"Hathway Cables & Datacom Limited Q1 Financial Year 2015 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited 1QFY 2015 Post Results Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Please note that the duration of this conference will be for an hour. I would now hand the conference over to Mr. Utsav Mehta from Ambit Capital. Thank you and over to you Mr. Mehta!

Utsav Mehta: Good morning. We at Ambit Capital are happy to host Hathway's 1Q FY2015 conference call. We have on the line Mr. Jagdish Kumar, M.D. and CEO and Mr. G Subramaniam, CFO. We will start off with the brief addressed by the management after which we will have the Q&A session. Over to you Sir!

Jagdish Kumar: Good afternoon, ladies and gentlemen. Welcome to the Q1 FY15 earnings call. With me on this call today are my colleagues: CFO, GS; Deputy CFO, Vineet Garg; Ajay Singh, who is our Company Secretary and Chief Compliance Officer; and Mr. Mahadevan, who is our EVP Finance; and Rajan Gupta, who is our President Broadband business.

I take this opportunity to introduce two of the additions we have to our senior management. It is my pleasure to introduce Rajan Gupta. Rajan comes to Hathway with extensive experience over 15 years in blue chip companies. He has earlier worked with Asian Paints, Coca-Cola and his last stint was with Tata Teleservices where he was the Centre Head for Tamil Nadu and Kerala. So he comes with some significant strength in terms of consumer businesses in the B2C environment, which this company is moving towards.

It is a great pleasure to get him. Similarly we got Vineet who has joined as Deputy CFO. He comes with some extensive experience of over 20 years with a lot of telecom companies. He has got strong systems in design background in Telecom companies. The journey forward requires us to really get our backend strong and so Vineet's contribution in that area will be very valuable.

So this like I mentioned in my earlier calls, we have been looking at getting fresh talent into this company with the new changeover from analog to digital where we were 8 million addressable digital customers and 12,000 broadband customers that required us to tweak our DNA to make it more consumer-focused.

So I will talk about some of the few operational highlights of the quarter. Rajan will walk us through some of the highlights of the broadband business. GS will walk us through the financial numbers and thereafter we will open the floor for Q&A.

During the quarter, net of activation fees, our revenues were Rs 241 Crores, which is a 51% growth over 1Q FY 2014. Again EBITDA, net of activation fees, is at 3.2 Crores; there is significant increase over the last quarter of FY 2015.

In terms of the phase I activity I think I am happy to say that as of now all three cities which we exist—Calcutta, Delhi and Bombay—we have started retail billing. If you look at the year-on-year growth on our secondary point billing 1Q FY 2014, we had billed 39 Crores and that same comparable number for 1Q FY 2015, 71 Crores, which was a significant growth rate in terms of revenue generation by digitisation and broadband revenues again and Rajan will talk more about the fact that it has grown significantly 26% growth from the broadband side.

Similarly on the cash collection front we have seen significant growth rate. We have collected 62% more than what we collected in quarter last year. During the quarter, we also launched four channels in our cable TV business. Here again the intention is to really exploit the localised pipe, which we have got into customer homes. We have launched Happy Life, which has the best of National Geographic content. We have launched Happy Movies, and we got a library of movies from Shemaroo and Eros. We launched shopping channel, Hathway Shopee, which is powered by Naaptol and we have launched a very unique first-of-the-kind service called H-Tube where consumers are given the ability to send their personal videos.

Another significant activity which happened on the cable TV side is the migration to Oracle billing and revenue management system. We have migrated about close to 7 million customers in April of this quarter. There have been some minor glitches but I think I am confident that we will all come back because huge text of that system was when we went a-la-carte with Star Sports and currently we are a-la-carte with Zee and our system has gone through that beta test quite successfully.

Another thing which I would like to highlight to the group here is that you may have lots of questions on the current dispute we have with Zee and I would like to inform you that this is subjudice. We had hearing yesterday where the TD-SAT Chairman has very clearly said that any offensive advertising has to be stopped and I cannot get into too much of details because it is subjudice. The next hearing is on August 26. So please refrain from asking detailed questions on the Zee dispute.

With that I would like to hand over the floor to Rajan who can walk us through the plans we have on the broadband business in a detailed manner. Rajan.

Rajan Gupta: Thanks Jagdish. Good morning ladies and gentlemen. Welcome once again. I am happy to share with you the 1Q 2015 results. As we have already shared, revenue has grown by 26%, and we have seen EBITDA growth of 71% and ARPU growth of 23%.

Now all these numbers are based on the aggressive rollout of DOCSIS-3 consumer broadband services. As you have already shared, DOCSIS-3 is a very unique proposition will gives customers up to 50mbps speed at a very affordable price range starting from Rs599 on a monthly basis.

Using this technology and giving the customer a unique experience, we are able to increase our customer numbers of DOCSIS-3 up to 47,000 by the end of first quarter and we also mentioned 60,000 by the end of July 2014. You can very well see how monthly traction is gaining of the DOCSIS-3 platform. We are uniquely placed with respect to all other players. Currently nobody offers this kind of speed and this kind of pricing.

Going forward, our aggressive role and DOCSIS-3 will continue. Currently we are there in Mumbai, Pune, Hyderabad and Bangalore. From last quarter Hyderabad is a new city which we have added for DOCSIS-3. That is one of the biggest broadband markets.

Going forward we are going to add Calcutta as well as Delhi and there are few parts of Bombay which are currently not on DOCSIS-3, and they also going to come to DOCSIS-3. So our investment and DOCSIS-3 rollout and giving consumer the best internet broadband experience in India that will continue.

We are also investing heavily in improving our customer interface processes, both in terms of technology as well as on the softer side. As Jagdish earlier mentioned we are investing in Oracle, billing and revenue management systems, which will give us the opportunity to give our consumer a very different kind of experience as well as we are also investing in their people and vendor capability to make sure the consumer gets the best possible experience as well apart from the very high speed, which he is already getting.

With this, I hand over the call to GS.

G Subramaniam: Ladies and gentlemen, just I am sure all of you have gone through the press release yesterday but just to summarise, our revenues for the total income for the period amounted to about 250 Crores. This compares with 293 Crores in the immediately preceding quarter and 233 Crores in the comparable quarter previous year to the extent that activation revenue played a very significant role in revenue last year. These numbers are not strictly comparable and I will walk you through the individual breakdown of these numbers.

About 111 Crores came to us through subscription income on the cable television business. This represented near doubling of subscription income compared to the same period last year and if you strip out one-time adjustment represents 8% growth over the immediately preceding quarter. Similarly just like Rajan Gupta had told to you, broadband business has started seeing significant traction; it came in at about 42 Crores and this compared with about 39 Crores in the immediately preceding quarter and about 33 Crores in the same quarter previous year.

It is too early days for the broadband business, we actually started rolling out our services in cities like Hyderabad only halfway through the month of May so as you see the DOCSIS-3 business entering more cities obviously the contribution from the broadband business and the growth that will be derived from the broadband business will be significant.

Total income obviously activation income saw significant decline, primarily because Hathway had completed its rollout in phase I and II territories well in time last year and going forward in the next couple of quarters also the big part of activation income contribution will mainly be on account of phase III territories which are contiguous to our phase I and phase II markets.

EBITDA we came in about 44 Crores if you strip out the one-time adjustments this compares to about 26 Crores EBITDA in the immediately proceeding quarter. Similarly EBITDA in the same quarter previous year is not comparable because activation revenues formed significant proportion of EBITDA in the same quarter previous year and so even EBITDA has seen a very smart improvement.

As far as the borrowings are concerned the net borrowings stand at about 1,085 Crores and as you all are aware on the August 5, 2014, the board had received Letter of Intent from a very respected name, Capital Group. Capital Group managers intend to invest up to 300.8 Crores through preferential route, the prices which is allotment is being made is about Rs320 per share and the use of funds is obviously to retire some debt and for general corporate purposes.

One other significant metric that has seen improvement in this quarter in the universe that we address, the cable universe has actually continued to see growth. We used to be at about Rs11.5 million close of March. It is now grown to about Rs11.7 million and we expect to see continued growth in this universe over the next few quarters. As far as the digital subscriber base is concerned, we are at about 8.15 million subscribers, out of which nearly about 7.6 million subscribers are in phases I and II that gives us a near 30% dominant share of the digital subscriber base in phase I and II compared to any of the other players in the business and we have aggressively started moving into phase III markets which are contiguous to these markets.

To give you a comparison, the paying subscriber base is nearly about 7 million subscribers at this point of time. As you already know, the homes passed for broadband is nearly about 1.8 million homes, we have about 420,000 subscribers at this point of time. We do see a change in the mix of these subscribers going forward, as we continue to grow our DOCSIS 3.0 business and obviously it will give immense fillip to the ARPUs that we get from the broadband business which today stands at Rs400 plus. I always used to speak of about Rs310 or so in the last year that has already seen a smart move upwards to about Rs400 plus at this point of time.

We expect to see continued growth in ARPU and of course Rajan has said with growing penetration of these markets and growth in the number of homes passed we expect to see significant growth in the broadband business itself. Obviously, the cable business is not just about cable television, in order to be successful it has to straddle both cable television and broadband and clearly Hathway is the leader in the broadband space and with that I am happy to hand it back to you guys for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the cable business, you have done well in the broadband. The activation revenue will it remain low in the coming quarters, because the upside from digitisation has been below expectation and if you see phase III and phase IV is a much larger universe? Sir, my question is based on the deadline December, there is a fair amount of likelihood of a delay. In all these contexts when do you see attention and are you really picking up?

G Subramaniam: First of all, we do not build the business based on activation income that is the one-time bonus and no business can be built on that basis. Activation income accrues towards only at the time of digitisation. The more important thing is to grow our subscription revenues and I am actually surprised, because subscription revenue has seen reasonable growth 8% quarter-on-quarter and nearly 26% year-on-year more than that I am sorry, in fact significantly more year-on-year. The more important thing to remember is I agree with you. The role out of digitisation in phase I and phase II has been challenging, but phase I have just completely been done with as Mr. Jagdish Kumar mentioned with consumer billing starting in all the three cities of Delhi, Mumbai and Kolkata. We do expect phase II cities are to follow suit in 2Q and 3Q of this year. Probably Hyderabad will follow through in the fourth quarter and the benefits of that will accrue to the company over the next three quarters. So, it is very early to say that the experience as far as digitisation is concerned has not been as expected, actually it has been more or less in line with our expectations.

Abneesh Roy: I take your point on subscription revenue being the main driver, but my question was more from the perspective that are you going to expect December is the deadline and I want to ask more from your own and cable companies perspective that how prepared are we in terms of the phase III, phase IV in terms of putting so much money in the case, phase I, phase II has been below expectation in that context even if deadline is delayed by three months. Are we prepared to meet that three month delay and if you are going to give that I was looking for that kind of answer?

G Subramaniam: We have prepared for both the eventualities actually. If you look at set-top box inventory we have got about nearly 7 lakhs set-top boxes are already in stock. So, in case any opportunity arises, we will not be wanting in terms of our set-top box deployment. From the conversations, we have had with the I&B Ministry and others, we are getting mixed signals, but the indications are there they could be performance by about six months that the indications we have, but nobody is really committing to it, but in terms of our preparedness wherever we have contiguous areas in the places where we operate we are completely prepared in fact they have already deployed boxes in phase III areas, already about 1.5 million boxes have been deployed in phase III areas and so we have not prepared. I do not think we have any issues with material requirement for phase I in the areas where we are offering.

Jagdish Kumar: One other thing Abneesh, we are starting to see subsidies on set-top boxes decline significantly. The subsidies used to be as high as Rs1,000 in phases I and II. These subsidies have declined significantly and therefore there is going to be a positive impact. As far as capital outlay is concerned, it will be that much lower.

Abneesh Roy: My last question is on the fight with the broadcaster, you said this is subjudice. My question is more from a broader perspective. The initial thought was that broadcast will hand hold the digital cable players, because you are the guys who are subsidising, but we are seeing a sharp step-up in the fight between broadcasters and cable players, here also fight was that, but now we see a sharp step-up, so what is driving this, because media players broken up so they would need this kind of even to happen though spike of the revenues and so longer term where does this settle for you? I am not asking for guidance, because this is subjudice, but where do you see this settling, because this fight can be a big pain for all the cable players if this continues?

Jagdish Kumar: Firstly, I do not get too much of detail on this issue with we have with Star and Zee. The primary base on which this kind of conflict arises because of lack of parity very clearly TRAI guidelines talk about nondiscriminatory treatment and we are battling that lack of a nondiscriminatory basis performance with significant broadcasters. I do not see this to be an issue on a long-term basis. I think they would be an equilibrium which will set in. Hathway had its strength, the broadcast had its strength, and so on a long-term basis it is our intention to work with the broadcasters in a manner that it makes our business profitable with a kind of investments which we have made. Similarly we have challenges to get cash from the ground, so we are careful about how we manage our cost mix.

Abneesh Roy: I will come back later in the queue. Thank you.

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

Vivekananda S: Thanks for the call. Just building on what Abneesh had asked about the disputes. Could you give us a broader perspective on the way content cost is expected to move? My question is actually in the context of the TRAI guidelines which were released two quarters back pertaining to the rate increases that broadcasters want to take, coupled with the fact that there is an effort of broadcasters to reduce carriage and migrate to CPS deals and the fact that there is also disaggregation happening. We are seeing that carriage has actually grown this year, but content cost has exceeded carriage this year, so we are in the negative spirit directory. So, we just wanted management thoughts on where we should see the spread between carriage and content cost?

Jagdish Kumar: TRAI guidelines on the approval of inflation were basically on the non-negotiated contract. In majority of the cases, it is pretty much negotiated contract. The negotiated contract did not have to strictly follow the TRAI guidelines. On an overall basis, I think it is all factor of how the DTH revenues can be shared equitably between the broadcasters, MSOs and LCOs.

I think that the broader challenge in this industry and each of the players, investments have their value and they want equitable return to those investments and values. So, we have some very significant negotiations, discussions with the LCO community where we are getting to a certain closure on the relationship which we have with the LCO community. I am confident that we will be able to overcome these issues we have with the broadcasters now.

Your question about carriage versus content cost I think it is a valid statement I think as the very essence of digitisation is to really broaden the delivery pipe. So the carriage cost will definitely not have the same traction as it had with revenues, not the same traction as it had earlier we will definitely see certain decreases, but players like us where we have some organic growth plus the inorganic acquisitions we had earlier has ensured that our placement revenues are being pretty much stable. There is also local channel demand which we are tapping to really compensate the loss we have from national broadcasters. On my content side, we see growth rates, there are expectations from the broadcasting community about growth and that range is from 5% to 15%.

Vivekananda S: You are saying that carriage will more or less remain static while content cost could grow in the range of 5% to 15%.

Jagdish Kumar: That is correct.

Vivekananda S: On the content side, if I understand correctly, now you are saying that there is readjustment of these contract basis, the fact that collections that we expect or we are witnessing on the ground is not par with what we would have earlier modeled or what we would have earlier envisaged, is that a correct assessment?

Jagdish Kumar: I think the speed in which the broadcasters expect the value to come from the ground, I would say is early. I think there is a process we will have to start building the bridges, processes would be infused to give them the confidence that there is a business for them going forward. There are huge investors which are existing between these three players. So one that in I think we also want the broadcaster community to earn a fair return but the issue we have is that we have to first get our toplines before I can give their increases which we are expecting. So, it is a question of timing. I think they are asking for much earlier than what the industry is really performing.

Vivekananda S: Just lastly on HD given that the DTH industry is now adding around 10-11% of the subscribers as HD, do we have any updates on the lower-cost HD boxes that we are working on?

Jagdish Kumar: We will very soon launch two versions of the HD box, one with a recording capability. We have got the initial consignment which we will give to certain cable for trial and we have got the HD box which does not have capability. We are very excited with the software which these boxes have got. It is unique in the sense that it got such capability in the software. So, we will be introducing some aggressive HD plans going forward. I think the televisions which are now being sold are mostly flat kind of televisions with HD capability. So it is market which is waiting to be tapped by the cable industry and you can see we have got very significant plans for the current financial year launch HD services.

Vivekananda S: These boxes will be competitively priced vis-à-vis DTH, because earlier the cable industry, the boxes that you currently provide are quite expensive in comparison to the HD boxes that DTH provides.

Jagdish Kumar: They will be very competitive here. I think we will be much better than the DTH community in terms of price and also in terms of value. We will be able to give our backend infrastructure is capable of delivering 30-plus HD channels in relation to, you had compared that with DTH via 20 plus. The reason for that is of course the lack of bandwidth capability in DTH which we do not have that kind of constraint. Our bandwidth, we have got bundle bandwidth to deliver 30 plus channels. So, in terms of value preposition with the consumer plus the price will be farther than the DTH players.

Vivekananda S: Thanks. I will come back with more concerns.

Moderator: Thank you. We move on to the next question that is from the line of Mayur Gathani from the OHM Group. Please go ahead.

Mayur Gathani: Good morning everyone. Thank you for the opportunity. I have a few questions. Can you share with me the billing for Calcutta, Delhi and Mumbai? What is the ARPU then what are recollecting?

G Subramaniam: As far as the phase I cities are concerned, they are averaging about Rs85-90. We were averaging about Rs75, Rs80 in the past and we have now started growing, because Calcutta has gone to consumer billing from the month of May onwards and we expect to see continued growth in the Calcutta market. Actually Calcutta has surprised us on the upside in that sense. As far as the phase II markets are concerned, we would be in the range of about Rs50-55 at this point of time. This of course excludes Hyderabad which we expect will completely go into consumer billing only in the fourth quarter of this year. So, if you take out Hyderabad from the mix, we would be in the range of about Rs50-55.

Mayur Gathani: This Rs85-90 is excluding both the taxes, entertainment as well as service?

G Subramaniam: Yes.

Mayur Gathani: What is the figure that we are looking at?

G Subramaniam: As I have always told you guys, we are looking at about Rs100-110 which is short distance away and we are fairly confident very soon we will reach the target.

Mayur Gathani: The cable guys would be collecting that much of money, but they are not getting the appropriate share is not being passed, is that understanding correct?

G Subramaniam: I am sorry.

Mayur Gathani: The cable guys, LCO people would not be transporting the proper share to you, is that understanding correct?

Jagdish Kumar: I think they are giving us the proper share. There has been some inefficiency in the way, they are also collecting money from the market they are also getting their act together. You are aware that there is a cable guy and there is a cable home and if the cable home has more than one TV set, hitherto he was collecting probably only one subscription. Now, he is slowly improving its internal methods to collect the fair share of revenues from the subscription home and so it is partly due to inefficiency and partly to the fact that he has not yet moved to the correct revenue share.

Mayur Gathani: Any updates on the prepaid billing, anything that we are looking forward?

Jagdish Kumar: As you know we implemented the Oracle Billing and Revenue Management system. The migration happened in the first quarter fairly successfully. The OBRM system has already been predesigned for accommodating a prepaid platform. Obviously, while we have got backend infrastructure ready we have not yet aggressively introduced it in the marketplace except for our primary subscribers. As you gentlemen are aware we have nearly about 600,000 primary subscribers on a consolidated basis and on Hathway alone has about 300,000 primary subscribers. A good part of these primary subscribers do already pay quarterly in advance or even annually in advance.

As far as the HD product is concerned, subscriptions are collected annually in advance at this point. We are hoping that as the industry matures over the course of the next 1-2 years, we will be able to migrate a substantial part of our customer base to the prepaid mode of settlement. Incidentally Vineet who is with us has considerable experience in this area and that is one of the probable reasons he got on board. He was in-charge of billing and subscription management in the previous role and he brings a lot of experience in that area to help us with this sector.

Moderator: Thank you. We have the next question is from the line of Naval Seth from Emkay Global Financial Services. Please go ahead.

Naval Seth: Thanks a lot for the opportunity. Couple of questions first. What was the vendor payout in FY2014 for the set-top boxes you have taken in the past and what would be in FY2015 as well assuming that phase III, phase IV gets delayed?

Jagdish Kumar: It continues to be Rs1,650.

Naval Seth: No, the actual amount you would say because it is on the annual payment I believe the vendor credit facility what you get?

G Subramaniam: You are talking about the cash flows. I will take that question offline if it is okay, because that is bit of an involved discussion, but just to give you broad picture. We have moved away from vendor financing in the recent past, because we have now been able to get Axis Bank financing at far more competitive rates, so the recent consignment which came in the last one year has not had any vendor financing. The cost at which vendor financing was available was slightly higher than the rate at which we have been able to access other funding options.

Naval Seth: What would drive ARPU growth given the fact that in phase I also we are still not getting fully on the revenue part. So our package prices are at par with the DTH operators, you know DTH operators claim that MSOs have to take package price hike, MSO say that it is DTH or is that one should assume that consumer has not ready to pay more because it would be down-trading or change in package price?

G Subramaniam: On the contrary, consumers will pay as per the packages that they are delivered and our experience in the cities of Delhi, Mumbai and Calcutta has been upwards of Rs212, Rs215. This average ARPU has been achieved on the back of 30:40:30 broadly I am saying, 30:40:30 mix of package by through in phase I and that Rs212-215 is actually far better than what we had originally envisaged. It is too early to assume that this will replicate itself in phase II markets. Because phase II cities, we still do not know with confidence that the phase II cities will yield the same ARPU, but very clearly they will not be below 180 a box.

Naval Seth: So, this is net of taxes what you are saying?

G Subramaniam: Yes, net of taxes.

Naval Seth: So that means, the LCO still taking away Rs140 from you?

G Subramaniam: Obviously, if you take Rs212 minus about Rs90 that is what the LCO is taking away in the phase I market on the average.

Naval Seth: What according to you should be the payout to LCO, it is still higher, it will continue going forward as well?

G Subramaniam: No, the payout will rationalise. It is only a question of transition. We are fairly confident that in the range of 42-45% would be the revenue share available to the local cable operator.

Naval Seth: That is it from my side. Thanks a lot.

Moderator: Thank you. We have next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good morning. Thank you for the opportunity. Just two questions from my side. In terms of subscription revenue, can you give the breakup of digital subscription revenue and analog subscription revenue in standalone?

G Subramaniam: Rohit, why do not you take that number offline, I do not have it.

Rohit Dokania: No problem and also secondly, Jagan commented on the closure with LCOs, so are we nearing the revenue share terms I think which is the biggest differential in terms of getting to that?

G Subramaniam: Absolutely phase I market we should be able to reach conclusion one way or the other very soon. I do not think that is going to be there. We have already starting to talk to the LCO community in the phase II markets. So, we are fairly confident that the deals will come through. Obviously, this is a very painful migration, there has been a lot of resistance from the LCO community like Mr. Jagdish Kumar pointed out the suspicion has still not gone away fully, but we are fairly confident that will be done.

Rohit Dokania: In terms of the 42-45% revenue share that it is commented, does that exclude the distributor share or in at least phase I?

G Subramaniam: It is all includes whenever I talk of revenue share I am talking of LCO plus distributor.

Rohit Dokania: Thanks a lot Sir. Wish you all the best.

Moderator: Thank you. We have the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: I just wanted to get into better understanding either pay channel cost has moved? You did mention that going ahead you are looking at this growing at about 10-15%, but if you look at it year-on-year the growth has been a lot more either we have been some declined quarter-on-quarter, and so just wanted to understand was it robust in the past and how is it going to move forward?

G Subramaniam: In the past, we were moving from fixed price regime to a CPS regime. Obviously, there has been an impact when that move happened. So, you have to know when you are looking at growth on steady state basis, we have to separate out CPS-related growth and actual growth. When we said between 10% and 15% growth on a steady state going forward that is the basis on which we made that statement.

Sangeeta Purushottam: Basically does that mean say in FY2015 we would expect for the whole year 10-15% growth or does that kick in some say the second half of the year and we will see the kind of growth from FY2016 onwards?

Jagdish Kumar: If you were comparing, FY2014 and FY2015 are really transition years, numerous contracts which overlap across these two years some of them going up to 60 and some of them kicking in with CPS much earlier and later so once everybody settles in I think on secular basis it is OK to assume that could be 10-15% growth rate.

G Subramaniam: One other point I forgot, Sangeeta about a year ago, we were about 8.89 million subscribers and we have grown to 11.5 million subscribers at the end of March. We continued to grow this universe as we speak, so obviously it is the mix of CPS regime, growth in the universe and normal growth. So this is a combination of three elements.

Sangeeta Purushottam: One more question was on your other expenses, do you give a sense of what actually goes into what are the key elements there and what kind of growth we would expect there?

G Subramaniam: Broadly it will be in the range of inflation nothing much more than that. This is after you take out content cost and variable cost of serving a customer which we estimate at around Rs5 on average that also includes the other expenses also includes the commission. The share of revenue paid for the local cable operator. So, if you take these three things out all the other costs will broadly grow in line with inflation. We do not expect any dramatic growth, the investments that we had to make for 11 million, 12 million has already made and as you aware the 23 digital headwinds that we have already got in place, I am not going to expand dramatically. We have already told you that phase III, phase IV markets we are by and large looking at contiguous growth. So they are served for instance Kamala Mill serves not only the city of Mumbai, but also contiguous territory to Mumbai, it also serves Pune and Nasik, so that is the way the business grows. So most of the investment have been made it is now for us to farm the growth or that investment.

Sangeeta Purushottam: Thank you very much.

Moderator: Thank you. We have next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: The subscriber numbers are mentioned in standalone for consolidated level entity?

G Subramaniam: The subscriber numbers have consolidated. I am sorry I should have mentioned that to you already, it is on the consolidated basis.

Dheeresh Pathak: The number that we have EBITDA and all for the standalone entity, so can you give us the standalone numbers for the subscribers?

G Subramaniam: Just take it offline it is in the range of about 6.25 million.

Dheeresh Pathak: Bulk of it is phase I and phase II?

G Subramaniam: Bulk of it is phase I in fact that is a point I need to emphasise; compared to most of the MSOs in the industry we have a big proportion of the subscribers coming to us from the phase I and phase II markets, which is also reflected in the high share of the acquisition that we have had. We have nearly 30% share of the acquisition.

Dheeresh Pathak: What I am trying to understand is that we reported about Rs44 Crores of EBITDA and this is how Rs9 Crores of activation, so extra activation the EBITDA is Rs35 Crores, in that there is obviously broadband-related EBITDA which is higher margin, so we take that out cable EBITDA would be much lower, almost of half of that and then we have lot of phase I and phase II subscribers. We are saying phase I, we are doing Rs90 ARPU, at Rs90 our guess was that we should be making at least Rs30-40 per sub at the EBITDA level given the fixed cost, variable cost and negative carriage. So when we do that based on the sub we have that it is not matching up.

G Subramaniam: I will explain this to you. Every incremental rupee that you get on from subscription post the Rs90 has dropped completely with EBITDA. There is no further margin percentage in that, so if you are able to do about 100-110 bucks, there is another Rs20 that will dropped to the EBITDA line. As far as the broadband business itself is concerned, there is a huge amount of cost leverage available to the broadband business, again in the broadband business a significant part of the back-end infrastructure is already in place. Most of the incremental investment is being made in the form of subscriber acquisition cost, so the margin traction even in the broadband business is going to be very, very significant going forward. On average across both the businesses, we expected more than 20% in the long run. The broadband business on its own will drive about I would say about it is around 35%, 36% now, but it will very quickly grow to about 40% EBITDA margin in the medium term.

Dheeresh Pathak: I understand the trajectory that you are guiding to, what I am trying to reconcile the numbers that we are explaining and we reported EBITDA when we are saying that in phase I, we are able to realise Rs90, so the assumption here would be that when we say phase I realising Rs90 of ARPU, we should be at least making Rs30-40 EBITDA on that Rs90 of ARPU per sub because that it would be…?

G Subramaniam: We should be making about Rs25-30, not Rs30-40. First of all that is probably the difference. We are probably looking at about Rs50 at about 100-110 bucks. Why do not you instead of get into the detail, why do not you just come back to us, we will walk you through the numbers. That is not at all a problem.

Dheeresh Pathak: Thanks.

Moderator: Thank you. We move onto the next question that is from the line of Jay Gandhi from Antique Stock Broking. Please go ahead.

Jay Gandhi: Thank you for the opportunity. First of all about HD boxes, how much of the total boxes seeded would HD boxes comprise?

G Subramaniam: How much is the total HD box as the percentage of the total universe? We are probably talking of about 40,000 HD boxes deployed till date. It is an insignificant proportion at this point of time, but the focus so far was on digitisation and now the focus is shifting to value-added services and high definition boxes. As Mr. Jagdish Kumar mentioned to you they have identified very, very competitively priced high definition boxes now and we expect them to become more a significant proportion going forward.

Jay Gandhi: One more thing regarding subsidies, you said it is declined from around Rs1,000 and it has been significant, so if you could just give me a ballpark figure as to what currently it could be?

G Subramaniam: We as an industry, we have started going towards Rs1,250 as a minimum activation charge per subscriber, if you back out service tax, it comes to about Rs1,100 bucks, so if you take the landed cost of a set-top box about Rs1,650, the subsidy per box would be Rs550 bucks.

Jay Gandhi: What is the landed cost?

G Subramaniam: Landed cost for a standard definition set-top box or what we called as a zapper box, it is about Rs1,650 bucks.

Jay Gandhi: Going forward would you like to revise capital expenditure guidance for FY2015?

G Subramaniam: I am not sure we have given any guidance, but we do not give guidance. If you want any specific information come back to me.

Jay Gandhi: One more thing on the soccer team Sir.

G Subramaniam: One thing I can tell you, as a proportion of capital expenditure going forward broadband is likely to be a far more significant investment compared to the cable television basis.

Moderator: Thank you. We have the next question from the line of Bijal Shah from IIFL. Please go ahead.

Bijal Shah: Thanks for the opportunity. I have question on phase III and phase IV, what we have seen in phase I that even after one-and-a-half years, the monetisation is not really to the extent which we envisaged at the time of digitisation. Phase II is even lower than where we are at phase I. So, given this kind of delay or resistance from LCO, do you think that it makes sense to digitise phase III and phase IV unless before getting due revenue share from phase I and phase II. Is it a risky strategy?

Jagdish Kumar: I think you are bang on with the experience we have had here in phase I and phase II, the aggressive plans which we had related to digitisation for phase I, phase II, we do not have that for phase III, phase IV. We will be like I mentioned earlier that wherever we are in terms of our existing presence or our contiguous areas, we will be there because we still have universe of about between 11.5 million and 8 million digital base, this will have to fill up. So that we will do, but in terms of expanding further we will consider it depending on how regulation and how the phase I, phase II experience pans out.

Bijal Shah: That 15 million plus number will be depended upon the fact that how things evolve over a period of time?

Jagdish Kumar: When we talked of 15 million, we were talking of a slightly longer timeframe than 11.5 million, so it was not entirely dependent upon the phase I, phase II, phase III type of an issue. When you are looking at the business from now about 2-3 years obviously we are looking at growing this business for about 15 million universe. That is the ambition of the company at this point.

Bijal Shah: Very small bookkeeping, what will be the capex for FY2015 consolidated?

G Subramaniam: I do not give forward-looking numbers my dear Sir. What I can tell you is substantial portion of the investment is going to be in the broadband business, because we are starting to see a significant traction in the business and the only capex in the cable television business is going towards subsidy on the set-top box.

Bijal Shah: Thank you very much and all the best.

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

Vikash Mantri: Good morning Sir. Two questions. One is another MSO recently mentioned that their collection from LCO is to the tune of Rs135 and net of taxes which is 102 whereas yours is substantially lower. Can you explain the difference why would that be?

G Subramaniam: Vikash, you have to look at it this way. We are much larger players in many of the markets. They are talking of a small relatively lower number of subscribers in those respected cities. You have to look at it on the average. The subscriber numbers that we are talking of it is nearly 2.5-3 times their subscriber numbers in those markets. So it is not entirely comparable and yes, with those smaller numbers, they have done marginally better, but we are fairly confident because as you are aware the entire MSO community is working together to make this happen therefore we have slightly more challenges in catching up the growth.

Jagdish Kumar: Having said that the numbers which has been mentioned in Delhi centric, in Delhi we do have IRR relatively. So I think when you look at it from overall perspective, we are much larger footprints like GS has mentioned. So overall averages may be lower than that competitor but in Delhi alone we are pretty much close to that competitor.

Vikash Mantri: Another question in the recent announcement for Star TV you have mentioned that there are 4.4 million average subscribers for Star TV from your universe of close to 11 million and close to like 8 million in the digital itself. So are they still many more subscribers are not paying or is that way Star subscription really weak?

Jagdish Kumar: The number which we have given and that is something which we have submitted to the court and we have submitted to the broadcaster. The numbers are basically for customer who has chosen the package. While we may have 4.4, the numbers you mentioned for Star, that the footprint in the south of India where Star Plus may not be as popular it is in the north of India, we do have substantial presence in the south of India. So that number is also 4.4 million is without considering our subsidiary for standalone numbers. So GTPL you have to be added to that compare to the 11.5 million. It is the real consumer demand for that bouquet, so that is what it will reply. I do not think all of the universe will take all of the channels.

Vikash Mantri: Going from this given that even we have an issue with Zee and we will realise to know that once people start to select channels, the quantum of these national channels send to be lesser, we will actually end up saving cost even on a-la-carte basis, if it is true?

Jagdish Kumar: Absolutely, I think one advantage of going a-la-carte, it is to really address the true connectivity requirements to these channels and that is very clearly coming out in whatever results which we are seeing. So, while earlier the expectation was that they will have to deliver whole bouquet into the whole universe, now I think there is a very clear segmentation of customer in terms of the customer preferences and ability to pay.

Vikash Mantri: One small follow-up or rather a bookkeeping question, there is a Rs13 Crores exceptional item which is written off basically which is advances to subsidiaries. Can you help us with the nature of this and why would such a thing arise and can it happen later also going forward?

Jagdish Kumar: There are two types of situations where this happens. One is, in this case we had subsidiary to which we had outsourced many of our field-related service activity. This was run as a subsidiary of the company. I think about a couple of quarters back, we have hived out this and outsourced this entire feet-on-street to the non-Hathway entity. So we have taken a charge on that account. The objective being to make the cost more linear to the growth of the company that is one. Second is wherever we have seen an advantage in directly reaching customers and therefore the joint venture becomes less and less important in that situation and you could call it in a sense type of consolidation. Those are the types of situations where we have taken charges. Will this happen in the future? I do not think it is a regular occurrence, and it is one-off occurrence that is why it is treated as an exceptional item.

Vikash Mantri: Fair enough Sir. Thank you and best of luck.

Moderator: Thank you. We have next question from the line of Nirav Dalal from SBI CAP Securities. Please go ahead.

Nirav Dalal: Thank you for the opportunity. I just had this one question regarding are there any passthroughs in this quarter and how do you see it going ahead?

Jagdish Kumar: Passthrough means what do you mean by that?

Nirav Dalal: Last quarter, you had talked about 22 Crores being one-off payment and then you had passthrough in terms of carriage fees that you know?

Jagdish Kumar: Whatever passthroughs are there where we have negotiated an umbrella agreement for the broadcasters those types of passthroughs are captured as a part of the number, but it is not as significant as last time, because last year a lot of the passthrough was finalised and negotiated in the last quarter. So these will be normal passthrough.

Nirav Dalal: The revenue for that we booked under subscription or carriage?

G Subramaniam: It will be booked under subscription income.

Nirav Dalal: Another question, have you started gross billing in terms of booking revenues on gross basis and payment to the LCO? Have you started?

G Subramaniam: We have started booking gross revenues in Delhi. We continue to book net of LCO or revenue share, revenues in Maharashtra, as you aware there is a case still pending in the High Court, therefore pending that we continue to keep it that way in Maharashtra.

Nirav Dalal: So in the consolidated annual report that you LCO shared that only be for Delhi?

G Subramaniam: That is only for Delhi.

Nirav Dalal: Thank you.

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

Jagdish Kumar: Thank you everybody for participating in this earnings call. Very clearly the focus for us is to continue with our efforts to monetise the phase I and phase II investments which we have made and we have moved from significant executive steps to accomplish both on EBITDA basis and on an operational basis to become a truly B2C kind of a company in that cable space and clearly the focus going forward is the DOCSIS-3 platform.

We have got significant traction with Rajan at the helm in that business we see some significant upside coming to us from this business which has high margins. We will be launching DOCSIS-3 in most of our footprint. The consumer demand for that product is very, very significant, so we will see some very good traction in terms of our consumer numbers and/or EBITDA from the broadband business.

We also have plans similar to the channels which we launched in this quarter we had some plans on the value-added services space. We also will look at our HD effort much more intensively. So these are very clear cut focus areas for the management in the quarters which are coming through. Thank you everybody.

Moderator: Thank you Sir. On behalf of Ambit Capital Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.