



“Hathway Cable & Datacom Limited Q4FY13 Earnings
Conference Call”

May 30, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Q4FY13 Earnings Conference Call for Hathway Cable & Datacom Limited, hosted by PhillipCapital India. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that the duration of this conference call will be for 60 minutes. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Naveen Kulkarni of PhillipCapital. Thank you. And over to you, sir.

Navin Kulkarni: Thank you, Inba and good afternoon everyone. We at PhillipCapital India are pleased to host the Q4FY13 earnings conference call of Hathway Cable & Datacom Limited. We have with us the senior management team of Hathway, represented by Mr. Jagdish Kumar – M.D. and CEO; Mr. G. Subramaniam – CFO along with other senior members of the team. We will begin the call with a short commentary by Mr. Jagdish Kumar and then we will move on to the Q&A session. Over to you sir.

Jagdish Kumar Thank you, Naveen. Good afternoon, ladies and gentlemen. Welcome to the analyst call for the quarter and financial year ended 31st March, 2013. As you are aware, we are embarking on a game changing journey, not just for our company, but for the industry as a whole. We are currently undergoing a paradigm shift in the way our business is being conducted. We expect that as a result of these changes, the fortunes of not only our company but also the Cable TV distribution business as a whole will be transformed in a substantial measure for the better. Hathway along with its JV partners have taken good advantage of the mandatory DAS regulation. We have successfully ceded a cumulative subscriber base that currently exceeds 6 million subscribers as of date. This is after Phase-I and Phase-II of DAS. Our footprint now reaches key markets across India that are important television broadcasters. In the process of our roll out, we have expanded our existing areas of operation and also added several new cities to our portfolio. These include Kolkata and Howrah in the east, Jabalpur in the central region, Agra in the north and concurrently, we have also strengthened our presence in cities such as Faridabad, Allahabad, Hyderabad and Bengaluru. It is important to note that our initial growth in Phase-I and Phase-II cities have been good but we have kept in mind the potential we have in Phase-III and Phase-IV towns.

The notable feature of our footprint is the strength we have established in Hindi speaking markets which are important to major national broadcasters. Additionally, given the urban centricity of our business model, we expect to grow our ARPUs significantly on that strong foundation.

Our journey has really begun as we move from being a wholesale business to a retail business. A lot of work to be done in numerous areas. I am attempting to list some of these areas in which our current attention is focused on. One, adequately monetizing our subscriber base.

This will be done by entering into a fair revenue share arrangement with our LCO partners and concluded contractual arrangements for the supply of content and providing carriage with broadcasters. While broadcaster agreements are pretty much well underway, our negotiations to conclude formal agreements with our LCOs is ongoing. Given the regulatory push from TRAI and the I&B Ministry, and our local strong relationships with the LCOs, we are confident of concluding these arrangements soon.

Customer relationships and subscriber management is another area we have focused our attention on. In this respect, we have now brought in new talent. We have brought in senior resource who used to work with Tata Sky in a senior role, Mr. K.V. Anand to really lead the CRM/SMS effort for Hathway. So he will bring in the best practices which the DTH industry is known for in terms of customer relationships for our customers.

Differential in our services from that of DTH is another important aspect we are working on. We are in a position where we can offer a wider choice to our consumers including better quality, HD transmission, innovative pricing and packaging which caters to local preferences, video on-demand and localized content. This will ensure that our ARPUs will increase, customers who get a better choice and place us at a significant advantage against competition. We are in the current year implementing the necessary basic infrastructure to make this happen.

Another key to our success is leveraging our digital infrastructure across additional service. We expect to upgrade our broadband platforms by migrating to DOCSIS 3.0 technology in key urban markets such as Mumbai, Bengaluru and Hyderabad and thereafter followed by other cities. Our customers will have access to high speed broadband services that will eventually be bundled along with cable services. This will also ensure stickiness and act as a deterrent to churn.

So with these opening remarks, I now request our CFO, G.S. to walk you through our financial numbers, thereafter we will be happy to answer any questions from you. Thank you.

G. Subramaniam:

Thank you, Jagdish. Let me walk you quickly through the numbers. I think they are all in front of you already. Basically, I will go straight to the annual numbers, because I think they are much more relevance for this discussion. We came in at about 510 crores of income from operations last year. This year it will be at about 651 crores. We have seen a smart growth contributed by subscription revenues particularly the cost, the growth in subscriber base, due to digitization in Mumbai and Delhi kicked in as late as the quarter of January-February-March. If you had time to go through these notes to the advertisement, you would have observed that we have tried to be as conservative as possible in recognizing revenues from subscription because there is obviously a initial take off challenge. We have been billing local cable operators on a net basis. So the numbers that you see are net revenues, not the gross revenues. We expect that even in the current quarter this will continue at a net basis but the good news is

we have been able to slowly increase the net billing to our local cable operators, we will see the results of this effort in this current quarter, and hopefully we will be able to bill the local cable operators on a gross basis effective July-August-September quarter.

Income from operations grew to 6561 crores on a standalone basis which compared with a year earlier is 28%. There are no surprises. A substantial part of it has been contributed by activation revenues. Last year for instance, activation revenues stood at about 20 crores, this year activation revenues were significant based on the fairly spectacular success that we had in rolling out boxes, making us as a group of companies the single largest ceding of set top boxes in the market and that is the first step to digitization. So, there is a 28% improvement in income from operations as a consequence. At a consolidated level of course, we came in at about 1,116 crores which compares with about 1,009 crores in the previous year. Now that is a 11% growth in income from operations. As far as the GTPL which is a significant subsidiary is concerned we have consolidated 9 months numbers, and this does not reflect the full 12 months of operations. In terms of EBITDA, we came in for the full year at about 169 crores, this compared with 86 crores, a fairly substantial jump. As far as the consolidated numbers are also concerned, we came in at about 274 crores which compares with 168 crores. That is as far as income statement is concerned. There is a nominal PAT positive number. We should not read too much significance into this at this point of time. The real proof of the pudding is when subscription revenues start kicking in and we expect this to start kicking in from the next quarter. We have been as I already informed you recognizing subscription revenues or accruing subscription revenues on a very, very conservative basis and where the management feels that realizability is an issue, we have provided credits towards that. So that in short sums up our situation. As far as our borrowings are concerned, we ended the year March with about 712 crores of gross debt, at a net level, netting out cash available on the balance sheet as on that date this translates to about 674 crores. At a consolidated level, we had about 981 crores of debt and at a net level it was about 904 crores. So in terms of debt-equity ratio as of the end of March we are fairly comfortable and just about 1:1 ratio. However, as of the end of May, debt has obviously gone up because we continue to acquire set top boxes and we had actually a spectacular ceding of set top boxes even in the month of April. So we have now gone up to about 1,040 crores on a gross debt level, and at net debt level we are at about 1,005 crores. That is for the standalone entity. I think that just about sums our current status. I am sure there are questions from you on receivables because you must be concerned with that number. What I want to reassure you is what you see in the balance sheet is substantially pertaining to activation revenues which were billed in the last fortnight of March and therefore, those amounts would have been collected in the subsequent months. Receivables are pertaining to carriage and placement receivables from broadcasters. They are typically set off by payments also made to these broadcasters. So receivables are reasonably comfortable at this point of time. And we are now well set in terms of inventory of set top boxes and if assuming that the miscellaneous court cases are vacated by the respective high courts, I think the last one pending is Hyderabad, we are fairly confident that we will be able to roll out substantially

more boxes in the period going forward. That about sums up operations and I will leave it open to the forum. Thanks.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Vivekanand S of PhillipCapital. Please go ahead.

Vivekanand S: My first question pertains to the net receipt from broadcasters. For the past couple of years, we have been earning net income from content. What has been the scenario this year and going forward what do you expect the scenario to be? That is question #1. Secondly, on the collections from LCOs is Rs.60 per subscriber that we have recorded on revenue, is that on a cash basis or can you please help me understand how much cash we have collected from the LCOs? And related to this, what was the consol DAS income recognized in FY13? And finally, whether we have been able to collect better in JV areas than in the standalone entity or is there no distinction in...?

G. Subramaniam: Okay, I will take it in the reverse order, Vivek. As far as collections are concerned, obviously, the entire country is not uniform, but Mumbai has been extremely good. We have by and large met our collection numbers in Mumbai. Delhi has been a bit of a challenge, but we have already accounted for that by way of reversing certain amount of revenues in Delhi. That goes to the question of accounting for it on a cash basis. Accounting standards do not permit me to account for on a cash basis. I have to accrue but what we have adjusted for is realizability. We anticipate that some of these amounts will be difficult to realize, we have conservatively reversed the billing to that extent. So, we have not accounted on a cash basis. What we have accounted for is on the basis of realizability of revenues, and we are fairly confident as management that this amount that is taken on board is collectable. Going to your first question, as far as the spread between carriage and placement and content cost is concerned, it remains slightly positive at this point of time. Broadcast contracts are in the process of being negotiated. We are fairly confident that it will be more or less neutral in terms of cost versus carriage and placement. If there is any negative spread between these two costs, it will be not very significant.

Vivekanand S: On the collection side, what would be the actual cash collections in Q4 on the standalone entity if you have the data from the DAS areas?

G. Subramaniam: We have been collecting between 65-70% of the collections. We initially bill a certain amount and we ended up collecting about Rs.65 on the average per subscriber. So, we have reversed revenues to the extent of about Rs.20. That is mainly in Delhi incidentally. Mumbai, we have not had to do that type of reversal, actually collections have been more or less full.

Jagdish Kumar: On the collection front, I just want to make one point. If you were to compare the collections which we had during the analog era versus the collections which we are now doing in the last quarter in both Delhi and Bombay, there are significant increases in the collections; the

increases vary from 1.5 to 2 times what we used to collect, and therefore the trend towards higher collections is definitely there.

Vivekanand S: Lastly on the FY13 consol DAS income that we have recognized and on the question of standalone versus JV collection advantages or disadvantages?

G. Subramaniam: I do not think there is any substantial difference. We are all operating in markets which are homogeneous. The only difference is GTPL in Phase-I was primarily concentrated in Kolkata, and Kolkata billing has actually commenced only from the 1st of April. So we will actually know only in April/May. We are fairly confident that collections will behave similarly for both the JV Cos and us.

Vivekanand S: FY13 DAS income at consol entity, how much have we recognized?

G. Subramaniam: Vivek, take that number from Rajesh later.

Moderator: Thank you. Our next question is from the Vikash Mantri of ICICI Securities. Please go ahead.

Vikash Mantri: Just wanted to understand that in terms of a per subscriber basis, we are recovering Rs.60, but what is that we will eventually recover based on some contract that you would have signed with the LCOs. Second is that, we have seen close to an 18, 20% increase in our pay channel cost in the standalone numbers, while it is flat in the consolidated numbers. So can you help me with what would it be if we put in the entire GTPL numbers for the full year to give a broad idea of what kind of?

G. Subramaniam: I will again handle the question in a reverse order. As far as GTPL is concerned, typically they book about 18 crores per month, the growth will be about 15-18% even on a consol basis, but the only change is in the numbers that we have provided you we have only consolidated 9 months, therefore it appears flat. The good thing about GTPL is whatever is the revenue booked on carriage and placement, more or less sets off these costs booked on pay channel. So whatever appears as income, similar number would also appear as a cost. So that is as far as

Vikash Mantri: But what would be that amount, 18 crores per month what you said?

G. Subramaniam: 18 crores per month is estimate. So if you are working out the math that maybe 20 crores on the top and 18 crores at the bottom. They will actually a positive advantage in GTPL. What was the other question? I am sorry.

Vikash Mantri: How much are you going to finally recover from an LCO? You might have had some contracts which are final or at least what you have billed. You did mention that all contracts have not been done.

G. Subramaniam: So we are assuming that we will recover an average of Rs.180 to Rs.185 across the country. Obviously, this is an average I am mentioning. And approximately about Rs.80 will flow through to

the local cable operator leaving Rs.100 as a net revenue to us. As we speak, effective 1st of June, we are invoicing Rs.105 to LCOs, so if you add Rs. (+105) about Rs.80 would be the gross billing that will happen to the LCO once we go for full billing to the LCO.

Vikash Mantri: What would be your content cost with respect to that Rs.105 on a per sub basis?

G. Subramaniam: On an average again it will vary region upon region, but as I told you at the beginning of this conversation, we expect to be largely neutral but if you can take a worst case scenario, because many of these contracts are still in the process of being negotiated, worst case scenario would be about Rs.10 or in that region which will be the negative spread per subscriber between the carriage and placement and the content cost. Now, you can do a sensitivity, anywhere between Rs.10 to 15 in the worst case scenario. But internally, we are targeting to keep it neutral at this point of time.

Vikash Mantri: Could you just give me one number of carriage, just the (audio overlap) 23:14 cost because carriage might be a declining function going forward?

G. Subramaniam: We are not actually seeing carriage as a declining function at this point. You must remember carriage maybe a declining function per broadcaster, but the number of channels that we are able to carry on the network is, we are now geared to carry upwards of 250 on the average, we expect to take it up to Rs.300 by the end of the financial year, and going up to almost Rs.500 channels thereafter. So the carriage absolute sum may not go up but it will be spread across a wider variety of channels.

Vikash Mantri: Can you help me with the pay channel cost rather than the net number?

G. Subramaniam: Pay channel cost would be anywhere between Rs.55-Rs.65 depending on the region. The reason I am giving you a wide range is in some places like Kolkata actually we could be able to get better rates, some places where we have to buy more content, we will be spending a bit more. You can take maybe about Rs.60 as an average if you want.

Vikash Mantri: And in the numbers, can you help us with the activation income in both standalone and consolidated booked in the revenues?

G. Subramaniam: So activation revenues compared to Rs.20 crores last year went up to Rs.142 crores this year on a standalone basis. As far as consolidated is concerned, compared to 30 crores last year, it went up to Rs.192 crores.

Vikash Mantri: So in fact, basically we have seen no increase in subscription revenues for FY13 because...

G. Subramaniam: No, I beg to differ. There has been an increase, it has not been substantial but

Vikash Mantri: Rs.20 crores is the increase.

- G. Subramaniam:** Rs.17 crores is the increase in cable subscription on a standalone basis. I am sorry, the reason why the consolidated figures do not look comparable is because GTPL we have only reflected nine months here that is why it looks lower compared to the previous year. So if you put the full year numbers, it will be in fact higher.
- Vikash Mantri:** And can you help us with subscriber numbers across markets?
- G. Subramaniam:** I will not get into granular market wise details, what I will tell you is Phase-I, as of date, we would have ended up at about 2.4, 2.5 million subscribers; Phase-II we would have ended up at about 3.3 million.
- Vikash Mantri:** This is end of March?
- G. Subramaniam:** End of May. And then Phase-III, in fact, interestingly, even in Phase-III we have been able to feed boxes, as Mr. Jagdish explained to you, cities like Ujjain...
- Jagdish Kumar:** Jalna, Hingoli.
- G. Subramaniam:** So we have been able to feed boxes even in Phase-III cities. We have added about 0.5 million boxes in Phase-III cities. So that is how it adds up to a bit more than 6 million subscribers.
- Moderator:** Thank you. The next question is from Nitin Lathia of HDFC Mutual Fund. Please go ahead.
- Nitin Lathia:** You said that the net billing to the LCO for last quarter has been Rs.105.
- G. Subramaniam:** No, I said that going forward, prospectively, we will go to Rs.105 as a first phase and in the quarter beginning July, August, September, we expect to take it up to gross billing. If you look at the reverse direction in the quarter ending March, we would have billed an average of Rs.65, we had actually billed Rs.85, we took a reversal of about Rs.20 per subscriber and then in the last two months we have been on the average billing about Rs.85, then it will go up to Rs.105 net in June and then hopefully in the quarter of July, August, September, we will take it up to Rs.180.
- Nitin Lathia:** So for Jan-Feb-March you billed Rs. 85 on a net basis and collected Rs.65 out of that?
- G. Subramaniam:** Yes.
- Moderator:** Thank you. The next question is from Arjun Khanna of Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** In the standalone, how many boxes did we add for this quarter?
- G. Subramaniam:** Actually, why do you not take that number offline. I had given you the consolidated numbers for us and **(Inaudible) 28:31**. If you want the details just take it with the team.

- Arjun Khanna:** Actually the way I am coming from is I am just trying to understand a depreciation in standalone has increased by roughly Rs.15.5 crores. If we annualize it, it comes to roughly Rs.62 crores given that we depreciate over 8 years it would come to roughly Rs.500 crores.
- G. Subramaniam:** Rs.500 divided by Rs.1500, it is about 3 million boxes.
- Arjun Khanna:** We are roughly adding a million box a month we are ceding on a standalone basis?
- G. Subramaniam:** Not per month that is the cumulative.
- Arjun Khanna:** The depreciation difference between the earlier quarter comes to roughly 15.5 crores. Given that you annualize it just for this quarter the different annualize comes to roughly 62 crores and if you multiply by 8 years that is a depreciation line, it come to roughly 497 crores given cost per box is 1500, you come to a number of 3.3 million boxes. So we have been ceding roughly 1.1 million box a month?
- G. Subramaniam:** As far as your number of 3.3 million boxes, ballpark it will be that, because we have done about 2.5 million boxes on a consol basis and Phase-II alone we have done about 3.3 million boxes, and yes, your numbers will be ballpark right.
- Arjun Khanna:** So there is no other items that is part of this depreciation, amortization?
- G. Subramaniam:** Obviously, there will be capitalization of head ends and all that...
- Arjun Khanna:** So that should be negligible, right?
- G. Subramaniam:** Those are relative to the set top box, negligible.
- Arjun Khanna:** And would we continue to cede roughly a million boxes going forward?
- G. Subramaniam:** We will continue to cede boxes as is required by the market. If I do a million boxes every month then it will be 12 million boxes.
- Arjun Khanna:** What I meant for the next 3 months?
- G. Subramaniam:** We are almost reaching the end of Phase-II and you are aware that only case that is pending is Hyderabad. Jagdish, if you can help me.
- Jagdish Kumar:** In terms of box ceding, I think the major part of the box ceding has already been done but there are certain areas where we still need some more boxes to be delivered, especially in Hyderabad, because of the stay which has been given by the Andhra High Court which will again come up for hearing on June 4. So once that June 4th hearing is over which we expect to be in our favor as it has been in other high courts, there will be a search in the box demand because of the stoppage of analog signals.

- Arjun Khanna:** In terms of STB boxes, how much we have an inventory with us?
- G. Subramaniam:** We will have about a million boxes more than adequate for completing Phase-II ceding and in fact, we will be starting to do Phase-III by the last quarter of this year, we will continue to do Phase-III thereafter. So we are adequately stocked as far as boxes are concerned, so there is no worry on that.
- Arjun Khanna:** In terms of depreciation of our boxes, it is only post sale has depreciated, right?
- G. Subramaniam:** Absolutely, it is only post sale.
- Arjun Khanna:** In terms of the TRAI mandate for STB boxes, they have asked for a rental. What is our view on that and have we started giving out those plans?
- Jagdish Kumar:** We are examining the TRAI orders in detail now. From our perspective, the TRAI has given an option to the customer to buy the boxes or to rent the boxes at the specified rates in which the TRAI has mentioned. They have not assumed any subsidy which can be given to the consumers. But most of the MSOs now do give subsidy. So therefore the TRAI does not necessarily say that you have to only use their tariffs. There is a flexibility given to the MSOs to give optional packages to consumers. So with the subsidy element which comes into play, most MSOs would obviously give another optional package, but mandatorily we have to give the ability to any consumer who chooses to pay 1750 per box over a period of three years, and at an interest cost of 15%. So really speaking from a financial perspective, it is in our favor whatever tariff the TRAI has recommended. But if you look at the ability of the consumer to pay that number.
- Arjun Khanna:** No, but if one looks at it the flip side, our current accounting, would it not really affect our P&L given that we would not be booking activation fees for that?
- G. Subramaniam:** To the extent the customer chooses an activation fee-based model. That is 3 year activation fee based model. We will have to book activation only to that extent. So it will marginally impact, but the difference is we have completed our Phase-I and Phase-II substantially. So there is no major impact.
- Arjun Khanna:** My last and final question is on the statutory levy such as entertainment taxes, are they actually being paid out to the government currently and what is the status on that? You did mention some numbers in terms of 85 moving, eventually to 180. I assume that does not include these taxes. So does incidence of tax follow-on and when we expect that to be paid out?
- G. Subramaniam:** In Delhi, the incident since 1st of April is on the MSO. So we have the obligation to pay. We have been stating to look at those numbers. As far as Mumbai is concerned, there is still some ambiguity but we will have to take a call because we expect the government to clarify its stand on whether it is MSO incidence or LSO incidence. And they are more than likely to follow the Delhi model. So eventually I anticipate that all entertainment tax incidence will be on the MSO.
- Arjun Khanna:** And when would we start paying it?

- G. Subramaniam:** We have started paying it.
- Arjun Khanna:** So the amount we are getting, so you mentioned 65, so ...
- G. Subramaniam:** No that Rs.65 is net of entertainment.
- Arjun Khanna:** So we have been able to recover the difference from the LCO including the entertainment tax?
- G. Subramaniam:** Yes.
- Moderator:** Thank you. The next question is from Ankur Rudra of Ambit Capital. Please go ahead.
- Ankur Rudra:** To begin with, can you please clarify the point you made about the reversal of Rs.20? Is that for the entire business or is that only for Delhi?
- G. Subramaniam:** Mainly Delhi.
- Ankur Rudra:** So effectively on an average the reversal is lower than Rs.20 on a per sub basis?
- G. Subramaniam:** On a per sub basis, yes, because in Mumbai the situation has not been as challenging as in Delhi.
- Ankur Rudra:** And on the exit rate for digital subs for the standalone, can you give me the numbers for March exit rate? You gave us the numbers I think end of May right now.
- G. Subramaniam:** No, I gave you on a consolidated basis. Exit rate means what do you mean by that?
- Ankur Rudra:** Exit number of set top boxes ceded in March.
- G. Subramaniam:** If you take the exit quarter that is Q4 of the last financial year we would have ceded approximately 1.8 million boxes in that quarter.
- Ankur Rudra:** On the content cost you explained how the spread you are expecting, eventual negotiations will lead to either neutral or very low negative. But the numbers for the fourth quarter, these do not really indicate the ending of the negotiation. So we will see some impact from Q1 onwards. This is not an indication of the run rate for the next...
- G. Subramaniam:** This is still in the works. Some of these negotiations are ongoing and they have not fully reflected in the quarter ending 31st of March because in the first phase of that we were able to negotiate fixed price deals and this contract extended all the way to 30th of April also in some cases and some of them 31st of March, some of them will go as much as October. So the full impact of DAS pricing to us would be reflected almost probably I think the next financial year is when we will start seeing the full impact of that.

- Ankur Rudra:** But that again will be partial because you currently have fixed rates running till October like you said?
- G. Subramaniam:** Not all of them. Some of the channels are till October, some of the channels were till 30th of April. So there is a wide variety of options there. So I expect that the full impact on an annualized basis will be felt in the FY15 only.
- Ankur Rudra:** When you are negotiating, I understand it is on a fixed basis but do we broadcasters take into account that you collections are getting delayed and hence the step ups will get pushed out as a result of that?
- Jagdish Kumar:** Yes that is the kind of battle which we have with the broadcasters, because in a lot of cases, the broadcasters have assumed that we have already entered into a true digital environment which is not really the case. So we have a transition phase which we have been able to in some cases successfully negotiate with the broadcaster, saying that there is a period in which we will still have to be looking at this industry more from the analog perspective, but as we speak it is a hybrid of both, fixed fee and **CPS 38:49** kind of contract with the broadcasters. So, in the immediate 9-12 month period, we have been able to negotiate fixed fee kind of deals with the majority of the broadcasters, with some growth rates ranging from 15-20%.
- Ankur Rudra:** So given where you stand today, can you have any visibility on overall increase in pay cost for FY14 over FY13? I understand there will be a compensatory change in carriage.
- G. Subramaniam:** It could range anywhere between 15-20% in the long run. It will not take place in just one year but you are right, the substantial part of it will also be compensated by the carriage and placement. And the one other advantage that we have is we have expanded into new markets and therefore we expect to see carriage and placement actually coming in from new markets and from new broadcasters coming on to the platform. So that is a combination. And a good thing about these new markets is some of them are fairly TAM-rich markets and broadcasters will find it attractive to talk to us and hopefully negotiate a fair deal with us.
- Ankur Rudra:** Just finally, on invoicing and debtor days, you did mention that part of the increase in debtors is because of I think broadcasters maybe delaying payments, part of it is on activation. So, if we adjust for both of those factors our debtors flat on a YoY basis?
- G. Subramaniam:** It will be flat.
- Moderator:** Thank you. The next question is from Bijal Shah of IIFL. Please go ahead.
- Bijal Shah:** I have a few questions largely on financial side. Now, first, when we say that in worst case content versus carriage would be Rs.15 or Rs. (-10) or it could be neutral, we are talking about what universe, we are talking about the gross universe, all phases together, we are talking only about Phase-I plus Phase-II, if you can give us some idea on that?

- G. Subramaniam:** As and when each of the DAS areas roll out, in the initial phase we expect it to be marginally positive, then probably it could go marginally negative. So we do not know exactly because many of these contractors still in the process of being negotiated and then it may go negative and then again go back to being positive as more and more new broadcasters join the queue
- Bijal Shah:** So if we look at FY14, we would be Phase-I and Phase-II are complete, so for Phase-I and Phase-II we can see neutral to slightly negative kind of ...
- G. Subramaniam:** Absolutely, you are right.
- Bijal Shah:** And the Phase-III, Phase-IV we can continue with normal growth.
- G. Subramaniam:** It will continue with normal growth.
- Bijal Shah:** Both on carriage and placement.
- G. Subramaniam:** Yes.
- Bijal Shah:** Now, your debt level has gone up sharply. So what do you think would be peak debt and what is interest cost for FY14 in your estimate on a consol basis?
- G. Subramaniam:** Our average cost of funds would be in the range of about 11%. Now, I am assuming a fully hedged foreign currency exposure. So, at 11% and assuming that we peak at about 1100-1200 crores range, I am keeping a range only because we do not precisely know when the gross billing will start. So I am just keeping a range to allow for that. So if you keep that, you take 11% of about 1100 to 1200 would be the range of interest cost or so.
- Bijal Shah:** What was the actual STB deployment or ceding of STB in FY12 on a consol ceding of STB in FY12-13 and what we expect in '14, not single market, or if you can give me number only for '13&14 that is good?
- G. Subramaniam:** We would have ceded a bit more than 3 million boxes in the last financial year on a consolidated basis and in the last 2 months we have continued to see boxes, so that is about 1 more million has been ceded in the last 2 months. We had a very, very rapid take up in the month of April, it has slowed down post April mainly because of the many court cases that were there which hopefully now most of them has been vacated, the last one being Hyderabad, we expect the offtake to again accelerate and hopefully we will do another half a million more in the next month. So that is the type of offtake.
- Bijal Shah:** No, for full year FY14 would it be okay to say, maybe 2, 2.5 million kind of numbers?
- G. Subramaniam:** No that will be ambitious I think because Phase-III kicks only in September 2014 and you are asking me to give forward-looking comment, so I would like to avoid that at this point.

- Bijal Shah:** And last question is on CAPEX. Now, what is likely to be the CAPEX? One is STB CAPEX which we got a hang off. Besides STB you will have CAPEX on head end upgrades and you will have CAPEX on the broadband side. So if you can give us some idea on both the numbers would be really useful?
- G. Subramaniam:** In the last financial year, the total CAPEX would have been on a standalone basis in the region of about 573 crores, out of which about 22 crores will come in for broadband and balance would be for the cable television. And if you want a further breakdown between that please contact the team, they will give you the breakup.
- Bijal Shah:** Next year the rest of the CAPEX of STB, will it grow because we are going to implement DOCSIS and maybe we will look at...
- G. Subramaniam:** I can give you a qualitative answer, because that is again you ask me for a forward-looking guidance, but there will be investments made in DOCSIS but obviously, any investment in DOCSIS is not as substantial as that. The biggest investment that we make is in the set top box and bulk of it has already been done.
- Moderator:** Thank you. The next question is from Avinash Agarwal of Sundaram Mutual Fund. Please go ahead.
- Avinash Agarwal:** Could you give us the activation for this quarter?
- G. Subramaniam:** It is about 87.6 crores on a standalone basis and you take it from a guy on a consolidated basis.
- Avinash Agarwal:** Why are we ceding boxes in Phase-III now although the number is small?
- G. Subramaniam:** These are territories which typically surround Phase-II city. So it is appropriate that we go ahead and capture territory. For example, Ghaziabad, which is the Phase-III...
- Jagdish Kumar:** So there are areas around Kolkata, if you look at certain areas like Mira Road, in Mumbai, in terms of the demarcation made by the I&B Ministry, they are in Phase-III. So such areas which are adjacent to our existing area of operations is where we are looking at expanding.
- Avinash Agarwal:** And GTPL consolidated for nine months. Which nine months, first nine or ...
- G. Subramaniam:** Nine months ending December.
- Avinash Agarwal:** And in terms of the payment from Delhi, you mentioned it is slower. How is it now in the last 2 months? Has it picked up?
- G. Subramaniam:** It has been very good actually. We have been seeing very encouraging improvements on month-on-month basis and we are now targeting to grow that substantially.

- Avinash Agarwal:** Are we seeing any retrospective money also coming back, money for Jan to March?
- G. Subramaniam:** Whatever we have provisioned, we have provisioned, because we have a expectation of receivability and we have provisioned. If we are lucky we could collect more. We would not stop pushing for collection obviously. What we have done is conservatively either provisioned it or reversed it. Both actions have been taken.
- Moderator:** Thank you. The next question is from the Rajeev Sharma of HSBC. Please go ahead.
- Rajeev Sharma:** I just wanted a clarification on the entertainment tax and service tax. So the incidence of both will lie on LCO?
- Jagdish Kumar:** Depends on each state. Like Delhi has notified that the incidence of entertainment tax will be on the MSO. Even Maharashtra government has also followed Delhi in doing that but lots of other states are yet to do. So there is a bit of confusion in this regard. As of now, in states like Madhya Pradesh and all the places, the tax is on the LCO.
- Rajeev Sharma:** So net-net I wanted to understand that you suggested that Rs.55 to 65 per broadcaster and Rs.80 per LCO, and your ARPU is at around Rs.180, so you are left with Rs.35 bucks.
- G. Subramaniam:** Then you have to add back carriage and placement, right.
- Rajeev Sharma:** Just keeping the carriage and placement aside for a moment and treating it ...
- G. Subramaniam:** Rs.185 is net of service tax and entertainment tax.
- Rajeev Sharma:** So what is your post tax ARPU on an average?
- G. Subramaniam:** Our post tax on the average that we have accrued in our books for the quarter ending March is about Rs.65.
- Rajeev Sharma:** No, actual ARPU in the market means post tax, not your realizations per share?
- G. Subramaniam:** That could vary from state to state, from territory to territory.
- Rajeev Sharma:** But it will be in excess of Rs.220, because you have entertainment tax plus service tax?
- G. Subramaniam:** Absolutely.
- Rajeev Sharma:** And second, what was your consolidated CAPEX for this year?
- G. Subramaniam:** Can you take it offline? Because I do not have the number readily with me.

- Rajeev Sharma:** Okay. And my last question is on your ARPUs, did the set top box ceding allowed you with an opportunity to take the ARPUs up a little bit or that territory is yet to be explored?
- Jagdish Kumar:** Actually, as of now, our billing is at the net level. So, what you are saying is definitely the direction in which we are going to go to. So as and when we start doing gross billing at the consumer level when we look at various packaging of channels that is where the opportunity to really increase ARPU comes. So that will happen only from July.
- Rajeev Sharma:** And net-net the message which we are getting is that the LCO will be contained at 45% revenue share. You do not see major disruption to this number?
- G. Subramaniam:** We do not see any major disruption. There will always be that odd case but I do not think on an average nationally we are fairly confident of this.
- Rajeev Sharma:** And lastly, your other cost per subscriber your SMS, call center plus will be how much? I wanted the mix of your subscriber base. Out of 6 million how much are direct and how much are secondary?
- G. Subramaniam:** I will take the second question first. Actually it is a bit more than 6 million subscribers. So you can take it on that. As far as our variable cost of serving our customers, which includes SMS, conditional access and call center, we will come in at about Rs.5-Rs.6 range.
- Rajeev Sharma:** And your 600 direct subscribers, they are all in standalone?
- G. Subramaniam:** No, no, there are primary subscribers both in standalone and in the JV Cos.
- Rajeev Sharma:** Do you have a breakup for that?
- G. Subramaniam:** Take it from my team later.
- Moderator:** Thank you. The next question is from Pratish Krishnan of Antique Stock. Please go ahead.
- Pratish Krishnan:** You mentioned that Delhi has an issue in Q4. What is the status? Are you getting like Rs.85 or....?
- G. Subramaniam:** Yes. We are starting to cash out on Rs.85 at this point of time. In fact, as I mentioned earlier in the conversation, we are upping our net billing rates to Rs.105. I will not say it is a cakewalk, it will be unfair on my part to overstate that case. But we will have to fight that battle in Delhi that is all.
- Pratish Krishnan:** And so even Delhi will migrate to that level, you think this is possible?
- G. Subramaniam:** No, Delhi is going first with Rs.105 actually. I do not want to state the obvious but this requires some collective effort. So that is what is happening.

- Pratish Krishnan:** And when you say you will do gross billing, so we will send the bills to the consumer directly or you will still the LCOs?
- G. Subramaniam:** We are still wrestling with that detail. Because the bills are generated centrally in our SMS, so once the bills are generated we do not want to be shipping paper back and forth all across the country. So what we will consider doing is actually shipping the bills electronically as flat files to the various cities and then locally it will be dispatched to subscriber. But I think we are jumping the gun a bit here. We are also in the process of updating our data base and all that. So once that is done, subscriber billing will start.
- Pratish Krishnan:** And in terms of the broadband, where do you stand today on subscriber base, ARPU on a YoY basis FY13 Vs FY12?
- G. Subramaniam:** We are at about 416,000 subscribers. Our ARPU will be in the range of about Rs.300 odd at this point of time. We are expecting to take it higher in the future because as Mr. Jagdish Kumar mentioned we are in the process of implementing DOCSIS 3.0 infrastructure in key markets, particularly South Mumbai, western suburbs and all that. And we expect that this will allow us to deploy faster speed services to our subscriber and hopefully that will allow us to take the average ARPU much higher.
- Pratish Krishnan:** And the subscriber base seems to be almost flattish here in terms of the broadband side. Any plans to kind of take it up given that...?
- G. Subramaniam:** There are two metrics you have to follow. One is the number of homes passed. Even that has been flat in the last year. So our entire effort last year was on ceding those 3 million and odd boxes. So that has taken a bit out of us. As Jagdish mentioned now have a concrete action plan, starting in the second half of this year where we will be rolling out new infrastructure and hopefully that will yield us some results. The problem in the broadband business is it is a very, very competitive space. So we have to be able to offer a differentiated product. What we were offering in the past was an undifferentiated product which was similar to what MTNL or anybody else gives. But the cable infrastructure now that we have digitized, frees up huge amount of capacity. Once that capacity is freed up, I can give my customer higher speed. This is like a sequence of events. First, DAS has to happen, the capacity is freed up. Once capacity is freed up, I am able to allocate more and more capacity to my broadband subscriber. So that has just happened and now that we implement DOCSIS 3.0 we should be able to.
- Pratish Krishnan:** And lastly, in terms of the Phase-III, based on your current penetration levels in Phase-II, what is the opportunity that you see in Phase-III?
- Jagdish Kumar:** In Phase-III we are looking at certain opportunities in West Bengal, primarily because of a continuous nature of the terrain there. Similarly, we are looking at certain options in and around Maharashtra, especially in the Marathwada region and then we are looking at options in Andhra Pradesh. So there are various areas where we are strong in certain cities and where the connectivity issues for us are not going to be a significant path.

- Pratish Krishnan:** Any subscriber numbers you have in mind in terms of number that you want to look at?
- G. Subramaniam:** We are not allowed to give you forward-looking guidance.
- Pratish Krishnan:** And would this require a further investment in head end for you to be Phase-III?
- Jagdish Kumar:** Do not require investment head end, we only require to get the proper connectivity links for which we will have to pay telcos or some other players.
- G. Subramaniam:** These are all adjusted areas. So typically they do not need any additional head end infrastructure.
- Moderator:** Thank you. The next question is from the line of Akshay Saxena of Credit Suisse. Please go ahead.
- Jatin Chawla:** This is Jatin Chawla from Credit Suisse. My first question is on where are we on the data collection by the LCOs in terms of consumer level, info and packages and stuff in Delhi and Mumbai?
- G. Subramaniam:** We are at about (+60%) in Mumbai and Delhi, and we are hoping to complete this process by end of June. There could be a slight spill over. That is why when I was talking of gross billing in those cities, I was talking of July-August-September quarter, I did not put a precise date to it but we are expecting to substantially update our customer database by the end of June. The good news is the last few weeks has seen a big upsurge in the data that we have collected, because we have taken action to switch off subscribers and that has given us fantastic response. So customers now are coming forward to supply that information. Not only the address and telephonic details but also the packages that they want.
- Jatin Chawla:** My second question was in Phase-I and Phase-II what do you think was the market share for the cable industry vis-à-vis DTH in terms of the conversions that happened broadly?
- G. Subramaniam:** I think in terms of additional CD we can give it. Probably I estimate it is about 85 to 90% range but that is not a very relevant statistic. What you have to see is where is this all going to end up. I think it will probably end up at about one-third, two-thirds type of a share of subscriber base in the long run. What I can clarify is in the Q3 & Q4 quarters, DTH did not add substantially to its subscriber base whereas there was an expectation that there will be a flow of subscribers from cable to DTH that did not happen.
- Pratish Krishnan:** And when you say one-third, two-third that would be more skewed in Phase-III and Phase-IV towards DTH, right?
- G. Subramaniam:** It is too early to say. Possibly yes. I am only quoting from some public information by research agencies which has said that there will be a roughly end result of one-third, two-third type of thing. **(Inaudible) 1:00:46** 100% cable.
- Pratish Krishnan:** And when you enter new areas in Phase-III, Phase-IV, are you replacing existing MSOs or what is the process that happens there?

- Jagdish Kumar:** I think it is a combination of both. It is a combination where some MSOs do not step up and give those boxes and then we enter into the gaps there, plus there are independent operators who look to team up with a national MSO like us.
- Pratish Krishnan:** In terms of your content deals with broadcasters, now do you think going forward there will be more on a per sub basis or do you think this fixed nature of contracts would continue for the next 2, 3 years till the time we see digitization finally stabilized?
- Jagdish Kumar:** I think the major broadcasters will definitely go towards fixed fee model in the future years. At least in the near term, we have been able to work out on a hybrid model with them. Other broadcasters, it all depends on who has the strength between distribution and content. So some of the popular bouquets will definitely push towards CPS kind of a contract, but the lesser popular ones will have to live with a fixed fee contract.
- Pratish Krishnan:** And what are your thought process in terms of ARPU increases, will it be largely package-driven or like we have seen with the DTH industry in the last few months where they have taken absolute price hikes, how do you think about that going forward?
- Jagdish Kumar:** I think package-driven would be one factor but I think the bigger factor would be to be able to give an additional local channels, additional services...
- Pratish Krishnan:** So more on value added services....
- G. Subramaniam:** More on value added services, preferably we will take that route rather than just do innovative packaging.
- Moderator:** Thank you. The last question is from Pulkrit Singhal of Treeline Advisors. Please go ahead.
- Pulkrit Singhal:** I have two questions; one is on broadband. Just what is the strategy going ahead? You said you are going to focus on getting the DOCSIS 3.0 technology but I am assuming that is probably trying to reach to the existing 1.5 million subscribers that you reach.
- G. Subramaniam:** Actually, there will be a combination. One is DOCSIS 3.0 and also increasing our reach. Although we reach about 1.4, 1.5 million homes we cannot penetrate 100% of those homes, because many of those homes will have access to alternate service providers. So we typically expect given our current experience about 25 to 27% penetration of the homes passed. So if you assume that we have to grow to about 700,000 subscribers or 1 million subscribers, and I am not giving forward guidance in this, I am just saying as an example, if we have to grow to that I have to also grow my homes passed. So we will be of course making investments in that. That is one approach. The second approach is we are right now between high bandwidth products and low bandwidth products. We are neither this nor that. So we are slowly trying to move the game to the high speed products because we have the capacity available, and that capacity has been freed up only in the last few months.

- Pulkit Singhal:** I am assuming your focus on expanding reach is secondary, primarily you are trying to get to the high bandwidth product right now?
- G. Subramaniam:** I would like to say it is a 50-50. There will also be a reach expansion but it will not be the immediate strategy, maybe in the longer run.
- Pulkit Singhal:** So like say 6 million homes passed right now. Phase-II, are we planning to reach all 6 million in 3 or 4 years or something like that? I am just trying to get a rough sense of
- G. Subramaniam:** Again, you are asking me for forward guidance on this but if question is obvious my answer is obvious.
- Pulkit Singhal:** What would be the cost for reaching the additional subscriber?
- G. Subramaniam:** Typically about 2400 per additional subscriber will be the cost. This factors in two cost. One is the customer premises equipment and other is the cost to reach the subscriber home and the third is the amount of the homes passed because the homes passed will be let us say X amount divided by the penetration percentage. All this adds up to about Rs.3000 odd. Then you back out about Rs.500 towards activation charges. So the net subscriber acquisition cost would be in the range of Rs.2,400 to Rs.2,500.
- Pulkit Singhal:** I am assuming that your current broadband reach is primarily to your primary subscribers. So ...
- G. Subramaniam:** No that is not the right assumption. We actually have a strange situation of actually serving our secondary subscribers; secondary subscribers not just in our territory but also JV territory and very interestingly sometime in competing MSO territory because competing in MSOs do not have a broadband service like ours. So we are the largest MSO providing the service. So we have a singular advantage of actually going to competing MSO directly.
- Pulkit Singhal:** How much do you think is the revenue share with the LCO on this?
- G. Subramaniam:** 10%. That is not uniform. That depends on the case-to-case basis.
- Pulkit Singhal:** Because without LCOs acceptance you cannot really provide broadband directly to the customer?
- G. Subramaniam:** Of course. He owns the right of way. We have to respect that and there is a price to be paid for that.
- Jagdish Kumar:** In fact, we will actually co-opt him in this whole process. Not only for broadband even for other digitization process as a whole, our plan is to co-opt the LCOs because the kind of relationship they have on the ground is something which we can exploit. So that was maintenance and customer immediate response plus collections. They could be partners in this digitization right.

- G. Subramaniam:** Very frequently, everybody depicts the relationship between MSO and LCO as a very combative relationship. We do not see it as that. We think they are very key partners to make our business a success.
- Pulkit Singhal:** Last question is more on your acquisition of any LCOs or smaller MSOs. I would have thought that maybe you would have got some opportunities in Phase-II for people who are not able to cede set top boxes. Have you seen that because you said you expand into new markets and I am assuming that would happen if you are acquiring more MSOs, you would not have to lay cable for that?
- G. Subramaniam:** We do not have to acquire an MSO, we have to acquire the subscribers, right. So, where a local cable operator community does not get set top boxes from their MSO, they approach Hathway which is relatively better funded and better prepared. And the other thing is everybody thinks of the business as only about set top boxes, you need to have good quality back end infrastructure and very, very world-class conditional access system, both of which I think we have.
- Pulkit Singhal:** So you had the opportunities in the past, how many such opportunities...?
- G. Subramaniam:** These are not classic inorganic acquisition. We do not pay any price for this.
- Pulkit Singhal:** What is the dealing?
- G. Subramaniam:** I am putting set top boxes into the territory and entering into a LCO-MSO relationship with the LCOs in that region. That is all.
- Pulkit Singhal:** So you see more of that happening or that is kind of over, it is kind of stabilized on that front?
- G. Subramaniam:** We do see more of that happening because slowly the horses for courses situation is happening. So I think people who are well funded or who have got adequate inventory of set top boxes are likely to win the battle.
- Pulkit Singhal:** For instance, you have 6.2 million subscribers right now and you said 0.5 maybe because of Hyderabad more, but you could see that going further because of this relationship happening?
- G. Subramaniam:** Could. We will have to see. We do not know.
- Moderator:** Thank you. Due to time constraints that was the last question. I would now like to hand the floor back to Mr. Naveen Kulkarni for closing comments.
- Naveen Kulkarni:** Thank you, Inba. I would like to thank the management for taking time up for this call. I would like to hand the proceedings back to Mr. Jagdish for closing comments. Over to you sir.
- Jagdish Kumar:** Thank you everybody for your time today. Closing comments what I have to say is that we are really excited with the opportunities we have in front of us, we have been very happy with the success of

what we have achieved in Phase-I and Phase-II. Our focus now is really to get the customer information from the LCOs and also to get into very mutually beneficial revenue sharing arrangement with the LCOs, and of course focus on cash to be collected from the ground. So, on the Cable TV side we also have the opportunity to expand to Phase-III areas as we move forward. And we also have the ability to exploit our connection with the consumer for our broadband. So thank you all for your time. And I am sure we will be able to come back to you with much better news in the next quarter. Thank you.

Moderator:

Thank you very much sir. Ladies and gentlemen on behalf of PhillipCapital India that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.