



DISH TV INDIA LIMITED

1Q FY15 EARNINGS TELECONFERENCE JULY 22, 2014, 4.00 P.M. INDIA TIME

Moderator

Ladies and gentlemen, good day and welcome to the Dish TV India Limited Q1FY15 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tarun Nanda. Thank you and over to you Mr. Nanda.

Tarun Nanda

Thank you. Good afternoon ladies and gentlemen and thank you for joining us today to discuss the results of Dish TV India Limited for the quarter ended 30th June, 2014. To discuss the results and performance, joining me today is Mr. RC Venkateish – CEO, along with Mr. Rajeev Dalmia – CFO and Mr. Salil Kapoor – COO. Mr. Jawahar Goel, Managing Director, had to travel and would not be able to join us for this conference today.

We will start with a brief statement from Mr. Venkateish and will then open the discussion for Questions & Answers. I would like to remind everybody that anything that we say during this call that refers to outlook for the future is a forward looking statement that must be taken in the context of the risks that we face. Also before we proceed may I request all media representatives who may have

joined in to please disconnect immediately since this call has been organized for our investors and analysts only.

I would now request Mr. Venkateish to address the participants.

RC Venkateish

Good afternoon ladies and gentlemen and thank you for joining us today.

Post a mediocre 2014, fiscal 2015 had a promising start for the DTH industry.

Dish TV, supported by a debt light balance sheet and a more willing consumer market, put the pedal to the metal and led the industry growth by garnering the highest incremental share during the quarter. Dish TV added 332 thousand Net subscribers thus reclaiming its position as the fastest growing DTH player in the country.

We continued to expand 'Zing', our innovative offering for vernacular content across regional markets. The 'Zing' service is now available across Odisha, West Bengal, Tripura, parts of Assam and most parts of Maharashtra.

A powerful sub-brand, 'Zing' has also propelled the sales of the main brand through a wider reach and top of the mind recall. Moving closer towards Phase 3 and 4 of digitization we remain optimistic about our strategy to capture leading share in these markets.

In line with our objective of growth with profitability, we took a price hike of 5-7% across the middle and top level packs with effect from the first week of June. ARPU increased to Rs. 170 per month in the first quarter with churn also increasing marginally to reach 0.7% per month.

There have been efforts to implement last mile billing by the MSO's however, a full-fledged roll-out is key to a step jump in ARPU's across the category.

Though the Union Budget announced this month was a non-event for the industry at large, we would continue to push our case for

allowance of abatement in Service Tax along with moderation in Entertainment Tax till the Goods and Services Tax Act (GST) sees the light of the day. We are also hopeful of an early resolution of the DTH license fees matter in the industry's favour. We also expect a firm push to digitization and are confident that encryption, packaging, billing and other critical requirements will be implemented at the last mile.

Coming over to the financials,

Dish TV reported first quarter fiscal 2015 standalone subscription revenues of Rs. 5,886 million, recording 7.3% growth over the previous quarter. EBITDA for the quarter was Rs. 1,571 million, up 22% sequentially, with a margin of 24.5%. Net Loss for the quarter stood at Rs. 160 million.

With this, I would like to open the floor for the question and answer session.

Moderator

Participants we will now begin with the question and answer session. We have the first question from the line of Nitin Mohta from Macquarie. Please go ahead.

Nitin Mohta

My question is on the EBITDA, 24.5% is a good improvement versus what we had last year. Do you think that these levels of profitability are sustainable?

RC Venkateish

Yes. Certainly, the reason for that is simple, the top line growth is coming through increased subscriber additions and one of the main drivers for that is the new brand that we have launched Zing. Fortunately because of the construct of this brand, which is targeting the Phase-III and Phase-IV digitization markets, which are rural markets and smaller towns, the intensity of the marketing expenditure required to support the penetration is fairly low and very cost efficient and therefore we are getting this growth. Between

this quarter and last quarter we have not had any major increase in marketing or sales and distribution expense to support this growth. So therefore we expect that we will be able to continue to sustain the top-line momentum without having significant increase in cost line. And therefore the margins should be sustained and should improve going forward.

Nitin Mohta

The second question is on ARPU. I know this 170 is inclusive of activation revenue, etc., but if we can just get a comparable number as to how it was for the last quarter because what we got last quarter was the full year number of 170. So just in terms of the quarter on quarter movement if I can get like to like comparison.

RC Venkateish

Last quarter it was 164. We were recognizing activation revenue in last quarter for computation of ARPU as well. However there was this component which was getting booked into lease rental which was getting recognized over five years and therefore four years of that revenue got built in. So on a like to like basis if you compare that it would be 170 versus about 164.

Moderator

Our next question is from the line of Lalit Kumar from Nomura Securities. Please go ahead.

Lalit Kumar

My question is related to content cost. In Q1 we had a cricket property like IPL and we have per subscriber deal with Sony. So that would mean that our sports content cost would have increased quarter on quarter. But overall content cost was flat quarter on quarter. So does that mean that our non-sports content cost declined quarter on quarter.

RC Venkateish Deal with Sony is not a per-sub deal, it is a fixed fee deal. So therefore there is no increase on account of IPL. We have a per-sub deal with ESPN & Star, not with Sony. So as far as Sony is concerned, the cost has not come down or gone up. So overall content cost is as we had guided earlier. Our total content cost increase would be in the low single digits and with the first quarter coming in at 0% that gives us enough headroom. We have moved in fairly advanced stage in our discussions with Star and Zee, both of which are coming up for renewal on July 31st. We are comfortable maintaining a guidance of a low single digit increase this year.

Moderator Our next question is from the line of Niraj Somaiya from Span Capital. Please go ahead.

Niraj Somaiya My question would be a little more long term. If we look at five year time horizon with Phase-III and Phase-IV getting implemented in that time, what would be the total market and how much could you garner. Also a lot of people say that with Reliance Jio coming in, would effect DTH. Could you just throw us some light on a broad base?

RC Venkateish Total digitized population in India today is roughly about 65 million. Out of which around 40-42 million of DTH and about 22-23 million of digital cable. There is another 90 million which is up for digitization in Phase-III and Phase-IV. In Phase-III and Phase-IV the primary converter we believe will be DTH because the cable companies do not have the reach and existing infrastructure in terms of head-ends and fiber to actually reach these remote far-flunked places. Therefore the share in Phase-III & Phase-IV would be largely DTH except in the contiguous areas of Phase-II, where the

cable companies will be easily able to pull their lines. So we are expecting at least 25 to 30 million out of 90 million actually to stay on a free-to-air mode either with DD DTH or there would still be some stray analog lying around. And on the balance 60 million, we expect at least 40 million to come to DTH. So the total DTH market size should be about 80-100 million, assuming 4% to 5% increase in penetration of TV's in the next 3 to 4 years. So 100 million is the peak out rate, where we think the DTH market will be. Currently we have a market share of about 26% while we had a dip in incremental share in FY14. We have come back very strongly with close to 24.5% incremental share in the first quarter. We aim to improve that with our sub-brand Zing. So we hope that we should be able to hold our overall market share.

Niraj Somaiya

And the Reliance Jio issue?

RC Venkateish

Reliance Jio issue, you have to look at it from a different angle. You have got to understand that when you transmit rich media through a data pipe, you are trading that amount of bandwidth for a certain value for the consumer billing. For example if you are going to show live TV channels through any pipe whether it is a wired pipe or it is Reliance Jio, effectively you got to look at the ARPU that this industry is being able to command. ARPU is around Rs. 200-250 at a consumer level. So if you are supplying live TV through that pipe for a whole month it will consume at least 100 GB. Now if you are going to sell 100 GB of data for Rs. 250, you are leaving a lot of money on the table because 100 GB of data would probably give you Rs. 2,000-2,500 worth of revenue. So that is the trade-off which is dependent on bandwidth. In the current ARPU scenario of the

Indian market which is less economical but I am sure they must have figured something out so let us see what happens.

Niraj Somaiya And my second question would be on EBITDA front. Do you think 30% EBITDA which would be great level to make profitability, can be achieved in 3 to 5 years with your current EBITDA of 24.5? Would the management at least stride for 30% EBITDA may be in 3 to 5 years?

RC Venkateish We would not be able to specifically guide but certainly our business is progressing on a path where we will look at expansion of the EBITDA margins with compression of cost and increased momentum on the top line.

Moderator Our next question is from the line of Rohit Dokania from IDFC. Please go ahead.

Rohit Dokania Just two questions from my side. Could you just break up the revenue?

Rajeev Dalmia Subscription is Rs. 588 crores, rental is Rs.23 crores, teleport is Rs.5 crores, bandwidth Rs, 12 crores, and advertisement Rs. 8 crores.

Rohit Dokania Rental is 23 crores. So is this part of 85 crores that we are supposed to book?

Rajeev Dalmia Yes, it will flow through in around 10 quarters.

Rohit Dokania And sir the other question would be the other operating expenses fallen by 16% on a sequential basis. If I am not wrong this includes the entertainment tax and also your transponder rental. So what has led to 16% kind of a drop?

- Rajeev Dalmia** There are two items. One was the forex loss in last quarter which is not there in this quarter and the second was there is a reduction in the forex cost of transponder by 14 crore which was paid on an annual basis last year.
- Rohit Dokania** Okay, sir can you quantify this FOREX loss which was there in the last quarter?
- Rajeev Dalmia** 14 crores was the transponder FOREX loss and 6 crores for FOREX loss on account of banking operation.
- Moderator** Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy** Sir my first question is on the impact of Zing. How do you see this impacting over the longer term, either in terms of churn or in terms of market share shift back to cable at some stage and are you also seeing some level of down-trading already happen or at a later stage you would see some level of down-trading from Dish TV to Zing? Is that the possibility?
- RC Venkateish** The possibility has been mitigated by the fact that we have launched it as a separate brand. If we had launched this at a pack under our own platform then the opportunity for down trading would be much higher. But for this a customer has to specifically opt out of one platform and go into the new platform and spend Rs. 1300 to get a new connection that risk is mitigated. Secondly, this brand is geographically targeted and we are distributing it only in those markets where we have DAS Phase-III and Phase-IV digitization. And to answer your question almost about 60% of the consumers who are coming onto Zing as per our research are first time digital,

which means they are coming either from analog or from terrestrial television. Yes there is some churn but the total churn out of the DTH population is less than 20% and of that 20% our shares are 25% so it less than 4%. So at some point there will be some amount of churn, you cannot avoid it but it is very miniscule at this point in time.

Abneesh Roy

Sir my second question is we have done very well in terms of incremental market share, but if I see the like to like revenue comparison, 1% slightly down YoY. Our ARPU has gone up and our new set top box addition has also gone up when I compared to same quarter last year. So could you explain why that is happening?

Rajeev Dalmia

30th June last year is having a weightage of last five quarter restated adjustments. So it is not comparable but there is a note, note #3 which states that if it was a normal quarter the revenue would have been lesser by around Rs. 56 crores. So you have to reduce Rs. 56 crores in order to compare that quarter with June of 2014.

Abneesh Roy

And in terms of cost also will there be reduction?

Rajeev Dalmia

No, 56 crores of revenue and 56 crores of EBITDA will come down. Cost item of it will remain the same subject to license fees.

Abneesh Roy

Sir one follow-up on Media Pro. Have you already seen benefit or in the coming quarters that can potentially happen?

RC Venkateish

We are at advanced stages of discussion and finalization of the deal with both Star and Zee separately and we are very comfortable with the levels at which those deals will be done.

- Moderator** Our next question is from the line of Vikash Manti from ICICI Securities. Please go ahead.
- Vikash Mantri** Just wanted to understand subscriber numbers. Now while Zing has helped in the growth as we mentioned, just wanted to understand what has been the phenomena in Phase-I markets post high number of cable box seeded? How was our run rate been there?
- RC Venkateish** In the Phase-I market we have not seen any depth in the total off take. What we are seeing is increased traction for high definition and that is what we are pushing in the Phase-I markets. Increase is coming from the bottom, basically from the Phase-III and Phase-IV market.
- Vikash Mantri** Sir would you say is it because of churn back from cable or is it the remaining second TVs, third TVs that are getting added on?
- RC Venkateish** There is a fair amount of churn from digital because there are periodical issues, time to time these guys try to enforce some billing and they switch off some arrears. There is some stand-off between the LCO and the MSO. So the MSO is switching off the LCO in order to extract money from the LCO. There is a lot of disturbance which is happening in all the digital markets as well everywhere. It is happening in small pockets so you do not see it like a blackout in the city. But what is happening is a huge amount of irritation with the customer plus because of the pressure on the LCO to pull up some extra money at some places there have been increase in prices on the ground though sporadic not across. Therefore the customer is also in some ways getting inconvenience and that could also lead to some stream into DTH.

- Moderator** Our next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani** Sir just wanted to check what are the Zing numbers in the total subscribers that we added? Can you share with us?
- RC Venkateish** We do not break that out.
- Mayur Gathani** What is the inventory that we have for the set-top boxes?
- RC Venkateish** 0.95 million. 0.4 million with us and 0.5 million in trade.
- Mayur Gathani** So what is the status with India cast? I mean are we still on per subscriber base or we are back to the negotiation table with them?
- RC Venkateish** No, there is no need to negotiate with them because we are on a RIO agreement which is à la carte and it is working very well.
- Mayur Gathani** Okay, so you are on à la carte with them. So that would mean it is a per subscriber base, right?
- Rajeev Dalmia** Yes, that is right.
- Mayur Gathani** And what are the cash flow numbers for this quarter?
- Rajeev Dalmia** 21 crores.
- Mayur Gathani** Any guidance that you can give for this year subscriber addition?
- RC Venkateish** Subscriber addition for this year would be at a gross level between 2 to 2.5 million and a net level between 1.2 to 1.5 million as opposed to 0.8 million last year.

Moderator Our next question is from the line of Srinivas Seshadri from CIMB. Please go ahead.

Srinivas Seshadri Two questions. The first is on the ARPU, it has picked up materially. Obviously there is a bit of seasonal element in the increase but at the same time given that Zing has been contributing to the addition which is at lower ARPU. There seems to be some kind of positivity which is happening at the underlying level. So if you could give some comments on what is happening in terms of any possible or earlier signs of up trading etc. on packs apart from the price hikes which we talked about later part of the quarter? Question 2 is if you could give an update on the overseas plans because you have reported standalone so any numbers you can share in terms of Dish TV Lanka as well as plans for the other overseas markets which you are planning to launch?

RC Venkateish The overall ARPU has been aided in parts by the price increase and in parts by the pack mix. As I mentioned earlier as well, in the Phase-I cities we are seeing increased uptake of high definition which is now inched from 11-11.5% to around 13-13.5% and there is an improved pick up in the pack mix which is aiding the overall ARPU. Zing is still overall as a number in terms of the total number of subscribers, very-very small to materially impact the ARPU because we are talking about having 11 million subscribers and this is the brand which is launched in three states in four months. So as a percentage of the total net base it is still miniscule. Therefore it does not really move the meter as far as our overall ARPU is concerned. Lanka, it is still a work in progress in the sense that we are awaiting some final clearance on this from the government before we can start the operation. So while we are ready to do that

we have to get the final clearances and approvals before we start commercial operations.

Srinivas Seshadri Sure sir. Any timeline on that you would like to share?

RC Venkateish Since it is an issue which is with the government of Sri Lanka we are obviously hopeful that we will get something early but given the nature of these things I cannot give a very specific date.

Srinivas Seshadri Sure and the APAC market sir, there also you have some plans and the Middle East?

Rajeev Dalmia That will be routed through Sri Lanka only.

Srinivas Seshadri Okay. So that is later down the line?

Rajeev Dalmia Yes.

Moderator Our next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar Sir my question was on your CAPEX, so if you can help us perhaps with your CAPEX for the current quarter and your outlook on net CAPEX for the full year. You seem to be taking an approval for raising about Rs. 3,000 odd crores in borrowings. So if you can just highlight something on that?

Rajeev Dalmia CAPEX Rs. 140 crore amount is spent by us on purchase of set-top boxes and similarly for the whole year it will be Rs. 550 crore and Rs. 3,000 crores loan is rather repetition of the earlier resolution which is required as per the new Companies Act. We need to repass

the resolution to adhere to the new Companies Act. It is not an additional resolution.

Saurabh Kumar Okay sir. With this CAPEX you should ideally be FCF positive for this year as well. Will that assumption be right?

Rajeev Dalmia Yes we had 21 crores FCF positive this quarter but we hope that the number will be bigger may be next quarter because this quarter the gross number was very high. So the FCF was not as expected Rs. 40-50 crores.

Saurabh Kumar Okay. And that is the only reason why your FCF has fallen quarter-on-quarter, right?

RC Venkateish Yes, because we have substantially increased the level of subscriber addition and therefore the CAPEX which was marked in has gone up.

Moderator Our next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

Balwinder Singh If you could throw some light on the subscriber acquisition cost for the quarter?

Rajeev Dalmia It was around 1,800.

Balwinder Singh And what is the current debt on books?

Rajeev Dalmia 1,300 crores out of which around Rs. 145 million is foreign exchange debt and around Rs. 450 crores is rupee debt.

Balwinder Singh And regarding the churn, the churn has increased slightly this quarter as such from 0.6% to 0.7%. What is your outlook for the coming quarters or say for the full year?

RC Venkateish We have always guided, the churn should be assumed at around 0.8% which is stable for this industry. 0.6% which we had was during fairly low phase where there was overall slowdown in the market last year. But anything under 0.8 we are comfortable with.

Moderator Our next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla I have just one question on your assessment of market share of DTH from conversion of analog. You said that DTH could capture as much as 2/3rd of the total market moving to digital. My question is today these markets are also connected via analog cable. So what exactly is the problem that you envisage there actually be advantageous for DTH operators and also how much does the DTH operator need to discount the packs in order to get some of those customers on board given their much lower purchasing power?

RC Venkateish You must understand the kind of cable networks which exist in these small markets, largely single handed markets, local cable operators they are not wide up with the main head-end of a large MSO which is the case in Phase-I and Phase-II. So you have in these smaller towns basically cable operators who are receiving signals through C-band dishes and then transmitting it through their analog networks and obviously these guys do not have a wherewithal of all the infrastructure to go out and encrypt the signals and implement a conditional access system which is required for digitization. They have to get the master feed from an MSO. And now for that feed,

there has to be fiber line laying in the whole commercial agreement between that particular LCO and the MSO has to be shown up. If this were to happen by September or December we should have been seeing very-very large amount of activity happening on the ground especially with MSOs going up, snapping up deals with some local cable guys, putting up optic fiber and connecting up the whole thing. We do not see that happening anywhere except in contiguous markets of Phase-II.

Sanjay Chawla

And your thoughts on how much the DTH operators would need to discount the packs to get some of those customers on board because of their low purchasing power?

RC Venkateish

Why would I need to discount, if digitization is implemented then the transmission of analog will stop and the only option for them is either to go to DTH pay or DTH free-to-air and that is the whole idea behind Zing which we have already started pushing into these markets. The level of discounting which we are doing on Zing is not really a discounting because the content cost because of regional content and limited national content is substantially lower and in fact the gross margin for Zing is higher than Dish.

Moderator

Our next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra

It is very heartening to see that our EBITDA margins sequentially has moved up to 24.5%. My question here is that most of our peers have also taken price hikes in the base packs whereas Dish TV has not taken price hike. So are you thinking on those grounds of taking a price hike in the base pack and secondly you also took a price hike in all categories besides the base pack, So how much do you think

that the flow through of that could actually transpire in Q2 and my question on free cash flow has been answered, the other question I had was on packaging of cable companies. So have you seen actually package wise billing of Phase-II cities and what do you expect ARPUs to be for FY15 on an average or rather on an exit sir?

RC Venkateish

Firstly on base pack price increase, we had sort of not implemented it yet because we were in some negotiations with some broadcasters and now that is more or less locked up. We expect to take the pack price up for the base pack by 5% as of 1st of August. We would also be increasing the mid and top-Tier pack prices by about 5-6% also from 1st of August to further there because of some fairly interesting additional content that we will be able to add to those packs. In terms of how much of that has flown through, as I said, this will be going up across the board. So we have August and September just two months for this quarter so may be about 30% to 40% coming in this quarter and most of it coming in the following quarter. Cable gross billing is not really moving very much. We do not see any dramatic changes in terms of that, there is some optical gross billing but not real gross billing.

Sumeet Rohra

You took price hike in June for all the packs besides the base back. So that should technically flow-in in this quarter, right?

RC Venkateish

Yes, that part of it will flow in but the part that I am taking in August will flow in part in August and mostly through the next quarter.

Sumeet Rohra

So hopefully we should exit at about Rs. 180-185 on the ARPU front?

- RC Venkateish** If you look at historically how the ARPU flows in, that's how it flows. It would not get a straight jump up because firstly we have to only apply the price increase when the guy comes up for a recharge. Secondly, we have historically seen there is some downgrading which always happens. So we have to wait and see.
- Moderator** Our next question is from the line of Nirav Dalal from SBI Cap. Please go ahead.
- Nirav Dalal** I just want to know in terms of debt, how do you see the debt levels going ahead because you have seen an increase QoQ, so how do you see that going ahead?
- RC Venkateish** There is not an increase. The debt levels have come down.
- Rajeev Dalmia** Every quarter debt levels have been going down since the last five quarters. Today we are at Rs. 1,300 crores to be precise and at the end of the year we hope it will be 1,150 to 1,200 after incorporating the new loan for the new boxes.
- Nirav Dalal** Sir, why there is increase in the interest cost.
- Rajeev Dalmia** There is a huge element of interest cost which is provided for the unpaid portion of the license fee. It is just provided but not paid and some element of increase is because we are converting our FOREX loan into rupee loan. There is some conversion between dollar to rupee rate which is around 7%-8%, because of which there is an increase of Rs. 4 crores in this quarter.
- Nirav Dalal** Okay. And lastly just a book keeping question. If you could give me the subscription revenues for Q1, Q2 and Q3 of FY14.

- Rajeev Dalmia** We can discuss that offline.
- Moderator** Our next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.
- Bhautik Chauhan** Sir how much addition of net subscriber has happened in 1st quarter for the overall DTH market?
- RC Venkateish** Overall DTH market, as I said we have a total share of about 24% so it should be in the region of about 1.2 million.
- Moderator** Our next question is from the line of Hemang Kapasi from Canara Robecco Asset Management. Please go ahead.
- Hemang Kapasi** Sir what would be the cash levels currently and total debt payable this year?
- Rajeev Dalmia** Cash is Rs. 575 crores and debt level, we have to pay around Rs. 42 million more this year but we will also borrow based on the requirement of new set-top boxes.
- Hemang Kapasi** Okay. So roughly Rs. 250 crores repayment is done plus the other debt which you said. How much that would be around?
- Rajeev Dalmia** Other debt which are required to be paid, will be around say 120 crores.
- Moderator** We have the next question which is a follow-up from the line of Rohit Dokania from IDFC. Please go ahead.
- Rohit Dokania** Sir, just one follow up question on Zing Media, is there any progress on that company?

- Rajeev Dalmia** Zing Media has started exploring other sources of availability of set-top boxes, may be they will start sourcing sometime in the present quarter and they are trying hard to negotiate the price for the lower cost of boxes.
- Rohit Dokania** We are trying to route the activation revenue through Zing so that you do not have to pay licensee fee.
- RC Venkateish** Not the activation revenue but the box price.
- Rohit Dokania** Yes, so what is the update on that? I mean from when can that start happening?
- RC Venkateish** It will start when they start importing set top boxes and deploying the set top boxes on their own which we feel sometimes this quarter it will start.
- Moderator** Our next question is from the line of Varun Ahuja from UBS. Please go ahead.
- Varun Ahuja** Most of my questions have been answered. Just on the competitive dynamics in terms of your DTH side who do you see is competing hard in your market specifically on the Dish TV brand and on Zing are you hearing something that somebody is also going to launch to compete with the Phase-III and Phase-IV markets with you?
- RC Venkateish** As far as the Dish DTH brands are concerned, at least there are four major players which are all very active whether it is Tata Sky, Airtel, Videocon and us. There has not been any let up in competitive activity in terms of their desire to get market share. As far as the Zing is concerned I have no knowledge on launch plan of others. .

Moderator Our next question is from the line of Sumit Chaudhary from Standard Chartered. Please go ahead.

Sumit Chaudhary Just one questions it seems that along with the resolution to raise more funds through the bonds which is the renewal resolution you explained, you have also asked for a reason to invest Rs. 5 billion in other companies. Could you tell us what kind of investments are we contemplating here?

Rajeev Dalmia This is also a repetition.

Sumit Chaudhary Yes, but I mean why would the company need this kind of an authority?

Rajeev Dalmia We have invested 120 crores in Zing Media in the last quarter. So this is again an enabling resolution, whenever fund is required we can direct the fund through Zing Media.

Sumit Chaudhary And it is 120 crores, just to be clear, it is invested in Zing Media or in Cyquator which is non-associated company?

Rajeev Dalmia We have invested in Zing Media.

Sumit Chaudhary Okay, because in the notes there is another Rs. 118 crores which has gone to Cyquator.

Rajeev Dalmia That is onward investment by Zing Media to Cyquator.

Moderator Our next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi I just wanted a little update form your side on how do you think this entire digitization will pan out in the next three years and what is

the feedback you get from the current government as compared to the previous government and their view on how this whole digitization will pan out?

RC Venkateish

Digitization has already panned out in Phase-I and II in a certain fashion. As far as Phase-III and IV is concerned, it is a question of the mode of digitization which we expect to be about 2/3rd DTH and 1/3rd analog. We do not expect everything to happen overnight. So it will be drop-by-drop.

Jiten Doshi

What would be your expectation about timeline and ultimately what sort of revenue flow and how will you see it trickling down because that was the whole story of the industry that we were betting on?

RC Venkateish

Yes, you would see a significant uptick in terms of the overall subscriber additions in the DTH space basically. I think that will last for at least three to four quarters because it is a very-very vast and large area you are talking about, 90 million homes. It is not going to happen overnight. May be 4-5 or 6-7 quarters or so.

Jiten Doshi

So let us say if realistically we can assume that may be in 12 quarters you should be through with all the mapping and then we should see a game of pricing after that.

RC Venkateish

Yes, I think on 2015 or you can say that by end of 2017 the penetration of digital should be close to 80-85% overall and then the real ARPU game can start.

Jiten Doshi

So we are about 3 years away from that?

RC Venkateish

2 to 2.5 years.

- Jiten Doshi** And you believe that the government is interested in sort of moving fast on this?
- RC Venkateish** So far all these statements which have been made by the minister or the ministry, they all seem to indicate that they are fully supportive of the whole digitization process. Therefore we do believe that this will continue.
- Jiten Doshi** Okay. And any bottlenecks? What are the bottlenecks that you see really out here?
- RC Venkateish** Ultimately it is a very-very large universe. So the required amount of capital to convert 60 million homes into digital is close to \$2.5 million. Obviously no one player can put that sort of money but you have to see the overall industry's ability to raise that sort of money and deploy it. I think one MSO or the others do not have that sort of leverage. The DTH companies, many of them are very heavily invested with very heavily leveraged balance sheet. So one of the reasons why we worked on deleveraging our balance sheet last year to take an advantage. We do not want to get into a position where there is a huge opportunity and I am sitting with the balance sheet hyper-leveraged and I am not able to capitalize on that opportunity.
- Jiten Doshi** Sure. And do you see consolidation over the next three years in your industry?
- RC Venkateish** Consolidation will not happen as long as people are available to consolidate their highly leveraged balance sheets and you are moving into phase of fairly accelerated growth. So if you consolidate with someone it is more likely that you will be consolidating with a concrete block on the sea.

- Moderator** The next question is from the line of Naval Seth from Emkay Global. Please go ahead.
- Naval Seth** I wanted to understand that if GST gets implemented with peak tax rate of 16% so what kind of savings you would have and would flow through in your P&L?
- RC Venkateish** 400 to 450 basis points.
- Naval Seth** On the margin front.
- RC Venkateish** Yes.
- Naval Seth** And one thing on the revenue break up what has been indicated earlier. So this rental of Rs. 23 crores is included in Rs. 588 crores?
- Rajeev Dalmia** That is included in 640 crores.
- Moderator** Our next question is from the line of Amit Kumar from Espirito Santo Securities. Please go ahead.
- Amit Kumar** First question pertains to this content deal that you are negotiating with Star, given the fact that Star would be including its sports channel also as part of the bouquet, is there a thought process that you would like to do a fixed fee kind of deal on Star Sports and also are you happy with continuing with the per-sub deal that you have on that bouquet?
- RC Venkateish** At this point I cannot disclose what exactly we are negotiating but as I said overall we are on fairly advanced stages of discussion for both the regular general entertainment channel as well sports.

- Amit Kumar** Small point, there was this satellite which was supposed to be activated by the end of last year itself. I have not really heard anything on that. Is there an update that you want to give on that?
- RC Venkateish** Satellite is already up in the air and there are 2 transponders which have been already allocated towards that satellite. As we said it was launched in August last year.
- Amit Kumar** 2 transponders are there but the cost of that is not being captured in this particular quarter?
- RC Venkateish** It has captured, If you look at this quarter and last quarter versus two quarters back, that was reflected on that.
- Amit Kumar** Alright. My final point was if you could please help me with the breakdown of this Rs. 1800 subscriber acquisition cost and the components of it?
- Rajeev Dalmia** We can do that offline.
- Moderator** Participants will take the last two questions. Our next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.
- Balwinder Singh** Sir just wanted to get clear on the gross debt side because in the last balance sheet or the fourth quarter results, the total debt was 1185 crores. So was there something else which was included in the other current liabilities?
- Rajeev Dalmia** Gross debt was Rs. 1369 crores only. The dollar debt was \$167 million which is now \$145 million. The rupee debt today is Rs. 450 crores, so the gross debt is now Rs.1300.

- Balwinder Singh** And you are talking of say gross debt going down from Rs.1369 crores in fiscal 2014 to around like 1100-1200 crores, right?
- Rajeev Dalmia** Not 1100-1200 because we have purchased new set top boxes which will be almost double the quantity that we did last year.
- Balwinder Singh** Okay, so kind of 150 to 200 crores gross debt repayment in FY15?
- Rajeev Dalmia** On a net basis.
- Balwinder Singh** Because last quarter I think we were talking very aggressive on the debt repayment side.
- Rajeev Dalmia** Debt repayment will be quite high but we need to borrow also for the new set top boxes. So the net debt repayment will be in the range of say 150 to 200 crores maximum.
- Moderator** We will take the last question from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani** Sir the cash flows will be impacted this year in FY15 because of higher additions. You did around 300 crores plus free cash flows in FY14. You would not be able to repeat that number again?
- Rajeev Dalmia** Like I said we had a CAPEX of around Rs. 140 crores, which is quite high so that is why it has depleted the normal free cash flow of Rs. 50-60 crores.
- Mayur Gathani** Right. But now I am talking about the annual year because the additions are going to be way higher this time.
- RC Venkateish** Yes, the addition is almost going to be a million higher than last year, obviously that will impact the cash flow.

- Mayur Gathani** And you may have answered this, what has impacted the ARPU from 163 to 170 this quarter in spite of the fact that due to the price hike in June?
- RC Venkateish** Well as I said the overall additions have been substantially higher. There are some components of that revenue which is also coming into the ARPU. That is one factor. Secondly some part of that price increase of about 3.5 crores worth of that flowed-in in the month of June. That is there. The third thing is that as I mentioned earlier there have been improved offtake of high definition in the metros and the other markets, so that has also contributed and some improvement from the mix overall.
- Mayur Gathani** Any update on the license fee thing, when the court hearing or case hearing sir?
- RC Venkateish** The hearing is going on. Right now what the TDSAT has done is they have adjourned the matter in a similar matter. So they want to dispose off the AGR matter in the telecom before they would take up DTH. So we cannot put a timeframe on how long that will take.
- Mayur Gathani** But we are just providing in the interest cost but not actually making any payments.
- RC Venkateish** Yes, we are providing at a full 10% as well as providing the interest cost.
- Mayur Gathani** But is it correct that another competitor that is Tata Sky have actually ended up paying the full license fees?

RC Venkateish They have not paid in full, they have made a fairly substantial chunk of payment. Rest of the DTH operators are in front of the court, now whether they have paid or not paid does not affect.

Mayur Gathani Do not you go as a body to the committee saying that okay we have a case here, I am surprised that someone paid up and the balance four have not paid.

Rajeev Dalmia Commercial decisions cannot be so seamless.

Moderator Thank you. Participants I now hand the floor back to Mr. Tarun Nanda for closing comments. Thank you and over to you sir.

This transcript has been suitably edited for ease of reading.

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