"Hathway Cable & Datacom Q1 FY13 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Ltd. Q1 FY13 standalone and FY12 consolidated results conference call hosted by MF Global Sify Securities Pvt. Ltd. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Participants please note this call is only for institutional, investors and analysts. If any media and transcription companies have joined the call we request you to please disconnect. At this time, I would now like to hand the conference over to Mr. Vivekanand Subbaraman of MF Global Sify Securities. Thank you and over to you sir.

Vivekanand Subbaraman Thank you Inba and good morning everyone. We at MF Global Sify Securities pleased to host the Q1 FY13 earnings and FY12 consolidated results conference call of Hathway Cable & Datacom Ltd. We have with us the senior management team of Hathway represented by Mr. K. Jayaraman – the MD and CEO, Mr. G. Subramaniam – the CFO, Mr. Mahadevan – the EVP, Finance along with other senior members of the team. We will begin the call with a short commentary when Mr. Jayaraman on the results and possibly few quick thoughts on the digitization and then we will move on to the Q & A session. Over to you Sir.

G. Subramaniam Ladies and gentlemen this is actually Subramaniam, I will sort of lead in with the brief comments on the financials. What we have presented to you is the standalone results of Q1 of the current year, we have also of course the board has considered the consolidated results in its meeting of there before yesterday, and I will just sort of take you quickly through the numbers. Total income for Q1 of this year has been about 136.3 crores which is a marginal growth, over the immediately preceding quarter but is 11.3% better than the 123 crores of Q1 FY12.

The total expenditure rose again marginally over the immediately preceding quarter at 112 crores and compared with the same quarter previous year rose by about 8%. EBITDA at 24 crores marginally above Q4 of the immediately preceding quarter and about 24% better than the same quarter previous year. EBITDA including other income also was more or less inline, we were at 26.3 compared with 28 crores in the immediately preceding quarter, but substantially better than the same quarter preceding year which stood at about 24 crores. At a PAT level we came in about 16 crores loss, which compares with 16 crores loss which compares with about 7 crores loss in the immediately preceding quarter and 15 crores loss in the same quarter preceding year. Obviously the PAT was has to be adjusted for some significant number which came in from foreign exchange loss which is about 4.6 crores, and the financing cost which was marginally higher, substantially higher than the same quarter previous year at about 13.3 crores. As you know we have been investing significantly in to set top boxes quite successfully at that, for example in the said quarter we seeded almost 300,000 boxes on a standalone basis on a consolidated basis we seeded almost 400,000 boxes. So that has substantially driven both financing costs and obviously because these boxes are imported to the extent that we have not hedged, that there has been an impact on account of foreign currency loss.

I will quickly take you to the consolidated numbers. On a consolidated basis these came in at about 101 crores which compares with the previous year's figures of 88 crores, which is a 15% growth year-on-year. On a total expenditure level we came in at about 84 crores which compares with 73 crores, and EBITDA went up 843 crores compared with 732 crores and EBITDA came in at about 169 crores compared with 150 crores including other income of course EBITDA came in at about 186 crores which compared with 176 crores in the previous financial year. Profit after taxes came in at a loss of about 55 crores which compared with 34 crores against substantially driven by the depreciation on the set top boxes, financing costs and losses on account of foreign currency. So this is sort of a broadly summarizes the performance of the company both in Q1 of this year and the results for the entire financial year preceding. With that I will hand it over to Mr. Jayaraman our MD, and Chief Executive Officer.

K. Jayaraman Good mourning everybody. Also I would like to give some data and update on the Digital Addressable System, DAS and also the broadband. First I will start with Digital Addressable System, that for the year FY12 we had totally deployed of about 639,000 boxes for the entire year FY12, this compared to FY11 we will just give the figure for FY12 in a minute. For the post quarter of FY13 we have deployed 430,000 boxes in the Q1 of FY13, which is 430,000 the previous quarter that is FY12 Q4 the trailing quarters was 235,000 and the corresponding quarter for FY12 Q1 was 91,000. So we have seen almost 100% jump between Q4 FY12 almost 100 to 80% jump between Q4 FY12 versus Q1 FY13, and the fourth fold jump if you see the corresponding quarter, so that is the level and we currently have about an inventory of about a million boxes on hand. We have almost done 82% of first TV sets in Mumbai, and about 38 to 40% in Delhi and this figure is basically the Hathway penetration of first TV in Mumbai and Delhi which is almost I would say 100% more than the nearest, the next cable company these figures basically almost 100% I would say, this is as per the analysis done by the Ministry. In Kolkata which where we also operate through our subsidiary, associate company, in Kolkata we have almost seeded about 1.8 lakh boxes out of our universe of five lakhs, so about half a million is our potential and we have done closer to 200,000, 1.8 lakh - 2 lakh so balance to be treated in about 3 lakh. In Mumbai the balance which we seeded about 2 lakh 60,000, and in Delhi what we have seen is about five lakhs or so, 5 to 5.8 lakhs.

Now overall in Q1 April, May, June of current year the seeding has been quite good as we said it was 4 lakh 30,000, however, after the slight deferment from June 30th, July 1st to October 31st now, in the month of July we have seen drop in the seeding but however with the many interconnect agreements having been signed and now that the government has reiterated very strongly that November 1st would be the deadline. So we expect in the last two months that is September and October substantial amount of set top boxes to be done and mainly we will focus on Delhi now because that is where about six lakh boxes have to be done. Now beyond which we also have negotiated and kept ready set top boxes for any spillover and addition requirement that may arrive, for whatever reason that is required for all that two, three markets we have built the reserve quantity also and we are hopeful that they should come in handy given the state of preparedness overall of some of the other MSOs, and also I would like to state on the set top boxes that we have tried to increase the price of the set top box to 799 including taxes from August 15th or August 16th or so, and to that extent all the MSOs have put in a joint campaign, so hopefully I think the price which was earlier Rs.600 including taxes is now almost Rs.800 including taxes.

So once that gets little bit settled down it will take some time to settle down, we hope that the subsidy or the SAC will also further come down. So if we were to bring that 700 would be the net realization and 1500 is the box cost so Rs.800 is literally the subsidy which earlier was Rs.1000. Also while it is not a futuristic statement we are also hoping that perhaps in September, October we might explore increasing the prices further by Rs.100 or so that is what we are contemplating on that basis. So we think still Rs.800 will be our SAC per digital customer and that as you all will know that compares far-far favorably 33% of DTH SAC or so excluding of course some marketing costs which actually we have been conserving the marketing budget and probably we will try and unleash it in October, because I think there is no need for conceptual selling set top boxes many people are aware, so it is more to do with the packaging and the pricing that we have to focus.

So I think once these all our interconnect being ready so this kind of budget will come in handy in September, October. As regards the agreements are concerned for broadcasters we are able to sign with all the major broadcasters to the satisfaction however I will not be able to diverge the commercial nature of contracts with the a broadcasters. All we can say is that this is well in relation to what we have kind of assumed business plan, etc., give or take something. I would also say that the tiering fees that have replaced the carriage fees because we cannot take carriage fees placement now. The tiering fee which is the other name for carriage fee, the kind of drop that we were anticipating as many people have questioned that this would be a complete disaster. It is really not a complete disaster and there has been some downward on the carriage fee it is now called tearing fee but these are being all mutually agreed so in that sense we have not seen any substantial downward growth in carriage fee so far as could be whatever contract we have signed and we still have standalone channel which are also to be negotiated with respect to tearing fees. So I think there would be not such a substantial downside there. I think that is what the indications are currently, so one has to say how it goes on the next one month and all so the other point that I would like to cover is on the broadband side.

On the broadband side we have shown good improvement in gross, and net we have almost reached now 406,000 broadband connections. During the quarter we increased the ARPU by Rs.20. We had a gross addition of 22,000 during the quarter and as I said Rs.20 ARPU hike was done and quality of service norms we have put in substantial efforts to increase the QAs norms and we had on the other hand many major back and upgradations in terms of technology in broadband which also we have completed the user portal and the other stock. So I think broadband is also showing reasonably good growth in revenue and EBITDA in line with what we have as an internal budget for a FY13. And I think the other aspects in relation to DAS ordering further number of channels to go to 250, 300 and then to 500 is well in course we are in final stages of awarding the contract for billing and call center few parties have been shortlisted. These are very top notch professional firms who will handle the complete back-end including billing. Those parties have been shortlisted and hopefully we have done. We have also undergone extensive internal training of staff for handling the B2C kind of situation and other things like packaging and stuff like that we are also building a Hathway portal which would give customers an opportunity to choose online the packages and the channels they want and also it can be through mobile, it can be through iPad or it can be through broadband, we are building a portal which can be through call center all through Internet handheld devices, etc., so that kind of an interface we are building, including the prepaid option for whomever who chooses to expand. So all in all I think that is the kind of overall update we have on the business side.

Moderator Ladies and gentlemen we will now begin the question and answer session. Our first question is from Mr. Avneesh Roy of Edelweiss. Please go ahead.

Avneesh Roy My first question is on the 0.4 million boxes which you have seeded in consol, what is the change in terms of the customer experience towards the company say in terms of value-added service, how much has been the HD out of this and one of the DTH competition is launched HD recording so any plans for HD recording from our side? That is the first question Sir?

K. Jayaraman We have done almost we have reached 10,000 HD boxes as of now, about 9000 or so I think is the figure. We had ordered 10,000 out of that now only 500 or 1000 is remaining. Our HD we have 21 channels and our HD services has been rated one of the best and even better than some of the DTH operators some of you would have **(Inaudible) 17.45** I don't know. We have 21 channels including all sports channels and all GEC movies, etc. And I think we have ordered another 10000 boxes, however, we are not giving any subsidy there and we are doing on a cost plus basis. So our HD P&L so far is profitable and it generates EBITDA after considering content cost and marketing costs. Experience so far has been very good. A large numbers have gone in South Mumbai and Bangalore. Delhi we have not been able to foray much although we have the product there because we do not have free spectrum now but post-DAS I think we will get and Hyderabad market is also okay. And regarding HD recording that we will consider it after this DAS thing, currently we are a little busy on the Standard Definition rollout of DAS. So I think that is not a very complicated product so, I think we will be able to do that very quickly an offer. There have been some demands on the _____ **18.45** and we will do it post-DAS anyway we are very confident of that. Regarding Standard Definition, our number of channels on an average as we know we provide about 300 odd channels in most places excepting in some places in Delhi still the analog frequencies are not vacated so we still have about 175 there but we are upgrading there also to 250 plus. So I think the experience of consumers have been good because if you see the churn rate of as in Mumbai and Delhi specific where it is going for DAS there has been hardly any churn rate, whether the churn you can see in a direct points or whether the churn you can see through the operators. There is no case where an LCO has come and told that our boxes have been returned and somebody has moved into some other delivery. I think overall churn would be much less here because I think here the service is comparable or better and quick on ground support is there to the consumers. So those two advantages are there otherwise I would have seen an even if we take DTH standard for 1-1.5% per month we have not anywhere near that we are far lesser.

Avneesh Roy Second question is on Delhi 0.6 million is still left and you said on an all India basis these four cities, you expect pick up to happen in September and October, so in Q2 any ballpark number you would have on how this 0.4 million number which was there in Q1 seeding how that can happen or do you expect largely October to be the main month because that is the last month and why was marketing spend low sir, so did you have already this view that this will get delayed so that is why to conserve cash?

K. Jayaraman No it will spillover between September and October, although I cannot tell the ratio we think that 1 million boxes that we have will be exhausted in September and October largely. We are seeing some boxes in Phase-2 cities but we have little bit slowed down there because we have increased the price to 999 in Phase-2 cities so that the subsidy there is further cut and we have SAC only of Rs.500. Whereas now in the DAS areas we are giving it at 799 right now anywhere between 799 is what we are aiming. While I cannot say that all of 1 million will be done in September while we may wish that, I think between August, September, and October I think this 1 million should hopefully be exhausted. So that is a kind of thing we have.

Avneesh Roy Sir just one follow-up question. Why are you doing Phase-2 seeding as of now because seeding those boxes as of now makes no sense whatsoever because unless regulatory backing is there you will never get those money till the time **period 21.57** really happens so why are you being Phase-2 as of now?

K. Jayaraman That is what investors like also that if you seed well they also say you seed well.

Avneesh Roy No Sir your capital is getting locked?

K. Jayaraman Right, but Phase-2 seeding is what monthly about 5000 or so. 5000 or 10,000 a month between Hyderabad and this Bangalore that is hardly any significant number

G. Subramaniam And also it places us well when the Phase-2 kicks in. Penetration of boxes achieved is substantial in the cities of Bangalore and the incremental boxes that are to be seeded is much lower and therefore we are much better placed in competition. The other advantage is once you have placed these boxes it becomes more and more difficult for competition to encroach upon your territory, so actually it is strategically important for us to block our territory with boxes.

Moderator Thank you very much. The nest question is from Mr. Aashish Upganlawar of Spark Capital. Please go ahead.

Aashish Upganlawar Sir you gave a number of approximately about 1 million that remains to be seeded on the Phase-1 cities?

K. Jayaraman No we do not have 1 million. We have Mumbai and Delhi about 800,000.

Aashish Upganlawar Plus Kolkata about 2 lakhs.

K. Jayaraman Yeah Kolkata is separately handled.

Aashish Upganlawar As a consol entity it is about 1 million, out of 1.9 odd million that we have completed. On this just a little bit confusion, the overall number you said 639,000 deployed in FY12?

K. Jayaraman Yeah.

Aashish Upganlawar And that in Q1 430,000.

K. Jayaraman 430,000 in Q1 of FY13.

Aashish Upganlawar Okay these are all consolidated numbers not standalone.

K. Jayaraman Yeah this will go to Calcutta also, which is our Calcutta is also included in this. Overall seeding is only 1.8 lakhs. It was not there in FY13 Q1 majority may be some more 100,000 may be Calcutta perhaps.

Aashish Upganlawar Okay and penetration levels of about 82% you said in Bombay 30% Delhi that is related to standalone entity Hathway excluding the subsidiaries right?

K. Jayaraman Means are Bombay and Delhi operation and with respect to Kolkata the seeding is 1.8 on 5, so that is about 30 to 40%.

Aashish Upganlawar Just wanted to reconcile one point you said that after the increase in price that you are offering to customers about Rs.200 you would be saving that much amount on the SEC but on the correspondingly your dollar would have been impacted set top box cost?

G. Subramaniam We used to price this product at about Rs.500 against that we were incurring about Rs.1450. That has now gone up Rs.1510 post the dollar has increased and we have now increased it by about $200 so obviously the subsidy declined by a substantial figure.

Aashish Upganlawar Sir anything to share on how the LCOs are approaching now after the delay in the First phase deadline?

K. Jayaraman I think Q1 figures speak for it self. We have done 4,30,000 large component of this is through the LCOs only. If you look at the Quarter 1 FY13 numbers and if you also look at FY12 itself it is 13,000K whereas the FY12 Q1 corresponding quarter was hardly 100,000 - 91K there. So LCO have fairly well responded based on these figures because direct customer we have already ceded about 80%. So LCOs are ceded well only there is a little delay. Little slow in July that again will slightly pick up towards the last two months or so. LCOs are very clear now that they have to put the set top boxes.

Aashish Upganlawar And anything on the sharing between on the tripartite between you and the broadcasters, broad numbers that you would have sharing?

K. Jayaraman LCOs we are keeping it at 35% only as told by the TRAI and as far as the sharing between the broadcaster and the MSO is concerned that is left to mutual agreement.

Aashish Upganlawar So a ball park number and how you see this panning out on the overall basis? Ours is 25% after paying off the two parties.

K. Jayaraman As I said we have done it with the majority of the broadcasters and we will not be able to share those percentages even on approximate basis now because there are still some one or two contracts pending for it so we don't want to right now exactly give the percentages in terms of what percentage it would be but one has to look at that in the context of what it is the tiering fees also you are getting it basically. Because we have to see that from the historical model when you are going to the new model what is the pay cost and what is the tiering revenue that you will get. What we are trying to do is in a way try to see whether cost per subscriber works or fixed fee works and then we are just trying to balance that and at the same time even the tiering fees also we have just seen that we do a fixed fee deal also in some cases also and where there is no agreement then we do a RPS model that is revenue per subscriber model.

As I said in the initial introduction that it is in line with our expectation in terms of cost whereas the revenue per subscriber that we anticipated what we thought will fall it is not falling that much. I think in Phase-I we will not see any significant reduction in terms of tiering and not so much high in terms of pay cost. Because if we do a fix fee you can still have an upside through kind of roll out numbers more, isn't it?

Aashish Upganlawar So tiering fees approximately in the first phase should it go down to say, you have been saying a number of say 50% and does it look to the 70% of what it is existing right now?

K. Jayaraman Which one you are saying is going down.

Aashish Upganlawar Yeah from the current 500 odd crores that we can get overall.

K. Jayaraman No we cannot take 500 crores. You have to take only Mumbai and Kolkata.

Aashish Upganlawar Yeah. If you take Phase-I Rs. 100 that we are getting now would that go to 70 earlier you were saying Rs. 50 would be ideally.

K. Jayaraman It will become a little futuristic. I suggest that about after a month or so later we might get a better view and we may be obliged to have a meeting with the Investors informally or with some of those investors and at that time we will be able to share because again some contracts are underway. We do not want to give any percentages at this point. I can only say it is encouraging.

G. Subramaniam Let us say it is in line with our business plan.

Aashish Upganlawar On the tiering we are looking at some positive from what we had assumed and may be on subscriptions it will actually averages out.

K. Jayaraman You can't see average out. Subscription will go up know when obviously when you are paying for subscriber base which is negotiated subscriber base in analog what is the more transparent model. On a CPS basis it will go up. Logically it will go up but the CPS model is passed through you don't get hit because in the analog model it was a lump-sum whereas in the CPS model it is pass through. As long as it is in the range of about 35% on a CPS model to your subscription it is a good proposition whereas you translate the fixed fee into a CPS based on an estimated 2 million penetration that also should be in the region of about 35%. Then once you pass those two whether CPS or fixed fee translated to CPS on your 2 million expected penetration then I think you are well on course. It looks like.

Aashish Upganlawar Okay and the contracts with broadcasters are both on fixed fee as well as variables?

K. Jayaraman We have done it so on the basis of case-to-case basis. It is a mixture of both.

Moderator Thank you very much. Our next question is from Prateesh Krishnan of Antique Stock Broking. Please go ahead.

Prateesh Krishnan Just a couple of things. One is in terms of the agreement with the LCO I am not sure whether the agreement is signed or still pending?

K. Jayaraman Agreement with LCO is prescribed by TRAI at 35%. It is a standard agreement. We will have little more time to execute it but even in the CAS we had executed it and this goes on till the last moment. The more important thing with LCO is reaching the commercial understanding at 35%. Once that is done then we just have to translate that agreement into Marathi and Hindi and then get it signed.

Prateesh Krishnan So should we assume that 35% is what you will be fix it?

K. Jayaraman Variable basis what is the upper limits fixed by TRAI. That is what it will be whether you translate it in percentage or you translate it into some kind of a fixed amount. I think that is the range which we have already indicated because they also get some upside on second things.

Prateesh Krishnan Today when you see the digital boxes is there an increase in the ARPU which you get or something?

K. Jayaraman The increase in the ARPU is there only where we have our direct subscribers where we have been able to increase whether in the DAS areas or whether in the Second Phase of DAS areas. It is not direct subscribers from 100 odd channels when we went to 250 we have been able to.

Whereas the cable operators where we have ceded as you clearly know that we have been only trading the boxes as a precursor to that and we have never intended to monetize it especially after DAS announced in last November. The thing was clear that it will get monetized post DAS. That remains as it is. The only thing has been that we have been able to control our subscriber acquisition cost to about Rs. 1,000 or so as compared to DTH which is 2 times – 3 times.

Prateesh Krishnan And lastly on terms broadband, I mean the Rs. 20 increase that you mentioned in terms of ARPU that is for this particular quarter or over the last 6 to 8 months?

K. Jayaraman No this actually all the active customers from our business we are increasing. Based on the TRAI regulation anybody come in within 6 months you cannot increase. So as and when they complete 6 months and come for renewal everybody will increase and for a new customer anywhere the price is increased by Rs. 20.

Prateesh Krishnan You have taken a rate hike probably some 8 – 9 months back. Your effective is the same one or something new which?

K. Jayaraman Last year we took Rs. 20 and this year we have taken Rs. 20.

Prateesh Krishnan What is the ARPU now that you have realized?

K. Jayaraman You can say that if you look at any new sales it would not be less than Rs. 400.

Prateesh Krishnan Which is around 320, a big gap.

G. Subramaniam He said incremental basis. When a new subscriber is coming in he is coming at about 400.

K. Jayaraman If you see my old ARPU it would have been 285 once and then it became 300 – 305. Now I presume it should be 315 – 320 kind of a thing whereas all new additions would be nothing less than 400.

Prateesh Krishnan And in terms of the home pass for broadband what is the increase?

K. Jayaraman I don't have the thing here but in Q1 our home pass increase would have been hardly anything less than 50,000. We didn't increase substantially because the only area where we are increasing home pass is Mumbai because in other places the home pass increase was only. 13,000 whereas the gross add was 22,000.

What we are doing is we are spending less CAPEX of home pass and try to sweat out the existing home pass because still cumulative home pass is almost about 1.5 – 1.6 million and our active base is 400 – 6,000. We are still at about 25% penetration.

Prateesh Krishnan Once this Phase-I gets implemented what is the number that you are looking at from broadband point of view?

K. Jayaraman Broadband point of view we are looking at something like 15% -20% growth in subscriber numbers over last year. Last year was something like about 390K after closing and 390K definitely 15% - 20% in terms of subscriber number crores and then obviously it will be given by revenue growth because of ARPU hike and use of labor and things like that.

Prateesh Krishnan And lastly on a full year basis from FY12 basis is it possible to broadly state the margin profile basically in these two businesses namely cable and broadband.

G. Subramaniam Prateesh generally we don't break out between those numbers but if you want you contact us later we will.

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

Vikash Mantri Sir you talked about getting our contracts done with broadcaster mostly. Have we also confirmed the packages that **L** flows will offer and that is being marketed to the consumer in terms of this is the Tier-I, Tier-II whole package and so on and so forth.

And second question is have we announced the carriage fee per channel per subscriber or how it has worked now?

K. Jayaraman Packaging we will be announcing shortly because the inter-connect between MSOs and broadcasters as I said majority of them we just completed last week, 2 - 3 days back and few remain but we are broadly talked about what shall be the packaging. We are looking at something like basic pay tier, middle pay tier and premium pay tiers and we have conceptualized all that internally keeping in mind competition, keeping in mind what customer was getting earlier and what the customer would pay. So there is a lot of thought that is gone in and we are kind of broadly thought about what would go in to that. So that I think once we complete one or two things that are still remaining with us the packaging would be announced very shortly but then these inputs to have already gone in and it is ready with us. As regards carriage fee we don't call it as carriage we have already announced to try what will be the carriage fee that they have asked basically the Re. 1.95 per channel per sub per month, that we have statutorily announced it. That is the MRP kind of a thing. When we venture into contracts with each broadcasters or bouquet of broadcasters then we do negotiated deals with them Rs. 1.95 being an MRP on a per channel basis or on a bouquet basis we do either fix contracts or variable contract depending upon how it pans out. That as I told in my opening statement it is well on way and we are proceeding pretty satisfactorily on that and the kind of reduction that we have been seeing we are not seeing that kind of a reduction even in absolute terms.

Vikash Mantri Sir in terms of our content cost, the content cost for a DTH operator and here we have data for Dish TV comes out around 30% - 33% of our post which would put it around Rs. 350 range per subscriber per month. So have we been able to take content or we confident that we will get content at a price lower than that. We have been hearing that some of the other MSOs are ready to offer more than the 35% share to the LCO so what is our discussions happening with LCO right now or what they will be sharing or it is left that only 35% is the thing that will happen?

K. Jayaraman Regarding content cost of the DTH I would not like to comment on Dish TV because you have raised the thing that 33% is you said, isn't it or in absolute terms what you would say is Rs. 50. It is a very good point that you said so I will use some perspective. We have also analyzed that and I presume you would have analyzed it on net add, the net subscribers that they have.

Vikash Mantri This is on net subscribers only.

K. Jayaraman You would have divided the content cost for the quarter by their net 9 million or so that they have.

Vikash Mantri Pretty much. We have done this only.

K. Jayaraman Now if you take that at Rs. 50 which we also get we are well on course within that Rs. 50 so that is not a problem because I have to also assume that the ARPUs or whether it is the basic-tier pay or middle-tier pay the ARPUs would have to be comparable to them. I can't give substantially more at least I would have to be the same. So if you take that the cost for us also comes well within that range. But you have to keep also in mind that net cost that we would have perhaps could be lower because you have to see what kind of tiering fees we get and what kind of tiering fees DTH gets. That is something that we pan out little favorable to us. The third point I want to also make is that without naming anything specifically whether for example in the DTH cases all the net subscribers are carrying all the pay channels or not. Now there seems to be some new thing development or a new situation that has developed that many of them who are post-paid and not paid their pay channels have been stuck off and they are only carrying free to air basically. To that extent there is also some new figures that is emerging which I cannot say here. I have been hearing that a lot of these net adds would also have some free to air channels basically so obviously to that extent 9.8 billion for ex-DTH operators or ex-million per another DTH operator may be far lesser. So the resultant content cost could therefore be on a unit basis higher. I am just flagging this off basically.

Vikash Mantri Where is this on the LCO sir?

K. Jayaraman On the LCO front we are very clear that it is 35% of the ARPU so largely if you look at Rs. 200 net of tax if you get we are saying that the LCO will get anywhere between Rs. 70 – Rs. 75 on the first TV and on the second TV probably we have indicated half of that basically because the price also is bound to be half which today he is not getting. So I think if you take into account places like Delhi where lot of outers have second TV and all that we should get about Rs. 100 or so if you take per household not per connection. Net of tax is seemingly okay to the LCOs basically.

Vikash Mantri But sir if I were to argue as an LCO first of all I should be getting 45% of the BST so if there is that function is employed on an average we should be getting 40% and not 35% in assuming 45% for BST and 35% for the pay TV channels. Second thing is on a per household basis suddenly the pay out is significantly less than CAS. Under CAS I was getting Rs. 88 which was my BST and I was keeping completely with me. So and significantly was of either than I compare it to CAS or if I were to compare it with that actually at least TRAI has recommended 45% of the BST. Packaging will ensure that nobody goes in for BST but that would be against the LCO per say.

K. Jayaraman Sir the LCO has filed and appalled in TDSAT asking it to be increased from 35 to whatever. If that increase happens then correspondingly we have to see how that thing emerges. We are very clear as MSOs that this is the range at which he has to get it given the fact that the subsidy is entirely borne by the MSOs. It is borne neither with the Broadcaster's nor by the LCOs. So this broadly is a range at which it will work. If the LCOs have definitely a right to appeal against the TRAI and they are rightly in their mind they have gone and appealed with TDSAT and other forums. That is separately being taken care by them but in the meanwhile some where around Rs. 80 – Rs. 90 including the second TV or at the most Rs. 100 is what they will get but that we are trying to slightly say that the net ARPUs would be about 160 but in reality in Bombay and Delhi the packaging and the tiering you just wait and watch how we are going to do. It will be interesting such that the basic pay tier itself would be quite attractive. So if the basic pay tier is attractive to the consumer and priced well I think the LCOs will also get a benefit of that. And second TV is something that one has to keep in mind. So far the customer's have not been paying for the second TV at the customer level. That is going to be a big upside down. I think the LCO is not going to be that bad enough because the entire billing we have to provide software, we provide him with the billing software and the bills. It is just about that he has to collect it. In all fairness 35% he should be able to accept it with an addition of second TV. If something happens in TDSAT we cannot really comment on that. At the most they might give 5% more. He is charging okay. At the end of the day if cost is going to increase then the cost will have to be passed on to the consumer. That's about it. It is a variable cost so we are not going to pay out of our pockets. All MSOs will increase the prices.

Moderator Thank you very much. Our next question is from Mayur Ghathani of OHM Group. Please go ahead.

Mayur Gathani Sir the first question was relating the inter-connect agreement with the broadcasters'. We have been hearing something on the TRAI by 21st that was already passed. If that doesn't happen then they will intervene. As of now Hathway is saying, okay we are more or less done so what about the others? If they are not done and TRAI intervened in between so does it apply to us as well or just because we have done the deal we don't have to bother about?

K. Jayaraman No. We do not know whether TRAI is going to act against whom or not. So I cannot answer that. We have given our report day before yesterday, 21st to TRAI and also to the Ministry. Now it is upto them to conclude and arrive at whether we have satisfactorily done or not and whether other MSOs have done satisfactorily or not. That is their judgment. Their judgment is something that we cannot speculate. We have given our status day before yesterday night and our mind it is quite satisfactory and these things go on because after all there are hundreds of channels. If what TRAI and MIV considered as the main ones which I think more or less we have done except for one or so. It is upto TRAI to judge so I really don't know some media statement reports have come today. I don't know much about that. After that when TRAI spoke to us they were very angry with something. That means we may not be affected.

Mayur Gathani Why I am saying is because if TRAI brings out a agreement like intervention thing then it may be applicable to one and all, not only to you and because you have done satisfactorily so it may not be applicable to you.

K. Jayaraman We cannot say all that whether that will override. If TRAI interferes whether that will override signed contracts or not is something that I cannot say now. It is too early to say that. What TRAI will say is something that we cannot speculate. I think the authority is having a meeting today that's what we hear. After the authority meeting is there today they will let us know what the authority has decided. Yesterday night they were to give us a report to the department and after that today there was supposed to be an authority meeting. We have to just wait for that. Those are really something that we can't answer.

Mayur Gathani And second one sir was our STB selling has been exceptionally good for this quarter. But we don't see this top-line incrementally going up as well so the only reason is because we had just seeding the boxes and waiting for DAS actually get implemented and then the revenues will flow in for us.

K. Jayaraman Absolutely. At the moment what we get is only activation fee but subscription obviously will start only from November 31st.

Mayur Gathani Activation fees Rs. 607 that you get for the set top box?

K. Jayaraman Yeah Rs. 600 or so.

Mayur Gathani And sir what is your cash and debt position currently?

G. Subramaniam As far as the standalone balance sheet is concerned as of 30th June our outstanding debt with the banks was about 294 crores. We also enjoy substantial vendor credit. It is about 85 crores so that adds up to about 379 crores. We have cash on hand of about 83 crores so net debt would stand at about 209.

Mayur Gathani And sir I missed the consolidated figures that you mentioned for FY12. Can you just repeat that? Please.

G. Subramaniam I didn't talk about consolidated debt levels.

Mayur Gathani I mean consolidated top-line figure that you mentioned in the beginning, sir.

G. Subramaniam Top-line consolidated was about 1,012 crores operating revenue, expenditure was 844 crores and the EBITDA came at 116. In fact it is a part of our press release. You can pick up the details from our website. The economic interest that we have of EBITDA is about 142 crores.

Mayur Gathani And sir any marketing budget that you outlined for this year?

K. Jayaraman We will see how the marketing budget pans out. We do not want to share the marketing budget now. Just we will wait and see how it pans out or not. May be with the mandatory addressability we just have to give the packages and things like that. We will see how this will go. We may not want to share that right now.

Moderator Thank you very much. Our next question is from Prakash Kapadia of I-Alpha Enterprises. Please go ahead.

Prakash Kapadia When will our annual report likely be out? And if you could give some sense in this ongoing digitization are we cutting out analog signals? We believe that some cable operators are doing this to step up digitization that was the first thing. And secondly if you could give us some sense on your provision for doubtful debt, what was the likely figure in FY12 and how do we see it shaping up in the near term given that DAS scenario?

G. Subramaniam As far as the annual report is concerned we will be posting it probably before next week.

K. Jayaraman That is a good thing. In some areas we are seeing the cable operators are pushing digital boxes by removing some channels in analog or in some cases I have seen where they have completely removing analog by giving notice to the customer and saying that you better buy the box within this. I have seen in some areas in Andheri where they have given one month notice until we will completely go on to digital. There were some operators who are quite farsighted like that. And in many cases I have seen that English Channels or sports channels have been removed on analog and they have done. In the large parts today we would see that India-New Zealand today would be only on digital in many parts of central suburbs and western suburbs in many parts of Delhi. We are looking at these initiatives as a precursor. That is just to make the customers also quite serious about it. We also expect that broadcasters are also going to remain the customers at prime time before 9 o'clock prime time – 8.30 starts they are also planning some things. Exactly I do not know but it is a deadly impact on the consumers that will happen on November 1. These are some initiatives LCOs have taken. We have taken and broadcasters are also going to undertake.

Prakash Kapadia The push is now coming from all ends.

K. Jayaraman Definitely yes.

G. Subramaniam As far as provision for bad debt is concerned it will be marginally higher than the prior year and that is mainly because in anticipation of migration of the subscribers to digital we do expect some resistance from the market to meet their legal obligations. So we have been conservatively providing extra every month to meet that contingency and we will continue to make that provision even in the current year. But for the financial year ended 2012 it is marginally higher than the prior years about 10% more. We expect it to progressively decline as we go along. Whenever the DAS migration happens we should expect some resistance from the market. Keeping that in views we have been conservatively taking additional provisions in the current year but we expect it to go down year-on-year.

Prakash Kapadia So assuming that DAS doesn't get further delayed and it goes on and kicks on in Phase-I, Phase-II, Phase-III basically as you know expected. We would definitely see reduction.

G. Subramaniam We will definitely see reduction in the next couple of years.

Moderator Thank you very much. Our next question is from Amit Kumar of Kotak Securities. Please go ahead.

Amit Kumar Sir I am just looking at the first quarter results. Your depreciation has essentially come down despite significantly higher seeding of boxes. Just wanted to understand what's going on here?

G. Subramaniam Last year we had for all the conditional accessed cash areas because of government regulations we had to acclerate depreciation down from 8 years to 5 years so that is more to fall in line with the TRAI regulations. There was a kicker because of that so we took a slightly higher depreciation on account of the boxes within the CAS area. By and large we have been following WDV depreciation so the opening balance gross block on which we are taking depreciation was also substantially lower and that also is reflected in the decline in the first quarter but rest assured in the following quarters it will go back up. So it is not as if this benefit is going to remain with us. It will go back up and again slowly gradually decline. As we see more and more boxes obviously it will go back.

Amit Kumar And sir one clarification on CAS boxes. What you are saying is on CAS boxes you have a 5-year depreciation rate and for the other boxes you have 8-year depreciation rate? This is straight line, right?

K. Jayaraman Amit what happens is our auditors took a rather conservative view. We said okay if auditors have taken a conservative view of 5-years we will do it. If you look at the life of the box it is more than 5 years. Now the TRAI tell us that you have to depreciate over 5-years. There is only one body who can tell how to depreciate. That is only the Company's Act basically. But I think our auditors took the view that if 5-year is the period in which the cash deposits would have to be amortized or refunded, etc., they were trying to maths done basically. We were not legally bound so to that extent you can say that those cash boxes we may have written-off much faster than as it would have been in normal.

Amit Kumar This is what I am trying to understand. On CAS boxes right now you have 5-year depreciation and on the other boxes you have 8-year depreciation, right?

K. Jayaraman All the CAS boxes have been written-off now because 5-years are over now because it started in 2006. By FY12 March they have completely seized to exist in my block whether that is as per Company's Act or not is different but we have not provided it lesser. We have only provided more. This is okay from a law point of view.

Amit Kumar This 8-year depreciation is a straight line depreciation or WDV? WDV would be on you other assets and not on boxes?

G. Subramaniam It is straight line depreciation.

Amit Kumar That's what I am saying. I am just clarifying. WDV depreciation is on assets other than set top boxes.

G. Subramaniam You are correct.

Amit Kumar Sir the other question really related to this 430,000 consolidated subscriber additions in this particular quarter, how much of these would be in Delhi, Bombay and Calcutta?

K. Jayaraman 430 in Q1?

Amit Kumar Yeah. I mean how much in DAS markets and how much in the other markets?

K. Jayaraman It should be more, right. Out of 430,000 how much is Calcutta in Q1? He is asking Q1.

G. Subramaniam 400,000 boxes are in Bombay, Delhi and Kolkata. Out of 430,000; 400,100 was in Bombay, Delhi and Kolkata.

Amit Kumar And I presume that this would be gross additions?

K. Jayaraman Yeah we don't have churn. Once we have given our box there is no churn. I told in the opening thing that whether cable operators have not come and returned to me a single box today saying that the customer has churned to DTH and in direct point also we have not seen 0.001% churn. All boxes that have gone have been seeded and they are there are at the homes.

Moderator Thank you very much. Our next question is from Rohit Dokania of Batlivala & Karani Securities. Please go ahead.

Rohit Dokania Just two very quick questions. Sir what was the economic interest in EBITDA in FY11?

G. Subramaniam About 140.

Rohit Dokania No that was FY12. I am asking FY11, sir?

G. Subramaniam FY12 was 142 and FY11 was about 140.

Rohit Dokania And sir one more question what's the weighted average holding that we would have across all our JVs, approximately?

G. Subramaniam Average is about 50%. 151% to be precise.

Rohit Dokania So I was just wondering how do we get to this 142 crores figure in this fiscal FY12 because we have about 87 crores on the standalone EBITDA?

G. Subramaniam Rohit we will take that question offline. We will show you the computation.

Moderator Thank you very much. Our next question is from Rohit Gala of Sunidhi Securities. Please go ahead.

Rohit Gala Just a question regarding what we have distended now at the ground level that the set top box seeding is going very much fine. We hope so that dead line gets implemented. Just wanted to check out that shows with the TRAI intervening and the TDSAT petition which the LCOs are filing. Are we seeing some kind of irrational delay or a bad atmosphere getting into this holding of the Phase-I implementation?

K. Jayaraman So far there has been so many hearings post that in courts and TDSAT, nobody has said that. Everybody has kept it for hearing and these things go on. The hearing will go on and at the same time DAS would be implemented. If at all there is some variation in percentages that will be applicable from that day.

Rohit Gala So we stick to the dead line even if the TDSAT judgment doesn't come there would not be a hinder which could be getting the delay.

K. Jayaraman There is a case in CAS on revenue share of MRP of Rs. 5 and revenue share of 45% pending in Supreme Court which was filed in 2005 by broadcasters. I think it is in Supreme Court still and already 5 years are over and we have even depreciated that set top boxes but it is pending in Supreme Court. All these things will go on parallely. As and when final judgment comes it will be made applicable from whatever date the Honorable Court decides. So nobody has stated the DAS notification because it is passed by the Parliament so to that extent that is important and then nobody has stated the tariff order which TRAI says. It is only that petitions have been admitted and hearings are going on.

Rohit Gala Sir the other question since you said that carrying fee what we are seeing is we are not seeing much of a down side but would be then this be a 300 to 400 channels kind of a come into the system, we would be seeing some kind of an uptick?

K. Jayaraman 300 – 400 channels will come little later, Rohit. At this point I think we will probably be about 250 – 300. 400 – 500 channels TRAI has given us time till January. So we will see. We have to invest in that as per TRAI but we will have to see that how we can monetize it through some kind of packaging because the customer cannot get 400 channels for Rs. 200 obviously. All customers may not want 400 so beyond about 200 channels all that rest would be packaged in small groups or a la carte and therefore monetization would be possible. It has to be separately monetize otherwise it is a waste investment.

Moderator Thank you very much. Our next question is from Nihar Shah of Enam Holdings. Please go ahead.

Nihar Shah Just a quick question. Can you share with us the box seeding numbers for July and August so far?

K. Jayaraman July and August we will give you separately. We are discussing only Q1 now. But I can say that it is fallen a bit in July and August is not yet over but you may speak to Mahesh later.

Nihar Shah Sure. We will take this offline.

Moderator Thank you. Our next question is from Surya Narayan Nayak of Networth Stock Broking. Please go ahead.

Surya Narayan Nayak Just to understand the seedings. When do you see the saturation in the seedings to happen over a longer period whether it is 2013 or beyond that? And secondly how are you approaching the other Tier-II Tier-III cities? Whether you have any time line to approach those areas?

K. Jayaraman Saturation is unlikely to be there because India has totally 90 million kinds of cable homes and we have not even seen 10% cable dish on a 90 million homes so till 80 million, rest is done. I am just seeing broad numbers. 10% would be the cable digital out of say 90 million homes. Till the balance 80 million is done there is no saturation. It will only keep going up and up basically. Whether cable takes it entirely or partly it goes to DTH that is part that one has to see.

Surya Narayan Nayak What is that scene in lesser emerging countries like Turkey, Korea and other countries like take the case of USA even what is the ratio between the DTH and cables?

K. Jayaraman Turkey and all I don't know but I can tell US but US they broadly outset is 2 crores and 1 crores is others which includes DTH and IPTV and Telco and all those stuff, etc., but recent reports from TAM has suggested that the incremental digitalization that has happened in the Q1 is substantially favoring cable then DTH. If we read that report I don't have but very quickly if I have I can give you the data that what happened last quarter in our country I will tell you if you see that cable digitalization is fast ahead of the DTH in Q1. This is despite the fact that as a precursor to June 30th the DTH had very high decibel advertisements.

Surya Narayan Nayak Sir but my concern is that all the cable operators are not approaching the homeless or let us say slums in Metros or Tier-II, Tier-III cities where they are left it to the DPS or rather LCOs. Whether any churning to happen in this near horizon that is what if you can give some idea? In Mumbai also if you see the slums they are dominated by the PPA.

K. Jayaraman I don't mind if DTH is having more slums. That is a different matter. You are saying then Videocon is there _____ **1.9.9** that's good, the ARPU is low and their FSC is Rs. 3,000 and if they have slum then it is a bad economics. So that is not the company that I am worried about and meaning that the Q1 studies that they have done that time DTH share has fallen. That's all. I off hand don't have but later on you can take it out those reports it will be available. Exactly the figure was there with me but I don't have it right now but I can say that in Q1 cable digital was higher than DTH digital overall in terms of the percentage growth.

Surya Narayan Nayak So over say next 2 to 3 years' horizon your focus would be on metros or you will be going beyond metros like Pune and.

K. Jayaraman Your question of Phase-II also we have started seeding now and we have reached many cities in Phase-II except in Ahmedabad, Baroda and Rajkot where it is lesser but all other cities, 15-20 cities where we have already reached about 40% penetration, roughly on an average we are at about 40% in Q1 now. And since we have another 8 – 9 months – 1 year to go for that we still think that we would be 80% by the time Phase-II starts. So our focus is also on Phase-II from the beginning but in this quarter we have done very less for Phase-II and we have done majority for Phase-I only because you have to divert all the material to stock to Phase-I.

Surya Narayan Nayak The next question is there any cost entailments so far as the SD channels are concerned on the MCO part? Whether any difficulty on the part of transmitting the SD channels? Whether any constraints are there for DTH one of the medium compared vis-à-vis yours?

K. Jayaraman We are deploying it from a direct subscribers and LCOs also in many parts of Mumbai, Pune and Bangalore, Hyderabad and Delhi there is no, we only need analog frequency which we have some constraint in Delhi at the moment. In other places it is working very fine. There is no issue at all whether it is LCOs last mile or the Company's last mile.

Surya Narayan Nayak No. My point is that is there any possibility in the future wherein you will be able to transmit many more channels in HD High Definition Medium compared to standard definition. Is it a possiblity in the future?

K. Jayaraman We cannot compare it to standard definition for example today we have 21 channels on High Definition versus 250 on standard definition. Many more depends upon how many HD Channels are available. At the moment about 20 or so is available in India. Out of that we are carrying 20 – 21. Now in the future as DAS happens more spectrums will be free 50 channels are available in HD and we carry 50 also. So there is no constraint but you cannot compare it to Standard Definition. Always it will be 10% - 15% of the total Standard Definition.

Surya Narayan Nayak My personal view is that it is quite sensitive towards the ARPUs of yours so that is why to understand whether any constrained there in the dish medium vis-à-vis cables because they are not offering that much of SD channels as compared to yours. Just to understand any technicalities involved in them.

K. Jayaraman I think DTH has some limitations of **IMPACT-II** people having some limitations on the bandwidth that they have versus **IMPACT-IV.** The legacy guys in DTH may have some limitations because of the chip set technology but in the case of cable it is being on cable. So if you free your analog spectrum you can put whatever number of channels you can put on HD depending on 5 mbps per channel or something. So cable definitely has more advantage. HFC has more advantage than this DTH **IMPACT-II** technology. So to that extent 50 channels on HD. I am very confident. We are doing contingent 1 today even before that. If that happens with so much spectrum available we can go to 50 provided 50 channels are available.

Moderator Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Vivekanand Subbaraman for closing comments.

Vivekanand Subbaraman I would like to thank the Management of Hathway Cables & Datacom for taking time out and addressing participants. Over to you sir for any closing comments.

K. Jayaraman I thank all of you for participating and we will keep you updated separately. You can be in touch with our MIS team as and when any updates are required and some Investor Conference may be held or anything there if you participate and we hope to see you again. Thanks for all your suggestions and some suggestions are also very good so we will keep that in mind and we hope to do better and keep up the confidence that you all have with us. Thanks.

Moderator Thank you very much gentlemen of the Management. Ladies and gentlemen on behalf of MF Global Sify Securities India Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.