“DEN Networks Limited Q3 FY2018 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen and a very warm welcome to DEN Networks Limited Q3 FY2018 Earnings Conference Call. This conference call may contain certain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I am now glad to hand the conference over to Mr. S.N. Sharma, CEO, DEN Networks Limited. Thank you and over to you Sir!

S.N. Sharma: Good afternoon ladies and gentlemen. Thanks for sparing time for us. With me from my side, we have our senior from finance department. I am ably joined by Rajesh Kaushall, our CFO and Functional Controllers, Mr. Munish Singla and Mr. Harigovind.

You will be pleased to note that we have been awarded India's most attracted cable TV brand for 2017 by Trust Research Advisory, during the quarter we also got a credit rating upgrade from ICRA from A negative to A with strong focus on consumer first. We have also started a noncommercial field trial of our new product 4K Android Based Hybrid STB, which will support both cable TV and Internet based TV.

Considering our access to 13 million cable homes to leverage our strong relationship with the existing business partners, we are working on a business plan to expand our broadband reach across the country with the help of cost effective technology with minimal cost of capital commitments. This plan will be announced during Q4.

We have already circulated the presentation on Q3 financial year 2017-2018 performance; Q3 financial year results summary, which I am about to share with you is based on reported Ind-AS numbers and are like-to-like comparisons that is excluding the discontinued business.

As you know, we have exited TV shopping and football completely and therefore we are giving comparative numbers only on the basis of continued businesses. Consolidated EBITDA for the quarter stood at Rs.81 Crores versus Rs.53 Crores a year ago with a growth of 54% and almost flat versus last quarter.

The year-on-year growth was possible as a result of continued growth in subscription income and cost optimization measures taken by us. With this, the total cable EBITDA margins stands at 26%.

Consolidated EBITDA of Rs.81 Crores does not include Rs.14 Crores pertaining to entities, which are not being consolidated because of Ind-AS. On an overall basis, the consolidated EBITDA for the quarter is Rs.95 Crores.

Cable subscription ARPU including taxes for DAS1, 2, 3, 4 markets stood at 142, 113, 76, 66 respectively per box versus 138, 106, 72 and Rs.50 respectively per box in the previous quarter. Please note that ARPUs are average for the quarter inclusive for taxes on per box per month basis. Phase 3 and 4 witnessed a robust growth on quarter-on-quarter basis.

I am happy to share with you that we have seen a substantial 10% growth on phase 3 and 4 collections in Q3 versus last quarter. With this our overall cable subscription revenue has grown by 6% in this quarter versus last quarter.

DEN has been able to accelerate its revenues particularly in phase three and four markets with collection efficiency keeping pace. Cable subscription revenue at Rs.174 Crores during the quarter witnessed a growth of 21% versus the previous year corresponding quarter. The cable subscription collection efficiency during the quarter continues at 93%.

The net debt has reduced to Rs.141 Crores as of December 2017 compared to Rs.171 Crores in December 2016. Also compared to previous quarter, it has gone up marginally. Consolidated revenues for Q3 financial year 2018 were up at Rs.330 Crores from Rs.293 Crores in the corresponding quarter of the previous year. That gives us a growth of 12%.

Revenues for broadband business stood at Rs.18 Crores in Q3 of current financial year compared to Rs.21 Crores in the previous year even with ARPU falling we have managed to keep the costs low.

EBITDA breaks even during the quarter compared to EBITDA loss of Rs.1 Crore in the previous quarter. As mentioned in the previous call, we are facing acute competition in Delhi region with respect to our broadband business and drop in rates by major Telecom companies.

As a result, ARPU for DEN during the quarter dropped to Rs. 579 in Q3 financial year 2018. Broadband data consumption has experienced a significant increase in the last one year whereby data consumption on per month per home basis has gone up from 59 GB to 80 GB.

We are also focused on converting subscriber to medium to long-term plans instead of monthly plans and have met with a good amount of success. I will explain when we interact. As a part of our near-term strategy, we have started rolling out the network in 10 small towns and we expect to complete the roll out in next three months.

The company reported a consolidated profit before tax of Rs.10 Crores during the quarter versus loss of Rs.29 Crores in the previous year same quarter. During the quarter PAT continues positive trend at Rs.2 Crores compared to Rs.1 Crores profit in the last quarter and Rs.37 Crores loss in Q3 of financial year 2017.

YTD cable profit after tax in nine months stood at Rs.18 Crores compared to a loss of Rs.93 Crores in previous year.

With that I would like to open the floor for questions and answers. Thanks a lot.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Kaustav Bubna from SKS Capital & Research. Please go ahead.

Kaustav Bubna: Congratulations on the continued improved performance. Is Mr. Rajesh Kaushall now your permanent CFO or is he just to fill in the gap?

S.N. Sharma: No Mr. Rajesh Kaushall has been with the organization for the last 10 years. Manish Dawar was the group CFO and he is cable business CFO.

Kaustav Bubna: So now we are not looking for a new CFO?

S.N. Sharma: We are not having multiple businesses anymore, so the mainstream businesses of the company is cable and broadband.

Kaustav Bubna: Great and Sir on your broadband business this new strategy that you guys are coming up with could you elaborate a bit on how we actually aim to get to these 13 million subscribers of ours? Could be this in the form of a partnership with another company because we have 13 million subscribers, so I am guessing a telecom player would find it attractive to enter the wired space with our subscriber base, so are we looking at a JV form or are we looking at organic expansion or could you elaborate a bit?

S.N. Sharma: As of now, all I have said that since we already have a reach of 13 million subscribers out of that around close to 11.2 million are digitized. We have a strong bonding and relationship with the cable partners. There is a great momentum from various authorities like the Central Government to push and boost broadband to enable it across the country at the fastest pace. I would not like to spell out, how, what, what kind of strategy, what kind of business plan we are about to announce. You need to wait for a month or so. Once we formally get the sanction from our board and then after due deliberations, we will definitely come and share with you.

Kaustav Bubna: Great thing over there. Hopefully wish you all best with that. Just on the cable business you are guiding for 6-7% revenue growth, I mean, how much of this would be from conversion of your existing subscribers to paying subscribers and how much of this would be from HD boxes?

S.N. Sharma: Majority of it is from our existing subscribers. At least I would say 98% is from existing subscribers.

Kaustav Bubna: Have we started on sales of HD boxes how are that going on ground?

S.N. Sharma: HD seeding has got started. It is still to match my expectation, my internal targets, but it has not picked up to that extent that I anticipated, but to be honest with you since we have many other things to handle like increase in subscription and other affairs going further after a couple of months, the entire focus will be ,after saturating phase three and four collections, at certain level, then the entire focus will shift on HD and suitable rewards will flow in, which we will be sharing with you in a transparent manner.

Kaustav Bubna: Any update on the open box?

S.N. Sharma: That is what I said that the non-commercial launch has already happened on this 4K Android Hybrid STP box. It is an open box and so far the feedback from the subscribers are good. We have seeded boxes across the country to gauge the experience and see if there are any finer points to be uploaded in the software and very soon by middle of February or so we will be formally announcing the price and that will be formal go ahead of the box.

Kaustav Bubna: Great and could you give some capex guidance for FY2019?

S.N. Sharma: FY2019 there is not much of capex as of now. We have already indicated that we are opened up 10 towns for broadband and another 10 will be opened up if you go by my previous call that is what as of now stands and there is nothing more. Cable we have already spent and now the revenue has to flow in.

Kaustav Bubna: On the EBITDA margin side where can we see our EBITDA margins peak out because right now we are at 25%. Our ARPUs increase in phase three and phase four areas because we have a lot of room for ARPU increase in phase three and phase four area so if we are 26% right now can we see 30% plus margins in FY2019?

S.N. Sharma: It is like this. Phase one and two if you notice stand at around 26% to 30% and phase three as of now stand at 5% and I visualize that when it is at 5% my ARPU is in the range of Rs.75 to Rs.76 and I am visualizing that in the next three to four months next two quarters it should cross Rs.90.

Kaustav Bubna: So you are saying ARPU in phase three and phase four should cross Rs.90 in the next two quarters?

S.N. Sharma: We will cross Rs.90 in phase three and phase four will touch Rs.70 to Rs.75.

Kaustav Bubna: By FY2019 beginning?

S.N. Sharma: Midway yes.

Kaustav Bubna: Great. I will get back in the queue Sir.

Moderator: Thank you. We will take the next question from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

Ishpreet Kaur: Good afternoon. If we look at our active subscriber numbers, it seems flat for the last three quarters at 7.4 million and we have seen some kind of an addition in our digital subscribers as well, so just to correlate the two why are not we seeing any kind of an increment in the active sub?

S.N. Sharma: Rajesh Kaushall will respond on my behalf.

Rajesh Kaushall: Your observation is absolutely right. Most of the box deployment is actually happening on the HD side also and I think that is going to get monetized as Sharma Ji said earlier that is going to get monetized as we stabilize the revenue collections in the phase three and phase four markets.

Ishpreet Kaur: Are the new subscribers, which are getting digitized, taken into the count of subscriber base or is it that it is a churn of the earlier subscribers moving out of the system?

Rajesh Kaushall: No, I think most of our deployment is happening on the HD side of the boxes, which are getting deployed and there is a slight churn I think, but that is only a temporary phenomenon.

S.N. Sharma: The churn is not more than 1% that is all I can say. The days are gone when we started driving the subscription up where the churn rate crossed 2% to 3%.

Ishpreet Kaur: The HD box subscribers would also be included in the active subscriber base right?

S.N. Sharma: Yes as of now.

Ishpreet Kaur: So then we should see the increment happening in the active subscribers?

S.N. Sharma: Active subscriber is the subscriber remaining the same if he is our HD subscriber and he replaces the SD box with a HD box then the number remain will obviously be the same unless I am not able to understand your question.

Rajesh Kaushall: In case of HD boxes we have issued HD boxes under scheme, so like when we have to calculate the subscription revenue because on HD right away and these are under scheme boxes, so that is the reason that has not been included in active subscriber base because otherwise the revenue number will not total up to the number, which has been published, so that is the reason we have excluded that particular number from the active sub base.

Ishpreet Kaur: Right, but if there is a replacement and you are saying hence we are not seeing in the active, so that should not have come in your subscriber base?

S.N. Sharma: Yes

Ishpreet Kaur: Because our digitized subscriber base has increased from 10.5 to 11.4 in the last quarter, which was close to 1 million?

S.N. Sharma: 11 million to 11.2 million. Last quarter it was 11 million. Now it is has been increased to 11.2 million. 1.5 lakh plus boxes has been seeded in this time period.

Ishpreet Kaur: On the receivable side also, so our collection efficiency as it is mentioned in the slide 13 of the presentation has slipped down a little in the last three quarters from 96% to 93% and our receivable days have also gone up, if you could throw some light on that?

Rajesh Kaushall: As regards subscription debtors, we keep on increasing the rate of collection on the ground like Sharma Sir told that we have increased in some of the phase three markets, we have started collecting at the rate of 106 and there is a push in the market to collect higher revenues due to which you can say there is a slight dip in the efficiency, which we are noticing, but we are pretty confident to collect the same, so that is the reason for slight dip in the efficiency, which we have noted. This is a natural phenomena, which at once when you go for price hike in phase three and four markets and user subscription is still at the rate of 150 to 200. In any case, if the LCO has to give us more he needs to increase his subscription at the subscriber end, so this whole phenomena is a temporary phenomena and very soon it will be corrected.

S.N. Sharma: Parallelly on the debtors, which you are seeing debtors incase of placement every year done on the Q4 basis like more or less collection comes in the last quarter of the year, so that is the reason there is a slight increase in the debtors and parallelly there is increase in the content cost creditors also, so that will be knocked off by year end?

Ishpreet Kaur: Correct. Sir how much of this 337 would be placement and how much of this could be subscription a ballpark number?

Rajesh Kaushall: So approximately 140 would be around subscription and the balance placement and others.

Ishpreet Kaur: Thank you so much.

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

Rajiv Sharma: Thanks for the opportunity. I just had a couple of questions. First I missed on your broadband strategy if you could just reiterate since I joined the call a little late? Second I wanted your views on free dish. Where do you see the free dish going over the next couple of years and what kind of impact it may have on your business model? Third your ARPUs are highest in the phase one market, what is that different you are doing versus others if you could elaborate it? Last question is that the telecom space, it has seen accelerated consolidation and Jio has already started its fixed line broadband offerings? In the next six to nine months it is our anticipation that they will invest more in this and Telco's may get into the cable space. We have signed up with a lot of LCOs in Bengaluru and other markets how do you see the cable industry with Telco's getting in there you see collaboration or you seen disruption? Thank you.

S.N. Sharma: You did not miss anything on broadband front, all I said is that it is a mega broadband plan would be shared by us by the middle of February. We are in process of formulating this bigger business plan to reach all the 11 million subscribers that are digitized and enabled across the country.

Rajiv Sharma: Will it be organic or it will be some collaboration or inorganic if you give some colour there?

S.N. Sharma: Please wait for the details to be rolled out and spelled out by me in a month's time. It is not very much away and I have already done the homework and some final deliberations are being done and will be shared with you in due course. So phase one ARPU plan there is anything special that I am giving or rolling out to LCOs. If you go in the history say around one and a half year back when we started this drive of increasing the subscription, we were not taken seriously and people simply said that it is one-month affair or two months affair. Then gradually having performed quarter after quarter and quarter after quarter our peers also stood up. They started taking it up seriously, so it is a matter of chance by being ahead of others by being leading this space in the beginning. We have some extra initiative at our end to demonstrate the numbers. I am sure the cable setup per se will eventually join me at the same level whether it takes three months or six months from their end it depends on the team and their efficiency. I have nothing more to say on that. Now this Jio, Telco versus cable, this question is being repeatedly asked over the last as many months as I have been interacting with you. There is nothing more I have to add than that what you are seeing on the ground. Let me reiterate and let me elaborate again as far as Telco is concerned their business model has missed reaching the homes through pipe. They are all in a wireless space and if you see internationally also the wireless space proves a very costly affair and is very restrictive in the nature in terms of delivery of speed and consumption of data. It is meant for the purpose while you are mobile, but majority of the time that you spend in office, at your business, or in your residence is through a pipeline, so the pipeline it is only in the case of cable operators that the pipeline already exists in the homes of users. As far as the Telco's are concerned their pipeline is still 2 kilometers away from each of the residence that is up to the tower from where they are relaying the microwave signal that you people are using as subscribers. Today, in case of speed they have a limitation of 20 MB speed. Maximum they can stretch to 25 MB to 30 MB. As far as data consumption on a mobile is limited to 1 GB a day whereas in our case we are consuming approx.. 100 GB a month. Many of our subscribers are consuming more than 100 GB data in a month's time, so there are many positives that are loaded in the space in favor MSOs and cable operators. Now this Telco when they start laying the cable till the last mile you can yourself imagine you come out of Mumbai and Delhi where 90% of country has a variety of structure in place, it is hardly vertical. Majority of it is still horizontal. You yourself will realize that to lay that last mile is going to take many years, so nothing more to add as of now. I do not see any pressure, but for these major metros where there is an immense competition on the tariff that is all. Anything I missed upon you can ask me again.

Rajiv Sharma: So that was very helpful, just a small followup question is despite the challenges Jio is ramping up into this, so should I understand that your conclusion is that Telco's are restricted given the huge investments they need to make, so they are unlikely to disrupt can they collaborate? Do you see any synergies if deep pocket Telco's were to invest in cable operators is there some kind of big picture industry level not specifically you, but any thoughts there?

S.N. Sharma: Consolidation is part of our life. Integration is part of our life. Cable TV also has seen a lot of consolidation that is how DEN stands today and that is how the other peer MSOs stand. We have seen consolidation happening in DTH that is another competition to us. There is a way of consolidations among the Telco's also, so worldwide also it has happened that the Telco's have become cable players. Cable players have become Telco's, so the customer is a free bird. Nobody has the retention power or ownership of the customer. As one moves with the technology, he is able to service the customer properly. The customer is willing to pay. All he wants as far as broadband business is concerned he wants his experience to be the best. He does not mind paying more for that experience. So if one is moving with the technology, one is keeping pace with the development, one is keeping pace with the consumption behavior of the consumer that fellow has a standing position in the business otherwise we will get demolished. That is how we are the first MSO to launch this 4K Android based box. No other MSO has taken this initiative. I can frankly share with you, but I am sure others will also join me very soon. That is good for the business.

Rajiv Sharma: Lastly your thoughts on free dish?

S.N. Sharma: Free dish is a phenomenon that happened sometime back. It has tortured the DTH players more than cable players because it is a very simple thing that if you see the penetration level of DTH, 80% of their numbers come from phase three and four area. The reason was that those were the areas which were called cable dark areas. Either terrain of the area or remoteness of the area or some different reasons, cable did not reach those homes. So free dish when it came one and a half years back they started dealing and inviting the private players on their platforms, they got a big boost because there have got shift of numbers from DTH to free dish TV. As far as cable is concerned, cable is still strongly placed and it has not got any major damage I would say, but for a few thousands and not even in terms of lakhs. It has not been noticed by DEN so far. I have not got any feedback from my LCO partner that they are damaged by free dish.

Rajiv Sharma: Thank you so much.

Moderator: We will take the next question from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Thanks for the opportunity Sir. This is Naval from Emkay. Sir a couple of questions if you can tell the capex number for the first nine months and expectation for 4Q on the capex front?

Rajesh Kaushall: I think we had about Rs.118 Crores of capex for the first nine months and as Sharma Ji had explained that I think most of the capex deployment in the future is going to be in broadband business and very little in the cable side because of the fact that most of the deployment of the boxes are already done and there is very little subsidy on the box.

Naval Seth: Sir broadband capex will that be fully funded through internal cash generation from cable or can we see the increase in net debt from the levels where we are sitting right now?

S.N. Sharma: As of now the implication is not huge. What we have done is, we have been very cost effective and very low capital is in involved in opening up. It is not even Rs.20 Crores to cover these 20 towns, so till now we have done 10 cities and our capex spend is at around Rs.11 Crores, so with that I can easily say that for the next 10 towns it will not be more than another Rs.10 Crores, but you wait for the mega plan that I am going to share after a month's time. If that really becomes a reality we will be definitely sharing the numbers and figures with you in that perspective.

Naval Seth: Sir on the EBITDA margins front if you can share these margins across the phases you used to share earlier in your press release in phase one, phase two, phase three and four and how that has improved on the sequential basis because phase three and phase four we have seen significant improvement in these realizations for you?

S.N. Sharma: Yes phase one and two still stand at around 30% of EBITDA margins, as has been the case in the past. Phase three used to be somewhere around zero and it has moved to 5%. We were just breaking even there and now it is 5% and same is the case of phase four. So going further it will be as I said earlier if we touch an ARPU of 90 or cross 90 you can easily say we will be talking of 15% to 16% and by the year end it should mature towards what it stands at phase two.

Naval Seth: Sir continuing with the question on free dish as we are very aggressive in terms of improving our realizations in phase three and phase four markets as the consumer ARPU will also move up because of this and LCO will face deep pressure can we see any kind of downtrading from say DEN to any other or say any other MSO to free dish because there is no monthly subscription on that front because consumer ARPU seems to be coming at par with at least with phase two markets for phase three and phase and phase four?

S.N. Sharma: Naval, whatsoever was to happen has already happened. If we could drive phase one and two from Rs.20 to this level where we stand today at 120 or 130 naturally that track is well laid. The LCO has realized that he is going to share the revenue. He is smart enough to increase his ARPU as with the subscriber in a systematic manner otherwise this even Rs.60 to Rs.70 that I am getting in phase three and four would not have been possible with the free dish being at the peak. Now all of a sudden there is a stoppage as we all hear free dish affair has gone slow due to some reason, I would not like to deliberate, so in my limited capacity all I can say my cable partner is matured enough, smart enough to handle his business in a systematic manner and I do not visualize much of damage even if free dish again takes the same good division, I would say where he had all of a sudden become a Ferrari for the world, but I do not think that entrepreneur is going to let lose this business.

Naval Seth: Thanks a lot and all the best.

Moderator: Thank you. We will take the next question from the line of Amit Kumar from Investec. Please go ahead.

Amit Kumar: Thank you so much for the opportunity. Sir just one question at my end, I joined the call a little bit late so apologies if this is a repeat. When I look at your digital subscriber base that has been creeping up over a period of time, I think in the last 12 months you have added almost like 1.5 to 2 million odd subscribers, but when we look at the active subscriber base as noted in your presentation that sort of remains broadly flat around 7 million to 7.2 million subs, so the gap has increased quite a bit almost 4 million subscribers could you please explain that?

S.N. Sharma: Honestly speaking in totality there is a base of 8.4 million that are active in our universe. The gap is not increasing. From 8.4, we are reporting 7.4 because of the simple reason three entities are not being consolidated in Ind-AS structure of the things. Otherwise, the gap is uniform over the last couple of years.

Amit Kumar: I am sorry why are those three entities not getting consolidated these are JVs?

S.N. Sharma: There are certain clauses in the agreement, which restrain us from considering them as part of Ind-AS reporting. Otherwise my EBITDA stands at Rs.95 Crores instead of Rs.81 Crores. I am reporting the numbers after deleting the EBITDA that I have got from them.

Amit Kumar: But this 1.2 million subscribers these are part of that 11 million universe or yes or no?

S.N. Sharma: Yes they are very much part.

Amit Kumar: So they are part of the universe, but not the active subscriber, so that explains the difference. That is it from my end. Thank you.

Moderator: Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you. On slide 13, the ARPUs, which are mentioned they are gross or they are net of taxes?

S.N. Sharma: Net of taxes.

Dheeresh Pathak: Net of taxes and similarly on the broadband ARPU where you mentioned 579 that is also net of taxes?

S.N. Sharma: Net of taxes.

Dheeresh Pathak: That is after the LCO share?

S.N. Sharma: Gross.

Dheeresh Pathak: When you report the broadband P&L on the slide, then you are capturing only the net of LCO share revenue right when you say Rs.18 Crores of broadband subscription revenue?

S.N. Sharma: It is gross. It is a consolidated business reporting that we are doing so.

Dheeresh Pathak: When we work out the ARPU based on subscribers, which have been reported and that subscription revenue somehow does not tally with what is shown on the slide?

Rajesh Kaushall: That is because of the normal churn. The 215K is the overall universe of the subscribers that we have added so far. The active subscribers multiplied by ARPU will work out to Rs.18 Crores.

Dheeresh Pathak: So active subscribers then would have to be higher than 215 otherwise 215?

Rajesh Kaushall: No 215K is the gross universe, for the last one to one and a half years there has been a higher churn because of acute competition, so if you take out that churn and if you multiple this 579 ARPU by the active subscribers, which is billed subscribers obviously you will get Rs.18 Crores and this Rs.18 Crores is gross for LCO commission.

Dheeresh Pathak: This is per month right ARPUs per month?

Rajesh Kaushall: Yes per month.

Dheeresh Pathak: I will take it offline because I am not able to tally anyways. I just want to know phase wise like of the 11.2 million subs can you give phase wise breakdown?

S.N. Sharma: Yes, it is as the business view it is close to 1.5 million in phase one and phase two, it is close to 2.1 million, phase three is close to 3.8 million and phase four is 1 million. Overall 8.4 million are active subscribers we have out of a universe of 11 million plus.

Dheeresh Pathak: 11.2 and the balance would get digitized in the coming year or those would?

S.N. Sharma: Yes that process is still on. Let us see how because we are not extending any subsidy. There are no special incentives, so 13 million what the gross estimate eventually we may turn up 12.5 or 12.25 mn or you will never know we might cross 13 mn also because certain remote areas are yet to see switching of analog signals by operators at their end and that is the issue we have taken up with regulator also and regulator has assured us some intervention over there.

Dheeresh Pathak: I wanted to know the SD box what is your capex cost per box and what is the activation revenue that you book in the P&L?

S.N. Sharma: It is close to Rs.1000, and we are receiving Rs.1000 as activation revenue.

Dheeresh Pathak: Rs.1000, so this Rs.1000 is straight lined over a period of eight years for activation and depreciation is also straight lined over eight years?

S.N. Sharma: Yes.

Dheeresh Pathak: One last question is when the box is coming up for let us say after the life of the box might be let us say eight years because you are depreciating over eight years, so after eight years also you would book it like this only or that you will capture the full asset on the asset side and you will have deferred revenues or this will only this is like first time seeding the accounting will work like this?

Rajesh Kaushall: Just to give you accounting basis depreciation is also calculated on the base of eight years and the same way deferred revenue is also getting deferred for the eight years, so obviously we have close to Rs.470 Crores in our liability as deferred revenues , a majority of it will get apportioned over a period of next for five to six years because already three to four years have gone.

Dheeresh Pathak: What I am saying when let us say a box come up for renewal in the sense that the economic life of the box is over and it has to be replaced at that time also I am assuming that there will be no subsidy at that time also would you follow similar accounting wherein you will capture the entire Rs.1000 on the liability and you will book?

Rajesh Kaushall: Yes 100%.

Dheeresh Pathak: All right and on the broadband side is there any subsidy?

Rajesh Kaushall: Close to 2000 is what we spent and based on the market because Delhi being a very competitive market we charge up to Rs.250 to Rs.300, so close to Rs.1750 is the subsidy.

S.N. Sharma: That all will go away when we share the numbers of these 20 towns that we are rolling out. We are changing the business model over there.

Dheeresh Pathak: The cost per home pass, so this Rs.1750 is after that right, so there will be a cost of home pass?

S.N. Sharma: Home pass over the past three years, we have learnt a lot in experimenting in many cities, so from a home pass perspective we have brought down the cost from say Rs.900 to Rs.1000 per home pass to say now 300, 350. So using the latest technology of G-PON we have done that. So right now we are looking at Rs.300 to Rs.350.

Dheeresh Pathak: All right. Thank you.

Moderator: Thank you. We will take the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla: Good afternoon. Thanks for the opportunity. My first question is some clarification the 11.1 or 11.2 million STB seeded number that you have reported that includes JV and associates as well?

S.N. Sharma: Yes it is the gross number.

Sanjay Chawla: So what would be the number as per Ind-AS and what was the like-for-like in December 2016?

S.N. Sharma: We will share with you separately. As of now we do not have the details over here.

Sanjay Chawla: Secondly what was the percentage of active customers in our broadband base as at December end?

S.N. Sharma: **Approx.** 60%.

Sanjay Chawla: And this percentage what was it in the previous quarter like September?

Rajesh Kaushall: It is similar as our churn is close to 4% for this quarter per month.

S.N. Sharma: But honestly let me tell you one thing that as you are seeing there is a slight dip in the revenue on broadband. There is a calculated initiative taken at our end wherein we have dropped the revenue the ARPU level so that we are able to retain the customer for a longer duration. This exercise was started by us around couple of quarters back wherein we used to have an issue with the retention of subscribers and subscriber used to be there in only for a month and then again they go in for renewal depending up on how telcos will behave we started doing some experiment. As of now while we ended Q3 we have more than 50% of our paying subscriber who are there with us on minimum three months' plan. So stickiness of subscriber is going to increase as we have taken this initiative though this Q3 has seen the dip in the volume in the terms of revenue but Q4 onwards you will see more productivity out of this initiative wherein our ARPUs and our revenues are going to increase.

Sanjay Chawla: We have seen good addition on the broadband side sequentially quarter-on-quarter what is the technology mix in terms of DOCSIS versus GEPON in terms of the new customer that you are adding?

S.N. Sharma: As of now you can say it is a hybrid technology suiting the requirements of the customers because no point in going in for providing in top of the world technology whereas paying capacity or the returns that you are likely to get are at a very low level and we were able to give him a good experience and we are able to give him the service level that we wants that is enough for us. So we are working with Metro Ethernet also and GEPON also.

Sanjay Chawla: Lastly on the content side, I have got question in two parts. One is you have reported or mentioned EBITDA margin phase wise I believe this is based on allocation of content cost or do you have some of the content deals which are phase wise?

S.N. Sharma: No it is after taking care of the content costs.

Sanjay Chawla: But this is based on some allocation?

S.N. Sharma: The deal with the broadcaster is for the entire country. It is a uniform deal across the country regulation does not provide differential pricing or different prices for different zones of a country.

Sanjay Chawla: Great and secondly can you share the timelines content deal renewals with major broadcasters for this year?

S.N. Sharma: As of now the two deals are under renewal that is through major broadcasters Star and Zee, Sony and Colors got concluded for about two years the last year itself. Star and Zee now are under negotiation effective January 1, 2018.

Sanjay Chawla: Thank you very much and all the best.

Moderator: Thank you. We will take the next question from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Thanks for the opportunity. Two questions. How we expect content inflation to play out if you can help us the two negotiations, which we just, now mentioned and your overall expectation about how content should one look at for going into FY2019. Second question is about operating efficiency drive, which we had over last few quarters do you think now we have reached to some optimal level or you think still there is some enough scope to drive in further? Thanks.

S.N. Sharma: As far as content cost is concerned we are well determined to contain it within 10%. That is what we could do even in last year though the deals were for longer period and there were some nominal extra effects due to last to last year's lower growth given to them. Going forward also we are well determined and negotiating accordingly. There is no point in paying them more than what we earn from the ground. As far as operating efficiency is concerned that is the subscription level that we had touched. Let me share with you in a frank manner phase I is already peaked and there will be a growth of another Rs.2 to Rs.3 in coming six months as far as phase I is concerned but definitely phase II is still to give us some more juice. It is still at 110 level and I hope to take it to 120 level in next six to nine months. Phase III is pretty young. Phase III is giving me around Rs.75 as of now in next six months or five to six months or maybe earlier, I intend to cross it to Rs.90 and still there would be scope to take it further where the phase II is going to be after six months so there is a journey that is still in place and it is going to continue in the next year that is financial year 2019 and it will be played out accordingly. Somewhere in the middle of financial year 2019 there will be additional incomes accruing from HD that is what will be the next target that we will be driving for. So there is a plenty of revenues that are likely to come out of the capex out of the investments that has been done by them so far in cable business.

Deepesh Mehta: My question was more about the cost control if I look our other expenses, the employee cost there we have shown significant control kind of thing so my question was more around it how we are expect it to play out?

S.N. Sharma: As far as the cost control measures are taken some drastic steps were taken by the management over the last one and a half years and what the figures that you see today are almost the level that we wanted to achieve and there is a reduction of 15% in manpower cost vis-à-vis last year. And going further, I do not see any major cut over here rather we will be keep on operating at this level for next six to nine months I can say so.

Deepesh Mehta: Broadly now operating margin expansion would be driven by more of subscription led rather than any cost control now onwards?

S.N. Sharma: Yes, and whatsoever we are able to save from the content side.

Deepesh Mehta: Thank you.

Moderator: Thank you. We will take the next question from the line of S Kumar from Aviva Life. Please go ahead.

S Kumar: Good afternoon Sir. One insight, which I want to have, you said the margin improvement is going to be there in the coming quarters is that the margin improvement built in the broadband strategy, which we are going to unveil or is it the existing core business that was drive the margins?

S.N. Sharma: No as of now what I am talking is from the existing core cable business. That broadband plan once we agree will give you separate returns.

S Kumar: So this margin improvement what we are going to see in the next couple of quarters is it is whatever not including the broadband business?

S.N. Sharma: Yes.

S Kumar: That is it. Thank you.

Moderator: Thank you. We will take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. Sir my first question pertains to your revenue part. I think in the past November end basically in one of the interviews you did mention that we are looking for 7% quarter-on-quarter growth for next four to six quarters. So we were flat I think on the revenue front this quarter so what exactly transpired there and do you still hold on to your guidance going forward?

S.N. Sharma: Revenue is flat because of broadband and couple of other reasons but what I talked at that time was primarily the growth in the subscription level and I am able to maintain that and we have delivered a 6% growth on quarter-on-quarter level and that process will continue and broadband whatsoever dip you have seen this quarter that also will go away and there will be upside as well we explained you just few minutes back.

Deepak Poddar: So you are talking about 7% subscription level growth over next four to six quarters rather than that our consolidated revenue?

S.N. Sharma: Yes. I am able to give you 7% growth on the subscription or 6% growth and on revenue front if I am able to give you 12% year-on-year basis it is good enough to score the business.

Deepak Poddar: So 12% revenue on a year-on-year basis is what we are looking at?

S.N. Sharma: Yes.

Deepak Poddar: On the depreciation front basically can you give us some sense that I think it is your currently depreciation is about 24% of your total fixed asset right?

S.N. Sharma: Depreciation is going to continue at a similar way unless we actually add more boxes in that where we get into the whole depreciation scheme for eight years and we know that likelihood of the box is about eight years otherwise the depreciation is expected to continue at the incremental level.

Deepak Poddar: So same level around like 270, 280 Crores is what currently we are at maybe 10 Crores here and there?

S.N. Sharma: Yes I think about 54 Crores or 55 Crores for cable for this quarter level but right now basis I think we are at about 16 we are at about 186 Crores or so on a consolidated basis.

Deepak Poddar: So 250 Crores is what you are looking?

Rajesh Kaushall: This should continue in the similar range that we already have about 61 to 62 Crores.

Deepak Poddar: So this set will continue. And on the EBITDA margin front I think one of the gentlemen did ask about 30% EBITDA margin in FY2019 so I am not aware what was your response to that?

S.N. Sharma: My response I will just repeat phase I is getting approx.. 30% of EBITDA margin, phase II is close to 28%, phase III has come up to 5%, which used to be just making you and so this is likely to in next six months phase III will go towards 15% and phase IV is also catching up. It should be just three months behind what phase III is and the process will continue so if you see this is going to all these phases II, III, IV will catch up with phase I in times to come.

Deepak Poddar: So in two to three years would that be a sufficient time to assume let us say two years?

S.N. Sharma: More than sufficient. You should not give me more even that much time.

Deepak Poddar: I think that is it from my side. Thank you very much and all the best!

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna from SKS Capital and Research. Please go ahead.

Kaustav Bubna: You did an acquisition in this quarter of would there an LCO acquisition?

S.N. Sharma: Yes it is not really a LCO, it is a long pending deal that we had in place and wherein the max number of boxes that we added to our universe it is a small JV that we have done.

Kaustav Bubna: This question has been asked a number of times and I know it is tough for you, and refuse to answer this but do you have an eight month deadline once for this tariff order TRAI six months or over so what is your view in terms of this new order?

S.N. Sharma: As of now the latest on this front was TRAI had an open session wherein they discuss the charters for them this year that has just started. Every year they conduct similar open sessions wherein broadcasters were present and MSOs were are also present and free exchange of thoughts were happening and everybody was uniformly telling TRAI to let us go and approach the court unitedly to get the order in place so I do not know what happens after that. You cannot make any comment if a certain issue is subjudiced so it is very difficult for me to say. We all had big hopes and we did try to approach the court towards the end of December. We were not entertained and there were some indication that it will come in first week of January but it has not happened so it is very difficult to make any statement to that effect. We are eagerly waiting for this thing.

Kaustav Bubna: So over impact would you see EBITDA margins going to 35%, 40% with this?

S.N. Sharma: We are not looking at that kind of target.

Kaustav Bubna: I am just trying to see how like this has a positive impact on your margins right?

S.N. Sharma: Definitely, we will do that calculation and talk about it separately. I would not like to make any statement on this forum at this case. All I have said is 30% and that is what I stand.

Kaustav Bubna: Best of luck I look forward to your broadband plan in one month.

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

S.N. Sharma: Thank you very much for joining us and looking forward to see you again after three months. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Den Networks Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.