



“Hathway Cables & Datacom Limited Q3 Financial Year 2013 Conference Call”

February 14, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY 2014 Post Results Conference Call of Hathway, hosted by Ambit Capital Private Limited. 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Rudra of Ambit Capital. Thank you and over to you Mr. Rudra!

Ankur Rudra: Thank you. This is Ankur Rudra, the Media analyst at Ambit Capital. We pleased to host Mr. Jagdish Kumar the CEO of Hathway and G Subramaniam, the CFO of Hathway, for Hathway's 3Q FY'14 results. Congratulations on the strong result Sir. Over to you!

Jagdish Kumar: Thank you Ankur. Good morning friends. Thank you for participating in Hathway Q3 Results for FY 2014. I have with me a CFO, G. Subramaniam and EVP Finance, Mahadevan. I spend a few minutes talking about our business operations and thereafter yes, our CFO will walk you through the financial numbers and then we can open the floor out for Q&A.

I start with the Cable TV business. There are three significant events which has taken place I the last quarter. Firstly I will talk about the cash collection performance of our company. If you were to compare it on a quarter-on-quarter basis year-to-year for the same quarter last year and the current quarter our cash collection has increased by about 70% which is the indication of the traction which we are getting in monetizing the investments we have made in digitizing Phase I and Phase II. So our cash collection process is directionally moving forward, and I would see further growth going forward in the next few quarters.

As far as Phase I is concerned, we have completed the CRF process. We have now beginning to start billing consumers. I am happy to state that in Delhi we have already commenced billing in December 2013 and we would start billing consumers in Mumbai and in Kolkata from January 2014. So that is a significant step not only for Hathway but for the industry itself.

In Phase II we have completed the CRF collection process in all our cities except for some issues we have in Hyderabad. In Bangalore we have also taken certain steps which were necessitated by the lack of CRF forms we really shutdown close to about 200000 to 250000 set-top-boxes and we have seen significant response from the market and we have been able to get substantial customer informations from the market in Bangalore.



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In terms of the cash collection and billing process for the phase II areas we hope to start that process in the first quarter of the next financial year. The other significant even which has happened not in the last quarter but in the last one month is the content aggregative bill which has been notified by the TRAI and that is another significant step to make some radical changes in the way this industry has been organized. The ability of content providers to piggyback some of the less significant channels with their popular channels is reduced substantially so this will give us significant negotiating power in the future as we grapple with the highest cost in our P&L which is the content cost.

On the technology front, as I have mentioned in the earlier quarters we will have plan to migrate our subscriber management system to be Oracle billing and revenue management platform, which is going as of plan and we hope to commission that in March of this financial year.

Another significant development is that we are proud to state that all our digital cadence across the country have been upgraded now and all of them have got more than 350 channels and they also have a significant number of HD channels capability within their delivery platforms. So that is the update on the CA TV business.

On the broadband business we have also got some extremely good news to talk about. The gross additions during the quarter are about 27000 subscribers. We have made some significant changes in our product portfolio for the broadband. We have now positioned ourselves away from the low speed broadband portfolio to a much more high speed portfolio. We in Bombay have now successfully launched the DOCSIS III platform and we have a very revolutionary product in the market. We have a single speed for all purposes with just a HUP limits for each of these price points, so we are seeing significant traction there in Bombay in DOCSIS III platform and we have actually backed it up with some gold standard customer service and also a very, very high levels of uptight for our customers with DOCSIS III services. We intend to expand DOCSIS III. We already expanded in other parts of Mumbai at least in Western Mumbai and also in Pune. Over a period of time we will start implementing DOCSIS III in various other cities of our network.

In terms of the ARPUs we have seen some significant growth rate. I am happy to state that in the month of January the broadband business has clocked the highest ever collection in its history, which is an indication of the order pipeline which is there in the future. So we are very excited with the opportunity which we have on our broadband front and because of the profitability, relatively high profitability broadband business we see that part of our business to take some significant portion of our overall product portfolio.



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With that I will hand it over to our CFO, GS to talk about our financial numbers.

G. Subramaniam:

Gentlemen, I will start with our revenues. Our total revenues came in at about 234 Crores which compares quarter-on-quarter with 219 the previous quarter. The 234 Crores comprises of about 119 Crores coming in from Cable, placement bringing in about 74 Crores, activation was about 3 Crores and broadband came in at about 37 Crores. Obviously activation was muted in this quarter because we have as you are all aware completed our rollout in phases I and II almost 100% of our subscribers have been seeded boxes, and what now remains to be done is phase III and IV which will probably happened towards the close of the ensuing financial year.

As far as the revenues are concerned, obviously there are some one time upsides that we have enjoyed in this quarter because we have had contracts with business partners and business partners have incentivized based on milestones reached for certain incentives so this also includes these incentives. These incentives will continue to come in, in this quarter and the ensuing quarter and in the small way in the quarter thereafter and we are fairly confident that once that is done subscription revenues will more than make up for that.

As far as costs are concerned, we came in it about 198 Crores excluding depreciation which compares with about 182 Crores. As Jagdish mentioned the most significant cost item there is 'Pay channel' cost you will notice that it came in at about 84 Crores compared to about 68 Crores. You have to back out at about 11 Crores from this 84 Crores because for the first time in effective this quarter we have gone for umbrella arrangements where we enter into contract to broadcaster and back-to-back we have arrangements with our joint venture partners for drawing back these revenues so both the cost and the revenues are captured in the P&L. So if you back that 11 Crores out actually it will come in at about 73 Crores or so or a bit less about 72 Crores and that compares with the 68 Crores in the previous quarter. Again while there is a growth in pay cost which also accounted for by the fact that most of the pay cost contracts are slowly kicking in and as these costs get on annualized there will be some impact in terms of the overall cost that we are incurring. It is also accounted for by the fact that we have expanded in several part of the country notably in West Bengal and Central regions and these incremental costs are also partly attributable to the expansion in our territory.

As far as depreciation is concerned it comes in at about 56 Crores as compared to 51 Crores in the previous quarter, which mainly reflects the rollout of additional set-top-boxes and the capitalization of the things. Interest is more or less in line with what we had in the previous quarter there has been no change and that broadly sums up the financials.



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I am sure you are all curious about our debt position at this point of time. We are at about 1085 Crores gross with a net debt outstanding of about 1015 Crores today. This is on a standalone basis. So with that sort of short summary, I will now leave it to the forum to go into the Q&A.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. Sir, my first question is in Maharashtra the entertainer tax is always been quite high so in Bombay what is the on-ground situation of entertainment tax and in Q2 you had said 95% KYC has been corrected in Delhi and Bombay so in terms of the next stage if you could give us more clarity in terms of collections and how would a package selection is impacting ARPU etc., that will be helpful Sir, that is first question?

Jagdish Kumar: All the entertainment tax issue as you know in Maharashtra the issue is subjudice the local cable operators have gone to court demanding that they be allowed to bill the customer and pay the entertainment tax and as of now the government has given an order saying that “ the NCOs can pay the tax but any deficits will have to be paid by the MSO” so we are now preparing ourselves to the environment where between the LCO and ourselves we have to now pay the entertainment tax which is due. While it is quite high in Maharashtra at Rs.45, we are trying to work with the government to ensure that there is a little more reasonable in charging the entertainment tax. On the CRF and collections in phase I yes we have mostly got all the customer information in phase I and as I mentioned in my earlier address we have started customer billing based on packages in Delhi in December. We will do that in Calcutta and Bombay in January. We definitely see an increase in the ARPU because of package billing. As of now only data which we have got so far, we have got a significant level of penetration in the mid pack as you may be aware there are three packs now, a base pack Rs.180 and the mid-pack of Rs.250 and a premium pack of about Rs.3000 so we have seen a significant increase in the proportion of people who are there in the premium and in the mid-pack. So we see that also being able to increase the ARPU because when you give person choice and quality I am sure ARPUs will go up.

Abneesh Roy: Sir follow up question on this, KYC has been collected mostly but how robust is this data isn't there a chance that the data and actual customers doesn't match and second is in terms of all these packages again how robust is this data has it been, so are you able to switch off individual customers how confident are you 100% that wherever switch off is happening the exact home is getting switched out if you could give some clarity on that?



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G Subramaniam: I will answer the both these question, I will answer your second first. In terms of our ability to switch off customers that we have, we have the ability to do it based on each customer because these set-top-box numbers and our (indiscernible) 15.51 is pretty much well off organized so we be able to switch off people. Now in terms of the robustness of the data, you know I preside to your view that there will be a certain percentage of the information which needs to be cleaned up but the way I see it is that as we progress in this addressable environment when you for example, if a person requires sports and if he has been logged in as just a customer with the start up pack he will definitely call up our call centre and say no I need this sports package. So therefore this is the first month we are doing the consumer billing and we see from clean up happening when we send the invoices to the consumers when they realize that they can work with the lower pack or higher pack, so I am confident that in the next few months whatever glitches are there in our data will get cleaned up.

Abneesh Roy: Sir my last question is if you could comment on the recent regulator ruling on the media aggregators and one question was on your broadband business you have been investing in terms of technology, in terms of the service, etc., but how do you plan to monetize this because customer already has choice and customer is lethargic so how do you really plan to monetize this because it is good to hear all this in terms of financial implication it is good takers?

G Subramaniam: The product which we have has undergone a significant change and the indication of the success which we have in what we are doing is that last quarter this time we have actually degrowing and right now we are on a positive trend. One other thing which we have done very clearly is that we have moved from a very national portfolio to a very local portfolio so we have made portfolios which are relevant for that market. We are also got a team together which sharply focuses on only in the net additions rather than the gross additions. We have now also linked up a few anti-churn measures like we have also given the opportunity to the customers to buy a WIFI router along with his plan and this router is also reducing the churn which we have on business because the routers have given a much more economic prices than what we can get in the market. We are completely discontinued all low value bandwidth products, so our core product is really 50 MBPS for everybody and it is very affordable. We have backed it up with very high levels of service. Out uptime is close to 99.9% and we have also backed it up with very good customer service in terms of the ability to respond to at least 95% of the calls which have been offered to in our Call Centers. The indication of our success is that as of now we have got about 10000 (indiscernible) 19.14 customers.

Abneesh Roy: Thanks for the answers and all the best.



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- Moderator:** Thank you. The next question is from line of Mr. Vivekanand Subbaraman from Philip Capital India Private Limited. Please go ahead.
- Vivekanand S:** Thank you very much for taking my question. Essentially I joined a call bit later can you please help me with the split of the revenue? That is one. Secondly in terms of the customer acquisitions forms that we have now complied and also billing been implemented so what is the response that we are getting in Delhi and specific issues pertaining to the entertainment tax in Mumbai could you shed some light on that?
- G Subramaniam:** I think Vivek, the entertainment tax issue in Maharashtra has already been covered excessively by Jagdish, so just have a look at the call or just approach our guys. Split of income I have already given broadly you can again approach our guys. As far as the cash are concerned obviously we have had a fairly good traction on cash as far as the Phase I cities are concerned almost 100% has already been done, wherever we have not received the customer activation forms we have also taken the action, we are required to take the action of shutting out the subscriber so that has also been done. In the Phase II cities while it is substantially done there is some catchup work to be done, as an example we can give Bangalore where we actually took the drastic action of shutting down over about 270,000 customers because customer activation forms were not submitted, we actually saw over about 150,000 forms come in the very next couple of days so we are fairly optimistic that while at this point of time wherever we have not received customer activation forms we are shut them off, we will see many of these customers coming back on the platforms as and when you know these cash's are submitted. So that is the current status.
- Vivekanand S:** After the TRAI ruling on the aggregators are we revising our negative study guidance on content cost?
- G Subramaniam:** First of all Vivek. I don't give guidance so don't take anything as guidance, what we can tell you is possibly there will be some this thing we will have to see the way it rolls out in the next couple of quarters.
- Jagdish Kumar:** I think this would be a question across everybody there I think it will be good if I lay out what our position is so that we don't repeat this question again. See, the guidelines has come about a month ago and given six months for everybody to adhere to the guidelines now the first step is every broadcast entity has to take. It has to now rework their bundle rates and a-la-carte rates. We have got lot of market information about people being able to bundle some of the other channels which were earlier not part of the bundle so it still a lot of work in progress, within the industry about how to handle these new regulations but on an overall basis because of the fact that the significant negotiating power which was there



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with these contain aggregators will be reduced because they cannot now bundle packages will have definitely a positive impact in the way we negotiate our rates. So we will have to now look at how the broadcasters come back with their bundles, now will they bundle Zee Sports, with the bundle Zee some other genre so we will have to see what happens and we will have to see that because we will have to ensure that they satisfy the twin conditions of TRAI in terms of how they work out their a-la-carte rates and their bundle rates. So we will be still now work-in progress.

G Subramaniam: Thank you Sir.

Moderator: Thank you. Next question from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah: Thanks for the opportunity. I have two bookkeeping questions. First thing which I want to know is you mentioned that there is some Rs.11 Crores in the content cost which probably pertains to JV partners and which are not part of standalone account so if that is the cost but is there any revenue which is corresponding to this?

G Subramaniam: Yes there will be revenue corresponding to that. We pass through these costs to the JV partner that is only part of our income.

Bijal Shah: That is also 11 Crores income?

G Subramaniam: Yes in that range, I do not want to get into specifics on that.

Bijal Shah: Then you said that there is some one time related to reaching some milestone can you quantify that number and did you say that it will be there in 4Q as well as 1Q of FY'15?

G Subramaniam: No, it will be there definitely in this quarter and next quarter and then it will taper down thereafter. Just take that off line and discuss it with my team they will give you the specifics.

Bijal Shah: Yes definitely, now one last question which I had is on the fact that you have started billing but how do we ensure the bill actually reaches the customer it may be just going to LCO and LCO I don't know I mean, how do you ensure that LCO actually hands over bill and actually collects payment on the basis of that bill is there any mechanism for that?

G Subramaniam: See firstly on we give the bill to the LCO because these definitely are partners in this business and your reference is pretty well justified whether it virtually reaches the consumer or not. Now that is something which we will take an acknowledgement personally from the LCO of having received the bill which will establish the fact that the bills have actually



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been generated for each customer. Now I think over a period of time we will start the process of verifying and auditing whether the customers have been receiving it, we will do certain may be outbound calls to certain customers to check whether they have received bills, when customers come back because we are now doing package based content delivery some customers may find that we are not receiving the channels to their preferences they may call us back and talk to us about it and then we establish the fact that they have actually received the bill. See when the first cycle of bills go and come back we will get to know. We are also doing a lot of consumer awareness activity, in fact even TRAI and even we must thank the broadcasters they also started lot of consumer awareness activity of ensuring that please ensure that you have the bill and get a receipt for any payments you make.

- Bijal Shah:** Thanks that answered my question. Lastly if you can give us some idea on what is consolidated debt as to be net and gross then that would be useful?
- G Subramaniam:** The consolidated debt is about at a net level is about 1300-odd Crores at a gross level is about 1475 Crores this is including all our subsidiaries including GTPL.
- Bijal Shah:** Including JVs, and subsidiaries put together?
- G Subramaniam:** Everything, when you asked for consolidated that's what I gave you, on a standalone basis its 1085 if you net out the cash in the book it's about 1015.
- Bijal Shah:** Thank you very much and all the best.
- Moderator:** Next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.
- Sumeet Rohra:** Good morning. Just a couple of quick question, is that at the end of phase I phase II how many Set-top-boxes have we installed, I think we are close to 7 Millions so if you can just provide some input on that and in terms of what is our economic interest in these phase I and phase II and where do you see us at the at the end of Phase III , phase IV and what is your thought on this I mean is this going to be on that the deadline of December 31 or is this going to be extended sir, can you please share some light on that Sir, that's my first question?
- G Subramaniam:** As far as our universe is concerned we have a 11 Million universe out of this number boxes seeded will be about 7.7 Million boxes now if I go by phase its about 2.5 Million boxes in Phase I about 4.3 Million boxes in Phase II and the third and fourth phases we have already started seeding boxes we have reached a nearly a Million boxes in phase III and IV.
- Sumeet Rohra:** Phase III and IV we already had one Million is that right Sir?



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- G Subramaniam:** We are already just around one Million.
- Sumeet Rohra:** Sir if our Universe is a 11 Million so are we basically looking by the end of Phase III Phase IV which is hopefully December 2014 or March 2015 we should get for that figure of a 11 Million?
- G Subramaniam:** Yes if the deadline of December 2014 is that too obviously we expect to see that many boxes between ourselves and our JV account.
- Sumeet Rohra:** Okay and Sir let me that the matter of fact, you said there is a JV partner and our subsidiary so what is our economic interest in this, can you give some number on that?
- G Subramaniam:** Roughly about 8.3 million of the top of my head.
- Sumeet Rohra:** Which is very sizable, which is absolutely sizable because you know there is been a very record deal last night so I am sure that the cable industry is headed for very good future?
- G Subramaniam:** Record deal, you are talking of Comcast? You are talking about the Comcast?
- Sumeet Rohra:** I am talking about the Comcast taking over Time Warner at \$45 billion?
- G Subramaniam:** Valuations per customer in those markets are completely different from valuation per customer in our mind. Thank you very much.
- Sumeet Rohra:** Sir my second question is basically on billing, you know sir, I think I heard Mr. Jagdish Kumar said that you know we have started billing in Delhi in December and we are going to start billing in Calcutta and Mumbai or have we already started Sir?
- G Subramaniam:** Calcutta is expected to start in fact this quarter and Mumbai also this quarter onwards.
- Sumeet Rohra:** So Calcutta and Bombay will start in this quarter?
- G Subramaniam:** Yes.
- Sumeet Rohra:** Sir in Phase II so are we then saying that you know Phase II billing should start basically by April 2014?
- G Subramaniam:** See actually technically it should have started by now but we are just completed updating the database as we speak in the first week of February which was a deadline by TRAI so by that time we go ahead in and bill customers and like somebody else pointed out clean up the



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data base and all that I would expect April, May June quarter is when billing will start in phase II markets.

- Sumeet Rohra:** Okay so sir, I mean it is fair to assume that at the end of Q1 we can start phase II billing?
- G Subramaniam:** That is a bit pessimistic, during the entire quarter city by city it will go because some cities will have for example Hyderabad has got peculiar problems with Hyderabad that will start much later than rest of the cities in Phase II, so during the quarter we will progressively rollout billing across all phase II cities, Hyderabad will happen much later.
- Sumeet Rohra:** Sir when you say you started billing so are you collecting gross or are you collecting net, I mean when you say that billing actually started you are collecting gross that mean?
- G Subramaniam:** Wherever we have billed gross we have to bill collect gross, the only market where we have done that is in Delhi.
- Sumeet Rohra:** Excellent Sir. I will come back if I have more thank you very much and wish you all the best Sir.
- Moderator:** Thank you. Next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Sir coming on the gross collection question again just to ask we have done also December in Delhi and January in Mumbai so when you say you are doing the gross collections we have numbers coming in for January with us already?
- G Subramaniam:** The January billing for Delhi took place in the last weeks of January, December took place in the last weeks of January I will share the exact numbers with you at a later day.
- Vikas Mantri:** No sir. I am not looking as exact numbers I am saying that the LCO has collected the gross and paid us everything?
- G Subramaniam:** Yes obviously.
- Vikas Mantri:** That has happened and we have now the process is we payback to the LCO its share?
- G Subramaniam:** I think I must correct myself for everybody, what the process that we follow is the LCO collects the gross amount and what comes to us is the net of his revenue share is what comes to us I am sorry I stand correct with that.



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- Vikas Mantri:** Sir there is a provision that you should be deducting TDS and then giving it back to the LCO so what happens to that?
- Jagdish Kumar:** I don't have to give it back to the LCOs I should deduct TDS and give it to the department.
- Vikas Mantri:** I am saying the actual process collect the gross completely and the share of LCO should be given after deducting TDS?
- Jagdish Kumar:** That is indeed the ideal situation and that is what we will go to so when the LCO raises an invoice on us for his revenue share there will be a deduction of tax at source so there are some procedural issues relating to that we are segregating it out as we go along.
- Vikas Mantri:** So as of now the TDS how is it being done?
- G Subramaniam:** First of all the TDS amount is not very serious at this point of time and this just the first month so we are just figuring out the procedure as far as TDS is concerned.
- Vikas Mantri:** So let me put it this way this quarter Q4 results when we see it will still be based on net numbers that you get?
- G Subramaniam:** No we will booked a gross revenue on the top and book the LCOs revenue share as a expense in the bottom, already has been done, incidentally as far as Delhi is concerned effective January we have already got that arrangement in place where we have booked gross revenues for Delhi as income and LCO's revenue share as an expenditure.
- Vikas Mantri:** Sir second question is there was a request by me to and give the right balance sheet for FY'13 which is after accounting the full 12 months of your subsidiaries instead of the nine months?
- G Subramaniam:** First of all Vikas I beg to defer that the balance sheet that we produce last time was also the right balance sheet.
- Vikas Mantri:** Sorry I do not mean to use the word right or wrong. I wish to say for better comparison we would want the 12 months consolidated numbers of each of your subsidiaries.
- G Subramaniam:** You get back to my guys on this, but the best way to do it is when we consolidate in the ensuing year that is the current year there will be a 12 months consolidation for all the subsidiaries, when I say 12 months it will be up to December.
- Vikas Mantri:** But Sir that will be available only 6 to 9 months later?



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- G Subramaniam:** It will be available end of May.
- Vikas Mantri:** Okay but is there any problem with giving us FY'13 numbers on a like-to-like basis?
- G Subramaniam:** We are not consolidated it on that basis, so I cannot produce a number which is a theoretical number. We have consolidated on the base of nine months aggregation.
- Vikas Mantri:** Thank you.
- Moderator:** Thank you. Next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.
- Sangeeta Purushottam:** We have two questions. The first question is relates to the number of broadband subscribers could you give us an update for how many broadband subscribers you have right now and what ARPU you have commanding and is the incremental ARPU is that you are based on the historical ARPU if you could highlight that?
- G Subramaniam:** As far as the broadband subscribes are concerned around 400 plus 1000 subscribers out of that. We used to be trending at about 310 on an average across the universe now we are trending it about 330. As far as new additions are concerned they are coming in at about 500 plus.
- Sangeeta Purushottam:** So going forward you things that taking an average of about 400 ARPU for the broadband subscribers would be addressed?
- G Subramaniam:** I would recommend that you take about 350 for the current year safely and then the problem is we are migrating people to the DOCSIS III platform gradually. It is not happening overnight. So even in the next year it will happen over a period of 12 months so you take about 350 for the current year going up to about 400 next year then probably 500 is the year after. I am being very conservative in this estimate.
- Sangeeta:** In terms of the comparison of the other expenses this quarter versus year-on-year there has been a significant from 60 Crores from 99 Crores, could you just explain the reasons for that?
- G Subramaniam:** This includes placement expense , so what we have is there are pass through cost even in, just like in the case of pay cost there are pass through cost even in the case of placement. The business model that we follow is as a parent MSO we are best placed to negotiate the most optimum deals as far as placement is concerned and pay costs are concerned so we negotiate on a national basis and then pass those costs down to our JV cost so those are



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passed down to the JV cost through the expenditure line. Substantial part of it is accounted for that.

Sangeeta Purushottam: In terms of pass to profitability at what point of time you foresee revenues basically growing fast than cost?

G Subramaniam: You are asking me for guidance. I am not giving the guidance at this point of time. But in a very general sense obviously when we complete substantial part of this digitization process obviously we will be on the pass to profitability and that is probably close of Phase III, Phase IV as well we would see that number.

Sangeeta Purushottam: So in calendar year time horizon?

G Subramaniam: That is guidance right. So I don't want to give that guidance at this point of time there are many variables we are dealing with. One of the big variables being depreciation on our set-top-boxes, so I would say north of that rather than south of that.

Sangeeta Purushottam: Thank you.

Moderator: Thank you. Next question is from the line of Arjun Khanna from Principle Mutual Fund. Please go ahead.

Arjun Khanna: Thank you for taking my question. My first question is Sir, in terms of broadband ARPU and in terms of the Delhi what's the LCO share?

G Subramaniam: I do not think you should constitute it as an LCO share but wherever there is a DSA or any other middle person dealing with the customer there it will be in the range of about 10%. It will be about 10%.

Arjun Khanna: And Sir in Delhi we should be have the gross billing what is the share of the LCO?

G Subramaniam: It differs from package-to-package but on a range between 35% and 45%.

Arjun Khanna: Does that include distributor share or that just the LCO?

G Subramaniam: This does not include the distributor share there will be a further share given to the distributor.

Arjun Khanna: Would it be 5%?



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- G Subramaniam:** About 5% may be. The way the LCO revenue share is structured is also it incentivizes LCOs as they sell higher and higher packages to the end customer.
- Arjun Khanna:** Sir we also have primary point, just to get a ball park understanding how much does it cost in percentage of ARPU to actually our primary points?
- G Subramaniam:** You can take for every. Let me give you the variable cost that is easier to relate to that, roughly about Rs.6 per primary point is what it will cost as the variable cost. I am not taking out the pay cost. Pay cost is over and above.
- Arjun Khanna:** So how much is the pay cost be because our primary points are clusters?
- G Subramaniam:** As a rule of thumb, again as a very rough rule of thumb we should say that about one-third of our revenues will go towards pay cost and about Rs.6 per subscribers towards variable cost.
- Arjun Khanna:** If you have to service directly with cost of roughly 33%, currently we are paying roughly in the region of 40%, 45% would that be fair?
- G Subramaniam:** Including my variable cost yes.
- Arjun Khanna:** Rs.6 is also paid to up primary points the cost of call center, it costs us even for servicing secondary points?
- G Subramaniam:** Not all secondary point, because secondary points are not fully served in this fashion, primarily points that the call center which deals with almost 100% of the subscriber base whereas secondary points, a lot of the customer interaction is at the local cable operator level, so we do not serve all other secondary points with our call center services. As far as billing is concerned, obviously everybody has to be billed, so all those calls are incurred.
- Arjun Khanna:** Second questions in terms of capex, if you could give us guidance for the year next in the year after given phase III and phase IV on the anvil?
- G Subramaniam:** I would regrettably not be giving guidance on the next year. What I can tell you with the bulk of the investment as far as set-top-box is done as far as Hathway is concerned. So, on a consolidated basis probably about 2 million boxes more, because we have also got 700,000 boxes in inventory. So if you take about 2.5 million boxes will be ordered on a consolidated basis that is the bulk of investment. The other big investment that we will make is on DOCSIS III rollout, so that will be the other investment that we will make. We intent over



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the next one year to rollout DOCSIS III services and increased home passes for DOCSIS III, so that would be typically in the cities of Bangalore, Hyderabad, Kolkata and all that.

Arjun Khanna: Have you decided how much would we spend for this DOCSIS III?

G Subramaniam: No, I will not be able to share that detail with you.

Arjun Khanna: In terms of set-top-box?

G Subramaniam: What I recommend those specific query to get to our guys they will have one on one with you.

Arjun Khanna: Just the cost of set-top-box currently?

G Subramaniam: The landed cost of the set-top-box is about Rs.1600 odd.

Arjun Khanna: Thanks a lot. I appreciate this. Thank you.

Moderator: Thank you. The next question is from the line of Diviya Wahi from Grand Trunk Capital. Please go ahead.

Diviya Wahi: Thanks for taking my question. I have question on your HD subscriber. How many subscribers you have at the moment and ARPU and the LCO shares currently?

G Subramaniam: Currently our HD subscribes are pretty modest. We are in the region of about 30,000 subscribers, but we have a very significant plan, because we have now upgraded a lot of our headings to deliver close to about 35 HD channels which is far more then what DTH can do. Currently, our ARPU for HD subscriber is about Rs.200 and we have and LCO share which range from 20% to 25%.

Jagdish Kumar: Our HD ARPU is over and above.

G Subramaniam: Over about the standard definition ARPU. We have a very aggressive plan going forward about expanding on the HD service.

Diviya Wahi: How much the HD box cost?

G Subramaniam: It currently costs about Rs.2000. There have been significant decreases in the cost, our earlier generation of boxes cost is about Rs.3500. Now our current cost will give in the region about Rs.2000.



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- Diviya Wahi:** The customer asks for HD at that time that they are digitized. It will start the process or later on once that incised and probably call you for HD services?
- G Subramaniam:** I think we will have another launch of an HD service once we do that we will keep.
- Diviya Wahi:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rajeev Sharma from HSBC. Please go ahead.
- Rajeev Sharma:** Thanks very much for the opportunity. I have three questions, first is, this TRAI is also talking about this monopoly of MSOs in some local markets, does this have any read across direct, indirect impact on you or any of your subsidiaries? Second is, on this new content aggregate I think, can this broadcaster lobby try to go to the regulator and put a lot of pressure on your carriage and placement fees because that is something which has been debated in the past and it has not come down. I understand it is because you have been adding markets, but can that get under pressure because broadcasters will get excuse now? Third is, you have been talking about this, can you give us a broad indication how your EBITDA per subs looks now that you have more clarity on your costs and billing, you have been talking about this maths couple of quarters back, so if you can just reiterate the maths that will be helpful? Thanks.
- G Subramaniam:** I will take the last question and then give it to Jagdish. As far as the EBITDA maths is concerned frankly Rajeev there has been no change in that assumption. We expect on an average ARPU to be Rs.180 when we completely rollout with Rs.80 going to the local cable operator, throughout distributor community with the negative carry off in the range of about Rs.20 for content, while I did mention variable cost at this time at an actual of about Rs.6, I just provide for Rs.10 just in case there has some surprises and about Rs.25 to Rs.30 towards our fixed overheads. So we are continuing to look at about Rs.40 minimum it could be probably Rs.40 to Rs.45 EBITDA per subscriber in the long run.
- Rajeev Sharma:** Sorry to interrupt before you give it to Jagdish is this Rs.40 on the entire business or excluding carriage fee or you have adjusted that in the content?
- G Subramaniam:** I have adjusted in the negative carriage. When I am taking the negative carry of about Rs.20, it can be anywhere between, in fact significantly lower than Rs.20 at this point of time, but as we roll forward obviously the gap between carriage fees and content cost is likely to widen, so I have taken an average of Rs.20.



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- Rajeev Sharma:** With this 20 used to be your answer two, three quarters back. The entire purpose was to get your?
- G Subramaniam:** At that time, I was giving you a model, business model, how it is going to work and the business model stays in that at this point of time.
- Rajeev Sharma:** The content aggregate think does not change is 20 to 10?
- G Subramaniam:** As Jagdish is pointed out that is still work in progress. There is a six months time lag which it will happen. We do not know how this will pan out. I would like to keep it where it is.
- Jagdish Kumar:** On your first question, on the TRAI guidelines on the monopoly of cable operators, the way we have defined the market to decide whether operators of monopoly or not is the state. So if you were to look at each of the states in which we operate, we definitely do not have more than 50% of that stake. While within the few cities, we may be a little about 50%, but in a state, we are not more than 50%, so that does not impact Hathway directly at all. So that is not in issue as of now based on the way the TRAI has defined the market to decide on monopoly. On the content aggregator guidelines and its impact on channels and placement like I mentioned earlier, we have to see how this pans out, but what this enables people to have us to have more choice. Earlier people were saddled with the channels for which they will not (inaudible) 50.02. Now over a period of time, the existence of choice, lot of a-la-carte kind of options will come into play and then a-la-carte options come into play most of the platforms will look at doing deals on RIO basis, the reference interconnect order basis. Once that happens while on one hand, we could have reduction in cost, there could also be certain impact on the carriage cost because of lot of players being on RIO basis. But having said that, I think on an overall basis, it is positive for platforms because I think relatively the decrease in content cost with the much more than the decrease in the carriage cost.
- Rajeev Sharma:** That is useful, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Srinivas Seshadri from CIMB India. Please go ahead.
- Srinivas Seshadri:** Thanks for the opportunity. The first question is on phase III given the fact that the government seems to be going into some kind of election mode right now and phase III deadline towards the lateral part of the year. Can you offer some comments on how serious the government is right now and bureaucratic machinery to get this underway and what is the progress on that and how do you expect it only kind of pick up once new government does not play so you might have some substantial delay the process.



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- Jagdish Kumar:** The best way to react is frankly we know as much as you do, so that is the best way we can react to that. We are hoping that given our interactions with the bureaucracy which is governing this we are fairly confident that is the government will take its course. They have been fully supportive of this, so that is the answer to that. As far as the phase III, phase IV impact on the company like Hathway is concerned, our business is predominantly phase I, phase II universe, so that is the very important difference between us and most of the operators in this market, so a lot of our work is already done. Now the impact of phase III and phase IV in the remote likelihood that will delay, yes there will be something, but it will be much less for us than for any other players in this market.
- Srinivas Seshadri:** Following on your comments that is it fair to assume that right now your focus is primarily even on phase I, phase II and we will take a call on phase III only even there is some progress?
- G Subramaniam:** You are absolutely right. We will focus our effort is entirely in phase I and phase II territories wherever we have entered into phase III towns, they are typically areas which are contiguous to our phase I, phase II territories. Just as an illustration, Mira Road actually falls in those who are familiar with Mumbai, Mira Road falls in phase III territory and Gurgaon is also incidentally falling in phase III territory, those are the areas we will focus on, we will not just shoot bullets all over the place.
- Srinivas Seshadri:** Sure, that is very helpful. Secondly on the billing etc., also wanted to check in phase I, phase II cities, have you already done as switch off of channels based on the package selection like whatever is not there as part of the package is that already happened?
- G Subramaniam:** Phase I is already done.
- Srinivas Seshadri:** Okay, is that happened along with the gross billing or did it happen?
- G Subramaniam:** Even before as we allocated packages even earlier than that. The phase II is in progress as late as February 7 some of the cities. Central India about February 7, so we are just in the middle of that and of course you must all have heard Bangalore where we switched off huge number of subscribers.
- Srinivas Seshadri:** Sure, when that switch off happened, you would have got some idea on the real package selection, because on the ground customers would have given you some feedback, so that process I presume would have been largely over right in terms of customers if they then they wanted channels, they did not have that would have. So, you would have a fair idea of what you would be able to correlate what you have received the cap form information what is that kind of data which is you get from the call center?



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- G Subramaniam:** I think that is the process next step which we have to take. Firstly what we have done is to at least identify that is the certain operator has these boxes from our network, so that process has been completed. The next step is really to we have also put in lot of steps to get the customer now give us their package preferences, so that will be done we have got the teams working on through various means, one of the things which we are doing is to, we are going to add about 150 channels in our Bangalore network and we are using that is an incentive for customers to come back towards the channels options. So we are confident that substantially a lot of work could be done by March this year and we intend stopping retail billing from first quarter next year.
- Srinivas Seshadri:** Just one final question, I believe GS you earlier mentioned that you are looking at profitability coming in of the company more towards the phase III, phase IV execution timeline. I just wanted to understand given your comments that the focus of the company is largely on phase I, phase II, why would one have to wait for the profitability to come in with such a large lag...?
- G Subramaniam:** I have always told you guys that the monetization of phase I and phase II happens through all the way to end of quarter one next financial year and then Hyderabad is still remaining that takes place even after that, so obviously while we have speeded up and made our investments in each of these markets the monetization is happening through the entire year obviously it will profitability follows that.
- Srinivas Seshadri:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prateesh Krishna from Antique Stock Broking Limited. Please go ahead.
- Prateesh Krishna:** Thanks for the opportunity. First in terms of the economic interest, can we get the number for the quarter please?
- G Subramaniam:** It will be about 50 Crores truly economic interest. 50 Crores for the quarter including our economic interest.
- Prateesh Krishna:** Second is in terms of have you kind of streamlined the entire processing both Delhi the phase I markets, Delhi, Bombay and Kolkata, in terms of the cash collection cycle what really will change, should we see that probably your debtor is coming down, how should we look at that part?



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- G Subramaniam:** The way to look at it is as and when we start billing gross to the end customer and collecting gross from the customers and taking our revenue share. I did not follow your question entirely, can you repeat that?
- Prateesh Krishna:** You probably will do like 30 day collection cycle in HD on what is improvement on that?
- G Subramaniam:** For that we have a fairly structured response to that, if the customer does not pay within one month, there is a dunning process by which we have the right to switch off services to the customer. Now frankly the reality of this is to be tested in this quarter, it is premature to say that we have succeeded in doing this fluently, but the fact is as a community of MSOs we are all wanting to work towards common policies when we are serving our customers and there will be which will follow that policy.
- Prateesh Krishna:** But you will probably wait for about one month, is that what you are saying?
- G Subramaniam:** Broadly that is what we are working towards.
- Prateesh Krishna:** Thank you.
- G Subramaniam:** We are also in the long run working towards the prepaid structure, but that will take about a year more to accomplish.
- Prateesh Krishna:** Phase I market one can assume your current DSO which is probably four months, five months plus that will clearly?
- G Subramaniam:** Gradually it will be drawing down, it will not wind down overnight, and it will gradually wind down to a period of about month-and-a-half.
- Prateesh Krishna:** Just to clarify the placement revenue has it fallen sequentially it seems to have come off?
- G Subramaniam:** Which one?
- Prateesh Krishna:** Placement revenues?
- G Subramaniam:** In the previous quarter, there was some catch up placement that we have booked. Typically whenever we sign up the contracts only we accrue that income and therefore we had got some catch up accrual in the last quarter, so it is not comparable.
- Prateesh Krishna:** So this is the number that we should probably assume in the models.



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- G Subramaniam:** Prateesh this will go up and down, because many of these contracts are still being entered into, so do not take this as frozen number. If you want to go into some details just get back to my team, they will give you some details on this.
- Prateesh Krishna:** Thank you so much.
- Moderator:** Thank you. Due to time constraint that was the last question. I would now like to hand over the conference back to Mr. Ankur Rudra for his closing remarks. Over to you sir!
- Ankur Rudra:** Thanks everybody for joining us for Hathway conference call. Thank you for giving this opportunity. I will just pass it over to you for closing remarks.
- Jagdish Kumar:** We have our task set up very clearly, our agenda going forward is very clearly to continue to push the efforts we have already in place to monetize phase I to commence the billing processes in Delhi, Mumbai and Kolkata and also to work out the relationship we have with our LCOs. Then on phase I to again certain place lot of work which has been done in getting customer information of the next step is really to start monetizing it and then other significant activity is to see how this negotiations with our content providers move forward because of the six month guideline which has been given by TRAI for content aggregators to restructure their businesses. On the broadband side, we are very excited with the opportunity which we have implementing high speed DOCSIS III services in further areas and what we have done so far. We have got a plan to expand our hose parts on the broadband side. So both these businesses, we see some significant traction going forward and hope to give you some more positive information in the next quarter. Thank you.
- Moderator:** Thank you very much sir. On behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.