



“Hathway Cable and Datacom Limited’s Q4-FY16 Conference Call”

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MANAGEMENT: **MR. JAGDISH KUMAR PILLAI – MD & CEO,
HATHWAY CABLE AND DATACOM LIMITED
MR. VINEET GARG – CFO, HATHWAY CABLE AND
DATACOM LIMITED
MR. TAVINDERJIT SINGH PANESAR – PRESIDENT
(VIDEO BUSINESS), HATHWAY CABLE AND DATACOM
LIMITED
MR. RAJAN GUPTA – PRESIDENT, BROADBAND
BUSINESS
MR. AJAY SINGH – COMPANY SECRETARY & CHIEF
COMPLIANCE OFFICER
MR. DORASWAMY MAHADEVAN – EXECUTIVE VICE
PRESIDENT, FINANCE**

MODERATOR: **MR. VIVEKANAND SUBBARAMAN - RESEARCH
ANALYST, AMBIT CAPITAL**



Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable and Datacom's Q4 FY16 post result analyst conference call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vivekanand Subbaraman from Ambit Capital. Thank you and over to you sir.

V. Subbaraman: Good afternoon everyone. We at Ambit Capital are pleased to host the 4Q FY16 earnings conference call of Hathway Cable and Datacom Limited. We have with us the senior management team of Hathway represented by Mr. Jagdish Kumar – MD and CEO, Mr. Vineet Garg – CFO, along with other senior members of the team. We will begin the call with the short commentary by Jagdish Kumar and then move on to the Q&A session. Over to you sir.

Jagdish Kumar: Good afternoon everybody. Thank you for joining us on our earnings call for Q4 and the FY15-16. With me on the call we also have Rajan Gupta – President (Broadband Division). Panesar is also on the line. He heads our cable video business. We also have Ajay Singh our Chief Compliance Officer and Company Secretary. Of course Vineet – CFO was already introduced, and we have Mr. Mahadevan – Executive VP (Finance) plus others in the team to help us.

So as is our normal practice I will briefly cover some of the significant strategies that we have taken both in cable TV and in broadband business. Thereafter Vineet will present the financial numbers. We will start the Q&A session soon after Vineet's presentation.

I will start with the broadband business. We continue to make rapid progress in increasing our footprint. We have also expanded into new markets, West Bengal and Central India. Our broadband service is now available in 3.3 million homes in India. We have added 172,000 broadband subscribers during the year and our current subscriber base is 627,000. Broadband revenues have grown significantly by 61% year-on-year from 248 crores in FY15 to 400 crores in FY16. The investment we made earlier in expanding and upgrading our technical infrastructure and improving customer service has yielded positive results and we have seen significant improvements in customer service and reduced customer churn. So with this I will request Rajan to add a bit of flavor to our broadband business.

Rajan Gupta: Good evening all. Apart from data shared by JK, I would like to highlight the exit rate of the broadband business for standalone Hathway. The March exit for collection was around 40 crores, the monthly collection. The revenue was around 33 crores. Our ARPU of overall base is around Rs. 700. New consumers are coming an average at an ARPU of Rs. 840. We are clocking around 26,000 gross adds and around 17,000 net adds. Overall for the quarter, last quarter Q4 we have done around 110 crores collection. So the quarter's collection was more than 100 crores for the first time in kind of a broadband history. This is a paradigm shift year for Hathway broadband, which is giving us a very good visibility for the years to come. Parallely all the investment, which was one time investment which JK mentioned, technology upgradation, customer service

upgradation and the money spent on brand, more or less that investment is over. With the kind of exit rate on revenue and net consumer additions which I mentioned and most of the investment already over, this also help us achieve the targeted profitability level which have been talking about. So in a nutshell, quite an exciting year ahead for Hathway broadband.

Jagdish Kumar:

Thank you Rajan. I will cover a few aspects on the CATV business and then hand it over to Vineet. The CATV business has crossed a significant milestone. We have now crossed 10 million digital subscribers where we have deployed set top boxes. During the year FY15-16 we added 2.2 million digital set top boxes. With this we have digitized 87% of our cable TV universe of 12.3 million subscribers. The pace of digitization in Phase-III has been much lower than what we had expected due to stay granted by some High Courts. But we hope and we are confident that these stays will now come to an end because as you all are aware as the Delhi High Court has been designated by the Supreme Court to consolidate all these cases and to take a decision. The initial decision, taken in the case of Karnataka is an indication that they have not been accepting any delays in implementation. In earlier calls we had mentioned that we are taking steps to automate our interactions with our LCO partners and also to empower LCO in managing the subscribers. Here again I am happy to state that during Q4 we have launched a new platform for LCOs. We have empowered them with what we have called as Hathway Connect. This platform gives a lot of independence to LCOs in transacting with the customers. It empowers them by giving them the authority to activate, deactivate and upgrade their customers. I must say that the response from LCO partners has been very positive. They have reached out to us and said that in lots of cases they have seen significant increase in their own revenues. Another significant step we have taken during the quarter is to migrate all our primary point customers in DAS-I and DAS-II areas to an automated prepaid system similar to what DTH subscribers have. Here I am happy to say that we have seen a substantial growth in cash collections by nearly 30% in primary point business. ARPUs have grown from 238 in Q1 to 279 in Q4 indicating a growth of 17% ARPUs. We are confident that increased ARPUs through channel packaging, Hathway Connect and automated dunning systems and the potential expansion in phase-III will set our CATV business on a path of growth and profitability. With those remarks I am handing over to Vineet to take us through the financial numbers.

Vineet Garg:

Thank you Jagdish. Good afternoon all. For the first time we crossed the milestone of 2000 crores of revenue. So I am pleased to inform that gross consolidated revenue for the company is Rs. 2,081 crores. We have shown a growth of 14% over the preceding year which is 1,831 crores. EBITDA has gone to 389 crores from 256 crores previous year showing growth of 52% than our last year. Standalone revenue also increased to Rs. 1178 crores from Rs. 1023 crores in last year showing growth of 15%. EBITDA for standalone business has grown to Rs. 196 crores from Rs. 139 crores showing 41% growth. During the year we have added 1 million home passes which took total homes passed to 3.3 million. We have also added 172,000 net subscribers which took us to a total subscriber base of 627,000, DOCSIS 3.0 subscriber is 267,000. Broadband Q4 ARPUs at Rs. 670 increased by 26% from the preceding year Q4. Q4FY15 ARPUs was Rs. 530. For the year broadband revenue has increased to Rs. 399 crores, showing 61% increase from the last year's number of 247 crores. We have added 2.2 million STBs during the last year which

take us our total digitization to 87% - Now 87% of our universe is digitized. We have earned Rs. 228 crores activation income during the year. At the year-end we have 1.2 million STBs in our inventory. So, in the current year also we are expecting a decent amount of balance implementation in DAS-III. With digitization of 1 million STBs in Q4 in DAS-III area we have achieved 10 million milestone. Now our subscriber base strength has 10.6 million out of which DAS-I area is 2.4 million, DAS-II area is 4.2 million, DAS-III area sitting at 4 million subscribers. Q4 exit ARPU for CATV is DAS-I is 105, DAS-II is Rs. 86, Post adjustment of one-month subsidy, one subsidiary's year-on-year content cost is increased by 10%. Placement remains flat. Our net content cost on CPS basis is Rs. 27 per subscriber. Gross debt position for standalone is Rs. 1584 crores, net is Rs. 1527 crores, consolidated gross debt is Rs. 2068 crores, net Rs. 1917 crores. With this I will open the platform to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Could you tell us a little bit about the content cost which seems to run ahead of subscription revenues? Thank you very much.

Jagdish Kumar: So there are 2-3 elements to the increase from content cost. One is we have contracted for phase-III areas for content cost and that kicks in during the last quarter of this financial year. So while we have contracted for the content, the monetization of phase-III will take some time as you are aware because of the various stays granted by the court. There is a normal increase which has also happened, in the normal course a lot of negotiations with major broadcasters were concluded during this last quarter. So there has been some element of that which has come into play.

Charles Cartledge: So if you were to exclude for this. Well, I am not sure about this second one being one off, but may be you could give out some ideas to what underlying content cost inflation is please?

Jagdish Kumar: The underlying content cost inflation came to the figure of 10%. I think that was what we had expected and it had come into fruition at 10%.

Charles Cartledge: And finally on the subject, it does not seem right that you are paying the content fee, you are not able to monetize with reference to the phase-III.

Jagdish Kumar: Thank you for the sympathy.

Charles Cartledge: So am I right in thinking that generally the industry is kind of move to a sort of per subscriber content cost in most case you would not be paying for something you cannot monetize?

Jagdish Kumar: No, I think in the short term the issue we all have is that, you know our content cost are extremely high as a percentage of the revenue which we earned. Therefore, we are in the process of, actually we have already contracted major deals with broadcasters on a fixed fee basis, at least for the

next one year and in some cases even for two years. But on a long term basis I would think it will get down to a more of CPS kind of a calculation.

Charles Cartledge: So if it is fixed fee then we should not be expecting underlying inflation of 10%?

Jagdish Kumar: No, this is I am saying going forward, we just contracted these rates. During the financial year lot of the contracts were on a per sub basis.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is ARPU dip in broadband, small dip 683 to 670 what is the reason and with R Jio now in the test and pilot Phase-I am sure you would have also seen the product. How worried are you from a longer term perspective?

Jagdish Kumar: If you see press release, it is on the section of broadband. It has shown a significant increase in our ARPUs, in our standalone business.

Rajan Gupta: I think there are two ARPUs presented. One is consolidated and one is only for Hathway. If you see the consolidated one, it has increased from Rs. 530 last years to Rs. 670 this year. There is an increase of 26%. If you see standalone Hathway, there is a chart also given, there is an increase from 627 in the Q1 of FY15-16 to 703 in Q4 of FY15-16. So there is the healthy increase of at least Rs. 25-30 quarter-on-quarter.

Abneesh Roy: That is very good. Where do you see this stabilizing and if you could comment on the R Jio?

Rajan Gupta: No, so if you see the ARPUs, all the new consumers are coming at ARPU of Rs. 850 approximately across the country. So new consumers are coming more and more somewhere we start see ARPUs reaching here Rs. 800 level. I am sorry I didn't get your second question.

Abneesh Roy: Sir Reliance Jio handset is now out in the market in terms of sampling through the process you can apply and you can get it. So have you looked at the product and from a longer term perspective do you see that as a competition and do you see just the consumption will be both will coexist, so you are not that worried?

Rajan Gupta: So there are two aspects to it. One the product which has come out for sampling is mobility product and second is the fiber-to-home product whenever that comes. So mobility product which has come out that is at par with the other 4G players in market. We believe mobility will continue to drive data sampling and fiber-to-home or DOCSIS-III will actually take bulk of the data consumption at home. So people are going to see a 5-minute clipping on the mobility. They will sample the video. But a 3-hour movie is going to be seen or a large game is going to be played only on fiber-to-home. So both these things are complemented to each other. In fact, more and more mobility data consumption will drive harping for more and more home consumption of data. Now coming to fiber-to-home Jio as of now it is not there. We have seen a very limited network development outside Bombay. Only in parts of Bombay the development

in network has happened. In fact, in the last call also we have shared we have doing lot of things internally to be ready for any competition whether Jio or anything else, we upgrade your network. Our customer service, of course is at least 50% better than it was 6 months back. We have re-signed our contract Sania Mirza as the brand ambassador. So essentially in terms of pillars, our infrastructural pillar, customer service, technical, brand everything has been revamped. We also have launched GPON, fiber-to-home services in Calcutta and next month we are launching same GPON fiber-to-home in Delhi and Bangalore which can give speed up to 1 GBPS. So the new network which we are putting can give speed up to 1 GBPS in consumer home so which also means that we are ready for future in all our key market, very soon for any speed which comes.

Abneesh Roy: Sir just one follow up on that. Just in terms of margins and pricing have you prepared for any price war, obviously margins are good in this business, your price is also very good, but do you expect a price war or do you think the services are different. You do not expect much a price war from a medium, longer term I am not saying short term?

Rajan Gupta: If you say currently the mobility data pricing, it is approximately Rs. 1000 for 10 GB for various telcos. It varies anything Rs. 1000-1100-1200 for a 10 GB pack. We are now giving in most of our markets 50 GB below Rs. 1000. So I think these are two entirely different segments even if tomorrow if somebody start giving 20 GB for Rs. 1000, we are already giving 50 GB for Rs. 1000. So currently for a high end data user, somebody who is using 30 GB, 40 GB it does not make any sense to go for mobility for a heavy data consumption at home. The price arbitrage itself says that home consumption business is a very separate kind of business and again to be ready for the competition we have changed this GB couple of months back. So as I mentioned 50 GB across markets sub-1000 pricing.

Abneesh Roy: My second and last question is on your CATV business – Carriage revenue seems to have come down if you could comment on that part. Second is in some of your areas in which you own the last mile, you have been trying all these payments through app and giving more flexibility and freedom to the local cable operator. So any development there, are you more positive now? Are you taking it to new markets?

Jagdish Kumar: just to inform you, carriage revenue is, now the content deal is signed which is the net fee. So because of that what is looking in carriage revenue is a drop but there is not drop in the carriage revenue per se. It is at the par level at the last year, so there is no drop in the carriage revenue as such.

Abneesh Roy: But sir how do we track it, now we should take content and this together?

Jagdish Kumar: You should see net actually, that is the better way of looking it.

Abneesh Roy: And historically also you should see like that, or how is it?

- Jagdish Kumar:** That is better. I told you that in my presentation I shared, my net content cost is around Rs. 27 CPS, after taking 15-month impact.
- Moderator:** Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.
- Yogesh Kirve:** Sir you mentioned regarding the investments in the broadband business would moderate going forward, so what are we looking forward in FY17 in terms of the home pass as well as CAPEX?
- Vineet Garg:** We are looking at roughly half a million additional home pass and target is in the range of Rs. 200- Rs. 250 crores in broadband business.
- Jagdish Kumar:** I just want to clarify one thing. When we say the investment will be moderated we said one time investment will be moderated. Whatever one time was required to be done for upgradation of the network that has been done. Going forward we still maintain the investment momentum, so that will be for creating the new subs. As we said our exit rate on net addition is very high, we would like to maintain and accelerate that.
- Yogesh Kirve:** And sir what was the CAPEX during the current year on the broadband and overall?
- Vineet Garg:** Current year standalone CAPEX of broadband is Rs. 260 Crores and CATV is Rs. 207 Crores.
- Yogesh Kirve:** And sir my second question is regarding the television business, the ARPUs in the DAS-I and DAS-II markets, at least in DAS-I the figure seems to be stabilizing at about Rs. 100-105. What should be factoring going ahead and what could be the key milestone in terms of the tiering and the packages that we should be targeting in FY17?
- Jagdish Kumar:** I got Panesar who is our president, video business online and I hope his line is clear and see if he can respond to that question. Okay, so your question was what level we would be on our ARPUs. I think one of the things which we have now also done is to implement packing in Phase-I and phase-II.
- Tavinderjit Singh Panesar:** There was a problem with the line. So you are correct. The ARPU has stabilized very much at 105 if you see in Phase-I and also pretty much flat in phase-II now. But to counter that what we have done is we have made some alterations in the offering that we have. So we have made some changes in the packaging. So we have simplified the packing and come out with two tier packaging with regional add-ons and genre add-ons and there are other initiative also which is the Hathway connect portal that we have launched which will also bring in lot of positives to the business in the sense as this will bring in more transparency with auto dunning facility and so the gap between the billing and collection will also improve with that and so a mix of both the packaging and the portal will definitely give us an upside in the ARPU that we are looking at. So we are looking at going from 105 to 120 to start with on an average going forward.

Yogesh Kirve: Sir in terms of packaging can you talk in terms of how many of your subscribers are already on some of the packages as of today?

Tavinderjit Singh Panesar: Actually all subscribers that are on the network either have selected some of the packs. So they have to compulsorily go through a pack but the current packaging change that we have made has happened very recently. So we are currently in the process of migrating subscriber into the new pack and this migration will get completed in the next 30 days. Close to 45% of my current LCOs have migrated to that portal. So balance we are expecting them to move to this portal in the next 40-45 days. So our mix of both dealing for the portal and the packing will bring in effect in the next 60 days or so.

Yogesh Kirve: So when we are talking in terms of packing been achieved in next 30-40 days are we also referring to the collections been linked to the packages?

Tavinderjit Singh Panesar: Yes the collection is linked to the packages. So the portal that we have launched basically works in a way that there is a share of the package between LCO and us is defined in the package. So if you choose a particular pack he has to pay accordingly to the pack and the customer also pays according to the LCO and in a way it is beneficial for the LCO also to increase its ARPU and we in turn also get a better ARPU that what we are getting right now.

Yogesh Kirve: And LCO already on board with regard to the...

Tavinderjit Singh Panesar: 45% of LCO has already been migrated. The balance as I said should be over in the next 40-45 days.

Moderator: Thank you. The next question is from the line of Sonali S from Yes Securities. Please go ahead.

Sonali S: My first question is related to the CAPEX. Now that I know you have given your expectation of the CAPEX for the broadband business but any sort of figure that you are envisaging for the overall CAPEX over the near term, say next 1-2 years?

Vineet Garg: CAPEX for broadband we already shared with you. Cable TV CAPEX going to be not too high. It is going to be maintenance CAPEX around Rs. 50-70 crores. So next year the investment in standalone going to be at the range of Rs. 300 crores and subsequently and I think broadband will remain something similar lines.

Sonali S: Sir my second question is related to your program Hathway Connect. I know you mentioned your initiative at the start of the call but if you could elaborate more on which markets have you gone to and how you are trying to expand this, that will be very helpful?

Tavinderjit Singh Panesar: the launch of Hathway connect, we have done in a phased manner we are doing it because handling such a huge migration is a task in itself. So we have started from phase-I market which is the DAS-I market and DAS-II. So primarily in most of the markets in DAS-I and DAS-II we

have now started the migration and we are halfway in that. So that is as far as migration of LCOs into this portal is concerned.

Sonali S: My last question is related to your focus on being a B2C player, so could you share with us what is your primary subscribers right now as of March 2016?

Vineet Garg: Yes, right now we have 6,50,000 subscribers or primary subscriber in the company.

Sonali S: And any milestone you are envisaging it to scale up to?

Jagdish Kumar: There is no substantial plan to increase it. We are only working on growing a model called RTU. Herein some of LCOs who do not want to continue managing the business themselves; they give their network on rent to us. That is the only way we are increasing the subscriber base and right now we have only 40,000 subscribers on that platform. We may go for another 100,000 subscribers in the next year, not now.

Moderator: Thank you. The next question is from the line of Jay Gandhi from Motilal Oswal. Please go ahead.

Jay Gandhi: Just a couple of things. If I have to look at the underlying profitability when it hits steady state or for that matter, see generally our content cost kind of hits us first and then subscription kicks in. So if this kind of normalizes, what would be the profitability one should kind of build in?

Jagdish Kumar: We do not make those kind of forecast in our statements and we do not really split our profitability between broadband and cable TV. So I think it will be difficult to answer that question on this forum.

Jay Gandhi: Fair enough. What are your expectation of collections from phase-III, may be probably by the end of the year or?

Jagdish Kumar: We are targeting to be Rs. 50 and by exit we hope to get to about Rs. 75.

Jay Gandhi: And is just one thing, our debt is almost at the peak levels, so I just wanted to figure out how are we going to fund our broadband CAPEX primarily?

Jagdish Kumar: See right now the plan is that the future CAPEX is going to be funded by the cash accruals by the business and that is pretty much plan for it and whatever the repayment of the loan book to come which is we have already been tied up, so funding point of view we are completely arranged for the next financial year. There is no shortfall. There is no concern on that front.

Jay Gandhi: And any guidance on seeding as in how much you would like to seed may be cable? Would you be just done with your universe or would you probably look for more?

- Jagdish Kumar:** No I think as if now our ambitions are limited to our universe but at the same having said that if at all if there are any profitable opportunities which presents itself may be we will take a call.
- Moderator:** Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** I wanted to understand what is the inventory that we are carrying for set top boxes?
- Vineet Garg:** We have 1.2 million set top boxes in our inventory as on 31st March.
- Vikas Mantri:** But we have this much inventory, we have another peer of yours carrying similar or more inventory why was the delay in digitization or at least the course that set top boxes were not available?
- TN Panesar:** What did happen was that some of the cable operators in some states had moved to the High Courts of respective states seeking a stay on the digitization which delayed the process of seeding those boxes and coupled with another issue where the analog signals were also available in the some of the DAS markets through the operators who had licensed to do service Phase-IV markets, they are also providing signals in Phase-III. Because of this two reasons the seeding process has taken a beating and that looks to now come to an end as all the cases had been consolidated and brought into Delhi High Court. So hopefully we see that very soon this stay should be lifted and the process of seeding will restart again. This is not only affected us but all other MSOs as well.
- Vikas Mantri:** Sir the main argument was that the boxes were not available which was merely untrue actually.
- Jagdish Kumar:** Exactly what Delhi high court has mentioned in the recent case where 3 Karnataka operators petition came up for hearing and the court has disposed the case by saying that the main argument is no more valid, therefore the stay has to be vacated. So that has been the stand taken by the Delhi High Court.
- Vikas Mantri:** The point I was trying to drive to is that at least we believe as an analyst community that the set top box was just used as a method to delay this entire thing and given it will get further delayed also since the courts are on holiday, given the LCOs without having a reason have been able to delay this so much. have my question whether they will use some other means to delay the monetization of set top boxes as well, even once digitization is officially through?
- TN Panesar:** Enough of delay has happened now and they have tried whatever they could for the delay. Now we see that there is an end which is going to come to this court cases as well and immediately the seeding would start and once the boxes are seeded I do not see any reason why there will be a delay in monetization?
- Vikas Mantri:** From the content cost size you gave a number of Rs. 27 net CPS, now given that the new tariff order talks about non-discriminatory and transparent pricing, look at the DTH companies and

content cost suggest that they pay anywhere between Rs. 60-80 per subscriber. So does that mean that their content cost comes down or our content cost goes up given that it has been non-discriminatory and transparent?

Jagdish Kumar: The big point of difference between DTH and cable TV is that the carriage fee revenues which cable TV viewer gets are not available with DTH player. So that is a big distinction and that even now the tariff order does not cover placement and carriage revenues.

Vikas Mantri: Sir it talks about carriage and placement and it says that carriage and placement given similar volumes also has to be similar, is what I understood with new inter connect agreement also that they are talking about.

Jagdish Kumar: No there is nothing like that. They have only asked all the MSOs to give a tariff rate for their carriage rate. Beyond that I do not think there is anything which either by law or by any court cases which talks about carriage fees in the same lines as subscription cost.

Moderator: Thank you. The next question is from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah: I have two questions. First if we look at how monetization of Phase-I and II subscriber is still not really great and what we expected at the time of digitization and we continue to I mean have very small EBITDA and so given this really does it make sense to go and invest and continue to invest in Phase-III markets, so some thoughts on that. And when really do you expect all these things to get over and you start making reasonably good EBITDA if you can give some guidance on that, that would be great because for last 3-4 years we always think that it is next year when things will improve in 6 months, ARPUs will improve very significantly. So if you can give some idea about when really we should expect this cable TV business to really start making money?

Jagdish Kumar: So I think if you were to look at the big elements which used to drive the profitability of cable TV business, one is of course the subscription revenue which I have to get from the LCOs and my customer, two is how I control my content cost, so on the revenue side we have taken numerous steps as mentioned by Panesar by doing packaging, by establishing a platform where there is automatic billing collection and dunning with Hathway Connect. We hope and like I mentioned earlier to get the ARPUs up in the region of 100 to at least 120 in the near future, so that should drive our profitability. Two, on the content cost I think there are numerous moving parts here in the content cost, one is of course the latest RIO rates which the broadcasters have given has been very adversely commented upon by the TDSAT so we will have to see how broadcasters would respond to the TDSAT judgment on their RIO rates which is completely unrealistic and this seems to have been contradictory to what the TDSAT has mentioned in the NSTPL case and two there is this initiative for consultation paper which has been floated by TRAI on regulating tariffs with the inter connect agreements between broadcasters and MSOs, we will have to see how that tariff rates pans out. In our response to the consultation paper we have given certain suggestions. So there is a very clear concern amongst the stakeholders that

the content cost has to be much more realistic. So both these factors content cost and the revenues which we are planning to increase should definitely lend lot to our profitability.

Bijal Shah: My question was slightly different. What I am simply saying is that in Phase-I and Phase-II we have not achieved what we had envisaged at the time of digitization given the debt level which we have and given we continue to struggle here does it really means sense to commit so much of CAPEX in Phase-III, that was the question. Of course I mean there was so many moving parts in content cost and all. Do you really feel that going ahead with another one million of digitization really makes sense?

Jagdish Kumar: I think we are not expanding our footprint, our plan has always been like I mentioned earlier limited to whatever universe which we have we do not intend to go beyond that and we already incurred the CAPEX, like we already have inventory of 1.2 million in our godowns, so therefore there is no further CAPEX which is going to be spend on the cable TV business. So we are happy with our universe now and we intend to make it profitable.

Bijal Shah: Second if I understood your comment on carriage versus content order which is likely in next couple of months, are you indicating that carriage which is there earned by all the cable operators would be broadly left unchanged that there really will not be any impact on that, is that what you are saying?

Jagdish Kumar: Yes.

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

Rohit Dokania: It will be great if you could talk about the broadband profitability for the year in terms of margins, very rough margins would also help?

Jagdish Kumar: Unfortunately, we do not share separate numbers for broadband and cable TV.

Rohit Dokania: Can you confirm whether the license fee has been taken care in terms of cost or we have written-back the provision?

TN Panesar: No I think we have written-back the provision which we made for the first three quarters of the year and the reason for that is that, there is this case which is being heard at the TDSAT level which is being spearheaded by ISPI, we are also a party to it where the TDSAT has given stay for our petition that there is discrimination because there are certain licensees who are subject to license fee and that licensees who are not paying the license fees. So based on that problem we have sought a stay from the court and the court has given us a favorable order and based on that we have reversed the license fee though we treat it as a contingent liability.

Rohit Dokania: Okay and the other thing is if you can talk about where do you see this Rs. 27 standing let us say in FY17, in terms of net content cost?

- Jagdish Kumar:** It will go to Rs. 32.
- Rohit Dokania:** So that is almost like a 10-odd percent kind of increase.
- Jagdish Kumar:** Yes.
- Rohit Dokania:** And lastly if you could probably touch upon you were saying that the TDSAT has probably not taken the broadcaster's views very positively. So is this a judgment or what exactly are you referring to please?
- Jagdish Kumar:** It is not the judgment. Independent MSO from Delhi Star broadband had challenged the RIO of this Zee and when this matter was being heard last week, this was the comment made by the court in the open court.
- Moderator:** Thank you. The next question is from the line of Rahul Aggarwal from VEC Investments. Please go ahead.
- Rahul Aggarwal:** Just two questions. One is on the CATV business, so we have seen overtime that LCOs have been acquired by bigger MSOs because of lack of capital and rolling out digitization and I just wanted to have your view on do you think five years out on CATV market you have more MSO mergers now happening and there have been media news about your peer acquiring some other peer and just wanted to know your sense on CATV business, how many players do you foresee in India doing CATV five years out if you could just help me understand that?
- Jagdish Kumar:** Hugely forward looking statement but I think very clearly consolidation is going to happen in this industry because you need scale to really become profitable in cable TV. So I think if you look at our business we are just not purely a cable business, we are also a significant broadband player. So there is no comparable player in the market as of now to look at the kind of dual business which we have. So I think the consolidation will happen if you are looking at five-year then their certain consolidation will definitely happen. There could be maximum of 2 or 3 players in every market which we operate. You can see indications of that in numerous markets where we are there because lot of the independent operators who are smaller operators are feeling the stress, they are reaching out to the bigger MSOs to combine their businesses because one of the biggest factors driving this is that the content cost by these smaller operators are completely unviable for an operation which is not of a sufficiently large size. So that should drive consolidation.
- Rahul Aggarwal:** Right, so you think that 5 years out there will be like max 2-3 players in India doing CATV business, is that allowed from regulatory perspective as well in terms of market share and competition?
- Jagdish Kumar:** See the regulation already has stipulated about how market dominance will be defined. So within those constraints they think anybody wanting 50% of the stake will be considered dominant

player. So I do not know. There will some markets where there could be three players sharing one-third each.

Rahul Aggarwal: And secondly short question on the broadband business as you are saying your size in broadband is quite large as compared to it at least a listed player now. Any plans by March '17 of doing any equity raising in that business? Any thought process, have you thought about it or when does it happen, the other way round?

Jagdish Kumar: At this moment we are sufficiently funded. There is no liquidity crunch or the problem we have at this point in time. So it is difficult to comment at this point in time but we will look for opportunity in future.

Rahul Aggarwal: So nothing happening by March '17 is what you are saying?

Jagdish Kumar: Yes, by March '17 if you look at our plans through a combination of our debt and our own operating incomes, we are well-funded.

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

Amit Kumar: Just a couple of book keeping questions to begin with. Could you please help me to give this number called CATV paying subs, what would be that number end of Q4 and similarly an SD subscriber base at this point of time?

Jagdish Kumar: CATV paying sub would be practically DAS-I and DAS-II consumer, it is 7 million.

Amit Kumar: In terms of HD sir?

Jagdish Kumar: HD is around 100,000.

Amit Kumar: And now just a quick question as far as Phase-II is concerned, if I remember correctly UP was a bit of problem market in terms of ARPU, we heard that one of the leading players in that market sort of started charging Rs. 60-65 from their consumers, that is a minimum price they have increased to their LCOs. So could you just talk about that and how is that market sort of shaping up?

Jagdish Kumar: In UP we are #3 towns and few other, it is basically Agra, Allahabad and Noida. So I think in Agra there is a problem, I think all old MCOs there are finding it difficult to raise the ARPUs. So we not a very significant player in UP, where we exist, in Allahabad where we exist it has already reached levels of 50 and 60. Otherwise I think DEN is a significant player in UP compared to us.

- Amit Kumar:** That is what I was sort of trying to allude to that there is a news that DEN is sort of put a minimum of Rs. 60 from their LCOs. So do see that, on the ground you see these on a Y-o-Y basis or on a Q-o-Q basis, how has the situation in UP sort of changed really?
- Vineet Garg:** We are not in a position to comment on that.
- Jagdish Kumar:** See we are not significant there. So if at all they do something to increase ARPU is a good thing. I think it helps everybody, I think it is good for the market.
- Amit Kumar:** And in Phase-II do you see any other sort of significant market dragging down your ARPUs, of course one would be sort of Hyderabad. Any sort of update that you have to share on that?
- Jagdish Kumar:** In Hyderabad, I think the only state in the country in fact two states Andhra and Telangana there are to some extent there is the stay which is still existing from the court. They said that still the Supreme Court or the Delhi High Court gives the decision the analogue thing should not be switched off. There is a slight delay in monetizing our investment in Hyderabad but having said that there is a huge opportunity which presents itself because of the fact that once the analogue signals were switched off, it unlocks a lot of value for us in the Hyderabad market.
- Amit Kumar:** Just a final quick point on the content fees, these existing contracts that you have recently concluded with broadcasters because of this TDSAT orders do you see this contract sort of going through their lifetime or you believe you will have to sort of open those contracts and renegotiate based on the TDSAT reorder essentially that because the pricing has to be nondiscriminatory and that can only happen as per the new RIO essentially.
- Jagdish Kumar:** See this is very speculative really. I think the legal position which we have been given to understand is that any contracts which has been already entered into between two commercial phase will remain valid unless of course it has been challenged by somebody in the court. One of the things which is now indicative is that I think the NSTPL where the court has asked Sun TV to divulge its contract. So we will have to see how that pans out. As of now our position is that our contract with various people are valid and will not be affected by the RIO, the release by the broadcasters.
- Amit Kumar:** And these contracts you are saying are valid for the next 1-2 years. So at least till Q4 of next year you are sort of protected to that extent?
- Jagdish Kumar:** That is right.
- Amit Kumar:** Just a small clarification, the NSTPL was with Zee and Star. Sun TV is a new case that you are talking about?
- Jagdish Kumar:** The NSTPL only, the court had asked Sun to give copy of the contract.

- Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie capital. Please go ahead.
- Alankar Garude:** My first question is from possible churn from digital cable to DTH especially in Phase-I and Phase-II cities, so while like may not be a big problem for say larger MSOs like Hathway but do you see this kind of churn happening for some of the smaller MSOs?
- Jagdish Kumar:** I think this is one indication of stress which smaller MSOs are facing, for example as we speak we know a lot of the MSOs have been switched off by broadcasters. So in a situation like that happens where lot of migration to DTH which naturally occurs, so that happens. So we do not have a huge churn at all in our digital subscriber base from cable TV. Actually on the other hand because of the enhance quality which we have and we also you know increased our service portfolio by increasing our HD content channels to 50 channels so that has actually reversed the flow in lot of our areas where DTH customers have been converted to cable in Hathway areas.
- Alankar Garude:** That was very helpful. My second question is on HD. So in how many cities are you providing HD and what would be your gross HD ARPU?
- Jagdish Kumar:** We provide HD in all our headend across the country and Rs. 150 is the consumer ARPUs over and above this current standard definition channel fees, package fees. So if he is paying Rs. 300 along currently for standard definition he has to pay Rs. 450 for HD service also.
- Moderator:** Thank you. Due to time constraint we will take the last two questions. First we will take from the line of Rishindra Goswami from Locus Capital. Please go ahead.
- Rishindra Goswami:** Just a question around your margins. If we look at the margins at the consol or the standalone level year-on-year excluding the activation, the margins have come off and they are kind of 10 or sub-10% despite revenues and ARPU going up, the margin traction is clearly not there. So just wanted to understand what is driving it any one time type expense in there or how do you see the trajectory going ahead?
- Vineet Garg:** See in standalone when we have grown out of DAS-III market there some incremental cost commitment has already happened in Q4. So that is the one point that is coming. Simultaneously, we also made some provisions for the division in the bonus act for the staff. They are also some catch up provision has come because of the content cost has been signed up in the Q4.
- Rishindra Goswami:** Right, going ahead as these things normalize and see further traction in your revenue, how do you see the margins actually pan out let us say over next couple of years?
- Vineet Garg:** Sorry we do not share forward-looking statements.
- Rishindra Goswami:** But even directionally qualitatively any indication would be good.

- Vineet Garg:** DAS-III cost is an ongoing cost. That will get covered the moment monetization of DAS-III start may be next 1 or 2 quarters. So those costs are definitely going to get take care of. The EBITDA margin is going to remain at around 24% kind of a number and the broadband I think is going to go up to 40% in near future.
- Rishindra Goswami:** The activation revenues for your broadband business for the year?
- Vineet Garg:** There is no acquisition revenue in broadband.
- Jagdish Kumar:** The activation revenue is only in our CATV business.
- Rishindra Goswami:** There is no activation in the broadband business you are saying, right?
- Jagdish Kumar:** No, we do not charge activation fees for broadband.
- Rishindra Goswami:** And just last one question is as you see the customers with boxes in Phase-III, Phase-IV town and you are obviously getting an activation income out there. But what is the communication that is happening between LCO or between you and the consumer in terms of, are they being alerted to the fact that their ARPUs or their cost of consumption is going up?
- Jagdish Kumar:** I think very clearly we have seen this happen and lot of the areas where digitization has happened. In the analog system a customer gets only about 60-70 channels which has all in very poor quality. So when digitization happens there is an expansion of the channel delivery to nearly (+200) channel plus it is that digital quality. So there is a very clear price increase which the customer is willing to pay for getting the digital service. So we have seen that happen in Phase-I and Phase-II and we have seen that happening in Phase-III. So I think it is something which is not being adversely looked at by customers because they get better value for whatever they are paying more. Plus this is also linked to what DTH charging for their service. A lot of the DTH platforms are charging in those areas in the vicinity of what we are charging. So it is not something which comes as a problem.
- Moderator:** Thank you. We will take the last question from the line of Kudkarsh Kandelval from Morgan Stanley. Please go ahead.
- Kudkarsh Kandelval:** I only have some bookkeeping questions. So what is the consol CAPEX for FY16 and guidance for FY17 and the economic interest in the subsidiaries for Q4?
- Vineet Garg:** I am sorry we do not have consol CAPEX number at this point in time. I shared you the standalone number already.
- Kudkarsh Kandelval:** And sir economic interest in subsidiaries, this number you used to provide till last quarter?
- Jagdish Kumar:** Economic interest is already there in the consol result. Minority interest is actually netted-off. You can calculate from that.



- Kudkarsh Kandelval:** I will calculate it. I just wanted the number from you. I will calculate it. Not a problem. And sir what is the exit ARPU guidance for Phase-I and II separately and III separately, for FY17?
- Jagdish Kumar:** 120 for Phase-I and Phase-II and 75 for phase –III.
- Kudkarsh Kandelval:** And sir for this Rs. 32 of content cost what is the denominator of subscriber which we use to calculate this?
- Vineet Garg:** It is DAS-I and DAS-II at this point of time.
- Moderator:** Thank you very much. Ladies and gentleman, due to time constraint that was the last question, I now hand the conference over to Mr. Vivekanand Subbaraman for closing comments.
- V. Subbaraman:** On behalf of the participants and Ambit Capital we would like to thank the management of Hathway for taking time off for this call. Jagdish do you want to give any closing comments?
- Jagdish Kumar:** We had a very good performance from the broadband side and it continues to grow rapidly and we have very excited with the opportunity which its present itself in terms of high speed broadband delivery. On the cable TV side, we do have a few challenges but we are confident that we are well-placed to meet those challenges because we already have inventory of 1.2 million boxes, plus we have a lot of the content deals which have been stitched up already. So their stability in content and we have got lot of our backend which is supporting the automated for billing and collection mechanisms across our networks. So we are well-placed to meet those challenges. So I think we are very confident that we can achieve the plans which we have set out for the next financial year.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.