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Den Networks Ltd

Management Meet Note

Not Rated

Absolute : NA

Relative : NA

At an inflection point

Media & Entertainment

We recently met the management of Den Networks (DEN IN) to get an update on the overall Cable TV industry and the company in particular. Established in 2007, DEN has enhanced its product portfolio offering high speed broadband services. The company has exited its non-core businesses of TV shopping and Football completely and going forward is only going to focus on its core activities i.e Cable and Broadband. With digitization process mostly complete (phase 4 being underway), the subscription revenue growth will largely be ARPU driven going ahead. DEN sees a large opportunity in the wired broadband space as current penetration in India is only 6%. DEN has recently launched its 100 Cities plan to tap this wired broadband market. DEN currently trades at EV/EBITDA multiple of 5.5x on consensus FY19 estimates which is at 10-15% discount to industry average.

Three pronged strategy to drive growth in Cable TV: With digitization already completed in Phases 1-3 and phase-4 being underway, the Cable TV industry has broadly stabilized. Churn rate for DEN is less than 1% p.a. The subscription revenue growth will largely be ARPU driven going forward. DEN's ARPU(net of taxes and net of LCO share) stood at Rs 120, Rs 96, Rs 64 and Rs 56 in DAS 1,2,3 and 4 respectively, with average ARPU at Rs 78 during 3QFY18 (Exhibit 8). DEN has a 3 pronged growth strategy to drive its ARPU a) Increase ARPUs in phase 3 and 4 markets and bring it closer to the levels of phase 1 and 2 b) Increasing the overall ARPU for the industry by passing on the increased content costs to the subscribers and c) Increasing the penetration of HD boxes: Focus of the Cable industry till now had been digitization and they never pushed for HD boxes as the DTH players did. In the next 12-14 months, Den expects to convert 10% of its SD boxes into HD boxes. HD boxes in general have Rs 60-100 higher ARPU than SD boxes.

Aggressive rollout of Broadband into newer cities to drive growth: DEN has recently launched its 100 cities plan to increase its wired broadband penetration by leveraging its existing cable TV infrastructure. Currently, DEN has around 1 lac paying broadband subscribers mostly in Delhi, but due to heightened competition, the ARPU's have been continuously falling for the last few quarters. With ARPU's currently at Rs 580, the management sees limited downside now. Since the Cable TV network is already mostly fiberized, the incremental capex for broadband shall not be more than Rs 300-400mn. The technology provided will be a mix of metro Ethernet and GPON depending on the need of the customers.

Near term triggers: Impending judgment of Madras High Court on TRAI order if turns out favorable can be big positive trigger for the industry.

Consolidated Financials

Rs. Mn YE Mar	FY14A	FY15A	FY16A	FY17A
Sales	10,980	11,296	9,475	11,573
EBITDA	2,725	924	-1,121	1,788
Depreciation	1,474	1,859	2,061	2,775
Interest Expense	890	823	791	652
Other Income	769	878	584	409
Reported PAT	384	-1,440	-4,315	-2,102
Recurring PAT	384	-1,440	-3,665	-1,795
Total Equity	18,585	17,119	9,697	9,116
Gross Debt	6,307	5,953	11,939	8,545
Cash	12,424	9,658	5,498	3,526
Rs Per Share	FY14A	FY15A	FY16A	FY17A
Earnings	2.0	-7.4	-18.9	-9.3
Book Value	104	96	54	47
Dividends	-	-	-	-
FCFF	-60.7	7.1	15.6	15.5
P/E (x)	50.5	-13.5	-5.3	-10.8
P/B (x)	1.0	1.0	1.8	2.1
EV/EBITDA (x)	5.1	17.6	-23.6	14.0
ROE (%)	3%	-8%	-27%	-19%
Core ROIC (%)	6%	-9%	-21%	-8%
EBITDA Margin (%)	25%	8%	-12%	15%
Net Margin (%)	3%	-13%	-39%	-16%

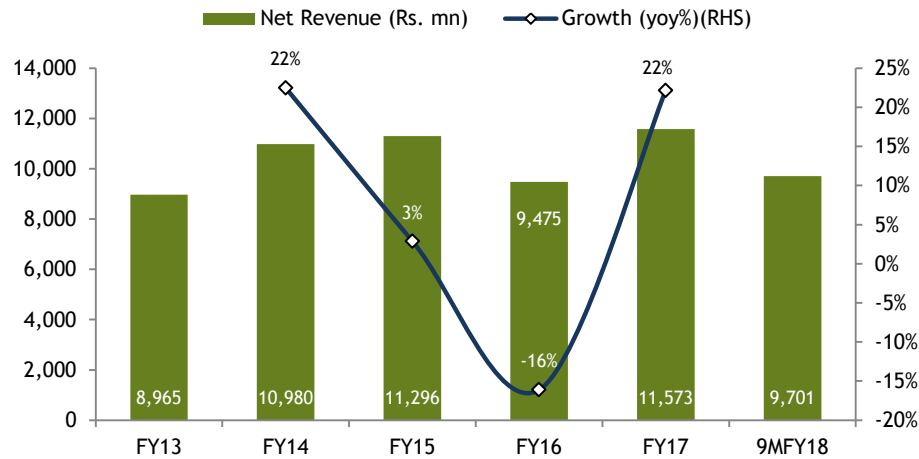
Rating Information	
Price (Rs)	98
Target Price (Rs)	NA
Target Date	NA
Target Set On	NA
Implied yrs of growth (DCF)	NA
Fair Value (DCF)	NA
Fair Value (DDM)	NA
Ind Benchmark	NA
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	19,225
Free Float (%)	63.55 %
52 Wk H/L (Rs)	149.55/65
Avg Daily Volume (1yr)	6,41,979
Avg Daily Value (Rs Mn)	61
Equity Cap (Rs Mn)	1,958
Face Value (Rs)	10
Bloomberg Code	DEN IN

Ownership	Recent	3M	12M
Promoters	36.5 %	0.0 %	-0.3 %
DII	29.6 %	-0.3 %	-0.6 %
FII	17.7 %	0.8 %	-1.7 %
Public	16.2 %	-0.5 %	2.6 %

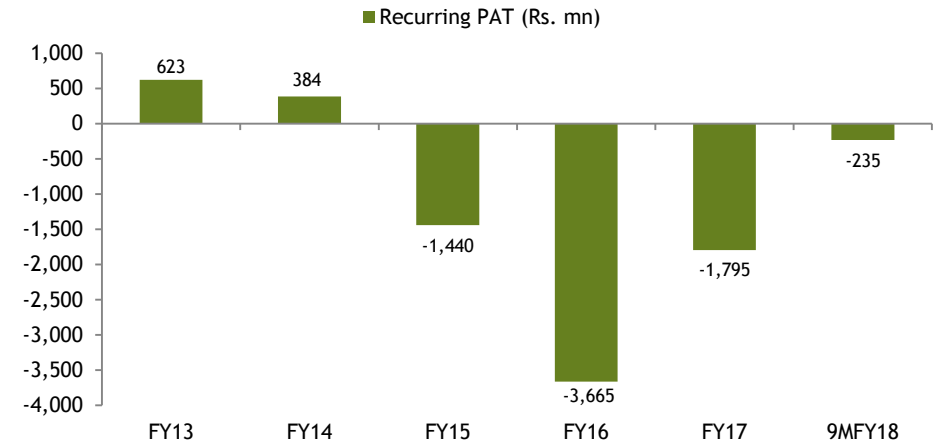
Price %	1M	3M	12M
Absolute	12.5 %	-21.3 %	0.1 %
Vs Industry	4.9 %	-15.2 %	-15.3 %
Hathway Cable	3.4 %	-21.5 %	-25.1 %
Siti Networks	0.0 %	-35.0 %	-57.4 %

Exhibit 1: Den Networks: revenue trend



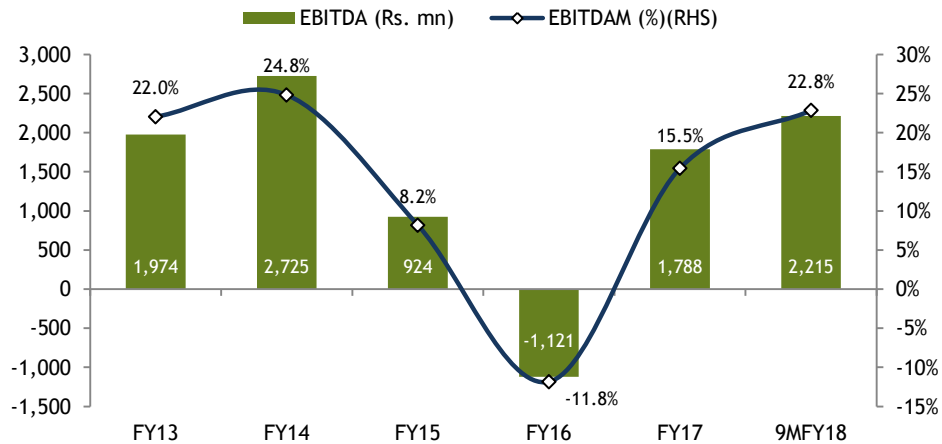
Source: Company, Equirus Securities

Exhibit 3: Losses have been narrowing down for the past 2 years



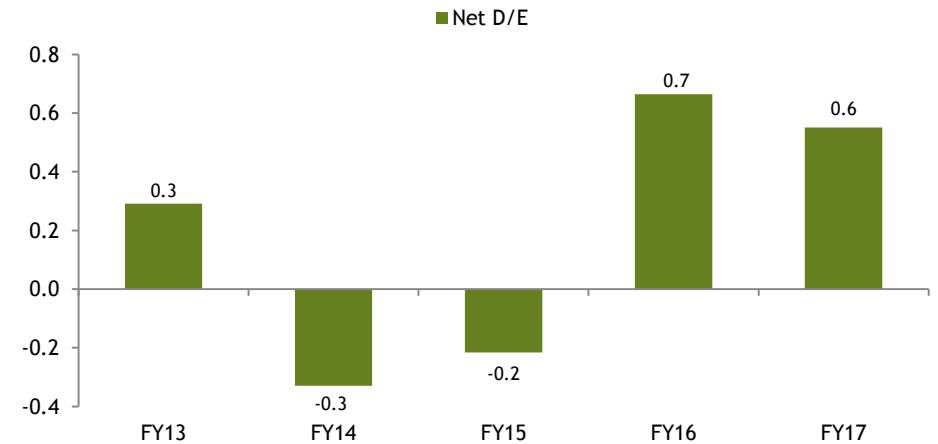
Source: Company, Equirus Securities

Exhibit 2: Operating margins have improved substantially in last 2 years



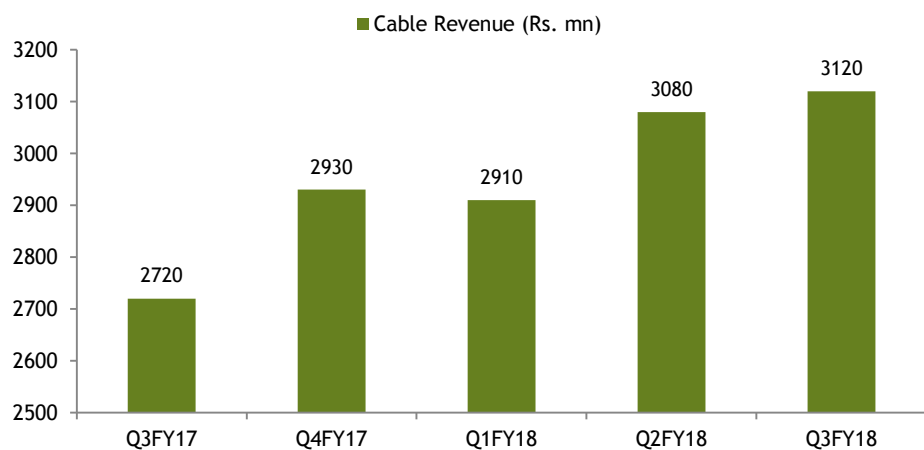
Source: Company, Equirus Securities

Exhibit 4: Company has maintained net D/E ratio below 1



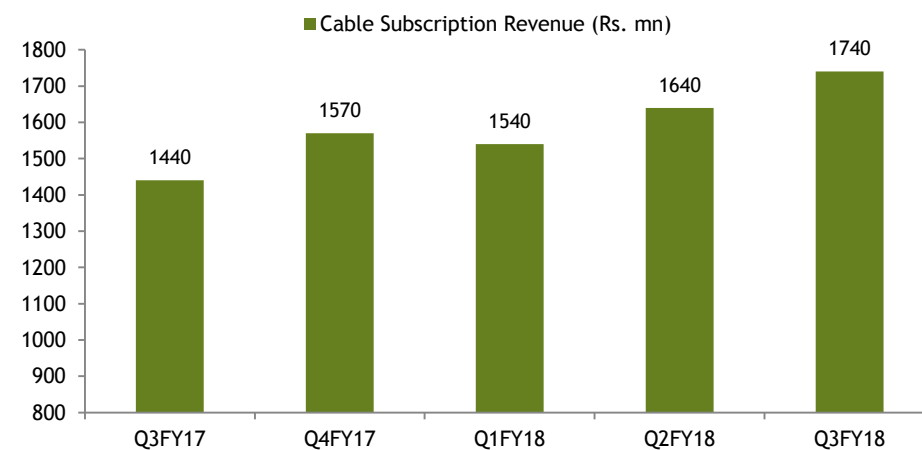
Source: Company, Equirus Securities

Exhibit 5: Cable revenues have been improving quarter on quarter



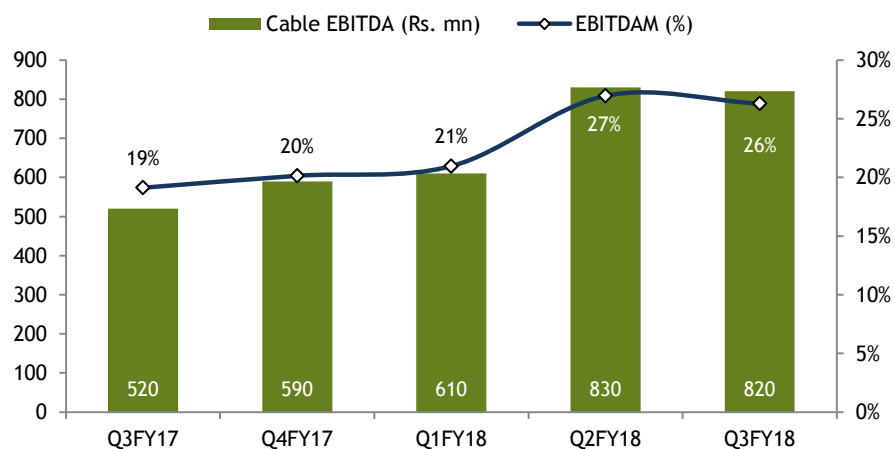
Source: Company, Equirus Securities

Exhibit 7: Cable subscription revenue has been inching upwards



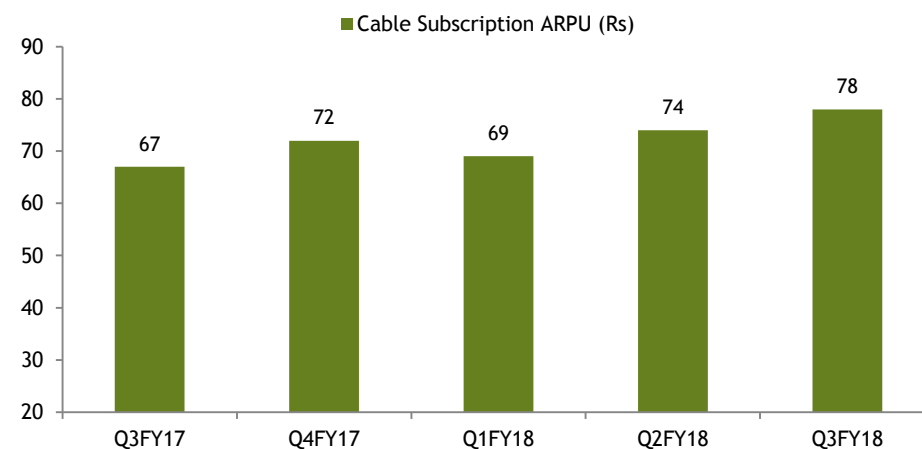
Source: Company, Equirus Securities

Exhibit 6: Cable segment EBITDAM has shown substantial improvement recently



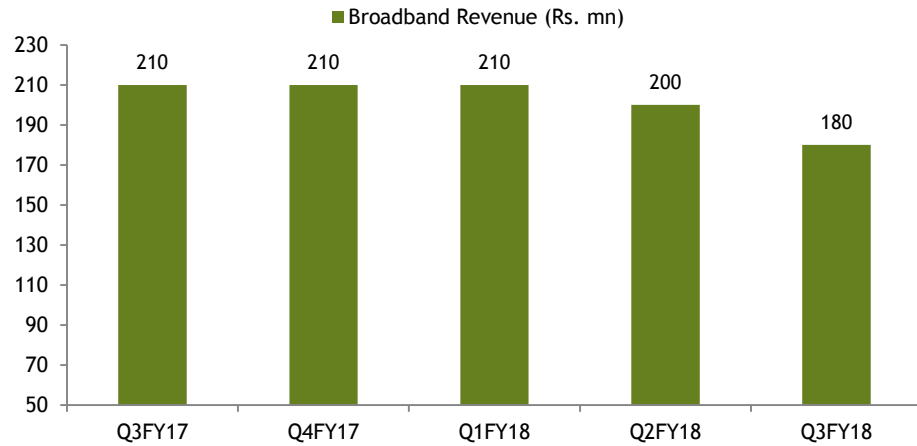
Source: Company, Equirus Securities

Exhibit 8: Cable subscription ARPU has been improving



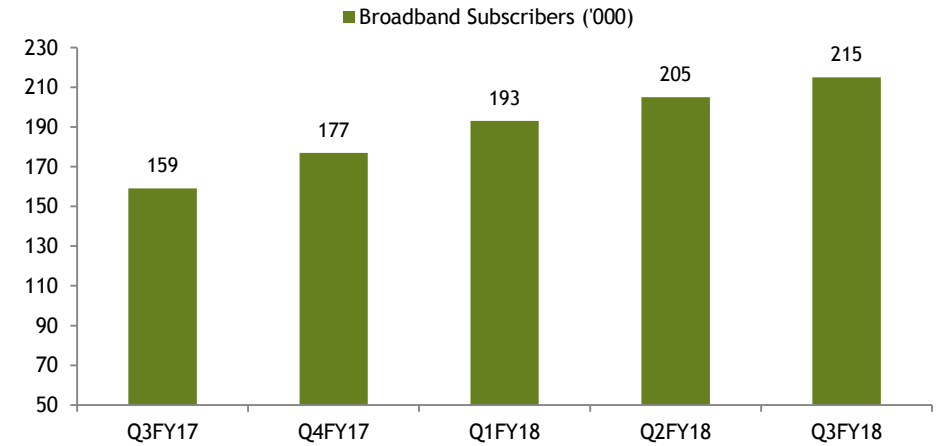
Source: Company, Equirus Securities

Exhibit 9: Broadband revenue has been muted due to pressure on ARPUs



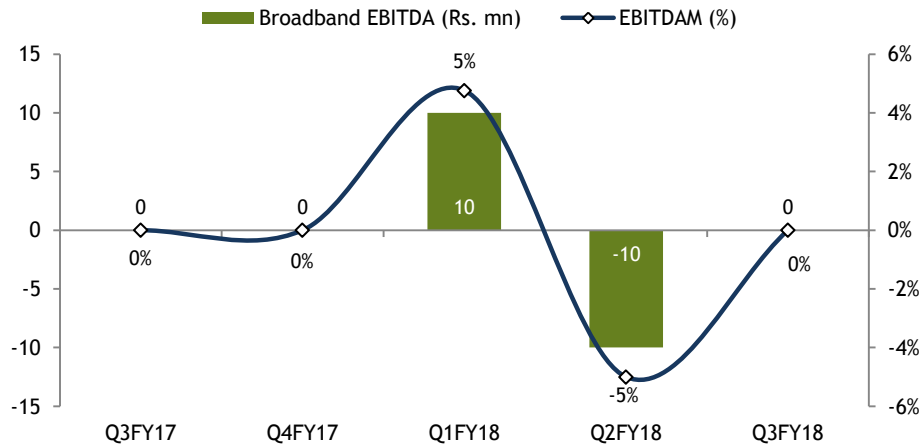
Source: Company, Equirus Securities

Exhibit 11: Broadband subscribers are growing at a good pace



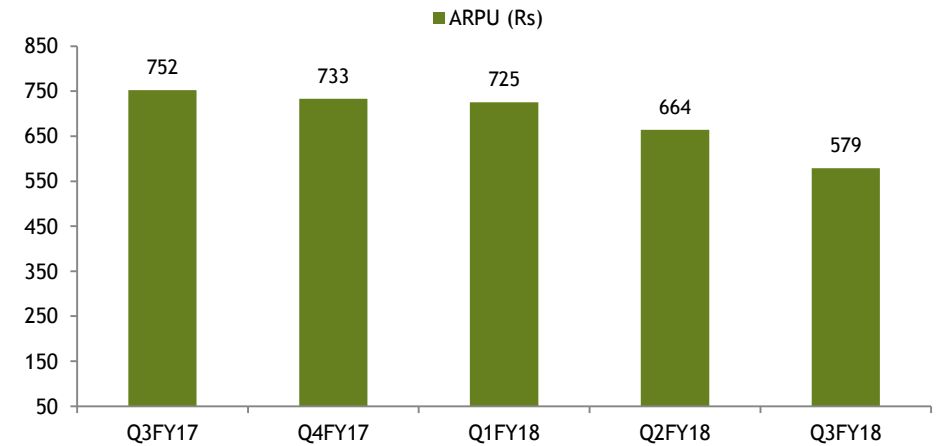
Source: Company, Equirus Securities

Exhibit 10: Broadband EBITDAM has been under pressure



Source: Company, Equirus Securities

Exhibit 12: Broadband ARPUs have been falling due to increased competition in Delhi



Source: Company, Equirus Securities

Historical Consolidated Financials

P&L (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Revenue	10,980	11,296	9,475	11,573
Op. Expenditure	8,255	10,372	10,596	9,785
EBITDA	2,725	924	-1,121	1,788
Depreciation	1,474	1,859	2,061	2,775
EBIT	1,251	-935	-3,182	-987
Interest Expense	890	823	791	652
Other Income	769	878	584	409
PBT	1,130	-880	-3,390	-1,229
Tax	379	336	218	330
PAT bef. MI & Assoc.	751	-1,216	-3,608	-1,559
Minority Interest	367	224	2	206
Profit from Assoc.	0	0	-56	-30
Recurring PAT	384	-1,440	-3,665	-1,795
Extraordinaires	0	0	650	307
Reported PAT	384	-1,440	-4,315	-2,102
EPS (Rs)	2.0	-7.4	-18.9	-9.3
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS (Rs)	10.4	2.4	-9.0	5.4
FCFPS (Rs)	-60.7	7.1	15.6	15.5
BVPS (Rs)	104.3	96.1	54.4	47.0
EBITDAM (%)	25 %	8 %	-12 %	15 %
PATM (%)	3 %	-13 %	-39 %	-16 %
Tax Rate (%)	34 %	-38 %	-6 %	-27 %
Sales growth (%)	22 %	3 %	-16 %	22 %
FDEPS growth (%)	-38 %	-475 %	155 %	-51 %

Balance Sheet (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Equity Capital	1,782	1,782	1,782	1,940
Reserve	16,803	15,337	7,915	7,176
Networth	18,585	17,119	9,697	9,116
Long Term Debt	6,169	5,793	7,951	4,532
Def Tax Liability	138	160	3,988	4,013
Minority Interest	1,335	1,655	706	896
Account Payables	3,115	2,766	2,865	3,329
Other Curr Liabi	6,276	6,129	4,106	3,200
Total Liabilities & Equity	35,617	33,622	29,313	25,086
Net Fixed Assets	10,801	11,261	12,250	11,418
Capital WIP	940	1,103	1,288	454
Others	5,521	6,289	5,828	5,772
Inventory	0	0	0	0
Account Receivables	3,919	3,980	2,626	2,402
Other Current Assets	2,012	1,330	1,823	1,514
Cash	12,424	9,658	5,498	3,526
Total Assets	35,617	33,622	29,313	25,086
Non-cash Working Capital	-3,460	-3,585	-2,522	-2,613
Cash Conv Cycle	-115.0	-115.8	-97.2	-82.4
WC Turnover	-3.2	-3.2	-3.8	-4.4
FA Turnover	0.9	0.9	0.7	1.0
Net D/E	-0.3	-0.2	0.3	0.1
Revenue/Capital Employed	0.5	0.4	0.4	0.6
Capital Employed/Equity	1.6	1.4	1.8	2.2

Cash Flow (Rs Mn)	FY14A	FY15A	FY16A	FY17A
PBT	1,130	-880	-3,390	-1,229
Depreciation	1,474	1,859	2,061	2,775
Others	909	353	1,829	413
Taxes Paid	735	734	547	298
Change in WC	-1,698	11	121	333
Operating C/F	1,079	608	75	1,994
Capex	-4,951	-3,037	-3,782	-1,637
Change in Invest	-7,662	1,910	4,979	1,275
Others	131	652	668	359
Investing C/F	-12,481	-476	1,865	-3
Change in Debt	2,772	-268	-879	-3,522
Change in Equity	9,347	3	0	1,408
Others	-858	-825	-731	-662
Financing C/F	11,262	-1,091	-1,610	-2,776
Net change in cash	-140	-958	330	-785
RoE (%)	3 %	-8 %	-27 %	-19 %
RoIC (%)	5 %	-1 %	-12 %	-5 %
Core RoIC (%)	6 %	-9 %	-21 %	-8 %
Div Payout (%)	0 %	0 %	0 %	0 %
P/E	49.6	-13.2	-5.2	-10.6
P/B	0.9	1.0	1.8	2.1
P/FCFF	-1.6	13.8	6.3	6.3
EV/EBITDA	4.8	16.8	-22.9	13.6
EV/Sales	1.2	1.4	2.7	2.1
Dividend Yield (%)	0.0 %	0.0 %	0.0 %	0.0 %

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- 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

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- 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

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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

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