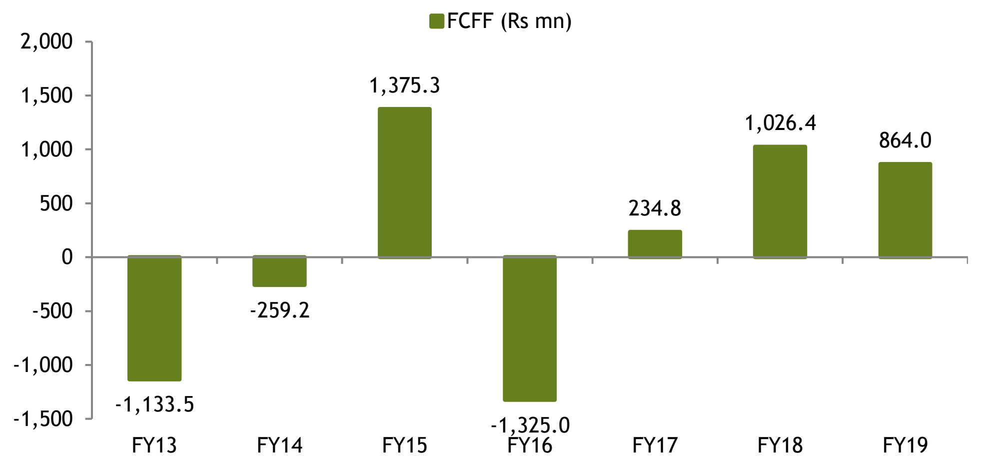


Source: Company, Equirus Securities

Free cash flow generation to improve in FY20

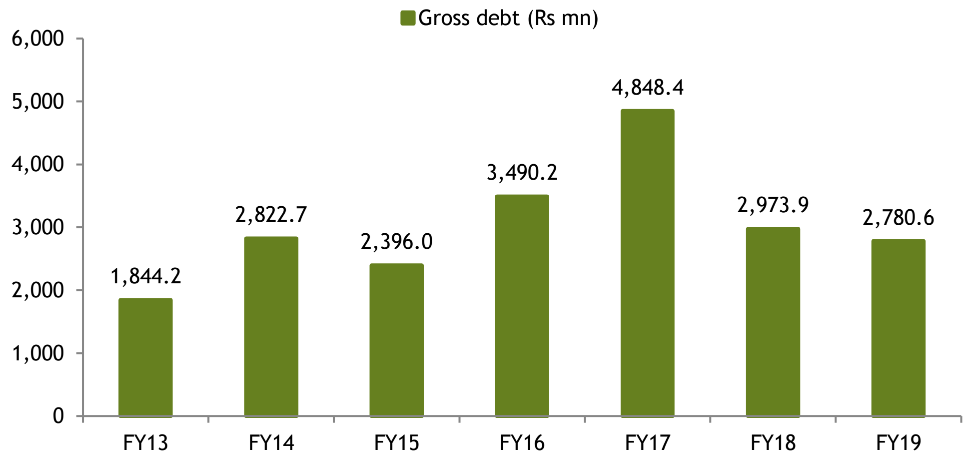
With strong revenue growth, better profitability and working capital management, GTPL expects solid free cash flow generation in FY20 as the capex would remain to the tune of Rs 1.60bn (Rs 0.80bn towards cable, remaining towards broadband). Management is targeting to reduce its gross debt by ~Rs 1.3bn, and the rest should be distributed as dividend to shareholders.

Exhibit 9: FCFF set to improve with better profitability, WC management in FY20



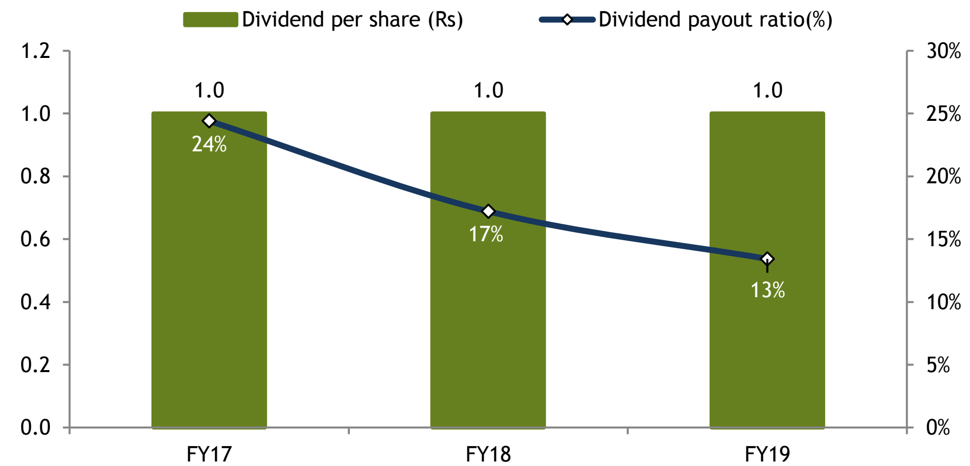
Source: Company, Equirus Securities

Exhibit 9: Gross debt levels likely to reduce in FY20E



Source: Company, Equirus Securities

Exhibit 10: Dividend payouts likely to improve in FY20E



Source: Company, Equirus Securities

Historical Consolidated Financials

P&L (Rs Mn)	FY16A	FY17A	FY18A	FY19A
Revenue	7,364	9,077	10,913	12,458
Op. Expenditure	5,847	7,013	7,958	9,276
EBITDA	1,517	2,064	2,955	3,182
Depreciation	1,073	1,394	1,711	2,019
EBIT	444	670	1,244	1,163
Interest Expense	445	581	425	514
Other Income	79	341	221	433
PBT	79	430	1,040	1,082
Tax	44	145	414	185
PAT bef. MI & Assoc.	34	285	626	898
Minority Interest	-37	-140	-47	59
Profit from Assoc.	3	-23	-20	-1
Recurring PAT	74	403	653	837
Extraordinaires	-	-	42	649
Reported PAT	74	403	611	189
FDEPS (Rs)	0.7	3.6	5.8	7.4
DPS (Rs)	2.0	1.0	1.0	1.0
CEPS (Rs)	44.0	18.3	24.0	29.0
FCFPS (Rs)	-46.7	3.1	10.5	9.4
BVPS (Rs)	34.3	39.4	58.5	59.1
EBITDAM (%)	21%	23%	27%	26%
PATM (%)	1%	4%	6%	7%
Tax Rate (%)	56%	34%	40%	17%
Sales Growth (%)	18%	23%	20%	14%
FDEPS Growth (%)	-56%	446%	62%	28%

Balance Sheet (Rs Mn)	FY16A	FY17A	FY18A	FY19A
Equity Capital	983	983	1,125	1,125
Reserve	2,395	2,889	5,452	5,523
Networth	3,378	3,872	6,577	6,648
Long Term Debt	3,490	4,848	2,974	2,781
Def Tax Liability	1,537	2,024	2,014	1,536
Minority Interest	422	285	303	364
Account Payables	1,236	1,199	1,959	2,992
Other Curr Liabilities	4,750	4,982	5,359	5,999
Total Liabilities & Equity	14,813	17,210	19,185	20,320
Net Fixed Assets	8,549	10,039	11,613	11,673
Capital WIP	606	599	385	320
Others	1,515	1,491	1,823	1,968
Inventory	0	0	0	250
Account Receivables	2,456	3,035	3,262	3,213
Other Current Assets	821	973	753	1,497
Cash	866	1,073	1,348	1,399
Total Assets	14,813	17,210	19,185	20,320
Non-cash Working Capital	-2,709	-2,173	-3,302	-4,031
Cash Conv Cycle	-134.3	-87.4	-110.4	-118.1
WC Turnover	-2.7	-4.2	-3.3	-3.1
FA Turnover	0.8	0.9	0.9	1.0
Net D/E	0.8	1.0	0.2	0.2
Revenue/Capital Employed	1.1	1.2	1.1	1.1
Capital Employed/Equity	2.0	2.3	2.7	2.2

Cash Flow (Rs Mn)	FY16A	FY17A	FY18A	FY19A
PBT	79	430	1,040	1,082
Depreciation	1,073	1,394	1,711	2,019
Others	532	478	693	839
Taxes Paid	-44	-145	408	622
Change in WC	523	181	1,088	-474
Operating C/F	2,251	2,630	4,123	2,844
Capex	-3,769	-2,780	-3,352	-2,406
Change in Invest	84	3	-32	9
Others	24	67	40	48
Investing C/F	-3,662	-2,710	-3,344	-2,349
Change in Debt	1,368	802	-2,189	168
Change in Equity	629	0	2,325	2
Others	-338	-519	-780	-224
Financing C/F	1,659	284	-644	-54
Net change in cash	248	204	134	442
RoE (%)	2%	11%	13%	13%
RoIC (%)	3%	8%	8%	11%
Core RoIC (%)	3%	5%	7%	9%
Div Payout (%)	8%	29%	22%	72%
P/E	112.9	20.7	12.7	9.9
P/B	2.2	1.9	1.3	1.3
P/FCFF	-1.6	23.9	7.0	7.9
EV/EBITDA	13.6	10.8	6.8	6.1
EV/Sales	2.8	2.5	1.8	1.6
Dividend Yield (%)	2.7%	1.4%	1.4%	1.4%

Rating & Coverage Definitions:	Registered Office:
Absolute Rating • LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies • ADD: ATR >= 5% but less than Ke over investment horizon • REDUCE: ATR >= negative 10% but <5% over investment horizon • SHORT: ATR < negative 10% over investment horizon **Relative Rating** • OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon • BENCHMARK: likely to perform in line with the benchmark • UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon **Investment Horizon** Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter. Lite vs. Regular Coverage vs. Spot Coverage We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.	Equirus Securities Private Limited Unit No. 1201, 12th Floor, C Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai-400013. Tel. No: +91 – (0)22 – 4332 0600 Fax No: +91- (0)22 – 4332 0601 **Corporate Office:** 3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge, S.G. Highway Ahmedabad-380054 Gujarat Tel. No: +91 (0)79 - 6190 9550 Fax No: +91 (0)79 – 6190 9560