

Management Discussion and Analysis

Overview

Digitization continued to play a major role in transforming the face of the Indian media and entertainment industry with DTH being the single greatest force behind it. The Indian DTH industry grew exponentially in the previous fiscal, acquiring in its fold 13.5 million new subscribers far surpassing the previous year figure of 8.5 Million. A series of national and international sporting events and introduction of new age services like High Definition complemented the proliferation of DTH subscribers in the country. The cumulative DTH subscribers in India stand at around 35 Million currently.

India is the world's third largest TV market, next only to China and USA. The 140 Million TV households in the country continue to grow in the range of 7% per annum thereby expanding room for the DTH players to convert the existing terrestrial and analog households. The appetite for entertainment, infotainment and sports is increasing as a result of rise in level of education, high level of social connectivity, improved affordability, linguistic diversity and the rise of worldly outlook amongst the majority of educated Indians. Today around 550 satellite channels across multiple genres are available in the country. Rising consumerism in rural India and increased level of discretionary spends has heightened the aspiration quotient among all socio economic categories, thus enabling adoption of DTH in the country.

Meanwhile, some of the already digitized homes have begun upgrading to High Definition transmission. Various value added services have also supplemented the growth and popularity of DTH.

Dish TV not only maintained its leadership in the category but also consistently delivered higher operating margins in each successive quarter of the previous fiscal thus getting closer to achieving bottom-line profitability.

SWOT ANALYSIS

Strengths

Being the pioneer and the leader in the Direct-to-home (DTH) distribution space, the brand Dish TV today is a synonym for quality digital entertainment in the country. As a part of the Essel Group - which has diverse presence across media, packaging, entertainment, technology enabled services, infrastructure development and education and also the Zee Network - which is India's first and largest fully integrated media and entertainment company, Dish TV, enjoys superior brand equity.

Dish TV today is recognized for its largest bouquet of channels, pan-India selling and distribution network and the most advanced infrastructure and technology amongst others.

During the year under review, Dish TV acquired additional transponders on the Asiasat 5 satellite thus increasing its total transmission bandwidth to 648 MHz from 432 MHz previously. The increased transponder capacity enabled Dish TV to increase its standard definition channel capacity to over 320 and High Definition capacity to over 35 which is substantially higher than any competing DTH operator in both HD as well as SD transmission. The availability of bandwidth on the new satellite is a key differentiator and competitive advantage for Dish TV amongst other DTH operators.

A large upsurge in active trade partners (dealer, distributor, installer, service franchisee, Dish shoppee, Dish care centers, modern trade, chain stores and e-stores) across the nook and corner of the country have enabled ever deeper customer connectivity and door step availability of the product.

Weakness

Multiple taxation continues to be an area of concern for the entire DTH sector. This is especially considering the competition from unorganized cable operators who continue to under declare subscriber numbers and the income and thus manage to operate with minimal Average Revenue per User. Due to low declaration by cable operators, cable rates have been stagnant and restrictive to the growth of ARPU for the DTH sector. Dish TV continues to strive to increase its Average Revenue per User through measures like content enrichment, expansion of re-charge points, churn management and continuous up-gradation of service offered through the Dish TV platform.

Opportunities

Out of 140 million television households in the country around 116 million are Cable and/or Satellite (C&S) households. The difference being households having only terrestrial connection. For the DTH industry, both Cable and terrestrial households are potential targets. At present, the DTH market stands at 35 million subscribers thus providing sufficient room for conversion of analog and terrestrial TV households.

Moreover, the incidence of multiple TV sets in the same home is now a common phenomenon-close to 10% TV homes are now with two or more TV sets and the skews are fairly high in cities. This also expands the market for multiple Set Top Boxes per household.

Also, with the reduction in price of flat panel televisions, demand for quality television experience and hence DTH would grow.

With the advent of High Definition broadcasting, DTH is now two generations ahead in technology compared to the traditional analogue cable. The availability of content in HD format will keep the DTH category ahead of Analog and Digital cable in the coming years. Existing digital users have been upgrading to high definition viewing and expanding the consumption pie.

The Information & Broadcasting Ministry has announced its intent to implement the Digital Addressable Cable System by 2014 leading to a sunset for the analogue cable regime. The first phase comprising of four Metros is proposed to be implemented by 31 March 2012. Dish TV being the market leader in the digital distribution space expects this to have a significant upside for its business. As consumers are forced to evaluate digital viewing options, the majority are likely to choose DTH over cable due to inherent advantages of Value Added Services, HD, better picture and sound quality, choice of channels, flexibility of payment and movie on demand amongst others.

The recent judicial pronouncement reducing the cost of content for DTH operators from the existing 50% of non CAS rates to 42% of non CAS rates will further boost the financial health of the DTH industry.

Threats

Cut throat competition, from other DTH players as well as digital cable by undercutting prices is a clear threat. The result of such unreasonable competition can be slow growth in ARPU, and higher incidence of churn. Regulatory intervention restricting the growth and profitability of the DTH sector is also a potential threat.

Strategy

Commanding phenomenal growth and acceptance, DTH has finally established itself in the country as one of the most indispensable platform of entertainment. A highly competitive six player market incurring a combined marketing spend of close to ₹ 8 billion per annum has helped increase awareness levels and aided product penetration. A diversified country and overall eagerness to adopt new technology by the masses after the successful penetration of mobile phones has been the main reason for the growth of the DTH sector.

Going forward, the focus of the management will remain towards garnering maximum subscribers over

the next few years, to grab the largest piece of the entertainment pie. However, the major component of revenue is accrued from existing subscribers, so the recharge and retention leg have already started taking center-stage and will continue to do so.

Higher acquisitions will continue to be driven through a judicious mix of brand equity, product packaging and pricing strategies that have helped Dish TV maintain its leadership position. This will be complemented by a sales and distribution network that enables proximity between the subscriber and box sales and recharge. Consumer-centric initiatives and services like Home Delivery, Call me, will continue to drive an emotional connect with existing and new subscribers alike.

The next level of DTH regime will be led by technology innovations such as HD STB, STB with video recorders and 3D ready STB. These new products coupled with launch of niche, HD content will address emerging consumer needs and drive higher engagement and ARPUs. The HD transmission of channels and increasing adoption and distribution of HD Set Top Boxes shall be the highpoint with a clear focus to address the high ARPU segment of the market.

Ensuring timely recharges through expansion of the recharge network and addition of newer and convenient modes of payment are integral to the health of the business. The subscribers are already availing the services of various payment windows like AP Online, Oxigen and Intrex. Various new outlets shall also be made available during the year. The entire objective is to bring the payment outlets closer to the subscribers thereby ensuring timely revenue generation and reduction in subscriber churn.

Strengthening subscriber relationships and delighting them at every touch-point are key essentials to a healthy retention model. Thus in addition to a seamless recharge experience, service delivery at the subscribers doorstep is the key. The Company is providing various kinds of services through the Services Franchisee's/Dish Shoppee/Dish care centers and the thrust will be towards expanding the same to at least 250 towns representing a larger section of the existing subscriber base. Similarly, a consistent delightful experience at call centre is being enabled through a robust mix of technology, resources and processes to ensure prompt resolutions and support.

Alternate streams of revenue have been set in motion through the concept of Ad Sales and teleport fees. The Company has ventured in providing unique interactive opportunities on the platform for advertisers and

broadcasters to reach out to over 10 million Dish TV consumer base and communicate their brand message to them.

Key Performance Indicators

In view of intense competition in the DTH segment and a competitive pricing environment – providing subsidy on the DTH hardware, brand building, penetration in the rural market and up gradation of the existing subscribers to higher value packs drew the management attention all throughout the year. EBITDA margin continued to its upward movement throughout the year. Customer care, service quality, expansion of service franchisee and Dish care centers also remained the focal point for retaining and servicing the customers.

During the year key highlights of operational performance were as under:

- Gross subscriber base stood at 10.4 Million on 31 March 2011
- Operating Revenue for FY 2010-11 stood at ₹ 15.24 Billion
- EBITDA for FY 2010-11 stood at ₹ 2.53 Billion
- Total Number of Channels & Services – 267 being the highest in the category
- Total number of HD service stood at 35, once again the Highest in the category
- ARPU for FY 2010-11 stood at ₹ 142

Risk Management and Internal Control

Owing to the nature of the business, the Company is bound to come across various risks like political risk, competition risk, technology obsolescence risk, human resource risk and currency fluctuation risk. The Company has a robust Risk Management Policy to control and mitigate the risks to maximize opportunity and minimize adversity. Additionally, risk management and mitigation are integral part of the decision making process of the Company at all levels. Further, the Company has also in place Insurance

policies to protect the assets of the Company from any loss arising out of damage or loss of property of the Company.

The Company also has a comprehensive system of Internal Control to safeguard the Company and its assets and to ensure proper authorization of financial transactions. The Company has instituted a process of Internal Control aimed at providing high degree of assurance regarding effectiveness and efficiency of operations, reliability of financial control and compliance with applicable laws and regulations. The internal control systems laid down by Company and their adoption and compliance is continuously monitored by independent Internal Auditors.

Talent Management

The Company has built a strong pool of talent by committed efforts to attract, transform and retain the best talent available. The Company has young and vibrant team of highly qualified professionals at all the levels of the Company. Significant emphasis is also laid on enhancing managerial and leadership qualities at senior management level to propel the Company towards stronger and more sustainable growth. A well laid down performance linked compensation plan has also been adopted by the Company that links compensation to individual performance as well as the performance of the Company. We aim to continue and nurture the talent management process of the Company which is the back bone and essential to continue the exponential growth of the Company.

Cautionary Statement

Statements in this report describing the Company's objectives, expectations or predictions may be forward looking within the meaning of the applicable laws and regulations. The actual results may differ materially from those expressed in this statement. The Company does not undertake to make any announcement or update in case any of these forward looking statements become materially incorrect in future.