# "DEN Networks Ltd Q4FY15 Financial Results Conference Call"

**May 13, 2015**

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**Moderator:** Ladies and gentlemen good afternoon and welcome to the Q4 FY15 Financial Results Call of DEN Networks Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Participants please note this conference call may contain forward-looking statements about the company which are based on the belief, opinions, and expectation of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. I now hand the conference over to Mr. Rajiv Berlia – Associate IE, Research of Edelweiss Securities. Thank you and over to you Mr. Berlia.

**Rajiv Berlia**: Good afternoon and thank you all for joining us today. We at Edelweiss Securities are very pleased to hold DEN Networks Q4 FY15 Earnings Conference Call. From the management we have with us Mr. Sameer Manchanda – Chairman & Managing Director, Mr. M G Azhar – Executive Director, Mr. Pradeep Parameswaran – CEO and Mr. Manish Dawar – Group CFO. Thanks to the management for this opportunity. Today they will be sharing with us the company's Q4 FY15 Financial Results and business updates. Now I would like to hand over the call to the management for their opening remarks post which we will have the question and answer session. Over to you sir.

**Sameer Manchanda:** Thank you. Ladies & gentlemen welcome to the Annual Earning Call of DEN Networks for the financial year 2014-15. As announced earlier and reiterated in our last call we are new management teams firmly in place now for the last one quarter and they will be handling your queries on the call today. All of us are continue to be excited with the huge opportunity for the cable & broadband state's business and I think DEN is right there exploiting this opportunity to maximize shareholder value. And with the new team in place the belief in the fundamentals of the business are stronger than ever. I think our focus going forward is only one word which is execution and now I would request Pradeep, CEO to introduce himself and share his vision for DEN. Thank you gentlemen.

**Pradeep Parameswaran:** I thought I will start today by giving a brief introduction of myself. I was on the last earnings call but that was virtually within days of my starting and so I was not an active participant. Just as a matter of background, my background is in consulting. I spent about 14 years with McKinsey & Company. I started my career actually at Unilever which was in the late 90s. I joined McKinsey in 2001 in the US. I spent about 6.5 years there. I moved to India in 2008 and was with the McKinsey India

Practice till I joined DEN. Over that timeframe I have spent all my time in the technology space covering service providers, service providers both on wireless and wireline side, working with cable companies. I have also worked with OEMs, handset manufacturers, software players on the like and have been deeply interested in this whole cable space for a long time now. In India actually I started working with the cable companies as a consultant starting late 2011 with digitization started and as I took that over I was struck by how large the opportunities in India, now just because we do not have digitized television but also most importantly fixed line broadband for whatever reason in India had not taken off. And I do firmly believe that between these two areas we have a chance to actually have a really large opportunity that very few cable MSOs, only those with scale can truly access and I joined DEN with the belief that between the strengths of what has already been built over the last 7 years and what we can do incrementally going forward DEN can actually become one of the leading MSOs and be at the forefront of driving now just high-quality digital viewing but more importantly drive a large-scale fixed broadband growth and on the back of that truly change consumption patterns of video consumption, not just on broadcast but using OTT which is fast taking over in many parts of the world from broadcast video. So that is the reason I joined and I have been fortunate that there are many people that have joined our team over the last quarter and continue to join to strengthen our hands. I will spend one more minute talking a little but about our priority before Manish starts to jump into the results and as we go into the Q&A session I am happy to answer any other specific questions that you all may have. Our value creation strategy is predicated really on four levers. Lever #1 is to monetize our Phase-I and Phase-II base with the existing digital subscriber base that we already have. As you know that has been a source of consternation for our and investors in the past. We do think progress on that has been made over the last 12 months and I hope to see acceleration on that. The second lever of value creation for us is going to be drive broadband penetration. We started our Boomband version last year and we have plans in place to, I hope, to get into a hyper growth phase over the coming four to five years. The third level for value creation for us is to take advantage of the Phase-III, Phase-IV opportunity which given on a large base of investments they have already made will provide great operating leverage to increase the cash flows. As you all know we are staring at a Phase-III deadline at the end of this year and we hope to be active participants in that process. And lastly we have a joint venture with Snapdeal, which started late last year which is showing very encouraging signs that combines the distribution and video strengths of DEN with the amazing merchandizing backend and brand capabilities of Snapdeal, which we think is going to create tremendous value over the next few years. So our strategies are really predicated our initiatives that will help us execute across all four of those levers. I expect the first lever to start to pay dividends here in the immediate term, whereas broadband and Phase-III, Phase-IV will add to the company over the medium term and then Snapdeal also in a three to five year timeframe. So those are kind of the four major areas that we are likely to focus on. As we go deeper into this call, as we go into the questions I am happy to take on more specific queries that you all may have. Manish, over to you.

**Manish Dawar:** Good afternoon ladies & gentlemen and welcome to DEN Earnings Call for the financial year 2014-15. By way of quick introduction my name is Manish Dawar and I have joined as Group CFO for DEN Networks in February 2015. I largely come from consumer goods background. I started my career with Unilever in India. I worked with Hindustan Lever for about 5.5-6 years. Went and joined Reebok, which was a startup company in India that point in time, I am talking about 1995, worked for Reebok for 7 years in the roles within India as well as international roles. I left Reebok to join Reckitt Benckiser in 2002 and that was the time Reckitt & Colman had merged with Benckiser on a global basis and they were trying to restructure the operations in developing markets. So I joined as Regional Finance Director for Asia, worked with Reckitt Benckiser for about 10 years of which last about five to six years I was posted in UK as Group Controller. And thereafter I worked for Vedanta for 2 years in Zambia which was completely different in what I had done before in terms of geography as well as the industry. So I worked in Zambia on the mining site and I here I am with DEN now for the last about 2.5 months.

Coming into the results – I am sure you would have seen the press release along with the small presentation that we have released on the overall business and financial performance of DEN for the last financial year as well as the last quarter. We achieved a consolidated revenue of Rs. 1130 crores during the year 2014-15 with cable accounting for about Rs. 10,093 crores out of Rs. 1130 crores.

As you know this number includes the activation income and activation income is not a recurring operational income and this number keeps on fluctuating on the DAS phase implementation as also the boxes that the company is feeding in various geographies over a period of time. While we will continue to follow the best accounting practices to recognize this income, we will start to measure our performance on revenues and EBITDA excluding the activation income going forward, therefore you would have noticed that in that direction we have started to present these numbers without the activation income in our presentations. The activation income, just for your information during the year was Rs. 64 crores.

The cable subscription income grew by 25% during the year from Rs. 365 crores to Rs. 459 crores, which gives us a good solid growth during the year 2014-15. The numbers that I am talking about are net of LCO share and are comparable on a like-to-like basis. On a like-to-like basis we also a see a strong uptrend on the collection side and therefore the debtors are in a far better situation in terms of going forward basis. We have seen a stabilizing bias on the placement income which has grown by approximately 2% from about Rs. 465 crores last year to Rs. 474 crores during the financial year 2014-15. The other operating income at Rs. 33 crores remains flat and therefore the overall revenue line on the cable side has grown by about 11.5%. Broadband and soccer revenues stood at about Rs. 8 crores each for the full year. TV shop gave us a Rs. 2 crores revenue for the full year.

Coming to the EBITDA numbers, EBITDA excluding activation dropped from Rs. 148 crores to Rs. 28 crores this year. This is mainly on account of losses on football which was about Rs. 46 crores. Broadband, a similar number at about Rs. 44 crores and TV commerce business which was around Rs. 5 crores. Cable EBITDA excluding activation income was Rs. 122 crores versus Rs. 147 crores in the previous year. This has been impacted by a significant increase on the content side by all the broadcasters, all bids led by STAR and ZEE. On a consolidated basis your company earned Rs. 42 crores of cash positive profit after tax. Your company continues to invest in the growth opportunities in Phase-III and Phase-IV markets along with broadband and TV shop. We seeded another 1 mn boxes in the Phase-III and Phase-IV markets during the year. You will be pleased to know that Phase-I and Phase-II markets have started to show positive results and for the full year the EBITDA on Phase-I and Phase-II markets was close to about 20% on top line.

We have 11 cities now where the revenue per box is in excess of Rs. 80 per box per month. The significant challenge remains in UP and that is going to be our priority for the current year. I do recognize that in the past we have talked to you on the collection numbers and the billing numbers inclusive of taxes, however in my interactions with investors over a short period that I am here, I have realized that you would like to see these numbers exclusive of taxes and going forward we will talk about these numbers excluding all the taxes as well as LCO share on a consistent basis.

To summarize the year we are on a good trajectory with positive cash profit after tax, good momentum in Phase-I and Phase-II markets, well-funded balance sheet, a strong management team and significant future growth opportunity. With that I would like to open the floor for your queries or comments and hand over to our moderators today who are doing a very good job. Thank you very much.

**Moderator:** Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Shobhit Khare from Motilal Oswal Securities. Please go ahead.

**Shobhit Khare**: Good evening sir. Couple of questions on the quarterly revenues if you could just explain on the subscription and placement, both, how they have moved quarter to quarter.

**Manish Dawar**: On a quarter on quarter if you were to look placement has remained more or less stable. Subscription income is more or less in line with the year on year, so it is a mirror of the same thing on a quarterly basis as well and the other income it is flat.

**Shobhit Khare**: Is not there a jump in placement revenue versus the third quarter?

**Manish Dawar**: It is marginal

**Shobhit Khare:** And second question sir is on the margins in Phase-III and 4, so you mentioned that in Phase-I, 2 the margins are now 20%. So I wanted to understand what was this in fiscal 2014 and has the investment in Phase-III in terms of negative margins increased during the year?

**Manish Dawar:** Just to correct, I mentioned that Phase-I and Phase-II stands at about 20% EBITDA level. Phase 3 and Phase-IV we are in the investment mode and therefore there are losses because the income has not started to occur. So once let us see the digital pitching process gets underway and the confirmed date is there that is where we will start to monetize the boxes. So as you know we have about 2 mn boxes already in Phase-III and Phase-IV markets and going forward once let us say Phase-III, Phase-IV market starts to get monetized we will disclose the numbers for Phase-I, Phase-II and Phase-III, 4 separately.

**Moderator:** Our next question is from the line of Charles Cartletge from Sloane Robinson Investment. Please go ahead.

**Charles Cartletge:** I am wondering if you could comment on your competitive outlook for the industry and it is unclear exactly what Reliance GS plans are but I am sure being on the ground you might have a reasonable idea, whether you think that they could be a disruptive influence on the MSO industry in India.

**Pradeep Parameswaran:** Charles, you are asking the hardest question there is to answer. I am sure our investors on the call and the analysts would all be wondering what was the outcome. So I think the way we think about this is quite straightforward. The total number of households in India and television sets is likely to touch 200 mn over the next 3 to 4 years. We have by the best counts that we have about probably about 6000 multi-system operators in the country. Our strong belief is that digitization happens and as what we have seen just even over the last six months, the profitability for smaller MSOs is materially declining because of their lack of ability to monetize, the higher content cost that they bear, lower placement and higher OPEX because of lower operating leverage. And you combine those things and if I look at the trends in most markets outside of India leads us to believe that this 200 mn market is going to be split of course between DTH and cable but on the cable side by no more than 4 to 5 players. And in that scope a Reliance Jio has enough space to enter and create a reasonable presence but it leaves a significant opportunity for even the other national MSOs. As matter of perspective we have 5 mn digital boxes in Phase-I and 2 today, and 2 mn in Phase-III and 4 and another 5 to 6 mn that is available just in our analog base. Even if you are to monetize just that, even with some disruption in the existing markets there is substantive headroom for growth and I expect that this industry will be a lot more consolidated over the next 3 to 5 years.

**Moderator:** We will take the next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

**Dhiresh Pathak:** I am looking at slide 7 of your presentation. Can you just help me understand why the EBITDA ex-activation for the full year is down for FY15 versus FY14 given that FY15 would have seen better monetization of the Phase-I and Phase-II market.

**Manish Dawar**: There are fundamentally two reasons if we were to look at the numbers, I mean obviously one is Phase-III and Phase-IV effect versus Phase-I and Phase-II because as said earlier we are in the investment mode in Phase-III and Phase-IV, whereas Phase-I and Phase-II have started to get monetized. The other headwind comes out of the content cost. As you know the content cost has grown up significantly almost 25% which is what we have guided during the last year that we are expecting the content cost to go up and content cost in all of you basically structurally has got adjusted for Phase-I and Phase-II markets because these used to be fixed deals during the analog regime, whereas now they are now on a per subscriber basis. So most of the broadcasters, the large broadcasters are migrating towards these deals and going forward we expect Phase-I and Phase-II to be kind of more or less in line with the inflation whereas Phase-III and Phase-IV this structural adjustment would take place once the digitization process gets underway.

**Dhiresh Pathak**: The EBITDA for Phase-I and 2 if you compare that for the full year FY15 versus FY14, would it see a degrowth or would it be flat?

**Manish Dawar**: It will be a slight degrowth on account of content.

**Dhiresh Pathak:** So then in the value chain is it not possible to pass it on to the consumer?

**Manish Dawar**: That is what we are working on and I would request Pradeep to just give you some color on that.

**Pradeep Parameswaran**: As I said in my opening comments, one of the value creating levers, the first one is the monetization Phase-I and Phase-II boxes. There are fundamentally four levers there. Level #1 is there are number of markets where my base price is low and there has got to be a price increase in those markets. Lever #2 is packaging, which I think is probably the single biggest thing that the industry has got to do together over the next 12 months, and packaging is what allows us to align our cost structure with our content payouts. Structurally we are not yet there but one of the most important things to do. The third one is to drive HD penetration which will allow us to monetize again our base better and lastly to move to a payment model that is more prepaid and more aligned with DTH and the telecom sector. Now packaging is as I said the lever that will allow us to align our cost structure to our revenue model and just as a matter of progress I will say many players have actually started to do this in small measure in some markets. It has to gain substantively greater scale over the coming quarters.

**Dhiresh Pathak:** Okay, and when you say investment in Phase-III and Phase-IV is impacting, I mean I am just trying to understand that the heading cost and other fixed cost that would not have increased minimally, right. So what is it the investment in Phase-III and Phase-IV?

**Pradeep Parameswaran:** There are two major components, #1 there is link cost for the new markets that we are entering in. There are number of towns where we may not have digital link cost present before. That adds to our cost. Most of it is being done ahead of time. Even for the first box that gets deployed in a town we do need to accrue pretty much all of the link cost that there has to be borne. Second is there is OPEX associated with people cost because we are expanding our organization to cover multifold number of towns that we have to be present and compared to what we have in Phase-I and 2, both on the operational side as also on the sales and marketing side, which also adds to our expenses.

**Dhiresh Pathak**: So on the subscriber side it seems that the Phase-III and Phase-IV the subscribers were up by up by like half a million, but in terms of number of cities that it might have entered would have been much higher. So can you just give a like-to-like comparison that in FY14 there were x number of Phase-III, Phase-IV cities that you had present and in FY15 there are so many?

**Pradeep Parameswaran**: Unfortunately we are not able to divulge that data because growth in Phase-III, Phase-IV is an internal matter that we would like to talk about only after the sunset deadline is passed. As you know it is a materially confidential information for us.

**Dhiresh Pathak**: If I could squeeze one more, on slide #12 you were talking about number of cities and realization per box, net of taxes and revenues shared. Is it possible to give sort of a weighted average realization per box?

**Manish Dawar**: In terms of realization as I said earlier, we are seeing a good uptrend on the realization side on different markets and realization has actually moved in line with the revenue which is disclosed on slide #12. As I said, I mean for us the challenge remains is UP, which is what is our priority for the current year, so to answer the question more specifically we are seeing equal number of cities on the realization side also which are crossing the benchmark of Rs. 80 per box per month.

**Dhiresh Pathak:** Specifically what would be helpful to me is on the left hand side of that slide is that number of cities, so if you could have also on this slide number of subscribers in those cities. For example, in the first bar you have 11 cities which are getting more than 80 and those 11 cities how many subscribers you have going forward if you are going to maintain the same level of disclosure, if you could just add those subscribers.

**Manish Dawar:** We can evaluate that.

**Moderator**: We have the next quick follow-up from Charles Cartletge from Sloane Robinson Investment. Please go ahead.

**Charles Cartletge**: Pradeep, you said that one of your major priorities was monetizing what you already have. Could you help me understand the nature and the size of that monetization opportunity split into two pockets? The first is to do with your second priority, the packaging i.e. at a customer level getting them to pay more but also as a second bucket would be I guess the leakage if any between the customer and the MSO, namely as the LCO level because my understanding has been that there has been a lot of problems with addressability and tie up after taxation and non-payments, reluctance to share the revenue and so on and so forth. And I imagine that ties into your other priority of direct billing and so on and so forth. But I am still unclear as to where the low hanging fruit is and what is more difficult?

**Pradeep Parameswaran:** Sure, I will try to answer that question. I think there has been obviously a tremendous amount of conversation in the industry around what is the LCO share versus the MSO share and as you said leakage I think the one thing to reframe very quickly is towards the money that goes to the LCOs, not leakage. It is a fair share reflective of the fact that you own the last mile infrastructure for which you should be compensated. So we would not think about that as leakage. Now in the framing that TRAI has provided to the industry their proposed sharing of revenue of the subscription that came from the subscriber was third. As you all know when the digitization journey started the LCO was keeping a 100% of this money, even as of a year back I would say the LCO share was quite high. As we exit this year, in many of our markets let us say on a weighted average basis the LCO share is somewhere between 40% to 50%, which is a substantive shift from where it was 12 months back. So far like I said we have not implemented packaging, as we implement packaging HD penetration and prepaid it will help us not just fix the leakage but also continue to drive the MSO share higher. On the back to not just in taking more from the LSO for the current base but also on some movement in the underlying subscriber ARPU. There is headroom for ARPU growth as we all know the benchmark set by DTH in India gives the opportunity to increase that. I do now know how long that is going to take but that is on our minds as we claim our pricing and go to market strategies.

**Charles Cartletge**: So is this just the relative size of the bucket if you like of opportunity? Is there more revenue upside from you making these changes with regards to the MSO share or is there more opportunity from raising price and keeping a larger share of the increment?

**Pradeep Parameswaran**: I think we have to do both. In terms of the relative size of the opportunity the immediate term of the next 12 months, the greater opportunities in bucket 1. I would say over the 2 to 3 year period the opportunity the probably higher in bucket 2.

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

**Vikash Mantri**: Few bookkeeping questions and then a few strategic in nature. I am not able to tally the revenues portion. If I see subscription revenue sort of 25%, that gives me Rs. 157 crores, placement 120, activation 13. That goes to a number of 285 odd. Can you help me with concealing it with the 265 number?

**Manish Dawar**: Vikas, which slide are you referring to?

**Vikash Mantri**: There is no slide. I think subscription revenues have gone up 25%. Subscription revenue in March were Rs. 126 crores, so that gives me Rs. 157.5 crores.

**Manish Dawar**: Okay, when I talked about 25% Vikas, that was the annual figure whereby I said that the overall subscription revenue has moved to Rs. 459 crores.

**Vikash Mantri**: Yes, that I remember. You also said it has mimicked the annual number.

**Manish Dawar:** Yes broadly, I mean it is like because for example if you have to look at Q3 numbers subscription has grown.

**Vikash Mantri**: Sir, just it will help to give the breakup of the revenues in a way, the absolutes. Can you give me the absolute breakup of revenues for subscription placement? Activation, I have the number which is Rs. 13 crores.

**Manish Dawar**: So activation of Rs. 13 crores for the quarter versus 64 crores for the full year and overall revenue for the quarter was Rs. 252 crores versus Rs. 968 crores for the full year. Other operating income of Rs. 15 crores versus Rs. 33 crores, subscription income was Rs. 115 crores and placement was Rs. 124 crores.

**Vikash Mantri**: So if I look at subscription alone last year the same number was 126 crores, so it is actually a decline if I were to look on a quarterly basis.

**Manish Dawar**: I just need to check on the last slide because we are giving the numbers net of LCO shares now so that they are comparable on a like-to-like basis.

**Vikash Mantri**: Fair enough, so Yes, I will need to tally my numbers also accordingly which means that certain numbers from the cost side will also go away.

**Manish Dawar:** Yes, cost side numbers will also go away, you are right.

**Vikash Mantri:** Second question is from a cost comparison from a December 2014 to March 2015. Now if you see there is Rs. 41 crores odd line of cost which has gone away because there is no soccer in this quarter. Now can you help me in which line item? I assume it is in the operation administrative and other cost that item has gone away, which basically means that number on a like-to-like basis is up Rs. 20 crores sequentially? Rs. 123 crores is what you reported in December 2014.

**Manish Dawar**: Vikas, I will need to look at the numbers.

**Vikash Mantri**: Fair enough, I can take these questions later on a one on one basis. A few strategic or more detailed in nature – (a) on the content which has gone up significantly and other than the STAR thing I did not see much reason why content cost should have been up so much. Two developments that we have seen is (a) the 27.5% hike by TRAI has been taken back. So will that have a significantly better content cost numbers for us going forward and can you explain the last quarter content cost increase per se?

**Pradeep Parameswaran:** Vikas, as Manish will go through the details and the numbers just on a strategic basis it is not just STAR but also ZEE. As you know between STAR and ZEE that accounts for a large portion of our content cost. There is increase on both of those. Now secondly we had made provisions for increased content cost in line with our guidance for the earlier quarters. There is a little bit of a higher cost structure which means that we have taken a bit more of a content number in the last quarter. So that is not an education of quarterly run-rates going forward but a bit of an adjustment for the earlier quarters. And lastly on the TDSAT we are right now in our numbers reflecting the increase the TDSAT had suggested. That matter obviously is sub judice and so we have not taken a benefit of those numbers in our P&L yet.

**Vikash Mantri**: But immediately the STAR because it is on Rio, will it not change to a lower rate? STAR because it is on Rio rates the 15% hike was taken by STAR on the Rio rates of 2014. So at least immediately as per the court order that should be taken back. So the new billing can actually start on rates 15% lower.

**Pradeep Parameswaran**: I would love for that to be the case. Obviously we can do that only after there is clarity on the rulings from TDSAT on it.

**Vikash Mantri**: But TDSAT order I thought has clearly set aside the hike, so at least that was my understanding but happy to know what would change otherwise. On the broadband side and I think I will like to discuss further, on the broadband side a 40% non-DEN customers, is it a good thing or a bad thing because I thought there were more synergies which made broadband business better.

**Pradeep Parameswaran:** Vikas, if you have to look at I mean for example initially when we launched broadband our own expectation was that we will start to convert the DEN homes from let us say cable into broadband. So let us say if you talk about 40% coming from non-DEN home, I think it is a very-very good value proposition and we are actually very pleasantly surprised with that 40% number because let us say for example, that shows the amount of potential which the broadband has and the fact that we have been saying that it is actually a supply constraint market that cruise our notion. So given this 40%, there are consumers who are shifting from Airtel, there are consumers shifting from BSNL, subscribers who currently have let us say Tata Sky on the cable side and they are also coming into the DEN fold.

**Vikash Mantri:** But ideally the way we were looking if not a triple play or dual play and therefore there would have been eventually synergies of cable and broadband so.

**Pradeep Parameswaran:** You are exactly right, just remember ever since DTH started the movement of customers in this industry has been one way. It has always been from cable to satellite. I think for the first time I would say with the broadband play starting to gain some traction we have an opportunity to bring consumers back on the back of a very-very compelling dual play or a triple play proposition. We have not yet launched our dual play-triple plans but that will happen over the course of the year.

**Vikash Mantri:** Coming back to the TV shopping business and the soccer business now these both do not look strategic to me. So is there a thought process of divesting them, maybe TV shopping you can claim some synergy but at least in soccer that is none?

**Manish Dawar:** Vikash I will take the TV shopping question first. I may mildly disagree with your point of viewer on synergy. It is actually the reality is that TV shopping in India is almost a 4,000-5,000 crore market. Just to give you some key numbers that is already in the presentation we have circulated, the GMV on an annualised rate basis of 115 crores and growing quite rapidly on a month-on-month basis. Out of that 4,000-5,000 crore opportunity that exist in TV shopping today, I would postulate and I may be wrong but I may postulate that this is the only combination between DEN and Sneapdeal that brings tremendous cost and revenue synergies because we are able to leverage our reach in distribution and our capabilities on the video side to drive on all of the front end activities and Snapdeal's brand merchandising capability is on a common back end allows them to be both much better and much cheaper than relative competition on the TV shopping site. So we think it is actually a pretty powerful proposition by itself and leverages our TV platform that is core to our business and so we do expect that to be playing up reasonably important role in our growth footprint over the next few years.

**Vikash Mantri:** On the soccer side?

**Pradeep Parameswaran:** Yes on soccer side Vikash, yes we are well aware that the investors have not liked the diversification on the soccer side and we have taken that on board. Strategically we have taken a call that we will try and dilute the stake. We are looking at market in terms of whatever opportunities are available and so we respect your point of view.

**Vikash Mantri:** I just have one small last point and I will be through. Slide 12, the Pie-chart breakup that is there that is for 4.1 subscribers if I am right?

**Pradeep Parameswaran:** On the left-hand side or on the right-hand side?

**Vikash Mantri:** On the right-hand side.

**Pradeep Parameswaran:** The right-hand side, the breakup of let us see the first box is the breakup of 7 million that we have as digital consumers.

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

**Rohit Dokania:** Just 2-3 questions from my side. One would be could you quantify the amount of provision for doubtful debts which we would have booked in this year, this fiscal versus last?

**Pradeep Parameswaran:** Sorry your voice is tailed off and we could barely hear your question.

**Rohit Dokania:** Yes, no problem. So I will just repeat that again. I was just wondering if you could quantify the provision for doubtful debts that we would have done in this fiscal versus the last.

**Manish Dawar:** I can share that number, the last year the number was about 43 crores and the current year number is 42 crores. So it is more or less the same.

**Rohit Dokania:** Perfect.

**Pradeep Parameswaran:** This is on the cable side.

**Rohit Dokania:** Yes obviously on the cable side, perfect, and just wanted to know in terms of the revenue share and the interconnect agreements with LCOs? What is the feedback are we getting as in? Are they more in sync with signing them off or we are still facing resistance just because of that particular revenue share number that has been quoted around?

**Manish Dawar:** They actually have definitive agreements in place with the majority of our LCOs which are with a revenue share our number that is already there. I think the challenge for us is not being the signing of the interconnect agreement, it is more being the execution of the agreement which has moved slower than and we would have like it to.

**Rohit Dokania:** What would help it move faster, would it be switch off?

**Pradeep Parameswaran:** No, actually I think what will move it faster is like the 4 things I said. We have to do if there is a rebasing of pricing from markets in the Pie-chart that Manish has provided, a number of markets we have moved the pricing up over the last 12 months. That has to be done in a few other markets. We do have to do packaging. We have to push HD. Our penetration under HD is virtually nonexistent today and lastly as a matter of that is in leakage, we would like to move to a prepaid system which also has the LCOs by reducing their cost associated with collections which is the substantive part of their operating expense on a monthly basis.

**Manish Dawar:** Rohit again on a software side just to add to what Pradeep has said just while we have the interconnect agreements; we also have to be aware of the softer side of things. So we started the LCO engagement also being pursued aggressively and this activity is already under way and we have seen the positive results and we are focusing that also going forward. So it is just not the agreements and transactions and we are starting to engage in direct with our LCOs more frequently.

**Rohit Dokania:** Sure one final question for my side would be what really happen to carriage fees post BARC is completely implemented? Do you see some bit of a change there or do you see some decline or you probably is after TAM introduced, LC1 markets carriage fee has actually went up. So do you see some kind of a movement on that side?

**Manish Dawar:** Rohit, it is too early to tell as of now because BARC is a very-very recent phenomenon. Even they are also not very clear in terms of their first report. So let us say the way we look at it, there could be let us say some shift between the towns but overall let us say if you want to look at the way the market used to pan out in terms of GEC channels, north western markets, we do not expect anything to change dramatically that is right. So let us say we are well present and well represented in across the TAM states. Let us say between the cities, between the regions there could be some shift but I think overall it should not be a huge amount of difference but we are yet to see the results.

**Moderator:** Thank you. Our next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani:** Just wanted to check what is the ARPU outlook like we have currently the blended one, you mentioned is 77 and 58 for phase I and phase II cities. So where do we see ourselves by the year end?

**Pradeep Parameswaran:** I am clearly answering the same question. Like I said we are really aware that we need to get our ARPUs up and not strictly ARPU that we need to get the MSO realization up. Like I said there are 2 parts to it. The earlier gentlemen phased it as 2 parts right. Part one is how much is going to happen that actually ARPU increase from the end subscriber and second is how much will you get by gaining or growing MSO share? I will come back to this by saying that there is a set of activities that we are already in the process of doing that will help us increase ARPUs both in phase I and in phase II markets. Our challenge is likely more on the phase II market compared to the phase I markets, we do think there is substantive head room for growth in both areas in the way the earlier gentleman described the opportunities in both areas. In the short term, there is no more opportunity by increasing MSO share through the actions that I have already described and over a 2-3 year period with increase in consumer ARPU, you remember this is a product category in which cable over a 20-year period or 25-year period has seen virtually negative growth in the realization once you adjust for inflation So I think there is enough signs and evidence that we are comfortable to say that there is head room for a consumer ARPU growth as well.

**Mayur Gathani:** Thank you and what is content cost outlook for this year?

**Pradeep Parameswaran:** As I mentioned before for example let us say we do think that phase I-phase II content is pretty much panned out and going forward, it might actually get linked to the inflation whereas phase III and phase IV which are currently fixed fee which are the analog markets, there would be structural adjustment take place going forward. Once let us say the digitization process gets underway and of course subscriber kind of content cost would come about. So that is what we believe.

**Mayur Gathani:** So we would not see much improvement in the content cost because it is December and by the time it actually gets going will be beginning on FY2017.

**Pradeep Parameswaran:** Yes we are talking about this year where we have a better visibility on phase I-phase II site where as phase III and phase IV is actually dependent on when the digitization happens.

**Mayur Gathani:** Any estimates on the soccer lost that you may intent?

**Manish Dawar:** Actually better than last year. So let us see last year for example the soccer lost was about 46 crores. We are hoping it will be between 35-40 crores for this year.

**Mayur Gathani:** Thirty five to forty crores and what was the activation income for FY2014 you said 64 for FY2015? What was it for FY2014 if you have it ready?

**Manish Dawar:** Yes I have it ready if you can just give me one second. It was 155 crores.

**Mayur Gathani:** For your understanding of FY2015 even ZEE has gone into an RIO mode in the sense per subscriber base?

**Pradeep Parameswaran:** Zee is a per subscriber based deal but let us say it is like a digital deal. So it is like for example let say in STAR case, if you ought to know it is like a per channel kind of pricing whereas for Zee is old channel but per subscriber-based deal. So there is a little bit of difference between Zee and Star deal.

**Mayur Gathani:** When do they come back for negotiation, is an annual thing for you?

**Pradeep Parameswaran:** It is an annual feature as of now.

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

**Rajeev Sharma:** I had just few questions. So I wanted to understand your long-term broadband plans that what is the kind of home pass and what is the kind of penetration you are looking at and how much of this will be DOCSIS 3.0 or entirely it will be DOCSIS 3.0? What are your CAPEX plans for next year and where do you see your exit next year phase I-phase II ARPUs on the cable side and did you really mention that your broadband loss this year was 44 crores? If you can explain what is driving this big loss in broadband business?

**Manish Dawar:** So Pradeep will first talk about the overall broadband in terms of medium to longer term outlook and then I will talk about the CAPEX as well as the broadband loss for this year, is that okay?

**Pradeep Parameswaran:** Yes as on broadband, we are still in a bit of soft launch phase, it is only now I would say over last 2 months as we are starting this step up much more of a multifunction launch if you may for broadband and our internal plan over a 5-year period is to grow the business to somewhere between 3-4 million subscribers and as a home pass space of between 15-18 million homes. The speed and the sequence of that frankly is something that will evolve based on the number of learnings that we will have from the markets that we are already presented. Secondly on the technology choice, DOCSIS is not the only technology that we will be using for roll out of broadband. We will be actually doing some markets, in specific instances on GPON and there will be a small proportion of the markets that maybe on a net reconnect platform but DOCSIS plus GPON will be a majority of our roll outs over the next 5 years and in terms of you had a last question around phase I-phase II ARPU, would you mind just repeating what that question was?

**Rajeev Sharma:** Yes so my question was on phase I-phase II cable TV business exit ARPU and what are your expectations about your ARPU with the broadband business?

**Manish Dawar:** Sure. On the broadband business, our ARPU has been relatively stable in the last 3-4 quarters of existence at about Rs. 750. It is my personal belief that to get large scale penetration in broadband, we may need to price marginally more aggressively than that. As you know the thesis on fixed band and broadband penetration in India has always been about your skin in the market. We are not preparing our business for that. We are preparing for large scale penetration and so we have a business model that we are building that allows us to be profitable at lower price points compared to 750 but for now we intend to keep our price levels the same and then as required we might take an adjustment over a period of time and on phase I and phase II, I know again this question has been asked many times. I have said the same thing which is we do not want to give a fixed projection yet on the exit ARPU that we expect other than the saying there are 4 levers that are available for ARPU increase, all of which we intend to push quite aggressively over the next 12 months and that should allow us to continue our trajectory of ARPU increase from last year.

**Rajeev Sharma:** Yes thanks for my questions on the EBITDA loss and what is the kind of CAPEX you see when you do your broadband roll out per subscriber add and then per home pass?

**Pradeep Parameswaran:** So I will cover that for you. So let us say if you look at on the CAPEX side when we started rolling out broadband, we were seeing the figures at about 2500 kind of levels per home pass which is already down to about 1,800 and this is what our outlook is let us say once we start to kind of get the volumes and the industry also starts to expand, we do hope that this number will also come down substantially. So let us say for an outlook for next year, we are expecting per home pass, number should be about Rs. 1,600-1,800 per home pass. On the subscriber acquisition which is pretty much CP, that number will be anywhere from above 2,500 to above 3,000 number and again you need to just kind of bear in mind that while let us say home pass number is on a network basis. The subscriber acquisition is when we actually convert that network into a subscriber and therefore you incur that.

**Rajeev Sharma:** Can I take the question on the losses on the broadband?

**Manish Dawar:** So coming back to let us say your question on CAPEX and then I will come to the losses for this year. So next year for example again we are not giving any guidance for next year and therefore I will not be able to share the exact numbers with you but broadly we are looking for broadband above 200-250 crores kind of CAPEX for next year under the various buckets given the plans we had and let us say if cable and broadband put together, we are covered for about 18-24 months of CAPEX given the current cash reserve that we have. So therefore we think we are adequately funded and we have a good cover for 18-24 months and that is what is going to be a philosophy going forward. Coming back to the broadband, the EBITDA was 44 crores loss and as you see that we have already kind of turn about a little over 3,000 home pass and at the same time, there have been about 23,000 subscribers that we have got. We are trying to put the broadband organization in place so it actually includes the employee cost, it includes let us say on the technology side, the consulting cost, selling expenses, network maintenance, cost for working already rolled out which is about 3,000 home pass. So that is what is predominantly a meeting to the loss. So once we start to see the conversions happening on the network which has already been rolled out, we will start to see the positive results on that basis.

**Pradeep Parameswaran:** Just maybe I will spend 30 seconds. Broadband is not a business that will be cash positive in a less than 3-year timeframe. We actually think that the profitability comes only once you get your penetration level that is between 20 and 25%. There will be an EBITDA that is likely to be in that range, 20-25% and as your penetration increases beyond that, the EBITDA increases disproportionately. We are also working on a business model as we just want to halfback to the telecom base which rolled down CAPEX of mobile distribution by a dramatic amount. We are expecting to actually make a substantive dent in the CAPEX cost of rolling out broadband as well as OPEX cost of maintaining the network which may get us to profitability faster but the single biggest factor that drives profitability of broadband is you all know is the penetration of the network that you have already laid out and to actually help put a marker on the ground in the presentation that we have shared with you, if you look at the bottom right, there is a set of numbers that talk about penetration on a cohort age basis which was something that we would like to report every quarter and our expectation is that over a 3-year period, our penetration gets to between 20-25%.

**Rajeev Sharma:** This is a very useful. Just one last remark from my side just an observation and let me know if I am thinking correctly, so having heard you what I understand is that your next fiscal at least or the next 12-18 months, your revenues excluding activation largely will depend on how your Phase-I, Phase-II ARPUs improve and your EBITDA unless we improve by the revenue growth increase in Phase-I, Phase-II is more than 20%, your EBITDA actually may not grow because rest of the business is our investment mode and let us say assume soccer remains same. Is that the right way to think or am I missing something here?

**Pradeep Parameswaran:** Rajeev we are not giving any guidance for next year.

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

**Bijal:** This is Bijal from IIFL. So I have two questions. Starting with your capital allocation so can you just explain rationale of keeping so much of debt and equivalent amount of cash, why not pay up all the debt and just make it debt free for a while as and when we need CAPEX, we can actually draw down from the banking facility which we have?

**Manish Dawar:** Bijal if we see the whole rationale behind raising the capital initially, it was the riding on the opportunities that was available on Phase-I, Phase-II, Phase-III, and Phase-IV markets while we already deployed Phase-I and Phase-II boxes, Phase-III and Phase-IV has got delayed and therefore the cash is sitting on the balance sheet. At the same time for example what we are seeing in the market that there are much better opportunities available and Phase-I and Phase-II markets have proven that towards the end when the sunset date comes it becomes a lot more easier to deploy the boxes given the pricing that you have rather than before the date when let us say we are chasing the LCOs and the distributers and obviously they demand their terms. So therefore we will be judicious in terms of utilization of this cash and that is the reason the cash is sitting on the balance sheet. If you were to look at the plans for next year between the broadband and Phase-III and Phase-IV plans that we have, we will be able to utilize this cash. At the same time given the cash that is sitting on the balance sheet, some amount of that cash is already earmarked against the bank limits for leveraging the interest cost. So it is not that we are losing on the interest cost.

**Pradeep Parameswaran:** One of course capital deployment is delayed because digitization is delayed. So also we had an expectation that we would spend CAPEX more aggressively on broadband let us say last year and frankly the conditions for deploying broadband capital were not entirely in place both for internal and external reasons. There were a lot of things that will have to happen in capacity building inside the organization and a lot of things that has to happen in the way we set this up with our trade partners to be able to deploy the capital such that we can get penetrations as quickly as possible right. So I think we are in the phase now as we have mentioned earlier in the call that we are stepping into a bit of hyper growth phase for broadband and we will be deploying a fair bit of capital towards that in the next 12 months and digitization deadline remains the way it is. A good amount of the capital will also get consumed for Phase-III digitization. So you should see our eating into that money over the next 18-24 months.

**Bijal:** So sir my question is really not that that whether you are utilizing judicially or you have a need or not. What I am simply saying is in FY14 also we were almost slightly net cash, we are slightly net debt. So I just still do not understand why keep net debt there is always in every business there are some uncertainties, it gets delayed, it gets preponed. In fact we know about the Phase-III getting delayed much before it was actually delayed and in fact most of the guys on the con-call also said that Phase-III will get delayed in FY15 beginning itself. So I just fail to understand this thing that why keep cash and why keep debt because as and when your business requirement comes up, you can always raise debt from the market.

**Pradeep Parameswaran:** As you would know the money for example is raised when it is available and not let us say when you need it. This is the basic philosophy when you raise the money right?

**Bijal:** No I am slightly surprised what you are saying is essentially if you pay up debt right now, you may not be able to raise that later. I do not think that is really the situation.

**Pradeep Parameswaran:** I am talking more on the equity side rather than the debt side.

**Bijal:** No, I am saying that equity you should pay the debt but any guess I will just move on to second if.

**Pradeep Parameswaran:** I can understand your contextual point let us say if you are losing money on the leverage which is what I have said that we are not. If at all I do not know to get into details but suffice to say that we are actually using the leverage to our benefit.

**Bijal:** Just pass that but second question is on see you mentioned that there are 6,000 LCOs, independent cable operators, and all that we agree and we know it and we appreciate that fact but more important question is that Reliance Jio is coming in the cities where MSOs are much more concentrated. Like if I look at Bombay, there will be only 4 MSOs, largely maybe 80% or maybe even 90%, similarly Delhi. So the Reliance probably at least initially will not look for an opportunity where there are 6,000 kind of independent cable operators. So what is your take on that? What Reliance is doing on ground in your market and how do plan to counter that? I do not want to understand the broader thing that there are so many independent cable operators and all that we very much appreciate but in particular market where you are and where you are planning to rule out broadband, what is your assessment of Reliance Jio and how do you see them ruling out in your markets?

**Manish Dawar:** I wish I was better educated about to be honest about what Reliance Jio was going to do. I do not have any privilege of insider information about Reliance that you may not have frankly. We are building our plans on the back of assuming that there is a set of LCOs that we have had a relationship over 20-25 years and we will try and gain share I would imagine depending on how they play the game. If you ask me a question, what happens if Reliance just makes everything free, frankly I do not know. If I would be a Vodafone or an Airtel, I would be more worried about that. So to be genuinely honest about this it really depends upon what they actually do in the market place and then we will have to think about our response. We are thought through three or four scenarios of what might happen when Jio enters and what our response might be but that is conjecture at this stage. I will tell you that at least from a strategy standpoint, we are thought through what our responses might be which is the most we can do right now.

**Moderator:** Thank you. Our next question is from the line of Sandeep Gupta from Ambit Capital. Please go ahead.

**Sandeep Gupta:** Three questions, one basically if I look at the content cost for the current quarter, is there some carry forward cost from the previous quarter that we are booking in the current quarter if you can help out with that particular part, and segregate those numbers?

**Pradeep Parameswaran:** Yes there is some overhang because this was the yearend and the deals got finalized towards the yearend in the last quarter. So there is some bit of small overhang. I will not be able to share the exact number of this during the quarter but you can take pretty much this minus some bit as let us say pretty much numbers for this year.

**Sandeep Gupta:** Secondly basically wanted to understand that when we talk about rolling out of packages, currently if we understand the state of the industry it is more working on the unitary basis that we are able to ramp up our collections. Now any strategies around how do we think that the packaging can get implemented from the perspective of collection and not just implementation to increase the consumer level ARPU?

**Pradeep Parameswaran:** No of course. I think action is the same whether the outcome is incremental share of revenue of existing ARPU or expansion of ARPU. The action we are taking is the same. My hope is that for people who watch us and watch the sector closely will see a fair bit of real action in the market place more through above the line activities, media, press, etc., and also number of LCO engagement and distributor engagement activities that will indicate the direction that we are taking. We have finalized package constructs, pricing, end consumer as well as MSO share. We have had a round of discussions with the broadcaster on this support that they will be providing to this effort and we hope that you will see a lot of it in the public markets in the coming quarter or so.

**Sandeep Gupta:** So what you intent to suggest certain understanding on this front has already been made with the LCOs?

**Pradeep Parameswaran:** We have started that process yes.

**Sandeep Gupta:** Third being when we were talking about CAPEX being in the wage of 250-300 crores kind of a ballpark number. Now is that including both the broadband and the cable business in the time horizon that we are thinking for this particular part of CAPEX?

**Manish:** I talked about 200-250 crores and that was pretty much on the broadband side.

**Sandeep Gupta:** Inclusive of the cable sir if you can just guide and the timeframe also?

**Manish Dawar:** The cable really depends on how the digitalization will pan out. So it really depends on that you have seen our past CAPEX numbers in terms of per box. If it all we are doing better than that now and the rest really depends on what the digitization timing is?

**Sandeep Gupta:** This broadband guidance is for what tenure sir, how much is it the early one or?

**Manish Dawar:** The CAPEX that Manish talked about is over the next 12 months.

**Sandeep Gupta:** Next 12 months, fair enough.

**Manish Dawar:** Just to add a little bit of color on the question of cable CAPEX, we have very little incremental CAPEX to be done on the cable backbone infrastructure and most of the CAPEX investment is on account of the boxes that we need to seed and the prices that we will end up seeding the boxes at.

**Moderator:** Thank you. We will take the next question from the line of Srinivas Seshadri from Antique**.** Please go ahead.

**Srinivas Seshadri:** Just on the digitization, I got two part question. Firstly if you can split your universe into Phase-III and Phase-IV, how many subscribers are there in each phase and last time we had this issue of just seeding boxes and collecting forms and packaging and it is still taking a long time to really monetize. This time around again you are talking about a kind of waiting for the deadline to happen. So which could result in some chaos and unstructured way of kind of implementing the DAS even in Phase-III areas. So just wondering how you are addressing that particular issue and how you are planning ahead of the deadline?

**Pradeep Parameswaran:** Sure I will answer your second question first as you all know the regulatory mandate is that till the sunset date it is mandatory to provide an analog signal to all market so even if we have seeded digital boxes, there will always be an analog signal and analog boxes are not monetized yet and in that context if you try to monetize your digital boxes while there is an alternate analog signal available in the market place at no cost, there is no business case because you will just end up losing your share and so it is not because I do not want to be prepared and do everything ahead of that deadline, it is just that I cannot ahead of the deadline. As the deadline hits, we have a number of options available in terms of how do we not have to wait for two years to monetize the boxes as we have to do in Phase-I-Phase-II. Against that there are a number of things that DEN, we are thinking about and are putting into motion I would say this is not just a DEN issue but something that has to be done substantively by the entire MSO industry also with the support of the broadcasters and there are under the guidance of the regulators and MIB, there are a number of discussions on going on what we might do day-1 differently from what we did in Phase-I and Phase-II?

**Srinivas Seshadri:** Can you elaborate on those, I am not quite sure about what you are talking about?

**Pradeep Parameswaran:** To be honest it is all under progression and shaping up as we speak. So I am not at liberty to talk about it.

**Srinivas Seshadri:** Sure and then the numbers on Phase-III-Phase-IV subscription?

**Pradeep Parameswaran:** Phase-III-Phase-IV as you move a list of townships just been released by Government. So we are yet to kind of work out the number as per those list of towns and establish what is the exact number that is there which is kind of falling in Phase-III and Phase-IV but roughly speaking on a broad-brush basis you can take about 55 or 45.

**Moderator:** Thank you. We will take the last question from the line of Amit Kumar from Investor Capital. Please go ahead.

**Amit Kumar:** Sir on the content side there was one dispute pending between DEN and Sun TV as well. I just wanted to get a sense on the status of that and just an ancillary question to the that I think Basil had done some technical check on the digital systems of DEN with respect to this particular case and made an adverse remark in terms of maybe the addressability and capabilities of the system. Has that issue also been resolved?

**Pradeep Parameswaran:** On the first question, it is an ongoing issue with Sun TV. I think we have made some headwind but the issue is not yet resolved. On the second question we will have to come back to if you do not mind, do drop us a note, I will come back to you offline. We are you able to comment on that right away?

**Moderator:** Thank you. Participants I now hand the floor back to Mr. Rajeev Berlia for any closing comments. Thank you and over to you sir.

**Rajeev Berlia:** Thank you everyone for participating in this call today. A very special thanks to the management members of DEN Networks Limited for allowing us this opportunity. Have a good day ahead.

**Manish Dawar:** Thank you very much gentlemen.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.