

Cable digitisation will spur Den's rise

Co Set To Make Handsome Gains From Trai's Plan To Digitise Industry

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GROWTH CHANNEL

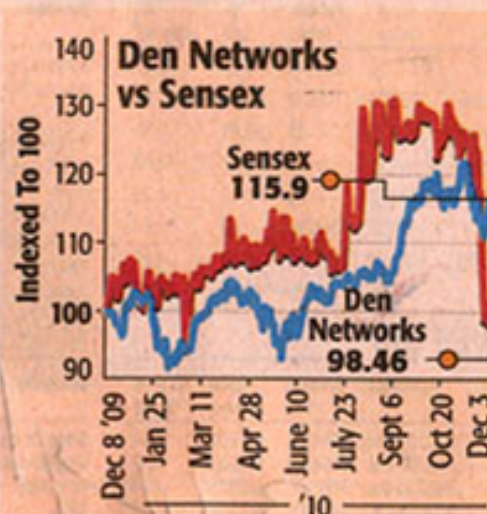
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Co's JV with News Corporation of STAR TV group and BFTV LLC will give a varied touch to its entire gamut of channels.

IN the past few months, the stocks of companies offering cable and digital services gained substantial momentum, thanks to the recommendation of the Telecom Regulatory Authority of India (Trai) to digitise the entire cable industry in three years. The recent market correction has brought the stocks down, but they are expected to grow as the first deadline of March 31, 2011, to digitise the industry in the four metros nears. The Delhi-based Den Networks is the leading company in this space.

The scrip of Den Network, which got listed at ₹195 in November 2009, went up to its highest closing of ₹238 in September 2010, thanks to the Trai's recommendations. After staying in a narrow band for a couple of months, it fell with the markets to a low of ₹179.3 by the first week of December. The scrip seems to have found its ground again with a 2.6% gain to ₹184 in the past trading session.

The company's superior financial performance compared with its listed peers has also been one reason for continued investor interest. In the September 2010 quarter, the company's consolidated net profit jumped



Source: www.etintelligence.com

nearly five times to ₹10.5 crore against the year-ago period, while net revenues grew by 11% to ₹247 crore. This strong pace of growth is expected to continue for a few more quarters.

The company enjoys a subscriber base of around 12 million, with an offering of 180 channels under both

analogue and digital services combined. The company also has a 50:50 joint venture with News Corporation of STAR TV group, that offers 29 channels. Recently, it struck a 75:25 joint venture with BFTV LLC, owner of BabyFirst—a leading babies channel, to add to its existing portfolio of

channels. These offerings give a varied touch to its entire gamut of channels.

At present, the number of households in India with television sets is estimated at 105 million, of which around 85 million have cable services, while only five million homes have digital services. In other words, to digitise the entire industry in accordance with Trai's recommendations, at least 75-80 million set-top boxes would be needed in the coming three years.

The first phase of implementation aims to digitise all the major metropolitan cities by March 31, 2011.

It is perceived that the deadline for digitisation is too short to achieve it successfully. Firstly, a huge capital expenditure, estimated at around ₹20,000-40,000 crore, will be required for digitisation. Secondly there would be opposition from existing cable operators, because of the total transparency in subscription numbers that the digitisation process will bring in.

Even if one accounts for implementation delays due to the above mentioned factors, the ultimate aim of full digitisation would ensure handsome earnings for companies like Den Networks. Investors should hold on to their investment in the company's stock considering the strong earnings visibility.

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