



**“Hathway Cables & Datacom Limited
Q4 FY2018 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited Q4 FY2018 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mantri from ICICI Securities Limited. Thank you and over to you Sir!

Vikash Mantri: Good afternoon everybody. We at ICICI Securities is pleased to host the Q4 FY2018 Conference Call of Hathway Cable & Datacom Limited. We have with us the senior management of the company represented by Mr. Rajan Gupta, MD and his team. Over to you Sir for initial remarks and then we can have the Q&A!

Rajan Gupta: Thanks Vikash. Good morning all and thank you for joining us for this Q4 earnings call. With me on the call is Dulal Banerjee, our Chief Business Officer, Ajay Singh our Company Secretary, and Mahesh Mevada, Head of Investor Relationship.

I am pleased to share financial and business performance of standalone Hathway and consolidated numbers for full year FY2018 and for Q4 FY2018. I will first share full year consolidated numbers. Company maintains and published its financial records based on Ind-AS.

Year-on-year financials as submitted to stock exchange for HCDL standalone is not comparable due to slump sale of cable TV business to 100% subsidiary HDPL as on closing hours of March 31, 2017

FY2018 has been a transformational year for both HCDL and HDPL with our best performance across all key parameters. FY2018 full year consolidated revenue has grown by 13% to Rs.1544 Crores. Consolidated operating EBITDA is Rs.336 Crores; there is 70% increase in EBITDA with Rs.139 Crores absolute increase last year.

EBITDA margin for FY2018 is 21.7%, total comprehensive loss at PAT level reduced by 46% Rs.105.2 Crores loss as compared to previous year Rs.193.2 Crores loss. We have been able to achieve this stellar performance through sharp focus on revenue monetization and by executing earlier shared plan of Rs.50 Crores savings in non-content cost for both HCDL and HDPL. Cost optimization has happened through a series of initiatives around automation, process re-engineering and rightsizing various functional structures.

In FY2018 we had deployed to Rs.215 Crores capex in broadband business and Rs.85 Crores capex in video business. Net debt for HCDL plus HDPL as on March 31, 2018 is

Rs.1617 Crores, there is a reduction of net debt by Rs.32 Crores as compared to March 2017 levels.

Now I will share with you Q4 and FY2018 full performance of HCDL, which is standalone broadband business. In broadband we continue our growth momentum of Q3 and Q4 as well, we have added 2,00,000 home pass and 50,000 new customers in Q4. Broadband subscription revenue increased by 5% quarter-on-quarter to Rs.145.7 Crores in Q4 due to various initiatives taken around increasing speed and GB limits and other improvements in customer service. Average GB consumption per consumer per month has increased to 103 GB in month of March, which clearly shows high engagement level of consumers. This is a strong indicator of demand side potential of high-speed wireline broadband. This also helped us in differentiating our services from mobility and other low speed broadband players.

Operating EBITDA for Q4 for HCDL is Rs.63.9 Crores with Rs.3.8 Crores increase in Q4. HCDL broadband business PAT for Q4 is at Rs.13.47 Crores against Rs.24 Crores in Q3, which includes foreign exchange loss of Rs.4.95 Crores during Q4 shown in other expenses. In Q3 there was a gain of Rs.4.3 Crores shown as other income on this account. Finance cost also includes exchange loss of Rs.2.3 Crores in Q4 whereas in Q3, there was a gain of Rs.1.7 Crores. This is obviously due to movement in dollar. For full year FY2018 HCDL operating EBITDA is at Rs.227 Crores with 44% margin, FY2018 full year total comprehensive income, the PAT is at Rs.78.9 Crores.

I will now take through the Q4 and full year FY2018 performance of HDPL, which is our Pay TV business.

Standalone subscription revenue continues to grow. In Q4, we have seen 3% growth from Rs.148.3 Crores in Q3 to Rs.152.6 Crores in Q4; Standalone operating EBITDA increased by 11% from Rs.36 Crores in Q3 to Rs.40.1 Crores in Q4. Collections have grown 5% quarter-on-quarter and 24% year-on-year demonstrating strong improvement in operational efficiency.

Q4 collection efficiency is at 98% while Phase I and Phase II ARPU were stable in Q4 after increase in Q3, Phase III and Phase IV ARPUs have seen steady growth. Phase III ARPU has increased from Rs.66 to Rs.70 and Phase IV ARPU will increase from Rs.52 to Rs.55. I would like to share for better transparency, all ARPU numbers during this call are without taxes.

FY2018 full year consolidated video business subscription revenue increased from Rs.472.8 Crores in FY2017 to Rs.573.4 Crores in FY2018 indicating a strong 21% year-on-year growth.

I guess we can now take all your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand S: Thank you for the opportunity. I have a couple of questions on broadband. One is the ARPU implied by your Rs.544 Crores income, and the average 7.3-lakh customers. That implied ARPU number works out to around 626 and this is somewhat different that the reported ARPU of 710. Am I looking at the numbers incorrectly? Or if there is any disparity, can you please help us reconcile the same? Second is, can you just run us through the latest numbers on the per subscriber capex and the payback period based on the 45% operating margins that you are looking on the broadband business? And lastly on broadband, what is the target for subscribers and homes pass in FY2019?

Rajan Gupta: I guess you have asked three questions. Let see one by one. First of all on ARPU and revenue. Look, revenues are always complex. There cannot be any direct formula of revenue versus ARPU. Revenue takes into account your active base, your ARPU, and the number of prepaid customers, who also pay a delayed amount, For example D is the due date. There are people who paid D + 3, there are people who pay D + 5, there are people who pay D + 7. So in any prepaid environment around 10% of active base keeps on getting rotated. So there will be around 10% gap in the way you are multiplying it. So this is one of the major factors, there are other minor factors as well. Now the second question, I guess that you asked was on the broadband capex. We have capex figures in our investor presentation, which is Rs.7500 capex per new consumer, which is coming in, and there is a payback of less than 30 months as stated in the investor presentation. So numbers haven't been changed since that.

Vivekanand S: All right just one small followup on the 7500 per customer capex, what kind of paying subscriber to home pass ratio does this capex number assume?

Rajan Gupta: 20%. So currently all our old homes pass is already on 20% and the new home pass are more around 10%, So on an average if you see it is around 15% to 16%.

Vivekanand S: Right and the FY2019 capex outlay and targets for home pass?

Rajan Gupta: FY2018 we are spent around Rs.225 Crores in broadband capex and around Rs.85 Crores in video business capex. We intend to spent similar capex in FY2019 as well and on addition of consumers we have seen good momentum so we are confident this momentum will continue in FY2019 as well.

- Vivekanand S:** Right, I have more I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.
- Sanjay Chawla:** Thank you for the opportunity. My first question is on your content cost in cable business, we have seen 21% growth and even in terms of net content cost it is 36% growth so basically your gross content costs are still eating away almost entirely the increase in subscription revenues. So first, this is two parts, my first question is, how does this growth in content cost reconcile with the 10% growth in per sub content cost, which you had guided to at the beginning of FY2018. That is part one. And secondly, what kind of growth one should expect in gross content cost in FY2019?
- Rajan Gupta:** Sanjay, first of all, there are some factual correction in your question. So obviously, all of the subscriptions have not got passed to content, otherwise they would not have been any increase in EBITDA. So I just want to remind all people in the call, this year, we have seen, in the consolidated level, a Rs.139 Crores increase in EBITDA, which is historical, highest ever, and all of this has come through, obviously, non-activation. There is no increase in activation revenue at all. Even in the video business, we are seeing a very handsome increase in EBITDA. Coming into content cost we have two ways to see content cost. One we can see per sub level, otherwise, we can see absolute numbers. For example, as for the published number last year, we have seen around Rs.70 Crores increase in content costs. You can see the consolidated level numbers, which are there in the investor presentation. Now when we see per sub level, in FY2017, we did not have the Phase IV base cost which was there. So FY2017, we are not paying for any Phase IV customers. In FY2018, we started paying for Phase IV. So I think it is good to see absolute increase. So last year, absolute, there is a Rs.70 Crores increase which is there.
- Sanjay Chawla:** Sorry, are you referring to the gross content cost because the numbers I have is Rs.100 Crores, is actually a Rs.98 Crores increase in our content cost?
- Rajan Gupta:** We see only net, Rs.70 Crores increase in cost which was there.
- Sanjay Chawla:** Correct. So basically you are saying this is, the gross is still same as your subscription revenues and the entire spread is coming from your carriage and placement revenue, which use to be the case in the analog era?
- Rajan Gupta:** Sanjay, I do not think there is a right way to look at it because cost for broadcasters have moved to net. So how much you have given in subscription, how much you have given in placements, they are all modalities of detailing based on individual broadcaster and overall business planning.

Sanjay Chawla: Okay so even in your case, you have seen a net content cost to subscription revenue, if we take the ratio that is 47.5%., whereas, in case of your other peers, if you look at Siti Cable or GTPL also, the range is between 32% to 35%, 36%. So we are quite far ahead from there. And so my question broadly is that, if we are going to see content cost growth similar to subscription growth, then how do we really turnaround the cable business? That is the most fundamental question that I am trying to ask here?

Rajan Gupta: I know, Sanjay, which is why first of all I am not able to understand why don't you see last year's profitability increase. So we have a good increase in last year profitability in spite of that content cost increase that has happened. So obviously increase in EBITDA has happened, from both companies together. The consolidated level EBITDA, which is Rs.139 Crores increase, has happened from both the companies together. It is not only because of broadband. The second as far as content cost is concerned; obviously we have opportunity. Which is we can see a good increase from this current EBITDA level itself. So we have opportunity sitting there. So we already closed our content deals for FY19. We will see a Rs.40 Crores absolute net increase in content cost plan, with no increase to two to three large broadcasters.

Sanjay Chawla: Should we expecting Rs.40 Crores increase in net content cost for the next year based on the deals, which have been signed?

Rajan Gupta: Absolutely.

Sanjay Chawla: Okay, so that is clear. Second question is you said similar operating capex. On the broadband economics, if I just look at what has happened last year, look at the parameters; we have roughly Rs.7500 to Rs.8000 capex per sub, Rs.750 ARPU assumption and 40% EBITDA margin. Of these three obviously we are meeting the EBITDA margin assumptions here in terms of what is actually reflected here. On a per sub basis, if I am still looking at your capex done last year and the net customer addition that number is Rs. 16,000, which is almost 2 times. Now obviously, there is a home pass penetration issue out there. We have not seen any increase in the home pass penetration pretty much last year. So my question is, is this the normative unit economics that we are looking at, based on the assumptions of Rs.8000 capex for Rs.750, even the ARPU, using your Rs.630. So what is the path to achieving the profitability and the kind of payback that we expect based on the unit economics that we discussed?

Rajan Gupta: No. Once again let us see the unit economics. So you have Rs.750 ARPU. We have taken 40% EBITDA, which is Rs.300 and you have Rs.7500 capex so if you simply divide it, it comes to 25 months and we have been indicating more like three years- 30 to 36 months, and I am still saying ARPU is what it is there, actually, because ARPU is not calculated as revenue divided by number of subs, it is a moving figure based on which quarter, it

can decrease, it can increase. In a good seasonal quarter, it will increase, in a bad seasonal quarter it will decrease, based on what percentage of the consumers are delayed. As far as capex is concerned, it is a mixture of three to four things. How much capex you are spending for new consumers. What is the kind of churn you have, obviously when consumer churns, you lose a part of the last mile capex. And then you have IT capex. And then a big part is underground capex. Obviously, in the whole other calculation, UG is not included. Now there are times, in order to increase the service level aggressively, we have been upgrading to underground fiber instead of overhead fiber. So there are cities where we have taken aggressive UG increased project. Then we also have capex of DOSCIS to GPON. I have been sharing this on the last call, I remember having a discussion on this, Rs.3000 additional capex per consumer. So actually the capex of Rs.225 Crores is a mixture of these five or six things. I mean you can separately sit with Mahesh and we can make the working for you, but it is a mixture of all the six things.

Moderator:

Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma:

Thanks for the opportunity. Just a couple of questions from my side. So I wanted to understand your thoughts on the ARPU in Phase III and Phase IV, where do you see that converging? Second your thoughts on the placement of carriage fee, which is seeing a decline in this quarter. What has been the reason? And how do you see this playing out and lastly, the new tariff order, your thoughts on that. Rough calculations suggest that means there should be an improvement in EBITDA per subscriber, but how do you plan to compensate the LCO? Because their share goes lower as per the normal calculations, so in that case, what happens?

Rajan Gupta:

So Rajiv, three things. The first one, how do we see ARPU increase in Phase III and Phase IV. Overall, in next year, we see Phase I and Phase II, ARPU increase of 5% to 8%, and Phase III and Phase IV, ARPU increase of 15%-20%. So while Phase I and Phase II will continue as per inflation, for Phase III and Phase IV we see lot of action still happening. So that is one. And Rajiv on tariff order you have to give us sometime, because there is crucial date of June 6, that is where the two weeks will be over. So we expect to announce the implementation date as soon as the period of two weeks of maintenance of status quo as per the order is over. So let us wait for June 6 and that is where a lot of discussion with our stakeholders is pending. We are very bullish on the tariff order because for first time we are talking about B2C in the Pay TV sector and cable sector. There is a lot of positives out there. But we need to align all stakeholders and that is exactly what we are working on.

Rajiv Sharma: Okay just to followup on the Phase III, Phase IV ARPU increase, 15% to 20%. So will there be any tariff spike in the consumer level, which you are planning to? Or it is just improving share between you and LCO?

Rajan Gupta: So we think consumer level, across whatever market rounds I do, we have seen good increase in consumer level ARPU as well. We have seen LCOs asking for more and more channels. So a lot of these Phase III-Phase IV markets, earlier we were giving 200 channels even after digitisation. Now we have increased the link capacity and we are giving up to 400 channels in these markets. So with increasing channels and obviously improvement in picture quality, etc as LCOs are able to demand more from consumers and in turn share more with us.

Rajiv Sharma: So the consumer level ARPU goes up, you expect them to go up in Phase III, Phase IV?

Rajan Gupta: Yes. It is already going up, frankly. I see it has already gone up in the last quarter. Because in a lot of places we have upgraded links, thereby giving around 400 channels in these places, So I think LCOs are using that as a reason for asking for a price increase from consumers.

Rajiv Sharma: So it will be a mix of ARPU increase and LCO share both? Or it is purely consumer ARPU driven?

Rajan Gupta: Frankly it depends from market to market. There are markets where LCOs are able to take an increase from consumer; there they can just pass on that. There are markets where we will have to take more share from LCO. But there is an increase across the markets, 15% to 20%, going up to 25%, price increase is happening in Phase III-Phase IV. Some markets we have already planned an increase in Q1, a lot of the markets increase is going to happen in July, August and September.

Rajiv Sharma: And one question, which I had asked earlier, was on the placement fee declining this quarter. And one participant earlier had asked about your net content cost to subscription revenue, which is higher versus competition. So just trying to understand why you are higher versus competition?

Rajan Gupta: So Rajiv, first of all, I think, once again I will say, it is good to see at net level. So our placement increase, our content cost increase, let us see at net level. With the top four to five broadcasters moving to net level and as far as why Hathway historical numbers are higher on the content cost. One is obviously our south markets. We are Pan India player; we are an urban player. So we have maximum amount of urban customers and maximum amount of Phase I- Phase II consumers and we are there in southern markets. So we obviously take both the content. Having said that, I clearly see this is an opportunity for

further increase in EBITDA, I earlier also mentioned, if you see the last two years, EBITDA improvement which has happened in the consolidated level. Last year itself, we had an increase of Rs.139 Crores so we have to further increase EBITDA. Content cost optimization will be one of the levers, which is why we are happy to announce that we have already closed next year deals with all the broadcasters with a total net increase in content cost at Rs.40 Crores and in fact 2-3 broadcasters we have not given any increase at all.

Rajiv Sharma: Okay this is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Vivekanand Subbaraman from AMBIT Capital. Please go ahead.

Vivekanand S: Thanks for allowing me the opportunity again. So when I, related to what I asked before on the broadband side, I guess, you would have an answer similar on the cable side as well, where if I multiply your ARPU by the subscribers in each phase, I get a revenue number, subscription revenue number that is slightly higher than the reported number. But what I find is the gap between what you reported and what one derives from the ARPU and subscriber count, that gap is reducing. So if I look at your guidance now on ARPU growth, your subscription revenue should increase by around Rs.70- Rs.80 Crores in FY2019, and you are saying that Rs.40 Crores will be the increase on the net side towards the broadcasters. Am I getting that math correct? And I just want to test it with the FY2018 numbers, where the similar number is Rs.100 Crores increase in subscription and Rs.70 Crores that broadcaster received in FY2018?

Rajan Gupta: So Vivek there are two ways to look at it. One, obviously, you rightly mentioned, the gap is decreasing because our collection efficiency is increasing. For Q4, our collection efficiency as high as is at 98%. The second part, the revenue growth for next year, obviously, we do not give any forward-looking projections, but revenue growth for next year will depend upon three factors. One, as you rightly mentioned, the whole ARPU increase; second, HD increase. We have a plan for around 2,50,000 HD boxes seeding next year, the movement which has already started so that is obviously again a big lever of growth. Third thing is whatever market share gain we can do. There are smaller MSOs who are collapsing. Its early days, but the trend is already there with a new tariff order coming in and stricter QoS implementation, we clearly see many players are going to struggle to implement it. A lot of those gains can come towards Q4 so essentially, it is a volume gain and a value gain and it is any other market share gains and HD gains.

Vivekanand S: Yes, that is very helpful. Just one more question on the tariff order. So earlier, the local cable operators would find it very hard to get content from say someone like a Star or a Sony or a Zee, which made the proposition of a large MSO like you, very, very

compelling for them. Now that is not the case and the small LCOs or mid-sized MSOs will also get content at nearly the same price from a Star and a Sony and a Zee as you would get, and therefore, the reason for them to partner with you, would that change in any way? Correct me if I am interpreting this wrongly?

Rajan Gupta:

No even the new tariff order gives you the players who have scale very different level margins. The margin itself is strong, 20% to 35%. As you can see, in a low-margin business, this is quite a big slap, and then you have the whole marketing fee, placement fee, which all depends upon the market share you have in the region. Now Hathway being a clear market leader in Karnataka, clear market leader in Bombay plus Maharashtra, and a strong player in many of the geographies and obviously, number one in Hyderabad. So marketing and placement become very important. As the one of the largest MSO, we will get towards a higher side of this track. And a lot of us are missing these QoS guidelines - Quality of Service guidelines. If you go through it, it is coming very, very clearly a lot of these smaller MSOs, a lot of these mom and pop shops, which are surviving on Chinese CAS, they no more exist. So actually, it is the other way round. It is a clear opportunity for consolidation.

Vivekanand S:

Yes, that makes sense. Just one last followup; on the margin side, you mentioned that in the cable business too, you saw a substantial improvement. Is it possible to help us understand in the market, let us say, in the Bangalore market or the Karnataka market where you are a dominant leader and you are collecting on a prepaid basis, because if I understand correctly, Hyderabad and Delhi are still not prepaid, what would be your operating margins in the Karnataka market or the Bangalore market compared to the overall company?

Rajan Gupta:

No. I can't give you for a particular market, but I can share that in our best markets we have operating margins, operating EBITDA, as high as 30%. Because it is not totally a matter of market share, it is a matter of how much concentrated volume you have in a particular geography. So profitability depends on various things. How much the local carriage you have from the area. It is a matter of many, many factors.

Vivekanand S:

Right. Thanks a lot and all the very best.

Moderator:

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

Amit Kumar:

Thank you so much for the opportunity Sir. First question, actually, a bookkeeping question. On the standalone balance sheet, the broadband business essentially, what is the level of consumer advances for this year as well as for last year, if you can help me?

- Rajan Gupta:** Amit, you can take it from Mahesh later on please. He will give you.
- Amit Kumar:** No issue, Sir, I can do that then very quickly on the cost rationalization side like this (call dropped)
- Moderator:** We will move onto the next participant that is from the line of Dipesh Mehta from SBICAP Securities Limited. Please go ahead.
- Dipesh Mehta:** Thanks for the opportunity. Just two questions, one, can you help us understand what would be the FCF generated in FY2018 whether now we are tracking positive? And if you can help us over the quarter how it has changed? And second question is about increasing interest cost. Can you help us understand because debt level seems to be stable over the past few quarters but I think interest cost has substantially increased?
- Rajan Gupta:** So answering your last point first. There is obviously an increase in finance costs from Rs.110 Crores to Rs.155 Crores. This has happened on a few accounts, first of all due to conversion of buyer credit to term loan during the current year. There has been an exchange loss, as we know dollar movement and also, there is a good amount of processing fee for refinancing done for all loans, which are due till March 2019. We wanted to make sure there is only liquidity pressure until March 2019, so all loans have been refinanced, essentially it is mixture of all three and on your point on cash flows, There is no increase in debt at all, the net debt has remained at a similar level rather it has come down a little bit.
- Dipesh Mehta:** So broadly, we are neutral kind of thing at this point?
- Rajan Gupta:** Absolutely.
- Dipesh Mehta:** And how do you expect debt to change over the period?
- Rajan Gupta:** Since it is a growing business, we have seen in this year a huge increase in EBITDA. I think it makes sense to keep on reinvesting. So we are making sure whatever we cash generate goes towards redeploying capex obviously after paying our financing costs. In these last two years, we have seen a very good increase in EBITDA and we will continue to see a similar increase.
- Dipesh Mehta:** So broadly, next year capex, which we expect to be similar to FY2018, is a reflective of how FCF is likely to be playing out?
- Rajan Gupta:** Absolutely, we intend to fund it through internal growth.

Dipesh Mehta: So question is FCF also be more or less same, then EBITDA growth might not be there? That is how I want to understand this part?

Rajan Gupta: No. FCF is obviously a little complicated, it is a mix of a lot of things. So again, how much FCF is there, a there are 8-9 things which are there actually. There will obviously be EBITDA growth. Our exit EBITDA itself is much higher than the overall EBITDA run rate.

Dipesh Mehta: That is why, okay. So you do not expect any material increase in capex? That is what I want to get answered?

Rajan Gupta: No. There is all material increased in capex as of now. Obviously, we reevaluate every quarter. In broadband side, we are doing a lot of pilots. Currently, they are confidential; we are not sharing with anybody. We expect a lot of these pilots to give us direction of our future by July, August and that is where we will come back with the device plan if any. Currently, the broadband capex stands at this level.

Dipesh Mehta: And Sir, the last question thing is about the competition. Do you think or on the ground, how do you think Jio or any ground where you have seen Jio is making some impact kind of thing or started providing some of the services? Right now, we understand this is on trial basis, but if you can provide some update there?

Rajan Gupta: From market sources, we know that they are working on home pass rollout, in two to three markets where majority are rolled out in Mumbai. But we had this philosophy always, while we are competition aware, our focus is on consumer. Our tech readiness for 200 mbps speed, 1000 GB data limit for each consumer is our focus area. We are also continuously working on cost reduction so that we can pass on that advantage to our consumers in form of lower pricing without affecting our EBITDA. I mean last year itself, we have passed so many discounts to the consumer in spite of such a huge increase in EBITDA. The focus essentially is on giving much better service to consumer at a lower cost.

Dipesh Mehta: Understand. Thank you.

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

Vikash Mantri: Rajan on the tariff order the way I understand it, until there is no objection until June 6 it goes in the current form of approved, which is whatever TRAI recommended without the cap on 15% discount, is my understanding right?

- Rajan Gupta:** Yes.
- Vikash Mantri:** So Sir, will the 15% discount give or no cap on that give an edge to broadcasters where they might heavily discount their bouquets and therefore, make it lucrative for all distributors to still opt for the bookcase?
- Rajan Gupta:** Vikash, there are two answers to this. First, within the current tariff itself, while this is one not so positive point, there are a lot of other positive points. For example, you mentioned first time the pricing on your EPG. Having said that, I want to be quiet for some time on this whole thing, we have this deadline till June. We are also evaluating a lot of options along with TRAI along with all other stakeholders, and we would like to wait and watch until June 6, 2018 and then take whatever action we have to take.
- Vikash Mantri:** Sure Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** Hi Sir thanks so much for the opportunity again. So what I was basically asking is that likely we had cost rationalization target of Rs.50 Crores non-content cost last year. Have we set similar sort of target for FY2019 as well?
- Rajan Gupta:** No, absolutely. Last year cost optimization happened more in all our centralized offices, more the technology side, more on the people side, people reduction side. Next year, a lot of this cost optimization will happen through productivity increase. We are, in fact, going through a huge automation process of our field force. We have a huge amount of outsourced employees who work in sales, installation, billing and collections. Currently, as we are talking, a lot of automation is happening there. We have already seen some good efficiency increase. And I am sure by Q3-Q4, we can share some really good gains on that.
- Amit Kumar:** Is there a sort of absolute number that you would like to sort of share or anything that we can sort of use for our modeling purposes? Sir, no I was just saying that I understand the point on efficiency gain, but have you sort of any sort of target number for the year?
- Rajan Gupta:** Not as of now. We will come back on that.
- Amit Kumar:** All right. Not an issue. My second question is what is the net debt level at the consolidated level for FY2018? And what is the proportion of U.S. dollar debt within that? And how are you going to looking to refinance that? Because it looks like a fair bit

of that debt is in the current liabilities, so coming up for renewal in FY2019. How do you sort of look to refinance that over the next 12 months?

Rajan Gupta: Amit, I already give a net debt level. Net debt for both the companies put together as of March 2018 is Rs.1617 Crores and as far as the foreign debt is concerned, currently, we have \$74 million, as forex exposure which we believe, by the end of year, which is March 2019, will be \$25 million. As we earlier mentioned, we already planned all that and are fully funded till March 2019.

Amit Kumar: All right. Understood. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Hi thanks for the opportunity. Sir, you mentioned that the broadband capex within the year Rs.225 Crores and obviously, there was certain one-off upgradation related capex. For FY2019, you are also reiterating the same sort of capex. So is it safe to assume that there will be more home pass additions and subscriber additions in FY2019 compared to FY2018 considering that capex is same, but there will be lower upgradation related capex?

Rajan Gupta: No, there are two things. A, we are going to aim for acceleration of addition of new consumers. So that is one. Second yes, as I mentioned, there a few projects, which are being rolled out quite aggressively all across the country, which we will be able to share more details only by July, August, which is where next bigger growth we are targeting. We are doing a lot of pilots on home pass expansion and next-level towns. We are trying various different models, so as I said, capex is a mixture of various things. So new consumer addition is one and how much consumers we are losing and will lose the last mile on that part is there. Then, on all IT capex, we are also getting ready for example in video business for implementation of new tariff. A lot of revamp of IT is happening there. Similarly, on broadband, we are also revamping a lot of data center from security perspective. So apart from the consumer-related capex, which is per consumer, there is a lot of other capex which is planned and there is the acceleration planned also in addition of consumers.

Surya Narayan Nayak: So the new town related capex, so that is also building to this number, right? Rs.225 Crores?

Rajan Gupta: Absolutely.

Surya Narayan Nayak: Secondly, also on the television side of capex of Rs.85 Crores, which is likely to maintain in FY2019 so what this is going towards, because if you have seen the subscriber the set top box count has not increased over the last couple of quarters so where is this capex going to go into?

Rajan Gupta: No if you can see the way accounting happens even last year when we had deployed round of 8 lakh boxes and we spent around Rs.85 Crores capex. But parallelly we also got the cash collection on activation in a range of around Rs.75 Crores. So we spent Rs.85 Crores which is coming out of gross block, but we got back Rs.75 Crores from consumers and LCO. Because the way accounting happens, whatever boxes we are seeding, they are on our books, so obviously, they will be part of the gross block. But parallelly, we are obviously not subsidizing fully. There is only a really minor subsidy, which is where against Rs.85 Crores, Rs.75 Crores has already come back.

Surya Narayan Nayak: So we are looking at the subscriber additions in FY2019 that is in cable television?

Rajan Gupta: Similar thing will happen for capex on deployment of set top box. First, we need to understand the gross capex and the net capex. Net capex is net of cash what we receive from consumers. So Rs.85 Crores was the gross capex plus Rs.75 Crores already received from consumers. So we don't really put our money on that. Second point, on where are these boxes going, our boxes are going for three things. A) obviously, replacement. A lot of boxes were put in 2010, 2011, 2012, 2013 and now the replacement is coming. Consumers are paying full price and taking that box and then there are markets where we want to gain market shares from smaller MSOs where we end up kind of spending some money and putting those boxes, so it is a mixture of both. And next year, there are HD boxes also planned, there is a 250,000 HD boxes planned and we currently get additional Rs.60 per month, per subscriber on HD subscriptions.

Surya Narayan Nayak: Sure Sir. That is helpful. Thanks a lot and all the best.

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

Ishpreet Kaur: I just wanted to confirm one number. So the subscription income of Rs.573 Crores is for the 5.8 million or 6 million subscribers excluding the 1.2 JV and subsidiary?

Mahesh Mevada: No. The Subscription number includes only subsidiaries, JVs are one-line consolidation so that numbers have not been shown in subscription.

Ishpreet Kaur: Correct. So Rs. 573 Crores is for the 6 million subscribers?

- Mahesh Mevada:** Yes.
- Ishpreet Kaur:** And this includes the Hyderabad subscribers?
- Mahesh Mevada:** Sure, yes.
- Ishpreet Kaur:** And have we seen a good increment in the Hyderabad paying subscribers in the Q4?
- Rajan Gupta:** Yes. I mean, throughout last year, we have seen a good increase in Hyderabad as we mentioned that that is one market where correction was long overdue. With all stages of digitisation getting complete, because there is a lot of confusion which part of the Hyderabad City Phase III, which is Phase II, which is Phase IV. Finally, all phases are complete. So we are receiving good support in terms of ARPU increase. A lot of work is happening in Q1, as we are talking also a lot of work is happening in that market, we should see some good increase in Q1 as well.
- Ishpreet Kaur:** Okay. So should we assume a lot of that increment has already come? Or we would be seeing a lot of it coming in maybe this year?
- Rajan Gupta:** No. In Q1 as well, this year as well.
- Ishpreet Kaur:** Okay and we would be getting somewhere around 65-70 on an average, from the Hyderabad market?
- Rajan Gupta:** You are right. That is where we reached last year. And as we mentioned in Phase IV, we expect 15%, 20% increase. Even in Hyderabad market, we expect similar increase.
- Ishpreet Kaur:** Sure. Thank you.
- Moderator:** Thank you. The next question is from the line of Ritwik Sheth from Deep Finance. Please go ahead.
- Ritwik Sheth:** Sir just one question, broader question, so what is the long-term strategy for the broadband business, like in terms of number of subscribers, the number of towns, capex and ARPU? Where do you see ARPU going say three years, five years down the line?
- Rajan Gupta:** I think market is very dynamic at this stage, predicting next three years or five years market that will be crystal ball gazing. I do not want to do that. As I told you, our focus is on reducing costs year-on-year, which we have demonstrated in the last two years and keep on passing on the benefit to consumers without affecting our EBITDA. So this year, we have seen very handsome increase in EBITDA with ARPU reducing. That is our endeavor in the next year and also we need to see consumer in different buckets. Like

there are people who are using 20 to 60 GB data with us those are the consumers where ARPU's are reducing. And then there are consumers where usage of data is from 60 - 300 GB, that is a consumer who is ready to pay more because that is the consumer whose Wi-Fi is hooked on to the TV and they binge watch Netflix or other OTTs on weekends. These are consumers who do not mind paying even Rs.100 extra. So it is a matter of how we execute it, how we develop the right kind of consumer base so we still have a lot of consumers which are in that 20-40 GB bucket. Over a period, we see ARPU's are going to come down dramatically for these consumers or they will go out of the networks. So finally focused on gaining consumers which are real wireline broadband consumer who are going to be very sticky, who already in fact very sticky.

Ritwik Sheth: Okay and so would be adding around 200,000 of net subscribers per year for the next couple of years at least?

Rajan Gupta: No. So we do not want to give any forward projection but as I told you, after seeing this kind of increase in EBITDA, we are obviously hungry. But then solutions have to come. We want to have only profitable growth. As I mentioned, it will obviously vary quarter-to-quarter like there are quarters like Q4, which are good in seasonality, quarters like Q1, which are bad in seasonality. But overall, year level, we are sure we will grow well. But parallelly, we are also working on pilots, which can give us more exponential growth. As I earlier mentioned, by August, we will have better clarity on those things. And that is where we can even plan to further accelerate.

Ritwik Sheth: Okay great Sir and all the best and thank you.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Thank you for the opportunity once again. So looking at the broadband ARPU's we have seen for the last six quarters actually, we have seen consistently declining. Obviously, a lot of correction has happened because of competition from 4G and those things. Now factoring in let us say Jio entry this year, FY2019, do we see ARPU stabilizing, bulk of the hit has already been taken? Or do you think there is some more way to go on the broadband ARPU front without factoring in Jio launch? That is first question. Secondly, what kind of a net customer addition one should look in the broadband business? You are doing the similar kind of capex as last year. Obviously, some of that is going for upgrade as well, data center, IT as you mentioned. So should we build in same kind of net customer addition next year as well on the broadband side?

Rajan Gupta: Sanjay, we do not give any forward-looking projection, but I just answered that, that we will remain aggressive on consumer growth. Apart from in fact doing what we did last

year, the intent is to have a model, which is more exponential. That is where we are doing a lot of pilots and August, we will have more clarity on that. And on your point on ARPU so ARPU has two components. One is the direct plan rate reduction. So until yesterday, you are giving Rs.800 for 100 Mbps - 200 GB, now you give the same for Rs.700. But apart from this, there are two other angles as well. Consumers whose payment is delayed. I have a kid's exam for 15 days so I do not need broadband. I am going on holidays for 1 month, I do not need broadband. Now that is a consumer behavior trend. That can also reduce your overall revenue. Second, overall ARPU does not make any sense. ARPUs need to be looked at a segment level. What is happening to consumers who are consuming up to say 50 GB-60 GB and what is happening to consumers above 60 GB. As I mentioned earlier, consumers who are above 60 GB, there, we do not see any ARPU pressure. In fact, over a period of time, we can see an ARPU increase there. The consumers, which are using less than 60 GB, ARPUs will keep on coming down. Either they will gradually churn, or the ARPUs will keep coming down. So our focus has to be on increasing base of consumers who are above 60 GB per month and eventually going to 100 GB per month because the average is already 103 GB. These are consumers where churn is near zero and they are highly sticky.

- Sanjay Chawla:** Sorry, on the less than 60 GB segment, is it because of the aggressive competition from the 4G segment, 4G mobile telephony?
- Rajan Gupta:** Yes. Essentially, we are seeing a consumer who is not hooked onto OTT, who is not a heavy data user, who doesn't binge watch OTT, who is using more wireline as a mobility, So that is a consumer where there's a direct kind of correlation with mobility.
- Sanjay Chawla:** Okay. My second set of questions is on some housekeeping data. What is the net debt in the standalone company, in the broadband company? And secondly, what is the bad debt expense in FY2018 at the consolidated level?
- Rajan Gupta:** Standalone net debt in HCDL is Rs.799.7 Crores.
- Sanjay Chawla:** The bad debt expense at the consolidated level in FY2018?
- Mahesh Mevada:** No, in standalone, we have provided Rs.12 Crores.
- Sanjay Chawla:** And in cable?
- Mahesh Mevada:** Cable, total of Rs.49 Crores.
- Sanjay Chawla:** To console, we should expect Rs.54 Crores?

- Maresh Mevada:** The total Rs.49 Crores.
- Sanjay Chawla:** So console is Rs.49 Crores?
- Maresh Mevada:** Yes.
- Sanjay Chawla:** Okay. Just one last question on your receivables. We have seen receivables for above 120 days of revenue, then we have seen them coming down quite handsomely this year, we are now around 109 days. Where do you see this may be headed going forward?
- Rajan Gupta:** No, Sanjay, first of all, I think if you see overall company level, receivables are more around 79 days. I am obviously netting out GST if you have to see it as a percentage of revenue and now for cable TV, receivables are of two levels. One is subscription, second is placement. Now subscription receivables are around 90 days, which we will keep on seeing a decline. As you rightly mentioned, this year, we are seeing a decline; we will see further decline. Placement receivables are also part of how we pay to the broadcaster. So there are broadcasters, where we have taken 120 days, 150 days credit. So essentially, when we do that, my placement also does not come from them. So placement debtors I do not think so will come down. They will remain same at 120, it can further increase as we delay their subscription, they also delay our placements. But subscription debtors, which are 90 days for cable will keep on coming down.
- Sanjay Chawla:** Okay. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Vivekanand Subbaraman from Ambit Capital. Please go ahead.
- Vivekanand S:** Thanks for followup opportunity. I have two points. One on consolidation you mentioned that the cable MSOs which are unable to comply with onerous QoS regulations, they are likely to exit the business. Any specific markets that you are very keen on expanding? Is it Phase I and II markets that are western zone any color on that that would help. And how do you related question on the consolidation side is how do you plan to fund these acquisitions? The second is just a suggestion. Given that you have a fairly mature broadband business now and you clearly called out several cohorts in your broadband business, it would really help if you can share some insights on how people are using your broadband connections for what kind of streaming happens and so on?
- Rajan Gupta:** So coming to cable part. As I mentioned earlier, we are a clear market leader in in Bengaluru city- Karnataka, Mumbai plus rest of Maharashtra put together and in Hyderabad city. We are also a very, very significant player in West Bengal so clearly, these are four markets where we will do any expansion whenever we do that. We have no

plans to go behind the fringe markets. Hathway has always been a metro player or player in key markets. Now when we said acquisition, we are not saying, we are acquiring any company. Essentially, a lot of the MSOs are collapsing and we end up acquiring their consumers. That process has started in a very, very small way. I think these are very early days. Obviously, new guidelines have not been implemented. But whenever the new guideline is implemented, there will be a scope for shared increase by the bigger MSOs. And on your point on broadband, I agree, that is a very interesting point. We will try to share some more highlights from next time onwards.

Vivekanand S: Yes. Because Google implements I mean, Google does this for their search results. I mean, you can do it for broadband consumption; Hotstar also does it for the kind of content people stream. You could consider doing that for the broadband business. That would be very interesting for us.

Rajan Gupta: Sure, sure.

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

Rajiv Sharma: Thanks for the followup opportunity. Just two questions. How much do you collect from your HD subscriber for the box whenever you are putting these guys to HD and apart from Rs.60 monthly? And second is how many primary connections you have? And what is the ARPU there?

Rajan Gupta: Rajiv as far as HD is concerned, it is a little dynamic figure. So currently, we are charging, I guess, around Rs.1800 as we are talking. And that is exactly the box price because our box is obviously of a very different quality. We are the only MSO, which is doing NDS, currently also, and Cisco. But the box pricing is coming down even while maintaining quality. So going forward, we expect that HD box price to be more like Rs.1300 from Q2 onwards. And then we will collect similar value from our LCOs and consumers.

Rajiv Sharma: Okay. That is helpful and on the primary connections?

Mahesh Mevada: So the primary points, we have about 325,000-subscriber base and ARPU is nearly is nearly about Rs.250.

Rajiv Sharma: And you reported in which segment, like in Phase 1?

Mahesh Mevada: No most of it is in Phase I and Phase II.

Rajan Gupta: Rajiv, it is not included in those ARPU, which he shows. That is only for secondary points. So essentially, 325000 consumers as Rs.250 plus tax ARPUs. All ARPUs told in this call are without taxes.

Rajiv Sharma: And this revenue is reflected in?

Mahesh Mevada: Subscription revenue. Cable TV subscription.

Rajiv Sharma: Okay and one last, Rajan, question on HD. So Dish TV, Video Con, then everybody is talking about HD. So is there really that big an opportunity for HD? Or it is just the next thing?

Rajan Gupta: No, I mean, if you see how much big we are talking about, we are talking only 2.5 lakh boxes. I mean, out of overall universe, this is not even 4%. So we already have around 4%, there is another 4%. It is a very small number we are talking. I think it is a matter of getting the slide chain right which we have not done till now because the focus on seeding standard definition boxes in Phase III- Phase IV markets. Once we get a slide chain right, which I mentioned earlier the price will be there from July. So we have this kind of number. But HD is not the latest kid on the block. So you have things like smart TVs, thing like Google TV, so a lot is action is happening on that, but we would like to probably share it after another four or five months.

Rajiv Sharma: And of this Rs.60, how much comes to you on HD? What do you collect?

Rajan Gupta: We get our share.

Rajiv Sharma: And what is the consumer payout?

Rajan Gupta: What the consumer pays is frankly different in different markets. There are markets where consumer is paying Rs.100 extra, there are markets where consumer is paying Rs.120 extra. So they are different in different markets.

Rajiv Sharma: Okay that is helpful. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Vikash Mantri for his closing comments.

Vikash Mantri: Thank you, everybody, for the call.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.