



“Hathway Cable & Datacom Limited Q1 FY16
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Hathway Cable & Datacom's Q1 FY16 Earnings Conference Call hosted by Ambit Capital 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Utsav Mehta of Ambit Capital. Thank you and over to you, sir.

Utsav Mehta: Hi, good morning. We at Ambit are happy to host Hathway's management, Mr. Jagdish Kumar – MD and CEO and Mr. Subramaniam – CFO. We will start the brief address by the management and then hand over for a Q&A session. Over to you sir.

Jagdish Kumar: Thank you Utsav. Good morning everybody, thank you for joining us on the Earnings Call for the First Quarter of the Financial Year 2015-16. With me on this call I have Rajan Gupta who is our President, Broadband; we also have on the line Panesar who is the President of our Video Business; we have GS – our CFO, Ajay Singh – our Company Secretary & Chief Compliance Officer; Vineet – our Deputy CFO; and Mahadevan – our EVP, Finance.

I will briefly cover some significant strategic steps that we have taken in both our businesses. Cable TV and Broadband. Thereafter Vineet our Deputy CFO will present the financial numbers and we will start the Q&A session thereafter.

I will start with our Broadband business. We continue to make rapid progress in increasing our broadband homes-pass footprints across our operating locations in India. Hathway's Broadband service is now available in 2.4 million homes across our footprint in India. During the quarter we have added 120,000 homes pass, Broadband revenues have shown significant growth, on a year-on-year basis we have grown 56% from 41 crores in Q1 FY15 to 65 crores during the current quarter. I am sure this momentum will continue in the following quarters primarily driven by upgradation of existing customers to High-Speed Broadband service and also acquiring new customers at higher price points. Our High-Speed Broadband customer base on the DOCSIS 3.0 platform has increased by 30,000 during the quarter to 170,000 subscribers. On a year-on-year basis, Broadband exit ARPUs have shown a tremendous growth to be at Rs.577 per sub per month currently. The market has received our High Speed Broadband services very favorably, an indication of the positive response is that we have been able to increase ARPUs of DOCSIS 3.0 customers from Rs.750 last quarter to levels of Rs.850 per sub per month which is a significant achievement from our Broadband team to increase it by Rs.100 during this quarter.

During the last quarter's call, I had indicated that we will be making significant investments in marketing and brand building of our Broadband business; we have launched our marketing campaign with Sania Mirza as our brand ambassador. I am confident that with the additional investments we are making in expanding and upgrading our network and improving customer service, Hathway has become a well-received brand with our Broadband subscribers.

I will now move over to the CATV segment. As mentioned in our previous call, we have taken two significant strategic steps into our CATV business during Q1 this year. We had started in Q4 last year and now we have started implementing it in Q1 this year, the first one being packaging and the second one being introduction of pre-paid systems. I am happy to report that a substantial part of the market has received both these steps quite favourably. One indication is that in the Phase-II markets our ARPUs have grown year-on-year from Rs.67 per sub per month to Rs.76 per sub per month.

With 72% of our subscriber base digitised, we remain the biggest MSO in India as far as the digital subscriber base is concerned. We have about 400 set-top boxes in our inventory; we are well positioned to exploit the opportunities presented by the deadlines fixed by the government for digitisation of Phase-III. A significant strategic step we have taken this quarter is to take on cable networks on management contract on a Right-to-Use basis. During the quarter, we have signed up 13,000 subscribers with LCOs on RTU basis. We intend to expand these activities significantly in this financial year. We are confident that increased ARPUs through packaging, prepaid systems and RTU contracts and the potential expansion in Phase-III will set our CATV business on a path of growth and profitability.

So with those opening remarks I am handing over to Vineet to take us through the financial numbers.

Vineet Garg:

Thank you, Jagdish. A very good morning to everyone. I would like to take you through the financials before we open the session for Q&A. A total revenue for the quarter is Rs.264.4 crores as compared to Rs.250 crores last year same period. This shows a 6% jump in revenues. If we do a like-to-like comparison, we need to net off cross billing for the quarter Rs.13 crores, one-time income of Rs.7 crores and entertainment tax of Rs.2 crores which will result in the increase in the gross revenue by Rs.37 crores and resultant increase in the quarter by 16% from the last financial year. I also want to update last quarter content cost and a subscription income includes Rs.14 crores as a onetime transaction on behalf of JV companies. For that comparison the quarter four of financial year 2015 need to be netted off from the published numbers, hence a like-to-like comparison for CATV subscription count for quarter one 2016 is Rs.105.5 against Rs.96 crores in Q1 2015 and Rs.104.9 crores in Q4 2015, this shows a growth of 10% and 1% respectively. For ease of understanding we have shared a like-to-like comparison of CATV subscription revenue and the Broadband revenue trend for last quarter in our press release. Broadband revenue shows a constant uptrend in Q1 2016 and the revenue is Rs.65 crores in comparison to Q1 2015 Rs.42 crores and Q4 2015 is Rs.58 crores which shows growth of 56% and 13% respectively.

Summarising the income breakup: Standalone entity for this quarter, the subscription income is Rs.105 crores, broadband Rs.65 crores, placement and carriage is Rs.84 crores and activation Rs.5.5 crores. Now activation income is flat at this rate.

To drive the prudent comparison, one should trough up of the adjustment related to one-time adjustment income. We also paid license fees of 8% on the Broadband revenue effective this

quarter. If I adjust that also from EBITDA, the adjusted comparative number for Q1 2016 is Rs.32.4 crores, Q1 2015 is Rs.28 crores, Q4 2015 is Rs.27.7 crores, this shows increase of 16%, 28% respectively. However, the licensee fee will be a regular phenomenon; we have started passing on the impact of the licensee fees to the new broadband customer and on the renewal of contracts. This should recover the impact of it in the next two quarters completely.

The net debt as on June 2015 for the consolidated entity is Rs.1315 crores, for the standalone entity gross debt is Rs.1137 crores and the net debt was Rs.1041 crores. With our continued effort to rationalise interest cost we have managed to keep our interest rate cost at a 7% on per annum basis.

We would like to open the session for the Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Shobhit Khare of Motilal Oswal Securities. Please go ahead.

Shobhit Khare: Couple of questions on the Cable business. First is in terms of subscription revenue, so adjusted for the onetime items it is flat quarter-on-quarter so just wanted to understand what is the progress in terms of monetisation and how we should look at it for rest of the year? So that is question number one. Second is on the content cost, again it seems to be flat quarter-on-quarter adjusting for the one-offs, so quite a little surprise that both content cost and subscription revenue have not moved up in this quarter versus 4Q, so that is on the Cable business. On Broadband business, we have taken a price increase and if I just look at the DOCSIS that price increase seems to just offset the license fee impact. So is that a good way of looking at it or you have taken price increase also for your non-DOCSIS subscribers and why are we not seeing the Broadband subscriber base moving up in terms of net additions more than what we are seeing right now?

G. Subramaniam: So as far as the increase in CATV subscription is concerned, Phase-I subscribers, we exited March at Rs.100 per subscriber; we continue to be at Rs.100 as of the first quarter. As far as the Phase-II markets are concerned, we exited March at about Rs.67; we are about Rs.76 average at this point of time. Now this is completely reflected in the numbers, you are right Shobhit that there is a marginal increase in Cable Television subscription which is about 50 lakhs quarter-on-quarter, but that is fully a result of the increase from Rs.67 to Rs.76. If you multiply that by the number of subscribers who belong to the Phase-II markets that would exactly match.

Now on outlook as far as the ARPU is concerned in Phase-I and Phase-II, we have tentatively said that we should be exiting the current financial year at about Rs.110 to Rs.120 range in the fourth quarter for Phase-I market, we are completely committed to that number even at this point of time. As far as the Phase-II markets, we will probably exit at about Rs.100 March 2016, we continue to remain committed to that target. Obviously this will require some work over the next few quarters and it is ongoing at this point of time, you will see these improvements reflected in our subscription numbers over the next three quarters. Phase-III of

course will kick in, as we have always informed you only in the middle of the next calendar year, probably June-July, there will be some initial improvement particularly with regards to Hyderabad where we will probably reach about Rs.50 average revenue per subscriber when we exit the current financial year. So this is the take as far as ARPU growth is concerned in the Cable Television business.

As far as the Broadband business is concerned, we continue to encourage our subscribers to move from DOCSIS 2.0 to DOCSIS 3.0, where subscribers are reluctant to do so we continue to shed those subscribers. This is reflected in the fact that our average ARPU has improved smartly from Rs.530 exit March to about Rs.570 as we speak. Our target to take it up to an average Rs.630 remains for the current financial year, we would hopefully do better than that because when we made the initial assumption of Rs.630 it was on the basis of Rs.750 ARPU, Rajan has been able to persuade markets to pay up to Rs.850. If you now look at Rs.850 over Rs.750 it is a improvement of about 13% in revenues per subscriber. You are right that a substantial part of that increase will be shared with the Government of India in the form of 8% license fees but there will still be a 5% of that will still drop to the bottom-line. So this is the way we are looking at the business. As our package mix improves, because we do not expect all subscribers to remain in the lowest price plan, we will hopefully further improve the ARPU in the course of the current financial year. As far as subscriber net-adds are concerned, you should see the net-adds accruing to the company over the next few quarters as most of the substantial part of the subscribers who prefer to remain in DOCSIS 2.0 would fall away from the business over the next few quarters.

Shobhit Khare: Would it be possible for you to share what is the churn in the Broadband subscriber base for this quarter or generally if you could comment on that?

G. Subramaniam: Yes, we have added about 50,000 subscribers in the first quarter gross, we have churned out about, the normal churn if you can call it that would be in the range of about 20,000 subscribers which would actually result in a net 30,000 add. We have also been consciously shedding some of our old DOCSIS 2.0 subscribers who refuse to get out migrate to a higher price plan, so if you net that out we have added about 4,000-5,000 subscribers net in the first quarter.

Shobhit Khare: And one last follow-up from my side, on the Phase-I, I just wanted to understand what will take us from 100 to 120, if you could just tell us what are the steps you are taking to move from 100 range to 110-120, are there any specific things we should keep in mind?

T.S. Panesar: See, we have take few initiatives to jack up the ARPUs in these markets, one is that the implementation of prepaid is going to result in this growth, apart from this we are also looking at doing a prepaid at the operator level. So basically to give you an idea these are the initiatives, basically the payment mechanism, the way we collect... we are trying to bring in more improvement in that which will result in this growth in the ARPU.

Jagdish Kumar: To add on to what Panesar is saying also is, we are aggressively implementing packages across our systems. One is implementing packages and the second step we are also doing is to upgrade people from the lower packs to the higher packs. So basically there are three steps we are taking: One, like Panesar said Prepaid. Two, packaging, therefore increased ARPU at consumer level which incidentally a lot of markets have already got the benefit of that increased ARPU at the consumer level. The third important leg is that we will be increasing our share which we have to get from the LCO, so there are a lot of contracts which we are entering into so the share of our revenues from the consumer will increase. So these are the three main pillars on which you would find ARPU growth.

Moderator: Thank you. Our next question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: Sir my question is on the 10,000 HD subscribers you added in Q1, so what is the ARPU, how many HD channels we have and how you are managing to convert this, is this completely conversion within existing base, so how are you getting it, if you could elaborate that and where do you see this settling in the next one year?

Jagdish Kumar: The HD subscribers which we have got 10,000, in fact this is the highest we have got so far in HD subscribers. Primarily, half of them would be conversions, half of them would be new customers. The ARPU is in the region of about Rs.850, we have a three month, six month and a yearly packages so if you convert that into a monthly ARPU it would be about Rs.150 on a monthly ARPU basis.

Abneesh Roy: HD ARPU is 160?

Jagdish Kumar: 150.

Abneesh Roy: So why is it that low?

Jagdish Kumar: This is in addition, if you are a standard definition customer and if you take a HD package you have to take on the box at about Rs.2000 plus in addition to your standard definition pack whatever you have got, if it is a Rs.250 pack you have to pay an additional Rs.150, so Rs.400 would be the ARPU.

Abneesh Roy: So at the customer end it is Rs.400 ARPU?

Jagdish Kumar: Correct, at the base level.

Abneesh Roy: Sir in the Press Release you have said prepaid in primary that will improve ARPU, prepaid in primary how will the ARPU improve because that is anyway your direct customer?

Jagdish Kumar: I think see essentially a lot of the work what we are doing now is currently the customer pays on a post paid basis so there is no pressure to really settle the money. So when we have a system, we have got a back end system which actually automatically switches his channel, he

has to willy-nilly settle the money and combined with this we are also upgrading customers to the higher packs.

Abneesh Roy: So you are saying even in primary you have collection issues?

Jagdish Kumar: Yes, we did have some collection issue sin primary which is not as dire as it is in secondary policy, but there is gap between collection and what we build.

Management: I think the way to look at it is, when it is a post paid plan you do not efficiently disconnect services to the subscribers the moment he has consumed services, whereas in a prepaid plan if he does not pay he does not get services. So whenever there is a postpaid plan there is always this tendency to continue our services with the subscriber for maybe 10 to 15 days before we actually disconnect services to the subscriber. So the way ARPUs will improve on a primary subscriber will be more efficient administration of the receivables.

Abneesh Roy: And how much discounts you are giving to the customer because if he is paying prepaid his cash flow gets impacted, how much discounts you are giving to the consumer to opt for this?

Jagdish Kumar: There are no discounts to the subscribers at this point of time, it is more ease of doing business with us and it is only a quarterly, half yearly and an annually advanced payment plan.

Rajan Gupta: So actually if the consumer opts for quarterly plan we give 10% discount, if the consumer opts for half-yearly plan then around 15% discount and if you go for annual packs it is practically a month's discount.

Abneesh Roy: So there is a discount right, because initially you said there is no discount.

Jagdish Kumar: My apologies, it is a discount. The 7 days, 15 days, and 30 days discount.

Abneesh Roy: Sir just one follow-up, you are saying Right-to-Use model 13,000 added, so if you could tell us what are the benefits? When do you see benefits translating into numbers and starting to move secondary points direct operation? So could you elaborate that part in terms of numbers when do you see this benefitting you?

Jagdish Kumar: See this has three benefits to us: One, let's take an example, if you are taking a secondary point on which you are currently getting Rs.100 per subscriber and you go to the LCO and say that, and a lot of LCOs are showing a lot of keen interest to do this that we will take his network on contract. Now one, we do a lot of marketing to improve the ARPU at a consumer level, so while if his average ARPU is currently in the region of Rs.250, our intention would be to increase our intention would be to increase that ARPU to Rs.300, so we have a Rs.50 increase at a consumer level. Two, I think bigger pay-off is actually the cost savings which we incur, now most of these networks have a maximum of about 500 customer per network, now if you take it on and if you can get contiguous network together you can manage those operations much more efficiently. So if the current cost of operation is around Rs.60 per sub, we can by taking it on bring it down we can add another Rs.20 to your bottom-line by bringing the cost to

about Rs.40 per sub. So this is the benefit which you will get and in each of these cases it is always incremental revenues.

- Abneesh Roy:** So this has started right, this cost benefit has started?
- Jagdish Kumar:** No, I think 13,000 subs have started in this quarter, so as we move forward I think the activity should expand further.
- Moderator:** Thank you. Our next question is from Yogesh Kirve of B&K Securities. Please go ahead.
- Yogesh Kirve:** Just a couple of questions, first regarding the growth in the broadband subscriber base, can you give some flavour about how much of the subscriber are added on their own network, I mean own last mile network and also how much of subscribers are getting added from the non CATV related footprint?
- Jagdish Kumar:** The non-CATV will be about less than 10%. I just got Rajan here, he will pitch in.
- Rajan Gupta:** I also would like to clarify, we own the last mile for all our broadband subscribers, we are responsible right from marketing to selling to collection to complaint resolution and the whole value chain is directly owned by Hathway for all our Broadband subscribers.
- Yogesh Kirve:** So that also includes last mile as well?
- Rajan Gupta:** Absolutely, you can meet me separately for a more detailed discussion but currently I cannot answer that.
- Yogesh Kirve:** Surely. Secondly regarding the license fee which is not getting payable, so how does that change our outlook on the margins over a medium to long-term perspective in the Broadband business?
- Jagdish Kumar:** I think GS just clarified that some time back, we have taken a 25% price increase for our new subscriber on an average, and that has gone quite smoothly and out of which around 8% has gone to government. Similarly for the current subscriber, it has taken around a 10% price increase but current subscriber it happens whenever they come for renewal because we have subscribers in the three month, six month, and one year window period, so when they come for renewal they go for a price increase anything from 8% to 12%, so averaging around 10%.
- Yogesh Kirve:** Sir and we talked about the implementing the prepaid model in the CATV business, so can you talk about any tangible benefits that we have seen in terms of our receivables coming down or at least remaining flat. So we exited FY15 with about 570 crores of trade receivables, so if you can just give some colour has that remained flat or declined?
- Jagdish Kumar:** Just to clarify, the prepaid solution is in the process of being implemented, the benefits of this will accrue to us in the following few quarters. We have just launched prepaid to the subscription platform from 1st of August onwards.

Yogesh Kirve: And just a clarification to the last one, sir when we say our ARPU in Phase-I is Rs.100, so is that overall number or are we referring to only SDs ARPUs?

T.S. Panesar: That is our share, net of LCO share.

Yogesh Kirve: So that also includes the upsides that we are getting in terms of the HD revenues?

T.S. Panesar: HD will be over and above this, this is standard definition ARPU.

Moderator: Thank you. Our next question is from Urvil Bhatt of IIFL. Please go ahead.

Bijal: Yes, this is Bijal from IIFL. My first question is with respect to RTU, can you just elaborate exact arrangement between you and LCO, how does it happen that if you start collecting money you pay to LCO or there is some minimum guarantee involved in this and how the collection actually happens that now you have your people on ground to collect money, so how do you share the various responsibility between LCO and yourself in RTO arrangement?

G. Subramaniam: See there are two modes in which we work in the RTO arrangement: One, we say that we just do the selling of the services to the customer which means that we quote and tell the LCOs that we will pay him a fixed fee and we will do the billing and we will do the back end service provisioning from our side. So the first point would be that he would incur his own expenses for collection and network maintenance and others which is what we try to discourage but there could be a model which also, so therefore we will give him a higher revenue share and he is going to manage his own last mile. But the preferred one from our perspective is to manage the whole network ourselves including the cash collection part of it.

In each of these cases we ensure that the net revenue which we collect from the network is incremental to what we currently collect. So if currently we are collecting Rs.80 net, we have a plan to take network on RTO basis we have to ensure that we get anything above Rs.100. So there is a big significant increase which we can get, so we go to a LCO and tell him that he just has to give us the ability to manage his network, we give him a fix fee which ranges from Rs.60 to Rs.80 and sometimes Rs.100 and therefore we are net realisation by upgradation and cost savings is far higher than what we get now.

Bijal: Sir just a small follow-up on that, now if I understand the LCO business correctly for most of guys it maybe a side business and they might have a very, I mean a collection guy or a guy who is fixing problems in the network he might not even be paid Rs.5000 and even if he is paid more means he does many more work. Now in case if you take over his network and any company of your size would be complying with all the Minimum Wages Act and if you start office in nearby area then you will also pay rent. So does it really make economical sense for you to do this because LCO is actually by doing certain things which may not be absolutely right but he does it at a very low cost, if an organised business comes and starts running the same LCO operation the cost will go up significantly, maybe more than what revenue increase you can see?

G. Subramaniam: See the cost arbitrage is not the only, in fact that is one of the smaller factors which we will factor in in this exercise. The bigger arbitrage we have is to increase the ARPU of the customer, we increase the ARPU by marketing, in upgrading the customer, we increase it by giving him HD services, we also increase realizations by efficient collection. A lot of times as you are maybe aware the part in the way the revenue flows there are a lot of leakages in the system. So we will be able to plug those leakages and that will also give us an upside in our ARPUs. So it is more driven by the revenue collection side than by just the cost arbitrage.

Bijal: Sri in digitised environment still there are leakages which is slightly surprising, you might not be getting exactly what you want but there cannot be leakage because you are paid against one STB, Rs.60, Rs.80...?

G. Subramaniam: Yes, but there is a cycle time which people take.

Bijal: So typically receivables will come down but it is not leakage, right?

G. Subramaniam: Yes, our receivables have come down significantly.

Bijal: So that receivable reduction is slightly different form leakages, so that was question one. And second question is on the fact that no doubt we have improved slightly our ARPU in Phase-II, however ARPU remains significantly lower than what were estimates at the time of digitisation and even after three years. Now from hereon we are again guiding for an ARPU improvement, the question is now we know that Reliance Jio is coming and the only way for them to go is through LCO. Now I am not commenting on whether they will succeed, they will not succeed, they may be complete failure also for all you know, but the only thing which I have from LCOs perspective that till now LCO is married to us, if Reliance Jio tomorrow says that I am coming through LCO and I am willing to replace set-top boxes then LCO has one more option and his bargaining power improves. So in that environment do you still think that improvement in ARPU in Phase-I and Phase-II market is possible?

Jagdish Kumar: See what Reliance is going to do, and I am not sure if you have got some information which we do not have, but from whatever information we have currently there is no indication of what is the pricing levels at the consumer level or at the LCO level as far as the CATV business is concerned. In our conversations with a lot of LCOs nobody has talked to them from Jio about the CATV business, the only discussion so far has been only on the broadband business. So I think it is too early to conjuncture on what exactly would be our response to the CATV initiative from Jio.

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

Rajeev Sharma: Couple of questions from my side, you initially talked about investments in broadband so if you could share what were those remarks and what is the kind of investment overall including broadband at the both standalone and consol level? Second, Vineet provided some initial comments on EBITDA QoQ adjustments and YoY 16% and 28%, so if you could just read

them for me? And on the RTO thing, what is the incentive which an LCO will have when he sees successful LCOs managing everything around him, why will he really buy into this model unless it a very old guy and not willing to work or cannot work something like that. So if you can just help me the rationale and the give and take for LCO perspective please?

Vineet Garg: On the LCOs incentive, I think there are some LCOs who run an efficient operation, who look at that as a business going forward. But I think as we get into more and more into a digitized world the issues of brand building, issues of customer services, issues of managing the back end and all these comes into play and the threat of competition, there is a lot of issues about LCOs losing customers to DTH. So there is a lot of work which has to be done to reduce churn going forward in the CATV business, so some LCOs who see that as something which is beyond their capability we approach them. So I am not saying that all of them would do but we will, and we will also do it selectively, we will not do it in a situation where we are going to start making things worse. So that is going to be a very selective way of handling it in places where there is a potential for growth in ARPUs, we will select those areas.

G. Subramaniam: Rajeev, as far as CAPEX for the Broadband business is concerned, as you know that are two types of CAPEX, one is the home pass investment that we have to make to build out the network, by the end of this current year we expect to reach about 3 million home passes, we are already at about 250,000 home passes at this point of time. The biggest CAPEX on the Broadband side will be primarily on achieving on those home passes which will be in the region of about 100 crores. As far as the investments already made in the first quarter, we have done about just under 40 crores investment in the broadband business. As far as the going forward investment including modems, etc, the investment would be in the range of about 130 crores.

Rajeev Sharma: So total is 130 for Broadband GS, or 230?

G. Subramaniam: For the balance part of the financial year and what we have already done is about just under 40 crores in the first quarter, 40 plus about 130, 170 crores.

Rajeev Sharma: And the overall CAPEX plan for the year including the subscription business?

G. Subramaniam: See the big investments in Cable television will be on account of additional set-top boxes for Phase-III. As already informed to you in the Press Release we have in stock about 0.5 million boxes, we will probably procure an additional 1 million to 1.1 million boxes in Hathway itself, this is apart from the boxes that will be procured by GTPL, one of our major subsidiary. So the investment at the Hathway standalone level plus it's immediate JVs will be about 125 crores more to be spent. The CAPEX that will be incurred in the first quarter of this year is just a small amount, about 15 crores at this point in time.

Rajeev Sharma: Okay, and on the EBITDA? And one last question which I would like to chip in is the improvement in carriage revenue this quarter, if you can help me understand what is driving that?

- Jagdish Kumar:** I think it is a marginal increase, 81 crores going to 83.7%.
- G. Subramaniam:** So there is no particular factor that is there, it is just a marginal increase.
- Rajeev Sharma:** And on the EBITDA explanation, the adjusted one? Sir it was mentioned that EBITDA has improved by 16% and 28%, I am just trying to understand what is the underlying maths on that?
- Jagdish Kumar:** See, if you compare the EBITDA numbers the major difference is coming out in the...
- Vineet Garg:** Rajeev, if you talk about Q1 FY15 that is a one-time business income - if we back out that it comes to nearly about 28 crores compared to 132 crores if we adjust the licensee fee of the broadband business, that comes to about...
- G. Subramaniam:** Rajeev, I am sorry, let me just clarify. What Vineet has tried to do is back out some of the onetime incomes and compared it on a like-to-like basis. In making that comparison he has also backed out the, this is the first quarter in which we have had a big charge on account of licensee fees which is about 5.5 crores. So when you back out these onetime expenditure on a like-for-like his calculated growth. Having said that, licensee fees is in our life forever, it is not going to go away, so it is just to make a comparison like-for-like with the corresponding quarter in the previous year and the immediate preceding quarter.
- Moderator:** Thank you. Our next question is from Rishabh Chutgar of Enam Holdings. Please go ahead.
- Rishabh Chutgar:** I just had one question on what one of the previous analyst Shobit had asked, if I do the numbers you seem to have churned out sort of an involuntary churn where as a company you have taken a call and churned out about 25,000-26,000 broadband subscribers. Now if I understand the business this business has very high operating leverage the variable cost or the cost of bandwidth are pretty low, so just wanted to understand what is the thought process behind churning out subscribers even though they are not willing to go up the ARPU level. Because from an economic perspective it seems they should still help you reach to get some better operating leverage.
- G. Subramaniam:** See, in the long-run it is not viable for a company to parallelly run several technologies, as a company we want to move the entire subscriber base to a DOCSIS 3.0 technology subscriber base, the only other technology if at all we deploy would be fiber to the home through GPON infrastructure, so these are the only two technologies that the company will manage. I have got Rajan here, he will add to that.
- Rajan Gupta:** Also we have been sharing that our focus is primarily on six top metros and few of the emerging markets, so we have some legacy market like for example say Bhilai, Vizag, a lot of other smaller towns where we had a marginal presence and ARPUs as low as Rs.200, Rs.300 and these are all local area network markets or DOCSIS 1.0 markets in fact, not even DOCSIS 2.0 actually. So a lot of these markets do not make any commercial sense also to continue, we have a huge operating cost as well in a lot of these smaller cities. So obviously in heart of

Bombay there is a little over ARPU consumer DOCSIS 2.0 we will not let him go because there is no operating cost there actually.

Rishabh Chutgar: So should we over the next 12-18 months you sort of shutting down your DOCSIS 2.0 systems and also existing as you said some of the...

G. Subramaniam: So just to clarify, as Rajan said maybe in very high value markets like Mumbai we may continue with some of the legacy DOCSIS 2.0 customer, but primarily there has been a history of going to very small towns, like he said Bhilai, Vizag and all that. It is frankly not viable in the long run for a company like Hathway to be present with small footprints. However, wherever we believe that we can grow it to a larger footprint we will remain in those markets. I will let Rajan add to that.

Rajan Gupta: I will give you a few examples, for example there are markets like Calcutta and Jaipur which you are entering and on an immediate basis in next two months, because we believe we can dominate, we can be the leader in terms of new consumer acquisition in these market. Then there are markets which are marginal markets which are like DOCSIS 1.0 markets or local area network markets, those are the marginal markets we will exit. So basically more of a realigning of the town portfolio to focus on towns where we can have a bigger scale up.

Rishabh Chutgar: So in a sense this should in longer run be EBITDA-accretive because the margins then should definitely improve?

Rajan Gupta: Absolutely, because we have always said that this business can potentially deliver EBITDAs in the range of 30-35% or upwards, so that is the eventual objective of this whole strategy.

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

Vikash Mantri: Sir can you help me with the Phase-II subscriber numbers in our standalone entity?

G. Subramaniam: On the standalone entity Phase-II, I am talking of the standalone, not even including the 100% subsidiary, it is about 1.9 million subscribers in Phase-II. There is one large 100% subsidiary which has about 0.4 million subscribers. So between the two 1.9 plus 0.4 it will add up to 2.3 million subscribers.

Vikash Mantri: So sir if I were to adjust the increase in ARPU from 67 to 75 odd that you have said...

G. Subramaniam: Roughly about Rs.10 over 1.9 million boxes, 1.9 multiply it by about Rs.9 would add up to... So Vikash we have to back out Hyderabad because although it is forming part of Phase-II that has not yet been fully digitized at this point of time. So if you back that out it will be about 1.1 million to 1.2 million subscribers, so if you take 1.1 multiply it by Rs.9, average ARPU increase will be about 1 crores per month.

Vikash Mantri: So that should be 3 crores for this quarter, but if I look at your adjusted subscription revenues, they are up only by 50 lakhs. So is there any other segment which have seen a degrowth?

- Management:** Vikash, last quarter there would have been some onetime revenue accruals so we will have to adjust for that also, so you come back to us we will give you the detail breakup.
- Vikash Mantri:** Okay. I am looking at the adjusted number though, the one which you have given.
- Management:** Vikash I am not having immediate details right now, just come back to us I will be able to give you the details.
- Vikash Mantri:** Okay. And sir in terms of what were the subscriber additions in the cable business on a consolidated level in this quarter?
- Jagdish Kumar:** The number of additional boxes period would be about 100,000 boxes.
- Moderator:** Thank you. Our next question is from Ishpreet Kaur of Karma Capital. Please go ahead.
- Ishpreet Kaur:** Could we get the breakup of Broadband EBITDA and Cable EBITDA if possible?
- G. Subramaniam:** We do not normally publish that on public domain, madam.
- Moderator:** Thank you. Our next question is from Amit Kumar of Investec. Please go ahead.
- Amit Kumar:** Just small point on content, so on a reported basis content costs have gone up by about 9% YoY but clearly just like you have the adjustment on a subscription revenue side there will be some adjustment on the content cost, pay TV cost side as well. So if you could just adjust and tell us on a like-to-like basis what kind of inflation is there in content cost in this particular quarter and what are you expecting for the remaining nine months of the year?
- Management:** Can you just go over that question again, we did not follow that question, can you repeat it?
- Amit Kumar:** See just like you had a little bit of adjustment in your subscription revenue side there will be an adjustment on the content cost side as well right, because...
- G. Subramaniam:** In Q4 last year you are talking about?
- Amit Kumar:** No, no I am comparing on a YoY basis. Alright, let's take this offline, this will be a little bit complex calculation. Just a small point on the content side still, you seem to have some dispute going on with Sony at this point of time, I just wanted to understand the genesis of that and I think Sony channels have been switched off on the network from yesterday. So just wanted to get a sense of what is going on there, what is that Sony wants, what is the genesis of the dispute out there?
- Jagdish Kumar:** See, Sony MSM which is the Multi Screen Media was a distributor also for the Discovery Network, now as you are aware the Discover Network has split out of Sony and currently Sony's bouquet of channels has come down significantly from what it was earlier, so we have been discussing with them saying that their current pricing which they have allocated for the

Sony Network is completely unviable, so these discussions unfortunately have come to a situation where we have notices for disconnection and therefore we are in a position where it is completely unviable for us to carry them at the price in which they expect. So it is a deadlock situation so we hope that better sense will prevail and we will be able to solve this problem quickly.

Moderator: Thank you. Our next question is from Rohit Dokania of IDFC. Please go ahead

Rohit Dokania: Just very quickly on the Broadband piece, if Rajan could just explain what impact could Jio have on the Broadband side because we have been increasing prices by 20%, 25% and in most likelihood they might just want to play on prices?

Rajan Gupta: Currently we believe the value for money equation which we have for our subscribers that is quite attractive and as compared to all current players we are definitely offering 30% to 40% better VSM than all current players including all Telco's. So even if there is a disruption in pricing we do not really see that affecting us, it should affect the players which are 30% to 40% higher than in terms of pricing and in terms of VSM to consumer. So currently we do not really see any threat on that account.

Rohit Dokania: Okay. And also if I just look at the conversion of paying subscribers over homes pass from FY10 it was probably 30% odd which is closer to 20%-odd currently, how should we look at the strength going forward?

Rajan Gupta: So we have been seeing anywhere between 20% and 25% is a good number to have, so 25% is something which internal target is there. Now the future expansion will come through, future expansion in subscribers will come through conversion DOCSIS 1.0, DOCSIS 2.0 to DOCSIS 3.0 as well as conversion from the new home pass which are happening. Like GS already told 250,000 home passes happened in Q1 and plan for the year is somewhere around 7 lakhs, so that will add to new consumers.

Rohit Dokania: And just one final question on the CATV business, so you commented that we want to increase our share from the LCM, I was just wondering how would we do that or what are we exactly doing on that front to be able to increase our revenue share from the LCM? I am not talking of the subscriber ARPU anything of that sort but on the revenue share.

Management: See I think one of the biggest road blocks to get entire revenue share of the competition, competition which was there in the market. The competitive intensity now has really come down significantly and a lot of the markets where we operate there is a lot of understanding that people have now realized that it is more to monetise their current investment rather than expand in the markets. So earlier when we put pressure on an LCO to collect our share, we could easily migrate to another MSO, so that opportunity is no more existent.

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

Mayur Gathani: Sir one question, we have been talking about prepaid and that will be implemented in August 1st, so this prepaid is B2C or it is B2B, I is between MSO and LCO or it is MSO and the customer?

Jagdish Kumar: Primary point it is completely B2C obviously. The LCO level, we are taking it in various phases, while he may or may not do prepaid visit customer from our perspective, we for the three packages in some markets for example, in the several markets what we have done is we told the LCO that at the initial phase only the base pack would be on a postpaid basis, any increments which he wants to add to his customer in terms of the mid-pack or the premium pack he has to repay them also. So we have a kind of hybrid model initially, our intention is that over the period of the next two quarters move even the base pack to a prepaid model with LCO so at the B2B level and also at the secondary point business.

Mayur Gathani: This is an exceptional thing that you are doing to get at least people about the base thing on prepaid so probably you will be taking some advances from the LCOs and debiting their amount as and when customers at their level upgrade plans. Now, where are we intending to start in this quarter and let me just give you a small brief because this could be a game change event I mean you could do it for the first two quarters on above base and slowly if LCOs actually agree to this and it goes smoothly you could conveniently move to a base pack as well, provided you are able to fix the percentage ratio with sharing.

Management: We have already implemented this in Bangalore, we have implemented this in Indore, we also implemented it in parts of Bombay, so progressively we are implementing in lot's of areas. So it is not that as if we are going to do in the future, we have already done it and Bangalore is a very good example and it is working very well.

Mayur Gathani: What are we looking at, I mean FY16 end any numbers that you can throw at least above base pack, I am not saying on the base pack sir, I am just saying above base pack what numbers can you look at prepaid because your receivable cycle comes down drastically, your collection improves significantly, I mean you have the cash with you before we do not have to need to worry on the cash front that the cash not coming to you, there are leakages.

Management: See our intention is to get at least 50% of our customers at the base plus levels, so our hope is that by the end of this financial year we will get to at least 50% levels.

Mayur Gathani: And one more question sir, if I break up your customer base like you have 6 million, 7 million subscribers at least on Phase-I, Phase-II what is your base pack percentage, what is your mid level and above levels or you can just give us the above levels?

Management: We do not have that number readily available now; we will probably give it to you separately.

Mayur Gathani: Sir just one more question, you are ready to let go some broadband subscribers like lower density area like other smaller cities because of technological reasons, fair enough. But simultaneously looking at Jio coming up, is it actually a good policy to let go customers?

Management: As we mentioned we are not letting go consumers in high density areas where we have DOCSIS 3.0. Now as you mentioned these are the marginal towns or local area network or DOCSIS 1.0 technology, not even DOCSIS 2.0 and in any case these consumers are not profitable because their ARPUs are very low in the range of Rs.200 to Rs.300, these are legacy consumers which we have acquired eight, 10 years back. So anyway there is no impact on revenue of these consumers and definitely not on EBITDA.

Moderator: Thank you. We will take our last question from Urvil Bhatt of IIFL. Please go ahead.

Participant: My question is on your decision to move completely prepaid for direct subscriber, so definitely it helps in changing working capital from positive to negative, that is really a positive thing. However, also prepaid has its own negatives because a lot of people do not tend to recharge their prepaid connection on time and if we look at DTH guys they lose out around 6-7% or even 10% of the monthly ARPU only on account of the fact that subscriber do not recharge on time. So what is your take on that?

Management: See I think we have a process which is defined by our system where we give alert to the customer about his balance being depleted, there is a... you want to walk through the learning process?

Management: Yes, actually when we design the prepaid model we are intimating customers the kind of the plan he opt, if it is a one month plan then 7 days before, if it is a 3 months plan 15 days before, if it more than 3 months plan we keep on intimating customer one month before that your plan is going to expire on such and such date so that he can go and renew himself. For renewal we are giving multiple options to him, he can go and renew himself on the website, we are also about to launch mobile app which is going to come maybe in next couple of day's time, so he can do the top-up or renewal for any duration, month, quarter, half yearly or annually from the mobile itself. So we are giving enough opportunity to the consumer to renew much in advance and we keep on giving intimation through email, SMS and the email which is the small message box you see on the TV.

G. Subramaniam: I just wanted to quickly reply to Vikash Mantri had raised a question on the subscription revenue, Vikash if you are on the line. So the way to look at it is you exited March 2015 at about Rs.67 or so, we exited June-July at around Rs.76 it is about Rs.9 improvement in ARPU in Phase-II markets, if you net out the Hyderabad subscribers there is about the number of subscriber is about 1.1 million subscribers but you have to apply not the Rs.9 you have to apply Rs.4.5, I mean I am giving you a very average number because it does not increase at a uniform pace. So on an average basis about Rs.4.5 effective increase per subscriber per month therefore it would result in about 1.5 crores improvement in the revenue from the previous quarter to this quarter. Now out of that 1.5 crores we have also had to bag down some revenues which we felt were suspect in the city of Hyderabad about 75 lakhs to 80 lakhs, so net of that we are coming to about 60 lakhs improvement in revenues. I hope that clarifies.

Moderator: Thank you very much sir. Would you like to add a few closing comments?



G. Subramaniam: No I think we are done; we thank all of you for being on this call. If there are any specific questions do come back to us we will be happy to clarify.

Moderator: Thank you sir. Ladies and Gentlemen, on behalf of Ambit Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.