Edelweiss
Ideas create, values protect

Conference Call Transcript

DEN Networks

Q3FY14 Results

February 17, 2014 | 4 p.m. IST

Corporate Participants

Mr. M G Azhar
DEN Networks - COO

Mr. Rajesh Kaushall
DEN Networks - CFO

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY14 Earnings Conference call of DEN Networks hosted by Edelweiss Securities Limited. As a reminder all participants' 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. Alankar Garude. Thank you and over to you, sir.

Alankar Garude: Good day and a warm welcome to all investors and participants. We at Edelweiss Securities are very pleased to host DEN Networks' Q3 FY14 Earnings Conference call. From the management we have with us Mr. M. G. Azhar – COO and Mr. Rajesh Kaushall – CFO. Thanks to the management for this opportunity. Now I would like to hand over the call to the management for their opening remarks post which we will have the question and answer session. Thank you.

MG Azhar: Thanks everybody for taking time out. Let me at the very outset tell all the investors and participants that the process of digitization is playing out I think it looks like the end is in full sight. I think the full benefits of digitization including all the stakeholders including consumers, NGOs, NSOs and the broadcasters seems to be playing out well.

I would categorize the current quarter as of stabilization and consolidations where we saw lot of a stabilization in terms the way people were playing out in the market place and also there is a bit of consolidation at play as well because some of the weaker and marginal players lost out to either rivals or to a competing platform. As I said before both from a stabilization point of view the gross billing process now has been initiated in Delhi and this will now be taken over to Kolkata and then to Mumbai and Phase-2 gross billing is hopefully expected to start in April. So at an organizational level we are sort of reinforcing more to cater to the changing industry environment. And like I said in the last quarter that we are near closure of 10 year fully managed service contract that is pretty much done and we have signed up a 10 year contract with the category one software company out of India and this 10 year contract essentially will entail entire billing, SMS, CRM, web interface, payment gateway, inventory management and everything else that goes along with it.

It is essentially cloud based system and the thinking here is to keep the business as asset light as possible and focused on key competencies and leave it to the specialist to manage stuff which they are good at. Beyond this we have been opening in newer cities and adding them on to the digital platform essentially these are all cities coming from Phase-3 and Phase-4. So in the last quarter we would have started at least 30 new cities where additional signals have started flowing in and boxes have started getting seeded in the market place. Beyond that just wanted to update you guys on the broadband side of the business we have taken up a new office which is close to about 13,000 square feet office. People have come in and it is a fully functional office close to half a million home passed stocks has been ordered essentially end-to-end Cisco system on Docsis 3.0 platform. Deliveries have started flowing in and the network rollout started happening. We have also engaged in services of a global consultant basically to help us in this whole project management activities rollout.

What we also realized that conversion of homes passed into broadband consumers, service is absolutely critical for the success of the business and which is where we think we need lot of professional help and also streamlining systems and processes and managing the project. That is the basic reason why we have got a category one world class consultant to help us in the process there.

So with this update I will handover to Rajesh to take you through the financials and then we will open the floor for Q&A session. Thank you.

Rajesh Kaushall: Thank you Azhar. This is Rajesh I will just walk you briefly with the overall numbers before we deep dive in to some of the highlights. The consolidated numbers on year-on-year for revenue has gone up from INR2420mn to INR2970mn. The EBITDA has gone up from INR655mn to INR952.5mn and the profit before tax is INR342.2mn and this is steady despite higher depreciation and finance cost relating to digitization. This was year-on-year consolidation. As far as quarter-on-quarter is concerned on consolidated basis the revenues have grown from INR2760mn to INR2970mn. The EBITDA has grown from INR920mn to INR950mn and profit before tax remains steady at INR340mn as I said earlier.

If you look at the cable business on year-on-year basis the cable revenues have gone up from INR2300mn to INR2810mn and the EBITDA has gone up from INR640mn to INR920mn. The cable profit before tax remains steady at INR310mn. If you look at the quarter-on-quarter numbers for cable business the revenue for this quarter is INR2810mn versus INR2630mn in previous quarter. The cable EBITDA remains steady so it is at INR919.5mn versus INR890mn in the previous quarter and the cable profit before tax remains steady at INR310mn.

If you were to look at the full nine months period then the consolidation revenue has gone up from INR6530mn to INR8490mn. The EBITDA has grown from INR1550mn to INR2750mn that is nearly up about 80%. The profit before tax for the nine months period is INR1020mn versus INR700mn. This is higher by 46% but it could have been more higher but it has been because of higher depreciation and finance cost. If you look at cable business for the nine months period the cable business revenue has grown by 30%. So from INR6700mn gone up to INR8700mn -cable business EBIDTA has grown from INR2480mn to INR2670mn and the cable profit is higher from INR640mn to INR950mn.

I will just walk you through the key highlights of this quarter. Starting with the cash balance we are sitting at INR12bn and this is sufficient to take us through for the Phase-3 and Phase-4 digitization and the broadband plans. So we have a gross debt of about INR9.49bn. So on a net basis we are actually debt free. The net worth is INR17.97bn; the debt equity ratio is 0.5; the gross debt to the EBITDA is 2.6 times and the cost of debt on a blended basis is about 8.6%. So if you were to look at the debt positions essentially INR9490mn that has about USD48mn of the buyer's credits which is already valued at the latest foreign exchange rates as on 31st of December.

Moving on to the profit and loss side the consolidated revenues of INR2970mn includes Content Distribution business revenues of INR160mn and the balance is cable business which is INR2810mn. Our cable revenues excluding the non-operating revenues remains steady at INR2584mn and with the next deadline due in December 14 the set-top box deployment for Phase-3 and Phase-4 expected to gain momentum in coming quarters. We have deployed about 440,000 set-top boxes this quarter as against 400,000 last quarter.

If you were to look at the revenue compositions for this quarter vis-à-vis the last quarter on placement revenue we are at INR1180mn vis-à-vis INR1200mn last quarter. The subscription revenue is higher to INR1050mn vis-à-vis INR990mn. And the other operating revenue including digital activation is INR360mn vis-à-vis INR400mn last quarter. On subscription numbers, we have started gross package billing in Delhi effective from December 13. Our net billing including taxes in Mumbai is at INR100 and in Kolkata it is at INR50. For DAS-2 territories the average billing is INR55 to INR60 including taxes.

So if you were to look at the cost side; the cost side have gone up in this quarter essentially because of launching of broadband and the newer links of leased line and new hiring of resources for the Phase-3 and Phase-4 towns. And besides that there is a content cost increase in DAS Phase-1 towns by about 15% and some one time settlements with broadcasters which has happened in this quarter for Karnataka and Gujarat.

Interest cost is similar at about INR240mn and on the minority interest expense we are in the range of about 20% of operating profits of the cable business effecting about 80% economic interest of DEN in the whole consolidated business.

So I think now we can open the floor for any question and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the Phase-3, Phase-4 you mentioned some cost over there in this quarter also. Sir, if I see other cable operators' there are kind of slowing down on the focus on Phase-3, Phase-4 because of the delays we are seeing in Phase-1, Phase-2. What is our thought process on this? Do we want to be aggressive on Phase-3, Phase-4 because others are kind of slowing down and there is a large opportunity or we want to be cautious because of the way Phase-1, Phase-2 till now has panned out?

MG Azhar: The way we are looking at this is this process is pretty much irreversible. If you go up and get a sense from the ground I mean the process because of this value proposition for the customer is too strong and as everybody would know that this whole process even the LCOs were benefitted by providing better service to the customer and also some bit of ARPU expansion also because this was an opportunity for them. So having said that there is a significant amount of demand that we are seeing but I think we are investing in this whole process of digitization because we think that process is irreversible and we are fundamentally we believe that the industry shift has already happened.

So all we can probably debate in basically the timing is if the regulator is not full behind it. But otherwise if you look at from a market standpoint I think the shift is already happened and we are not very, very aggressive in terms of over laying our existing operations with too much of Phase-3, Phase-4 cost but we are little sensible in terms of the key areas of our dominance in market place and whichever ones we think are relevant are the ones which we are opening up. And also typically if we have to open up any new area it takes typically three to four months for a fiber link to be up and ready because there are last point fiber connectivity that needs to be built plus we have to see feasibility with other vendors as well.

But I think to answer your question we have the fundamental belief in the whole digitization process and when it comes to overlaying that cost so we are cautiously optimistic about doing that. And we see that as an opportunity as well.

Abneesh Roy: Sir, my second question is we are seeing in some of the cities some of the LCOs coming together and they are saying that they will put the set-top box. So how do you see this development in your markets can this be a threat and does it lead to shift of some bargaining power?

MG Azhar: I mean frankly we would welcome such suggestion come forward forge partnership and invest in digitization and boxes**.** I mean fortunately or unfortunately when a partnership is we are talking of partnership of 50 to 100 people typically it does not work because I mean this is all coming out of experience that this is not the first time that people have said that they are coming together and investing. There are lot of groups who came together made investments in to boxes and those partnerships are nowhere to be seen. So it has happened in different markets and all you keep hearing is actually the noise. I mean frankly we have not seen any significant what you call movement on the ground to believe that this is the process which can probably take a market in a particular direction or can be a forceful force so to say.

Abneesh Roy: And my last question is in the opening remarks you mentioned you have kind of signed 10 years contract with a category one software provider to provide billing, SMS and payment gateway etcetera so are we a bit earlier in this because LCOs still are trying to delay this? So how do we see this operationalized and all the MSOs have kind of come together and there is a consultant so how do you see that improving the overall execution of the digitalization billing, collection etcetera?

MG Azhar: I mean these are all issues that one is talking about is basically issues related to the transition. One is the physical side of it and other is the obviously the mental transition that people have to make in terms of closer to the newer environment. I think it is all playing out well. I mean all we can argue whether we have 30 days or 60 days behind in the whole process but I think directionally it is all headed in the right direction and we have always maintained that we see LCO as our partners. So any enablement that we are seeing at the backend is only to streamline and smoothen the whole process and help the LCO also to serve the customers better.

Effectively we are here in a service industry and as long as the customer gets a great service all of us futures are secured including the LCOs. So frankly we are not taking any significant hit in terms of upfront capital cost when we are putting up the system like that. But I think the larger reason behind doing all this to enable the entire value chain to operate and help the customer in an absolutely seamless manner.

Rajesh Kaushall: Just to add to what Azhar said in these projects normally require about six months for a complete deployment so there will be different drop dates part of that. So I think we are not planning it much ahead of time the digitization happened on November 1st 2012 and right now we think that the stage is right that we should invest in to all the backend services and the best in class system so that we can match the consumer experience what the DTH is giving.

Moderator: Thank you very much. The next question is from the line of Sumeet Rohra from Silver Stallion. Please go ahead.

Sumeet Rohra: Just a couple of quick questions. Azhar, firstly how many set-top boxes have we installed currently because I heard that you have done 440, 000 this quarter and what is your plan that by the end of Phase-3, Phase-4 you should be?

MG Azhar: Our current digital sub base is about 5.7 million. This quarter you are right we did about 450,000. Today if I look at Den's overall footprint and the number of digitized stuffs we are talking about 13 million total subs out of which 5.7 million is digital and the rest is still analogue which is about 7.3 million. So this is the least that we are going to do in terms of converting our existing analogue subs in to digital. Beyond that we will acquire couple of more million and digitize as part of the process.

Sumeet Rohra: But to get to this 13 million also I mean technically as of now of course the deadline for Phase-3, Phase-4 has been combined to 31st December assuming there is a three, four months delay so do you think that by June 15 you can actually get to 13 million in terms of installed subscriber base?

MG Azhar: Yeah, it looks like a big number but let me tell you I think Phase-1 & 2 deployment gives us the confidence. So basically and like I said the fact that we are already opening our newer markets and keeping ourselves ready to go and then digitize. I think even though it looks like a big number something 7.5 million in a year but to my mind if we start breaking that number down and look at the feet on the street it is a pretty easy number to do. And also we are talking about a big market to be digitized in Phase-3, Phase-4 and there are not too many suitors so to say.

Sumeet Rohra: Do you think that we can actually have the APRU gain as well because in Phase-4 I am not sure is very rich area but at least in Phase-3 the matter of fact you get to 13 million then do you think we will have the ARPU advantage or because of the fact that it is a low income area it could not be beneficial in terms of ARPU?

MG Azhar: I mean the way I see it ARPUs there is no big ARPU advantage so to say but whatever ARPUs that we have that the market has good enough to for the kind of business model that we have to support it easily. I mean you are talking about if you look at the anecdotal evidence from the DTH footprint and the ARPU guys were at the bottom of the pyramid and the extreme rural guys are effectively paying 200 plus. So all Phase-3, Phase-4 that we are talking about is probably better off and when it comes to affordability as compared to the complete rural subscribers. So as our sense the ARPUs will be around between INR160 to sort of INR180 in all these Phase-3, Phase-4 market may be INR150 to INR180. But having said that with digital we will move to packets and 15% here or there is not going to make significant difference. And I think at the packages of ARPU level and also at an organization level it is pretty much in the marginal costing kind of environment. So every newer market that you operate the cost does not go out proportionately. So I think whatever ARPUs that are currently prevalent is good enough to support the business model that we have.

Sumeet Rohra: My main point which I wanted to ask you and ask all your other peers as well that sir, how confident are you that gross billing is going to start because that is the ultimate key right for all of you to make money is gross billing. So how confident are you that gross billing will start I mean I heard you have started in Delhi but in Mumbai and Kolkata and in Phase-2. So because that is the key for all want to money now, right?

MG Azhar: There are two aspects to it. What does gross billing does I mean it ultimately boils down to making sure that LCOs gets its relevant share of money not whatever he manages to take. I think beyond that it is just an enhanced turnover and enhanced cost. I think once the gross billing process is fully stabilized LCO will move to its legitimate share as whatever is agreed share and we will move to agreed share. I mean that is the way we look at gross billing. But when it comes to monetization side from the LCOs we have always travelled out for 65% to 75% of the digital that we should ideally be traversing. So today like almost INR80 to INR85 what on an average we are getting from markets like Delhi and Mumbai. So effectively on the INR200 ARPU that number should be anywhere between INR105 to INR115 because there are some second televisions set discounts as well. So we have already there. I think the process of gross billing will get stabilized. The good thing is it has been initiated it is the industry wide phenomena and since in the next 30 to 45 days it should be stabilized and it will all get sorted. So it is starting from Delhi and then we quickly move to Kolkata and then to Mumbai and then Phase-2 cities.

So we are tremendous amount of faith that this process is effectively going to play out well for everybody.

Sumeet Rohra: Just basically your thought on two variables which is one is carriage revenue and second is content cost. What you think on these two?

MG Azhar: Carriage as we have been mentioning is pretty much stable on government. .If you look at from the larger market stand point and the guys who has the scale and who had got the relevant markets they are able to protect their revenue and the smaller marginal guys are finding it difficult to maintain their carriage revenues. So on one end broadcasters are benefitting and the other end we are able to protect our revenues. And the other thing obviously the fact that we can do deals for lot many number of channels, set per channel cost has come down but we are still able to maintain our absolute number. And I think from a going forward perspective we maintain 10% here or there we should be able to protect our revenues.

Sumeet Rohra: Content cost, sir?

MG Azhar: Yeah content cost. As markets move to digital you will see enhancement in terms of content cost. So you will see enhancement coming in Phase-1 and then subsequently Phase-2. So my sense is that number will be between 15% to 25% kind of growth year-on-year I mean I am giving you a very wide range because it is all depends when Phase-3, Phase-4 deals actually get executed. But the content cost growth should be in this range only.

Rajesh Kaushall: Just to add to what Azhar said I think content cost increase I think should be looked at from the perspective of that the broadcaster also need to get a fair share from the enhanced revenues which flow in from the last mile. So as we keep on adding more monetization from the box as we move from net billing to the gross billing and package wise billings then I think the more revenue what we collect has to be shared we need to pass on the legitimate or the economic shares of the broadcasters which comes in the form of the content cost.

Sumeet Rohra: If I heard correctly your carriage revenue for this quarter was INR1180mn, right?

MG Azhar: Yeah.

Sumeet Rohra: And content cost was how much for this quarter?

MG Azhar: It was only INR950mn.

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

Vikash Mantri: Two questions. One on the context cost side. Are we moving towards or the nature of deals inching to CPS or that is a bit away and which way do you think will the industry finally settle CPS, fixed fee or whatever. In terms of going in to Phase-3 and Phase-4 markets is it happening through direct JV partners or it is happening through step down JVs of your already JV partners in those markets?

MG Azhar: Let me take the second question first. The Phase-3, Phase-4 majority of it is a combination of both JVs and standalone entities. Major this being added in the standalone entities yes, some of the UP markets where we already have JVs there some of newer cities are getting connected under step down subsidiaries of those companies on the digital platform. But having said that like those Rajesh mentioned in his opening remark the economic interest in terms of digital sub as it is stand today is about 80:20. I think going forward we do not expect too many joint ventures on the digital side in Phase-3, Phase-4 markets. As since this the economic interest will gravitate most towards the 85% 87% kind of range by the time we finish the digitization.

Coming back on the content cost these are on the nature of the deals so we are still in a fixed fee environment but having said that especially for markets like Phase-1 and Phase-2 where the market is fully transparent the broadcasters knows how many boxes we have deployed and we know how many boxes we are deployed. So while we might be negotiating a fixed fee transaction both of us know what is the total number of addressable subs. So to answer your question whether we moved to CPS not at yet but it is a CPS in a way because both the parties are aware of the absolute amount and the total number of consumers also while we are negotiating we keep both these factors in mind.

Our sense is industry will evolve ultimately tomorrow if I have a fixed fee contract and somebody says if we make this as CPS from the same price may be I am okay with that as long as in terms of absolute amount or in terms of percentage growth it is not something which is unreasonable. So I guess it is more from a nomenclature perspective at this point in point in time especially from the markets which are addressable but having said that once you start getting in to revenue shares kind of deals where us and broadcasters actually package the channels to take in to the consumer price in to the consumer and then do a revenue share that is when CPS will in a true sense will start becoming meaningful. Otherwise it is just a nomenclature.

Vikash Mantri: Sir, if I may two more small questions. One is your views on the recent aggregator rules by the TRAI how do you think it will impact your content cost and in terms of billing to the end consumer I would assume when you say gross billing is happening itemized package wise, a-la-carte wise all those things are been taken care of and so much more the payments as well. Would that be a fine or we are yet to go to those stages?

MG Azhar: No, you are absolute right Vikash. It is obviously packages have been implemented the itemized bills for Delhi gross billing has already been given and those are essentially packaged based or if some channels being sold a-la-carte and a-la-carte package is also included as part of the bill. So on the billing side you are absolute correct all the packages, a-la-carte everything is included and so it is a fully itemized bills.

Vikash Mantri: On the TRAI norms?

MG Azhar: On the TRAI norms I mean our sense is this whole process of digitization will play out with weights or weight being on different sizes or they have been in different point in time but having said that whatever you have seen TRAI notification on the content aggregation side is also symptomatic of the fact that the environment is changing in to a completely B2C environment. So where the channels will have independence in terms of pricing their channels and reaching out to the consumers. So the enabling price framework which is the digitization has already been created. So yeah, I would just summarize it saying that it is completely symptomatic of the environment that we all will be operating in.

Vikash Mantri: But does it means lower content cost?

MG Azhar: I mean frankly it is a matter of negotiation we have had excellent relationship with all the content broadcasters and aggregators and we are least litigated company we have not seen any so neither we unreasonable nor or the broadcasters been unreasonable with us so our sense is as long as both parties are reasonable and it does not change the equation much.

Moderator: Thank you. Next question is from the line of Malay Makkar from Kotak Mahindra Bank. Please go ahead.

Malay Makkar: You were mentioning about the fact that gross billing has been initiated in Delhi what kind of percentage revenues are we sharing with the LCOs in Delhi?

MG Azhar: It is about 40%.

Malay Makkar: And long term going ahead you believe that this is the kind of number that we will be kind of targeting to achieve or would we be kind of lowering this or probably we might have to?

MG Azhar: Lot of things will move in tandem in the sense the LCOs the way he looks at today that he looks at the absolute amount what was he getting till last month where does it stand with respect to percentage. He is not very, very sort of stuck on percentage as of now but having said that I think this battle will get over and then everybody will be interested in providing other services and moving consumers for packet or packed in to essentially enhance the share of the pie because and my sense is over a period of time it will evolve. But for now for all planning perspective you can assume that it is going to be remain at 40%.

Malay Makkar: My other question is that the 10 year long term contract that you are entering in to with Tier 1 software provider so what kind of I mean cost that are there so fixed and variable would it be like entirely linked to the number of subscribers or would it be kind of?

MG Azhar: Yeah, it is a completely variable contract.

Malay Makkar: And my other question is that since we had cash of close to INR12bn on hand so what kind of interest income did we accrue in this quarter?

MG Azhar: Yes, this quarter we did about INR230mn we have in papers.

Malay Makkar: As against INR50mn that we had done in the last quarter so incrementally you are saying that because of the cash we have done about INR180mn?

MG Azhar: Right yeah.

Malay Makkar: My next question is that you have mentioned one time foreign exchange adjustment of close to INR85mn to INR90mn?

MG Azhar: No, so the INR90mn it is actually an investment write off. You are talking about one time exceptional items?

Malay Makkar: Not really I am talking about the foreign exchange hit due to the imports?

MG Azhar: That is not there this quarter I guess because the dollar behaved favorably this quarter vis-à-vis 30th September so that was the situation till last quarter. But on a year-to-date basis approximately INR160mn has been the FOREX cost for us and for this quarter it has been not there because rupee was stabilized in the last two quarters. But yes, may be in case of this there is finance cost adjustment which actually happens because of the accounting standards or may be that you may have picked up based on the note to the stock exchange filling

Malay Makkar: Absolutely right, so the cost have gone from INR640mn to INR730mn so and in note number 9 it refers to some foreign exchange fluctuation gain or loss which has been accounted for?

MG Azhar: It's a true up between the FOREX loss and the interest cost which needs to be done on a year-to-date basis every time when we close our quarter so this was more of an interest cost increase and a lowering of the FOREX loss and that is based on the accounting standard of borrowing cost where you have to true up that. So but essentially from a pure cash flow perspective there has been no FOREX loss in this quarter.

Malay Makkar: So my understanding is that this would be probably because of the imports that we do of set-top boxes and the related buyers' credit facilities that we enjoy?

MG Azhar: Absolutely.

Malay Makkar: So you are saying that this is not exactly a quarter-on-quarter phenomenon as in the USD-INR rates at which you closed on 30th September versus 31st December? It is not entire do to that?

MG Azhar: So essentially we have already covered till the 31st December rates which were I think INR61.90 or so we are already factored all that in the year-to-date results.

Malay Makkar: So you are saying that this number may not be materially different in the next quarter kind?

MG Azhar: Yes, if there is any foreign exchange movement between INR61.92 and if it is betters then there will be FOREX gains and if it worsen then there will be a FOREX loss in the next quarter so that is the function of your FOREX rates because we have about $48 million buyers' credit which is there as part of our debt.

Malay Makkar: My last question is regarding the one time settlement that you have done with certain LCOs whose has been mentioned in Gujarat and certain other areas?

MG Azhar: Yeah, so there were basically one subsidiary with I think in the last year numbers and last quarters' number also we had mentioned that we had not been consolidating number for this subsidiaries. It was under litigation and under arbitration and by then Phase-2 digitization had kicked in and we had to find some kind of a resolution because otherwise we will practically not going ahead and not deploying boxes. So we found a way in these sense we settled with them and now today we have operation in Surat where we have got 45,000 boxes seated under 100% economic interest. So we seen from a business point of view we have not worked out any significantly but I think yeah, from a book perspective this investment was standing at a number we settle this and whatever difference was will actually sort of written-off as exceptional items.

Moderator: Thank you. Next question is from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: This question is again regarding to carriage fee. You said it is largely stabilized but if you speak to the broadcaster they still believe there is a long way to go. So if you can throw some light again on this?

MG Azhar: Yeah, so I think it is playing out beautifully for the entire industry it is a win-win situation for broadcasters and players like us but having said that like I mentioned in my earlier comments there is a small independent and marginal guys they have seen a significant reduction in the carriage cost. For people who have larger scale and who have been were present in the all the relevant markets they have been able to protect their revenues. In fact the software retention is also leading to consolidation which essentially means that the MSOs are in better control of their distributors, LCOs and subscribers as well and in the overall setup in general.

Anil Kini: So you believe in organized market players like you and the larger MSOs, this carriage fees kind of stabilizer at present?

MG Azhar: Yeah.

Anil Kini: Even this gross billing does not really change the equation the way you negotiate with the broadcasters?

MG Azhar: No.

Anil Kini: It really does not?

MG Azhar: No, it really does not and also you have to understand that quite a few free-to-air channels who have nothing to do with subscription number so essentially they are riding on advertisement income and all they are interested in having an eyeball. So some of the broadcasters relevant but some other broadcaster is not. I mean whichever way you want to look at it a carriage nothing but the distribution cost and exists in all the markets. So we are not the only market which has gone digital.

Today Star, Sony, Zee when they get sold in the international market to be at US or UK they are sold on a revenue share basis along with the platform operators. So if 50% of the revenue share has given back to the platform operators nothing but carriage. Nothing of those models invest in a market like India. But as some of the markets sort of matured you will see all these model evolve. So then the pure play carriage can develop in to what you call revenue shares. There is something called local ad available some of the ad inventories given to the platform guys to monetize in digitized market like US.

So those markets also we will evolve over a period of time. So our sense is as long as you have reasonable scale and you have relevant eyeballs and you have capacities people will come and pay the distribution cost I mean every product or service has a distribution cost. It is something that takes different forms or shapes.

Anil Kini: One more question. If at all tomorrow you have to upgrade your set-top box so may be in a hybrid set-top boxes and may be Mpeg-4 or something who will bear the cost of this upgrades?

MG Azhar: It is basically from our point of view if we are moving customer from say standard definition to high definition there will be a basic of the box, right? And it is still going to be subsidized. So subsidy will be borne by us but there is an enhanced ARPU that comes with it. Now let us take the next case of hybrid box which will have broadband result so still there will be subsidy which will be borne by us. But every subsidy is coming with an enhanced ARPU or an incremental sort of revenue number with it.

Rajesh Kaushall: The boxes which were actually replaced would also have a market in Phase-3 and Phase-4 towns because it would refurbish them and feed them in to those markets.

MG Azhar: Or it can be used in the repair inventory.

Anil Kini: So largely you will take the Phase-1, Phase-2 and take it down to Phase-3 and Phase-4 that is how you are going to use it and over a period we keep replacing them.

Moderator: Thank you. Next question is from the line of Rohit Dokania from B&K Securities Private Limited. Please go ahead.

Rohit Dokania: Just one or two questions. Just wanted to understand better how are we doing the gross billing accounting in the sense are we booking the gross ARPU in our P&L and then whatever is the LCO share has been shown as an expense on the expense side?

MG Azhar: Yeah, that is exactly the understanding that we have done billing and the gross revenue has been accounted by us in revenue and the LCO share has been accounted for us in the costs. And we have also essentially bill the entertainment taxes as part of the consumer billing?

Rohit Dokania: Just wanted to understand the tax implication here. I mean if we do a gross billing in the sense then we will have to pay a service tax on the higher ARPU right. Let us say if you have to bill earlier INR100 to the LCO we pay service tax only INR100 if you are doing the gross billing at INR180 we have to pay the service on INR180, number one. Number two, also if we show the LCO share as an expense we will also have to cut TDS on that which the LCO will probably have to file up with the IT department to get that money back if we shows a loss. So I mean why should we do this why do we just book a net of revenue in our P&L and book the LCO at a net level and then he can gross it up and sell it to probably the subscriber end user?

Rajesh Kaushall: So I think from a tax perspective let me answer that part because I think what we have done initiated is that we have taken the PAN numbers of various LCOs also so it has been a uphill task and we have actually done about 70% to 75% of the PAN numbers for various LCOs in the Delhi market. So also that we can deduct the appropriate taxes on our reasonable rate rather than deducting taxes without the PAN numbers. So that is point number one. On services taxes yes, you are right that we have done the billing and the service taxes full value has been built but we expect that the LCOs would be giving us the invoices by this quarter end and we would essentially be getting a input credit incase the LCOs are registered under the service taxes. In case they are not, then we would essentially be depositing that money to the tax authorities.

So essentially from our perspective the consumer pays the full value of the service taxes either we get an input credit in the form of the LCO share invoices or we really deposit that money to the service tax authorities and having said that we also has input credits available in the form of set-top boxes which we have deployed so those are the fixed assets. So essentially we may not need to really deposit that amount but we may get service tax credits adjusted against that. So it is one of the process where we are not actually depositing but eating in to the service tax credit what we already have as part of the boxes.

MG Azhar: And also I think from a macro perspective it is better to go through this and take some bit of claim as we are trying to track transition in the industry. We are trying to change the legacy of 20 years so there will be some amount of price which needs to be paid and some problem and pin points to be taken care of and I think philosophically we are okay making sure that we go through this process drive the transition through even if we have to take little bit of here both commercially and otherwise the results.

Rohit Dokania: But just probably carries it further I mean in most industries generally it is the retailer who finally does the final billing and the distributor is in a way just does the billing till the retailer level. So why should we do it in here as well I mean we can bill the LCO our share and then the LCO on top of that probably bill his service charge and some eTax or service tax which will be borne by him rather than we bearing it?

MG Azhar: Like I said in my earlier remark also what you are saying is absolutely correct. Once we are in a fully stable steady environment, people are going to question whether this just a routing of the turnover as well on a subsequent debt. But having said that at this point in time it is very, very important that you drive the transition customers are also getting used to a completely new environment. If there are packages which are being driven by us and which are controlled by us there are content deals which impact the packaging. So this has to be driven certainly by you.

Once you are in the fully steady state of environment the market become matured, the LCOs become matured, the consumer becomes matured because also please understand the consumer also needs a lot of handholding at this stage because he is coming out from a situation where he had just services being come in to his home with absolutely no element of optionality or choice or payment or taxes all of that. So he is also undergoing a massive transformation in terms of the way he used to look at the business or the way he used to deal with LCOs. So I think it is very, very important for us to drive this whole process to ensure that we take care of the whole transitioning in each of market but over a period of this can become a what you call a completely different divide as well. Two years out or one year out you can say whether you start doing on a gross or net. It does not really will make much of a difference because by then hopefully all systems or the taxes all these would have smoothened out and stabilized.

Rajesh Kaushall: Because I think what is more important is that in case you want the consumer to have this similar kind of experience what he is getting through the Dish service wherein he gets a direct bill or maybe he is on a prepaid I think all those initiatives will come in only when there is one person who is doing a total billing and then there is a fair share distribution between the various value chain constituents. So I think this is very important for us to do from that perspective. So you may be right that from an economic share perspective if we were to really increase the net revenue rates to INR105, INR110 or INR115 then I think we have actually captured most of our share as far as the ARPU is concerned. And obviously that is what is driving the Phase-2 also right now even though we have not really started off the consumer billing which we expect do in the first quarter of next year. So even though we are delaying in the consumer billing for Phase-2 we are driving the ARPUs up so that we can capture more and more revenue shares which really belongs to us.

Moderator: Thank you. Next question is from the line of Vivekanand from PhillipCapital India Private Limited. Please go ahead.

Vivekanand: I had a couple of questions. Firstly, did I hear it correctly that Delhi we have moved to gross billing and this has happened from December, is that correct?

MG Azhar: Yeah.

Vivekanand: So for the month of December for our 1.7 million customers we have booked gross revenue at the rate of say INR180 per customer in the revenue item, is that correct?

MG Azhar: 1.4 million not 1.7 million.

Vivekanand: That is booked at the rate of around INR180 per sub, right?

MG Azhar: Yeah.

Vivekanand: And of this we must be paying out 40% to the LCO and what would be the sharing to the distributor?

MG Azhar: The distributor is about 5%.

Vivekanand: And in Mumbai our sharing has moved from INR85 to INR100, is that also correct?

MG Azhar: Yeah.

Vivekanand: Last quarter it was INR85 this quarter INR100?

MG Azhar: Yeah, not for around month I guess so I think in the month of November and December it must be INR100.

Vivekanand: So on a blended average we would be at around INR95 per subscriber, Mumbai?

MG Azhar: Yeah.

Vivekanand: And in Kolkata the number would have jumped from INR45 to around INR55, is it?

MG Azhar: We have been at about INR60 in Kolkata which has been also that the rates have been going up so it is a average of that.

Vivekanand: And in Phase-2 we have managed to materially increase our collection from around INR40 per subscriber last quarter to around INR55 to INR60, right?

MG Azhar: Right.

Vivekanand: And moving on to the other questions. What would be the provision for doubtful debtors during the current quarter included in the expenses?

MG Azhar: It is about INR110mn.

Vivekanand: And further on the entertainment tax demand note that you have mentioned this pertains to April and May 2013 for all our Phase-1 customers, is that so?

MG Azhar: This is only for Delhi.

Vivekanand: So this entertainment tax demand is for Delhi customers?

Rajesh Kaushall: Yeah, that is why you might have noticed all the MSOs went and filed a writ petition. Our plea was clear that this should be relevant to us only from the time we have started the gross billing. And before that it was the responsibility of LCOs.

Vivekanand: So then what happens to the period from June to November when we were still running Delhi on a net basis? Have we also received an incremental demand from the authorities or because the matter has sub-judice it is not yet raised?

MG Azhar: Essentially, it is a stay order which we have received and the government needs to file their responses to the Court regarding their position.

So I think once that comes in in March they we will have more clarity. But as far as right now is concerned this is a complete stay.

Vivekanand: And now when I look at in terms of the service contract that we are about to sign could you help us understand what the variable cost of servicing our customer would be?

MG Azhar: Let me not disclose the actual commercial of but it is going to be very low number.

Vivekanand: So since you are in the final stages of negotiation. And also lastly, can you please help us understand the maps of the 7.5 million customer deployment that we have lined up for FY15 because considering that we are only doing around half a million to even in the peak of Phase-2 digitization we did only a million per quarter. So how is it that we can possibly achieve 7.5 million deployment in FY15?

MG Azhar: So at that time I think it was a question of how much market did we have; how much boxes did we line up how much leverage we could take on the balance sheet so all those questions are answered today. The total number of sub that we have is 7.7 million we are sitting on almost $200 million capital with a very, very low debt about 0.5:1. So we have the ability to build that as well. So all those questions and plus we have all the infrastructure or power connectivity that we are sort of in fact we are taking some front of the cost in all these quarters in terms of opening up your market plus some additional platform especially in anticipation that this markets will become digital and we will essentially go and digitize all these markets.

Vivekanand: Okay so you are saying that earlier as well you did not have any operational constraints in terms of number of people and only these many boxes could be humanly deployed in a particular day or that was not a constraint at all, is it?

MG Azhar: No, that was not the constraint at all. In fact today also that is the advantage that all the cable MSOs are fully entrenched digital network of LCOs. The amount of feet on the street that we have is invisible feet on the street humongous. So it is a great advantage. As long as we have the backend on the boxes ready to scale up I think physical feet on the street is not a challenge at all. You can probably deploy as many numbers of boxes we want.

Rajesh Kaushall: Essentially the momentum would start to build in about July onwards but we are still going little slow on that but as Azhar mentioned I think we have the full capacity to actually deliver al the 7 million within the stipulate time.

Vivekanand: And lastly, if you could explain the decline in depreciation expenses on a sequential basis?

MG Azhar: I think the depreciation has been more or less static if I look at the number because the boxes whatever we deployed this quarter essentially were towards the probably I think in December itself. So I think the full value of the depreciation has been coming and also I think one of subsidiary that we have now where we have done the settlement depreciation for that subsidiary also obviously not accounted for in this. So it is an absolute flat depreciation number. But I think you have to look at them box to box then probably we will see a marginal growth keeping in mind the number of boxes that we have added in this quarter.

Moderator: Thank you. Next question is from the line of Pratish Krishnan from Antique Stock Broking. Please go ahead.

Pratish Krishnan: I just want to understand in terms of the competitive intensity today I mean do you think at least in Phase-1, Phase-2 markets your customer base is largely settled or is there potential which either from DTH to cable or from cable to DTH once the gross billing is commenced?

MG Azhar: So I think it is nothing to do with gross billing. I think it is a competitive intensity has clearly subsided and I think when it comes to whatever commentary that we hear from the DTH guys as well the pace of subscriber addition in this market size is really sort of slow downed. I think competitions have more or less sort of stabilized one between the MSOs and also with DTH. So it is a very, very stable environment and that is why one of the precise reason why we are able to push through stuff like gross billing.

Pratish Krishnan: But you would not have seen any churn from your customer base to DTH I mean in Delhi and Mumbai?

MG Azhar: No.

Pratish Krishnan: Second is in terms of broadband. How should we look at overall expenses as you roll forward your broadband plans may be in Delhi, may be in other should we factor in some cost in the P&L or how should we look at it?

MG Azhar: Yeah, I think we are slated to some time in towards the beginning or may be mid April. I think since then it is going to be build of cost because as we speak more people are getting on the rolls and newer departments are getting set up. So assume anywhere between INR20mn to INR30mn of cost every month addition as we sort of run up to the broadband launch and beyond that obviously then we can probably give you a separate broadband business cost and profits as well.

Pratish Krishnan: So accessing INR20mn to INR30mn per month I mean at least till next three to four?

MG Azhar: Yeah and I am trying to put up a conservative number because obviously there is lot of hiring that has been done lot of stuff which is happening in the run up to launch. But I agree INR20mn to INR30mn it will be a conservative number.

Pratish Krishnan: Secondly just can you get the receivable number for the quarter and even for the last quarter if you can?

MG Azhar: I think in terms of but obviously we have not disclosed the balance sheet for the current quarter but when it comes to total number of days I think we are in the same 115 days as we were in Q2.

Moderator: Thank you. Next question is from the line of Nirav Dalal from SBICAP Securities. Please go ahead.

Nirav Dalal: I have two, three questions. One is what are the paying subscriber base at the moment?

MG Azhar: When you say paying subscriber base today that entire digital subscriber bases or paying subscriber base? Some guys paying INR40; some guys paying INR100. Apart from that if that is the base then probably 5 million is the paying base out of digital subs and then out of the 7.5 analogue not more than 10% to 12% will be paying subs. So that is another close to a million plus another 5 million. So on an average you can say about 6 million paying subs.

Nirav Dalal: And then the INR1050mn revenue that you showed would be only digital revenues or it will be entire?

MG Azhar: No, entire all inclusive.

Nirav Dalal: This would be all analogue as well as digital?

MG Azhar: Yes.

Nirav Dalal: Also what would be the CAPEX other than the STB CAPEX that you envisage for FY14 and then FY15?

MG Azhar: We will assume 90% to 95% of the cost is essentially set-top cost because fiber which is another big ticket item is essentially taken on lease from third parties which is an OPEX kind of model. Agents are already in place so very, very marginal. I assume 90% to 95% of the cost would be the cost of set-top box.

Nirav Dalal: CAPEX would be this cost.

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

Vikash Mantri: Two questions. What is the status of our HD product and in terms of our broadband product with the ownerships be economic ownership, be 100% ours or it will be in a similar ratio of our JV part?

MG Azhar: So on the broadband side essentially it is 100% economic interest will be us. So everybody else will be involved in the process and essentially be distributors or agents on commissions. So ownership will be there. And coming back on the HD the gross development we are still I think three, four away from getting boxes in to the market even though we have a box but that is a box which is probably where the box was really to rise or we have not been aggressively been sort of pushing it. But once the newer box which is three, four months away comes in to the market place we will be pushing HD aggressively.

Vikash Mantri: And sir, why are our realizations are lower from Kolkata market despite the packages that I see are marginally higher if I were to compare between Delhi and Mumbai and Kolkata?

MG Azhar: Kolkata obviously was late starter and this is nothing to do with specifically with us. I think it is the industry wide phenomena.

Vikash Mantri: So there is the percentage sharing with LCOs higher?

MG Azhar: Yeah, I mean obviously it was being net whatever was being delivered to us was on a net basis so there is no understanding has to this is going to be the LCO share. LCO share effectively will be around 40% and I think from the current month billing onwards it is going to be around 40%. And that is going to be universal for all the players.

Moderator: Thank you. We have a follow up question from Mr. Vivekanand from PhillipCapital. Please go ahead.

Vivekanand: So in terms of the gross billing implementation in the remaining markets what is the time line that we can expect for Mumbai, Kolkata and Phase-2 markets and is there any specific Phase-2 market which is digitizing faster or seeing greater progress than the others and are there markets where there are challenges? Can you please throw some light on that?

MG Azhar: To answer the question, yes there are some market which are carrying much better than the others. And that is also a function of competitive intensity as well. But I think on a larger basis one would say that there is a competitive intensity is sort of settled. I think there is a lot of maturity that we witness between different players and the LCO fraternity in general also which has taken little why they have gone for I think now there is a significant level of maturity that we see within the stakeholders. So having said that in Phase-2 cities where we are talked about INR55 as net share that are market which is giving us INR90 as well. There are markets which are paying only INR70 as well. So obviously different markets are in different level but having said that I think we are all targeting to start the retail or the gross billing process by first quarter of next year. And our hope is once the process is initiated and assume in 30 to 60 days stabilization period I think all the markets should be around at the same levels.

Vivekanand: What about Mumbai and Kolkata, sir?

MG Azhar: So Kolkata's gross billing is starting from the month of January. So Mumbai it is obviously we don't have clarity on the entertainment tax issue as it is still under sub judice. So let us see once we have clarity probably Mumbai will move towards gross billing as well.

Vivekanand: And one small question on the broadband business. You had highlighted CAPEX of around INR2500mn for the business so will the entire amount gets spent in FY15?

MG Azhar: Not really obviously like I mentioned in my earlier comment for close to half a million sub-base home **pass** the CAPEX is already been initiated from our side. Obviously we are going to deploy it and then subsequently build on it. So depending on the rollout, the success that number will get driven. The idea is to build enough skills, learn enough from the market place have a different sense of different markets and then go and scale it up big time.

Vivekanand: And that INR2500mn CAPEX would largely cater to how many homes passed?

MG Azhar: About 2 million passed.

Vivekanand: Two million home passed, so a quarter of that would entail the 0.5 million home pass so that would be incurred in before March itself, right?

MG Azhar: Yes, you are right.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Can you just run through us for gross billing how the cost structure would be LCOs their content cost, other variable cost and fixed over rate from INR180 how much would go to where?

MG Azhar: So 40% is what we will go back to the LCOs. Content cost is obviously fixed we did not so that has nothing to do with the fact whether you collect INR180 or whether you collect INR18. So that is completely independent of that but having said that if one is talking about a steady state kind of environment I mean assume this whole ARPU, whatever the ARPU is going be in a steady state it is effectively going to get split three ways. And our sense is from an economic standpoint looking at the current carriage number that we have and if we are able to sustain at the EBITDA level we are talking of anywhere number between INR50 to INR65 on a per month basis. And obviously this is lot to do with the fact as to where your current content cost, your carriage revenues, whether you are net payout or a net pay in for you what is the basically your legacy cost because we still are where our carriage minus content is still a pay in for us whereas for some people it could be a payout. And some of the costs that we have is essentially and let us the cost as compared to other players. And the fact that we have a larger scale we will be able to defer this cost. So that is why I think our economics on a personal basis in a steady state environment will be a number anywhere between 50 to 65.

Dipesh Mehta: And just to understand the carry cost right now what we enjoy positive you expect it to sustain for quite a period because going forward once the content cost would be shifting to gross billing or across phases and the growth in placement would be not that high. So you expect this positive carry to sustain for us for medium-term kind of thing?

MG Azhar: No, like I mentioned in our earlier comments as well the content cost we are expecting to rise anywhere between 15% to 25% kind of range whereas in the carriage front we have said at best we will try and keep it stable at the current level. So obviously in the forthcoming years we will do the catching up. Our sense is in the next one year with this kind of growth number that we are talking both on carriage and content we should be able to do the catch up when we will be on a net at zero-zero basis.

Dipesh Mehta: And just to about subscription revenue we suggested and from December month Delhi moved to gross billing. If I see subscription revenue increased by around INR60mn Q-o-Q. Now if we take Delhi at 1.4 million it gives around INR40mn kind of uptick in our subscription revenue and you have suggested Delhi, Mumbai and Kolkata so we have seen ARPU increase. So whether full affect Delhi is one month is not reflected in INR1050mn or how one should look that number?

MG Azhar: No, I think there has been from revenue perhaps also in some of the markets of Phase-2. So I think that the full INR1050mn includes the higher revenue for the Delhi and net of the true up of which we had to do for some of the markets where there was little higher billing done based on the expectation from the LCO settlement. But I think that was minimal and that has also been factored now.

Dipesh Mehta: And just last part about the exceptional items I think you have touched upon it but I missed that portion. Can you help understand this INR90mn exceptional item?

MG Azhar: This was the subsidiary which was operational in the State of Gujarat so essentially in Surat. So this subsidiary was under litigation and there was a full arbitration process involved. In the meanwhile the process Phase-2 digitization had come in. So we had to take a call because otherwise that market was in a limbo. So we basically sort of reach out a settlement along with the arbitrators with the partners and eventually we went and digitized or put boxes in Surat markets. Currently we have about 45,000 boxes in Surat market at a 100% ownership. So we have not locked out for anything significantly on the investment plus also we have made certain profits in the past years in all these investment. But the fact is these investments have carried as cost in the books and now that we have settled it so we have taken that hit in the books.

Dipesh Mehta: So now what kind of economic interest we are at now fully 100% or we share some 80% kind of thing?

MG Azhar: No, in this Surat we have 100% ownership which essentially 45,000 boxes where the economic interest for us is 100%.

Dipesh Mehta: And the partner is catering to 45,000 or they have higher base?

MG Azhar: Partner is basically we have parted with he is on his own. So he is also gone and deployed some boxes but I do not think he has got big numbers but he is operating on his own.

Moderator: Thank you very much. That was the last question from the participants. I would now like to hand the conference back to Mr. Alankar Garude for his closing remarks. Over to you, sir.

Alankar Garude: Thank you everybody for participating in this conference call. Have a good day. Thank you.

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

DISCLAIMER

General Disclaimer:

This report has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should inform themselves about and observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their dependents from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information provided in these reports remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Analyst holding in the stock: No.

Edelweiss shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the Edelweiss to present the data. In no event shall the Edelweiss be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the Edelweiss through this presentation.

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Enclave Capital, LLC ("Enclave").

Transactions in securities discussed in this research report should be effected through Enclave Capital, LLC.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.