



# Valuation and risks

We have factored in net subscriber additions in FY16/FY17 of 1.4/1.4mn. We now factor in 8%/10% content-cost increases in FY16/FY17. Our estimates are conservative compared to management guidance of mid-single-digit growth for content cost for FY16.

We set our target price at an exit EV/EBITDA of 11x September 2016E.

## DCF valuation

The key assumptions of our three-stage FCFF (free cash flow to firm) methodology are:

- Risk-free rate of 7%, market risk premium of 7.1% (we apply a standard estimated risk-free rate and market-risk premium to all the Indian companies we cover), and beta of 1 (Bloomberg Finance LP), implying a cost of equity of 14.1%;
- 12% cost of debt and stable state tax rate of 33%, implying a WACC of 13.1%; and
- Growth in the stable phase of 4% (which is the long-term growth rate for the number of households in India).

Figure 8: DCF valuation table

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY22	FY22	FY23	FY24	FY25
EBIT	288	1,156	3,231	4,201	5,461	7,099								
Tax	0	0	323	840	1092	1420								
EBIT after tax	288	1,156	2,908	3,361	4,369	5,679								
Add Depreciation	5,973	6,140	6,160	5,544	4,712	4,477								
Less Capex	2,739	5,674	5,905	4,429	3,100	2,480								
Less change in Working capital	(270)	(91)	(84)	(100)	(120)	(145)								
FCF	3,792	1,714	3,247	4,576	6,101	7,820	9697	11637	13732	15654	17532	19636	21993	24632
Growth		-55%	89%	41%	33%	28%	24%	20%	18%	14%	12%	12%	12%	12%
Terminal value														280248
Discount rate		1.00	0.88	0.78	0.69	0.61	0.54	0.48	0.42	0.37	0.33	0.29	0.26	0.23
Discounted value		1714	2870	3575	4213	4773	5231	5548	5786	5830	5771	5713	5655	69294
EV	125972													

Cost of Debt adjusted for tax	8.0%		EV	125,972
Risk free rate	7.0%		Net Debt	11,000
Market risk premium	7.1%		Value of Equity	114,972
Beta	1.0			
Cost of equity	14.1%			
		<b>Value per share</b>	<b>108</b>	
Net Debt	11000			
Market cap	58498			
WACC	13.1%			
Terminal growth	4.0%			

Source: Deutsche Bank estimates