



“Hathway Cable & Datacom Limited Q2 FY16 and H1 FY16 Conference Call”

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MODERATOR: **MR. VIVEKANAND SUBBARAMAN – AMBIT CAPITAL LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to Hathway Cable & Datacom's Q2 FY16 and H1 FY16 Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask 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. Vivekanand Subbaraman from Ambit Capital. Thank you and over to you, sir.

Vivekanand Subbaraman: Thank you, Asad. We at Ambit are pleased to host the Q2 FY16 and H1 FY16 Earnings Conference Call of Hathway Cable & Datacom Limited. We have with us the senior management team of Hathway represented by, Mr. Jagdish Kumar – the MD and CEO and Mr. G. Subramaniam – the CFO along with other senior members of the team. We will begin the call with a short commentary by Mr. Jagdish Kumar and then we will move onto the Q&A session. Over to you, sir.

Jagdish Kumar: Yes, thank you, Vivek. Good morning everybody, thank you for joining us on the Earnings Call for to discuss Hathway's Financial Results for the Second Quarter Financial Year 2015-2016. With me on this call are my colleagues I have Rajan Gupta who is our President, Broadband; Panesar who is the President Video Business; GS – our CFO, Vineet – our Deputy CFO; Ajay Singh – our Chief Compliance Officer & Company Secretary; and Mahadevan – our EVP, Finance.

I will briefly cover some strategic and operational areas in both our businesses TV and Broadband. Thereafter Vineet our Deputy CFO will present the financial numbers and then we will start the Q&A session.

I will start without Broadband business. We continue to make rapid progress in increasing our broadband homes pass footprints across our operating locations in India. Currently our Broadband service is available in 2.6 million homes across our footprint in India. We have added close to 150,000 homes pass during the current quarter. I am happy to report that Broadband revenues continue to show tremendous momentum it has grown 58% on a year-on-year basis from 41 crores in Q2 of same period last year to 72 crores in the current quarter. And on a sequential basis it has grown from 65 crores in Q1 FY16 to 72 crores in the current quarter. I am confident that this momentum will continue in the following quarters primarily driven by expansion of our footprint, upgradation of existing customers and acquiring new customers at higher price points. Additionally we are making some significant investments to improve our network and our customer service.

Our High-Speed Broadband customer base on DOCSIS 3.0 platform has increased by 200,000 customers now. On a year-on-year basis Broadband ARPUs have grown 50% to 659.5 sub per month. The market has received our services very favorably and new customers are coming in at Rs.850 per month per sub. To the CATV business, it is 72% of our subscriber base digital. We remain the biggest MSO in India as far as digital subscriber base is concerned. Our current

footprint cover 12 homes and we have digitized 8.7 million homes out of which 1.8 million homes are in Phase-III. We have placed orders for Set Top boxes and are well positioned to exploit the opportunities presented by the deadlines given by the government for digitizing Phase-III. The exit ARPU exclusive of all taxes in Phase-I is Rs.100 and in Phase-II it is close to Rs.80. We are taking significant strategic steps to increase ARPU across our CATV footprint through a) conversion of all our primary point to prepaid cash systems, b) better packaging where we optimize content cost carriage obligations and consumer preferences, enhanced payment systems where we empower LCOs to manage their customer base efficiently, conversion of DTH customers within our footprint encourage the LCO community to move to Right-to-Use system and acquire more and more High Definition Customers. With these triggers which will increase our ARPU through the following quarters and the expansion plans that we have in Phase-III I am sure our CATV business will get onto a path of rapid growth and profitability.

With these opening remarks I am handing over to Vineet to take us through the financial numbers.

Vineet Garg:

Thank you, Jagdish. A very good morning to all of you. I would like to run through the financials before we open the session for Q&A. The total revenue for the quarter is nearly Rs.274 crores as compared to Rs.263.5 crores in the last year same period. This shows a 4% jump in revenues. To draw a like-to-like comparison, we need to net off impact of the cross billing which is Rs.40 crores, this will result an increase of gross revenue by Rs.25.5 crores and it is coming out to 10. Like-to-like comparison for CATV subscription income for Q2 financial year 2016 is Rs.107.5 against Rs.97.5 crores in Q2 2015 and Rs.105 crores in Q1 financial year 2016, this shows a growth of 10% and 3% respectively.

For ease of understanding we have shared a like-to-like comparison chart of CATV subscription revenue and Broadband revenue for last five quarters and three quarters in Press Release. Broadband revenue shows a constant uptrend in Q2 2016 and the revenue is Rs.62 crores in comparison to Q2 financial year 2015 Rs.45.4 crores and Q1 2016 is Rs.61.5 crores which shows growth of 58% and 10% respectively.

Just to summarize the income breakup of the standalone entity for this quarter, the subscription income is Rs.107.5 crores, broadband Rs.72 crores, placement and carriage is at Rs.85 crores, activation income is Rs.4.7 crores. Net of activation EBITDA for quarter two for financial year 2015 is Rs.18 crores which is now Rs.30 in Q2 financial year 2016. Incidentally the current quarter EBITDA is post net of 8% license fee on Broadband which is Rs.5.7 crores. The total debt as on 30th September is Rs.1250 crores against Rs.1086 crores as on 31st March which shows increase of 166 crores. We have invested around 100 crores in Broadband especially to increase the home passes and expansion of business and Rs.70 crore in CATV primarily preparatory to test the roll out. We also manage to control our interest cost and the average interest borrowing cost for H1 of financial year 2016 is 5.2%.

We will now open the session for the Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Rajeev Sharma from HSBC.

Rajeev Sharma: So a couple of questions the Phase-I ARPU's are at 100 bucks for the last few quarters and we understand that the Cable TV ARPU's have gone up at the LCO level they have been in these Phase-I markets only but it is not reflecting in your ARPU's. So what are the steps specifically drive these Phase-I thing and second is what your console debt if you can highlight and what is the console CAPEX so far and what is your CAPEX guidance at the console and standalone level for this fiscal?

Jagdish Kumar: Okay, Rajeev your questions on the ARPU's see when we started off our current financial year we had planned to really implement packaging quite aggressively and increase ARPU's thereby by giving the various custom specific oriented packages but what has happened is like you may be aware that we ran into a little bit of issue with the Sony Channels so sometime in August and September unfortunately, we could not implement packaging as we had planned and that had to kind of take a little bit of backseat in terms of doing what we had planned out to do to increase ARPU's. But we have to take that battle with one of the broadcasters because we have to ensure that our content costs are kept within control. So I agree with you it has been quite stable to due to various factors but as I mentioned in my opening remarks we have plans to get back on the rails. We will be implementing new packaging soon and we also have done a lot of our content deals so we hope to ensure that there is stability in content deals at least for the next couple of years and I am sure with the plans we have we should get back to the growth momentum which we have planned for the ARPU's in Phase-I. On the consolidated debt and CAPEX question I will give to G. S to answer.

G. Subramaniam: Rajeev, As far as consolidated debt is concerned it is about 1,580 crores this compares with about 1,490 crores in the half year before. The increase in debts has been primarily to fund the rollout as we already mentioned of the networks particularly the broadband investments. With the CATV investments coming in at a lower number at this point of time but we anticipate that there will be significant investments on the cable television particularly set-top boxes as Phase-III rolls out. So that is a picture as far as the gross debt is concerned 1,580 crores. Just to add what Jagdish had mentioned yes, your observation that it has been stable at about Rs. 100 for several quarters is correct. Having said that the company had broadly indicated that we intend to take up this ARPU's in Phase-I markets to about 110 to 115, we stay on course for the target by Q4 of this year we will exit the current financial year at about Rs.110 to Rs.115 range and as Jagdish had mentioned there are several initiative that the company has taken one is to convert all its primary subscribers to prepaid and we hope to complete this process by 31st of December of 2015 which is a big effort by itself it would translate to converting nearly about 300 thousand subscribers on a standalone basis to prepaid basis. It will have a very-very good impact on our working capital. We also intend to take our secondary subscribers to prepaid model over the course of the next six months or so. We realize that local cable operators will have to be convinced to migrate to this sort of payment pattern. We have some plans for that particularly empowering the local cable operator to operate and run hit subscriber base incorporation with us giving access to the billing platform, SMS platform to activate particular

subscriber packs and to deactivate subscribers who are not prompt in making that payment. This will effectively make churning of subscribers more sharp and hopefully you will start seeing a significant increase in Phase-I ARPUs as a consequence. Phase-II will also follow. Phase-II which is now at about 80 bucks - 85 bucks should move to about Rs.100 as we exit the financial year and that was always our objective and I think what we are seeing on the ground now as far as the Phase-II markets augers well in that direction.

Rajeev Sharma:

Just a couple of follow-up. So you are talking about HD but earlier you had mentioned that there are higher content cost when it goes to HD also there is an issue as to how do you collect. So has this both issues being resolved? And second your carriage income is almost flat this quarter with marginal increase 1% whereas your content has gone up. So on a net basis there is an increase in content cost. So what kind of renewals happen this quarter and where do we see the content cost over the next six months and you mentioned stability in content deal so what is the nature of these deals? Will you able to match some of the DTH operators in terms of reducing volatility with your deals or not?

G. Subramaniam:

So I will take the content cost first. We have indicated that the financial year started with about Rs.20-Rs.22 negative carry on a per subscriber basis we are in the range of about Rs.25-Rs.26 at this point and we hope to accept the current financial year at about Rs.30 or so. We are maintaining that target at this point of time. As Mr. Jagdish Kumar had mentioned obviously we are seeing far more rational behavior as far as our raw material suppliers are concerned we know that the market can take so much more and therefore we are fairly confident of striking deals which are fair to both the parties both the MSO and the Broadcaster. As far as long-term deals are concerned yes...

Jagdish Kumar:

So the deals with ICast and Sony has been included we have not yet, we are pretty much close to controlling the deals with some or other big broadcaster like Star and Zee and I am afraid because the nature of the discussion I cannot diverge too many details on those contracts but I can assure that I think there is a realization amongst the broadcaster that the Phase-I, Phase-II and Phase-III requires a bit of a kind of a gestation period before they can look for some rapid growth rates in their revenues and we are confident that we can retain our net content cost at Rs.30 sub.

G. Subramaniam:

Rajeev we will take the first question last which is on High Definition we as a company are now starting to focus seriously on this business we have to get about 77,000 subscriber on the High Definition platform the average ARPU on a High Definition subscriber is significant higher than it is in the case of standard definition. So typically what happens is about Rs.152 over and above the base pack or the pack that these are standard definition that the subscriber chooses. We should budget for roughly about 50% of that going to the broadcaster that is the way we have modeled and therefore we will make a 50% gross margin on High Definition subscriber.

Rajeev Sharma:

What about share with LCOs on this?

- Jagdish Kumar:** There is an Rs.20 contemplated per subscriber.
- Rajeev Sharma:** Okay. And lastly if I can chip in you mentioned about conversion of DTH subs one of your strategy so is there any specific or is it just that you will try to focus there any specific plans you have to convert because it is going to be very difficult?
- Jagdish Kumar:** So one of the things which we are doing is to get our HD boxes in because we are sure that our HD quality is far superior to what DTH can offer. So some of the deals which we want to do is to give HD boxes in a manner that people have left us for lack of HD will definitely comeback and adopt our service. And within our network wherever we have significant DTH number especially in places like Pune, Aurangabad and Delhi and Bangalore we have some city specific plans really encourage DTH customers to come and adopt our services.
- Moderator:** Thank you very much. We will take the next question from the line of Rohit Dokania from IDFC. Please go ahead.
- Rohit Dokania:** One is if you can talk about the growth and net additions in broadband in this particular quarter?
- G. Subramaniam:** So we had cross addition, we had a net addition of about 56,000 subscribers. I do not know whether Rajan if you are on the line you can add on the gross subscribers please. Okay, I was hoping Rajan, sorry. The gross additions on a monthly basis is approximating anywhere between 18,000 to 20,000 subscribers our churn would be typically in the range of about 1.5% to 1.7% per month that would translate to a churn of approximately 6,000 to 7,000 subscribers I am talking of standalone numbers. I am sorry, Rajan is adding to this. Okay, so typically what would happen is on a gross basis we would be adding a run rate of about 18,000 and we would be churning about 6,000 to 7,000 that would translate to about 10,000 to 11,000 net ad as far as the standalone expenses.
- Rohit Dokania:** Sure. And sir, this 56,000 is it a standalone number or?
- G. Subramaniam:** No, this is on totality basis we would have added roughly about 27,000 or 29,000 subscribers on a net basis I mean on a standalone basis and the balance would be in our subsidiaries JVs.
- Rohit Dokania:** Sure, sir and also do you expect this run rate to go up or you think this is a fair run rate to assume for the time being?
- G. Subramaniam:** Obviously we would like to the run rate to go up and substantially grow up. Mainly because the footprint is increasing I am going to fly blind here because we are not able to get Rajan okay the line but what we are doing is we are expanding the home passes over a period of I am sorry... Rajan, is on the line.
- Rajan Gupta:** So the question was what kind of numbers we are looking at currently and how the future kind of look at? As G.S mentioned currently we are adding around 10,000 net-ads on the network

which is owned by Hathway apart from the JV partners. As we are signing already we are reaching the momentum of 13,000 net-ads. There are two cities which are really adding us big time one is Delhi, we are expanding network quite aggressively in Delhi we added around 1 lakh home pass last quarter in Delhi. And other thing which we are looking at positive we have done a soft launch in Calcutta and we are looking at full launch starting 1st December. So as we are talking in sense we look at 13,000 net-ads on a monthly basis.

Rohit Dokania: Sure. And this is really for the management as we are moving the Broadband business through subsidiary as we you just disclosed standalone numbers probably it will be very difficult almost 25%-26% of the Broadband business will move to a subsidiary is it possible for you to give consolidated numbers on a quarterly basis once the Broadband moves into a subsidiary business?

G. Subramaniam: Rohit, the way to look at it is this process will take at least 12 months to accomplish there is a court process will continuing to reporting standalone figures which includes the standalone broadband numbers for now. The movement we complete this process we anticipate post May 2016 is when we expect to get all the approvals in place and therefore we should be able to we will obviously report consolidated and nevertheless as far as the new accounting standards are concerned from I think next financial year thereafter consolidated numbers have anyway to be reported on a half yearly basis.

Rohit Dokania: Sure, that will be helpful on the Cable side if you can disclose the inventory of FTV currently?

Jagdish Kumar: We have about half million boxes at any point of time we have also placed or we have got a contract for 3 million boxes obviously we will draw down on those 3 million based on the off take of boxes in the market. You will understand that while 31st of December seems to be looming nearby the fact is that the boxes will put into the market in the course of December through March that is the fact. So we are fully provided for it and we will draw down boxes and when they require.

Rohit Dokania: Sure, just one last question from my side are you hearing anything in terms of any potential delay in the digitization deadline because of few other corporate have indicated that there could some potential delay?

G. Subramaniam: A strong no, if we even mention any delay we will all get rapped on our knuckles by TRAI.

Moderator: Thank you. We will take the next question from the line of Pawan Aluwalia from Laburnum Capital.

Pawan Aluwalia: I had a question on the Broadband roll out obviously the numbers in the last few quarters have been very encouraging in terms of the DOCSIS uptake. With Reliance launching very soon presumably aggressively targeting customers in the core metro regions where they have gone and fibered the place up. Is there a risk that we would lose a lot of customers to them because we look at what Reliance's historic strategy has been in telecom it has been very aggressive on

pricing and to the extent that our customer base overlaps in the area laid fiber that is potentially addressed via a price war. Could you give us some sense of the amount of is a Broadband or DOCSIS customer base largely in areas where it would be possible for Reliance to target then or are they largely in places where Reliance is unlikely to go and offer fiber based Broadband.

Jagdish Kumar:

I am just waiting for Rajan to take that question.

Rajan Gupta:

Okay, I will take question in two parts one currently we see 70% of the area where our subscribers are there still the GO is not very active in putting the network. 30% of the areas we see they are pretty active and taking efforts for rolling of the network but more importantly we have shared this earlier also from our side we are ready to handle current competition and future competition we are have been aggressively upgrading our technical the whole system like currently also we have invested more than 40 crores - 50 crores only in upgrading the current technical infrastructure we have substantially improved the quality of service and on pricing we have mentioned earlier also we already discounted 20% to 30% from the current ISP players, the large ISP players. So we are offering pretty good value for money to consumers at a substantial better service. So we internally feel we result ready to handle the current competition as well any future competition.

Pawan Aluwalia:

Could you give us some sense of what the economics of DOCSIS look like? What is payback period and how low would pricing go for an ROIC to for the return on capital to be such that it is actually worth doing?

G. Subramaniam:

I will take that question , We ride on the backhaul which is already available to us for the Cable Television Business so there is not any incremental investment in backhaul fiber but we have to make the two way enabled so wherever we need to do that is one other investment and the last mile into the consumers' home. We estimate that on a first subscriber basis fully amortize assuming a penetration of about 20% would be about Rs.10,000 would be the subscriber acquisition cost for subscriber. The incremental ARPU that we are able to achieve at a gross level is about 850 bucks. If you back out taxes it is about 745 assuming a conservative EBITDA margin of about 30% on a full-fledged roll out basis that is when we reach a million subscribers. We should be able to get about Rs.250 as share of our EBITDA. If you sort of treat that as a surrogate for cash flow on a per month basis that would return about under three years so that is what we target we actually have set the operating teams of far more aggressive number of about 24 months payback but I am fairly sure anywhere between 30 months to 32 months is eminently achievable.

Pawan Aluwalia:

And what is the drop from the 850 to the 250? What comes between revenue and EBITDA since largely affects our business?

G. Subramaniam:

Yes, broadly there is a gross margin of 70% between gross margin and ARPU realization there is tax, there is commission that is paid to the local cable operator and EBITDA between 12% to 15% payable on the backhaul because we contract out the backhaul with one or the other of

the large Telcos so the gross margin is about 70 bucks and the net margin which is about Rs.20 today at the current volume should go up to anywhere 30% to 35% in the medium-term.

Pawan Aluwalia: And what is your target when you reach a million subscribers ?

G. Subramaniam: Target in these?

Pawan Aluwalia: As when would you expect to reach say one million DOCSIS subs?

G. Subramaniam: So Rajan, would you like to take that question? Or let me do that see the way we are looking these businesses we are exiting the current financial year at hopefully we have an internal targets to accelerate this net adds anywhere between 14,000 to 15,000 subscribers. Hopefully next year we should do about 240,000 if we are able to do an average of 20,000 adds over the next one year one and half years. So you can do the math so it is roughly about two years - two and half years from now we should be at the million level.

Pawan Aluwalia: And this is a million on DOCSIS?

Jagdish Kumar: Million on DOCSIS obviously. No, we are not I mean Rajan you want to add...

Rajan Gupta: Just want to mention here DOCSIS more of use that it should be high ARPU consumer so, what we are looking at consumers with minimum Rs. 850 ARPU plus taxes which we collect from them so whether that come on DOCSIS, GPON or fiber-to-home or even on metro ethernet because in Bangalore and Hyderabad in large vertical building we are doing metro Ethernet thus giving us ARPU of around thousand bucks. So basically all technology put together but we are focusing only on consumer who can give us Rs.850 ARPU.

Moderator: Thank you very much. We will take the next question from the line of Lavina Mankani from IDFC.

Lavina Mankani: My question is mainly pertaining to the receivables front in this half year we have seen receivables days' collection period kind of increase by about a month or so to four months to five months range. So are we seeing LCOs being really sticky right now? And what are the steps we are taking to normalize this? And what is the expected normal level of receivables?

G. Subramaniam: Lavina, just to explain those numbers, out of the 89 crores increase in receivables between 31st of March 2015 to 30th of September 2015 will be big part of it composed of receivables from broadcasters. What typically happens is the contracts with broadcaster is ongoing discussion some of the large broadcasters are happening in the third quarter so, we continue to show the channels in place so therefore we accrued placement revenues from the broadcaster in the meanwhile but that has to be squared off by payments due to the broadcasters also in the case of this in the case of the first-half roughly about just under 40 crores would be attributable to receivables from the broadcasters on account of placement but that would more that will be nearly matched by payables to broadcaster on account of content cost. So you will find even

last year the first-half of there was steep increase and then it get flat over the following period. So if back that out subscription related and other revenue related receivables should be in the range of about 49 crores to 50 crores which would be approximately equal to the 10% growth in subscription revenues that the company is showing on a year-on-year basis.

Lavina Mankani: I see. So there is nothing really sticky or seeing on the LCO front right now because there was aggressive provision.

Jagdish Kumar: It will be answer on my part to say nothing sticky there will be sticky but it is more than provided for. And Lavina one other thing I just wanted to clarify is during the months of August and September Sony was off our network that resulted and some delay in payments by local cable operators roughly amounting about 15 crores we expect to be able to collect those numbers in the current quarter.

Moderator: Thank you. We will take the next question from the line of Yogesh Kirve from B&K Securities.

Yogesh Kirve: Sir, could you talk in terms of the CAPEX we have done so far about in the standalone and the console book what will be the guidance?

G. Subramaniam: Yogesh we have the CAPEX on a standalone basis immediately, I will request you to come back to us we will get the gross numbers to you appropriate. So on a standalone basis the CAPEX has been in the region of about 160 crores. 70 crores has been absorbed by the Cable Television Business and just about 100 crores have been absorbed about the ISP Broadband business. The investments that we have made in Cable Television is preparatory to Phase-III rollout. Obviously we have start placing orders for set-top boxes and improvement in some of the backend infrastructure. As far as ISP is concerned as Rajan had already explained to you we have expanded our home pass fairly fast in the first-half in the year and will continue to do so in the second-half of the year.

Yogesh Kirve: Okay, so is it fair to analyze this number for full year CAPEX numbers?

G. Subramaniam: So we had targeted close to about 250 crores as our investment in the ISP Broadband business in the current year we will probably be in that range. It would be a function of how successfully we are able to expand our home pass footprint. As far as CATV is concerned there will be a spike in investments but we must also remember that activation revenues will start flowing back to the company in the course of the month of December, January, February and March, so the net cash flow would be not significant but on a gross level we would expect to invest about (+200) crores.

Yogesh Kirve: So 200 on full year basis or in the second-half?

G. Subramaniam: On a full year basis.

- Yogesh Kirve:** Full year basis. Sir and again regarding the DOCSIS we spoke of CAPEX of about Rs.10,000 per customer. Is it net of whatever we may collect in terms of the installation revenue or this is a gross number?
- G. Subramaniam:** It is gross number. The installation revenue is very minuscule in the case of Broadband maybe 500 bucks or so. Rajan would you want to add to that?
- Rajan Gupta:** Yes, G.S. currently we are collecting around Rs.350 per consumer as an installation revenue so that does not really change the overall picture as far as payback is concerned what G.S. has already explained.
- Yogesh Kirve:** But other customer equipment in terms of Wi-Fi Router or a Modem so?
- Rajan Gupta:** So that is already there is in Rs.10,000 CAPEX of sub which G.S. spoke about.
- Yogesh Kirve:** So from consumer perspective you will get connection at 350 whatever about that amount right?
- Rajan Gupta:** That varies from market-to-market. So where we feel competition is more we may not be collecting anything but where we feel we can manage we are collecting Rs.1,000 I know to Rs.1,500 also. So frankly that is more of a tactical decision based on individual market needs.
- Moderator:** Thank you. We will take the next question from the line of Amit Kumar from Investec Capital.
- Amit Kumar:** Sir, when you look at the standalone in the first-half of the year if they started about 1.7 lakh - 1.8 lakh set-up boxes that Rs.1,500 per set-top box that amounts to about 27 odd crores.
- Jagdish Kumar:** Sorry, Amit, I did not follow you were saying. Can you just repeat that?
- Amit Kumar:** Actually in the first-half you have added about 1.8 lakh set-top boxes and at Rs.1,500 all-inclusive set-top box cost that is about 27 crores in terms of CAPEX. So if you could just explain you said your total CAPEX figure of about 70 crores so that 43 crores has that gone into inventory and exactly what kind of...
- Jagdish Kumar:** No, whenever you place orders for set top boxes you also have to pay 20% advance for placing that order this includes that amount also. So not all of that is attributable to boxes which have been issued into the market so, there will be some addition to inventory and there will also be some advances paid to the vendor towards the import of set-top boxes.
- Amit Kumar:** Sir the inventory have not really changed I mean this 0.5 million number has been fairly constant for the last couple of quarters so, that number has not really changed quite very materially in the last...
- Jagdish Kumar:** So we would have added very minuscule number of boxes and that is the 170 or 200. We have deployed about 175,000 boxes in the first-half of the year so that would be out of the opening

inventory of boxes I think we exited the financial year previous financial is about 700,000 boxes, 600,000 boxes we would have drawn down on that inventory and put in some small imports would have come in. The bulk of the investments that we are making now would be in the form of advances that we have paid to vendors and there will be some CAPEX on the backend infrastructure.

Amit Kumar: So that is what I just wanted to know out of this 70 crores how much investment in backend infrastructure for the first six months?

Jagdish Kumar: Ballpark about roughly about 20 and odd crores towards advance to the vendors.

Amit Kumar: Let me take this offline anyway which I need a little bit of clarity.

Jagdish Kumar: Roughly the range of about 20 crores is the advance that we have paid to the vendors of equipment STBs and the balance would be all other miscellaneous CAPEX.

Amit Kumar: Okay. My second question was I know with respect to the trend in barrels so I can feel that quarter-on-quarter carriage is actually went up by a crore I would have expected carriage to decline the way we understand the Sony deal was the fact that the carriage and placement part of the deal actually finished about two months one and half two months earlier than the content part of the deal. So Sony sort of giving you carriage two months before you stopped sort of paying for content to them. Is that understanding is correct because the NPA.....

Jagdish Kumar: I do not know where you get that type of detail I will request Mr. Panesar.

Jagdish Kumar: Broadly mentioned some of the big issues we have with carriage and Panesar will add on to that. I think on a per channel basis there is definitely been a reduction from the major broadcaster the major broadcaster are also adding channels for example Sony has launched three new channels during the current quarter which includes BBCR so therefore this addition volume of channels coming and that has compensated for the reduction in per unit cost and then there are further additional regional channels that are coming in. Panesar you want to add anything?

Amit Kumar: No, I am sorry if I can just have a follow-on this. My sense is that as far as I mean almost throughout the quarter maybe 15 days - 20 days into the quarter but for the majority of the quarter you know Sony LCN, Sony TV, SAB TV were channel number five and six they have shifted to 42-43 and Set Max was 102 that had shifted to 126-127 channel. So clearly Sony would not have been paying you and we are talking about the entire Sony bouquet I mean almost a set of 15 channels - 20 channels which you would not have been paying you carriage for the majority of the quarter. So that clearly would have been some loss of carriage from that particular contract. If you can just highlight exactly what I mean it would be a substantial number I presume certainly more than 5 crore maybe close to 10 crore kind of number would be my guesstimate so what sort of compensated for such a large delta in terms of carriage. And this sort of relate to your overall increase in receivables also as you mentioned first six months

of the year receivables on the carriage side have gone by almost 40 crores. What is the confidence level that you have that these receivables will get realized?

Jagdish Kumar:

Just wait we are seeing whether we can get Panesar on the line.

T.S. Panesar:

See wanted to happen there was a standoff which was primarily the reason was that they were looking for an increase in the subscription fees as well as reduction in the carriage. Now the standoff ultimately related into a switch off which happened primarily in the DAS-2 markets and the DAS-1 market the service was on in the DAS-1 market now what has translated is basically that we had been able to arrest that growth that they were seeking which was to the tune of anything between 10% to 15% on the subscription fees. We have also been able to negotiate that there is no reduction in the carriage cost and in the carriage fees and we will continue in the same range. On top of it there have been as Jagdish was mentioning there are three new launches which are happening and we have been able to also negotiate better carriage for this three channels which has also given us some additional revenues on top of the normal carriage that we would have got those three channels so that compensates for our switch-off period and the discussion is translated in such a manner that there is not going to be any kind of substantial loss in terms of carriage as far as DAS-2 switch-off period is concerned.

Jagdish Kumar:

So on your question about whether specifically in this quarter whether we have got you should had dip because we did not carry the Sony channels. See the Sony channels were actually being carried though on a different LCM but they were carrying on a la carte basis in Phase-I and way we have negotiated with the Sony network and initially it was an amicable settlement between both the parties there has not been any significant reduction in carriage fees during the current quarter that is the way negotiation has worked out.

Amit Kumar:

Sir, I absolute understand that you know post negotiation which happen just month and month and half back things would have gone back to normal in terms of both content cost as well as carriage and specifically saying in terms of 2Q where you had those change in LCM numbers for almost two months to two and half months and again I appreciate the point that the new channels launches which Sony is going to do in the future. You know would be getting incremental money but that is essentially talking about the second-half. So I am saying in 2Q I am still surprised what compensated per 2-2.5 months in DAS-1?

Jagdish Kumar:

I will take this question the 2-2.5 months that you are referring to where the channels are displayed the channel also because of the strength of the network the channel rating also saw drastically there were down by 20%-30%-40% of the rating were down right because of which we were also able to negotiate strongly and ensure that there is no drop in the carriage.

Jagdish Kumar:

If you look at the and I am probably getting into a little more specific from the private contract we have with Sony but I can give you that data because the Sony contract has a negative to us if you net-off carriage versus content and that negative cost because when you do not carry some of these channels you also while you do not get carriage you also do not have to pay out

subscription fees. So on a net basis when we negotiated that with Sony that negative impact has not been felt in Q2.

T.S. Panesar: Plus to add further we have also been able to display one channel permanently and we get the frequency, that frequency has given us additional carriage while selling it to other broadcaster.

Amit Kumar: Okay, fair enough. My final point when I look at the growth in Broadband subscribers in this particular quarter to just about having 5.5 lakh increase in the overall Broadband subscribers that you have reported while correspondingly DOCSIS has grown by sorry not 5.5 lakh 55,000 my apologies. And you know DOCSIS 3.0 has gone up by just 30,000 our sense was that majority of the increase in the Broadband I know subscribers incrementally will happen through DOCSIS 3.0. So could you just...

G. Subramaniam: You are right but the increase happens in two legs one is at the parent company level which is primarily DOCSIS 3.0 as far as the **JVCos** not all of them are on DOCSIS. In fact none of them are in DOCSIS 3.0 as yet so they continue to deploy either DOCSIS 2.0 or even metro Ethernet networks.

Moderator: Thank you very much. We will take the next question from the line of Dheeresh Phatak from Goldman Sachs.

Dheeresh Phatak: So for Phase-I I want to know the subscriber ARPU network taxes, cross content cost and carriage revenue per subscribers.

G. Subramaniam: As far as Phase-I markets are concerned ARPU net of taxes will be Rs.100 and all other details we are talking about net content cost and we would be in the range of about 30 bucks or so, just under Rs.30 actually.

Dheeresh Phatak: Okay. Is it possible to split that between cross content and carriage?

G. Subramaniam: We would prefer not to split it out in the call you can reach out to us.

Dheeresh Phatak: Okay. On Broadband the last mile can you just clarify whether it is a separate cable or you are using the LCO cable?

Jagdish Kumar: On the last mile for Broadband it is our own cable.

Rajan Gupta: See Broadband business is completely separate to the LCO business, it is a complete B2C business where we have control over the network till the last mile.

Dheeresh Phatak: Okay. Who is doing the collection in Broadband?

Rajan Gupta: We do the collections.

- Rajan Gupta:** We have clarified this earlier also. In Broadband the entire value chain right from the selling process the marketing selling, to billing, customer service...
- Dheeresh Phatak:** No, I was just going through my earlier notes in some of the calls you have talked about using the LCO network then you said using so I was confused because in some of the earlier calls you have talked about using the LCO network.
- Rajan Gupta:** G.S. not to my knowledge please.
- G. Subramaniam:** Let me explain this as far as South Bombay is concerned it will be a primary subscriber we will use the same infrastructure to reach both Broadband and Cable Television Service wherever there are secondary subscriber we will use the LCO networks to deliver those. We will not use LCO network but we will have our own infrastructure delivering those services.
- Dheeresh Phatak:** Again this is not very clear so...
- Jagdish Kumar:** So let me clear when it is primary points we use the same cable which gets into people's home there is one cable going there and then there is a...
- Dheeresh Phatak:** Primary is very clear. Secondary we want to know.
- Jagdish Kumar:** Secondary is also very clear, we also wire up the network from the node to the consumer homes we do not use the last mile of the cable operator. And so many if you had a different impression earlier that is not correct.
- Dheeresh Phatak:** This is helpful. On Rs.10,000 per subscriber how much is the customer premises equipment cost and how much is this last mile can you just break it up?
- G. Subramaniam:** I do not have the number off the cuff it will be in the range of about Rs.2,500 or so will be the CPE and the backhaul which is amortized at the rate of 20% penetration would be about 4,000 and the balance would be the infrastructure that is used to reach the subscriber from the node. So it is about 3,500 plus 4,000 plus 2,500.
- Dheeresh Phatak:** And when you are giving the per-sub economics some Broadband you said Rs.850 ARPU then you said gross margins are 80% and then any...
- G. Subramaniam:** Not 80% I said 70%.
- Dheeresh Phatak:** Okay, 70% and then post gross profit you took out between gross profit and EBITDA you took out LCO commission, backhaul cost, and other thing so what is the...
- G. Subramaniam:** No, I will repeat it. It is Rs.850 minus taxes will result in Rs.745 to us from that you have to take out LCO commission, backhaul cost and other miscellaneous expenses which typically is 30% of Rs.745 which will yield us about anywhere between 69% to 70% gross margin.

- Dheeresh Phatak:** Okay. And backhaul cost would be it will be a variable cost it will be fixed cost...
- G. Subramaniam:** It is typically a variable cost because it depends on the type of customer we are getting, the number of customers we get a particular node it is variable we take it as a variable cost. And I am sorry, there is one other important line item there is 8% license fee that we have to pay under the Unified license.
- Moderator:** Thank you. We will take the last question from the line of Rahul Maheshwari from IDBI Mutual Fund.
- Rahul Maheshwari:** My first question is can you give me the break-up between LCO, Broadcaster and MSO in the primary business which is being at Both Bombay which you told and the in digitization in Phase-I and Phase-II what is the share of broadcaster and the MSO which is being sharing and what is the usage per subscriber in Broadband business which is approximately 5.5 million customers.
- Jagdish Kumar:** Rajan, can you take the last question first. Then will take the other questions.
- Rajan Gupta:** Can you please repeat that? I am not very clear about that?
- Rahul Maheshwari:** What is the usage per subscriber in the broadband business which is Wi-Fi and on DOCSIS platform?
- Rajan Gupta:** Currently we are offering plans starting from 50 mbps to 1 mbps and 2 mbps unlimited so on a DOCSIS where 50 mbps is being offered. Average usage is around 35 GB. So all the DOCSIS consumer are using around 35 GB. The other consumers which are at low speed because they want to the low speed they want a unlimited 2 mbps or 5 mbps that I cannot tell you GB but DOCSIS consumer on an average are using 35 GB.
- Rahul Maheshwari:** Further down the line in the coming quarters there would be an upgradation from DOCSIS 3.0 to some other technology due to Jio coming and there would upgradation of speed and all those things.
- Rajan Gupta:** So I already mentioned we already invested 40 crores to 50 crores for upgradation in the DOCSIS network itself so current DOCSIS 3.0 network can give us up to 100 mbps so currently we do not see market is substantially ready for that that is the reason we are not launching it. The current infrastructure we can launch up to 100 mbps whenever we feel there is substantial need in market for that.
- Jagdish Kumar:** So first part of your question can you just repeat them?
- Rahul Maheshwari:** The first part in the primary business what is the percentage share between the three channels which is broadcaster, MSO and LCOs? And when the digitization has come into picture for

Phase-I and Phase-II cities what is the share between broadcaster and MSO because LCOs only very less percentage has come into picture for digitization.

Jagdish Kumar: I think you have to stand correct there as far as primary subscribers are concerned there is no revenue share to the local cable operator. And the rule of thumb in this business roughly about one-third of our revenues goes to the broadcaster that is a broad rule of thumb. That is it. There is no other cost paid to anybody else.

Rahul Maheshwari: And where it is being paid to the LCOs also. What did a percentage which is being or commissioned or what is the cost which is being given...

Jagdish Kumar: Anywhere between 45% to 50%.

Rahul Maheshwari: Okay. The post digitization also it would be continuing?

G. Subramaniam: In fact post digitization only it is 45% to 50%. Pre-digitization it was far worst then that.

Moderator: Thank you very much. As that was the last question in the queue. I now hand the floor to Mr. Vivekanand Subbaraman for closing comments.

Vivekanand Subbaraman: Yes, I would like to thank the management of Hathway for taking time out for this call. Sir over to you for any closing comments that you may have.

Jagdish Kumar: I think on behalf of the company we thank all of those who have joined the call. We look forward to fairly aggressive growth over the next couple of quarters and thank you very much everybody.

Management: Thank you.

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