



About The Company:

DEN was incorporated initially as DEN Digital Entertainment Networks Private Limited in July 2007. The company's name was changed to DEN Digital Entertainment Networks Limited in April 2008 and again to DEN Networks Limited (the present name) in June 2008. Currently, DEN is one of the largest cable television companies in India engaged in the distribution of analog and digital cable television services. At present, DEN offers analog cable services in 76 cities and digital cable services in 37 cities across India. The company provides cable television services in the National Capital Region (NCR), Uttar Pradesh, Rajasthan, Maharashtra, Gujarat, Karnataka, Haryana, Madhya Pradesh and Kerala. Besides cable television services, DEN also has an all-India Internet Service Provider (ISP) licence for offering broadband internet services. The company has recently rolled out broadband internet services in select areas on a limited scale and intends to eventually enter other cities in which it operates. DEN offers analog as well as conditional access system (CAS) services which is under the brand name 'Digitelly'. While it has predominantly analog cable TV customers (10 million), it also has 300,000 subscribers of Digitelly (as of December 2008, MPA Report 2009).

In January 2008, DEN entered into a 50:50 JV agreement with Star India Private Limited (STAR) to form Star Den Media Services Private Limited (STAR-DEN). STAR-DEN acts as a content aggregator and currently has the exclusive right to distribute 23 television channels, including the STAR bouquet of channels, the Disney bouquet, select Network18 channels, the Times Group bouquet, and MGM to providers of various television distribution platforms, such as cable television, DTH satellite television and IPTV, in India, Bhutan and Nepal.



Details of IPO

Bidding Opens: 28th Oct, 2009

Bidding Closes: 30th Oct, 2009

Price Band: Rs.195 - Rs.205
Market Lot:30 Equity shares

Issue Size: 20000000 equity shares

Minimum order quantity:30 Equity Shares

QIB:Not less than 60% of Net issue(at least 8,295,00 Equity Shares)

Non Institutional Bidders: Not less than 10% of the Net issue (at least 1,975,000 Equity Share)

Retail: Not less than 30% of the Net issue (at least 5,925,000 Equity shares)

Employee reservation:Upto 250,000 Equity Shares

Book Running lead managers: Duetsche Equities India Private Ltd



How the capital will be used:

Den has plans to foray into broadband Internet market and acquire majority stakes in multi-system operators (MSOs) to expand its network. It plans to use funds raised via issue for investing in the development of cable television infrastructure and services; investing in the development of cable broadband infrastructure and services; investing in acquisition of content and broadcasting rights; repaying certain loans availed by the company and funding expenditure for general corporate purposes.

Growth Strategy:

DEN and Star India set up a 50:50 joint venture called Star Den Media which is a content aggregator that leverages DEN's distributor network. DEN has acquired majority stakes in 62 cable operators so far as part of its growth strategy and will continue to acquire them to widen its network coverage, both in the states in which it already has a presence and others "that have significant television viewership potential for increased digital cable penetration and revenue potential

- offering more localised content - regional language films and local events
- launching a news channel, employing stringers (freelance journalists and TV crews)
- standardising the look and feel of our own brand television channels and improving the quality of the programming to attract more regional and national advertisers

ICRA Ratings:

ICRA has assigned an IPO Grade 3 to the proposed IPO of DEN, indicating average fundamentals. ICRA assigns IPO gradings on a scale of IPO Grade 5 through to IPO Grade 1, with IPO Grade 5 indicating strong fundamentals and IPO Grade 1 indicating poor fundamentals. The assigned grading reflects DEN's strong market position (in terms of subscriber base), rapid growth over the last two years (on a consolidated basis), strong synergies with STAR DEN, and its experienced management team, besides the high long-term growth potential that digital cable services in India appears to hold.



Valuation:

The EV/Sales multiple is at a premium to Wire and Wireless, the only other listed peer, while the EV/EBITDA multiple is at a discount. Den is a cable network operator with a limited two year operational history. For the quarter ended on June, the company posted a profit of Rs 3.2 crore, while for the year ended on March 2009; the company posted a loss Rs 15 crore.

RR Outlook

Investors can avoid the initial public offering of Den Networks considering the inherent challenges that the cable distribution industry faces in driving revenues and competition from alternative platforms such as DTH, that are making rapid strides. The cable industry may face several scalability hurdles, with the limited growth in television households, the pace conversion of analogue networks to digital ones and within that conversion of free-to-air viewers to pay-channel mode, all subject to uncertainty. A report from TRAI gives out the fact that only a little over eight lakh set-top boxes have been installed in the four metros put together as of June 2009

Conclusion

Though the telecom regulator mandating conditional access in 55 cities across the country by 2011 is a positive for the company, there may still be limited scope for growth in subscriber's industry challenges. We recommend avoiding the IPO in anticipation of immediate listing gains however investors who have time horizon of two to three years can subscribe for the issue.



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