"Hathway Cable and Datacom Q1-FY17 Post-Result Analyst Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hathway Cable and Datacom's Q1 FY17 Post-Result Analyst Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and 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 that this conference is being recorded. I now hand the conference over to Mr. Vivekanand Subbaraman from Ambit Capital, thank you and over to you sir.

Vivekanand Subbaraman: Thanks Ali. Good afternoon everyone. We at Ambit Capital are pleased to host the 1Q fiscal 2017 Earnings Conference Call of Hathway Cable and Datacom Limited. We have with us the senior management team of Hathway represented by Mr. Jagdish Kumar - the MD and CEO, Mr. Vineet Garg - the CFO, along with other senior members of the team. We will begin the call with the short commentary by Mr. Jagdish Kumar and then move on to the Q&A session, over to you Mr. Jagdish.

Jagdish Kumar: Thank you Vivekanand. So there is a slight correction**,** while I will cover the quarter broadly, Vineet will cover the financial numbers and then Rajan and Panesar will give more flavor to the broadband and the cable TV business and thereafter we will open it for the Q&A sessions.

So thank you for joining us for this 1st quarter call for FY17. With me on this call is Rajan Gupta – President (Broadband), Panesar - President (Video), Vineet - our CFO, Ajay Singh - our Chief Compliance Officer and Company Secretary and Mahadevan - our EVP (Finance). So I will briefly cover some significant steps that we have taken both in our cable TV and broadband businesses during the quarter.

Our revenues, both for the broadband and CATV together has now crossed the 300 crores mark. It has increased 17% on a year-on-year basis to 302 crores. This was mainly driven by 61% revenue growth in our broadband business. Hathway's broadband service is now available in 3.6 million homes in India. We have added about 88,000 subscribers during the quarter and our current subscriber base on a consolidated basis is 715,000. As I mentioned earlier, broadband revenues have grown 61% year-on-year from 65 crores in Q1 FY16 to 105 crores in Q1 FY17. We have seen significant improvements in all our KPIs for the broadband business. It has resulted in improved ARPUs, improved customer service and reduced churn. We are currently also taking steps in deploying GPON FTTH technology for all our expansion plans. So Rajan will give more details in his presentation.

On cable TV, we have now crossed the 11 million mark for our digital cable TV subscriber base. During the quarter, we have added 600,000 digital subs. We have now digitized 90% of our cable TV universe of 12.3 million. The pace of digitization will pick up steam as soon as the stay granted by the courts in India for implementation of digitization phase III is vacated by the Delhi High Court after the hearing scheduled on 6th and 7th September 2016. I am very happy to state that during Q1 our new platform Hathway Connect has received a very positive reception from our LCO partners. So with increased ARPUs through implementation of channel packaging and Hathway Connect and the expansion in phase III, we will set our CATV business to a path of higher ARPUs and margins. Panesar will further elaborate on the main steps you have taken on this CATV business. With those opening remarks, I am handing over to Vineet to take us through the financial numbers.

Vineet Garg: Thank you Jagdish**.** Pursuant to MCA notification dating 16th February 2015, all companies having net worth more than Rs. 500 crores and more are required to comply with Ind AS. In preparation with their financial statement with effect from 1st April 2016, SEBI has issued a circular dated 15th July 2016 where they issued a revised format to publish financial results for Q1 and Q2 for financial year 17. We have published our financial result based on above regulatory guideline. So according to regulatory framework, Q1 results are prepared in compliance with Ind AS. Q1 financials for financial year 2016 are restated to comply with Ind AS requirement as well.

Gross revenue for Q1 2017 is up by 17% to Rs. 302 crores against Rs. 258.7 crores in Q1 last financial year. EBITDA has increased by 8% to Rs. 44.5 crores against Rs. 41.1 crores last year same time. I want to bring attention to the 2 material impacts on the IndAS which has impacted Q1 financial results: First is activation income which is deferred over the average life of the customer based on the trend from the date of the digitization of the present, it's is in the range of 5 years. Accordingly, activation income is restated for Q1 FY17. We have received Rs. 25.52 crores and we recognized revenue for Rs. 18.7 crores. For Q1 FY16, actual activation income was Rs. 5.5 crores which is restated to Rs. 14.5 crores. Accordingly, revenue and corresponding EBITDA for Q1 FY16 is increased by Rs. 9 crores.

Second impact is all commercially linked transaction needs to be netted-off. Hence, pay cost paid to the broadcaster and charged to subsidiaries are presented on the net basis. Rs. 10 crores is netted off from CATV subscription income and pay channel cost for Q1 2017 and Rs. 14.75 crores for Q1 2016. Financial subscription revenue and pay channel cost also are reduced by these numbers; however, it has no impact on the EBITDA at all. Placement revenue has reduced by Rs. 18 crores due to net content deals entered with Star and Zee primarily. Pay channel cost includes content deal for the existing and new penetrated market for phase III. Overall content cost is Rs. 30 per subscriber for this quarter. This is against Rs. 26 per subscriber cost for the last financial year. As per SEBI requirements, individual expenses of over 10% on total expenses need to be presented separately – thus, service charges are presented first time. This is outsourcing field manpower cost which is generally the part of other expenses. Total CAPEX during the year is Rs. 90 crores for standalone, Rs. 60 crores for broadband and 30 crores for CATV. Gross borrowing stood at Rs. 1600 crores and net borrowing is Rs. 1575, consolidated gross borrowings is 2105, net 2025.

Jagdish Kumar: Thank you Vineet. With that, I will ask Rajan to walk us through the broadband business.

Rajan Gupta: Thanks JK. As JK has already mentioned, Hathway broadband business maintains aggressive growth both in the revenue and the network expansion as well as ARPU expansion. So revenue for the quarter grew 61% year-on - year. We now 715,000 strong customer base at consolidated level and 500,000 for the standalone business. This quarter's home pass number has reached 3.6 million; we have added around 350,000 home pass this quarter, mainly in Delhi, Calcutta and Indore. Well, home passes have got added in every market. These are 3 markets which we focused during the quarter. Broadband ARPUs have increased from 700 to 724, in fact all the new consumers are coming with Rs. 830 ARPU, which necessarily means we will continue to see this upward trend in ARPU increase based on simple weighted averages. Standalone this quarter, net adds stood at 51,000, much higher than earlier quarters, while the same stood at 88,000 at a consolidated level. All these are happening based on the huge improvement in technical infrastructure as well as the customer service which we have been sharing in earlier calls as well.

JK spoke about GPON pilot, so we have done the pilot in Calcutta and Delhi market. We received very encouraging response from consumers. We can improve our customer service further by 30% to 40%. So going forward, GPON fiber-to-home is going to be implemented all across various cities. We have also increased data limits for our consumers by 50% across most of the markets. We have seen increased usage trend because of increased video consumption and lot of other applications. We also continue to do a lot of digital marketing and other innovative marketing things. Traffic to our website has increased by 50% in a recently launched Quick India Movement which was launched on 15th August. So overall we hope that, sales, marketing, collection, customer service and network rollout will finally lead to revenue and profitability. We maintain our aggressive stance and will maintain the same in the future as well.

Jagdish Kumar: Thank you Rajan, so I will hand it over to Panesar to walk us through the CATV business especially the highlight we have about Hathway Connect.

Tavinderjit Singh Panesar: Thank you JK. As already mentioned by JK about the favorable response that we have got for the Hathway Connect portal, to tell you a little bit about the portal, this portal was basically designed keeping in mind need of hour to increase the ARPU. So as you all understand, there has been a difficultly in collecting and increasing the ARPU in the conventional method. So a transformational initiative was taken by Hathway to launch a solution to this problem and which would help not only Hathway, but also our LCO partners as well. So the whole idea was to increase their revenues which would help us also increase our ARPUs.

Just to brief you a little bit about the key features of the portal that we have launched. This gives total control to the LCO to deal with the subscribers; he has got all the rights to do any kind of a transaction on behalf of Hathway to deal with the customer. There is an auto dunning feature. Each subscriber has to be renewed by the LCO on a monthly basis and accordingly pay us. Packaging which was implemented earlier on several locations by various MSOs have not been able to set in and the concept of packaging very much could not get established as a concept in the cable…the simple reason behind that was that there was no control of pricing, every LCO could sell it at a different price. Through this LCO portal Hathway Connect, we have been able to implement that very well. Today, the LCO knows which customer is watching which pack and accordingly he charges them and accordingly pays us as well. After initial hiccups and the resistance that we have faced during the implementation, there has been a slight delay because of which our rollout as planned, we could not meet those deadlines but we have still been able to cover 50% of our base in the DAS-I and DAS-II markets. In the next quarter hopefully we should be able to cover the rest of the DAS-I and DAS-II markets as well.

And one of the most important things which I would again like to highlight is that any customer who does not pay the LCO for renewing his connection goes off automatically. So there is a feature of auto dunning which is built in into the system. This ensures us that every STB which is active and the LCO level we are getting paid for each of them on a monthly basis at a predefined rate which is non-negotiable and fixed for everyone. Apart from this, we have also looked at increasing our ARPUs in the DAS-III market because significant amount of investment have also gone to expand in that market but we all are aware about the court cases in the state. So hopefully the stay should get vacated, but in the last 2, 3 months we have done a lot to ensure that we at least are able to start collecting in that market but the way it is going now with this stage hopefully getting lifted next month. We see that we should be able to collect at least in the range of Rs. 50 to Rs. 60 per subscriber by exit March. To help the Hathway Connect initiative, even taking it to the next level, we have also launched the app version of this software which is also becoming a very helpful tool to the LCO and they are also using it very effectively.

Another highlight is that we have today launched another channel which is a devotional channel called Divine. In the last few months, we had launched 4 more channels and this is adding it to the line-up and hopefully this will also help us in offering content which is looking more unique and which will get some traction and ultimately transform into business.

Jagdish Kumar: Thank you, Panesar. So we got about 40 minutes to go and I would request everybody to restrict their questions to two and with that, we will open the floor now to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from Yogesh Kirve from B&K Securities. Please go ahead.

Yogesh Kirve: I am sure the management would have taken note of Reliance Jio's commercial launch and the pricing that they announced today; so will your tariffs be more competitive than what Reliance Jio's offering? They have managed to create a marketing buzz and also have an aggressive introductory offer…so what's your take on that and would there be any tactical response from your end?

Rajan Gupta: So we have gone through whatever brief things are available in the media. Our initial response is these are not very different from what we have been already factored in. First of all, these tariffs are all from mobility, we are in wireline home broadband business, but still if you want to compare, I have mentioned earlier also weighted average we are offering country level 100 GB for Rs. 1000. Different cities have different tariffs, but put together, weighted average country level is Rs. 1000 for 100 GB and similar tariff for this new operator is somewhere around Rs. 3000. So we have maintained that we are already quite aggressive in terms of our tariffs and the kind of data limits we are giving to consumers. We have increased our data limits by 50%. I already shared in a proactive way. We have a lot of content available with us, any time we want we can delight our consumers by giving additional content and parallelly more importantly, we are improving our service centers in terms of both technical and from the ground as well as lot of softwares and other software respect. So in a nutshell, this is not a surprise and already has been factored in our business plan.

Jagdish Kumar: Bottom line is that whatever Reliance Jio announces is for wireless 4G broadband and we are a wired business, so we do not see any imminent threat to our wired businesses from what plans jio has announced.

Yogesh Kirve: Sir I understand they also have announced the plans for the Wi-Fi hotspot, and which works out to something like Rs. 30, Rs. 35 per GB, so how are we placed against that?

Rajan Gupta: If you see, I just mentioned Rs. 1000 per 100 GB is a plan which we have that is the weighted average country level. You can pretty much compare at least, the sheet which is there like for example, Rs. 2499, 70 GB Wi-Fi hotspot is available. And the Wi-Fi hotspot is also again wireless, so consistency and speed will not be there the way wireline is there but in any case, they are offering for Rs. 2499, 70 GB. This is as per media report which I have in one of the websites; I do not have the brochure in my hand. So we are offering Rs. 1000, 100 GB and I am sure you can make it out we are pretty much quite competitive and it is commercially viable for us.

Yogesh Kirve: So regarding this 50% extra data that you are offering, when was that put into effect?

Jagdish Kumar: That was around a month back. In last 2 months, city by city we have done these changes and already most of the market, these changes are there.

Yogesh Kirve: So I guess these offers are not updated on your website, if I am not wrong?

Jagdish Kumar: So as I mentioned, it varies from city to city. So weighted average country level is Rs. 1000 a month for 100 GB. Our website has details of these tariffs. For example, in the Hyderabad market we offer 100GB monthly data for Rs650, in Mumbai pricing is Rs. 1500, for 100 GB per month. So based on the cost structure in various markets, competitive intensity and lot of other factors, we take pricing call from city to city.

Yogesh Kirve: And this Rs. 1000, 100 GB there, so what would be the speed there, its 50 Mbps or 25?

Jagdish Kumar: 50 Mbps.

Yogesh Kirve: And sir second question is regarding in the digital subscriber base, television subscriber base in the Phase I and Phase II we have seen decline on Y-o-Y basis, so what is driving that?

T. Panesar: See as I said, we had launched that portal Hathway Connect and which led to some clean up.

Yogesh Kirve: Okay, this is part of clean-up you are saying.

Vineet Garg: Actually, when we move to Hathway Connect, there are some customers who don't choose to renew their connections…these customers aren't using our services at this point in time. Whether the cleanup is temporary or permanent, we cannot comment at this point… it is very premature.

Jagdish Kumar: What is happened is now as you were aware, the system is run by an automated back-end, so when people do not pay up, they lose this thing, so there is a certain amount of percentage of people who are unhappy with this new process but we are confident that once they understand that this is more run not by discretion or human intervention and we are confident of getting them back.

Moderator: Thank you. We will take the next question from Vivekanand Subbaraman from Ambit Capital. Please go ahead.

Vivekanand Subbaraman: So quick question on the content inflation that we have seen. So now I guess we are booking the content cost net of carriage for a couple of contracts which is why placement and carriage have declined; so what is the guidance for the full year? Secondly, what are you targeting in terms of Phase I, II and III collections at the end of fiscal 17?

Vineet Garg: Vivek, we have given the guidance during the last annual con-call and in that call the expectation was to move between Rs. 30 to Rs. 32. We are right now Rs. 30 and we expected to be within the range, we are not expecting any variation to come. Very important information to share with you we have signed contracts with practically 90% of our broadcasters. So the entire deal for the year is already done. As we shared last time, a couple of broadcasters we entered in deal which is a long period deal and for the balance broadcasters, deals have been closed. These new deals cover areas for Phase III as well – existing Phase III area and new markets where we entered and we are preparing ourselves to penetrate even deeper. We are covering everything, so this content cost is actually including everything and we are still maintaining our guidance of Rs. 32 which we maintained in the last conference call. With regard to ARPUs, I think Panesar briefly touched upon this, Phase III we are expecting to go between Rs. 50 to Rs. 60. Phase I, we are expecting Rs. 115, Phase II will be around Rs. 5 to Rs. 7 less, viz. Rs108. We are expecting little more difference in Phase I and Phase II, though over a period of time that gap is also going to be bridged off.

Vivekanand Subbaraman: Right and just a small follow-up on the Hathway Connect implementation. Now that you have data for around half of your standalone subscribers, what is the composition of subscribers on the English pack and the Hindi pack?

Jagdish Kumar: See it is the initial stage though, but it differs from market to market. Just to give you an idea, I can tell you that in some of the markets where we launched packaging, say Karnataka, the pack adoption of higher pack is quite healthy there. 40% of the subscribers are on the higher pack and in the other markets it is less than 30%.

Moderator: Thank you. We will take the next question from Charles Ledge from Sloane Robinson. Please go ahead

Charles Ledge: So first thing, the operational metrics seem quite strong though the financial metrics obviously have not come through. I think the reason is that you have been unable to monetize the Phase III subscribers this quarter because of the government's stay. I mean you are pointing towards Phase III revenues per sub 50 to 60 per month and your presentation says 25 per month. So I do not know how many subs you are talking about in Phase III. Can you give me an idea of what revenue you would have collected had not been in existence?

Jagdish Kumar: Charles, you are not audible properly; but whatever we could understand is, you are basically wanting to know what is our subscriber base in DAS 3 markets, what is the kind of ARPUs we are going to collect going forward am I correct?

Charles Ledge: Yes, and so it would enable us to know how much revenue did you forgo because of the stay?

Jagdish Kumar: So our current subscriber base in the DAS 3 market is 4.7 million and standalone sub base is 2.2 million and exit March, we are looking at taking the ARPU up to 50 to 60.

Charles Ledge: Okay, on page 6 of your presentation, it states that your ARPU for Phase III is 25?

Jagdish Kumar: That is the current ARPU, yes.

Charles Ledge: So you are looking for an incremental Rs. 30, over the quarter it will be Rs. 90 across 4.7 million?

Jagdish Kumar: Charles, you want to read, today right now we are operating in 25. This 25 will reach between 50 to 60, so exit 2017 financial year, we are going to be in the range of Rs. 60 from current 25; so there is going to be an increment of Rs. 35 per subscriber.

Charles Ledge: Across how many subscribers to be cleared, is it 4.7 million or 2.2?

Jagdish Kumar: Right now, we are discussing for our standalone, so we talking 2.2 million. It is going to be applicable for the consolidated level as well. It is not declared; the published number is for standalone only.

Moderator: Thank you. We will take the next question from Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: I have like 2 questions, one for Mr. Panesar and one for Mr. Rajan. Mr. Panesar, I believe that the MSOs have been signing some interconnect agreement with the LCOs, where you planned to share the revenue which you receive from the subscribers. My question is that will your portal be able to provide you transparency as to how much the LCO is collecting from the subscriber because I believe in the agreement, you bill the LCO and the LCO bills the customer?

Tavinderjit Singh Panesar: See what used to happen was there was always an agreement between us and the LCO and if I am not wrong, you are basically referring to the model interconnect agreement (MIA) which is mandated by TRAI.

Gautami Desai: No, the recent one which I believe you have signed at 40-60 or something like that with the LCO?

Tavinderjit Singh Panesar: It is the same agreement that I am referring to. This is called model interconnect agreement which is subscribed by the TRAI and we are in the process of signing the MIA now because earlier that used to be a different agreement; now there is a prescribed format and we are now migrating to the prescribed format which has got a defined revenue share between what is going to be the dispersion between us and the LCO.

Gautami Desai: Right, but my question is that how do you know whether he is collecting 300 or 250 or how does this portal help you in that?

Tavinderjit Singh Panesar: The portal has got predefined packages with defined rates and the revenue share that we have decided and agreed and signed on the MIA. So whatever is the pack price, the revenue is divided on the defined share that is being agreed, the percentage which has been agreed.

Gautami Desai: So whichever pack price he chooses on that irrespective of whatever you collect on the customer, can I understand that way..?

Tavinderjit Singh Panesar: That is correct.

Gautami Desai: Mr. Gupta, you said that you have reduced the prices. You have increased the data that you give, so is that a result of the price of the broadband war which is happening on the ground with lot of small ISPs together with the cable operators offering broadband and they also claim to be giving good speed and a better service. So if that is the result of the price war?

Rajan Gupta: Frankly, I do not understand what this price war is. I think Indian broadband market, wireline broadband market is at a development stage. There is room for every player. The market has reached only some 17 or 18 million as of now. I am sure there will be a day when it will be 100 million market like most of other developing countries. We have been reviewing our data limits every 6 months and trying to delight consumer by offering additional data as per the consumer needs. So the step which I have mentioned, we have been taking for last 2 months, now also in fact the process is not complete. Few cities we have done, few cities work is in progress. So it is more by part of continuous effort. I was only reacting to somebody who asked that how were you placed vis-à-vis Reliance Jio. We are only making a factual statement that with 2499, they are offering 70 GB data, in most of the markets we are around 1000 or 1100, 1200 or 1500; some markets even sub-1000 also. So it is a part of continuous exercise to keep on delighting consumer.

Gautami Desai: As a result of all these, I am seeing your churn really coming down in broadband and you have also evolved a lot, so if that resulting in a lower churn?

Rajan Gupta: We have seen a reduction in churn, but the churn is a factor of lot of things. Consumers keep on getting transferred out of city. They keep on getting transferred within the city where we may not have network, consumer make a churn because of technical issues and finally pricing. So I think as far as pricing is concerned, we do not have any churn because of that. We are improving on technical and customer service and other things on consumer shifting from their house either within the same city or outside the city that something always will remain. So there is an improvement in churn, but churn is still there because of factors which I mentioned.

Gautami Desai: So what is the latest number of the churn?

Rajan Gupta: So we are around currently 1.8% monthly churn.

Moderator: Thank you. The next question is from Rishindra Goswami from Locus Investment. Please go ahead.

Rishindra Goswami: Just a question around the GTPL IPO, just wanted to understand what is the thought process behind IPO in the subsidiary given that this is likely to be a case of a hold co discount on your listed entity. So just wanted your thoughts on that?

Jagdish Kumar: GTPL has a funding requirement, so it's exploring various options… it's looking at funding basically to reduce debt and some expansion plans for Phase-III, Phase-IV and broadband. GTPL approached the Hathway board to seek the permission to do an IPO. The Hathway board has now approved to do the IPO and we are going to offer 9,000,000 shares from Hathway's investment in GTPL. Now there is a lot of work which is happening in terms of filing the DRHP and getting the whole IPO process on the rails, so it is too premature for me to get on to further details on this.

Rishindra Goswami: And any indicated timelines by when?

Jagdish Kumar: Most probably I think Q4 of this financial year.

Rishindra Goswami: Right and just 2 data points on the GTPL, what would be the total broadband subscribers and cable TV subscribers in that entity?

Vineet Garg: Broadband subscriber is 1.8 lakh and cable subscriber is over 4 million.

Rishindra Goswami: Could you just share what is the total cable subscriber on the standalone business now?

Vineet Garg: Cable subscriber is close to 5 million.

Moderator: Thank you. The next question is from Naval Seth from Emkay Global. Please go ahead.

Naval Seth: Sir my question is on LCO revenue share; so what has been the change in terms of LCO share, what was earlier and now with Hathway Connect getting implemented?

T. Panesar: See the current share is 40-60 ratio.

Jagdish Kumar: So if you look at the agreements which we have signed with them, currently it depends on city to city. For example, in Calcutta, it is 40-60, 40 in MSOs favor, 60 in LCO favor. In some other cities, it is 50-50, in Bangalore it is 50-50. So what we are doing now is to really put a certain rupee amount to the package. We are saying that if you take the royal pack, we have to pay Rs. 140 as our share and if you take the prime pack, you have to pay Rs. 120 as our share; now that percentage depends on what the LCO further charges the consumer, but we have got a fixed amount which we are going to charge as part of the Hathway Connect infrastructure. Currently, to enable penetration of Hathway Connect we do give selectively some tactical discounts in some areas.

Naval Seth: But sir despite 60% revenue sharing with LCOs, still you will have to give tactical discounts; so would those LCOs not ask for tactical discounts every time? And that share might be at 65-35 going forward seeing the way this industry is evolving.

LCOs have been key gainers post digitization and as well as pre-digitization as well.

T. Panesar: So this discounting is actually done during the migration to this new portal and will eventually stopped after the period. So there is a constant rate for everyone.

Naval Seth: And what kind of change in terms of subscription revenue would we have seen in the last quarter to this quarter; I know it is still in work-in-progress but some benefit you would have seen in numbers?

Jagdish Kumar: I will not be able to give the exact numbers, but I can tell you indicatively what has happened now that we have migrated the operators to this portal. We see a good amount of increase of 30% in ARPU, but that should not be taken as a thumb rule but that is where it is because in some markets where we are collecting a little less the ARPUs are coming to 30%, but overall it should average somewhere between 20% to 25% when we do it across the country.

Naval Seth: And on the primary subscribers; what would be the blended ARPU post implementation of Hathway Connect?

Vineet Garg: Primary subscriber ARPU right now is Rs. 273.

Naval Seth: And sir, how this would have changed on Y-o-Y or Q-o-Q basis?

Vineet Garg: It is up by slightly higher than 20% on a year-on-year basis.

Naval Seth: And this is primarily on account of package price increase or there are some leakages which were also plugged over the period of last year?

Vineet Garg: For primary subscribers, we have started prepaid last July in Bangalore. So that is one of the reasons and we have also done the package corrections; so it is a result of both.

Moderator: Thank you. The next question is from Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Can you please explain some more on the accounting side for the activation revenue at least for the base quarter; I think earlier it was 5 crores, now we are booking almost 14 crores; so what exactly has changed there?

Vineet Garg: As per Indian accounting standards, which is the new accounting standard being implemented with effect from 1st April, 2016, we need to defer activation revenue over the life of the customer. So we calculated the life of the customer which is based on the present trend… it is 5 years as explained in my earlier remarks. We have restated prior period revenue as well. Now, all activation revenue that we receive will be allocated over the life of the customer, which is 60 months and, accordingly, we are going to recognize the revenue. So then the restatement of the last year revenue, it become 14.5 for the financial year 2016 which used to be Rs. 5.5 crores earlier.

Rohit Dokania: But earlier we would have closed the years any which ways in terms of IGAAP, so should not we have just spread over this 5.5 crores over the next 5 years of life, the new boxes that we have got or we have used the earlier years that is FY12, 13, 15?

Vineet Garg: It is the Indian account standard requirement. As the transition provision, we need to go for activation revenue from the retrospective effect, we have restated revenue starting from 2010-11 till now and now we are going to recognize this revenue over a period of 5 years. So we have done the revised calculation from 2010-11 and accordingly revenue is calculated for every quarter. Now activation revenue is going to be more or less a steady-state kind of revenue which we are going to allocate over the life of the customer. It is not going to be now sudden revenue coming in one month, so any fresh revenue coming now going to spread over.

Rohit Dokania: Yes, I was just wondering sir, will it be possible for you to share the restated financials over the past 4-5 years over the next few months?

Vineet Garg: Last 4-5 years, I am not understanding what exactly you are looking for. So quarter-on-quarter, the impact I have shared already with you. Quarter one for last financial year, it was Rs. 5.5 crores last year. This is stated to 14.5 now.

Rohit Dokania: Sure sir, no problem I will take this question offline. The other question which I had was, could you talk about how much was the penetration of Hathway Connect probably in the base quarter which is Q1 FY16?

Vineet Garg: Q1 FY16 was not there. Q1 FY17 we started penetration for Hathway. In the beginning, I think Bangalore was the only city we had. Now we are sitting roughly (+50%) subscriber base in DAS-I?

Rohit Dokania: So the related question to that was if I look at your ARPUs, they were still about 105 versus 100 in DAS-I in base quarter and Rs 86 versus 76 for DAS-II. Do you think the benefits of this will probably come in the next few quarters or do you think the benefit of Hathway Connect for at least 50% of the base is already in this ARPU that we have reported for this quarter?

Vineet Garg: So as I explained you, Hathway Connect was actually implemented in May or June and as Panesar explained there were initial teething problems and very mild resistance from LCOs as well and we want to make sure that we do not do any mistakes by doing this kind of complex initiative. So we were very conscious and careful. The impact for the enhanced revenue is not visible in quarter one and in the coming quarters you will see the numbers that has been explained to you.

Rohit Dokania: Are you planning some fund-raising as far as the broadband piece is concerned now that we are moving it to a 100% sub over a period of time?

Vineet Garg: Right now we are completely funded. The fund requirement is all arranged. We do not have any plan to go for fund-raising for broadband in the near future.

Moderator: Thank you. The next question is from Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: Could you just go over what are your content cost and overhead cost per user for Phase-I and Phase-II users?

Vineet Garg: Phase-I and Phase-II content cost we shared as a part of the press release itself. My content cost right now in quarter one of FY17 is sitting at Rs. 30, which is the overall content cost. We do not have separate cost for Phase-I and Phase-II. I had given an indicative number**;** total overhead is close to Rs. 20 which is including lease line, new offices we built, the infrastructure we have created there… so that already I shared in the press release.

Kaustav Bubna: But it would be similar, the variable cost for different phases?

Vineet Garg: I am not able to really comment at this point in time.

Kaustav Bubna: What your ARPU estimates for the end of FY17 for Phase-I and Phase-II?

Vineet Garg: We just shared our estimates a few minutes back. We are talking Phase-I around Rs. 115, Phase-II we are talking about Rs. 5-7 lesser than Phase-I. Phase-III; we are looking roughly between Rs. 50-60 exit financial year.

Kaustav Bubna: So in Phase-III if you are looking at Rs. 50-60, you still will just be covering your content and overhead cost, right?

Vineet Garg: By March we are saying we are going to break even and I think the target for the next year is going to be even higher.

Kaustav Bubna: How much did your subscription revenue get eaten up by your provisions this quarter?

Vineet Garg: The total provision is around Rs. 10 crores.

Moderator: Thank you. The next question is from Dipesh Mehta from SBI Cap Securities. Please go ahead.

Dipesh Mehta: Can you provide us from paying subscriber base out of 11 million, how much we are monetizing and is it possible to provide Phase-I, Phase-II standalone subscriber base and last is can you help us understand how broadband profitability is taking up with the momentum we are seeing with revenue?

Jagdish Kumar: So the Phase-I, Phase-II, Phase-III numbers are 2.3 million Phase-I, 4 million Phase-II, 4.7 million Phase-III and these are consol numbers.

Dipesh Mehta: I am looking for standalone sir.

Jagdish Kumar: We do not immediately have those numbers. We will give it to you separately.

Dipesh Mehta: What is the paying subscriber base out of 11 million for us?

Vineet Garg: It is Phase-I and Phase-II.

Dipesh Mehta: So roughly 6.3 million?

Jagdish Kumar: Yes and Phase-III also partly payments have started. So effectively you could say 6.3 million.

Dipesh Mehta: And with the revenue momentum we are seeing in the broadband business, can you help us understand how the profitability is tracking in that business and how you expect it to pan out going forward?

Jagdish Kumar: Unfortunately, we do not give the separate numbers for broadband. We will be doing that shortly because anyway we are doing; as you may be aware, we have filed demerger request, so that we will do shortly.

Dipesh Mehta: Qualitatively can you help us understand revenue momentum? It is inching up faster and we may reach to closer to break even or might have already hit break-even, any qualitative color would help?

Jagdish Kumar: As a very broad benchmark, every time we make an investment in broadband, we ensure that our payback period is within 2 years. This is the filter we use to evaluate our broadband business.

Moderator: Thank you. The next question is from Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Thank you for the opportunity. Sir on the consol and standalone net debt difference that is equivalent to my GTPL number?

Vineet Garg: This is all the subsidiaries put together.

Mayur Gathani: Yes, so GTPL would be the major?

Vineet Garg: GTPL definitely will be the largest one.

Mayur Gathani: Out of a difference of debt of 500 crores, GTPL would be a major contributor?

Vineet Garg: Absolutely.

Mayur Gathani: Okay and your 50% Hathway Connect has been implemented on Phase-I and Phase-II subscriber base on the standalone figure?

Vineet Garg: We do not call standalone. We have two different conditional access systems (CAS); one is the GTPL and the second CAS is the HCDL. So we are talking about 50% of HCDL, which were are covering.

Mayur Gathani: Okay and when do we expect this to be completed?

Tavinderjit Singh Panesar: Currently, the migration is on in the rest of the DAS-I and DAS-II markets and we are looking at completing it by the end of this quarter in all the Phase-I, Phase-II markets.

Mayur Gathani: Sir, I just repeat that this would be for the 6.3 million overall base or it will only be your part of the base?

Jagdish Kumar: No, it is only the Hathway ex-GTPL**.**

Mayur Gathani: Okay and how much that number be?

Vineet Garg: So we have 2 different CAS systems. One is managed by Hathway, second is managed by GTPL. So when we are discussing these numbers, we are talking about CAS system managed by Hathway.

Mayur Gathani: I agree with that. Out of 6.3 million, some maybe managed by Hathway, some managed by GTPL.

Vineet Garg: Yes.

Mayur Gathani: What you are looking at Hathway Connect implementation as of now is only on the one that is managed by Hathway; so 50% of what subscriber base is done?

Jagdish Kumar: So in phase I/II what we are managing in Hathway is a 3.5 million subscriber base; on this we have implemented 50%.

Mayur Gathani: So by this quarter end, we will be looking at 3.5 million overall complete for Hathway Connect?

Tavinderjit Singh Panesar: Yes, that is right.

Mayur Gathani: Okay, great and then we will take up the GTPL thing?

Tavinderjit Singh Panesar: Then we will take up GTPL and then we will also take up hopefully the Phase-III market.

Mayur Gathani: Okay, so overall by this year-end should we look at Hathway Connect on at least the DAS-I, DAS-II overall?

Tavinderjit Singh Panesar: That is what our target is.

Mayur Gathani: Okay and this is how you are saying that my ARPUs will increase from 105 to 115 or irrespective general increase should lead to 115 as well?

Vineet Garg: Right now projection is I shared with you, we are targeting those numbers.

Mayur Gathani: You said 105 going to 115, but I think is it dependent upon Hathway Connect also being implemented, right?

Jagdish Kumar: One, revised packaging for implementing packaging much more aggressively. Two, this whole collection process and auto dunning process through Hathway Connect. Both of these will drive the ARPUs.

Tavinderjit Singh Panesar: So it is a combination of both.

Mayur Gathani: Okay and what would be your HD subscriber base right now sir?

Jagdish Kumar: About 100,000.

Moderator: Thank you. We will take the next question from Charles Ledge from Sloane Robinson. Please go ahead.

Charles Ledge: On Page #2 of the annual report, it says you expect to grow your ARPU by at least 30% in the coming quarters; could you elaborate on that and tell us how you are doing that? Is that

Phase-I, Phase-II, Phase-III Hathway Connect, can you give us some detail on that please?

Jagdish Kumar: Our belief is that very soon the ARPUs for Phase-I and Phase-II will converge because if you look at most of the Phase-II cities, they behave exactly like how Phase-I is behaving. So currently the gap is about Rs. 86 or Rs. 20; progressively our indications are that the gap will come down to less than about Rs. 10 by March 2017, but if you look at the next financial year, it should converge. It should be at the same level. Does that answer your question?

Charles Ledge: I was wondering what was behind your estimate…

Jagdish Kumar: See the packing which we are implementing now; if you look at our website, most of the packaging which we implement in Phase-II and Phase-I areas are pretty much in a similar range and what we are saying is that we need share of that consumer price which we have announced. So that is what is going to drive it. What is going to drive the revenue increase in Phase-II area it is getting the LCOs up in terms of the packages which they provide their consumers and also ensuring that we do this auto dunning processes which will remove the leakages.

Charles Ledge: Okay, so this is enabled by Hathway Connect?

Jagdish Kumar: Yes.

Moderator: Thank you. We will take the last two questions. The first we will take from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you. In the standalone cable revenues of 107 crores, this corresponds to how many cables paying subs?

Vineet Garg: 3.5+ million subscribers. Phase I & II, and some portion of Phase III subscribers have started to pay.

Dheeresh Pathak: So when we say the 6.3 that is for the consol. So of the consol, only 3.5 are in the standalone that will be the right understanding, right?

Management: Total Hathway subscriber is more than 5 million subscribers out of Phase-I. Phase-I and Phase-II will be around 3.2 million.

Management: Phase-I and Phase-II for Hathway will be 3.2 million.

Management: Give me some time I will come back to you in next couple of minutes. We just collect the number and give it to you.

Moderator: Thank you. In the meanwhile, we will take the next question from the line of Sanjay Chawla from JM Financials. Please go ahead.

Sanjay Chawla: Congratulations on pretty strong KPIs and the revenue growth in broadband business. My first question is on this paying customer base, because I remember last quarter it was just closed at 7 million customers at the consol level and now the number is down to 6.3 million. So what explains this decline?

Jagdish Kumar: There is no decline in the subscriber numbers. What we said was 2.3 million Phase-I, 4 million Phase-II and out of these 4.7 million, not all of them are non-paid. There is a certain number of people paying. That is the number which built up to that 8 million now and we will still retain that 8 million number as paying subs. So total when we mentioned we just restricted ourselves to Phase-I and Phase-II. Phase 3 also has paying subs.

Sanjay Chawla: So the total number is 8 million at the consol level?

Jagdish Kumar: Correct.

Sanjay Chawla: Okay great and the second question is you are deploying GPON technology. So can you just explain the rationale for that and also provide some sort of a comparison of these two technologies in terms of performance and also unit CAPEX?

Rajan Gupta: Currently, we are the largest DOCSIS 3 high speed broadband player in the country. DOCSIS 3 is the predominant technology in US, Korea and a lot of other countries. DOCSIS 3 till now is working very good for us. We have seen some wonderful results, but looking at our broadband ambition, we need to have expertise in multiple technologies. So DOCSIS 3 will continue for us, but parallelly we have developed capability in GPON Fiber-To-Home. In terms of consumer CAPEX, it is more or less same. DOCSIS CAPEX is in the range of 9,000 to 10,000 per sub. GPON also will have similar CAPEX, 9,000-10,000. I mean it depends on the kind of Wi-Fi you bundle along with that. So it varies from 9,000-10,000. GPON has few advantages. It is a passive network, more suited for the Indian environment where a lot of power shortages are there. The network does not need power anywhere on the way. It either needs power at the data center at the company level or at the consumer home. So that way we have seen improvement in customer service because of no power issues… because it is all fiber, it is all kind of passive. So that is one major advantage. In terms of speed, currently in DOCSIS we are offering 50Mbps, we can go up to 80Mbps. In GPON, theoretically we can give 1 Gbps speed. Practically, tomorrow morning we can give 1 Giga speed. Why I am saying is theoretical because there is no Wi-Fi available for 1 Gbps. The consumer on a mobile or any hotspot will not get 1 Giga, but on a connected computer it can give 1 Giga speed. So in a way GPON is future proof, but all these technologies keep on evolving. Today morning we were sitting with somebody from DOCSIS US team, some large player. So there is another technology coming in DOCSIS which can offer again 1 Giga both upload and download. So we keep adopting technologies and exploring. We maintain that Hathway will be there always in the forefront.

Sanjay Chawla: So when you say 9,000-10,000 number, what kind of home pass penetration is assumed in this?

Rajan Gupta: 20%.

Sanjay Chawla: Okay and when you say this similar CAPEX is there in case of GPON, is it the similar level of penetration?

Rajan Gupta: Yes, apple-to-apple.

Sanjay Chawla: Okay, so you are saying that you will be deploying both the technologies parallelly in different cities obviously?

Rajan Gupta: GPON is a technology which requires more structured planning. So if you for example are very sure from where you will get your consumer and the whole network can be structured well, then it is good to do GPON; but if you know a lot of such houses are there where you are not sure where you will get your consumer, it is quite unstructured then DOCSIS technology is really helpful in that.

Sanjay Chawla: So are you saying that GPON is better for high rise buildings where there is a huge concentration of customers?

Rajan Gupta: Yes, that is one segment where GPON is very effective, but there are lots of other segments also. I do not think on this call we can discus that actual design, but as I mentioned both the technologies have their own place and we will continue to invest in both of them.

Sanjay Chawla: And from a competitive point of view which one actually positions you better in the market?

Rajan Gupta: I just shared the kind of pricing and GBs we offer, the kind of speed we offer. So I think both of them are quite good currently for us.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Vivekanand Subbaraman from Ambit Capital for closing comments.

Vivekanand Subbaraman: So thanks a lot for joining in. We thank the management on behalf of all the participants for taking time off for this call. Over to you sir, if you have any closing comments.

Jagdish Kumar: So we have our task well cut out on the cable TV front. We have to implement the packaging across Phase-I, Phase-II, Phase-III. Two, we have to expand the footprint for Hathway Connect. Three, we have to start monetizing the investments we made in our Phase-III boxes. So that is very well laid out and we have a very clear execution plan to execute on these strategies; and on broadband very clearly our numbers speak for themselves. They continue to grow at a very significant rate. We have our expansion plans well laid out and with the kind of service improvements which we have in place and we are I think well-fortified to meet any competition going forward. So I think on both counts while we have a few challenges on the cable TV side and we have some excellent clear paths on the broadband side, I think this company is well placed amongst all the players to take advantage of the new digital world. Thank you.

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