



“Hathway Cable & Datacom Limited Q4 Financial Year 2014 Conference Call”

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Hathway Cable & Datacom Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Q4 FY 2014 Post Results Analyst Conference Call hosted by Ambit Capital Private Limited. The conference call will last for 60 minutes. As a reminder, all participant lines will be in the listen-only mode. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Utsav Mehta from Ambit Capital Private Limited. Thank you and over to you Sir!

Utsav Mehta: Thank you. Good afternoon everyone and welcome to the Q4 FY2014 results conference call for Hathway Cable & Datacom. Ambit Capital has the pleasure of hosting the management team consisting of Mr. Jagdish Kumar, MD and CEO and Mr. G Subramanian, CFO. We will start with a brief commentary by the management team on the results followed by a Q&A session. I will hand the call over to Mr. Kumar. Over to you Sir!

Jagdish Kumar: Good afternoon everybody. Welcome to the earnings call for the quarter and financial year-ended March 31, 2014. I have with me our CFO, G. Subramaniam and also our EVP Finance, Mahadevan. I will walk you through the brief executive summary of the performance of the company and thereafter G.S. will give you details of the financials for the quarter and for the full year of 2013-2014 and then we will open up the floor for Q&A.

During the quarter, we have crossed a significant milestone. We have crossed Rs8 million STBs on a pan-India basis. This amounts to around 70% of our universe of Rs11.5 million. This 8 million consists of phase I Rs.2.5 million, phase II Rs.3.8 million and voluntary DAS in phase III and phase IV of about Rs1.8 million.

Another significant development for us and actually for the cable TV business as a whole is that we have now commenced subscriber billing in Delhi. It is actually targeted from December 2013 and the whole of the quarter we have had subscriber billing in Delhi from January 2014 to March 2014 and April we have seen some significant growth rates in revenues. If you were to compare it to our earlier analogue era, our revenues have grown close to 4.5-5 times the analogue revenues.

Subscriber billing in Kolkata and in Mumbai will commence from this quarter. Mumbai has already commenced for customer billing, Kolkata will start from May 2014. In all these places, the net realisation for the MSOs in fact for the overall the industry itself is around Rs100 per STB, which is a very significant development. All the MSOs have now realised that the time for acquisition is over. Both of the markets are saturated and have no more territory to be acquired. So everybody is now focusing on customer billing and cash collection.



So in terms of billing and cash collection in phase I, I think we are on a good wicket going forward. In phase II, we have commenced our STB-wise billing on the LCOs. The blended collection ARPU for MSOs in the region of about 50-60 per set-top box, we do have certain ground challenges especially in Hyderabad, where we are a significant player and we have to now find out some creases in Central India. I am confident that going forward, we have some very specific plans in mind both in Central India and Hyderabad to enable monetisation of our investments.

One of the significant steps we have also taken now is to move to a very robust subscriber management system. We had implemented Oracle's billing and revenue management system on our CATV businesses and I am happy to report that close to about Rs7.5 million subscribers have now migrated from our earlier billing system to the Oracle billing and revenue management system. I think with that kind of a base and backend, we are confident of been able to work in an addressable digital environment where we give customers a choice based on their tastes and preferences.

One of the key successes of digitisation is also to give additional services, specifically on high definition services and broadband services. On high definition, we have now got two significant projects in the pipeline and which will very soon get launched. We have got two varieties of high definition boxes, which we will launch shortly. One without storage and one with storage and this box has very, very powerful middleware and this middleware is probably the first time, even in any digital platforms which will also have search capability. So, we are very excited with our HD prospects. We hope to make some significant inroads in the HD market soon.

On broadband, we have launched the broadband DOCSIS-3 platforms in three more cities. We have launched it in Bombay earlier. Between the quarters we launched it in Bangalore and Pune and we have now launched it in Hyderabad also. The feedback from customers has been excellent. We have only one speed which we offer our customers on our DOCSIS-3 platform which is 50Mbps and the customer feedback like I said is very good. We hope to capitalise on this product and service. We are going to beef up our talent in being able to deliver a sales number commensurate with our product and services.

In DOCSIS-3, we have an ARPU of close to about Rs675 and currently we have a subscriber base of about 30,000. So based on three platforms, one is monetisation and billing in phase I and phase II, two is deliver more services on our HD platform and three is increasing our penetration through DOCSIS-3 technology in the broadband market and also exploring the possibility of having a bundled package with cable and DOCSIS which will reduce churn. We hope to really take these digital businesses much more forward.



With that I will hand over to GS to walk us through the financial numbers. Thank you.

G Subramanian:

Gentlemen a quick summary on the financials. I will first take you through the standalone numbers. In the current year that is the current year ended March, income from operations amounted about Rs977 Crores. This compares with Rs651 Crores in the prior year. This income from operations was primarily driven by growth in subscription revenues and both growth in subscription revenues and placement revenues. If I take the smaller numbers first actually activation revenues saw a substantial decline. It was Rs150 Crores in the previous year. It has declined about 110 Crores, and rightly so, because we had completed a substantial part of our rollouts last year. Broadband grew by 10%; we are at about Rs143 Crores subscription revenues from broadband followed by placement which brought it about Rs314 Crores. Of this Rs314 Crores, about Rs54 Crores is actually passthrough and there is a substantial part of placement growth which has also come from growth in the areas that we serve.

As you are aware in the current financial year, we had growth in the eastern region and we reported the revenues and cost for the entire eastern region for the full year. So that provided a big fillip as far as placement revenues are concerned. Out of all other revenues, there are some one-time income streams which include Rs50 Crores by way of marketing services and there are also some passthrough incomes of about Rs54 Crores. If you back that out, there is about Rs300 odd Crores, which is coming out of subscription. This is cable television subscription. So of the cable television subscription about Rs310 Crores, a substantial part came out of growth in the eastern region, almost Rs32 Crores was contributed by the eastern region. Also, as Jagdish just mentioned, Delhi went gross billing and we also saw a growth in revenues from some of the phase II cities particularly in Bangalore. All these elements contributed about Rs106 Crores of growth in total.

Over and above that, we also had some small growth, but important growth for us in the commercial area, which are the services that we provide to hotels and all that. We saw a small growth of about Rs5 Crores. Digital revenue i.e. revenues that we capture from partners is about another Rs19 Crores. So, this all adds to about Rs140 Crores or so, and so that is the broad breakdown of the revenues that we earned.

On a standalone basis, we came in at about Rs192 Crores EBITDA which compares with Rs168 Crores in the prior period. As far as consolidation revenues are concerned, the revenues came in at about Rs1,581 Crores. This is the first time on a consolidated basis. We have crossed Rs1,500 Crores in total turnover. This compares with about Rs1,117 Crores from operations in the prior period. It is important to note that whereas in the previous year, one of the joint ventures was consolidated for a nine-month period, this year we have consolidated with the same joint venture for a 12-month period. The EBITDA for the year

on a consolidated basis came in at about Rs310 Crores, which compares with about Rs274 Crores for the same period last year.

With that I sort of leave the floor open to questions from all of you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Rajiv Sharma from HSBC Securities. Please go ahead.

Rajiv Sharma: Many thanks for the opportunity. I have just three questions. First is, if you can provide the debt number at the consol and standalone level, net debt numbers and the capex for the year and what is your guidance for next year in terms of capex and also the breakup of consolidated revenues in terms of description activation broadband? These are bookkeeping questions; once you answer these I can just asked two strategy questions.

G Subramanian: On a standalone basis, gross debt stood at about Rs1,129 Crores. Net of cash it stood at about Rs1,064 Crores. The consolidated gross debt that is including all joint ventures stood at about Rs1,513 Crores. At a net level, it stood at about Rs1,426 Crores. The capex for the year amounted to about Rs500-odd Crores for the standalone entity and consolidated if you can just get back to Mahesh, he will be able to give the details. We do not give any guidance on capex, but just to give you a flavour, bulk of the capex like expenditure that will be incurred in the current year would be toward the roll out after DOCSIS-3 broadband services and more than two-third of our capex for the current year would be towards that.

The capex towards cable television will be significantly lower mainly because bulk of the rollout has been completed and if there is any rollout for phase III and phase IV, a lot of it is likely to take place during the last quarter the Q3 going through Q4. As you know, the deadline for phase III is December 31, 2014, for both phase III and phase IV. So that is the way it will happen. We are also sitting on adequate stocks as far as set-top boxes are concerned. At the beginning of the year, we had about 500,000 and we have grown it to about 800,000 stocks at this moment and this should more than adequately take care of this standalone business for the time being. There will be some miniscule additional imports to be done, but apart from that we do not see any additional investments and set-top-boxes on a standalone basis. A bulk of the investment in set-top box will be joint venture.

Rajiv Sharma: The last bookkeeping question was on breakup of the consol revenue, Sir?

G Subramanian: If you look at the consolidated revenue, it stands at about Rs1,500-odd Crores: about Rs700 Crores comes in from subscription revenues, placement brings in about Rs570 Crores, broadband brings in about Rs170 Crores and activation brings in about Rs160 Crores.



- Rajiv Sharma:** Just on the same strategic question, one is this recent TRAI directive on the online billing. So what has been the pulse with the LCOs and will they cooperate in this because they can feed something else from the subscribers in terms of going online and participating in this billing process and is there an attempt to go prepaid and if so what are the steps which have been taken by Hathway to do so?
- Jagdish Kumar:** On the directive for online billing from TRAI, we wholeheartedly welcome that. I think that is very, very progressive step taken by TRAI and while we already have the infrastructure in place on our website with the payment gateway we have not really been able to activate it, because the fact that there was a lot of reluctance for the people on the ground. But with this TRAI directive, I am sure something which all of us as an industry should have done and we thankful to TRAI for having issue to directive of this and we would definitely encourage this. This is a very, very consumer friendly move with TRAI. On prepaid, that is another area where we are all working towards. DTH in the country works on a prepaid basis, but there is no reason why digital cable TV should not be prepaid. We should definitely go prepaid and one of the significant steps we have taken now is to enable our backend to manage their prepaid environment. So like as I said earlier in our Oracle billing and revenue management system, one of the first steps, which we gave the Oracle team is to get prepaid capability and that has been now enabled in our SMS. We would work with the industry, because peers in the MSO segment and also with LCOs to really deliver this which again we think have become very consumer friendly.
- Rajiv Sharma:** Thanks a lot Jagdish. Just breakup of Rs8 billion set-top boxes, 2.5 with 3.8 and 1.8, how much of this is actually getting under gross billing and what is the breakup in terms of revenue per gross billing in phase I, phase II and the voluntary DAS market?
- G Subramanian:** The number of boxes which will come under gross billing almost immediately would be about 6.3 million including phase III and phase IV.
- Rajiv Sharma:** The average ARPU or some breakup?
- G Subramanian:** At this point of time, you please get back to Mahesh for the details, but we are targeting an average net ARPU it was about Rs100. We are currently in phase I, about Rs90 or so. As far as phase II is concerned, we are in the range of between Rs50 and Rs55 in most phase II cities. Phase III and IV cities although we have seeded boxes, they continue to be analogue at this point of time and will be monetised on a per subscriber basis only effective Q4 this financial year.
- Rajiv Sharma:** This is very helpful. Thanks a lot.



- Moderator:** Thank you very much. The next question is from the line of Mayur Gathani from the OHM Group. Please go ahead.
- Mayur Gathani:** Thank you for the opportunity. When you speak about Rs90 from phase I and Rs50, Rs60 phase II taxes include in this?
- G Subramanian:** This is right now including taxes.
- Mayur Gathani:** Net would be approximately Rs75 to Rs.70?
- G Subramanian:** About Rs85 if you back out service tax.
- Mayur Gathani:** Entertainment tax Sir?
- G Subramanian:** Entertainment tax is a passthrough cost.
- Mayur Gathani:** How things are moving in Bombay Sir? I heard that you started billing from April?
- G Subramanian:** Let me just explain that. Entertainment tax is a passthrough cost in most areas other than Delhi where we are providing it below the line.
- Mayur Gathani:** Coming to Bombay billing Sir, what is happening here?
- G Subramanian:** As far as Bombay is concerned, we are billing each subscriber by the pack he has selected, therefore there is consumer billing in Mumbai. The only variation that we have adopted in Mumbai is we are billing on behalf of the local cable operator, mainly because of the case that is pending before the Bombay High Court. Once there is clarity on that front and clarity on the entertainment tax front, we will take an approximate decision at that point of time. The important thing to note is that does not have any impact on EBITDA, because I can recognise revenue on a gross basis and show commission to our revenue share to infuse on a net basis. We are only recognising the net income as far as Mumbai is concerned.
- Mayur Gathani:** So, this is effective from April that you have started?
- G Subramanian:** No, this is effective around January. Delhi in first of December onwards, Mumbai is January onwards and Calcutta is expected to be first of May onwards.
- Mayur Gathani:** Entertainment tax is not liability in Mumbai, is my understanding correct or not yet?
- Jagdish Kumar:** There is a lot of confusion on this entertainment tax issue. Currently there is an ordinance given by the government saying that the MSOs are liable to pay entertainment tax, but they

also give the LCOs the ability to pay the tax. So they said that MSOs will have to pay the net deficit if any, but now all this is now subjudice. The LCO community has gone to court. I think the next hearing is now being set for some time post the summer, sometime in June or July probably. So, it is subjudice and we are waiting for the government to give the order, but having said that I think as a company, we are now gearing up ourselves to accept the fact that we have to now ensure that we are the tax collectors for entertainment tax in most of these jurisdictions.

Mayur Gathani: Regarding the online thing mentioned by TRAI, what is the reality Sir? I mean TRAI has mentioned that within 45 days you should be able to start collecting money and give them an SMS confirmation. I mean how long reality can actually take, it would not happen so quickly?

G Subramanian: TRAI has given two deadlines. One, we have to give the option to consumers within 45 days of the ability to pay online so that options have to be given; that does not mean that they can pay by cash, we can pay by cheque, they can also pay online, so that option is to be given. So that option most of the MSOs will be able to give it. The other deadline they have given us is that within 30 days irrespective of whichever way the consumer spend whether it is online, whether cheque, cash, I have to issue our receipt to the consumer. Now that it is going to be a challenge for the secondary points which we have. For the primary point is not a problem, even now currently issue receipts, but the secondary points, we now have to go through a campaign with LCOs to adhere to the theory guidelines and being able to issue receipts. From the system perspective, we have no problem. Our Oracle billing and revenue management system should be able to give up these receipts. Now, these receipts will have to reach the LCOs consumer, and so that is going to be another big education process with the LCO community.

Mayur Gathani: Sir, two more questions. There was milestone payment that you are expecting this quarter, can you quantify the amount?

G Subramanian: That is about Rs22 Crores in this quarter.

Mayur Gathani: Do we see it is coming in the next quarters?

G Subramanian: There will be some trickles and it will continue to come in over the next couple of quarters.

Mayur Gathani: I missed this number may be, what was the subscriber addition in this quarter?

G Subramanian: We have added about 300,000 subscribers in this quarter, but the way to look at this we started the year with Rs10.5 million universe addressed by the company. We have now grown it to about Rs11.5 million as of the end of March.



- Mayur Gathani:** Total subscriber as of now digitised is Rs8 million?
- G Subramanian:** Rs8 million.
- Mayur Gathani:** Thank you and all the very best Sir.
- Moderator:** Thank you very much. The next question is from Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Good afternoon Sir. I might have missed out on the details you have given earlier, sorry I am asking the same thing again. You said you have gone gross billing in Delhi, and so on a per subscriber basis how does the math look like, can you help me with that?
- G Subramanian:** You have to look at the ARPU on a per subscriber basis, and so that will be roughly about Rs212 on average. This is Rs212 net of any taxes then about 48% in Delhi, depending on the packages it comes to about 48% revenue share, net of that it could come to about Rs100 odd. When we mention Rs.90 as the number, we were mentioning the actual amounts that are being collected on the system. This 48% that we are talking about includes both revenue shares and LCOs and any commissions that we pay to the distributor. So against Rs110 we are collecting about Rs95.
- Vikas Mantri:** So, 48% is that the amount decided as a share with LCOs or it should be lower?
- G Subramanian:** It is not LCOs only. There is a distributor also in Delhi. So, this is in total, both LCO and the distributor, this is fairly peculiar arrangement specific to Delhi. We do not have large distributors in any other city. It is only a specific issue to Delhi.
- Vikas Mantri:** How would that be typically and let us say Mumbai?
- G Subramanian:** Nationally it will be about 42-43% on the average.
- Vikas Mantri:** Just was curious do the CAF and PAF have the mobile numbers of our subscribers?
- G Subramanian:** Of course, it is one of the data points that are captured.
- Vikas Mantri:** Is it possible to have just in SMS receipt to the subscriber as and when he pays?
- G Subramanian:** I believe that the TRAI mandate that we have to issue an SMS receipt to the subscriber and there is already part of the OBRM system, as you know even prior to this for all our primary subscribers, we have been collecting door-to-door with wireless devices. So we should not have any great difficulty in implementing that measure. The biggest challenge is

ensuring that there is accurate data in terms of the mobile number and subscriber address. So that is the process that will sort of get fleshed out over the next couple of months.

Vikas Mantri: For your secondary subscriber also data should be there?

G Subramanian: It is there.

Vikas Mantri: So, then I see no reason why.

G Subramanian: There is a subscriber application or CAF that we have got it will obviously contain that information.

Jagdish Kumar: Currently what happens is that the LCOs collect the money from the subscribers and then they come and pay us their revenue share to us. Now we are working with them to be able to give us the subscriber's voice details of those collections. Right now, I would not say that we are getting it from the LCO. We are getting a lumpsum payment from the LCO. But we have to slowly start training them to say that if we have to send SMS receipt I need to have subscriber voice breakup of the collections.

Vikas Mantri: When you are saying gross billing it is basically for primary subscribers, but primary subscriber it will always be there?

G Subramanian: Gross billing is for both primary and secondary subscribers and what we are recognising is a gross amount that gross income and we are netting out the revenue share to the LCO and showing it as a cost.

Vikas Mantri: But he is basically still paying you the same way as he used to do earlier the net basis?

G Subramanian: Earlier there was no linkage to the number of subscribers in each LCO. Now there is a specific linkage to the number of subscribers and there is a linkage also to the revenue share based on the package, because the revenue share that goes to the LCO differs depending upon the package. So there is a computation behind that revenue share that goes to the LCO.

Vikas Mantri: So, basically how many subscribers on each package, which then gives you the subscriber identity yet?

G Subramanian: In some cases they give, in some cases they do not give. What Jagdish meant was in order to be able to comply with a TRAI directive, we need to get 100% of that information, so that we can post the receipt on email or SMS whatever it is, by individual subscriber we have to be able to provide that is the TRAI directive.



- Vikas Mantri:** Can you help me with your broadband ARPU both for DOCSIS and the other normal whatever you provide?
- G Subramanian:** The average ARPU now stands at about Rs340 on a blended basis. The original DOCSIS-2 subscribers would still be coming at about Rs310 or so, but DOCSIS-3 subscribers have been coming at about Rs675 average which is more or less the tariff plan available on the broadband services. The minimum tariff plan as you aware is Rs675 for the 50 Mbps plan with 10 GB download. It goes up to Rs1,499, but if you look at the proportion of subscribers coming a large position are coming in the minimum tariff plan, which is the 675 plan.
- Vikas Mantri:** DOCSIS-3 is right now only in Mumbai or also in Delhi you have added?
- G Subramanian:** It has been rolled out in Mumbai, Bangalore, and Pune, and it is also planned to be rolled out in Kolkata. Delhi what is happening? Delhi, we are not planning immediately, it will be later.
- Vikas Mantri:** How much of the universe in each of these markets have you made available DOCSIS-3 or what is the plan like in a year or so?
- G Subramanian:** Plan is to 100% in each of the cities eventually. Mumbai, we have rolled out almost entire city except the central suburb and because if I can request you to get back to us, we will be able to provide the granular detail.
- Vikas Mantri:** Thank you for your time Sir.
- Moderator:** Thank you very much. The next question is from Pratish Krishnan from Antique Stock Broking. Please go ahead.
- Pratish Krishnan:** On the DOCSIS-3, if you look at from the next year point of view and you will rollout in many more cities, what is the kind of capex that one should factor in and how many subscribers in your universe would potentially be reached after one year?
- Jagdish Kumar:** Capex for the current financial year for broadband is around...
- G Subramanian:** This is a forward-looking statement, so I must be careful what I say. As far as if investment planned in the current year is concerned, but you can take approximately in the range of about Rs100 Crores or so.



- Pratish Krishnan:** In terms of 400,000 subscribers that you have in DOCSIS in overall broadband, how many subscribers can probably been reached today and how do you think this will change over the next one year?
- Jagdish Kumar:** On a long-term basis, our intention is to ensure that all our DOCSIS-2 customers are DOCSIS-3, and so we are progressively enabling a network to become DOCSIS-2-enabled. I do not know whether he can make any forward-looking statements as of now in terms of numbers, but in terms of upgradation what we have seen so far, we have a significant amount number of people upgrading from their existing service to DOCSIS-3.
- G Subramanian:** One other thing Pratish I wanted to sort of emphasise is we realised that going forward DOCSIS-3 is a much more viable service to be offering on a cable network such as ours. So what we are also doing is where there is a subscriber or a large subscriber base which is reluctant to migrate to DOCSIS-2. We are slowly discouraging them from continuing on the network, because the margins on a plain-vanilla DOCSIS-2 service are also much lower than DOCSIS-3 service. We want to be seen as a pure play DOCSIS-2 service in a couple of years. So over a period of time, we will see those subscribers who do not migrate will actually be culled out of the system.
- Pratish Krishnan:** Is there any number that you are looking at for the number of subscribers that potentially can have over the next one year?
- G Subramanian:** Why don't you get back to us, directly we will tell you?
- Pratish Krishnan:** Secondly on the content cost, the Rs660 Crores that you had for the full year somewhere if we just do a back calculation somewhere it seems like probably already we are paying for may be 10 million subscribers, assuming your revenue share of 30% and ARPU of like 180-190. So is this way too high and what is the thinking and how should we look at content cost going forward?
- G Subramanian:** On the consolidated basis, consolidated basis 666 that is fairly normal, because if you compare it to the prior period, we are looking at about 37% pro-rata growth, because the prior year we had reported only nine months for GTPL. So, if you normalise that number, the consolidated content cost will come to about Rs490 Crores against Rs490 Crores is about Rs666 Crores.
- Pratish Krishnan:** What I am trying to understand some like in terms of for the number of subscribers probably you will be paying today based on whatever fixed rate or revenue share, it seems probably paying for a large number of your sub-base? Is that kind of understanding right?
- Jagdish Kumar:** I did not get his question.



- Pratish Krishnan:** We can take it offline probably.
- Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Good afternoon and thank you for the opportunity. Just two, three questions from my side. Firstly I think on a like-to-like basis carriage would have grown to about 11%, 12% in this fiscal. Could you throw some light on how this could be in FY 2015? I am not asking for number, but just your outlook as to about carriage?
- G Subramanian:** Your bang on the target. It is about 9% growth if you compare it on a like-to-like on a consolidated number. As far as standalone is concerned, obviously the growth has been far more spectacular. The main reason as far as growth on a standalone basis is concerned is a large part of it comes as far as placement is concerned, and a large part of it attributed to the fact that we have now covered additional territory. So both in the east and a substantial part of the growth is in the east and also UP. So that growth has helped us grow placement revenues partly. So if you back out the new territory, we would probably be looking at about 35% or so year-on-year growth.
- Rohit Dokania:** What would be your outlook as far as fiscal 2015 is concerned for the consolidated and do you see carriage flat or would you resume another growth of single-digit number or what?
- G Subramanian:** I think this is again forward guidance, and so I would hesitate to give it at this point.
- Jagdish Kumar:** But directionally the content aggregator bill is in a way will benefit us in our negotiations. So, we definitely see some traction we can get with the regional players and certain channels which are not part of the huge network. But the big networks, the Stars, ZEE Sony and Indiacast they definitely we are looking at some kind of reduction in the carriage numbers. But overall for us I do not think that the certain minuses will be compensated with the certain plusses which we will get.
- Rohit Dokania:** So as a base case, I think a flat kind of a number is very much doable. Just continuing on the question of Pratish basically again content cost on a like-to-like basis grown by 37% as reported. How do we model as far as fiscal 2015 is concerned? Do we expect the number which is again high double-digit and so let's say 20%, 25% plus or will it let be...?
- G Subramanian:** The way to look at both content cost, actually if you look at both content cost and carriage together that is first way to look at it. So if you look at it on a net-to-net basis more or less there is no major variation. I will request you to get back some details. The other thing is there is also being some growth in the territory. If you look at the eastern region, we were present in the eastern region only for one quarter in the last year whereas this year, both



placement and content cost would have gone up for a full four quarter. So that impact is felt in the current financial year.

Rohit Dokania: Lastly on the economic interest and advertising if you can just say what is that for the quarter and the year for consol basis?

G Subramanian: I have given you the consolidated numbers.

Moderator: Thank you. The next question is from Rajiv Sharma from HSBC Securities. Please go ahead.

Rajiv Sharma: Thanks for the opportunity again. I just wanted to understand the current DOCSIS-3 subscribers out of the total broadband subscribers and what is our reachable homes today and with the 100 Crores capex what is the plan going forward?

G Subramanian: Our current DOCSIS-3 subscriber base stands at about 30,000 subscribers. As I told you, we rolled out our DOCSIS-3 services with south Mumbai on October 2, last year and then gradually we have started rolling out in other cities. The universe that we can potentially address as far as both DOCSIS-2 and DOCSIS-3 services is about 1.7 million homes at this point of time. The investment that I had mentioned to you, the capex that I have mentioned to you sometime back is largely pertaining to growing that universe and growing the penetration of those home pass.

Rajiv Sharma: Roughly Rs1.7 million will be there, but it will be more firm and your services will be more robust with this investment?

G Subramanian: The number of home passes also marginally grow, but more to do with higher penetration of the existing home pass.

Rajiv Sharma: Lastly, the increase in content cost you are saying we should look at in combination of placement and carriage. So, we have placement revenue, can you give us the carriage revenue?

G Subramanian: Why do not you just get back to us? We will give you the breakup. Placement and carriage is the combined revenue. So I do not know which breakup you are asking for?

Rajiv Sharma: Between placement and carriage, how much is carriage and how much is placement?

G Subramanian: No, we do not give the breakdown. That is confidential and there is no breakdown actually.



- Rajiv Sharma:** Is it the case that you have moved from to per sub plans versus minimum guarantee or ad-hoc blanket plans and that is why there has been a sharp increase in content cost this year?
- G Subramanian:** Partly yes. We have gone to CPS deal in some of the broadcasters, but as Jagdish had mentioned to you, the net amount is not substantial, so you have to look at it on a net basis.
- Rajiv Sharma:** The reason why...
- G Subramanian:** As much as the CPS characteristic to content cost, there has also been a significant improvement in placement, and so a degree of set off is available.
- Rajiv Sharma:** For persisting there, because I was thinking that the increase in carriage is more from the eastern markets and more from new launches which has been happening whereas the content cost goes to existing larger networks, not necessarily the new guys, because they just want to be popular. So why do you suggest that there is a linkage if I look at it this combination intuitively it does not look like there is a linkage. Am I missing something?
- G Subramanian:** You are missing something. As far as content cost is concerned, what we book as far as content cost is concerned, we book it for the entire network that is including ourselves and all are JVs other than GTPL and there is a pass-through. I am not talking about my standalone numbers. So, if you take the pay channel cost it includes pass-through, and so there is some element of this pay cost then passed through to JV course because we enter into contract for not just Hathway but all the smaller JVs which are beneath us. So, we enter into a parent deal and that is then passed onto the JV course. So why not do one thing, you just come back to us. We will give you the detailed netting off of these all.
- Rajiv Sharma:** Thanks a lot.
- Moderator:** Thank you. The next question is from Amit Kumar from Espirito Santo. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity Sir. I joined a bit late. I just wanted to get a sense of this breakdown of this digital subscriber base one more time please?
- G Subramanian:** That digital subscriber base one more time?
- Amit Kumar:** Rs8 million?
- G Subramanian:** We have got about Rs8 million subscribers to whom we have seeded digital boxes out of which Rs2.5 million will form part of phase I about 4 million will fall in phase III and the balance will be in the subsequent phase.



Amit Kumar: Sorry, Rs4 million would be in phase II. Have you seen some sort of churn, because if I recall the previous number given here was about Rs4.3 million sustainable?

G Subramanian: It is Rs4.3. I just round off the figures and gave it to you.

Amit Kumar: Just a little bit of understanding on the accounting policy as we move to gross billing, you are booking the entire Rs200 from the consumer as part of your revenue and correspondingly netting off whatever 48% LCO distributor share from your cost. But how does it work out in your balance sheet the receivables and the payables?

G Subramanian: We show receivable net of any payables to the operator, and so we adjust it and this is only in Delhi. We do not have this in any of the other cities, all the other cities we account for only net.

Amit Kumar: I got that. Could you also just help me to understand you mentioned some Rs150 Crores revenue item in lieu of marketing services last fiscal 2014, and so could you just give me a sense of what is this?

G Subramanian: So this is in the nature of an income from business partner. Why don't you just come back to us, we will give you the details directly.

Amit Kumar: This is a milestone income is it?

G Subramanian: This is in the nature of milestone income, correct.

Amit Kumar: Just one final small point, could you just give me a broad breakup of this Rs500 Crores capex done last year on standalone? How do you breakdown between broadband, set-top boxes and any other major investment that you have done?

G Subramanian: It is about I will give you the exact figure is about Rs540 Crores, out of which cable television will be about Rs503 Crores and broadband will be about Rs38 Crores.

Amit Kumar: Rs503 Crores seems to be a reasonably large number especially as far as standalone set-top boxes are concerned?

G Subramanian: If you look at set-top boxes alone that will be about Rs450 odd Crores and there will be other capex relating to the network which is about Rs52 Crores or so and broadband is about Rs38 Crores substantially DOCSIS-3 Bombay investment.

Amit Kumar: That would be broadband, Rs40 Crores. Thank you so much.



- Moderator:** Thank you very much. The next question is from Amit Kumar, Espirito Santo Securities. Please go ahead.
- Amit Kumar:** Thank you for the opportunity again. I am just getting the chance I thought, I will just, one, in terms of content cost you mentioned that most of the deals are now being done at the parent level and to that extent you are passing on the content to the JVs. From a logic perspective, this takes a lot of sense because Hathway being the larger entity among all the JVs, you will be able to negotiate better. I just wanted to understand why GTPL will not part with this arrangement? Is there any specific reason?
- G Subramanian:** GTPL alone its standalone basis, it is a very large player with a very strong presence in the Gujarat market and quite honestly they get very, very good deals for that market.
- Amit Kumar:** Is not GTPL now also fairly well spread out I think eastern Maharashtra, Kolkata and other a few others?
- G Subramanian:** Those are very small presences. Apart from Kolkata, they are mainly present in Gujarat.
- Amit Kumar:** So those are the two major markets, they do deal for?
- G Subramanian:** Yes.
- Amit Kumar:** Thank you.
- Moderator:** Thank you. The next question is a followup from Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania:** Thanks for the opportunity again. I am not too sure if you have touched upon this, but just in case. What do you think could be the impact of the wholesale price increase which TRAI has given to the broadcasters for us?
- G Subramanian:** The wholesale prices increase is based on the RIO rates, which broadcasters will have to announce on their website. Now in the most of the cases it is all negotiated, so therefore the RIO rates by themselves do not have direct impact on MSOs, but what could happen is that it could be used as one of the negotiating tool.
- Rohit Dokania:** The cap would go up.
- G Subramanian:** The TRAI has agreed to give him an inflationary increase, now while they discussed negotiated rates with us they could use that as one of the reasons. But otherwise generally I do not think we will have impact on our P&L.



- Rohit Dokania:** Typically our content agreements are yearlong, I mean they are about a yearlong not like 3-5 years now?
- G Subramanian:** Typically it is on an annual basis, but we do have some contracts as well beyond a year also.
- Rohit Dokania:** What is your opinion as far as longer contracts are concerned, do you also believe that till the time the contract is valid we cannot go for a rate negotiation in between, and so we will have to wait for the contract to end and only then we can go for rate negotiation. Is that how we know we also perceive this?
- G Subramanian:** That is a good point. I think we are also debating on this changeover. We are seeking about how we handle situations where we have long-term fixed contracts and which have to be now unbound if at all because of the TRAI guidelines; now we are seeking legal opinion on that.
- Rohit Dokania:** Thanks a lot. Wish you all the best.
- Moderator:** Thank you very much. The next question is from Naval Seth from Emkay Global. Please go ahead.
- Naval Seth:** Thanks for taking my question Sir. On consolidated subscription revenue of Rs700-odd Crores, the one-off is to the tune of Rs150 Crores that is right, because of the marketing related income what do you say?
- G Subramanian:** No, it is Rs50.
- Naval Seth:** It is Rs50 in consolidated and standalone this quarter subscription revenue, last quarter it was Rs119 Crores, which included some incentive from your business partners, and so what would be the subscription revenue for the quarter. I am talking about the quarter on a standalone basis now?
- G Subramanian:** For the current quarter, it was about Rs23 Crores, and so there has been substantial growth in subscription revenues that came on the back the fact that Delhi went gross billing for three months in this quarter as compared only one month in the previous quarter.
- Naval Seth:** What would be the Q4 subscription revenue as compared to Rs119 Crores last quarter?
- G Subramanian:** About Rs138 Crores.



Naval Seth: If I exclude only Rs50 Crores from your consolidated subscription revenue, so your ARPU for the full year comes to around Rs77 odd on blended basis?

G Subramanian: For the entire subscriber base right?

Naval Seth: Is that the right calculation?

G Subramanian: Possibly.

Naval Seth: Thanks a lot Sir.

Moderator: Thank you very much. The next question is from Mayur Gathani from the OHM Group. Please go ahead.

Mayur Gathani: Thank you for the opportunity Sir. What is the total subscriber base from broadband, you said Rs30,000 for DOCSIS-3?

G Subramanian: We are still looking at about 400,000 subscribers and as I told you we will slowly allot subscribers who are low-end subscribers, who are not willing to migrate to DOCSIS-3, but this will be done over a period of time, not immediately. Just to sort of expand on that, what will also happen is our ARPU will hopefully improve dramatically. It has already gone up from an average run rate of about Rs300 to Rs310 in the last few years to about Rs340 as we speak. We expect this to stabilise at a much higher level and at total revenue level will be significantly better than we are at this point in time.

Mayur Gathani: Blended ARPU you said is Rs340 right Sir?

G Subramanian: At this point.

Mayur Gathani: What is the view of this new ministry Sir, do we stick to this deadline? Have we heard anything or the management has met up with the I&B minister?

G Subramanian: We have met up with the I&B minister so far. From the initial indications, we do not think there will be any delay in implementing it. There could be some kind of phase-wise execution plan which may come.

Mayur Gathani: What is the current inventory?

G Subramanian: 800,000 boxes.



- Mayur Gathani:** Dish has launched a new model called Zing in Odisha and West Bengal northeast, so why phase III and phase IV, because at a same price more or less as ours of course the content would not be as it elaborate as ours?
- G Subramanian:** So, you have answered the question. The content is not as elaborate as ours, so I think people are relatively indifferent to the price of the set-top-box at this point, because we are looking at most of the boxes have been seeded in the eastern region particularly West Bengal. So any incremental seeding of boxes will be in the range of 1,250 boxes. I do not think that price point is the barrier to entry at this point.
- Mayur Gathani:** Thank you very much.
- Moderator:** Thank you. As there no further questions, I would now like to hand the floor over to Mr. Mehta for closing comments. Over to you Sir!
- Utsav Mehta:** Thank you for attending the conference call. Ambit Capital would like to thank Mr. Kumar and Mr. Subramanian for giving us the opportunity to host this call. I would pass the call back to the management for closing comments.
- Jagdish Kumar:** We have a task cutout very clearly. We have now enabled consumer billing both in phase I and phase II and we have to ensure that we monetise and collect based on the revenue shares settlement which we have. We will also need to ensure that we use our digital-headed infrastructure to launch value-added services like high definition television that is very clearly on our agenda and on the broadband side, we intend expanding on the success we have got so far on the DOCSIS-3 pack. So thank you everybody for spending time with us.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.