



**“Hathway Cables & Datacom Limited
2QFY14 Conference Call”**

November 19, 2013



**MANAGEMENT: MR. JAGDISH KUMAR, MD AND CEO
MR. G. SUBRAMANIAN, CFO**

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Moderator: Ladies and gentlemen, good day and welcome to the 2QFY14 post-results analyst conference call for Hathway hosted by Ambit Capital Private 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 this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Rudra. Thank you and over to you, Mr. Rudra!

Ankur Rudra: Thank you. Welcome to the 2QFY14 results of Hathway Cable and Datacom. I am Ankur Rudra, the TMT analyst at Ambit. We have the pleasure of hosting Mr. Jagdish Kumar, MD and CEO at Hathway and Mr. G. Subramaniam, the CFO, of Hathway for this call. Sir, thank you for letting us host this call. There will be initial commentary by the management team on the results followed by a Q&A session. I will hand the call over to Mr. Kumar now. Over to you, Sir!

Jagdish Kumar: Thank you, Ankur. Good morning, everybody. Thank you for being with us on this call for a discussion on our 2Q results for FY2014. I will summarise some of the operational events, which have happened in the last quarter. Thereafter, our CFO, G. Subramaniam will take us through the financial numbers and then we will open up the conference call for questions.

As a consolidated group, we now reached about 11 million subscribers in our universe. We have so far deployed 7.6 million set-top boxes, which consists of 2.5 million boxes in phase I cities of Mumbai, Delhi, and Kolkata and 4.4 million boxes in 26 cities of the phase II area. During the current quarter, we had seeded about 400,000 set-top boxes. With the successful deployment of about 7.5 million set-top boxes during phase I and phase II, we are currently the largest MSO in the country.

We also have adequate set-top boxes in hand and we continue to rollout our services in major phase III and phase IV towns. Notable aspect of our expansion has been the fact that as a standalone business we are significantly ahead of our competition. We would be the largest MSO based on economic interest, which we had as a standalone business and also as a partner in various JVs. We have now taken very aggressive steps to get customer information in phase I and phase II areas and a lot of it is thankfully to the initiatives and the follow-up being done by TRAI.

We have currently got close to 95% of the customer information for Mumbai and Delhi. In Kolkata, we are slightly lower, around 85%, and so on an average we have got about close to 90% in phase-I cities and we are now fully geared to start consumer billing, which we estimate that we will start from 3Q or late 3Q or early 4Q of this current financial year. In terms of our broadband business I am happy to inform you that we have successfully



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launched DOCSIS 3.0 in south Mumbai. The initial feedback from customers is excellent. We have backed the product, which is a trail-leading product in the sense that we are now offering 50 MBPS to customers at a very aggressive price point of Rs1,499 with a 50GB download limit. I do not think anybody else can offer the kind of product and service, which we have got for our DOCSIS 3.0 customers. It is also backed by excellent customer service. So we have segmented our customers into our premium customers and we give our premium customers standard customer service and the feedback we have got from the customers is very good.

During the quarter we have added to our subscriber base a gross basis of 33,000 for the quarter. Currently, in terms of our DOCSIS 3.0 customers, we are close to about 2,000 customers and it is growing on a month-to-month basis. With this brief introduction to our 2Q operations, I will hand over to G.S. to walk us through the financial numbers.

G. Subramaniam:

Good morning, ladies and gentlemen. I think you already have the published results with you. Apart from that we also issued a press release post the day following the publishing of our results. If you go through the press release you will find that this quarter we came in at about 220 crores, which compares with 232 crores in the previous quarter. If you breakdown the 220 crores, subscription came in at about 69 crores, which is a 32% growth over the previous quarter in terms of quarter-on-quarter growth. Year-on-year of course it is spectacular, but it is still early days. We have had nearly 150% growth year-on-year compared to the same quarter previous year.

Placement has also actually moved positively. We have had 19% growth at 85 crores. We are 19% ahead of the immediate preceding quarter, and year-on-year we continue to be growing on placement. It is about 69% at this point of time. Placement has grown partly because you are all aware that we have expanded territory in the course of 4Q of the previous financial year and the first quarter of this financial year. The territory growth has been primarily in the eastern part of India, Kolkata. We have also added new cities in the north. We have also added new cities in central India. Apart from this in the southern part of India, in Bangalore we have now got an additional territory and that makes us more or less the largest player in the city of Bangalore.

In the city of Kolkata, if you take the subscriber numbers along with our joint venture partner GTPL, we would be near about a million subscribers, which makes us more or less amongst the largest players in Kolkata. All that has obviously helped us grow. So, as I said, about 19% plus quarter-on-quarter and year-on-year of about 69%. Broadband has relatively stayed flat. We just had marginal growth quarter-on-quarter of about 4%. They came in at about 34 crores, which compares with in fact even either quarter-on-quarter or year-on-year it has been marginal growth; however, our focus in the last few quarters has been on ensuring that the cable television business stabilises and we now expect to exploit



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the direct connect that we have to rollout DOCSIS 3.0 services in several parts of the country. Mr. Jagdish Kumar has already mentioned to you that in south Mumbai, we have rolled out the services since October 2, which is on Gandhi Jayanti. We have had a modest but good increase of 2,000 subscribers for DOCSIS 3.0 services. We now expect to rollout these services across two or three cities in the south which are very, very important territories for us. We believe that we will be able to launch these services in Hyderabad, Bangalore, and Pune and then it will be followed with a national launch once we see how these services stabilise. So that is our current status.

As far as I mentioned to you, the breakup of revenue is 69 crores, 85 crores and 34 crores which adds up to about 188 crores, with other income bring in about 7 crores and activation income coming in at about 26 crores. Obviously activation income has declined substantially over the previous quarter because in the previous quarter we were still expanding into phase II areas. So more or less the phase II area expansion is over and done at this point of time. We continue to get ready for phase III. In the quarter, as Mr. Jagdish Kumar said, we have done about 400K boxes and we are fully geared to seed boxes in phase III territories. If at all there were any uncertainties, it was in cities like Hyderabad where we have not yet been able to monetise the subscriber base because of certain ambiguities as far as the area is concerned, but in all the other cities we are in the process of reaching monetisation hopefully in 4Q this year.

As again Mr. Jagdish Kumar mentioned, the average ARPU that incidentally we have not yet gone for direct subscriber billing. It is billing to the LCOs on the net basis, but the net billing that we have done to the LCOs billing by subscriber numbers owned by each of the LCOs has been in the range of about Rs85 per subscriber in Mumbai and Delhi, which is inclusive of service tax and about Rs60 inclusive of service tax in Kolkata. The average for all the other cities is very low actually at just about Rs40 to Rs45, but it is very early days yet. We expect that as we progressively improve the monetisation of phase III cities, we should be able to see a smart upward movement in ARPU even in those cities.

As already mentioned, we expect to go direct subscriber billing, almost certainly in 4Q of this financial year for phase I and we will go direct subscriber billing for all phase II cities almost certainly by 1Q of FY2015. So this is the broad strategy that we are following. If you also recall, our ARPU, net ARPU per subscriber was lower than this number in the previous quarter. We have moved it to Rs85. Our objective is to in the immediate future move it up to Rs100, which is the number at which everything makes business sense for us and we are quite confident that we will be moving in that direction.

Again, we have already told you that about 90% of CRFs or CAF has been collected in the cities of Mumbai and Delhi. In Kolkata we started a bit late, therefore we have some catching up to do. We are about 80-85% in Kolkata. That averages out to about 88% of



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customer data already with us in the cities of Kolkata, Delhi and Mumbai. As far as phase II is concerned, we are making a good effort to get this up and running. Hopefully, in the next couple of months, we should have most of the customer data ready.

This is by and large it. In terms of investments made in this quarter, we invested about 340 crores in the first half of the year on set-top boxes. We also invested about 20 crores in the DOCSIS 3.0 infrastructure primarily in the DOCSIS 3.0 infrastructure in the ISP business and I think the benefit of this investment will accrue to us in the few quarters. You are all aware that the company also raised about 250 crores. Of the 250 crores about 110 crores was brought in by Provident, 40 crores was brought in by promoters themselves and subsequently we raised about 100 crores from Steadview Capital. This was raised at about Rs284.

To sum up we are at this point of time, fully funded. We do not anticipate any further capital raise and you know at 11 million subscribers, we have a substantial base on which to negotiate deals with broadcasters both for placement and for pay cost. With that I will sort of leave it to you all, and respond to your questions as they come. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mr. Vivekananda Subramaniam from Phillip Capital. Please go ahead.

Vivekananda S: Thanks for the call. The first question is on the net billing, which is at currently 85-90 including service tax in Mumbai. You had highlighted that you want this to go up to Rs100 net of service tax. So, just wanted to get a sense from the management what would be the net collection of the LCO from the customer in Mumbai and Delhi? Just to understand the revenue share right now and where you envisage it to be?

Jagdish Kumar: The net collection from the LCO from customers is close to 90%. Even now people, all customers do pay for their cable bill on a regular basis.

Vivekananda S: In absolute amount?

G. Subramaniam: His question was different. He wants to know how much is he collecting and what is the revenue share he is keeping? Vivek, we have actually done, when we started billing customers in the cities of Delhi, for example, our average based on the packages selected by the subscribers, our average revenue share would have actually come up to Rs116 which would indicate if you take Rs116 as about 40-42%, and so 116 divided 0.4 they should be in the range of Rs250 to Rs230. That would be the Rs250 average collection from a subscriber in Delhi. So that was based on the packages that we had originally billed, but we have recognised only Rs85 because we realise that LCOs are still to get comfortable with the



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thought of sharing upwards of Rs100 so that is why we left it at that. We are fairly confident that as the packages are recognised by subscriber, we should be able to move it up to our target, as you remember of Rs180 on the average for the entire subscriber base.

Vivekananda S: Here, further I notice that the DTH industry is making efforts to get more from content providers or broadcasters. So they are looking to charge carriage and form collaboration amongst themselves to garner more carriage. So in the event that we are not able to get a very or in the event that we are not able to get a desirable revenue share upwards of Rs100 from the LCO, is there a possibility that we might go back to the broadcaster and ask more in terms of placement and carriage on a per subscriber basis. Is that the scenario that can play out?

Jagdish Kumar: I will take that question in two parts. One is the fact that the DTH operators are coming together to negotiate carriage with broadcasters is something which is driven by the fact that the DTH industry in phase I and phase II has not made any significant inroads in terms of customer penetration. Currently, if you see the penetration of the boxes in major metros of phase I and phase II in fact across phase I and phase II is in the region of about 75% in favour of cable and 25% in favour of DTH. So, therefore it will at a distinct advantage in terms of garnering the eyeballs to get the carriage revenues. Now in terms of whether we will also get to a level where we will start giving out a tariff card to the broadcaster, now that is a distinct possibility, for especially the national broadcasters. We probably will have to have certain level of discussions, which calibrates our payouts to them, which would be on a per sub basis, and also be in tandem but most of the time, it is more of a negotiation because a lot of time its scale, which matters even if you have a regional presence. The kind of national presence that Hathway has gives it a distinct edge in negotiating appropriate carriage fees from broadcasters.

Vivekananda S: So, in terms of the earlier discussions where we had mentioned that there would be a negative carry of around Rs15 on content, so I am asking whether because of our scale is it a possibility that this negative carry could say become neutral in order to offset say your possible challenge that we might be facing in collecting over Rs100 from LCOs?

Jagdish Kumar: Vivek, I do not think we should build our business model on carriage and placement. While it is all very nice to think that carriage and placement will contribute to our future, our business model is based on subscription. As a management team, we are completely focused on making subscription happen. Yes, at this point of time, there are some challenges, but we do not foresee this lasting forever. We are already starting to see the markets organise themselves. LCOs are also starting to see the light of day as far as TRAI pushing them is concerned, and so this is a transitional phase. So, we should not get anxious about trying to make money out of carriage and placement to the exclusion of subscription. Subscription should be our biggest chunk of revenues.



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- Vivekananda S:** Thanks, sir. I will come back with more.
- Moderator:** Thank you. The next question is from the line of Mr. Nitin Mohta from Macquarie. Please go ahead.
- Nitin Mohta:** Thanks for the opportunity. Couple of questions from my side; firstly, nice jump on the revenue front. Just to understand, subscription trends are a little better. Of this 685 million in subscription revenues, can you please share between what is coming up from DAS markets versus excluding the DAS market?
- Jagdish Kumar:** Between phase I and phase II markets, right?
- Nitin Mohta:** Any rough indications would be helpful to understand?
- Jagdish Kumar:** Most of it is from the DAS market. Most of the 69 crores, but I will request you to contact my team later for a precise breakdown, but substantial part of the 69 crores would have accrued to us from the phase I and phase II markets, both of which are DAS markets at this point of time. Phase III markets have contributed miniscule numbers in terms of subscription revenues. Particularly because in the standalone business that is what you are looking at is the standalone number, the standalone business substantial numbers of our cities are in phase I and phase II.
- Nitin Mohta:** If I can just understand in terms of the pace of uptake in subscription going forward, how does this 69 crores compare with all things were nine months or 12 months ago?
- Jagdish Kumar:** I gave this comparison. Compared to one year ago, it was about 151% better, which is not still good enough. We have to do much better than that and compared to the immediate preceding quarter, it is about 32% better. So, we are now trying to move a behaviour, which has been ingrained in the industry for the last 15 years. It is not going to happen in one shot. It is going to happen gradually and therefore you are seeing a quarter-on-quarter improvement and you are definitely seeing a year-on-year improvement, but the improvement we expect eventually to happen is substantially more than that because deterioration, as you know, in the past was probably 15% or so. So, there is a possibility that this will grow even further. We will have to wait and see. We are optimistic.
- Nitin Mohta:** Sir, just one last thing from my side. If I look at the cost side of it, there seems to be a similar escalation if I look at the pay channel cost in the standalone numbers going from 29 crores to about 68 crores. So that is something which is expected to play along the same lines. In other words, are you looking at the margins?



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- Jagdish Kumar:** In fact, pay channel costs are already starting to capture the economics of this business, in the sense that they are moving. Right now a lot of them are in six-week contracts, but eventually they will move towards a CPS type of a structure. So, they will grow but they may not grow at the same pace as the revenues will grow. So, you will start seeing a widening gap between subscription revenues and pay channel costs in the course of the next few quarters. I would anticipate that expansion and difference between subscription and pay channel costs will be substantially seen in the next financial year but you will start seeing it even in the 4Q of the current financial year.
- Nitin Mohta:** Thanks.
- Moderator:** Thank you. The next question is from the line of Mr. Arjun Khanna from Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** Thank you gentlemen for taking my question. My first question is in terms of entertainment tax. Has there been a clarity as to in each jurisdiction who will actually pay it and what is the status of payment of the same to the government?
- Jagdish Kumar:** Arjun, as you are aware in Maharashtra, the local cable operators have gone to the court, and said that they will pay the entertainment tax and that is one of the several reasons why we have had to stick to net billing in Maharashtra at this point of time. Even in Delhi, we are contesting the claim made by the Entertainment Tax Department. Therefore this will get clarified over the next couple of months. I would imagine that eventually as we go direct billing to the subscribers, the liability will probably come to us, but at this point of time, the law is not very clear. The liability appears to be primarily the LCOs and secondarily the MSOs, but you know at the end of the day the government wants to make collection of taxes easy and we are anticipating and ready for an eventual movement of that liability to the MSOs.
- Arjun Khanna:** Sir would you say that the collection of entertainment tax right now is what it should be or there is some issues there with the government collecting it; just trying to understand?
- Jagdish Kumar:** As I told you right now it is being collected by the LCO.
- Arjun Khanna:** Are the LCOs paying, sir?
- Jagdish Kumar:** I would think so.
- G. Subramaniam:** They are paying but one of the things, which is very clear is that they are not paying the full amount in the sense that even the entertainment tax office is in a process of assessing the true liability of these LCOs. So there is a little state of flux in the market as far as the actual



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entertainment tax payment is concerned. Just to also clarify in our account we have provision for some entertainment tax in Delhi. It is not that we have not provided for it because as a case thing, we have provided for that expenditure in case it visits us at a later date.

Arjun Khanna : Can there be any collections issues just based on that? Are there ifs and buts in who's to collect and who's to pay?

Jagdish Kumar : On a long-term basis, right now there is a little bit of ambiguity about who is the paying entity from both in Delhi or in Mumbai, but in the long-term basis we are preparing ourselves to the fact that we as the MSOs would be the primary collection point for the government. So that is the indication which we have. Before the regulation, why does not the government kind of lay this right in the sense? Not yet because there is some amendments to be made and whether the liability primarily it helps your MSO it is not clearly defined. So, I think the government in its hurry had passed government orders where in all this requires probably an amendment to the act, which I think, the government will undertake over the course of the next few months.

Arjun Khanna : My second question is you did mention or allude to the inventory. Could you let us know the number of set-top boxes and the capex for the next year?

Jagdish Kumar : Sorry I did not get that question, can you repeat it?

Arjun Khanna : The number of set-top boxes in inventory currently?

Jagdish Kumar : We have roughly about 800,000 boxes. We do not give forward-looking statements for next year. I would not want to make any forward-looking statement, but we have inventory of about 800,000. We are fully geared at this point of time, the rates decided between us and vendors for the supply of additional boxes. In terms of the contracts have also been finalised, but we will not place the orders till we get visibility on further rollout.

Arjun Khanna : Thank you so much. Can you also enumerate are we in a position, right now to offer a complete a la carte kind of bouquet?

Jagdish Kumar : It is already on offer. If you see we have got packages already announced and filed with the TRAI, so there are packages in Delhi and Mumbai. In Kolkata it will be rolled out in the course of this month and in each of the other phase II cities also we have decided on the packaging and we are in the process of announcing city-by-city.

Arjun Khanna : Last question you mentioned some time ago that the threshold would remain around Rs100?



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- Jagdish Kumar:** That is the immediate target. Eventual target will obviously to be moving it northwards.
- Arjun Khanna:** But in the immediacy of things you are saying Rs100 should be the first?
- Jagdish Kumar:** We are immediately targeting to reach Rs100.
- Arjun Khanna:** That should be achievable by 4Q?
- Jagdish Kumar:** That is our target.
- Arjun Khanna:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mr. Pulkit Singhal from Treeline Advisors. Please to ahead.
- Pulkit Singhal:** Thank you for taking my question. Just wanted to understand where the incremental addition of subscribers is coming from. Are we seeing acquisitions or what is the strategy on that front? How are we increasing the base from 10 to 11 million and do you expect that to continue going ahead?
- Jagdish Kumar:** The growth from the last quarter is primarily being that in West Bengal and parts of UP. That has been the primary growth areas for us. So that is the growth and we are constantly on the lookout for opportunities going forward. As of now we are constrained by the regulation to give any forward-looking statements, but we are looking at opportunities surely in phase 3 and phase 4 areas.
- Pulkit Singhal:** I am just trying to understand, is the LCO coming to you to ask for help or what is the result? Is that the other MSOs are not able to provide boxes there or what is going on?
- Jagdish Kumar:** The LCOs one of the things which the LCOs have learnt from phase I and phase II is that it is much beneficial for them to align with a national MSO. So therefore we do have some numerous enquiries actually from LCOs to align with us. In terms of the other MSOs there is significant competition in some of the markets. Some MSOs have found the going tough because the ability to package and ability to give consumers the choices are activity, which are driven by very robust back-end technology. So, some of these competitions have not been able to match up to the challenges which consumer billing is given to the industry.
- G. Subramaniam:** Just to summarise there are two reasons why this is happening. One is because capital availability is not robust in the hands of everybody in the system. So that is one reason. The second reason is not a technology backend to do the packaging as efficiently as the large MSOs.



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- Pulkit Singhal:** So, as a result the incremental additions are resulting in your direct relationship with the LCO or is it also acquisition of other MSOs?
- G. Subramaniam:** Our preferred way of expansion is to really be directly involved with the LCOs. We are not looking at any acquisition opportunities.
- Pulkit Singhal:** My second is, on this 2,000 customers that you added on DOCSIS. Is this coming from the existing subscriber base of how many are really new that are getting from competition?
- Jagdish Kumar:** In fact half of them are new subscribers who have come on board and half of the people who have upgraded from their existing packages.
- Pulkit Singhal:** Great. Thanks for taking my questions.
- Moderator:** Thank you. The next question is from the line of Mr. Suresh Mahadevan from UBS Securities. Please go ahead.
- Suresh Mahadevan:** Thanks for the opportunity. I had two questions; one is a question on the whole strategy vision. Over the next three years let us say when all this is said and done in terms of the digitisation, what do you expect to be in terms of subscribers on the cable TV as well as broadband? So that is question number one. The second question is it will be great, if you could breakdown the 85 further in terms of how much goes for service tax, how much goes for content, carriage, EBITDA etc., I think, which you have done in the past? That will be pretty useful. Thank you so much.
- Jagdish Kumar:** On the first question, very clearly our immediate focus is to ensure that we protect our current universe of 11 million homes. So therefore our intention is to be able to have 11 million digital customers in our hand. That is the immediate focus. Beyond that I can only say that we are going to be more and more a consumer-driven company. We would be building up our infrastructure to be able to service these customers in terms of the technology backend and also in terms of our front customer facing activities. So that is going to be our strategy. Second question, I will ask GS to explain the breakup.
- G. Subramaniam:** Suresh, I have always shared this information with you guys. We are expecting eventually to reach Rs180, out of which our payout to the local cable operators will be Rs80. So the Rs85 you back out about Rs10 towards service tax, which is Rs75 to us, then you back out about Rs85 minus the service tax which is about Rs10. Rs75 net to us.
- Suresh Mahadevan:** How will it work to the EBITDA, sir?



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- G. Subramaniam:** So, you will have to back out the negative carry, which although we have estimated in the long run in the immediate future to go up to about Rs20 is actually much lower than that. So we will back that out. Then you back out the fixed overheads and you back out this thing, you will get the EBITDA per subscriber. So, you are pretty much aware of those figures, it is about Rs11 at this point of time and then fixed overheads and all the other variable costs put together will be in the range of about Rs25 to Rs30. I think that is where we will end up.
- Suresh Mahadevan:** Sir, on the first question, what percentage of your subscriber base is you think addressable for broadband at least and that will give us some kind of indication?
- Jagdish Kumar:** At this point of time, where we are at, we have about 1.4 million homes divided by 11 million which is about 13% of our homes are addressable. Now after 13% we had actually gone to about 400,000 homes, so that is the way it is at. Our objective in the course of the next few years will be to expand the number of homes passed and thereafter expand the penetration. So at 400,000 we are a very miniscule proportion of the total subscriber base. So, the upside potential is obviously enormous.
- Suresh Mahadevan:** Sounds good. Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Mr. Vikas Mantri from ICICI Securities. Please go ahead.
- Vikas Mantri:** Good morning, sir. I have two questions. One is on the billing cycle. Now in the last quarter, we were expecting things to kick start in August-September in various markets, and now it has not happened. We are talking at looking at December or so. Now I just want to understand this process. I know the timing can be weird. What kick starts it? Whether all MSOs need to come together or we have had some small starts and because we did not see cooperation gone back? What do you think is the trigger for this to happen?
- Jagdish Kumar:** What you said is on the dot. You mentioned about the fact that all MSOs will have to get together to do this. I think we have now been able to get consensus with all the MSOs in Delhi and in Mumbai and in Kolkata, with a few exceptions in Kolkata especially. We have been able to get to a situation where we are all now geared to start consumer billing from January 2014. All this is also driven by the fact that the regulator has been quite stringent in the way they are going to handle this. So they have given us diktat that it has to happen within these dates. So there is a combination of MSO alliance working together plus the regulator pushing the agenda for consumer billing.
- Vikas Mantri:** Would it be fair to say that the national MSOs are more or less in coordination? It is the independent MSOs, regional MSOs which are not in sync today?



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- Jagdish Kumar:** Yes. That is the right thing to say, yes.
- Vikas Mantri:** Second question coming on the broadband side. Sir, I see 1.5% odd churn there in broadband. Just wanted to understand how does SAC play in the broadband business, subscriber acquisition cost, how much is it in the broadband business?
- G. Subramaniam:** The subscriber acquisition cost will be roughly about 3,500. We earn about 500. Depending on the schemes that we are running at any point of time., we would be earning about Rs500 to Rs750 as our activation income. If you back that out, it will be about Rs2,800 and the average ARPU that we expect to achieve in our DOCSIS 3.0 scenario will be upwards of Rs700 because that is the lowest plan available to the subscriber. So Rs700 with a gross margin of about 70%, which takes care of commissions to the last-mile operator and the bandwidth, which our bandwidth is the raw material and the commission is the right-of-way fees if we can call it, paid to the last-mile operator. So, if you back those two out, we should be able to get in about 70%, very, very conservatively. So, 70% would translate to about Rs420 incremental gross margin per subscriber.
- Vikas Mantri:** So, payback would be less than a year that way?
- G. Subramaniam:** Payback is certainly just about a year because after that you will have to take care of fixed cost also, and so you would be talking of about a year payback.
- Vikas Mantri:** Second thing is more of a request from you. We did probably see your annual report and that does not have the GTPL numbers. So, it did not facilitate in consolidated numbers analysis on a YoY basis. Now that you have closed the accounts, could we get those numbers so that we can do analysis on them?
- G. Subramaniam:** You did have GTPL consolidation. It was for nine months instead of 12 months. That is all.
- Vikas Mantri:** When it is 12 months in FY2012 and 9 in FY2013 it makes analysis difficult. So, by now we would have 12 months' data of GTPL?
- G. Subramaniam:** Why do you just call me up directly? I will handle that. You can call up either Rajesh or Mahesh and they will help you with it, but this is on an informal basis.
- Vikas Mantri:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rajiv Sharma from HSBC. Please go ahead.



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- Rajiv Sharma:** Thanks very much for the opportunity. I had just one or two bookkeeping questions and the one issue on which I wanted to know is entertainment tax, is it a deterrent for you to start direct subscriber billing, because let us say the courts and they take six months or nine months, can you really start direct billing till the time this entertainment tax issue is resolved? And also help me understand what is the final decision in favour of LCO, and LCO is the guy who will pay and collect the entertainment tax? So then how the direct billing will look like? Second is if you can share your consolidated net debt numbers and the first six months capex, consolidated EBITDA including economic interest and revenues?
- G. Subramaniam:** I will take it in reverse. The consolidated EBITDA including the economic interest is about 50 crores for the quarter. It was about 96 crores for the previous quarter. For the first half of the year it was about 146 crores. In terms of net debt, we estimate on a standalone basis net debt, net of cash to be about 950 crores and probably in the range of about 1,200 crores on a consolidated basis.
- Rajiv Sharma:** Capex in the first six months?
- G. Subramaniam:** First six months capex will be about 360 crores. This is broken down into 340 crores for the cable television business and about 20 crores for the ISD business.
- Rajiv Sharma:** This is standalone?
- G. Subramaniam:** This is standalone capex.
- Rajiv Sharma:** Consolidated number would you have?
- G. Subramaniam:** Consolidated I do not have it with me. You can contact us definitely.
- Rajiv Sharma:** On the entertainment tax?
- G. Subramaniam:** On the entertainment tax, yes, you are right that partly entertainment tax especially entertainment tax in Maharashtra is a bit of a deterrent to this whole process, but we are fairly confident that this matter will get resolved in the course of the next couple of months and it is based on that that we are taking the position on a direct subscriber billing.
- Jagdish Kumar:** On the point whether this is going to be deterrent for subscriber billing, I do not think so because as far as the entertainment tax liability on the consumer is concerned, it does not defer whether the LCOs is the billing entity or the MSO is the billing entity. The entertainment tax is a liability, which is crystallised as soon as the consumer gets the service. So, that should not be a deterrent to do consumer billing. Consumer billing will



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happen. The question is whether the LCO is liable to pay tax or the MSO is liable to pay tax and like GS mentioned, that clarity will come across in the next couple of quarters I would think.

- Rajiv Sharma:** This 200 to 220 ARPU today, should we assume that it includes that entertainment tax?
- G. Subramaniam:** Yes. We have always positioned the business objective as Rs180 average and not Rs220. Going up to Rs220 hopefully in the long run, but I do not want to be forward looking at this point of time.
- Rajiv Sharma:** Sir, the first half revenues, if you can share and also clarify whether the subscription or net billing has started in the phase two markets?
- G. Subramaniam:** In the phase II markets we have started slowly in the cities of Bangalore and Pune, so whether they like it or not this is city specific. So Bangalore we have started, Pune we have started, Hyderabad we have not yet started and Hyderabad is a fairly large subscriber base for us. In Central India we are yet to start. So it is depending on the market conditions in each of these cities. We have started billing based on a number of subscribers.
- Rajiv Sharma:** Your first half consolidated revenue?
- G. Subramaniam:** I am not giving consolidated revenues. I am happy to share with you economic interest on EBITDA, which I have already given. The company does not consolidate its numbers.
- Rajiv Sharma:** Thanks a lot, sir.
- Moderator:** Thank you. The next question is from the line of Mr. Dinshaw Irani from Artemis Advisors. Please go ahead.
- Dinshaw Irani:** This is about the subscription revenue, you said you are billing at around Rs80 and Rs85 to DAS I cities, I believe, but out of the Rs68-odd crores that you have collected for 2Q, how much would be the actual cash and how much would be the receivables in this?
- G. Subramaniam:** The total revenues that we have accrued in our books are about 69 crores; our receivables on this account would be about one and a half months.
- Dinshaw Irani:** One and a half months, I am talking about this quarter and so basically you are talking about half the revenue, right?
- G. Subramaniam:** Yes, correct. When you look at our trade receivables, a substantial portion of the trade receivables on account of placement receivables, and the reason is mainly of the contract to



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the broadcaster got entered into concluded in the course of August and September and all those payments are still in the process of coming in and that is why there is a bit of a bloating of trade receivables.

Dinshaw Irani: Sir, that was the next question that off the content cost of 68-odd crores, which is this quarter's how much, is actually going out in cash or is total amount going out in cash?

G. Subramaniam: Going out means?

Dinshaw Irani: I mean 68 crores is what you pay it for content this quarter?

G. Subramaniam: We are doing 68 Crores for this quarter.

Dinshaw Irani: That is what I was checking.

G. Subramaniam: There will be a month to two months outstanding at the best. It is depending on the broadcasters. Some broadcasters may have a slightly extended credit period, but bulk of the broadcasters will be between 30 days and 45 days.

Dinshaw Irani: Again coming back on the subscription revenue, this is not on I assume on the total population of 7.6 million digital subscribers that you have, this will be on a certain set of numbers, right?

G. Subramaniam: This is on a much smaller set of numbers. A bulk of it will be accrued on account of the cities of Mumbai, Delhi and Kolkata. Bangalore was included. Bulk of it was on account of these four cities.

Dinshaw Irani: So how much would that be roughly?

G. Subramaniam: Can I come back to you on that because I do not have the breakup readily in my hand between the cities?

Dinshaw Irani: Great.

G. Subramaniam: You can contact my guys they will give it to you.

Dinshaw Irani: Thanks a ton.

Moderator: Thank you. The next question is from the line of Mr. Mayur Gadani from OHM Group. Please go ahead.



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- Mayur Gadani:** Good morning, sir, just wanted to check on the carriage fees, year-on-year we have seen increase in the carriage fees numbers, this is because we are adding on new cities, which is fair enough, but what about the existing cities that we are already there, have we seen a drop in carriage fees there or that has been flat?
- G. Subramaniam:** In the existing viewers which we have we have especially with the national broadcasters we have seen a drop in carriage revenue, but that has been more than compensated with the fact that we have been able to expand our external line-ups and we have got a lot of local and regional channels, which have come forward to seek carriage.
- Mayur Gadani:** What is the percentage of drop, if we look at the national broadcasters, any ballpark figures that we will look at?
- G. Subramaniam:** I think it ranges between 15% and 20%, national broadcasters.
- Mayur Gadani:** Secondly, is there a certainty that we are looking at billing in January with the MSOs, you as an entity will align together and we start billing or is there any other deterrent to the billing factor?
- G. Subramaniam:** I do not think there is any other deterrent except that all of us will have to now come on the same page and everybody is taking the same dynamics in terms of our cash flows. Now we have got in a situation where we have decided that these markets are now saturated. We do not need to expand territory, we need to now focus on monetising our existing subscriber bases, so there is consensus amongst the MSOs to come together and monetise what we have invested in.
- Mayur Gadani:** Did we by any chance to start billing in August? Did we send out direct bills because we were discussing in the first concall that we could be looking at sending out direct bills to consumers?
- G. Subramaniam:** We did send out the bills in Delhi. The only thing is the billing was done as the bills raised on behalf of the LCO and we also raised a bill on the LCO itself. So there was an obligation on our part to raise bills by pack on the subscribers that we had done. We have done it on behalf of the LCOs, pending the decision on the entertainment tax matter. So, we have raised the bill on behalf of the LCO to the subscriber and we have also raised a bill on the LCO himself for the net amount.
- Mayur Gadani:** If your understanding is correct, then if LCO is collecting Rs200 you are getting Rs85 out of that?
- G. Subramaniam:** Unfortunately that is a reality at this point.



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- Mayur Gadani:** That is a reality. We seem to have reduced some debt in this quarter with the fund-raising?
- G. Subramaniam:** Yes, we have reduced about 110 crores, and we hope to further reduce some debt because whatever are the immediate payables to banks over the next one to one and a half years, we are prepaying those loans.
- Mayur Gadani:** Any exit debt figures that you would give us?
- G. Subramaniam:** It is premature at this point of time because it will depend on how the market rolls out, if there is acceleration in phase III then that so I would not want to commit to a figure at this point of time.
- Mayur Gadani:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Mr. Rajiv Sharma from HSBC. Please go ahead.
- Rajiv Sharma:** Thanks for allowing me a follow-up. I just wanted to understand when the DTH guys form a group and are able to squeeze broadcasters for a lower content cost and also start some carriage fees which they were not been able to charge so far, will this pressure be felt on the MSOs?
- G. Subramaniam:** The DTH players have been squeezing the broadcasters, will that pressure be felt on the MSOs?
- Jagdish Kumar:** I think I have answered this question some time earlier in this conference. The DTH players in phase II and phase I have been able to garner only 25% of the market share. So therefore they do have a constraint in being able to negotiate better carriage to the broadcasters. On the other hand, especially in these areas where the advertisers are targeting the consuming population, I think cable has a distinct edge. So, cable there is no proposal as of now to really form a consortium.
- Rajiv Sharma:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mr. Amit Kumar from Kotak Securities Limited. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity, sir. Most of my questions have been answered. I just wanted to check this 360 crores of investment that you mentioned, this is at the standalone level or the consolidated level?



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- G. Subramaniam:** This is at the standalone level.
- Amit Kumar:** Sir, then I would need to just understand this a little bit better because in the first quarter I think, you mentioned that out of total 1.8 million set-top boxes seeded, just about a million were seeded on the standalone entity and in this particular quarter overall we have seeded just about 0.4 million boxes. So how is 340 crores of investments in set-top box against this 1.4 million set-top-boxes seeded? Could you just explain that?
- Jagdish Kumar:** We seeded aggregate cumulative total 1.1 million that is about 180 crores. This is not just the boxes which have been seeded, we also have been building up inventory in anticipation of the phase III growth.
- Amit Kumar:** So by amount has the inventory moved?
- Jagdish Kumar:** It went up to about 1.1 million boxes at the beginning of October. So that inventory build-up also has to be added to this. So, this is not just the investment made, but also seeded build-up.
- Amit Kumar:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Pratyush Krishnan from Antique Stock Broking Limited. Please go ahead.
- Pratyush Krishnan:** Thanks for the opportunity. I have just two questions; one is in terms of the overall realisation. When you say that you will kind of improve realisations to Rs100 per subscriber, does this require you to kind of do gross billing or even otherwise you think you can achieve this number?
- Jagdish Kumar:** Our objective is to even otherwise achieve that. Gross billing is one separate milestone. So there are two milestones. One is to reach net Rs100 and to also reach gross billing.
- Pratyush Krishnan:** This despite all the LCO resistance that you have seen?
- Jagdish Kumar:** Pratyush, they will keep resisting. We will have to do our job. It is a tough job, we are trying to do it. We are fairly confident we will do it.
- Pratyush Krishnan:** Second is in terms of the economic interest. We have seen that on a sequential basis that there has been a good amount of drop from Rs20 crores to around like Rs11-12 crores?
- G. Subramaniam:** Because in the case of all the entities, both us and the large joint ventures, the seeding of boxes has slowed down in the next quarter.



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- Pratyush Krishnan:** Is it only hardware revenues, which has gone down or even otherwise?
- G. Subramaniam:** Primarily hardware.
- Pratyush Krishnan:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mr. Hardik Shah from Axis Bank. Please go ahead.
- Hardik Shah:** I would like to understand the receivable position as such from the point of view LCOs as a percentage of total receivables?
- G. Subramaniam:** If you take about 33 crores attributable growth. You are talking about the total LCO receivables?
- Hardik Shah:** Yes, total LCO receivables as a percentage of total receivables?
- G. Subramaniam:** LCO receivables as a percentage of total receivables would be about 22% or something like that.
- Hardik Shah:** What is the kind of receivable period for them?
- G. Subramaniam:** Ideally it should be 1, but it does not work.
- Hardik Shah:** Actually what is the actual position?
- G. Subramaniam:** Probably it will be about 2.5-3 months.
- Hardik Shah:** What are the kinds of write-offs?
- G. Subramaniam:** We have a regular provisioning policy based on the ageing of the receivables. We have followed that.
- Hardik Shah:** Sir, my question is related towards direct billing. What is the direct billing of the players? Will there be any renegotiation with the LCOs on the sharing?
- G. Subramaniam:** Renegotiation is, we are negotiating in the range of 35% to 40% revenue.
- Hardik Shah:** Once you directly start connecting from the customers, the roll of LCOs would go down.
- G. Subramaniam:** At the end of the day the last mile, he has invested in. So, it will be pretty unfair to renegotiate it. It is after all the infrastructure that they have invested.



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- Jagdish Kumar:** The LCOs definitely will not go away. In fact we are looking at the LCOs more as our partners in this activity. What we are saying is that the LCOs clearly have four roles; one he would be collecting cash on our behalf or on his own behalf depending on the billing procedure we follow. Two, he would be able to ensure that customer service at the ground level, the first for the call is from a consumer is to the LCOs, so he will handle a lot of the customer service issues on our behalf. He will also ensure that the last mile network maintenance is done in a manner that we have a consistent service going on. The last one is of course to be able to give them much more upgraded services like HD or even upgrade to premium channels. So those are things and roles which we have envisaged for the LCO. So, we do not see the LCO really disappearing. In fact, on the other hand, we think we have to strengthen the relationship with them on a mutually beneficial basis.
- Hardik Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Mr. Rohit Dokania from B&K Securities. Please go ahead.
- Rohit Dokania:** Thank you for the opportunity. Just two questions from my side. Sir, I do not think it is actually so much of the MSOs whether they are together or not, this is really about the LCOs. I am sorry for harping on this, but what would really change in the next 2-3 months from the LCOs side that we will be able to do gross billing? To put it around, could you please say what exactly the LCOs on a two-two basis are demanding, which will make them come on board, which they still have not even after probably a year of phase I at least has not gone passed?
- Jagdish Kumar:** There is a certain level of resistance, but the fact is that law of the land now says that we have to give the consumer bill based on the package that he has chosen. Now that is driven by regulation and the regulator has been actively pursuing both the MSO and the LCOs to do this. So, I do not think anybody while there may be pockets of resistance, but I do not think directionally anybody can put a complete road-block to this consumer billing fact. That has to happen.
- Rohit Dokania:** But sir, could you probably be a little more specific in the terms of what the LCOs are actually demanding, is it demanding 45-50 % or is it demanding Rs100 on the base pack of I mean I do not really what they are demanding if you throw some light?
- Jagdish Kumar:** We have been very transparent with lot of the MSOs and LCOs. In fact we are conducting workshops with the LCOs in lots of towns. We have done few of them in Mumbai. We did them in Aurangabad last week. We will be doing that in Bangalore and what we have been telling them is that depending on the package, which the consumer takes and the revenue share which they will get in the ranges between 35% and 40%, that is the kind of message,



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which we have been delivering to the LCOs. I do not see, it won't be right to say that there is no resistance but I would say that resistance, people who are resisting it aggressively are a minority.

Rohit Dokania: The other question would be a bookkeeping question. Just could you please give us numbers of the provision for bad debts in 1QFY2014 and 2QFY2014?

Jagdish Kumar: Rohit, can you just contact the guys. I do not have it on me, if you could contact the guys but it is fully provided as per policy. I do not have the exact numbers. Not a problem.

Rohit Dokania: Thanks a lot and wish you all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand over the floor back to Mr. Rudra for closing remarks.

Ankur Rudra: Thanks for attending the conference call. Jagdish and GS thanks for allowing Ambit to host this call. I will just pass the call back to you for closing comments.

G. Subramaniam: Just to sort of summarise this whole discussion, we are entering a very interesting phase. We never imagined at any point of time that this is going to be a cakewalk. We know that there are challenges. We are trying to change the business model that has been in existence for the last 15 years. So, we should not get over-excited if it does not happen in 15 days. It is going to take some time and some effort on the part of all the MSO, which you can all rest-assured that we are all geared here to doing. We are fairly focused on monetising this subscriber base now, much more than expansion now it will be monetising, so over the next few quarters we would be completely focused on monetising this and as I have always told you guys FY2015 you will start to see the run rate on subscription improving dramatically. Thank you very much.

Moderator: Thank you. On behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.