"GTPL Hathway Limited Q2 FY2019 Earnings Conference Call"

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ANALYST: **MR. ABHISHEK BOHARA -ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. ANIRUDDHASINHJI JADEJA - PROMOTER AND MANAGING DIRTECTOR - GTPL HATHWAY LIMITED**
MR. RAJAN GUPTA - CHAIRMAN AND NON-EXECUTIVE DIRECTOR - GTPL HATHWAY LIMITED
MR. PIYUSH PANKAJ - CHIEF STRATEGY OFFICER - GTPL HATHWAY LIMITED
MR. AJAY SINGH - DIRECTOR - GTPL HATHWAY

Moderator: Ladies and gentlemen, good day and welcome to the GTPL Hathway Limited Q2 FY2019 Earnings 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Bohara from ICICI Securities Limited. Thank you and over to you Sir!

Abhishek Bohara: Good evening everybody. We, at ICICI Securities, are pleased to host the Q2 FY2019 results Conference Call of GTPL Hathway Limited. We have with us here the senior management of the company represented by Mr. Aniruddhasinhji Jadeja, Promoter and MD; Mr. Rajan Gupta, Chairman and Non-Executive Director; Mr. Piyush Pankaj, Chief Strategy Officer; and Mr. Ajay Singh, Director of GTPL Hathway. Over to you Sir for the initial remarks and then we can have the Q&A!

Aniruddhasinhji Jadeja: Thank you, Abhishek. 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 earnings call of GTPL Hathway Limited to discuss the Q2 Results of Financial Year 2018-19.

India is the highest growing and most scalable Pay-TV market in the Asia Pacific region. According to Media Partner Asia, Indian Pay-TV revenues are estimated to grow by 8% CAGR to reach USD 16 billion by 2023. The 197 million TV owning households in the country are also expected to grow to 220 million over the next 3 years, thus providing a strong growth impetus to the TV industry. Considering that the majority of these additions would mostly come from the rural area, GTPL Hathway is well positioned to enjoy excellent growth in the years ahead.

India is recording a massive increase in broadband consumption, and as people have started using the digital platforms to complete a number of day-to-day tasks, they will demand a faster broadband network.

During first half of Financial Year 2018-19, we added 400,000 active digital subscribers, and reported robust growth of 26% in subscription revenue to Rs. 3,451 Mn. On the broadband side, we added 500,000 home passes, and 24,000 new subscribers. I am pleased to inform you that, despite competition pressure, we maintained our operating margin at 28.1% in H1-FY2019.

Now Mr. Piyush Pankaj can take you through the business and financial aspects of the company.

Piyush Pankaj: Thank you, Mr. Jadeja. Good evening everyone. I will be taking you through the business and financials now.

To begin with the Cable TV business, during Q2, GTPL seeded 300,000 STBs, taking the total seeded boxes to 9.2 million. We also added 200,000 digital active subscribers, taking the total active digital subscriber base to 7.8 million. Effective monetisation has resulted in increased ARPU in Phase–3 by 16%, and in Phase–4 by 22%, compared to the corresponding quarter of the previous financial year, which is 70% of GTPL's subscriber base. Monetisation is expected to continue over the next 2-3 years. Average CATV ARPU as on September 2018 stands at Rs. 103 in Phase 1, Rs. 102 in Phase 2, Rs. 67 in Phase 3, and Rs. 60 in Phase-4.

Now coming to the broadband business. During Quarter 2, GTPL created 270,000 new home passes, taking the total home passes to 1.8 million, and added 14,000 new subscribers. We witnessed the highest increase in new broadband subscribers within the last 4 quarters, taking the total subscriber base to 304,000. Data consumption as on Sept 2018 stands at 87GB per month, increasing from 71GB per month in June 2018. Due to competitive pressure, our ARPU declined marginally to Rs. 450 per month.

As an industry's first, the Company launched GTPL GIGA^{HD}, a dual service package combining cable and broadband services under a single package in the price range of Rs. 499 to Rs. 799. Having launched GTPL GIGA successfully in Gujarat, we plan to progressively launch this service in other states.

Let us move to the financial performance. I will now walk you through the consolidated performance first. During Q2, GTPL's consolidated revenue increased by 14% to Rs. 3,174 million, from Rs. 2,789 million in Q2FY18. This was primarily driven by increasing the CATV subscription revenue by 22% to Rs. 1,775 million. Broadband revenue for the quarter improved marginally by 1% to Rs. 358 million.

EBITDA for Quarter 2 increased by 12% to Rs. 902 million. Despite competitive pressures, we maintained our EBITDA margin at 28.4%, which is a reflection of the company's efficient operation.

Our finance cost for the quarter stood at Rs. 179 million, which increased by 69% on YoY basis, primarily due to a loss on foreign exchange of Rs. 94 million. Currency movement is stabilising or seeing reverse momentum. Interest expenses stood at Rs. 85 million, declining by 11%.

The Company reported PAT of Rs. 154 million in Q2FY19, compared to Rs.120 million in Q2FY18, which increased by 28%.

On a standalone business, during Quarter 2, the Company reported a revenue of Rs. 2,025 million, which increased by 12% on a YoY basis. This was primarily driven by an increase in subscriptions, and placement revenue by 14% and 12%, respectively.

The Company reported an EBITDA of Rs. 571 million with a healthy margin of 27.7%.

It also reported a PAT of Rs. 95 million for Q2FY19.

Thank you. We can now take questions that you may have. Thanks.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question, from the line of Harish Mehta from BNP Paribas. Please go ahead.

Harish Mehta: Sir, Can you repeat how many subscribers were added in broadband?

Piyush Pankaj: In broadband, we added 14,000 subscribers in this quarter.

Moderator: Thank you. The next question is from the line of Ashish Jain from Individual Investor. Please go ahead.

Ashish Jain: Good evening. what is your revenue and PAT margin target by the end of FY2019?

Piyush Pankaj: Last year, we had an EBITDA margin of 28.2%, and in the first six months, we already achieved 28.1%, so EBITDA margin is going to be in same range of 28% to 28.5%.

Ashish Jain: It will be maintained around that level?

Piyush Pankaj: That is right.

Ashish Jain: Thank you.

Moderator: Thank you. The next question is from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

Ishpreet **Kaur:** Sir, if you could share some of your thoughts on the deal between RIL and Hathway?

Piyush Pankaj: Ajay can you take this answer please.

Ajay Singh: Deal with RIL is still to be consummated and it is subject to various statutory and regulatory approvals, and hence, it will be premature as of now to comment on the same.

Ishpreet **Kaur:** Sir, with Hathway and Den now having switch of capital to expand into broadband, so what is our outlook? So we have been looking at higher expansion in the broadband but due to capital inflection in these two companies, how do we look at that?

Ajay Singh: I think this question should be only for GTPL Hathway, as you already had called for Hatrhway, so Piyush can you answer this?

Piyush Pankaj: We would continue to function the way we had been, and we are going according to our strategies. We cannot comment on deal of Reliance with Hathway as Ajay mentioned. We are going ahead with our own strategies, we can only comment on that.

Ishpreet **Kaur:** Sir, how do we look at the broadband subscriber base for us, may be going one year or two years down the line?

Piyush Pankaj: We have already given the projections that this year we want to be somewhere between 340K and 360K subscribers, and we are going to achieve close to that number. We are maintaining our projection.

Ishpreet **Kaur:** That is it from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Vivek Anand from Ambit Capital. Please go ahead.

Vivek Anand: Your thoughts on the implementation of the TRAI tariff order, what are the timelines? what is your take on the industry? What is the industry's preparedness and your own preparedness for implementation? And what do you expect consumers will opt for the default packages that you were construct for them, or will they demand a la carte offers? A related question is what happens to the content cost? Because your contest cost is amongst the lowest in the industry and perhaps amongst the lowest even if we consider DTH and any other MSO listed or unlisted. So in light of the tariff order, how should one look at the contribution margin for you? And lastly, on the Rs. 130 fee that has been prescribed for carrying 100 channels as a maximum price. Do you think that any MSO will compete on that price and bring that down MSOs or DTH operators?

Piyush Pankaj: Ajay, would you respond on the timelines and some of the industry pack?

Ajay Singh: **As far as** timelines are concerned, by December 29, 2018, whole tariff orders needs to be implemented. Obviously there are lot of activities that need to be done before that like signing of the interconnect agreements between the broadcaster and MSO and also between the MSO and LCO, who are coming out with the target markets network capacity fees. All those things are to be completed before 29 December 2018. So these are the broad timelines as per the New Regulation Tariff order is concerned.

Aniruddhasinhji Jadeja: Regarding the pay channels, it is becoming pass through and the negotiations for pay channels are still going on in the market so we cannot say right now that how it is going to shape up and how the margin calculation will happen. But we will try to maintain our pay channel cost at the current level.

Vivek Anand: Sir, can you help me understand how the default option will be for the consumer? As you mentioned that it will be implemented by December 29. So only one-and-a-half month is left. Have you started informing the LCOs on this change; and on the ground I am sure you have 7,000 to 8,000 LCOs working with you. It will take a lot of time for you to implement it, so what is the progress on this front? I mean what is the feedback from the LCOs?

Aniruddhasinhji Jadeja: I think there is an industry effort happening on those sides, Ajay can you take this?

Ajay Singh: A lot of discussion has already happened with between the broadcasters and MSOs, things are in the process of being aligned for roll-out by December 29. LCOs are also aware of it. Some of the LCOs may not be fully aware of it, but the MSOs association is also going to meet next week to discuss the whole plan of implementation and various aspects of the new tariff, QS and the interconnect regulations. As an MSO we are completely geared up, as far the technology is concerned, the back-end operations are concerned and we are working on the nitty-gritties before the timeline of December 29, 2018 kicks up.

Vivek Anand: Right, and do you think that you will need to do an advertising campaign, like what was done on digitisation at an industry level for consumer awareness? You did not answer my question on how you expect consumers to behave once the new tarrif has been implemented? Will they opt for the default option or will they ask for these four packages to be created for them?

Rajan Gupta: As far as consumer awareness is concerned, we have spoken to all the broadcasters, and they are all very clear that 10-15 days before the deadline, they will start their media campaign, and this is going to be a high intensity media campaign. Today, we had a meeting with one of the leading broadcasters, and they are very clear they will go for a large scale campaign on creating consumer awareness. One of the largest advertising agencies is working on creating that campaign, so similar views are to be echoed by everybody. I believe, the regulator is working on creating a consumer awareness campaign and details will come out in the next few days, next week hopefully. Piyush, can you answer the other part in terms of GTPL Hathway's take on the consumer?

Piyush Pankaj: GTPL Hathway geared up from the back-end to implement the tarrif. We have met with our LCOs and given them an understanding of the tariff. LCOs are creating the awareness among their consumers. All LCOs are also gearing up and doing their bit to communicate to the customers, so the process is on.

Vivek Anand: Sir, my last question is on the Rs. 130 fee by TRAI as the maximum price that can be charged by distributors for carrying 100 channels. So I was trying to understand whether the Rs. 130 will remain intact or not? How are the LCOs approaching this because the LCO also would need a certain fee for their own last mile infrastructure and maintenance services. I mean there is a 55:45 ratio that has been mentioned for pay channels and for free channels, so what is the thinking with respect to Rs. 130 price point? Do you think that will hold, and secondly, how does your share evolve with the LCOs?

Piyush Pankaj: Discussions are on with the LCOs. Tariff is up to Rs. 130 for first 100 SD channels in the base pack, and it has to be mutual understanding between MSOs and LCOs or it is 55:45 in the favour of MSOs. We have to see how it will be get implemented with different LCOs in different markets. You will see in the next one-and-a-half months how the commercials are worked out.

Vivek Anand: Trade receivables continue to go up. I understand your revenue has also grown, but can you rationalize? What are your thoughts?

Piyush Pankaj: The trend for trade receivables, especially in this company and the industry in general, is from March to Septembe it goes up, and from September to March it goes down again. We have given the balance sheet for the last four periods i.e., March 2017, September 2017 March 2018 and September 2018, if you compare you will see that the receivable goes up in September and then it comes down in March, and that is mainly because of the carriage income receivables. From March to September, our receivables have increased by Rs. 60 crores, of which around Rs. 52 crores is only due to the carriage, which will come down at the end of the year.

Vivek Anand: Sir, how much of this Rs. 404 Crores is on account of carriage?

Piyush Pankaj: The total is around Rs. 86 Crores.

Vivek Anand: Okay so your payment cycle by the broadcaster is elongated, understood. Thanks.

Moderator: Thank you. Next, we have a follow-up question from Ashish Jain, an Individual Investor. Please go ahead.

Ashish Jain: Could you please share the details of your new service GTPL GIGA?

Piyush Pankaj: GTPL GIGA was launched in the Gujarat market. We have combined broadband and cables video services together and are giving it as a single package to the customers, and many customers are opting for that. There will be a single invoice and single payment to get both the services in a house. This is one of the unique packages we have introduced in the market.

Ashish Jain: So how is the response from the consumers?

Piyush Pankaj: Yes, the response is very good. It is in our early days, but we have already seen that the response is very good. We are getting a lot of calls for this service and implementation and installation is happening. It is too early to give the numbers, but the response is very good.

Ashish Jain: Can you throw some light on the Bharat Net Project, and how are we going to record the revenue for the same?

Piyush Pankaj: We bagged the order worth Rs. 1,246 Crores for Bharat Net Project. In the first year, we have to do the implementation, so revenue will start getting hit by the next year. After one year of implementation, in the fifth quarter, you will start seeing the revenues. For the first one year, you have to do the investments and implementation.

Ashish Jain: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vivek Anand from Ambit Capital. Please go ahead.

Vivek Anand: My question is on the connected or integrated box that Hathway is planning to roll out by end of December. Hathway mentioned that their boxes are not confined to their own subscribers, and they are also targeting other households which have a broadband connection. So is there a thought process to distribute these boxes? They are great value for money, and Hathway will use the target market which is very large. In the Gujarat market, given that you have a dominance and also now there are 300,000 broadband subscribers, are there any plans on distributing such boxes or do you have any plans to distribute OTT content on your own?

Piyush Pankaj: Yes, Vivek, we are also planning to launch the same box in our market from January onwards. Work is already on for this.

Vivek Anand: Sir, you will launch Hathway's box or will you procure from same vendor?

Aniruddhasinhji Jadeja: It will be a GTPL box, but the product is going to be the same.

Vivek Anand: Okay thanks.

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

Yogesh Kirve: Thanks for the opportunity. In the television business, in most cities we have a standard plan, which has been taken up by most of the subscribers. I understand a lot of discussion is going on in the industry, but if you have to replicate these kind of television plans and packages in the new regime, what changes do you anticipate in the consumer payout? Secondly, what would we have to pay to broadcasters in terms of the content cost?

Piyush Pankaj: Yogesh, as I have already said, the commercials between stakeholders under the new tariff is going to be cleared in the next one-and-a-half months. A lot of discussion is going on. Rajan and Ajay are all there in the whole process, so we cannot comment on this right now. Just wait for one-and-a-half month and everything will be clear on the tariff.

Yogesh Kirve: Sir, at least directionally, would it be possible for you to comment on both these things?

Piyush Pankaj: We can just comment that we are happy with this tariff. As MSOs, we are looking forward and this will help us in increasing our efficiency and enhancing our reach.

Rajan Gupta: I think the direction is very clear. All the broadcasters have already announced their a-la-carte channel rates as well as their genre-wise bouquet, GEC, infotainment and English. Now it is up to the consumer to pick up either a-la-carte channel or the other packages in the next 45 days between 15 December to 30 December. If they want only the selected channels, then they can have a choice of bouquet. For example, as of now 5 broadcasters have three genres each, so it is up to the consumer to decide what they want to choose, for which user engagement already decided by TRAI, so no DPO can speak anything on that. Our job is to implement what TRAI has already decided to roll out and we stand committed 100% to its implementation. GTPL Hathway has an IT system and other infrastructure ready to roll out, so that is the stance currently.

Yogesh Kirve: Sir, at this point if you look at our standard plans which basically exists in all cities largely comprise of all the Hindi language channels and divisional channels, and possibly some news channels as well as sports. So this kind of standard package is based on the RIO already out in the market. So from that particular perspective, is it going to replicate these kind of plans?

Piyush Pankaj: There is no standard package, please understand. How can I make a standard package? I think you need to read that TRAI draft very clearly and even the Supreme Court judgement. The whole thing has entirely changed. There is no concept of a standard package now.

Yogesh Kirve: What I am referring to is that they have not moved to a standard package on the MSOs end, but if the consumer were to create the same package in the new regime, so my question was from that perspective.

Ajay Singh: You need to look at why this whole regulation was first of all required, current bundling resulting into 300 to 400 channels bouquet was the whole issue in the earlier regime. And hence this whole new regulation which now gives freedom to a consumer to choose and to pay for what he watches.

Yogesh Kirve: Sir, if the consumer was to recreate the kind of content he was getting prior to this regime, I was asking from that perspective.

Rajan Gupta: We cannot speak on behalf of the consumer. We are developing various models within our system, on various probabilities. Phase 1 consumers will probably take this. We are doing some market research also, but frankly speaking, we cannot affect for the consumer.

Yogesh Kirve: Let me move on to the next question. In phase 1 and phase 2 market, what sort of pricing power do you believe will exist in the television business, because we have a consumer pool, who are also spending under broadband connections, possibly they will also spend on their OTT subscription. So in light of this, do you think the pricing power continues to remain in phase 1 and phase 2 market, like earlier, we used to take annual hike in low single digits. Will that kind of pricing power exist over the next few years? What is our assessment at this stage?

Rajan Gupta: In the new tariff context, this question is irrelevant. We do not decide the pricing. I do not have the authority to decide the pricing.

Yogesh: Okay, that is in terms of consumer’s willingness to spend on television on top of whatever other things he will do. So can you comment on that particular aspect?

Rajan Gupta: As of now, the number of channels consumers are watching everyday has not come down, the number of hours have not come down. In fact, both are growing, so all our market research clearly says that consumers have not reduced their number of hours in TV viewing, and probably they are taking more and more OTTs. That’s the reason both cable data competitor and GTPL Hathway are launching their high-grade set top box.

Piyush Pankaj: You can even consider that out of 320 households only 197 householders are TV households right now. Still India has to go long way of taking 100 million households, so still TV is going to be there. If you talk about OTTs and all others, they are going to be in their first 5% to 7% of the households in the next two to three years, but still there is a long way for TV to go up.

Yogesh Kirve: Last question is regarding we being in the midst of GPON roll-out. I think we launched in in the month of February and then we added a couple of more cities over last 2-3 quarters. So what is the state of network today? How many cities are covered under GPON and what home passes we will have in these cities once the network roll-out is complete?

Piyush Pankaj: Yes, right now we have already launched in Ahmedabad, Surat, Baroda and Rajkot, and there is a plan to launch in other cities of Gujarat subsequently. We have already covered around 85% of the city of Ahmedabad, and around 60%-65% of the other cities. Total home passes currently stand at 1.8 million, out of which around 0.8 to 0.9 million are already under the GPON network. And going forward, within the next 6-9 months we will complete the whole 1.8 million. Every quarter, the number is increasing by 200k to 250k, and that will convert around 80% of our network into GPON.

Yogesh Kirve: Beyond these four cities you mentioned, are we adding more cities? What will be the scale of that expansion, in terms of numbers of cities?

Piyush Pankaj: Right now we are present in around 82 cities, and we want to cover somewhere around 45 to 50 cities under the GPON Network. We will look at small cities after completing these 45 to 50 cities.

Yogesh Kirve: Sure. That is all from me. All the best.

Moderator: Thank you. The next question is from the line of Ashish Jain who is an Individual Investor. Please go ahead.

Ashish Jain: Thanks for the opportunity again. What is our capex plan for FY2019 for both broadband and cable TV segment?

Ajay Singh: We have already given that in the last call. We are going to have Rs. 150 Crores to Rs. 160 Crores of capex this year, and right now we are on that projection.

Ashish Jain: Okay, so how much of it is spent in Q2?

Ajay Singh: **In** Q1, we spent around Rs. 45 Crores, and this quarter, we have spent around Rs. 40 Crores of capex, of which around Rs. 27 Crores is on the cable side and Rs. 13 Crores is on the broadband side.

Ashish Jain: Thanks.

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

Abhishek Bohara: Sir, I have a question regarding this newly launched service GIGA^{HD}. As I understand, this is the new service and the response is good as you have highlighted. Just wanted to understand what is the economics of these bundled services? Will it be margin dilutive? I am sure there would be a lot of cost saving on the customer acquisition, but how would it impact our EBITDA, if the pick-up is good in the future?

Piyush Pankaj: We have worked out the margin on that and we have kept the prices such that we can maintain our margin of 28% in the consolidated business. Based on savings in the network maintenance cost, and customer acquisition, the margins would be same in that way.

Abhishek Bohara: Thank you. That is from my side.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to the management team for closing comments.

Piyush Pankaj: I thank everyone to join this call and if you have any further queries you can contact me. My credentials are given there in the presentation. Thanks a lot.

Moderator: Thank you very much. On behalf of ICICI Securities we conclude today's conference. Thank you for joining us. Ladies and Gentleman, you may now disconnect your lines. Thank you.