

GTPL Hathway Limited

GTPL Hathway Ltd. (GTPL) was initially incorporated by Aniruddhasinhji Jadeja and Kanaksinh Rana, through the consolidation of cable service businesses in Ahmedabad and Vadodara. In October 2007, Hathway acquired a 50% share of business. GTPL is a leading regional Multi System Operator (MSO) in India, offering cable television and broadband services with a market share of 67% of cable television subscribers in Gujarat and number 2 MSO in Kolkata and Howrah in West Bengal with a market share of 24% of cable television subscribers. As of January 31, 2017, the company's digital cable television services reached 189 towns across India, including towns in Gujarat, West Bengal, Maharashtra, Bihar, Assam, Jharkhand, Madhya Pradesh, Telangana, Rajasthan and Andhra Pradesh.

Positives: (a) One of the leading regional MSOs with significant market share in Gujarat and Kolkata; (b) High quality infrastructure network; (c) Balanced local and regional content to attract and retain subscribers; (d) Strong traction on digitization; (e) Successful track record of identifying, acquiring and integrating MSOs, ISOs and LCOs; (f) Experienced promoters and management team backed by promoter company Hathway Cable & Datacom.

Investment concerns: (a) None of the players in the cable industry within peer group (Den Networks, Hathway Cable & Datacom, Ortel Communication & Siti Cable Networks) have reported profits in last 3-5 years; (b) Cable business is highly Local Cable Operator (LCO) dependent revenue model, which poses inherent risk (Cable biz contributes ~80% revenues); (c) Presence of the Hathway in the same geography may cannibalize the potential subscribers; (d) Intensifying competition - new entrants at pan India level in broadband and DTH business may further create pricing pressure; (e) GTPL has low asset turnover ratio and in order to remain competitive it will need to continuously upgrade technology; (f) Experienced Promotor (Hathway Cable & Datacom) is making losses from last four fiscal years.

Outlook and Valuation: In terms of valuation, GTPL's P/BV multiple annualised 9MFY2017 at 3.1x, as compared to peers i.e. Den Networks 1.8x, Hathway Cable & Datacom 0.7x, Ortel Comm. 1.4x, Siti Networks 4.8x. The cable industry is already undergoing a period of weak performance and with disruptive pricing of new entrants, there is a high probability that the performance may weaken further. **Hence, we recommend NEUTRAL rating on the issue.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Net Sales	453.2	577.2	622.8	844.6	689.3
% chg	26.6	27.4	7.9	35.6	-
Net Profit	38.3	24.0	16.7	69.0	43.2
% chg	26.6	(37.2)	(30.4)	313.3	-
OPM (%)	23.6	27.0	24.0	31.3	29.5
EPS (₹)	226.0	120.1	83.5	7.0	4.4
P/E (x)	1.5	2.8	4.0	47.4	-
P/BV (x)	0.3	0.2	9.8	7.1	-
RoE (%)	16.3	7.7	6.1	12.8	-
EV/Sales (x)	0.5	0.5	5.5	4.2	-
EV/EBITDA (x)	2.3	1.9	23.0	13.3	-

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: June 21, 2017
 Issue Close: June 23, 2017

Present Eq. Paid up Capital: ₹98.4cr

Offer for Sale: **1.44cr Shares

Fresh issue: ₹240 cr

Post Eq. Paid up Capital: ₹112.5cr

Issue size (amount): *₹480cr -**485 cr

Price Band: ₹167-170

Lot Size: 88 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1878cr - **₹1912cr

Promoters holding Pre-Issue: 98.9%

Promoters holding Post-Issue: 73.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	60% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	74%
Others	26%

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Company background

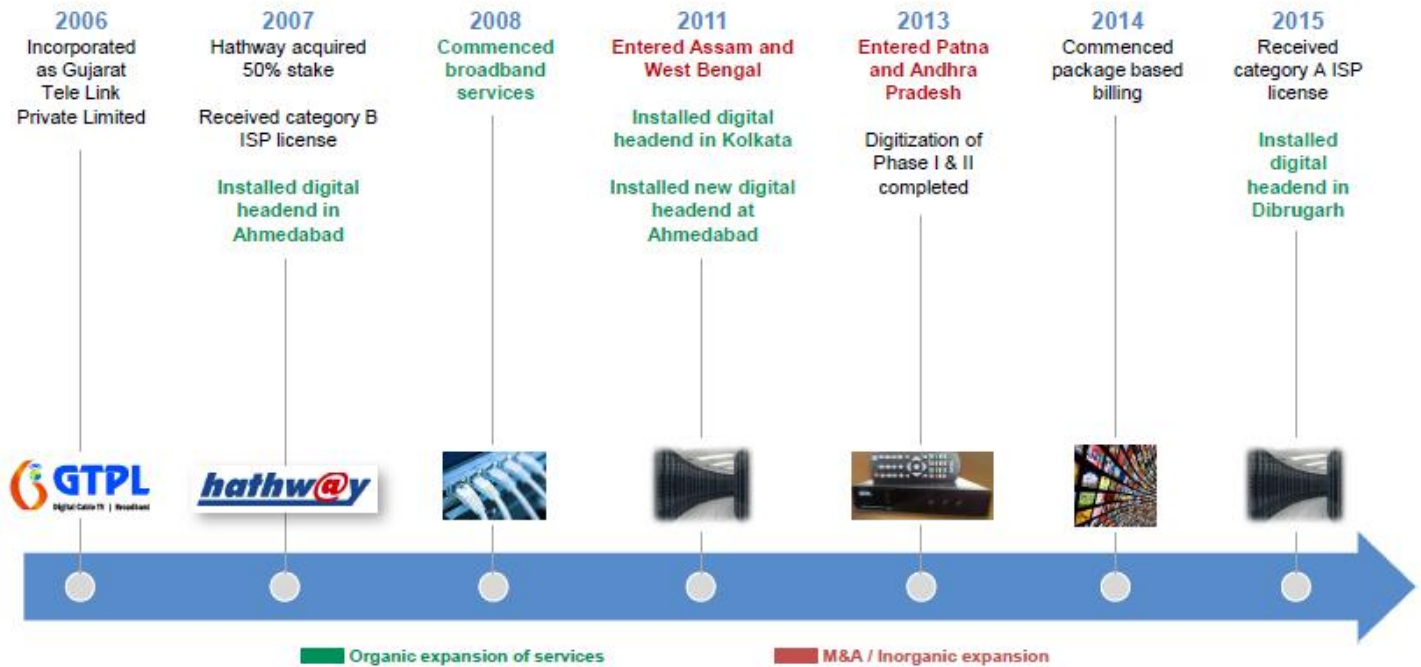
GTPL Hathway Ltd. (GTPL) was initially incorporated by Aniruddhasinhji Jadeja and Kanaksinh Rana, through the consolidation of cable service businesses in Ahmedabad and Vadodara. In October 2007, Hathway acquired a 50% share of business. GTPL is a leading regional MSO in India, offering cable television and broadband services. GTPL is number 1 MSO in Gujarat with a market share of 67% of cable television subscribers in 2015, accounting for ~3.7 million of 5.6 million cable television households in Gujarat. Also, it is number 2 MSO in Kolkata and Howrah in West Bengal with a market share of 24% of cable television subscribers in this market in 2015, accounting for approximately ~0.7 million of 3.0 million cable television households in Kolkata and Howrah. Gujarat is an important market for broadcasters and advertisers, as it contributed to more than a 5% viewership share on an all-India basis and more than 8% of the Hindi speaking market in India in 2015. GTPL accounted for a 14% share of the total cable carriage and placement fee market in India in FY2016.

As of January 31, 2017, GTPL's digital cable television services reached 189 towns across India, including towns in Gujarat, West Bengal, Maharashtra, Bihar, Assam, Jharkhand, Madhya Pradesh, Telangana, Rajasthan and Andhra Pradesh. As of January 31, 2017, company seeded ~6.55 million STBs and had ~5.69 million active digital cable subscribers. As of August 31, 2016, it received requisitions from LCOs for ~2.02 million STBs (Set-Top box). Between September 1, 2016 and January 31, 2017, it has seeded 0.46 million STBs. As of January 31, 2017, Company had 228,217 broadband subscribers (based on the number of broadband subscribers of Subsidiary, GTPL Broadband Private Limited; the broadband business of Company was transferred to GTPL Broadband Private Limited with effect from April 1, 2016). As of January 31, 2017, GTPL provided broadband services primarily in the state of Gujarat and had established a home pass of ~1.05 million households.

GTPL's primary source of revenue from cable services is subscription income received from subscribers and placement / carriage income received from carriage fees payable by broadcasters for carrying their channels and placement fees payable by broadcasters for placing their channels on a preferred channel number or position. As of January 31, 2017, company offered up to 285 pan-India standard definition channels, 158 regionally-transmitted standard definition channels, 32 pan-India high definition channels and 39 regionally-transmitted high definition channels on digital cable platform. GTPL also owns and operates 27 channels offering localized content developed for the states in which company broadcasts, including a range of religious and cultural content, film, music and educational channels. GTPL also has the right to place the "Gujarat News" channel on its network, which is produced by Group Company, Gujarat Television Private Limited. Company produces its own content and also offers third-party content on its local channels to ensure that it has a suitable mix of content that appeals to a range of demographics. Company believes its local content offering is a key strength, and provides a competitive advantage to attract, retain and grow its subscriber base.

Exhibit 1: GTPL's Journey

Evolved over the years to become a leading regional MSO in India



Source: IPO Presentation, Angel Research

Issue details

The company is raising ₹240cr through a fresh issue of equity shares in the price band of ₹167-170. The fresh issue will constitute ~12.6% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 1.44cr shares that are being sold by the promoter group.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	9,73,10,088	98.9	8,29,10,088	73.7
Others	10,35,300	1.1	2,95,52,947	26.3
	9,83,45,388	100.0	11,24,63,035	100.0

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

- Repayment/pre-payment, in full or part, of certain borrowings availed by Company (₹228.9Cr will be utilized).
- Remaining will be utilized for general corporate purpose.

Investment Rationale

One of the leading regional MSOs with significant market share in Gujarat and Kolkata

GTPL is one of the leading regional MSOs in India offering cable television and broadband services. As of January 31, 2017, company's digital cable television services reached 189 towns across India, including towns in Gujarat, West Bengal, Maharashtra, Bihar, Assam, Jharkhand, Madhya Pradesh, Telangana, Rajasthan and Andhra Pradesh. GTPL is number 1 MSO in Gujarat with a market share of 67% of cable television subscribers in 2015, accounting for ~3.7 million of 5.6 million cable television households in Gujarat. Also, number 2 MSO in Kolkata and Howrah in West Bengal with a market share of ~24% of cable television subscribers in this market in 2015, accounting for ~0.7 million of 3.0 million cable television households in Kolkata and Howrah. Company believes that the significant market shares in Gujarat, Kolkata and Howrah are a result of early entry into these regions, strong relationships with LCOs that have developed & consolidated since entering these markets, continuous investment in advanced technology development and GTPL's niche and exclusive local content offerings that appealed to subscribers in these regions. Gujarat is an important market for broadcasters and advertisers, as it contributed to more than a 5% viewership share on an all-India basis and more than 8% of the Hindi speaking market in India in 2015. GTPL accounted for a 14% share of the total cable carriage and placement fee market in India in Fiscal 2016.

High quality infrastructure network

GTPL's services are supported by its owned and leased fiber optic cable network (using HFC), digital head-ends, analog head-ends, advanced CAS, SMS and advanced internet nodes facilitating seamless delivery of services. GTPL believes that its ability to improve and maintain its network infrastructure to keep pace with the constantly evolving subscriber preferences and technology landscape provides a competitive advantage. GTPL's digital services platform is supported by its owned intercity and intra-city optical fiber cable network, which, as of January 31, 2017, spanned ~5,406 kilometers (on a consolidated basis), and the fiber network leased to the Company, which spanned ~3,615 kilometers (on a standalone basis). Its digital cable services across coverage area are supported by two main digital head-ends located in Ahmedabad and Kolkata. Currently, GTPL is in the process of upgrading its main head-end in Ahmedabad with advanced technology from Harmonic International AG. GTPL also has four support digital head-ends located in Dibrugarh, Adilabad, Visakhapatnam and Patna, which are connected via leased-line network from various telecom operators, who in turn deliver these leased line circuits through GTPL's own optical fiber cable network spanning over 25,000 kilometers (on a standalone basis). These head-ends are used to insert certain encrypted local channels along with the feed received from the main head-ends. The support head-ends also provide backup in the event of any disruption or outage in the leased line. As of January 31, 2017, the Company's digital cable TV transmission used a spectrum ranging from 306 MHz to 682 MHz.

GTPL sources the equipment for digital service offerings from some of the leading international vendors of digital components. Company procures STBs primarily from NDS Limited, Changhong (Hong Kong) Trading Limited, Shenzhen Skyworth Digital Technology Co. Limited and Tele System Communication Pte. Ltd. Moreover, other equipments such as head-ends and servers are procured from some of the leading suppliers, including Harmonic International AG and NDS Limited. CAS is sourced from Nagravision S.A. and NDS Limited and fiber is procured from vendors such as Sterlite Technologies Limited. GTPL's services are supported by Magnaquest Technologies Limited, which is an advanced software platform.

Strong traction on digitization

GTPL's market position and industry expertise has provided it with the ability to take advantage of the four-phased policy on digitization announced by the MIB (Management Information Base), pursuant to which the cable television industry must transition the distribution of channel signals in India to DAS (Direct Attached Storage) by March 31, 2017, thereby requiring cable operators to transmit digital signals through addressable STBs. In accordance with the digitization schedule set out by the MIB, company has completed roll-out of STBs in Phase I, Phase II and Phase III areas and is working towards completing the roll-out of STBs in Phase IV areas.

Exhibit 3: Digitalization Schedule

	STBs Seeded ²	Subscriber package roll-out	Billing
Phase 1 (0.57 million digital active STBs ¹)	100% covered	Already rolled out	Package allotted to subscribers, LCO billing to subscribers on MSO platform, MSO billing to LCO on package allotted to subscribers
Phase 2 (1.72 million digital active STBs ¹)	100% covered	Already rolled out	Package allotted to subscribers, LCO billing to subscribers on MSO platform, MSO billing to LCO on package allotted to subscribers
Phase 3 & 4 (3.39 million digital active STBs ¹)	> 3.6 million subscribers digitized (i.e. STBs seeded ²)	Gujarat completed; other areas are under process	Gujarat: Per subscriber billing to LCO began in February 2016 Other areas: Per subscriber billing to LCO began in August 2016

Source: RHP, Angel Research

Successful track record of identifying, acquiring and integrating MSOs, ISOs and LCOs

As on January 31, 2017, GTPL had active relationships with 14,606 LCOs. Company had added 4,004 and 1,286 LCOs on a net basis in Fiscal 2016 and

Fiscal 2015, respectively, and another 3,338 LCOs on a net basis in Fiscal 2017 through January 31, 2017. Company believes that its understanding of the cable television distribution industry and its acquisition experience has enabled it to identify and successfully acquire MSOs/ISOs/LCOs. Typically, company retains the existing management of an MSO/ISO/LCO at the time company acquires its majority interest, which allows it to leverage its existing relationships with subscribers. In addition, company generally allows the senior management and promoters of an acquired MSO/ISO/LCO to retain a significant minority interest, which it believes aligns their long-term interest with GTPL. As employees of LCOs often have established relationships with subscribers, company generally structures its relationship such that the LCO continues to act as the principal contact with subscribers in the relevant local area. In certain instances, company acquires the cable television subscribers of LCOs, thereby enrolling them as primary subscribers and allowing it direct subscriber access, which results in improved monetization prospects. Company has implemented a range of training initiatives for employees of LCOs, including training intended to improve their familiarity with services and procedures, to help ensure that the LCOs provide subscribers with quality service.

Outlook and Valuation

In terms of valuation, GTPL's P/BV multiple annualised 9MFY2017 at 3.1x, compared to peers i.e. Den Networks 1.8x, Hathway Cable & Datacom 0.7x, Ortel Comm. 1.4x, Siti Networks 4.8x. The cable industry is already undergoing a period of weak performance and with disruptive pricing of new entrants, there is a high probability that the performance may weaken further. **Hence, we recommend NEUTRAL rating on the issue.**

Key risks

- There are various proceedings involving Company, Directors, Subsidiaries, Promoters and Group Companies, which if determined against them, may adversely affect business.
- The new tariff regime introduced by the Tariff Order may have a significant impact on future ARPUs, pay TV economics, pricing model, operational flexibility and results of operations.
- The success of the company's broadband services may be slowed or halted by competition from wireless internet or fixed broadband offerings in India.

Consolidated Income Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Total operating income	453	577	623	845	689
% chg	26.6	27.4	7.9	35.6	-
Total Expenditure	346	421	474	580	486
License fees	260	318	352	414	329
Personnel	36	49	60	80	78
Others Expenses	51	54	61	86	79
EBITDA	107	156	149	264	203
% chg	51.1	46.0	(4.4)	77.3	
(% of Net Sales)	23.6	27.0	24.0	31.3	29.5
Depreciation & Amortisation	29	72	84	104	102
EBIT	78	84	65	160.1	102
% chg	44.6	8.4	(22.6)	144.8	
(% of Net Sales)	17.2	14.6	10.5	19.0	14.7
Interest & other Charges	20	40	42	46	43
Other Income	2	2	9	8	11
(% of PBT)	3.4	4.6	28.5	7.0	16.3
Recurring PBT	60	46	33	108	70
% chg		(23.4)	(28.6)	226.2	
Tax	19	22	13	49	25
PAT (reported)	42	25	20	59	45
% chg		(41.1)	(17.4)	192.2	
(% of Net Sales)	9.2	4.3	3.3	7.0	6.6
Basic & Fully Diluted EPS (Rs)	226.0	120.1	83.5	7.0	4.4
% chg		(46.9)	(30.4)	(91.6)	

Source: RHP, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
SOURCES OF FUNDS					
Equity Share Capital	2	2	2	98	98
Reserves & Surplus	254	316	331	366	409
Shareholders Funds	255	318	333	464	508
Minority Interest	37	43	48	57	59
Total Loans	230	282	240	348	436
Deferred Tax Liability	12	22	28	43	43
Total Liabilities	534	666	649	912	1,046
APPLICATION OF FUNDS					
Gross Block	1,261	1,446	1,445	1,645	1,845
Less: Acc. Depreciation	344	442	453	569	701
Net Block	480	674	696	917	1,004
Capital Work-in-Progress	23	22	11	61	62
Investments	4	9	15	9	6
Current Assets	286	354	393	467	577
Inventories	-	-	-	-	-
Sundry Debtors	121	199	228	245	326
Cash	46	40	61	83	97
Loans & Advances	77	97	72	108	108
Other Assets	42	18	32	30	46
Current liabilities	259	393	466	542	606
Net Current Assets	27	(39)	(73)	(75)	(29)
Deferred Tax Asset	0	0	0	0	3
Mis. Exp. not written off	-	-	-	-	-
Total Assets	534	666	649	912	1,046

Source: RHP, Angel Research

Consolidated Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Profit before tax	60	46	33	121	70
Depreciation	29	72	84	104	102
Change in Working Capital	(3)	72	77	50	(38)
Interest / Dividend (Net)	16	33	32	32	36
Direct taxes paid	(15)	(11)	(7)	(34)	(25)
Others	11	7	(10)	(4)	5
Cash Flow from Operations	99	218	209	271	150
(Inc.)/ Dec. in Fixed Assets	(225)	(265)	(97)	(375)	(166)
(Inc.)/ Dec. in Investments	2	3	1	9	10
Cash Flow from Investing	(223)	(263)	(96)	(366)	(155)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	220	141	60	276	137
Others	(79)	(102)	(151)	(159)	(119)
Cash Flow from Financing	141	40	(92)	117	18
Inc./(Dec.) in Cash	16	(5)	21	22	13
Opening Cash balances	30	46	40	61	83
Closing Cash balances	46	40	61	13	97

Source: RHP, Angel Research

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
Valuation Ratio (x)				
P/E (on FDEPS)	1.5	2.8	4.0	47.4
P/CEPS	0.8	0.7	0.6	18.5
P/BV	0.3	0.2	9.8	7.1
EV/Sales	0.5	0.5	5.5	4.2
EV/EBITDA	2.3	1.9	23.0	13.3
EV / Total Assets	0.5	0.5	5.3	3.9
Per Share Data (Rs)				
EPS (Basic)	226.0	120.1	83.5	7.0
EPS (fully diluted)	226.0	120.1	83.5	7.0
Cash EPS	417.7	481.0	520.5	18.0
Book Value	1,277.4	1,589.3	33.9	47.2
Returns (%)				
ROCE	16.1	14.1	11.4	19.7
Angel ROIC (Pre-tax)	17.9	15.3	13.2	22.2
ROE	16.3	7.7	6.1	12.8
Turnover ratios (x)				
Inventory / Sales (days)	-	-	-	-
Receivables (days)	98	126	134	106
Payables (days)	27	29	38	27
Working capital cycle (ex-cash) (days)	70	96	96	79

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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