



“Hathway Cables & Datacom Limited 2QFY15 Post-Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Hathway Cable & Datacom Limited 2QFY15 Post-Results Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. Please note that the duration of this conference will be for an hour. I would now hand the conference over to Mr. Sandeep Gupta from Ambit Capital. Thank you and over to you Sir!

Sandeep Gupta: Thank you remarks from the management team followed by the Q&A session. Over to you Sir! . Good afternoon ladies and gentlemen. We at Ambit Capital have the pleasure of hosting the 2QFY15 earnings conference call of Hathway Cable and Datacom. Representing the management team today, we have Mr. Jagdish Kumar, Managing Director and CEO and Mr. G Subramaniam, CFO. We will start with brief opening

Jagdish Kumar: Good afternoon. Thank you for joining us in the discussions of Hathway’s results for Q2 for the financial year 2015.

I will start by highlighting some of the operational issues of the quarter before GS and Vineet can brief you both the financial highlights during the quarter. Before that I would like to introduce my colleagues here today. I have with me, GS our CFO, Vineet, our Deputy CFO, Rajan, the President of our Broadband business, Mahadevan our EVP Finance, and Ajay Singh, our Company Secretary and Chief Compliance Officer.

The quarter has witnessed certain events which are of critical importance not only for Hathway but also to the cable TV industry as a whole in India. Our commercial disputes with the largest network, Zee TV and Star TV have been settled; hence currently we have all the major content deals in place for all our operating locations.

We have negotiated a CPS deal with Zee and the channels are back in our packages. For the Star TV network, we have settled on a RIO agreement with incentives for channel count, penetration and channel positioning.

Basically we have retained our mass popular channels in the base bouquet and thereafter created three more tiers for sports, English and premium channels. We will be revising our packages and announcing new packages early next week. This is a game-changing moment for the industry where all players in the value chain will work collaboratively to increase ARPUs for the cable TV industry, which is long overdue.

Further we believe that all content deals in the future will be more transparent and there will be level playing for all the players. This also has enabled the MSO industry to clean up its SMS database, increase ARPUs and get to a near prepaid listed.

During the quarter we have seeded nearly 250,000 boxes all over India with this we have now seeded approximately 8.4 million boxes till date. We know 72% of our universe is digitally penetrated which is by far the largest amongst all MSOs in the country. We will continue to seed boxes prudently in the coming quarters.

As on date, we have nearly 700,000 boxes in our inventory. The cable TV ARPUs during the quarter took a temporary pause largely due to the content issues which we faced in the quarter. Phase I ARPUs were at Rs.90 and in phase II we are at Rs.55, net of taxes. With the content deals now in place we believe that there will be a positive offtake in our ARPUs in the coming quarters. Even at the industry level we see a very clear urge amongst all MSOs to get a price hike in order to compensate for the rise in content.

We have recently completed a deal in the cable industry by teaming up with AIDEM to sell our EPG inventory. This deal allows us to innovatively monetize our Ad spaces in EPG volume bar and also our inventory in our in-house TV channels. We have already launched five TV channels which include movies, music, shopping, entertainment and infotainment. Apart from these we are also having regular regional channels which are telecast from our headends in various states.

We have planned on the anvil to launch more channels in-house which will have full time devotional content and also full time music on demand service. Our broadband business continues to show spectacular results in the current quarter with DOCSIS-3.0 technology being very popular with our customers, we have 84000 DOCSIS-3.0 customers as of September 2014, which is currently at 92000 and very soon we will be touching the 100,000 mark.

We are making significant investments to expand our broadband footprint. Our plan is to explore opportunities even beyond our cable TV footprint. We have made very good progress in increasing our broadband homes passed base in Bangalore and Hyderabad. There we are seeing good demand for the high speed DOCSIS-3.0 service.

We are also happy to report that 60% of our customers in Mumbai experience our high speed DOCSIS-3.0 service. We hope to make our services in Mumbai 100% on DOCSIS-3.0 platform in the near future. We will be shortly rolling out our DOCSIS-3.0 services in New Delhi and Kolkata. With the increasing expectation from our customers for quality we are also taking steps to upgrade our network and enhance our customer service capabilities.

I will now hand over to GS and Vineet for an update on the financial results of the quarter and thereafter we will be happy to take your questions.

G Subramaniam: Vineet why do not you just run them through the numbers and then we will take the questions.

Vineet Garg: Thank you GS. Good afternoon everyone. I would like to take through financial before we open the session for Q&A.

Total revenue for the quarter nearly Rs.264 Crores as compared to Rs.227 Crores in the last year same period, which showed a 20% in revenue as far as the major income breakup of the standalone entity for the quarter is concerned, the subscription income was Rs.111 Crores, placement and carriage was 82 Crores, activation was 22 Crores, and broadband revenue was at nearly 45 Crores.

Content cost for the quarter stood at Rs.97 Crores, which is Rs.11 Crores higher as compared to the previous quarter due to catchup provisions of around Rs.6 Crores of Q1 as content agreement signed up was late. The employee cost increase nearly 10% quarter-on-quarter majorly due to recruitment in broadband business as we are planning to expand into new territories. Subsidy on the standard definition STB continued to be at Rs.600 as the STB seeding continued to happen at approximately Rs.1000 per boxes net of taxes.

EBITDA during the quarter including other income stood at Rs.42 Crores. As explained earlier by Jagdish with all major content deals in place now we look to increase cash collections from our CATV market. Our broadband business has registered a remarkable improvement in ARPU close to 10% from 405 in Q1 to 440 in current quarter. We also have planned to further penetrate broadband in new markets. We remain positive about the outlook for the near future.

Company has successfully raised Rs.150 Crores by issuing preferential equity shares. With this we have raised cumulative capital of 451 Crores in current financial year.

The net debt as on September 2014 of the consolidated entity was Rs.1304 Crores. For the standalone entity gross debt is Rs.1187 Crores and net debt of Rs.896 Crores. With the fresh equity infusion of Rs.150 Crores in the month of October, net debt for the standalone entity has further reduced and the same stood at nearly 795 Crores as on date.

With our continuous effort to rationalise interest cost we have managed to bring down the average rate of borrowing close to 7% and saved Rs.40 Crores per annum. Current rupee loan in our standalone entities stood at Rs.390 Crores.

We would now open the session for Q&A.

- Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sumeet Vora from Silver Stallion. Please go ahead.
- Sumeet Vora:** Very good afternoon to you. Sir, I just want to quickly touch base on, you know, my sincere apologies. I have logged on little late for the call. So, in case if you had touched upon this then can you please explain this to me, with the Star RIO happening is it that we are going to now raise our prices of our packs? Firstly, Sir I wanted your thoughts on that Sir.
- Jagdish Kumar:** With the Star RIO in place, it is not only driven by the Star RIO, I think it is driven by our overall needs to increase ARPU and Star RIO in that sense is a catalyst to do that. So our intention is to certainly increase ARPU across our packages, which we will announce by early next week.
- Sumeet Vora:** By early next week, but just one thought is that if the MSOs actually start raising the prices of the base packs for all the packs you have and then do you think that there can be a churn whereas our customers can actually then go to DTH or do you think that even DTH will then start increasing prices. What are your thoughts on that Sir?
- Jagdish Kumar:** We have done and studied all the DTH platforms prior to this and we also have looked at what and where we are right now and in all our packages the way we are now revising it is to ensure that we compete with DTH in terms of prices and we will be more richer in terms of content at a lower price. So we will be far more competitive than DTH.
- Sumeet Vora:** Sir, when you say that early next week you will increase prices. So, there would be about Rs.15 to Rs.20 or are they going to be very nominal?
- Jagdish Kumar:** We will come back with you the right numbers because I do not want to make an announcement before I can let our partners in the trade know.
- Sumeet Vora:** That is helpful. Thank you.
- Moderator:** Thank you. Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, I wanted to have more details on your overall broadcasting strategy. Sir, you have signed this deal with AIDEM. So, how much advertising revenue you are expecting from a two-year perspective?

G Subramaniam: You know we do not give guidance on numbers, Abneesh. What I can tell you is that it makes a very significant opportunity to address the advertising Ad sales market. What we have tried to do is create several properties in our own channels. We have got about 11 channels live at this point of time across the country and across these channels and on the EPG property itself there are several opportunities to monetize and that is what we have tried to do in partnership with AIDEM. Obviously we are using AIDEM to reach out into this market. We do not have the wherewithal at this point of time to create a sales force and in-charge of this market, and this is a very, very cost effective revenue share arrangement that will get us greater reach with the advertisers.

Jagdish Kumar: Just to add to what GS is saying, I think this is an area where we are going to pay significant attention to. We expect some good uptick in advertising revenues in the quarters following through.

Abneesh Roy: Sir, why I asked this is it is a very hypercompetitive field, so many movie channels, so will we be also going for new content because if you do not go for the new content, viewership will be quite low. So, if you could tell us in terms of that revenue cost balance when do you see this entire business reporting decent profits or it will be too small at least for the next three to four years?

Jagdish Kumar: This business will be profitable from the word go, but the numbers will obviously be modest in the first year, in the current financial year there will be a very modest contribution because it is kicking in at late as the current quarter. So the full benefits of this are likely to accrue to us more completely in the next financial year, by you will see significant contributions coming from this business going forward.

Abneesh Roy: Coming to activation revenue it almost doubled versus the runrate seeing in the last 2-3 quarters and surprisingly the delay in digitisation has also been seen in this quarter. So why we are going for more activations when now it is further delay, how does that make sense? I understand you do the activations largely in the existing adjacent geographies, but is the monetisation now available before the next one year, two year deadline in that context why does it make sense to invest right now itself?

Jagdish Kumar: There are several reasons. One is we cannot take a pause just because the deadline has been extended to December. We have to continuously feed boxes in the respective markets that we serve. That is one reason. The second reason is obviously there are some opportunities for inorganic growth, which we are continuing to pursue. So these are opportunities which we have been looking at in the past and that are why those boxes have been seeded in the markets.

Abneesh Roy: Sir, my last question is on you said the game changing whatever is happening on the Star and Zee, if I see your EBITDA excluding the activation revenue it has become half of what it was for the last three quarters in terms of runrate, and now if you see of course the content cost has also gone up a lot in the last few quarters, so if you could tell us going ahead do you see the EBITDA further squeezing at least in the near term that is one or two quarters because of what has happened with Star Rio and what has happened with Zee?

G Subramaniam: It would take a little bit of a pause in terms of it is already there mentioned about the Q2 numbers and we are into the middle of Q3. So I think there could be a little bit of a squeeze even in Q3, but we will bounce back quite strongly from Q4 onwards. The reason I think Jagdish mentioned Q3 also will continue to be slightly squeezed is because these contracts have come into play only as recently as last week and the benefits of these contracts will accrue to us only for about one and a half months in this quarter. The second thing is you know we have constantly given you guidance on the assumptions, which will drive our content cost and we are sticking to those assumptions at this point of time and there is no change at all in fact between the assumptions we have already given you guys before and the content cost we are likely to end up going forward.

Abneesh Roy: Sir, my question was also from the revenue perspective. So you are saying Q4 will see the bump up, but what gives you the confidence because there will be increase in the PAT charges?

G Subramaniam: Q2 you are seeing a bump up because there is some catchup pertaining to the previous period arising from the contract itself. I do not know if you recall, Vineet has already mentioned that figure. So, if you take out that, yes there is a marginal increase but this is well within the targets that we are operating for the current financial year.

Abneesh Roy: Sir my question was on the revenue front also. Sir, now the package increase how easily will it flow through because the LCO problems remains and then we have got one of the DTH or one or two DTH operators coming out with advertisement wherein they are targeting that the cost is going to go up, the channels are not available. So in that context how easy are you seeing the transferability of the cost to the end consumer? How easy will it be? Could there be hiccups? We are seeing enough hiccups already, but now the difficult part is there and then how easy will be the transition in terms of transferring cost to the end consumer?

G Subramaniam: Like every business is not going to be easy there is going to be challenges, but we are up to the challenge. See there is always a gap between DTH and cable price, and there is a place cable can work on to bridge that gap. So right now with digitisation, the quality gap is no more existing between cable and DTH. Already pretty much is getting to be in. It is actually the same in terms of the picture quality. So therefore there is a price elasticity, which we

can play on and which we will work on it and then we would defy that. We think we are still within and lower than the DTH platform. Secondly, this is something, which we are working together as an industry. There will be problems. We were the only ones who were working towards price hike, but I think everybody including our LCOs last mile owner have realized that they have to start increasing the price from the consumer end so there is pretty much consensus across the value chain that price hike is inevitable.

Abneesh Roy: Sir, just one small followup, if I see Star has the RIO deal and Zee has signed the CPS deal. In your own thought process which is the better model for you and maybe even for the consumer. So why does a difference in the two strategies and which one is the better model as per your thought process?

Jagdish Kumar: The strategies of the broadcasters I cannot comment on. From our perspective we take it based on the revolution of the industry and for this I must credit Star for taking this courageous step for a network of that size to really go on a-la-carte basis is a step in the right direction, but they are coming with their eyes open on the risk involved in doing this. From a platform perspective, the powerful platform like Star driving choice to customers. So we welcome that. We welcome what Star did.

Abneesh Roy: Thanks a lot. I will come back for more. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Rishabh Chudgar from Enam Holdings. Please go ahead.

Rishabh Chudgar: Sir, my questions have already been answered.

Moderator: Thank you. We will take the next question from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: Thank you for taking my question. Sir, my first question is in terms of carriage revenue. How do we see that pan out? We have actually not seen it come down considerably. We had stated that we did not expect it to remain at current levels, if you could please give your views on that?

G Subramaniam: Carriage revenues from the major broadcasting network are on a decline. As far as Star TV is concerned, because it is a RIO deal, it is nonexistence. So there are no carriage revenues from Star TV. From our perspective because of the wide footprint we have across the country we have been able to compensate the loss from the major networks by the new regional channels and regional networks which have come into play. So going forward while I would see a decline in the big deals, but we would have much more smaller deals which we hope to compensate for this gap.

Moderator: We will proceed with the next question that is from the line of Mr. Amit Kumar from Espirito Santo. Please go ahead.

Amit Kumar: Thank you for the opportunity. Sir, my question is with respect with the cable income that has just about remained flat on a QOQ basis and if you look at the ARPUs across phase I and phase II markets as well they seem to have stabilised. So is ARPU hike way to sort of drive that? There is not much scope to sort of increase our current realisation without actually increasing ARPUs. Is that the way we should read into it?

G Subramaniam: I think what you should read into it is Q2 as Mr. Jagdish Kumar was mentioning was impacted by the negotiations that were ongoing with the broadcasters. Now that the commercial negotiations have been completed we will be able to more aggressively drive ARPUs. So there has been a lot of focus on getting the content deals into play and for a short period because of the commercial disputes that were in place, some of these channels have been off the network also and that has obviously impacted the ARPU, our attempt to grow ARPU. We believe that the market can yield ARPUs upwards of 100 and they remain focused on that number of 100. Phase I markets we expect will rapidly escalate to Rs.100 very soon and followed through by the phase II markets. So that is what the management team is focused on at this point of time.

Amit Kumar: Thank you so much for the color on that. Sir, my second point was that I know that it will be difficult for you to sort of talk about the ARPU hikes right now, but I just wanted to have a sense of across packages what kind of direction they can take? Because especially when we look at cables versus DTH in India itself, the top package versus bottom packages ARPU is just about 1.6 to 1.7X. For DTH it is 2X but more importantly, when we look at global market we see the top packages, the All-You-Can-Hit package which includes all the premium channels etc., are typically priced at 4-5x the basic package, so why this kind of a differential? You know clearly the top peer, the premium end of the market has the capability to pay Rs.500 and Rs.600, but we seem to be fairly conservative on that side while you know price increases have been happening at the bottom end of the market? Just some thought on this.

G Subramaniam: One of the things which we are doing in the revised packaging scheme is to rightly create a fourth package. It is like a super premium package, while in the developed markets, you would have a 5x kind of a multiple on the base side, but I know the Indian markets is still very price sensitive. So, we will have to do these price increases in stages. So currently our plan is to get the top most pack which will have all the channels in the region of around 400s and then the premium package which is base +2 it will be in the region of about the mid 300s and the base package would be in the early 200s and the base +1 would be in the mid 200s. So that is the broad directions we are taking and the way you are doing business to ensure that the base effect has GEC content and the local regional content for example, in

Kolkata we will carry Jalsha Movies, Bangla and in Bangalore we would carry Suvarna Udaya, and all the other Kanada channels along with the GEC channels and then you have the second pack that is base +1 pack, which will have this post content with little bit of kids content in it. The third pack would have all of the English content. Then the super premium pack would have the real premium like Star Sports 4, the NDTV, and such channels, which are watched by people who have the propensity to consume high value products and so that is the way we intend to position the packages.

Amit Kumar: Sir, eventually what you are saying is that now with the new fourth package sort of coming in you will have sort of 2X differential versus the basic package?

G Subramaniam: That is right. It is a 2X differential.

Amit Kumar: That is it from my side. Thank you so much.

Moderator: We have again on the line Mr. Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: Sir, the second part of the question was in terms of the network it was largely understood that it had a lot of time households, giving that it is moving to the BARC do you see that the carriage revenues come down from hereon?

Jagdish Kumar: I cannot speculate where the boxes from TAM or BRC could be, those are again confidential information but very clearly from whatever we have seen in the latest disputes we have had with broadcasters when we had to switch off some channels and switch on some channels, it has come out that Hathway has a strong impact on channel ratings. BARC, let us see when BARC comes in to play I think there is still some time for BARC to become operational. As far as we are concerned in terms of being a strong network for the content providers.

Arjun Khanna: Sir my second question is just to understand since you did mention there would be rate hike how will this help us with the LCOs because they were keen to get a minimum amount say a 100 rupees per subscriber and per the ARPU itself goes up does the percentage also go up or would the rupees amount for them largely be similar?

Jagdish Kumar: The way we are doing it is to actually pitch it in a manner that the LCO can go down to the consumers and rate the ARPU. We are protecting the LCOs current revenues and ensuring that we all have a fair share all those revenues from the consumer, so even if we are asking 100+ and if the consumer price is in the early 200s net of all the taxes the LCOs can keep his share in the region of about 80 to 100.

- Arjun Khanna:** Lastly, where do you see the content costs finally settle given that the situation is in a flux and at what percentage of revenue, I am including carriage here also as a combined number what percentage of revenue for us would this settle at?
- G. Subramanian:** We have constantly given you guys some degree of information on this, we expect to remain in those numbers, this is typically in the range of anywhere between about 15% or so in that range. If you want the specifics why don't you just get in touch with my team and they will be able to share it with you.
- Moderator:** The next question is from the line of Gautami Desai from Chanakya Capital, please go ahead.
- Gautami Desai:** Sir, actually I am aware of your primary connections at 6 lakhs plus but would you be able to tell me how many of your subscribers are directly between you and LCOs meaning there is neither an ICO nor a distributor nor a JV partner, it is just Hathway and the LCO, how many of your clients would be that way?
- G. Subramanian:** That is roughly about half of that about 600,000 is the total for the company as a whole.
- Gautami Desai:** So that is your primary Sir, that I am aware, I am talking of the direct subscribers that means there is no entity between you and the LCO.
- G. Subramanian:** The way it is structured is that the contract is with all the LCOs directly but we do have certain distributors some locations who act as intermediaries between the LCO and us but when we get in to a contract it is with the LCO itself.
- Gautami Desai:** From your answer should I take it that most of your subscribers they too have one more layer between you and LCO.
- G. Subramanian:** I don't think you should take it that way; just to sort of clarify roughly about just under 6 million subscribers would be directly served by Hathway not through a joint venture.
- Gautami Desai:** And there would not be distributor also for the 6 million.
- G. Subramanian:** First of all let us not confuse issues, it is not the distributor who is in between us and the LCO inasmuch as he forms part of this thing, our contracts are with the local cable operator. Why don't you just get in touch with our guys and they will give you that information but that structure is our contracts are with local cable operators and not with the distributor.
- Moderator:** The next question is from the line of Rajiv Sharma from HSBC, please go ahead.

- Rajiv Sharma:** Sir first one is can I get the revenue break up on the consolidated numbers between subscription, carriage and broadband?
- G. Subramanian:** Rajiv you will have to get back to our guys on that. We don't announce consolidated numbers on a quarter basis. We can give it to your privately but we don't announce.
- Rajiv Sharma:** Consolidated EBITDA can you share that number?
- G. Subramanian:** We have given you the economic interest in the press release itself, if you just read the economic interest paragraph in the press release the economic interest in EBITDA is about 53 Crores.
- Rajiv Sharma:** What has been your capex in the first half on consolidated level?
- G. Subramanian:** About 50 Crores in the first half.
- Rajiv Sharma:** How much inventory do you have now?
- G. Subramanian:** 700,000.
- Rajiv Sharma:** Sir we are seeing Dish TV doing 1.5 million kind of run rate this year in terms of new subscribers additions, is there a churn which the cable industry is seeing because of this whole content issues which have been there for every MSO for the last three, five months, is there a churn which you are seeing and what is your churn policy as well?
- Jagdish Kumar:** We have seen very minimal churn really, the reason for that is because though we put the channels on an RIO basis we have ensured that the popular channels are always carried by us whether it is Zee or whether it is Star the popular channels were carried in our base pack, so we did not see a significant churn, churn was there but it is very minimal. What was your second question? Sorry.
- Rajiv Sharma:** What is your churn policy like 90 days, 60 days, 30 days?
- G. Subramanian:** To be very honest we are just migrating from an analog to a digital world, so it is premature to start measuring churn in a very accurate percentage at this point of time but whatever numbers we report is net of churn, so we continue to be growing our universe albeit very, very small numbers at this point of time, so we are continuing to grow our net digital subscribers available with us, the way this question could be answered is we should be measuring churn going forward, it is too premature at this point of time to be measuring churn.

- Rajiv Sharma:** Do you think there will be some impact on your EBITDA going forward because your carriage from star may come down and will come down and a lot will depend on your ability to get money from the LCO for you are paying at least, so how do you see that situation?
- Jagdish Kumar:** I think the reduction of carriage from Star is definitely going to have an impact but like I mentioned earlier from our perspective because of our large footprint we can compensate that loss by new customers in general markets and certain non network players like news channels or niche channels we will come across and willing to be distributed on our platform.
- G. Subramanian:** The way to handle that is till our cost of content, net of carriage be in the range of what we have assumed in our business plan we continue to be in that same range.
- Moderator:** Our next question is from the line of Rohit Dokania from IDFC. Please go ahead.
- Rohit Dokania:** Sir, what would be the number of homes passed in DOCSIS-3.0 for us right now as of Q2 end?
- G. Subramanian:** We don't segregate between DOCSIS 2 and DOCSIS 3 home passes but we are just under 2 million home pass as far as our broadband services are concerned.
- Rohit Dokania:** Sir if you look at the total paying subscribers there are about 4,20,000 odd that has remained fairly constant for two, three quarters now, when do we actually see overall subscribers going up, I believe conversion of DOCSIS 3 is happening at a very rapid pace for sure.
- G. Subramanian:** What is happening is as we are rolling out DOCSIS 3 technology services to our subscribers we are also seeing a migration of our DOCSIS 2 subscribers in to DOCSIS 3 technology, so there is both an addition of DOCSIS 3 subscribers and migration of existing subscribers from DOCSIS 2 to DOCSIS 3, always the possibility that some of the subscribers do not migrate, they want to churn out of the system because they find even the cost of a DOCSIS 3 service, as you know our DOCSIS 3 services at this point comes in at a compared to DOCSIS 2 is relatively higher, there are subscribers who may churn out but our objective is to improve the yield per unit on a DOCSIS 3 subscriber, as Vineet has already mentioned to you just quarter-on-quarter alone we have seen a 10% jump in the ARPU, so that is a significant improvement of ARPU in just one quarter, I am not able to speculate whether that sort of an increase can be maintained every future quarter but we are clearly seeing an uptrend in the ARPU per subscriber going forward and that will more than make up for the flat numbers.

- Rohit Dokia:** Is it possible for you to break down the overall DOCSIS 3 subscribers in to conversion subscribers and new subscribers, even a broad range would do?
- G. Subramanian:** If you can just get back to our guys that will be easier.
- Rohit Dokia:** Is it possible to share some numbers on the kind of subscriber addition run rate on the broadband piece per month you are expecting over the next 12-15 months?
- G. Subramanian:** We don't give guidance Rohit on future but we have done about 13,000 odd. Monthly basis we are adding around 13,000 new consumers which are getting added across the country.
- Rohit Dokia:** But in October it has gone down to 8000, I was just wondering is there?
- Rajan Gupta:** 13,000 is the gross that we said and net adds are 8000. That is the kind of current run rate there and we expect this to accelerate further.
- Rohit Dokia:** No Sir, I am saying if you look at the Q2 numbers it was 84,000, so for that quarter the monthly additions were around 12,500 so that addition in October has gone down to 8000.
- Rajan Gupta:** Rohit, it is a mix of both, as we mentioned earlier DOCSIS 3 is upgradation of DOCSIS 2 to DOCSIS 3 as well as new consumers coming on DOCSIS 3 like we mentioned we have added around 1.5 lakh home pass, entire addition of home pass is in DOCSIS 3 which is helping lot of new consumers come on DOCSIS 3 as well as upgradation happening, you can get in touch with us later on for the further split.
- Moderator:** The next question is from the line of Dipesh Mehta from SBI Capital. Please go ahead.
- Dipesh Mehta:** Sir, I have two questions, first thing, is it possible for you to share, you suggested about content cost it would be very similar than what you earlier expected but is it possible to say per subscriber basis how the economics work post renegotiation with Star and Second question is about paying subscriber, if I look six quarters back we had roughly 7 million digital subscribers, now also paying subscribers number has not reached to that number, so if you can help to understand when because after six quarters also the digital subscribers has yet not become paying kind of thing, so if you can help understand that trajectory how it should pan out, thank you.
- G. Subramanian:** The model that we have assumed is 180 rupees ARPU which probably is going to be better than that going forward because of all the packaging opportunities that are with us, when I say 180 rupees ARPU we are looking at net of all taxes. With 20 rupees being the net negative carry towards the broadcaster when I say net negative carry there are some broadcasters, there is some carriage revenue that will come to us and there will be some cost

that will be going out to the broadcasters as royalty towards content, then you have about 30 rupees being the fixed and variable cost of serving the customer and about 80 rupees being the LCOs revenue share, so if you take those out we should be targeting about anywhere between 45 to 50 rupees as the EBITDA per subscriber to the company.

Dipesh Mehta: It is slightly different, what I was asking is about per subscriber content cost if you can help to understand only because of renegotiation?

G. Subramanian: That you will have to come back to us privately because we don't share that type of data that is confidential.

Dipesh Mehta: If you can address the second question about paying subscriber.

G. Subramanian: Slow growth in paying subscriber as opposed to our initial expectation is we have had our challenges as far as our content is concerned in the last quarter and that has slowed down the conversion of our digital subscriber base which is paying subscriber but let me assure you when we are talking 90 rupees and 55 rupees we have taken substantially the entire country pay. The only city where we face some degree of challenge is Hyderabad where because of the peculiar definition of territory of Hyderabad there has been some delay, we expect that Hyderabad will also go completely pay in the fourth quarter of this year, apart from Hyderabad almost entire country is now pay at this point of time. The question is how much am I getting paid that is the question to ask and as we already mentioned to you we are getting about 55 rupees from phase II cities and 90 rupees from phase I cities and the balance are analog cities which will be converted as a part of Phase III and Phase IV.

Dipesh Mehta: Let me put it this way, is it possible to say what would be the analog subscription revenue out of 111 Crores?

G. Subramanian: Why don't you just take it off the line, we will be able to give you that information.

Moderator: The next question is from the line of Urvil Bhatt from IIFL Institutional Equities, please go ahead.

Bijal: Sir, this is Bijal from IIFL, thanks for the opportunity. My question is with packaging, now it seems that first time packaging is being very seriously given a thought and we are taking price hike and all, so first thing I want to understand is that in India the bigger issue which I feel is that we give out lots and lots of content in the base pack, so is there any thought that we should remove some content from the base pack or the carriage income is so important that we cannot do that like giving out all the GEC and most of the Hindi Movie Channel, this is what most of the viewers would want, so do you think that we are giving out lot of content in the base pack, that is an issue?

Jagdish Kumar: This is driven by lot of factors, the other revenue stream of the broadcaster also needs to be protected which is mainly advertising revenues, so the way we have packaged this to ensure that the mass popular channels are available in the base pack with wider distribution, this will also enable broadcasters to get the eyeballs and get the advertising revenues, so I think it is a mix of both popular channels in the lower pack and the lesser popular channels the niche channels in the higher pack, that is the way we have structured it, it is a discussion we have had numerous times about what can be pushed out from the base pack to really incentivise customers to pay more but I think this is what has been arrived as a consensus amongst all players.

Bijal: So is that a good number of people may actually when we have absolutely seamless packaging through the country, a good amount of subscriber may just remain in base pack because if I just do the TAM calculation around 80-85% of the viewership is available in base pack in most of the market, then should we assume that a large part of our subscriber base will always remain in base pack and only niche channel and news channel viewers would be going and proportion of higher end subscriber will be much lower from a long term perspective?

Jagdish Kumar: Not sports and kids in the base pack. Our plan is to get sports and kids channel in the base plus one pack, so that is going to be a big driver to get people up the packaging hierarchy, then English content of course will drive, the English and news content will drive people especially the male audiences to get to the higher pack the premium pack, I think this proposition should be able to position us to get a blended average which is to our liking.

Bijal: If you can give us some idea what is to the liking in terms of subscriber mix, how much proportional in base pack would you be okay with in the longer term?

Jagdish Kumar: The RIO deal with Star I think it is going to be filed with TRAI. There are certain assumptions we have assumed, 60% penetration of the popular pack and 31%, there are certain things which are based on certain assumptions we have got, we hope to achieve those if not better it.

Moderator: The next question is from the line of Mayur Gathani from OHM Group, please go ahead.

Mayur Gathani: Sir any updates on the billing in Bombay How that is happening, LCOs still continue to do that or are we taking some lead there?

G. Subramanian: As far as billing in Mumbai is concerned we raised the invoice on behalf of the local cable operator and we raised an invoice on the local cable operator for our share of revenues. That will continue the way that way till the MSO, there is, as you know a case that is pending in

the high court and until that is decided that is the way to continue at this point but Mayur just to clarify, that in no way changes the economics of the business.

Mayur Gathani: Sir in phase I we were looking at Rs.100 target from 90 onwards or so, so we are looking at this figure around Q4 or earlier?

G. Subramanian: I hope earlier Mayur but it is over almost 100, I hope we can do it even earlier

Mayur Gathani: Phase II by Q4 from 55?

G. Subramanian: I think phase I, phase II all of them phase I almost surely by Q4 and then phase II probably we will get deferred slightly it will fall between end of Q4 and first part of Q1 next year.

Mayur Gathani: Sir, negotiations with Zee and Star as you said are done, so these are annual contracts that we do or again after a year or two years we will have to renegotiate and there could be some further ifs?

Jagdish Kumar: These are annual contracts so it is subject to negotiations on an annual basis.

Mayur Gathani: The new channels that you are launching like five that you launched sometime back and two more, so these are like is there little capex involved in here, we lose money or how is it Sir?

Jagdish Kumar: There is no capex involved; we have got enough capacity already to launch these channels. In terms of the bottomline now it does not lose money because we are very prudent in terms of content acquisition cost and we ensure that our revenues definitely cover our cost in these situations.

Mayur Gathani: Revenue here is only through advertisement right Sir?

Jagdish Kumar: Yes.

Moderator: The next question is from the line of Jay Doshi from Kotak Securities, please go ahead.

Jay Doshi: Sir, so far we have refrained from taking price increases and we were hoping that package implementation and billing should happen first and maybe we should get a slightly better revenue share from LCO and take price increase and I was wondering that since you have mentioned that our content cost is broadly in line with what we had budgeted for why is this change in stance especially because we are still collecting only Rs. 55 from phase II and is there a chance or risk that if you increase price on an absolute level by say 25 rupees LCO

may retain 15 rupees and you will only get 10 rupees out of it, what is the understanding with LCO with regards to this price increase we are going ahead with?

Jagdish Kumar: These discussions have happened in the last couple of weeks, so the discussions and negotiations with LCOs are ongoing, so I cannot tell you anything with finality right now but what I can tell you is that we are working with all our partners and LCOs we are going to have numerous workshops with our LCOs to explain this new packaging scheme and I am sure and we are confident that we will be able to convince them because this also enables them to get money from their customers, so it is not dipping in to their existing revenue stream, it is giving them the ability to get additional revenue stream and get a fair share from that, so that is the way we hope to monetise it.

Jay Doshi: You talked about trying to protect their revenue in absolute terms what it is right now, so are they agreeable to the fact that incremental revenue with regards to price increase substantial portion of that they will have to share with you, is that something that they have agreed upon?

Jagdish Kumar: It is work-in-progress now most of our LCO partners and with the financial construct which we are now devising we don't foresee any major problems in that area.

JayDoshi: Sir the gap between our nonpaying and paying subscriber which is now 2 million is that largely phase III phase IV market?

Jagdish Kumar: Largely Phase III, phase IV and the Hyderabad market.

Jay Doshi: I was just wondering what are your thoughts, is there any scope of us improving monetization from phase III, phase IV before the deadlines before the blackout of analog?

G. Subramanian: Yes, we will make that attempt, as you know most of our phase III markets are in the concentric areas around the phase I and phase II markets, so there will be an attempt to progressively monetize it, we will not be waiting for December 2015 to happen.

Jay Doshi: As of now the collection from those 2 million subscribers would be similar to analog markets or is it?

G. Subramanian: At this point it will be similar to analog.

Moderator: The next question is from the line of Vivekanand Subbaraman from HDFC Securities. Please go ahead.

Vivekanand S.: My query is on the ARPU improvement strategy that you are adopting, so clearly now this will start from phase I areas and I wanted to get a sense on whether all the MSOs are on board with this and that was question one and secondly are there any regulatory challenges pertaining to the price increase that we take because as far as I am aware the regulator when a customer chooses a package the regulator says that for six months the package price should be flat and lastly in terms of the ARPU strategy what we are seeing is that the DTH industry is actually affecting premiumisation through their HD subscriber offtake, so we have been hearing from management that HD will be a future focus area for the company, any update on that. Thanks.

Jagdish Kumar: I will start from the last question. The HD strategy we had again to take a pause because of the content issues which we had in them because one of the biggest things which will drive HD is sports and movies, now that we will have the content contract in place we will reignite our strategy and we hope to really make some significant improvement in HD penetration.

Vivekanand S.: Sir on HD are we holding back consciously on HD because the box subsidy could be higher there?

Jagdish Kumar: No, we are in fact not going to subsidize the boxes. Our boxes are priced much lower than what DTH is offering because our costs are lower. Our intention is to cover the cost, so therefore HD is going to be a significant pillar on which we are going to lay our future revenue streams, it will start modestly in Q4 and then take up speed from next year onwards and your question about MSOs being on board, yes, all MSOs are now clearly on board, we have had discussions in the MSO alliance about these pricing and tiering issues and everybody is on the same page on that and what was your second question.

Vivekanand S.: Regulatory challenges particularly with respect to TRAI intervening if we take package price increases?

Jagdish Kumar: Right TRAI there is forbearance; there is no regulation which restricts regional pricing for digital cable TV. Right now the packaging has really not been implemented in lots of areas except in Delhi and in Bombay and what packages which we had announced has crossed the six months period long time back, so we are past the six months period for old packages, so we are within the rules to make a revision in the package.

Vivekanand S.: Without getting in to the numbers but you are very confident that quantum of package price increase that you are looking at will certainly not attract the regulators ire right?

Jagdish Kumar: We are price lower than DTH, so I don't think we are being unreasonable in our pricing, we don't see the regulator being unhappy with what we are doing.



Hathway Cables & Datacom Limited
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Moderator: Thank you. Participants, that was the last question. I now hand the floor back to Mr. Sandeep Gupta for closing comments, thank you and over to you.

Sandeep Gupta: Thank you everyone for joining on this call, I really appreciate this. Thank you once more.

Moderator: Ladies and gentlemen, on behalf of Ambit Capital Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.