



“GTPL Hathway Limited
Q3 FY2019 Results Conference Call”

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Moderator: Good day ladies and gentlemen, and welcome to the GTPL Hathway Limited Q3 FY2019 Results Conference Call hosted by ICICI Securities 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 phone. Please note that this conference is also being recorded. I will now hand the conference over to Mr. Vikash Mantri from ICICI Securities Limited. Thank you and over to you Sir!

Vikash Mantri: Good evening everybody. We at ICICI Securities are pleased to host the Q3 FY2019 post results Conference Call. We have with us the senior management of the company represented by Mr. Aniruddhasinhji Jadeja, Promoter and MD, Mr. Piyush Pankaj, Business Head – Video & Chief Strategy Officer. Over to you Sir for initial remarks!

Aniruddhasinhji J: Thank you Vikash. Good evening everyone. On behalf of the Board of Directors and Management of the Company, we extend a very warm welcome to all of you to the earning call of GTPL Hathway Limited to discuss Q3 results of FY2018-2019.

The update on new tariff order is already implemented and your company has already started rolling out in the ground, the customer choice and migration to the new tariff has started. We are doing campaign and creating consumer awareness with the help of different media, LCO, and our ground team. Now Mr. Piyush Pankaj can take you through the business and financial aspects. Thanks.

Piyush Pankaj: Thank you, Mr. Jadeja. Good evening everyone. I will be taking you through business and financials. To begin with cable TV business, during Q3 GTPL seeded 300,000 STBs taking the total seeded box to 9.5 million. We also added 200,000 digital active subscribers and 170,000 digital paying subscribers taking the total active digital subscriber to 8 million and digital paying subscribers to 7.45 million.

ARPU remained stable at Rs. 103, Rs. 102, Rs. 67, and Rs. 60 for phase I to phase IV respectively.

Coming to broadband business during the Q3, GTPL created 350,000 new home passes. We created the highest ever new home passes in the last four quarters taking the total home passes to 2.15 million. Your company added 11,000 new subscribers taking the total subscriber base to 315,000.

Data consumption as on December 2018 stands at 95 GB per month and ARPU for Q3 FY2019 stood at Rs.430 per month.

Let us move to our financial performance. Despite an uncertain environment, your company continued to report a reasonably strong performance. During Q3, GTPL's consolidated revenue increased by 13% to Rs.3,199 million from Rs.2,841 million in Q3 FY2019. This was primarily driven by increasing the CATV subscription revenue by 20% to Rs.1,798 million reflecting an inherent strength of your company's offering and quality customer service.

Broadband revenue for the quarter remained stable at Rs.362 million. EBITDA for Q3 remained stable at Rs.833 million despite competitive pressure we have maintained our EBITDA margin of 26%, which reflects your company's efficient operations. Overall if you see EBITDA margin has gone down a bit from Q3 FY18, one due to increase in pay channel cost by around 4%, because we have expanded into new areas of Maharashtra, mainly Mumbai and we have expanded our business in Telangana, and second is operating cost, which has gone up by around 14% and this is because we have incurred some cost for the implementation of NTO and it was started from January.

Our finance cost for the quarter stood at Rs.59 million which declined by 20% on Y-o-Y basis primarily due to gain on foreign exchange of Rs.39 million. Interest expense stood at Rs.80 million.

The company reported the PAT of Rs.197 million in Q3 FY2019 compared to Rs.193 million in Q3 FY2018.

On the standalone business, during Q3, the company reported revenue of Rs.2,080 million, which is an increase of 6% this was primarily driven by an increase in subscriptions and placement revenue by 10% and 11% respectively. The company reported an EBITDA of Rs.537 million with a healthy margin of 25.8%. The company also reported a PAT of Rs.135 million for Q3 FY2019.

That is it. Thank you for your attention. We can now take questions that you may have. Thank you.

Moderator:

Thank you very much, Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Sanjay Chawla of JM Financial.

Sanjay Chawla:

Thank you Piyush for the introduction and the opportunity to ask the question. My first question is regarding new tariff order, obviously some implementation has already happened, customers have started selecting their channels and their packs, so how do you think it is impacting the customers who opted to select in terms of the number of channels, the mix of

channels that they are selecting and the cost and what sort of impact that you expect to see on your pay TV at the customer end, the split between LCO, MSO, and the broadcaster?

Piyush Pankaj: Sanjay, we have started the whole exercise from February 1, 2019, and the migration had started. We have taken some of the customer's choice and migrated those customers into the new regime. New customers are coming online, and they are choosing their respective channels and bouquets themselves. We have made our own recommended bouquets and given it in the market and campaigned for that. We have given our formula for revenue sharing and all of which we have been shared with our partners, i.e. LCOs, and overall the reaction is very good from LCOs. There is no retaliation on the ground, they are all cooperating and the migration is going very smoothly. Regarding the choices made by the customer, it is very early to tell that because still there is pressure on the system. The reports are still getting out. The report's format is still in the process as the whole format is changing. In the new regime, there are a lot of things are still going on, we will come up with those numbers very soon as we pass one month. As of now, migration is at preliminary stage.

Sanjay Chawla: Would you be able to share the percentage of your customers, who have migrated, what is the split between customers going for their own selection?

Aniruddhasinhji J: Sanjay Ji, nearly 85% customers have selected our suggested pack and only 15% customers choosing according to their choice and they have selected either a la carte bouquet - either a la carte pay channels or FTA. As of date, 28% to 30% of GTPL's subscriber migrated.

Sanjay Chawla: This is quite useful. How does one assess the impact of this transition to the new tariff order on your Q4 financials? Because there have been less than half-way tariff order, so what would be the impact on the key items like subscription revenue, carriage and placement revenue, content cost etc.

Aniruddhasinhji J: Pay channel cost is now pass through.

Piyush Pankaj: In accounting term, subscription revenue and pay channel are going to increase and overall placement is going to come down a bit, but overall impact going to be positive at a margin level for MSOs.

Sanjay Chawla: Subscription revenues and content cost are expected to increase?

Piyush Pankaj: Yes, because the content cost is pass through if someone is taking Rs. 100 of pay channels, we have to pay back Rs. 80 content cost to the broadcaster, but on Rs. 100 the charge is going to be more. So right now, my ARPU is Rs. 73, but in new regime if customer himself is taking Rs. 100 of pay channels, suddenly you will see my subscription revenue is going up and so

is my pay channel cost because I have to pay 80% or 65% of that back to the broadcaster. So, my pay channel cost will also go up.

Sanjay Chawla: How does the accounting happen, you would be reporting revenues like you are doing right now, net of the content cost separately or your top line itself will have a reduction because of the content cost netting off?

Piyush Pankaj: It will be in the same manner, we will see that the subscription revenue is going up and pay channel cost is going up so, at the gross level, it will be same, which we are giving the results right now.

Sanjay Chawla: Okay. Thank you so much and I will come back later if I have more questions.

Piyush Pankaj: Thank you very much.

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

Vikash Mantri: Sir, on the placement and carriage fee. Is placement being separated from the carriage fee or it is part of the carriage fee or it is got subsumed in the incentives that broadcasters have been placing?

Piyush Pankaj: Vikash, as the regulation is very clear on the carriage side, as per regulation if any channel has only 5% or less than 5% of penetration, then they have to pay 20 paise for that target market. Placement and others, it is too early to talk about right now as everyone is busy in implementation and everyone is waiting for the first result which has to come out., Rollout will happen and somewhere in the first week of March, things will get clear on placement side. but if you ask about MSO on the base terms of subscription revenue and pay channel cost, we are going to improve our margin.

Vikash Mantri: Okay. Thank you, Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Brijesh Ved from BNP Paribas. Please go ahead.

Brijesh Ved: Continuing with the question and the comments that you mentioned on the improvement of margin. The EBITDA margin reported by you on a consolidated Ind-AS basis is 26% which on a Q-on-Q basis also has come down and you did mention that there was some startup cost for the new geographies that you have done. Where do you see this margin sustaining post Q4 and possibly next year?

- Piyush Pankaj:** Brijesh, this quarter we have taken the pay channel cost for the new areas but not the total revenues of those areas, that will come subsequently, plus we have incurred operating cost for the implementation of NTO in last quarter. So that is why the EBITDA margin has gone down. We are very confident that we will bounce back to the same EBITDA margin and if NTO implantation happens smoothly then our EBITDA margin will increase.
- Brijesh Ved:** Sure that is very clear. My second question is a very broad-based strategy on the expansion of the broadband network with the entire consolidation happening in the sector with some percentage acquired by Reliance in Hathway as well as Den, how do you define the geographies and what is the business plan for us to expand in the future?
- Piyush Pankaj:** Brijesh, right now there is no effect on our business, no plan has been made what you have mentioned. We are going ahead with our own strategy which we have explained that we are going with our GPON strategy. This quarter we have created a good home pass and added around 11K new subscriber but yes this capex which happened in Q2 was utilized in Q3. In Q3 as NTO implementation was going on the focus has been a bit shifted towards our cable business. This quarter only Rs.10 Crores has gone into the capex in broadband and there is a bit slow down on the home pass which you will see in the Q4 because of NTO implementation but our strategy is still same that we have to create home passes. As NTO implementation will happen and again the whole market stabilizes we have to start our GTPL Giga offering again which we pursued very hard but we have to take a backfoot because of implementation in NTO but the strategy is same to convert all our cable homes to broadband home pass and convert them as subscribers for us.
- Brijesh Ved:** What percentage of our existing cable homes have been converted to broadband or GPON based home passes?
- Piyush Pankaj:** We have total 2.15 million home pass out of that around 1 million is GPON home pass right now, total cable homes in Gujarat is around 4 million. So out of that around 25% of one million has already been converted into GPON.
- Brijesh Ved:** Okay, that's great. My last question would be for the existing customers as well as the new customers that we are trying to penetrate, are we offering a bundled plan along with our cable network currently or this is a separate incremental plan which has been sold when it comes to GPON?
- Piyush Pankaj:** We have started our bundled product but at that time we were not sure that NTO is going to get implemented because of the court cases it may get late. So that is why we have gone ahead and launched GTPL GIGA because there was uncertainty at the NTO side, but now NTO has been implemented, so we have stopped that for two months.' Once all the choices have been

made and we will come to know about packages which are selling in the market, we will combine that with our broadband product and again start the Giga HD,

Brijesh Ved: Sure. Thank you very much.

Moderator: Thank you very much. The next question is from the line of Kunal from BNP Paribas. Please go ahead.

Kunal: This is Kunal from BNP. Something similar to what Brijesh asked have you had any interaction with Jio on fixed broadband deployment? what will be your role in FTTH deployment, how do you see Jio GigaFiber as a competition or how are they gathered is the first question on broadband?

Piyush Pankaj: Kunal, right now as you now the open offer is going on which has started from 8th February and it is completing on 22nd February and we did not have any talk on this on the strategy side. I think post open offer they are going to be shareholder through Hathway. So we do not know right now how the strategy will pan out, but we are going ahead with our own strategy as there is no interruption in our businesses and there is no communication. So we are going ahead with our strategy.

Kunal: If the open offer succeeds, from 75% our promoter stake goes up to 85% or 90% will the company get delisted like how do you see the liquidity in the future?

Piyush Pankaj: I cannot comment on that on this call, Kunal. I will advise that just see the delisting guidelines, how it will happen and you will come to know that it is very hard to get delisted.

Kunal: For the customers that have moved to new tariff order, are they getting more channels or fewer channels, what is the experience with the customers who migrated to the NTO?

Piyush Pankaj: Kunal, it is too early to comment on that as it is just 12 days in that era and still customers are making choices and they are changing also. It is like they are making one choice and then again after two days they are coming back and changing. So still consumer awareness or consumer campaign are going on. Consumers are also getting literate on this. So I think it is very early to comment. I would say that wait till February end. By the time the reports will come out and it will be a clearer picture for us to gain some figures on that.

Kunal: Just last question, there is a news report that leading broadcasters are moving away from Free Dish, do you see that benefitting distributors, I mean DTH might benefit, how do you see it for cable?

- Aniruddhasinhji J:** Then the overall industry will benefit. I think MSO and DTH will get benefits.
- Kunal:** That's it from my side. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Vishnu KJ from JM Financial. Please go ahead.
- Vishnu KJ:** Thank you for the opportunity. Sir, I had two questions. First was if you see growth in home passes and the growth in broadband subscribers, they are not kept in tandem like the growth in home passes is far higher than the broadband customer. So how do you explain this trend of muted broadband customer addition?
- Piyush Pankaj:** The home pass creation is more of infrastructure creation, it is more of putting the capex to be ready to sell at those houses. This is an ongoing process, where you are creating the market for yourselves. The market is getting created. Subscriber addition is a bit muted right now, this quarter we added 11K subscribers, as the overall broadband market is not very aggressive. You have to make it aggressive when you start giving bundled packs, additional packs which we tried that in the earlier quarter and we were getting good results because of our Giga HD. This quarter from November onwards we have stopped our Giga HD because of NTO. That is why we added only 11K subscribers. Still, 11K is a very good number on this market but it is a bit muted as we are not giving any additional services.
- So these are two different activities, one is the market created by putting the infrastructure and the second is the subscriber acquisition.
- Vishnu KJ:** Okay sir. So this Giga HD, would be reintroduced in the next quarter, am I right?
- Piyush Pankaj:** It will be reintroduced in Q1 of next year.
- Vishnu KJ:** My second question is, even though there are incremental additions in the broadband subscriber base, the broadband revenues have remained stuck over the last several quarters.
- Piyush Pankaj:** The ARPU is coming down, this quarter also our ARPU has come down from Rs. 450 to Rs. 430. As you know the ARPU for wireless has really come down. So that is also pulling down wireline broadband ARPU.
- Vishnu KJ:** Sir you mentioned ARPU for wireless, so ARPU for the wired broadband is stagnant?
- Piyush Pankaj:** No, right now at one of the segments of the market as I have told you our GPON home passes still 1.15 million are at the lower bandwidth, between 5 to 10 MB and there the competition

is intense from wireless. So you face the problem on those markets and that is pulling down the overall ARPU.

Vishnu KJ: Okay. Thank you, Sir.

Moderator: Thank you. We have a follow-up question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Thank you. A couple of questions on the trends in the cable TV business, we have not seen any increase in the ARPU in any phase in this quarter, so what is the reason for that? And if you look at phase I overall the bill to active ratio is not growing. We are having a lot of active customer additions but not as much as an increase in the billed customer addition. So why is that case and over the medium-to-long term where should this bill to active ratio be?

Piyush Pankaj: Sanjay, as you know, we increased the price of our phase III and phase IV in Q2 from July onwards and phase I and phase II in January. So Q3 is always muted for ARPU increase. We want to increase our price in Q4 for phase I and phase II which we are doing from last two years but because of NTO we will not be able to do that. and there will be no growth in the ARPU. Whatever marginal growth you had seen in revenue that is only because of the increase sub-base, i.e. quarter to quarter is just 1% to 1.5%.

The second is on the billed subscribers and digital paying subscribers and active subscribers. These 300K subscribers mainly added in our West Bengal market. Out of 300K around 220K has happened in the West Bengal market, 80k has happened in different markets. In Kolkata generally the billing start between 3 months, 6 months, 9 months because they are going on the schemes as I have mentioned this in the last call. In Kolkata market whenever they are seeding the boxes, the digital paying started for some 3 months, 6 months, and 9 months and lump sum paying is still going on. So that's why you have been seeing that the movement is low there. From last one year, around 50% to 60% seeding has happened in our West Bengal market and that is why this figure is not moving but once you stop the seeding your active and digital paying theoretically should be same or will say 2% to 3% or maximum 5% difference is there.

Sanjay Chawla: Okay. A Couple of housekeeping questions. Your depreciation and amortization expense are down sharply in this quarter, so what is the reason for that and secondly can you provide the level of receivables at the end of December 2018.

Piyush Pankaj: The first on the depreciation and amortization, there is some change in the policies in our joint venture companies. They were still using WDV method for the set-up boxes. This time main auditor took it down and came into the straight-line method as Company is calculating

depreciation. So that adjustment has been made and the whole effect for the last nine months has been put into this quarter and you are seeing a change in the depreciation.

Sanjay Chawla: What should be the normalized level if one adjusts for that because this cannot be the new base right, I mean there is a cumulative impact of the last three quarters as well?

Piyush Pankaj: Normalized will come to around 450 million but if we are adding more boxes as we have added 300K in this quarter and if we are adding more in next quarter then it will go up marginally.

Sanjay Chawla: Okay fine and receivables where were we in December?

Piyush Pankaj: Receivables has come down It was reaching to Rs.400 Crores in H1FY19 and this quarter it has come down. As you know the carriage receivables ballooned in September and came down in December and again it will come down in March. So that has come down it is somewhere between Rs.375 Crores to Rs.380 Crores and we believe that we will maintain our position in terms of subscription debtors between 90 to 95 days without tax.

Sanjay Chawla: Lastly, what was the capex in the third quarter, with the breakup between cable and broadband and what is the expectation for the full year?

Piyush Pankaj: The total capex for the Q3 is Rs.36 Crores out of that Rs.26 Crores has spent in the cable TV and Rs. 10 Crores is in the broadband., For nine months- Rs.45 Crores was in Q1, Rs.40 Crores in Q2 and now Rs.36 Crores. The total is Rs.121 Crores spent during the year We are still maintaining our guidance of Rs 150 Crores to Rs.160 Crores of capex.

Sanjay Chawla: What is the rough breakup of Rs.150 Crores to Rs.160 Crores for the full year?

Piyush Pankaj: Rs.150 Crores to Rs.160 Crores, somewhere around Rs.55 Crores to Rs.60 Crores will be in the broadband rest in cable TV.

Sanjay Chawla: Thank you Piyush and all the best.

Moderator: Thank you. The next question is from the line of Charles Cartledge from Sloane Robinson. Please go ahead.

Charles Cartledge: Thanks for the call and my line drops so apologies someone else asked. My understanding is keeping a very strong market position in cable TV in Gujarat and so now anyway you have not faced much of any competition in broadband, can you give me a better idea as to why the

ARPU in broadband are falling because if you do not have any competitors I would not expect any fall in ARPU? Thank you.

Piyush Pankaj: Charles, I was explaining earlier also out of 2.15 million home pass right now, we have 1 million home in GPON and around 1.15 million is still on the lower speed broadband. So we are also providing 5 Mbps, 10 Mbps, 15 Mbps service in the market and there the competition is very high from the wireless side and the rates are really low right now and to retain the customers we have to give discounts and the schemes and all those things is pulling down overall ARPU. This quarter our average ARPU came down from Rs. 450 Rs. 430 and hence revenue remained muted in spite of adding 11K new subscribers in this quarter. Hope I have explained to you.

Charles Cartledge: Well, what is prospect going forward, you are saying that because your GPON customers have faster speeds, higher ARPUs and so the mix will improve?

Aniruddhasinhji J: We have to start our bundled product to bring the customers at that level and retain the customers at that level plus as the time permits we have to convert our rest of the market in GPON where you can provide 40 Mbps, 100 Mbps and more than 100 Mbps in the market, so that you can maintain and increase your ARPU plus you have to provide the bundled product in the market, So that you can give more services to the customer and take more money out of that.

Charles Cartledge: Sir what is your say if I was a GPON customer, what is the ARPU and what is the breakeven given the capex and opex that you invest?

Piyush Pankaj: For GPON, average ARPU is around Rs.550 which is coming to us from 100 Mbps and 40 Mbps subscribers plus we are also offering 60 Mbps in the market. For other customers, ARPU is really low, it is somewhere between Rs.250 to Rs.300 and that is why the average is coming to Rs. 430. On GPON side, we are maintaining our recoverability and our margins, which we have provided earlier. Somewhere between 32% to 33% EBITDA margin and recoverability of the whole money is around within 20 months, and that is still maintained which we have shown to you from last years. For GPON customers, those are the numbers and we are very positive about that. Non-GPON we have to work, and we have to upgrade our network and provide more services on those market so that we can increase ARPU and margins.

Charles Cartledge: Thank you.

Moderator: Thank you. Ladies and gentleman as there are no further questions in queues, I am handing the call back to the management for some closing comments.

Piyush Pankaj: Thank you everyone, for joining the call and we look forward to this investor call next quarter and hopefully we will give you good results better than this in the next quarter. Thanks a lot.

Aniruddhasinhji J: Thank you very much.

Moderator: Thank you very much, Sir. On behalf of ICICI Securities, I conclude this conference call. Thank you for joining us. You may now disconnect your lines.