"DEN Networks Limited Q3 FY16 Earnings Conference Call"

February 03, 2016

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Moderator: Ladies and gentlemen, good day and welcome to the DEN Networks Limited Q3FY16 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinion and expectations of the company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call please signal an operator by press '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pradeep Parameswaran – CEO. Thank you and over to you sir.

Pradeep Parameswaran: Thank you. Welcome to all the analyst on the call and thanks for being part of our Q3FY16 results for DEN. Like in the previous call, what I will start with is a brief statement covering some of the more strategic areas and then I will hand it over to Manish, our CFO to talk about the details of the numbers.

In the current quarter in Phase-I and Phase-II markets, our average billing at Rs. 80. This is a number that is net of taxes and LCO share as we have been reporting over the last few quarters and DAS 1 markets our ARPU is Rs. 94 and DAS 2 markets is Rs. 71. In Phase-III as we all know that there has been seeding of boxes driven by the digitization deadline and we have made good progress in our DAS-3 footprint. We have committed a significant amount of investments in this quarter DAS-3 markets. We deployed almost a million boxes during the quarter and consequently our digital subscriber base has now increased to 8.5 million from 7.6 million previously. briefly on broadband our focus is continued to be to drive our growth especially in our home market in Delhi. In broadband our subscriber base has increased about 34% from last quarter to 76,000. We have also continued to expand our network and we have increased the number of homes passed from 600,000 to 700,000. We continue to optimize with affordability of that business through combination of initiatives both on the revenue side and on the OPEX side.

The DEN Snapdeal TV Shop joint venture continues to grow in line with our plans. We are now available in 52 million homes up from 38 million homes in the last quarter. Our conversion ratio has also improved from 33% to 38% and more than 30% of the business is actually coming from repeat customers which is a terrific sign. And lastly as you would have followed for football fans, our football club of the ISL Delhi Dynamos reached the semifinals of the recently concluded season 2 performance that we are all pretty thrilled with. At this time what I will do is ask Manish to walk us through some of the most critical numbers before we go on to the Q&A.

Manish Dawar: Thanks Pradeep. Ladies and gentlemen, I am sure you have gone through the presentation that we circulated in our Q3 performance. We witnessed significant growth in the consolidated revenues due to the DAS-3 implementation. Total revenues were up 30% quarter-on-quarter from INR271 crores to INR352 crores. This of course includes the activation revenues. With regards to cable business we achieved a revenue including activation of INR322 crores up from INR259 crores in the previous quarter. Activation revenues contributed INR86 crores to the consolidated revenue line of DEN during the current quarter. Cable subscription revenues grew by 3.5% on a quarter-on-quarter basis which the total subscription income move to 119 crores from the previous quarter number of 115 crores. This resulted in an average revenue on per box per month basis in DAS markets of INR80 versus INR77 in the previous quarter and this is on 3.9 million paying subscribers that we have in Phase-I and Phase-II and this is on top of the analog collections and TVC collections that we get from Phase-III and Phase-IV markets.

ARPU for DAS 1 and 2 stood at 94 and 71 respectively. These ARPUs are average for the quarter,net of taxes and LCO share on per box per month basis. Of the 27 DAS cities where DEN is present in 16 cities have moved to a billing rate net of taxes of INR80 plus compared to 14 in the previous quarter. The collection efficiency continues to maintain a strong momentum during the quarter. On content & carriage we have moved to a net deal with one of the broadcasters versus independent content & carriage arrangements in the past. This has resulted in a small favorable impact for DEN during the current quarter. At the same time with one other broadcaster we have moved to a decentralized deal effective April 1, 2015. The placement income was flat on a quarter-on-quarter basis at Rs. 111 crores during the quarter as a result of the net deals that I have talked about with one of the broadcasters. You will notice a small reduction in the corresponding content cost as compared to the previous quarter. Revenues for broadband business stood at INR12 crores, a 46% increase on a quarter-on-quarter basis primarily driven by subscriber addition and better realization ARPUs. TV Shop business is showing good progress in terms of revenues which have improved to about 4.4 crores approximately 36% improvement compared to previous quarter. During the same period, we analyze GMV on run rate basis, grew by almost about 20% to 240 crores. This number as you remember in the previous quarter was earning at about 200 crores.

On football we were able to reduce the EBITDA loses from 44 crores to 34.8 crores on a year-to-date basis from 9 months' period compared to the previous year period as you know this is not an indication of the annualized figure because bulk of the football activity and therefore all the revenues and expenses are concentrated in Q3, Q3 being the playing season. We managed to reach the semifinals in the recently concluded season two as mentioned by Pradeep earlier.

Moving to bottom line consolidated EBITDA post activation revenue stood at INR43 crores during the quarter with cable EBITDA at positive 92 crores versus 22 crores positive in the previous quarter. There was an EBITDA loss in the broadband business of 16 crores, football at 26 crores and TV Shop at 7 crores during the quarter. Consolidated EBITDA during the quarter on pre activation basis stood at a loss of 43 crores versus a loss of 39 crores in the previous quarter. This as you know is mainly on account of football season which has contributed to an incremental loss of about 17 crores compared to previous quarter. Cable business contributed a positive EBITDA of 6 crores during the quarter as compared to a loss of

5 crores in the previous quarter and broadband loses were bettered by about 5 crores where the loses have come down from about 21 crores to 16 crores during the current quarter. Our efforts on diluting the football stake are on track. With that I would like to open the floor for Q&A. Thank you so much.

Moderator: Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir my first question is 9 months if I see the profit in pre activation in the cable business that is almost negligible. In terms of visibility next year, in terms of profitability how you are seeing cable because you have added lot of new subscribers in current quarter Q3. So next year do you see monetization of those or that will be delayed now because of the 3-4 month of delay from most of the high courts. So does that get delayed and that is why you may not be able to monetize for most part of the year?

Manish Dawar: Yes, you are right on your comment on 9 months. But again as you know most of the courts have granted a stay of about 4 weeks to 8 weeks depending on which high court we are talking about and we are hopeful that we should be able to start to monetize may be at a 3 months' lag thereafter. At the same time what we have learned from Ministry of Information and Broadcasting that they are trying to consolidate the cases and move to Supreme Court to vacate all the stays which have been granted because government is not in favor of sub stays. So again, we are not talking about any forward looking statements or guidance for the next year but you can see the number of boxes that we have seeded. You probably have the indication of what is the universe and what is our Phase-III population out of that because we have talked about that in the past and if you were to take the recent guidance from comments in media by certain competitors, I think that can be a good guidance for you to work out your numbers.

Abneesh Roy: Sir content cost we keep hearing on all these regulations there is a disparity between the MSOs, then between the different platforms. Do you expect any realistic change here or it is more of a noise?

Pradeep Parameswaran: Abneesh, actually that is difficult to say at this point in time because as you know TRAI has put up a new consulting paper around regime that may change the way the RIO structure works today. But it is slightly too early to be able to comment on that right now. At least in our individual discussions we will have signed contracts in place of a large number of broadcasters already that give us visibility into our cost over the next couple of years. So barring any reopening of those contracts we are quite comfortable with the line of sight we have into contents & tariffs.

Abneesh Roy: My last question is on the activation being very healthy numbers there but then the delay has happened and you seemed to be bit more aggressive than may be some of the other players. So we wanted to know why in spite of monetization in Phase-I, Phase-II being behind the curve for every plan not just for you. Why you want to do that activation, I understand it might be contiguous areas but why we are more aggressive than some of the other players and if you could talk about which areas you have done expansion more with geographies and in terms of the activation revenue. So how much is the subsidy currently you are giving plus in the activation?

Manish Dawar: The subsidy now is very negligible. So it will be about Rs. 300 to Rs. 400 per box from a landed point of view.

Abneesh Roy: Including distributor commission?

Manish Dawar: Yes.

Pradeep Parameswaran: Abneesh, I will take your other question which is why have we stated more aggressively. I think we do not look at this in terms of whether it is more or less aggressive frankly we have done our seeding and what is our analog footprint and there was a deadline to be met on the 31st and there was momentum that is built up towards that in last quarter, starting on October itself and we have not expanded our footprint beyond what used to be our analog footprint. So most of this is market DEN has provided an analog signal for last many years and if you think a little bit about the total footprint that we have which is about 13 million in total, the numbers are very much in line with that footprint kind of getting covered with the transition from analog to digital and our intention is that we will continue to do the same over the course of the next year assuming the DAS 4 deadline also remains. At the high level I would say that the stay orders, etc., obviously have come only in the last, towards the end of December or even in early parts of January. So we were working under the assumption that the regulatory deadline will hold in terms of seeding plans and of course there may be some impact in terms of the timing of the monetization as you mentioned. But we believe it is a matter of time before the revenues to start to flow in from there.

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

Vivekanad S: Sir on the content side just wanted to understand from you, so with the large broadcasters, I remember that last quarter you had some, you had a tussle with Star and obviously it was quite public. So you mentioned that the renewal is in progress. So have you signed this deal with them to secure content for Pan India or is it like specific to a few geographies and secondly on the content side you mentioned that you have signed a decentralized deal. Can you elaborate on that? Thanks.

Manish Dawar: Okay we are signing the deal with Star, so therefore that deal is closed and it is for the markets that we are operate in and it is a better deal than what was there on the table prior to the dispute that kind of broke out and if you see there are some benefits also which are coming in the P&L. So therefore what we are saying basically gets proven also.

Vivekanad S: Just specific to the content side, so this would be a long duration deal or is it like an annual deal?

Manish Dawar: It is a two-year deal.

Vivekanad S: You also mentioned that now you are moving to a net off carriage deal. So this is essentially what cities are we talking about and I guess all the MSOs are going to soon sign net deals. Is that a corrects assessment of things?

Manish Dawar: No, I think this is a paradigm shift and the shifts do not happen that easily and I think this will vary from broadcaster to broadcaster. So I would not make sweeping assumptions on the back of one deal.

Vivekanad S: And my other question on the decentralized deal?

Manish Dawar: Decentralized deal with one of the broadcasters we used to have a centralized deal including our JV partners so from an administrative point of view while we are negotiating the deal on a centralized basis but from documentation point of view we are doing it on decentralized basis. So that the entire process becomes lot easier for us to manage.

Vivekanad S: And in terms of the other major broadcasters what is the status of the deal renewals, do we have visibility till 2017 or how is it like, are we still on the negotiating table with the other broadcasters?

Pradeep Parameswaran: See you should know that not all the deals do not come up for negotiation at the same time because the starting points of all these deals are initial signed are all different. So some of these deals have kept negotiated when the deals run out. So every broadcaster is at a different stage in that life cycle.

Vivekanad S: Okay and in terms of your overall content guidance now that one of the deals has been on a net basis compared to a gross deal, so where does that stand for FY17 now?

Pradeep Parameswaran: I think it is too early to, we are still talking about FY16 Q3 and we are not making any forward looking guidance or statements on contented carriage yet, at least not on this call.

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

Rajeev Sharma: Just couple of questions from my side. So what is the run rate like this month in terms of the set-top box deployment, so that is the question number one. What has been, I just joined a little late and I am sorry if I missed this. What has been your realization per box in terms of the one million you added because of digitization and did the set-top box prices go up because Videocon in their call mentioned that DTH and cable set top boxes are now priced equally. So does that mean the subsidy element has gone up? So some color would be there and you mentioned about referring to a competitor statement about some question. So what was that regarding and if you can just explain what was the statement as well? Thank you.

Pradeep Parameswaran: Rajeev I think we lost track of all of your questions. You were trying to write down all of the questions.

Manish Dawar: Rajeev let me attend whatever I could gather for you talked about. What is the realization per box for the one million that you seeded. It is approximately Rs. 900 per box and it is reflected in the financial numbers also. Then you talked about competitors statement, there was a question earlier in terms of what is that we are expecting on monetization from Phase-III and we said that we are not making any forward looking statement, however a competitor had publically quoted about some Phase-III numbers, may be you can look at that for guidance.

Rajeev Sharma: What was that?

Manish Dawar: You will have to see.

Rajeev Sharma: And has the cost gone up for set-top boxes because there has been lot of scarcity of boxes and is it now at par with DTH?

Manish Dawar: No, our cost has actually dropped down. It has strengthened because of dollar and nothing to do with the manufacturers.

Rajeev Sharma: It was 1250, down to what now?

Manish Dawar: No, 1250 was the down rate only. But they landed a little higher now because of the dollar strengthening.

Rajeev Sharma: 1400?

Manish Dawar: about that.

Rajeev Sharma: And what is the run rate this month? You did one million even before DAS started, now what is the run rate this month?

Pradeep Parameswaran: Rajeev we have not obviously not going to share that right now, but if you think a little bit about the broad numbers, our total footprint of about 13 million we have about 5 million in DAS 1 and DAS 2 and we have about 8 million in DAS-3 and DAS 4. Out of the 8 million we have actually seeded 3.5 million boxes which is in Phase-III and we believe that we have another Phase-III universe of somewhere between 2-3 million that we used to get seeded, now as you know the boundaries between Phase-III and Phase-IV are not clearly defined so there may be a little bit of spill over one way or the other.

Rajeev Sharma: So with this one million this quarter, you covered 3.5 million in Phase-III and 2-3 million is what could be the best case?

Pradeep Parameswaran: Yes, probably in that range. But over the next, and that is not going to happen immediately, it will happen over the next quarter**.**

Rajeev Sharma: And this stay order benefits you?

Pradeep Parameswaran: See, I think if you study the reason for the order, most orders almost across the board it is categorically linked to the shortage of chipsets which has led to the delay in the arrival of boxes and so that as a route cause obviously at the end of this quarter which is January-March I suspect there is plenty of box supply that is coming in that will allow us to complete seeding as required. So our expectation is that the implementation of this will likely not get delayed too much beyond this quarter.

Rajeev Sharma: So there could be some spillover you mean?

Pradeep Parameswaran: Very little is what we expect.

Rajeev Sharma: Okay and you do not give breakup between Phase-I, Phase-II ARPUs?

Pradeep Parameswaran: We did actually, earlier in the call. We are happy to repeat it. Our realized numbers for Phase-I and Phase-II is Rs. 80 this quarter and of which Phase-I is 94 and Phase-II is 71.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: Can you provide some color about realization what we expect going forward primary to looking at Phase-I and Phase-II market where we expect the realization to inch up but we are more or less remain stable where we may be Y-o-Y perspective also. So if you can provide some color into I and II market and now specifically on Phase-III market where we expect or by when we expect realization to start inching up and right now what is the realization we are seeing in that market. That is question number one. Question two is about broadband business. Are we on track about what we set target for us at the beginning of the year and second is what are our findings in terms of what are the positive and negative during the journey, what we learned, if you can provide some colors around it would be helpful. Last question is about content cost, can you help us understand how we expect content cost to be, considering some of the agreement which we might have recently signed. So if you can provide some color about how it will step up in future? Thank you.

Manish Dawar: Dipesh, we are not giving any future forward guidance at this stage and therefore I will not be able to talk about realization going forward. That is the reason I mentioned to Rajeev earlier and there was another call right upfront where we talked about as to, you can look at what is available in the public domain from realization perspective. You know the boxes that we have seeded and therefore you can work out your own estimate. On broadband, I think Pradeep will talk about that. As far as content cost is concerned again we are not getting into any plans for next year as of now.

Pradeep Parameswaran: On broadband your question was are we on track with what we set out to do? Actually we are roughly on track with what we set out to do in the early part of the year. On both subscriber acquisitions as well as on ARPU, we feel very comfortable with the position that we are in. In terms of capital on per home basis, we have actually done a fair bit of work to actually get that optimized and we are as we mentioned in the early part of this call, we continue to take a number of measures to tweak both the OPEX as well as the ARPU to drive better EBITDA level over the next few months. As you know the EBITDA, the single biggest driver of that is penetration and the penetration increase we continue to on a cohort basis increase little bit more than 1% a month which keeps us on track for the broadband business.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Just wanted to refine the questions asked by earlier participants to get my understanding right. So a million quarter added this quarter, was there any billing done to them and any collections actually made into this one million added?

Manish Dawar: Yes, we realized the entire million boxes collections, Rahul.

Rahul Agarwal: No, I am asking in terms of the subscription revenue into the billing and the collection and the subscription part of it?

Manish Dawar: Okay, so we do not monetize these boxes as of now because these boxes has been seeded in Phase-III and as you know there is a court action on Phase-III, so once that get vacated we will look at monetizing these boxes.

Rahul Agarwal: Okay, because my understanding was incrementally whatever boxes we add, the intent was to get collections right from day 1, is that right or that is not correct?

Pradeep Parameswaran: Actually if you go back to our earlier conversations on the previous calls, we are quite guarded in the pace at which we expect the monetization to increase and we have had experiences in Phase-I and Phase-II based on that we are doing different things in the market but also our expectations are realistic around it. One thing that you should know Rahul is that monetization one of the more important drivers it is switch off of the analog signal. For example, if I have a town where I have seeded certain number of boxes if there is an analog signal from a competitor that is still available here as you know analog does not get charged, so analog switch off is the primary driver that has started to happen in some market and is yet to happen in some of the market. Some of it is driven by the stay orders that Manish alluded to. We expect that to actually happen over the course of this quarter. So we expect monetization to begin to in the early part of the next financial year?

Rahul Agarwal: And how is the sharing between the LCO and MSO in terms of these one million, is it very similar to what earlier we had wherein we had issues with getting money from LCO? Or is it much clearer now in terms of when you start monetizing you basically get your entire share?

Pradeep Parameswaran: You have asked a good question. Like I said, briefly alluded the fact that we have some lessons learned. To be honest unless it actually reflects in the numbers I do not this there is a lot of merit in talking about, what I would say is stay close to the numbers in the coming quarters.

Rahul Agarwal: Got it and lastly on the broadband on the target side essentially let us say this yearend March 16, anything in mind in terms of home passes and actual subscribers in terms of million numbers if you can share? March 16?

Pradeep Parameswaran: So we had on a homes passed basis we will be somewhere in the magnitude of about 800,000 homes passed and in terms of subscriber base we would be, if you just look at our run rate right now and extrapolate we would probably be somewhere between 90 to 100,000 subscribers.

Rahul Agarwal: And that was a target set earlier as well, or is it below expectations or over expectations how is that?

Pradeep Parameswaran: Actually on the subscriber number it is very much in the range of what we have anticipated it to be. In terms of the homes passed in the last quarter if we actually look at our previous quarter versus the last quarter we have slowed down the rate of deployment a little bit primarily because we are deploying a lot of capital available towards the cable business in Phase-III but we expect kind of pace on broadband to go up slowly over the course of the next year.

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

Vikas Mantri: Pradeep, just wanted to understand. I am not able to reconcile. You had a very strong quarter in terms of subscriber additions of one million and clearly the commentary has been across LCOs that there were lesser set top boxes available and therefore the delay. The DTH companies at the same time, none of them complained, everybody said we have north of 600 to a million set-top boxes available with them. So then the thesis that which at least analyst were building up that the Phase-III, Phase-IV should go to DTH does not seem to be coming through and it is more still in favor of cable, so what has got really right for cable can you help me with that because I also missed this equation?

Pradeep Parameswaran: Because at least that was not our operating thesis for sure. I do not think there is a lot of doubt in our mind in terms of our sub-base and if you look at just in Phase-I, Phase-II experience sub-base has remained quite steady over a period of time and there we are providing analog signal which is an existing relationship with the local markets there. I would say that we are on track to cover pretty much the entire analog footprint that we used to own earlier. Now in terms of the box availability question that you raised frankly that is a small blip in the context of a large transformation which is that there was a delay of couple of months in terms of availability of boxes and we did not anticipate that would make any serious dent in our ability to seed boxes in Phase-III markets. So in general I would say that we are on track in terms of our expectation of how many digital subscribers we would add in Phase-III and obviously a lot of that will get clear by the end of this current quarter.

Vikas Mantri: And DTH somehow is not getting good pie of that?

Pradeep Parameswaran: I mean hard to comment for me. I think that is obviously a question for them but I still suppose that we feel like we are reasonably on track in terms of sub-base where we wanted to get by the end of Phase-III.

Vikas Mantri: If we look at our 9-month subscription numbers they are up by net 2%-3% and if you look at all of the matrix that you have shared with us be it your digital subscribers, they are up from 6.8 or 7 million to 8.5 million that is 20% up your DAS-3 subscribers are up from 1.9 to 3.5 million. Your ARPU is collected or up from 77 to 80 for the DAS markets, also the number of cities that paid you higher than 80 you have gone from 10 to 16. So while all this matrix shows significant jump in ARPUs subscribers or collections it does not show on the revenues which is mainly 2%-3% up, how do I reconcile that?

Manish Dawar: Vikas, there have been 2-3 things, one we tried to standardize our definition in terms of how do we measure the revenues which was earlier if you remember was fluctuating widely. So for example we said when we took over that we will give on a very comparative, so all our ARPUs are now on a net LCO share basis. So they have come with opinion which was required to be done as you know that during the year there was some quarters whereby we did **gross** billing.

Vikas Mantri: But I think when you have given the numbers on slide 13 and you have said they are revenues and expenses so I can take that 2%-3% growth as like-to-like?

Manish Dawar: At the same time what we said initially if you remember this was I think two quarters back that our focus is going to be on collections rather than just the billing because we need to first make sure all the disciplines and processes are working on the ground. So we continue to make good progress there and you can actually look at the debtors' numbers which is kind of witness what I am saying and that is the reason I mean we have kind of not taken any aggressive position on billings per se because we wanted to make sure that our house is in order and going forward yes you are saying in terms of number of boxes and everything, we said very categorically always that the billing on the new boxes. So let us say yes currently we have about 8.5-9 million boxes out of which billable boxes are only about 4 million. The rest is in Phase-III markets and Phase-III markets we will start to monetize once may be in the Q1 of next year once all the court processes are over and we start the billing in Phase-III markets. If we were to look at the overall number 2/3rd of the boxes are close to let us say 60% of the boxes are in Phase-III and therefore you will see that jump coming up when once that billing starts.

Pradeep Parameswaran: One thing that you did not ask directly but I will allude which is that if you just look at our total cost line our thinking is that our current OPEX is reflective of lot of the OPEX that we will continue to bear even post the beginning of the monetization. The only aspect that will jump more on cost as whatever we pay out commissions which will be obviously linked to the revenue but most of the other cost elements are already reflected in the P&L over the last 2 quarters I would say.

Vikas Mantri: So we should look at the number of incremental jump in revenue or less the incremental jump in content cost that should flow through the EBITDA?

Manish Dawar: Yes, largely you are right.

Moderator: Thank you. The next question is from the line of Bhautik Chauhan from Span Capital. Please go ahead.

Bhautik Chauhan: Couple of questions from my side. What would our set top box inventory?

Manish Dawar: What is the second question?

Bhautik Chauhan: When pertains to CAPEX, so how much CAPEX you have incurred during 9 months and any CAPEX guidance for FY17? That is all from my side.

Manish Dawar: As far as the inventory is concerned we are kind of inventoralized to meet our current quarter plan and you would have seen that last quarter also because we are maintaining huge levels of inventory to make sure that we are very-very tight on working capital and we are managing the capital very efficiently and therefore at the same time I would like to assure you that we are not losing the single box because of the inventory situation. As far as CAPEX is concerned. We spent about 160 crores during this quarter on cables and broadband put together. Out of which cable takes a large chunk and so the cable during the quarter is almost about 150 crores of CAPEX.

Bhautik Chauhan: And on CAPEX guidance for FY17?

Manish Dawar: Not as yet, Chauhan.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Just wanted to check with you, what steps are we taking for improvement of collections at the local level. We are still stuck at 94 range and average 80?

Manish Dawar: Mayur our collection efficiency has shown a good momentum and actually that gets kind of worn out by the fact that sundry debtors if you would look at the numbers are in control. But again I mean for example you know this business as well as we know at the end of the day we have a dunning process whereby people who are not paying we switch their boxes off and therefore it kind of gets into the collection mode.

Mayur Gathani: But any specific steps apart from, that would be the last resort for you to improve collections. Let us see collection is one thing that is decided between you and the LCO that he will pay our Rs.80-Rs.90 but I am saying how do we, what are the steps being taken to improve this 94 going to 100, I know you are not giving any guidance but I am just saying there is scope for improvement for sure?

Pradeep Parameswaran: I think we have talked in the past about this at some length. Ultimately if you imagine that there are 3 sets of stakeholders in this value share right? The LCOs, MSOs and the broadcasters and all we have been pushing for is an equitable distribution of that based on whatever value is added by each of the players and which means that industry efforts around working together, MSOs working with each other or broadcasters working with MSOs or whether it is all the distribution platforms working together, I think lot more has to be done in that front to drive improvement. There is some progress on it but obviously I think we all expect faster progress and what has happened in the last few quarters. The steps are very simple. I will repeat it but I am sure I expect a follow up on that. One is that you have to drive better packaging. There are new content deals that are in place that we hope will allow us to improve our monetization as we start to see reflected in the coming quarters. Second is even simple things like the application of whatever legally mandated dunning process, I think there are opportunities to improve that across the board not just for DEN but I suspect for other MSOs as well and lastly I think there could be revisions on the consumer pricing itself as you know that is the numbers that has not moved up much over the last many years and especially in the light of the fact that your major cost which is content has jumped lot the last 2-3 years. We may end up seeing some end consumer pricing changes as well.

Mayur Gathani: Coming up with a follow up sir, there are 2-3 big listed entities as MSOs, why are not we able to form a consortium to move ahead and do things more effectively. I mean, earlier there was some discussion that we have appointed E&Y but bottom line there is not much change. I mean every quarter we keep hearing that industry has progressed together but finally it is not showing up?

Pradeep Parameswaran: Yes, you are exactly right. I agree with you.

Mayur Gathani: And just wanted to know sir what is the CAPEX you have said for the first 9 months, I missed the number?

Manish Dawar: 9 months was about 300 crores.

Mayur Gathani: Majority was towards the cable?

Manish Dawar: Yes.

Mayur Gathani: And HD subscriber base can you share with us?

Manish Dawar: No.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: I am referring to Slide #16 of the presentation. I would like to know the other OPEX in that broadband P&L. How much of that is fixed cost and how much is variable cost, if you could just talk a little bit about that?

Manish Dawar: We do not talk about details there, but I can tell you what all heads are included and then you will be able to draw your own inferences if you wish. So as you would have seen in the P&L, we are showing the employee cost separately. Other OPEX, it will have the heads like bandwidth cost which will be a variable expense. It will have O&M which is running and maintaining the network which will be a combination of fixed and variable expenses. It will have sales and marketing expenses which is basically online and offline above the line, below the line which again will be a combination of fixed and variables. Then we will have customer care which is largely variables. So these are the broad heads and then you will have some overheads in terms of admin, office rent, travel and those kinds of things.

Dheeresh Pathak: And bandwidth cost like this is paid as a percentage of revenue that you get from the subscriber or this is paid based on how much GB, whatever metric that you are using for capacity that you are leasing?

Pradeep Parameswaran: It is paid for the quantum of consumption but it is purchased in jumps which means that you cannot buy exactly for the amount of bandwidth that you consume but you buy capacity once you fill that up then you buy more capacity.

Dheeresh Pathak: Would you be able to give us sense like for example if you are charging the subscriber per GB Rs. X how much bandwidth cost do you pay as a percentage of what you charge to the retail consumer?

Pradeep Parameswaran: I am sorry we are not able to go into that level of details on the cost.

Dheeresh Pathak: And you know in the DAS markets you said Phase-I and Phase-II blended realizations is 85 if I remember correctly, in those markets your content cost, net of carriage is how much?

Pradeep Parameswaran: Sorry. We are not going into content & carriage on a phase wise basis. We cannot give you that split out. In any case the deals are also not very easily differentiable between Phase-I, Phase-II, and Phase-III separately. Just one other thing on the question around broadband cost. One of the large chunk of, just we think about the behavior of the business I think you are asking the question for also forward-looking modeling purposes, O&M cost usually scale with number of homes passed, if your homes passed is not increasing but in that existing footprint you are continue to increase in subs overall actually does not increase by that much. The bandwidth cost as a variable cost will reduce as percentage of revenue while it is mostly still variable because it is a function of how much bandwidth gets consumed by the consumers and the percentage basis of revenue it will drop. On customer care, as Manish mentioned we are doing, a number of things like customer care, marketing, etc., to optimize that numbers. So we expect some improvements on those dimension as well.

Dheeresh Pathak: Your penetration as a percentage of homes passed is just I double digits like 10%-11%.

Manish Dawar: That is right.

Dheeresh Pathak: That means you rolled out the business plan what percentage do you have in mind when you worked out the economics?

Manish Dawar: You have to be little bit careful in how you do with the penetration. If you look at our presentation, we talk about the cohort numbers which means that we always look at penetration in terms of once the business is rolled out in a certain geography how long does it take to increase penetration and that is number that is being reported there and most of our cohorts I will say even on an average basis we are seeing more than 1% increase every month which is very consistent with our original business plan in terms of when we breakeven and when we have reasonably healthy return on capital. So our penetration I would say is broadly on track with what we expecting.

Dheeresh Pathak: But sir if with this cohort analysis Page #15 left hand side bottom chart, 13% how is that to be read?

Pradeep Parameswaran: That is basically saying that we will start to see more months showing up in future reports but since we started rolling out the network at scale only in the early part of last year, most of our oldest nodes are to 13 or 14 months in duration and then you can work backwards, for example what we rolled out in July or August would be only available only 6 months in duration. So those nodes that have been rolled out that far back has seen penetration of (+13%).

Dheeresh Pathak: And for reasonable IRRs, you would have expected I think 30% penetration?

Pradeep Parameswaran: I think quite a bit lower than that.

Manish Dawar: About 20-25.

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

Vivekanad S: I had two questions. One was with respect to the provision for the full debtors which seems to have come down on a 9-month basis. So I understand that you are taking steps to ensure that collections are in keeping with the revenue that you booked. So in that context is it fair to assume that the worst in terms of the mismatch between revenue and cash collection is over for the cable industry or is it showing that you are more conservative now in booking revenue, that is one. Secondly, your balance sheet seems to be, you are very well-capitalized in the context of the MSO industry given that your net debt is just around 300 odd crores. So in this context, one of your peers is aggressively expanding into new geographies and also trying to build economies of scale. So are you content with digitizing your existing catchment area or will you also look at acquisitions and what would be your thought process on a comfortable peak debt level for your business? Thanks.

Manish Dawar: Vivekanand, let me answer your second question first. You are right in saying that we are well-capitalized and we are a conservative company. So we do not want to go too aggressive on debt. So I mean, the stated position that we kind of done in the past will be like 1:1. Our priority in terms of expansion is first we need to make sure that we cover our own base and I think we have enough left there as you know our total base is about 13 million subscribers. We have digitized close to about 8.5. So we have enough opportunity available there. But that said we will not be against the acquisitions which kind of fulfills our overall objective and therefore it really depends on the opportunity and timing.

Vivekanad S: Also further on the balance sheet part, with the target that you mentioned of net debt to equity what would be your aspiration in terms of the homes passed on the broadband business, say on a 3-year basis or a 5-year basis?

Manish Dawar: We have not given any numbers there because we are still trying to kind of make sure that the broadband model is working perfectly and therefore we are trying to perfect let us say Delhi City first which is where our concentration has been right now and our objective is to make sure that Delhi kind of breaks even and then we will kind of take the learning from there and start to expand on a national basis.

Pradeep Parameswaran: You also asked a question on whether you think the worst for the cable industry is behind us in terms of revenue recognition? I am not sure I can talk for the cable industry but what we can say is that we have managed that extremely tightly over the last few quarters and we intend to do it in the same way going forward even as we start to monetize the Phase-III.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: Two questions. Can you help us understand revenue cost dynamics for TV commerce business?

Manish Dawar: Can you elaborate please. I do not think I have understood your question well?

Dipesh Mehta: Just want to understand our revenue traction is happening on TV commerce side at the same time overseas also inching up because we are penetrating more, so just to understand how this equation will show improvement in profitability and if you can provide some color there about revenue and cost, how once you look at it?

Manish Dawar: Okay, so if you were to look at the current numbers we scaled up the business which is running at a rate of close to about 240-250 crores on an annualized basis and both the partners between themselves have contributed about 30 crores of capital which is 15 crores each and the revenue number that you look at in our financial statement is 50% share because that is a 50:50 joint venture and you know the accounting rules and therefore I would not get into that. We think and again if you were to kind of do a benchmarking with the competition with the amount of capital that we have invested, I think we have done a fairly good job in terms of scaling up the business and if you were to look at the efficient utilization of capital it is probably being amongst the best in the industry. So we continue to follow the same and going forward also. Our focus is to kind of breakeven the business and return it to profitability but again we would not like to compromise on the growth and we expect that probably towards end of next financial year is what I am talking about we will have a closer visibility in terms of breaking even.

Dipesh Mehta: My question primary was referring to around, now we have already reached to the penetration, now you say some number about penetration and those things, whether these are the numbers what we were looking for in terms of let us say 52 million households where we already reached. So if you can provide some color what we have planned for our penetration related things?

Manish Dawar: Penetration we still have a way to go and we are kind of moving in that journey and we are looking for good efficient deals and if you want again to look at let us say for example homeshop18 or Naaptol and all their penetration levels are far higher than what we have.

Dipesh Mehta: And last question is about couple of quarters back we identified 4 growth areas for us. Can you help us provide some color how we progressed to address each of those objectives?

Pradeep Parameswaran: Let us make sure that I am talking the same language. Just name the 4 things and I will give you a sense?

Dipesh Mehta: I think couple of quarters back one of the presentation you contented monetization improvement, then advantage of Phase-III for market, TV business and prepaid packaging, HD, those kind of mix improvement. So if you can provide us some color?

Pradeep Parameswaran: I will start with the ones that are most positive and then I will go through the ones where more progress needs to be made. Obviously one of the big value add levers was getting our digitization in place for Phase-III as you know couple of quarters back there was a fair degree of uncertainty on whether Phase-III would happen or not, would there be box seeding happening or not, etc., I think we are well passed that and we expect that Phase-III revenue would be a substantial improvement for the next year. Second on pricing and packaging, as you heard on this call also before that is a place where very little progress has been made structurally, I would say and the measures that we have taken are not all fully borne fruit. But as a management team I will tell you is that we continue to make some pretty strong push there and we will see whether that plays out in the numbers going forward. On HD to be honest it is obviously going to be one of the major growth drivers, both the broadcasters as well as the distribution platforms are driving in one direction on that. With the amount of focus that we had on seeding and subscriber acquisition in Phase-III in last quarter and this current quarter, we will start to actually shift our attention to HD from the early part of next year onwards. So it will be an important lever in FY17 for us and then lastly I think Manish has already talked about the TV business which I think is roughly on track along with broadband which is also roughly on track over the last few quarters.

Dipesh Mehta: And just to understand about now, one of the factors which we consider about, overall monetization of the market, I think partly you addressing to earlier question was just to understand about Phase-III dynamics and Phase-I and II, the remaining 1 million in Phase-I and Phase-II is the market where digitization is under stay kind of thing or we are facing some operational issues?

Manish Dawar: In fact, I am sure you are referring to Chennai. We are not present in Chennai or AP for that matter. In our case the differential between 5 and 4 million is largely let us say as you know when that whole digitization process started there was large amount of box swapping which happened amongst the MSOs which is kind of stabilized as we went along. At the same time around that time we had given some pre-activation boxes which kind of got lost in the system and therefore that is the other thing we have controlled in Phase-III now and then there have been some customers who churned out because of let us say shifting homes or moving to DTH and those kind of things. So that is the reason why let us say we are able to monetize only about 4 million boxes out of 5 that we have.

Dipesh Mehta: I am not clear about this. So when we say 5 million, those 5 million are the active boxes right? In terms of Phase-I and Phase-II market?

Manish Dawar: 5 million are the deployed boxes in Phase-I and Phase-II. The boxes that we are billing are about 80% which is 4 million.

Dipesh Mehta: Okay, so that equation is likely to remain that way.

Manish Dawar: In fact if you would look at last one year or let us say even more because I have the visibility of one year it has remained at the same number, it has not changed from 4 million boxes.

Dipesh Mehta: When we say 13 million addressable market, 5 million is Phase-I and II, 8 million into Phase-III and IV. Out of 5 million actually we are making money from 4 million customer base?

Dipesh Mehta: So total addressable where we can monitor is roughly12 million. That is right way to look at it?

Manish Dawar: That is fine.

Moderator: Thank you. Due to time constraint we will be taking the last question that is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Just one question Pradeep. If we can have your comments on the latest TDSAT order on the non-discriminatory part of content cost and how it could possibly impact us if at all.

Manish Dawar: I think to be honest that order is relatively new and I think everybody is studying their implication of that order. I think the intent if you hear Jawahar Goel spoke about this even at an even yesterday, it is not a new thought process, right? TRAI has constantly try to modify and adjust based on kind of what they see playing out in the market. So it is too early to say what kind of impact it is likely to have. We think we should wait for the consolidation process to actually take its own course and see if they get to a very different answer. My own hypothesis is that this is quite a complex issue and not that easy to resolve through straight forward regulations. So we will make our representation as a cable industry as well as DEN to try in the coming days. So we will see how it plays out.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to the management for closing comments.

Manish Dawar: Thanks so much ladies and gentlemen for your engagement today. If you have any other questions, please feel free to write to us on investor relations email that we have and we will try and get back to you. Thank you very much.

Moderator: Ladies and gentlemen, that concludes the conference call. Thank you for joining us and you may now disconnect the lines.