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Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer

Thanks, Urik. Good afternoon all, and thank you for joining us for the second quarter earning call for FY '19. With me on the call is Sitendu Nagchaudhuri, our CFO; Dulal Banerjee, Chief Business Officer; Ajay Singh, Company's Secretary; and [Mahesh Mehwarra], Head of Investor Relationship. To start with, I will take you through some specific numbers of our Cable business. Q2 subscription revenue grew at rate of 18% year-on-year to INR 165.8 crores and 5% on a quarter-on-quarter basis. The decline in activation revenue by INR 1 crore due to 5-year period being over for boxes ended in 2012, '13. The EBITDA of Q2 grew 13% year-on-year to INR 37.1 crores and 2% quarter-on-quarter basis. The content cost is well within line with our estimates. Collections have grown by 18% year-on-year, demonstrating strong improvement in efficiency. In Q2 as well, we have seen 99% efficiency level in collections. Effective monetization has resulted in significant ARPU increase. Q2 FY '19. ARPU in different phases of distillation is as follows: Phase I INR 110, Phase II INR 105, Phase III INR 80, Phase IV INR 62. Over Q2 FY '18, this translates to 5% increase in Phase I ARPU, 7% increase in Phase II ARPU, 38% increase in Phase III ARPU and 51% increase in Phase IV ARPU. I would like to clarify here that all ARPU numbers for cable and broadband being mentioned in this call are exclusive of taxes. We have added more than 30,000 HD consumers, high-definition consumers, in Q2 FY '19 and now we have reached 260,000 HD subscribers. We are getting INR 80 per consumer per month incremental revenue from these high-definition consumers. With recent strengthening of HD pack, Hathway now has highest number of 96 HD channels across all players.

Now I will share detail update on broadband business. HCDL revenue for Q2 FY '19 is INR 130.6 crores, which is 1% growth over Q1 FY '19 revenue. And EBITDA for Q2 FY '19 is INR 53.8 crores. Quarter-on-quarter EBITDA margin declined from INR 55.3 crore in Q1 FY '19. EBITDA margins remained healthy at 41%. We have added 25,000 home pass during the quarter. With this, our home pass strength is now 5.5 million. Balance of the year, there is no further home pass expansion plan and focus will be on monetizing of existing home pass.

Broadband subscriber numbers stable at 730,000 with 71,000 increase as compared to Q2 FY '18. Churn remains high due to loss of low usage customers to mobility. Apart from the regular 2% monthly churn, another 30,000 customers in Q2 FY '19 lost to low value plans of mobility. Customer usage data for Q2 FY '19 is not available as provisioning system QPS upgradation is under progress. Cisco tech teams and Hathway data center teams are working on same, and we expect to finish upgradation by December 2018. There is drop in ARPU by INR 18 while there is no MRP change. Drop in due to realignment of product portfolio, very low price plans also have higher GBs. We have recently launched 300 Mbps, 2-TV monthly data limit plan along with Wi-Fi mesh router technology in Chennai. This will be followed by launches at Bangalore and Mumbai by Q4 FY '19.

I now hand over to Sitendu for discussing detailed financials.

Sitendu Nagchaudhuri, Hathway Cable and Datacom Limited - CFO [2]

Thank you, Rajan, and a warm good afternoon to all the participants. Now I take you through the specific financial numbers for the second quarter FY '19. Company maintains and publishes its financials as per Indian accounting standards Ind AS described under Section 133 of the company's Act 2013 and recognized accounting practices and policies to the extent applicable. Standalone performance for HCDL Hathway, Cable & Datacom Limited, that's the broadband business, revenue stood at INR 130.6 crores. Operating EBITDA stood at INR 53.8 crores. EBITDA margin remained stable at 41%. In the business that loss for the second quarter is at INR 5.5 crores, which includes the foreign change loss of INR 7.2 crores during the quarter. Standalone performance for HDPL, that's the Cable TV business, revenue increased to INR 262.4 crores, which is a growth of 7% year-on-year basis versus INR 244.9 crores in the second quarter last fiscal. Subscription revenue increased to INR 165.8 crores that is a growth of 18% year-on-year basis versus INR 140.1 crores in the same quarter last fiscal. The Cable TV business operating EBITDA increased by 13% on year-on-year basis to INR 37.1 crores compared to INR 32.8

crores in the second quarter last fiscal. During the first half of FY '19, INR 100 crores of CapEx had been deployed in the broadband business and INR 47 crores in the CATV business. The net debt position as at the quarter end for HCDL, that's the broadband business, is INR 735 crores and that of HDPL, that's the cable business, is INR 898 crores summing up to INR 1,633 crores.

Now I hand back to Rajan for discussing various strategic initiatives.

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [3]

Let me start with an update on TRAI deregulation on tariff order, interconnect norms and quality of service norms. We are happy to share that Hathway is completely geared for implementation of the new framework from December 29, 2018, which is timeline mandated by TRAI. We at Hathway believe this tariff order will help in making the entire framework of broadcast sector, value chain, completely transparent, provide choice to consumers and ensure a fair deal among LCOs, MSOs and broadcasters. This will also help in lowering disputes and reduction in litigations. In this new regulations, consumers are clearly more empowered as they have choice and power over what channels they wish to watch. Additionally, EPG, which is electronic program guide, will have to provide names of all channel and their MRP. In the new tariff regime, consumer is the biggest beneficiary as now the consumer doesn't need to pay for the channels that he or she doesn't want to watch. And has full transparency on outlook. As there is a shift from wholesale to retail pricing, the consumer doesn't need to pay for the whole bundle. We believe this change of wholesale to retail pricing is single biggest change, which shift power from broadcasters to consumers. This fundamental change will also derisk business model of MSOs and make DPOs ROI similar to other infrastructure industries. Content cost parity and content pass-through are going to be the most important outcome of this tariff order implementation. Hathway has been one of the victims of content cost disparity and so it should be a significant gainer after this tariff order implementation. This change will also help in orderly growth of sector as now DPOs will not have incentive to swap boxes as content is a pass-through and becomes variable cost versus earlier fixed cost. Due to content becoming variable cost, incremental ROI for any predatory action of box swapping will get reduced. We believe for larger MSOs, carriage, placement, marketing, promotional fee put together will not come down for FTA channels. FTA channels will be still very keen to use MSO EPG and other technology platforms for marketing to consumers and to achieve their business objectives. Quality of service guidelines, QoS guidelines, are another important part of tariff order. These will also help in increasing consumer satisfaction. There is also likelihood of many smaller unstructured MSOs, not able to meet this consumer focus QoS guidelines, which may lead to the smaller MSOs getting aligned with infrastructure of bigger MSOs. And overall improvement of customer satisfaction level in this important service industry. Overall, we believe tariff order is a winning proposition for broadcasters, who have good content which consumers want to watch and probably not so good for broadcasters who have been more used to bundling many channels with no demand with one driver channel.

Now I'll give you some more details on the recently launched India's first full-featured hybrid cable setup box, Hathway Ultra Smart HUB. This smart hub combines linear TV with OTT services and HD quality and brings many latest technologies under one roof. We see a clear shift in consumption in content today into smart and distributor. Indian consumers want a mix of traditional linear television viewing combined with on demand, or streaming sources. Hathway Ultra Smart HUB has been launched to create a unique TV viewing experience and to meet changing expectation of our consumers. With easy to use smart interface, the users can navigate between their cable TV channels, leading international and Indian OTT services like Netflix, C5, SonyLIV, Voot, and also customize smart hub with their own apps downloaded from the Google play store. A user can select and download more than 4,000 apps from Google Play including Play services, games and music. Consumers can enjoy more than 10,000 free songs from Google Music and numerous videos from YouTube. Smart hub also allows consumer to experience Android gaming on big screen. On the remote control, there are exclusive shortcuts to Netflix, YouTube and Google Play that makes it easy to access the most popular streaming sources. Consumers can use Google Assistant to a simple voice remote for applications such as finding their favorite web series, setting timers, answering questions, weather forecasts, and even placing e-commerce orders. Voice assistant also allows linear channel switching on voice command. It also has inbuilt Chromecast, which allows you to meter content from your phone to TV just at the tap of cast button on your mobile app, it allows you to mirror movies and TV shows, music, games, sports and more. This smart setup box takes away need for investment in multiple devices and need for multiple power points and cables to manage these devices. The boxes built on latest Android TV platform and will be supported by Hathway to upgrade to new versions of android TV as and when needed in future. The platform comes with 8 GB RAM to store various apps. Storage can be extended to 2 TV via external USB stick. Consumers can also play their personal collection of movies and songs and other video content as this box has a powerful video player. Consumers can record linear channel content as well, which can be viewed later by them at their convenience. Consumers can discover linear TV channels with new look and feel, EPG user interface. They can also give

command to record a future program while exploring EPG. As per latest VoD report, approximately 78% of Indian households still have CRT TVs. This Ultra Smart TV HUB also works on all CRT TVs without any additional adaptors. Hathway's truly convergent smart box allows the free air TV consumers to seamlessly watch best of linear TV and OTT, VoD, gaming content and also easy access to voice assistant services. All of these services are given at the fraction of cost of combined cost of buying all these devices from open market. We believe this easy access of large screen OTT content and new age digital services to these CATV consumers will explore content consumption across all social economy classification of consumers. While linear TV watching hours haven't come down, this box will help in creating entirely new segment of binge watching, OTT, VoD content even among CRT TV consumers. Hathway is also actively looking at this new age box to help explore demand for wireline broadband services. Wireline broadband consumers number in India has been stable around 18 million for last some time. We have seen OTT consumers average monthly consumption of data to be more than 150 GB per month. This heavy data consumption is meaningfully possible only on high speed wired broadband. Over a period of time, we expect all Smart HUB consumers to be Hathway high speed broadband consumers as well. Hathway Ultra Smart TV HUB will be available for consumers in the month of December 2018. We are currently working on appropriate pricing and other go-to-market details and a consumer awareness campaign to ensure we see mass production of this breakthrough technology. Along with new age box launch, we will also run a consumer promotion and will gift our consumers free access to many of the Indian and global OTT platforms for a limited period.

I will now hand over to Ajay Singh, Company Secretary, to share details on RIL transaction. Ajay, please?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [4]

Thank you, Rajan. Good afternoon, everyone. The transaction is yet to be consummated as it is subject to statutory and regulatory approvals which are currently underway. The money to be received by the company under the proposed transaction is to be used for the growth of the company. The company continues to work towards the target that it has set itself with the same zeal and enthusiasm, and it is business as usual for the company. As an update, please note that the shareholders of the company at their meeting held yesterday have given their approval to this transaction by overwhelming majority. Out of the total votes polled, that is 89.46% of the total production capital of the company, 99.98% votes were in favor of this transaction. But as I mentioned above, since consummation of this transaction is subject to statutory and regulatory approval, it would be premature to comment anything further at this, apart from what is available in the public domain.

Now we open the floor to Q&A.

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Questions and Answers

Operator [1]

(Operator Instructions) We have the first question from the line of Kaustav Bubna from Rare Enterprises.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [2]

Simply put, after this entire regulation that's passed for the change in bundling, will this be better for margins? Or will it impact our margins?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [3]

As for as that is concerned, we already replied. If you see my, kind of, you know, script, we clearly mentioned since the content was -- has been historically very high, this obviously is going to be positive for us. But it is a little complex, so each player has to see their own value chain and then come up with their own -- where they stand.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [4]

But could you give us then some sense on, or is it still confusing for you also? Like what type of margin benefit we'll see under the tariff? We are doing -- let's say we are doing 10 -- just one example, if we are doing 10% today, how much -- by how much bps could it be beneficial? I know that is tough to give an exact rate because it hasn't been effected yet.

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [5]

No, I'm sorry, I cannot give you a figure as of now.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [6]

But it will significantly better?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [7]

Definitely, yes.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [8]

And I just wanted to talk to you about this GO deal. Since they have shown interest in 2 companies with more than 50% stake, would that mean that -- I mean since they would become the biggest shareholder for both, would that mean that both of the companies could become effectively 1 acting together at some point in time? I mean is that the -- could you tell us the intention of this deal please, to the best of your abilities?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [9]

No, so as I very clearly mentioned that the notes of the transaction is not been consummated and it is subject statutory regulatory approvals. It is premature to comment anything on this.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [10]

But the money being given to you, which is -- I mean the shares, the equity is being diluted, is for your growth in broadband. Is that right? So investment in VoD?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [11]

Frankly it's too early to share any details on this, but obviously, this is a growth capital. Now which business where, we haven't made a detailed business plan as of now.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [12]

Okay, great. By when would this -- by when you expect all these regulatory approvals et cetera to come and the open offer to take place? That -- could you answer that?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [13]

As you know the regulatory may take some time, okay? So to fix up, to point a finger as to when we are expecting it? Again, I will say it is a bit premature. But yes, it will take some time.

Kaustav Bubna, Rare Enterprises - Equity Research Analyst [14]

Okay. But isn't there some rule, like say be 2 weeks, they've got like a 2-week, not a limit, but like...

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [15]

No there is no such limit. there is no such limit.

Operator [16]

(Operator Instructions) The next question is from the line of Avinash Kumar from [Moon] Capital.

Unidentified Analyst, [17]

Yes, a couple of questions. I will take the strategic discussion forward from the last participant. I know you are not very open to discuss on the equity portion because of the regulatory hurdles. Just maybe you can briefly tell to the Street so that we have a clear vision that how do you strategize your net next growth, I mean, will it come from broadband? Or will it come from cable? And can we expect Hathway to be a bit more aggressive to gain additional market share in either of the cable or broadband space?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [18]

No, if you see my earnings call speech today obviously, we have shared a clear potential both in broadband and our pay-TV distribution business. So we believe both our businesses are cusp of kind of huge explosion. We have spoken about the new tariff order, which is a huge game changer. A winner for consumer as well as parties, you know, which can execute it better, okay? We have shared about the cable hybrid setup box, which explores our pay-TV business and OTT business as well as helping growing the broadband business. So frankly, all the business lines which we have today they are on cusp of next level of explosion.

Unidentified Analyst, [19]

Okay. So this, I mean, I believe this capital infusion will also give you a big tailwind to push your business plans ahead. That's fair enough.

Secondly, do you expect any further delay in your tariff order beyond January '19? Or do you see, I mean, expect the on ground implementation to start in January '19?

Sitendu Nagchaudhuri, Hathway Cable and Datacom Limited - CFO [20]

So if you see as on date, the timelines are already there. So by 29th of December, everybody knows should be ready and by 30th, it's gets fully implemented. So we don't see any hurdles in this.

Unidentified Analyst, [21]

Because there were talks of some, I mean, the bodies going to try to ask for a maybe 15-day or 1-day -- 1-month extension window. So given that background, I was confirming what's your view point on that?

Sitendu Nagchaudhuri, Hathway Cable and Datacom Limited - CFO [22]

So we are not aware of any such extension already. Such requests are made to try.

Unidentified Analyst, [23]

Okay, and last question from my side would be on a bigger picture here. Do you feel that post this dry order comes into effect the bargaining power of traditional broadcasters will become great given that the consumer demand for the pay channels, rather than the current fixed-fee deals that define the DPOs? So do you somewhere feel that their bargaining chip will go down? And the whole industry dynamics might change post that?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [24]

I think it's -- this is for each of us to decide, which way the bargaining power we go, okay? But we are very clear the bargaining power will be there in hand of consumer. So consumer is the real winner, okay? Now the people who are confident of executing strategies which will help consumers feel more satisfied. I think those are the people who will win. Whether it's the DPOs or broadcasters. And this is exactly same we mentioned in earnings call as well.

Operator [25]

(Operator Instructions) The next question is from the line of Vivekanand from AMBIT Capital.

Vivekanand Subbaraman, AMBIT Capital Private Limited, Research Division - Media Analyst [26]

So Rajan, if you could throw some light on the progress on cost reduction, particularly on the cable side? And a connected question on the operating cost was the content inflation, which in the beginning of the call also you led to highlighting that your company has suffered the high content cost for -- among the industry peers your content costs being among the highest. So how should one look at the net content cost or rather contribution of the content or rather the ARPU in the new regime as far as subscription revenue and carriage and marketing fees are concerned?

Second question is on the multiple MSOs that are now getting already to 1 umbrella. How should one think about the ability of MSOs to come up with structures like from industry where there is a lot of towered sharing or infrastructure sharing, is that something that you would be open to considering? Or is it even practical in the cable industry?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [27]

So let's first go for the cost question, okay? And cost is divided into 2 parts content cost and non-content cost. And let's discuss first HDPL. Then we'll come to HCDL. Now for HDPL, we have guided the Street there will be INR 40 crore increase in the content cost for the full year, okay? So still stand by that. So if you see right now HDPL, okay, standalone H1, okay, H1 last year to H1 this year, there is an increase of INR 25 crore in the content -- net content cost. This is obviously net content cost, okay? From INR 149.51 crore in H1 last year to INR 155 crore this year, which is not INR 25 crore. So we are still confident of closing within INR 40 crores because that is how all agreements have been signed. In fact, a lot of the agreements have been signed for 2 years without any content cost increase, okay? So in a pre-tariff order scenario, we are obviously working on assuring this year we meet INR 40 crore and this year we even reduce INR 40 crore to further because many of the agreements were signed with 2 years without an increase, okay? So we are kind of meeting the guidelines which we are given earlier.

Now let's understand HDPL non-content cost. Total expenditure without content cost. So H1 FY '18, this was INR 147.6 crore, this was there in last year presentation. And H1 FY '19 is INR 137.6 crores. So not only we have negated the effect of inflation of 7%, 8%, okay, we also have reduced our OpEx by around INR 10 crore in the first half in HDPL.

On HCDL, okay? H1 FY '18 last year, we were INR 157 crore on total expenditure, okay? And H1 FY '19 we are INR 151.3 crores. So once again, we have stayed around 4% cost, okay, in spite of 6% to 7% inflation anywhere being on a relative trends in place every, et cetera, et cetera. And going forward also, our focus on cost reduction will continue. Obviously, it's going to get tougher, okay? Because although, I think, low hanging fruits, everything has been availed, okay? Now we have to really use high end technology, okay, to make sure further cost reduction initiatives continue. And recently started using votes in one particular function as a pilot, okay? You see if all back-end processes can be automated. There when a few boards can manage work, which hundreds of people are doing. And more importantly, we can improve with time, turnaround time for consumer-facing areas. Now that's a pilot which we started. Probably in next quarter call, we can give a detailed update on that. So this is all about cost.

Now I think your question also was in the new tariff order, how dynamics will change? So new tariff order, I think all of us are clear. I have spoken to many DPOs, personally, we at Hathway are evaluate there, content cost has to be passed through. There is no commitment which we'll take for any content cost or any reach objective for any broadcaster, okay? We will focus more on first collecting our infra fee, which is INR 130 for 100 FTA channels including 46 Doordarshan channels and after that, INR 20 for every 25 additional channels, okay? And balance will be obviously will use our technology platform or EPG or marketing muscles or our sales push to help broadcaster sell more and more of their channels. And in turn, make sure we also make required amount of money in terms of commissions and in terms of marketing fees, et cetera, et cetera, okay? Now direct numbers are directly telling. I think let the one quarter happen, okay? But definitely any mass revenue shows players like Hathway, which had a disadvantage on content cost historically, numbers are available in public domain for all MSOs, okay? Definitely stand to gain much, much more.

Vivekanand Subbaraman, AMBIT Capital Private Limited, Research Division - Media Analyst [28]

Rajan, on the point that you made the first focus of yours being on collecting the infra fee. Is it clear are the MSOs agreed on the fact that at day 1 needs to charge INR 130? Or will you also start seeing competition here where someone prices the infra at a lower rate, say at INR 100, because the area comprises rural markets where people may not have the -- that resolve to pay.

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [29]

Look, we have analyzed the P&L, okay, of all listed companies, all DPOs including DTH companies, okay There are 2 kind of players we can categorize: one, people who are making good EBITDA or one who are in struggling. In terms of cable TV business, okay? So people already who are making good EBITDA, they have to charge this INR 130 plus INR 20 plus INR 20 for every additional channels to even make their current EBITDAs, okay? So there is no question of undercutting as well. And the players who are struggling, we know their balance sheet, we know their P&L, okay? So obviously, there is no way they can continue to struggle, okay? So I think overall industry seems to be unanimous as far whatever I have spoken to all the people. And you know this is anyway as per the trying norms at play. So we haven't seen anybody really talking about any sort of undercutting et cetera.

Vivekanand Subbaraman, AMBIT Capital Private Limited, Research Division - Media Analyst [30]

Right. And my other question was on the shared infra on the lines of what the telephone companies have done with respect to -- now that several MSOs are going to be housed in one entity or with one owner. Would there be an opportunity to collaborate on certain shared infrastructure, active or passive? Is that even possible? Or is it something that we are just...

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [31]

No, frankly it's too early to comment upon on it. But in general, not linking it to your this particular question, I know, talking about industry trend, so we have spoken about launch of Hathway Cable hybrid box. We have spoken about new quality of service guidelines, okay? Now we have to see, there are more than 1,400 MSOs in India, reporting under DPOs in India how everybody -- because the reality after 5 years consumers will have only cable hybrid set top box even in a village, okay? Now we have to see how many MSOs are able to come up with the box? How many of them are able to do alliances? How many of them are able to handle the technology? Or they want to align with the bigger MSOs, okay? Now this is what time will tell. But definitely, these are changing times, both from quality service expectation from TRAI and the technology. So we have early to execute and take lead in both trends and we will see how the other part of the industry will follow.

Vivekanand Subbaraman, AMBIT Capital Private Limited, Research Division - Media Analyst [32]

Right. Just a couple of more questions. One on the new set top boxes that you have introduced. Do you also intend to distribute some of these boxes through the B2B channel, particularly through your other MSO peers who may have some sort of a broadband reach, something like GTPL distributing this box in their broadband attachment area? Or do -- have you envisaged any sort of plan in mind to distribute this?

And the second one is nearly on the broadband side -- or on the TV side, you mentioned about the CRT homes being 78%. But at the top end of the market, have you done any study on arriving at the number of smart TV homes? Or homes where there is already such a -- consumers are already consuming high-speed broadband and also have smart TVs, but homes where there is no smart TV yet, but you see a good opportunity?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [33]

No, let's start with the question #1. As far as GTPL is concerned, it's a listed company, okay? We obviously operate arm distance from them, and they have their own plan, okay? And I think they have a conference call tomorrow. And I'm sure the management team will be sharing their plans, okay? But in general, obviously, as far as we are concerned, I know we believe it's a breakthrough technology, we have best of the alliance partners, okay, of both global and local, okay? And we believe that our box is are only full hybrid box available in the market, okay? So as I mentioned earlier, only time will tell how the response of lot of the smaller MSOs, okay? And is there a possibility of alliance, okay? But we'll obviously initially focus only within our universe and will sell only through our LCO partners, okay? But down the line are there other MSOs, smaller MSOs, who want to align with us? Now we will have to see how the question goes, okay?

Now coming to your second question on how are things at the top end? Look, let's understand, while top 2%, 3% Indian consumers have the full smart TV et cetera, okay? But even there, let's imagine the consumer home which has a smart TV, okay? And they want to see 8 OTT applications. Now that particular smart TV will have only 2 or 3 or 4 at max. I'm one of such user personally, okay? No smart TV has all the OTT apps available, okay? And then after that, you have your cable box or a DTH box separately, okay? And then all this top-end 2% consumer also have started using some kind of assistant, okay? Whether it's a Google assistant or Alexa or something else, okay? These are the people also who have some sort of Chromecast because they want to mirror all their photos or a video call on their TV, et cetera. So life is becoming very complex for these consumers, okay? They have too many devices who don't talk to each other and all of the devices can't be managed through single voice assistant. The device which Hathway has launched and we are giving to consumers in December, is a device, which has everything into 1 device at a fractional exceptional cost. Also, we need to understand that a lot of boxes in these consumers were given around 2010, 2011, 2012. This top-end consumers were earlier adapters of distillation, both on cable and DTH. After 8 years, 8-year to 10-year life is being over for these boxes. A lot of these boxes are coming for replacement. But the consumer has a choice, I go and buy for INR 2,000 a new high definition setup box because we are all HD consumers. Or I pay a little additional, or probably same because we are yet to disclose our final go-to-market plan, and I get 10x more features. And when we launch, we're also giving as a promotional offer a lot of OTTs as a gift to our consumers, okay? So obviously, people like to avail that. So we expect even top-end 2%, 3% top-end smart TV consumer also shift to this box.

Vivekanand Subbaraman, AMBIT Capital Private Limited, Research Division - Media Analyst [34]

Right. Understood. So you think that the top end consumers who already have smart TVs will also want to opt for your new age box?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [35]

Absolutely, because nobody has that feature. For example, there are dongles available in the market, which people are using, okay? They don't have, for example, on Netflix, voice assistance, okay? So this is the only box, which has pretty much anything, which is available in the market even with a single box. And we also have a provision for upgrading this box to a full IoT hub. So that's version 2, which is going to launch next year. We also can make it a full IoT hub. So essentially, one single device takes care of all your home requirement.

Operator [36]

(Operator Instructions) The next question is from Rohit Dokania from IDFC Securities.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [37]

I have 2, 3 questions. Firstly, could you talk about the status of the case that has been filed against the QoS, quality of service, norms of the tariff order in the Delhi High Court?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [38]

It is listed for tomorrow.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [39]

Okay, but as of now, sir, if can you give some of the -- what is the latest that has come out till date? Or are just hearings going on?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [40]

No, no, so they -- they still -- the full hearing is yet to take place, okay? And in the light of Supreme Court judgment, we have a firm belief that nothing is going to happen at the High Court hearing.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [41]

So you think the High Court will, because the Supreme Court has ruled in favorably so the High Court will also sort of rule favorably on such thing.

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [42]

We cannot comment on you know like what the High Court will think. In our opinion, we feel that in light of Supreme Court judgment, okay? The case at the High Court level is already very weakened.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [43]

And sir, what exactly is the case? And what are they contending?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [44]

So that we can take...

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [45]

I think off-line you can take it here from Mahesh on that.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [46]

No problem, no problem, sir. So the next question that I had for you, you mentioned at the beginning of the call that you do not expect any impact on carriage placement or marketing fees from FTA channels because of the new tariff order. I was just wondering at least the larger broadcasters are probably turning all their free-to-air channels into pay channels. And also if this trend also continues towards these sort of smaller broadcasters as well, could there still be an impact across overall carriage placement and marketing fee versus what we are getting right now under the new tariff order?

Ajay Singh, Hathway Cable and Datacom Limited - Head of Corporate Legal, Company Secretary & Chief Compliance Officer [47]

No, I didn't say they wouldn't be any impact, I said not any impact from FTA channels. If you see all the larger broadcaster, any that we had net deal already, okay? So we are not frankly today also getting any really carriage placement, it's a net deal for them, okay? And that is all FTA channels, okay? Whether it's a new channel, whether it's -- all sort of FTA channels. We have done, kind of, partnerships meeting with most of these channel partners. They are very, very clear. They need our platform as I mentioned earlier, okay, to do marketing and do various promotion to consumers and they want to align with us, okay? Now exactly how much will get et cetera it is too early to share. But we are very confident a good part of that currently earning remains with us.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [48]

Okay, that is helpful. The other question that I had was INR 130 of infra fee, which is the order mandate essentially, so I was just wondering, sir, I mean, as a consumer people have been saying that consumers don't watch more than 15 to 20 channels. So which essentially means that infra fee will probably be maxed out at INR 130, right? Why should I take 100 FTA channels and on top of that then choose the next 15, 20 pay channels. I can choose whatever I want within those 100 channels as well? Is that a fair assumption?

Sitendu Nagchaudhuri, Hathway Cable and Datacom Limited - CFO [49]

See, the subscriber had the choice. That the law mandates that I should give a bouquet of 100 FTA channel. But within that FTA channels, the subscriber has a choice to say that look, I will take only 90 of the FTA and give you the 10 pay channels for which you will have to pay INR 130 plus the cost of the pay channel.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [50]

Sure, sure, so that is solely from the subscribers' side?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [51]

Remember when we mentioned, I mentioned for example one scenario wherein we expect 50 additional channels to be taken by consumers, okay? Assuming consumer is saying let me take any FTA channels, which are available, okay? And then plus I can take additional 50 channels. Thus based on consumer research we have done that's what we think national averages will be there, okay? There are areas wherein people will take only 25 extra, there are areas people will not take anything extra, and there are areas people may end up taking 100 extra, so. So it all depends upon finally, the weighted average mix for each BPO.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [52]

Sure, I understand that sir. That is very helpful. And the same, just a follow-up on this. How should one think of this INR 130 getting divided between the MSO and LCO? Because in the past also in the earlier digitalization regime also triad sort of suggested a ratio that should be shared between the MSO and the LCO, but I don't think it was followed in spirit. And this time also this INR 130 do you think that the ratio that is suggested by TRAI will it be followed? Or we will go back to the

earlier digitization phase where there were lots of sort of disruptions between the MSOs and the LCOs because of the revenue share?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [53]

I think the key thing which we are to understand is from wholesale to retail. In earlier regime, we have seen specifically in 2015, '16, you know. I think '17, '18 have been more purposeful years, okay? For '14, '15, we are seeing a lot of undercutting by respective MSOs, okay? Now in this new regime, there is a scope for that, okay? Because content is something which is possible, okay? Earlier the way structure was, earlier the MSO have done fixed deal, okay? For example, there is an MSO with file like base or doesn't take CD, okay? And I have done for 2 years now, okay? So I can keep on undercutting everybody, okay, because I don't have to pay for the content anymore, okay? I can disrupt the industry. Next 2 years, I can take my 500,000 to 1 million okay, for my content cost from SG&A, so I have more incentive to disrupt everybody by dropping prices and gain market share, okay? But now the content has gone from fixed to variable. So nobody has anything. So if you, for example, even if you draw often what you are naturally, okay? So you don't even get a basic ROI for the business actually. So earlier, the players who were playing on this fixed versus variable were still making the ROI, but disrupting the whole industry. Now that's not possible. That's what I mentioned earlier in my call that...

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [54]

No, no, I understand, but my question is slightly different I'm coming from the LCO perspective, I mean generally I feel that we interact with -- they are of the sort of mindset that they require at least INR 100 per month as far as their own cost and their own servicing is concerned. But out of that INR 130 if you were to give INR 100 to the LCOs that would hardly leave just about INR 30 with us. So I was just will we go back to offer it...

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [55]

Let me just answer this question too. Friend is picking we aren't yet closed the whole dynamics in the full value chain, okay? Second, whichever scenario you see at least what has been today, the new scenario is much, much better actually. Now whether it is a multiplier of x or 2x or 3x we are here to see. Because we are one of the sufferer of very high content cost. So simple fixed to variable is itself huge multiplier. Now how do we, kind of, do the whole bifurcation in that entire value chain, I think, over next 2 years -- next 2 months, next 45 days, we'll have more clarity. But anybody can do simple math, they will tell you that new scenario either way will be much better for Hathway.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [56]

Sure, sir. That is helpful. Just one last question from my side this is specifically on the broadband side. Could you sort of give us some sense as to how should one think about broadband ARPU from a one-year perspective or the next, sort of, 3 to 4 quarters? So I understand you have said that we not taken any price cuts and this is more because we are moving subscribers to longer-term plans. So I was just wondering, you know, is this process of moving subscribers to longer-term plans done with? Or there could still be more pressure on the ARPU that we have reported in Q2?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [57]

No, I think, there is a little different understanding. Even for dropping ARPU by 2% to 3%, we don't mention because the longer-term plans, we mentioned because -- let me take a scenario, let's assume we had a INR 600 pack earlier with 10 GB, okay? And INR 1,000 pack with 100 GB. Now even INR 600 pack has 200 GB, okay? And INR 1,000 pack 1,000 GB. So a lot of people who want but only 100 GB they are okay with 100 GB but they were on INR 1,000 earlier, they'll come down to INR 600 now.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [58]

So basically, down trading has happened because you've increased in....

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [59]

It is happening because of lower value plans also have higher GB. Mobility to compete with your overall, kind of, competition market that was done and also to delight consumers that was done already a year back, okay? Because of that constant change will seen 2% to 3% constant drop in ARPU. Now whether this affect will continue in further quarters or not, frankly, that depends on lot of the market factors as well actually, okay, including mobility. So I am not in position to comment, but currently, we do see this trend of 2%, kind of, ARPU drop every quarter, okay? And parallely, we have another thing which is happening since you discuss about this whole business. We continue to acquire high value customers who are using more than 100 GB per month and who are real wireline customers, but parallely the people are using less than 20 GB. They wanted it to exit wireline to mobility, okay? Because they can even manage within INR 200 that kind of usage, okay? Like this quarter because of our QPS provision system is an upgrade, we are not able to share data. But last quarter, we have shared data. So we had, last quarter, around 19% of consumers were less than 20 GB, which means around 150,000 consumers are less 20 GB, okay? Now out of this 30,000 initial churn has happened this, okay? Now our efforts are there to continuous upgrade these people remaining 120,000 now to 30 GB, 40 GB, 50 GB, 80 GB, 200 GB, which is where this whole OTT box and cable Ultra setup box come into picture. And a lot of other content partnership come into the picture. Now only next 6 months or 9 months will tell us how many of these people are we are able to upgrade, how many we continue to lose to mobility, okay? But we are definitely getting a lot of right kind of consumers.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [60]

Understood, sir. Sir, if there is time, can I squeeze in one more? Or should I come back in the queue?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [61]

Please go ahead.

Rohit Dokania, IDFC Securities Limited, Research Division - SVP of Research [62]

Sir, just one question, sorry for too many questions. I was just wondering, sir, I understand you cannot disclose much about the RIL deal, but I'm sure because it was a public announcement, you would have also spoken to your LCO partners and you would have gotten feedback from them as well. So just wanted to understand on which page are the LCOs? What are their comments? And how do they feel about this investment? And going forward, how do they feel about it?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [63]

Frankly, no comment on this.

Operator [64]

The next question is from the line of Dipesh Mehta from SBI Securities.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [65]

Just a couple of data-related questions. I think most of the questions have been answered. Can you help me with the CapEx including both the businesses? And how much OpEx savings because earlier, I think, we indicated around INR 40 crore OpEx saving possible. So whether we maintain that kind of outlook or we are now -- considering H1 seems to be slightly ahead of it, we likely to revise?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [66]

No, no. As far as H1 is concerned, we have shared already the numbers on cost optimization, okay? As I mentioned, we are realizing that almost all the low hanging fruits we have, kind of, already utilized, okay? So we are seeing how much we are able to execute in Q3, Q4. We will also a lot of focus in Q3, Q4 for the management team is getting shifted to implementation of new tariff order as well as the launch of cable hybrid setup box. We believe these 2 initiatives are much, much bigger than anything else we have been doing. But parallelly, I also indicated in the call that we were working on certain robotics, okay? And using boards to reduce our cost of the back end. So next level of cost reduction depends upon frankly some these technical initiatives, how fast we can implement them. We have started pilots. Next call we'll share more details on that.

And as far as CapEx is concerned, I mean, we have given the guideline for last quarter call, okay? I think around INR 250 crore overall both the companies put together. Currently, we will stick to that.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [67]

And how much we have incurred in H1 or Q2?

Sitendu Nagchaudhuri, Hathway Cable and Datacom Limited - CFO [68]

In H1, we have incurred about INR 100 crores of CapEx in HCDL and about INR 47 crores of CapEx in HDPL.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [69]

And just one question on business. Right now, we have sufficient capital likely to come post transaction. I think you -- if you can help us understand in terms of whether we would be likely to deleverage us first and then, maybe -- because right now we are generating some kind of case internally. So whether full focus would be on deleverage or initial focus would be driving growth rather than having deleverage kind of plan at this point of time.

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [70]

Frankly, too early to comment upon this.

Operator [71]

Due to time constraints, we'll be able to take one last question. We'll take last question from the line of Krinal Shah from [Inam] Investments.

Unidentified Analyst, [72]

My question is related to Ultra HUB...

Operator [73]

Sorry to interrupt you, Krinal, but we can barely hear you. Could you speak a little louder?

Unidentified Analyst, [74]

You're able to hear me now?

Operator [75]

Yes, please go ahead.

Unidentified Analyst, [76]

What would be our cost of purchasing the Smart HUB box?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [77]

Krinal, we'll not be able to share in this call. It is complex, you know, we have signed NDA with various partners. A lot of other tech partners are involved in implementation, okay? So as of now, we can't share in this call.

Unidentified Analyst, [78]

Okay. And my second question is regarding this TRAI tariff order. How is the preparedness at the level of the SGO to implement this order because my understanding is that they also need to do a lot of groundwork to implement this order?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [79]

No, I think, it's more about IT infra of MSO, okay? We already have a headset connect at home, which is getting upgraded. So that this whole thing can be used. We also have an app already, okay? And over next 45 days, whatever else is required, we're going to work on that. And I think, TRAI is also going to get into a lot of awareness activities, you know, over next few weeks. One such is planned next week in sense, okay? So I think in next 45 days where entire value chain has to collaborate, okay? Currently a lot of MSOs are meeting, a lot of broadcasters together are sorting it out, how we are going to implement the whole thing. Now good thing is nobody is debating whether it'll get implemented or not. Now everybody is working towards implementation. And making sure there is a common understanding. So we remain very, very positive on implementation.

Unidentified Analyst, [80]

Okay. One last question. We can share the split of our carriage revenue from prepaid channels and paid channels?

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [81]

I won't have as of now. Maybe Mahesh can give you later on.

Operator [82]

We'll take that as a last question. I would now like to hand the conference over to Mr. Rajan Gupta for closing comments.

Rajan Gupta, Hathway Cable and Datacom Limited - MD, President & Director [83]

Thanks, for joining us for this Q2 earnings call. For balance of the year, we have a clear task at hand. Broadband business has to execute tiered growth strategy. They are focusing on high data usage consumers. There is no further home pass expansion planned for balance of the year and focus will be on monetizing of existing home process. Video business ARPU

growth plans have to be sustained through rest of the year. Actually growth will provide us renewed momentum to revenue growth in video business. Over next few months, our business focus areas will be smooth and meaningful implementation of new tariff order and successful land launch of cable hybrid setup box. We believe these initiatives will help us unlock value in both of our businesses. Thanks once again for joining us for this call, and good day.

Operator [84]

Thank you very much.