



“Hathway Cable & Datacom Limited Q1 FY18
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited Q1 FY18 Earnings Conference Call hosted by ICICI Securities. 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. Vikash Mantri from ICICI Securities. Thank you and over to you Sir!

Vikash Mantri: Good afternoon everybody. We at ICICI Securities pleased to host the Q1 FY18 Results Conference Call of Hathway Cable & Datacom. We have the senior management of the company with us represented by Mr. Rajan Gupta, MD, Mr. Vineet Garg, CFO and Mr. Rajaraman Sundaram, COO of the Video Business. Over to you Sir for initial remarks and then we have the Q&A.

Rajan Gupta: Ladies and gentlemen good evening all and thank you for joining us for this third quarter earning call. I am Rajan Gupta along with me in the call is Mr. Vineet Garg, CFO, Rajaraman, our COO for the Video Business, Ajay Singh, our Company Secretary. Before I get into business update, I will share with you two material events, which have happened in Q1. As on March 31, 2017 we have demerged our video business into wholly owned subsidiary HDPL. Broadband business remains with HCDL. I am happy to share all required groundwork for same have been completed smoothly. In Q1 we have also completed IPO of our subsidiary GTPL. Allotment of shares has happened on June 30, 2017 while listing happened on July 4, 2017. We have received net Rs.114.6 Crores proceedings from IPO in the month of July and same has been used to payback debt. Post IPO, HCDL owns 37.32% stake in GTPL.

I will now move to sharing Q1 business update. HDPL and HCDL together, we have seen 20% year-on-year growth in revenue and 97% year-on-year growth in EBITDA. Quarter-on-quarter revenue growth is 5% and EBITDA growth is 16%. Overall EBITDA margin for both the companies put together is 21%. If you remember, this is the fourth quarter of consistent EBITDA growth. Over the last two years we have been working on building pillars of profitable growth and this turnaround in profitability and overall business health improvement has happened based on our ability to finally monetize all the levers of growth. In Q3 concall, which happened on February 9, 2017 I have shared with you all, plan for structural changes in business to reduce non-content cost. I am happy to share for Q1 we have saved around Rs.12 Crores non-content cost, full year impact for the same will be around Rs.50 Crores. This has happened through series of initiatives focused around automation, process re-engineering, rightsizing various functional structures. These are not onetime cost savings, these are structural changes and impact for same will be seen in our P&L for quarters to come. I will now take you through some specific numbers of HDPL.

Q1 EBITDA for HDPL is Rs.27.2 Crores with 12% EBITDA margin. We have deployed around Rs.2.5 lakhs set top boxes in Q1 in phase 3 and phase 4 areas. While phase 1 and phase 2 ARPUs have remained constant phase 3 ARPU has seen 10% jump to Rs.55. I would like to share for better transparency, all ARPU numbers given in this call are without taxes, both for HDPL and HCDL and all financials are only as per Ind AS. We have now implemented Hathway Connect in 50% of phase 3 and phase 4 markets. This will help us to establish consumer level billing and increase collection efficiency. We have closed all our content deals for FY18 and this is very very important with all broadcasters and we see 10% increase in per sub net content cost. The important thing is this will give a good stability on the content side and will help us focus only on monetizing and maximizing revenue. We have also done a lot of groundwork for box wise billing in phase 4 and consumer level billing in phase 4 is happening in August. This should help us majorly accelerate HDPL revenue growth in Q2.

Now, some quick update on broadband business. We have added 30,000 net consumers in Q1 in standalone HCDL broadband. There has been continuous focus of home pass build-up in existing towns. Home pass numbers as on June 30, 2017 is 4.6 million. If you remember, first time we are sharing with your detailed financial numbers of broadband business. EBITDA after all corporate costs for this vertically is 38% and there is a growing trend. This business is PAT positive with Q1 PAT at Rs.27.5 Crores out of this there is a one time exceptional item of Rs.17.1 Crores on profit due to sale of GTPL shares. Even without this one time item, PAT for the quarter is Rs.10 Crores. Last six months have seen increased competitive intensity in data business from mobility players. To increase consumer stickiness, we have taken following initiatives.

We have increased the base speed of all consumers across India to minimum 25 MBPS even if the people who are there in the plan of 2 MBPS they all have been upgraded to 25 MBPS. Average speed now is coming to 40 MBPS. We provide from 25 to 200 MBPS. Increased data limits for all consumers, so we have given additional data limit of 200 GB per month per customer to all consumers. This message has gone to consumers a couple of months back. This has been done without affecting our EBITDA growth. This is possible based on strength of the new data center we have build up and all other alliances we have done on hosting content servers and peering and caching, etc. We have also sponsored Yupp TV subscription for three months for all our consumers. This has enabled our consumers to enjoy their favorite video content without paying anything extra. Due to above three initiatives, we have seen average usage per consumer increased from 53 GB per month in January 2017 to 78 GB per consumer per month in June 2017, approximately 50% increase in six-month period.

As a part of increasing consumer stickiness, we have started offering better value for money on our long duration packs from earlier average of 3.2 months pay term for new consumers

we have now come to four months average pay term for new consumers. This has also brought down our new consumer ARPU obviously from 830 to 770. This also had some impact on overall revenue in ARPU, but this is very, very healthy for the overall long term business growth. Because of all the above four, five initiatives I mentioned, this broadband business has become very strong and we have ring-fenced all our high ARPU consumers.

This quarter also has seen launch of our new TVC with Bollywood star R. Madhavan as a brand ambassador. In this TVC we have highlighted life changing experience of Hathway promise of 200 Mbps speed and 1,000 GB data. We are giving this proposition in all cheaper markets. This video has received 2.5 million views on YouTube in a short span of 45 days and a very encouraging response from many TV channels. Our newly launched consumer app has seen positive response from consumers, about 60% of the consumers are already using it, consumers have really appreciated transparency and convenience, this app brings to monitoring usage, billing and any complaint management. We are also working on utilizing synergies of video and broadband business and from very, very exciting propositions are in pipeline. The way we surprised everybody by offering minimum 200 GB data and minimum 25 MBPS speed you can expect lot more positive surprises on consumer propositions front in next quarters and will share same in our next quarter earning call. I will now hand over to Vineet, our CFO for detailed discussion on financial numbers.

Vineet Garg:

Thank you Rajan. Good evening ladies and gentlemen. This is second year when company maintained and published its financial records based on Ind AS. As informed by Rajan, we had sold our cable business of HCDL by way of slump sale to our 100% subsidiary Hathway Digital Private Limited (HDPL) as on closing hours on March 31, 2017. The effect of the slump sale was given in March 31, 2017 financials. Accordingly Q1 result of HCDL does not include cable TV business revenue. To make it like-to-like comparable we have also presented clubbed numbers of HCDL and HDPL for Q1FY18, Q1 and Q4 of FY17. On the like-to-like comparison gross revenue for the quarter of both the companies has increased by 20% on year-on-year basis to Rs.356.6 Crores. Corresponding EBITDA has nearly doubled during the same period to Rs.76.5 Crores.

During the quarter, broadband revenue Rs.129 Crores is up by 23% on year-on-year basis and EBITDA for the broadband business stand at Rs.49.7 Crores, this shows EBITDA margin of 38%. In addition to this, HCDL standalone is showing a PAT positive of Rs.27.5 Crores, this include income of Rs.17.1 Crores from offloading of 7.2 million shares of GTPL Hathway Limited offer for sale in IPO at the rate of INR 170 each. Total net realization after issue expenses and STT payment, company has received Rs.114.6 Crores in month of July this year. This amount is used for the repayment of debt. For the Q1 of FY18 cable TV revenue stand at Rs.236.5 Crores and EBITDA margin is Rs.27.2 Crores is at 12% of CATV revenue. During the quarter Rs.50 Crores capex deployed in the broadband business and Rs.40 Crores in CATV business.

Gross debt of HCDL standalone level is at Rs.823 Crores and net debt is Rs.809. Gross debt at consolidated level is Rs.1719 Crores and net debt is Rs.1686 Crores. Please note with effect from March 2017, GTPL, other joint venture and associate companies results are consolidated based on the equity method of consolidation, accordingly this will be a one line consolidation and not the line by line consolidation. Thank you. Vikash we can move now to Q&A.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Thank you for taking my question. Just have a question about the broadband as on a quarterly basis. There is a similar run rate to the last quarter and quite far below the sort of 20000, 25000 per month number you are seeing this quarter a year ago, so just what is driving this lower run rate in a situation where you are seeing a lot more data usage by customers, is it because you are seeing higher growth adds, but also larger amount of turnouts is it in effect of the new incumbent on the fixed line basis that is giving out free services in select areas, but are you doing slower on home passes, is that what is causing this lower run rate to continue?

Rajan Gupta: Three things have happened in the last six to nine months. First obviously we have seen from September onwards the mobility rates of data crashing from Rs.300 a GB approximately for 3G and 4G players to Rs.59 per GB, so during this highly competitive intensity period we wanted to ensure our revenue and EBITDA keep on growing and not de-grow like many other players have done. So focus rather was on ring-fencing all current consumers, so like I have shared we have done huge amount of innovations and backend work on our data center, etc., hosting contents, because of which we are able to give our current consumers 200 GB even at pricing as low as Rs.800, which comes Rs.4 per GB, so lot of focus in last six to nine months, shifted around ring-fencing current consumers. We have slowed down our home pass expansion, we were slightly doing in between 4 lakh home pass per quarter, we are kind of down to now 2 lakh home pass per quarter in terms of incremental home pass, but we believe the worst is behind us in terms of the overall competitive intensity we have hardly seen anything, which is coming out of the free offer given by a particular wireline player because market is really huge, the issues are not wireline to wireline, issues more about mobility, which is very, very widespread, but even in a period when people are giving free for nine months we have not seen any major impact in fact we have been growing a revenue more importantly we have been growing EBITDA. So now we have again started the home pass expansion like we have launched Chennai in Q1. We have seen very, very encouraging response and from month of July we are going to bounceback to around 3 lakh home pass per quarter run rate, so that has been the kind of story.

- Moderator:** The line for the current participant seems to have dropped off. We will move on to the next participant that is from the line of Amit Kumar from Investec. Please go ahead.
- Amit Kumar:** Thank you so much for the opportunity Sir! Just a couple of book-keeping questions to begin with. This gross debt and net debt number that you have quoted for standalone, this is excluding the value of the stake in the now listed GTPL subsidiary?
- Vineet Garg:** One more important information. Now onward from March 31, 2017 onward we have not included any number of GTPL in our numbers. From current quarter onwards being the GTPL is now a separate listed entity we are not going to present or consolidate any subscriber number or business KPI also in our number, so this is pure, pure standalone, old standalone. When I say consolidate it is HCDL plus HDPL.
- Amit Kumar:** My second question was when I look at the digital cable subscriber base of the company you have added about 2,50,000 set top boxes, but the headline subscriber base numbers are remains flat at 7.2 million, could you just help me understand what is going on here?
- Rajaraman Sundaram:** The way it works is one of the things that we have also done in the quarter is implement Hathway Connect as a proposition in phase 3 and phase 4 markets, so in a Hathway Connect scenario what typically happens is on month end few boxes go off and then the operators tend to pay and renew subsequent to month end, so when you look at a customer base at the given point in time, which happens to be the quarter end it appears that there is no growth, but it is the fact that you have added 250000 customers during the quarter, because of implementation of this Hathway Connect portal, which operates like a prepaid, which got a fixed duration pack there is always this small percentage of customers go off on month end and come back within a week or so after the end of the quarter of every month rather.
- Amit Kumar:** I appreciate your point, but this is not going to be specific to this quarter right even in the previous end quarter number those subscriber adjustments would have also sort of taken place basically?
- Rajaraman Sundaram:** I will explain to you that the Hathway Connect happened in phase 3 and phase 4 during Q1, we hardly initiated the process, you might be aware that the digitization process in phase 3 started from January and in phase 4 the Sunset date was March 31, 2017 and April is when the actual digitization was mandated, so this whole migration of customers from an analogue mode to digital mode and then establishing the price points linked to active subscriber base happened in Q1 of this fiscal, so which is why this phenomenon happen, it is in that sense first time even for phase 3, phase 4 market, which is more than 50% of our active base.

Amit Kumar: Final question. I joined the call a little bit late, I heard as you talk about the moderation in overheads if you could just sort of specify, understood the numbers Rs.12 Crores for the quarter and Rs.50 Crores annualized. If you could just talk about exactly what you have done here, we have been anticipating that at some of point, phase 3, phase 4 you have a bit of analogue infrastructure, which will get sort of switched off, so that is one angle, but what other elements if you can just give a couple of examples here that will be useful?

Rajan Gupta: No Amit, I do not think so it is related with anything, which has happened in phase 3 and phase 4. We never had any big infrastructure in phase 3, phase 4 we only told you guys we have not build additional infrastructure in phase 3, phase 4 because we have gone for a distribution like model where distributor is handling these markets. There is hardly any fixed cost we have in these markets, so there is nothing in do with our overall Rs.12 Crores decrease in non-content cost, which has happened in Q1, which is annualized Rs.50 Crores. Now this cost as I mentioned in the call is more around automation. We automated lot of our processes. Just to give you an example. We have launched this Hathway Broadband app, so around 40% of calls from the call centers have shifted to that app and we are also working on a chat bot for that kind of thing wherein through machine learning and artificial intelligence itself most of the questions can be answered. We do not really need so many call center agents, our complaints have come down, so we do not need those any agents. Lot of things are focused around automation and process re-engineering. Also remember last four years focus was just on pushing boxes now that phase is complete, so obviously I do not need those many people, those many officers and plus we shared things like a lot of work groups are happening around process re-engineering and Six Sigma and all that, so finally all that resulted in IndAS. There is obviously also kind of we have been collapsing structures both vertically and horizontally, so that also obviously has helped in reducing this cost.

Amit Kumar: Small followup. You mentioned pushing boxes, the STBs are not pushed at your end I mean you just sort of give it to the LCO and LCO sort of handles with at his end, do you also sort of..

Rajan Gupta: Lot of work happened when you are rolling out a network, so for example just let us go back to 2012 when the digitalization in a big way started obviously need a huge amount of manpower for rolling out the whole network come in, who is going to go and talk to 10,000 LCOs, convince them, let start with the digitalization it is mandatory, who is going to make sure they do not go to some other competing MSOs, they remain with me, they buy my boxes actually, so huge amount of work has happened. Now I obviously do not need that kind of infra. These are hard core P&L numbers, I will give you lot of English, but these numbers have happened and we have been working for six months.

Amit Kumar: I am not doubting the numbers I am just trying to understand where they are coming from?

Rajan Gupta: So 50% of this is coming through people cost. On the broadband side we have been sharing that in spite of increasing usage I shared that consumer usage has increased at 50% we are giving now at same price instead of 25GB we are giving 200GB, but still the bandwidth cost is coming down quarter-on-quarter. This will happen based on technology innovation, which we have done, the new data center, which has come, the kind of content servers we are hosting in our network, the kind of peering and caching solutions we have done, so bandwidth saving on the broadband side is a big one, similarly lot of other areas.

Rajaraman Sundaram: On the CATV side, you will be aware that over the last one, one-and-a-half years we have been similarly it was a lot of automation initiatives, on the primary business we have implemented prepaid, we have also enabled a self-care app for the customers, so what it does is effectively reduces the number of people we need who would have to go door to door to the collections. We have also been increasingly pushing people to adopt long duration packs, so all of this leads to much better efficiency in the work force that I can consolidate. Even on the secondary business, we used to operate in a particular manner with Hathway Connect coming in most of the transactions are automated, the rates are predefined, it operates like prepaid where the boxes if it is not renewed and we have seen in terms of online transaction happy to inform that as a quarter end 70% of the volume of transactions in terms of count and 45% in value happens through electronic means. So there is no contact with the operator at all. We have done a whole lot of efficiency even in phase 1, phase 2 and phase 3 like Mr. Rajan rightly said the process of expansion is not that people come and demand boxes there is a whole lot of diligence, strategy, market, leadership, negotiation, whole lot of things happened in an expansion phase, so as we speak we are pretty much at a Sunset time, so we may not need as much people in terms of expansion, the focus more is now on monetization through automation, so one of this gives a whole lot of efficiency from a cost side for the cable business as well.

Amit Kumar: Just one final question.

Moderator: Sorry to interrupt Mr. Kumar.

Amit Kumar: Just one book-keeping question Madam. Alright I will go back.

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

Sanjay Chawla: Good evening. Thank you for the opportunity. Two questions. One is you mentioned increase in pay channel cost could be around 10%, can you first share what is the like-for-like increase in the pay channel cost in the first quarter, it seems to be 25% or so as per my estimate, but if you can share the actual number along with the subscription revenue growth YoY that would be great for the first quarter? Second question is on the broadband side,

you mentioned there is some normalization happening and new customers are coming on long duration pack, so obviously your ARPU has actually come off quite sharply 10%, 11% YoY, so how long this process will continue and where do you see ARPU is stabilizing? Related question is that what is the actual number of active broadband customers because you have reported customer base the ARPU comes to Rs.666?

Rajaraman Sundaram: Sanjay, I'll answer the first part of your question on the content cost. There are two things that have changed between the way content deals were done in the previous year to this financial year. The whole industry and we as well used to do a lot of content deals through the year. Typically in the first quarter negotiations happened Q2, Q3 is when the contracts get concluded, this used to be in the past. So if you were to strictly do a previous year's first quarter to this year's first quarter you might see an increase in a percentage, which is higher than what we said and the percentage, which we have given is not at an absolute value, but at a percent level, so it is also fact that we have added a whole lot of customers between last year to now and therefore the absolute increase will be more than 10% that we mentioned in our report.

Sanjay Chawla: Can you share the absolute increase expected ballpark number?

Rajaraman Sundaram: Our deals are function of what base we would be at through the year, so probably it is a little premature to give that number.

Sanjay Chawla: Lot of them are fixed fee deal?

Rajaraman Sundaram: At an absolute value may be we are looking at 20% kind of an increase at a net content cost, but our base has also significantly increased, so therefore the per sub level increase is 10%. Now coming to what happened this year. This financial year we are very clear that we did not want to keep the content negotiation open for too long, anyway the new regulation was around the corner when we started the fiscal, so our endeavour was to conclude all content deals well in advance, which we have done and therefore the first quarter numbers whatever we have reported you can safely assume will be stable through the year.

Sanjay Chawla: First quarter absolute number Rs.135 Crores would be stable through the year?

Rajaraman Sundaram: Through the year.

Sanjay Chawla: Great. That is useful.

Rajaraman Sundaram: On the second part, I request Mr. Rajan to answer.

Rajan Gupta: Sanjay, let me explain some mathematics on the broadband. First let me reiterate what I mentioned on new consumers. New consumer ARPU is not a factor of market. We have taken a deliberate decision to increase a pay term of new consumers. This is overall part of ring-fencing our consumers, so we want to aim for more and more six month or one year kind of pay term, so since higher values offered on six month and one year the weighted average ARPU with the new consumers have come down from 830 to around 770-780 kind of number. That is a very well thought through move, which will give us a huge dividend in the next six months because lot of this people who would not even come for renewal because they are on a long duration packs now, so definitely overall ROI comes through that. On the ARPU reduction I do not know from where you got this 10% figure, actually it is Rs.10 reduction, which reported from 740 to 730. I will take the third question as well probably that will give clarity. So ARPU has actually come down only 740 to 730, now a question on why when you divide your revenue by number of consumers it does not show the exact figure. There is a gap of around 10%. If you see a lot of MSO, lot of Telcos, the gap is as high as 50%. One of our peer declared number a week back gap was 100%, now 10% gap in a Telco scenario is very well acceptable. Because what happened I explain you, lot of people earlier for example on a bill date 98% of people are paying on time. Today because of whatever is happening around instead of bill date, say around 10% of people end up delaying recharges say for around 10 days, 15 days. Now we do not deactivate people immediately, there is a 30-day grace period, which is provided to all the consumers that is as per the churn policy of the company and that is industry standard as well. In fact lot of people take it to 60 days. Simply delayed recharges by consumers and this whole trend started from September and by July now this has come already in the base. The whole cycle has already happened. The new normal so as to say in terms of on an average 10% people delaying this whole recharges and you must appreciate in the given situation we have not dropped EBITDA we have further increased EBITDA, so there is no effect on profitability, which is where exactly all the initiatives have taken to ring-fence consumers as well as reduce non-content cost. So whatever has happened has already happened in the base and it is part of actually the whole well planned strategy to ring-fence our consumers.

Sanjay Chawla: These are technically active customers, the numbers that you have reported?

Rajan Gupta: They are absolutely active customers, standalone Hathway broadband. 10% is a very normal figure you can check for any company. As I mentioned some of our peers have declared 100%, there is a 100% difference if you divide.

Sanjay Chawla: This is entirely due to inactivity of the 10% of the base?

Rajan Gupta: For 10 days or you can do some numbers it will show.

Sanjay Chawla: This is useful. Thank you so much. All the best.

- Moderator:** Thank you. The next question is from the line of Harsh Kundnani from SBICAP Securities. Please go ahead.
- Harsh Kundnani:** Thanks for taking my question. Could you just tell us the phase wise paying subscriber?
- Rajaraman Sundaram:** The paying subscribers this is again ex-GTPL like we clarified in the past. The paying subscribers in phase 1 we have 1.6 million, phase 2 is 2.3 million and phase 3 and 4 put together is 2.4 million that adds up to 6.3 million of paying sub.
- Harsh Kundnani:** On the capex side could you just tell us the capex per home passed and any capex guidance for the year?
- Rajan Gupta:** Capex for broadband earlier we used to talk about on Rs. 9,000 capex per consumers. Due to various efforts we have taken on reducing cost this capex has come down now for new consumers to Rs.8500, Rs.8400 per consumer, so that is a trend, which will continue. Vineet probably you can share the overall numbers?
- Vineet Garg:** So as I explained the total capex deployment in Q1 is Rs.90 Crores, Rs.50 Crores in broadband business, Rs.40 Crores in cable business. We have particularly preponed a lot of deployment especially if I talk about cable business because of Sunset for phase 4. The overall estimated capex of budgeted capex for FY18 is in the range of Rs.250 Crores to Rs.270 Crores. Rs.90 Crores we have already deployed, balance going to happen in the next three quarters.
- Harsh Kundnani:** Alright and just to understand if the capex in broadband you know would taper off or continue at the same pace going forward at a slightly longer period of time if I want to understand?
- Rajan Gupta:** Longer period it is again a subjective term, but for next at least say four quarters perspective we see this trend continuing. We have been overall guiding broadband capex more around Rs.250 Crores kind of capex for a year, which pretty much similar trend between 200 to 250 for broadband.
- Harsh Kundnani:** Alright and any ARPU guidance?
- Rajan Gupta:** As I mentioned there has been some effect of market forces, but we have not dropped any prices. Our whole strategy was around not dropping prices, but ring-fence consumers through offering them huge amount of data, huge increase in speed, but for example I mentioned we increased our pay term because of which some acquisition ARPU has come down. I guess all that effect has already come into base now.

- Harsh Kundnani:** Alright. Thanks a lot and best of luck.
- Moderator:** Thank you. The next question is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** Few questions you said Rs.250 to Rs.270 Crores of capex for FY2018, if I am not wrong.
- Vineet Garg:** Yes.
- Avinash Kumar:** So, can I safely assume 80% to 90% would be for broadband expansion and another 10% odd could be for your cable expansion?
- Rajan Gupta:** Broadband is going to be in the range of 200, rest you can assume for cable.
- Avinash Kumar:** Second question a lot of earlier participants have already discussed about the broadband expansion, but my thing is that if I name it has bring in a lot of disruption and the current incumbent players like Airtel they have started giving higher GB plans, recently Airtel broadband launched its Big Byte offer, they are offering 500 to 1000 GB bonus data in their monthly pack and the packs are from Rs.600 to Rs.2000, so what I basically want to understand is how will your broadband strategy will be, you are saying you want to ring-fence your broadband customers, so what extra incentive you will give them, only offering higher GB I think will not work because the current mobile players are already matching the bonus GB given to the existing customers, so what you call extra incentives to bring more broadband customers in your hold?
- Rajan Gupta:** I think we need to understand in different perspective, so let me first share that we are the ones who have disrupted market, not anybody else. So we are the first company, which even gave a TV ad saying 1000 GB data, I mentioned in my kind of earlier comments, there is a broadband TV ad, which 2.5 million people have seen on YouTube and lot many other national channels, so we are disrupter, we are the first one who launched 50 MBPS in India, we are a first one who launched 200 MBPS, some of the players which you mentioned they have been giving copper to all Indian consumers speed range from 4 to 16, we have forced these companies to upgrade their network to 40 MBPS, we have forced these companies to upgrade their network to 40, so we are the one who have been disrupter because we started giving 200 GB data, 1000 GB data per month, my figures are per month, some of these companies have started giving this data per year, so that is the first thing we need to understand that and I have been pretty vocal in every quarter call from the moment we started three years back when our yearly EBITDA used to be Rs.40 Crores broadband to now Rs.200 Crores. Second thing is we have to understand home pass. Indian broadband fixed line market is very small market currently. We have a huge potential to grow. It is not just like for example you mentioned one particular mobility player, it is not just as if he has

already covered whole of India. In fact they are not even covered 5% of India. Our home pass and their home pass is not even more than 20% matching. So issue is not so much about competition from any wireline player. In fact this whole market is so fragmented, there are 1000s and 1000s of LCOs or local operators offering slow speed plans across the country and there is a huge scope for gaining from them. So it is not like a mobility one fine day you switch on towers, larger plan when everybody competing with each other, you have to go building by building, road by road, take sanctions then launch your network and I promised all investors the way even a year back you started talking about 200 MBPS speed we started talking about 1000 GB data per month per consumer. Every quarter we will keep on giving a positive surprise. For example in all our GPON home pass consumer premises equipment is capable of giving 1 gig. Today if we want in all our GPON consumers, we can convert speed to 1 gig tomorrow morning without any additional spend. The market is not ready for that, so we are not doing it. Some of the names, which you mentioned, they do not have any consumer where 1 gig consumer premise equipment is placed. So these are all facts.

Avinash Kumar: If I understand it well the basic what you call the way that you have is one will be your home pass, so you have a greater penetration level at the customer end first, secondly the network equipment like you mentioned is on a higher level compared to the mobile players, so this is what your USP will be going forward?

Rajan Gupta: No like we mentioned – so USP is obviously better speeds, USP is practically unlimited data, USP we start it offering content and many more things to follow. As of now, this is holding us pretty much at good level and there are many other things, which you cannot share as of now, let them come.

Avinash Kumar: Another question is from your cable point of view, what is the hindrance you see in the cable monetization going up basically in the phase I and phase II markets because all they are kind of mature markets, so what is from your view point the hindrance for them?

Rajaraman Sundaram: The hindrance is there are competitive forces at play Avinash, so what happens typically is to effect any rise in an established market competitive forces are what decide whether you can increase your rates, having said that we have a plan to increase our rates in phase I to market at least by 5% between Q2 to Q3 that is what we are planning to do, but then there are a lot of what DTH pricing is, what other MSOs offer, at times some of our competitors gets aggressive and tend to have certain priorities, which may not necessarily be revenue enhancement, so those factors do play, but having said that we attempt to increase our rates in the coming quarters.

Avinash Kumar: Another question, this is just a bookkeeping question, you mentioned your consolidated debt can you just repeat it once please?

- Vineet Garg:** Gross level is Rs.1,719 Crores, net level is Rs.1,686 Crores.
- Avinash Kumar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Charles Cartledge from Sloane Robinson Investment Services Limited. Please go ahead.
- Charles Cartledge:** Thank you for the call, just a followup from the last question really, for sometime now we have been looking for ARPUs in phase I, phase II to go up. You said you are about to raise prices by 5%, will that be sufficient on a per subscriber basis to cover the increased content cost of 10%, just wondering if things content cost at 10% on a per sub basis will imply lower margins going forward?
- Rajan Gupta:** Charles, this is Rajan here. If you see even if 10% increase in content cost has happened may be is around Rs.3 per sub increase in that, so if we are able to increase ARPU by 5% also and parallely, we take all the cost cutting initiative, which I shared earlier obviously margins will improve, margin will not come down and this is only for phase I and phase II, but as far as phase III and phase IV is concerned, our monetisation level have to be much higher not by 10%, if there is a 10% increase in content cost, the monetisation levels has to be at least more than 50% in these markets. So overall EBITDA margins have to bit improve, there has been improvement from earlier, but next 3 quarter should see in fact major improvement because there is no other phase now to launch. We do not intend to go to any phase V etc.
- Charles Cartledge:** Thank you and the Hathway Connect you mentioned has 50% penetration in phase III and IV, what are the numbers for phase I and II and in the past you said that Hathway Connect would help you improve your monetisation in ARPU, is that happening, it does not appear to be happening yet, but perhaps it might happen in the future and if so why?
- Rajaraman Sundaram:** Charles if I may answer it in two parts, first on phase I and phase II what is the percentage, so barring Delhi and Hyderabad, which are two big markets and some parts of Mumbai joint venture it is 100% rolled out, you name any city in phase I, II market, be it Kolkata, Bengaluru, Pune, Aurangabad, any of the market it is fully functional, it has been on – so we are at near 100% excluding Delhi, Hyderabad and some parts of Mumbai. Now answering your question on how will it help improve ARPUs, so the whole idea of implementing Hathway Connect initially was to be build in a certain structure to the whole – to reset the whole relationship between the MSO and LCO. In the past, there was no certainty on amount, there was no concept of packaging, so collections used to happen on a lump sum basis. There was no correlation between the active number of STBs and the amounts that were collected. So the whole idea of Hathway Connect was to create a structure wherein the dealing between MSO and LCO was in a proper manner and one of

statistics which I shared earlier for one of the question was how the count of online transactions have dramatically gone up, so now we get our monies on time. There is a two pack structure, there is a pack-linked revenue share that is defined, LCOs decide which customer they need to renew and who they do not have to, so LCOs are extremely happy. Well all these has done it has set us ground ready for ARPU increase to happen, so the first intended objective of Hathway Connect was to create structure with and which rate increases can happen in an organized manner, so that has happened and therefore now this year like I said the 5% which we planned to increase will happen fairly seamlessly. In the past, if I had a statement of this nature to implement it, there would have been huge challenges. Now it is about just having a discussion with LCO and then changing the rates in the portal. It just happens on the fly.

Rajan Gupta:

Charles I just want to add to this, obviously Hathway Connect is helping big time like phase III, phase IV we are able to properly launch consumer level billing, etc., but having said that can we use Hathway Connect to charge Rs.20 extra from LCOs as compared to other MSOs, specifically in very competitive markets I doubt that. So we need to take it in right context. We are obviously also depending on the market forces in that particular market. In case we are not the clear market leader, but at least it is a facilitator towards that process, we are getting our collection efficiency higher and making sure in markets where you can actually roll high pricing also the collection definitely will come.

Charles Cartledge:

Thanks very much.

Moderator:

Thank you. We will take the next question from the line of Rajiv Sharma from HSBC. Please go ahead.

Rajiv Sharma:

Thanks for the opportunity. Just few questions from my side, first one is on the cable business. Sir if we just look at the cable revenue and also look at the content cost, it is not much of difference, so it seems that the entire incremental is from placement and other revenue stream, so when do we really get into a steady state where the spread between the subscription revenue and content cost widen and we are not seeing ARPU increase in phase I and phase II markets for quite long, what is coming in phase III is really not surprising because everybody is expecting phase III, phase IV around Rs.90 for quite sometime. So just trying to understand and you also just mentioned in the last comment that market forces, so what I am trying to understand is are the cable operators still trying to swap boxes of each other, are we not get out of that phase because everybody has got debt on the balance sheet and it is more about increasing share of wallet or is it more of an LCO issue that is the first question and second question is on the Jio fiber to home, which is gradually picking up. Second is ACT is expanding, which is more of close competitor to you in the sense that they have proven broadband operations in Hyderabad, Bengaluru and now expanding to Delhi and other markets, so just some colour and I do agree if I put my

telecom hat that there is huge opportunity, but most broadband players generally compete in the big towns, in the top 100 cities, so geographically it is the same markets most of the times, same pockets, high rise building, so how do you really differentiate and does that not mean that if there is a Rs.500 ARPU for 100 GB tomorrow, we will also have to match it that is it from my side?

Rajan Gupta:

Okay Rajiv, let us take cable first, I am just trying to recollect all your points. So first the market forces are competitive scenario. Now I think market is much, much more stable than it was there one year back, two year back, but I am sure you have heard the earning calls of other MSOs as well. So there have been again some ground challenges from our particular MSO, which has been highlighted by our peers also, but that is for selected markets, that is not there for all across, but definitely it does not led to any box swapping as of now, but obviously essentially even in phase I, phase II market, the overall ARPU will be also along with DTH ARPUs, we have seen dish TV results, etc., so overall the ARPU increase in phase I, phase II is very gradual, but if you see the EBITDA the way it is working out for us, phase I, phase II EBITDA's are still quite healthy, whatever weighted average EBITDAs have been, the phase I, phase II will be definitely at least twice of that, if not more. The issue is primarily coming in phase III and phase IV because that is now 45% of the base. Now 90 coming to phase III, phase IV, I think definitely that is sometime ahead, we will see improvement every quarter. The way it has happened in phase II, for example when it was 40 and then finally it has increased to 95, similar thing we will see improvement, but it is going to take time, so we can expect every quarter, improvement quarter-on-quarter, but maybe at least around a year away we are from reaching this 90 levels in phase III plus phase IV put together and traditionally that is a kind of time it has anywhere taken actually, because consumer and also these markets have to increase because now consumers are seeing many more channels. In analogue obviously, they were seeing limited channels. So, I still feel market is much, much more healthy except behaviour from a particular player, which also is kind of tapering off now, there are few management challenges, etc., so that seems to be tapering off and overall weighted average EBITDA margins should keep on increasing. Content cost obviously will always be net, for example there was a speculation placements will keep on coming down or carriage will keep on going down, nothing was happened, it is rather increasing to 3% up to 5% year-on-year, so there is no reduction, which is happening. So we obviously see net content cost and parallelly we also need to obviously make sure we keep on reducing our non-content cost as well which is where me and Rajaraman did this share, the news around how in a structured way we have reduced the cost and we will keep on doing the same effort in our balance quarters.

Coming to broadband, I think I shared earlier as well Rajiv, I shared with you personally as well, we do not want to be waiting for somebody to disrupt. You mentioned for example one established player is already reaching many more markets, so we are also reaching

many more markets. Three months back we were zero in Chennai, we went ahead and said we will give 200 MBPS, 1000 GB. To show we are serious, we went ahead on TV. We have given some 12 full page newspaper ads in last 12 weeks shouting over the town why you are paying Rs.2000 to this particular operator and still getting 100 MBPS speed and 200 GB, let us make sure things like speed and data limits are matter of past, that is over. You pay Rs.1000 and we will take care of volume needs, so I do not think so we are the one – we do not have in our DNA for somebody to come and disrupt us, we will rather disrupt. Obviously some of these players have legacy advantage, they have acquired networks and we are building network from scratch, so I do not see any worry or we need to be defensive from any of these players. Coming to your answer on future, if ARPU further come down do we have a strong business model, a, there is a speculative yesterday was the day it started with Economic Time declaring something then by afternoon people saying it is in fact twitter account, all these are very difficult to digest how all these happen. Having said that that was one of the reasons to work on all these cost projects, I shared the bandwidth cost, when we are offering Rs.1000 25 GB in Mumbai our bandwidth cost used to be 12% to revenue. Now we offer in Rs.800 for 200 GB. In some markets in Rs.800 we are offering a 1000 GB, still our bandwidth cost revenue has come down to 8%. There is a continuous effort to build a business model, wherein even at lower ARPUs we can deliver 40% EBITDA. We set this two three year back when we were hardly doing Rs.40 Crores EBITDA we are saying it now when we are doing Rs.200 Crores EBITDA and we will say it after a year when we deliver what we are promising. So a lot of work is happening, lot of POCs are happening, for example we are the first one to declare in GPON, we can do GPON within Rs.8500 capex per sub. Other players are talking about Rs.20000 GPON capex per sub. The one particular player which you mentioned there is a major weakness at the network. They can only give up to 100 MBPS speed, they launch 1 gig at Rs.6000 because that network supports 1 gig only at that pricing. I can tomorrow morning launch in all GPON home passes one gig at Rs.900 without incurring a single rupee extra opex. So there are a lot of strength in our network, we do not have to be defensive, we are the disrupter because last nine months, we saw mobility data pricing a lot of disruption in market, we were kind of going slow on further network expansion as I said ring fencing all our current customers, increasing the pay-term giving them benefits and many more positive surprises on value additions will be done in next quarter and we will talk more about that.

Rajiv Sharma:

This is very useful and I do acknowledge and agree that you really done well on the broadband and also some of the disclosures have improved particularly the breakup between cable and broadband that is positive, just that when Jio enters any market, we do get worried, so that has been the apprehension, but yes. Thanks very much for your information.

Rajan Gupta: No Rajiv I want to share one more data point, so we done a study of our overall network health in markets where Jio is giving one year data free, I am talking about wireline data free, Jio has around 2 lakh home pass in Mumbai wherein they are giving wireline data free 100 MBPS, 100 GB per month. When we see our business health in those clusters as compared to rest of the country we do not see any difference, we believe they have gained even on a trial basis whatever Rs.4500 they are charge and they gain some consumers that they have gained in areas where people are not being served properly, where there were local operator or they were MTNL markets speed levels are very, very low and GBs are not being given, so called data hungry markets that one of my friend he lives in a building where the local cable operator charging 25 MBPS 50 GB at Rs.2000, that is the building Jio has acquired almost all consumers, because they are saying give us Rs.4500 will give you 100 MPBS 100 GB in a monthly rental. Now we go in a very aggressive way, we say I do not need anything from you, free to use, all the equipment, no Rs.4500, just give me Rs.800, Rs.900, I will give any speed you want, I will give you any data you want, so our proposition is much, much more aggressive.

Rajiv Sharma: That is useful. Thanks a lot.

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

Rohit Dokania: Good evening. Thank you for the opportunity. The first question was if I look at your home pass and the sort of active subscriber base, I think the penetration comes to about 15% odd, so whereas in the past you have spoken about 20 odd kind of penetration, so when could we see that kind of number because you continue to add home pass as well?

Rajan Gupta: The way to look at Rohit is let us divide into two parts, the home pass, which we have launched till FY2016 and home pass, which have launched after that. The home pass which has been launched till FY2016, we are already 18% to 20% penetration everywhere. That is the reason only this EBITDA is coming, that is the reason ROI is coming. The home pass, which is launched after that it is a continuous process, so it all depends upon how much kind of aggression we have a network roll out like Chennai has been rolled out in Q1 now, so that obviously has come in base similarly in some of the markets, so I think internally we review like that and other kind of work for us.

Rohit Dokania: Is it fair to say that probably it takes about two to three odd years to reach that 20% odd?

Rajan Gupta: Yes I will be maintaining, it typically take around two years to reach the 20%.

Rohit Dokania: Great. Thanks for that. The other question I had, which was a slight clarification if you can clarify, which is and if I look at your page 7 of the presentation where you have given sort

of like-to-like sort of comparison of the erstwhile entity and if I look at the numbers that you had disclosed to the exchanges in Q1 FY2017 and Q4 FY2017, the EBITDA numbers actually do not sort of match up, for example Q4 FY2017 as per exchanges was Rs.745 million and as per the page 7 of presentation is Rs.645 sort of million rupees, so what exactly is the different can you sort of highlight that?

Vineet Garg: Actually Rohit if you read the heading which we have given in the word format on top of the table it says that this is the clubbed number of two companies data, which we have moved our CATV business to a 1 of the 100% subsidiary, which is called Hathway Digital Private Limited (earlier called Hathway Datacom Central Pvt Limited), so when I am doing comparison, I have clubbed both the company's number for all three quarters. That is the reason it is a little different from what number has been reported in the exchange for a standalone company last year.

Rohit Dokania: I am sorry Sir I did not catch you, I will take this offline I think that is better.

Rajan Gupta: Yes.

Rohit Dokania: Thanks a lot gentleman.

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

Sanjay Chawla: Thanks for the opportunity again. Can you share the receivable days in your cable business end of June and secondly I had asked the question on the subscription revenue growth like for like in the first quarter you have reported Rs.133 Crores roughly, so on a like-to-like basis how would it stack up?

Vineet Garg: So receivable for cable business it is in the tune of 80 days at this point in time.

Sanjay Chawla: What has been the trend as compared to March?

Vineet Garg: It is pretty much same, there is no too much of change from March to Q1.

Sanjay Chawla: The video subscription revenue growth?

Vineet Garg: Sanjay we are not disclosing cable remaining separately after demerger, so that I can't share with you now.

Sanjay Chawla: Okay, no problem. That is it from my side. Thank you so much.

- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec. Please go ahead.
- Amit Kumar:** Thank you Sir. Most of my questions have been answered, just one on the broadband side, do you do it like phase I, II, III, similar to cable that kind of a breakdown for broadband business as well, broadband subscriber base or home pass or something like that Sir?
- Rajan Gupta:** Not really because the business is focused primarily in eight metros and mini metros, I mean Mumbai, Hyderabad, Bengaluru, Delhi, Pune, a bit in Kolkata and Indore, now Chennai. These are our markets actually, so maybe I guess it is not possible in this call because of time limitation. Whenever possible we can share on more at city level etc., because each city has a different strategy, it cannot be done on phases, the market sources everything is different in each city as a pure B2C business, it will go more as per consumer needs also and the whole consumer proposition is designed as per that. Consumer is very dramatically different like one southern city we have seen now data usage per consumer reaching 130 GB per month, national average 78, so that city we need to have definite proposition.
- Amit Kumar:** Alright Sir, understood, just a bookkeeping actually fourth quarter we did not have con call, we did not get data on the revenue breakup. If you have it handy can you please share the fourth quarter FY2017 standalone revenue breakup please, just for us to maintain the trend in financial?
- Vineet Garg:** On the presentation, the numbers are there, annual numbers are there.
- Amit Kumar:** You are saying annual minus, but your full year numbers had given would be consolidated in that or is it standalone also?
- Vineet Garg:** Standalone and consolidate both, so these standalone would be HCDL only, it will not have HDPL numbers, P&L numbers I am talking.
- Amit Kumar:** Let me take a look and if I need any help then I will connect with you offline. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Avinash Kumar from Moon Capital. Please go ahead.
- Avinash Kumar:** A kind of a followup question here, what is your view on any consolidation happening in the industry in near future I mean maybe foreign player coming into and taking a strategic stake, so how does management see it going forward?

Rajan Gupta: These opportunities are always available, market is obviously fragmented and at some point of time, there should be a consolidation happening, but currently our focus is very clearly on levers of growth, which I mentioned. In my closing remarks, probably I will once again mention them. The management team here at HCDL and HDPL is very focused on achieving that and I am sure over a period some of these things will emerge.

Avinash Kumar: Basically where I come in from is, now the industry is like kind of being transparent to ARPU numbers, revenue number, consumer numbers are coming in, three, four phase implementation is like almost finished, so do you see any strategic play coming in now and taking a long-term stake and the industry again getting a big tailwind from that?

Rajan Gupta: No, I think the current focus has to be on the phase III and phase IV monetisation because a lot of these P&L balance sheet numbers Will look very different after a year, the number today are very different from what they were year back and number after year we believe will be very, very different, so I think – that is where we need to maintain our focus and any further action should happen after that.

Avinash Kumar: I am getting your view. Thanks. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Rajan Gupta: Ladies and gentlemen thanks all for joining for Q1 earning call, for Q2 we have a clear task on hand, our structural efforts and cost reduction have really helped us and same will continue in Q2 as well. We hope to continue sharing good results on this. For HDPL, the video business phase III and phase IV is single biggest monetising opportunity. We are very focused on that and in Q2 you will see major acceleration of that. Broadband we have very clearly made infra ready to delight our consumers, accelerate subscriber growth and handle any potential competition. So overall we see exciting time for both HCDL and HDPL and both these businesses are ready to take full advantage of growing market opportunity. So thanks once again and have a great weekend ahead. Thank you all.

Moderator: Thank you. On behalf of ICICI Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.