"Hathway Cable & Datacom Q3 FY'15 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hathway Limited Q3 FY'15 Results Conference Call hosted by Ambit Capital. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Gupta from Ambit Capital. Thank you. Over to you, Mr. Gupta.

Sandeep Gupta: Good afternoon, ladies and gentlemen. We at Ambit Capital have the pleasure of holding the Q3 FY'15 Earning Conference Call of Hathway Cable and Datacom. Representing the management team today, we have Mr. Jagdish Kumar – Managing Director & CEO, Mr. G. Subramaniam – CFO. We will start the call with the brief opening remarks from the management team followed by the question-and-answer session. Over to you, sir.

Jagdish Kumar: Thank you, Sandeep. Good Afternoon, Ladies and Gentlemen and Thank You for joining the discussions for Hathway's Q3 Results for FY'15. I would like to introduce my colleagues here today, G.S, you are aware of, and I would like to especially, introduce you to Mr. Panesar who has joined us over a couple of months ago; Panesar is heading our Cable TV business as President; he comes with a rich experience in the Broadcast business; he was part of Star Sports since its launch and he has seen the tremendous growth of sports broadcasting in the country. So, we are looking forward towards Panesar's great contribution to the growth of Hathway. I also have here with me, Vineet, our Deputy CFO, Mahadevan – our EVP Finance, and Ajay Singh – our Chief Compliance Officer and Company Secretary.

So, what I will do is I will give you a few of the operational highlights of Q3; thereafter G.S. will walk you through the financial numbers.During Q3 for our Cable TV business, there were some significant developments – One, the commercial issues with largest networks in the country – Zee TV and Star TV – have been settled. So, this sets us up for a very stable environment as far as our delivery of Content is concerned, and our consumer proposition is concerned. Our Digital subscriber base as of end December 2014 is approximately, 8.5 million and thus we continue to maintain our position as the largest MSO in the country with 73% Digitization of our Cable TV universe. We still have about 700,000 Boxes of inventory in stock for further deployment.

Another significant development is the introduction of Packages; right across Phase-I and Phase-II cities, we have announced packages in all cities, these packages are available in our revamped hathway.com website for everybody to see; basically, we have a Starter Pack, Popular Pack, Premium pack, and we have also introduced a Premium Plus Pack in the major metros. We have introduced this in a phased manner across India after the settlement of our content deals with the broadcasters. I am happy to report that consequent to some of the steps we have taken, the ARPU from a secondary market has increased to 95 in Phase-I market and 68 in Phase-II markets. We anticipate further growth in these key markets in this quarter. We also have recorded significant improvement in our cash collections in Q3 especially, in the month of November and December.

The third thing which has been pioneered by Hathway is the prepaid model for its LCOs in certain DAS areas. This facilitates activation of channels on al-a-carte basis and upgrades of customers by the LCO themselves when they place a certain amount of money as a deposit with us. There has been some good response from this initiative from the ground and we will continue to aggressively implement this model across all our markets.

We have also revamped our HD product proposition across India. Earlier we had a two-tier proposition, now we have just got a single-tier at Rs.150 per month of Subscription, a consumer gets 34 High-Quality HD channels, and with the forthcoming ICC Cricket World Cup, we hope to see some significant uptick in our HD numbers. We have got some campaigns hold up along with our broadcasters to facilitate this penetration of HD.

I am also happy to report that we are the first national MSO to launch a HD Personal Video Recorder, and this High Definition Box comes with some very path-breaking features like dedicated Search button on the Remote, Pausing of Live TV, and Rewinding of Live TV features, it also has a huge storage capacity of 500 GB which can record up to 625 hours of Content and state-of-the-art Audio Technology supported by Dolby Digital Plus 7.1. So, that is the significant developments that we have had on the Cable TV front.

On the Broadband side, we continue to make some significant investments to expand our footprint. We have some seen excellent response from the consumers to our high speed Docsis 3.0 service. We have increased our Broadband Home Pass base substantially, in Bengaluru and Hyderabad. With the strong uptick in Docsis 3.0 Broadband numbers, we have further added 29,000 Subscribers net of churn in Q3. And as of end of December, we have 113,000 Docsis 3.0 Customers. We see a very good traction in ramping up those numbers in the going forward quarters.

We have also seen some increase in ARPUs from Customers because of the higher mix in our product portfolio of the High Value Customers. There has been an increase of Rs.50 in ARPUs from Rs.440 to Rs.490 in the current quarter. So, we continue to focus on increasing our Homes Pass in our existing cities over and also migrating our Docsis 2.0 customer to Docsis 3.0 in all our markets; in Pune, Hyderabad, and Bangalore, we have migrated 60% of our customers to Docsis 3.0. So, with this highlights, I would like to hand over this to G.S. to walk you through the "Financial Numbers."

G. Subramaniam: Ladies and Gentlemen, a quick look at the "Financial Numbers." Total income for the quarter came in about Rs.239 crores, which compares with Rs.263 crores for the immediately preceding quarter and Y-o-Y it compares with Rs.235 crores for the same quarter last year. You have to adjust these numbers for both Activation and LCO Commission. Now, I particularly, draw attention to the adjustment of LCO Commission because from the month of October, we have started going towards net billing in the City of Delhi also, which was the only city where we were on a gross billing basis. So, when you adjust for both Activation and LCO Commission, Rs.239 crores if you back out Activation and LCO Commission, it goes down to Rs.229 crores. For the Q2, the same number, Rs.263 crores get adjusted by almost Rs.34 crores between Activation and LCO Commission and that again is about Rs.229 crores. So, in a sense, the net of Activation and net of LCO Commission revenues Q-o-Q remain flat. If you compare it with the same quarter in the previous year, the corresponding numbers added up to Rs.200 crores. So, if you now compare Q-o-Q while it remains flat, and I will come to that in a short while, on a Y-o-Y basis, growth has been 15%. Now, the obvious reasons for flattish growth in revenues Q-o-Q is on the back of the discussions we have been having with broadcasters through the month of October almost up to the first fortnight of November, it is only in the first fortnight of November that the contractual relationships with the broadcasters were finalized. Until then many of these channels were off-the-air and therefore, we had to take the brunt of decline in some revenue shares paid by our partners which is the Local Cable Operators. We were also not showing some of the channels, and that is obviously impacted placement revenues also. However, whatever decline we saw in Subscription revenues andPlacement was more than made up by Broadband revenues. Broadband revenues came in at Rs.51 crores for Q3 which compares with Rs.45 crores for Q2, nearly 13% jump Q-o-Q. But interesting thing is, it is a near 38% jump Y-o-Y; Rs.51 crores Vs Rs.37 crores for the same quarter last year. So, that is a substantial growth on the back of both the growth in the Subscriber base and also improvement in the quality of Subscribers; last year, we had a substantial mix of Subscribers who had Docsis 2.0 platform Subscribers with very-very low ARPUs, now ARPUs have gone up substantially, if you all recall, it was about Rs.310 exit last year. We have already clocked in at Rs.490 in this quarter that is the latest quarter; with this Rs.490 per subscriber actually compares withRs.440 in the immediately preceding quarter, so, that has grown by a healthy clip. So, post ARPU growth and Subscriber growth has contributed to substantial jump in revenues.

If you take Subscription itself, net of the Commission that we paid to the Local Cable Operators, we were again flat. But if you compare it Y-o-Y, we came in at net of Commission Rs.96 crores for this quarter which compares with Rs.82 crores for the same quarter last year, which is actually 17% growth Y-o-Y. But, it was more or less the same number in the previous quarter, i.e. Q2.

As far as EBITDA is concerned, we came in about Rs.25 crores which compares Rs.40 crores in Q2, and Rs.37 crores in the last year same quarter. When you back out Activation and one-time revenues, it translates to Rs.18 crores in Q3 which is as I told you flat compared to the immediately preceding quarter at Rs.18 crores but, if you compare it to the EBITDA for the same quarter last year, which was around Rs.11-11.5 crores. So, actually EBITDA in a sense has jumped up by over 56% Y-o-Y. Just to help you reconcile these numbers, take the total revenues net of all one-time revenues last year at Rs.200 crores, improvement in Subscription revenues contributed to about Rs.8 crores, improvement in placement Y-o-Y contributed to about Rs.3 crores and improvement in Broadband revenues contributed by about Rs.14 crores which is Rs.29 crores incremental revenues that we have brought in, in the current quarter.

As far as debt is concerned, the gross debt is about Rs.1,012 crores. Net of cash available on the balance sheet as of 31st of December, it adds up to Rs.806 crores. Consolidated debt for the Group as a whole is approximately about Rs.1,450 crores. When you back out cash available on the balance sheet across all the companies of about Rs.255 crores, it adds up to about Rs.1181 crores net debt. I think that sort of sums up the financial performance of the company and I will now leave it open to the forum for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Just wanted to understand sequentially you said Cable revenues have been flat. So is it Rs.96, 96 crores for both or Rs.99, 99 crores for both?

G. Subramaniam: Rs.96 crores in December and Rs.98 crores in September.

Vikas Mantri: Why this decline sir, because we are commenting at least that Subscribers are up and both Phase-I and Phase-II Collections are up?

G. Subramaniam: As I mentioned to you, Vikas, in the months of October, all the way to first fortnight of November, we had a battle going on with our big-2 broadcasters. Both these decisions came up for final views by the TDSAT in the first fortnight of November, and until then, several of their channels were of our platform. Consequently, LCOs came back to us and obviously, reduced the revenue share that was paid to us. This is only fair because Subscribers were not receiving the full bouquet of that Content, and we had to therefore pass on some discounts to the Subscriber base.

Vikas Mantri: If I may understand it this way the ARPU that you are commenting on phase-I and Phase-II going up from Rs.90 to Rs.95 and Rs.55 to Rs.68, that is more the agreed number, actually we have to pass on some discounts on this?

G. Subramaniam: Vikas, let me hold you there, those are exit numbers, so, the exit numbers are the maintainable ARPUs, we are talking of December ARPUs, not of the average ARPU for the quarter.

Vikas Mantri: In terms of the like-to-like change going from gross to net, I should be reducing the Rs.34 crores from the operating expenses if I am right on the cost side?

G. Subramaniam: To the extent of LCO Commission that is embedded in the expenses, you have to reduce it, so, it will be neutral, you are right.

Vikas Mantri: So that Rs.34 crores goes away from the operating expenses?

G. Subramaniam: Not Rs.34 crores, Q3 will be about Rs.3 crores of LCO commission is there in operating expenses, reduced about Rs.12 crores in Q2 and the corresponding quarter in the last year Rs.9 crores.

Vikas Mantri: Rs.9 crores from December quarter?

G. Subramaniam: December FY'14 quarter Rs.9 crores, September FY'15 Rs.12 crores, December FY'15 Rs.3 crores.

Vikas Mantri: Sir, what was our like-to-like Cable revenue in the December quarter last year?

G. Subramaniam: I have already mentioned it to you, it was net-to-net, like-to-like Rs.82 crores

Vikas Mantri: We had reported Rs.119 crores as Cable revenues if I am right in the December quarter last year which like-to-like is an Rs.82 crores number?

Jagdish Kumar: That would include one-time. Why do not you just get into the details with my guys? They will explain it to you.

Vikas Mantri: Fair enough, sir, now, these were more numbers. In terms of the final agreements with Star and Zee, what is the kind of inflation on a Per Subscriber basis if I may ask that one should factor in for the next 2-3 years or rather 2 years or 1 year actually? And in case of the World Cup, are we modeled on a Per Subscriber basis or are we paying a lump sum basis to Star?

Jagdish Kumar: If your question is specific to Star and Zee or it is overall Content cost?

Vikas Mantri: Overall Content cost would help better…

Jagdish Kumar: Overall Content cost generally across the industry, the Broadcasters are looking at increasing their payout on the Pay Channel side and decreasing the pay-in on the carriage side. I think it would be fair to say that it will be about 15% to 20% kind of growth rate on the Content cost that could be a possibility.

G. Subramaniam: Vikas, one other way of looking at it is, generally, we talk about Rs.20 as the net negative carry per subscriber,we are fairly confident of bringing in between Rs.20 and Rs.30 over the next year.

Vikas Mantri: On the World Cup, are we doing it on a per subscriber basis or a-la-carte type or it is lump sum that we are giving?

Jagdish Kumar: On the revenue side, it is based on the pack which people take, we have got Add-On Packs for the World Cup Channels and World Cup is being broadcast in numerous languages. So, the subscriber can subscribe or an LCO can subscribe to the packages which we have created

Vikas Mantri: How your cost is based?

Jagdish Kumar: Cost is based on the RIO contract we have with Star; the Rio contract with Star specifies certain discounts which we can get based on certain penetrations and the LCN position of the channel. So, Rio contract is based on per box.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: I am referring to one of your comments in the opening remarks that you moved from gross to net like in Delhi in the month of October. So just two questions; one is that are you the only ones who have moved there or is the competition also on the net? The other question is that I thought a few months back the whole push was for going towards the gross. Why are we moving the other way around?

G. Subramaniam: So, firstly, there is a misconception in the terms of consumer billing versus gross billing. When we say we will go towards consumer billing is what we said we will push towards, whether it is going to be LCO or the MSO. So, consumer billing is what we are firmly in the path to take the business forward. The issue of gross billing and net billing is a very Delhi phenomenon, everywhere else in the country we are on a net billing, even earlier we were on a net billing, meaning, we were billing the LCOs and the LCOs are billing the consumers. As far as the other players is concerned, some people have taken the call that they will do the billing themselves; it is their business decision, but a significant player in the Delhi market has also now kind of agreed with what we are doing and they are also going by net billing concept. So, there is only one player I think who is now doing it on a gross billing concept.

Hiren Dasani: TRAI was the one who was pushing for you to go to gross billing a few months back?

G. Subramaniam: TRAI is giving the guidelines and TRAI is completely indifferent whether the MSO bills or the LCO bills, their only requirement is that the consumer should get a bill that is the only requirement TRAI has. We have numerous meetings with the TRAI where we have explained what everybody is doing, and we have said that, from our business perspective, we are not very concerned about just boosting our top line,we were looking at out profitability, because whether you bill gross or net, your margins remain the same. So, there is no point just inflating your top line and then showing your profits. TRAI is very clear. In fact, the TDSAT if you are looking, they gave us guidelines, and it very clearly says that the bills can be raised either by the MSO or his linked operator.

Hiren Dasani: When the LCO raises the bill, does the consumer know that it is like a joint billing with Hathway or something or is there a brand…?

G. Subramaniam: TRAI guidelines also put a responsibility on Hathway to generate the bill, because Hathway has the subscriber management system, the LCO does not have a subscriber management system. So, when it goes to the consumer, it is raised in the bill in the name of LCO and we have a branding on it, saying ‘Powered by Hathway.’

Hiren Dasani: On the ARPU, you said exit is now Rs.95 for you. What would be that at the customer level and where do you think this Rs.95 going into in the next few quarters?

G. Subramaniam: See, consumer level ARPU varies from city to city. If you look at a broad basis in Phase-I cities, the ARPU should be in the region of close to about Rs.275 to Rs.300 gross of tax. In some cases, even higher, within the cities it there is a range, in some places, we are even getting Rs.350 that is the consumer ARPU.

Hiren Dasani: But when you say Rs.95 is your Collection, what is the LCO getting per month in the Phase-I?

G. Subramaniam: So, if you look at, let us say Phase-I, everybody has a net ARPU of let us say Rs.230 and we keep Rs.100,so, the LCO currently net of tax keeps another Rs.100.

Hiren Dasani: Do you think this Rs.100 will go up for us or will it be…?

G. Subramaniam: It should definitely go up. I think our intention of doing Packaging and doing all these marketing activities is to increase the ARPU in a manner that the LCO also gets additional revenue and we also share in the additional revenues which we can get. Because, right now Packaging in the Cable TV side is still at infancy stage, so, we need to develop Segmentation and Packaging at the Cable TV consumer end. Once that is done, ARPUs should definitely go up, and that increase in ARPU, we will share with the LCO.

Moderator: Thank you. The next question is from the line of Urvil Bhatt from India Infoline. Please go ahead.

Bijal Shah: This is Bijal Shah from IIFL. I have just a follow up question on your Content cost. Can you just tell us exactly without confusing that with the Carriage revenues which we may earn that Content cost on a like-to-like basis how it will increase in FY16 and the contracts which you have right now, when they will come up for renegotiation or the large contracts if you can tell us that when they will come up for renegotiation?

Jadish Kumar: As far as Content contracts are concerned, most of the contracts are annual contracts, they come up for renegotiation on an annual basis, so, we have various timelines in which we have to do these renegotiations, for example, the contract with Star TV started from November 11, 2014, so, the next round of negotiation will happen in November 10, 2015. So, it has various contracts at various time periods. I have been advised here that we cannot make forward-looking statements about what we have to do next year in terms of our Content cost specifically.

Bijal Shah: Since you made a comment of 15-20% increase earlier, so I just wanted to understand you were just making that comment with respect to Content cost or the net Content cost? That is the only clarification which I need.

G. Subramaniam: Net Content cost. We have always mentioned that the spread will be about Rs.20 going to Rs.30 in the medium-term, we are maintaining that budget, and we are not increasing that number at this point of time.

Bijal Shah: So that will be around Rs.20 this year?

G. Subramaniam: Probably about Rs.20.

Bijal Shah: On the Contract thing, now what we hear from Dish TV's concall earlier this month that they have got into contracts which are like expiring 2-3 years out and with the same broadcaster like Star and Zee, so, is there a very different kind of negotiation happening at this point of time between DTH Operators and Broadcasters?

Jadish Kumar: DTH Operators did long-term contracts on a fixed fee basis, and a lot of the fixed fee contracts are slowly coming to an end, and our expectation is that, a lot of them will now again get into a per subscriber basis. So, as of now, we do definitely see difference in the way the DTH contracts are done and the Cable TV contracts are done. But, going forward, because of the economics of both these platforms are very different, one, they do not have a middle entity called the LCO in between to share their revenues, so, therefore, their economics was slightly different. So, I think, there will be some kind of a distinction between us and them, but overall, I think in terms of the percentage of Content cost as revenues, will slowly converge across all platforms.

Bijal Shah: We have already entered into contract, I do not want details of contract, but I just want to understand one thing, that when we enter into contract for Digital market, Hyderabad maybe a Digitized market, but in essence it is not, so how subscriber base in Hyderabad is treated in all these contracts, does it become analog for that purpose or it is Digital and we pay actually as per our Digital rate?

Jagdish Kumar: No, I think Hyderabad is treated virtually as analog market in most of our contracts.

Moderator: Thank you. The next question is from the line of Neerav Dalal from SBICAP Securities. Please go ahead.

Neerav Dalal: On the net and gross billing thing, would we in the future move back to gross billing or do you think that it would always be net billing from here on?

Jagdish Kumar: We are very clear about the fact that they will be ones who will generate the bills. We will be person, who will give the bill from our sms system and we will also be the entity which will also work on the consumer price. Consumer price is something which we will do. So, these are two things which are non-negotiable and which is as per the law. As far as gross or net is concerned, we are indifferent really because from a pure ease of operation perspective, we have now decided that we will do net billing.

Neerav Dalal: In terms of gross billing in Phase-II cities, has that started?

Jagdish Kumar: Consumer billing in Phase-II cities, yes, as far as the primary points are concerned. Consumer billing has started in Phase-II cities, and as far as the secondary point business is concerned, we are in various levels of evolution as far as the billing is concerned,in some places like Bangalore, we are far more evolved,in some places, we still have a lot of work to do to get to consumers getting the bills. Though, technically at the back end, we are capable of generating the bills.

Neerav Dalal: With Reliance coming up in the next six months, how do you see the Broadband business or what are you doing for that?

Jagdish Kumar: Reliance has got a very significant investment which has made in the wireless broadband business, but we are a Wired Broadband business, so, there is a distinction there, therefore, we do not see a threat from the wireless side of the business so much, because our pipe to the home is well-entrenched, while we are also aware that they do have a wired business plan in mindset. It is a free market, competition is expected,there could be some disruptions because of the capabilities which Reliance has but, we are confident with the kind of proposition which we have for our consumers and with the relationship which we have with the last mile,we should be able to hold our own.

Moderator: Thank you. The next question is from the line of Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: Sir, can you make us understand how the CAPEX for the Broadband business will work out in terms of what would be the CAPEX per Home Pass and direct CAPEX per Subscriber?

G. Subramaniam: When you are talking about of Capex for every incremental Subscribers that we add, we will be spending anywhere between 7,000 to 9,000Subscribers depending on the amount of electronics have to put into the last mile. Now, if you amort all the cost, that is including any capacity increases that I have to make in the backend like the CMTS, it could come to anywhere between 10,000 to 11,000,but the way to compute it is whenever you add a subscriber, the incremental CAPEX and the incremental revenue that you earn from that market, you should budget around anywhere between Rs.7,000 to Rs.9,000 depending on the markets because each geography has its own peculiarities and divided by the average margin that we make per subscriber.

Yogesh Kirve: The way I understand is that if we want to add say 1 million subscriber, your home pass has to be around 2 million for instance, so this Rs.7,000 to Rs.9,000…?

G. Subramaniam: That is a very aggressive penetration to assume; we typically start off with about 12% to 15% penetration in the first year, and eventually, hope to grow it to about 25% to 30% in 3-years time.

Yogesh Kirve: So when we say a CAPEX of Rs.7,000 to Rs.9,000, so does that build in the fact that our Home Pass has to be much higher than the actual penetration?

G. Subramaniam: No, this is well within our target numbers,the only difference is because in the past we were addressing low speed, it was not truly a broadband service, so, as we have upscaled the product, we have had to make much more significant investments in the last mile to improve the quality of the last mile,so, we used to actually make much lower investments to acquire a subscriber in the past anywhere between Rs.5,000 to Rs.7,000, but of late, we have started investing in much more higher quality equipment and that you had raised to Jagdish about the entry of high quality players like the Reliance . So, we obviously have to make the necessary investments to deliver high quality services, so that is one. All new markets, the investments we are making we made in the current year, and we expect to start off with about 15% to 18% penetration and eventually grow it about 25% to 30% penetration in each of these markets.

Yogesh Kirve: What CAPEX we are planning in FY16 for the Broadband?

G. Subramaniam: I think you should take off the table because we do not want to give any guidance at this point of time, so, you can come back to my guys and have a chat.

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

Dheeresh Pathak: On Broadband, we have I think 2 million Home Passes. How much of that is on our own parallel network and how much is upgrading the LCO network to Docsis 3.0?

G. Subramaniam: All backhauls is on our own. The backhaul is common up to the node, and in good markets like in South Mumbai, the same last mile will also be used to deliver the services, but because of the peculiar nature of the Indian market, a substantial part of our Subscribers are served by a separate cable that is drawn to the subscribers' home. So, it is only high quality markets like South Mumbai where we will have a single cable with a splitter at the consumer's home.

Dheeresh Pathak: Obviously, some of it may depend on the market like in South Mumbai, but going forward, the plan is to not upgrade the LCO network or have our own parallel network, what is the plan?

Jagdish Kumar: Our preference going forward is to have our own network, wherever we exist, of course, we will use our network, but where we do not exist as our own primary points, and we will build our own network.

Dheeresh Pathak: Our Broadband revenue is annualizing to about Rs.200 crores. On this Rs.200 crores, we would be making 40-45% margin?

G. Subramaniam: About 35% margins.

Dheeresh Pathak: But sir, then at least the Cable business that is not making any money at the EBITDA level if we assume 35% margins on Broadband?

G. Subramaniam: The Cable business on a standalone basis will be making a margin,but what we have to do is we have to back out the allocated corporate costs and that is how you arrive at the total EBITDA,that is why it appears that the Cable business is not making a margin on its own.

Moderator: Thank you. The next question is from the line of Vikas Mantri from ICICI Securities. Please go ahead.

Vikas Mantri: Two questions: One is out of the Docsis Subscribers and the Overall Broadband Subscribers, for how many Subscribers do we share commission with the LCOs? And second question, what is the difference between the ARPUs of Docsis and the non-Docsis Subscribers? I see your Docsis pack lowest being close to Rs.700 plus.

G. Subramaniam: I do not have that number off the cuff. Why do you not just come back to my team and take that statistic. The way to look at is, out of the Broadband Subscriber base, about 370,000 Subscribers would be through local cable operators and about 50,000 to 60,000 Subscribers would be Primary Subscribers.

Vikas Mantri: The ARPUs reported are net of the LCO Commission?

G. Subramaniam: No, these are gross ARPUs means gross net of taxes and you have to back out about 10% to 15% Commission to LCOs.

Vikas Mantri: Can you comment on the difference between ARPUs of Docsis and non-Docsis Subscribers?

G. Subramaniam: There are very few non-Docsis. Actually, I do not know where you are getting this non-Docsis number from.

Vikas Mantri: You said Docsis Subscribers are 113,000?

G. Subramaniam: Docsis 3.0 and Docsis 2.0. Docsis 3.0, there are differentiation between markets. The basic plan starts at about, Rs.600 to Rs.650 as the average entry point for a Docsis 3.0 subscriber. and Docsis 2.0, we are not selling anymore, it used to be sold at about Rs.300 to Rs.350 in the past.One added information is our average ARPU across the entire universe went up to Rs.490 bucks, because gradually, the proportion of Docsis 3.0 Subscribers is increasing as a part of the total.

Moderator: Thank you. The next question is from the line of Varun Ahuja from UBS. Please go ahead.

Varun Ahuja: You mentioned that you would like to go more on primary way of getting more Docsis 3.0 Subscribers. Just wanted to check, if you will obviously own the last mile which can provide Docsis 3.0 Broadband, is it difficult from that wire to also carry the Cable signal, so if you have the last mile, the same wire you can use, as you were mentioning in high end societies, there is only single wire and you split to split the signal…?

Management: It is more a philosophical question. You have to realize that this market has been traditionally governed by the local cable operator. So, the moment you try to go directly through the Local Cable Operator, he has an adverserial relationship, so, he resist that. Therefore, wherever possible, we go directly to the subscriber's homes, it is the simplest way to reach subscribers' homes. But, as the market evolves, as transparency evolves, the technology itself is common. I can use the same Local Cable Operator Cable if it is of good quality and put a splitter in the consumer's home and provide both Cable Television and Broadband Services. Hopefully, in the next few years, it will slowly go towards the common infrastructure, you know the history behind this, so because of that there is a lot of parallel infrastructure particularly in the case of secondary points.

Varun Ahuja: Just saying it would not be beneficial to just upgrade the local cables only because instead of going two Cables inside Subscriber home…?

G. Subramaniam: Look at it this way, the Local Cable Operator has laid that last mile and he is not going to readily allow me to replace that with my Cable, right.

Moderator: Thank you. The next question is from the line of Urvil Bhatt from India Infoline. Please go ahead.

Urvil Bhatt: My question is on ARPU in Phase-I market or maybe you can touch upon Phase-II markets also. Now, how do you see ARPU growing – whether you will have to take price hike and upsell or you think that your ARPUs will grow at expense of LCO?

Jagdish Kumar: No, ARPUs will definitely not grow on the expense of LCO. Our intention is to package and ensure the LCO himself gets a higher ARPU and we share in the higher revenues which we can get from that.

Urvil Bhatt: Here, what kind of ARPU growth we would be targeting or rather let us say what industry thinks, I am not looking for any guidance, but let us say the 230s what you are saying is the net ARPU in Phase-I cities, so two years down the line what kind of ARPU we should expect from Phase-I cities, what would be industry's target?

Jagdish Kumar: Industry's target to get to at least Rs.350 in these Phase-I markets in two years time.

Urvil Bhatt: The sharing also remaining the same formula or for the incremental ARPU MSOs would have a very large share or LCOs would have a large share?

Jagdish Kumar: So it all depends on what the role of each of these entities will do, because in lots of cases, the LCOs own the network, maintain the network, do some cash collections, and therefore they get higher share, in some cases, LCOs give the maintenance of the network to us and also gives sometimes cash collection mechanisms to us, so there the Commission will be lower. I think the industry will evolve based on the service of each of these entities provide for.

Urvil Bhatt: You have launched this prepaid model in a very partial manner for LCO. Should we see this faster or maybe it will over a period of time evolve into a very clear prepaid model which DTH guys have, is that the direction?

Jagdish Kumar: Yes, that is definitely the direction; our intention is to initially start with the Post Paid model for our Starter Pack, the prepaid model for any other Pack beyond the Starter Pack. Like in DTH, once the whole industry moves towards the prepaid model, consumers will start prepaying, therefore, LCOs will also start prepaying.

Moderator: Thank you. The next question is from the line of Neerav Dalal from SBI CAP Securities. Please go ahead.

Neerav Dalal: I just wanted to know what was the CAPEX that you have done in the first nine months?

G. Subramaniam: Rs.113 crores in the first nine months.

Moderator: Thank you. The next question is from the line of Pulkit Singhal, he is an individual investor. Please go ahead.

Pulkit Singhal: From Broadband specifically, we have Rs.51 crores of revenues and you mentioned 35% EBITDA margin and 10-15% LCO share which means roughly 50% is the other cost, which is around Rs.25 crores on a quarterly basis. Where is that cost going?

G. Subramaniam: The cost structure is like this, Pulkit; for every Rs.100 that I pick up from the market about Rs.30 is the variable cost, that variable cost is distributed between Commission to the Local Cable Operator and the backhaul bandwidth cost. So these add up to anywhere between 25-30% of the revenue connected, after that another 30-35% is the fixed overheads; fixed overheads is staffing, cost of collection, cost of billing and the marketing costs are considerably higher in the Broadband business. The difference between Cable and Broadband is that the feet on street as far as Broadband is much higher, the entire collection is directly done by the company, we do not rely upon the local cable operator, so a lot of the people cost comes from that, these are the type of expenses. If you want any specific you can always catch up with my team.

Pulkit Singhal: I am assuming the bandwidth would probably also be kind of a fixed one, you tend to have…?

G. Subramaniam: No, it is sort of a step variable, it is more increase in capacity in steps, but it is variable in character.

Pulkit Singhal: In terms of CAPEX you mentioned Rs.7000 to Rs.9000 per Subscriber. Is this assuming some 15% or what is the penetration assumed in?

G. Subramaniam: Yes, this will include some average penetration assumption over a period of time of anywhere between 20% or so, but this is only the last mile, that is from the node up to the consumers home. The difference between Docsis 2.0 to 3.0 there is considerable amount of incremental investments that have to be made at the CMTS level that I have not amortized on this. So even that in a sense is variable to the subscriber, but that is the step increase investment.

Pulkit Singhal: So somewhere between 10,000 to 11,000 arrangements?

G. Subramaniam: Yes, after every single CAPEX.

Pulkit Singhal: Including Modem, Routers and all?

G. Subramaniam: Yes.

Pulkit Singhal: Out of the 2 million Home Pass, given that you have already covered roughly 430,000 how much penetration do you think you can reach?

G. Subramaniam: We typically target whenever we roll out a home pass, about 15% to 18% as the starting point, but it really starts making significant margins as it goes beyond 15% penetration, we hope that in the long run anywhere between 20% to 25% penetration should be achieved.

Pulkit Singhal: You already achieved that basically?

G. Subramaniam: We have achieved that because now we are a very mature operator, but from onwards there will be aggressive roll out to Home Pass, so the percentage will decline before going back up.

Moderator: Thank you. The next question is from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: I have a question on the Broadband business. I do not know whether Rajan is there. You mentioned about the fact that LCOs are not comfortable with the one cable, whereas we touch to push for one cable with the split inside the home, so you have to necessarily deploy a lot of parallel infrastructure at the secondary point. The question is can you give us some flavor of the operational hurdle or the issue that you face when you want to deploy the parallel cable for Docsis 3.0 Customers?

G. Subramaniam: Unfortunately, Rajan is not here at this point, but Jagdish will take that question.

Jagdish Kumar: The operational issues are basically we provide the LCOs with the right-of-way piece. So wherever we are entering a territory and there is a lot of conflict that at some point of time between LCOs and us in terms of the quantum of the right-of-way piece. So that is one of the biggest operational hurdle we have going forward.

Sanjay Chawla: Also, what about the building society and the associations, any issues on that front?

Jagdish Kumar: There again I think we do have that stumbling block, in the sense that they have to go through the residential welfare associations to get permission to wire their homes, but it is more of a formality rather than any operational problem as such.

Sanjay Chawla: But how do you address this concern on the part of LCOs that you might use your own Cable for broadcasting TV signal as well in the future?

Jagdish Kumar: We are entering into interconnect agreements with all these LCOs for having the Video business, and we are signing with a lot of the LCOs, so I do not think there is any fear that we will violate those.

Sanjay Chawla: That is actually put down and the agreement that you will use only your Cable only for Broadband and not for TV?

Jagdish Kumar: The interconnect agreements for Cable TV very clearly says that we will be using his network for delivery of our Video business. So therefore, we will be violating that condition if we do not do that.

Moderator: Thank you. We will take a last question which is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: You said Reliance initially their focus is on Wireless Broadband but they also have desired to be in Wireline. So based on your current understanding, can you just tell us what is your understanding of their current wireline product on Broadband?

Jagdish Kumar: I would not like to speculate on what they do, to be honest, people in the industry there is a lot of rumor and speculation of what exactly is the product proposition which Reliance will come up with, but we know for a track that they are going to deliver data and video is also part of that business. With the kind of investments they have made, they will have to make it a video, data, sometimes voice and also services layered on it as the business proposition. So it is something which all of us are waiting and watching and we will have to respond based on their actual implementation on the ground.

Dheeresh Pathak: In terms of the consumer experience of Fiber to the curve versus Docsis 3.0, how does it compare?

Jagdish Kumar: There is another misconception that we are also pure Docsis 3.0 throughout; in fact, we are also Fiber right up till the node, so we carry our signals by Fiber. So the only last mile is where we carry through our Docsis 3.0 RF network, and if anybody else starts another technology, it is carried through another Optic Fiber system which they will need some kind of CPE to convert those Optical Fiber signals. So the consumer experience from our perspective we have decided that Docsis 3.0 is the technology which we will follow, but we are not agnostic to even looking at GPON as the technology going forward. So, it is our intention is to give the right speeds and at the right price to the consumers. So if GPON can enable us to do that, we will do even GPON.

Dheeresh Pathak: And globally, like in developed markets where markets migrated to, is it GPON is it Docsis or is it a mix?

Jagdish Kumar: This is a question which has been toyed on worldwide, whether it is GPON or whether it is Docsis 3.0, in fact, if you look at most of the markets Docsis 3.0 is also thrived in markets where they exist, Comcast is a good example, but GPON is also a great competition. So I am not qualified to say which the better one is.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Sandeep Gupta for closing comments.

Sandeep Gupta: Thank you, everyone for joining us on this call, really appreciate this.

Jagdish Kumar: Thank you, Sandeep.

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