

Transcript
SITI Cable- Conference Call

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to SITI Cable Q1FY16 results conference call. We have with us today Mr. V. D. Wadhwa, ED and CEO, Mr. Anil Jain, Head-Finance, and Mr. Ankit Saint, Senior Manager-Investor Relations.

Before we start, I want to quickly cover the safe harbor statement. I would like to remind everyone that anything that the management says today, which reflects any outlook for the future, must be viewed in conjunction with risks and uncertainties the company faces. The company does not undertake to update these risk factors or forward-looking statements publicly.

At this moment all participant lines are in listen only mode, later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Vivekanand of HDFC Securities. Over to you sir.

Vivekanand: Thank you Moumita and good morning everyone. We, at HDFC Securities, are pleased to host the Q1FY16 earnings call of SITI Cable Limited. We will begin the call with a short commentary by Mr. Ankit Saint of SITI Cable and then we will move on to the question and answer session. Over to you Ankit.

Ankit Saint: Hi everyone. Good morning, this is Ankit here; I will go through briefly about the performance of the company in Q1FY16. Revenue for the quarter was INR230 Crores, it has grown at 9% YOY, we posted an EBITDA of INR38 Crores, EBITDA was up 19% QOQ and 5% YOY and we expanded the EBITDA margins by 501 basis points quarter-on-quarter.

Specifically I would like to focus on broadband; income was at INR9 Crores, up 63% YOY. In terms of operational metrics, we have added about 0.2 million Cable subscribers and 4,400 broadband subscribers.

I would also like to add that we have other senior management on this call at this point. We have Mr. Sanjeev Mahajan who is heading our broadband business. We have Mr. Vinay Chandok, who is the Chief Operating Officer for the video business, and we have Mr. Bibhash Jha, who is the Head of Content and Carriage. With that I would like to open the floor for questions. Thanks.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our first question comes from Mr. Shobhit Khare from MOSL, please go ahead sir.

Shobhit Khare: Sir, good morning and thanks for the opportunity. First question is on subscription revenue, so just wanted to understand what is the reason for the decline quarter-on-quarter and what is the outlook going forward? Also I wanted to get a number on the CAPEX and debt for this quarter.

V. D. Wadhwa: Shobhit, this is Wadhwa speaking. For the subscription, we have been taking tough calls on the defaulting cable operator and the subscription revenue has not been rising, not only for SITI Cable, but for industry too. Also, for the last 2- 3 quarters, if 100% of people are not paying required money, there is a regulatory requirement as per 6.2 and 6.5 regulation; we have to put out individual notices, we have published newspaper notices as well. Basically we have started this as a pressure tactic, the moment LCOs get the notice; they come and pay the money. It is a 21 days' notice process, so it is serving two purposes for us; 1) when we issue the notices, the money starts coming in; 2) Wherever there is still a default on the last day of the month, we switch off these defaulting customers and we try to save on the content cost, because on the last day in case they have not paid till the last day of the month, we switch off, obviously our content cost is stable based on the subscriber details in the system.

So this is the disciplinary action we are taking... in the short term it may result in some disturbance, but in the longer term, this tactic will bring in results, because as you know SITI has been known for taking these kind of measures and we have been a pioneer in improving our monetization, despite being the number 3 player in the industry. So we believe this is for the long term benefit of the business and this will be a guiding force for the rest of the players also to emulate us.

The other reason is that if you see in the current quarter, our activation revenue was about INR10- 11 Crores, whereas activation in the prior year in the previous quarter was higher, we have not seeded the boxes as we envisaged because of the content availability issue in the first quarter, but that is not a case of lost opportunity, it is just a calendarization issue.

On the operating level, before activation we have been able to improve our EBITDA even on a lower revenue base. The outlook is, the current quarter is looking little tough, we should be able to improve subscription in the phase 2 markets. Phase 1 is looking tough, unless Hathway and Den also come on board with us, because on an individual basis, just to reiterate SITI Cable has been doing B2C in phase 1, so when we ask for the collection, collection is Rs.100 plus taxes, that is what we are collecting in the phase 1 market, whereas when it comes to the competition, they are collecting only the net of tax value, they are not even demanding the tax amount. And this is a grey area; they genuinely believe that the tax liability is with the cable operator, whereas we believe tax liability is on us. We do have a legal opinion on this, so we are demanding the tax, we

are collecting more than competition, but the issue is, from the cable operator's point of view, Siti demands Rs135 in Delhi including taxes, while competitors are demanding not more than 105, because they don't need to collect and pay taxes.

So from the cable operator's point of view, he is seeing a gap of 25, 30 rupees between what SITI Cable is demanding and what others are demanding. So if we were to add further subscription on top of it that is becoming a bit of a challenge. So, we are trying to collaborate with competition to work together because this is the problem they are also facing. If we are to increase the subscription further, we think, it requires a joint effort by all industry players.

On the CAPEX side, during the quarter, we have incurred 40 crore CAPEX, about 7 Crores rupees has been spent on the broadband side of the business, and 33 Crores has gone on the cable side of the business. As I shared with you, the number of boxes seeded during the quarter has been about 200,000, so it has not been a big activity during this quarter.

Shobhit Khare: Sir, if I could just ask a followup on subscriptions, so what kind of improvement can we see during the year, let's say by March, both in phase 1 and phase 2, you said not much expected in phase 2 now from here?

V. D. Wadhwa: Shobhit, if I give you an outline for the subscription we will be exiting by March '16, I can safely tell you that phase 2, we will be around INR90 plus taxes, which is currently INR75 and in phase 1, it will be around INR110, though we are trying at an industry level, collectively for INR115 in phase 1 before tax, but I think we should rake in INR110

Shobhit Khare: And currently we are at 100, right sir?

V. D. Wadhwa: Currently we are at INR100.

Shobhit Khare: Okay. And should we assume that phase 1 subscription revenue is at bottom or you think there will be more....the measures which you are taking, there could be a temporary hit even going into the second quarter?

V. D. Wadhwa: No, because wherever we are taking action, this is more or less the same set of cable operators or the same universe what we are targeting, so the hit we took for the last two months we have targeted, taking some action, so we lost some of the customers also, but more than losing the customers what happens is when you switch off, it is a voluntary switch off. It is not that the customer is dissatisfied with your services and he is migrating to another competing platform.

We take an action and within 48 hours the customer comes back in most of the cases. And here we are cautious not to irritate the customers. So I don't think this is going to go below this.

Shobhit Khare: Okay. And sir, my final question is on the carriage. So we have seen, I think, some 18% year-over-year growth, in carriage revenue, so is this a sustainable number, right now what we have?

V. D. Wadhwa: I would say that 18% is not sustainable, I have been saying that in my previous call also that for the last two, three years our carriage revenue has been growing 10% year-on-year and I see no reason why in this year also we should not be growing more than 10%, on collective basis.

Our carriage revenue may come down from leading broadcasters, but as digitization is happening, we are becoming far more robust in terms of demanding carriage. Given the strength of our network, carriage revenue will definitely see an upside

Shobhit Khare: Okay sir. Thanks. I will come back in the queue. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Naval Seth from Emkay Global, please go ahead sir.

Naval Seth: Thanks a lot for the opportunity sir. Sir, how many subscribers you would have switched off in the last quarter? As a network as a whole?

V. D. Wadhwa: We have been switching off at the end of every month, but in total we have taken action against close to 400,000 subscribers.

Naval Seth: Okay. And sir, as you said, you deactivate only or discontinue only 10 to 20% of subscribers for a particular LCO, so what happens to that subscribers? Can LCO again go back to Den or say Hathway or any of the other competitors and say that I have these many subscribers, you can come, I can come under your hood, can this happen or cannot? Because my question is that will this lead to box swapping again, what we had seen earlier at the time of digitization when it started?

V. D. Wadhwa: Mr. Seth, the moment I said that we don't switch off the entire universe because the moment you switch off the entire universe, you are vulnerable

Naval Seth: No, I am talking about only sir, 10% to 20% subscribers only. I agree what you said.

V. D. Wadhwa: Because in this area if it is our network being laid, it is not possible for the competitor to get into that area. If at all competitors have to get into that area and take on a fellow MSO, then the competitor will not do it for 200-400 customers, it does not make any economic sense for anybody

For us also, if we get any such situation with competition, even we will also not do that, that is, before taking this action we have already intimated all the key competitors that this is the action

Whatever action we are taking against the defaulting subscriber for certain issues, the same issues you are also facing in your universe, so let's not disturb each other, because ultimately if you have to improve the health of the industry, let's support each other, because if any of my cable operators are trying to get a support from competition and they start entertaining, a similar situation will happen to them as well.

Naval Seth: Okay, so these 4,00,000 subscribers they don't have any other option but to move to DTH, if at all they have to, they don't decide to be on your network, probably.

V. D. Wadhwa: Yeah, but the majority of them has come back, see, the unfortunate part of book-keeping is what you see on the last day of the month or last day of the quarter, whatever the number is there. If we take any action for switching off on the 31st, within 1-2 days, the customer is again reactivated. So, when customers get re-activated, you don't get to see that because you always analyze the data at the end of the month.

Naval Seth: Understood. And sir, second question is on content cost, any guidance you want to state for content cost increase this year?

V. D. Wadhwa: We have been saying that for content cost, we have factored 15-20% growth for this fiscal

Naval Seth: Okay. And my last question is on stage 3 seeding, are we seeding pre activated boxes or this time around we are taking the consumer application form from LCO first and then activating the box?

V. D. Wadhwa: SITI Cable has never seeded pre activated boxes. Unless we got a customer application form, unless we got the activation revenue, unless our finance department has given a green signal that they have received the money in the account, we don't activate the box.

Naval Seth: Okay. Thanks a lot sir.

V. D. Wadhwa: Thanks.

Moderator: Thank you, sir. Sir, we have the next question comes from Mr. Mayur Gathani from OHM Group, please go ahead sir.

Mayur Gathani: Good morning everyone and thank you for the opportunity. Sir, how many subscribers do you think have come back?

V. D. Wadhwa: About 90% have come back.

Mayur Gathani: If 90% have come back, then we don't see the subscription drop coming in the next quarter or we will again see the same phenomena happening by quarter end of quarter 2?

V. D. Wadhwa: I will again explain, they come back on the first, then again what happens is, based on our list, on the 31st August, whosoever has not paid fully and is still in default, we get that list around 10th of September, and we will take that call again in the end of September, so it may not be the same set of individuals

Today our content cost is roughly about Rs.55-65 per subscriber, if we are switching off 2 lakh subscribers on the last day of the month, those who are defaulters, we are saving Rs.1 crore of content cost also based on the active subscriber base

Mayur Gathani: Yeah, but as you said it is not showing any numbers because you may see content cost reduction which we are not seeing and secondly we are seeing subscription growth as, we don't see any subscription growth also, so both ways we are being hit if we see the result at the end of the third month.

V. D. Wadhwa: No, I think while I was responding to Shobhit, I said that we have bottomed out, this is because defaulting cable operators, when the first time you start taking some tough action, they react by all means and once it becomes a practice for 1 -3 months, then they fall in line, they understand that if they have to deal with us, this is the way they have to deal with us and they are much more cautious. Cable operator is the last person who wants customer to be switched off.

So, this will not be going on regularly practice and as we said that the intent is to improve our collection performance, intent is not to keep saving on the broadcasting side that is a byproduct of this entire exercise. So, when you look into this, you can safely assume that our content cost could have been higher if we were not doing this for the last 2 months and when you look into our EBITDA profitability, on a lower revenue my EBITDA performance is better than the previous quarter.

Mayur Gathani: Right, sir. Any updates you can give us on the prepaid, sir, are we working on it or have we initiated it, how does it move?

V. D. Wadhwa: We have initiated it about three quarters back, currently about 12,000 customers are on prepaid, it has been a slow process right now and our system actually was originally designed for prepaid only.

Now the issue is, unfortunately from prepaid we went ahead into the postpaid regime, now we are again coming back to prepaid, so it has taken little time to configure our system on a hybrid model. Now we are ready, but you have to understand on the prepaid, despite giving all the tools to the customers to use the prepaid facility. You have to create lot of awareness in the mind of the consumers, that awareness part is something which we think with our marketing efforts, we will be able to instill

Mayur Gathani: So, when we talk about this prepaid, this is a B2C prepaid or this is B2B?

V. D. Wadhwa: No, this is a B2C prepaid, this is not a B2B. If you talk about B2B prepaid we will have at least 400 LCOs already on a prepaid model with SITI.

Mayur Gathani: Okay, so these are customers who are with associate with an LCO, but who are paying you directly, is that understanding clear?

V. D. Wadhwa: Exactly.

Mayur Gathani: And your digitized base currently stands at 5.58 million, what is the exit target that we are looking at, you know once DAS3 also comes in place by December?

V. D. Wadhwa: If there is no extension of digitization, we should be doing about 11 million digital base.

Mayur Gathani: You mean, you are doing 5.5 million in the next 9 months?

V. D. Wadhwa: That's right.

Mayur Gathani: Okay. Then what is the CAPEX guidance for this year, sir, you did mention for the first quarter?

V. D. Wadhwa: CAPEX total, this year we have earmarked about Rs.1000 Crores CAPEX and ballpark INR167 crore CAPEX is for the broadband business. We are targeting about 200,000 broadband subscribers this year, means addition of 200,000; we currently have about 75,000 broadband subscribers, so we are planning to exit at about 275k broadband subscribers

Rest of the CAPEX is largely on the cable side and this CAPEX when we are saying INR1000 Crores; this is at a gross level. So, we have an inventory of about 700,000 boxes, balance roughly 5 million boxes we shall be procuring. On a net of activation basis, our CAPEX would be about INR550 Crores for the current year.

Mayur Gathani: Okay, thank you very much and all the best, sir.

Moderator: Thank you, sir. Sir, we have the next question from Mr. Ritwik Rai from Kotak Securities, please go ahead sir.

Ritwik Rai: Good morning, sir. Thanks for this opportunity. Sir, if you could give us some sort of a brief on phase 3 plans and the competitive scenario in the sense of what kind of target you have, what kind of content expenses should one expect there and considering that even other players are not making too many moves there, so could you end up losing a lot of market to DTH players?

V. D. Wadhwa: Ritwik, as you know our total universe is about 10.7 million and we have a very small presence in phase 4, largely we are present in phase 1, 2, 3. We have already digitized roughly 5.58 million boxes, so remaining approximately 5 million boxes is what we are targeting, we should be completing by March. As far as the content is concerned we have already signed the content for the Sony bouquet, Colors bouquet and the Zee bouquet. Now the only content which is pending is with the Star bouquet and we are at the advanced stages of dialogue, they have made some proposal to us,

About three rounds of meeting have already taken place with the Star content team and hopefully by end of August or maybe by early September we should be able to close with Star as well.

Ritwik Rai: So, sir are these content deals that you signed for phase 3, the content is significantly lower than your other markets?

V. D. Wadhwa: Yes, it is significantly lower than the other markets and these content deals are not on a cost per subscriber basis, these are largely fixed fee deals.

Ritwik Rai: Okay, and sir, this target that you said, I understand you would be fairly serious about it assuming that the deadlines remain in place, but should one look at this as something that you are committed to doing by March or will you look and see how things are moving actually on ground?

V. D. Wadhwa: We believe that if the digitization date is not getting extended, this is the opportunity, we should do that.

Ritwik Rai: Okay, alright sir.

V. D. Wadhwa: There is no second thought, on the contrary there is a second thought on only one issue that, should we be restricting only to 5 million or maybe doing more than 5 million subscribers

Ritwik Rai: Okay. Alright sir thanks very much.

V. D. Wadhwa: Welcome.

Moderator: Thank you, sir. Sir, our next question comes from Sneha Prashant, HDFC Securities, please go ahead.

Sneha Prashant: Yeah, good morning.

V. D. Wadhwa: Yeah, morning to you. Hello?

Sneha Prashant: Hello?

V. D. Wadhwa: We can hear you now, please repeat.

Sneha Prashant: Yeah. Sir, basically I had two questions, the first one being, despite the Comnet JV that you have, do you still expect content cost inflation of around 15%-20%, sir can you please explain that?

V. D. Wadhwa: When the broadcasters are asking for revision in the content deals, their expectation is we should give them 30% to 40% increase.

Sneha Prashant: Okay.

V. D. Wadhwa: DTH industry is giving them 7-8% increase whereas with the cable industry, they are thinking the cable industry is probably making more money as they are digitizing right now, so this is an opportunity to go and demand money from them.

Sneha Prashant: Okay.

V. D. Wadhwa: And the unfortunate part is that largely they are targeting the bigger MSOs while the smaller players get away because they follow all kind of malpractices and don't pay for the full universe and it becomes much more difficult for

the broadcasting bouquet also to catch hold of small players across the country. So, it is easy for them to target the big players and demand

That is why we have formed COMNET, technically the way Dish TV has done their broadcasting deals in a way that payouts are linked to consumer collections. When there are ARPU increases, viz. their collection and revenue improves, say by about 5%, then the broadcaster will also end up getting roughly 5%. Whereas in our case it has got no linkages with our monetization of the business, so we have just started it and right now we have not sat together with any broadcaster because only the Star deal has come up for renewal now, so Star is the first broadcasting bouquet with whom we will be dealing together.

Sneha Prashant: Okay. Sir, my second question would be on trade receivables, what has been the change Q-on-Q and year-on-year?

V. D. Wadhwa: For the current quarter, the trade receivable side is virtually flat, there has been just about INR6 odd crore rupee increase and that is on account of the carriage revenue which got booked in the last week of the quarter. On the subscription side, there is no growth on the revenue in the current quarter and this is because, as a management team, we have taken a cautious call on this issue that we will not allow the AR to build up further.

Sneha Prashant: Okay, so this is including the component that is linked to the LCOs and the broadcaster?

V. D. Wadhwa: You have to understand, we are in a B2B business model, and we are still collecting from the cable operator on a pre-negotiated rate on a per subscriber basis.

So, whatever the revenue we book, we book it basis the agreed rate between us and the cable operator and so for the current quarter the revenue you are seeing in our books, Rs.230 crore, if Rs.230 is our revenue, our cash collection is 224 crore against that, so we are not allowing the debtors to grow

Sneha Prashant: Okay, fine. Thank you, sir.

Moderator: Thank you, sir. Sir, we have the next question from Mr. Amit Kumar from Investec Capital, please go ahead sir.

Amit Kumar: Yeah, thank you so much for the opportunity, sir. Just a little bit on this Comnet JV, now as we understand from Dish TV that typically they have long term deals, so all the 4-5 major broadcasters which are there, they have already signed deals with them which are valid over the next 18 to 24 month sort of time period. So, when you are sort of, as you said that you have not really negotiated with the broadcaster and Star will be there now, but Dish TV already has a deal with Star which is valid for at least another one year. So what role will Dish TV play in this Comnet JV, I mean, what kind of a combined negotiation can happen, because their deal is any which case valid over the next 12 months?

V. D. Wadhwa: The purpose of COMNET is that we, Dish TV and SITI, both are part of the Essel Group. When broadcasters are dealing with any of the company,

be it Dish TV or SITI Cable, they have to treat us as a joint entity. Now, it cannot be that you arm twist one entity and you give comfort to another entity, because ultimately it is a group level dealing. So, today even if the Dish TV has closed their deals and their deals are coming up for renewal only after one year or so, nothing stops Dish TV to reopen the deal with anybody. In case it is required and it is for their benefit also. We have to understand, Dish TV is a listed Standalone Company, SITI Cable is also a listed Standalone Company, we have got a separate set of investors, and Dish TV has got a separate set of investors.

So, neither of us will do anything which harms the interest of the other company. So, Dish TV will not do any such action which will harm the Dish TV investors' interest that is the prime responsibility for the Dish TV management. Like my prime responsibility is to protect the SITI Cable investors interest, but the fact is today in the cable industry, SITI Cable on a lower base than Dish TV is generating about Rs.250 crore carriage, whereas Dish TV despite having a larger base than SITI Cable is not generating that kind of carriage. So, one is that Dish TV will be gaining in terms of the carriage deals.

The moment any broadcaster wants to put their channel on our network we can have a joint deal, Dish TV and SITI Cable combined universe of 20 million subscribers, so in that way Dish TV will be gaining

Today, let us say if we give a notice to any broadcasting bouquet that we would like to discontinue your bouquet from my package, we will run your al-a-carte channel; the same notice can be given by Dish TV also. Now, it is not easy for any broadcasting bouquet to oppose such a large entity where two corporate have come together. From that point of view it gives you better leverage to negotiate your content cost at a reasonable price.

Amit Kumar: No Sir, just to sort of clarify this point a bit, this is what I am trying to understand. In the long-run what you are saying makes sense but at least for the next 12 to 18 months, given the fact that Dish TV the way that I understand is that Comnet is not going to sign deals, Comnet is going to negotiate on behalf of Dish TV and SITI Cable and the two entities will sign the deals with the respective broadcasters as the regulation basically demands, that each entity has to individually sign the contract with the principal broadcaster or the principal MSO or principal DTH player. Can Dish TV unilaterally go out and break its deals with the broadcasters?

V. D. Wadhwa: They can do that.

Amit Kumar: There would be some safeguard provision in those deals right? Otherwise what's the point in your signing a two to three year deal?

V. D. Wadhwa: Any commercial deals can be called off by anybody by giving some advance notice which is prescribed in the agreement. Today we are having a deal with all the broadcasting bouquet, let's say it is not making sense for us to carry on with one of the broadcasting bouquet, we have to give them 21 days' notice and we can do that. Broadcasters have also been doing the same thing with distribution platforms.

Amit Kumar: Then the fall back option on you is RIO?

V. D. Wadhwa: Exactly. The moment broadcaster has to go to RIO; the biggest loser is the broadcaster. It is not the MSO platform, in the short term maybe the MSO platform gets hurt, but in the longer run it is going to be a broadcasting bouquet that suffers, because you have understand the dynamics that how many full channels are there in the country? Most of the broadcasters are between 25 and 45 channels in their bouquet.

The most viewed channels are hardly 10% out of that...Wherever the consumer is demanding channels, Wherever the consumer is not demanding and broadcaster wants to carry those channels in the base pack, and broadcaster wants you to show all the 30 channels or 40 channels, the whole idea of broadcasting is so that we can get the penetration and they can get the eyeball and they can generate ad revenue. If broadcasters are generating ad revenue by using our distribution platform, someone has to pay the money.

Our logic is very simple. Either the customer has to pay us the money for watching that channel or broadcaster has to pay us the money for carrying that channel and show it to the customer.

Amit Kumar: Fair enough sirs. I take your point. We probably need to discuss this in detail and we will do it offline. Just a small second question, there may be other expenses on a QOQ basis have declined quite sharply from a 72.5 Crores to 43 odd Crores, was there any one off in the previous quarter? What is the sort of run rate here that we should expect? And the second thing of course is the fact that a lot of these other expenses related to your backend, your head and management on your digital subscribers base, so when we see our subscriber base, which consists just about 3.5 million active subscribers in phase I and phase II, going to upwards of 10 million subscribers and phase III included, what kind of a steady run rate in the near term once phase III happens, should we expect in this particular line item?

V. D. Wadhwa: So Amit, the current quarter what you have seen the other expenses, they are just more like the current trend and that is what you can expect to continue. Obviously, when you have a larger subscriber base, obviously in the same proportion as the percentage revenue which will be going up. But I think it is an aberration when you compare with the last quarter because for any company in the last quarter a lot of adjustments happen on account of budget provision

So the last quarter may not be the right reference point to compare. In the current quarter also we have provided roughly about 4.5 crore rupees provision for the bad debts; Anil you can confirm that. We had provided INR20 Crores rupees provision for the bad debt in the month of March so that provision goes into the other expenses side.

Amit Kumar: Okay, I understood. Thank you so much for your time.

Moderator: Thank you sir. We have the next question from Mr. Deepesh Mehta from SBI Cap Securities. Please go ahead.

Deepesh Mehta: Thank you for giving me the opportunity. I have a couple of questions. First, I wanted to get some sense about the broadband business and how we expect to grow in the next two three years. If you can provide some color?

I think currently our base is relatively small, we have around 75,000 subscribers; if you can help us in which technology these 75k subs are...a kind of breakup and how we expect that to pan out in the next two, three years?

My second question is about some data points; what would be the gross debt and net debt for us and what would be the cost of capital and right now how much subsidy is there for box. And if you can say how the STB cost is shaping up for phase 3?

V. D. Wadhwa: On the broadband side, currently our base is roughly about 14,000 customers on DOCSIS and balance, about 61,000 customers on EOC (Ethernet on Cable) platform which we started more than two years ago in Calcutta. Going forward across the country we are following a combination of these two technologies depending upon the size of the market. For the next two to three years our outlook is that we should have around two million subscribers in three years from now. That is what we are targeting and the idea is not to spread out too thin.

We are not targeting that we should have our presence in 100-200 cities and with 10%, 15% market share in those cities. What we are targeting is that we should get at least 35% to 40% of the market share in existing cities, and for expansion we have identified other markets. I think roughly it is adding up to close to about 57 cities in the three-year period, which will be giving us about two million subscriber base. So that is the outlook for the next three years. For the current year, we are planning to exit somewhere around 250,000- 275,000 by March 2016. That is how we are progressing and investing into this side of business.

Your next question was on the gross debt and the net debt. Our gross debt is about INR1300 Crores and the net debt is about INR1100 Crores right now. The rupee debt is about INR900 Crores and the balance, roughly INR400 Crores gross debt is in the dollar debt.

Your third question was on the subsidy for the boxes. The box price has come down. Our MPEG2 landing cost is around INR1200, MPEG4 landing cost is about INR1350. We are recovering INR800 rupees per MPEG2 box right now. In some of the existing markets wherever we are expanding like in the last two three quarters we have expanded in some of the existing phase 2 market, so when you enter into phase 2 market where the digitalization has already been completed, we have to give boxes free. So wherever it is chargeable, we don't collect less than Rs.800, but due to strategic reasons where we have to give free boxes, we do that.

Amit Kumar: Sir, whether we intend to have higher realization for MPEG4 because the cost is higher or we would like to maintain 800 kind of thing?

V. D. Wadhwa: No we intend to realize at least Rs.100 higher. One is the trend is there, second thing is while we are talking about MPEG4, in the industry none of our competitors are offering MPEG4 boxes, whereas we have decided we will give MPEG4 boxes which are with a better technology, much better quality, much more stable. We want to give a better viewing experience to the consumer and that will give us an edge over the competition.

Amit Kumar: Okay thank you. Last thing is about MPEG4, whether we intend to switch to existing or provide it to existing subscriber or it is only for new incremental thing that we target to provide?

V. D. Wadhwa: It is a good question. Unfortunately in the existing cities, at least in all the three metros we would like to give the customer MPEG4 boxes. So we are just working out. This is a work in progress kind of a thing but how do we do that? What are the modalities of doing that? Because if we start seeding MPEG4 boxes from October onwards, in tranches, we will be doing that only in the expansion markets. We don't want...given the year, when we have to seed five million plus boxes in the remaining eight months; we would not like to disturb any of my existing markets and start replacing boxes in the existing markets. We don't have that kind of management bandwidth to carry on both these activities in the first year. Initially we will deploy all the five million boxes, wherever we have to seed, we will be seeding MPEG4 boxes and thereafter we will try to do it next year.

Amit Kumar: Okay understood. And whether we intend to when we do for our existing subscribers from next year or there around, we will collect full or still there would be kind of subsidy from conversion from 2 to 4?

V. D. Wadhwa: No, actually our idea is that we will give not only MPEG4; we will give MPEG4 HD boxes then because the prices are coming down for HD boxes also. So we will give an exchange scheme, where we will come out with some kind of packaging for consumers, if you surrender your old box and take this new box, which is a MPEG4 HD box, and you pay a differential of XYZ amount, the whole idea is we don't intend to subsidize MPEG4 HD boxes in the existing markets. So whatever the old boxes comes in, in any case we are buying the old boxes and we are buying the boxes at Rs.1200 and giving it to the customer at Rs.800. So what all the expansion that will be happening next year, in the next fiscal year, whatever the boxes are coming out of the existing markets, we will be utilizing those boxes for expansion at a subsidized rate.

Amit Kumar: I understand, thank you.

V. D. Wadhwa: The next question comes from Mr. Vikas Mantri from ICICI Securities. Please go ahead sir.

Vikas Mantri: That's from ICICI Securities. Thank you for the opportunity sir. Good morning to you. Just wanted a comment which the Chairman saying that RIO deals is very positive for MSOs. I just wanted to understand, if that is the case why aren't MSOs increasingly moving towards RIO and even broadcasters who are trying to move towards RIO; was looked at very negatively by the entire MSO community in terms of escalation in content cost.

The reason why I asked this question is given that there's been a huge delay in terms of internal agreement, being a reason for possible or potential delay in digitization. Moving into RIO deals will ensure that never such a problem because of phase 3, phase 4, everything is an affirmation route and there is no deal to be made.

V. D. Wadhwa: The logic was different for phase 1 and 2 market and logic is different for the expansion market. When it comes to expansion markets we feel that the consumer isn't at par with phase 1 and 2. Markets are still not mature; digitization has to take place, so in those markets fixed fee deals are the preferred approach till the time digitization gets complete because monetization is an issue. Right now these markets are just paying Rs.3 or Rs.4 per subscriber in an analog environment. So if you start

getting into RIO deals in these markets and every broadcaster will charge on a per subscriber basis, then there is no business case for launching phase 3 and phase 4 markets. So Phase 3, 4 markets have to be compulsorily a fixed fee deal.

If the broadcaster is getting a million rupees from a particular city, we get into a deal with him, give him 10%-20% increase, go and seed the boxes because when you are seeding the boxes, whether there are 20,000 customers or there are 40,000 customers, because many households have got two TV sets or three TV sets; only after digitization do you get to know. So it works that way because those markets are right now in a different lifecycle phase.

Phase 1 and 2 markets where you have seen that the subscription has not gone up, when the broadcaster comes to you, they expect that they should walk away with a 15%, 20% growth year on year. Now when your monetization is not improving 15%, 20% growth, how can anybody keep giving growth to the broadcaster? So this is where I believe the second logic which I said in the call to some other gentleman that today if you pick up most of the broadcasting bouquet, beyond the top three or four channels there is no consumer pull for those channels by the consumer. So broadcasters are riding on my distribution network to show 20-40 channels to the consumer so that they can generate advertisement revenue.

The moment we put broadcaster channels on the RIO model, we will show those three or four channels which are high in demand to the consumer, we will put it as a part of our bouquet but why should we put the remaining channels as a part of my bouquet and write a cheque and give it to the broadcaster? You ask the consumer to pay, Have broadcasters done enough marketing for the channel that the customer starts saying that I will give up SITI cable if you don't show me this channel or that channel. If so, then I will show that channel.

But the issue is, today if we have got 5.5 million subscriber base, let's say there is a particular bouquet with about 30 channels, we are showing 30 channels to all our subscribers and giving to the broadcaster on a pre-negotiated deal. The moment we put it on a RIO, our content cost will come down by at least less than 50%.

So that is why, on a RIO basis, the moment we come on a RIO all the non-performing or the low-pull channels of the broadcasters will become irrelevant. Then the broadcaster will come and re-negotiate.

Now, there are only two ways of doing it. Either the broadcaster drops those channels from the base pack or the broadcaster makes those channels FTA, or the broadcaster writes a cheque and gives us money to carry those channels. These are the three things that are going to happen. That will make the MSO business more viable. We have not created an MSO business model to support broadcasting business. We will incur the CAPEX, go through the labor pain of doing digitization and we keep writing a cheque and giving it to them for carrying their channels? That is not the purpose of cable business.

Vikas Mantri: So sir how many broadcasters have we done in RIO in the phase 1, phase 2 markets?

V. D. Wadhwa: Right now, RIO deal is only with Star.

Vikas Mantri: So the question again is given that we are so very clear that RIO is the way to go phase 1, phase 2 to ensure that you only pay for what is being watched and what is worth for the consumer, I think given that you mentioned that it can cut your cost upto 50%; I think it is a no-brainer for you to go ahead with it. The only reason I say is that while this looks good in theory, we don't see an action

V. D. Wadhwa: No Vikas, we have been talking regularly & I am surprised at your question. If SITI Cable does RIO and we start showing only two channels of a particular broadcasting bouquet to the customer, and the broadcaster gives a sweet deal to my other competitors and they are showing all the 30 channels, then it does not work. So this is a malpractice which is going on currently in the industry what we are saying is an industry issue. If everyone moves on a RIO the above economics work, but if one of MSOs does RIO based bouquets and if everybody else is showing all the thirty channels in the base bouquet, then you will get washed out in the business! Then the cable operator and the customers will all go towards your competitor who is showing all the channels without asking for extra money.

Vikas Mantri: Okay....

Moderator: Hello...? Sir sorry to interrupt....there are other participants also in the queue....so if you want to come back...?

Vikas Mantri: Okay please carry on. Thank you for the opportunity.

V. D. Wadhwa: Thanks Vikas.

Moderator: Thank you sir. Sir our next question comes from Mr. Rohit Dokania from IDFC. Please go ahead.

Rohit Dokania: Hi sir, good morning, thanks for the opportunity. Just more or less a follow-up on the RIO deals. I was just wondering Star is largely RIO with MSO while with DTH operators it isn't. So how does the whole Comnet thing specially work with Star?

V. D. Wadhwa: Rohit actually while we have formed COMNET and now we are sitting with the Star team to device a kind of a way out of this issue. We are not advanced to that level where I can give you the clarity on all the permutation combinations on how it is going to work. On COMNET, right now we have just shaken hands. We are in the process of forming a legal entity. We have already issued letters to all the broadcasting bouquets. We have already released a press release and there is some nervousness there in the industry and particularly on the broadcasting side of the business. So I agree that these two business models are completely different because with us it is a RIO deal, but that RIO deal is valid only till November.

Right now we are in a dialogue, infact Star wants us to take a fixed deal now on an All-India basis including phase 1, 2, 3, 4. So they are basically talking of giving the deal to us the way they do it with the DTH industry that you take the content, sign the deal, show the revenue for the next two years and you are free to go anywhere in the country. So we are contemplating that. It is currently at an evaluation phase, we have not zeroed it on what is good for us or not. And then even if we agree to that proposal there is a

mismatch between the expectation and what we believe should be doable. So right now it is in a negotiation stage.

Rohit Dokania: Sir is it fair to assume that the whole RIO piece which Star actually initiated has not really worked in its favor and probably that's why it is coming back to you and saying why don't you do a fixed deal for all?

V. D. Wadhwa: Exactly. It has clearly not worked in their favor. Last year Star got stuck because of legal cases and Star thought this year all other broadcasting bouquet will be joining their hands and everybody will be going on the RIO. Our group company has not gone on the RIO. Taj is not doing a RIO deal, they are doing a fixed deal, negotiated deal only, SONY is also doing a negotiated deal, and IndiaCast is also doing a negotiated deal. In fact recently there was a matter in TDSAT and we have already given a representation.

I am heading the All India Digital Cable Federation also as President. So as an individual member, as SITI Cable as well as a Federation where all the key entities are members, we have already given our representation that the industry is in favor of the negotiated deal because right now we don't want to give away our right of negotiation with the broadcasters. If at all RIO has to be done; only when the digitization is completed, RIO makes sense.

Rohit Dokania: Okay. Can you please tell us what's the exact legal status of the 27.5% rate hike that TRAI had mandated?

V. D. Wadhwa: The status of 27.5% rate is what the Supreme Court judgment has come out is; right now they have put a stay that you cannot demand refund. But whatever you have paid, you cannot demand refund of that. So that does not mean that they have ruled out, they have simply put it on hold, number one. Number two, what they are saying is, let's say if somebody....you were paying Rs.80 to somebody, and after this 27.5% hike, 80 has become let's say 100; I am just taking an example....so this year when you are going to negotiate with the broadcasting bouquet the basis of your negotiations will be 80 not 100. So the Rs.20 hike...whatever you have paid extra to the broadcaster the fate of that will be decided in due course but for future, your reference point is only Rs.80. So that's why it is beneficial.

Rohit Dokania: Sure sir. So do you think there could be any lack of agreement, because the broadcasters will wait for more clarity on this to come by or are they going ahead and signing deals with most of the MSOs?

V. D. Wadhwa: It is not that easy. Giving away whatever you have collected and for future gain also nobody gives up so easily. So broadcasters are again contemplating some kind of legal action or some legal loop hole where they can save this. So this will go on.

Rohit Dokania: Sure. Thank you very much sir.

V. D. Wadhwa: You are welcome.

Moderator: Thank you sir. Sir we have the next question from Ms. Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: Good morning sir. Sir actually last quarter we had broadband subscribers of 70,000, out of which I believe 8,000 were in Delhi and the balance all were in Calcutta.

V. D. Wadhwa: That's right.

Gautami Desai: So this time like we have added 4,500 thousand that is all in Delhi or out of that also there is some in Calcutta?

V. D. Wadhwa: No, last time our total subscriber base of 10,000 was in Delhi....9,000 plus was in Delhi. This time the subscriber base has been largely about 3,000 have been added in Delhi and 1,500 in Calcutta. In Calcutta also we are re-evaluating because we have been going ahead with the EOC model so far and now we have contemplating that, here too we should have a hybrid model; some of the customers should continue on a EOC model, balance we should do it on DOCSIS. So we are doing a feasibility study in Calcutta. So Calcutta penetration has been low in this quarter but overall when you look into this, this year the target is to add another 75,000 customers in Calcutta itself in the current fiscal year.

Gautami Desai: Yeah so you are saying like 2,75,000 broadband customers you are expecting at the end of FY '16, so that would be like 1,50,000 in Calcutta and 1,00,000 rest of the places?

V. D. Wadhwa: Yeah, roughly that much. When I am saying 1,50,000 in Calcutta, that will not be on EOC alone, it will be a combination of EOC and DOCSIS.

Gautami Desai: Yes, I understand that. I just want the numbers sir, so that remaining 1,00,000 would be Delhi and where else sir?

V. D. Wadhwa: Delhi and Haryana.

Gautami Desai: And sir, I believe that in Delhi now, the market is good for you in the sense that at least the LCOs are giving all three of you the right of way for broadband. So but then why is the process so slow... can we understand that?

V. D. Wadhwa: We have started with the DOCSIS currently and initially when we started, the LCOs have started behaving in a friendly manner in the last two-three months only. So it has been a long-drawn process.

SITI Cable started much later than Hathway, however we are ahead of one of our competitors in terms of our broadband subscribers and today in terms of the customer acquisition also we are moving fast.

Largely there are a lot of ifs and buts for the cable operator because most of the cable operators have been running their own broadband also and then they had some inconsistency about their revenue sharing because these days cable operators are habitual of making 50%-60% margin the way they have been making on the video side of the business but the moment they had to support us on the government side of the

business, they began with the same expectation which obviously through negotiations and through dialogue they were able to taper down the expectation and now we are rolling out much faster.

Gautami Desai: And sir how is the customer acceptance? What about customer service? Can you tell us about that?

V. D. Wadhwa: Customer acceptance, as you see that the customer base is very small right now but whichever customer has taken the broadband, he is swearing by our connectivity because this is our USP.

I was about to answer this question when you were saying why it is slow? Broadband today you have to understand Gautami that if you are targeting a Delhi based customer, he is already using a broadband maybe from Airtel, maybe from MTNL maybe from some other company,, they are already using it.

But today as SITI Cable as a new entrant if we are going and offering broadband to a customer, we are promising him a good experience and a good speed; speed also can be given by many players nowadays. More than that what we are saying is that you will have 99.9% uptime performance. You will not have a disruption, even if there is a disruption, it will be fixed within half an hour or one hour. we are giving those kind of promises. we are making our offering robust and if you are following our call, you would know that SITI Cable always ensures that we invest mainly in the back-end of the business. Unless your backend is strong, you can't sustain and grow the business.

One more thing that we are doing is in terms of the consumer satisfaction; we are creating flexibility for the consumer. If the consumer is saying that I need only 2 Mbps speed between 10 to 6pm....I reach home after 6 o'clock, I need 20 Mbps speed after 6 o'clock, we are converting all our offering and our packages according to that also so that the customer can be flexible as per his usage.

So these things are taking a little time because when we started, given the nature of the cable, overhead cables and the LCO issues, the downtime was significantly higher ...about 15% -20% was downtime in the first one or two months. Now it has come down to single digits. There is a basic thumb rule that unless your defect rate is less than 1%, you are highly vulnerable in the broadband side of the business. So we are not in greed where we add the customer and thereafter within no time we lose him/ her. Because when we look into all the existing players businesses, most of them are struggling with a high churn rate. We don't want to have a high churn rate in our business.

Gautami Desai: Okay, okay and just one more question sir, you were speaking about switching off the LCO signal, I believe there was some ruling sometime back that issue between the MSO and LCO should not really trouble the customers. The customers would have paid and the LCOs would not have paid to you so can you switch off the signal to the customer or are you like disabling the portals for the LCOs? What are you doing exactly?

V. D. Wadhwa: I am disabling the portal of the LCO because the LCO is the defaulter, I don't deal with the customer and this is perfectly legal so long as you follow a legal process which has been defined in the regulation.

Gautami Desai: That I agree sir. The portal is switched off right? So how should that impact the subscription revenue?

V. D. Wadhwa: Gautami, if you understand the psychology you would know this. The moment we are switching off the LCO, LCO will not get the feed. We have given the OYC right to LCO; LCO can add, delete, upgrade, downgrade or do anything for the customer. For him he is not able to manage his customer. He keeps running to us. The moment he comes to us, then we say this is my statement of account, bring your statement of account. Clear your dues, write your cheque and we will resume all your rights so that you are serving your customer.

Gautami Desai: Yes sir, exactly the point is that you said 240 Crores is your revenue and 224 is your cash revenue. That would include whatever is due from the LCO right? How come that has gone down like?

V. D. Wadhwa: Gautami, we didn't begin the year with zero outstanding. This is for the quarter; we have given you 230 and 224. We do have an account receivable of more than 100 Crores rupees on the 1st of April. So if we are doing a billing of 230 Crores in the quarter, my collection should be more than 230 Crores. Then only the AR will come down.

Gautami Desai: Okay, thank you.

V. D. Wadhwa: Thank you.

Moderator: Thank you; due to time constraint that will be the last question. Now I had over the floor to Mr. Vivekanand for closing the call. Please go ahead sir.

Vivekanand: On behalf of the participants, I thank the management of SITI Cable for taking time out for this conference call. Over to you Ankit for closing comments.

Ankit Jain: This is Ankit here from investor relations. I think the management has answered all your questions. If you have any further query, please feel free to get in touch with investor relations and we will answer all those questions. Thanks and have a good day.

V. D. Wadhwa: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, and have a good day everyone.