"Hathway Cable and Datacom Limited Q1 FY-'14 Earnings Conference Call"

August 13, 2013

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MODERATOR: **MR. VIVEKANAND SUBBARAMAN –ANALYST, PHILLIPCAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY-'14 Earnings Conference Call of Hathway Cable and Datacom Limited hosted by PhillipCapital (India). As a reminder all participants' lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note duration of this conference is 60 minutes only. This call is being recorded. I now hand the conference over to Mr. Vivekanand Subbaraman of PhillipCapital. Thank you. And over to sir.

Vivekanand Subbaraman: Thank you Inba and good morning everyone. We at PhillipCapital (India) are pleased to host the Q1 FY-'14 earnings conference call of Hathway Cable and Datacom Ltd. We have with us the senior management team of Hathway represented by Mr. Jagdish Kumar – the MD and CEO; Mr. G Subramanian -- the CFO along with other senior members of the team. We will begin the call with a short commentary by Mr. Jagdish Kumar and then we will move on to the Q&A session. Over to you, sir.

Mr. Jagdish Kumar: Good morning, everyone. Thank you for being with us on this call for the discussions on our Q1 results for FY-'14. With me on this call is our CFO -- Mr. Subramanian and also our Executive VP, Finance and Accounts -- Mr. Mahadevan.

Firstly let me summarize the financial results for the first quarter. Standalone operating revenues for the quarter ended June 30 is 233 crores; it grew by 59% over the corresponding quarter last year. This was despite the fact that Activation revenues were lower by about 14 crores. This decline was made up by a growth in Subscription and Placement revenues consequent to the implementation of DAS, majorly on account of Phase-I cities. EBITDA at 76 crores grew by 219% over the corresponding quarter last year. It declined by about 12.4 crores to 76 crores when compared to the immediately preceding quarter. This decline is substantially on account of increase in pay cost about 9 crores consequent to the DAS roll out in Phase-I and II. There is going to be a timeline in the conversion of the market to retail billing, typically this lag is about two quarters, so Subscription revenues are expected to grow ahead of pay cost in the ensuing quarters when we start retail billing to customers commencing in the Phase-II markets.

Further, we estimate that Hathway's economic interest in the EBITDA of its subsidiaries, JVs associate companies for the quarter and the review would aggregate approximately 20 crores. Consequently, the total EBITDA including our economic interest in subsidiaries and JVs is estimated at Rs.96 crores. As a consolidated entity we now reach about 7 million digital subscribers. Of these we get paid for about 4 million subscribers. Hathway has seeded about 2.5 million Boxes in Phase-I cities of Mumbai, Delhi and Kolkata and about 4.4 million STBs in the 26 cities of Phase-II. During the current Q1 we have seeded about 2 million Set Top Boxes. With the successful deployment of about 7 million Set Top Boxes during Phase-I and II, we are proud to state that we are the largest MSO in the country. The company has adequate inventory of Set Top Boxes in hand and we intend to continue to roll out our services in major towns of Phase-III and Phase-IV of digitization for DAS. Our universe on an all-India basis is currently at 10.5 million. The MIV report that the Cable TV is clearly the preferred choice in Phase-II cities with nearly 90% of Digital Set Top Boxes seeded after 15th February 2013 being seeded by Cable MSOs as against DTH Operators.

During the quarter we also expanded our footprints in new areas like Jalna and Hingoli in Maharashtra, Jabalpur in Madhya Pradesh and Agra in UP.

Hathway is the only MSO in the country which now has a pan India footprint which covers significant Hindi speaking markets and the substantial presence in Karnataka and A.P.

We have satisfactorily concluded contracts with all major broadcasters for content; hence we have good visibility and certainty on our transaction with broadcasters for both pay channels and carriage in Placement for the current financial year.

We have also collected Subscription forms from nearly 90% of our customers in Mumbai and Delhi till date and we are in the process of procuring the pending forms. We continue to be aggressive in our process of collecting Subscription forms for the balance of Phase-I and Phase-II cities.

Gross additions to our Broadband Subscriber base during the quarter was 27,000. We have successfully upgraded our Broadband service in Mumbai to the latest DOCSIS 3 technology. With addressability of customers with that regime we expect to increase our broadband customer base with very attractive schemes at extremely competitive prices.

The company is in the process of raising equity funds to the tune of Rs.150 crores from its promoters, existing shareholders and new shareholders through a preferential allotment. We expect to complete the formalities for equity infusion in August 2013; this will give us adequate financial flexibility to exploit opportunities which come our way during Phase-III and Phase-IV of DAS implementation. With these remarks I now open the floor for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Sumeet Rohra of Silver Stallion. Please go ahead.

Sumeet Rohra: Sir I just wanted to understand that you got this 7 million today and if I heard correctly you said that your universe is 10.5 million, so is it safe to assume that by end of Phase-III, Phase-IV you should get to 10.5 million that is my point number one sir? And secondly sir I just wanted to ask you that what is the status on billing today? Are we seeing a ground movement in Kolkata particularly which has been a very slow market. So I just wanted your thoughts on the billing part for Phase-I and Phase-II cities sir.

Management: Yes, your first statement is correct by the time we complete Phase-III and Phase-IV we should cover our current universe of 10.5million but we may also look at some expansion opportunities beyond our universe when we look at Phase-III and Phase-IV. On the billing front I think as far as Mumbai and Delhi is concerned, across all other players also, I can speak for them that most of the customer information has now come through with the options which customers have given for packages, so we intend to start retail billing from the current month onwards.

Sumeet Rohra: So from current month onwards, would it be including Kolkata as well?

Management: The TRAI has had some open house sessions in Kolkata with the MSOs and they have given time to the MSOs to collect the CRF forms by the last week of this month. So once we get the customer information our intention is to start wholesale billing in the month of September and then look at retail billing really from the month of October onwards.

Sumeet Rohra: And sir for Phase-II?

Management: Phase-II again it's clubbed with what I mentioned about Kolkata because here again TRAI has had discussions in numerous locations and in Bangalore especially and in Bangalore we are geared up to do customer billing again from September onwards. We have an issue in Hyderabad because of the some court cases where even now analog signals are still on in the network but in all other areas including central India where we exist we are gearing up to do customer billing from Q3 onwards for this financial year.

Sumeet Rohra: So it is safe to assume that come FY-'15 we should be billing all of Phase-I and Phase-II?

Management: Absolutely, FY-'15 we will be.

Moderator: Thank you. Our next question is from Pulkit Singhal of Tree Line. Please go ahead.

Pulkit Singhal: I just wanted to follow up one on Broadband, you mentioned you have done DOCSIS 3.0 in Mumbai and what is the kind of take up or pick up are you seeing there and I mean can you just if you also mention your broadband strategy? And the 27,000 so that results in 4-5 million subscribers broadband as of now?

Management: It is about 420,000 subscribers at this point of time and 27,000 is the gross ads during this quarter.

Management: On DOCSIS 3 we are doing a soft launch of that service towards the middle of this month, actually from may be the last week of August where we will test this with live customers and then our intention is to do a hard launch of the DOCSIS 3 platform in September. So we will be able to give you the response of the market to that technology only by the end of this quarter but our expectation is that we will get significant traction in being able to deliver really high speed broadband at very competitive prices by implementing DOCSIS 3 technology.

Pulkit Singhal: So while collecting the forms from subscribers in Mumbai and Delhi are you also not cross selling broadband simultaneously or?

Management: No, we are not yet doing that because these deadlines involved in getting these forms, our focus has been completely to just get the information to work on our CATV business but there are some data which we will have in hand when we go forward we will definitely do a lot of cross selling between broadband and CATV. To your question are we collecting broadband information also? No, we are not doing that.

Pulkit Singhal: My second question was on the carriage and Placement Fees, I mean quarter-on-quarter obviously there is a jump on pay channel cost but I am assuming the right way to see it is pay channel minus carriage. So what is the kind of trend you are seeing there and what do you expect for the year?

Management: The major trend is that the broadcasters are pushing for a decrease in pay channel cost and the decrease ranges in the percentage range of about 20% to 25% that is the decrease which we see in our existing territories but what has helped us in being where we are as far as Placement revenues is that we have now expanded our footprint into newer territories. So by expanding our footprints we have been able to garner a higher share of the Placement budgets of these broadcasters. Further, we do have a lot of opportunities with the local regional cable channels which are pre-active especially in the news segment, there is a demand for such services on our platform, so these two factors; additional territories and local channels have mitigated that decrease which we have from the major broadcasters.

Pulkit Singhal: So the debt impact on carriage would be flattish or down 5 to 10% or how do we look at that?

Management: It will be about flattish at this point of time, so if you see pay cost would have gone up from about 49 crores in the previous quarter to about 59 crores in this quarter. Correspondingly Placement revenues would have jumped up from 61 crores to 71 crores.

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

Amit Kumar: Sir I just wanted a small clarification, when you say consumer billing, is it equivalent to gross billing or is it essentially your fair share of within the net billing scenario itself which is just about 110- 115?

Management: Whenever we speak of consumer billing that is B2C billing we will always be talking of gross billing. As Jagdish had mentioned to you just now we plan to go to gross billing in the cities of Mumbai and Delhi in the course of this month which means effective August we expect to be able to bill gross to the subscribers in the cities of Mumbai and Delhi. There are challenges to that as you know. So I would conservatively assume that the impact of this would be felt during the course of this quarter and definitely from the next quarter we should see the full impact. As far as the Kolkata is concerned, as he had already mentioned to you 23rd of August is the deadline. So while 23rd of August is a theoretical drop dead date there is always some time lag between that and then the reality of gross billing. I would assume that in the course of September or early October onwards we should be able to move to gross billing in Kolkata. As far as Phase-II towns are concerned 20th September is the drop dead date. So assuming again about a couple of months lag from then on we should be able to get visibility on Phase-II cities which is a very, very big upside for Hathway in Q4 of the current financial year.

Amit Kumar: Sir a small sort of follow up on this in the current quarter and I might have actually missed this as I was little late on the call, what is the net realization to Hathway from the cities of Delhi, Bombay and Kolkata on the current net billing scenario?

Management: As far as Mumbai and Delhi is concerned our typical net billing is at about Rs.85 including service tax, if you back out service tax it will be about Rs.75.

Amit Kumar: And anything coming from Kolkata or the other Phase-II cities at this point of time? Any jump from 15, 20?

Management: Kolkata is not very substantial numbers as yet but we expect it to be in the region of about (+40) immediately and then it will probably go up to Rs.70 thereafter and then go to gross billing as I told you in Q3 of this year.

Moderator: Thank you. Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on Kolkata, the initial Set Top Box seeding in Kolkata was very good and we also did some new customer acquisition there. The timelines are getting pushed every time. So based on this experience in Kolkata our inorganic plans, are you calibrating based on that and what is your own realistic target for Kolkata seeing the political climate there?

Management: I think it is governed by the fact that the TRAI has given a date of 23rd of August. So at the end of the day we can only move ahead based on what the regulator has said. So the TRAI has given some more time to Kolkata because they had to catch up to Mumbai and Delhi. We are very optimistic that Kolkata should go gross billing from Q3 of the current financial year.

Abneesh Roy: Sir in Bombay and Delhi the package selection KYC has been really good, but what I understand is now price increase has been fairly substantial for many of the consumers because now tax element is also there apart from the general increase also because he is getting more channels. What is the consumer push back in such a steep price increase in such inflationary general scenario, is there any churn initial signs of churn you are seeing, how is the consumer selection in terms of packages, is it in the mid level largely or there are some premium selections also?

Management: We have got 3 packages for our consumers, we have got a base package which is around in Mumbai it is Rs.160 and there is a mid pack which is at around Rs.230 and there is a premium pack at about Rs.275. So we have got a pack for various price points. So our intention for example the price point which we had of Rs.160 in Mumbai was the fact that the entertainment tax is Rs.45 here, so the 160 pack if we add up the entertainment tax and the service charges it comes to about Rs.220 which is pretty much in the range in which most of the consumers are paying their cable bills right now. So we have factored in the packages in manner that it caters to the people who can afford these kind of packages without pinching too hard on their pockets but the fact is that these elements will definitely contribute to the increase in ARPU, and as you know that the cable ARPUs has been suppressed for a very long time in this country, in more than 15-years it has been stagnating at a certain price. So I do not think these price increases which may come about will hurt us so much. We would know for a reality of the market when we actually start the retail billing from this month onwards. So we do not have anything to give back to you in terms of market experience as of now.

Abneesh Roy: Last question as a more of a follow up, content cost if you see both q-o-q, y-o-y sharp increase and if I see the broadcasters results also they have reported very strong growth in their Subscription revenue and one of the broadcaster in fact said there will be some prior period adjustment also. So my question is the number which you have reported this time pay channel cost, is there any prior period adjustment or in the coming quarters can there be some prior period adjustment? How are the deals getting structured at least currently because you do not seem to be getting too much collection as of now based on the opportunity but broadcasters seem to be getting, so if you could give us some more clarity on how the deals with broadcasters are being done?

Management: Way to look at is as I mentioned to you, there has been an increase from about 50 crores to 59 crores quarter on quarter increase but that has been more than made up by the fact that Placement has jumped up by nearly 10 crores. So there has been a cancellation of the increase in pay cost by the increase in Placement revenues. Now how did we achieve increase in Placement revenues? Because amongst all the MSOs in this country we have now got the biggest reach particularly critical reach which we are also starting to achieve critical reach in Hindi speaking markets. So that places us at a very, very advantageous position when negotiating deals with these broadcasters. Yes, broadcasters are going to see some increases in their revenue but at the same time those MSOs who have got significant reach in markets which are critical to rating as far as broadcasters are concerned, they will also gain in terms of Placement. So that has been our strategy to expand our footprint and make up for any negative surprises in the cost of pay channels. And at the end of the day to the question that preceded this, you always have to see cost in relation to competition. Are we more competitive than the DTH platform? Certainly, we deliver much more product at a lower price point to the customer. I do not think therefore churn should be a critical issue to be worried about at this point of time. The last question I think you had raised the question on inorganic versus organic growth. We will be focused on organic growth but there will always be opportunities for inorganic growth because amongst all MSOs we are very well funded, we have raised all the capital that we needed, we have also got a good inventory of Set Top Boxes and if any LCO has to look towards MSO is well capitalized and able to roll out these Boxes it is we are one amongst them. So that will always throw up inorganic opportunities but that is not our focus, our focus is to make our territories fully digital.

Abneesh Roy: And sir any prior period adjustment can come in contract?

Management: There are no prior period adjustments in our contract. As far as broadcaster deals are concerned by and large they are all fixed price deals to a majority of this year. One or two of the major broadcasters could go to a CPS type of structure towards the fag end of the financial year, but even the CPS structure if you multiply it by the number of subscribers that we serve will not be substantially different from the fixed price deals.

Moderator: Thank you. Our next question is from Suresh Mahadevan of UBS. Please go ahead.

Suresh Mahadevan: I had two quick questions. One is regarding what is your proportionate EBITDA consolidated based on your economic interest because I cannot see to find that in the release that is number one….

Management: It will be there in the press release but not in the …

Suresh Mahadevan: Number two is related to you mentioned that clearly Cable seems to be the clearer choice even in Phase-II obviously Phase-I also Cable did quite well. What do you think are the reasons for this and do you expect this to also continue in Phase-III and Phase-IV as in cables dominance over DTH?

Management: On the proportionate EBITDA as far as Hathway is concerned is about 76 crores, the proportionate share in EBITDA from our JV cos about 20 crores so that adds up to economic interest of about 96 crores. And as far as the markets are concerned I leave it to Jagdish.

Management: On the penetration of Cable versus DTH, the very clear advantages which Cable has over DTH are number one, we have a higher bandwidth capability, we can deliver much larger bouquet of channels than what DTH can do; number 2 we do not have issues concerning the transmission of signals and rain attenuation, and especially in the west coast of India during this monsoon we have had numerous black out of the DTH transmission, we will not be affected by that. And the bigger issue is that on customer service, most of our customers are used to interacting with their local cable operator for any customer service issues which they have. So we do have an on-hand resource to attend to customer problems. So unlike in the case of DTH when they have to talk to a faceless customer call representative, so these are the factors which actually contribute to the fact that Cable can deliver much better services than what DTH can do. And also if you look at the quality of transmission of HD channels because we give more bandwidth to the HD channels than what Cable can do than what DTH can do because DTH has constraints on satellite capacity so they actually choke the bandwidth available to HD channels which we do not have to do because we do not have any bandwidth constraints. So these are the factors which really contribute to cable being a much better player than DTH for digitization. Like as GS mentioned the other big factor which definitely will drive us is that we can deliver much more local content compared to DTH because DTH is either a national footprint it cannot do a localized regional channel but we can deliver lot more local channels based on our distribution platforms.

Suresh Mahadevan: So this advantage should sustain even in Phase-III, Phase-IV?

Management: I think so, if you really look at the performance since February when Phase-II roll out series started and even if you go by the TRAI statistics DTH platforms have on an aggregate added about million subscribers. Now that compares to the cable guys who have added I think about 8 million subscribers. Now the critical thing is that is by an order of magnitude we have added much more subscribers than the DTH platforms have added that is one. Even within that if you look at the Hathway addition every 5th subscriber has been a Hathway subscriber so that is the key point and if you look at the total 9 million homes that have been added in this period about 1.8 million homes are Hathway homes. So I think that is a very significant success, we are in the process of building this universe and I am sure going forward it will yield very, very high quality results.

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

Rajiv Sharma: I have a couple of housekeeping questions and then one or two questions on your future plan. So I joined the call late and if you could help me with the breakup of this 7 million digital subscribers as to or all this paying as to and how much of your subscriber base has started paying in Phase-I and the split between Phase-I and Phase-II and how many STBs have been deployed and yet to be deployed in Phase-I, Phase-II markets?

Management: So if you look at Phase-I markets we would have deployed roughly about 2.5 million Boxes, in Phase-II markets we would have deployed roughly about 4.1 million Boxes and Phase-III and Phase-IV we have already started rolling out, so we have already deployed about 400,000 Boxes in Phase-III and Phase-IV together. So that adds up to roughly about 7 million. Out of 7 million about 4 million are currently paying and we hope to convert the whole 7 million to paying as and when Phase-1 and Phase-2, we are able to commence retail billing. So it is work-in progress at this point in time.

Rajiv Sharma: When you say currently paying 4 million what do you exactly mean by that means its net billing started on that?

Management: As far as Phase-1 markets are concerned net billing on the full universe and Phase-2 markets we have started net billing in some markets that is about 1.3 million subscribers, and as far as Phase-3 is concerned also there has been some billing but it is not substantial.

Rajiv Sharma: And you also mentioned that you have sufficient inventory in the system of Set Top Boxes which allows you to pursue lot of other opportunities. Could you give that number as to what will be the inventory in the system?

Management: Above a million Boxes at this point of time.

Rajiv Sharma: And what was your net debt consolidated at the end of this quarter and CAPEX during this quarter?

Management: We ended the quarter with a net debt of 1,113 crores and CAPEX in that quarter would have been about 362 crores which include Set Top Boxes also.

Rajiv Sharma: So how many Set Top Boxes you deployed during this quarter?

Management: About 1.8 million Set Top Boxes on a consolidated basis.

Rajiv Sharma: And you mentioned that the Placement Fee or the revenue has gone up because you have added to new markets. I am just trying to understand there were LCOs in your markets, you get them Digital Boxes, they have become digital markets. Where has this new markets come up which is resulting in this significant 10 crore jump in Placement revenues if you can expand on this please?

Management: There has been new markets which are actually growth of our existing markets, for example in Bangalore our subscriber base has grown by a substantial number. So while we were already present in Bangalore we now have expanded our footprint to add about 250,000 subscribers in Bangalore. Kolkata was added before but the effect of that was really felt in this quarter that is about 418,000 subscribers, we added Jabalpur, then we have also added cities like Agra, Jabalpur, Jalna, Hingoli so that also has substantial additions to the subscriber base.

Moderator: Thank you. Our next question is from Hemang Kapasi of Canara Robeco Asset Management please go ahead.

Hemang Kapasi: Can you give a split of the revenues in terms of Subscription numbers and how the growth in Subscription has been?

Management: We have 55 crores coming in from Cable Television Subscription, about 33 crores from ISP Subscription, Placement has yielded about 71 crores and Activation revenues would be about 73, so that is what adds up to 233 crores.

Hemang Kapasi: And there is a sharp increase in the interest cost. Has the debt level increased?

Management: Yes, in fact we were at about 1,113 crores net debt as of 31st March, it has grown to about 1,160 crores gross.

Hemang Kapasi: Sir is it fair to assume that the increase in debt is largely due to receivables from LCO?

Management: Increase in debt on account of Subscription would hardly be about 12 crores or so.

Hemang Kapasi: The rest is all in a new addition?

Management: There is no balance sheet in this thing, so I do not know where you are getting those figures from.

Hemang Kapasi: No, no I am just trying to gauge the increase in debt, why?

Management: Increase in debt is about under 48 crores as far as operating debt is concerned. Out of that a substantial part of it will be Placement receivables because Placement contracts are entered into during the course of the quarter. So some of this is receivable from very,

very large broadcasters and they will be collected in the course of this month and the next month. These are all contracts that are in the process of being signed up and that…..

Hemang Kapasi: Just last question about the equity infusion. Can you just throw some light on that 150 crores rationale for equity infusion?

Management: Rationale is mainly meant for corporate purposes. What will immediately happen is it will help us to park down our debt by about 150 crores that gives us flexibility to address new markets as and when they come up in Phase-3 and Phase-4.

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

Nihar Shah: I just had a couple of questions; my first question to you is in terms of the Phase-2 additions, are we completely now rolled out in the areas that we were present in or do you expect more activations to happen say in Q2 and Q3?

Management: Phase-2 substantially in most of the cities we have covered the universe which exist and except that in Hyderabad we have an issue with the court case which is going on. There is a stay on the implementation of digitization in Andhra Pradesh, otherwise in most of the other areas we are pretty much well penetrated.

Hemang Kapasi: So essentially from Q2 onwards Activation revenues would largely be negligible until maybe the first half of next financial year once you start executing on Phase-3?

Management: Absolutely, as you rightly put it, it is a one-time hiccup. There would not be any substantial Activation revenues but we do expect to continue to push Boxes in Phase-3 market, starting to look very attractive. What will happen is Phase-3 markets which are contiguous with our Phase-2 markets is one very important opportunity. So we will push to seed Boxes because there will be some consumer pull for Boxes even in the Phase-3 markets which are contiguous to Phase-2 market. So that we will continue to see but the numbers will absolutely decline.

Hemang Kapasi: My second question is just more of a clarification, when you are talking about Cable revenues or the 55 crores that is essentially what you are collecting from the LCOs versus what you are billing because there is generally a little bit of a slip sometimes with some of the other companies that sort of report these numbers?

Management: Yeah, as I told you, we have billed gross of 85 including service tax net is 75 we by and large recognize this revenue based on the collection.

Hemang Kapasi: Just a request maybe going forward if at a certain point of time you could probably start publishing consolidated numbers and may be just providing the breakdown of revenues and things on a quarterly basis in your press release that would be very useful, thank you sir.

Management: We will do that.

Moderator: Thank you. Our next question is from Pulkit Singhal of Tree Line Advisors. Please go ahead.

Pulkit Singhal: Sorry to comeback with a few questions; one is on the 7 million Set Top Boxes seeded. For how many have you collected the cash already?

Management: Almost substantially, there will be very little outstanding on account of Set Top Boxes.

Hemang Kapasi: That is basically around 500 or 600?

Management: Maybe about 10 crores or so nationally which is pretty reasonable**.**

Hemang Kapasi: And the debt that you mentioned this is a consolidated debt figure, right, 1,160 gross debt?

Management: 1,160 is gross, cash on hand is about 45 crores, so if we net that out it is 1,113.

Hemang Kapasi: This one consolidated basis for the group?

Management: No, no, no this is on a standalone basis.

Hemang Kapasi: And do you expect to raise further debt going ahead this year?

Management: We will have to see how this pans out. We expect cash flows from operations to start kicking in as I just mentioned to you in the ensuing quarter. So we do not anticipate anything at this point of time. But we will have to take a call as the business rolls over.

Moderator: Our next question is from Swati Nangalia of IDFC Securities. Please go ahead.

Nikhil Vora: This is Nikhil Vora here. Just one thing, this second wave of growth that we look at from here on, is it more likely to be driven by MSO acquisitions or own Subscription? You obviously mentioned your preference on own sub growth but is MSO acquisition looking lot more real right now?

Management: They are looking real because one of the biggest success factors in this business is actually to get scale. When you get scale, you will be able to get good negotiating position with service providers and broadcasters. So from the experience which people have had during Phase-1 and Phase-2 we anticipate that there will be numerous opportunities to really look at independent cable operations going forward in Phase-3 and Phase-4.

Nikhil Vora: When you talk about scale being relevant at present that now we are among the top 3 relevant digital players in the system. What will be possibly immediate task? Is it more about getting more consumers to be digital or starting to monetize the existing digital base?

Management: It is both.

Nikhil Vora: Starting to monetize the existing digital base is that more a key priority or increasing the subscriber base is one.

Speaker: No, in terms of priority both the opportunities are important, the expansion opportunities, but in terms of priority if we have to rank it I would rank monetization of our existing footprint as priority #1.

Nikhil Vora: Is it still the lack of clarity or the lack of direct billing to the consumers or what would be the biggest hindrance for the monetization right now?

Speaker: We have to take it Phase-by-phase. 1st step was to actually get the Boxes deployed, 2nd step is really to get as much customer information as possible; we have been successful in both these phases. Now the next step is when we start really billing on a retail basis. So we are going as per our plan as of now. So there are challenges going forward about being able to work with the local cable operators to ensure that there is a fair revenue share which everybody gets. So those are the next steps which we will be encountering as we progress, but we do not foresee any major threats to our plans.

Nikhil Vora: Today, the LCO gets close to 40% to 55% depending on which region one operates in. How far do you think it is to presume that the LCO should get a normative distribution margin which could be may be 15% at best? Will it take 3 years, 5 years or you think the distribution…?

Management: The TRAI itself a mandated a minimum revenue share of 35%. So it is not going to go below 35% at any point of time. But we prefer to treat this as a partnership with the LCO, we do not want to be seen as on the opposite side of the fence. We work with LCOs. I think anywhere between 35% to 42% range is where this is going to settle down as a revenue share to the LCO from the total ARPU that we collect in the market. What would happen is over a period of 1 or 2 years ARPUs are going to go up because the customers when they are faced with more choice will buy through to higher end packages, and we are fairly confident that ARPU will stabilize upwards of Rs.220, when I say Rs.220 net of taxes. So once that happens the LCO share will also improve absolute numbers because it will be 40% of Rs.220 that is one. Second thing is it is not just about Cable Television, we are also talking of distributing broadband services to this community. So we hope to be able to share some small shares on the broadband revenues in order to make the business a viable proposition for our revenues.

Nikhil Vora: Just lastly what is the priority in terms of capital deployment from here on? Broadband seems to be first more advantage which we seem to be willing to lose right now and seeding the Boxes seems to be a priority but how do you see it from here? Is it about more Boxes being seeded, is it about acquisition of MSOs or is it about Broadband?

Management: I think the Set Top Box seeding and DOCSIS 3.0 investments are the big items on our plate. As a management team we do not want to get distracted by doing too many of the acquisitions sort of stuff, we have got a big universe of 10.5 million, we would rather focus on that. Like Jagdish pointed out but there still is an opportunity, as and when an opportunity walks into the door, we are not going to say no to that but that will have to be seen on merits. Each transaction if it happens will happen on merits.

Moderator: Our next question is from Srinivas Seshadri of CIMB. Please go ahead.

Srinivas Seshadri: Most of my questions have been answered, just a more of a longer range question in terms of any potential getting into the telecom space. So as per the current rules in terms of the unified licenses, just wanted to understand, one is if you were to get into telecom what is the kind of regulatory campaigns should be required and secondly operationally what are the steps required in terms of back end investments etc. to really kind of even start thinking about entering this space?

Management: Very clearly our focus is only on a dual play work. We will look at Broadband and Cable Television as our basic service. We have examined the possibility of Voice but we find that the unit price of voice at extremely low and it is a very competitive space and there are issues surrounding how you can interconnect with various players. So we are not definitely looking at Voice as one of our businesses going forward. So we will focus completely on the Broadband business and the Cable business.

Srinivas Seshadri: And the 2nd question is in terms of your digital of 7 million subs, just wanted a number in terms of how much has been the HD penetration and what do you see the ...?

Management: 10.5 million subscribers of which we have seeded 7 million Boxes in the market. And as far as high definition Boxes are concerned, the game has just begun. We have done about 25,000 Boxes as of now and we have some very big plan for HD Boxes also, and hopefully in the course of the end of this year, we should be able to show you some very attractive results on that front.

Srinivas Seshadri: According to your own kind of understanding where could kind of mature HD penetration be after say 2-3 years?

Management: Most of the DTH players currently, the percentage of HD sales, as a percentage of total sales works out to about 30%. So we would also think that we would be in that range. 30% of the subscribers' base would be taking HD.

Srinivas Seshadri: 30% of subscriber base?

Management: That is in the long term and more importantly as Jagdish had mentioned in the earlier part of the conversation because we have huge amount of bandwidth not only can we carry the HD channels without any down sampling of the signals we also can carry much more of HD content than the DTH platform. So even as we speak we are already carrying about 21 and there is potential for huge growth on the HD channel front.

Moderator: Our next is question is from Jai Doshi of IIFL. Please go ahead.

Jai Doshi: Sir, could you share Carriage revenue, Subscription revenue, and activation revenue of Q1FY13, same quarter last year?

Speaker: Why do you not just contact my team? They will be able to give you the detailed number for the last year same quarter.

Jai Doshi: And could you clarify on entertainment tax liability, whether it will be once we start billing we will be paying entertainment tax or we will be…?

Management: Once we go retail billing that is billing to the end consumer we will obviously have to look at that liability, but that liability will be borne eventually by the consumer not by us. It is a pass through type of cost. More importantly, there are some anomalies in the acts in the respective states. As you know this is a state subject, so in each of these states there are variations in the way this is approached. I am fairly sure that the entertainment tax authorities will have to make changes to their regulations in order to be able to address this toward the MSOs. That is still work-in-progress as we speak.

Jai Doshi: A follow up on this is, I believe in Mumbai and Delhi, some LCOs have started collecting full prices from the customers since past six months or so, and at present we receive about Rs. 75 on a blended basis. So for us to get to a desired level of say 120-130 on a Rs.200 ARPU 60% share, how long do you think it will take, we have seen about Rs.10 increase in Delhi, Mumbai market in this quarter?

Management: Theoretically it will be in alignment with the retail billing, now the moment I do retail billing, then it should happen along with that. Obviously, the reality of the market is there are going to be challenges, because LCOs will be scared of the new regime, I would not say resistant as much as scared because this business model is about the change right under their feet. So we will have to wait and see actually.

Jai Doshi: But have LCOs digested this reality, because they have essentially kept or retained the entertainment and service tax amount that they may have collected from a large number of customers over the last 6 months, now in the next 6 months, they will have to pay that amount to Hathway, and at the same time, if our net revenue share were to go from 75% to say 100-105 that will be giving away additional Rs.25-30. So is that understanding or have they grasped with this reality or there is still a lot of confusion?

Management: Frankly, you will have to ask them, I do not know.

Management: But they have no options, they will have to follow the laws of the land.

Management: This is a pass- through cost. So neither the LCO nor the MSO is actually bearing the cost. The question to ask is, is the consumer capable of paying the price including entertainment tax and service tax. It is unfortunate that in some states like Maharashtra entrainment tax is way too high. We are hoping that the Maharashtra government sees reason. In some states it is fairly reasonable. Because the governments also saw a particular regime in the past they had imposed taxes at a particular level. But now that there is complete transparency in the system, we are hoping that the government themselves will reconsider and lower these entertainment tax rates, therefore the consumer will also be less negatively impacted.

Moderator: We will take our next question from Pratish Krishnan of Antique Stock. Please go ahead.

Pratish Krishnan: Just in terms of the packages that the consumers have taken, is it possible to get some broad sense into what level of spends are they trying to commit here?

Management: I think as far as Mumbai is concerned, high proportion of them are going for the middle and the premium packages, surprisingly in Delhi, at the initial stage, many of them have gone for the lower end packages. But I think that is more because consumers have not been fully educated about the choice that they have in the higher end packages. We are fairly confident that most of them will migrate to the middle package.

Pratish Krishnan: And in terms of tearing away, you have done with your tearing of package, this is the final kind of ARPU that one should expect or?

Management: You should assume an average that we will reach nationally of about 180 bucks, we should be able to reach that let us say in FY15, if you assume both Phase-1 and Phase-2 are completed, you should be able to target about Rs.180 ARPU.

Pratish Krishnan: And second in terms of the overall debt we did see FOREX loss this quarter, is there any loss sitting in the balance sheet, what is the kind of impact that one should have taken into account.

Management: There is some obviously, because some of the loss has been capitalized, so it will be in the region of about 20 and odd crores.

Pratish Krishnan: In terms of the Set Top Boxes, what is the price that you are charging, what is the subsidy in the box today?

Management: In fact, I was just coming to that, while there has been some negative on the P&L as far as FOREX loss is concerned it has been more than made up by the increase in the Activation charges. On an average Activation revenue per subscriber, have jumped up by about 100 to 150 bucks.

Pratish Krishnan: Can you give the absolute amount in terms of this would be what now?

Management: Last quarter we would have done about 600 bucks or so. And this quarter we would have jumped it up to about 700-750 bucks. But in some markets, particularly in the south, we realize as much as Rs.850 net of all taxes.

Moderator: Thank you. Next question is from Vikash Mantri of ICICI Securities.

Vikash Mantri: Just wanted to understand what is the subsidy that we have at a Set Top Box level now?

Management: If you take Rs.1600 as the end cost including all the recent foreign currency fluctuation and all that, if we are realizing about Rs.1000 on the average, the subsidy will be anywhere between Rs.600-700.

Vikash Mantri: This quarter we have added 1.8 million Set Top Boxes. Our gross debt or the amount of subsidy totally we should have incurred is around 108 crores, is that a fair number? I am just trying to figure out the increase in gross debt. How much is it driven by the CAPEX?

Management: You are trying to align gross debt increase with the amount of CAPEX. You have to take not only the Boxes that have been seeded, you also have to take the Boxes that are in inventory. So we have got about a million plus Boxes in inventory ready for Phase-III. So the total will be about 2.5 million or so and we would also have had some vendor financing sitting in our books when we started the year. So all this put together would have contributed to the total gross debt increase. I would request you to approach my guys for a detailed reconciliation of that number.

Vikash Mantri: The next question is on the Placement Fee that you said, how much has it gone down per channel?

Management: It is difficult to give an overall average. The national broadcasters have got decreases ranging from 20-25%.

Management: But that has been made up by new territory and new channels coming into the play. So that is why in an absolute sense Placement has actually grown not declined.

Vikash Mantri: So per broadcast network we are only collecting more around 20-25%.

Management: Not more, less. Jagdish said about 20% decline on a per broadcaster basis, but that has been made up by new territories coming into the picture, and new channels also coming into the picture.

Vikash Mantri: New territories would get included in that. When you have a 20% decline and you have added a new territory, it will show up, right?

Management: The 20% is on a like-to-like basis.

Vikash Mantri: And with a new territory addition how much would it change?

Management: All I can say is on an absolute level, it has grown from 61 to71. So although there has been a decline in the case of some of the larger broadcasters, it has been more than made up by some of the smaller broadcasters paying equal or higher rates; higher rates mainly because we have now expanded the territories in which we have **bandwidth 59.41**.

Vikash Mantri: And we have always been talking as a mantra of shifting from a B2B to B2C business model, but we see this incidence of Placement Fee which is more of a B2B model continue to be. Would it not be more prudent to reduce this and have more channels per se and have a better consumer offering that way to enable as a better competitive product vis-à-vis other options that are available to the consumer?

Management: I think it will happen over a longer period of time, it is not going to abruptly stop and subscription will take up all the slack that is not likely to be the case. But if you go to most markets, even in the west you will find there are broadcasters do pay in one form or the other for Carriage on the network, because these networks have reached, they also deliver consumers to the broadcasters. So it is not as if Placement will go down to zero ever. And in India probably it will continue for a good number of years.

Vikash Mantri: In the annual report that we have published, the numbers are not comparable because GTPL data is only for nine months. Now that we are another 3 months ahead to that and we would have those numbers. For the purpose of analysis, for the analyst community can you share with us the like-to-like data of the entire balance sheet so that we can make our judgments?

Management: You can approach us separately. GTPL, I will have to just check up whether their numbers are finalized. So as you approach us separately, I will try and share some numbers.

Moderator: Thank you. The next question is from Rohit Dokania of B&K Securities. Please go ahead.

Rohit Dokania: Just two, three quick questions. Could you throw some light on the increase in content cost that we anticipate for this full fiscal?

Management: I think a lot of it is already priced in.

Management: I think we have done about 59 crores, this 59 crores factors in a bulk of the major broadcasters, there are some minor broadcasters where the contracts have yet to be signed, sealed and delivered. So there could be a marginal growth as far as pay costs are concerned in the ensuing quarter compared to this quarter I think, there will be a growth. Rohit, if you want to get a more precise then please come back to me. Like Jagdish also mentioned when he spoke to you guys, there will be CPS deals kicking in, in the Q4 of the financial year, then there will be a slight uptick as far as these numbers are concerned.

Rohit Dokania: Let us say a 30% odd increase in content cost in standalone. What would be the percentage increase in consol, would that be in the range of 15-20% or will that also be in the range of 30% odd?

Management: 15-20% range, not more than that.

Rohit Dokania: On the Carriage, can you just give me the absolute number of Carriage by FY13 at a consol entity?

Management: 465.

Management: On a consolidated basis.

Rohit Dokania: How much growth should we expect in Carriage this year given the fact that we have expanded territories and also smaller …?

Management: You are now asking me forward-looking…

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

Vivekanand Subbaraman: I would like to thank the management of Hathway for taking time off for this call. Over to you Jagdish sir for any closing comments.

Management: Jagdish is asking me to give the closing comments, I will take the liberty. I think it has been a good quarter, we are slowly starting to establish our business model, it is a very challenging business environment as you know. I have always told you guys that when we move from a B2B to B2C structure it is not going to be a picnic, we are still having some challenges on that front, but directionally, I would say the business is heading in the right direction and we will get more and more visibility as far as our Subscription revenues as we go forward and we are fairly optimistic at this point of time, and thank you very much for the participation in this conference call.

Moderator: Thank you very much members of the management team and Mr. Subbaraman. Ladies and gentlemen, on behalf of PhillipCapital (India) that concludes this conference. Thank you for joining us and you may now disconnect your lines.