

# The making of India's largest DTH company

Dish TV-Videocon d2h is just the first in the wave of consolidation about to hit the TV distribution segment

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Will the Competition Commission of India allow the making of India's largest pay TV company? The answer will decide the fate of one of the biggest media mergers of the year.

On Friday, the ₹3,059-crore Dish TV announced that it was merging with the ₹2,855-crore Videocon d2h (see *The big picture*). The combined entity, Dish TV Videocon, would have 26.4 million subscribers: 45 per cent of all active direct-to-home, or DTH, subscribers in India.

If Dish TV Videocon switches off a channel or a network, say Star, the broadcaster would lose entry into over 26 million homes with a cascading effect on reach, advertising and pay revenues. Wouldn't that constitute dominant market share and, therefore, come under the Competition Commission's lens?

Videocon d2h Executive Chairman Saumabh Dhoot reckons that in the larger scheme of things, it doesn't. "The total market stands at over 170 million homes. There are six DTH players, 10 to 20 large cable distribution firms and thousands of online video or over-the-top platforms and Ilic. There are so many smartphone apps offering free video. Hotstar. Voot *et cetera*. So there is a lot of competition," he says.

Dish TV Managing Director Jawahar Goel, the man who will head Dish TV Videocon, is circumspect. There are 12 to 14 permissions to get before the merger can go through in the second half of 2017. It all he says on the regulatory bit.

Earlier this year, PVR Cinemas'

buyout of DT Cinemas was cleared with some stiff conditions. That perhaps is playing on Goel's mind.

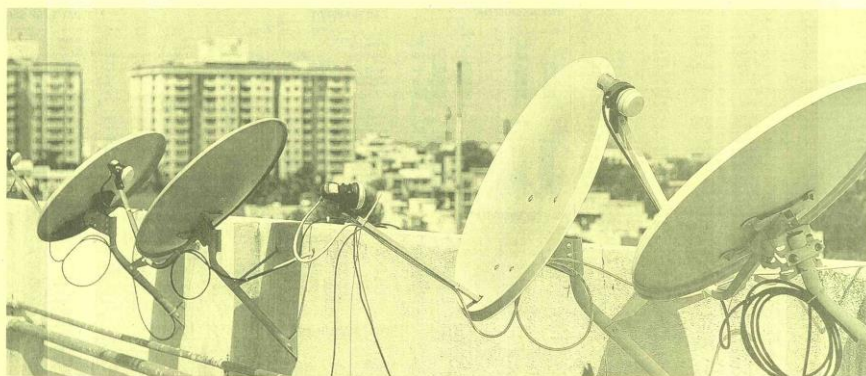
Whether it gets cleared or not, "the merger is a harbinger to more industry consolidation through mergers and acquisitions which will rebalance the competitive equation. Therefore, a potential merger between Tata Sky and Airtel Digital in the coming years cannot be ruled out," says an analyst of the deal by Hong Kong-based consulting firm Media Partners Asia. "Over time, as the Dish TV and Videocon d2h merger gets digested, the potential to bring (Reliance's) Big TV and Sun Direct under the umbrella may become an important consideration."

Dish TV will own 36 per cent of the new entity and Videocon, 28 per cent — the rest will be owned by institutions and retail investors. The BSE/NSE-listed Dish TV stock rose on news of the merger, especially after analysts gave it a thumbs up. The deal values the Nasdaq-listed Videocon d2h at over a billion dollars or about 23 per cent over its closing price just a day before the deal on November 10.

## The urge to merge

More consolidation in TV distribution is inevitable. Unlike broadcasters, which are a largely consolidated lot, distribution in India's ₹54,220-crore television market remains a fragmented, overregulated nightmare. There are hundreds of OTT platforms which don't need a licence. Thousands of cable operators who don't declare their total connections and therefore pay a fraction of the taxes against 33 to 35 per cent that DTH operators do.

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## THE BIG PICTURE

	Dish TV	Videocon d2h	Combined entity	
			FY16 proforma	FY19 estimated
Operating revenue (₹ crore)	3,060	2,855	5,915	8,182
Content cost (% of operating revenue)			32.7	31.4
Licence fee + e-tax (% of revenue)			12.1	7.0
Transponder cost (% of revenue)			5.5	1.5
Ebitda (₹ crore)	1,025	789	1,814	3,293
Net subscribers (million)	14.5	11.9	26.4	32-40
Shareholding in combined entity*	36	28		

\*36 per cent will be held by the public and other retail investors; Ebitda: Earnings before interest, taxes, depreciation, and amortisation  
Source: Analyst reports from Media Partners Asia and Kotak Institutional Securities

try, the lack of a level playing field between different distributors of the same TV signal — DTH, headend-in-the-sky, cable IPTV — is a huge bugbear. "There is no licence fee on headend-in-the-sky, no taxation on digital cable," says Goel.

To add to that, price regulation pegs DTH prices to cable, which are very low because cable operators do not declare all their revenues. This has meant huge debt and taxes that leave most DTH operators gasping for returns.

For instance, Dish TV, launched in 2003, is part of the ₹10,843-crore Zee Group, which in turn is a part of independent MP Subhash Chandra's Essel Group. While Dish TV reported a net profit of ₹419 crore in 2015-16, a turnaround year, it has accumulated losses of ₹1,558 crore. For a company, which has been in operation since 2003, it has meant no returns for investors, of

which the biggest is Chandra's 2009 and is still in the red with a net loss of ₹93 crore, in spite of being one of the fastest growing DTH services. Goel, Dhoot and most analysts expect the deal to unlock economies of scale that having control over 26 million homes would bring. These range from being able to negotiate better deals with broad-

casters, thereby reducing content costs, to the ability to pool expensive satellites or source set-top-boxes and other hardware cheaper. (Dish TV Videocon might source from one of the Videocon companies, though nothing has been stated so far.)

"We expect cost savings of more than ₹300 crore within two to three

years of the merger. Key savings would likely be in content costs and transponder costs," says Kotak Institutional Securities in a report. "The merger also helps us increase our alternative revenue streams from carriage, advertising *et cetera*," says Dhoot. Both Dish and Videocon d2h have a large chunk of their subscriber base in Tier III and IV towns, which creates marketing synergies, too. They will however keep their individual brands to offer consumers a wider choice, says Dhoot.

If the merger does go through and manages to carve a profitable chunk of the TV industry, it makes Dish TV Videocon a symbol of the possibilities in the world's second largest television market (by volumes). Goel predicts more consolidation, not just in DTH but also in cable. "Everybody is talking to everybody else," he says.



"For the past three years, we have been trying to improve our balance sheet. The family owns 64.4 per cent of Dish TV but there have been no returns on a huge investment"

JAWAHAR GOEL  
MD, Dish TV