"Hathway Cable & Datacom Limited Q3-FY13 Earnings Conference Call"

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MODERATOR: MR. VIVEKANAND SUBBARAMAN – ANALYST, PHILLIPCAPITAL.

Moderator Ladies and gentleman, good day and welcome to the Hathway Cable and Datacom Limited's Q3 FY13 Standalone Earnings Conference Call hosted by PhillipCapital India Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand over the conference to Mr. Vivekanand Subbaraman of PhillipCapital. Thank you and over to you sir.

Vivekanand Subbaraman Thank you Inba and good morning everyone. We at PhillipCapital India are pleased to host the Q3 FY13 earnings conference call of Hathway Cable and Datacom limited. We have with us the senior management team of Hathway cables represented by Mr. Jagdish Kumar, The MD & CEO, Mr. G. Subramaniam, the CFO, along with other senior management members of the team. We will begin the call with the short commentary by Mr. Jagdish and then we will move over to the Q&A session. Over to you sir.

Jagdish Kumar Good morning friends. Can you hear me? Thank you for being with us this morning for a discussion on our Q3 results for FY2012 – 13. As this is my first interaction with the financial analyst community, I am taking the liberty of giving a brief introduction of myself. My name is Jagdish Kumar and I have recently assumed responsibility as the MD and CEO of Hathway. I am a Chartered Accountant by qualification. Out of 26 years of my professional career, I have spent 18 years in the media and entertainment industry including a 16 year stint with Star TV. Just before joining Hathway as CEO, I was President of Media and Entertainment at Reliance Industries Limited working on their 4G broadband project. For this call with me today I have our CFO, Mr. G. Subramaniam who is very familiar to all of you.

Firstly allow me to summarize our financial results for the quarter. We are reporting standalone operating revenues for the quarter ended 31st December 2012 at 154.4 crores, an EBITDA at 35.5 crores. Revenue and EBITDA grew sequentially over the previous quarter by 15.5% and 70.7% respectively. Year to date operating revenues for the 9 months ended 31st December 2012 came in at 423.1 crores which grew sequentially by 12%, an EBITDA at 80.1 crores which grew sequentially by 25%. Additionally we estimate that Hathway's economic interest in the EBITDA of its several subsidiaries, JV and associate companies for the quarter under review would aggregate to approximately 14.5 crores. Therefore the total EBITDA including our economic interest in subsidiaries and JVs and associates is estimated at 50 crores. As a consolidated entity we have seeded about 3.5 million digital set top boxes. Of these, we get paid for about 2.9 million subscribers. Pertinently of these boxes, about 2 million boxes are in Phase-1 cities. In quarter 3 alone, we have seeded about 725,000 set top boxes. I am happy to report that Phase-1 of our DAS roll out has been very successful particularly in the cities of Mumbai and Delhi. We are now in the process of rolling out services in the city of Kolkata. We hope to be able to reach between 2 – 2.2 million subscribers in these 3 cities put together. We are going full steam ahead in implementing DAS Phase-2 keeping mind the targeted date of 31st March, 2013 for migration from analog to digital. As you know in this

Phase we cover 65% of the 38 cities and we expect additionally to reach over 4.5 million subscribers. The cumulative digital subscriber after Phase-2 will grow to nearly 7 million subscribers and position us as amongst the most significant players in Phase-1 and Phase-2. You may be aware that we have recently acquired full control of our JV with the Bhaskar group with covers significant part of central India including cities of Bhopal, Indore and Raipur. Our strategy is to have as wide the market as possible. With this acquisition our services will reach significant Hindi speaking markets and additionally our southern markets such as Karnataka and AP. We have good visibility on the contract for pay channels and carriage and placement. We do not foresee any substantial decline in carriage and placement revenues.

Our backend infrastructure in the form of a professionally run customer services unit has also a subscriber management system is fully in place. The variable cost associated with these is fully captured in our Q3 numbers. In Phase-2 markets we already have achieved significant penetration of our set top boxes with about 1.5 million boxes in place. As for the additional boxes which were required we have contracted for deliveries with our suppliers in the end of March and a few overflows beyond March. But we are confident that we will be fully able to deliver set top boxes in the market as we currently serve. Currently, we have on hand order about 3.6 million boxes. These are early days for digitization and we expect that in the course of Q4 of the current financial year our billing will stabilize and effective Q1 of FY14 we should be able to exploit the potential with the contracts which we will be able to enter into with the numerous stake holders. We will see reasonable growth in Q4 but more substantially we will see significant growth from Q1 of the following financial year. With these brief introductions, I would like to open the floor for your queries. Thank you.

Moderator Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Prakash Kapadia of iAlpha enterprises. Please go ahead.

Prakash Kapadia Sir broadly 2 questions from my side. if you could give us some sense on learning in terms of Phase-1 implementations in terms of change of LCO behavior, revenue sharing agreements and secondly on the broadband what is the game plan and in this entire digitization thing, is there renewed focus on broad bang given the opportunities. If you could just share some insights on these 2 please?

Jagdish Kumar We have had very significant learning from the Phase-1 implementation. I think the first significant understanding of what can really make the digitization successful is the involvement of the government. I think the government has been very aggressive in ensuring implementations. So that continues to be so in Phase-2. That learning in Phase-1 we are carrying it forward and the government itself is carrying it forward in Phase-2. On the FGO relationships we had very good sessions in Phase-1 where we had presentations to LCO about implication of digitization. So we could allay there apprehensions and really speed up implementation. So in the majority of the cases, there has been realization amongst the LCO community about the benefits of digitization. So we don’t foresee any major disruption in our relationships with LCO.

Prakash Kapadia And has that translated into some revenue sharing agreements from the ground or is it an ongoing process and we will see most of these being translated into revenue sharing agreements. And if you could give some sense of how that ratio could span out in the digitization scenario?

G. Subramaniam Prakash this is G. Subramanian here. We have been entering into these contracts since about November or so and obviously it will be unfair on anybody's part to assume that LCO where very willing recipients of the new revenue sharing model and we did as a company anticipate some degree of misunderstanding which as Mr. Jagdish Kumar had said we have tried to allay and I believe we have successfully allayed these apprehensions. We are fairly confident that during the course of this quarter we will reach 100% of contracts with the local cable operators. This is not just a local cable operator. In some markets there are large distributors who are very strong players and we are fairly confident given our very long relationships with these operators that we will be able to reach conclusion. The important thing is the LCO and distributors see as credible players. We have deployed set top boxes on time. Our SMS has been working perfectly. Our conditional act which is much more important has been working well. And not only the LCO but even the government has seen as a credible implementer of DAS. So actually what has happened is in the recent couple of weeks we have actually seen a more an more LCO who have not been fully served by that NSO looking at that as an opportunity to roll out DAS services in that territory. So that is as far as contracts with LCO are concerned. Obviously we do see broadband as a key part of this business. And the moment our roll out with about LCO is completed in this quarter, we will obviously be pressing ahead on the broadband front.

Prakash Kapadia Next year onwards we could see renewed focus and big game plan for broadband?

Jagdish Kumar Absolutely. We are already at 400,000 plus subscriber as far as broadband is concerned. The good thing about broadband services is as we are starting to add new subscribers they are coming in at a higher ARPU than the average that you are seeing in our model at this point. So we expect it to go up to an average of Rs.400 over a period of years, not immediately because the older subscribers are still on the old tariff plan. As we progressively migrate these subscribers over a period of 1 year or so we expect to see a significant up take in ARPU and also gross add next year should be significant. We are making a significant push.

G. Subramaniam Just to add on the broadband piece, the management focus in the last 6 months has really on implementation of the digitization for CA TV. But we are now doing a comprehensive revenue for our broadband business in terms of technology, in terms of the resources we have and being able to exploit this connection we have with the consumer. So we would be able to really give you much more clearer and brighter picture in the coming quarter of our broadband business.

Prakash Kapadia And sir just on the broadband thing this could be targeting customers who are not say part of DAS or the cable network, is that also part of the thought process?

G. Subramaniam Very much. We are looking at a broad swath of customers including commercial enterprises as one of the significant segments for our broadband business.

Moderator Thank you. Our next question is from Rajeev Sharma of HSBC. Please go ahead.

Rajeev Sharma I have couple of questions. First is if you could help us clarify as to whether you have presence with digital head ends and with all the 35 cities or how is your infrastructure spread out in these Phase-2 markets? Second what is the incremental CAPEX you are looking for Phase-2 and how much of inventory you have in addition to the 1.5 million you have done already in Phase-2. So how much of inventory you have for set top box and what will be the delta and other kind of CAPEX, will that be a big number or you will take a IP route or the hit route. Third, is on the LCO share. Will this be 35% or will this be higher or there will be higher in subscription 35 and some share in carriage fee because when we speak to couple of other players we get an impression that they are willing to go with a higher share to the LCO and that could disrupt the market practice. So how do you look at these things?

G. Subramaniam With your permission I will take those questions in reverse orders. The first is the LCO share. We anticipate an average share of 35% in most markets but wherever there is a distributor who intervenes between us and the community of local cable operators we will have to share some of our revenues with the distributor also. So, on the average we are modeling based on anywhere between 35 – 41% as the revenue share across the country. For instance in Delhi the revenue share will be higher because there are strong distributors but in the south the reverse would work. So will have to take it market by market. It's a very granular approach. There are other operators who have got different models. But I think in order to make it a viable business model this is the most appropriate share of revenue. We can talk of 50% - 60% revenue share. We are in the business of making profits for our shareholders and I would not indulge in other people's strategy. I think this I a very workable strategy. Second thing is we always talk of cable television at our business and also broadband services. We are actually a cable television provider and also a broadband service provider. Because Hathway is already a significant broadband services player, there is always an opportunity for us to share some part of the upside from the broadband business of the local cable operators. So he is going to get in terms of rupees, more share from us, but not in terms of percentage of those revenues'. So that is the big advantage that we have. Over most of the MSO in the country who do not have a significant broadband business. Albeit we need to execute better on broadband I quite understand and as Mr. Jagdish had said post this we will be focusing more and more on that. As far as set top box inventory is concerned. We started off in the month of January with about 400,000 boxes in inventory. As Mr. Jagdish Kumar had explained we have got about 3.6 million boxes on order of which 2.6 million boxes are expected to arrive between first of January, I am taking the liberty of this entire quarter, during this quarter about 2.6 billion boxes and about a million boxes will spill over there after. A billion boxes we will take it opportunistically. We don't know whether we will actually take deliveries of that. But definitely 2.6 in this quarter and then a million boxes beyond that. Over and above this our JV partner will have anywhere between 1 – 1.5 million boxes on order and just to sort of answer the question before it comes all these boxes have been substantially fully funded at this point of time. When I say funded we have either opened letters of credit or we have paid advances or we have entered into leasing arrangements in some of the cases. By and large the entire inventory of boxes that we need is fully funded at this point of time. The first question was our total CAPEX in the first quarter as consequence of DAS. We expect it will be in the range of about 400 crores in the current, when we go up to 2.6 million boxes but if you really look at it, we also collect activation fees up front. When you back all that out, its about 350 – 365 crores out of which lease financing will fund about 90 crores at this point of time. With the balance of it coming in from, debt. Just to inform you out of this debt substantial part of it is already begin organized. They are either in the form of signed loan agreement or in the form of term sheets which are being discussed with the banks. So we are fully funded at this point of time and the first question Rajeev, was digital headend, we have about 20 digital head-ends deployed across the country. This covers all the towns in the 2nd Phase and the 1st Phase towns and this will be amongst the largest deployments of digital head ends in the country today. That is one answer to your question. And just to elaborate, these are substantial number of these head ends are Ericson head end and they have a capacity or a compression rate which is far superior to any other digital head end deployed in this county. So we theoretically can carry almost 2000 channels **(Inaudible) 19.33** what happens is because we are a broadband services provider, we will provide a substantial number of standard definition product. Over and above that we already carry nearly about 20 HD channels which is more than most DTH players and the balance capacity will be allocated towards BOD and broadband. So what we have done is we have created the back end infrastructure to deploy almost the entire array of services a cable television service provider can provide.

Prakash Kapadia Just a quick follow up, as to what will be your gross and net debt at the end of this quarter and second Phase-3 just a color on what is your current reach and what will be a broad number you will be looking at?

Moderator Sorry to interrupt, Mr. Sharma after this question may we request you to return to the queue please.

G Subramaniam We have about 500 crores of gross debt on a stand alone basis and a net debt of about 470 crores. Our debt equity ratio as on end of 31st December stands at 0.64 on a stand alone basis. We expect that this will go up by about 300 – 350 crores. I am giving you a range only because sometimes activation revenues will not come at the pace that we expect. So if there is a delay in activation revenue collection. That could be a jump of the 350 crores. So we probably are looking anywhere between 800 to 850 crores range as the total debt at which we will peak after that we are likely to rapidly decline thereafter because there will be a big uptake in subscription revenues and activation revenues will also partly contribute to financing these boxes. Our reach Mr. Sharma at this point of time, we reached about, going up to Phase-3, I will give you the cumulative reach. We reached about 2 million subscribers if you take. We will reach another 5 million subscribers in Phase-2 and by Phase-3 we will more or less reach the entire universe that we talk about. There is a remote possibility that this 9 million which is our universe we always seem to speak about will expand marginally and it will expand only because there is a second television home and there will be some territories where we will be able to push into those markets. Kolkata being a case end point.

Moderator Our next question is from Pratish Krishnan of Antique Stock Broking. Please go ahead.

Pratish Krishnan Just wanted to understand LCO points, typically what is the kind of resistance you get? What is the excuses you get for LCO delays in cash payments?

Jagdish Kumar There is definitely a certain level of resistance from the LCOs because of the fact that in an environment which gets transparency with the system has implications across financial taxation, numerous other areas. So there is a definite resistance but I think it is something which we as company have already factored in to our business plan. That there could be a resistance. And we are working with the LCO committee to overcome some of the so called blocks which they have in their minds but if you look at it on an overall basis, I would think if I were to just give some number, may be there could be resistance in the region of 15 – 20% but at east 80% of the LCOs are on line with what we are thinking.

Pratish Krishnan And you did say that the overall cash flows will improve by over the next couple of months or next quarter but is there any particular deadline that you want to set, beyond which you wouldn't want to bend to the LCO and you would probably want to cut of signals. What is the way out?

G Subramaniam I think Pratish wants to know what is your cut of point for tolerance as far as cutting of signals and all is concerned?

Jagdish Kumar Similar to what we did in Phase-1, where we would gradually switch of certain channels in the analog format and closer to the deadline when we switch of substantial number of channels. We expect a lot of consumer demand closer to the target date.

G Subramaniam I think Pratish, your question was more specific Phase-1. We have actually acted upon this strategy in the city of Delhi. Unfortunately what happens is sometime market dynamics forces other MSO to react to that. So we have to be very careful and very balanced about how much we can switch of channels and at the same time serve the universe. But these are early days yet. I can assure you that the MSOs are all realizing the importance of monetizing that subscriber base. So we are fairly confident in this quarter, we will complete this journey. That is why from the beginning we have maintained that Q1 FY14 is when you will see the true color of our revenues. Anything that comes before that is bonus.

Moderator Our next question is from Jasdeep Walia of Kotak. Please go ahead.

Jasdeep Walia Sir in this change scenario who will raise the bills from consumers. Would it be a company like Hathway or would it be the LCO?

G Subramaniam The bills are currently being raised by us. We raise the bill on the subscriber. In fact as per the regulation we are required to raise the bill on the subscriber. We have tweaked this model temporarily in the markets of Delhi and Mumbai. So because we are yet to get all the customer details in to our system, pending the obtaining of those customer details we have continued to bill a set top box stroke a card number. Therefore while there is no person behind that card as yet, there is a set top box to which we are specifically raising these invoices and we have raised these invoices on a net basis. The good news is in the markets of Delhi and Mumbai we have achieved about 45% of the data base is already been populated. We expect over the course of the next few months, probably by 30th of June we should have reached 100% information in our data base by when we are obliged in fact by the TRAI guidelines to raise the bill on the end user.

Jasdeep Walia As of now is there any way by which a consumer can pay his bills online based on the set top number?

G Subramaniam We have provided for the payment gateway but it more actively used by our broadband subscriber. We will extent the payment gateway to our cable subscribers as and when it happens.

Jasdeep Walia So for that you will have to complete the mapping exercise first I guess which should be done you are saying by June of this year.

G Subramaniam Absolutely we hope that by 30th of June we should have completed the mapping of all the subscribers.

Moderator Our next question is from Vikash Mantri of ICICI Securities. Please go ahead.

Vikash Mantri Just wanted to understand the process further. When you say we are comfortable by Q1, our numbers will start to show up how is this being done today? When we are raising the bills why is that we cannot get the collection from the LCO and also has there been a significant increase in the entertainment tax and service tax that we paid to the government. Now that we would have more visibility? Second this is why do we still say carriage fees will not go down?

G Subramaniam Okay Vikash, if I can take the carriage fee question first, carriage fees will probably go down at am individual broadcaster level to an individual broadcaster. But more and more broadcasters will come on to the platform eventually. So whatever decline we see at an individual broadcaster level we expect will be made up by the fact that more and more broadcaster come on to our platforms. As you know we are expected to carry close to 500 channels. We have geared up the networks to at least 300 channels, the head-ends to carry more than 300 channels at this point of time. So we were never carrying 300 channels. We were carrying probably 100 channels in the past. Now that means that is the trebling of the number of broadcaster. So in a very theoretical sense even if the broadcaster pays one - third of what he was paying in the analog era he is expected to pay, the aggregate amount is more or less expected to be the same number. That is one. Second this is we have not seen a substantial push back on this in the 1st Phase implementation. It is very early days Vikash. You are right that as the highway breadth increases there is a likelihood that this will go down. Now always as far as Hathway is concerned we have modeled some modest decline in carriage fee. So we have never ignored that. But what we are saying is not more than between 10 – 15% decline in Phase-1 and our operations team is actually coming back and saying this will be made up as we go along. That is answer to your question on carriage fee.

Vikash Mantri If I may interrupt on the carriage fee answer post digitization there is definitely no difference between a DTH and a cable as much carriage fee is concerned because ideally you would have more capacity also as compared to a DTH platform. So then there is no reason and given the carriage fee was the payment made largely because of the huge demand supply gap, now that there is unlimited supply of channels that you can carry under a digital mode, why should your carriage fee for a player like dish TV with 10.5 million subscriber just 32 – 40 crores and you having substantially less subscriber why should it be so high.

Jagdish Kumar I think the difference between us and dish TV is that Dish TV has a limitation on number of channels it can carry. Especially we have a much larger channel carrying capacity and I think the second major differentiation would be that dish TV is a Pan India service while ours can be a completely localized service. So we do have a ability, for example in the regional languages to deliver substantially higher number of channels than what Dish TV can do and therefore be able to exploit that kind of a demand which is available locally. So those are the elements which really contribute.

Vikash Mantri Sir if you have less channels to carry you still made more. When you have more than ability to carry, you still make more?

Jagdish Kumar Just to reiterate that point which GS made, we had less number of channels and the unit price for our spectrum was high. But now we have larger number of channels but the unit price per spectrum is lower but because of the volumes we would probably remain flat. We would not grow substantially but we will remain flat where we are.

G Subramaniam Vikash, just to set you mind at rest, I know this is bothering you a bit but just to set your mind, rest anyway Hathway always models on a modest decline in carriage and placement. Now the word modest can be modest for me and not very modest for you. But we are always factoring in some degree of decline. But what we are trying to tell you now is we have actually not seen that much of decline. So our business model always provides for it. And we expect that the uptake in subscription revenue would more than make up for that decline in carriage and placement.

Vikash Mantri Fair enough. On the LCO payments and service tax.

G Subramaniam Obviously in a fully transparent regime all taxes are payable to the government. And we are being obviously wherever the entertainment tax department is concerned has been asking us for information we have been providing that. We do incidentally in the 1st Phase we have followed a methodology of billing to the local cable operator who then adds the entertainment tax and he is liable to pay entertainment tax to the entertainment tax department. The liability is not attaching itself to us. This is as per the current regulations on entertainment tax and in the states of Maharashtra and Delhi. We are of course constantly in dialogue with government to rationalize this. Because the Rs.45 that we see in Maharashtra is because there was a under declaration factored in by the department also. So we are in constant dialogue but this is a matter of revenue for the government. They are not going to give in very easily but we have to explain the rationale behind this and bring them around to our way of thinking. Because at the end of the day if it Rs.45 it is being borne by somebody and which is the end consumer. We believe that government will be sympathetic to our request.

Vikash Mantri And the payments with the LCO, how have you planned to receive them, what is the deadline given to them, when the need to give it to you or not give it to you. How do you say by certainty it will happen in Q1 of FY14?

G Subramaniam At the end of the day we went completely DAS on the 1st of November. We started billing these LCOs only in the month of December. Around the middle of December is when we raised these bills. And we have been collecting we have been actually to see collections come in from the 1st week of January onwards and over a period of month of January and February we have been seeing and acceleration. We have also been in constant dialogue with the market and LCOs realize that while there was a lot of initial resistance I will be bluffing to you guys if I say there was no resistance and we must also understand their point of view. They are going from one business model to a completely different business model. So we have faced some resistance. We explained the revised business model to the LCOs and they are coming around. We are at this point, the only thing I can say is we are confident that the community of LCOs will turn around and will realize the benefits of DAS and will be able to recognize full revenues from 1st quarter, FY14.

Moderator Our next question is from Ankur Rudra of Ambit Capital. Please go ahead.

Ankur Rudra Could you initially elaborate on the number of digital subscribers who were invoiced for this quarter and for how many months?

G Subramaniam We typically invoiced most customers for a month and we invoice them month in advance. We would have invoiced full number of subscriber. It is not that we would have invoiced only half of them or something like that. We have invoiced the full 1.4 million subscribers in Mumbai and Delhi but the realizability, we have been conservative in calculating the realizability of these revenues. And therefore we have booked a lower realization from each subscriber or on account of each subscriber. I also draw your attention to the note that we have added in our financials to the quarter and that clearly explains.

Ankur Rudra Secondly on, if you could elaborate on the accounting for the quarter onwards, are we moving to gross basis or we still on net basis?

G Subramaniam We will continue to be on net basis till 31st of March after which as a community of MSO they will have to take a collective call on how to proceed forward.

Jagdish Kumar From April onwards we are definitely moving towards the gross billing.

Ankur Rudra So basically the new financial year sir?

Jagdish Kumar That's right.

Ankur Rudra Sir finally, I was looking at the expenses mentioned, I noticed that on a sequential basis we have seen expense remaining flat. Can you help me understand this bit given that we were going through Phase-1 and we will be going through Phase-2 now?

Jagdish Kumar They have been flat. What is it you want to?

Ankur Rudra I was just trying to understand given you have been possibly investing a lot in terms of implementation, do we expect this to remain flat or going up from the following quarters?

G Subramaniam That will be increases on account of SMS, billing, call centre, and people cost because the number of people. Once you go in to B to C business obviously the investment and expenses will be much higher. There will be, we hope some marketing expenses also incurred. We have been very conservative and we have had the benefit of sharing these costs with the fellow MSOs in our 1st Phase. But as we go into Phase-2, we will start advertising a bit more. We have to advertise because it is not just enough to increase ARPUs we have to give the rationale for increase in ARPUs. We hopefully will be able to sell our subscribers well on value-added services on the second half of next year. So all this required some communication with subscribers. So that will obviously go up. But most of the costs that are incurred are below EBITDA therefore you are not seeing having visibility. It will be in the form of depreciation on the set-top box.

Ankur Rudra Even the sales and marketing cost you are mentioning, should we expect to see them from the new financial year or we will see some of it in Q4 also?

G Subramaniam Bulk of it was in the Q3 already. So whatever we have had to spend for Phase-1, we have incurred in Q3 and whatever we have to incur for Phase-2 will be partly in the month of March and more so in the month of April, May, and June.

Moderator Our next question is from Ashish Upganlawar of Spark Capital. Please go ahead.

Ashish Upganlawar Sir just wanted to know a few numbers, you gave debt numbers for standalone. Can I get it for consolidated sir?

G. Subramaniam Yes, of course. On a consolidated basis I estimated about 650 crores on a gross basis. Net of cash available is about 590 crores.

Ashish Upganlawar In the number that you have given for standalone can we get the activation income?

G. Subramaniam Activation income also includes vendor financing of 235 crores. So, 590 crores that I mentioned includes vendor financing.

Ashish Upganlawar What would be the activation income in the standalone numbers that you have given in the top-line?

G. Subramaniam About 33 crores for activation.

Ashish Upganlawar On the ARPUs you had guided something. So has the channel packages been opted by the customers as of now in Phase-1 cities and any change in the kind of net ARPUs that Hathway can get from these subscribers?

G. Subramaniam While we have advertised the channel packages but they are yet to be rolled out. We have taken all the subscribers on the middle-tier. That is Rs.220 tier and we have only recognized our net of LCO fare in our books at this point of time. But our endeavor will be to take them all to 220 at the start and then a subscriber can either buy up or buy down to the appropriate tier.

Ashish Upganlawar On a net basis excluding taxes what is the average ARPU that you are talking about here?

G. Subramaniam We probably are looking at in the long run about 180 net next year. We are targeting, let me put it that way.

Ashish Upganlawar And does that number go down when we move to Phase-2 cities, expectations ideally?

G. Subramaniam No I don't think there is any impact of that on ARPU. It is not like when you go to Phase-2 cities, there are poorer cities or something like that. Please remember that cities in Phase-2 are cities like Bangalore, Hyderabad, and Pune which actually gives us significantly higher ARPUs than the major metros.

Ashish Upganlawar Sir just wanted clarification on the numbers that were given at the beginning of the call. Can you just repeat on the number of paid subs as of now of Phase-2 cities?

G. Subramaniam Why don't you just talk to my guys, they will give you.

Moderator Our next question is from Amit Kumar of Kotak Securities. Please go ahead.

Amit Kumar Actually this point has been discussed. I just wanted to put some numbers on to this. We are sitting in the middle of February. Out of these 1.4 million subscribers in Mumbai and Delhi, how many subscribers for example in January in Hathway would have actually paid for? Actually the net billing was realized?

G. Subramaniam Obviously almost everything would have been collected but at a much lower rate than we would have wanted. But if you want to get specifics on that, why don't you just contact Mahesh Mewada, he will be able to share this.

Moderator Our next question is from Nishant Chandra of TH Investments. Please go ahead.

Nishant Chandra Sir just couple of questions. One is on the HT subscriber base from your current position, what would be the share of HT subs here and second one is how are the content contracts being incrementally being looked at especially with the larger broadcasters?

Jagdish Kumar Our HD subscriber base as of now is a very modest 15,000 subscribers. But our plant is really to ramp that up a little more. We have a definite plan to actually add in few more channels in the HD capacity with that we have. So we should be able to look at much higher number going forward because the fact that we do have lot of capacity to deliver much more HD channels than what DTH is currently doing because DTH's bandwidth capacity for HD channels is very limited. On the second point about content contract, most of our content contracts have been concluded. There are combinations during the current year. A combination of fixed fee and CPS kind of transaction but most of it as of now is a fixed fee basis. We are in the process of negotiating with the content providers for the forthcoming financial year. We should be able to give you some color to that in the next couple of months.

Nishant Chandra So if I understand quickly these are annual contracts on either a fixed fee basis or on a CPS basis.

Jagdish Kumar That's right.

Nishant Chandra And what is the typical step-up that you anticipate on some of these contracts year-on-year is there any broad guideline that you have in mind?

Jagdish Kumar it's a wide range I can't really pin point one single percentage point. It depends on lot of factors built on related channel strength. If I were to give you a broad range, it would typically range between 8 – 15% kind of growth rate.

Jagdish Kumar And effectively that on a CPS basis, would have declining trend on a CPS basis as such.

Moderator Our next question is from Rahul Agarwal of VEC investments. Please go ahead.

Rahul Agarwal Is it possible to get a consolidated revenue number for the quarter broken up in to subscription, carriage fee and broadband?

G. Subramaniam As a practice we do not disclose consolidated numbers but for your benefit what we have done is disclose the economic interest that we enjoy in the EBITDA of these entities. The economic interest for that particular quarter is about 14.5 crores. So including the economic interest of 14.5 crores as Mr. Jagdish mentioned the total EBITDA is about 50 crores. This is only our share of EBITDA. So obviously the simple sum is much higher than our share of EBITDA.

Rahul Agarwal And my second question was on the CAPEX of net of lease finances of about 290 crores. This is for FY13 or FY14?

G. Subramaniam FY13 - FY14, it is spill over a bit into April May June, some of that.

Rahul Agarwal So could you just give me an indication on what would be the total capital expenditure for boxes plus head-ends plus regular maintenance for FY14?

G. Subramaniam We are still in the process of preparing our CAPEX budget but we are talking of another 1 million boxes happening in the next quarter. So if you take 1 million boxes, it's another 150 crores. Net of activation, it will be another 100 crores or so.

Moderator Our next question is from Mayur Gathani of OHM Group. Please go ahead.

Mayur Gathani Sir just wanted to have an idea on advertising budget in case you planned anything for FY14? You said some cost will increase there?

G. Subramaniam See we are still it's a bit early. One thing good about MSOs is they are very stingy about this. But we also realize that we have to build a brand when we are competing with DTH services. We probably will be about 5 – 10 crores next year and if necessary, in the budget itself we have put up slightly higher number because we are now rolling out to nearly 25 out of 35 cities. So when you are rolling out over a larger number of cities obviously you will have to do a lot of local spending. But because these cities are Tier-2 and Tier-3 towns, the spend per unit will also go down. So we should look at anywhere between 5 – 10 crores. And one good thing about this spend is the government also frequently shares some of the expenditure and wherever possible MSOs also shares this expenditure. So I am not able to put a very precise number at this point of time. In our budgets we are taking this number for the time being

Mayur Gathani Coming to broadband, the focus will be renewed in FY14 and what you mentioned was the Rs.400 ARPU, we will achieve over a period of next year?

G. Subramaniam Incremental. Every new subscriber who comes on to the platform will typically come in at a Rs.400 ARPU.

Mayur Gathani So on an average by next year onwards we will have Rs.400 average ARPU.

G. Subramaniam Probably reach about 350 – 360 and then over the next year or so it will go up to 400.

Mayur Gathani Do we have any significant CAPEX for broadband? We have a home pass though that residence so do we need to invest in something more specific for broadband?

G. Subramaniam We already passed about 1.5 million homes as far as broadband is concerned. So our initial effort at least in the 1st half of the year is to fully monetize 1.5 million homes. As Mr. Jagdish had mentioned we are also looking at whether we can look at other technologies as far broadband services are concerned. So there could be some additional expenditure but it is early days yet, we have not yet made an estimate.

Mayur Gathani Just to get it right, 1.5 million home pass, we will not require any further CAPEX in this?

G. Subramaniam Not for the home pass but for every additional home that I acquire, I have to put a modem in that house and then the actual connection to the house. It will be about Rs.2000 – 2500 net.

Mayur Gathani So that is post home pass, whatever new ones you get into? And for this 1.5 million customers that you have in home pass, if I want to subscribe for a broadband there, do I pay you for the modem or you subsidize it?

G. Subramaniam We get an activation charge upfront Rs.500.

Mayur Gathani But what about the modem cost?

G. Subramaniam Modem is free. We get an activation upfront of Rs.500. It's a free to use box.

Mayur Gathani But then you are paying for it right?

G. Subramaniam We are paying for it. But it's a free to use box. That is returnable to the company and we typically retrieve these boxes if the customer chooses to churn or something like that we have up to 70% retrievable of these boxes happening at this point.

Mayur Gathani And can you share the subsidy that you would be bearing incase the consumer doesn't end up paying for this?

G. Subramaniam 1200 minus 500 which we capture upfront, so Rs.700.

Mayur Gathani And from Q1-FY14 if a normal calculations I can just multiply the number of subscriber I would have that is 2.3 million subscribers and in to the ARPU that I would collect will give me an estimate of your top-line?

G. Subramaniam Estimate of my subscription top-line. This is only Phase-1. Then there will be secondary point revenues from other phases which will continue we believe till anywhere between 1st of July to end of September and somewhere in that quarter we will be monetizing the 2nd Phase.

Mayur Gathani But for Phase-1, I assume quarter 1, I should be able to simply multiply the number of subscribers into the ARPU net or gross whatever you would take it.

G. Subramaniam 2.2 million subscribers is what we reach in Phase-1 eventually multiplied by the average ARPU is the consolidated subscription revenue.

Moderator Our next question is from Avinash Agarwal of Sundaram Mutual Funds. Please go ahead.

Avinash Agarwal You mentioned about the consolidated EBITDA of our share for this quarter how much would it be for 9 months?

G. Subramaniam I think it was 11 crores per quarter the previous two quarters plus 14.5 crores in the last quarter. So that would add up to 36 crores.

Moderator Our next question is from Rohit Gala of Sunidhi Securities. Please go ahead.

Rohit Gala I just wanted to understand regarding the acquisition what we took on to Hathway - Bhaskar JV, can you just share anything on the deal what kind of subscriber addition we got on to the primary point?

Jagdish Kumar Hathway JV in Central India because Jaipur, Indore and Bhopal, totally the subscriber base got 5000 subscribers. And that's the opportunity which is lying there. Currently we have seeded about 150,000 subscribers. We have 300,000 subscriber base, which we will have to acquire.

Rohit Gala I just wanted to understand on the acquisition that we did we were told that the management would be more focusing on to getting the digitization of Phase-1 and Phase-2 and now we are seeing acquisition coming through in the JV part. So are we seeing that such kind of opportunity or the management would be focusing in to the Phase-2 of consolidating its primary point? Can you just let me know what would b the management focus?

G. Subramaniam Rohit, we have always maintained that our focus will be only on STB roll out and digitization of our existing universe. This is also our actually our existing universe. We are only taking full ownership of our existing universe. This does not preclude us from looking at some tactical advantages. The reason is there are several MSOs out there in the market who have been unable to seed set top boxes in their territory. So when those local cable operators come up to our doorstep and ask for set top boxes, we would obviously be looking at it. But will we be proactively doing it, not very much.

Rohit Gala But you think it would be an opportunity in to the Phase-2 and more of the smaller MSOs would be giving up and may be getting merged with the bigger issues.

G. Subramaniam You will be surprised even some of the large MSOs are in that situation.

Moderator Our next question is from Jai Doshi of IIFL. Please go ahead.

Bijal Shah This is Bijal Shah of IIFL. I have one question what is likely to be our CAPEX in FY14 and if you can just break it down between set top box, STB CAPEX, other cable CAPEX and broadband CAPEX.

G. Subramaniam Broadly set top box, the significant other CAPEX will be about additional million boxes to come in the next year. So, 150 crores will be the incremental investment for set top boxes alone. Over and above that, there will probably be another 25 – 30 crores investment in network improvement and all that stuff. Over and above that, there will be investment in our broadband business. So if you take that right now I am not able to put specific numbers on the table because we don't give forward guidance on this but there will be another 100 crores or so investment assuming that we go after a fairly large share of the broadband market.

Bijal Shah So our broadband CAPEX itself could be 100 – 150 crores.

G. Subramaniam No I just said about 100 crores. We don't give guidance on the numbers at this point of time. But it could be in the range of about 10 crores which assumes that there is a substantial growth in our broadband subscribers. That is any technology change investment that we have to make, that will be over and above this.

Bijal Shah 100 crores is for probably more home pass and beyond that there could be some technology related investments?

G. Subramaniam Within the home pass, both put together.

Bijal Shah So what technology related investment we could possibly see?

G. Subramaniam We don't have any visibility at this point of time. We are evaluating. Basic approach is to produce very high quality services for our subscribers.

Jagdish Kumar We are evaluating upgradation of our boxes platform from the current 2.4 to 3.0. So we are doing some pilot trials to look at that expansion. What that enables us to do is to give very high very high broad band speed based on our current plant.

Bijal Shah That, if we go in for that, what kind of CAPEX could it could show us?

Jagdish Kumar It's in the region which GS had just mentioned. 100 crores

G. Subramaniam But to be fair it is very early days yet. We are still evaluating that investment. We have to be sure that the ARPU that we get from a high bandwidth pays for itself. As you know we make significant margins even on our current customers. If we are able to maintain those type of margins, you are aware that an EBITDA margin on a broadband business ranges anywhere between 30 – 35%. If we are able to get those types of margins obviously those investments will be made. We are still evaluating it and we will get a fix on that very soon. But whatever be it, it will have a very quick pay back. That's the most important thing.

Bijal Shah Am just slightly confused. Is this 100 crores of broadband CAPEX is for additional home pass or it includes additional home pass and potential CAPEX for?

G. Subramaniam There will be less of additional home pass but more of penetration into our existing home pass.

Bijal Shah And on the cable side see once we deploy STBs and all we upgrade our network or make it digital. What kind of sustainable CAPEX or maintenance CAPEX as we call it would be there in the cable business itself?

G. Subramaniam We have already invested in state-of-the-art digital infrastructure. So what we had deployed in the country is probably among the best digital head-ends. So we don't see any significant maintenance CAPEX going forward in the next few years. But you probably can take about 20 crores or 25 crores as the maintenance CAPEX.

Moderator Our next question is from Aniruddha Kekatpure of JM Financials. Please go ahead.

Aniruddha Kekatpure I wanted to get a sense on what is the status of the negotiations and agreements with the broadcasters for Phase-2 cities, is it going to be something similar to what is being happening in Phase-1and do you need to enter into fresh agreements for Phase-2 cities?

Jagdish Kumar We have to enter into fresh agreements for Phase-2 cities. I think the difference between what we did in Phase-1 and Phase-2 will be the fact that in Phase-1, most of the contracts skewed towards the fixed fee kind of a contract. But I would estimate that in Phase-2 and beyond the broadcasters would be more inclined towards CPS kind of contract. But in terms of the exact split between these two pricing mechanisms, it's too early to say. Negotiations in Phase-2 will start shortly.

Aniruddha Kekatpure Is the Ministry pushing for these negotiations as it was in Phase-1 because we are not getting a sense that the urgency which was seen in Phase-1 is being seen in Phase-2 at this point in time if the March 31 deadline is to hold?

Jagdish Kumar The urgency is definitely there. The Ministry is having weakly meetings both with the MSO community and with the broadcasting community. In fact there is a meeting again tomorrow in Delhi for the MSO companies to meet with the Ministry. They are having separate meetings with IBF on the broadcasting side. So I don't think there is any veining on the enthusiasm which the Ministry had during Phase-1. That continues to be so. We in fact had very proactive steps which the Ministry had taken. They had a recent conference where they got the nodal officers of all the 38 cities who have come to Delhi and they were priced of the impact or the significance of Phase-2 digitization. So the government is aggressive in all fronts. So I don't think there is any reduction in intensity in which they want to implement Phase-2.

Aniruddha Kekatpure Now just one more question on that. How is the systemic inventory of set top boxes in this particular line then? How is the system as a whole prepared for it? Is there enough inventory to carry out the Phase-2?

Jagdish Kumar To be candid I don't think the supply side is that encouraging. There are issues in which the box manufacturer will be able to satisfy the demand because overall universe for Phase-2 is in the region of 14 – 25 million. So that's going to be a challenge for the industry as a whole. Because as we speak, most of the manufacturing capability in China is actually shut down for Chinese New Year holidays. So issues like that are faced by the industry. So there is an issue there.

G. Subramaniam The only positive thing is as far as Hathway is concerned, we have tied up our deliveries all the way to March end.

Aniruddha Kekatpure But then given the systemic inventory not being in place there is likely hood that there will be a slippage in the deadline.

G. Subramaniam Your guess is as good as ours.

Aniruddha Kekatpure Just one last question, would it be fair to given that the consolidated gross debt results 650 crores currently and you are expecting another CAPEX around 350 crores would the year end FY13 gross debt bring in the range of 1000 – 1100 crores. Consolidate basis it would be?

G. Subramaniam Yeah.

Moderator Ladies and Gentlemen due to time constraint, we will take our last question from Rohit Dokania of B&K Securities. Please go ahead.

Rohit Dokania Just 2 – 3 quick questions. One was if you share what is the second TV percentage that we have experienced in Phase-1 on an approximate basis would do?

G. Subramaniam We were expecting about 15%. But in cities like Delhi, we have actually being seeing a slightly higher percentage. We will be able to give you a better fix of this after March because we are still getting customer details insight. The moment we have the customer population data base fully populated we will give you a much more accurate estimate. Very clearly in a city like Delhi, the second boxes are much more.

Rohit Dokania And related question to this is while our ARPU in the second TV would be around 40-50% lower, our content deals also fixed accordingly because lets say if we have a 20% base as a second TV, and if we pay the same amount of content cost per person or per subscriber as the first home TV, we obviously would be paying much higher than what we would be getting on the second TV at least?

Jagdish Kumar The way it is structured is that the price which we get will have a linear relationship to the price which we pay. So whatever reduction we give the customer for a second TV we intent to get that reduction even from the pay channels.

Rohit Dokania And do our Phase-1 contracts reflect that or would we see an update in the contracts once the first year is over of the contract. So whatever duration is over?

Jagdish Kumar Most of our Phase-1 contracts are fixed as of now. As of now it is pretty much early days to really assess the impact of the second television.

Rohit Dokania And just another question was if you could throw some light on a net basis, how much of revenue would be we getting or accruing from the Phase-1 LCOs I would believe that for the base pack we are sharing about Rs.70 and then the medium pack about 90 and for the high end pack about Rs.110. So are we receiving the rest of the money on a net basis from the LCOs of Phase-1?

G. Subramaniam That is the intention Rohit. At the beginning of the call itself we told you that we have not fully recognized these revenues just as yet. By April we expect to be able to realize the full net revenue.

Moderator I would now like to hand the floor back to Mr. Vivekanand Subbaraman for closing comments.

Vivekanand Subbaraman Thank you. I would like to thank the management of Hathway for taking time off for this call. Over to you Mr. Jagdish for closing comments.

Jagdish Kumar Thank you everybody for participating in this call. As we now come to the stage in which we are actually saturated in terms of our penetration in Bombay and Delhi and we are looking at Kolkata very aggressively. So Phase-1 we have to encounter challenges in terms of collecting subscriber data and being able to bill the subscriber based on the packages opted for by the customer. And our focus now would be on really ramping our activities for the Phase-2 cities which we aggressively looking at. In some of the major cities in which we are present. And we are also looking at some practical opportunities outside our universe. So in addition to that we have this broadband business which we are really going to ramp up in terms of homes penetrated and in terms of profitability. So we are looking forward to a much more exciting and challenging Q4 and the financial year thereafter. Thank you very much.

Moderator Thank you very much sir. Ladies and gentleman, on behalf of PhillipCapital India Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.