

MANAGEMENT DISCUSSION AND ANALYSIS

Almost three years after the cable digitisation drive in India began, the Cable & Satellite (C&S) segment of the Media and Entertainment industry has many changes on its landscape. Of the total C&S subscriber base of 149 million, over half or approximately 79 million are receiving signals digitally, as at the end of CY 2014. These figures are expected to rise considerably once the transition to digital is complete and both MSOs and Direct To Home (DTH) operators will stand to benefit in the new scenario as customer value propositions and paying ability are more optimally tapped.

Another revolution that presents itself as a great opportunity before MSOs is the data traffic explosion that has erupted with the smart phone penetration in India. It is estimated that while mobile data traffic is growing at around 60% YoY across the globe, in India it is far higher at approximately 100% on a YoY basis. A bulk of this data usage, despite being through mobile phones, takes place through Wi-Fi networks that are linked to cables. As a result, well placed MSOs are in a good position to tap the large latent demand for broadband.

With considerable investments already in place during Phase I and II of the digitisation mandate and as the largest Indian cable MSO, with a cable universe of 11.8 million and 0.46 million broadband subscribers, we are ready to ride both waves – cable digitisation and data traffic explosion – and benefit from them.

DIGITAL CABLE

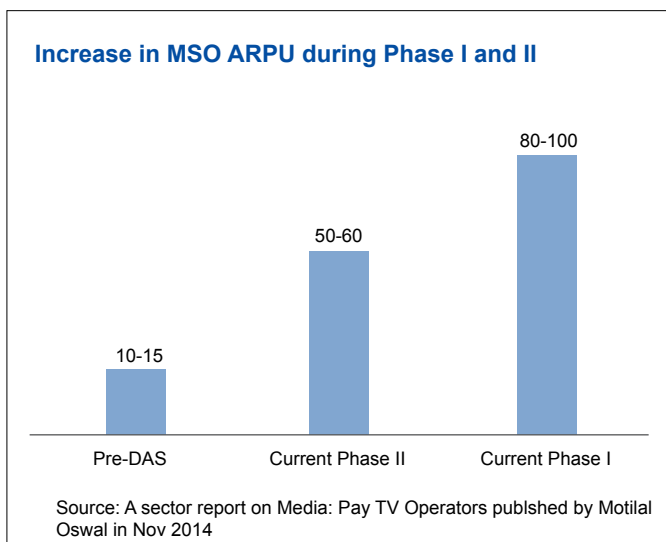
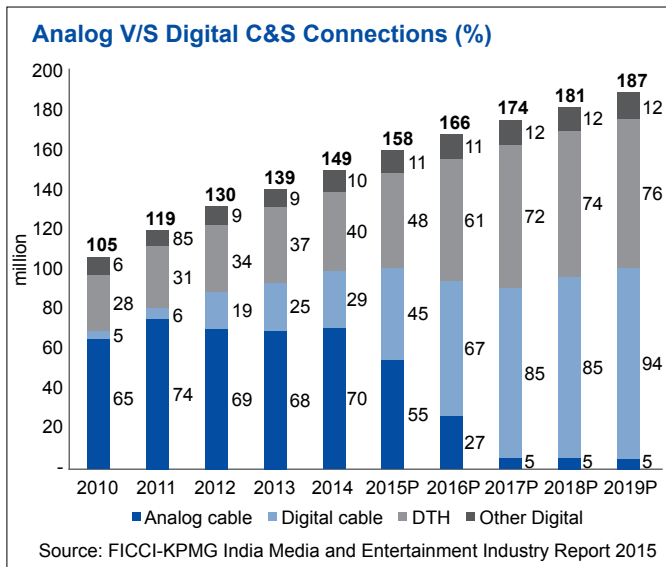
Industry Overview

With Phase I and II of cable digitisation complete, India has an estimated digital C&S subscriber base of around 149 million, as at the end of CY 2014. In order to provide adequate time for the manufacture of set-top boxes locally, the government has relaxed the deadline for Phase III and IV to December 2015-16. Accordingly, nationwide digitisation will become a reality only by the beginning of CY 2017. The growth opportunity and investments requirement until then are enormous.

Since the advent of digitisation, there has been a continuous increase in net realisations for pan-India MSOs during Phase I and II. The net ARPU for cable MSOs in these cities has increased from ₹ 10-15 earlier to ₹ 80-100 at present and is still on the rise as gross billing gets implemented in more cities. It is expected that by FY 2018, net ARPU could reach approximately ₹ 120 for pan-India MSOs, translating into a growth of 300-400% over FY 2014 ARPU of ₹ 24-40. This will be driven by a combination of an increase in the proportion of digital subscribers and better monetisation as well.

Business Overview

Of our cable universe of approximately 11.8 million at present, the current digital subscriber base of around 8.5 million comprises about 2.4 million Phase I, 4.3 million Phase II and 1.8 million Phase III and IV subscribers. Accordingly, we have already made significant investments towards capturing the digitisation opportunity as is apparent from the fact that a lion's share of 7.1 million of the 11.8 million subscriber universe is from Phase I and II. Further, we have a diversified operational presence in 160 cities and towns across 20 states and a market share of 30-85% in the top 15 Phase I/II cities.



Our current net exit ARPU from Phase I stands at around ₹ 100/month and at ₹ 67/month from Phase II monetisation. In addition, with a dominant presence in the Phase I metros of Mumbai, Delhi and Kolkata, we enjoy one of the highest Carriage and Placement (C&P) yields per universe subscriber in the industry.

Looking ahead, we expect a significant rise in net content cost from digitised subscribers. As the proportion of digitised subscriber's increases, we expect net content costs to increase too.

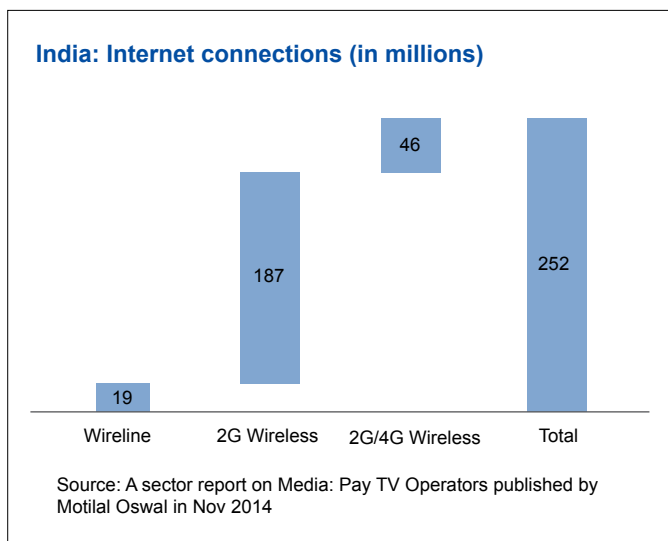
BROADBAND

Industry Overview

While India has 252 million internet connections, 187 million are on 2G wireless, 46 million are on 3G/4G wireless, while only a small fraction are wireline based. Of these wireline based connections, barely 5% or a total of less than 1 million subscribers are via cable. Since wireless tends to be the preferred mode of connectivity due to infrastructure bottlenecks, it presents MSOs focussed on the broadband segment with a huge untapped opportunity, especially in the home segment as the wireline household penetration stands at less than 8%.

At the same time, the broadband segment in India enjoys a steady-state margin of 35-40% which is superior to the 20-25% achieved by cable TV. This is due to the fact that the broadband business is incremental in nature and requires much lower revenue sharing with LCOs than cable TV and no pay-outs are due to broadcasters, etc.

With DOCSIS 3.0 technology, which provides speeds of 50-100 Mbps, being deployed by leading MSOs like ours and better steady-state margins, the ARPU for the broadband business, is expected to increase tremendously .



Business Overview

We continue to be the largest broadband player in India in the cable broadband market with a 40% share of the cable broadband market and a 2% share of wireline internet connections. Our networks pass approximately 2.3 million homes. We leverage our strong and extensive presence in the cable TV market, which has become the foundation for our internet initiatives.

Post the launch of our high speed DOCSIS 3.0 technology-based internet service in October 2013, we have already upgraded approximately 20% of our subscriber base to this service, which offers speeds of 50 Mbps at competitive price points. This has resulted in better subscriber retention and boosted ARPU too.

Performance Review

The standalone operating revenue of the Company for the year ended March 31, 2015 stood at ₹ 1,023.5 Crores, which represents a growth of 4.4% over the previous year. The EBITDA was at ₹ 139.4 Crores (previous year ₹ 191.9 Crores).

The consolidated operating revenue was ₹ 1,831.6 Crores (previous year ₹ 1,583.3 Crores), up by 15.7%, and the EBITDA at ₹ 259.9 Crores (previous year ₹ 309.8 Crores). The consolidated PAT loss stood at ₹ 174.5 Crores (previous year PAT ₹ 140.7 Crores).

Key Growth Drivers

Significant investments already completed in Phase I and II

With almost 60% of our subscriber universe already digitised in Phase I and II, we have already completed a bulk of investments towards the digitisation opportunity and can now look forward to reaping the returns on that investment.

Higher C&P driven by a diversified presence in HSM

While we enjoy a dominant market share across several metros, including the high profile Phase I cities of Mumbai, Delhi and Kolkata, we have also expanded our universe by further consolidating our presence in the Hindi speaking markets (HSM).

Value-Added Services & Bundling

Value-added services such as HD, VoD and niche channels are expected to continue to be key revenue drivers in the future. Hathway has developed the necessary backend infrastructure and ecosystem for the roll-out of these services. It currently offers 30+HD channels on its network and bundled services (Cable TV + HD + Broadband DOCSIS 3.0) to its customers. This acts as a barrier to customer churn.

Branding and Customer Service

Over time, customer service, brand identity and value have become critical differentiators among the industry participants. Brand Hathway is well established in the minds of consumers in several pockets and hence, we are potentially well placed to ensure 'consumer mind-space'.

RISKS AND CONCERNS

Nature of Risk	Risk	Risk Mitigation Strategy
Impact of a possible decline of broadcasting business.	We derive a significant portion of our subscription revenue from carriage and placement fees. In the event of any decline in the growth of the broadcasting business in India or its stagnation, our revenues may decrease.	While revenues from carriage and placement will decline over a period of time, we anticipate that the declines will be more than made up by growth in subscription and Value-added services revenues. The Company also earns Advertisement revenues from local channels carried on its network. This is expected to further contribute to revenue growth.
LCOs buying into our new model.	With the advent of DAS, we are shifting to a new revenue model that should improve the economies for stakeholders across the value chain. However, even when ARPUs increase and customer choices become clearer, we will still require the co-operation of last mile owners of networks and revenue sharing will certainly reflect this reality.	The Company expects that with TRAI rigorously implementing the mandate for DAS, LCOs will eventually buy into the new business model.
Competition	Our TV cable services face competition from providers of television services through alternative technology platforms, such as DTH satellite television and IPTV. However, we enjoy certain advantages over competitors in the DTH space, such as better quality for the end-user, ability to deliver localised content, reliability of service even in monsoons, lower cost of subscriber acquisition and better suitability in high-density areas.	Hathway is amongst the largest players in the MSO universe and is well placed to protect and grow its market share by virtue of the quality of services of its network, localisation of content and lack of monsoon-related fade in its signals.
Financing risk	As at March 31, 2015, we have outstanding loans from banks and financial institutions of ₹ 225 Crores, which are subject to floating interest rates. In addition, outstanding payables to banks and creditors for capital expenditure aggregated to ₹ 852 Crores and are subject to fluctuations in foreign currency rates.	The Company has put into place a formal mechanism to constantly review and if necessary hedge foreign currency risks. The interest rates risks are not hedged.

HUMAN RESOURCES

We have successfully transitioned from a B2B to B2C player. This requires a completely different customer interface, which can be done only by leveraging quality human resources that enhance our customers' experiences.

The talent sourcing drive that we started a couple of years ago, continues to gain momentum during the year as we went on to recruit additional human resources with experience in the telecommunications and media space. This has enabled us to secure our leadership position as the digitisation process picks further pace. Nearly 2,000 employees (including employees on contract and sub-contract basis) were added during the year. With that, the total employee count crossed 4,700 for the year ending March 31, 2015.

Various initiatives have been undertaken during the year to restructure and retrain our in-house human resources towards making the organisation more customer-centric.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectation may be "forward-looking" within the meaning of applicable laws and regulations. Actual results might differ materially from those expressed or implied.

- vii) Envelopes containing postal ballot forms received after closure of working hours on 13th February, 2015 had not been considered for his scrutiny.
- viii) On 16th February, 2015, Mr. Jagdishkumar G. Pillai, Managing Director & CEO announced the following results of the postal ballot as per the Scrutinizer's Report:

Details of Agenda

- I. Increasing the foreign investment limit in the Company up to 74% of the issued and paid-up capital.

Particulars	Total No. of Valid Votes	Votes Assenting the Resolution	% of Votes Cast	Votes Dissenting the Resolution	% of Votes Cast
Votes cast through physical Postal Ballots and Electronic Mode	592,331,700	592,331,325	100	375	0.00

7. DISCLOSURES:

(a) Related Party Transactions:

There are no transactions of material nature with Directors/Promoters or any related entity, which will have any potential conflict with the interests of the Company at large. The transactions mentioned under the Section of Notes to Accounts which forms a part of the Auditors' Report for the year ended 31st March, 2015 are non-material in nature.

(b) Compliance by the Company:

There was no non-compliance by the Company and no penalties, strictures were imposed on the Company or its promoters by the Stock Exchange, SEBI or any other statutory authority on any matter related to capital markets, during the last three years.

(c) Whistle Blower Policy and Access of personnel to the Audit Committee:

The Company has framed a Whistle Blower Policy which was approved by the Board of Directors on 29th May, 2014. The Company's personnel have access to the Chairman of the Audit Committee in cases such as concerns about unethical behavior, frauds and other grievances. No personnel of the Company have been denied access to the Audit Committee.

(d) Compliance with the Mandatory requirements and Implementation of the Non-mandatory requirements:

The Company has complied with the mandatory requirements of the Corporate Governance Clause of Listing Agreement. The Company has not implemented the non-mandatory requirements.

GTPL Hathway Private Limited (GTPL) (formerly known as Gujarat Telelinks Private Limited) is a material non-listed Indian subsidiary company in terms of Clause 49(III) of the Listing Agreement. Accordingly, Mr. Devendra Shrotri, Independent Director of the Company, is nominated as a Director on the Board of GTPL.

8. CEO/CFO CERTIFICATION:

As required under Section V of the clause 49 of the Listing Agreement with the Stock Exchanges, the Managing/Whole Time Directors and Chief Financial Officer of the Company have certified to the Board regarding their review on the Financial Statements, Cash Flow Statements and other matters related to internal controls in the prescribed format for the year ended 31st March, 2015.

9. MEANS OF COMMUNICATION:

- (i) The quarterly results of the Company are published in Aapla Mahanagar (Marathi Newspaper) and Financial Express (English Newspaper). The Company ensures that all quarterly, half-yearly and full year audited results be published at least in 2 newspapers. The quarterly results are further submitted to the National Stock Exchange of India Limited and BSE Limited immediately after the conclusion of the respective meetings.
- (ii) The Company has its own website www.hathway.com wherein the financial results, Annual Reports and other material for information of the investors are uploaded.
- (iii) The Management Discussion and Analysis Report is attached and forms part of this Annual Report.