



**“Hathway Cable & Datacom Limited Q4 FY15 Earnings
Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited Q4 FY15 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there would 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 '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Sandeep Gupta of Ambit Capital. Thank you and over to you, sir.

Sandeep Gupta: Thank you. Good morning everyone. We at Ambit Capital have the pleasure of hosting the Q4 FY15 earnings conference call for Hathway Cable & Datacom. Representing the management team today, we have Mr. Jagdish Kumar - MD and CEO, and Mr. G. Subramanian – CFO.

We will begin with a brief opening remark from the management team followed by the question-and-answer session. Over to you sir.

Jagdish Kumar: Good morning. Thank you for joining us on this FY15's fourth quarter and full financial year's earnings call. I will briefly cover some of the operational matters and strategic steps which we have taken, both for our broadband businesses and cable TV business. Thereafter I will hand it over to GS, our CFO to present our financial numbers and then we will feel the questions from the group.

I have with me today Panesar who is the President of our Video Business, Rajan Gupta who is the President of our Broadband business; also we have our Deputy CFO – Vineet Garg and our EVP Finance – Mahadevan. At appropriate times, they will also pitch in with their comments.

Hathway's subscription revenues have shown substantial growth both for the quarter and on a full year basis. On a consolidated basis CATV subscriptions have grown by about 32% and broadband subscriptions have grown by 44% on an annualised basis. Now I will have to inform you that the consolidated numbers which we have released also includes 15 months of GTPL of the results, so to look at our run rate you will have to back out three months of GTPL results from that so the percentages which I have given you is after backing out those three numbers. So again, subscription numbers have grown by 32% for CATV and 44% for broadband.

Excluding activations, Hathway's consolidated EBITDA has grown by about 12%. As mentioned in our previous call, we have introduced two significant operating levers in our CATV business during Q4, the first one being packaging, and the second one being introducing prepaid payment systems. I am happy to report that the

market has accepted both the levers favourably. Consequently, our exit ARPUs exclusive of taxes in Phase-I is Rs.100 and Phase-II is close to Rs.70.

Cricket World Cup and StarTV RIO pricing structure was a strong catalyst to drive packaging during the quarter. With 72% of our subscriber base digitised, we remain the biggest MSO in India as far as digital subscriber base is concerned. We have already digitised on a voluntary basis 1.8 million customers in Phase-III areas, we have about 500,000 set boxes in our inventory, hence, we are very well positioned to exploit the opportunities presented with the deadlines fixed by the government for digitisation of Phase-III and Phase-IV.

I am also happy to report that our robust technology platform OBRM, Oracle's Billing and Revenue Management system has been fully stabilized for our cable TV operations and that has started to yield benefits. We are provided LCO partners of web based portal and also an Android Based Application which helps them to manage customer request for specific channel packages or 'a la carte' channels. We are confident that increased ARPUs through packaging and prepaid systems and the potential expansion in Phase-III and Phase-IV augers well for our CATV business.

We are making rapid progress in increasing our broadband homes passed footprint across our operating locations in India. Hathway high-speed broadband services are potentially available in 2.3 million homes. In addition to Bombay, Bangalore, Hyderabad and Pune, we have now added Delhi to the high-speed DOCSIS 3.0 platform. We have also upgraded our infrastructure in Surat to provide quality high-speed connectivity. Our broadband customer base has increased to 140K and we have the largest deployment in India over the DOCSIS 3.0 platform. On a year-on-year basis, broadband exit ARPU has grown 70% to Rs.530 per sub per month; the ARPUs for DOCSIS 3.0 customers have reached levels of Rs750/ per month.

We are taking our first steps in making certain significant investments in marketing and brand building for our broadband business. We will be shortly launching a marketing campaign with a very popular sports icon as our brand ambassador.

With those opening remarks, I am handing over the call to GS to walk us through the financial numbers and thereafter we will open the call to the Q&A session.

G. Subramanian:

Ladies and gentlemen, the revenues for the quarter came in at about 271 crores. When I compare it with the same quarter in the previous year which came in at about 292 crores, from the 292 crores you have to back out one-time marketing revenues which was 23 crores, commission for LCOs in Delhi because in this quarter we

started recognising revenues on a net basis in Delhi so if you back out 14 crores for that and sale of set boxes which was once again a onetime event, we came in at 243 crores in the comparable quarter last year. In this quarter, 271 crores has to be adjusted for about 14 crores of feed income, which then comes in at about 257 crores comparable top line for this quarter.

From the 243 crores we have to back out activation revenues of about 9 crores in the previous year and 6 crores in the current year. So adjusted for all these numbers, the comparable revenues for the standalone entity came in at 234 crores in the Q4 of the last financial year and this compares with 251 crores for the current financial year, the Q4 of current financial year.

As far as costs were concerned on a quarter-on-quarter basis, significant increases can be observed in the pay channel cost, but actually you have to back out the 14 crores of pass through revenue. So if you back out from 107 crores, 14 crores we come in at about 93 crores of pay cost for the quarter which broadly compares with the 94 crores for pay cost which were accrued in the immediately preceding quarter.

Other expenses came in at about 115 crores, the growth 115 over 107 crores or so was primarily on account of some one-time provisions that we had to take in the last quarter in order to provide for bad debts and other one-time hits that we have to take in Q4.

Depreciation came in at 69 crores which compares with 59, about 60 crores in the preceding quarter. The growth in depreciation of about 9 crores is primarily driven by the change in the depreciation policy and the introduction of changes in the Companies Act which have been adjusted finely in the last quarter.

The EBITDA for the quarter came in at 31 crores for this quarter; this compares with about 26 crores for immediately preceding quarter.

As far as year-to-date results are concerned, we came in at about 1023 crores on the standalone numbers which compares with 980 crores. The 1023 crores comprised of dominantly subscription revenues, almost 44% of revenues came in from subscription, cable television subscription. Subscription broadband revenues came in at 196 crores, placement came in at 314 crores, activation came in at 44 crores and all other income came in at about 28 crores.

In each of these line items there was considerable change from the same period last year that is the annualized results of last year. Subscription revenues saw a growth of about 32% on a standalone basis, subscription from broadband business grew by

about 37% on an annualised basis whereas activation and other revenues saw a significant drop, activation at 44 crores compares with about 110 crores for the same period last year. The total revenue without activation for the current year came in at about 980 crores which is on an overall basis growth of about 13% over the previous financial year.

EBITDA on an annualised basis came in at 139 crores, while that may appear lower than the EBITDA for the previous year, after you adjust for activation it came in at about 95 crores which is about 17% better than the same period last year.

On a consolidated basis, we came in at about 1832 crores which compares with 1583 crores. As Jagdish had mentioned in his opening remarks, this includes three extra months for GTPL which has been consolidated for a 15 month period. Total expenses came in at about 1904 crores which compares with 1573 crores, again, not fully comparable because of GTPL being consolidated for a 15 months period.

EBITDA for the consolidated entity came in at about 260 crores before adjustment for activation, after adjusting for activation it came in at about 178 crores.

There were I believe some specific queries which had come up in your minds, one, to do with ARPU. Our ARPU currently stands at about Rs.100 for Phase-I territories and Rs.67 per subscriber for Phase-II areas. This ARPU we state net of all taxes, which means we have removed entertainment tax and service tax in arriving at these numbers. So these were while we had given similar numbers last year, in the last year we had stated a gross of taxes, this year we are stating this number net of taxes which we believe is the correct way to state this number. So there has been increase in ARPU year-on-year.

As far as broadband subscribers are concerned, we continue to grow at a rapid pace, our current monthly ads are, and quarterly ads are pacing at about 23000-24000 subscribers. After backing out churn, we are adding at the rate of, I am sorry, the figure I mentioned was net of churn, so we are pacing at about anywhere between 9000 and 11000 subscribers net ads per month at this point of time. So the run rate as we speak is about 120000 subscribers add for the year. Obviously we expect to accelerate this further as our broadband territories grow beyond our current coverage. We expect to add significant operations in the cities of Hyderabad and in the city of Delhi.

With that I open out the forum to queries by all of you. Thank you.

- Moderator:** Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Rajiv Berlia from Edelweiss. Please go ahead.
- Rajiv Berlia:** Sir my first question is on broadband, 120,000 subscribers per year, what we are seeing is other MSOs have entered this quite late but now they are also starting and have aggressive plans. So sir in that context how much is the plans for adding from the current universe and do you expect some kind of a rate war at some stage between the MSOs itself because technologies are same and pricing is also largely similar, but they are entering much later than you.
- Rajan Gupta:** This is Rajan Gupta here. So we have a plan of adding network further as GS already mentioned, at least around 600,000 home pass in the coming year. As far as the competition is concerned, we are confident of outperforming we continue to do that, even in markets like Delhi where the kind of competition you mentioned is already there, we are getting higher ARPU than competition, at least around Rs.100 to Rs.150. So we do not really see that as a major concern.
- Rajiv Berlia:** Sir you are saying Rs.100 to Rs.150 higher ARPU for the same technology; why is that happening?
- G. Subramanian:** I would say that is about execution, so finally it is customer experience which comes through multiple things, technology, customer service, the call centre response time, turnaround times and finally the brand.
- Rajiv Berlia:** And sir when you say you are adding around 24,000 to 25,000 subscribers quarterly, how much is it from your current subscriber, so how many new subscribers you are able to add?
- G. Subramanian:** So typically from all the new home pass we keep on getting around 1% consumers same month. So if we are adding 1 lakh home pass, we get 1000 consumer net ads the very first month, but if you want very detailed discussion, we can obviously can take it offline as well.
- Jagdish Kumar:** As a general rule of thumb, based on the number of home passes we expect to reach anywhere between 18% and 25% penetration in the time frame of about three years.
- Rajiv Berlia:** Sir in the cable business MSOs are using the consultancies of McKinsey and E&Y so that there is greater discipline and no price war and everyone sticks to the commitments. Are we seeing that, does that apply to the broadband business also or it is only to a cable business?

- Jagdish Kumar:** So as of now it only applies to the cable business, in the broadband business we are far ahead of the other MSOs as far as our coverage is concerned and also our subscriber base is concerned. And we have not come to a situation where the other MSOs have been able to get to a level where we have to have a serious peer-to-peer discussion.
- Rajiv Berlia:** Sir my second and last question is on the content cost, earlier you had said 15% to 20% growth in FY16, post the RIO thing and with the current understanding are you still maintaining 15-20% jump in FY16?
- G. Subramanian:** Yes. I think broadly in that range, yes. 15% would be a reasonable expectation at this point, we are hopeful that we will bring it in below that number but if you are modeling something, it is a good assumption to start with.
- Jagdish Kumar:** Yes. Correspondingly, we are not seeing as much drop in carriage and placement as we had originally thought, so that is helping us a lot.
- Rajiv Berlia:** Sir, is RIO working for broadcaster, would you like to comment there?
- Jagdish Kumar:** See, the RIO structure is not fully successful because of the fact that the kind of incentives which are given by Star TV are not really adequate enough, the incentive structure should eventually the growth rate which any platform can afford cannot be more than 10-15%. So if you factor in the percentage of incentive discounts which are given, even after looking at some of the ambitious targets which Star has set for itself for example for sports, they have talked about 60% penetration. Even with Cricket World Cup, I am afraid we have not yet got to that level, so therefore there is an issue there which we are in the process of negotiating with the Star to see how we can solve that problem.
- Moderator:** Thank you. Our next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** I wanted to understand in terms of CAPEX, what did we expect for the next year?
- G. Subramanian:** We generally do not give forward guidance on...
- Arjun Khanna:** No, but just in terms of how many STB boxes...
- G. Subramanian:** Yes, yes in a general sense we are anticipating about \$80 million of CAPEX of which about \$40 million will be allocated towards cable television. The allocation towards cable television primarily arises out of the need to roll out Phase-III while we have a

considerable inventory to start with but after netting out the inventory of set top boxes that we already have we anticipate about \$40 million or so, a similar number for ISP because as I had already mentioned we are aggressively rolling out and Rajan also mentioned this about 600,000, at least 600,000 additional home passes this year. So that is going to take considerable CAPEX requirement so we are looking at about \$40 million, plus \$40 million range, so that is type of CAPEX we are looking for the current financial year.

Arjun Khanna: Sure, fair enough. In terms of this \$40 million roughly for this 600,000 home pass, are we setting up more stations?

G. Subramanian: No, there it will go beyond that because 600,000 home passes plus there will be actual investment for CPE, so it is not just the home passes that absorb capital, it also is absorbed by a lot of other elements in the network.

Arjun Khanna: Sure, fair enough. In terms of the time-line you mentioned Phase-III, when do you see Phase-III and Phase-IV actually occurring?

G. Subramanian: See, we do not see any reason for the government to extend the dates which they have already announced which is 31st December 2015 and '16 respectively for Phase-III and Phase-IV. What we would see is, what we have experienced in Phase-I and Phase-II, there will be certain locations which will have implemented more vigorously, other locations are still to catch up. So there would be various intensity levels differing from city to city, but we do not see any extension and to the extent to the areas which we exist which are mainly in and around urban India, I do not see any issue or board extension.

Arjun Khanna: Sure, fair enough. Just as a follow-up, in terms of CAPEX for the cable business, are we including GTPL in this?

G. Subramanian: No, this is the standalone CAPEX that I had mentioned; obviously GTPL will be over and above this. I would request you to come back to us, go to Mr. Mahesh Mevada, , he will be able to give you.

Arjun Khanna: Sure, fair enough. Secondly, you did mention sir bad debts provision, just trying to understand this, we have been accounting on a very conservative basis so we account on actual receivables so instead of say the net basis of 180 billing we are actually looking at 65 and 100. If I am to understand correctly, we have had bad debts even on these numbers?

- G. Subramanian:** See, whenever we are transitioning in spite of being as conservative as we can, whenever we transition there is some degree of push back from local cable operators and we have taught it fit to accommodate some of their request in some of these areas. So it is a very small number, it is not a significant number. The other way of looking at it is, if you see the receivables they have not grown significantly so compared to industry this is one of the most modest growths in receivables you will see, so we have been conservative.
- Arjun Khanna:** Sure. And my final question sir, what would be the entire universe of number of boxes that we have seeded and the number of boxes that are live at this point?
- G. Subramanian:** We have seeded about 8.5 million boxes as a consolidated entity, of the 8.5 million boxes roughly about at any point of time about 200,000 boxes could be in the process of switched off and switched on and that is an ongoing process because that is the way... So at any point of time off the 8.5 million boxes out there in the field, we should expect about 200,000 boxes or so which are being switched off and switched on in order to get the system to pay up, so that is the broad numbers we are looking at.
- Arjun Khanna:** No, that is fair enough. Sir I was just trying to understand, say people who have churned out, so their boxes won't be live in our system even though they have a box. Do we have a sense on what that number would be?
- G. Subramanian:** See, the number of boxes which we switch off because of non-payment of or because of a person churned out to a competing platform, would be in the region of about 200,000-300,000. But this is a very dynamic number, if you lose some you get back some; so till the market settles down eventually this will go on going up and down.
- Moderator:** Thank you. Our next question is from the line of Shobhit Khare from Motilal Oswal Securities. Please go ahead.
- Shobhit Khare:** My first question is on the pay channel cost, so you mentioned some pass-through cost here, if you could just repeat that?
- G. Subramanian:** Yes, basically what happens is some of the broadcasters prefer to enter into contract with the parent entity rather than bill the joint ventures that we have so these are pass through costs. And for the quarter that amounts to about 14 crores which was taken at the top-line and also as a part of our pay cost.
- Shobhit Khare:** Okay. So this would be in the cable subscription?

- G. Subramanian:** Yes, it will be part of cable subscription, you have to back that out from above and back it out from pay cost.
- Shobhit Khare:** Sure. Sir could I get the FY15 CAPEX and gross and net debt numbers?
- G. Subramanian:** Yes. So the FY15 CAPEX was at around 180 crores which includes cable television at about 100 crores and broadband at about 80 crores. The net debt as we speak for the standalone entity would be at about 914 crores for the standalone entity and gross debt is... Let me just repeat it, standalone gross debt would be 1084 crores, net of cash in the balance sheet would be about 914 crores. On a consolidated basis 1483 crores, net of cash on the balance sheet 1256 crores.
- Shobhit Khare:** Sure. And sir finally, just a clarification on our broadband revenue, so if I see the consolidated number that is higher than the sum of four quarters, so this represents a broadband subscriber base of the JVs?
- G. Subramanian:** Yes. In fact we have a considerable number of subscribers even in the joint venture, so GTPL as a reasonably large number so the total subscriber base is what we are talking off.
- Shobhit Khare:** Sir, so what is the total subscriber base sir, if you could share that number on a consolidated basis?
- G. Subramanian:** We are talking of about 456,000 subscribers, if you back out that is the standalone numbers will be about 340,000 subscribers and the consolidated number will be about 456,000 subscribers.
- Moderator:** Thank you. Our next question is from the line of Ishpreet Kaur from Karma Capital Advisors. Please go ahead.
- Ishpreet Kaur:** The subscription revenue of 843 crores for the full year, does this include the LCO share?
- G. Subramanian:** Yes. Ishpreet, the way it was accounted was up to September 2014 in the city of Delhi, we were accounting for gross revenues, post that we have accounted for it on a net basis.
- Ishpreet Kaur:** Okay. So how much of the LCO share would be till September?
- G. Subramanian:** About 27 crores.

- Ishpreet Kaur:** And how much would that be last year?
- G. Subramanian:** About 18 crores.
- Ishpreet Kaur:** And what would our margins be in the broadband business?
- G. Subramanian:** Typically, the business model returns a gross margin of about 70%, 72%, 73% and at a net level at this point of time it is about 30%. But when we roll out fully, we expect it to stabilise at about 40%.
- Ishpreet Kaur:** So 72% is at operating level?
- G. Subramanian:** Gross margin level.
- Ishpreet Kaur:** So operating level is how much?
- G. Subramanian:** At the EBITDA level I expect it to go down to, I mean currently we would be running at about 30% but if you go look forward, as the network rolls on we expect it to stabilise at about 40%.
- Moderator:** Thank you. Our next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.
- Nihar Shah:** Just a couple of questions from my side, my first question is relating to from the ground level we hear there is a lot of churn going on in terms of management teams and operational teams because of a new competitor, a corporate giant sort of entering or planning to enter this space. Can you just talk to me a little bit and let me know what kind of churn are you facing and how are you managing that at the ground level?
- G. Subramanian:** Okay, is that your first question? What is your second one?
- Nihar Shah:** The second question I had was, the content cost as it was sort of put on a quarter-on-quarter basis seemed to be pretty flat for one-off adjustments, so just wanted to understand the quantification of the Star RIO deal on the content cost. And my third question was, you have talked about introducing these web based portals and Android Apps for your LCO partners, so just wanted to understand if there is any time-line or thought process of actually introducing such kind of apps for your customers as well. These were all the three questions from my side.

- Jagdish Kumar:** Yes, so your first question is about the employee churn. See, there are two levels in which we are looking at this; one, we are instituting a lot of organised systems in which we manage our business. We want to make person orientation far lesser going forward so in a way it kind of reinforces what we are thinking about making the business completely agnostic to the people handling it and that is what is naturally also evolving because of the fact that it is all being digitised and it is not being analogued. So at one level we are flattered that we are the hunting ground for our competition, and the other level is to see it more positively and getting in fresh blood because we are doing a lot of new things in this organisation, so we are getting a lot of fresh blood into the organisation. But having said that, there is a definite competition going forward and I think it is something which we will have to work with and we are gearing up to face that competition, the competition is we already obliged.
- Management:** If I may add Jagdish, one of the things is the new talent that has come in as a consequence of this churn is actually very-very high quality stuff, we have got people from the telecommunication business Rajan Gupta who is sitting here around the table is from the telecom communication industry, we have also got Panesar who is coming from the broadcasting side of the business. So we have got some very-very good-quality experience that has joined us as a consequence and that is actually good news, the quality of the people internally has also improved dramatically.
- G. Subramanian:** On the content cost, we do not break it out broadcaster-by-broadcaster at this time, so we do not really give by broadcaster breakout of content cost.
- Nihar Shah:** Sure sir. Is there anything that has sort of mitigates the Star RIO impact on the content cost side, even qualitatively that would be useful.
- G. Subramanian:** I think when Jagdish mentioned RIO, he also said that the penetration of these channels has not been to the expectation of the broadcaster and therefore the cost that we pay out is a function of the number of subscribers who subscribe to these pack. So while the unit cost may have gone up, the number of subscribers who are buying through to these packs has actually not been as expected and therefore the cost to us has been far more rational. That is one. The second thing is, it actually reflects the reality of the market, people do not consume all the content that is given to them, they only consume the content that they want and cricket is a good example, while the broadcaster had expected huge penetration for that channel, actually the actual penetration achieved was lower than that and that accrues as a savings to the platform. So that is why you are seeing relatively flat movement in content cost.

- Nihar Shah:** Got it, that is great. And on my third point of the do at yourself apps for the customers?
- Jagdish Kumar:** So what was your question on that, sorry.
- Nihar Shah:** You have introduced an Android-based app as well as a web portal for the LCO partners; any thought process or timeline to introduce that for the customers as well? As an interested customer also I am probably asking the question.
- T.S. Panesar:** Yes, this is Panesar here, I will answer the question. This web-based portal and the app which we have made available to the LCOs out now has been very helpful and we are working towards launching it for the customer as well and maybe by quarter three we should be able to implement it for our primary customers and also selectively in some markets for the secondary customers as well.
- Moderator:** Thank you. Our next question is from the line of Rajiv Sharma from HSBC. Please go ahead.
- Rajiv Sharma:** Just few questions. First is, sir what has been your EBITDA from the cable business at the consolidated level and at the standalone level, one that we can understand as a run rate going forward. So net of all adjustments, even net of this 15 months of GTPL consolidation which has taken place at the consolidated level.
- G. Subramanian:** Rajiv, we do not normally share it on a segment basis because we do not announce the results on a segment basis, but I would encourage you to get through to us and then we will have a conversation. But we have a considerable number of common expenses given the fact that the platform runs on the same network, so it is not a very precise math.
- Rajiv Sharma:** Okay. And what if GTPL was not included for 15 months, then what would have been your consolidated EBITDA?
- Management:** Rajiv, can I come back to you with that a bit later?
- Rajiv Sharma:** Okay. Second is, earlier on you mentioned some exceptional cost of 25 crores this quarter, I guess I missed it, if you can help me what was that around?
- G. Subramanian:** What we mentioned was, in the same quarter Q4 FY14, there was a marketing income of 23 crores, which did not accrue to us in the current quarter that is what I am saying. When I was doing a quarter-to-quarter comparison, last financial year versus this financial year, the last financial year revenues include 23 crores which is

in the nature of marketing revenues which do not accrue to us in the current financial year. That was a one-time income for us.

Rajiv Sharma: Okay. And sir what is the revenue breakup between Phase-I and Phase-II today at the consol level?

G. Subramanian: You will have to come back to us again Rajiv.

Rajiv Sharma: Okay. At the standalone level?

G. Subramanian: No, I think we do not have the details; we do not give that type of details outside, so you will have to come back to us.

Rajiv Sharma: And what has been your consolidated CAPEX for the year?

G. Subramanian: Rajiv, I do not have the figure readily on me, I will come back to you.

Rajiv Sharma: Okay. Let me just sir put the questions in a different manner that what is the cable business margin at the standalone consolidated level you are going to work around, like you must have some numbers around your... so like broadband you say 30-35, what should be your expectation for cable business because I understand if we take out broadband is hardly anything there coming from in terms of EBITDA in the cable business. So what one should look at in terms of the steady state and when that steady state should be built in because Phase-I and Phase-II have stabilized, so what should be the number there?

G. Subramanian: Steady-state basis we should expect in the range of 20-25% margin from the cable television business, about 30% at the beginning for the broadband business and in the long run it should, broadband business alone should stabilise at about 40%.

Rajiv Sharma: And how far we are from steady state in the cable business?

G. Subramanian: We should be just a bit short, actually a few percentage point short in the cable television business and broadband we are considerably short at this point.

Rajiv Sharma: Okay. And has Hyderabad started contributing to the digital revenues or it is still analog kind of...?

G. Subramanian: Not yet because Hyderabad, I don't know, Jagdish you want to take that?

Jagdish Kumar: Yes, I will take that. In Hyderabad we still have that confusion over the analog signals which are still seen in the digital areas, but having said that we are working

with all the other players in the market to work at a voluntary digitization process. We hope to see some significant benefits coming out of that, we have not had discussions with Siti Cable and other players in that market. We hope to increase, in fact in the current month itself all of us are planning to increase billing to about Rs.50 per box in that market, so that will give us substantial upside if implementation does not run into any glitch.

Rajiv Sharma: Okay. And sir one last question if I can chip in, this is on your content cost and your packaging, so if I look at your most popular pack after the basic one, there are 80 to 90 or maybe 100 pay channels there. You said even sports cannot reach 60% penetration, do you think there is a need to work around packaging because you have a lot more content which is pushed into the most popular pack while the actual number of viewers for that content may not be more than 30%, 40% on a per channel basis. So by this you are not only paying a lot more as an industry but you are also restricting your carriage and placement revenues. And what are your thoughts around that?

Jagdish Kumar: Yes, I am requesting my colleague Panesar to handle it.

T.S. Panesar: See, post digitisation we had a legacy of the analogue regime where all the channels were bundled together and pushed through a same pipe and which is reaching the subscribers at the cost. Now, post digitisation what has happened is Hathway took the lead to start the packaging. Now yes, answering to your question, there has to be some kind of a revision, we are also in an evolving stage right because there are challenges in the ground as well whereas competition does not at times does not believe in packaging or the old way of offering channels in a bundle still there in some of the markets. But yes, we have been fairly successful and we are also looking at refreshing whatever the offerings are and in terms of controlling the content cost, we are looking at effective way to offer more smarter packages which would keep the content cost in control.

Rajiv Sharma: So what steps you are planning in that direction?

T.S. Panesar: So we are looking at basically tweaking our current offerings that we have.

Jagdish Kumar: Rajiv, this is an evolving process, there are push and pull factors here; one is we have to consider what the consumer preferences are and secondly, we also have to see what our content cost would on the other side. So while we are tackling both these problems and this is the first quarter really when full packaging was implemented, there are lot of learning from them we have got and we have got some retail workings

which we have to work on in terms of giving consumer friendly packages, at the same time ensuring costs are also controlled. So for example, we have got to know in Bangalore market for example there is lot of request for lot of non-Kannada content as a regional of the package. So each market has a peculiarity so it is a dynamic process of reviewing packaging, and it is yet to be stabilised, that is what we are looking at.

G. Subramanian: Rajiv, just to answer one of your questions, the CAPEX for GTPL would be in the range of 100 crores odd, ours would be about 180 crores, ballpark about 300 crores on a consolidated basis for all the entities put together.

Jagdish Kumar: Also Rajiv, on the packaging question, see overall our objective is to increase the current consumer ARPUs which is in the region of about 250 to get to at least 350, that is our overall objective. So we have to do some smart thinking behind that to get to that ARPU levels.

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

Rohit Dokania: Just 2-3 questions from my side, one would be GS, if I look at your net STB seeded that is about closer to 0.43 million whereas the activation revenue is about 81, 82 crores. So what is the per set top box realisation that we are getting these days?

G. Subramanian: We are getting about an average of 1250, if you back out the service tax it will be about Rs.1100.

Rohit Dokania: Sure. But sir that still does not match up, I mean 82 crores versus 0.43 million, that is about Rs.1900-odd of realisation.

G. Subramanian: Where did you get that figure 80 crores from? 44 crores is the activation revenue on a standalone basis.

Rohit Dokania: No, I am talking on a consolidated basis.

G. Subramanian: Okay. So you cannot look at only the 0.43 million increase, you have to look at the churn plus this thing. So what you are looking at 11.7 subscribers or 11.8 million subscribers it is including the churn, net of the churn, about 600,000 - 700,000 would be the number.

Rohit Dokania: Okay, fair enough. Also, just wanted to understand your thoughts on the financial penalty which TRAI is talking of on non-billing on the MSOs, so I believe...

- G. Subramanian:** The disincentive?
- Rohit Dokania:** Yes, disincentive, right. So have we already challenged that in the courts and what is the status on that?
- G. Subramanian:** Yes, that is being challenged in the courts, but at the end of the day it is our intention to do this process, it is only that the process has to be more gradual, it cannot be suddenly draw the gun on that, that is why we would have challenged it in the court.
- Jagdish Kumar:** So there is a new organisation which is being formed, called the All-India Digital Cable Federation; they have discussed it; all the major MSOs are participants and we find it that while from a primary point it is easy to implement, there are huge challenges in implementing this on the secondary points. So while we can facilitate the process we need a lot of cooperation from the operator community to implement it so that is what we are now going to request TRAI and the government not to just hold the MSOs responsible for it but have a process in which both even the LCOs get equally accountable to ensure that the consumer billing is done.
- Rohit Dokania:** Sure. And lastly, I think your reported placement in carriage revenue growth is about 9% for the fiscal, but what if we adjust for 12 months of GTPL then how much would this growth be?
- Management:** It will be flat.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Gupta from Ambit Capital. Sir you may go ahead.
- Sandeep Gupta:** Sir two questions from my side, one, if you can share your thoughts on the prepaid package plans and packaging that we are to introduce to up the consumer-level ARPU and also the collection for us, how the progress is happening with respect to that.
- T.S. Panesar:** As far as prepaid is concerned, I think we are doing 10,000 transactions per day today and I think it is a good start and going forward this will increase and we will also extend it to the consumers directly as well. That in the third quarter we will make this prepaid accessible even to the consumers directly.
- Jagdish Kumar:** Just to add to what Panesar is saying, right now we are doing it in a phased manner, while for 'a la carte' channels we have completely made is prepaid, all 'a la carte' channels are completely prepaid both for primary points and secondary points.

- T.S. Panesar:** So how it works is today, any upgrade in the pack that happens post the starter pack which we call the base pack happens to the prepaid and any 'a la carte' or individual channels which an operator activate goes through the prepaid model.
- G. Subramanian:** It is a phased process, it is a hybrid system as far as the upgrades are concerned, but over a period of time our intention is to make the whole process prepaid including the base pack.
- Sandeep Gupta:** Okay. And second sir, if you can share some thoughts on the ARPU increases that we can expect from Phase-II markets because Phase-I has taken a reasonable thing by now, Phase-II is a little lagging at this point of time for the industry as a whole. So your thoughts on that as to where can we or in how much time-frame can we expect that to increase to Phase-I levels?
- G. Subramanian:** Sandeep, we are anticipating that during Q2 to Q3 we should be able to take up all Phase-II markets other than Hyderabad to about Rs.100. Hyderabad will probably follow through in Q4 of this year once Phase-III digitisation dates have passed. The reason is, in Hyderabad we have got a mix of both Phase-II and Phase-III demarcations in the city of Hyderabad, it is very difficult to monetize at the full value. However, as Jagdish had explained, the operator that is all the MSOs together are trying to take the rates up to Rs.50 as a first aid which will facilitate the move to Rs.100 in Q4 for the city of Hyderabad thereafter. So that is a broad timeline we are working with. As far as Phase I markets are concerned, given the new packs and the mix of customers coming on the new pack, we should be able to take it up to Rs.110 by the end of the financial year.
- Sandeep Gupta:** And sir last question from my side, we have always been talking about the net content cost, what we are mentioning is the carriages has remained flat on a YoY basis and we expect the similar kind of thing to continue for the next year. Now if we are guiding for 15% to 20% increase in the net content cost, does that mean that the content cost basically would increase by 15-20%, would that be a fair assumption?
- G. Subramanian:** 15-20%, you are putting words, we had said 10-15% first. And the second thing is, the net carry on content cost minus placement, we are at sub-Rs.20 level at this point and the annual impact will actually be lesser and we will accept probably the financial year on a month-on-month basis around under Rs.30 by March 2016. So we have been all along speaking about, Rs.20 as a first stop and Rs.30 as a second stop.
- Sandeep Gupta:** Fair enough sir, and basically if I just look at the pure content cost, what is the kind of increase that you expect in this?

- G. Subramanian:** That is a figure we are saying, 10-15% is what we are going with for the current year.
- Moderator:** Thank you. We will take the next question from the line of Amit Kumar from Investech. Please go ahead.
- Amit Kumar:** I just wanted to understand, there is some sort of an interconnect agreement issue going on between yourself, broadcasters and TRAI. I could not understand the genesis of this dispute at all, if you could just elaborate on that.
- Jagdish Kumar:** See, one of the broadcasters had decided that it will not offer its content to the MSOs in any other form but they will only stick to the RIO which is the Reference Interconnect Offer, it is like the rack rates. So without any negotiation on the rates they had laid down certain parameters and conditions by which you need to reach to a certain penetration and carry the channels sort of back.
- Amit Kumar:** Just to excuse you sir, this you are talking about the Star RIO issue, I am essentially saying that with respect to Phase-III there is some sort of thing coming in from TRAI as well as MIB that some interconnect agreements need to be signed between MSOs and broadcasters by the end of next month. So I just wanted to understand, I mean given the fact that December 15 is the deadline for Phase-III, why is TRAI and MIB essentially pushing for these interconnect agreements to happen now because any which ways they will be applicable I presume only from January. So what is the genesis of this entire issue I wanted to understand?
- T.S. Panesar:** Right. See, what has happened is that that is currently the Phase-III deadline is nearing which is that start date is December of this year. So all broadcasters also need to gear up in terms of the preparations and as a part of the preparatory work content is the most important thing and which is also a substantial component of the total cost that is going to be incurred in the project. So the focus was to get into the content deal first of all, and this was not related to us but all MSOs. But somewhere, there was lack of clarity on the subject because keeping in mind that the economics of the Phase-III markets are very different than Phase-I and Phase-II so we were looking at a rate which would be far lucrative than what has been offered in these developed markets. So there was a little bit of a push and pull happening there. But keeping in mind that content plays an important role also, MIB and the TRAI has also got involved in this process and they have in fact told the broadcasters to come out with a special rates for these markets and also given a deadline to close the agreements and which is the 21st of June. So the idea is to basically accelerate the process and there has been direction from the Ministry to close the agreements by 21st of June.

- Jagdish Kumar:** From a MSO perspective, just to add to what Panesar said, see we will clearly the ARPU levels in Phase-III and Phase-IV is far lower than the ARPU levels in Phase-I and Phase-II. So our request and there was a meeting in which we participated along with the broadcasters and the MIB where our request was to tell them that they cannot treat Phase-III and Phase-IV on par with Phase-I and Phase-II so there is that process which we hope will get concluded by the date which Panesar mentioned by 21st of June.
- Amit Kumar:** So just to clarify, I mean TRAI, MIB they have directed broadcasters to come up with discounted rates for Phase-III markets and what is your rough cut estimation of the discount?
- T.S. Panesar:** See, MIB is involved in this because they have formed a task force where broadcasters and MSOs are all involved in this process, right. But as of now there is no indication of the discount or the rate that has to be offered, they have directed all broadcasters to look at the economies of these markets and also in discussion with the MSOs come out of the rate which will be workable for landing those kind of ARPUs in those markets. So at this point in time I will not be able to tell you what will be quantum of the discount, we will have to wait and see. By 21st of the deadline they are needed to come back to us.
- Amit Kumar:** Fine. Sir my second question was, I am sure you would have seen this effort by couple of DTH players to essentially have differential pricing also in across Phase-I and Phase-II markets where digitisation has been implemented. So Dish-TV has increased starting off with Phase-I and then going on to Phase-II, all their package prices by Rs.10 in these kind of markets. And even so we see a fairly large gap, I mean not so much at the starter or base pack but at the higher end packages Hathway I am looking at the Bombay Package which all inclusive of taxes is about 424, while DTH operators their top packages are already at anywhere between Rs.472, Rs.500 and add another Rs.10 of differential pricing, another 2%, 3% higher. So is there scope to sort of increase pricing across the packet spectrum that we have and then can we sort of expect, I know packaging has been implemented recently, just in the last two quarters, so when do you expect sort of things to stabilise when you will be able to increase these prices and bring them more on par with what DTH has been charging in Phase-I and Phase-II markets?
- T.S. Panesar:** Answering to the first part of your question where you said that DTH is differential pricing in some of the select markets and they have come out with special packs and branded the product separately, like Zee came out with Zing and subsequently the others also followed. This is primarily because of the reason that they have a single

feed going across to the entire country and to cater to the entire spectrum all the subscriber sitting across the country and to compete with cable and also the ARPU's in various markets, they had to come out with this kind of a packaging, it was more of a reaction from them to cater to the competition. Coming back to cable, would be as you said that you compared that the packaged rates are lower than the DTH, right. Now DTH is different model all together, we have a different model but keeping in mind the reality of the business and the way the business is structured and the competition amongst the cable operators and the MSOs also. As of now I do not see there is any scope to increase the package rate now, but yes, going forward definitely things can improve and look better.

Jagdish Kumar:

There has always been a difference between the cable price and DTH price, cable is always cheaper in the sense that we give more value for the money which the customer gives us. Therefore we will maintain that differentiation going forward, we will always be better off in terms of price value equation as far as DTH is concerned.

T.S. Panesar:

That is the reason you see that the shift to the DTH has been restricted to only 40 million where they have a very transparent model and where they go directly to the consumers. Whereas in spite of we going through the LCOs and distributors, cable today caters to the largest number of subscriber business in the country.

Amit Kumar:

Sir I take your point that probably the lower end of the market where you might want to maintain a discount and where you have value conscious subscribers keep that base intact, but at the top end of the market I mean I do not really understand where would the logic come in because as it is the top end packages in India are priced at less than 2X of the bottom end packages and even when you look at international markets where packages probably start at \$20-\$25 the high-end packages go up to \$100 which is almost 4x to 5x delta. So given the fact that at least at the top-end of the market at the premium and premium plus kind of packages, consumer has the ability to pay, that does not seem to be an issue. And even, I mean there is no too much of difference in terms of content, DTH of course has to maintain a single feed but at least at the top end you are pretty much offering all the channels which are there on your platform and DTH is following a similar strategy. So maybe not at the bottom end of the market but do you believe at the top end of the market, there is scope to increase pricing without actually impacting churn or hitting your subscriber base much.

T.S. Panesar:

Of course yes, and with that endeavor only we have launched this packaging and we have been pushing even the premium and the premium plus packages and we are also in talks with various other players in the market to jointly ensure that the

implementation of the packaging is 100% in the DAS-I and DAS-II market and we can increase the overall ARPU.

Jagdish Kumar: So your point is well taken, I think there is scope definitely to increase the overall ARPUs because we know that in cable ARPUs have been stagnant for the last 15 years but I think we will have to do it in a manner that even the broadcasters also cooperate because see the more you put in the premium the lesser is the penetration of those channels and then broadcasters come back to us and say that their advertising revenue also is to be protected. So they then insist that we will have to put them on the more popular packages. So it is a process in which we have discussions with broadcasters to ensure that they can afford lesser penetration but higher payouts going forward.

Moderator: Thank you. We will take the last question which is the follow-up from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just one quick question, just like the carriage revenue part, can you please tell us what is the like-to-like increase in consolidated content cost considering GTPL was there only for 12 months?

G. Subramanian: So I back out the consolidated content cost, we have to back out about 71 crores for that three months' period.

Rohit Dokania: Sure. And sir just one follow-up on this would be, is it possible for you to tell us an indicated figure as to out of the total content cost x percentage would be allocable to Phase-I and Phase-II subscribers?

G. Subramanian: No, I do not think we can. I think Rohit the way to look at it is, the Phase-I and Phase-II markets we have already moved to either per CPS deal or a RIO deal, rest in the Phase-III and Phase-IV markets we still continue to pay a flat fee and that is a very-very small miniscule percentage of the overall cost that we are paying. So the Phase-III, Phase-IV markets are not significant proportions of the cost that we are paying at this point of time.

Moderator: Thank you. I now hand the floor back to the management for any closing comments. Thank you and over to you.

G. Subramanian: I think we have said it all. If there are any detailed questions, I would encourage each of you to reach out to us. Mr. Mahesh Mevada is on leave today but he will always be available for a detailed discussion on the numbers. I would be excited to get back. Thank you.



Moderator: Thank you sir. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.