# "DEN Networks Limited 1Q'16 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, Good Day and Welcome to DEN Networks Limited Q1 FY16 Earnings Conference Call. We have with us today Mr. Pradeep Parameswaran – CEO and Mr. Manish Dawar – Group CFO. 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 the 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 this conference call please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pradeep Parameswaran – CEO from DEN Networks. Thank you and over to you sir.

**Pradeep Parameswaran:** Thank you so much. Welcome to all the analysts on the call and thank you so much for being part of the Q1 FY16 results. Upfront, I would like to give you a few highlights of our performance on the quarter, mostly on the strategic side. I am sure you would have seen the investor presentation that we have released on the overall business and financial performance for this first quarter of fiscal 2016.

As I had explained in the last call, the first time I did this, I had laid out four value creation levers and I would like to spend some time on progress again on those four levers before I hand it over to our CFO to go through the detailed numbers.

The lever number one we had talked about was monetizing our DAS-1 and DAS-2 subscriber base which is already seeded. On that, in this quarter we have increased our billing by about 5%, increasing from about Rs.74 per box in the last quarter to about Rs.78 per box this quarter that is being done on the back of two major changes. Number one, we have taken a pricing adjustment in some markets and number two, we have made substantial progress on packaging with about 44% of our base customers now on a package.

Lever number two we had talked about was to drive broadband penetration and moving into a kind of hyper growth phase over the next four to five years. On that I am very pleased to report that our subscriber base has grown by 52% this quarter compared to our base last quarter which was at 23,000 subscribers, we are at 35,000 subscribers and continuing to add momentum. Also on a good note on the homes passed we have 47% growth, last quarter we were at 330,000 homes passed and we have added 157,000 homes passed this quarter. I am pleased to say that we are on track for an overall goal for FY16 of slightly over 100,000 subscribers and 1 million homes passed.

The third lever that I talked about was expansion in the footprints of DAS-3 and DAS-4 where we have started to make a substantive amount of investments over the last many months. On that we have added 185,000 boxes in this quarter, we now have a total of 2.25 million boxes in DAS-3 and DAS-4 markets which we hope to monetize as soon as the DAS deadline passes this year at December 31st. Overall on that lever we also see an improved per box revenue and EBITDA.

Lastly, we had shared progress on the DEN-Snapdeal joint venture. I am pleased to report that on that venture we have increased our reach substantively from 25 million homes to 33 million homes, our conversion ratio has also improved from 30% to 32%, the margins of the business continue to hold, and consequently the financials of that business continue to show robust improvement.

At this time I would like to hand over to Manish to walk us through some of the most important numbers.

**Manish Dawar:** Thanks Pradeep. Ladies and Gentlemen, I am sure you would have seen the presentation that we circulated this morning on our Q1 business performance as well as financial performance for DEN Networks. You would have noticed that we have tried to give you some additional information as requested by some of you in the previous call which we hope goes well with you.

In summary, on a consolidated basis talking about the numbers, we had a flattish quarter in terms of consolidated revenues and profitability. We achieved a consolidated revenue, I am talking about net of LCO share, of INR266 crores in the quarter versus INR270 crores in the previous quarter with cable accounting for INR256 crores out of the same versus INR265 crores in the previous quarter.

Cable subscription revenues, net of LCO share, improved by 5% on a quarter-to-quarter basis to INR119 crores from the previous quarter number of 113 crores. This resulted in an average revenue on per box per month basis in DAS markets to INR78 versus INR74 a quarter ago. The collections efficiency continues to be strong during the quarter and this is one of the key metrics that the new management team is highly focused on. The placement income was lower by 5% on a quarter-on-quarter basis and the number was 118 crores in quarter one of 2016 versus INR124 crores in fourth quarter 2015. The number was higher in the previous quarter, as we had mentioned in the earlier call, due to annual true-ups for one of the broadcasters placement income.

Revenues for broadband business stood at INR 5 crores, a 49% increase on a quarter-to-quarter basis primarily driven by subscriber additions. As Pradeep has talked about we have grown by almost 50% on our number of subscribers' gross additions during the quarter. TV shop gained traction and the share in the Snapdeal-JV revenue improved to about INR2 crores which is literally double versus what was booked in the last quarter at about 1 crore.

Moving to profits, EBITDA excluding activation remained flat at a loss of INR 20 crores. However the cable business EBITDA pre-activation improved from 1 crores to 3 crores in the current quarter. The same number post activation income stood at positive 18 crores, an improvement of 28% over the previous quarter. Cable business had a positive cash PAT of INR 31 crores during the quarter. Broadband continues to gain momentum with almost 50% increase in the homes passed and subscriber additions during the quarter. The losses at EBITDA level for broadband during the quarter stood at 18 crores, TV shop loss was 4.4 crores and soccer loss was 1.4 crores as we know we are entering season two on the soccer side and therefore we will see the representative number coming in the next quarter and I have talked about these numbers at the EBITDA level.

As discussed during our previous call, our intent remains that we will divest out of the soccer business and we continue to scout for opportunities available in this space. We are pursuing some opportunities. Of the 27 DAS cities where DEN is present, 13 cities have moved to a billing rate net of taxes of INR80 plus compared to 11 in the previous quarter, 60% of paying DAS subscribers are now in the bracket of INR80 plus and above compared to 50% in the previous quarter. The strategic initiatives being implemented by the new management team has started to show results on the cable business and broadband business is gathering a good momentum in terms of rollouts and conversions.

We are getting ready for digitization initiative of Government of India in Phase-III markets and are in process of finalizing the orders for STBs. We support the current momentum that TRAI has shown by having workshops in various markets and we look forward to successful digitization in Phase-III markets a per the timelines indicated by TRAI and Government of India.

With that I would like to open the floor for Q&A. Thanks a lot.

**Moderator:** Thank you very much members of management. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** On slide 15 in your presentation on the right hand side the chart, that is on the digital subscribers are 5 million in the DAS-1 and 2 markets or it is on total digital subscribers of 7.22 million?

**Pradeep Parameswaran:** Sorry, we were not able to hear that question at all.

**Dheeresh Pathak:** I am referring to slide 15 of your presentation, the chart on the right hand side of slide 15 where you provide a distribution of DAS subscribers on the ARPU categories, I want to know that this is on 7.22 subscriber which is a total digital subscribers or this is 5 million subscribers which is just your DAS-1 and DAS-2 subscriber?

**Pradeep Parameswaran:** Okay, the base here is 5 million subscribers we have talked about only in DAS markets which currently constitutes DAS-1 and DAS-2. However, if we were to look at in detail we are saying it is percentage of paying DAS subscriber so which we said this percentage is of the active subscribers that we have which is between 75% to 80% of the total DAS subscribers that we have in Phase-I and Phase-II.

**Dheeresh Pathak:** Okay. So this is the 75% to 80% of 5 million?

**Pradeep Parameswaran:** That’s right.

**Dheeresh Pathak:** Okay. And when you report the broadband ARPU, this is before any share to, because when I work out from your broadband revenues and number of subscribers the number comes out to be almost 20%, 25% lower than the reported ARPU. So what is the difference?

**Manish Dawar:** That’s correct, it includes the LCO share and the distributor commission.

**Dheeresh Pathak:** Okay. And now just thinking about the content cost as a percentage of subscription revenue it has gone more than 100% and that is what impacting primarily the cable business EBITDA performance except activation is my understanding, so how to think about it, it looks like a very high content cost versus the subscription that we are getting.

**Manish Dawar:** Okay. The way to look at this line is not to look at the content cost in isolation, in fact you need to look at content and carriage together and if you were to look at the two together I think we are at a healthy clipping compared to where the entire industry stands because end of the day from broadcaster's perspective they always look at what is that they are charging and what is that they are paying, so therefore we need to look at content and carriage together and not in isolation.

**Dheeresh Pathak:** Okay. But the way we understood digitization was that carriage would go away meaningfully because that is what DTH do not get any carriage and then subscription revenues would increase and content cost would go up.

**Manish Dawar:** Carriage will not go away, what we had talked about earlier and what is probably the industry also talking about. Carriage as a percentage of the overall revenue for the company will drop in percentage points because the subscription revenue is expected to grow at a much faster clipping compared to carriage income but carriage in our view is here to stay and it is not kind of going to get down to zero levels.

**Dheeresh Pathak:** But at a broader level if you look at year-over-year the subscription revenues are flat and carriage revenues are flat and EBITDA is almost down by 90%.

**Manish Dawar:** Yes, which is mainly as we indicated in our previous call I mean in Phase-I and Phase-II markets for example the content deals have moved from fixed price deals to per subscriber based deals and the subscription is yet to catch on but it is definitely catching on. The content has moved ahead of the subscription income but we are seeing positive results on the subscription side as well. At the same time I think Pradeep can also talk about the packaging initiative that we have taken as to how that packaging will not only help us on the subscription income side but also the content expense.

**Pradeep Parameswaran:** And Dheeresh just one other thing for you to know, you are looking at EBITDA at an aggregate level do not that that EBITDA number reflects the additional cost and investments and OPEX that we are incurring for Phase-III and Phase-IV markets where we have 2.25 million boxes that are not being monetized at all and so the overall EBITDA does get dragged down by the effects of the OPEX and the expenses on that side as well.

**Dheeresh Pathak:** But even that impact aside, I mean we were thinking of an EBITDA growth where we are seeing EBITDA decline, even if you do adjust for that it will still be a de-growth. The bigger issue is that we are not able to increase subscription revenues in line with and you have obviously accepted it, so why is it that we are not able to increase in the value chain the subscription revenues in line or ahead of content cost increase?

**Manish Dawar:** Okay. I think your point is valid that it is definitely not moving ahead with the content cost but we have an LCO piece where we have started to engage the LCOs and we are positive that that will kind of come around. At the same time, we have seen that the collection efficiencies have gone up over the last 12 to 18 months compared to what the numbers were earlier and therefore that is the reason for our confidence.

**Dheeresh Pathak:** Okay. And last question from my side, on the broadband home pass, per home pass the CAPEX is about 2000 bucks, right?

**Pradeep Parameswaran:** It is currently at about Rs.1500 to Rs.1600.

**Dheeresh Pathak:** And on top of this is there a subsidy on the modem and WiFi router and all that?

**Manish Dawar:** There is an acquisition cost that is between Rs.2500 and Rs.3000 that is consistent with the last quarter.

**Moderator:** Thank you very much. Our next question is from the line of Naval Seth from Emkay global. Please go ahead.

**Naval Seth:** You have shown improvement in all your KPIs whether it is the net ARPU or the increase in number of cities where subscribers are paying now, but why your revenues are flat on net basis on comparable sequential basis, specific reason for the same?

**Manish Dawar:** Naval if you were to look at the total revenues are flat but…

**Naval Seth:** Cable revenues specific.

**Manish Dawar:** Yes, I am talking about the cable revenues only. Within the cable revenue also you have subscription income as well as a placement income, so there is a slight decline on the placement side whereas subscription income there is a 5% growth and that is the key KPI that we need to look at. Apart from that there is this other operating income where the number was high and typically this number is high in quarter four of any year and therefore if you were to do a quarter-on-quarter comparison that number is obviously showing a decline but if you were to compare it to year ago quarter which is quarter one of last year it is more or less inline. So let's say if you were to get into a little bit of granular detail you will see that the numbers are moving in the right direction.

**Naval Seth:** Are you happy with this 5% QoQ growth?

**Manish Dawar:** It is not a question of being happy or unhappy, the point is that we have to do a lot more and we have just started the journey and I think we are moving in the right direction, that is the key message.

**Naval Seth:** And sir what all things now change in management you are on board, so what all things you are doing to drive collections on ground, in the sense that how we are trying to tackle LCOs to give out more share which they were not giving in digital scenario as well in last 1.5, 2 years in DAS-1 and DAS-2?

**Pradeep Parameswaran:** Sure. Can I just talk about three or four things which we talked about on the last call to just set the stage because we are continuing to educate against each other? The first one is that there has been pricing adjustment that we have taken in some markets that journey is not complete, it is yet to play out in some other markets but the fundamental price that we charge or what we call the B2B price to the LCO has actually been changed in some markets, that’s point number one. Point number two is that we have to move to a regime where our revenue and content cost move in synchronicity what I mean by that is that all of our customers have to go on a package. If you remember the quarter before last they virtually had no customers on packages, we started the journey of packaging in the last quarter of the year, this quarter we have put roughly 44% of our customer base on a package, there are two effects that it has: Number one, in most cases the realized billing actually will go up, we have not fully implemented the billing prices on the package yet, that will play out in the coming quarters but we expect the billing to go up because of that. Number two, wherever the consumers are choosing a lower pack because of which the billing may go down but it also brings down our content cost in line with the packages that the customer selects. So it helps us in two ways, that journey has started actually quite aggressively in this quarter and we should see the effects of that in the coming quarter, I would say the rest of the days should get onto a package in the third quarter of this year and by the time we get to fourth quarter we should have the full impact of that on the entire digital base. So that is the second thing. The third one where I think the progress is much slower than we would have liked is on high definition penetration. As we know in DTH the high definition penetration is anywhere between 10% and 20% and the high definition customer ARPUs are substantively higher than the standard ones. On that our progress has been slower than we would have liked to but we have measures in place that will allow us to make progress on that through the course of this year.

**Naval Seth:** Okay. And sir as you said when subscriber chose for a lower end of package, no doubt content cost moves down because of the higher FTA channels over there, but is it not negative in long-term basis where realization improvement would not happen and we have seen in some DTH companies as well when package price increase happens there is a lot of down trading within the packages which restrict the ARPU growth. So if that happens in the initial round of implementation so probably taking up the prices has been very tough in India if you look at any industry. So how you, because why I am asking this is your package price for say including sports channel is far higher than a DTH operator say including Star Sports and English content your package would be at say Rs.480 in

Mumbai inclusive of taxes versus DTH guys would be giving at Rs.325, 330 odd levels. So despite of significant premium is it the hindrance in terms of implementation of package wise billing and that is where people are choosing lower packages or how it is like, because there is a lot of confusion in terms of how this industry would evolve going forward because there has been nothing positive despite of digitization as far packaged wise billing is concerned.

**Pradeep Parameswaran:** So it is not clear to me, you might have picked up a one-off example, we have done the assessments across every single market and we do not find what you are talking about to be factually correct. So…

**Naval Seth:** Sir I am talking about Bombay market because why I am giving this facts because I was a DEN subscriber that's why I have given this fact, otherwise I would not have given this.

**Pradeep Parameswaran:** On a lighter note I often say that our analyst community majority of which lives in Bombay is very colored by what happens in Bombay.

**Naval Seth:** No, but because for me also the difference was almost Rs.130 for the same package on DTH then on DEN, that's where my question is.

**Pradeep Parameswaran:** My dear friend, structurally if you just talk around a trade I would love a situation where cable is known for being premium priced over satellite, I wish that was the situation. But if you check your facts over the last many years that is absolutely not the case, in fact in most markets cable is always called the poor cousin of satellite and that is an issue we have to solve.

**Naval Seth:** Okay. And your structural part, because most of the facts or say CAF form does not have correct information given by the LCOs and again similar thing is happening where you guys are giving pre-activated boxes for Phase-III, Phase-IV so how package wise implementation would happen going forward across India on digital?

**Pradeep Parameswaran:** Naval I am sorry, at least if there is an exception I am sure that might be the case but we are not giving boxes on pre-activated basis, wherever you have gotten your facts I do not think that is accurate. But to answer your bigger question…

**Naval Seth:** No, all the Phase-III subscriber which are getting digitized now your boxes you are first getting the CAF and then giving out the boxes?

**Pradeep Parameswaran:** Will you give me a minute to explain? The answer is as follows, for those who have followed the telecom journey I would like to remind everybody it took seven to eight years to actually get KYC to the level of compliance with a very-very high degree of push by both the regulator and the company, so it is not an easy thing to do, it is a journey that at least at DEN we have started quite aggressively. I also know that from our major MSO competitors and collaborators they are also taking this very seriously with the help of TRAI, TRAI has been very good in terms of supporting and being forbidding on it but they are also increasing the pressure. Consequently the journey towards getting to a 100% KYC has started quite actively. Now you may ask the question around where is the proof point that you all have the capability, I would like to actually just give you one quick anecdote which is that in the broadband base that we have we have 100% accuracy and compliance in KYC for same cable company that is doing it and so I do not think it is a matter of our own capability but the process has changed and it is not easy and so I expect that there will be strong progress on it but it will take some time.

**Moderator:** Thank you. Our next question is from the line of Rajiv Sharma from HSBC. Please go ahead.

**Rajiv Sharma:** Just a couple of questions from my side. So I missed one part you mentioned about packaging that one is realized billing goes up and second is whenever consumer chooses lower pack then what, I just missed that so if you can explain that? Second is, what is the gross billing now in Phase-I markets and Phase-II markets separately, how is that moving up? And third is, in terms of HD so what is the target you have internally or a bigger picture target you have that 10% of your base will be on HD by how much time? I thought content cost that was a deterrent because broadcasters charge a bomb when you provide HD and that is why it has been a deterrent, so some color on these things please.

**Pradeep Parameswaran:** Sure. I think just the clarification was that I am saying if the consumer chooses a lower pack our content cost goes down. Now you asked a question on gross billing, see we are doing as much or my sense is industry leading disclosure on data so you all get a sense for how the business is moving but we are not splitting out our billing rate on a per sales basis so with your permission I would like to not go into that.

**Rajiv Sharma:** Sir is this a recent change because till last quarter everyone was talking about 100 and 75 and 80, so any significant reason for this thing, is the slippage there in Phase-I or is it because I think in the industry all players have been discussing this.

**Manish Dawar:** Rajiv, we have never talked about in terms of what is, I mean we have talked about few quarters in terms of exit rate because Phase-II at that point in time was a new phenomenon whereas now-Phase-I and Phase-II is getting kind of converged and therefore we are kind of looking at from our internal perspective also Phase-I and Phase-II markets as one set of markets and we are pushing equally hard in terms of billing and collection. Whereas let's say when the Phase-III gets digitized, for a few quarters obviously we will be talking about how Phase-III is progressing and then that will also get converged in the overall pool.

**Pradeep Parameswaran:** And just to reiterate that is that at least on the way we are managing on the ground to me there is no difference between a Phase-I and Phase-II markets, yes Phase-I markets maybe slightly more amenable to higher price but fundamentally the goals that we have in terms of profitability for both markets is much higher than where it is currently. So we are managing it collectively. Your last question was on high definition, to be honest I am not in a position to actually give you a target yet primarily because we are doing a lot of work internally on firming up the way to drive HD penetration. As you rightly suggested the content cost on HD is not trivial, the benefit of course is that top-line ARPU goes up, there is also an added customer who pays Rs.x for an HD box tends to stay with you longer so there are some churn benefits as well. But to be honest we are not ready yet to give out a target number, my expectation is that over the next quarter or so we will be able to form up our point of view.

**Moderator:** Thank you very much. Our next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** While I have three questions I will limit myself to two. I see that you do not report churn anywhere in your presentation and we as analyst have been used to this number at least from the DTH part, the reason why I say this is if I look at your subscriber additions for the quarter around 25,000 odd come from the Phase-I, Phase-II markets and the remaining significant chunk 90% come from the Phase-III markets. Now if I look at the DTH commentary, at least they have been claiming 30% still coming in from Phase-I, Phase-II and their gross additions have been in the range of 6 lakhs. So the total number of subscribers that you are adding overall they are adding itself in Phase-I and Phase-II markets which I believe cannot be normal organic growth and it could be driven by churn from cable. So in that context I would to like to know the churn.

And the second question clearly, we have heard certain news information about JV partners of DEN forming an association and out of the few demands there were some demands of equity dilution by them to the parent. So can you update on what is the delinquent on that front?

**Pradeep Parameswaran:** Sure, happy to. Vikash on the first one which is the churn question, as you know we do not report that number because we are not yet a B2C business, churn is a metric that is managed in a very micro way by anybody who has a B2C business and we would like to get to that. So one thing that we can tell you is the number we look at is the number of paying subs, for Phase-I and Phase-II markets we are not actually seeing a major decline in the paying subs number at all, that number actually has held quite well. At some point if it is helpful we may get into disclosures of those numbers but I do not think the timing is appropriate but I will tell you that we are not seeing a lot of decline in the number of paying subs that we charge for in the market place.

**Vikash Mantri:** Overall subs there might be a decline because of the churn to DTH?

**Pradeep Parameswaran:** Sorry, say that question again?

**Vikash Mantri:** Overall churn, while paying subscribers are increasing but your overall subscribers which you claim are close to 13 million which is the universe that might be declining because of having churn to DTH?

**Pradeep Parameswaran:** So there are two sides to this argument Vikash and to be honest till we actually finish the digitization Phase-III, Phase-IV you will never know for sure. I will tell you there are two possibilities, one is what you are saying which as your sub base has actually gone down from earlier. The other thing that I will tell you and I was not here then but I have been told and I have looked at the numbers, for Phase-I and Phase-II we drastically underestimated the number of boxes that were actually there to be seeded. When we actually get down to seeding in a majority of markets what we found was that we were short of boxes because the number of boxes that actually need to be seeded was much more than what our analog box reports were primarily because on the report. So I would love to see how this plays out but I do not think it is a one way reduction of our current pace.

**Vikash Mantri:** Okay. On the second question?

**Pradeep Parameswaran:** Sure. See this question that you raised around DEN Equity, as you know we own varying degrees of equity in our JV partners all the way from at 51% going up to 99% in some cases and that has not always been the case, every quarter, every few months there is some deal or the other where we may pick up for a variety of reasons incremental equity stake and that is an ongoing process that happens with most of our JVs. In the JV partnership that you are mentioning, it is absolutely factually correct that they have come together as with any good business most of the JV partners have raised a certain set of issues, we have raised a certain set of issues which are normal in the course of any business and we are going through a very structured process of driving the resolution, these are not financial in nature alone, there are a number of operating challenges around improving the state of the business and so that continues to be a constructive process that we are undergoing with all the JVs, especially in the new management regime we are putting a lot more structure around that.

**Vikash Mantri:** Just to understand, when you are buying equity stake, can we understand the metric of evaluation because a price is paid for that in a way affects the minority shareholders of DEN Networks as well, so if you are paying abnormally high price it might not be so good for us and the vice-versa. So the metrics at least, I know it is a difficult thing, every JV has it's own reasons but some sales to or a per-subscriber evaluation numbers?

**Manish Dawar:** Vikas what you are saying is indeed true that it is difficult one for them and difficult one for us to also disclose, but broadly we look at in terms of what is the payback period, what is the current operating profit, whether it makes sense for us to invest the kind of money given that market situation that in. So there are various qualitative factors, however let's say for example we are least bothered in terms of the per-subscriber based evaluation system because that can vary tremendously from market to market, so we look at much more holistically on the overall financial and not just this one matrix.

**Vikash Mantri:** So an EV to sales or an EV to ARPU kind of a thing would be a better metric?

**Pradeep Parameswaran:** Yes, we use a combination of those metrics.

**Moderator:** Thank you. Our next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** Just two three questions from my side, one would be if you can update us on anything on the prepaid side that we are doing in cable? That was the first question, if you can update that. So the other question was, we have been hearing a lot of broadcasters actually thinking of if not actually implementing à-la-carte, so just wanted to understand if that happens how does the carriage piece then pan out because I would assume that the large four, five broadcaster groups would contribute at least 40%, 50% to the overall carriage pool. That’s the second one. And the third one if I can just pitch in, I was just wondering whether we should look at content cost as a net content cost, net of carriage or is it better to look at gross because the ones who really take content cost form you are really not the ones who pay you high carriage and the long tail pays you carriage whereas if the guys who really take the content cost are the larger guys. I was just wondering if that is the right way to look at it in terms of a net content cost. Your comments will be helpful, thanks.

**Pradeep Parameswaran:** Sure, absolutely. Let me just take this one by one, I will take the last question first, quite straight forward, I would highly encourage the entire analyst community to look at net content and carriage always together. Structurally that is a metric that we want to manage the business towards, by the way all negotiations include both carriage and content together, we do not negotiate either of those separately with any other broadcasters anymore and consequently the metric that matters for us is what is the net content minus carriage pay out by market.

Your second question is on à-la-carte, I get asked that question very often and there is as you know there is an ongoing dialog with many of the broadcasters where deals are about to expire or have expired and that is their case for all MSOs. Now just couple of things to think about, if I have my math there is about 18,000 crores of total advertising revenue that the broadcasters tap into, that comes because they have reach, every time they reduce reach and we have had many anecdotal examples, even just in my tenure in the last six months, the adverting revenue does actually take a hit and the reduction in advertising revenue far outweighs any benefit in terms of increased content cost that they pay the MSO. So it is not a straight forward question. Going to à-la-carte makes a pre-supposition that a large number of your customers are wanting your channel and if they do not get that channel many of them will either churn or call up and then pay the money. Our experience has been that there are very few channels in this country for which a large number of customers call up and insist that they need it, as we know India on a global benchmark basis have among the largest number of channels and so consumer choice is not an issue and consequently that balance is not easy to maintain. If I were to guess today, my guess is that there will always be a small slew of channels particularly expensive channels that will be on à-la-carte and should be on à-la-carte especially if there are only 10% or 20% of the base of customers that actually want that product and because the advertisers may not be that keen around building an advertising base model for the broadcasters around those channels. But the channels that are expected to be let's say GC, or news or kind of the mainstream ones, for those channels reach is very-very critical and so we have to be careful in term of going to à-la-carte in that construct because your reach can suffer quite dramatically, specially once we get passed the Phase-III digitization the reach of the largest MSOs are likely to multiply from the current position.

**Rohit Dokania:** Sure. Sir if I may just add in one here, I was just wondering, I understand one broadcaster doing it alone will have problems on reach but let's say if the last four, five guys do it together then reach is also relative, it is the strength of the content. So from that perspective would that be harmful then for us in terms of carriage?

**Pradeep Parameswaran:** Just the way the broadcasters can bank together, if the top MSOs come together you have a same situation in terms of reach.

**Rohit Dokania:** NO, but that has really not happened, we have been hoping for that for a long time honestly but we have not seen that to happen on the ground really.

**Pradeep Parameswaran:** Yes, it is unfortunate that not all of the things that are happening in the background will be visible, I can only tell you that the level of collaboration with the MSOs has been at least in my experience having actually worked with multiple MSOs over the last there, four years is the most that I have seen. I am not saying that there is not a lot more to be done but I hope you will see some steps towards that in the months to come in terms of collaboration.

**Rohit Dokania:** Sure sir, looking forward to that. And last point on any progress on prepaid.

**Pradeep Parameswaran:** Yes, actually to be honest that is one of the things that we would have loved to have more progress on, we have not made a lot of progress on prepaid yet, it is on our roadmap, we would like to do more, we have not done enough.

**Rohit Dokania:** Sure sir. Sir to just understand what really are you planning to do out here, will you be trying to take the base pack also prepaid, or it is just the base plus 1, 2, 3 packs to start with or how would it go?

**Pradeep Parameswaran:** No, structurally the reason you want to go prepaid is because you want to actually do two things, number one, give the consumers the convenience of doing lots of things in the way that they are used to doing for most telecom products or satellite TV and second is to actually make sure that the cost of collection goes down. If you think about LCO economics collection cost is a large chunk of their revenue and it should not be that, there are ways and means today to have collection cost be no more than 2% to 3% of your revenue. So if you are doing prepaid, ideally it should be for everything and I do not think it makes a lot of sense to have a hybrid system in the end state, from a transition standpoint there maybe always couple of combinations I need to get rid of.

**Moderator:** Thank you very much. Our next question is from the line of Urmil Bhatt from IIFL. Please go ahead.

**Urmil Bhatt:** Just taking further one of the question on churn, now I understand that since we are not fully B2C model it might be difficult to assess exact number of churn, but as you say that you monitor paying subscriber, so what I gather from your presentation there is 5 million paying subscriber base in Phase-I and Phase-II market, can you just tell us that what is the number of STB seeded in this market so we can get some sense of course that would have some people who are out of station, some people who have not disconnected cable for two months but it will at least give us some sense that what is the gap between the paying subscribers and number of STB data.

**Manish Dawar:** Okay. I hope you are talking about in terms of the overall number, right?

**Urmil Bhatt:** Yes, I am talking about Phase-I and Phase-II market for which I have the number of 5 million, so if you can just tell us for Phase-I and Phase-II market what are the number of STBs did?

**Pradeep Parameswaran:** Yes, I think I mentioned that number, it is between 75% to 80%, so 5 million is the total number of boxes seeded and the paying subs are 75% to 80% and the reason as you know in run up to digitization for example there was a lot of confusion in the market so people sifted to DTH as against sticking to cable, but let's say after the entire digitization process started it was implemented, the churn has been very low, the churn has been mainly on account of let's say people shifting homes and those kind of things, at the same time there have been some market share issues amongst the MSOs in the initial phases of digitization which have reduced a lot now and that was the other reason why there is a gap between the number of paying subs and the total boxes seeded.

**Urmil Bhatt:** Okay sir, let me put it very simply. Now you have given that ARPU is Rs.78, so what is the denominator which you have used for ARPU of Rs.78, so that could clear up?

**Pradeep Parameswaran:** Paying subs.

**Urmil Bhatt:** Yes, so what exactly is the denominator is it 4 million, 4.2 million or 3.8 million because that number of course you have used so you would know exactly what is that number.

**Pradeep Parameswaran:** Just to be honest, you all are fair to push for all of these questions, as you know we are continuing to improve our disclosures quarter-on-quarter we have started to give you numbers on a weighted average basis, the number of customers are in the various boxes, do be patient with the management team as we evolve this, not all of these things can be done on Day 1. I will tell you that that you asked us a question of churn, we have given you a pretty direct answer on that.

**Urmil Bhatt:** Okay. Just if one more question if that is possible for you to give then that would be great, like in our subscription revenue what is the breakdown between Phase-I and Phase-II market, digitize and non-digitize, if you can share that detail?

**Pradeep Parameswaran:** We are not disclosing that.

**Moderator:** Thank you very much. Our next question is from the line of Charu Bhatia from Kotak Mahindra Bank. Please go ahead.

**Charu Bhatia:** You mentioned that as of now we have moved on to 44% of our customer base on packaging, could you please quantify that as in what benefits or what implications it will have for us and from where to where will my total revenue from one particular customer move on a monthly basis?

**Pradeep Parameswaran:** I thought I had answered that question earlier on the call. See the benefits of packaging are two folds, number one, of course the first thing is that it is beneficial for the consumer to pay for what content that they want and they want higher end content that costs more for me they end up paying more. So our expectation is that there are two impacts that packaging has, number one, it has a positive impact on revenue, for customers that actually choose a lower end package it has a positive impact on content cost because we do not then end up paying for all the content that the broadcasters want us to show, that is kind of a expected impact. As of date the numbers that I have reported is that there are 44% of our Phase-I and Phase-II subscribers that are on one of the four if I want to say four plus HD, maybe four packs that we have in the market, slightly different variants are available in different markets. The total impact of that form a pricing standpoint we expect there to be a 15% to 20% increase, those numbers will be clearer, to be honest we are in very early days of packaging, majority of these 44% have been put on packs in the last three months. So in the coming three to six months we will start to see the full impact of packaging on ARPU and I will able to record but expectation is that we see a 15% to 20% impact on realized price.

**Charu Bhatia:** Okay. Because if I look at the subscription revenue again quarter-on-quarter basis there has not been any significant change in that, so that is what I was coming from that major impact of packaging has not yet been implemented or it is not coming in effect in numbers as of now.

**Pradeep Parameswaran:** Charu, let me give you one example. We are reporting quarterly numbers, the math will not convert directly because it is not straight multiplication, a number of those customers would have been put on a pack even in the last month, so you would not have seen the full effect of that. Even allowing for that difference as you know we are not in B2C collection mode, what that means is that for my price changes, packaging changes to reflect on ground collection takes a little bit of time, I cannot tell you whether that is going to be one month or three months but we expect the flow through to revenue to happen in the coming quarters.

**Charu Bhatia:** Sure sir. If you just allow me one more question as well, so how are we there on the receivables collection front, I mean as we understand that we have receivables from my LCOs as well from our placement broadcasters could you please give a sense on how are we there on the collection front?

**Manish Dawar:** Our collection efficiency has improved a lot over the last few quarters and obviously we are not disclosing the exact numbers. On the placement side we have got a few litigations going on with Sahara TV and Mahua TV, so barring that there are no issues on the payment side of debtors.

**Moderator:** Thank you very much. Our next question is from the line of Shankar P from Soaring Commodities. Please go ahead.

**Shankar P:** Is there any issues with any broadcasters related to interconnect agreement, what are they? What are the major type of issues that are stopping intern-connect agreement among the fraternity? Do all the top 10 MSOs have issues with broadcaster? This is first question. Are we planning to increase our subscriber base from 13 million to including digital and analog? These are the few questions.

**Manish Dawar:** Can you repeat the second question please.

**Shankar P:** Are we planning to increase our subscriber base from 13 million including digital and analog as of today?

**Manish Dawar:** Okay. So in terms of the interconnect agreements, I mean we are looking at former propositions from broadcasters on Phase-III markets as we kind of get into a digitization of Phase-III market and that is where TRAI is also helping both sides in terms of broadcasters as well as the MSOs to kind of get to some kind of agreement on the numbers before we start to kind of get into those markets aggressively. Apart from that there are no big issues because they are pretty much routine in terms of deals getting expired and deals getting renewed, so there are no big issues on the interconnect agreements with the broadcasters.

**Shankar P:** Okay. Are there any other major type of issues that are stopping interconnect agreement among the fraternity because this is a major issue which TRAI is updating.

**Pradeep Parameswaran:** No, I think what TRAI is specifically pointing out to like Manish said it's the Phase-III agreements, as we know that is a dating factor for us to confidently seed a lot more boxes and so TRAI is supporting that specifically with reference to that.

**Shankar P:** Okay. Do all top 10 MSOs have the issues with broadcasters, the reason behind asking this is are they trying to drag the interconnect agreement so that the deadline would be postponed?

**Pradeep Parameswaran:** Shankar, the word issue I think is too strong a word, it is part of a natural negotiation process, as always we would want the contents cheaper and broadcasters would want to monetize a lot more. So it is a just a part of the negotiation process, I hope that there will be good progress on that in the coming few weeks.

**Shankar P:** Few weeks?

**Pradeep Parameswaran:** Yes, coming few weeks.

**Shankar P:** Okay. Are we planning to increase our subscriber base from 13 million?

**Manish Dawar:** Shankar our aspiration is that we want to be growing beyond 13 million subscribers, we are still trying to crystallize, it depends on what are the opportunities available and is the timing of those opportunities. We have not shared the numbers, we have not shared in terms of what exactly we are looking for but indicatively yes, we want to grow beyond 13 million subs that we have currently.

**Shankar P:** Okay. One more last question, please provide me the opportunity. Regarding the recent road show, a lot has been update on the site, we were not aware of any of the road shows that has occurred from last June 2013 till date, are there any road shows that have occurred in between this duration?

**Manish Dawar:** Whenever we do any road shows we upload our presentations on our website, so you can go there and see whatever road shows we have done and what are the presentations that we have made. It is pretty much in line with the previous quarter presentation that we would have made and this is basically to meet investors and to make sure that we kind of strengthen our IR management and the investors feel confident with the management team.

**Shankar P:** No, till this date only investor update has been updated from June 2013, apart from the recent one road show. To be precise, how many road shows have we done till date?

**Manish Dawar:** So that’s what I saying, whatever has happened has been uploaded, so there is nothing else which has not been done.

**Shankar P:** Okay. Then should be the only one from June 2013?

**Pradeep Parameswaran:** Yes.

**Shankar P:** Okay. One more thing sir, are we planning to raise any funds in the next two to three months?

**Pradeep Parameswaran:** I cannot share that information.

**Moderator:** Thank you. Our next question is from the line of Rakshit K from India Ratings. Please go ahead.

**Rakshit K:** I just wanted to know about your plans on the broadband side, in terms of what are the future outlook that you are seeing for the broadband and the growth for that business?

**Pradeep Parameswaran:** Yes, long question we can stay here all afternoon, I am glad at least somebody asked me the question on broadband. See, I think it is obvious to everybody that is following the space that at least DEN is very serious about the broadband growth opportunity. And Manish gave guidance over in the last call we are investing at least for us the substantive amount of capital in rolling out a broadband network. Currently we are only in Delhi, over a five year period we would love for our broadband business to be of the order of magnitude of 3 million to 4 million subscribers across homes passed base of more than 15 million. And so we are serious about that and we are putting together a number of things that our enablers who are disliking that. Even just in Delhi which is the only market where we have broadband and as we speak today, by the end of the year I expect the broadband revenue to be a substantive percentage of the cable revenue, and over the course of next year may be even higher than my cable net realized revenue. As we speak we also have plans to expand in markets beyond Delhi, that will get clear over the coming quarters, as and when we launch new cities we will be making announcements that you can follow in the public press.

**Rakshit K:** Just one thing, because as per the TRAI data the way we see, though there has been substantial increase in the broadband subscriber base in India but that has primarily been on the mobile broadband or the wireless broadband. While the wire line broadband has to some extent remained stagnant over the last three, four quarters or maybe more around 1.5 crores or whatever the number would be. So given that kind of scenario how do we see a wire line broadband being put in by DEN to grow?

**Pradeep Parameswaran:** Sure absolutely. So what you are reflecting on is legacy, if you take that view to it obviously the picture on fixed broadband has been very poor in India over the last many many years. In fact the only people who have really faced the infrastructure on the ground are the incumbent government telcos and to some extent debtor and both of them have mainly DSL with some fiber but mainly DSL and relatively so speed products. So I would say India has not even started to see the beginning of fixed broadband. Now from a scale standpoint, wireless broadband in terms of number of users is going to be in hundreds of millions, whether it is 300 million, 400 million, 500 million, 600 million, your guess is as good as mine but everywhere in the world fixed and wireless broadband are always a coexistent thing, the proposition of fixed broadband is twofold specially in a market like India which is spectrum constrained and where spectrum is expensive the proposition is twofold, number one, the speed delivered and the experience of network is much better and number two, the cost of delivering very large volumes of data is actually a fraction of what it costs on wireless and that case has been proven out in many countries, so I do not expect India to be any different. In fact just based on our very early experience we will say that India is showing all the signs of being a supply constraint market on fixed broadband.

From a usage standpoint anywhere in the world roughly 70% to 80% of the actual data consumption happens inside a premise, it is either inside your home or in your office and what that means is that you guys may all have personal experiences but the first opportunity that you have is hop on to a WiFi network which is indirectly a fixed broadband network, you hop on to a WiFi and so we expect that to happen. I will also say that the government is making some very serious moves in terms of facilitating fixed broadband growth of which I expect to see some announcements in the coming months that will be favorable. And lastly just from a number stand point, you can get let's say if India gets towards at least 20% penetration of fixed broadband that number is still much larger than where we are today and the number of users there is a multiplier effect, right, as with everything in India where average fixed broadband connection will get used by six, seven, eight people, not just in your household by sometimes by our neighbors as well. So from a user base standpoint there is a multiplicate factor with each broadband connection.

I will leave you with one last anecdote, the average usage just in our very small base of broadband subscribers today is upwards of 30 gigabytes which tells me that the demand is just massive.

**Rakshit K:** Just to have the last thing, do we see while we have Reliance Jio coming in December and probably we will have much better wireless broadband in 4G, as well as there could be Reliance Jio or other 4G players going in with the FTTH kind of technology for the last mile connectivity as well. Do we see any substantial competition from these players for the wire line broadband?

**Pradeep Parameswaran:** Absolutely, I anticipate full competition from many of the large players for the fixed broadband business, by the way of course 4G will come but 4G has been available in many parts of the world for a lot longer than India, in those markets fixed broadband has done just fine, if you all tracked the market caps of many publicly listed companies broadband has contributed to a total market cap has actually only grown. So I do not worry about wireless as the competition, wireless has it's own space, like I said coexist with fixed broadband is my belief. On competition I fully expect there to be competition on the ground and we expect to compete on the back of a solid product and very difficult to match price points, but having said that more importantly the much maligned LCO that we constantly as a sector have always talked about in a tough way they have a very strong role in terms of driving MSO broadband rollout and I will tell you at least in Delhi we are getting a lot of cooperation from our ground partners in terms of drawing out the network and rolling out networks which will not be easily available to all the other new entrants.

**Moderator:** Thank you. Our next question is follow-up question from the line of Rajiv Sharma from HSBC. Please go ahead.

**Rajiv Sharma:** Sir I missed out your clarification or your comments on this DEN India JV association, what is the dispute, how are you trying to resolve it? I got the valuation a bit and you are using your own metric but if you can help me understand what is the issue and how are you trying to resolve these areas?

**Pradeep Parameswaran:** See, we have a partnership with these JVs for many-many years, it is a long existing partnership and as always in any partnership there are a number of challenges both operationally, some financial and it is an ongoing issue, the JVs have taken a more structured approach and we have taken a more structured approach to driving it. In terms of the substantive nature of those issues I would guarantee that they are no different from what they were or have been over the last many years and we are working in a constructive fashion, working with them to resolve these issues literally on a day to day basis.

**Rajiv Sharma:** No, I understand that but how are you trying to resolve it and what are the issues if I can understand them a little better.

**Pradeep Parameswaran:** Sure, like I said there are issues across different parts of running an operating business, in any partnership for if you have experience having run partnerships, partnerships give and take on both sides and there is an ongoing dialog.

**Rajiv Sharma:** Sir are you approaching Phase-III without these JVs and what was this valuation formula about?

**Pradeep Parameswaran:** Sorry, I did not understand the question. Are those same questions or different questions?

**Rajiv Sharma:** These are same questions, since you are not providing any color on the issue that's why I just want some color on the issues and how are you trying to resolve this.

**Pradeep Parameswaran:** Okay. So if you were to look at let's say economic interest in Phase-I and Phase-II markets between us and the JV, I mean then it has an economic interest of upwards of 75%, it will be in fact close to about 80% and therefore Phase-III markets if at all will consolidated at further rather than dilution, so therefore it is not going to be hugely different compared to what was there in Phase-I, Phase-II even let's say Phase-I and Phase-II we have a dominant economic interest per say. On the other part of valuation, there is no single parameter that we use as valuation, as you know it is various qualitative factors that go into any valuation mechanism and that is how we value whenever we are buying any equity stake amongst the JV or any outside equity interest.

So you asked a question Rajiv, if I am right, whether we are doing more with JVs in the Phase-III, Phase-IV markets, was that your question?

**Rajiv Sharma:** Yes.

**Pradeep Parameswaran:** That approach is actually varied by market, wherever there is relevant JVs that are available for us to expand market share in a cost effective way we are very much continuing to take that part and there are many markets where they are taking a distributor type of approach to expanding in those markets.

**Rajiv Sharma:** Okay. And lastly, you said the 80% of your set top boxes are active and paying, what was the same number last year?

**Pradeep Parameswaran:** The number has not shifted dramatically over the last one year, obviously there it has declined a little bit and as I said that we are not disclosing the exact number as of now.

**Moderator:** We will take our last question which is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** Just one question would be, what is the kind of box subsidy that we expect in Phase-III on the set top box?

**Manish Dawar:** Rohit, we expect the box subsidy to be in the range of Rs.500 to Rs.600 which will be lower than what we had in Phase-I and Phase-II.

**Moderator:** Thank you very much. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management of DEN Networks for closing remarks. Over to you, sir.

**Manish Dawar:** Ladies and Gentlemen, thank you very much for participating in the call today. We hope it has been useful to you and in fact we are trying to structure this in a better way and we are trying to make sure that once in a year we at least come for face-to-face meetings with the analysts, we are still working on that and we will let you know the plans. Thank you very much.

**Moderator:** Thank you very much members of management. Ladies and Gentlemen, on behalf of DEN Networks Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.