



**“Hathway Cable & Datacom Limited Q3 FY16
Earnings Conference Call”**

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MODERATOR: **MR. VIVEKANAND SUBBARAMAN – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, Good Day and Welcome to the Hathway Cable & Datacom Limited Q3 FY16 Earnings Conference Call hosted by Ambit Capital 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. Kindly note, this conference is scheduled for a duration of 60 minutes. I would now like to hand over the conference to Mr. Vivekanand Subbaraman from Ambit Capital. Thank you and over to you, sir.

Vivekanand Subbaraman: Thank you, Vikram. Good morning, everyone. We at Ambit Capital are pleased to host the 3Q FY16 Earnings Conference Call of Hathway Cable and Datacom Limited. We have with us the senior management team of Hathway, represented by Mr. Jagdish Kumar – MD and CEO and Mr. Vineet K Garg – CFO along with other senior members of the team. We will begin the call with a short commentary by Mr. Jagdish Kumar and then move on to the Q&A session. Over to you, sir.

Jagdish Kumar: Thank you, Vivekanand. Good Morning to everybody, thank you for participating in the quarterly results call of Hathway for FY16. With me on this call is Vineet Garg, our CFO, he has just been appointed CFO in the last Board meeting. We would like to take the opportunity to place on record the excellent service which is rendered by our erstwhile CFO GS. GS has reached the age of retirement under the superannuation rules of Hathway. We wish GS a very best in his future endeavors. Along with me on this call is Panesar who is on a telephone line, he is our President Video Business, there is Rajan Gupta, our President Broadband Business and there is Mahadevan on EVP Finance and there is also Ajay Singh who is our Chief Compliance Officer and Company Secretary.

So what I will do is, I will highlight some of the major operational points and also some of the strategic issues which we faced in Q3 and then I will hand it over to Vineet to walk us through some of the financial numbers and then we can open the conference out for Q&A.

I will start with the CATV business. Our consolidated set-top box deployment reached 9.6 million, we have now digitized 80% of our total footprint. During Q3 we have added 0.9 million subs, we currently reach to about 3 million subscriber base in **phase III areas**. So our expansion will continue across pan-India markets and we are confident of achieving those numbers, we are confident that the existing uncertainty which the stays are being given by the Court will be overcome. As we speak, there is a concerted action both from the MIB, the IBF and AIGCS to vacate the stay which has been granted by a few High Courts in the Country.

Some of the highlights of our operating metrics in the Q3 period for CATV was, we have implemented prepaid in our direct subscribers, currently 74% of our direct subscriber base is converted on a prepaid basis and this is very similar to what the DTH industry is doing where they collect money upfront. Now this implementation itself has been able to give us a growth in one city alone by about 24%, so we see a lot of scope for improving our collections by implementing prepaid at our primary point level. We will be rolling that out in Mumbai, Pune,

Delhi this quarter and the balance in 4QFY16. We actually rolled it out in Mumbai, Pune and Delhi and by the end of Q4 hopefully 90% to 95% of our primary point base would be converted on a prepaid basis.

We also made some significant progress on the RTU deals, we currently have about 20,000 base majorly in the east and in Bangalore. We have signed one significant deal during this quarter with a cable operator in the Northeast. So given the metrics we have now with the box deployment and also the fact that the competitive intensity amongst all the MSOs, which is lesser than what it was in Phase-I and Phase-II, the rate of monetization of the Phase-III deployment will be much quicker than what we did in Phase-I and Phase-II. Currently our net of tax as ARPU for Phase-I is 102, Phase-II is at 83 compared to 100 and 80, sequentially we have grown marginally but I think from a trajectory point of view it is a good indication.

Moving on to our Broadband business, we have increased our Broadband subscribers by 50,000 subs in Q3, currently our Broadband sub base is about 567k, out of which DOCSIS3 is about 224k and we are currently reaching a run rate of 20k plus every month. The ARPUs of Broadband have grown significantly from 658 to 683, the homes passed during the quarter increased by about 300,000, majorly in Delhi, Bangalore and Hyderabad. We also started a GPON service, through a soft launch in Calcutta. We will explore commercial opportunities of that service during Q1 FY17.

On an adjusted EBITDA basis which is net of activation and also the license fee which we paid to the Government of India for our Broadband revenues which was not in existence last year, we adjusted the activation fees and license fees; our EBITDA has increased by 95% year-on-year to 33.8 crores which is a significant achievement. There are of course the additional 8% license fee entries for which we currently got a stay order by pleading that case in TDSAT.

As far as our set-top box inventory is concerned, currently we have about 1 million set-top boxes in our possession, either in stock or at the customs and we have also placed orders sufficient enough to cover our requirements, so we do not see any challenge in procuring set-top boxes for our current plans.

We are also well funded for whatever plans we have for Phase-III and the Broadband expansion, we do not require any further funding, I think we are pretty much well funded as far as our current business plans are concerned.

So with this, I will hand over to Vineet Garg, our CFO to walk us through the financial numbers.

Vineet Garg:

Thank you, Jagdish. Quarter 3 EBITDA we closed at 49.8 crores, this EBITDA shows around 103% growth on year-on-year basis and 46% compared to the last quarter of same year. CATV subscription income at 108 crores is showing year-on-year growth of around 9%, however it remained flattish sequentially. Broadband revenue is constantly showing a very high growth. At Rs.78.7 crores, it is higher 54% on year-on-year basis and 9% compared to the last quarter.

As Jagdish has explained that we have got order from TDSAT, we have approached TDSAT for stay on license fees; however on conservative basis we keep on charging big license fees in our accounts. If I net it up, license fees and also net up activation income, our EBITDA for Q3 will be Rs.33.8 crores which 95% higher on year-on-year basis. PAT is also showing a very decent improvement, we have reached a negative PAT of 32.5 crores which shows a 44% improvement year-on-year basis.

Content cost is showing a little increase, there is two major operators we have signed a deal in Q3, which lead to some amount of catch up for the past two quarters. Our standalone debt, gross debt is Rs.1,399 crores and net debt is Rs.1,337 crores. Our consolidated debt for all the Group companies is Rs.1,830 crores and net debt is Rs.1,711 crores. We have invested Rs.325 crores CAPEX in the last three quarters, in ISP Rs.143 crores and CATV is around Rs.182 crores in STP and others.

I think we can now open the call for questions.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Just wanted to understand the ARPUs and revenues further, so sequentially we have had a 2% growth in our Phase-I ARPU and a 4% growth in Phase-II and you have also added subscribers in this quarter. But if I were to look at your sales growth or subscription growth, it has been just less than 0.5%. So help me understand that.

Jagdish Kumar: The subscriber growth is primarily from the seeding we have done in Phase-III. As you are aware, we hit this road block by means of this stay which the courts gave, so the monetization of that Phase-III deployment will happen only from Q1 of next year, that is why you will find a mismatch between the sales revenue numbers versus the subscriber growth numbers.

Vikas Mantri: And even if I assume that that did not pay the new additions, your Phase-I, Phase-II ARPUs would itself drive revenue growth?

Jagdish Kumar: Yes, your point is well taken. I think we were coming off a situation we had with one of the broadcasters, so the growth rate is not as comfortable as it can be.

Vineet Garg: Actually Vikas, if you remember, we have some amount of dispute with one of the broadcaster in Q2, on account of that we need to give some credit to some of the LCOs in Q3 and that is the reason, the reconciliation which you tried to do is not matching, however the numbers on quarter-on-quarter basis is showing the correct number, however we passed some amount of credit notes for quarter two.

Jagdish Kumar: So just to recollect, when we talked about our results for Q2, we had this dispute with Sony Entertainment Network and some of the issues we had with them impacted the collections for

us on the ground. And what Vineet has just now mentioned is that during Q3 we given a few credits to those LCOs, therefore you will find a dip in the revenue numbers.

Vikas Mantri: So we have collected lesser from LCOs in Q3, and that is why your subscription revenues are lower?

Jagdish Kumar: Yes.

Vikas Mantri: And what could be the quantum so that we can come to the right number? Also, this means then your revenues in Q2 and ARPUs in Q2 also have to be restated for that Sony thing?

Vineet Garg: Vikas, I think it is going to 1 crores or 1.5 crores.

Vikas Mantri: In terms of the Phase-III monetization plan, now clearly we have had not such a good experience with Phase-I and Phase-II, at least that has been my reading for the entire industry, not specific to you. In case of Phase-III what is the kind of growth that we are looking in this quarter? What is the monetization trajectory now when we are dealing with the growth and when we are trying to acquire subscribers; is it a better understanding with LCO? And if there is a better understanding, what can go wrong after that?

Jagdish Kumar: See, the monetization of Phase-III like I had mentioned earlier would be much quicker than what we have done in Phase-I and Phase-II. There are three, four reasons why this could happen.

Vikas Mantri: Sir Phase-I and Phase-II are such horrible that anything should be better, I am really looking at some commentary...

Jagdish Kumar: It is a bad comparison. There were a couple of things we have done in Phase-III clearly, one, we are guilty of issuing boxes earlier without getting the KYC documents from the LCOs or the customers, and this time we are very clear that none of our set-top boxes will be issued without proper documentation. So we currently are very well tagged in terms who our LCO is and who the customers are, number one. Number two, we have also not given any credit to people to acquire these boxes, boxes are given on a very-very small two week, three week kind of a credit basis, though as we are getting cash upfront from all the boxes. Three, we have announced packages, as you may have seen we already announced packages in majority of our places, essentially what we are saying is that, consequent to the deals which we have signed with one of our major broadcasters, we are effectively going with a two package plan to the market. The base plan itself is going to be enriched with Sports and the premium plans will have English content. And we are working with our peers in the industry to start billing as early as Q1 next year. Our hope is to get to a significant market share, I would not like to make forward-looking statements which may be not fully correct, so I can assure you that from Q1 onwards the level of monetization will be far superior and will be in line with what the other industry participants have been referring to in most of their calls. We have the benefit of the

transcript of the calls which DEN and SITI have made, and the indications given by them are pretty much in line with what the industry will witness.

Vikas Mantri: Can you help me with what is the outlook for this quarter, given that maybe most of Phase-III or at least significant portion of Phase-III should be...?

Jagdish Kumar: See, the court cases will be vacated, that is our fervent hope. With that, we will reach our total limit of 3 million footprint of Phase-III subscriber base, to be honest, there will be a little bit of a spillover Vikas, like we mentioned earlier we got 1 million boxes in stock, we got 0.5 million boxes in transit and we have already deployed boxes in December and January. So we may be 10% to 20% short by March 2016, but substantially we would have covered our total footprint of 3 million.

Vikas Mantri: In terms of monetization of subscribers, are we still waiting for a cue from the industry participants of how they monetize or given that there is going to be a 2.5 million or 3 million odd at least subscriber addition we have had already finalized in the last quarter, we do not mind losing a few but we will continue and ensure monetization as an industry leader and maybe others follow through.

Jagdish Kumar: So, I think we are doing a lot of things on our own here, we have actually given a press release on a new initiative which we have started called Hathway Connect where we are working with the LCOs to give them the tools to be more customer friendly, behave more like a DTH business. So there is a portal which the LCOs have been given and they have the ability to activate, add, delete and deactivate customers themselves and this is all driven by the back end which we have created in the Oracle Billing and Revenue Management System. We have invested substantially in that system and I am glad to report that it is yielding results now in terms of being able to deliver these kind of backend system driven dining processes for LCOs. So we are doing a lot of things which ourselves in combination of course with the other participants. So we hope that our Phase-III deployment would be much, much superior.

Moderator: Thank you, Mr. Mantri. Our next question is from the line of Sameer Pardikar from B&K Securities. Please go ahead, sir.

Sameer Pardikar: Sir, I believe we have taken some initiative in terms of the empowerment of the local cable operators, can you please talk a little bit more on the net?

T.N. Panesar: So this is a very unique, in the industry first initiative that we have taken to improve the relationship between the MSO and the cable operator and also to empower the cable operator with all necessary tools to upgrade his business and the way he deals with the customer which will not only improve his service but also enhance customer service as well and he will be able to be in line with very much similar to like the services provided by our DTH platform. This gives him full autonomy to operate his business independently and address individual customers. So it improves and this is actually helping him in addressing each of his customers

both in terms of service, payment and offerings, etc. It is a dedicated portal which gives him all the facility to operate through that, everything is online.

Moderator: Thank you. We have the next question from the line of Prasad Padala from Investec Capital Services India Pvt. Ltd. Please go ahead.

Prasad Padala: My first question is, I will just confirm this content renewal from Zee and Star is pending this quarter right, any status on that?

Jagdish Kumar: The Star contract renewal is pretty much done, I think it has been completely concluded commercially. We are in the process of negotiating some details with Zee, we have to conclude that shortly.

Prasad Padala: One more thing, I think you were talking about changing the packages for the Phase-I and Phase-II customers, so anything on that front?

T.N. Panesar: You know, over a period of time we realized that the packages which we are offering to the consumers required a change with the passage of time and with what competition was doing and to be more in line and better with the competition we have tried to simplify the offering which we are making to the consumer. And this time we are making it very simple, the idea is to be even position to offer more content at a much more competitive price than the DTH operator is doing and this is basically a two layer packaging where we have two standard packs which the customer can choose from, one is primarily carrying all GEC, Hindi movies, etc., primarily a Hindi centric pay channel bouquet package, where FTA channels are also thrown in. And the second is similar pack with addition to English movies and English GEC genres added to that. And the customer apart from that gets a choice to choose two regional languages which comes as a part of the pack. And there are six to eight other add-ons, depending on the requirement that the customer chooses can get that as well. So it is primarily six, eight and two packs, two primary packs, eight regional packs and six add-on packs. So it is very-very simplified and the whole idea behind that is to offer more at a price which is more competitive and make the offering very simple for the customers to decide and choose.

Prasad Padala: So has it been already done?

T.N. Panesar: Yes, it has already been done and we have started rolling out state price phase wise.

Prasad Padala: Sir my last question, sir out of that 0.9 million subscribers you added, what would be the standalone number?

Vineet Garg: It is about 200,000.

Moderator: Thank you. We have the next question from the line of Parag Gupta from Morgan Stanley. Please go ahead.

- Parag Gupta:** A couple of questions. Firstly, could you help us get a sense of what is the monetization likely to be for Phase-I, Phase-II and Phase-III going forward? You had earlier indicated that you are looking at exiting Phase-I at about 110 - 115 and Phase-II at 100, so where are we on that and what do you expect Phase-III monetization to start at?
- Jagdish Kumar:** I think we have still retained that outlook which we have given in terms of being 110 and 100 for Phase-I and Phase-II. As far as Phase-III is concerned, my view is that and because it is of the issue of this court case and all that which is looming around and therefore there is this uncertainty in the market and in the Q1 of this year the monetization will be extremely low. But starting from Q1 which is April to June quarter of next financial year, we should get to a level of at least Rs.50 and then thereafter growing to about Rs.80 for Q3 and Q4.
- Parag Gupta:** So you are saying Q1 you started 50 or Q2 you started 50?
- Jagdish Kumar:** Q2, I think if you go with the current situation of the legal cases, we got the clearance by end of February, we believe the deployment is going to happen maybe finish by March itself and the digitization will roll out in maybe next one quarter. So Rs.50 kind of number we should see in Q2 and then sequentially move up as we going forward.
- Parag Gupta:** And you talked about your Star and Zee renegotiations or content, can you give us some sense of how have those renegotiations gone through, I mean is Star still on RIO, is it better than last time and what are you hearing from Zee?
- Jagdish Kumar:** Of course we are handicapped by the confidentiality clauses in those agreements, but I can tell you that the Star agreement is a fixed fee contract going up will next December and there are certain obligations we have in terms of carrying some of their sports channels. So it is a fixed fee contract with some obligation to carrying certain sports channels in our base pack. The Zee deal, I am afraid I cannot divulge any further because still the negotiation process is on.
- Parag Gupta:** So Jagdish given that Star is now a fixed fee, so is that a change from last time because of that RIO change and is that happening for only select distributors or is that now an industry phenomena?
- T.N. Panesar:** Yes, it is an industry phenomenon; Star has migrated from a RIO to a fixed fee deal for all operators. So it is nothing to do only with Hathway, they have changed the mode of dealing with all, basically they are looking at more of fixed fee where they have some compulsion to carry the sports channel on certain packs that basically I believe tempted them to get into this.
- Parag Gupta:** And lastly on the Broadband side, Jagdish you mentioned that you are touching a run rate of 20,000 net ads on DOCSIS3 on a monthly basis, is that happening because of more expansion into more cities or it is not happening because of better uptake in existing cities itself?
- Rajan Gupta:** So Jagdish spoke about 20,000 net adds per month, with the kind of run rate we are building, while last quarter we added 50,000 subscribers, out of which 37,000 were standalone Hathway

and 50,000 were together. In terms of 20,000 net adds run rate we build up, it is coming from three sources, A) in the current home passed, for example Bombay, Pune, Bangalore, Hyderabad, current passed, we are increasing our extraction. So initially we were 12% of our home passed, consumers were there, now we have reached 15% and we are aiming for 20% in next two quarters. Parallely we are adding new cities, like Calcutta we spoke about, we have done soft launch in Calcutta, fiber to home GPON pilot, in April we are going full fledged pilot. We are also aggressively adding home pass in cities like Delhi, so last quarter Delhi has added more than 2 lakh home pass and Delhi now in terms of gross addition and net additions is becoming like Bombay or Hyderabad, one of our biggest market. So essentially a mix of all three.

Jagdish Kumar: Just one point I would add on the broadband business, we have made some significant investments in creating the basic infrastructure and the homes passed and going forward the theme for the Broadband business is to extract more from what we have already invested, so we will be sweating the investments we have made so far for Broadband business going forward.

Moderator: Thank you, Mr. Gupta. We have the next question from the line of Jay Gandhi from Motilal Oswal Financial Services Limited. Please go ahead, sir.

Jay Gandhi: Just one question, so net debt has gone up by around 12% on a standalone basis but finance cost has come down, so could you help me reconcile this?

Jagdish Kumar: See we are taking more funding on foreign currency through buyer credit and that is a reason the cost of our debt is going down, that can be the reason. The foreign currency element is higher than the incremental debt and hence my cost of funding is not increasing in the ratio, it is actually getting cheaper as we increase in the FOREX loan.

Jay Gandhi: Okay, so you have increased the FOREX loan?

Jagdish Kumar: Yes.

Jay Gandhi: And sir one more thing I wanted to ask you, this dual pack that you have launched, just wanted to understand the price point at which this would be coming at?

T.N. Panesar: This would differ from state to state, broadly to give you an idea, the first pack would be in the range of Rs.300 to Rs.350, Rs.375 depending state-to-state. The other one would be Rs.350 to Rs.450.

Jay Gandhi: And also one more thing I wanted to ask you, the Star deal, so it is a fixed fee deal so Star has moved in all phases on a fixed fee deal or?

T.N. Panesar: They are all phases all customers.

Jay Gandhi: And this is December 2017 right, it ends at December 2017?

T.N. Panesar: That is right.

Jay Gandhi: So I think in the last concall or probably a couple of quarters back, you had mentioned that you would probably go for longer term deals, is that not working out?

T.N. Panesar: I think 24 months is what the broadcaster also looks at, so primarily you can get into a two year kind of a scenario because they also do not have the outlook of that much, so they do not want to extend more than two years.

Moderator: Thank you, Mr. Gandhi. We have the next question from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma: Couple of questions on the new plans, so you mentioned about 300 to 350 as a base pack and the other English pack as 400, so are you building in all those regional packs and other options into this, so as a subscriber if I want the bare minimum Hindi pack than what will be my payout and similarly for English?

T.N. Panesar: So to answer the first part of your question, what we have done is we have made regional packs separately and in each of the pack the customer has the liberty to chose two language packs, so by default the language of the state goes inside the pack. Like for instance in Maharashtra the Marathi would be part of the pack, so we will add that regional pack of Marathi into the pack and the customers would have the liberty to chose another language, the second language, so he may either chose a Gujarati or a Punjabi depending on his requirement. So two regional language packs are added to each of this packs as a part of the package and if he wants a third language so he has to pay for it separately.

Rajiv Sharma: And you want to go with these plans and scrap the earlier plans once you phase out the earlier plans across you 10 million subscriber base with this new packs, is that the idea?

T.N. Panesar: Yes, eventually they will get phased off as and when they fall due and we will migrate all the subscribers to the new pack.

Rajiv Sharma: So how much time do you anticipate keeping Phase-III aside, Phase-I and Phase-II how much time, how many months, weeks you think you will be able to phase out everything?

T.N. Panesar: I will not have the data on hand of the dates when they are falling due, somebody must have paid annual, six monthly, etc, depending on that. But here it is a better offering, so at a price with a slightly higher payout maybe he is getting better content. So the transition becomes smoother.

- Rajiv Sharma:** So this is keeping in line with the DTH thing which they are doing, is it like trying to map what and DTH does have a 220 pack, what will be your counter offer to it and regulator asked you to offer the free basic, that basic pack with 100 FTA channels, will that continue?
- T.N. Panesar:** That mandatory pack is regulated by the TRAI to offer 100 FTA channels, that pack continues to be there and this is primarily done to be a little more competitive with DTH. What DTH does is there are a lot of marketing that they do around promoting their packs whereas DTH is offering at 180, the actual comparison is not the price but the content they are offering at Rs.180. So if you are offering something at 300, it is more than two times what the DTH offers at that price.
- Rajiv Sharma:** So customers would not have a 220 option in cable six months from now, at least in our packs?
- T.N. Panesar:** No, he can avail an FTA pack and then he can depend the genre that he wants to avail or buy, he can buy an add-on pack.
- Rajiv Sharma:** And this is a significant improvement in your earlier rates where you have a 220, 190 kind of packs to straight away moving to 300, does this allow you to reset your share with LCO because even if we go by TRAI 35%, 40%, 30% whatever it is, you could command higher, will that significantly change the Phase-I, Phase-II ARPU's for you?
- T.N. Panesar:** The revenue share will definitely improve with this because the operator will also be able to charge customer better than what we are doing now and the revenue share we anticipate will also improve.
- Rajiv Sharma:** So if you move from 350 as an average, where do you see revenue share in Phase-I and Phase-II and this is 350 before taxes or after taxes?
- T.N. Panesar:** This is gross with tax.
- Rajiv Sharma:** So 120 Jadish was always there, isn't it?
- Jagdish Kumar:** See, I think the premise of this is basically we are combining this with the Hathway connect program which Panesar mentioned. The combination of new packaging plus the Hathway connect programming, we are ensuring that the LCOs get better monetization and therefore we can get a higher share from him with a better monetization. So effectively 120 plus taxes, our intention is to get to about 135 to 140 that's the base back in the future.
- Moderator:** Thank you, Mr. Sharma. We have the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Sir just two questions from my side, one is, could you please throw some light on the Broadband CAPEX for the next fiscal?

- Vineet Garg:** I think Broadband story continues the same, we have invested roughly Rs.150 crores in last nine months, next year I think the target will be Rs.200 crores - Rs.250 crores in the next financial year.
- Rohit Dokania:** And correspondingly can you also talk about where our peak debt could sit after all this set-top box heating and the Broadband CAPEX that we are planning to do? Currently I think it is at about 1,700 crores at the consol level.
- Vineet Garg:** So considering our monetization and all, I think we are expecting there is some marginal increase of roughly Rs.100 crores - Rs.150 crores in the net debt in the next financial year or so.
- Rohit Dokania:** Is it safe to say that would be peak debt?
- Vineet Garg:** That should be the peak debt.
- Moderator:** Thank you, Mr. Dokania. We have a follow-up question from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Sir, just to understand when you say Rs.135, is entertainment tax included in this?
- Vineet Garg:** No, it is only the service tax element.
- Vikas Mantri:** So entertainment tax in Delhi is also an LCO responsibility as of now?
- Vineet Garg:** Yes, entertainment tax in Delhi is definitely the LCOs responsibility, it is subjudice though, it is still being debated at the Delhi High Court level. Similarly, the Bombay High Court is also enabling a lot these entertainment tax issues. See, going forward our hope is that when GST comes in this issue of entertainment tax will go out of the door.
- Vikas Mantri:** And in terms of your Broadband subscribers that are there, what role are your current LCOs or partner MSOs, the smaller GTPL and all are sort of doing, is it independently being managed or the LCOs also get a fee and they also manage things?
- Rajan Gupta:** So I have clarified this earlier also, will repeat once again the same thing. Broadband business is being run like a separate B2C entity, with entire value chain right from marketing, selling, customer service, collection and all the technical compliant management, call center, so all the parts in the value chain are directly handled by Hathway. As far as LCOs are concerned, or distributors are concerned, we pay them around 10% commission because they are the ones who are supporting us on the ground for building the infrastructure and handling any other issue which comes up, but otherwise the entire value chain is owned by Hathway.
- Vikas Mantri:** No, when you say handling the issues, given everything is managed at the company level, do they still take care of servicing and all of that?

- Rajan Gupta:** No, I just clarified that.
- Jagdish Kumar:** So we are working in a territory and like Rajan mentioned the whole thing is B2C controlled by our teams, that is billing, collection, customer service, technical maintenance, everything is done by our teams. We only give them the write-off way kind of a fee to use his territory to deliver the service for which we give him the 10% write-off.
- Vikas Mantri:** In terms of, just remind me, I would have forgotten, do we plan to just demerge the broadband or list it separately is also the plan?
- Jagdish Kumar:** Only demerger, not a separate listing.
- Vineet Garg:** This will be a wholly owned subsidiary of Hathway.
- Moderator:** Thank you, Mr. Mantri. Ladies and Gentlemen, due to time constraints we will take the last two questions. We have a next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead, sir.
- Vivekanand Subbaraman:** So I have a couple of questions, one pertains to the content deals that we have done. So with a couple of other MSOs, broadcasters are now negotiating deals net of carriage, firstly wanted to understand is that also what is happening with us? And connected to that, in terms of the net carry on content how should we see Phase-III and how does it compare with phases I and II? Thanks.
- T.N. Panesar:** In terms of net of carriage deal, yes, broadcasters are trying to evaluate that option even with us, but currently as Jagdish mentioned earlier, we are in negotiation with Zee and similarly some other deals are also opening up. So we will wait for them to see what their ask is; we are okay to do a tariff separately and also a net deal if the broadcaster wishes to do so.
- Jagdish Kumar:** But from our perspective we are looking at everything as a net cost basis, so we would like to work with them to ensure that the net cost increase which we get is within the benchmarks we have set for ourselves.
- Vivekanand Subbaraman:** And sir specifically to the net carry on content benchmarks that you had earlier alluded to, how does that outlook now shapes for you and compare it with the Phase-I and Phase-II payouts?
- Jagdish Kumar:** Right now our net content is in the range of 25 bucks per subscribers per month, so I think we are well within our target, so this is in the range of what we plan for it.
- Vivekanand Subbaraman:** And is this uniform across the phases or what?
- Jagdish Kumar:** It is average cost for the entire subscriber base, it is different for DAS-I, DAS-II and DAS-III. And it also differs between region to region, you have got slightly higher cost for the south region, as there is less placement for the south region.

Moderator: Thank you, sir. We have our last question from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just quarter couple of questions on the broadband business, the 150 crores CAPEX that you mentioned for the nine months will be on a standalone basis or this includes consolidated?

Vineet Garg: It is standalone CAPEX.

Amit Kumar: And what will be the number for consolidated?

Vineet Garg: We will need to come back to you on that.

Amit Kumar: My second point is, I just wanted a little bit of clarity, I think in your release you have mentioned Broadband home passed at two different phases 2.8 million and 3 million, what was that number as of 31st?

Jagdish Kumar: See we have been saying home pass is 2.8 million, there are some LAN customers which we have not included in that calculation, that is the reason it is a two different number.

Amit Kumar: If you include that gets you to...?

Jagdish Kumar: Yes, if we include LAN customers 200,000 customers, it becomes 3 million.

Amit Kumar: And just wanted to get a sense, for nine months of the year what would be your margin on this business?

Jagdish Kumar: Sorry, I missed out the question.

Amit Kumar: I am saying that what is the EBITDA margin in your broadband business for the first nine months of the year?

Jagdish Kumar: We were just debating because Vineet is slightly new to this, we were debating do we divulge the EBITDA numbers separately, and we have been advised that we do not do that separately, it has been done on a consolidated basis. But you can talk to Mahesh and the team to get a little more color of the numbers.

Amit Kumar: But I would presume that given the fact that you are turning over the broadband business to the subsidiary, those numbers would become available very soon any which way.

Vineet Garg: That is right.

Moderator: Thank you, Mr. Kumar. We will take another question; we have the next question from the line of Angad Sawhney from Tybourne Capital. Please go ahead, sir.

- Angad Sawhney:** I think the question I had was just asked which was, will you be giving out EBITDA when you demerge the business, and I think the answer is yes, EBITDA by Broadband versus Cable, so that should happen within the next couple of quarters?
- Vineet Garg:** Yes, it should be considered as approval from the court and the DoT.
- Angad Sawhney:** And then just a point of clarity, there is a comment here released by you saying if license fees is added back, that would be 6.3 crores of EBITDA, this is in the broadband section, what exactly is this, is this 6.3 crores of EBITDA quarter-on-quarter, is it year-on-year, was the license fee only this quarter and not last quarter?
- Jagdish Kumar:** Yes, see we have started paying license fee at the rate of 8% starting this financial year, so this Rs.6.3 crores is for Q3 only.
- Angad Sawhney:** And did you pay in Q2?
- Jagdish Kumar:** Yes, we did pay in Q2 and Q3.
- Angad Sawhney:** So your overall EBITDA without activation actually fell quarter-on-quarter, this has nothing to do with the license fee that you paid for broadband because that was paid last quarter as well?
- Jagdish Kumar:** I think we explained you that we had gone to the TDSAT and requested for the stay that the honorable TDSAT has granted and the matter has settled down. So till the court issue settles down, we are not paying license fees at the rate of 8% on the Broadband revenue.
- Angad Sawhney:** So you have paid or you have not paid for Q3?
- Jagdish Kumar:** We are continuously charging in our accounts.
- Angad Sawhney:** Right, you are charging but you are not paying and you will sort it out on your P&L once you sort out with the TDSAT?
- Jagdish Kumar:** It is recognized as license fees in our books of accounts.
- Angad Sawhney:** And then just on this EBITDA, so the reason the EBITDA has not grown quarter-on-quarter despite very strong growth in broadband and flattish everything else is because of content cost issues and the collection issues that you talked about?
- Jagdish Kumar:** Exactly.
- Jagdish Kumar Pillai:** And one more issue, I think we significant investments in our Phase-III deployment, we got link cost connecting a lot of the Phase-III locations, the meter ticking on the link cost therefore those costs are being backed into these numbers but the revenue from those cost we will get from the next couple of quarters.

Moderator: Thank you, sir. We will now take the last question from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

Gautami Desai: Can you just tell me what has been the churn rate in Broadband, like your numbers which you have given? One is, is that on a consolidated basis and how much would GTPL would have done in that? And then what is the churn rate, what is the growth and what is the net I Broadband subscribers?

Rajan Gupta: So churn rates in Broadband are in the range of 1.5% to 1.8% month-on-month and this is net churn we talk about.

Jagdish Kumar: Retention also happens.

Rajan Gupta: For example, every month 3% of the gross churn is there then a lot of people come back, people are travelling, people are going on holiday, people are getting transferred. So we speak about only net churn, so net churn is in the range of 1.5% 1.8% month-on-month.

Gautami Desai: And sir this final numbers which you have given of Broadband subscribers, are they existing paying subscribers right now for Broadband?

Rajan Gupta: Yes, these are all paying, active subscribers.

Gautami Desai: After churn right, this is?

Jagdish Kumar: Yes.

Gautami Desai: And sir how much of this would be GTPL and what is the addition in GTPL?

Vineet Garg: GTPL I think the net addition for the quarter we say is 50,000 is the net addition in last quarter, out of the 37,000 in SCDL standalone, so rest all is JVs put together majorly in GTPL.

Gautami Desai: So 37,000 is standalone you are saying, right?

Vineet Garg: Yes, out of 50,000, 337,000 is net 13,000 is you can assume GTPL.

Gautami Desai: And sir, how is the graph going, did you observe in some of the months, here we are talking of when we say Q3 we are talking about November and December, so did you see like some kind of a spot in October, November, then December numbers are going down, how January has been or there has been a continuous uptrend for you all like you are saying 20,000 net ads, or is it going like in a fine wave?

Rajan Gupta: No, we do not have too much seasonality in broadband, around a year and a half back we started with 3,000 net adds, then we moved to 10,000 net adds and then finally we moved to 15,000 and now we are looking at 20,000 net adds month-on-month. So there is not too much

seasonality, except Diwali months here and there, 2,000 - 3,000 numbers may be down, but overall very little seasonality.

Gautami Desai: And if I am permitted just one more question, sir can you give us some idea of how Cable, not only you, how Cable MSOs are doing vis-à-vis DTH in Phase-III, because it is very difficult for us to find because Phase-III is so scattered and so much in the interior, so if you can give us some feel about it.

T.N. Panesar: To answer to your question, there is still lot of confusion prevailing in the Phase-III because of the stay granted by the High Courts in some of the states, because of which the seeding has got impacted not only for cable but also for DTH. So we are hopeful that once the stay is vacated by the end of this month, we will see some activations happening and some seeding happening in Phase-III going forward March onwards. So it was very premature to estimate because DTH is also not I believe not able to have much inroads in Phase-III now.

Gautami Desai: So sir like the Phase-I, Phase-II the proportion which we have seen 70:30, you see that continuing or some idea on that?

T.N. Panesar: See, Phase-III is a very large area, so in some places definitely it will behave like how Phase-I, Phase-II has behaved. For example, continuous areas with Phase-II where Phase-III exists in Bangalore, in Bombay, in Delhi, the NCR territory for example, Gurgaon and Noida is actually Phase-III, so in those areas you find it behaves like how it behaves in Phase-I and Phase-II, but there is the remote areas which again DTH probably runs better traction. So I think on an overall basis let us assume it could be 70:30.

Gautami Desai: 70:30 you can assume, that is what you are saying?

T.N. Panesar: Yes.

Gautami Desai: And sir would you be more interested in just converting your analog to digital or you would go out and reach out customers who are not Hathway customers anyway?

Jagdish Kumar: So it is a combination of both, right now our focus is completely on just focusing on our footprint, that itself has given us enough to work on. But having said that, I think in case any opportunity comes up, for example we have now gone into the state of Sikkim which was a good opportunity for us, which was an expansion for us. So if any good opportunity which makes financial sense to us and fits into our overall strategy of running the business, I think we will expand. And the Cable TV business, the CAPEX is minimal because the subsidy element is less than Rs.200, so when you go and meet with the prospective operators, we ensure that we do not give any box below Rs.1,250, so our CAPEX investments for any expansion is not as big it was in Phase-I and Phase-II when it was Rs.1,000 per box.



Moderator: Thank you, Ms. Desai. Ladies and Gentlemen, that was the last question. I would now like to hand the floor back to Mr. Vivekanand Subbaraman from Ambit Capital for closing comments. Over to you, sir.

Vivekanand Subbaraman: Thanks, Vikas. I would like to thank the management of Hathway for taking time out for this call. Over to you gentlemen for any closing comments that you would have.

Jagdish Kumar: No, I think we have got our tasks well cut out in terms of our Cable TV business we have to start monetizing Phase-III as early as possible and start increasing the ARPUs through various initiatives which we had started in Hathway connect and cooperation with the industry to increase monetization in Phase-I and Phase-II. On Broadband, the story is, we are very excited with the opportunity we have in Broadband, we have invested significantly in the network, in creating the brand and also we will be moving the Broadband business to the OBR and back end system. All these elements for which investments have already been made will start bearing fruit going forward, so it is a question of how you smell those investments we have made so far in Broadband. So I think overall we are very excited with the growth opportunities in both these businesses we have. Thank you Ladies and Gentlemen for being part of this call.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.