"Hathway Cable & Datacom Ltd. 3QFY17 Earnings Conference Call"

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

Moderator: Ladies and Gentlemen, good day and welcome to Hathway Cable & Datacom Limited. 3QFY17 Earnings Conference Call hosted by Ambit Capital. 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 this conference is being recorded. I now hand the conference over to Mr. Vivekanand Subbaraman from Ambit Capital. Thank you and over to you, Sir.

Vivekanand Subbaraman: Good evening everyone. We at Ambit Capital are pleased to host the 3QFY17 earnings conference call of Hathway Cable and Datacom Limited. We have with us the senior management team of Hathway represented by Mr. Rajan Gupta – Managing Director; Mr. T. S. Panesar – CEO, Video Business, and Mr. Vineet Garg – the CFO, along with senior management members of the team. We will begin the call with a short commentary by Mr. Rajan Gupta. Over to you, Sir.

Rajan Gupta: Good afternoon all and thank you for joining us for this third quarter earnings call. With me on the call is Panesar, CEO for Video Business, Vineet our CFO, Ajay Singh our company secretary and Mahadevan our EVP, Finance. I will start my Q3 update with stellar performance on EBITDA growth. I am happy to share good news of 33% quarter-on-quarter growth of net of activation EBITDA. This is the second quarter of acceleration of EBITDA growth. I am sure you all remember even in Q2, we have delivered 28% growth QoQ in EBITDA net of activation. Over the last two-three years, we have been working on building pillars of profitable growth and now we are confident of consistent results from monetising the levers of growth. We have now three large assets. First, obviously CATV business, which is showing all positive signs of turnaround, ISP business which has grown exponentially well, and third, obviously GTPL investment, which continues to do well. This quarter, increase in EBITDA has been possible due to good revenue growth and focus on cost efficiency through structural changes. Revenue for quarter has been 20% growth YoY and 5% growth QoQ. We have been able to keep fixed cost in 3Q at the same level as 2Q. The TV business has seen major turnaround with 6% increase in Phase-II ARPU and monetisation picking up in Phase-III, with Phase-III ARPU reaching Rs45. All these ARPU numbers are excluding taxes in fact for better clarity and transparency all our ARPU numbers for CATV and ISP are without taxes.

I will now take you through detailed broadband numbers. Broadband standalone revenue for 3Q was Rs120 crore with 62% YoY growth and 6% QoQ growth. Hathway high speed broadband services are now potentially available in 4.1 million homes. This is standalone home pass number. We have added 40,000 net subscribers in 3Q with Rs830 ARPU in Hathway standalone to take Hathway standalone subscriber base to 600,000 and Hathway consol broadband base to 860,000. This growth obviously has been delivered despite the impact of demonetisation and increasing competition in industry. A lot of segmented promotion and consumer marketing initiatives have helped us in growth momentum.

I am happy to share completion of our technical infrastructural upgradation network project, both on network and software, all work has been completed and now network is ready for delivering 50% increase in speed and 200% increase in data capacity. In 3Q, we have also invested significant capex in building GPON fibre to home business in Chennai, one lakh home pass has been launched in Chennai on February 1st and by March 2017, four lakh GPON home pass will be launched in Chennai. This will be a major growth driver for us for next year. I will now hand over to Panesar for more detailed update of CATV.

T. S. Panesar: Thank you Rajan. Good afternoon everyone. It gives me immense pleasure to share the CATV business update with all of you. Today is a momentous day for us as we launch our value-added services under the brand name Hathway special with the promise of *Zyada Ka Wada*. Hathway special features special services across various genres like movies, comedy, education, religious, etc. It will showcase exclusive niche classic and contemporary content to our viewers. This offering would be a paid service without any advertisement. We are enabling the service for the customer to activate using the self-care app or through the cable operator. This is again industry's first initiative, and in terms of offering, it brings us at par with the leading DTH operators.

On Hathway connect, we have implemented in 60% of our DAS-1 and DAS-2 universe. We have not been able to complete the implementation primarily in two major markets, they are Hyderabad and Delhi. In Hyderabad, we deferred the launch due to the delay in switch off of the analogue signals pursuant to the stay by the court. In Delhi, we do not enjoy the market leadership position and are unable to launch this innovative initiative due to the fact that other leading MSOs still operate in the conventional means. In the remaining DAS-1 and DAS-2 markets, we are confident of migrating to Hathway connect portal by the end of March 2017.

Happy to inform you that post sunset date for DAS-3 which eventually happened to be January 31st, we have commenced roll out of our Hathway connect in DAS-3 market and we will be completing by 1QFY18. In DAS-3 and 4 markets, we have added 400,000 STBs during 3Q. Our ARPU went up by 50% from Rs30 to Rs45 in 3Q. We had voluntarily digitised our entire base in DAS-3 and we expect other MSOs also to switch off the analogue signals this month, which will expedite the commencement of STB-linked monetisation and we expect DAS-3 ARPU to grow to Rs60 in this quarter. Overall, the CATV ARPU in DAS-1 has remained stable at Rs105 and grown by 6% in DAS-2 from Rs90 to Rs95. It is pertinent to note that while demonetisation had minimal impact on our collections, it did slow down the growth momentum, our business had established in H1. DAS-3 monetisation was most impacted due to the demonetisation. One other important initiative which we rolled out in 3Q to bring in transparency in our engagement with broadcasters for carriage and placement was the implementation of the rate card. This rate card gives flexibility and choice to the broadcaster to choose their target markets and pay accordingly at rates which are uniform and transparent. This initiative has been widely welcomed by all broadcasters both big and single-channel broadcasters alike. That is the update from my side and over to Vineet Garg, our CFO.

Vineet Garg: Thank you Panesar. Before we start the update on the financial numbers, just want to inform the financial records are maintained and published based on the new accounting standard, which is Ind-AS. For this 3Q results, we have restated the 3QFY16 numbers to make it comparative. Growth momentum continued this quarter as well and the company's total revenue has increased by 20% year-on-year basis. Again, the cost has increased only by 14%. Resulted EBITDA margin has increased by 47% YoY to Rs66.6 crore in the current quarter. YTD EBITDA is Rs162.9 crore against Rs128.6 crore same time last year, which has increased by 27%. Financial cost is showing an increase of Rs14 crore YoY, out of that Rs11.5 crore on account of mark-to-market cost on account of currency fluctuation. Netting the impact of currency fluctuation, PAT loss would have been Rs32.9 crore lower by Rs8.3 crore YoY.

CATV subscription continued to increase at the rate of 17% this quarter in line with the previous quarter to Rs114 crore in comparison with Rs98 crore same time last year. Broadband revenue has again increased by 62% to Rs128 crore to Rs79 crore against the same time last year. Sequentially, the total revenue increased by 5%. Our cost has only increased by 2% that result in margin increase by 21% to Rs66.6 crore from Rs54.9 crore in 2Q of this financial year. It is worth empathising that EBITDA margins are included in activation income, which is charged on the life of the customer. There are no ups and downs in activation anymore. There is an increase in placement income by 8%. The effort of increased implementation of the rate card is showing some results. Simultaneously, content costs remain more constant with a slight variation of Rs1 crore only. Service charge includes outsource manpower. This increased due to growth on the business. The total capex for December was Rs270 crore on a standalone basis, out of that Rs200 crore was invested in broadband and Rs70 crore for CATV. Gross borrowing stood at Rs1,721 crore and net borrowing at Rs1,691 crore. Consolidated gross debt is Rs2,290 crore and net debt is Rs2,161 crore. Thank you. Now, I am opening the call for the questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: I just wanted to understand on the broadband side of things, it looks like the pace of subscriber addition slowed a little bit this quarter. I am curious to understand the reasons behind that, was this a result maybe of demonetization-related disruption or did the Jio free offers have something to do with it, what kind of monthly sub-edition rate are we seeing in January and what do you expect to see over the next couple of quarters because you probably have some overhang from both demonetisation and Jio continuing at least for a few weeks if not a few months?

Also, I wanted to understand the opex went up a fair bit this quarter. So any particular reason behind that and what should we be underwriting as the steady state opex that we should expect to see?

Rajan Gupta: Let us take both the questions separately. First, we will speak about the whole broadband net additions. While we do not give any future guidance, I will take you through what has happened in 3Q and more about the current trends. In 3Q, November definitely we got hit due to demonetisation, so if you see the quarter before, we had around 62,000 increase in net adds. So definitely in the month of November around 10,000 net adds we lost on the table because of demonetisation, and overall, there is another 10% to 15% impact because of increased competitive intensity. I will tell you what is happening out, they were around 15% of the new consumers who were coming, who were marginal users. Now these people were typically using only 20GB a month or 15GB a month or 10GB a month, basically anything which was less than 20GB. These are the consumers who are finding using the free network of Jio worthwhile or even some other mobility network because the usage was anyway very low. What we have dropped is the marginal users who are coming to wire-line because either wireless was expensive or the coverage was not proper, but the real user of wired broadband which are 40GB, 50GB, 80GB, 100GB, they kind of remained intact. These are the people who want to see a movie on a smart TV, who want to see OTT, who want to use other high bandwidth applications. As far as the going rate is concerned, some of the effect which I mentioned of the increased competitive intensity that effect is still there because we all know the free service from Jio continues. Currently, we are more around 18,000 per month kind of going rate. That is what we are, but we are launching in some other newer markets as we mentioned GPON fiber to home wherein we launched 150MBPS speed plan giving practically unlimited GBs. So we are confident of coming back to 25,000 which we have earlier reached. On opex, I am not very clear actually, so Vineet will take you through.

Pavan Ahluwalia: One follow up on broadband, over what period would you expect to be able to hit 25K and what is our churn rate?

Rajan Gupta: Again, these two both are separate questions, so churn continues at 1.8%, that was what we earlier mentioned. Out of 1.8%, 1% people churn out because they move out of the home pass, they shift their net homes to some other area where we do not have coverage, balance 0.8% is because of either pricing issue or because still some minor service issues, and once again, I want to reiterate because of the churn, we do not lose much in the network, because network is irrespective of the consumer, it is for the homes in that area. Coming to opex, actually we took a lot of initiatives this quarter to reduce cost. I think Vineet will take you through the opex numbers.

Vineet Garg: Pavan, I explained you the total cost increase in the quarter complete with variable plus overhead is only by Rs4.5 crore, out of that the only one-line item which has increased is service charge. This is the cost of the outsourced manpower we hired to grow the business, so this is the normal standard growth rate and my cost has increased only by 2% when compared to revenue of increase in 5%.

Moderator: Thank you, Sir. We have the next question from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Sir, regarding the GPON home pass, you said that by March we are trying to hit 4 lakh in Chennai, so what would be our overall home pass by that time including Bengaluru, Kolkata, Delhi?

Rajan Gupta: Again, while we do not give any forward projection, we are adding every quarter, the current run rate for every quarter is around 3-4 lakh home pass every quarter, so we will maintain that 3-4 lakh home pass every quarter run rate.

Yogesh Kirve: We are talking about GPON home passes, right?

Rajan Gupta: Yes, so most of the new investment now is happening on GPON home passes or upgrading the current boxes further. The new home passes which we are launching in Chennai, Bengaluru, Delhi, we have shared earlier also, all these three are GPON fiber to home.

Yogesh Kirve: Can we talk about what is the cumulative base is as of now, home pass base of GPON?

Rajan Gupta: I mean the services have been just launched actually. We have done a few pilots in some of these cities, so probably after six months, we can start showing separate base for GPON. I have been sharing this services as of now we have been in pilot stages. We have done pilots all across, but GPON base should be in the range of around 20,000 plus, but again I think we will need six months to see the effect of this whole network build-up which has happened.

Yogesh Kirve: Second question is regarding technology upgradation to DOCSIS 3.1, so that will give us more speed as well as capacity, so how do you want to capitalise on this, would we focus on increasing the ARPU or focus would be on offering more value to the customer?

Rajan Gupta: I think this is a very, very relevant question. This is a pillar for our strategy for broadband going forward. On ARPU, we will keep on acquiring consumers at Rs830 average ARPU obviously plus taxes, which will keep on increasing weighted average ARPU to near Rs800. But all these additional capacity which has been created that is more to delight the current consumers without even increasing ARPU. What we are seeing is our current average GB per consumer is more in the range of 40-50GB and we plan to take it to 100GB, so we are offering, as I said, segmented promotion is what the life is all about. So we are offering lot of addition data to people who are using OTT services, who want to upgrade to the next level. So the idea is to make wire-line habitual for consumers because once we have seen anybody start using greater than 50GB data then the stickiness majorly increases and once you start using greater than 100GB data, then you are a lifelong wire-line consumer. So the idea is, in the nutshell, to keep on delighting the current consumers.

Yogesh Kirve: Last question regarding the television business, if you look at the Phase-1, ARPU seems to have plateaued. So where should we look at ARPU going in the Phase-1, Phase-2 markets in a year from now?

Rajan Gupta: Currently, as I said, it is stable at 105, and as I said why it is stable, I also mentioned about the reason, which says that we are not able to implement our payment mechanism with the Hathway connect portal in two of the key markets, that is one of the primary reasons why we are not able to increase, but in 1Q we expect the DAS-1, DAS-2 ARPU to go up to 115 level during the next quarter.

Moderator: Thank you, Sir. We have our next question from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: I have couple of questions, one on the CATV business, what would be the end user pricing of cable services to Phase-3 consumers and given that we have achieved rate increases from Phase-3 areas, what is the rate increase for end consumers in Phase-3 areas? That is one. Secondly, on the content deals, where are we with the large broadcasters on content linkages, what is the visibility that we have right now and when do these deals come up for renewal?

T.S. Panesar: Answering to the first part of your question about the end-consumer pricing, in cable TV. As the cable TV reaches through the consumer home through n number of cable operators and all happen to be businessman and who take their own decision because of which there is great amount of difficulty to bring in a standard price. Every individual takes his own decision, how much he needs to charge from his customer, so people sell, under-sell, below the pack price etc., but to give you an idea about what the end-consumer pricing in DAS-3 market is, it is anywhere ranging from Rs100-200. So in the markets that we have gone in, the consumer price is a little over Rs200, so to give you an idea, if you look at our range, it starts from Rs150-250 in the DAS-3 markets. The kind of recovery that we are having from these markets, currently and where we think that we should be able to go, is Rs60 plus tax which will be approximately Rs75. So if a guy is collecting Rs200, this is the maximum that he will be able to share. Hence, the ARPU will remain at Rs75 as of now, so the challenge is to increase the ARPU of the end subscriber.

Vivekanand Subbaraman: This was very, very helpful. In the recent past, the ARPU improvement in Phase-3 has it been driven by getting more from LCOs or have end consumers started paying more in Phase-3 markets?

T.S. Panesar: It is a mix of both.

Vivekanand Subbaraman: On the content part?

T.S. Panesar: On the content part, we actually have closed all our content deals in FY16-17. At the beginning of the year, we did all our deals and so there was predictability about the cost structure for the year and then we could focus our energies on increasing our top line, so we hope to close all our deals for 17-18 also by March end. However, this is subject to any changes in the regulation that may come about.

Vivekanand Subbaraman: One small question on the broadband business and recent corporate actions, can you discuss a little bit about the corporate actions that we are taking with respect to segregating the standalone cable business into Hathway Datacom central and the rationale for the same?

Vineet Garg: The rationale we explained earlier as well, the bifurcation rationale has remained the same why we are bifurcating both the companies. However, why we are keeping broadband into parent is the compiled view is that broadband is more profit-making company and we want the kind of investment we require, the kind of growth we are seeing in broadband is going to be comparatively higher. CATV investments are almost complete, and is going to be a more revenue focusing business now. So the feedback from the market and also based on the interest of the investors, we decided to keep broadband business into parent.

Moderator: Thank you, Sir. We have our next question from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just want to understand economics between these two GPON and DOCSIS, now you suggested we intend to have more focus on GPON kind of follow, so if you can help us understand CAPEX kind of thing and how you expect ARPU or any other economics where GPON fare better than DOCSIS where earlier our focus was, that is number one, and second is can you help us in cable side, how much is the paying subscriber base?

Rajan Gupta: First talking about GPON fiber to home, the economics of both the businesses, GPON and DOCSIS-3 remain the same. For the both the businesses, we have around Rs9,000 CAPEX per sub, and ARPU is more dependent on the market, so the payback of 30 months which we have been sharing in our investment update, the payback is same for both the businesses. As we are spending more and more into non-CATV areas like recently we got into Chennai where we do not have a CATV operation. We have gone into parts of Delhi where we do not have CATV operation, now these are the areas where we see higher ARPU consumers. These are areas where we see future growth, so these are the areas we feel GPON fiber to home since anyway we do not have CATV operation is more relevant because anyway our cable TV operation is not there, so there is no cable in any case which is there. Technically, both the technologies are superior. In market like US and Europe, both the technologies are being dominantly used now also. In fact, these are all both leading technologies, this is the best you can get and then ARPU is a function of market.

Dipesh Mehta: Only the difference comes is because now we are targeting some of the markets where cable TV presence is not there, that is where GPON comes?

Rajan Gupta: There is no specific reason now to go for DOCSIS, because GPON has few advantages in terms of consumer experience. DOCSIS is limited up to 100MBPS, but GPON we can give 1GB from the current network. GPON also does not need any power in the network and you know Indian markets, lot of power fluctuation is there, so even in the case of power fluctuation, like for example a storm, like Chennai recently had a Vardah kind of storm, all the networks were down, but GPON network will not be down, except obviously if there's a fiber cut; because power is not really required, power is required either at the consumer home or at the main data center. In the network, on the ground, there is no power actually, so from customer service perspective, yes, there are definitely a lot of plus points, but that way even DOCSIS has a lot of plus points, but essentially in a non-cable area, non-CATV areas where we are launching GPON in a big way.

Vineet Garg: On the paying subscriber, the second question Dipesh is standalone level we have 4.7 million subscribers and at consolidated level, we have 10.5 million.

Dipesh Mehta: This 10.5, when you referred, it included analogue as well.

Vineet Garg: Yes, this will have some analogue subscriber from Phase-4 as well.

Moderator: Thank you, Sir. We have the next question from Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Just a couple of questions, one is how does this Hathway Connect help you get better ARPUs in the cable TV business, if you can explain that?

T.S. Panesar: The Hathway connect portal, the features and how it functions is primarily it gives uniformity in terms of rate, in terms of offering, and the operator has the ability to renew the customer at his end and for which he has to make the payment on a monthly basis, so which helps us in ensuring that the rate for that particular market is uniform from all the subscribers, so therefore, we get paid for all the boxes at a particular rate which has been defined for that particular market, and hence the realization is better and smoother because the renewals are done by the operator himself and if he fails to renew or if he does not renew, the boxes get deactivated, and the customer then has to pay again and hence the payment flow improves because of that.

Sanjay Chawla: Panesar, you are suggesting that it basically leads to uniformity of packages and collections for you, but question is, today of course, you are getting different realisation and rates even in Phase-1 areas across different cities, but let us say if the LCO does not agree to the rate that you want to charge, then what option do we have for you, will it not lead to any disputes?

T.S. Panesar: When we migrated our cities along with these LCOs into the portal, it was with the proper agreement that what is going to be back price for that particular market because cable unlike DTH has got a flexibility to have city-wise rates and offerings unlike DTH where they have a uniform on a standard signal going to all markets and then they create various tracks, but we have the flexibility to create different packages and offerings for individual markets and the race for each of these markets have been decided when we have migrated them to the portal so it was with the proper understanding, so there was no question for the operator to not agree to a price or to the revenue share which was agreed at the time of the implementation. This is an annual price and which will continue for 12 months from the date of the implementation on the agreement that we had with that particular operator.

Sanjay Chawla: Which are the cities where this has been already been implemented?

T.S. Panesar: As I said, it has been implemented in the entire DAS-1, DAS-2 markets except for Hyderabad and Delhi, and very few smaller markets and we have always started rolling it out to the DAS-3 markets. There was a delay in rolling it out in the DAS-3 market because the analogue signals were continuing. Now when the signals finally went off on the January 31st, we have now started rolling it out as well, but the roll out in the DAS-3 started from January itself by the beginning of the January itself, so there are a few markets in Maharashtra which have already started to transact under the portal, but we see that the way we are and the pace that we are doing, I think by the end of first quarter, we should be able to convert the entire DAS-3 under this portal, so the entire implementation will happen by the end of next quarter and the entire DAS-3 markets.

Sanjay Chawla: As of now, it is in DAS-1 and 2 except Delhi?

T.S. Panesar: Except Delhi and Hyderabad.

Sanjay Chawla: Calcutta and Mumbai, it is there already?

T.S. Panesar: Calcutta it is there, Mumbai it is there, Bengaluru and a whole lot of other.

Sanjay Chawla: We have not seen any increase in the Phase-1 ARPUs in the last several quarters, four quarters, so you are saying this implementation does drive your secondary ARPUs in DAS areas, but we have not seen any uptake?

T.S. Panesar: There were two prone issues, one was when the increase in the ARPU and the other there was a collection issue as well. The realisation was also a problem, so we are trying to address this in two-prong strategy. First is to improve the collection and collect whatever bill, so our realisation has improved and we are also as I said, this was industry first initiative that we did. While we are working on this portal and have implemented in the larger area, there are MSOs who still continue to use the conventional way of collecting and billing, so there is obviously a push back from the market which we are facing. It is not that the roll out has happened very smoothly. There have been challenges, but yes, we see that now post the implementation which is now properly set in DAS-1 and DAS-2, that is how I said little while ago, that we are looking that we should be achieving an ARPU of Rs. 115 in the next quarter.

Moderator: Thank you. We have the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just two-three questions from my side, could you talk about the number of subscribers in each of the buckets Phase-1, 2, and 3, which are paying us because our ARPUs in Phase-2 and 3 have gone out but our standalone subscription revenues increased by just about 3.5%, so I am just wondering what kind of weightage of Phase-1 and 2 we have in standalone?

T.S. Panesar: Our standalone paying subs as Vineet said little while ago is 4.7 million.

Rohit Dokania: Can you break it down into Phase-1, 2, and 3, Sir?

T.S. Panesar: Phase-1 is 1.4 million, Phase-2 is 1.6, and 3 and 4 are 1.8 million.

Rohit Dokania: Similarly can you do that for the consol entity as well, please?

Rajan Gupta: That Vineet will give you the number.

Vineet Garg: Consolidated Phase-1 is 2.3, Phase-2 is 4, Phase-3 and 4 put together is 4.3 million.

Rohit Dokania: Can you talk about why the cable subscription revenues have grown by just about 3.5% whereas the ARPU obviously in Phase-2 has grown by 6% in Phase-3 very strongly almost 50%?

Vineet Garg: These ARPUs are the exit ARPUs, so studying over the quarter, I think the gap is coming just because of that.

Rohit Dokania: Okay, so these are the exit ARPUs basically?

Vineet Garg: Yes.

Rohit Dokania: Also can you talk about in terms of the carriage and placement revenue increase, is that sustainable and is that increase largely driven by the smaller broadcasters, can you give some colour on that?

Rajan Gupta: As far as the placement is concerned, we currently operate on a very transparent rate card for the carriage and placement on broadcasters, so what we have tried to do is we have come out with a rate card, which allows the broadcaster to choose a particular market which he wants to focus into and then you are charged accordingly for that, and this rate card has given us a good headway and this has been widely appreciated by the entire fraternity as well and both large and individual broadcasters also liking this initiative and we have been very transparent and allowing them flexibility to choose the market that they want to rather than asking them to pay for the entire base or having a wholesale kind of a negotiation, so this gives them the flexibility to choose markets and then pay accordingly which has helped us in increasing our capture.

Rohit Dokania: If I may squeeze in just two bookkeeping questions very quickly, one is, can you talk about the net content cost per subscriber at consol level for this quarter and also the economic interest consolidated EBITDA for the quarter?

Vineet Garg: Net content cost is continued at Rs32.

Rohit Dokania: This is on the paying subs, right on the 10.3-10.4 million paying subs?

Vineet Garg: Economic interest we publish only once in a year, so numbers are yet not available.

Moderator: Thank you. We have the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Couple of questions on the broadband side, just wanted to understand as the home pass mature, what kind of improvement in penetration you are seeing like say households which you would have passed like in last one year compared to houses which are matured, like two-three years, what is the kind of broadband penetration you are seeing over a period of time?

Rajan Gupta: Business case is build on 18% to 20% penetration, so all the home pass which was build say for example two years ago all of them have kind of reached that figure, so broadly speaking home pass which is two years ago is already 18-20%, home pass which is getting launched in one year, so every month we see around to 1-1.5% progress, based on obviously execution completion in area and lot of other local factors, but essentially we are seeing the business case is build on 18 to 20% penetration.

Kunal Vora: How do you go about choosing the market, is it based on the income level or are you finding it more and more difficult because initially you would have picked up the low-hanging fruit, how is the attractiveness of the market which are going now?

Rajan Gupta: We are all aware about the potential India as a country has, major metros and mini metros and then going in power towns, so I think looking at our number of subs or even the size of wire-line broadband industry, if you see above 20Mbps the segment which we are operating, I think in India hardly around three or four million consumers are there, that is also little optimistic figure. In India kind of country if you have only three or four million high-speed broadband consumers as of now, and typically even smaller Asia-Pacific neighbours, the figure is much, much more than that. In fact, leave aside maturity or stabilisation, we are in fact at the beginning of the growth cycle, so home pass availability is not a problem at all. There is a huge demand from consumers across cities, so growth journey on home pass as well as network expansion and the revenue and EBITDA that will continue for many, many years.

Kunal Vora: What is the incremental cost of carrying a GB, now if a consumer uses 100GB instead of 50GB, what is the incremental cost which you incur, it should be negligible, should not be much?

Rajan Gupta: Wire-line and wireless work very differently as for as cost per GB is concerned. Wireless works more on a cost per GB, and wire-line the way network is build that is not the point, also it depends upon the way you optimize your network, the kind of software investments you have done, so I can speak for Hathway without affecting profitability, without affecting the 30 months' payback, we are ready for three times increase in data limits for consumers, and we are already doing very actively this month.

Moderator: Thank you, Sir. We have the next question from the line of Nandita Parker from Karma Capital Management. Please go ahead.

Nandita Parker: You had earlier mentioned that economics of GPON and DOCSIS are similar and you are spending about 9,000 of CAPEX per subscriber, did you mean per subscriber or did you mean home pass, I just wanted to clarify that?

Rajan Gupta: Rs9,000 per active subscriber.

Nandita Parker: That means if you are assuming 20% penetration then per home pass, it is 5x of that?

Rajan Gupta: No, it does not work like that. There are three elements in network. One is a home pass, which is approximately Rs600 per home pass which comes to Rs3,000 per subscriber if you assume 20% penetration. Second cost is Rs3,000 which is for the data center, which is irrespective of the home pass, data center is common many times for multiple cities, that has nothing to do with the given home pass and the balance 3000 is for last mile including modem inside the consumer home. The last mile cost can keep on changing, for example, if a consumer churn away because she is shifting to some other area, we typically pull back 70% to 80% of the modem, and we put the same equipment in somebody else house.

Nandita Parker: Second question is you mentioned that you are offering broadband in places where you do not have a cable service, but what is the relationship with LCO there, meaning there must be competing

MSO because we pretty much have blanket coverage, so how are you maneuvering in areas where you yourself are not the only MSO?

Rajan Gupta: Broadband works very differently as compared to cable. Cable, there is a kind of silent understanding that people do not compete with each other and everybody has a earmarked territory. Broadband more works based on licence given by DOT, so we have a licence and we take a legal right of way in every city we go. Like Chennai recently we had gone, so we have taken a legal right of way for the full Chennai from government out there and we operate based on that. What we do is we have somebody call local distributor, it could be a builder, it could be LCO, he could be anybody else actually, just like any other telecom service provider or FMCG person and our local distributor helps us in handling any local ground issues.

Moderator: Thank you. We have the next question from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just a quick one on the broadband side, now starting to see few sort of new operators come up, Jio has apparently launched a fiber service in Bombay and other cable is also expanding its broadband services in TN, just wanted a sense of the competitive situation in the market right now, any particular cities, any particular geographical area where you are seeing more than usual sort of competition?

Rajan Gupta: All of our home pass where we already have like 20% penetration, we have three players minimal. Already, I shared in the last call also, it is quite a competitive industry. There is always a bottom level local player who is a price warrior, who is ready to discount you by 50% and then you have on the upper side either Airtel or somebody else, so market is already quite competitive. Minimum three players are already there. In spite of that, we have been growing. The only increased competition has happened based on the free services by Jio, and now all of us understand that if free services are given to Indian consumers, there will be some temporary impact. I already shared that impact. There has been around 20% impact on the increased momentum, so we are doing 60,000, there has been a 20% impact out there. Apart from that, life remains as usual.

Amit Kumar: Just a quick one on broadband, I have always thought this 4.1 million home pass number was on consolidated basis, so I am just doing the math here, you have 6 lakh broadband subscribers on standalone on a 4.1 million home pass, it is about a 15% sort of penetration, what is the kind of EBITDA margin that you have at the overall business level with this kind of penetration and assuming it is sort of gets to the 18-20% mark that you are targeting by yourself in the long run, what is the broad sort of expectation there?

Rajan Gupta: I will answer this question little differently because we do not reveal as of now broadband exit EBITDA numbers. Obviously, with change in company structure, you will come to know those figures, so our business case is based on 18-20% penetration and 30 months' pay back, which requires around 35% EBITDA. You can see the 15% penetration but that also includes home pass which have been done in last six months. We have been continuously adding home passes, 3 lakhs on an average for every quarter, obviously those home passes penetration will be only 4-5%, the home pass which have been added in last six months. If you exclude that, the home pass still last year, we are kind of there around 18-20% penetration and so we are confident of meeting those numbers which gives us a 30 months' payback.

Amit Kumar: You said 15 months' payback or 30 months' payback?

Rajan Gupta: 30 months' payback, that is there already in our investment update as well.

Amit Kumar: You were sort of saying that Hathway Connect is 60% complete in Phase-1 and Phase-2 excluding Delhi and Hyderabad, so Delhi and Hyderabad those two cities contribute 40% of your Phase-1 and Phase-2 subscriber base is it, I did not think it was that high from the numbers which I have in the past?

T.S. Panesar: It is not like that. Delhi and Hyderabad constitute 25% of our DAS-1 and DAS-2 markets, and there are other markets like Jabalpur, Bhopal, and some of our other networks in Bombay which are yet to be done. They put together are around 15% so that is how the 14% math works.

Amit Kumar: There is still an issue in few parts of Bombay also is it, I thought Bombay was all sorted out?

T.S. Panesar: It is a particular pocket in Mumbai, which are our JV companies.

Moderator: Thank you. We have the next question from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

Ishpreet Kaur: I just wanted some clarity in terms of the paying sub that you mentioned which is around 10.6 million on a consol basis and as per the latest presentation, so we have 12.3 million subscribers that are digitised, so this gap of 1.7 have we written off or is it there in the accelerated depreciation?

Vineet Garg: These are subscriber monetisation yet not kicked in.

Ishpreet Kaur: Okay, so it is not that these are inactive subscribers?

Vineet Garg: These are part of active subscriber, but monetisation has yet not kicked in or we are getting at the rate of pure analogue rates.

Ishpreet Kaur: So these would be majorly in the Phase-3, Phase-4 areas?

Vineet Garg: Yes, it will be majorly Phase-3 and Phase-4 areas, rather only in Phase-3 and Phase-4 areas.

Ishpreet Kaur: Anything is it that we have taken in terms of write-off for accelerated depreciation in our current depreciation that we have?

Vineet Garg: Nothing.

Moderator: Thank you. We have the next question from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: I just wanted to get some clarity on Phase-1 ARPU, because you have higher number of primary subscribers as compared to the competition like Siti and DEN, still your ARPU is more or less compared to those guys, is it something beyond competition issues which we are facing with our JV partners, because this implies that your ARPU would be lesser than their ARPU or lower than competition ARPU?

Vineet Garg: Naval, the ARPU when we are communicating with you is the only secondary point ARPU. These are not the blended ARPU, this is pure secondary point ARPU. My primary subscriber ARPUs are very different, these are at Rs250, Rs260, Rs280 level.

Naval Seth: So does that get accounted in subscription revenues?

Vineet Garg: It is accounted in subscription revenue, but it is not part of the ARPU calculation when I am sharing with you, when I am sharing with you, it is pure, pure secondary customer's ARPU.

Naval Seth: Second question on the STB write-off, because two years back industry was facing issue of box swapping, so as you stated that there is no write-off that has been taken since the digitisation has started, so there is no inactive subscriber or box which we would have seeded in last four years would have become inactive, am I right on this?

Vineet Garg: If you refer back to our own balance sheet, we are doing write-offs in bits and pieces wherever is required to be taken. So on annual basis, we take a call, so the question which you asked earlier is any incremental take in this quarter, the answer is definitely no. If you see my deprecation is absolutely flat on the quarter-on-quarter, there is no increase in depreciation, so if there is requirement to take write off, we will take that write off and it is part of the annual balance sheet if you go back to the balance sheet. We will not say we are not taken write off, there were some write offs taken which is there in the annual accounts.

Naval Seth: Any number, Sir, if you can throw over here in last?

Vineet Garg: I do not have the access to those numbers at this point in time, so if you scan through the balance sheet, you will find out those numbers.

Naval Seth: Last question is, have we stated any churn policy on CATV business officially now?

T.S. Panesar: The churn is very minimal as of now. Our churn in the last quarter has been 0% and the industry has pretty much matured now, swapping that was mentioned little while earlier is pretty much non-existent because if you look at the health of all MSOs, I do not think anybody has got enough to spend to swap boxes on a free basis.

Naval Seth: My churn question was also, Sir, towards DTH as well, not only within the MSOs towards DTH also, as you stated 0%?

T.S. Panesar: Actually, it is a reverse churn which is happening, the DTH subscribers are getting converted back to cable now.

Moderator: Thank you. We have the next question from the line of Ronak Shah from SJC Advisors. Please go ahead.

Ronak Shah: Just wanted to understand how many of your subscribers are both cable TV as well as broadband subscribers, how many are common?

Vineet Garg: We discussed this in the earlier point as well, former subscriber will be only in the primary point area that will be in very limited locations, in Bangalore and Bombay so the subscriber base is going to be very, very minimal, it will not cross 70,000 to 80,000 subscribers.

Rajan Gupta: Also the last mile because the technology is different, the last mile is kind of different for TV as well broadband.

Ronak Shah: Is there any sort of plan to start bundling both services together as a value proposition to subscribers down the line?

Vineet Garg: There is no plan as of now because I think Rajan has explained to you, we are running two different set of cables, our 95% business is secondary point where we have separate set of cables for the broadband consumer and the cable because broadband consumer is pure B2C business for me and cable business is done through the LCOs, so building of any kind of bundle model in this kind of environment does not look to be any possibility in the near future.

Ronak Shah: I have another question when I got disconnected, apologies if this is repeated, but just wanted to understand the rationale behind the slump sale of CATV business and also what that means as far the GTPL IPO is concerned?

Rajan Gupta: First of all, GTPL IPO, there is no impact of that, so we already have got approval from NSE and BSE. The SEBI approval is on the way, that is under discussion, so there is no impact on GTPL business. Now rationale, we already kind of shared that in presentation and the website as well, so what we are seeing is incrementally, 80% of the CAPEX is going towards the broadband business. The cable business we already added the CAPEX, and now we are working on monetizing and we have seen lot of improvement in last two quarters. We just shared this quarter improved numbers. So considering that there was a view point that business which is requiring 80% of CAPEX, which also is generating lot of cash flow and we mentioned about payback and EBITDA levels being very high. Investors, we thought is a good to give them visibility of that business upfront. That is the reason broadband is coming in the parent company and we have lot of feedback from investors who want to invest in either of the businesses. There are people who want to invest strategically in the broadband business and there are people who want to invest in CATV business. It also helped us to kind of give them opportunity; well obviously GTPL, CATV, and the broadband value remains in parent company, Hathway Cable and Datacom Limited.

Ronak Shah: Right, so any ventured plan to list these two separately, the CATV and the broadband?

Rajan Gupta: No plan as of now.

Moderator: Thank you. We have the next follow on question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Just one clarification you mentioned that your target for ARPU, net of taxes in Phase-3, is it Rs60 or is it Rs75?

T.S. Panesar: It is 60+ tax.

Sanjay Chawla: That is the potential you see at least under next one year?

T.S. Panesar: The potential I see for the next three-four quarters, at least two to three quarters, net of tax will improve and then we also look at our numbers

Sanjay Chawla: That you said could be on a retail ARPU net of taxes of around Rs200?

T.S. Panesar: See the digitisation has kicked in those markets, so those markets will also mature and operator now as he is providing more number of channels for the subscriber, they will also be able to increase the ARPU and end-consumer ARPU, so overall if the market increases there then we also be will able to increase our price.

Sanjay Chawla: I do not know whether you shared this number, how many digital cable subs you have in the standalone company?

T.S. Panesar: We have already shared the number a little while ago, and the standalone is 4.7 million.

Sanjay Chawla: That is the paying customer?

Vineet Garg: Total STB is 5.4 million.

Moderator: Thank you, Sir. Ladies and Gentleman, due to time constraints, that was the last question. I would now like to hand over the floor to Mr. Rajan Gupta for closing comments, over to you, Sir.

Rajan Gupta: Thanks Vivek and thank you everyone for joining this 3Q earnings call. For 4Q and FY18, we have a clear task on hand. Our structural efforts on cost reduction will continue and will be a constant driver of EBITDA growth. Phase-3 is 50% of our CATV customer base and plan increase in ARPU in Phase-3 will be single biggest driver of CATV revenue and EBITDA growth. Broadband, we have clearly made infra ready to delight our consumers, accelerate subscribers growth, and handle any potential competition, so overall we see exciting time for Hathway Cable and Datacom, and both our businesses are ready to take full advantage of growing market opportunity. Thank you all.

Moderator: Thank you very much, Sir. We would like to thank the management for giving us the opportunity to host this conference. On behalf of Ambit Capital, that concludes this conference. Thanks for joining us and you may now disconnect your lines.