



“Hathway Cable & Datacom Limited’s Q2FY13  
Results Conference Call”

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- Moderator** Ladies and gentlemen, good day, and welcome to the Hathway Cable and Datacom Limited's Q2FY13 Results Conference Call hosted by PhillipCapital India Private Limited. As a reminder for the duration of this conference, all participants' 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. At this time I would like to hand the conference to Vivekanand Subbaraman of PhillipCapital India Private Limited, thank you and over to you, Sir.
- V Subbaraman** Thank you Inba, and good morning everyone. Phillip India are pleased to host the Q2FY13 Earnings Conference Call of Hathway Cable and Datacom Ltd. We have with us the Senior Management team of Hathway represented by Mr Jayaraman, the MD and CEO, Mr G Subramaniam, the CFO, Mr. Mahadevan, EVP Finance, along with other senior management members of the team. We will begin the call with a short commentary by Mr Jayaraman and then we will proceed to the Q&A session. Over to you Mr Jayaraman.
- K. Jayaraman** Good morning everybody, we are very pleased to host the Q2FY13 Conference call for all our friends. I think this quarter has been a pretty landmark period for us where we have just entered the digitalization phase, and it has been quite a successful venture into the digitization phase, more or less, you know, as we had predicted that cable will out beat DTH. We have completely out beaten DTH in the digitization process. Not only Hathway, but as an industry we have done, barring a few guys, but it has been a very successful transition into the digitization phase, of which I will come in later, but having said that I will quickly get into the numbers. For the quarter ending September, our standalone revenues were 132.5 crores, our total expenditure was 112 crores approximately leaving with an EBITDA of 21 crores as compared to the previous quarter we had 136 crores of revenue and 112 crores of expenditure with an EBITDA of 24 crores. About 3 crores of shortfall is really made up of some deferred contract, or rather we have not accounted for replacement income of about 1.3 crores, which we will accrue in the subsequent quarter relating to the analog business though, obviously. We also had higher loss on sale of STB, which is about 5 million. We do have two kinds of STB rollouts, one is sale and the other is activation, which is more predominant. We also had some obsolescence of 7 million, and extra staff cost of about 6 million because of all this digitization, temporary work force and stuff like that, that really in EBITDA terms accounts for about 2 crores, if you take that into account, we are more or less in sync with the previous quarter. Having said that the business itself is taking a transition and slowly the model itself will change. So, what is going to be the previous EBITDA and turnover will have a radical change. So, all in all, I think the performance of the analog business itself has been pretty good given the fact that we are transcending to the digital phase, and that there has been pressure on you know subscription revenue and also replacement revenue given the fact that even the broadcasters are transcending to this phase. So, coming back, we had about 21 crores of EBITDA, rounding off figure I am saying. We had other income of about 3 crores, so total

EBITDA after other income is about 24 crores, and we had a depreciation of 26 crores for the quarter. Foreign exchange gain we had about 4.5 crores on account of essentially.....

**Management**

One is partly because of change in accounting standards and because the rupee was at about 52 also.

**K. Jayaraman**

Our interest was 7.3 crores, we had an exceptional item of about 4 crores, which is essentially again related to foreign exchange accounting treatment, which the new circular that we have taken into account. All in all, we had a PAT loss of 18 million, which is 1.8 crores, however one must see that we had an exceptional item of 4.5 crores plus 4 crores, plus 4 crores, which is 12 crores exceptional items. But these are all in line with what the expectation that we kind of have. So, that broadly summarizes the stand-alone. We also will give you some numbers on the set-up box and others. Since I am on this subject, I would also update you that if you take into account the economic interest of the subsidiaries that we have, so economic interest I am saying, not the consolidated. As I told you that we had about 21 crores of EBITDA on a stand-alone basis, and you add another about 11.3 crores, so the economic interest would be about 32 crores. We don't give the consolidated number as you all know, but adding the economic interest of the subsidiary our EBITDA for the quarter would read 32.1 crores. So, that is where we stand. In terms of the set-up boxes, in the DAS area, we have cumulative deployment for all the three cities, Mumbai, Delhi, and Calcutta. While in Calcutta we started a small entity, but now we are growing really there, so we are almost about 1.7 million, rounded off figure I am saying, actual figure would be about 1.68 million cumulative, but round off is about 1.7 million. The target really is, while it is not a future guidance, there is an internal target that we will try and reach somewhere between 2 million to 2.5 million, that is the kind of range that we are still targeting. We have enough inventory, we have about 700,000 of inventory, which we have geared up for Phase-I. We have been placing further orders, getting it successfully, in fact we had air shipped almost 150,000 set-off boxes and another 100,000 could be shipped. Overall, we will have an inventory including in-transit of 700,000. Mumbai, more or less, our areas, we have covered in terms of first TVs. In Delhi, we are still gaining ground, a lot of ground we are gaining. And Calcutta also, we are gaining ground at the expense of some of the competition, who are lagging. We have announced our package price. We are one of the first guys to get all the tiering and packaging done, and our packaging is quite competitive as compared to DTH and others. Our second TV, our multiple TV pricing is getting ready and we should be announcing it today. Ala carte prices have been announced. Various other regulatory compliances have been done, and we are now gearing up actually for Phase-II, because the government has announced Phase-II also now. The first meeting for Phase-II is also likely to kick off next week before Diwali. Where out of the 38 cities we have presence in about 21 to 22 cities and one cannot rule out that another 10 cities we may also go in. So that is the situation as of now. That broadly summarizes the financial and the deployment data. So I think we are pretty confident that we will be able to roll out Phase-I commercially much better, and we are getting ready for Phase-II. Thank you and now I will invite the Q&A.

- Moderator** Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Prakash Kapadia of I Alfa Enterprises, please go ahead.
- P Kapadia** Sir, if you could give us some sense, given the festive season has, blackout of analog happened, what is happening on the ground, and any sense you can give on revenue sharing finalized between LCOs and us.
- K. Jayaraman** LCO revenue share is in the region, as far as Hathway is concerned, mandatory is 25%, but on the smaller packages, like the basic tier, broadly it would be anywhere between 38 to 40%, that would be the range. Regarding the festive season, I think it has gone pretty well, probably in India every month there is a festive season, so even if you do next month also, there will be some festival. That has not really affected us as much as we feared actually. I think more or less it is done. I think some pockets of Calcutta are still running analog, till about Diwali, and after that I think Calcutta will also go full digital and Mumbai and Delhi is essentially now, all the analog signals have been shut off.
- P Kapadia** Okay, so one cannot receive in Mumbai and Delhi, if one has an analog, one cannot receive.
- K. Jayaraman** One cannot rule out some sporadic ....
- P Kapadia** Okay, leakage and some ....
- K. Jayaraman** It is more or less pretty successfully done. In terms of incremental market share, I think, I exactly don't have the DTH data, but I would still think about, suppose there were incremental number of digital subscribers, perhaps 80% probably would have gone to, 80% in my data, I don't have the latest data, which is given by MIB, last data I found out that incremental, every 100 customers, 80 went to cable, and 20 went to DTH, whereas some people predicted vice versa.
- P Kapadia** Sir, when do you think ARPUs should show an increase trend for us, this is slightly term I was looking at. ARPUs and maybe working capital requirements as the business model evolves and digitization happens in phases, if you could give us some sense on that.
- K. Jayaraman** No we cannot talk about pricing on ARPU of future, but in general, if you look at the pricing of all the MSOs and even the DTH players who have increased the prices, you are looking at Rs 200 as a base price excluding service tax, somewhere 180 to 200. I think 180 to 200 is the ARPU, which is far higher than the national analog ARPU for the 100 million home used to be Rs 125/-. Then you look at the entire 100 million homes. But today, if you look at any digital pricing, barring the basic service chair which is 100, which I think is far and few will take, you are looking at the package anywhere starting from 160 to 180 plus entertainment tax. Now when you look at ARPU, we talk about ARPU plus taxes, which is the basic price plus the taxed. That broadly is in the range of Rs 180 to 200, so already RPU's have seen a hike. Because you are going to have a uniform pricing today.

- P Kapadia** Correct.
- K. Jayaraman** For example in a city like Mumbai, there used to be 300 and there also used to be Rs 50, now you are going to have a minimum of Rs 100 for BSP, which hardly anybody would take, but if you look at a pay tier, the basic pay tier cost is Rs 160 plus taxes, which will eventually go to Rs 200, so there is already a substantial increase in our ARPU that is captured.
- Moderator** Our next question is from Ashish Urganlawar of Spark Capital. Please go ahead.
- A. Urganlawar** Sir, you just spoke about RPU's. The transition to the tier wise pricing that you announced from what was happening in the analog, do you see that people will start paying according to the packages that you announced from now on, or is it going to be a bit distant, or do we need to wait for two to three months before everything falls in place as far as collections are concerned.
- K. Jayaraman** I think the people will pay for it, because they are getting, all of them are getting AV signals, and they are getting more than what they were getting. Pricing, they are going to get is going to more or less the same. I don't see any major issue in collection and billing excepting that one has to understand that in such a big transition where Millions of billings and others have to go, it will be a month or so, before you really send them the bill and collect the money etc, one month for a transition in a 10-million kind of a situation I think has to be understood by everybody.
- A. Urganlawar** Beginning 4Q of this year, we should see actual revenues, the theoretical revenue share and actual ARPU being shared in that manner happening.
- K. Jayaraman** There is nothing called theoretical revenue. Revenue is revenue.
- A. Urganlawar** Okay, that should be seen in your numbers starting ....
- K. Jayaraman** Even if our digital was not happening there is going to be a revenue that is going to be collected from the houses, which anybody in Bombay will pay a Rs 200, there is nothing called theoretical revenue, everything will be realized revenue.
- A. Urganlawar** Sir, there are three packages that you have, so on an average one can assume that Rs 200 should be base case per subscriber ARPU, net of taxes that one can get here.
- K. Jayaraman** We have announced. See broadly guys have announced somewhere between 160 to 180 on the base case. We have announced 160 plus sports as a buy in, which is about Rs 25, so 185. Some people have announced 180, so it is 180 plus taxes, you can say.
- A. Urganlawar** So for Hathway, I am asking whether the net ARPU, net of taxes basically should come to about Rs 200, is that a fair assumption or is it ...

- K. Jayaraman** Easily we will do. Because our middle pack would be higher than the base pack, so we will push for the middle tier, there we are priced in at about 220 or so, 220. But then weighted average, we would be 200 excluding taxes.
- A. Upanlawar** Sir, I will come back with more questions actually.
- Moderator** Thank you very much, our next question is from Anand Gupta of Eastsprings Investments, please go ahead.
- Anand Gupta** Congrats for a good set-up box addition, Mr. Jayaraman. My question is on subsidiary role, JV Partners role here, how much of boxes go through JV and is it that in Calcutta with the box addition is via JV and related to that is it Phase-II, would be more via JVs and can you share your strategy for that.
- K. Jayaraman** Calcutta is through a JV. Normally JV is a normal concept when you expand in analog, and if there is a JV, we take the economic interest of revenue and the economic interest of the profits there are, so there is nothing that, it is JV versus standalone because we always support the economic interest after removing the minority interest EBITDA.
- Anand Gupta** There was news that your JV partner from Gujarat has tied up with Cisco and then in Calcutta he will going on his own.
- K. Jayaraman** No, tying up with Cisco is for funding, because that is a good sign, that the balance sheet, he is leveraging and he is tying up with Cisco. Even we have tied up with Cisco, and the competition has tied up with Cisco, there are many players in cable who have tied up with Cisco. I think Cisco is one of the largest service providers for digital set-up of boxes and digital transmission equipments in the entire world. So there is nothing wrong in tying up with Cisco, it is only a funding, there is nothing called equity relationship with Cisco.
- Anand Gupta** Okay and how much boxes you added for the quarter and how much was through JV.
- K. Jayaraman** I don't think we can give the split up of what is going to be between us, but roughly as I told you, that we are about 1.70 million for these three cities basically. I mean if you are really asking. Are you asking stand-alone versus JV?
- Anand Gupta** Just trying to know how much of business is via JV.
- K. Jayaraman** It is 1.7 million, what about, out of the 1.7 million in these three cities, we will have about 3 lakhs of Calcutta, and about another 3 lakhs, and the rest would be. Out of the 1.7 million 1.1 million will be stand-alone. One million to 1.1 million will be stand-alone. 300,000 of Calcutta is JV and another 300,000 would be Mumbai and Delhi. So 1.7 million minus 0.6 million is stand-alone.

- Anand Gupta** Is it correct to assume that Phase-II would be largely through JVs since your universe there is more via JVs, and it will be prone to relationships between JVs.
- K. Jayaraman** These two would be, we are expecting 5 million in Phase-II, and probably about 2 odd million would be by GTPL and a few others, 2 to 2.5 million, and the balance Hyderabad, Bangalore, Pune, Maharashtra, Delhi NCR, and things like that would all be ours. So I think you can say about 50:50 out of the 5 million.
- Anand Gupta** Lastly can you talk about the churn, how is the churn rate. We are seeing different churn numbers. Bharthi airtel reported number churn was very high. Dish TV has reduced churn. Can you talk about the cable industry churn and your churn.
- K. Jayaraman** Actually, overall in terms of the incremental set-up boxes deployed, I don't have the exact data because it has been such a massive digitalization, that you would never know how many houses have gone, but I think out of every 100 boxes that have gone out in the last two months, I can safely assume that 80% came to cable and 20% went to DTH. So, that is as far as incremental is concerned. So for us, it has been positive churn. Because if you look at three cities I have put 1.7 million, in analog the declaration would have been 1.7 lakhs. Correct. So we have grown by nine times. So it is a positive churn for us. So what is the question you are seeing?
- Anand Gupta** I was trying to ask is it that there are consumers who are churning from DTH to cable, which you would know.
- K. Jayaraman** No, not DTH, from my analog business of about, these three cities, I have put 1.7 million, okay 17 lakhs, these three cities I add analog declared subscribers of at most 2 lakhs to 2.5 lakhs, that has gone up by seven times. Is that the question you are asking, then it is seven times.
- Anand Gupta** No, I was asking actually, if cable a better proposition, is it that the consumer is switching out from DTH, and switching towards cable, that is the question I was asking.
- K. Jayaraman** That is not the case as of now. The belief has come in cable, so I think the additions in these three cities have not also been very much to DTH, so that I think we will know as we go forward, but I do not think we are going to use any predatory pricing to attract customers, because the market is so huge, the DTH people are also priced at about 180 to 200, we are also priced at about 180 to 200, so I think you know, probably multiple TV homes, we will churn from them, and probably packaged products of HD we will churn and broadband we are going to do the packaging. We have been tied up on this, now what we are going to do is, bundle the broadband with the digital, so that might be more attractive than some of the mega packs of the DTH. So, we will see some, but I really cannot predict, how much it will be, but certainly I think from whatever data that government has given us DTH has been a damp squib.
- Anand Gupta** Okay, and your opening remarks, did not comment on broadband, can you give a update there, how is the business and what are your targets?

- K. Jayaraman** Broadband, I cannot give you the targets, but we have done gross additions during the quarter, it could have been done better, but gross addition has been about 26,000 subscribers, and we have homes pass roughly, been conserving resources for digital, so in broadband our homes pass is more or less the same, 1.6 million. Hardly about 50,000, 100,000 we would have increased, so under cumulative subscriber base it is roughly about 400,000. We have done some increase in ARPU during this quarter, I think June and July we did about Rs 25 increase and October we have done some increase in ARPU, so we are essentially looking at incremental ARPU of about 400, but focus is more on Mumbai, Pune, Bangalore, and Hyderabad. These are the 3 cities.
- Anand Gupta** Okay thanks.
- Moderator** Our next question is from Pratish Krishnan of Antique Stock Broking, please go ahead.
- P Krishnan** My question is on the transition side, I mean, I just want to understand where are you today, I mean, because the signals are off, and value, would you start taking over the collections from this month itself. Are the consumers, have they chosen these packages that you have announced. So where would you be today?
- K. Jayaraman** I think it will take about a month to settle down. We have a detailed process of billing. We have appointed Serco help desk and call center. We have MagnaQuest who will take charge as the backend with relation to the billing, and we also have Karvy, who is handling the entire customer requisition forms, and we are looking at some outsourced billing agent, or an agency who will generate all the billing and dispatch it, so I think in a month or so, it will settle down Pratish.
- P. Krishnan** Shift from a B2B to B2C model, that will happen probably, may be 35 to 40 days, that is....
- K. Jayaraman** We realize that.
- P. Krishnan** Okay fine, the second is, you mentioned that the increase in the subscribers will, I mean, you are looking from 1.7 to 2.2 to 2.5, that increase is, given by second-TV homes, this is other MSOs coming through it.
- K. Jayaraman** I think we are yet to segregate out of these 1.7 that we have done, we are yet to segregate what would be second TV, but you know that will be known perhaps in this, but whatever little bit I can understand is that, people are filling in only their first TVs as of now, Accepting in Delhi, there could be a little more second TV, because Delhi has virtually, every home has a second TV. So I think in a month or so, we will know a little bit of segregation between the first TV and the second TV, but we have conservatively projected that 20% would be second TV. That is our projection. But, you know, it can go higher also. So, therefore what we projected that, 1.5 to 2 million as a conservative projection, definitively 2 million, it will go up in these three cities, more than 2 million, 20% is what we assume to be second TV, that is a very conservative assumption.



- P Krishnan** And this 1.7 is the number that you had close to the quarter or is it post digitalization timeframe. I mean ...
- K. Jayaraman** As on date.
- P Krishnan** As on date I mean, and lastly in terms of the Phase-II, you I look at Phase-I the big MSOs have fairly big share, like almost 80 to 90% share in terms of subscriber base, can you throw some light in terms of, I mean, how is the situation at the industry level, from a Phase-II point of view. I mean the top 4 to 5 guys would be what percentage, or is this a highly fragmented, what is the case there.
- K. Jayaraman** I think that is a more detailed exercise. It cannot be answered, but you will know. In the next phase of 38 cities, who has market share and what etc. But I can tell you broadly, that out of the 38 cities, we are present in about 20 odd cities I think, 20 to 25 cities roughly, and in majority of these cities, we would have done 40% I can say. We are starting of with 40% penetration. Whether competition has 40% penetration before they come out to bat or not I do not know, but at least we are coming out with a 40% penetration.
- Moderator** Thank you very much. Our next question is from Ankur Agarwal of Namora, please go ahead.
- Ankur Agarwal** My first question is around Phase-II, so clearly you indicated that DTH probably garnered around 20% of the incremental subscriber base, which was up for grabs in Phase-I, what percentage do you think is a reasonable number for DTH for Phase-II, that is my first question Sir.
- K. Jayaraman** Actually I cannot really answer for DTH. I am not, how do I, I really cannot answer DTH accurately. If you are asking a number, I cant be able to say that, but Bombay, Delhi, and Calcutta has been a good market for them to grab the market share, hitherto what, I mean, you know, I can say that earlier before DAS happened, for example DTH had about 600,000 subscribers in Mumbai, 600,000 to 700,00. On 2.53 million homes, they had only 600,000. Now if they have not been able to garner in a city like Mumbai and Delhi when there has been a black out and when there has been some delay in some of the MSOs in pushing the boxes, you can well assume that when we are starting of with a 40 to 50% penetration already in some of the cities, I don't know really how much. I cannot answer what the DTH. As far as these three cities as concerned, incremental, I think all the MSOs, cable have garnered 80%.
- Ankur Agarwal** Alright, in terms of our STB inventory, I mean, you indicated a 700,00 number, so have we hedged this from a Forex perspective what rate have we booked the following, I mean, STB, what is the number of STB that we are planning for, for Phase-II in the next say 6 months or so.
- K. Jayaraman** I think as far as hedging is concerned, my colleague Mr. Subramaniam will tell you.

- G. Subramaniam** Basically, our current exposure on account of imported set-up boxes is around 50 million dollars, and we have hedged more than one third of this in terms of hedging. We follow a very consistency policy as far as foreign currency hedges are concerned, and therefore this is well within our policy at this point in time. As far as boxes for second phase is concerned, I would assume that we have already got 2.5 million boxes to be seeded in 50% of the 5 million boxes, on a stand-alone basis, if you have fit 2.5 million, and of that 2.5 million, if we have done about 1 million boxes already, we will need to add another 1.5 million boxes in the stand-alone entity. Similarly for all our JV Cos and subsidiaries they may have to add another 2 to 2.5 million boxes. Respectively all of them have also been progressively feeding boxed in their territory, and they will have to seed the additional boxes. I would assume roughly about, as far as JV cos about 50%, a bit more than 50% is what they will have to seed. So if you take between the JV cos and HDL stand-alone you are probably talking anywhere between 3 to 3.5 million boxes to be seeded in the market additionally, this is apart from the 1 million boxes we have already done in the Phase-II setting.
- Ankur Agarwal** My next question is that, clearly the packages that you have come out with, have indicated that you would not get into a price war kind of situation in terms of monthly pricing, but from a set-top box subsidiary perspective, what are you seeing at this point from competition and what is your view on how that would evolve, because there are some players who come out with a free set-up box kind of offer, so how do you see that evolving going forward.
- K. Jayaraman** The free set-top box is where somebody pays an annual package actually, so if you see the free set-top box of some of the DTH players, they are collecting annual revenue in advance and giving a free set-top box, I mean that is not such a great scheme, I don't think any of them would pay 12 months in advance. If anybody gives 12 months in advance, we will also kind of match that. So, otherwise if you look at the set-top box subsidiary, it would be around Rs 1000, Rs 1000 would be the subsidy, whether it would be Phase-I or Phase-II.
- Ankur Agarwal** Do you think this number is going to go up or go down as we go through various phases.
- K. Jayaraman** Up to Phase-II we can say that we will be more or less in this region, Rs 1000 will be the subscriber acquisition cost. For us the set-top box subsidy is a subsidiary acquisition cost more or less.
- Ankur Agarwal** Alright, now in terms of ARPU, clearly I mean, the nonbeliever says that look at what has happened in the telecom sector, so RPU's cannot go up significantly from hereon, eventually there would be a price fall, so right now obviously there is a significant subscriber base up for grabs, so how do you kind of see RPU's evolving in India in the medium to long term.
- K. Jayaraman** I think ARPU has to go up because telecom is a different ballgame. I really do not understand microstructure of the telecom industry, but from whatever I have know a little bit about reading and watching TV, I think that is a different business from content. Content always has a value, so eventually content has a value and therefore people will pay for content, and it has to kind of go up, not necessarily because of buying the same content, because you have choice

and you will have more content like HD, like paper view, video on demand, more number of channels, and hitherto the pricing itself has been pretty low, so I think cable is slightly different, telecom perhaps would have come from Rs 10 minute to 10 paise a minute, but cable is going from Rs 150 a month, so it only has to only go up, because it cannot come down.

**Management** I also think the markets are completely different, because there, we had six to seven telecom operators competing for the same subscribers, that is not the same case in cable television. In cable television typically because you mark out your territory and then you are not competing with five to six cable operators to capture subscribers, and as Mr Jayaraman correctly pointed out, you are paying for content. In fact on the contrary we see it going up, because customers are going to see more and more value in these services, so hopefully in the course of the next few years, you should see cost going up, and of course as a sidelight, telecom is also raising its rates substantially now because they are starting to prove unviable for them to operate at those prices. I believe that the markets will behave much more rationally than we think.

**Moderator** Our next question is from Vikas Mantri of ICICI Securities, please go ahead.

**Vikas Mantri** Sir, just wanted to understand from a full quarter onwards, the next quarter, is it fair to assume that on a stand-alone basis we are getting paid for 2 lakhs, 11 lakhs is our total thing, so for 9 lakhs x Rs 200 x 3 months, will start showing up in our revenues.

**K. Jayaraman** I think Vikas, we should reckon this more from fag end of Q4, one of next year. As Mr Jayaraman mentioned there is a transition phase, and we should not jump to conclusions that all the benefits will kick in place immediately. We are very confident that these numbers will show up in the first quarter of the next financial year. That is a conservative position, and hopefully some part of it will flow through in the Q4 of this financial year.

**Vikas Mantri** Okay, and do we get, first we get the 200, and then we pay out the LCO in our revenues, do we report the LCO number also, or we get the net of LCO.

**K. Jayaraman** We gross up, we gross up and report the revenue.

**Vikas Mantri** Then you will have a line item saying payment to LCOs.

**K. Jayaraman** Payment to LCOs, payment to content, both.

**Vikas Mantri** Okay, and Sir, in your deals with the LCOs, have you done any deals with LCOs, or is it just the TRAI agreement, which will work.

**K. Jayaraman** No, for each of the packages we have a revenue share basically. There has to be agreement, not deal, there has to be an agreement with the LCOs as per TRAI. So we have that.

**Vikas Mantri** So is the agreement more than the 35%.

- K. Jayaraman** Yes definitely. The 35% is statutory, but in higher end packages we are offering more.
- Vikas Mantri** So, what would be your average cost of this on LCO.
- K. Jayaraman** Around 40%.
- Vikas Mantri** Okay, and in case of your initial package selection, how has it been between the premium, medium, and basic tier till now.
- K. Jayaraman** It is one other way of looking at it is you take every Rs. 100 that we pick up from the market, roughly about 70% will be distributed between the broadcaster and the local cable operator in toto of subscriptions. And then there will still be some variable cost, maybe, we estimate at this point, this is completely based on our current experience, we estimate roughly about 5% going towards the variable cost of running a B-to-C model, and therefore we should be left with anywhere between 23 to 25% at the gross margins.
- Vikas Mantri** So, this Rs. 30 that you are talking about the broadcaster, is net of carriage fee, or you will still get another carriage fee element over at the top.
- K. Jayaraman** You are right.
- Management** So therefore over and above this, it will be the additional benefit of carriage fee, which will probably result anywhere between 45 to 50% gross margins.
- Vikas Mantri** It should be gross, it should be significantly more Sir, because the carriage fee element will have no cost attached to it, so currently your carriage fees are close to 50% of your revenues, so if I assume that there will be at least Rs 50 per Rs 100, I am assuming far lesser, Rs 50 plus Rs 20 to 25 is Rs 75 number, which is more like a 50%.
- K. Jayaraman** You must also assume some **(Inaudible) 39.44** it will be very aggressive on our part to assume no erosion in carriage fee, so we are factoring in some erosion, although it is a fact that the erosion has not been as bad as we had originally planned, but you know, you will see this model settling down over a period of time, it is very early for us to jump to conclusions.
- Vikas Mantri** I have already assumed the 50% decline. When I am saying 100% and despite happening only in Delhi, Mumbai. So if that is the point then I am saying after a 50% decline in carriage fee your gross margin should be 50% based on the calculations you have shared with me.
- K. Jayaraman** Certainly.
- Management** We are just factoring in. As far as we are concerned. We are being a bit conservative at this point of time. But you are right, carriage fees is not eroding as much as we had thought; we are saying 20, 25%.

**K. Jayaraman** I think a gross margin of 50% what Vikas has said is a reasonable but we do not want to allude to what you are saying right now. It is kind of settled down and certainly your numbers are ....

**Vikas Mantri** If I were to work it down a bit further other than the gross margin you have around 8% as your staff cost. So you are talking about EBITDAs of 40%.

**K. Jayaraman** There will be staff plus admin cost.

**Management** And some other cost. We are talking of gross margin.

**Vikas Mantri** So after when you are saying gross margins, you have taken the channel cost and the payment to LCOs.

**K. Jayaraman** Other cost of running a network like this, we have got a head end.

**Management** We have got a head end fiber cost, head end AMC, then there is admin cost, then there is rent and electricity of running the business and of course 8% is the staff cost, that is....

**K. Jayaraman** We do not give any forward guidance of this but your 40% looks a bit aggressive.

**Vikas Mantri** So we are looking at what kind of EBITDA margin if I may ask?

**K. Jayaraman** We do not give guidance on this, Vikas.

**Vikas Mantri** Not guidance but your business model would have a number. As of now how it looks like?

**K. Jayaraman** Business model numbers can be, Vikas, you can talk to GS or me separately and we will share.

**Vikas Mantri** And in terms of carriage fee, you are alluding to the fact that the decline has not been significant.

**K. Jayaraman** I think there has been a decline and we do not want to put a word whether it is significant or not significant.

**Vikas Mantri** This is always surprising. You always talk about the positives and negatives we do not want to share.

**K. Jayaraman** I think we have said there is a decline no. We said 30% to 35% is the decline that we have already treated. So that is the negative no.

**Vikas Mantri** No, I was looking at the extent.

**K. Jayaraman** You must see that extent of percentages cannot be shared, because it is just we are in the first quarter still. I think over a period of six months to nine months when you analyze, Vikas, you will get more accurate and percentage numbers.

- Vikas Mantri** I think this is a very steady state business where once you have a deal in you know your full year numbers, right?
- K. Jayaraman** I think certainly we can share that with you when we offline discuss that. There are cases where we have a decline but there are cases where hitherto people were not paying or paying a digital. So do I go through the list of channels...?
- Vikas Mantri** No, you just need to give me a broad guidance on that.
- K. Jayaraman** Broad, we would discuss it separately.
- Moderator** Thank you. The next question is from Bijal Shah of IIFL. Please go ahead.
- Bijal Shah** I have three questions. First, as we say that we have already got into agreement with LCOs. Just want to understand is this a kind of agreement on, I mean, paper or it is just a verbal agreement as of now?
- K. Jayaraman** It will be paper because we will be giving them an invoice or whatever you call it and then we will be disbursing on a month on month based on an arrangement. So certainly it will be a paper.
- Bijal Shah** So as of now it is not a paper. You expect it to be a paper in a due course of time?
- K. Jayaraman** LCO agreements we are signing with them. We have a draft agreement with them and those agreements are being executed with all the LCOs. 100% of the agreements are not in place. The revenue share has been told to them. Whether for the first TV or even for the multiple TV.
- Bijal Shah** Two things here. First is if you can give us some proportion of how many agreements you have already signed, what proportion and you mentioned revenue share has been told to them. Is it something different from revenue share has been agreed upon by LCO and MSO?
- K. Jayaraman** No, it is an agreement between the LCO and MSO. Average it will be 40% of subscription revenue.
- Bijal Shah** That I understand. First question is, what proportion of LCOs with whom you have already signed a written agreement that this is going to how share is likely to look? Because my....
- K. Jayaraman** 100% of the LCOs have been told what revenue share they will get on basic tier, on middle tier and on premium tier.
- Bijal Shah** That I understand. I am not asking about whether there has been transmission of message or not. The question is how many people, how many LCOs? Let us assume you have 100 LCOs. So whether one, ten, 99, how many of them have already signed an agreement?

- K. Jayaraman** All the 100% of the LCOs have been communicated and they have agreed but signing of the agreement in a franking stamp paper is under execution. We have signed and sent to them. They will sign and do it. It involves franking and sending it.
- Bijal Shah** So that is one. Secondly, on the previous question, where you said that your gross margins could go up to 50%, I mean, I think that number looks rather aggressive. So just would like to run through the numbers again. As we see right now you have Rs. 50 of revenue coming from subscription, 50 coming from carriage. Now, in a digitized environment, you will have Rs. 250 coming from carriage because you are expecting five times increase in the subscription revenue, of which 70% would be shared. And if I take some 25% drop in carriage fee, then what gross margin I am left with is 35% and not 50%. Because your revenue mix is changing significantly in favor of subscription where you are going to give out 70%. So I mean, I think that your gross margin should be rather close to 65, rather than 50. Is there anything wrong in this calculation?
- Management** I think there will be some mistake. I am not able to readily understand your methodology. Just to give you a guess of this, roughly between 20 to 25% will be the gross margin, plain vanilla on subscription, to that you add carriage revenues. If you take content cost as about 30% or so, typically we will in a fully digitized environment we should expect 10% discount to that. So therefore we will earn slightly less than the payments made to them. So if you earn about 25 to 27%, that would amount to 50% of the total gross subscription. That is the way to look at it.
- Bijal Shah** Still I am just simply putting this number.
- K. Jayaraman** What you have done is you have added subscription on the top and you have taken into the bottom. We did not work it out that way. We said of subscription, we will make a gross margin out of subscription of 50% effective gross.
- Bijal Shah** Now essentially when we are saying that out of the ARPU which we get we will retain 50% of ARPU after paying to the broadcaster as well as after paying to the LCO. The gross margin is what we pay out. So if out of Rs. 100 is our subscription revenue, we are saying with this pay out Rs. 50. Is that what we are saying? You earlier said you are paying out Rs. 70. Now probably you seem to suggest you are paying out only Rs. 50.
- K. Jayaraman** That is because you have taken Rs. 100 and out of that if we take Rs. 25 as the margin that accrues out of subscription, then you add back about Rs. 25 towards carriage and replacement that amounts to roughly 50% of my subscription revenue.
- Bijal Shah** If I do it that way still it comes to 65%. But I will take this question offline.
- K. Jayaraman** Yeah, I think it is a bit detailed. Why do you not get in touch with one of my guys? They will explain this.
- Moderator** Our next question is from Rajesh Sharma of HSBC. Please go ahead.

**Rajesh Sharma** My couple of questions are that in terms of your first phase you have an inventory of 700,000 but for second phase how you have funded both vendor financing and will you have to raise any incremental debt to do so if you can share the plans on that side?

**K. Jayaraman** Obviously, we will have to roll out about 1.5 million boxes on a standalone basis. We will have to raise additional debt capital. As of now, our debt-equity ratio is of course probably will be at about 0.4 to 0.5 times of our net worth, so that is one. This adequate headroom in terms of debt-equity ratios, the challenge really is in our EBITDA multiple. At the outset, in any rollout like this where substantial infrastructure on ground revenues accrue later. So EBITDA sort of follows the investment. There is some minor challenges as far as EBITDA to debt multiples are concerned. But we are fairly confident that we will be able to raise the debt capital. The second thing is the model that we follow typically is one of two. That is vendor financing available to us to the extent of about 70% of the investment that we make which is in the nature of vendor financing. So that 70% has to be refinanced typically anywhere between 12 months to 18 months after the import of the goods. And only investment up front we have to make is about 30% which is 20% advance and 10% towards duties and import cost and all that. So, at this point of time we anticipate that we are fully funded. However, the real challenge arises suppose the universe is actually larger than we had expected. As Mr. Jayaraman explained in Delhi it is actually proved to be larger than planned. So therefore if the number exceed 1.5 million by a substantial number then we will have to look at options as far as funding is concerned. At this point of time we expect to be fully funded by debt and vendor financing.

**Rajesh Sharma** In terms of can you share us what is being your half year CAPEX spent and second, will there be a situation where you may have to also fund your subsidiaries, in case they are not able to arrange, on your balance sheet will you fund them?

**K. Jayaraman** There are two possibilities. As far as first half year funding is about 120 crores, out of which about 115 crores was on the cable television business, and the balance 11 crores was towards the broadband business. As far as funding of subsidiaries go, we will obviously have to fund the subsidiaries if necessary, leave that some most of the subsidiaries have adequate capacity in their balance sheets. So what the funding may not be funded facility, it will be more in the nature of guarantees and that sort of non-fund support. So that is the way it will be. And we expect that it will be a proportional to the stake that we enjoy in this company.

**Rajesh Sharma** And this CAPEX you mentioned is it net of your one-time collection of Rs. 500 from the subscriber?

**K. Jayaraman** No, this is gross CAPEX what I mentioned.

**Rajesh Sharma** Just want to understand that you used to report these digital subs and paying subs which were close to 2.5 till last quarter in terms of digital subs and you are paying subs were close to 2 million. How does that number looks today after we take the DAS-subs at 1.7, what will be the residual digital and what will be the residual paying subs?



- K. Jayaraman** I think now with the analog regime going in the three cites, we will subtract the paying subscribers of say 2 million, and we will reduce the analog subscribers in these three cities and add the digital subscribers. That is what you are saying? Let us say for example, I was reporting 2 million as the paying subscribers on a consolidated basis. I cannot give you the accurate numbers. 2 million means 20 lakhs, let us say we subtract the paying analog subscribers in these three cities. Roughly say 3 lakhs on a very broad basis. So we come to 17 lakhs. Because rest is still analog. Out of the 2 million, 3 lakh I subtract analog subscribers, I come to 20 lakhs minus 3 lakhs, 17 lakhs. Now on that I will add the exact number of set top box that I have deployed.
- Rajesh Sharma** So it will be 34 lakhs?
- K. Jayaraman** Yes.
- Rajesh Sharma** And your digital which was not so relevant but just it was a signaling number.
- K. Jayaraman** From the 30 lakhs of total digital subscribers that I have reported on a voluntary basis I will subtract 17 lakhs. So, 13 lakhs which is about 1.3 million would be in analog areas where I have already digitized. So what will happen? My paying subscribers will be 34 lakhs. And in Tier-II and Tier-III cities where I am doing the digitalization or entering the digitalization that will count to 1.3 million, that is 13 lakhs. What happens? 30 lakhs of digital subscribers which were hitherto in analog as a CD is now getting transferred to paying subscribers. So 30 lakhs minus 17 lakhs is 13 lakhs. So 13 lakhs would be for Phase-II and Phase-III cities whereas analog subscribers declared subscribers would be subtracted from the 2 million or 20 lakhs and we add exactly the digital subscribers in these three cities. So now if you really see our paying subscribers will go 20 lakhs minus 3 lakhs and add this 17 lakhs.
- Rajesh Sharma** And will you be separating your ARPUs in terms of paying subscribers between the DAS one and non-DAS one
- K. Jayaraman** I think it is six months away no. So eventually I think we will give you those numbers. When we are talking to investors and analysts we will give them but I think that is really for the next six months to one year max. By then it will all become a single model.
- Rajesh Sharma** Just last question, I know there have been multiple questions on that but if you can just explain me that gross margin concept in simple two, three lines because I am little confused after the discussions we had?
- K. Jayaraman** This gross margin is basic subscription. Let us say Rs. 200 you take or whatever. You subtract LCO margin, you subtract content cost and you subtract the variable on subscriber management and things like that and then you add the tiering fees or what hitherto used to be called as carriage fees. So that is where there has been a question. We are saying roughly it will be about 45, 50%.

- Management** 45%, 50% of subscription revenues. I think the confusion has arisen because if you add the carriage and placement fees to the top line then the margin will not look like 50%, it will be about 30% or so.
- Rajesh Sharma** So you are saying Rs. 90 on 200 after adding teiring fees as well?
- K. Jayaraman** After adding back **teiring** fees. If you add teiring fees both in the top and the bottom, then it will obviously be the percentage of the....
- Rajesh Sharma** And this is pre-employee network cost, hidden cost, branding and other things?
- K. Jayaraman** Yeah, you are right. Pre-fixed cost.
- Rajesh Sharma** So basically we are talking about 25% EBITDA margin.
- K. Jayaraman** That is more like it than somebody else mention 50% then obviously...
- Management** You got the numbers correct.
- K. Jayaraman** Ballpark.
- Moderator** Thank you. The next question is from Amit Kumar of Kotak. Please go ahead.
- Amit Kumar** Most of my questions have been answered. Just two small points. One is that what happens to distributor fees that you some sort of distributor margin, the guys who sit between you and the LCO?
- K. Jayaraman** I think that is all taken into account in this whole LCO margin plus.
- Amit Kumar** This 40% is LCO plus distributor?
- K. Jayaraman** Somewhere around that because in some times we have JVs, where there is no distributor margin. Somewhere we have distributors, somewhere we have JVs. So roughly it is in that corridor actually. And even in this gross margin we exactly do not want to come out with the tiering fees and packaging fees now. Obviously, because it will be discussed perhaps one-on-one. So that is the kind of situation.
- Amit Kumar** I am sorry, I did not understand this last point.
- K. Jayaraman** This whole tiering fees is also evolving. So obviously, the gross margins and all will undergo positive change...
- Amit Kumar** Once you digitize I understand there is a cost of SMS, etc. Is that something that you are counting within the 45 to 50% gross margin or is it getting counted below the line?

- K. Jayaraman** While it is eventually going to be a fixed in nature but when I am computing gross margin I am subtracting the subscriber management and billing cost.
- Management** Because that is incremental and arising out of digitization.
- K. Jayaraman** We are taking it as a variable cost in other words. Whether it is billing cost, backend, management, subscription, call center, typically this would be clubbed under fixed cost also but what we are taking into account is that that is per sub cost, so it is variable.
- Management** Effective per sub cost.
- Amit Kumar** Just one small point. I think you mentioned that you will be appointing a billing agency to manage that but in terms of collections, are you still banking on LCOs to do the collections for you?
- K. Jayaraman** Home-to-home LCOs only we will have to do. They are the network owners. We generate the bill and give it to them. They will collect and then we pay the revenue share. That is as per the TRAI rules.
- Moderator** Thank you. The next question is from Kunal Vora of BNP Paribas. Please go ahead.
- Kunal Vora** The first question is how are the local cable operators reacting to this potential decline in revenue. Are you seeing more people willing to sell out, are you looking at \_\_\_\_\_ **1.0.0** buy outs of the cable operators. What is the thinking within the cable operators. For Phase-I whoever has gone through and Phase-II how we are looking at it.
- K. Jayaraman** I think it is just nine days from the date on which the DAS has happened. You know, you should give that benefit of doubt that 31<sup>st</sup> October was the large day and it is just nine days so you know, which is impossible to even guess what is our cable operator thinking, but you know the cable operator hitherto has not been getting multiple TV cable revenues, obviously because you know, the customers themselves have been paying only for one TV in the past. Now, he is going to get some revenue share about the multiple TV and he is also going to get more collections because in his own collection, there has been some problem, because his collection boys would not have reported exactly 100% perhaps they could have reported 90 to 95%, so he will get 5% kick up in revenue because of transparency and also because of multiple TV, so at this point of time if you ask me the broadly the view the cable operators are welcome, not only that you know, if the unlock situation has continued there would have been erosion to DTH in normal course.
- Kunal Vora** But things which you mentioned like multiple TV that cannot really make up for the significant loss of revenue, which we are looking at.
- K. Jayaraman** Multiple TV we get about Rs. 20 per month and I mean the only thing what you are trying to talk about if he was keeping that entertainment tax money in his pocket, that cannot be a

business model that can sustain. To the extent that you are keeping the tax revenues in his pocket, that could go away, so customer is bearing actually the brand. It is not the cable operator who is bearing the brand. The customer is paying the taxes today and that goes to them. Hitherto of the customer was not paying tax, he was paying a composite sum and out of that he was appropriating the tax money, so I think to that extent yes, it is going to be that the tax goes to the government and the revenue share goes to the cable operator, so definitely he will have some drop to the extent that the tax money goes to the government. What he loses on account of under declaration can be added up by multiple TV and better collection percentages, in that sense it could not be that significance. 2) One is to understand that we are going in for common pricing now. There are cable operators who are 1000 subscribers, in some areas within the 1000 subscriber, he would charge Rs. 50 and Rs. 100 and in some areas he would charge Rs. 200. Now it is going to be like flat, the basic ARPU is going to be 160 to 180, is going to be uniform whether it is this or that, but within that 160 the basic, so you know higher SECA segment will pay 270 also, so that is also going to be a benefit because now, there is no question of saying you know have them or have not. There are three tiers and within the three tiers he has to pay, so it is only going to be upside to him on account of common pricing, on account of better collections, his collection boys would not have paid him fully and also fact that there are multiple TV revenues. There will be some drop, but it is not that you know, substantial drop and fourthly, he would have anyway lost gradually to the DTH market.

**Management** Another advantage is in the long run may be over the next one or two year. He will also get the upside of broadband, because once the customer becomes addressable, the probability that we can roll out broadband services to the customer improves and he will also get some you know upside on that account.

**Kunal Vora** Sir, the next question is in the Phase-I cable clearly has done well, almost 80% market share, how are you looking at it like in Phase-II, like in metro, at least the cable operators are like a lot stronger, but going to Tier-2, Tier-3 do you know aggregation will be significant challenge.

**K. Jayaraman** The Phase-II is not Tier-2, Phase-II is only a phase. If you really look at Phase-II cities, they are like Ahmedabad, Bangalore, Hyderabad, they are actually metros, and they are not major metros. The four cities are now defined as major metros and metros, so here again cable is pretty strong you know. In this 38 cities roughly you see these are all metros and big cities actually.

**Management** In fact, one can argue that in India all the way to Tier-2 towns, cable density is pretty good. It is only rural area, that we will find the challenge.

**K. Jayaraman** The Phase-III, Phase-IV of the DAS rollout that is when we will find it slightly more difficult.

**Kunal Vora** Can you give polygraph sizing of Phase-II and Phase-III total number of households, not your households, but overall country level what could be the size for Phase-II and Phase-III.

**K. Jayaraman** I think, we just need to work that out, but probably I think Phase-II I can give you.

**Management** I think roughly about 80% of that 90 million universe which is being addressed by cable subscribers, would be in the nature of Phase-I and Phase-II.

**Management** Phase-II GS I would say be 40 million, Phase-III and Phase-IV, I cannot hazard a guess, but Phase-II will be 40 million. 38 cities would be 40 million.

**Kunal Vora** Okay sir, final question on the tax incidence. How is the taxation different for MSOs and the DTH company, it is like entertainment tax how are the practice is?

**K. Jayaraman** Entertainment tax is the same.

**Management** Virtually the same.

**Kunal Vora** So, there is no taxation advantage which the MSOs have over LCO probably the license fee could be the only differentiator.

**K. Jayaraman** There is no advantage, taxation is pass through to the consumers.

**Kunal Vora** No, but like say if 10% license fees has been borne by the DTH companies.

**K. Jayaraman** That is a license fee. In effect, it is not a taxation, it is a license fee.

**Kunal Vora** So that is an advantage, which MSOs have over DTH.

**K. Jayaraman** That is an advantage that we have in terms of revenue share and taxation, yes.

**Moderator** Thank you very much. Our next question is from Rohit Dokania of B&K Securities, please go ahead.

**Rohit Dokania** Just two to three questions. I would remember that we are a universe of about 9 million out of which about 2.2 million was in Phase-II and we have done boxes about 1.7 million, so that is a penetration level as of now 77%. Do you think we will be able to reach 100% over the course of this month as far as three cities are concerned.

**K. Jayaraman** No actually our Phase-I was actually about 1.5 to 1.7 million, it was never 2.2 million Rohit. Including Kolkata, if you see out of about 7-7.8 million, we had always said that it will be 1.5 to 1.7 what is our target and we are already 1.7. I think we can look at another half a million to be added, if we are able to roll it out, except for this Diwali holidays, couple of days.

**Rohit Dokania** So similarly what would be Phase-II universe that would be closer to five million, right, which you said right now?

**K. Jayaraman** Phase-II we can go overall including multiple TVs, we can go anywhere between 4.5 to 5 million, that is the target that we can, because now from Phase-I we have understood that you

know it is not only that our universe, but even within our universe, it is only a guess, know, that everybody makes for it.

**Rohit Dokania** Sure, I totally understand it. And also I was just wondering you know, this 1.9 million to 2 million paying subscribers, the analog paying subscribers, how would this be divided sir, across you know Phase-I and Phase-II because you said a figure of 3 lakhs which to me appear a little low because I would assume we would have a lot number of direct points as well.

**K. Jayaraman** We are only talking about secondary circle. The direct point was separate basically, but in Phase-I and Phase-II, the direct points would be 100,000 Mumbai and Delhi.

**Rohit Dokania** 100,000 would be in Phase-I.

**K. Jayaraman** But that is not an incremental advantage, exactly.

**Rohit Dokania** I know, so I was just wondering you know because whether it is 0.3 to 1.7 that is the upside or should we look at from 0.4 to 1.7.

**K. Jayaraman** No, you have to look at upside only from secondary point, primarily remains the same. I am only talking about delta.

**Rohit Dokania** Sure, absolutely, absolutely. Okay, that is the answer. Just one figure on the net debt at the consol side is it possible for you to share that at this quarter end.

**K. Jayaraman** We have got about 400 crores as gross debt, we have cash on the balance sheet of about 60 crores, it gives us about 340 crores as net debt.

**Rohit Dokania** Sir, this 340 crores also includes the vendor finance.

**Management** Stand alone basis, on a consolidated basis, this would about 525 crores, to back out the cash on hand about 65 crores, it would be about 460 and odd crores.

**K. Jayaraman** Basically, debt is there is Hathway and **GTPL**. Other subsidies we don't have debt. They are all cash positives.

**Management** I have included about 100 crores of vendor credit, which is available to us in this.

**Rohit Dokania** This includes vendor credit, okay great. Thanks a lot and wish you all the best.

**Moderator** Thank you. We will take our next question from Dhaval Shah of Siddhesh Capital, please go ahead.

**Dhaval Shah** Hello, hello. Sir now the people who have got the set top box fitted in their houses, so will just start receiving the bill from November month end or will it take time.

**K. Jayaraman** By December, we should receive.

**Dhaval Shah** Okay, so for the month of November, the subscription revenue would still be by the way the LCOs to come with the cards.

**K. Jayaraman** How they will receive the bill in December that is what we are thinking including for November. They will receive the bill because they have used the services. Only little bit delay will be there.

**Dhaval Shah** Okay. Sir, on the 21 crores a bit of economic interest what you have given for the subsidiaries, so how much would be the top line for that number.

**K. Jayaraman** We generally don't show the consolidated top line at this point of time. We only share it on an annual basis.

**Dhaval Shah** And sir now on the broadband side, are we focusing the broader penetration more at the metros, I mean for the Phase-I and also for the Phase-II and so for the Phase-II, do we need to do any significant CAPEX for laying of cable fibers and so just want some information on that.

**K. Jayaraman** In Phase-II we are having broadband in Hyderabad, Bangalore, Pune, Nasik, Aurangabad, Ahmedabad, Baroda, Surat, NCR. You know I would guess in the Phase-II, if you are in about 20 odd cities, 21 cities, we would have perhaps in about 10 cities.

**Dhaval Shah** Okay, fine already the infrastructure is ready there in the Phase-II.

**K. Jayaraman** It is there, but subscriber acquisition cost CAPEX will be there.

**Dhaval Shah** So that would be how much 3000 Rs.

**K. Jayaraman** Digital is there or analog is there. You will have a subscriber acquisition cost.

**Dhaval Shah** Correct, so that will be around 2500 to 3000 plus per subscriber.

**K. Jayaraman** But then we will not go 100% home pass, suppose if cable universe is 4 million in Phase-II for Hathway, we would not go and do 4 million homes pass for broadband.

**Dhaval Shah** Lot of houses of already having.

**K. Jayaraman** Homes pass roughly say about a million homes pass could be there in Phase-II, but then in addition, what we will do is only in pockets.

**Management** 4 million is cable home plus for broadband broadly don't hold on to the number, would be roughly about a million, because out of the 1.6 million, 600,000 would be in Phase-I for me, homes pass so 1 million would be for Phase-II.

- Dhaval Shah** And now, do we need to increase the advertisement spent, compared to what kind of marketing the DTH players are doing, do we see the feel the requirement for that.
- K. Jayaraman** I think we have used more feet on street approach, as you can see, so I don't think advertisement expenditure will increase obviously because what we have spent for three cities, we have to spend more for 20 cities.
- Dhaval Shah** Can you give me a number how much have you spent on your ad budget kind of thing, particularly for the Phase-I.
- K. Jayaraman** That we cannot share. Advertising expenditure, we cannot share, but you know, we have done reasonable amount of advertisement and feet on street.
- Dhaval Shah** Now, I just trying to understand that for FY12, you did some 7 to 8 crores of ad spends totally, so would it be around like 20 to 25 crores for FY13 number kind of thing.
- K. Jayaraman** You know, already if you see we have done about 30 to 40% penetration already in this Phase-II cities. What amount of advertisement needs to be spent, what amount of that subsidy that amount you give it as a subsidy to the consumer and put the boxes something that as a management we will decide.
- Moderator** Thank you very much. Due to time constraints, that was our last question. I would now like to hand the floor over to Mr. Vivekanand Subbaraman for closing comments.
- Vivekanand Subbaraman** Yeah, I would like to thank the management of Hathway for taking time off this call, especially during such a busy schedule during digitization, so over to you Jayaraman sir for closing comments.
- K. Jayaraman** I think thank you very much and we hope to again speak to you during the course of this quarter and also at the end of the Q3. Thank you everybody and thanks for all your best wishes.
- Moderator** Thank you very much sir. Ladies and gentlemen on behalf of PhillipCapital India Private Limited that concludes this conference all. Thank you for joining us and you may now disconnect your lines.